

Take 5 for business

Volume 8 Issue 7 - 1 June 2020

COVID-19: Business impact survey

Understanding the now, preparing for
the next and beyond



Building a better
working world

Business impact survey: 5 highlights

The severity of the COVID-19 impact on business is unprecedented. Weak economic and financial results, demand cut-backs, supply chain disruptions and knock-on effects of troubled sectors on employment are challenging most economies, including Malaysia's.

Against this backdrop, EY initiated the COVID-19: Business impact survey to understand:

- ▶ The impact of COVID-19 and the Movement Control Order (MCO) on Malaysian businesses; and
- ▶ The measures and assistance that businesses need



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The start of the journey towards economic recovery is contingent on **rebuilding trust and confidence in the public and business realms** and the deliberate intervention of the Government. Businesses need to work hand-in-hand with the Government to resume operations and kick-start economic activities.

Meanwhile, the increasing need for higher technology capabilities to connect businesses, customers and supply networks is fast-tracking the world into digitalization. **Malaysia must not be left behind.**

5 highlights:

1

COVID-19 is a game changer for Digital Transformation

Most companies (83% LLs and 84% SMEs) highlighted difficulties in their online connectivity and communication with customers and suppliers, in addition to their need for better infrastructure.

2

Malaysian workforce adapted during the MCO despite facing connectivity, tools and HR policy challenges

Over two-thirds (69%) of companies experienced disruption in one form or another, with 53% of SMEs and 39% of LLs voicing the need for improvement.

3

Swifter re-opening of the economy is needed

Over half of the companies (60% of LLs and 56% of SMEs) cited the need for urgent relaxation of MCO restrictions.

4

Embracing the new normal requires incentives and appropriate policies

Close to 50% of LLs and 40% of SMEs suggested direct government aid and incentives (technology grants, tax relief and loan relief) are required.

5

Galvanizing Corporate Malaysia to work concertedly with Government is critical to rebuilding trust and confidence.

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Respondent A (LL)

Need for government support to improve consumer confidence.

Respondent B (LL)

Exchange ideas and discuss workable solutions to cater for all businesses.

Respondent C (SME)

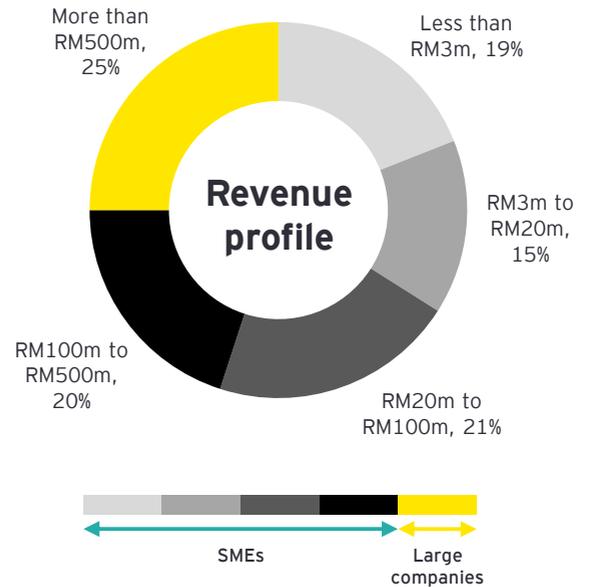
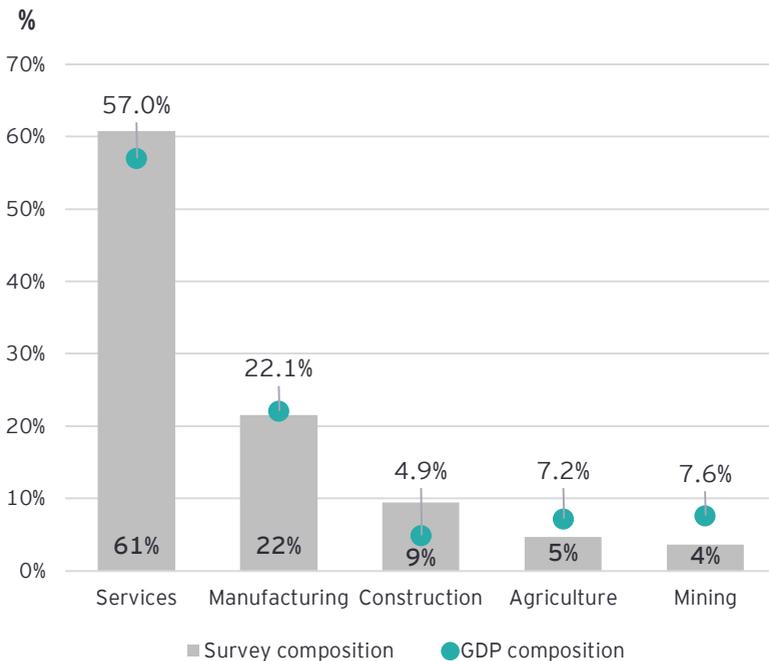
Post-MCO, Government needs to provide assurance on the COVID-19 uncertainties and communicate updates on government policies.

