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OPPORTUNITY FOR LARGE BUSINESSES TO OUTPERFORM SMALL BUSINESSES DURING CORONAVIRUS

Leevi Lindfors, Erik Suokko & Oliver Tuhkanen

Academic Writing

Instructor: Sophia Butt

Date of submission: 10 December 2020

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**List of Contents**

[**1. Introduction** 3](#_Toc58508765)

[**2. Consumer Behavior Changes** 4](#_Toc58508766)

[**3. Well Performing Companies** 5](#_Toc58508767)

[**3.1 Amazon** 6](#_Toc58508768)

[**3.2 Facebook** 6](#_Toc58508769)

[**3.3 Apple** 6](#_Toc58508770)

[**3.4 Walmart** 7](#_Toc58508771)

[**4. Government Bailouts** 7](#_Toc58508772)

[**5. Businesses in the Future** 10](#_Toc58508773)

[**6. The Future of the Distorted Market** 10](#_Toc58508774)

[**7. Government Aid and Policies** 11](#_Toc58508775)

[**8. Utilisation of Internet** 12](#_Toc58508776)

[**9. Conclusion** 13](#_Toc58508777)

# **1. Introduction**

Business is what drives the world forward both economically and financially and allows for the connection of different countries and cultures in a multitude of ways.  Each day billions of people around the world rely on both big and small businesses to function and provide the goods and services that society requires. These are provided by a harmony of big and small businesses in the world of the economy are affected by the growing challenges of the business environment. In the light of the modern-day pandemic of COVID-19, small business efforts in the US market have been heavily reduced and overtaken by larger companies with more resources, preparation, and experience, leading to the bankruptcy of less established companies and family-owned businesses.

Due to the ongoing situation, many businesses are struggling, but not all. Some of the largest and the most well-known companies have been able to take advantage of the circumstances the pandemic is creating. It gives significant opportunities for certain dominating businesses to eliminate the competition and take control of the markets.

A small business can be defined so that it must be a for-profit business of any legal structure that is also independently owned and operated. It cannot be nationally dominant in its field and must be physically located and operate in the US or its territories. Generally, they also must operate with under 2,000 employees, but this varies by industry (ECFR). A large business is a company that works within these same parameters but is not restricted to employee size or market dominance.

The report will cover the advantage of large businesses from consumer behavior and bailouts perspective. Furthermore, providing examples of successful large companies during the pandemic. Lastly, providing analytical predictions around the future business market and highlighting internet expertise as an asset.

# **2. Consumer Behavior Changes**

Analyzing the performance of companies should be started by its relationship with major stakeholders, like customers. They enable the performance of corporations, and hence they are a prerequisite for business operations. Large companies tend to have a broader customer base than small companies, and hence its enables control over prevalent opinion among customers, especially during crises like COVID-19.

Consumer behavioral changes during covid-19 are alignment with the changes in historical crises. People tend to follow the crowd, rather than their reasonable thinking, and hence they are sensitive to surrounding dominant emotions - called “herd mentality” (Loxton et al., 2020). Therefore, consumers tend to be prone to marketing, such as advertisement, which enables businesses to capitalize on the situation.

Herd mentality is an opportunity for businesses that will notice this behavior and take advantage of it (ibid). Large businesses have more resources, and therefore it is more probable for them to be able to utilize the situation, rather than small businesses, which have fewer resources. Small businesses may and should aim for taking advantage of the situation if they are capable to do that. However, due to the small size, it is significantly harder to compete against aggressive advertisement actions. Large businesses executing these large budget advertisement campaigns have the resources to buyout advertisement space from small businesses.

Marketing, especially advertisements, is a way to manipulate consumers under crises, like COVID-19. Through marketing during COVID-19 large companies can change the thoughts of consumers about their brand more easily than during “normal” circumstances, where people lack extreme herd mentality and fear about their existence. When facing extreme fear people tend to focus on survival, rather than enjoyment, and hence it is called *flight or fight* mode in which people focus on the urgent issues that threaten the survival of an individual (Cherry, 2019).

