

# European SMEs and the Impact of COVID-19

*European Cluster Collaboration Platform*



# Background

**SMEs around the world are at a critical juncture.** With a rapidly evolving situation related to COVID-19, the ILO estimates that enterprises across a range of sectors have been impacted. This is especially the case for sectors such as travel, tourism, hospitality, food service, retail and manufacturing.<sup>1</sup> **SMEs represent 99% of European businesses.** Over the past months, the COVID-19 pandemic has hit with varying degree of severity across Europe. EU Member States have developed social safety nets which can reduce the severity of a recession. In addition, Member States as well as the European Union have set up support packages, e.g. by making the application of the Stability Pact and of State aid rules more flexible, as well as introducing an increase in the EIB's liquidity support for SMEs. In addition, the EU recently announced its European Industrial Recovery Plan, in which Commissioner Breton mentioned **SMEs as potentially the most vulnerable actors in the EU value chains.**<sup>2</sup> Despite the substantial support structures, additional business advisory measures to support European companies remain necessary.

An analysis by the OECD states that **“the effect on SMEs is especially severe, particularly because of higher levels of vulnerability and lower resilience related to their size”**<sup>3</sup>. Surveys across OECD members further confirm this severity: in Germany 58% of SMEs experienced a drop in turnover by 50% on an average, while

in the Netherlands 85% of SMEs are in financial difficulty because of COVID-19. In Belgium, 40% of companies reported a drop in revenue of 75% or more and in Portugal 37% reported drop in production by over 50%.<sup>4</sup>

## Top five sectors in terms of SME Employment

	Industry sector	SMEs share of total employment
1	Retail trade	12.1%
2	Wholesale trade	8.8%
3	Food and beverage service activities	8.2%
4	Specialised construction activities	4.4%
5	Land transport	3.6%

**With over 25 million SMEs employing close to 95 million people in the EU in 2018<sup>5</sup>, it is critical to better understand how SMEs are impacted, so that the necessary business advisory support can be complemented with the current benefit packages.** In light of this, the European Cluster Collaboration Platform (ECCP), specifically the “SMEs Go International Technical Assistance Facility”<sup>6</sup> reached out to partners, networks and SMEs, to assess the impact of COVID-19 on SMEs and the necessary support required for a gradual recovery. The aim was to ensure that the Facility that is planned to be launched later this year would address the concrete and most urgent needs of the SMEs for recovery and resilience building efforts.

<sup>1</sup> Interventions to support enterprises during the COVID-19 pandemic and recovery, ILO Enterprise Brief, April 2020

<sup>2</sup> European Commission (24 April 2020) Speech of Commissioner Breton at the European Parliament Committee on Industry, Research and Energy.

<sup>3</sup> OECD (2020) Coronavirus (COVID-19): SME Policy Responses.

<sup>4</sup> OECD (2020) Coronavirus (COVID-19): SME Policy Responses.

<sup>5</sup> European Commission (2019) Annual Report On European SMEs 2018/2019

<sup>6</sup> <https://www.clustercollaboration.eu/eu-cluster-partnerships/escp-4i/smes-go-international-technical-assistance-facility-smes>

# Impact of COVID-19 on SMEs

As of June 2020, COVID-19 has impacted SMEs to varying degrees. While the majority of companies surveyed (86%) experienced some degree of impact, 24% felt a major impact. The impact was specifically in relation to maintaining fixed costs and salaries of staff. For example, some SMEs mentioned that they had to lay off their staff, in the wake of increased losses and lack of liquidity. Other SMEs faced challenges with suppliers and accessing goods, while one SME experienced delayed funding from project grants to ensure stable liquidity positions. Amongst the respondents, a furnishing cluster had to stop operations completely as they work with the hospitality sector.