LLs: Large and listed companies
SMEs: Small and medium-sized enterprises

Background to survey

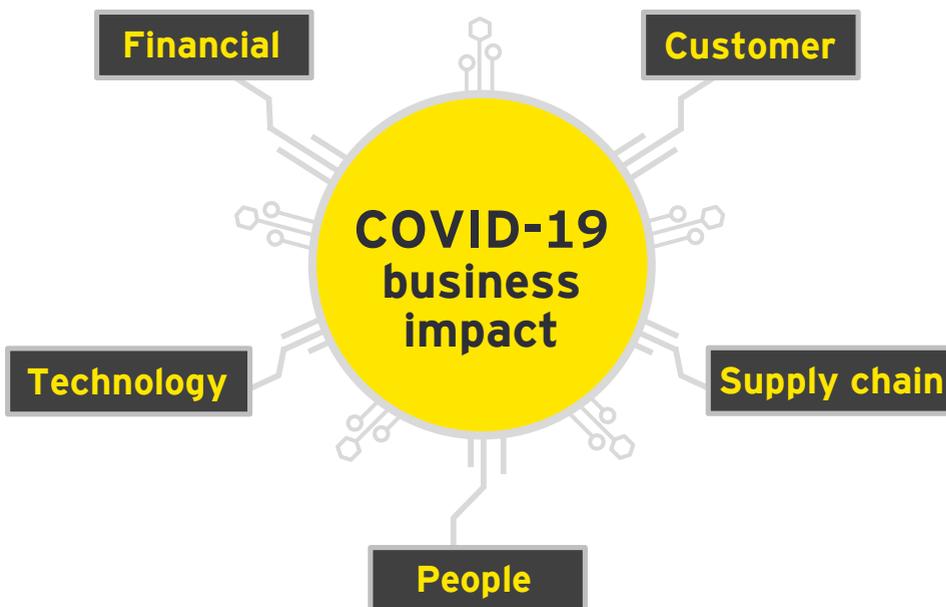
The online survey received over 670 responses from large and listed companies and SMEs. The achieved sample profile represents Malaysia's economic structure.

Profile of respondents



Source: GDP composition of individual sectors is based on the Department of Statistics Malaysia (DOSM), National Accounts (1Q 2019)

In identifying the areas of support needed by businesses, the EY COVID-19: Business impact survey evaluated the key challenges across five areas:



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COVID-19 managed to change the mindset of Corporate Malaysia towards Digital Transformation where previous efforts failed.

