

Struggling Small Business in the US. The next challenge to economic recovery.

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ABSTRACT

The United States faces steep economic recovery challenges as its crucial small business sector struggles. While this sector has long grappled with various obstacles, it has only grown more dire thanks to the COVID-19 pandemic in the form of rising bankruptcies and closures. Yet investing in and supporting small businesses is essential to the US economy's well-being. They play an essential role in spurring economic growth and creating jobs. A post-pandemic world requires policymakers to create a range of programs and policies offering training, access to credit, and financial assistance to help small businesses shake off the dust, adapt and succeed. Building stronger bridges for small businesses can improve a more robust, sustainable recovery. While public support is undeniably crucial, it is imperative for businesses to actively engage in overcoming the challenges posed by the current economic climate. The post-pandemic situation requires a comprehensive approach from policymakers, including the development of diverse plans and policies. These initiatives should not only provide training, access to credit, and financial assistance but also encourage small businesses to take an active role in adapting and innovating.

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Introduction

The struggling small business sector in the United States represents a significant barrier to the nation's economic recovery. Small businesses have long served as the engine of the American economy, accounting for a significant portion of employment and generating considerable economic activity (Small Business Administration, 2020). As a result of the COVID-19 pandemic, however, small businesses have been decimated, with widespread closures and employment losses. Recovery efforts to date have largely bypassed the small business sector, as demonstrated by continued difficulties faced by small businesses in remaining solvent and accessing capital (Cowles, 2021). Although not specific to them, providing a resolution to small business troubles is critical to transform an economy from one experiencing a slow economic recovery to one that is having sustained economic growth, health, and competitiveness (Engidaw, 2022; Depken and Zeman, 2018).

Background and History of Small Businesses in US

Since the beginning of this nation, small businesses have played a significant role in the United States, often being the primary driver of innovation and job creation. Small businesses constitute the unstoppable gear creating revenue, not only for the organizations but also employing people from in and around the areas where those businesses are, and contributing to the tax base. Once small businesses in the United States was born in the early 19th century, they arose as the country began to grow and expand. Small pop-up shops that covered the country to help provide the needed goods and services to the local communities in ways that were family owned and operated that made no excuse for providing for the locals' needs. (Bushe, 2019)

The U.S. Small Business Administration identifies a small business as independently owned and operated, organized for profit and not dominant in its field of operation. Depending on the industry, SBA sets concrete size standards to

determine whether a business qualifies as a small business. Over time, the landscape of small business has changed. According to the U.S. Small Business Administration, small businesses are found in “every industry, from small town to main street. They play a vital role in local communities and are engines of economic opportunity and job growth. Small business is the backbone of the American economy, with more than 30 million companies meeting the definition of a small business.” Small businesses are found in every industry, including retail, professional services, technology and more. Small businesses have been evolving and changing since their beginning. They have played a key role in driving economic growth and entrepreneurship, by fostering innovation and competition in various industries (Lussier, 1996). Operating a small business has never been easy. Small businesses have faced economic downturns in the market. They have had to adapt to new advances in technology and have had to battle with larger corporations for business. And, after all of this, they are still in business. The Great Recession of 2008 hit small businesses hard, but they fought back. Many Americans lost hope and faith in their country and their government, but not in the small businesses around the country. It was American small businesses that led the economic recovery. This fight for independence and freedom is still present in 2022. Many American small businesses have taken to the web with news that their owners are determined to keep their doors open (Bushe, 2019). Small businesses across America may just get hit the hardest. With the pandemic, small businesses have already been hit hard. Many have had to shut their doors permanently. Many more will be shut down when states and municipalities are placed on Lockdown. The world has changed, and small businesses have had to change with it. Some will only be able to make it if they can change how they do business and if the government helps them. Some people believe that “Small businesses are indispensable to the health of the nation’s economy. They facilitate economic growth, spur creativity and the free exchange of ideas, and

create jobs for millions.” (Watson & Everett, 1993). Overall, they have contributed to the growth and success of the country for as long as history has been recorded. From early general stores to today’s small businesses, they have driven innovation, fostered a robust economy and created jobs (Bushe, 2019). And moving forward, in a post-COVID era will depend on how well small businesses can overcome the challenges of the pandemic and recover with the rest of the country (Bushe, 2019).

