

How Changes in Individual Spending Habits Under COVID-19 Impact SMEs in Sports Industry in Guangzhou

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ABSTRACT

Starting from 2020, life for everyone has shifted due to the unprecedented pandemic (Coronavirus, COVID-19), and so do SMEs (Small and Medium Enterprises). The purpose of the present study is to examine the relationship in what COVID impacts SMEs in Sport industry and whether structural changes have occurred for those firms due to the transformation of customers' spending habits. The study mainly focuses on a regional scale in Guangzhou, one of the cities in Guangdong Province, China. Five Interviews had conducted via phone call or personal meeting about the current situation of sport-related firms and their experiences about their past two years. Through those interviews, it can be concluded that SMEs in the Sports Industry have been devastating in the past two years, and most of them have to make structural changes to the structure of the firm to keep the firm functioning under current circumstances. Through past literatures, a social phenomenon has shown that people started to change their spending habits after COVID through reasons of anxiety and higher tension in their financial situation.

Introduction

At the end of 2019, an unprecedented virus occurred in Wuhan, China, and the number of cases increased drastically in just a few weeks and soon spread across the globe. (World Health Organization, January 20, 2020) Since such virus could quickly spread through contagious diffusion and it is symptomatic for all patients in aspects such as fatigue, shortness of breath, and severe Chest Pain (Olalekan Lee, 2021), the Chinese government first established a lockdown in Wuhan and later increased the scale to the whole nation. Under such circumstances, the economy has decreased by about five percent in the past years, reinforcing the demand for SMEs to be involved in sustaining business operations and enhancing business performance. (Sun, 2021) Also, since about 51.9% of SMEs in China rely on International Businesses, COVID-19 impact SMEs seriously in areas like financial supply and future business investment. (Cao, 2021). The current financial situation for firms is also not bright. In small provinces like Guizhou Province, all of the 35 firms that Kui investigated suffered from 200,000 RMB to 600,000 RMB in a year (Kui, 2020). In larger provinces like Jiangsu, the overall SMEs lost will be significant, with about 29.31% of overall enterprises during the first two months of 2021 were under deficits and requested for governmental compensation. Among various industries, the sports Industry has struggled the most through the pandemic due to the frequent lockdown worldwide (Ren, 2020), and the vulnerability of the sports industry is high. For instance, the Rugby Football Union (RFU) had suggested that they had lost about □ 60 million since the prohibition of spectators for the Nation Cup (Grix, 2020).

Furthermore, the sports industry is closely related to other businesses such as clothing, which means the sports industry includes countless other businesses. For example, Adidas had declined 70% of offline customers

during COVID, and sponsorships that the company offered collapsed due to the lack of matches and competitions. (Skinner, 2021) Besides, through the COVID situation, about 34% of overall SMEs were facing a cash flow shortage that could only last for one month, and about 33.1% of SMEs only had enough money to last for two months. (Cao, 2021) On the other hand, sport matters for individuals since the amount of deportable income increased in recent years before COVID happen, people will tend to value sport more crucially in their life, most individuals became more passionate about sport which most of them wished to play sport once the COVID situation gets eased. (Qu, 2020). However, along with the detriment of the COVID-19 situation, a large amount of the population was being more financially tense which they were more likely to spend their money on health due to their increasing anxiety, and about 32% of customers were willing to change their buying preference to alternatives that contained higher quality and lower prices. Individuals are spending less on things that are irrelevant to their necessities. (Huang, 2020). Individuals also suffered from substantial mental stress and underwent a high level of anxiety during the quarantine period (Zhou, 2021), which caused them to be even more unwilling to spend money due to the inclination of their financial loss. The average amount of money that students spend decreased sharply since the parental support that they gain dropped to about 56.4% of their overall amount of money which causes about 71.43% of college students to spend less than \$120 per month (Yu, 2021) and such phenomenon may strongly impact individual motivation toward participating in sport which eventually may cause negative impacts on SMEs in sport industry. Although the COVID situation had eased in 2022, the economy of the nation is still in its recovery process. In the Sports Industry, severe damages have already occurred, and individual firms have to find new methods to develop in the future.