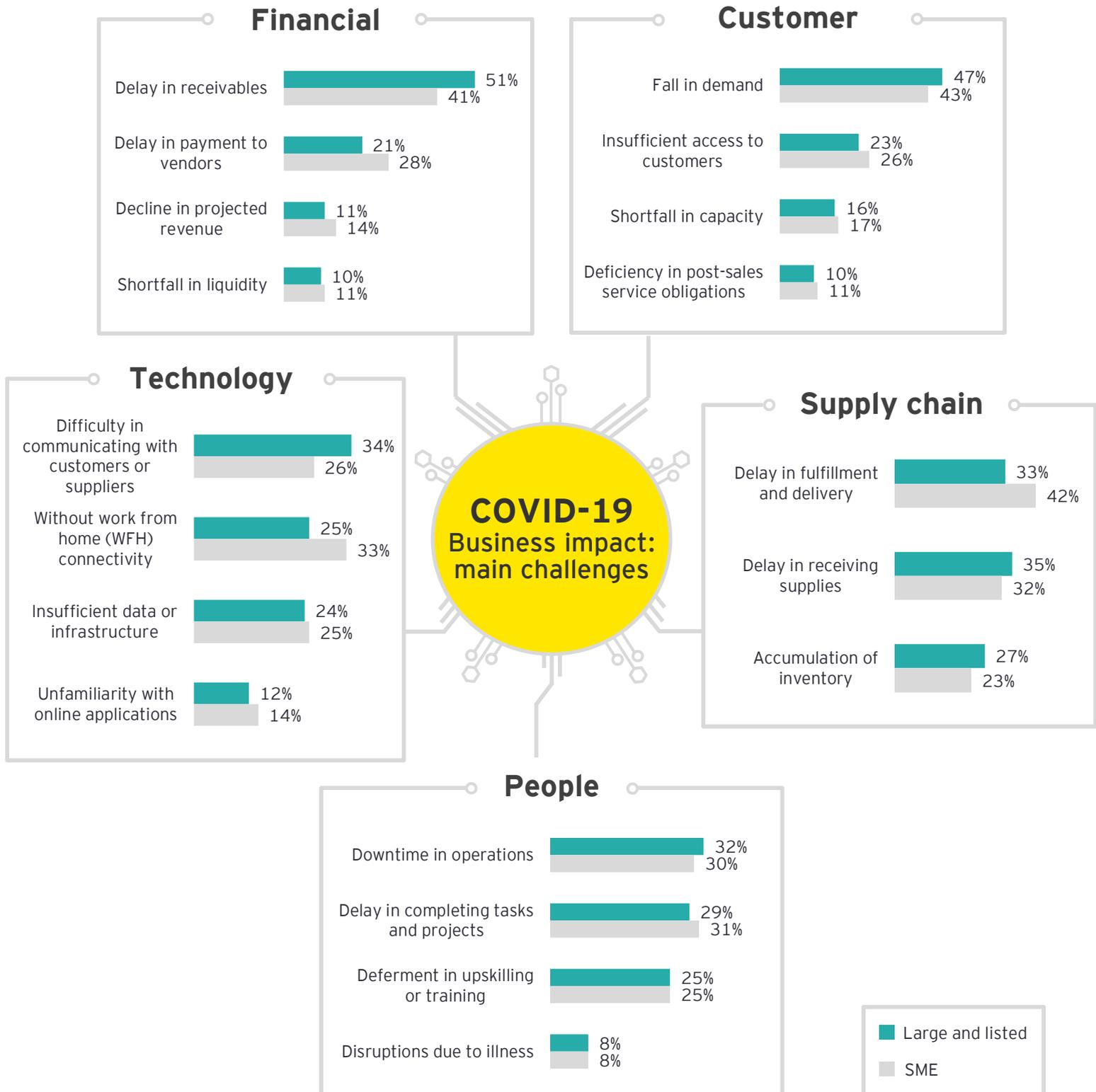
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Survey highlights

Now, Next and Beyond

The key survey findings from the five impacted business areas, segmented by large and listed companies and by small and medium-sized companies, are summarized as follows:



Note: Percentages do not sum to 100% due to the exclusion of "Other challenges".

Survey highlights

➤➤ Now, Next and Beyond

What do companies need?

- 1** Financial relief is paramount, as businesses both large and small take steps to maintain cashflow and operations.
- 2** Recurring “needs” themes among businesses include the following:
 - ▶ Loan relief
 - ▶ Tax reductions
 - ▶ Grant assistance, particularly to manage costs for technology enhancements and upgrades
- 3** Additional measures include:
 - ▶ Accepting digital documents for import clearances
 - ▶ Clear guidelines on the opening and expansion of e-banking infrastructure
 - ▶ Online training programs
- 4** Return to normalcy, including the removal of MCO restrictions, is key to achieving a quick recovery and restoring business confidence and growth.

Intervention areas:



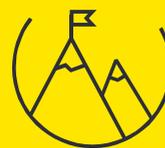
Relief from obligations

Financial relief is a top priority and includes loans, rent and taxes.



Technology solutions

Need for better connectivity, with tools to enable new ways of working



Business transformation

Assistance in adapting to new operations and processes



Certainty in the new normal

Clarity about the new normal and the ensuing expectations

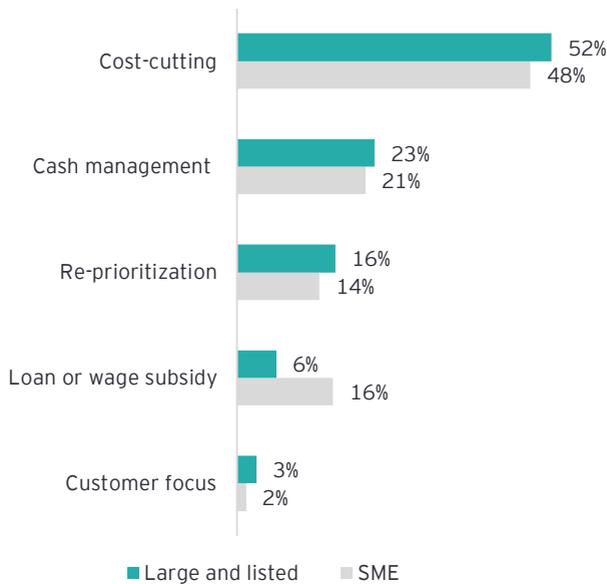
COVID-19 business impact: Financial

Top challenges: Financial issues include cashflow, liquidity, delays in receivables and declines in revenue.

