

Insight - Towards a long but hopeful recovery for SMEs

EVER since the first confirmed Covid-19 case in Malaysia on Jan 25 last year, the situation of the pandemic has been fluctuating over the past year and a half.

Although some states have entered phases two and three of the National Recovery Plan, the raging Delta variant has led to repeated new high in the daily confirmed cases in the past few weeks.

The shadow of the virus is still looming, despite the economic sectors gradually opening up.

Some restaurants, including the McDonald's fast-food chain, have decided to delay accepting dine-in until the pandemic has stabilised.

As the third quarter of 2021 comes to an end, the much anticipated economic recovery seems rather distant, as some states in phases two and three scrambled to control the rebound of the virus.

Let's hope that the new Cabinet would get to work and achieve some results within 100 days, as announced by the Prime Minister, for the economy to recover by year-end.

After this long period of intermittent lockdown and opening, the biggest problem facing most small and medium enterprises (SMEs) is the void in cash flow.

During the first movement control order (MCO) last March, a survey by Malaysia's Statistics Department showed that up to 67.8% of companies had no income during the MCO.

If employees were to be paid in full, more than half (53.4%) of the companies could only sustain for up to two months.

Some of the main problems facing companies were salary payment (76.6%), no customers (65.5%) and rental payment (61.4%).

With a series of government aid packages, especially the moratorium on loan repayment and wage subsidies, many companies have benefited and survived.

However, in 2021, the raging pandemic leaves more companies high and dry.

According to a survey by the Associated Chinese Chambers of Commerce and Industry of Malaysia on business and economic condition in the first half and second half of 2021, up to 73.7% of companies are still facing the 3C problem – cash flow, cost and credit.

The five major issues affecting business performance the most are:

- Implementation of various MCO (65.4%),

- Increase in raw material price (50.2%),
- High operating costs and cash flow problems (46.6%),
- Political situation (45.5%) and,
- Decline in corporate and consumer confidence (43.6%).

I have shared some views during The Star's SOBA webinar recently that for SMEs to survive this unprecedented global pandemic, urgent solutions are required.

Most companies' reserves would have almost been exhausted, if not used up, after more than a year of depletion.

We need to accept that the pandemic has brought irreversible changes to the entire business environment. So it is necessary for business leaders to adjust their mindset accordingly to steer the company in the right direction.

The MCO has made working remotely or from home a new norm, where online meetings and various software took centre stage in connecting businesses with employees and clients.

When business leaders get used to this new business model, the challenge also arises for them to ensure work efficiency is not compromised along the way.

I mentioned last year on the need for SMEs to embark on four major action plans to get through this crisis.

First, formulate financial budgets and deliberate how to reduce fixed costs such as rent and employee salaries, and try to maintain existing revenue streams while creating new ones.

Second, change the work methods and utilise technology.

Third, re-examine products and services by focusing on whether the market needs them.

Fourth, conduct middle and long-term analysis on the productivity of employees, machinery and operating modes.

This will enable the use of fewer but efficient employees with the same machinery and operating modes to improve production output – literally achieving “reducing costs and increasing efficiency.” The four practices are still relevant to this day.

Business is all about buying and selling. Any unsold product, no matter how profitable it can be, is only a liability. In sales, payment collection is important to ensure uninterrupted cash flow.

Other than setting a demand, business leaders also need to explore more sales channels, avoid self-limitation and complacency with the existing market.

This is notable especially with the implementation of the Regional Comprehensive Economic Partnership (RCEP) free trade agreement, where the markets of all 10 Asean nations together

with five regional partner countries – China, Japan, South Korea, Australia and New Zealand are fully open.

Products from other countries in the region will enter the Malaysian market and compete with ours.

To stay relevant, businesses need to start re-evaluating and planning their production lines and service delivery to improve quality. Prices have to be competitive to secure a place in the market.

It will be a boon for SMEs as long as we succeed in tapping into the huge market in the RCEP.

Moving forward in the post-pandemic times, consumers' consumption patterns and purchasing power would see a tremendous change.

Especially in the retail industry, the interaction with consumers will see newer and more targeted ways.

Marketing becomes a dialogue with consumers, who will in turn have greater say in brand-building.

In other industries, there will be more automation and outsourcing, while some jobs are replaced and new ones emerged.

Business leaders need to grasp these trends and analyse their impact before planning the business direction, including the training and allocation of manpower.

They also need to manage the delivery of their products and services, the logistics arrangement, including after-sales service and customer satisfaction – all of which are keys to business sustainability.

We know that these requirements can be challenging for many SMEs, especially the traditional family businesses.

However, the times are constantly moving and we can only catch up to weather the storm and see the light.

Take the adoption of e-wallet and e-commerce as an example –the popularisation of going digital that was expected to take five years was achieved in less than a year, all sped up by the pandemic.

So it is clear that what's perceived impossible was only limited by nothing but reluctance.

With more people in the country getting vaccinated, it is only a matter of time when the pandemic is brought under control. But certainly, we will not be able to return to where we were before the pandemic for a while.

As said by the new Health Minister, we still need to mask up and we have to accept a lifestyle that coexists with the virus.

However, as long as the industries can resume business, factories can open and resume production and people can freely travel across districts and states, the economy will gradually recover.

For now, companies that seize the opportunity in time will recover quickly, stand out from the rest who are not ready and move forward.

Koong Lin Loong is managing partner of Reanda LLKG International and treasurer-general cum chairman of SMEs committee of the Associated Chinese Chambers of Commerce and Industry of Malaysia. The views expressed here are the writer's own.

<https://www.thestar.com.my/business/business-news/2021/09/14/insight--towards-a-long-but-hopeful-recovery-for-smes>