

A Study on The Financial and Entrepreneurial Risks of Small Business Owners Amidst COVID-19

Andrew Kyung
NVRHS
Demarestl, NJ, USA
kyungandrew314@gmail.com

Sarah Whitney
CRG-NJ
Cresskill, NJ, USA
sarah_whitney@ChoiceRG.com

Abstract—The economy suffered a major loss when COVID-19 hit due to business shutdowns. Repercussions from economic downfall due to closed businesses from social distance policies has made many small businesses lose operation mechanisms and see a decrease in profit and sales. Many people lost their jobs due to businesses losses a record 22 million employees have filed for unemployment. In this paper, how the COVID-19 epidemic has changed people's behaviors and changed the way people shop. As more people are shopping online to avoid at risk situations at busy stores, small businesses are seeing losses in sales and customers. Also we studied when they rely on small profits margins, how the small businesses have suffered the worst losses, seeing a decrease in business sales and a lower revenue margin. This research shows how social distance policy has especially affected businesses vulnerable to COVID-19 risks. This often includes businesses that have large groups of people in close quarters or highly susceptible relationships that increase the risks of spreading the illness, such as restaurants or retail stores. Government help has been recommended especially for small businesses and workers who are most vulnerable to economic losses.

Key Words : *stimulus, economy, government, repercussions, epidemic, revenue*

I. INTRODUCTION

Most at-risk businesses included those with people who are in close proximity. Second at risk was according to responses to the COVID-19 epidemic. The companies COVID-19 especially affected included: retail trade, transportation, employment services, travel arrangements, arts, entertainment, and recreation, and accommodations and food service. Other businesses could also suffer due to government mandated shut downs. This includes the closure of non-essential businesses that are at risk of spreading the virus. Some of these businesses include museums, movie theatres, gyms, casinos, motion picture and video production, and retailers such as furniture stores, florists, and shopping malls. In many states non-essential also may include construction, certain kinds of manufacturing, and many service sector businesses. About 32 percent or 1.9 million small businesses are at immediate risks of getting closed. Million more are at risk of unemployment.

Many businesses outside the list have chosen to shut down due to risks. Due to the impact of the virus, customer demand has also decreased. Customers feel there is no longer a need for services that are at risk. This includes non-essential businesses such as liquor stores, electronic and appliance

stores, day care centers, healthcare facilities and construction. At risk workers include younger, non-white, and non-educated. These are most at risk of unemployment. In order to make businesses more resilient a recovery plan is crucial to the sectors. This may include government funding, new methods of sales such as online, or a change in policy. These businesses must rely on assistance from government programs.

Some companies are especially at risk of the repercussions of the COVID-19 virus, because the illness policy of social distancing has made people avoid busy stores. The social distance policy has greatly reduced demand for the services. Direct contact with businesses has been avoided by customers and businesses have suffered losses of productivity. Many businesses that cannot operate remotely have been forced to shut down due to losses. On average 32 percent of small businesses with fewer than 500 employees or 1.9 million firms have suffered major financial losses. Nearly 20 million employees have been forced out jobs, or led to seek employment in a more secure sector. Mandatory nonessential business shutdowns across the country have a serious impact on small businesses. Vulnerable workers who are already at risk such as younger, non-white, or less educated have been seen to be hit the hardest.

II. FINANCIAL AND ENTREPRENEURIAL RISKS

A. Financial Risks According to Demographic Group

The COVID-19 epidemic has been tough on the economy especially for small businesses and low wage workers. Reports by the Pew Research Center analysis of federal government data show that more than four-in-ten U.S. businesses with paid employees – or 2.4 million out of 5.3 million examined – pose a higher risk in their industry for economic devastation. More than 1 million of these businesses are in retail trade or accommodations or food service because of mandated closing or social distancing policies.

The average American business is small with employees earning about \$40,194 yearly. Each business employed an average of 11 workers. Almost three fourths of those businesses or 74 percent earned less than a million a year in sales and about 34 percent had been in business for 5 years or less. Those businesses that remained in higher risks earned less in annual revenue and employed low wage workers that averaged at \$28,259 yearly. In economic turmoil, employers

and employees of lower income levels have increased risk of facing tough and uncertain economic hardship.