This study will mainly focus on the factors that contributed to the structural changes for SMEs in the sports industry and how individual financial behavior cause those changes to happen. The relationship between consumer spending habits and SMEs structural changes will be tested, and examine whether any distinct pattern occurs between them.

Hypothesis: The decline in Individual spending behaviors has caused SMEs in Sports Industry to make structural changes under the COVID situation.

Methodology

For this study, a literature review will be the first step of the whole process. By going over past literature, a selection list is made summarizing the industries most vulnerable to COVID: the sports and travel industry. However, due to current pandemic prevention policies, the travel industry will be excluded since international journeys will be hard to set up in China so the main discussion will be focused on the Sports Industry. Among the Sport Industry, due to its diversity in different markets and products such as sneakers and training services, firms doing various businesses are picked, and interviews are conducted with them about their current situation. The firms for the selection will be involved in running clubs, boxing clubs, sport-related recovery centers, and sport venues. The scale for all firms from the selection will be small and fit the standard of SMEs, and different businesses are picked so that a more comprehensive picture of the impact of COVID-19 can be revealed. Among the selection, the purposeful selection method is used to contain more variability in choosing firms so that Under coverage Bias and Response Bias will not appear. After the selection of firms, five interviews were done toward five different SMEs (Running Club, Muay Thai Boxing Club, Rehabilitation Center, Basketball Court owner and Badminton Club owner). Each firm will be treated as an case study and evidence may include direct observations, interviews. (Yin, 2000)

The study will focus on Theory Building techniques which clarifies or supplements theories or empirical data that are already existed (Colquitt, 2007), and constructive replications are vital and necessary for creating a more comprehensive testing for the finding of this study with the usage of Theory Building (Cook and Campbell, 1979). Before interviews, the background information for each firm and significant behaviors will be searched first so that enough contexts can be attained for interviews. Interview questions of each firm will be

different from others due to their background and their business, and some of the questions will be the same for all firms, such as COVID-19 impacts and motivation for the establishment of such business. For the running club, questions specifically on how the coach reacted to such pandemic and how the firm revived after the COVID. For the boxing club, since it is club that lasts for more than ten years, questions about the firm's sustainability will be asked. For the rehabilitation center and sport venues, questions about the individual motivation for participating in sports will be asked (since individual enthusiasm will directly impact those firms toward sport). On the other hand, research on the changes in individual financial behavior after COVID-19 and their motivation toward sport would firstly be reviewed before interviews so that it can be convenient to build up the connection between SMEs and individual consumers.

After each interview (usually lasting for 25-35 minutes), the reflection will be set up so that a complete understanding of the firm can be built. Moreover, words that are being emphasized multiple times will be highlighted, and the emotion of interviewees will be written down. After each reflection has been set, a comparison among reflections will be used to discover the commonalities between firms for their reactions toward COVID-19. Then, common themes and characteristics will be listed together and compared with ideas summarized from the literature. Eventually, through the comparison between literature and interviews, the relationship between how individual financial behaviors may cause SMEs to make structural changes will be discovered.

Limitations

In this study, there are mainly two limitations:

1. Due to the diversity in the sports industry, there will be other sport-related businesses not included in this study.
2. Due to the time-consuming in the collection of qualitative data, the sample size for this study will be small and more focused on companies that are on a small scale.

Results

The chart below shows the participants of the interviews. No personal information will be released in the chart due to privacy reasons.

Info for the SMEs for this study

Name	Business	Years in the sports industry
Liu	Boxing Club (Muay Thai)	26
Li	Running Club	5
Huang	Recovery Center	7
Kang	Basketball court owner	2
Qiu	Badminton Court owner	9

Figure 1. Years in sport for SMEs

Among the five interviews, about four of them emphasized that they encountered severe losses after

COVID's impact from 2020 to 2022, and the exception is Huang, who is running a sport-related recovery center. Of all the firms in this investigation, three of the SMEs are participating in sports due to their passion they do not need to rely on the income from their sports SMEs (Qiu, Kang, and Liu), and the other two SMEs are established as owners' primary career (Li and Huang). Li is a unique case in which he runs the running club alone as a full-time occasion. Even though these SMEs have undergone such hardship in the past two years, none of them contain the motivation to leave the sports industry, and all of them predict that the future will be bright.

