How do Small and Medium Enterprises (SMEs) survive the COVID-19 outbreak?

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Abstract

The purpose of this study is to describe a business model that can be applied to the SMEs during the COVID-19 pandemic with Business Model Canvas approach so that SMEs can survive (Business Resilience). This research uses a qualitative method, with literature studies taken from several sources both printed and electronic media, books, and research results accessed from various electronic journals. The data analysis used is content meta-analysis through an interactive procedure consisting of four stages: data collection, data condensation, data presentation, and concluding. The business model that can be applied to SMEs is the Business Model Canvas. Three important elements of business resilience are product excellence, people behavior, and process reliability, Business resilience is supported by digital transformation. Digital transformation exists when new digital skills emerge and digital tools are adopted. The right digitalization strategy is needed in achieving business goals and developing SME products or services to be more competitive. Competitive advantage is related to cultural diversity, plurality, and social motivation. In the process of digital transformation, the correct digital infrastructure testing is required. By using the appropriate technology for system resilience, a business can carry out its digital transformation and create digital resilience.

Keywords: business model canvas; business resilience; COVID-19; SMEs

Introduction

Corona Virus Disease 2019 (COVID-19) was first discovered in Wuhan, China. Global data of COVID-19 cases on April 7, 2020, reached 1,214,466 confirmed cases, with a total of 67,767 deaths spread across 211 countries/regions. The first coronavirus case was announced by the Government of Indonesia on March 2, 2020 (www.covid19.go.id). As a preventive action to limit the surge in coronavirus cases, a Government Regulation was issued regulating large-scale social restrictions. This regulation is contained in PP No. 21 of 2020 concerning Large-scale Social Restrictions in the Framework of Accelerating the Handling of COVID-19. Large-scale social restrictions include at least the consolation of schools and workplaces, restrictions on religious activities, and restrictions on activities in public places or facilities.

Coronavirus outbreaks cause global health emergencies and a global economic slowdown. Trade, investment, and employment have all been affected and the crisis will have an impact on achieving the Sustainable Development Goals. The development of coronavirus outbreaks affects various sectors with a scale of loss that tend to be very

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broad and multi-sectoral. The sectors most affected are trade, tourism, transportation, education, and health (Abulescu, 2020). Small and Medium Enterprises are the most threatened group of entities because they do not have the resources to survive the crisis. The consequence that will occur due to the economic crisis is the increasing role of state intervention and international financial institutions. State policies are taken in the form of loan delays and tax payments, the takeover of some work or social security costs with a central budget, prioritizing safety, and disaster management (Sulkowski, 2020).

Competition is a good economic mechanism when the economy fully uses available resources, in a static perspective, grows through more efficient use of scarce resources. However, after the COVID-19 pandemic, in the medium term, we face the risk of economic depression, and high levels of bankruptcy and unemployment for several years. In such an environment, the priority goal is to stimulate economic growth as soon as possible and create a mechanism of redistribution that will reduce economic suffering for the lower economic classes and ensure that the economic framework that is created will be more resilient in the future. Thus the employment stimulus and helping companies are needed in the sectors affected by the crisis, especially SMEs and also several large companies, preventing bankruptcy (Jenny, 2020).

The development of Small and Medium Enterprises (SMEs) in Indonesia showed a fairly good pattern before the COVID-19 outbreak. Various policies in favor of SMEs were rolled out by the Government to influence the growth in the number of SME units. SMEs have a significant role in increasing employment, forming gross domestic product (GDP), and providing safety nets, especially for people affected by the financial and economic crisis. The contribution of SMEs in the creation (GDP) in 2018 will reach 14,038,598.5 (in billion). Data from the Ministry of Cooperatives and SMEs of The Republic of Indonesia shows that SMEs as a whole have experienced good development and growth over the years. For example in 2014, the total number of SME units was 57,900,787. Last year's data shows that the number of SME units has reached 64,199,606 (www.depkop.go.id).