Actions being taken: Nearly half of all companies surveyed indicated that cost-cutting measures are a priority. Others include cashflow management, re-prioritizing of business activities and investments and adjusting wages or applying for wage subsidies.

Intervention needed: Initiatives which reduce financial burdens or provide relief to loans and obligations are a priority.

Common measures taken



Large and listed

“Cost reduction - only spend on essentials, defer payments, defer capex, temp payroll cuts, ask for discounts/rebates, travel ban, external training halted.”

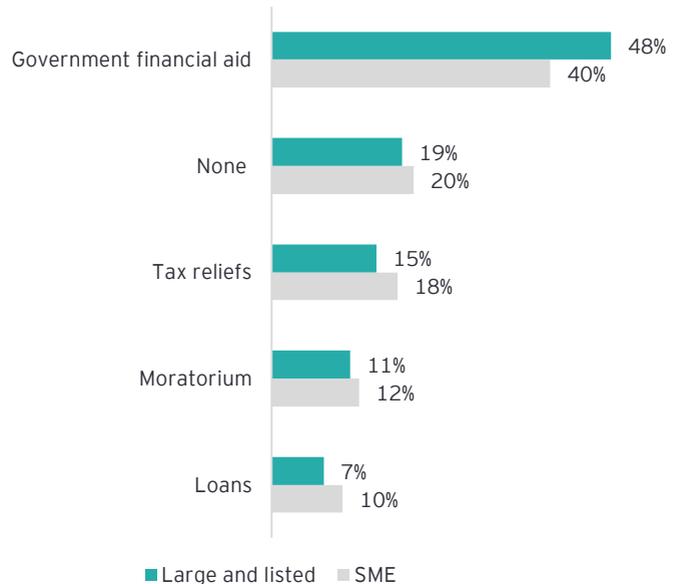
“Freeze new hires, manage indirect overhead costs and travel ban. Expedite issuance of invoices and chase for payment from clients”

SME

“Immediate implementation of Business Continuity Plan covering mainly safety, health, well-being, care and job security of workforce; immediate cost improvement measures; rescheduling of cash outflows; full participation in stimulus packages/incentives; replacement of lost revenue”

“Self-funding and cost-saving. Without support of banks (e.g. restructure repayments) and more assistance from the Government, will be looking at downsizing and retrenchment.”

Assistance required



Large and listed

“Financial aid and incentives. Most of the incentives are only for SMEs and individuals. Corporates are also bleeding. Banks need to be more flexible and not be bound by processes. Gradual corporate income tax rate cut for the next 2 to 3 years, similar to Indonesia”

“Government should provide employees subsidy and other financial support by channeling the subsidy funds through corporations or get financial institutions to grant longer moratorium on principal repayment.”

SME

“More Government support in areas of statutory requirements relaxation. Grant support to companies who need to go digital for long-term relevance.”

“Deferment of repayments to financial institutions to ease immediate or short-term cash requirements. Granting of moratorium to us is a timely relief and hoping for reduction of interest charges.”

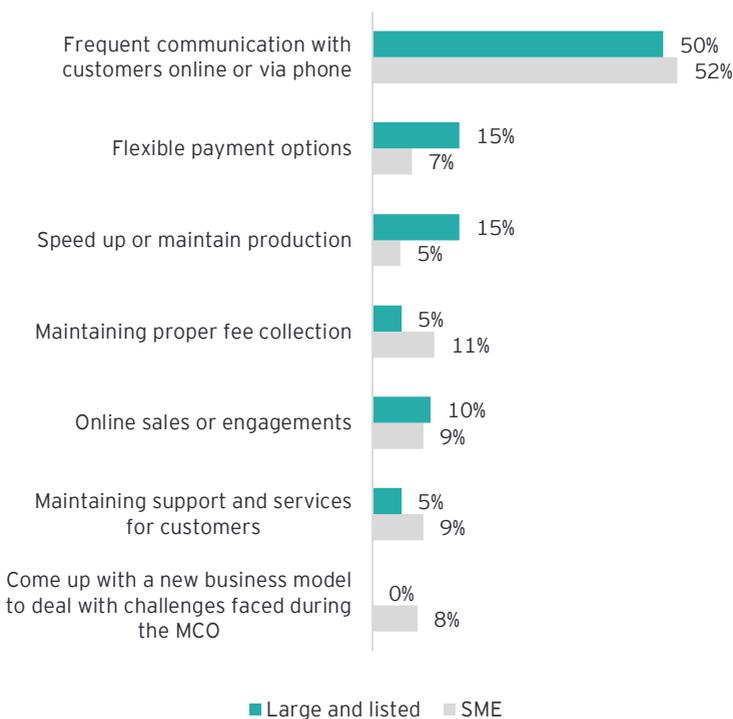
COVID-19 business impact: Customer

Top challenges: Across large and SME companies, nearly half of the respondents have cited that a fall in demand is their key challenge.