Standing at the aspect of damages created by COVID-19, Li suffered the most. His Running Club was shut down for almost six months in 2020 due to governmental regulation, which caused him to lose a considerable amount of club members, and the current club members only reached about 20% of the prior COVID-19 situation. Although Kang, Liu, and Qiu also faced similar damage during COVID-19, since their sports firms were not their main occasion, they withstood those impacts by entering more investments into their SMEs. Huang suffered the least from COVID-19 since the rehabilitation center is under the direct compensation program from the government (Guangdong-Hong Kong-Macao Greater Bay Area program), which made his firm recovery from the pandemic less than a year and consistently earning profits started in 2021.

From the perspective of the number of customers, the current situation matches the ideas in the literature. Through COVID-19, even when people have a decline in their disposable income, they still have a high motivation to participate in sports. (Skinner, 2021). Four of five SMEs emphasize that their number of consumers increase after the governmental restriction (Kang, Liu, Huang, Qiu), and two direct factors contribute to such increment:

1. The reinforcement of the "National Fitness Program":

The National Fitness Program started in 2011, and it advocated for citizens to engage more in doing sports. After such program had been established for a decade, the development of Further Reduction on the Burden of Compulsory Education Students shifted a more significant portion of interest in teenage Sports. (Chinese Department of Political Science and Law, 2016). Especially for Qiu and Huang, due to the compensation provided by the government toward individuals after COVID-19, the overall number of consumers for them increased. For the Running Club, the National Fitness Program does not provide a noticeable impact on him. Liu is actually being hurt by such program since the National Fitness Program establishment broke the monopoly situation that he initially contained (Muay Thai is an unpopular sport in China). Therefore, throughout the usage of the National Fitness Program, it is still beneficial for many SMEs in the sports industry.

2. Consumer Motivation Toward Sport

All interviewees mention the trend of increasing sports motivation for individuals in the past 2-3 years. Despite the fact that more individuals are willing to invest in the health-related industry, the direct compensation from the government effectively kindles the motivation. The badminton court has direct benefit through individual enthusiasm since badminton is a common and popular sport in the nation. The Muay Thai Boxing Club and the Basketball club encountered a small wave of increase in consumers; however, the effect was not significant (Liu and Kang). The Running Club did not significantly increase its club member because the scale of the club was too small, and it was not influential on society (Li).

On the other hand, the Rehabilitation Center gains the most profit through individual enthusiasm toward sport since when people are more engaging in sport, the demand for rehabilitation will increase, and the number of consumers for the Recovery Center has increased consistently in the past two years.

Even though the number of consumers may increase in the short term, SMEs all start making structural changes to prepare more for the future. For Li, he started his clothing brand in 2021 and filmed commercials for new running equipment to compensate for the loss. He also started signing up for coaches in different enterprises instead of only focusing on training for his club members. During the discussion with Li, he mentioned switching his form of business three times, demonstrating that COVID-19 generated enormous consequences for him and forced him to create a new form of business. For Liu, he started to step into other industries besides sport, and

he also involved in eSports in last year because eSport had become the most phenomenal sport in China after COVID-19 occurred because eSport can be held anywhere with fewer restrictions. For Kang and Qiu, since both of them do not take the sports industry as their primary career, the apparent change they made is to increase their investment in their SMEs (as they said, "Increase investment in order to increase the chance for survival"). For Huang, the company had invented new equipment for rehabilitation for sale in 2021, both to gain more revenue and use their products as a tool to attract more customers. Overall, because of the decline in the number of events that SMEs can participate, it significantly decreases the amount of income that each firm can gain in the past two years (Qiu, Kang, and Liu mention more than three times that the decrease in commercial events hugely impact their business and stop them from strengthening their social reputation.)