A hypothetical situation where a consumer makes a decision based on fear and survival in favor of a large business could be grocery shopping. A consumer needs to go grocery shopping, although being scared of getting a corona infection. Usually, this consumer uses local supermarkets for grocery shopping. However, this time consumer chooses a big retailer, because of the television advertisement seen in the morning. The advertisement reassures the consumer how this certain big retailer has taken full consideration of the corona situation, and thus requires mask usage from employees and consumers. Even though the local supermarket might have applied the same corona precautions, the customer lacks the knowledge of that and hence prefers the big retailer, which seems safe from the perspective of a customer.

As the above example illustrates, the consumer fear during COVID-19 enables an opportunity for businesses that have substantial amounts of capital to increase the consumer base and brand loyalty by advertising when consumers are prone to behavior changes. Small businesses usually lack the capital to advertise enough and therefore fail to win the consensus of customers in advertisement rivalry against large businesses, due to the smaller amount of liquid capital available.

# **3. Well Performing Companies**

Due to the transition to working and studying online, the technology industry is the one that is benefitting from the current circumstances. Thus, tech giants like Facebook, Amazon, and Apple have seen growth in their stock markets and revenues. As a result of reorganizing staff and good liquidity of assesses, they have been able to release new products and platforms to gain more customers and increase revenues. The one thing in common for the large companies succeeding now is that they provide essential services for customers to get through everyday life. People who are willing to work remotely need new equipment and products to do so. Everyone needs their daily groceries and individuals who are willing to spend their free time exercising or relaxing with some entertainment are most likely to purchase new sporting gear and streaming services respectively.

## **3.1 Amazon**

Among the most successful companies in the middle of the world-wide crisis is Amazon, which has responded to the changing environment in the best possible way. Offering their products online and recently expanding to entertainment services they have almost everything for customers who are willing to avoid leaving their homes. Many small businesses are now depending on Amazon if they want to get their products sold. Semuels (2020) cites Charlene Anderson (2020) who sells goods on Amazon and gets more than half of the sales on the site, states “What are we going to do, protest and not sell on Amazon?...If you go, they’ll just find someone else to sell those products”. That is just one example of how Amazon is controlling the markets and it explains some of the key stats Amazon published earlier regarding their announcement on second-quarter results. Their net sales increased 40 percent to 88.9 billion dollars and net income increased to 5.2 billion dollars ([www.amazon.com](http://www.amazon.com/)).

## **3.2 Facebook**

While many small businesses and start-ups were forced to lay-off their employees, Facebook announced in April that they are going to create 10,000 new positions during this year in engineering and product roles. For example, ticketing company Eventbrite laid off nearly half of their employees, and now they are referring some of them to Facebook (Dwoskin, 2020). Tech giants like Facebook can adapt to the current situation by introducing new services like video meeting platforms for their customers. With their current customer base and aggressive marketing, it makes it extremely difficult for smaller businesses to compete with.

## **3.3 Apple**

One of the companies doing well is Apple. Even though they were forced to close down all of their stores at the beginning of the pandemic, they recently became a first-ever company in the U.S. that is worth more than two trillion dollars (Klebnikov, 2020). To thrive through these difficult times Apple has managed to release new technology and sell it online for the customers who are working and studying remotely. According to Evans (2020), one of the main reasons for Apple to reach revenues of 58.3 billion dollars was their ability to diversify. Apple published record-setting numbers for their Apple Music and cloud services recently. Thus, they are not relying only on selling their famous devices like iPhones and iPads.

## **3.4 Walmart**

Another large business that is succeeding during the pandemic is Walmart. They have recorded their largest ever percentage increase in quarterly sales due to one-stop shopping and e-commercing (Friedman, 2020). While many brick-and-mortar stores have lost their regular customers and face an enormous wave of bankruptcies, Walmart has been able to gain more customers by offering a large range of products like groceries, toys, sporting gear, and other supplies. While trying to avoid getting infected by the virus, people are willing to do their shopping in one place instead of going to multiple different locations, and that is something Walmart can offer.

Even though many employees who have lost their jobs might find new ones offered by large companies, it has created a debatable situation for the markets around the globe. While some of the small businesses are slowly dying, there is an opportunity for many larger ones to dominate the markets and build circumstances where they are not facing serious competition. It might lead to a situation where just a couple of large companies are dominating the industries.

