SMALL BUSINESS SURVIVAL IN A WAR POST PANDEMIC

ABSTRACT

With an active war and the world recovering from a pandemic, the UK economy bouncing back fully depends on the health of the small business sector as it accounts about 99.9 percent of the business population (5.5 million businesses). Small business account for three fifths of the employment and around half of turnover in the UK private sector. The number of private sector businesses has risen in the UK over the last 20 years by more than 2.2 million. Small businesses contributed 47% annual turnover to the UK economy as of 2016. However, that has now increased to £2.3 trillion (52%) since then. The research focuses on the impact of these unpreventable disasters on the Medium and Small sized Business economy taking in particular the Logistic industry and recommended solutions necessary for survival. I adopted an exploratory and quantitative methodology. Data from the FAME database for 30 logistics companies will be analyzed for success based on key KPIs and metrics (Operating Cash Flow, Current Accounts Receivable, Working Capital, Gross Profit Margin, Current Accounts Payable, and Net Profit Margin) and tested against key economic indicators (Consumer price index, Producer price index, inflation rates, and employment figures) to show how small businesses has thrived in this trying times, the strain and ways for survival for the small business sector.

INTRODUCTION

Small businesses are common in many countries. Small businesses are actually privately owned company, sole proprietorship or partnerships. Small businesses are small in size, easy to set up involving less capital and the owner(s) manages it and might have less annual revenue than a corporation or regular-sized business. The chain of command and communication has a limited reach. Small business are those types that produces goods and services on a small scale. These industries play an important role in the economic development of a country.

Small businesses created 1.9 million jobs in 2015 with some of the smallest firms - those with 20 employees or less - adding over half of the positions with a 1.1 million increase. As of 2018, the SBA estimates there are 30.2 million small businesses employing a total of 58.9 million workers. Smal businesses tend to contribute to the local economies they are established through innovations and services and by providing employment opportunities to people who may not be employable by larger corporations.

Economic downturns harm businesses of all types and is particularly damaging for small businesses. The Great Recession showed the impacts on big and small businesses, a catastrophical effect. The financial crises forced many small companies to go out of business and the unemployment rates was so high.

On 31 December 2019, the World Health Organization, WHO was informed of cases of pneumonia of unknown cause in Wuhan City, China. Three years and counting, the economic impact is still being felt. There was mandatory shutdowns of businesses and recommendations of social distancing. Most had to cut back their operations, and more than half have had to shut their doors completely. Two-thirds of hourly small business employees did not work and that fraction is not even counting the more than 22 million people who ﬁled for unemployment in just a four-week period. The restrictions lasted for almost two years, until the governments decided it was important to live with the coronavirus.

24 February 2022, Russia invaded Ukraine. Russia’s invasion of Ukraine demanded sanctions imposed as a response by the UK and its allies however, this had significant impact on the UK economy.

The COVID-19 crises and threat of OMICRON variant has seen the world economy run on a wild. Energy prices increased 32%, namely gasoline (48%) and fuel oil (70.1%) as Russia’s invasion of Ukraine has also pushed crude oil prices higher even with OPEC+ trying to control supply of crude though can’t meet the demand. And now with Russia responding to sanctions imposed on it enforcing that all oil and gas obligations be fulfilled with Russian Rubles, the inflation price and exchange rate risk will really affect the global world economy, the UK not left out particularly the Small and Medium Enterprise sector.

Russia is a prominent exporter of energy, producing 17% of the world’s natural gas supply and 12% of its oil. It was the largest external supplier of gas to the Europe and UK with pipeline deliveries accounting for 31% of total supply. Russian liquified natural gas (LNG – natural gas that is liquified for transport without pipelines, for instance on ships) accounted for a further 4%, meaning more than a third of Europe’s gas comes from Russia. These figures offer variations as some sectors depend on just energy to operate.

It is important to note that even before this war, the economy was already fragile. Now everything is expensive. The whole world is suffering an inflation as consumers are beginning to understand that most of materials (including household items) are directly or indirectly crude products. This has dragged the global economy backward from anticipated recovery and impacted both small and big businesses.

Small businesses contribute about 60% of all job employments and 51% of all turnover generated by the private sector in the UK, this contribution is more than 50% of GDP in high-income countries worldwide. This makes up a vast majority of businesses and make the small businesses particularly generators of wealth and jobs. But between February 2020 and April 2021, 70 to 80 percent of SMEs across 32 countries lost between 30 and 50 percent of their revenues, partly due to Covid 19 Pandemic and shortly after, the GDP fell from 2.6 percent to below zero level in December 2021, shortly peaked but dropped again due to the new Russia Ukraine war.

The UK is slowly recovering. The economy is expected to have grown by 7.3% in 2022. Monthly real gross domestic product (GDP) is estimated to have grown by 0.1% in February 2022 and is now 1.5% above its pre-coronavirus level, UK gas prices are rising again, reversing earlier declines, and oil prices have seesawed.

Covid cases are rising. Will the war end soon? How about the refugees fleeing warring zone?

How has this affected small businesses? How has small businesses responded? How long will it take the small business sector to recover?

Researchers have examined what happens to small businesses in the aftermath natural disasters and what factors predict their survival. This research contributes to earlier works, however by using data collected from FAME database collected from small business owners to study small business resilience in a war after a pandemic and way out the trenches created by inflation.

RESEARCH METHODOLOGY

This research will be based on datasets from FAME database as it best served to answer the questions and the purposes of the study. The data will be analyzed through descriptive and analytical statistics.

Fame is a database of information on companies in the United Kingdom (UK) and Republic of Ireland, including balance sheets, profit and loss accounts and ratios. Fame includes information relating to companies, directors and research. Fame also includes information on 6 million companies that are no longer active.

Data from the FAME database for 30 logistics companies will be analyzed for success based on key KPIs and metrics. The metrics employed include Operating Cash Flow, Current Accounts Receivable, Working Capital, Gross Profit Margin, Current Accounts Payable, and Net Profit Margin and will be tested against key economic indicators (Consumer price index, Producer price index, inflation rates, and employment figures) to show how small businesses is coping after a pandemic and in a war, the strain being experienced and ways for survival for the small business sector.

The data analysis will be done using Python programming language and its libraries especially Pandas and Scikit. A model is to be developed from the research to further help small businesses employ profitable measures for success and growth.

It must be noted that FAME database provides just 10 years of financial data for companies and might not include recent financial activities of the companies. Another probable limitation of this research is that the model that will be developed is subject to the current world view as of now.