Aldar Audit Bureau
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Member firm of Grant Thornton International Ltd.
Grant Thornton

Global

Economy

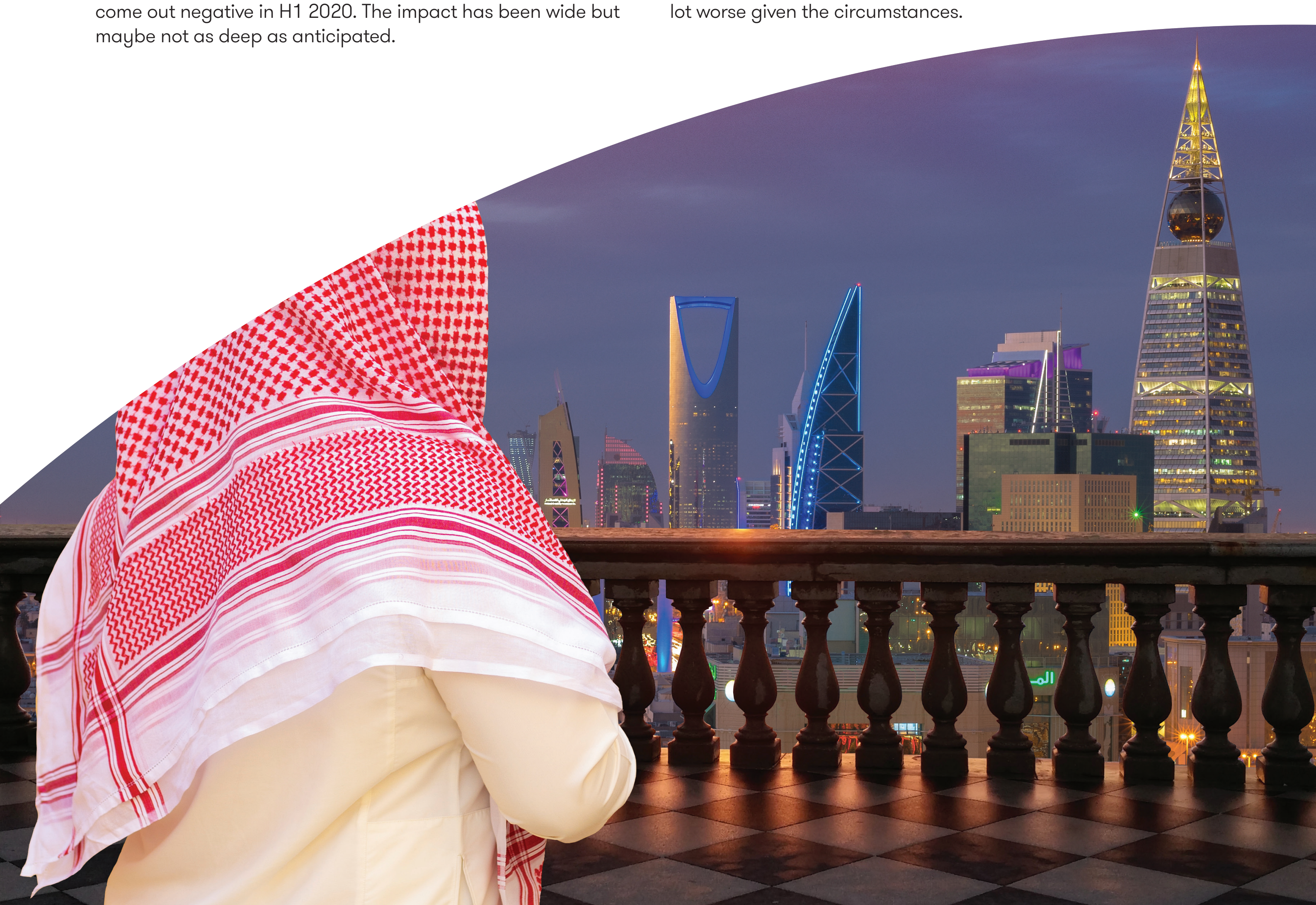
Growth