# **4. Government Bailouts**

The first major US federal government bailouts occurred in 1792, since then there have been various kinds of bailouts (Davis, 2020). There have been several government bailouts in the US during COVID-19, and more bailouts may be incoming, due to a prolonged pandemic situation. Bailouts are crucial economically for preventing undesired situations, where insolvency proceedings and bankruptcies lead to layoffs, tax reductions, and therefore decreased consuming, due to decreased money circulation in the business market.

Even though bailouts are crucial, government subsidies may prefer large businesses over small businesses. Large businesses have more employees, larger revenues, and paid taxes, and hence their direct economic impact is more significant, which is why they are considered as too big to fail (Wright, 2009). Therefore, bailouts are granted for large businesses at ease with low payback requirements, which creates an unfair advantage for them – an opportunity.

Bailouts may be more accessible for large businesses, because of the experience and connections they have with the business world. Questionable large businesses bailouts have occurred in the US that were meant to be for small businesses (Silver-Greenberg et al., 2020). For example, Shake Shack got a $10 million bailout loan from Paycheck Protection Program, which is meant for small businesses with 500 or fewer employees, even though Shake Shack is a restaurant chain with 189 restaurants, and nearly 8000 workers (Albert, 2020). Shake Shack said to return the bailout funds.

An example of Shake Shack may seem an innocent act of dividing bailout money to large businesses. However, the unexpected example of bailout money distribution is not restricted to Shake Shack (Silver-Greenberg et al., 2020). It is hard to sort out afterward how many large businesses got a bailout, and how many of them got funds meant for small businesses bailout. That is why the statistics represented in figure 1 should be questioned and challenged.

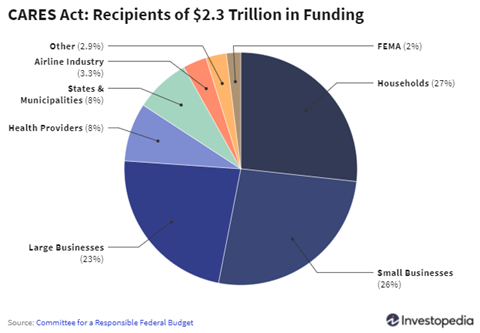


Figure 1: Cares Act: Recipients of $2.3 Trillion in Funding (Chappelow, 2020)

Figure 1 shows the distribution of bailouts funds from the CARES Act, which is a stimulus bill meant to blunt the impact of an economic downturn (ibid). The data collected is originally from the *Committee for a Responsible Federal Budget*, <http://www.crfb.org/blogs/visualization-cares-act>.

As seen from figure 1 large businesses have obtained 23% from the stimulus bill, while small businesses have obtained 26% if the statistics supplied are correct. The distribution shown on the graph may be flawed based on the statements made before about the large companies, which have obtained bailout money from the funds meant for small businesses. Therefore, there is a possibility that statistics collected about funds distributed to small businesses include large businesses. That kind of statistical error would lead to a larger than reality distribution margin in the small businesses category.

If statistics are correct, small companies have obtained more bailout funds than large companies in total. However, it should be considered that there are more large businesses than small businesses in the US, and hence the amount of bailout money per small business is significantly less compared to large businesses.

Overall, large businesses got more funds per business through government bailouts, due to COVID-19. Even though it might be unnecessary for a certain large business to continue its operations, the government granted bailout funds for them based on various news articles published during 2020 (Albert, 2020; Financial Times, 2020; Silver-Greenberg et al., 2020). This creates an unfair, but beneficial opportunity for large businesses to capitalize on bailouts by applying for a government bailout when crises like COVID-19 occurs.  These are the reasons for large businesses outperforming small businesses during COVID-19 from the perspective of government bailouts.

# **5. Businesses in the Future**

This described ramifications that COVID-19 has caused on the division of the market and the business world in general also has its direct effects for the future. The pandemic will almost certainly leave the world with an economy that is much more widely controlled by bigger corporations and more established organizations, also meaning stolen profits from smaller businesses such as family-owned establishments and start-ups/newly emerging companies. Not only will current small businesses suffer from profit cuts, it will also become increasingly more difficult for start-ups and emerging companies to enter new industries and compete with giant corporations that have only reinforced their brands during the pandemic and solidified their grasp on the market.

