

# ***Digital Marketing Transformation of China's SMEs in the Post-epidemic Era: Crisis, Trends and Strategies***

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**Abstract:** The influence of the coronavirus pandemic on China is complicated. A great deal of small and medium-sized enterprises (SMEs) are struggling economically. As a substantial amount of customer demand transfers online, people are beginning to see the hidden economic opportunities brought by the epidemic. In the post-epidemic period, digital initiatives have helped small and medium-sized enterprises adapt to the shifting market conditions, recover, and succeed. The use of digital technology has emerged as an essential component of SME growth strategies, and the deployment of digital marketing represents the initial step in their digital transformation process. SMEs contribute significantly to the growth of the national economy, the alleviation of employment-related stress, and the promotion of social stability. Based on the existing research, this study will focus on the impact of the epidemic on the operation of China's SMEs and the difficulties and demands faced by them. This paper will investigate the new potential for China's SMEs to contribute to the growth of the digital economy using digital marketing as an entrance point. This study aims to help SMEs discover potential opportunities in the complex environment; nonetheless, they should still adopt the most appropriate strategies for their particular circumstances.

**Keywords:** SME, digital marketing, digital transformation, pandemic, Internet

## **1. Introduction**

The outbreak of COVID-19 (coronavirus) has had a considerable impact on the world economy, politics, culture, and public life. The World Health Organization (WHO) categorized it as an epidemic, a public health emergency of international concern (PHEIC). The Chinese government has taken a number of measures such as traffic control, regional closure and large-scale testing in a timely manner. Since the tremendous public health efforts, the spread of the pandemic within the country was effectively curbed. After that, China continued implementing the "Zero Covid" strategy, combining routine epidemic prevention and control with emergency action in epidemic areas.

However, during the pandemic, China's economy has been confronted with uncertainties. Many small and medium-sized businesses were even at the risk of going bankrupt. Unlike large conglomerates that have sufficient financial reserves, credit lines, and government backing, the Small, Medium, and Micro Enterprises (SMEs) in China are often privately owned businesses with relatively small scale of personnel and operation scale [1, 2]. These companies are mostly involved in the food supply, consumer products production and retailing and thus are particularly vulnerable to disruptions caused by the outbreak [1].

After the breakout of Covid-19, the epidemic containment and control measures greatly diminished the real economy's source of revenue. Face-to-face sales and conventional marketing have taken a significant hit. Furthermore, 32% of respondents in a June 2021 survey on Chinese retail purchasing behaviour done by Rakuten Insight claimed that even after Covid-19 restrictions were relaxed, they would not visit brick-and-mortar stores as frequently as before [3]. In this case, digital marketing has been brought to the forefront as a game-changing strategy for traditional businesses, and the growth of the online business has gained more extensive attention as a result.

Although the coronavirus pandemic acted as a catalyst to accelerate the digital marketing transformation of Chinese businesses, China's digital marketing actually began long before the pandemic. The fast development of the mobile Internet has changed China's marketing demands and environments. Social media, E-commerce platform, and private traffic play an important role in China's small, medium, and micro enterprises increasing their online customer traffic. Short videos and e-commerce live streaming are becoming increasingly connected with the general public. Those businesses that are unable to keep up with the pace of digital transformation are very likely to be marginalized by the market.

By the end of 2018, 99.8% of businesses in China were SMEs, with 85.3% classified as micro-enterprises, 13.2% as small enterprises, and 1.3% as medium-sized enterprises [2]. SMEs contributed to more than half of the country's tax revenue, sixty percent of the GDP, and eighty percent of the labour force employment [1]. It can be said that SMEs are the backbone of China's economic and social development and have a huge effect on social stability.

Considering the pivotal position of China's SMEs in the national economy and the current trend of the continuous development of digitalization, this paper aims to study the digital marketing transformation of China's SMEs under the impact of the coronavirus pandemic, exploring the opportunities and challenges faced by the Chinese economy in the post-epidemic era. This paper will first briefly outline the impact of the coronavirus epidemic on China's SMEs. Next, this paper will analyze the current state of digital marketing for SMEs in China and discuss the opportunities and challenges faced by digital marketing transformation under the epidemic. The conclusion will include some development suggestions also with the limitations to this study.

