

**Deloitte.**

MAY 2020

# COVID-19: Effects on the Business Environment and Supply Chains

With a perspective of how SMEs and family businesses can respond, recover and thrive in the post-pandemic environment





# Today's agenda

**1 Making sense of the future**  
How sectors respond to the new normal?

**2 Moving forward**  
How SMEs and family businesses confront the new normal?

**3 Tomorrow's checklist**  
What to do next?

As the global and domestic consumption shrinks and the supply chain network is disrupted, SMEs and family businesses will need to focus on business continuity, supported by immediate actions on liquidity & finance, governance & risk, digital customer and supply chain, with a mindset of future growth.

---

# Making sense of the future

How sectors respond to the new normal?



# Turkey, entering Covid-19

In the pre-pandemic normal, Turkey was expected to slightly recover from the economic recession and currency fluctuations of 2018 and 2019. The public policy was in favor of lower interest rates and increasing domestic demand, supported by greater availability of credit from public banks.

## 2019 Country Snapshot<sup>1</sup>



<sup>2</sup>Ease of doing business rank is annually published by the World Bank Group, covering all the countries

<sup>3</sup>Based on Deloitte's Report: Recovering From Covid-19 - Economic Cases For Resilient Leaders

<sup>4</sup>Based on Deloitte Turkey's Report: Covid-19 salgınının elektrik talebine olan etkisi ile Türkiye 2020 büyüme beklentilerinin incelenmesi

## Deloitte's *harsh* economic case<sup>3</sup>

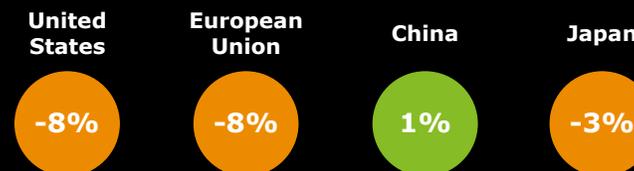
What if the pandemic lasts longer than we've ready for, with waves of infection lasting through summer, maybe into fall?

## Global economy<sup>3</sup>

**Economic recovery begins late 2021. Recovery slow in early 2022 and speeds up by second half of 2022.**

- Global recovery starts in second half of 2021
- Global GDP reduces by 3.0% in 2021
- Fiscal stimulus limits business failures, but does not boost spending

## Real GDP growth in 2020<sup>3</sup>



## What does it mean for Turkey?<sup>4</sup>

Based on Deloitte Turkey's 2020 GDP estimates:



# Industrial outlook during Covid-19

COVID-19 undoubtedly affected and will continue to affect many industries in various ways. Most destructive phase started in January and ended in the midst of April and a new phase has started. Expectations towards this phase denotes its impact will be lower on industries compared to first phase.

## Most affected sectors in the short term



### Petroleum, Gas

Oil **prices** in the past period **dropped** significantly. The petroleum industry is negatively affected, as **income loss**, by individual and industrial consumption decrease.



### Energy

Total **demand** of energy **decreased**. Decline of LNG and CO2 prices and decreased demand caused electricity **prices** in wholesale markets to **regress**.



### Transportation

Global quarantine causes **serious damage** in the transportation sector. Airline companies' passenger **revenue per kilometer** has **declined** since December.



### Automotive

A **decrease in automotive sales** was observed due to the measures taken to prevent the pandemic. Automotive industry has experienced **loss on stock value**.



### Accommodation

Accommodation which has an important share in employment ratios also has **affected negatively** due to the governmental restraints and hesitant nature of the guests due to health concerns.



### Construction

In the current situation, due to the **decrease in the demand for real estate** in the construction sector, companies are experiencing liquidity shortage.



### Retail

Covid-19 precautions, as store closings affected the **retail sector negatively**. Especially companies that sell products mainly in huge stores, shopping centers and unable to sell products on online.



### Electronic

From the beginning of the outbreak until March 10, the global electronic market value **decreased** more than **10%** and this causes liquidity problems for unprepared companies.

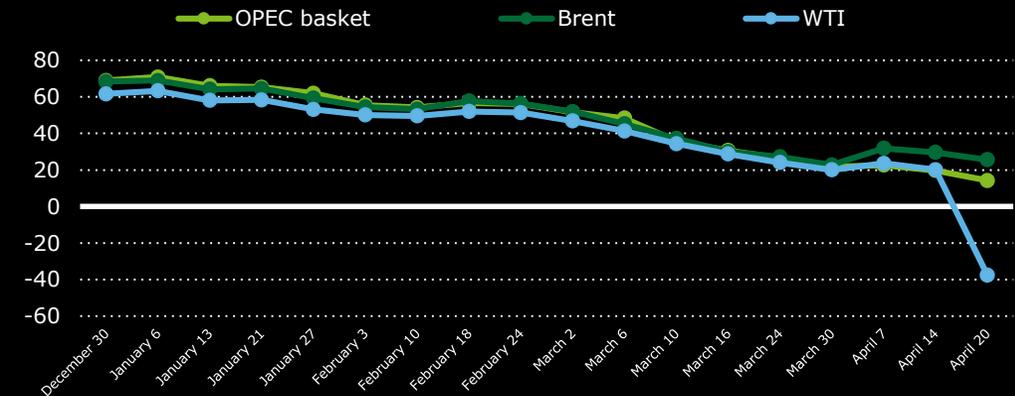


Recent data on industrial activity shows that Covid-19 had **disruptive effects** on production and shipping.