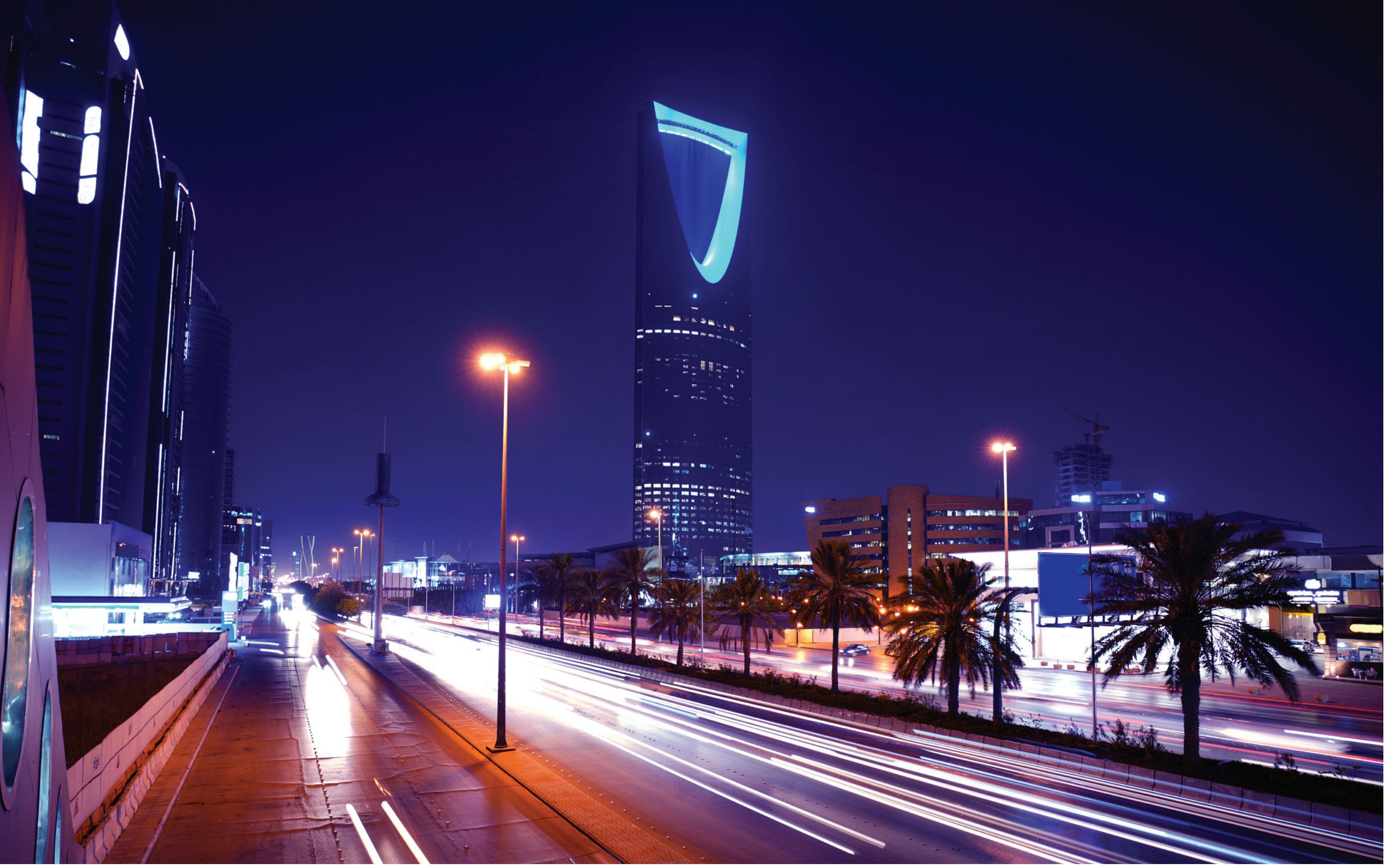
Rethinking resilience in recovery

The launch of Grant Thornton's new index into the health of mid-sized companies comes at the most difficult time in a generation for these companies.