## **2. The Impact of Covid-19 on China's SMEs**

The coronavirus epidemic has presented China's society with significant challenges. The Chinese government has reacted fast to the epidemic by implementing a variety of obligatory restrictions to prevent its further spread, such as shutting down high-risk cities and communities, prohibiting public meetings, closing schools, theatres and restaurants, enforcing travel restrictions, providing free compulsory treatment to infected people, conducting large-scale free nucleic acid testing, mandating quarantine and the use of masks, and more. However, the basic characteristics of their own industrial structure and the great changes in the market economy have created a bleak outlook for the growth of SMEs, which originally had a good development momentum. According to a report in February 2020 by the China Association of Small and Medium Enterprises, about two-thirds of SMEs had decreased their operational revenue, over four-fifths of SMEs could only sustain three months of account money, and only about one-tenth of SMEs were optimistic enough to keep going for far over six months [4]. Despite China's staged achievements in combating the pandemic, the market economy remains vulnerable to several threats as long as the pandemic is ongoing worldwide. The following factors contribute most to SMEs' predicament:

## **2.1. Financing Difficulties**

Inadequate capital strength, limited scale of operation, and narrow financing channels all contribute to the harsh reality of difficulty in financing and shortage of funds. Particularly, people's fears and worries about infecting COVID-19, as well as restrictions like home isolation, have limited consumer spending, decreasing the income and daily working capital accessible to SMEs and making it challenging to sustain market competitiveness [4]. Also, government policies such as postponing work resumption have drastically lowered companies' output capacity. In contrast, some costs such as taxes and rents remain unchanged, therefore, worsening the cash flow issue. SMEs' financial situation is not optimistic due to a damaged capital chain.

## **2.2. Shrinking Markets**

Global traffic paralysis has led to unstable transportation channels and slowed logistics. This has seriously affected the business chain of SMEs, resulting in insufficient supply of raw materials, inability of upstream suppliers to resume production in time, and further reducing the export business, increasing export defaults of SMEs. Moreover, reduced consumer purchase for non-essential products and social expenditure during the pandemic led to a drop in demand for goods and services of SMEs in the tertiary sector of the economy. The reduction in market supply and demand has exposed SMEs to excess inventory and greater default risk [4].

## **2.3. High Cost**

The epidemic led to unstable working hours and higher flow of employees, which increased the cost of human resources and the time cost of product production, leading to a decrease in corporate profitability and a decline in economic benefits. As response, some SMEs have increased wage subsidies or adopted online management and employee training. In addition, poor traffic and port closures have increased logistics costs, resulting in many demurrages or lost work charges that companies need to pay. All of these make SMEs have to bear higher operating costs and pressures [4].

## **3. Overview of Digital Marketing**

### **3.1. Definition**

Digital marketing is an adaptable, technological process through which businesses engage with clients and partners to collaboratively design, discuss, and maintain value for all stakeholders [5]. A group of CISCO professionals describes digital marketing more precisely and appropriately: it refers to a combination of ideas, strategies, and technologies used to interact with computer networks and conduct activities related to the marketing of information. Market research and the transportation, sale, and acquisition of commodities, ideas, and services may all be made possible via digital marketing [6]. In other words, companies use electronic media or digital technology to position, upgrade, and advertise their products and services in order to maximize profits and serve consumers as quickly as possible. Besides, digital transformation means the strategic and individual integration of technology advancements into a company's functional operation.

### **3.2. Four Major Dyads of Digital Marketing**

Digital marketing communication covers four dyadic relationships: consumer-to-business (C2B), business-to-business (B2B), consumer-to-consumer (C2C) and business-to-consumer (B2C). C2B is mainly accomplished via online evaluations, survey feedback, and click activities, as sometimes

customers cannot contact directly with the companies. It typically aims to offer feedback to the company and respond effectively to client concerns. In B2B marketplaces, “infomediaries” give real-time information on sellers’ offers and make money by driving web traffic to the company. Regarding C2C, technological advancement allows customers to share their product and service experiences with other consumers via various digital channels, including review sites, corporate websites, and social media. Advertising on display screens, emails, search engines, mobile devices, and social and other paid media all fall under the scope of B2C digital communications that may take place across various channels, media, and platforms [7].

### 3.3. Characteristics

Initially focused on websites, digital marketing gradually shows its strength by diverting traffic to the advertising sector, bidding platforms like eBay, and more [8]. There have been studies conducted on the characteristics of digital marketing. Some researchers believe that market research takes time and money, but digital marketing may cut both in half, making it ideal for the growth of startups, SMEs, and virtual businesses. They also support that digital marketing can be more adaptable and quicker to meet the demands of the customers than traditional marketing, which was previously constrained by geography and other factors. The full utilization of the social networking platform demonstrates its highly interactive nature [6]. For example, customers in today’s digital world may influence the company’s reputation and the purchasing decisions of other consumers by posting comments and ratings of the products, services and brands on the company’s website or third-party websites and social networks. This shows a significant distinction between digital marketing and traditional marketing: it allows companies to broadcast product information to potential consumers and competitors more transparently and easily disseminated manner [5]. However, in the new reality that consumer rights and interests are increasingly valued, and the awareness of social norms is increasing, digital marketing is also a double-edged sword. The high degree of openness and dissemination of information has made the commercial competition more intense. If the company does not pay attention to its product quality and online reputation, its image will likely be damaged by negative electronic feedback such as consumer complaints.