Problem Statement

The United States is home to an estimated 31.7 million small businesses, who provide critical employment, accounting for 47.1% of the total U.S. employee workforce. Their struggles during the COVID-19 pandemic present a formidable challenge to the nation’s economic recovery. The sudden shuttering of businesses, combined with reduced consumer spending and financial instability have forced many small businesses to the brink. Our research seeks to better understand the lingering strain on small businesses, and offer insight into how to help in the recovery process. By identifying the distinct struggles of small businesses, policy makers can craft tailored interventions and support programs that minimize the fallout and foster a more robust small business ecosystem.

Purpose Statement

The purpose of this research is to examine the potential "next normal" after the COVID-19 pandemic for small business recovery in the United States. By exploring what is happening to small businesses now, and the contingencies that may affect recovery, the research is intended to anticipate possible roadblocks and supply strategies for meeting them. The findings are expected to be of use in showing where small businesses stand now and in briefing policymakers and stakeholders for making strategies that effectively support their recovery.

Conceptual Framework

The proposed endeavor looks forward to the exploration of the role of struggling small businesses as the United States experiences economic recovery. The proposed project will be guided by a theoretical framework that is drawn from entrepreneurship, economics, and management literature. This theoretical framework will be grounded in understanding the challenges that such small businesses face as they seek economic recovery in an economic environment of overall recovery and growth. The theoretical framework of the proposed endeavor posits that struggling small businesses contribute to overall economic growth and recovery and that they can pursue growth within their own firms by analyzing the individual characteristics and operations of such firms. Under this framework it will be analyzed the possibilities and constraints for growth. The proposed project will also draw upon theories in the entrepreneurship and innovation literature to posit how such small firms can adapt and innovate as market conditions change. The proposed project will also draw upon theories in the entrepreneurship and innovation literature for analysis and suggest how firms may adapt and innovate under changing market conditions and how such firms can enhance their operations. Also, the proposed project will harness theories that suggest what are the roles of government policies and interventions that support such struggling small businesses. Issues such as regulatory barriers, access to capital and workforce training will be explored in terms of their potential impact on economic recovery. It is hoped that the integration of these theories will provide a comprehensive understanding of the challenges that such small businesses face and the potential for them to achieve sustainable growth. This proposes to add to the literature on the topic which has not been so integrated and comprehensive as it will be drawn from entrepreneurship, economics, and management literature. The result of this study will be valuable for policy makers evaluating the current environment and for businesses designing strategies

to take advantage of the improving economic conditions that will allow businesses in the United States to experience economic success.

Methodology

The purpose of this qualitative study is to explore the issues and problems faced by the small business sector of the United States in their efforts to recover from the economic slowdown.

The proposed research will be based on qualitative research as this method is ideal for exploring complex phenomena when the researcher does not know how to study it (Saunders et al. 2009). To conduct the research and examine the problems faced by the struggling small business sector of the United States, literature review analysis will be carried out. Literature review analysis would allow the researcher to critically evaluate and understand the reasons for the problems being faced by the small business sector in the current economic contexts. Literature review is helpful for exploring the reasons for the problems because it provides a comprehensive view of the subject, facilitating to understand the complexities of it. (Monette, Sullivan & DeJong 2011). After conducting the literature review, we will be able to understand the phenomena under consideration and all shades of the problems being discussed.

Overall, this qualitative research approaches us in gaining understanding about the problems being faced by the small business sector of the United States as it is slow in its recovery from the current economic situation, and it also helps in contributing to the existing body of knowledge.

Literature Review

According to a report from the United States Census Bureau, roughly 20% of new businesses fail within their first year, and 50% fail to make it to their fifth (US Census Bureau, 2019). With enormous impact to the U.S. economy, small

businesses contribute to most of the United States' Gross Domestic Product (GPD) and a significant portion of the country's employment. However, failure rates for businesses remain alarmingly high, with an estimated one in five small businesses folding within their first year, due to a variety of cash flow issues, with most business simply failing to get any customers, and others failing to differentiate themselves from the competition with any novel or discernible improvements with business plans.

