COVID-19 induced fragmentation of the Small and Growing Business sector ...and how intermediaries might deal with it!

Almost overnight our external reality changed and so did that of our entrepreneurs – and in a matter of weeks a lot of the impact we all have worked hard for the past many years vanished; revenues plummeted and with that profitability; people were furloughed, fired or salaries cut; investments ground to a halt. The environment may have benefitted from the decline in economic activity, but that's not sustainable!
Like many, we rushed to consider other ways of delivering our programmes and the commitments made to funders in new and innovative ways, jumping at anything digital and virtual. But soon we realised that this was not the biggest problem – albeit one with a satisfyingly tangible solution. The bigger, but a lot less tangible, problem was how had the needs of our entrepreneurs (and funders) changed as a result of this crisis.

After 5 weeks of calls and conversations[i] with a surprisingly large portion of our past entrepreneurs (nothing like a crisis to make you reconnect with your old customers, I guess!) a picture began to emerge. Maybe unsurprisingly this picture was anything but homogenous – which is a challenge for an accelerator, like us, as we need to have a degree of homogeneity to allow for a "one-size-fits-all" approach (with the financial efficiency and economies of scale that such an approach awards you).
What seems to trigger this fragmentation falls along four main characteristics of the businesses and their entrepreneurs:

a) **Leadership**
There is a clear correlation between how strong a business' sense of purpose[1] is and how well they are adapting to the situation, and thus their likelihood of survival; to a lesser degree, but still noticeable, is the presence of leadership qualities like optimism and empathy in the (co)founders which seems to allow them to more nimbly adjust to their new internal reality.

b) **Assets**
Naturally financial assets, cash reserve especially, provides the luxury of time; but more importantly seems to be the businesses' other assets – both hard and soft/social – in terms of how they have been able to adjust, i.e. equipment that could be repurposed to serve an "essential need" (anything there is still a demand for!), and/or relationships that would afford them a chance to collaborate or enter new partnerships ensuring new revenue streams or securing a supply of materials, inputs and services.

c) **Gender**
Holding our data up against information from Global Accelerator Learning Initiative (GALI) it is evident that the COVID-19 is not gender neutral. The data from the GALI survey reveals a statistically significant difference of men- and women-led Small and Growing Businesses (SGBs) that have temporarily shut down (39% vs. 46%). Many women-led businesses are found in sectors (such as beauty and hair salons) hard hit by mitigation measures. Exacerbating this is women entrepreneurs' difficulties in accessing finance and that the care of burden for children and older family members fall on them.

d) **Sector**
Perhaps obvious, but still with big variations from country to country in respect to how, and to what degree, a public "lock down" has been implemented and enforced. "Essential products and services" mean something slightly different from country to country, and each country is constantly reviewing this and their "lock down" in general. This is at the same time also an aspect that is the most likely to change.

While this gives us an understanding of what has triggered the change in fortunes for each business, we still needed to know how exactly this has manifested, so we can devise solutions or processes to help the entrepreneurs help themselves.

---

[1] "Sense of purpose" goes beyond a simple business mission and importantly also encompasses the team's understanding of the underlying needs of their customers, i.e. not just a simple understanding of their product/service and its widgets; as well as how 'sense of purpose' for the (co)founders personally connect to their business' ditto (an integral part of GrowthAfrica's leadership component)

The fragmentation caused by these four characteristics (and others, only to a lesser extend) is not easy to make sense of, but we have eventually arrived at 5 categories of businesses that we feel will help us address their needs more efficiently, without having to design individual interventions for all 200+ businesses being serviced. These are:

1. **Businesses that have not, or only marginally, been affected by the crisis**
   (This group includes the few outliers that have seen an uptick in demand or new opportunities)
   The needs of this group looks most like before, but there is still a need to raise awareness of their new external and internal reality and how this affects specific business systems and their financial position in the medium-long term, especially in terms of relationships with financial institutions and potential investors. The need to revisit relations with employees is a theme across all categories, this one included!

2. **Businesses that have been significantly affected by the crisis but have assets that can be repurposed/leveraged**
   This group may be the one needing the most support in that there is a need to shift core aspects of their business. How this is done without compromising their sense of purpose and their value system will be critical for continuity. There is a need for a comprehensive analysis of the new products/services, how they will affect business systems and how existing assets can be deployed. The support will look similar to an expansion into a new market or segment, but with the constraints that the crisis has put on the business.

3. **Businesses that have been significantly affected by the crisis and have no assets that can be repurposed/leveraged but can still operate in a minimised/moderated form**
   The needs of this group are seemingly straightforward: less of the same! African entrepreneurs are used to manoeuvring constrained environments (though this crisis is taking it to the extreme!), so the support needed here looks to be tapping into this quality and carefully analysing what non-core parts of the business can be safely wound down and effecting this with empathy and finesse.