Our H1 2020 Global business pulse finds that the index has plunged by 12.8 points to a score of minus 9.4. This is the first time in a decade of comparable results that the index has turned negative and reflects the blow that Coronavirus has delivered to business outlooks and operating environments, not to mention human lives. The index results for every region, every sector (bar one) and 26 of the 29 monitored countries also come out negative in H1 2020. The impact has been wide but maybe not as deep as anticipated.

For reference, a score of +100 would represent perfect health with no restrictions and an ideal outlook, and the likelihood of high growth in the future. A score of -100 would represent dire health, with crushing restrictions and an appalling outlook, and the likelihood of decline in the future. The index score of -9.4 shows the significant impact of the pandemic and is by any measure bad. However, the depth of the fall might have been a lot worse given the circumstances.





Abdullah Al-Basri, Managing Partner and CEO at Grant Thornton Saudi Arabia, said: "Whilst businesses across Saudi Arabia were impacted by a prolonged lockdown, we have witnessed a surge in online trading, which has increased by 300-400 per cent. The new way of working and trading has supported businesses to navigate the challenges in a much more resilient way than expected, given the stifling impact which the pandemic has had on human lives.

Francesca Lagerberg, Global leader – network capabilities at Grant Thornton International Ltd, said: "With the collapse in economic activity amid Coronavirus, we expected a more significant deterioration in the results However the index in some ways reinforces what we're seeing on the ground. When I talk to mid-market businesses around the world, most say they are trading more effectively than they had imagined, handling cash flow very well and looking after their people first. They are showing real resilience, and this is hugely encouraging."

The research for the index was conducted in May and June and spans a range of stages, from shutdowns to easing restrictions around the world. As such it is a valuable snapshot amid an evolving situation and one that will play out over some time to come.

The COVID-19 pandemic, subsequent lockdown and resulting economic shock have tested business in entirely unprecedented ways, and their impact is likely to be felt for years to come. But, against this backdrop, our research data finds the global mid-market to be relatively upbeat1.

Although more than 65% of mid-market businesses said COVID-19 would hit their 2020 revenues, the data suggests the impacts on the mid-market fall short of the worst predictions of the wider economy. By comparison – and in findings that are common across other sentiment surveys of all sizes of firm – CNBC's Global Q2 CFO Council Survey2 reported that 88% of CFOs expect a 'negative' or 'very negative' impact to their businesses.

While the pandemic's impact has been significant, less than 2% of respondents said they expect to cease trading as a result of it. Globally, one in three businesses expect to continue trading based on their existing financial situation, while 38% said they can continue to trade using existing funds but would need to cut costs and/or restructure. Just under 20% said they would need to supplement cost-cutting and restructuring with access to new funding from lenders, investors, or government grants.

Across Saudi Arabia, businesses have been compelled to think and act differently, particularly as the prolonged lockdown across the country impacted vital entertainment, financial and business service sectors. Technology disruption and innovative operating models have been rapidly introduced, enabling businesses to continue functioning.

The data suggests many mid-market businesses have met the crisis with the resilience previously identified as a characteristic of this sector. As we examine how the crisis has affected business, we explore the strategic decisions taken pre-crisis that have aided this resilience and consider what companies are doing to get ready for recovery.

The mid-market was quick to react to the crisis

In results that support the notion of agility in the mid-market, research data found that most mid-market businesses took decisive steps to deal with the economic effects of the pandemic.

Nearly half (47%) had made significant and fundamental changes by adjusting their business strategy to meet the transformative nature of the new trading environment. Generally, companies were more likely to change strategy in sectors where significant revenue losses were expected.

Across Saudi Arabia we can look to the retail sector as an indication of the rapid and accelerated pace of change, where in a matter of weeks the surge of e-commerce expanded to over 300%. Pre-pandemic the industry remained as a leisure activity across the country, where consumers would peruse across stores whilst enjoying the experience. The newfound way of purchasing essential and non-essential items across the Kingdom will have disrupted the retail model and user experience.

Cash-flow management has been critical – and remains so. Governments were quick to offer support, and businesses mainly preferred to seek government assistance over external finance. This was probably due to the more favourable terms of government finance encouraging firms to use such schemes, even if their business remained financially viable. Globally, just under 33% of firms applied for government grants and 30% sought tax concessions.