Causes of the Falling Tendency of Small Businesses in US

In a study conducted by the National Federation of Independent Business (NFIB), 73% of small business owners reported that cash flow problems are a major barrier to growth. According to the study, inadequate cash flow undermines businesses' ability to invest in growth, hire new employees and deal with changing market conditions. Small businesses without sufficient cash flow struggle to pay their bills, leading to greater financial instability and eventually failure (National Research Council, 1999).

Small businesses have a tremendous impact on driving the U.S. economy, and yet a majority fail within the first few years of operation. One of the main contributing factors to the high failure rates is poor or ineffective marketing. For many, marketing is difficult to understand and navigating its complex world is even harder. It is no secret that small businesses typically have very limited marketing budgets and underestimate the power marketing can have for their business. However, ineffective marketing can lead to lack of brand awareness, missed opportunities to connect with target customers and limited sales growth (Engidaw, 2022).

A survey conducted by the National Small Business Association (NSBA) reported that ineffective marketing was one of the top challenges faced by small businesses and this poor marketing results in lack of brand awareness, missed opportunities and limited sales growth, just to name a few.

Moreover, establishing a strong brand identity has also become one of the key challenges facing small businesses. Without a strong brand identity, a small business struggles to stand out to potential customers and differentiate itself from its competitors. This leads to missed opportunities that will ultimately slow or limit sales growth. The need for small businesses to market effectively is so crucial that without an effective marketing strategy a small business can struggle to not only reach its target market but to also generate leads, resulting in stagnation and, at last, the inability to sustain the business.

Innovation is critical to the sustainable growth and success for business enterprises (Bushe, 2019). However, many small businesses have trouble keeping up and find it difficult to adapt to the ever-changing marketplace. Small businesses often are unable to adopt new technologies, or to innovate, and as a result they see a cycle of stagnation, reduced competitiveness and business failure. Small businesses face significant challenges in becoming more innovative, which may be due to the lack of resources available to them compared to large businesses (Kumar, 2019).

Small businesses typically have less access to the capital necessary to invest in research and development, and even to upgrade technology and to train employees. This lack of investment significantly impacts their ability to innovate and to stay ahead of the curve. Small businesses also tend to be more isolated from external networks and expertise. Fewer ties to their local industry or academia reduce the opportunities to collaborate with other innovators and to learn about new outwardly focused trends and processes. This lack of support further inhibits their ability to explore and to adapt.

Lussier (1996) supports this assertion, arguing that the lack of strategic planning is to blame for small businesses' failure to innovate in "anticipating environmental changes, transforming threats into opportunities, and evaluating the

risks and potential benefits of new ideas". This author indicates that small businesses often fall into the trap of focusing intently on short-term goals, satisfied with simply surviving in the long run rather than doing everything possible to anticipate incremental or unexpected market changes, being limited in understand that there could be an entirely new way to grow, and develop and test entirely new ideas.

Small businesses are essential for the U.S. economic growth. This said, we already established that a significant number of small businesses close within the first few years. One of the reasons behind this is the inability to create an initial business plan. This is one of the eight common reasons small businesses fail. (Cowan, 2019). A business plan establishes the corp of strategies. It details the business niche and target market, the marketing plan, financial projections, staffing, and the features of the business products or services. It is the business plan that provides the strategies needed to move ahead to the wished horizon. Without a plan to follow, the business chances of achieving success are greatly diminished. Plans have a way of becoming reality. (Cowan, 2019).

A well thought out business plan serves as a blueprint for small business creators and run it provides them with the direction they need to successfully navigate through the uncertainty and challenges of entrepreneurship. It's an outline of business goals and plans, the target market for the business, and more importantly a breakdown of any company's financial future. Yet, many small business owners disregard the value of a well-thought business plan, and the result is often business failure. One key area often overlooked in the formation of an initial business plan in market research. Why?. Because a business owner who conducts thorough market research can easily identify the market demand, competition, and customer profiles. Without this information, small businesses can't be sure there's a market for their product or service. (Engidaw, 2022).

According to Acs (1992), financial forecasting is a key element of a successful business plan. Small business owners often lack the ability to project their expenses, revenues, and profitability with accuracy. The lack of financial clarity can lead to problems with cash flow, undercapitalization, and eventually the failure of the business. Furthermore, inadequate planning in other critical operational areas such as marketing, operations, and human resource management can cause the demise of small businesses as well. Failure to properly plan for these components can lead to ineffective marketing strategies, inefficient operations, and strained relationships with employees and stakeholders.