Actions being taken: Half of the respondents noted that frequent communication with customers is key to planning and managing customer relationships.

Intervention needed: Over a quarter (26%) of large companies cited changes in Government policies as the most important assistance required, which include tax breaks, lower interest rates or fee waivers. For SMEs, relaxing MCO restrictions is key.

Common measures taken



Large and listed

“Increase communications with customers, especially via social media platforms. Increase guest services (at the airport) to handle passengers that require help.”

“Turn to more online and website sales promotions.”

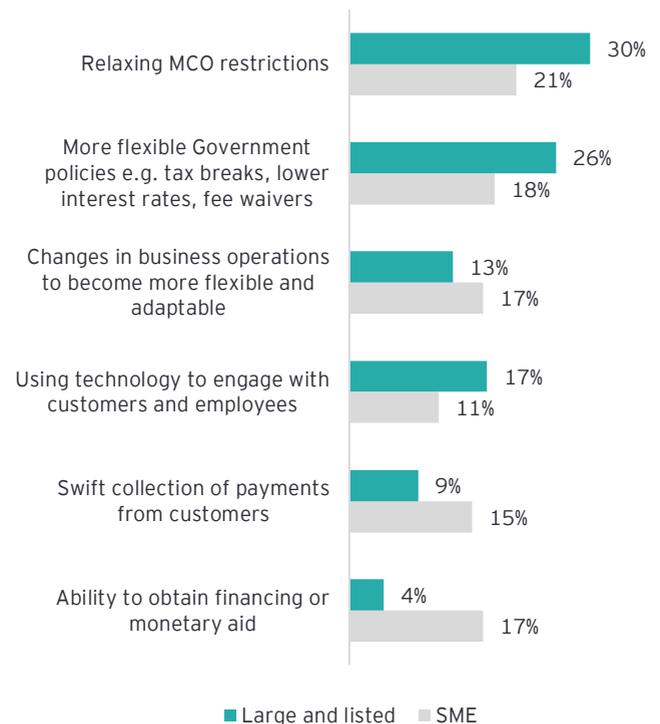
“Offer flexible payment plans; digitalize online solutions for purchases and after sales services.”

SME

“Communicate via email, video calls, chat applications. Increase communication frequency with clients to improve clients’ confidence in productivity levels.”

“Develop online buying capabilities within a short period of time. Offer better discounts to customers to take deliveries which are sent to the homes of customers instead of offices.”

Assistance required



Large and listed

“Business-friendly Government policies to enable production normalcy and expansion”

“Government assistance in terms of monetary aid would ease customers’ liquidity problems.”

SME

“Reduce interest rate, keep currency stable.”

“Banks to lower their requirements for customers’ housing loans”

“Opening of businesses to enable full engagement with customers”

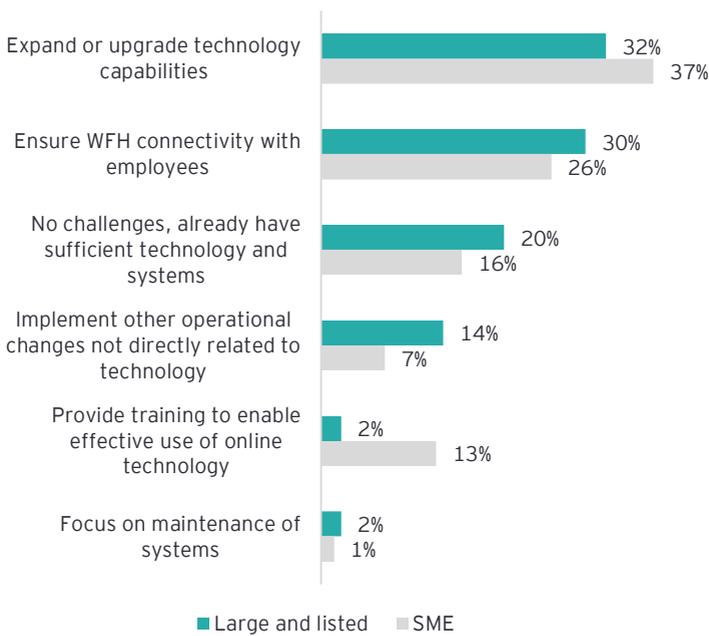
COVID-19 business impact: Technology

Top challenges: Nearly a third of large and listed companies cited communication with customers and suppliers as a major challenge, while SMEs highlighted WFH connectivity as a key issue.