4. **Businesses that have been so badly affected by the crisis that they have to discontinue operations, but are able to do so with an aim to recover after the crisis**
   For this group the support needed will be less technical and more interpersonal. Coming to terms with – at least temporarily – halting your entrepreneurial endeavours comes with a fair deal of stigma. But there is a need for the entrepreneurs to move beyond this and engage with all stakeholders in an effort to pause these relationships with the intention to resume when circumstances allow, and realising this will with most stakeholders be an ongoing dialogue to ensure the relationship is maintained, i.e. employees, customers, suppliers, distributors/agents, financial institutions, funders/investors, strategic partners. But the hiatus will also be a time for the entrepreneurs to clean-up, catch-up and build up themselves, their internal systems and processes so, come the day they can resume, they can *hit the ground running*.

5. **Businesses that have been so badly affected by the crisis that they have to discontinue operations and have no hopes of recovering after the crisis**
   These are the *unlucky ones* – a survey of Aspen Network of Development Entrepreneurs (ANDE) members reveals that nearly 42% of SGBs in the emerging markets are at risk of failing in the next six months, and unfortunately, this category of businesses may just be part of the statistic[ii].
   Entrepreneurs in this group are unlikely to realise from the onset that they belong in this group, but rather the former. However, as time presses on and the toll on their personal finances and stakeholder relationships wear on, this is likely to be the unfortunate conclusion for some entrepreneurs. Some though will see the writing on the wall early, e.g. tourism related businesses, and for them – and the others – this may be an opportunity to redeploy their entrepreneurial energy in new projects and ideas, using the crisis as time to prepare for new endeavours.

Looking deeper into the needs of these five groups (first three primarily, though!) there seem to be some commonality in terms of the process of analysis: there is still a need to understand this new reality better and how it manifest internally and externally (your SWOTs, P5Fs and PESTELs of this world) and a methodical approach to how this influences your value architecture and business systems. All this, while keeping in mind your sense of purpose, value system and implication on your organisation and the individuals in it, and around it. Where the fragmentation looks to play a role for the intermediation is in the steps between and immediately after: how to draw out the right conclusions from such an audit process, and how to define and design the actions that need to be taken as a consequence. These will look vastly different from group to group and require a bespoke, one-on-one approach. Needless to say that all of this will also need to happen in a vastly reduced timeframe as the decision-making horizon has moved from months and quarters, to days and weeks – likely affecting the depth of analysis and granularity of planning.

All of this said, the ultimate problem with this crisis is that no one knows the timeline, or how the endgame looks like, and thus any planning will be hinged on some broad assumptions – like sailing in fog and not knowing if you are sailing a small lake or a grand ocean!

On one hand, organisations such as ANDE are advocating for funders to provide capacity development organisations with flexible, urgent funding for new programs that can help SGBs navigate both the immediate crisis and post-crisis market conditions and opportunities[iii]. On the other hand, as intermediaries, we will need to conserve our own resources and our relationships with our partners and funders. Because we do not know how long this crisis will last, or what the new normal will look like, we need to be careful not to expense all of our resources in the short term. Consider this for a moment – in a bushfire where we have a finite amount of water to fight the fire – do you then try to fight the whole fire, a small part of it, or do you conserve most of your water till after the fire blows over and find the surviving undergrowth and the small new shoots in the charred landscape and use your water to nurture these back to health?

There will be an element of survival of the fittest to this crisis, for our entrepreneurs and for us as intermediaries, though you can likely improve your chances by being smart, diligent and seek your luck! Hopefully, this early analysis can help us be a bit smarter.
Byline: *Johnni Kjelsgaard is GrowthAfrica's Founder and CEO. He is also currently serving as the Steering Committee Chair for ANDE East Africa Chapter, and can be reached at jkj@growthafrica.com*

---

[i] *The GrowthAfrica team had 518 conversations with 202 (co)founders of small, growing businesses between March 23rd and May 12th. These conversations were mostly qualitative in nature, the information captured was subsequently quantified into 10 themes relating to their business model and circumstance. The raw data collected has primarily been financial or customer-facing in nature. The information collected also includes details on whether or not the (co)founders, their team, their families and business partners have been ill with COVID-19 (relying mostly on self-diagnosis!)*
[ii] *ANDE (2020), The Small and Growing Business Sector and the COVID-19 Crisis: Emerging Evidence on Key Risks and Needs*
[iii] *Stanford Social Innovation Review, How Funders Can Help Save an Economic Engine of the Developing World*