## 4. Acceleration of Digitalization by the Epidemic

As indicated by relevant data, around 2.95 billion people were actively using social media throughout the world in 2019. However, by January 2020, 4.54 billion individuals were using the Internet actively, equivalent to 59% of the world’s population [9]. Even though the COVID-19 epidemic has had some negative influences on China’s economy, it has opened up a tremendous window of opportunity for the expansion of the digital economy, which in turn significantly strengthened the risk resilience ability of China’s economy. During the pandemic, consumer behaviour and consumer culture have been profoundly impacted by the dramatic shifts in how people learn, work, and communicate. People tend to pay more attention to enterprises’ personalized digital communications and digital experiences; e-commerce platforms have played a huge role in providing people with what they need daily [10]. For instance, buyers changed from offline to online shopping to reduce the risk of getting the virus, stockpiling a huge quantity of home needs such as food and hygiene goods. Remote work has been becoming increasingly widespread, and the use of software for remote communication and video conferencing has also skyrocketed in recent years.

Besides, some researchers noticed that being prevented from traveling and being isolated greatly increased the likelihood of experiencing stress, anxiety, and depressive symptoms, whereas the use of social media helped to alleviate these symptoms and facilitate informational and emotional communication between people [11]. There has been a dramatic increase in the number of people

turning to online entertainment sites as a way to kill time, and there has also been a dramatic surge in the number of people purchasing home entertainment goods via digital marketplaces. Simply put, the public's demand for digital social networks has increased dramatically since the pandemic. As a result, many businesses, including those involved in online entertainment, online shopping, and online communication, have benefited a lot from the situation, stimulating SMEs to speed up their digital marketing transformation.

From the other aspect, employing digital and social media marketing techniques is a highly operationally efficient business practice to maintain SMEs' operations and even achieve innovation. First, digital technologies fundamentally change how businesses conduct their operations, deliver their goods and services, and interact with one another. As the direct results of the expansion of digital technologies, the amount of time needed to introduce new products is shrinking and the cost of recruiting, managing and maintaining technical talents is decreasing, which enable companies to be more adaptable in the pandemic at a lower overall cost. The transition to digital marketing is more likely to assist SMEs in efficiently integrating and flexibly allocating both internal and external resources, and resuming production and commercial activities, and achieving their business goals by adopting online telecommuting and other strategies [12]. For instance, highly digital enterprises like Meituan and Freshhema have been able to rapidly restructure their businesses to be less harmed by the pandemic and even achieve growth in some cases. In addition, digitalization can assist SMEs in forecasting and estimating the spread of the pandemic, therefore directing business resumption of production and work. Further more, the analytic technologies can be used to identify and capitalize on potential opportunities in the crisis to develop new businesses [12].

The practical value of digital marketing has been fully demonstrated during the pandemic. In the rapidly developing Chinese society, SMEs have created a large number of employment opportunities and provided a large number of jobs. Their operations have a significant effect on social stability, as well as the national economy and people's livelihood. The digital economy has contributed to reducing the negative impacts of the pandemic on them, lowering the risk of disruption to the supply chain of a large number of corporations, and promoting the orderly functioning of markets and society.

## **5. The Impact of Covid-19 on China's SMEs**

Despite the fact that an increasing number of businesses are looking into big data marketing, digital marketing for SMEs is still in the early stages of development with a great deal of barriers. Internet giant enterprises, for instance, have strong mastery over large data resources, which prevents them from being made available to small and medium-sized businesses to some extent. Also, in terms of digital marketing, SMEs confront a number of challenges of their own, including the following:

### **5.1. Lack of Professional Digital Markets**

Employing skilled and technical staff, as well as building, updating, and optimizing fundamental scientific and technology facilities, are inseparable components of successful digital marketing strategies for businesses. However, many SME businesses ignore the necessity to train and hire qualified professionals in this field. The majority of people who promote their products or services online have only ever worked in traditional marketing and lack professional Internet knowledge as well as digital marketing expertise [13]. As a result, utilizing the tools provided by the Internet to establish core competitiveness can be challenging.