The history of the Indonesian economy records the contribution of SMEs in facing various crises. During the monetary crisis in 1998, SMEs became a national economic buffer and remained strong supporting the national economy. However, at this time, the SME sector will be the most vulnerable sector to the economic crisis caused by COVID-19, because this business depends on the velocity of money from the sale of merchandise. If the spread of the coronavirus and its effects are not dealt with quickly, SMEs are predicted to worsen. The current global recession is inevitable. How deep and long this recession depends on the success of the steps taken to prevent the spread of COVID-19, the effects of government policies to overcome liquidity problems in SMEs, policies to support families experiencing financial difficulties, and policies to secure employment, and supply chains are also an important consideration (Fernandes, 2020). The purpose of this study is to describe the business model that can be applied to the SMEs during the COVID-19 pandemic with the Business Model Canvas approach so that SMEs can survive ("Business Resilience").

Research method

This research uses a qualitative method, with literature studies from several sources both (print and electronic media), books, and research results accessed from various electronic journals. Data analysis used is content meta-analysis through an interactive procedure consisting of four stages: data collection, data condensation, data presentation, and concluding. The description of the business model is described by using Business Model Canvas (BMC), then evaluating using SWOT analysis on each element of The Business Model Canvas (BMC). Some definitions of the concepts that form the basis of research are Business Model Canvas (BMC).

The Business Model Canvas developed by Alexander Osterwalder can be an approach that is easily implemented by business organizations to evaluate and change or reform the business model of the company or SMEs which consequently creates a new business model that is more appropriate and suitable for the application. Re-examining the overall business model is very important, but looking at each component in detail is also an effective way for innovation and renewal. An effective way to do this is to combine SWOT analysis (strengths, weaknesses, opportunities, and threats) with Business Model Canvas. The purpose of this research is to describe the business model that has been implemented by SMEs with a Business Model Canvas approach and formulate appropriate and applicable business development strategies in long-term business development with Business Model Canvas. A Business Model is describing an idea about how an organization creates, delivers, and captures the values of a business. The concept of a business model must be simple, relevant, and intuitively easy to understand with no intention of simplifying very complex company functions. (Osterwalder & Pigneur, 2010).
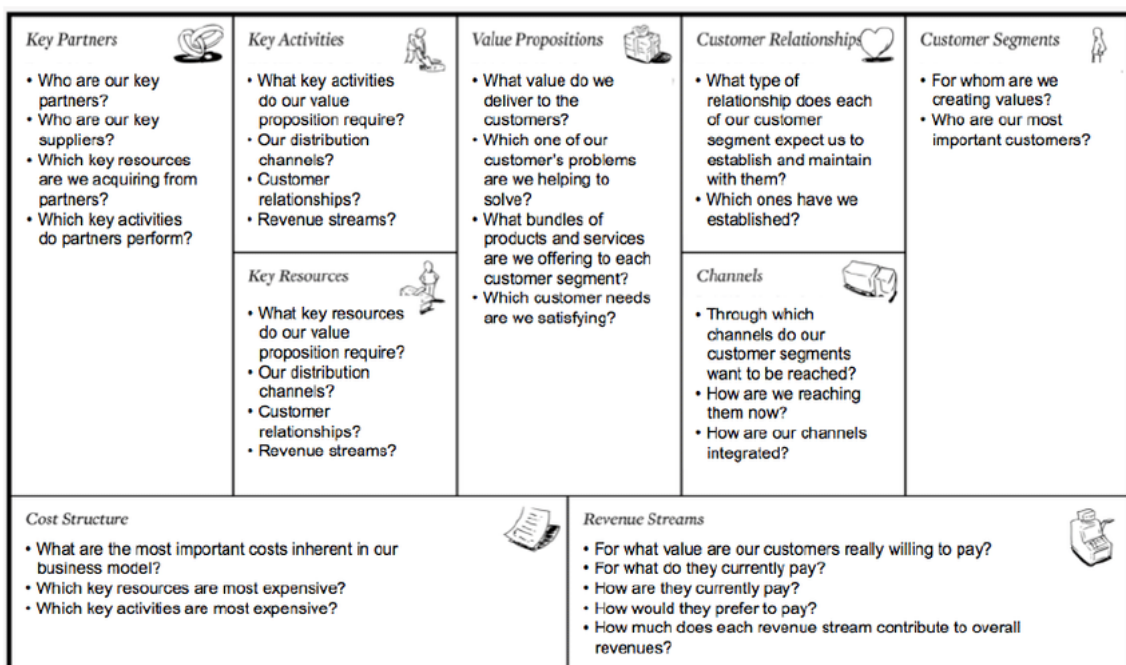
Source: Osterwalder & Pigneur (2010)