Actions being taken: Companies are upgrading their technology and systems, and ensuring employees can connect.

Intervention needed: Improved connectivity is the priority need of businesses, followed by financial support in transitioning to technology-enabled processes and systems.

Common measures taken



Large and listed

“Upgrade the IT infrastructure and train staff to use video calls.”

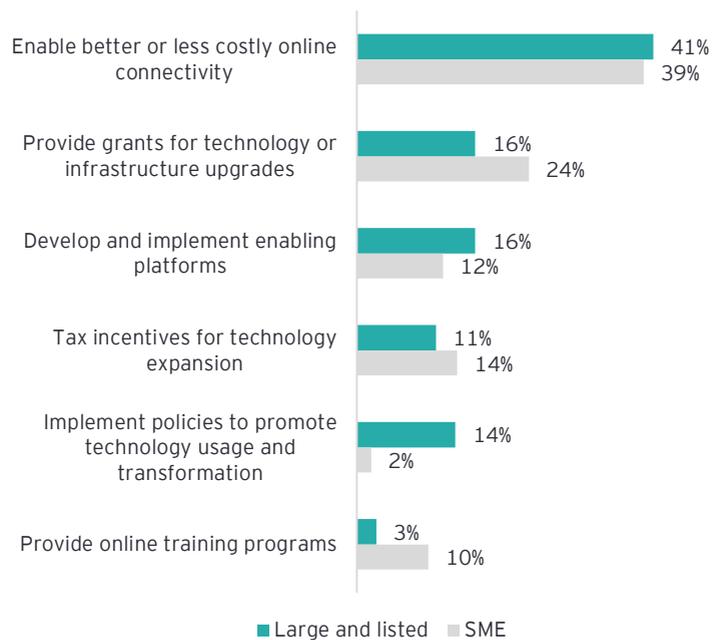
“Essential maintenance continues to preserve assets; ensure connectivity using various platforms; virtual training to use con-call and meeting facilities, ensuring VPN doesn’t get clogged.”

SME

“Re-educate the workforce on existing and newly available networking tools such as Microsoft Teams, OneDrive...which have made collaborating from home easier.”

“Invest in cloud computing and WFH software/hardware.”

Assistance required



Large and listed

“More tax incentives to encourage companies to invest in more technology such as webcasting platforms, video conferencing hardware/software, laptops and mobile printers, and internet connectivity”

“Expedite digital and communication infrastructure enhancement across the whole country, offsite/remote working.”

SME

“More affordable technology solutions or grants for purchase of technological solutions”