The SMEs key concern during the COVID-19 crisis has been to maintain fixed costs i.e. rent, salaries of staff, amongst others (mentioned by 71% of respondents as either first, second or third highest concern). Secondly, maintaining healthy sales and turnover has been a major concern as companies continue to face decreased demand for their products (62%). Finally, 52% of the SMEs felt that business continuity was a key issue together with opportunities to work in international markets (export markets and supply chain linkages). In addition to the above, in the open responses, SMEs highlighted several key challenges they are facing. These include:

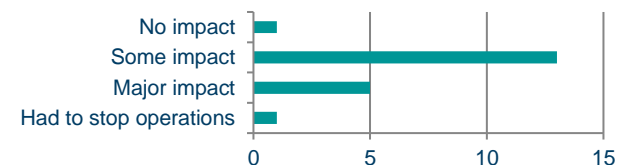
- ❖ **Strategic:** Finding new/alternative business opportunities, strategic planning and decision making in uncertain times and maintaining (inter-national) partnerships

- ❖ **Operational:** Staff working remotely, digitalisation of sales and marketing and overcoming logistical hurdles especially abroad
- ❖ **Maintaining turnover:** International sales decline, decreased demand
- ❖ **Managing costs:** Measures to effectively cut costs, managing planned and ongoing investments, fixed costs such as rent and salaries

Concerns of SMEs during the COVID-19 crisis



Most SMEs experienced some or a major impact of COVID-19



# SME Needs: Opportunities ahead

Finally, in order to effectively address the business advisory needs of the SMEs during the COVID-19 crisis, we wanted to explore areas of opportunities where SMEs needed support to become more resilient. The assessment of responses revealed several areas of need.

## 1. Understanding the challenges and opportunities in third markets

The majority of the companies surveyed felt that it was important to get a clear understanding of the current challenges and opportunities in third markets. This was specifically linked to access to market information and intelligence (e.g. information regarding COVID-19 and its effect on foreign trade and entry into specific markets).

## 2. Developing new and innovative business models

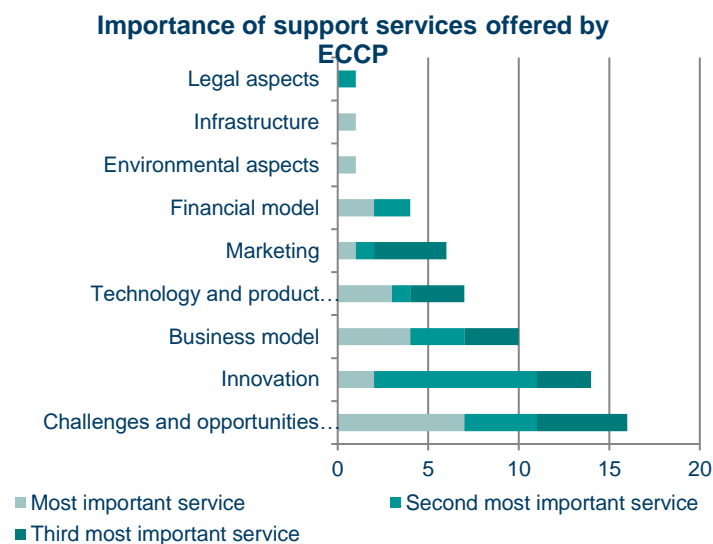
A number of companies expressed the need for support in developing new business models and support for innovation as they operate in these rapidly changing times. This also included support in making business models more resilient.

## 3. Assistance in digitalisation

As companies increasingly adapt to a changing landscape of working “remotely”, the majority of the companies expressed the need for assistance in digitalisation. For example, support was needed through information or financing either for setting up digital processes (e.g. for communication, marketing and supply chain management) or for generally shifting work towards an online environment and providing services and products online.

Next to these three key areas of need, SMEs also identified the following areas of business advisory support needs:

- **Access to finance:** Consultation for identifying channels for financing and applying for funding. This also included exploring avenues for converting one-off project funding into more structural funding;
- **New markets:** Support in finding new business opportunities and establishing new contacts;
- **Business operations:** Technical and financial advisory support in strengthening current business operations.
- **Partnerships:** Improve cooperation among companies in clusters and finding and matching partners for EU funded projects
- **One-stop-shop support for internationalisation:** A one-stop-shop providing information on grants for technical feasibility studies of business products and all other necessary information on internationalisation.

