PKF

The Impact Of COVID-19 On Your Business

INTRODUCTION

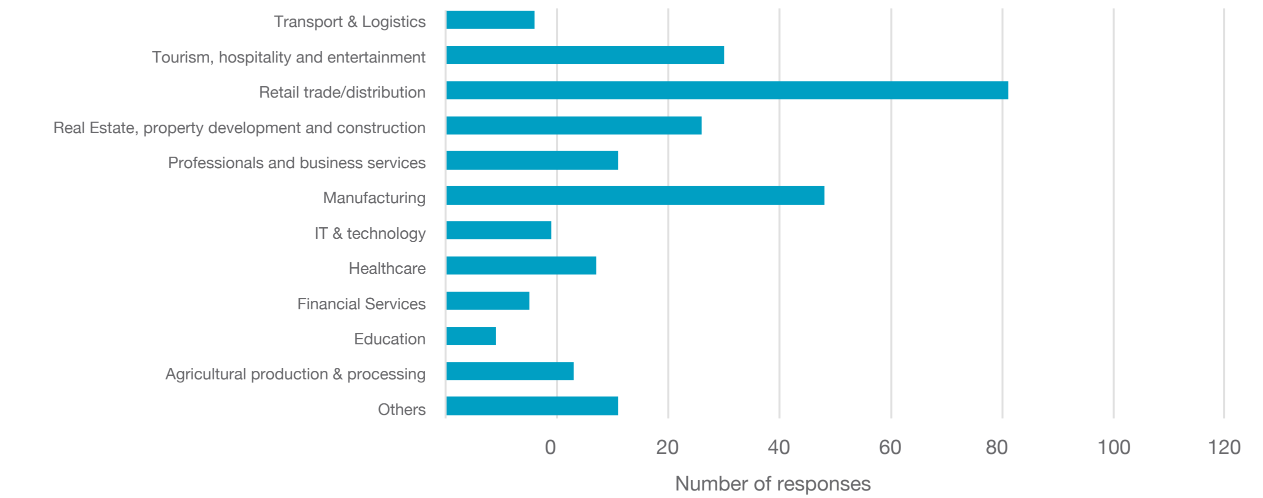
"Pandemic", "stay safe", "social distancing", "lockdown", "curfew" are the words that now come up in almost every single conversation many times a day… . We would have all laughed at the suggestion of this just 6 months ago - it could have been no more than the plot in a Sci-Fi thriller never to come true in this day and age.

Reality however hit all of us earlier this year and we have started to come to terms with it. Now we are all planning on how to run our businesses not just based on the normal trends of seasons, political landscapes, macro-economic factors amongst others but also, and probably more so, on this new reality and the ever changing predictions on how long we will be living with this, whether we will really see a flattening curve or whether there will be a more 'w' shaped curve that we will need to contend with. And whilst it's not going to be easy, this will also present businesses with various opportunities going forward.

PKF ran a survey that closed earlier in June 2020 to understand the impact of COVID-19 on businesses in Kenya. We received over 400 responses to our survey providing a good basis to derive meaningful results therefrom.

In this newsletter, we have set-out the responses on an overall and industry specific level along with our perspective.

We received responses from businesses in the following sectors:



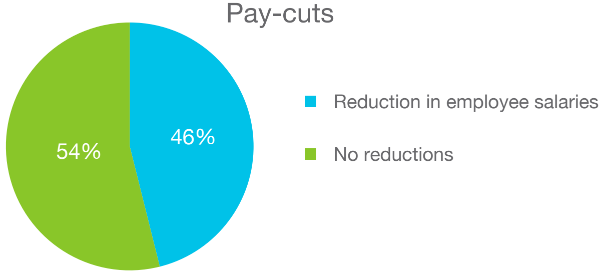
OVERALL IMPACT OF COVID-19 ON KENYAN BUSINESSES

Management of staff costs

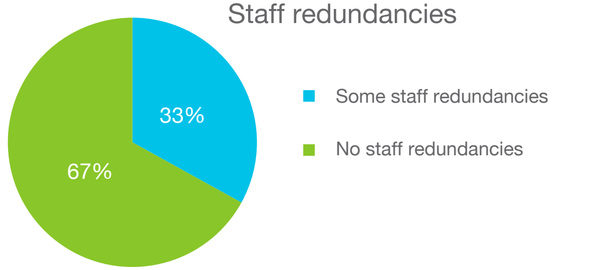
Just under half of respondents to the survey have taken measures to reduce their overall wage bill. 33% of respondents have undertaken employee redundancy and 46% of respondents have asked their employees to take a reduction in salaries.