Engidaw (2022) finds that an ill-formed initial business plan is a prime cause of failure of business in the U.S. Business owners can avoid this pitfall by conducting thorough market research, projecting financials with accuracy, and focusing on key operational areas that will help them succeed. Therefore, it is critical that small business owners recognize the value of a well-formulated business plan and then commit the resources necessary to formulate and execute a successful plan.

Findings

Theme 1: Effective Cash Flows in US Small Businesses

The US economy is still in recovery from the economic downturn, but small businesses continue to face cash flow challenges. We conducted a study to find solutions to help small businesses overcome their cash flow problems.

The study found that a focus on cash flow management is key for small business survival, as small businesses are often confronted with irregular revenue streams and limited access to credit. Several strategies can help alleviate these pressures, though. For many small businesses, the adoption of cloud-based accounting software is critical. By using these kinds of financial tracking tools in real time, small businesses will be able to investigate and oversee their cash flow, allowing them to spot potential troubles and take corrective action

quickly. Small business owners searching for more cash flow options than those always offered by traditional banks should consider alternative methods such as crowdfunding or invoice factoring, which lend short-term cash flow support (Karadag, 2015). Effective management of their own inventory is another need. Not having enough inventory can result in lost sales, while purchasing too much can cause cash flow problems. With steady hands and careful inventory oversight, small businesses can optimize their cash flow and help prevent stockouts and overstock problems.

In addition, communicating effectively with customers and vendors is also of paramount importance. Small business owners and vendors alike would be well served by utilizing straightforward and consistent payment terms and conditions. This will help to decrease any late payments and maintain ongoing cash flow.

Theme 2: Effective Marketing in US Small Businesses

Small businesses are the main drivers of economic growth in the United States. Consequently, improper marketing causes most of these small businesses to fail. Insufficient promotion and advertising have a substantial effect on the profitability of business and in many cases leads to its closure.

Consequently, for small businesses to sustain their operations, several strategies can be applied. The business is first required to conduct a comprehensive customer analysis to deeply understand its target market including their needs and preferences. The business then can create niche marketing campaigns addressing those needs to effectively target potential buyers. Secondly, small businesses must make use of digital marketing channels. Digital marketing may include leverage social media, email marketing or SEO (or all three). All these different channels must have a common tie. Everything starts when capturing some data. The business must also take advantage of the advanced tools that are available to monitor and think about the profitability and long term ty of these marketing campaigns. Lastly, small

businesses also have the option to outsource marketing expertise. Marketing professionals have a good idea of the challenges and factors and will be able to succeed in most businesses. In general, improper marketing has made a substantial impact on business failure in the USA, but these above-mentioned strategies can help many small businesses to overcome this hurdle and find its niche within the industry (Gaskill et al., 1993).

These 3: Adoption of Innovation and Technology in US Small Businesses

Small businesses are essential to the U.S. economy, representing nearly 99% of all businesses in the country. While such small businesses are critical to a wide range of industries, the majority are struggling to keep up with changing times, says new research. Without resources to invest in such advancements, adapting to changes in technology is a challenge for small businesses, presenting a major hurdle to broader economic recovery efforts in the country. As the recent “Small Business Technology Adoption: A Strategic Path for Recovery and Growth” report from CompTIA revealed, small businesses across the U.S. see a slew of barriers standing in the way of tech and innovation adoption. Lack of resources, for instance be it staff, or cash often means small businesses can’t afford to invest in new solutions, according to the research. And without technology infrastructure and technology expertise, small businesses’ ability to adopt new solutions is further limited, the report, Peterson et al., 1983, noted.

The implementation of innovation and technology in small business, however, comes with an arsenal of strategies that spans government support; partnerships and collaboration; education and training; digital transformations; and customer engagement. “The government can help small businesses by providing financial incentives and grants for investing in innovation and technologies,” researchers said in the report. “Small businesses can partner with larger companies or research institutions to access additional resources and

technology expertise. The government can provide targeted training and educational resources to help small business owners to embrace technology and innovation” But the report also highlighted a few additional suggestions for small businesses looking to adopt new technology and innovation. The cloud, for instance, is understood to be a must-have for small businesses, enabling remote work and the adoption of e-commerce platforms to reach a broader client base. Further, by using digital platforms to create a personalized experience for clients, small businesses can begin to see the early benefits of innovation and technology (Kazooba, 2006; Burgess, 2001). By embracing these strategies, small businesses can overcome the barriers they face and thrive in an increasingly digital economy,” the report said. “This will help bolster the long road to economic recovery in the U.S. and help drive innovation and competitiveness to forward-thinking small businesses.”