Across Saudi Arabia, several imperative Government measures were introduced in order to support local businesses, which included delayed payments, increased speed of refunds and $bn budgets to aid SMEs. Such measures have been introduced and launched multiple times to ensure continuity and economic support.

For the most part, businesses took a multi-pronged approach to ensure liquidity. Just under 30% of companies swept idle cash into working capital or drew down on banking facilities.

More than 26% spoke to lenders about new credit, and around 24% negotiated with their customers to get them to pay early.

Given the nature of the pandemic, it's little surprise that over half of businesses implemented flexible working, with professional and financial services companies able to take these steps more easily. Meanwhile, around 30% of firms globally reduced labour costs through cutting pay, staff or both, and reduced or suspended some operations. In some cases, these actions were forced by lockdowns; for example, in the consumer products sector, more than one third of firms reduced capacity as many countries enforced shutdowns on non-essential retail.

Saudi Arabia has not traditionally leveraged virtual working given the structure and heritage of the country, however private sector businesses were quick to optimise technology, whilst implementing continuity plans in order to continue momentum. Long periods of virtual work which led to some businesses reporting increased levels of productivity may create a twin-track working model which remains beyond the pandemic. Such diversification of traditional working models will enable the country to tap a more global talent pool.

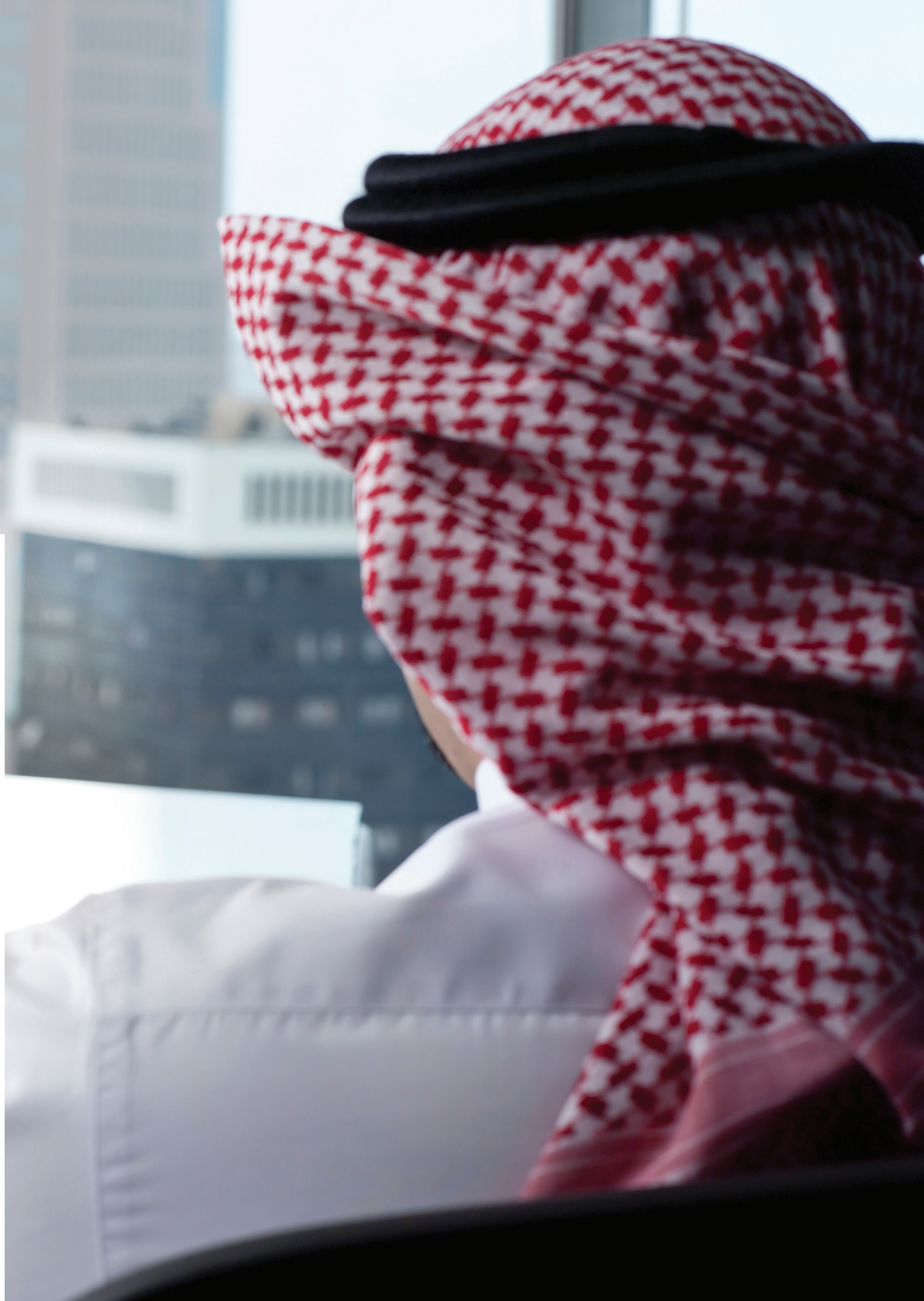
Resilience has become a priority of strategy

