



The existential threat to small business

By Dion Rabouin July 15, 2020

The coronavirus pandemic has changed the game for U.S. businesses, pushing forward years-long shifts in workplaces, technology and buying habits — and forcing small businesses to fight just to survive.

Why it matters: These changes are providing an almost insurmountable advantage to big companies, which are positioned to come out of the recession stronger and with greater market share than ever.

What we're hearing: "There is no doubt that the longer this pandemic pulverizes this economy the main victims will be small and mid-sized companies," **Bernard Baumohl**, chief economist at The Economic Outlook Group, tells Axios.

- "We're seeing the whole business landscape dramatically undergo massive changes and one part of this is how large companies with resources will take advantage of the troubles, travails and financial problems small companies have."

What to watch: Big companies, which have benefited far more from Congress and the Federal Reserve's coronavirus relief efforts, are expected to buy out or simply wait out smaller competitors.

The backstory: The Fed has provided nearly \$3 trillion in liquidity since March to reopen credit and financial markets, and corporate titans like Apple, Exxon Mobil and United Airlines have taken advantage, borrowing a record amount of money at rock bottom rates.

- The lone lifeline for small businesses has been the Payroll Protection Program, which economists have found to be inefficient, ineffective and insufficient, largely excluding the businesses most in need of assistance.
- In particular, businesses with Black, women, and immigrant owners have disproportionately been shuttered because of the virus.

By the numbers: A recent survey by the National Federation of Independent Business found that 22% of PPP recipients anticipate having to lay off at least one employee or have already.

- In a separate survey, 23% of small businesses told NFIB they would be able to operate under current economic conditions for no more than six months. Another 21% said no more than a year.
- "It's a bleak picture," Holly Wade, NFIB's director of research and policy analysis, tells Axios. "It's terrible."

A recent survey of U.S. chief financial officers found the difference in outlooks between small and large firms over the next 12 months "is extreme."

- Expectations at small businesses "have essentially collapsed," says Keith Parker, global equity strategist at UBS Research.
- Conversely, more than 60% of large firms with sales over \$2 billion expect sales growth to accelerate — 49% expect a "significant pickup."

The big picture: The pandemic has ushered in an evolution in business akin to the development of the internal combustion engine or the dot-com bubble crash that accelerated globalization and second generation internet companies, Mohamed Kande, U.S. and global advisory leader at PwC, tells Axios.

- U.S. companies are making major investments in supply chain relocations out of Asia and closer to home, as well as artificial intelligence and robotics and re-skilling workforces to operate remotely and autonomously.

The bottom line: "That will be a tough environment" for small business, Kande says.

- "What happens when you have changes like that is you start to see a wave of consolidation. It's hard for small companies to survive because they don't have the balance sheets, they don't have the capital to sustain a crisis for a long time."