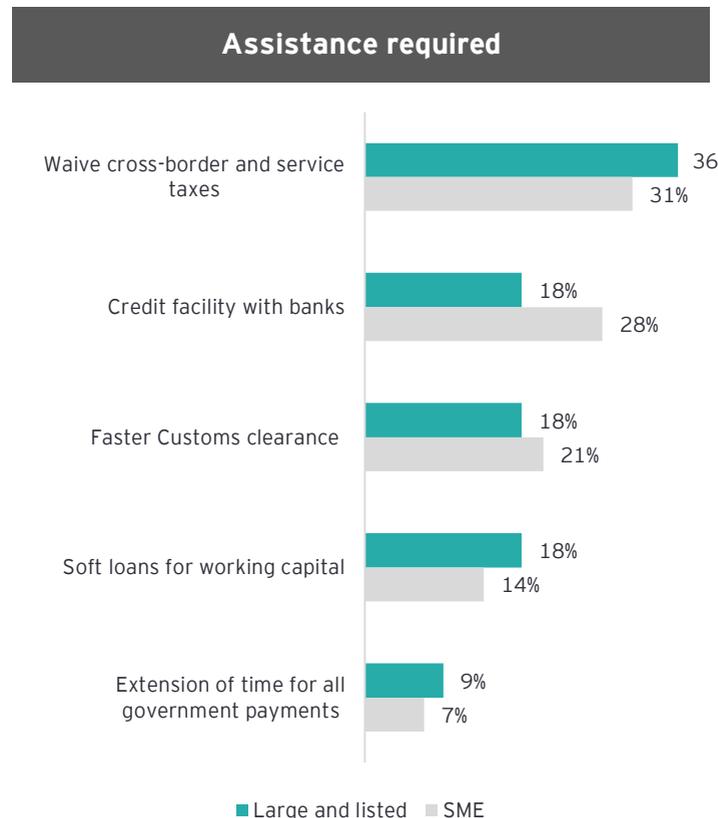
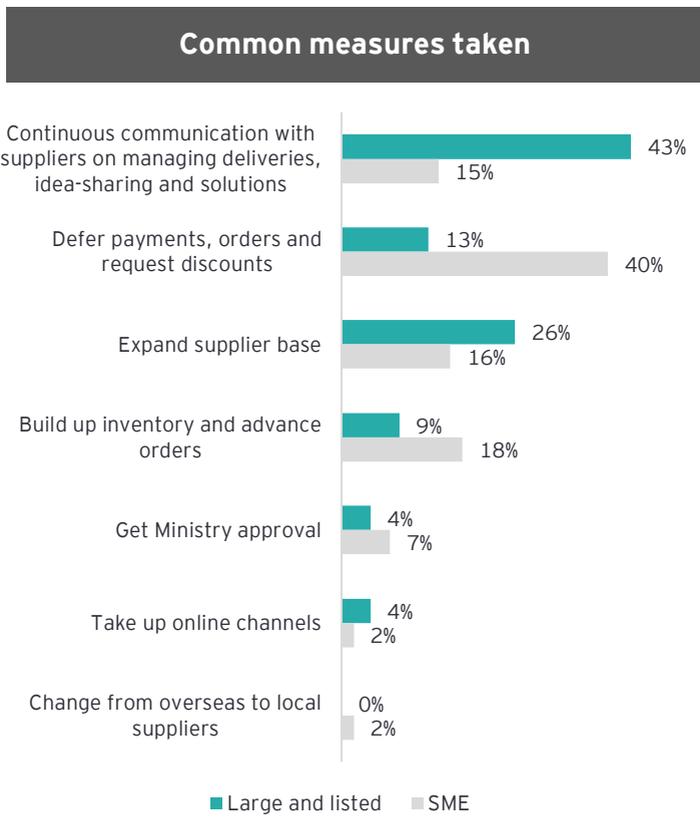
“Government should have grants to encourage businesses to transform, using technology to adjust to the new normal.”

COVID-19 business impact: Supply chain

Top challenges: Large and listed companies cited delays in receiving supplies as the main supply chain challenge, while SMEs noted delays in fulfillment and delivery as their major challenge.

Actions being taken: Most large and listed companies are engaged in keeping suppliers informed through dialogue sessions on supply chain issues. For SMEs, payments and orders have been deferred whilst requesting for discounts from suppliers.

Intervention needed: Most companies are requesting for the waiver of cross-border and service taxes, along with additional credit facilities with banks.



Large and listed

“Reassure them of payment; harder pricing negotiations for new procurements.”

“Identify potential impact to source of raw materials, exposure to foreign exchange and price impact, assessment of vendor capability to fulfill order timeline.”

SME

“Closely monitor incoming/planned shipments in accordance with customer demand.”

“Review procurement planning and source more locally.”

Large and listed

“Government ministry to allow supporting industries to operate 100% and facilitate the clearance of cargoes at the port”

“Ease of movement relating to incoming raw materials and supply of goods”

SME

“Flexibility in import clearance, e.g. accepting digital documents for import clearance”

“Without support of banks and more assistance from the Government, will be looking at downsizing and retrenchment”

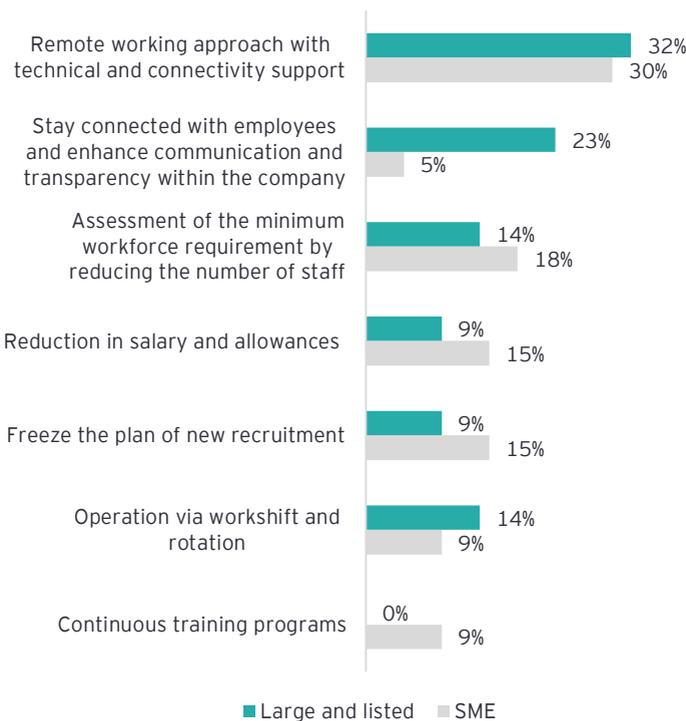
COVID-19 business impact: People

Top challenges: 32% of all large and listed companies have faced downtime in their daily operations, while 31% of SMEs have experienced delays in completing tasks and projects.