Given that over 80% of respondents do not have confidence in their ability to meet the wage bill over the next 3 months, it is our view that the above trend is likely to continue until such time that there is more certainty on the outcome of the pandemic and recovery of business.

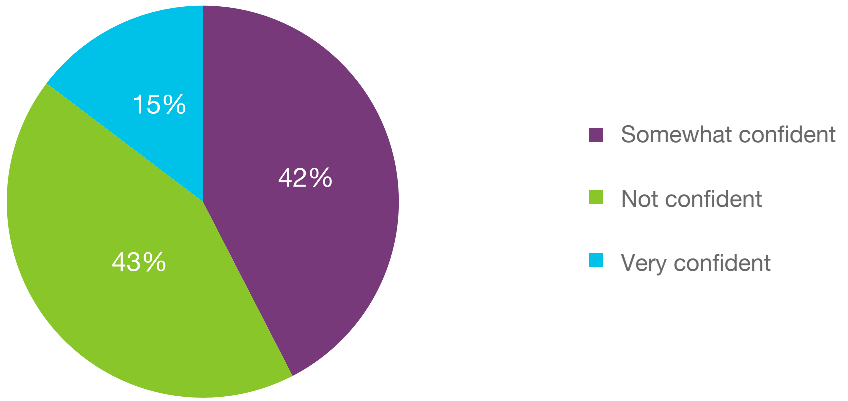
Pay-cuts



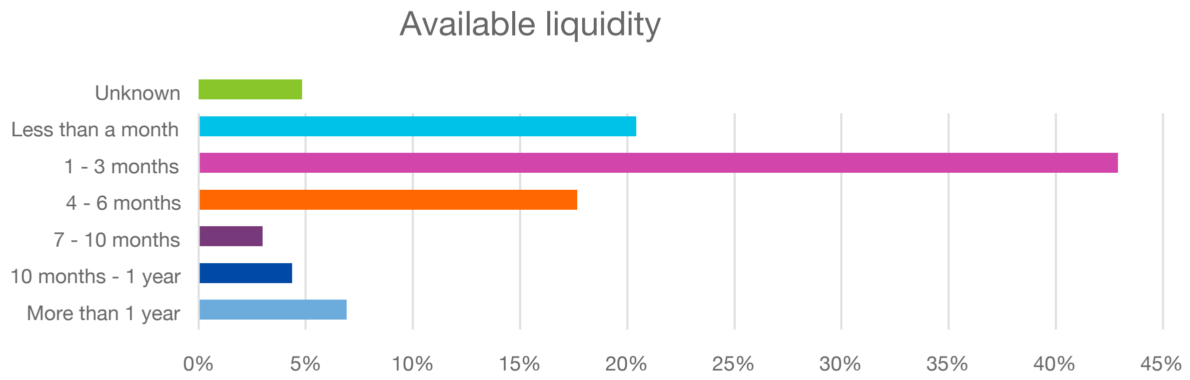
Staff redundancies



Confidence in meeting wage bills over the next three months



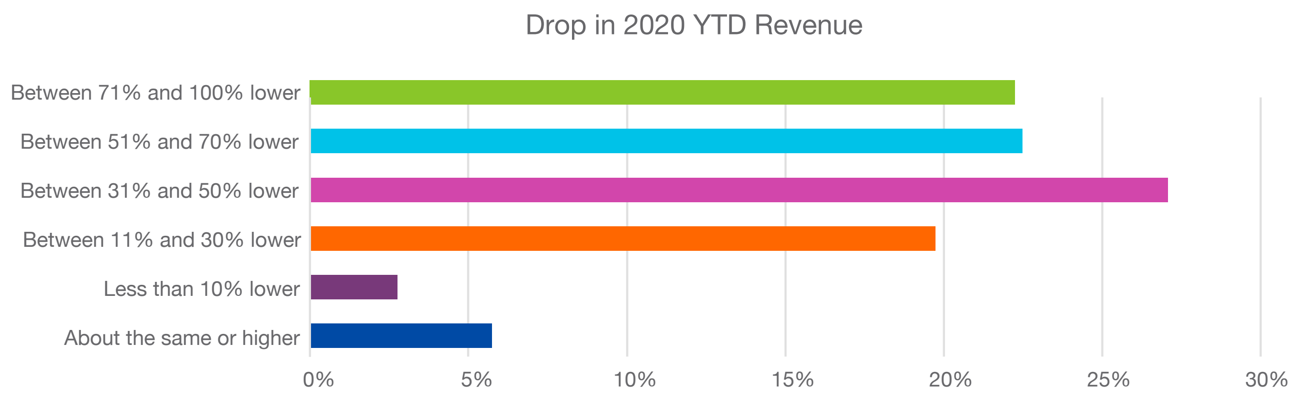
Liquidity of businesses

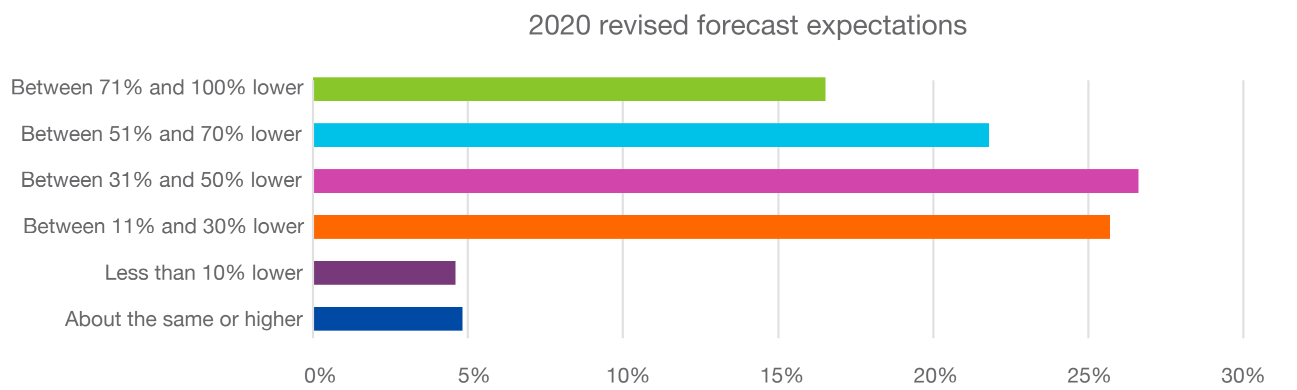


What is perhaps the greatest challenges for businesses operating in this environment, almost 70% of businesses have access to less than 3 months of liquidity. Businesses that survive this pandemic will be those that prioritise and watch working capital management very closely.