# **6. The Future of the Distorted Market**

The market will experience the Matthew Effect: where the stronger, built up corporations continue to assert their dominance controlling the supply of the product; thus, growing faster than all remaining companies (Orszag 2020). This trend is enforced during pandemic times as larger companies have access to more funds and resources, better sanitation policies, and quicker execution of new mandatory regulations that are frequently renewed for businesses still operating during the pandemic. In addition, most larger companies have a stronger and more widespread geographical layout. This way, when COVID-19 cases fluctuate by area and shut down cities at a time, some locations will always be in full operation. Until the merchandising of products and services return to the environment it was before COVID-19, it will not be a financially stable decision for most smaller companies to even attempt to voyage into business and hope to compete against giant corporations in now oligopolistic markets.

# **7. Government Aid and Policies**

With larger companies dominating most fields of business, many governments will be forced to install more business policies to help protect their smaller companies and avoid bankruptcy as the pandemic continues. Newly instated policies such as the CARES Act allow for some emergency funding and relief resources to be released from government emergency funds to help set the presence of smaller businesses (www.sba.gov). This policy also helped small businesses hire back employees who they may have had to lay off due to the pandemic, as well as access to new emergency funding. This is crucial for small operating businesses as many workers become unemployed after the economic effects of COVID-19 escalate and smaller companies are forced to continue to cut their staff. Next, these employees who are laid off by small companies during the pandemic will seek out jobs from larger corporations in pursuit of a stable position that also holds more longevity as a workplace. Over time, all remaining small business workers will be inclined to leave their previous workplaces, only exacerbating the situation and making small businesses weaker in the competition. Similar stimulus bills in the future could help combat the decline of small businesses but it must be a part of a multi-step process of combined efforts to be able to level out the playing field.

# **8. Utilisation of Internet**

When competing with big businesses that have adapted to the business practices required for operation during COVID-19, it is difficult for store-front and other small-scale businesses to compete against the ease of shopping that methods such as the drive-through, curbside pickup, and other delivery services provide. These are all mediums that larger companies with financial resources are relying on to protect their sales and create a safe process of a transaction. Without proper funding or development, small businesses cannot compete with larger corporations in their respective markets, forcing smaller, traditional companies to adopt online platforms and other methods outside their norm to keep their businesses afloat. The majority of companies are already changing their business models to include more concentration on the use of digital tools. For example, the total e-commerce sector sales in the US grew by 44.5% over the last year and 31.8% in just Q2 (Yao 2020). As the pandemic left no choice, a shift in the market that should’ve taken decades only took a matter of months to occur. By making use of online orders and web stores, new small companies with no real property do not have to pour as much money into creating a storefront or real infrastructure to operate their company. In addition, startups can experiment with different types and mediums of business without committing to any major financial bindings through the described online platforms of business.

# **9. Conclusion**

Coronavirus has changed the business environment and its stakeholders. Consumers are more fearful and sensible to marketing, and hence the circumstances are prominent for large businesses that have resources to capitalize on the situation. Large businesses also have stronger funding supported by the government, because they are considered as too big to fail, and thus it gives them an advantage over small businesses.

The current situation in the world of economics due to the coronavirus has already given opportunities for larger businesses to take advantage of smaller ones. Some of the biggest players in the field of the economy like Amazon, Apple, and Microsoft have used it well, but since there are most likely to be hard times ahead in the world of business, these opportunities will appear in the near future as well. As time goes by, the bankruptcies and difficulties among smaller companies might increase the market share for the companies that already have big control over the markets. Not only will current small businesses suffer from profit cuts, but it will also become increasingly more difficult for new startups and companies to enter the market and compete with giant corporations that have only reinforced their positions during the pandemic. Going forward, the utilization of digital marketing and online services will become much more prevalent as well as the use of drive through’s, curbside pickup, and delivery services, widening the gap between large corporations and family-owned businesses more than ever.

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