These 4: Effective Formation of an Initial Business Plan

The United States is a place where individuals from all over come to follow the so-called “American dream”, as it is also known as the land of opportunity. People aspire of starting their own businesses and becoming financially independent; however, so many of these businesses never make it out of the starting gates and eventually fail. One of these main causes is not properly forming an initial business plan, and the discoveries in this paper can give future entrepreneurs a roadmap of knowing the likelihood that their companies will thrive and give them a solid foundation to improve these chances. Thus, it is imperative that we devise a remnant of strategies to ensure that small businesses begin with a concrete plan to provide a foundation for future growth (Karadag, 2015).

Inadequate market research is a common mistake made by entrepreneurs when writing a business plan. A well-researched market analysis should be performed before writing a business plan. This will help you understand market

trends and the business target audience. It will also drive to understand the business competition and how to stack up against them. Understanding the market dynamics will help decide if the business concept is even viable.

This baseline level of business resources should be the focus of investment by governments and organizations with a vested interest in the success of small businesses. Market research tools, financial forecasting software, and opportunities to seek mentorship would empower entrepreneurs to develop a robust, comprehensive business plan and make informed decisions. In addition, small businesses, in collaboration with their mentors and industry associations, for instance, should create a system for more continuous evaluation and feedback as they implement their business plans. Regular review of industry movements and direction and feedback from peers, mentors, or industry experts can help entrepreneurs better diagnose issues in the execution of their plans and iterate in the right direction. This type of collaboration and networking provides access to resources and insights the entrepreneur will not have as vocabulary, and the support of others who may have faced and solved similar challenges in the past (Bushe, 2019).

In conclusion, the ineffective formulation of an initial business plan is a considerable driver of small business struggles and failures in the U.S., but organizations of all kinds investing in the refinement and execution of market research, financial projections, strategic planning, leadership, marketing strategies, and sources for feedback and accountability could significantly improve the chance of a new company making a meaningful contribution in the nation's economic recovery.

Conclusion

In conclusion, this study on America's struggling small businesses points to a real wrench in the country's economic recovery. It gives us a view of the extent to which small businesses are feeling the pain — even after the end of the

lockdown — and experiencing more and more costs in a post-pandemic world characterized by a perfect storm of inflation, supply chain troubles and a rough time finding employees.

The findings highlight a fragile economic revival for an important sector that underpins the country's economy and future entrepreneurial innovations. The road has been paved by federal and state efforts to provide emergency financial assistance, tax relief, loan forgiveness, and unemployment benefits, among other forms of support. But many small businesses are still seeking their financial footing as they weather the storm of economic difficulties and adapt to the new normal. It also requires strategy making that fosters not only competition, but also collaboration among small businesses, so that they can use what few resources they have to their best advantage, developing shared supply chains with nearby small businesses where possible and taking full advantage of new programs for small businesses that allow them to pool their buying power and compare their costs directly with other small firms. The ideas here are for small businesses to stand on them rather than lunge forward together, hopefully, as the saying goes, "beyond."

Future Implications

The implications for economic recovery can help to better understand how and where small businesses in the United States are struggling. We have outlined a number of research areas that would advance knowledge and understanding of small businesses and their struggle to recover including: research to assess the impact of COVID-19 on small businesses and learn from the challenges and recovery strategies; research examining factors that lead to small business failure including: lack of access to capital, limited resources of many kinds, market competition, and the impact of a variety of COVID-19 recovery plans and government interventions; and research looking for ways to empower small business to be successful and thrive through

entrepreneurial capacity building, commercialization and transfer support, and innovative technologies and strategies that allow businesses to prosper in the face of continual competition. There are likely other related areas of research that would advance the knowledge related to how to support an economy that will, undoubtedly, be forever changed.

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