B. Women, Minorities, and the Undereducated

Particular high risk demographic groups such as women, minorities, and the undereducated, often pit in low wage jobs pose a higher threat to economic devastation. On average women are paid less than men, making them more vulnerable to job loss and financial insecurity. According to the culture, White men dominate the job market, owning the majority of businesses. White are over represented in the job market, whereas Black, Hispanic, and Asian pose increased risk of economic insecurity due to lower wage jobs and unstable employment. According to age, younger people lower than 45 years old pose higher risks, often working in lower paying jobs and older people, who are often disposable to employers pose high risks. White men seem to dominate the market and annual revenue of all industries.

Statistics show that lower wage workers are at the highest risk. Industries that employ these workers often include retail and trade, food service workers, manufacturing, entertainment and recreation, and small businesses. Due to mandated shut downs and social distance policies many of these workers had to look for employment elsewhere. This issue with that is that many of these workers are unskilled, undereducated, and underpaid. Finding new employment in a pandemic gets difficult when all businesses are facing annual loss. When pay is low, and there often is not extra money, many people could run out of savings or run low on funds, requesting government aid to lift them out of hard times. Millions of these workers during the pandemic filed for unemployment. This is because they rely on their weekly pay to pay expenses such as food, housing, and transportation. Without government help, these people will not make ends meet.

Particularly unskilled low wage workers are over presented in risks. Millions of these workers faced unemployment and a scarce job market that is not hiring. Small businesses with low annual revenue were also at risk. Business loss in annual profits included job lay-offs and applying for government grants. Business sales plummeted because mandated closing laws in non-essential industries and lower customer rating due to social distance policies. Many people began to shop online. For businesses who could not choose online retail, they saw losses. Businesses had to shut down, customer demand decreased, and annual revenue plummeted. At risks businesses included non-essential products and services, and those with low annual revenue.

The COVID-19 pandemic has also brought racism to various minorities to light. During the spread of the virus, particular inequality towards African Americans (Black Lives Matter Movement), Asian Americans, and other forms of xenophobia were put on display across the media.

The Black Lives Matter Movement was “founded in 2013 in response to the acquittal of Trayvon Martin’s murderer”. In

2020, this movement gained the most global attention in history after the murder of George Floyd. From protests to marches to petitions, various ways of spreading awareness was put across media platforms. Soon enough, a holiday, Juneteenth, has been recognized by various parts of the world as a way to honor black lives.

C. Possible Solutions for Struggling Entrepreneurs

The corona virus has influenced people to stay at home, avoiding shopping at local small businesses. This loss of customer turnout has affected the profit margins of businesses across the country. The small business economy is essential to this country, employing 58.9 million people or about 47.5% of the total private sector workforce. Their GDP average contribution qualified at \$5.9 trillion dollars in 2014, when averages were most recently available. Small businesses are productive to the society in that they employ locals, support the local economy, and offer much needed services to the general public. Many local people are employed by small businesses and businesses support the local economy through profits and payroll. The problem is that when there are no customer demands, there’s no money: no money to pay employees, no money to create a supply of customer demanded products, and no relief to slowly recover from economic devastation. This had led many small businesses to be forced to lay off workers, not preparing themselves for recovery when the virus has passed. Because of such economic devastation and the inability to recover, many small businesses will be forced to shut down operations and close for good. This could be catastrophic for the United states economy who relies on small businesses for so many things.

One of the obvious challenges to small businesses is annual revenue, making opening a business risky, and small businesses particularly vulnerable because of the uncertainty of profit. Small businesses have daily costs such as rent, payroll, utilities, and other, making the likelihood of their survival up to chance. Losing revenue from the pandemic could economically devastate them. Due to this, small businesses need to take financial actions in order to stabilize. Under a united states government proposal, the “Small Business Workforce Stabilization Fund,” the treasury would forgive financial assistance that was awarded to small businesses that were secure before the pandemic, as long as the same amount of employees are hired following the crisis. This secures immediate solutions to the most vulnerable businesses, keeps workers getting paid, and inspires businesses to grow when the problem is resolved, by keeping a steady cash flow to all small businesses. This provides security and relief to businesses, employees, and families.