Figure 1. Business Model Canvas (BMC)

The Business Model Canvas is presented in the form of a canvas consisting of 9 interconnected boxes. Osterwalder and Pigneur believe that the best business model can be described through nine basic building blocks that show how a business aims to earn money. The nine boxes or blocks can be the first step to determine where a company transforms its business model. The nine blocks cover four main areas of business, namely: customers, offerings, infrastructure, and financial capabilities. The business model framework is in the form of a canvas and consists of nine blocks containing interrelated elements which illustrate how an organization creates benefits and gets benefits for and from its customers. The nine elements of the Business Model Canvas include customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structures.

Customers Segments are the core of a business model that can provide profits for the company. Without customers, no company can last long. A business model can determine large or small customer segments. Value Propositions are a variety of products and services that will create value for certain segment customers. Channels are a medium for companies to communicate with their customers to convey a value proposition. Customer Relationships explain maintaining relationships between companies and consumers. The company must explain the type of relationship each customer segment wants to build. Revenue Streams are revenues or income that a company receives from its customers on value propositions given by the company to customers. Key Resources explains the most important assets needed to make a business model work well. Every business model requires key resources. Key Activities explain the important things that a company must do to make its business model work. Key partnerships describe the network of suppliers and partners that make business models work well. Companies create alliances to optimize their business models, reduce risk, or obtain resources. Cost Structure describes all costs spent to operate the business model. Cost structure describes the most important costs that occur when operating in a particular business model (Osterwalder & Pigneur, 2010).

Results and Discussion

The role of management in a business is to monitor and act on uncertainty, and to ensure that components of the business model are adjusted to meet the dynamics of change (Demil and Lecocq, 2010). Some specific tasks in managing the dynamics of the business model according to Foss and Saebi (2017) are namely; monitor internal and external risks and uncertainties that endanger business models, anticipate potential consequences and implement actions designed to modify business models so that company performance can be improved. The company's strategic goal after determining the focus of its business model is to limit the business model and find a path so that the company's competitive advantage can be maintained (Cortimiglia et al., 2016; Chesbrough, 2010; Teece, 2010).

Some companies start a business model by designing or increasing their main activities and main resources, then they innovate all components of the business model. This result applies to large companies and SMEs following a formal strategy process (Cortimiglia, 2016). However, Laudien (2017) and Lindgren (2012) describe that most SMEs do not have a formal business model strategy, because the contextual business

model process appears naturally. The focus of SMEs that improve their business models is on the internal components of the value chain, value propositions, or target customers (Arbussa et al, 2017; Lindgren, 2012). To achieve a competitive advantage, SMEs must own or create or design a business model. The business model process going from design to implementation is illustrated in Figure 2. The business model design illustrates a strategy into a business model blueprint. Then the business model has to be financed through external or internal funding, and finally, it has to be implemented into an actual business enterprise.
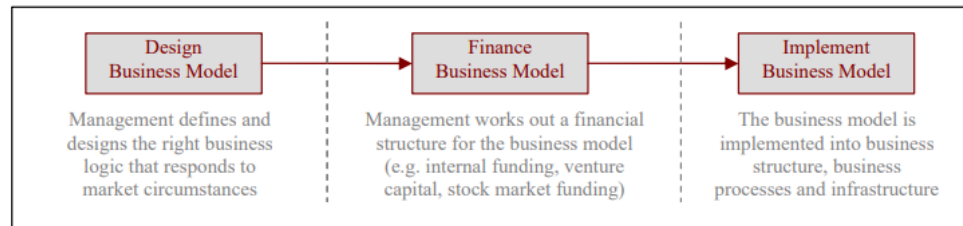
Source: Osterwalder & Pigneur (2010)