The crisis has alerted businesses to the need for future crisis management, the application of technology and digital transformation for ensuring continuity and the need for improved organisational flexibility.

Some impacts of the pandemic will be permanent, with more than a quarter of businesses believing they would make some fundamental changes to their products and services in the future. The travel and tourism, Technology, Media and Telecommunications (TMT) and mining sectors all said this was a focus area for change in the future.

More than one third of businesses globally, and particularly in the agriculture and manufacturing sectors, cited supply-chain resilience as critical to future strategy. The impacts on China highlighted the issue for global automotive and electronic manufacturing early on in the crisis. A similar number of businesses are already reviewing existing suppliers and making plans to mobilise supply chains in preparation for recovery.

Among sectors that were most responsive to the pandemic, the oil and gas sector was highly active. In response to a sharp decline in fossil fuel prices and demand, it reported high values across the range of potential actions available. Professional services were similarly active, while utilities – possibly being less affected by lockdowns through performing essential business – were among the least reactive sectors in the economy.



Pre-empt the risks in a recovery

Global lockdowns are already relaxing in many jurisdictions, while restrictions are beginning, or are poised, to ease elsewhere, and leaders are looking towards a recovery phase.

But the transition out of a crisis is often the most vulnerable period for an organisation. Ramping up purchasing orders and building inventories can quickly overstretch businesses and drain liquidity as they spend more to get back on to a 'normal' or growth footing.

Cash flow will remain a critical concern for many companies as they enter this new phase. More than 40% of businesses globally said they have started planning for financial resources to help them through recovery. The withdrawal of government support and tapering of programmes such as furlough will leave businesses more exposed, and they will also be factoring into their plans the payment of taxes and VAT that were deferred in some countries after the pandemic hit.

With the crisis far from over, nearly 50% of businesses globally are already considering workplace safety plans. When and how employees return to work will be crucial to preventing, mitigating, or working through a second wave outbreak.

But there are encouraging signs that the resilience and agility that has been a hallmark of the mid-market through the pandemic are now being applied to this next phase. In preparation for recovery, many businesses are looking into how to better use scenario planning and grappling with people and leadership challenges.

Businesses are also thinking hard about how they focus their resources to ensure stable and profitable recovery through a turbulent economy. More than 40% said they have started identifying which customers and markets to prioritise as well as which products and services will best sustain them.

The new resilience

The global pandemic and the resulting lockdown have tested the mid-market like no other event in living memory.

Many businesses have shown remarkable adaptability. Those organisations that were most prepared have fared more positively through the worst of the crisis. Similarly, as the global economy enters a new phase, vigilance and agility will be critical.

Cash-flow management must remain a focus to avoid business failures. Meanwhile, operational flexibility, robust technology and careful planning for myriad potential scenarios ahead will be vital to not only protecting businesses but helping them grow.

"Dynamic organisations can achieve great things with the right support. You need advisers that deeply understand your business, your industry and your wider agenda for growth. Our capabilities, expertise and culture make us perfectly placed to fill that role."

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