2020 – performance to date and outlook

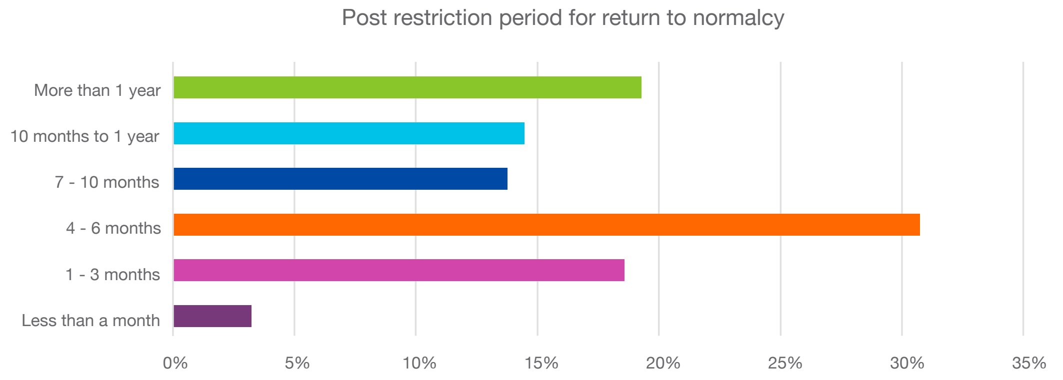
Almost 92%, of respondents have witnessed a drop in the business volumes with almost 45% expecting that the actual performance in 2020 will be between 51% and 100% lower than in 2019.





As set-out above, when asked how the respondents expected the remainder of 2020 to turn out, there was marginally more optimism in the response with almost 35% of the respondents being of the view that their numbers will not be more than 30% lower than the original projections. However, 40% of the respondents are projecting a gloomy picture expecting a reduction of between 50% and 100% in business volumes over the remainder of 2020.