Figure 2. Business Model steps

SMEs entrepreneurs assess how the needs arising because of COVID-19 because a business crisis can affect their business. Appropriate action is needed by considering several competitive aspects such as scenario planning, stakeholder analysis, development strategies, external and internal communication. Several indicators can be used to evaluate its reactive capacity and understand the impact of digital change whether it can reduce the negative effects of the COVID-19 crisis. After conducting external and internal analysis, SMEs must determine their business model. Digital transformation not only introduces new technologies for existing activities but also a process of redesigning all business models. The business model canvas as logic for organizations to create, distribute, and catch value (Osterwalder, 2010).

Creating value is the main goal of every company or SME that wants to succeed. Therefore, the first step that must be taken by SMEs in strategic planning is to develop a map of the business model rather than a business plan, which can be formed properly after the model is understood and validated (Casalino, 2015). The business model that can be applied to SMEs is the canvas business model, which is standardized and recognized for all businesses and allows managers to visually represent companies to create, distribute, and capture value for their customers (Osterwalder, 2004). The canvas business model is based on a visual language that is quickly learned and can be accessed by everyone even if it does not come from a professional background. It can be equalized to maximum the people involved and at the same time represents a good communicative advantage of the business model canvas (Ahmad, 2003).

The nine elements of the Business Model Canvas include customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structures. The first discussion is about Key Partners, a company is a system that acts in a large ecosystem, so it is impossible to stand alone without partners. Key Partners are suppliers who are the key to make the business model function properly. The supplier network is needed to meet various needs such as optimizing resources; reducing the risks of competition; developing economies of scale;

acquiring particular resources and activities; competing in a wider market; discovering new customers; spreading the brand to a wider audience. Creating a solid partnership is very important because the company cannot fulfill all of its needs through its resources and activities (Frusciante, 2014). The identification of key activities in a company is very easy to do, depending on the business sector (Casalino, 2014). There are three main activities (key activities) in the company, namely; productive (manufacturing company), problem-solving (service-based companies), and maintenance or development of networks (such as Google and Facebook). SMEs in the business services sector generally do productive activities and problem-solving.

Digital business uses technology to create new value in business models, digital economic growth makes society easier and more familiar with digital service products that encourage companies to seek new advantages in the digital space. Digital business creates a competitive advantage based on the extraordinary combination of digital and physical resources and builds comparative advantage. Digital business is changing the way organizations in using and thinking about technology, innovation, revenue, and market growth. Key Resources need to be identified to make the business model works, which is in the form of; physical resources, intellectual resources, human resources, and financial resources. Good value propositions are made so that companies or SMEs can transfer intrinsic values and intangible values such as; making products/services accessible, offering an innovation, improving products/services by adding relevant features, using brands for identity, reducing product/service prices, reducing risks associated with products/services, and improving product design (Cavallari, 2015). At this time, SMEs need to consider developing digital businesses.

Creating the right SME product and service package for certain customer segments is very important. Identification is needed for different customer segments, such as; different needs, different channels, different methods, different methods of interaction are used, different clients, and several aspects that can determine certain profitability. Customer relations represent the type of relationship a company has with various customer segments. Various forms of customer relations depend on the business model, some customer relationships such as personal assistance, dedicated personal assistance, self-service, automatic services, co-creation (relationships based on various value creation processes).