Actions being taken: Close to a third of all companies are enhancing their remote working approaches with technical and connectivity support. Large and listed companies are also placing heavy emphasis on staying connected with employees.

Intervention needed: 38% of SMEs have prioritized applications for wage subsidies, while large and listed companies have placed equal importance on staff upskilling, wage subsidies and support with internet connectivity and working tools.

Common measures taken



Large and listed

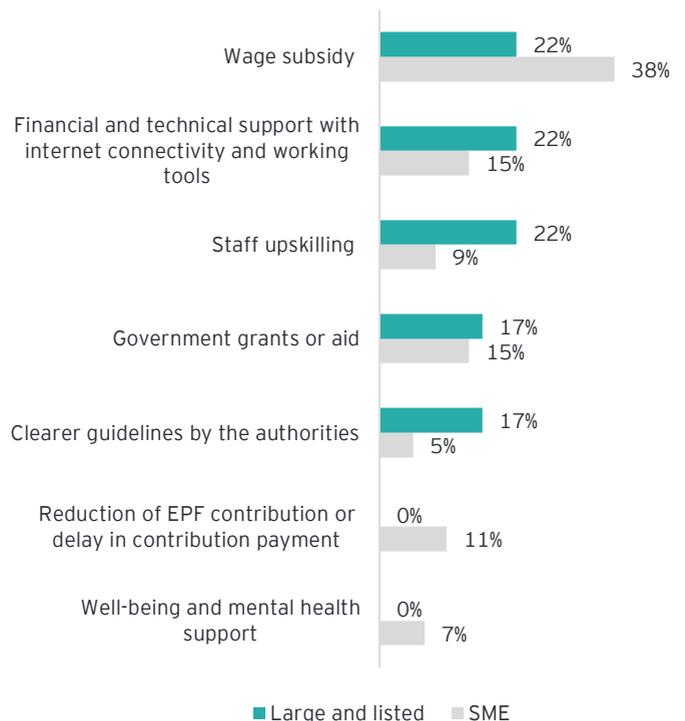
“Pay cut and reduction in employees’ allowances as well as other operating expenditure”

“Right-sizing of workforce, deferment of new recruits”

SME

“No new employment, rearrange the workforce to full utilization and certain workforce to convert to contract basis”

Assistance required



Large and listed

“Immediate engagement with stakeholders and guidelines by the regulators on how to redeploy unemployed or retrenched workers to sectors that require them”

“More incentives from a human resources aspect from the Government (e.g. direct incentives to the workers) to cover all range of workers”

SME

“Wage subsidy to be extended”

“Allow delay of payments for EPF and SOCSO contributions.”

Stepping-up

➤➤ Now, Next and Beyond

Financial

Large and listed

- ▶ Restoring financial strength and liquidity will be essential first steps, after which companies will reconsider investment and development priorities, including digital transformations.

SME

- ▶ Restoring customer cashflow, managing delayed receivables and upgrading systems will add financial burdens in the short run.

Customer

Large and listed

- ▶ Large companies are also seeking a rapid transition to the new normal, which will include significant investments in “contactless” digital infrastructure.

SME

- ▶ Aim for a rapid move to the new normal, while adapting to new customer preferences and expectations in terms of connectivity and digital transformation

Technology

Large and listed

- ▶ While most large companies have IT support staff, coping with changes in communication processes and new digital system designs and implementation will be key.

SME

- ▶ Need for better digital connectivity with staff, including implementation of communication and co-working tools; training can help rapid adoption.

Supply chain

Large and listed

- ▶ Businesses will require improved connectivity and greater capabilities in managing more complex and diverse supply chains.

SME

- ▶ Renewing supply of parts and materials is the first priority - digital systems may help to manage more complex inventory management.



COVID-19: Solutions

People

Large and listed

- ▶ Adjusting capacity to meet new demand will be a priority, along with maximizing productivity and transitioning staff to new ways of working

SME

- ▶ Main task is to restore project timelines amid new work arrangements and processes designed to manage employee and customer safety.

EY contacts



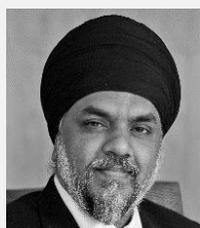
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