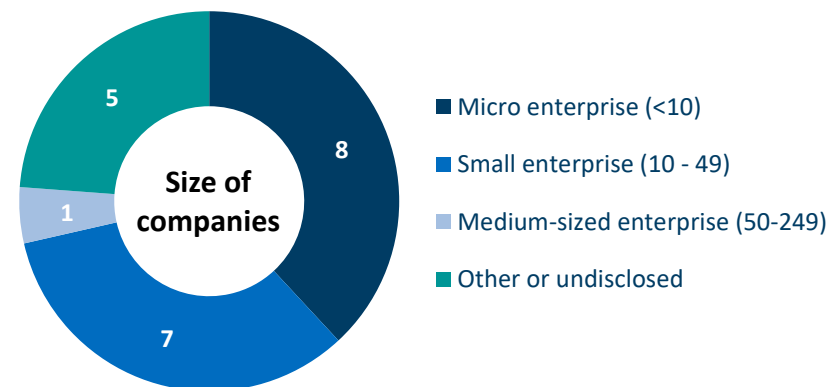
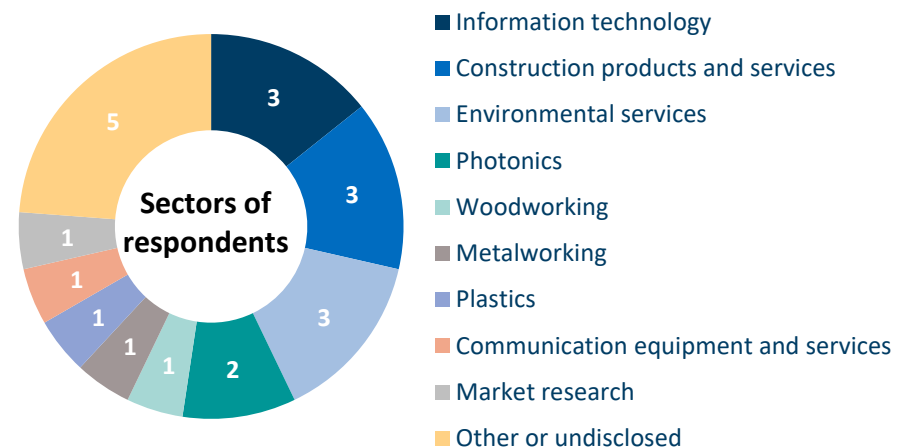


# Respondents

**Companies surveyed are members of European cluster organisations.** They were contacted through the coordinators of their respective clusters who are involved in the network of the European Cluster Collaboration Platform.

**Companies represented various sectors, including IT, construction, environmental services and photonics.** Some respondents chose not to disclose this information or were cluster organisations active in multiple fields.

**The size of the companies varied, with the majority being micro enterprises (less than ten employees) followed by small enterprises (with less than 50 employees).** Finally, the majority of the respondents also indicated that they are planning to apply for the "SMEs Go International" Technical Assistance Facility support. This highlights that despite (or because of) the current difficulties, business advisory support is still extremely relevant in these times. In addition, there is still appetite among companies to expand to new international business opportunities.



# About us

**The European Cluster Collaboration Platform (ECCP) is a vibrant online community helping cluster organisations across Europe and beyond to connect, communicate and collaborate.** It provides a unique one-stop shop for news, learning and collaboration opportunities for industrial clusters across Europe, boosting the visibility and showcasing the impact of European clusters in cutting-edge industries and expanding markets throughout the world.

Being part of the ECCP community gives cluster organisations, policymakers and stakeholders access to a vast wealth of knowledge, information and opportunities from clusters and ecosystems in a wide range of countries, sectors and industries.

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