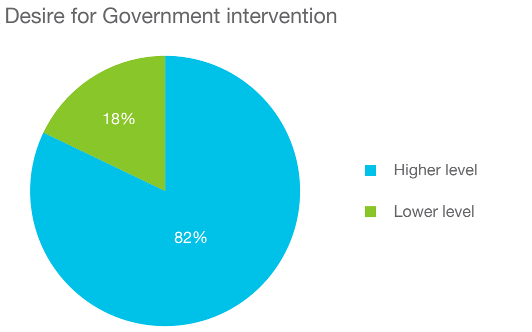
To put the revised forecast data into context, we also asked respondents to predict how long it would take their businesses to return to normalcy once all restrictions related to the pandemic are lifted:

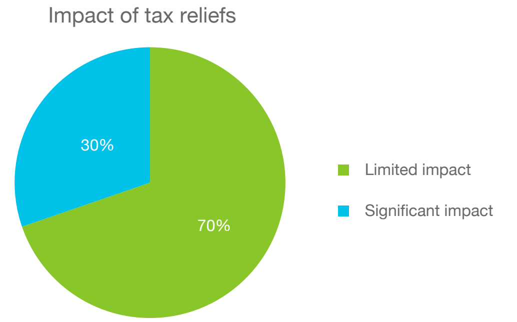


Almost 50% of respondents are of the view that their businesses would need more than 6 months to fully recover post the lifting of restrictions. Only a little over 20% of businesses would be under an accelerated recovery period of less than 3 months. This is an indicator that based on the ongoing restrictions - it will not be before 2021 at the earliest that a majority of businesses will start to recover and this period could potentially be much longer. A longer recovery period means that businesses could also simultaneously be impacted by the pre-election slowdown normally seen in our economy given that our General Elections are scheduled for 2022.

Government reliefs

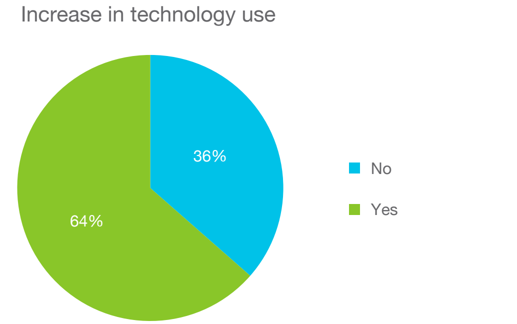
Over this hopefully interim period, respondents with an overwhelming majority indicated the desire for greater government intervention, with 70% of respondents expressing the view that the relief given so far has had limited immediate impact to their businesses.





Use of technology

We asked business leaders to indicate whether they expect to see a sustained increase in technology embracing and use going forward:



A clear majority of businesses are looking towards more efficient ways of working and enhanced IT use going forward. We see this as a positive outcome of the pandemic as businesses learn leaner and more efficient ways of working. It is our view that electronic communication including web-based conferencing as well as e-business platforms will become the new norm and driver for profitability. This will come with numerous benefits, but will also require a large number of businesses to transform to mitigate negative effects of this transition.

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Analysis by sector

Retail trade & distribution

The retail sector appears to have fared better compared to other sectors with regards both employee redundancies as well as salary reductions. 79% of respondents have not made any employees redundant and almost 70% of respondents have not reduced wages. This compares against 67% and 54% for all sectors put together.

The revenue performance for the retail sector has largely tracked the other sectors. This is in line with our expectations as businesses in the retail sector that remained resilient in the earlier part of the pandemic and restrictions period. Sustained restrictions, increasing unemployment and reduced overall consumer spending power have caught-up on such businesses and they will need to plan carefully to remain on course over the remainder of 2020.

Liquidity for this sector is however more strained than all sectors put together with almost 75% of respondents indicating availability of less than 3 months of cash requirements in the form of liquid funds and bank facilities compared to 68% for all sectors put together.

What is however surprising is the take-up of new technology – we would have expected a large number of businesses in this sector to be considering investment in e-commerce solutions in the new normal of web-orders and home deliveries. However, only 50% of respondents indicated greater adoption of technology in the businesses.

Manufacturing

Overall levels of redundancies and wage cuts are consistent with the other sectors at approximately 37% and 49%. The actual YTD 2020 business performance has also tracked the overall responses and so has the remainder of the outlook for the year with approximately 70% of respondents from this sector indicating a decline in the expected 2020 volumes of between 30% and 70%.