Figure, Tables and Equations

Level of Impact from COVID-19

scale of impact by COVID

Li	High
Kang	Medium
Qiu	Medium
Liu	Medium
Huang	Low

Figure 2. Scale of impacts for SMEs in this study

Discussion

This study is unique because it reflects the hardship that SMEs in the harshest industry have overcome in the past two years under the influence of the pandemic and the factors that contribute to it. The reflections of several qualitative data match the ideas present in the first hypothesis (the decline in individual deposable income affects SMEs in Sports Industry to execute structural changes). Among all the interviewees, all of them have different levels of reactions and changes toward the current social phenomenon. For firms that have direct support from the government (Huang), their impact will only be loosely and not severe, and they quickly recover from COVID-19. However, for individual private firms (Li), the decline in consumer motivations and the imposition of governmental restrictions almost cause them to lose their business. Once consumers become more anxious about their spending habits after COVID-19 (Huang, 2020), they will be more aware of their leisure spending (such as sports), which means individuals spending ability decrease, so the effect of governmental compensation toward consumers will be limited. On the other hand, it will be more beneficial to shift the compensation from consumers to SME owners since direct policy assistance can be more reliable and consistent compared to the varying amount of consumers who spend money in the sports industry mainly due to the stimulation of their

motivations.

Standing at a border scale, this study matches the current global phenomenon of the sports industry. With the prohibition of Large League Competition, a high level of uncertainty and instability will remain throughout SMEs in the Sports industry. The impact of COVID-19 on the sports industry still requires a long-time span for recovery.

Suggestion

Throughout this study, an intrigued pattern had shown for SMEs in Sports Industry combine both the literature and observations of SMEs. SMEs that had direct governmental support through special policies could returned to normal stage in a faster pace, which indicate the importance for governmental intervention in helping SMEs. Currently, the government is making huge investment in compensating consumers in order to facilitate the engagement in sports; however, the amount of deposable income decreases sharply in the past two years which decline ability for individuals to engaged in sport. Although government is trying to set up policies and direct compensation toward consumers, many people will be reluctant to participate in sport since they are still anxious and unaffordable about the number of payments that require for sports after those subsidies.

Toward this phenomenon, one possible solution is being created in this study, and the solution is broken up into two sperate steps:

- (1) Properly reduce the number of subsidies for personal sports activities.

Since the overall increment in sports industry only have a short-term effect, the benefits for SMEs will not be permanent. Government can therefore withdraw some of the investment (Subsidies) and utilize it to actually help SMEs change their situations. Also, the subsidies that government provides should more focus on sports that are unpopular and not prevalent among the society. Sports that contain high motivations can easily attract large number of consumers (Kang, Qiu), but not for niche sports; once SMEs for niche sports start to close up, it may worsen the economic circumstances among the society and it may not only stop consumers from playing a specific sport but also generate social complains.

- (2) Utilize the money collected in step 1 as investment for individual SMEs.

By using direct compensation on SMEs so solve their current abstinences, the government can generate a greater chance for those firms to survive. For instance, Kang, Qiu and Li mention several times about the high rents, it will be an obvious advantage for them if the government can use some of the withdrawal investment to pay a portion of rent for those SMEs. Compared to relying on unstable number of consumers each day, governmental subsidies can boost the stability of SMEs and perhaps firms such as Li may not need to pause his businesses. However, it will be necessary and crucial for government to oversee the usage of the subsidies to prevent SMEs from just taking the subsidies and left the market.

Despite the advantages that can be created through this solution, the generalizability of this suggestion is not being examined yet. Hopefully future studies can set up a more comprehensive understanding toward the struggles that SMEs are facing in Sports Industry and generate more practical solutions toward this social situation.

Conclusion

Starting in 2020, COVID-19 generated countless troubles for all businesses and consumers in society. As individual spending habits change during this period, SMEs in the sports industry suffer the most due to their high vulnerability to social changes. Thus, SMEs in sport-related businesses have to generate structural changes such as pausing its businesses or involved into other industries so that they can survive in the future. In order to help

the sports industry, the government should not only stimulate consumers to increase their spending and motivation toward sport but also establish policies that can decrease the pressure on individual firms (such as a decrease in firms rent).

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