Channels are a medium for companies to communicate with their customers to convey a value proposition. Channels on the elements of the business model canvas explain how a company reaches a definite customer segment (Osterwalder & Pigneur, 2010). Channels are points to connect with their clients. Channels can be direct or indirect, if SMEs use a multichannel strategy, all channels must be considered together, making it easier to create relationships with consumers. The digital age is a multichannel era in which to reach consumers requires the selection of the right message and deliver it on time and precise, and proper to target consumers. Furthermore, the variables that must be considered in the composition of revenue streams are price and payment methods, because both are very important for managing financial flows and creating a sustainable business model. There are two payment methods that generate different revenue streams, namely one-time payment solutions, and recurring payments. Employers must conduct a comparative analysis of costs with revenue streams. The

revenue streams must be higher than the cost so that the business model will be sustainable.

The Cost Structure in the business model canvas map is placed last because it is directly related to key resources, key activities, and key partners. By analyzing the cost structure, a business model consists of fixed costs, variable costs, economies of scale, economies of scope. The revenue stream can be compiled together with an analysis of the cost structure to create a sustainable business model and to maintain the success that has been achieved (business resilience). Business or organizational resilience is the organization's ability to anticipate, prepare, respond, and adapt to gradual changes and sudden disturbances to survive and prosper. Managing organizational resilience requires the implementation of habits and best practices to produce business improvement by building competencies and abilities in all aspects of the organization. This allows entrepreneurs to take risks and make the most of available opportunities (Metallo, 2012).

Three important elements of business resilience are product excellence, people behavior, and process reliability. Some important steps to achieve business resilience are as follows: 1) Diagnosing risks and interdependencies among SMEs, a business must first define business expansion and determine earning drivers; 2) Adapting company strategies and opening models, a business must using cost and benefit analysis that links cross-functional risk mitigation planning with company strategy; 3) Surviving increases risk and complexity, which involves developing an organizational structure that oversees and combines risk monitoring and intelligence. Business resilience now needs to consider digital transformation. Digital transformation exists when new digital skills emerge and digital tools are adopted. This is a transformation that needs rearrangement of the previous business model to make room for new practices that are more effective and efficient (Casalino, 2012).

The right digitalization strategy is needed to achieve business goals, to develop SME products or services to be more competitive. Competitive advantage is related to cultural diversity, plurality, and social motivation. In the process of digital transformation, it is required the correct testing of digital infrastructure. The steps that need to be taken in digital transformation in SMEs are as follows: 1) Creating the right mindset and shared understanding; 2) Determining the right leadership; 3) Launching a superior digital business center; 4) Formulating a digital strategy; 5) Discovering, developing, and gaining knowledge; 6) Creating new digital capabilities (Casalino, 2019). With the proper technology for system resilience, a business can carry out its digital transformation and create digital resilience. Digital resilience is a balance between taking advantage of opportunities and managing digital risks faced, and a balance between human resources, processes, and technology needed. Collaboration is the key to the success of digital resilience, collaboration is needed between team leadership and risk, security, and technology teams as well as collaboration with other key business stakeholders such as; communication with the community, law, marketing, etc.

Conclusions

SMEs during the COVID-19 outbreak can act when it is needed by considering several competitive aspects such as scenario planning, stakeholder analysis,

development strategies, external and internal communication. After conducting external and internal analysis, SMEs must determine their business model. Digital transformation introduces new technologies for existing activities, but it is a process of redesigning all business models. Business models that can be applied to SMEs are the Business Model Canvas, which has nine elements: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structures. The revenue stream can be compiled together with an analysis of the cost structure to create a sustainable business model and maintain the success achieved (business resilience).

Three important elements of business resilience are product excellence, people behavior, and process reliability. Business resilience SMEs at this time need to consider digital transformation. Digital transformation exists when new digital skills emerge, and digital tools are adopted. The right digitalization strategy is needed to achieve business goals, develop SME products or services to be more competitive. Competitive advantage is related to cultural diversity, plurality, and social motivation. The process of digital transformation requires the correct digital infrastructure testing. With the right technology for system resilience, a business can carry out its digital transformation and create digital resilience..

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