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Navigate your way through uncertainty
Impact of COVID-19 on growth
enterprises



Introduction

Recognised as the vibrant and dynamic segment of India, growth enterprises play an important role in driving growth and promoting equitable development. Accounting for more than 90 percent of the total enterprises across industries, the segment contributes ~30 percent to the national GDP and ~40 percent (US\$ 147 bn) to the Indian exports. It gives employment to more than 20 percent (120 million) of the total Indian workforce¹.

After the COVID-19 outbreak, growth enterprise companies have been pushed against the wall. ICRA (formerly known as Investment Information and Credit Rating Agency), the International Monetary Fund (IMF), and other industry experts have pegged India's GDP for the current year in the range of 1.2-2 percent with a marginal contribution from growth enterprise organisations².

Many high-growth companies operate on a lean business model with minimal cash reserves. They may face challenges in managing disruptions of this magnitude for prolonged periods.

Although several optimistic entrepreneurs expect the economy to rebound in 14-18 months, companies may face paradoxes of making difficult choices – whether to drive short-term survival plans in the face of under-preparedness or ensure medium/long-term competitiveness. As quoted by J. F. Kennedy, “when written in Chinese, the word crisis is composed of two characters. One represents danger and the other represents opportunity.”

Even as growth enterprises cope with the rising stress to survive, this could be a defining moment for businesses to respond, recover, and thrive.



Using learnings from the SARS outbreak, the 2008 financial meltdown (that slowed down the global economy), and measures adopted by Chinese growth enterprises to survive through the COVID-19 crisis, we believe that the following practices and strategies for growth enterprise organisations will be relevant:





Establish a command centre to navigate through complexities

Current situation

At growth enterprises, promoters with limited involvement of internal stakeholders and the extended enterprise, usually make decisions. These organisations need a strong command centre comprising senior leadership to enable effective and efficient decision making and steward the business through the challenges posed by COVID-19.



The way forward

The command centre should promote integrated thinking by bringing the key internal stakeholders together to formulate strategic initiatives, and facilitate value creation and protection.

In situations brought about by COVID-19, integrated thinking requires the following:

Effective governance and inclusive leadership:



The organisation is part of a value creation ecosystem and hence, would need to engage with its key stakeholders, such as customers, financial capital providers, vendors, employees, regulators, and industry bodies. It needs to embed thinking in an integrated manner that translates into better governance and inclusive leadership.

An inclusive culture:



The organisation should foster a collaborative management culture that understands and appreciates that drivers of value are not isolated from one another. It should also have a holistic understanding of available resources – both financial and non-financial.

Heightened accountability:



The organisation should assess multiple resources and relationships it uses to create value. Organisations that consistently take decisions in holistic and inclusive manners (considering both financial and non-financial capitals) during normal or challenging times, tend to take more optimal decisions. Such decisions enhance value creation and value protection.

Transparency:



The organisation should ensure access to information and data from across different dimensions of value.

Conclusion

The centre should collaboratively think through the organisation's vision, mission, and values, and then connect them with its strategy, risks, opportunities, performance metrics, and incentives. These steps will foster collaboration and integration between parts of business that can lead to better decisions and help growth enterprise organisations emerge stronger from this crisis.





Think frugal: Conserve cash and manage cost

Current situation

As revenue streams are drying up, the ability to generate cash is of paramount challenge for organisations. In addition, they need to incur certain fixed costs even if they do not generate revenues and cash flow. Customers have cut or deferred spending. Organisations are putting orders on hold with no clear date of resuming services, making it difficult to forecast sales and fulfill existing commitments. Further, cash is tied up in trade receivables, capital projects, or inventories.



The way forward

The following steps could assist growth enterprises to achieve cost savings:



Stay in constant touch with customers and maintain a high recall value. This provides opportunities to help companies recover outstanding payments and liquidate inventories quicker.



Review pricing and discounts, and take a call on liquidating inventories at lower markups to generate cash for the short term without irreparable margin erosion.



Review costs and focus on 'trimming the fat' by renegotiating rentals, using digital applications to conduct meetings and avoiding travel, deferring onboarding of new employees, and restricting discretionary spends (to reduce fixed costs).



Consider short-term leasing or sale of non-core assets, and restructuring debt to improve cash flow.



Collaborate with banking partners (if facing a cash crunch) and carry out scenario planning to assess fund requirements and explore new funding sources.



Rethink CAPEX investments to sustain through the lockdown period.



Think through multiple paradoxes to devise a medium-to long-term CAPEX investment strategy (survival paradox—whether to decrease CAPEX or maintain the status quo for a faster ramp-up; the fulfillment paradox—whether to address short-term demand or play for the long term and focus on profitability).