Every business has expenses. Major expenses include paying employees for their services. Large loans can also place pressure on small businesses, especially when the Corona virus crisis hit and businesses were forced to lay off many employees. Having high costs for productivity and

supply, but a loss of demand for the product, caused many businesses to fall into debt. They couldn't pay workers and had to let them go. Businesses needed relief to pay employees, cover expenses, and pay back loans. The \$300 billion Restoring Economic Security, Confidence, and User Endurance (RESCUE) Business Act of 2020 would aid in recovery of small businesses. Under this proposed bill, SBA would waive all fees for all 7 loans for one year for both borrowers and lenders, and provide a 90 percent loan guarantee for all loans, no matter the size. Loan limits will be increased from \$350,000 to \$1 million. This will give businesses time to recover and also keep employees on payroll.

In order to create different policies that work for the benefit of small businesses in Washington, consumers, workers, and job owners need to engage with policy holders. This may include Using social media to spread positive messages, emails, phone calls, and grassroots campaigns that spread the message that small businesses are essential to our lives and a groundwork of the economy. Therefore, engaging to promote relief for small businesses and encouraging government officials to aid, fund, and support the life of small businesses in all communities is essential. Talking to policyholders, writing messages to Congress, and engaging with community members who support the same reforms are essential to creating a robust economy again.

D. Analysis

It is of the utmost importance for non-essential businesses across the country to understand their economic risks laid out before them during these unprecedented times so that they may begin to strategize for the future of their businesses and how to weather this pandemic storm. According to Lexis Nexus (Lexis Nexis, 2020), "economic risk centers on macroeconomic circumstances that may result in significant loss for a business.

The Aggregate Effect has been one that took the most toll on small businesses. Due to the sudden hit of the pandemic, the government has forcefully closed many "non-essential" businesses on short notice. Those who refused risked "citations, fines, or license suspensions" [4]. This forceful closure has taken away some people's only income, especially small non-essential businesses, such as retail or clothing stores.

Though various sources differ in strategies for post-coronavirus comebacks, they all share one factor in common: planning ahead. Specifically, any changes to products or manners of distributing/selling products is of utmost importance, such as assessing or increasing "production and/or delivery capacity" [1]. Whether it's changing the product sold completely, or adjusting advertising and selling techniques, such actions will all be affected by the end of the pandemic.

Being prepared and planning ahead is especially crucial to smaller businesses that don't have the publicity or budget to expand much into online marketing. Even now, organizations

such as the Great American Takeout aim to support small businesses, specifically restaurants, during these trying times [10]. By encouraging social media platforms and everyday citizens to order and give publicity to these restaurants, they will not be required to face the burning consequences of funding or other burdens after the pandemic.

I. IV. DISCUSSION

Emergency relief in an economic crisis and immediate aid from government officials and policy makers is necessary to help small businesses survive the pandemic and also recover when necessary. Calls from the general public have encouraged officials to intervene and offer aid in times of crisis. Many programs on State and federal levels have been put into place in order to offer relief to United States citizens. Some of these include grant and loan programs, deferred taxation, a stimulus package, eviction and foreclosure moratorium, utility shut off moratorium, and a call to reduce rent payments. With all these steps policymakers hope to help businesses and employees survive the Corona crisis.

The United States Congress passed a \$2 trillion relief package for businesses in crisis from the COVID-19 epidemic. This will be a life saving act that helps millions of businesses recover from the economic crisis of the virus. The future plan includes paying the wages for workers who stay employed at vulnerable companies. For those workers who have lost their jobs, they will receive checks as large or even larger than they were receiving at previous employment. It will save some of the country's largest corporations from bankruptcy, by allowing taxpayers to take shares and invest in those companies as collateral. This is the first time the government has actively involved itself in capitalistic business. This bill will transfer responsibility from private businesses to the federal government, allowing the government to intercede on behalf of companies and potentially aid the recovery of the pandemic.

The effects of the corona virus have sent millions of Americans into unemployment. Millions of companies both big and small are struggling to survive the financial wreckage of the virus, including airlines, big banks, nail salons, and bars. This has led the United States government to intervene on behalf of businesses. Some of these provisions include direct payments to individuals and businesses, generous loans in which the government agrees to support equity and stakes in companies. Some individuals will receive a check to compensate for lost wages. But, there's provisions such as a limit on executive pay and a requirement of companies receiving assistants to maintain employment rates of 90 percent of what they were.

The government has planned to help many businesses. Around \$350 million will be devoted to loans and loan payments. The other \$500 billion will be divided among airlines and other companies critical to national security. The government has done many things to aid in the recovery.