### **5.2. Lack of Mature Digital Marketing Concepts**

Some SMEs have only adopted digital marketing as a supplement to more conventional forms of advertising, lagging behind the technological trend throughout the evolution of mobile Internet



marketing. This causes them to neglect research and analysis into the preferences, comments, and purchasing habits of their target customers and further increases the blindness of the marketing strategy and a waste of resources as a consequence [13]. Especially in the context of the C2B market, because the target customers of advertising are refined to industry branches, the data accuracy suffers to some extent, and the final advertising conversion effect will not be as excellent as anticipated. Therefore, it is vital for businesses to conquer challenges, effectively manage user data assets, and delve deeply into customer value according to the fundamental characteristics of the customers. Without clear user portraits and a defined target demographic, the data would contribute nothing to exact marketing, and also successful sales conversion is unlikely to occur.

On the other hand, some 2B marketing is forcibly transformed into 2C marketing, but the result is not satisfactory. Many B2B companies expect to use Weibo marketing, Douyin marketing and other methods to detonate traffic growth and gain more fans, but the actual input-output ratio is not well cost-effective. Companies should realize that a marketing activity that can resonate strongly with consumers needs to have its core values and uniqueness. Also, if the target users who are truly willing to consume cannot be accurately positioned, the actual benefits of traffic growth will be greatly weakened.

### 5.3. Improper Organization and Management

With the widespread application of digital marketing, omnichannel retail has become the trend of the times, which requires the cooperation of marketing, supply chain, logistics, management and other departments. However, digital transformation may harm the interests of traditional sales channels; therefore, if companies fail to effectively build a unified framework of internal needs, communication, and interaction, it can easily lead to issues such as competitive sales between different channels or departments, untimely response to supply chain operations and loss of management leadership, impeding the growth of digital marketing businesses.

## 6. Conclusion

The COVID-19 pandemic has led to substantial changes in consumer behaviour in the short term. The immense increase in online purchasing has accelerated the transformation of marketing tactics and the digitalization of relevant corporate processes. Such changes are anticipated to have a long-lasting effect on the structure and strategies of enterprises. In the era of intelligent content marketing, data is endowed with greater value. Digital marketing is essential to accomplish the reconstruction of marketing and sales channels, so that product promotion and dissemination can be internetized. However, due to limited resources and insufficient capacity, SMEs have numerous obstacles to the implementation and innovation of their digital transformation. Limited access to capital, lag of business philosophy, lack of scientific and technological innovation capabilities as well as stale management methods have all become factors that constrain the expansion and development of data businesses.

In this case, SMEs need to take practical and effective steps to reform their business models so that they can take advantage of the chance hidden behind the pandemic and make a breakthrough. Firstly, the senior managers should make sure they have complete and thorough knowledge of how their internal business operates, help their employees in different departments establish the right attitude towards the digital transformation of marketing and promote the modernization of business operation, to prepare for reducing the possible friction between the departments in the transition period. Secondly, digital marketing is the first step in the digital transformation of enterprises, and a professional digital talent team can better serve the continuous deepening of digital transformation. Thus, SMEs are expected to increase investment in the introduction and training of network

technology talents. Thirdly, it is essential to use big data for customer segmentation as much as possible, realize the personalized configuration of marketing materials and advertising pushes, and provide users with targeted products and services, thereby increasing user trust in the company and brand and increasing traffic conversion rate. If conditions permit, enterprises can also support innovative marketing concepts and reward grass-roots employees. In addition to their own efforts, the support of external parties is also indispensable to improving productivity and achieving the business growth of SMEs. Therefore, it is necessary for the government to continue to introduce policies to help SMEs achieve digital transformation and sustainable development.

This paper only roughly covers China's SMEs' current situation and possible solutions in terms of digital marketing. However, the actual influence of the coronavirus pandemic on SMEs varies substantially by industry and region. The obstacles to restarting operations and implementing reform vary among business kinds, necessitating the implementation of sector-specific strategies for economic growth. Despite that the epidemic has given online marketing many chances to grow, not all SMEs are eligible for digital transformation. From a practical point of view, the transformation of enterprises needs to be based on a certain enterprise scale. Under the impact of Covid-19, SME operational pressure is increasing. Thus, it is vital to first solve enterprise survival. Small and medium-sized businesses can employ digital marketing to survive and even expand, while for some micro-enterprises, especially under the huge pressure of market competition, it is hard to say if they can really get rid of the survival dilemma through online channels, not to mention the all-round digital transformation upgrade after that. In general, it is important for governments and private entrepreneurs to find the most realistic and workable approaches to solving issues.

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