Liquidity is again a key factor for this sector with 72% of respondents having access to less than 3 months of cash requirements. However, a more encouraging 65% of respondents from this sector have indicated return to normalcy post lifting of restrictions in 6 months or less compared to just over 50% for all sectors put together.

Tourism, hospitality & entertainment

Players in this sector have as expected been very hard hit, and more directly so than most other sectors given the impact of the restrictions in place.

More than 60% of respondents have undertaken employee redundancies and 84% have cut pay.

62% of respondents have observed a drop in turnover of more than 70% and almost 80% project a revised 2020 forecast of at best 50% of the original projections for the year.

More than 30% of respondents from this sector also expect it to take more than a year post lifting of restrictions for business to return to normalcy which is not surprising as patrons are likely to exercise caution in undertaking travel and related activities in the anticipated post Covid era.

Real estate, property development & construction

Overall the results for players in the real estate sector track those of the other industries taken together.

Liquidity once again remains a key concern area for this sector with 70% of respondents reporting less than 3 months' access to cash. However, players in this sector are slightly more optimistic about the periods to return to normalcy with only 13% being of the opinion that such return will take more than 12 months compared to 19% for the other sectors put together.

Potential post-Covid restrictions on social distancing in the work-place and a potential new era of 'work from home' are likely to have longer term impacts on this sector.

Healthcare

Perhaps not surprising that respondents from the healthcare sector have reported a significantly lower number of staff redundancies and also fewer pay-cuts. Whilst one could say that this sector stands to benefit from the pandemic as there is greater demand for healthcare services, the revenue trends do not support this position with 78% of respondents reporting a greater than 30% decline in turnover for 2020 to date and almost 60% expecting this trend to continue to the end of the year.

Access to cash for this sector remains as constrained as for all the other sectors combined. A clear majority of respondents in this sector have plans for significant increase in technology use at 81%.

Agriculture

The respondents within the agriculture sector have witnessed relatively more encouraging revenue numbers with 61% reporting a drop of more than 30% in 2020 to date compared to 72% for all sectors put together. Such businesses also project a better outlook for the remainder of 2020 with more than 50% reporting achievement of more than 70% of the original projections compared to only 35% for all sectors put together.

70% of respondents in this sector also expect return to normalcy within 6 months of lifting of restrictions compared to only a little over 53% for all sectors combined.

Professional & business services

This sector has possibly seen the most resilience with the least number of respondents indicating turnover declines (almost 60% reported less than a 30% decline in turnover compared to only 28% for all the sectors combined). 53% of respondents also expect 2020 revised forecasts to be at least 70% of original forecasts compared to only 35% of other sectors respondents. This is not unexpected as a number of players within this sector are well placed to make use of technology to continue delivering their services. 67% of respondents in this sector also expect return to normalcy within 6 months compared to 53% for all sectors combined.

As expected, almost all respondents in this sector anticipate far greater use of technology going forward in service delivery.

IT & technology

Once again, unsurprisingly, technology firms have marginally better turnover and business volumes in 2020 to date and as projected to the year-end. Such businesses, with lower fixed operating costs also have greater access to liquidity with more than 50% of respondents reporting access to more than 6 months of cash.

Over 40% of such businesses also expect a quicker road to recovery of less than 6 months post the restriction period.

Transport & logistics

This is another sector that has been affected directly and more significantly than most of the other sectors. Almost 70% of respondents in this sector have a decline in turnover of more than 50% in 2020 to date. However, respondents were more optimistic about 2020 full year prospects.

Financial services

Businesses in financial services have the least quantum of redundancies at only 7% and pay cuts at 20%. Such businesses also have the least reductions in revenue in 2020 and for obvious reasons, the strongest of liquidity positions.

80% of respondents in this sector also expect to make greater use of IT solutions going forward.

Education

Education is another one of our sectors that has seen significant impact arising from the restrictions being imposed. Whilst the level of redundancies is not far off from all the sectors combined results, this sector has the highest percentage of pay cuts of all sectors with 78% of respondents reporting reductions in salaries.

100% of respondents also observed a reduction of 30% or more in 2020 revenues to date and 78% of respondents have reported revised 2020 forecasts of at least 30% lower than original projections.

100% of respondents have also indicated liquidity of less than 6 months, with almost 90% reporting less than 3 months access to cash.

However, an overwhelming 66% of respondents expect a return to normalcy within 6 months of lifting of restrictions.

Stay Safe!

PKF

right people
right size
right solutions

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