Use tax breaks that the government has provided to improve short-term cash flow. These tax breaks include lower interest rates on deferred payments and the extended deadline for tax payments such as withholding tax and income tax. Moreover, firms can review the revenue recognition for FY 19-20, and any downward revision due to because of lockdown may result in a tax refund. Firms can also apply for a lower withholding tax certificate and evaluate the tax effects of short-term changes in supply chains, including global trade.

Conclusion

Given the current scenario, banking partners may provide reduced financing rates to companies. However, while exploring short-term financing options, companies need to be mindful of the fact that over leveraging in these circumstances can spoil their credit history if they are not able to repay on time. Once the lockdown is relaxed, organisations can start reinvesting in business growth in a phased manner. This is the right time for companies to review and change the marketing mix by reducing outdoor marketing activities and focusing on digital media.

“Not everything that counts can be counted and not everything that can be counted, counts.”

Albert Einstein





Maintain high customer engagement and create new revenue streams

Current situation

The complete lockdown has halted production in most of the sectors except the ones which are considered “essential sectors”. This has immensely affected organisations’ ability to generate revenues. Given the uncertainty caused by the pandemic, Growth enterprises find it difficult to forecast sustainable streams of revenues.



The way forward

To sail through these challenging times, growth enterprises may evaluate the following options:



Stay focused on their existing customer base by maintaining high engagement and creating empathetic digital content (shift from feature-led to purpose-driven content).



Look at short-term targets and promotions for their channel partners, instead of working on long-term annual targets.



Offer a higher upfront value while maintaining the overall discount threshold using tactics such as increasing invoice discounts and lowering bill backs.



Fortify distribution in stronger markets and gain an edge over competition (as customers are no longer fussing over the brand they buy because of low product availability).



Evaluate the depth and spread of market penetration, and consider markets that are not heavily affected by COVID-19.



Brainstorm on how they can sustain the existing revenue streams and/or create new ones to remain sustainable, given the expected change in consumer preferences and business models

Conclusion

Although the COVID-19 situation has affected the traditional trade channel, it has increased consumption through the e-commerce channel. Given this will result in a long-term shift in consumer behaviour, growth enterprise companies need to invest and strengthen their position in the e-commerce channel.

Many organisations during this time have launched new products or established new business lines to help fulfill demand of 'essentials'. High-growth organisations may also consider this as a new revenue stream after conducting a thorough cost benefit analysis.

The current situation has gifted organization and humans a rare opportunity for true introspection. As we emerge from this crisis, we must re-evaluate why we exist in this changed world and what value we truly create. Brands have to demonstrate that they care for not just their own sales/profits but show empathy towards people—employees, customers, suppliers, business partners etc. As brands reconnect with their true purpose, and align with customers' values, higher emphasis on social impact and environment will follow, consistent with the expectation in the next normal. Additionally, it is extremely important for brands to review their creative content to demonstrate sensitivity to the existing situation and next normal.





Steer through supply chain disruptions

Current situation

One of the biggest impacts of COVID-19 has been on supply chains, starting from scarcity of workforce to manage dispatches to shortage of input material. Growth enterprises need to evaluate both supply and demand sides of their supply chains by creating an end-to-end view of the value chain. They also need to identify highly affected areas and create workarounds.



The way forward

Workarounds may include the following:



Consolidating customer/vendor base



Revising metrics



Optimising logistics



Creating alliances with competition/sector partners/vendors/customers to drive supply chains



Exploring collective buying

Conclusion

Growth enterprises dependent on migrant workforce may consider onboarding agencies providing local workforce in part, if not in full. Those dependent on import and export to manufacture or distribute products need to explore local alternatives and develop vendors. To manage through further disruptions, organisations need to identify local vendors with short lead times.





Scale up operations after lockdown

Current situation

A prolonged lockdown period has brought the production of companies in most of the sectors to a grinding halt except the ones that are considered “essential sectors”. In the absence of preventive maintenance, manufacturing companies will need to service plants and machinery, and other manufacturing assets, to restart operations. Companies will need to assess availability, affordability, and quality of inputs before resuming production.



The way forward

Once the lockdown is eased, businesses could consider the following steps in order to bounce back:



Realign business, operations, and finance capabilities with demand and supply realities.



Prepare for increased absenteeism and social distancing during the initial days.