There are some loopholes to their cash bailout. Businesses would not have to repay loans covering up to eight weeks of payroll expenses. Once businesses receive their loans, a new payment schedule would begin. They must use the money within two months in order to avoid repaying it. They also cannot pay employees more than \$10 thousand if that is the size of their loans. Executive who made \$3 million, will receive \$3 million. CEO's who made \$20 million would receive \$11.5 million. Restrictions will be supplied when government support begins.

Direct payments, low interest loans, bailouts, and deferred repayments, all will aid in post-pandemic recovery for businesses. Businesses who have lost revenue, lost employees, and struggle to recover, will now get the help they need to survive the economic crisis. When the crisis hit, the government made it their responsibility to provide much needed aid to companies that have found that they have lost profits, income, and production. Many companies folded, employees were let off, and daily profit margins fell substantially. The pandemic causes much stress and economic hardship for many people. Government intervention was necessary to recover and keep businesses working. As the government has chosen to intervene, and aid in the recovery of companies through economic hardship.

The Corona Crisis has left many people desperate for cash. As people are losing their income rapidly, there was an urgent need for the government to intervene and give them a money boost. At the public's urgency, the government issued its first stimulus package which is a refundable payment against your 2020 tax returns. This means that you don't have to file your 2020 tax returns first to get the tax credit in the form of a tax refund. The stimulus payment will not be taxed by the government. At a desperate time, this is just what many people needed. With businesses at a loss and millions of people becoming unemployed, people have been unable to pay rent and mortgages, buy food, or have transportation. In order to pay expenses,

This was the first of a number of stimulus checks being issued and just a part of the government's plan to aid in the economic recovery of the American people. When the economic crisis hit, a plan was necessary to give people relief from economic hardship. In order to help people, the government issued checks of \$1,200 to give people aid to pay rent, mortgages, and buy food. Many people have been speaking about ending rent payments in order to give people relief. They also talk about ending evictions. Others spoke about a second stimulus check in order to help because the corona virus went on for so long. Direct money is what people need to pay expenses. A stimulus check was the government's solution to the problem of economic hardship.

People have demanded that the government intervene even more. People who are low income and already in crisis can not afford unemployment. The average worker who makes less than \$20,000 a year and lives on paycheck to paycheck cannot afford to lose any more income. Unemployment, loss of

income, and economic hardship will devastate them because their savings are small and the money is dwindling. In many ways, these people have required the government to intervene in their livelihoods. One crisis can set these people off to homelessness and leave them empty. Many people have gone to unemployment benefits and other aid, but found with high costs, it's not enough. A stimulus check is necessary for intervention and for people to pay necessary expenses like food, shelter, and transportation.

REFERENCES

- [1] Monson, C. (2020). What small Businesses Need to Survive The Corona Crisis. Harvard Business Review.
- [2] Ding, L., Sanchez, A. (2020). What small Businesses Will Be impacted by COVID-19? Federal reserve Bank of Philadelphia.
- [3] Kochhar, R. (2020). The Financial Risk to U.S. business owners posed by COVID-19 outbreak varies by demographic group. Pew Research Center.
- [4] Smith, K. (2020). How State and Local Governments are Helping Small Businesses During The Coronavirus Pandemic. Institute For Local Self-Reliance.
- [5] Tankersley, J (2020). The Corona Virus Economy: When Washington Takes Over Business. The New York Times.
- [6] Davidson, Helen (13 March 2020). "First Covid-19 case happened in November, China government records show—report". *The Guardian*. ISSN 0261-3077
- [7] Sevellano EG, Linde P, Vizoso S (23 March 2020). "640,000 rapid coronavirus tests arrive in Spain". *EL PAÍS*.
- [8] Meredith S (20 March 2020). "UK PM Boris Johnson announces nationwide lockdown measures, telling cafes, pubs and restaurants to close". CNBC.
- [9] "Principles of Epidemiology | Lesson 3—Section 3". *U.S. Centers for Disease Control and Prevention (CDC)*.
- [10] Gehanno JF, Bonneterre V, Andujar P, Pairon JC, Paris C, Petit A, et al. (June 2020). "How should data on airborne transmission of SARS-CoV-2 change occupational health guidelines?". *Occupational and Environmental Medicine*.
- [11] Chinazzi M, Davis JT, Ajelli M, Gioannini C, Litvinova M, Merler S, et al. (April 2020). "The effect of travel restrictions on the spread of the 2019 novel coronavirus (COVID-19) outbreak". *Science*.