A silver lining for SMEs

By Andiswa Bata, FNB Business Regional Head for Gauteng South West

21 April 2020: In the second half of 2008: Oil prices dropped to a third of the price at the beginning of the period. The Rand depreciated by about 30% to the US Dollar. The US Federal Reserve cut its benchmark interest rate effectively to zero. The JSE all share index lost about a third of its value.

In the aftermath: The South African economy entered a recession. Rising unemployment put severe pressure on consumers and small businesses. The untimely outbreak of H1N1 (commonly referred to as “Swine Flu”) had a further dampening effect on business conditions.

There are stark similarities between today and the conditions faced in 2008/2009, and that is before we factor in the slowdown in business activity caused by the COVID-19 lockdown and recent downgrade of SA to junk status by Moody’s.

No one knows what the future holds, yet if there is anything we can learn from past adversity, it is South African small to medium businesses (SMEs) are resilient and they can bounce back. There have been various private and public sector interventions announced in recent weeks to assist SMEs to weather the current storm, but what are some of the things SMEs can leverage within their direct sphere?

The South African Reserve Bank (SARB) has announced a cumulative 225 basis points (2.25%) cut in the repo rate since the start of 2020. Lower interest rates effectively put more money back in the pockets of consumers and businesses (after debt repayments).

Despite the weaker Rand and the higher local fuel and Road Accident Fund levies, the price of petrol reduced by R1.88 per litre (inland) and diesel dropped by R1.34 per litre (inland) on 1 April, due lower global Brent Crude oil prices.
The current lockdown has accelerated many companies’ readiness for remote working – leading some to consider whether they will still need the same amount of real estate or need to incur the same amount of air travel costs once the lockdown is lifted.

Factors like the SARB rates downward revision, the lower fuel prices and an authentic review of one’s business operating model (cutting costs which the COVID-19 lockdown has taught us we can live without) will help SMEs to boost cash flow, protect employment and respond decisively to market trends.

Companies like Amazon and Walmart have announced mass hiring initiatives in the last month, to keep up with the spike in online orders and essential goods purchases during the COVID-19 related lockdowns.

On the local front, fashion designers are responding to the call for medical supplies, by converting their operations to churn out surgical masks and protective clothing. Same-day grocery delivery services have announced employing up to 100 new employees (shoppers) to keep up with demand. Showing that there are some opportunities for agile SMEs that can find a way to shift gears, reskill / repurpose staff and evolve their offering to where there is an urgent need.

Even if lockdown restrictions ease, the demand for certain goods and services (and how these are delivered safely and hygienically to end users) will likely be impacted for a long time to come. Nobody knows how long the current conditions will persist, but what previous recessions have taught us is that conditions do improve again – even if it is different from what we consider ‘normal’ today.

“Some of the answers your business needs are right in your sphere of influence and control. So, put on your raincoat and brave the storm.”

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