Evaluate the impact of changing demand, customer preferences, and customer base as several markets may cease to exist or customer preference may change. For example, the automotive industry has already been facing headwinds because of weak demand and shifts in emission standards. Europe, North America, and Asia account for 86 percent of India's total auto components export, which will decrease because of the impact of COVID-19 in these regions³.



Work closely with local authorities and regulators to comply with Ministry Of Health COVID-19 guidelines.



Reconfirm any information regarding resuming operations with the authorities to avoid confusion.



Put in place additional health and safety procedures and guidelines, in consultation with the local authorities, to prepare themselves for resuming operations.





Manage workforce: Driving employees' productivity and embracing work from home (WFH)

Current situation

At growth enterprises, leadership would need a shift in its mindset. As measuring attendance has become irrelevant in the current situation, growth enterprises would need to be output-driven and develop effective metrics to measure employees' productivity.



The way forward

To efficiently manage this crisis, companies can encourage employees to stay connected and feel secure by taking the following steps:



Focus on improving employees' morale by enhancing employee engagement.



Have leadership convey critical information to avoid confusion and rumours.



Invest in upskilling workers through digital learning platforms and counsel employees to ensure their wellbeing, gain their loyalty, and attract highly qualified workforce.



Channelise real estate cost savings achieved by embracing WFH to strengthen cyber security.



Negotiate deals with internet service providers to provide broadband services to employees at discounted rates at home.



Enable employees to work across desktops, laptops, and mobile devices by ensuring that enterprise applications are multi-platform friendly.

Conclusion

Before considering drastic measures to reduce payroll costs, growth enterprises could try and explore few alternatives. Some of these are set out below:



Restructuring compensation



Offering ESOPs (instead of cash)



Introducing part payments



Reducing salary without layoffs



Simplifying processes to quickly turnaround reimbursements and CTC claims





Fortify cyber security and digitise processes to enable seamless 'WFH' and drive business

Current situation

Most of the rapidly growing organizations rely on manual processes with minimal dependence on automation.



The way forward

To sustain this period of disruption, growth enterprises may consider the following:



Invest in automation and digitisation of processes. Growth enterprise companies can choose from a suite of freeware, pay per use, and asset light options to manage their operations efficiently in a cost-effective manner.



Align IT infrastructure to support evolving work requirements. For instance, enable network arrangement to support WFH, strengthen and extend cybersecurity, and digitise HR processes.





Prepare a business continuity plan

Current situation

Information gathered from industry experts indicates that more than 22 percent of the 75 million micro, small, and medium enterprises in India will cease to exist if the lockdown in cities extends beyond four weeks; a staggering 43 percent will close down if the lockdown extends beyond eight weeks⁴.



The way forward

Considering this scenario, businesses may consider evaluating the following measures to scale up for uncertainties:



Activate or revisit continuity plans for finance, operations, and logistics, among others.



Build a framework for agile forecasting to minimise the pandemic's impact in the short-and medium-term.



Assess the resource requirements per the business continuity plan scenarios.



Collaborate across functions, customers, and vendors to ensure a quick implementation of the plan.



In Summary

COVID-19 will change the way we conduct business. Growth enterprises might need to embed agile decision making into the culture and do away with the traditional silo-based mindsets. The need to constantly adapt and innovate to stay ahead of the curve is an imperative. This may entail identifying new markets and opportunities, focusing on 'make in India' and technology, forging alliances, making tough choices, and above all ensuring resilient leadership.

Resilient leadership will act as a strong foundation for growth enterprises. It will guide organisations to emerge stronger from these difficult times and thrive in the future. Leaders will need to question the relevance and effectiveness of their existing business model at present and in the future.

- ¹ <https://msme.gov.in/sites/default/files/Annualrprt.pdf>; <https://www.mycii.in/KmResourceApplication/61951.MSMEReport.pdf>; <https://www.financialexpress.com/industry/sme/nearly-half-of-indias-exports-came-from-msmes-in-fy19-up-from-7-5-in-fy18/1653526/> (\$ 147 Bn of exports)
- ² <https://economictimes.indiatimes.com/news/economy/indicators/imf-projects-indias-growth-rate-at-1-9-in-2020-forecasts-global-recession-due-to-covid-19/articleshow/75142792.cms?from=mdr>; https://www.business-standard.com/article/economy-policy/covid-19-impact-indian-economy-likely-to-grow-2-in-fy21-says-icra-120040701598_1.html
- ³ https://www.ibef.org/automechanika-dubai/download/Article-2_Supplement.pdf
- ⁴ https://www.business-standard.com/article/current-affairs/43-of-msmes-will-close-if-covid-19-lock-down-exceeds-eight-weeks-expert-120032300461_1.html



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