## Industrial Production (Value-added, annual % change)

	2018	2019	2020 (Forecast)
Eurozone	1.9	-0.4	-2.8
Developed Countries	2.3	0.3	-2.5
Emerging Markets	4.2	3.0	-1.0

## Weekly Brent, OPEC basket, and WTI crude oil prices (\$ per barrel)



## Merchandise Trade Volume (annual % change)

	Historical		Optimistic scenario		Pessimistic scenario	
	2018	2019	2020	2021	2020	2021
Volume of Merchandise Trade	2.9	-0.1	-12.9	21.3	-31.9	24.0

## Dow Jones Global Shipping Index (% difference from pre-coronavirus outbreak)



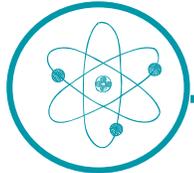
# What is the secret of companies that are not negatively affected by Covid-19 Pandemic?

The crisis has created an opportunity for some industries, but some companies have been able to cope with this crisis even if they do not have the industrial opportunity. These companies have **4 critical common features**.



## Effective Cash Management

- Organizations that manage their cash effectively by **evaluating liquidity requirements** and **engage with financing partners** to ensure **lines of credit remain** available, shifting their focus from the income statement to the **balance sheet**, using **government-backed financial incentives** as much as possible, encouraging **employees** to take **available leave balances** to reduce liabilities on the balance, ensure business continuity.



## Early Digitalization Investments

- Companies invested on **digital transformation** earlier may use **online channels** to interact with their customers, have broader marketing reach considering their advanced control on digital channels and they will be able to sell their products and services on various online channels.



## Prepared for Supply Chain Risks

- These companies have put systems in place to provide **visibility across the extended supply network** to better understand their risks and drive specific actions based on their priorities, diversified their supply chains from a geographic perspective to **reduce the supply-side risks. They have multi-sourced key commodities** or strategic components to reduce their reliance on any one supplier.



## Flexible Organization

- Flexible organizations are best positioned for the outbreak, these companies that **cross-train their workforce, uses systems instead of manual operations, organizational layout that enables remote working and communicating** have been less affected by travel restrictions, product /service portfolio change and be able to continue their operations.

The background features a complex, dark grey geometric pattern of overlapping lines and shapes, resembling a crystalline or molecular structure. A vertical black bar is positioned on the left side. In the upper right, a silhouette of a person is captured in a running pose, moving towards the right. In the lower right, a silhouette of a person is shown falling or tumbling, with limbs outstretched. A thin, horizontal lime green line is located above the main title text.

# Moving forward

How SMEs and family businesses confront the new normal?

# Outbreaks can occur more often, how companies can be more resilient?

Outbreaks occurred in the World before Covid-19, and will continue to occur from now on. Companies must be resilient in order to be less affected by these crises. There are **4 categories** that companies should take an action to be more resilient.

## Liquidity & Finance

- For business continuity, organizations have to **conduct accurate financial models**.
- Also **cash flow management** should be made rigorously to be able to determine precautions for cash retrenchment and **economic scenarios** should be studied particularly.
- **Corporate cost management actions** should be planned consecutively, by focusing on **cost optimization**, re-negotiating fixed-costs, evaluating fixed and variable costs.
- Organizations should conduct **rolling forecast**.

## Governance & Risk

- Assembling **cross functional crisis response team** and **centralizing decision-making** is important to have organizational-wide understanding of risks and impacts before taking action.
- Technological enhancements and conditions suitable for a **remote and flexible working environment** should be satisfied with optimized and automatized business processes that eliminates manual work for business continuity.
- Information systems and cyber security risks increase at time of crisis. Organizations need to have **cyber security planning and response preparation**.

## Digital Customer

- Organizations should **strengthen their digital capabilities**. Digital capabilities need to be implemented across the entire organization in order to embed resilience. Digital presence of companies as **online stores** or **cooperation with e-commerce operators** will enable companies to keep business running and maintain customer engagement.
- In a time of crisis, it is very important to communicate with customers. Actions that has been taken will increase **customer loyalty and brand value**. **Open communication channels** should be established and customers should be informed about latest improvements.

## Supply Chain

- Companies should develop and implement **supply chain risk management** and **business continuity strategies**. Especially for strategic components, it is important to have alternative suppliers to **reduce reliance on one supplier**.
- Also investing in **digital trading solutions** will enable companies to avoid supply chain interruptions, resolve logistical problems faster.
- Organizations should focus on innovative **omni-channel retailing** and **improve online operations** and capabilities to improve risk resistance.

Most critical categories



# Short-term margin focus

To face imminent challenges, SMEs and family businesses should focus on immediate actions considering Liquidity & Finance, Governance & Risk, Digital Customer and Supply Chain that would have positive impact on both top-line and bottom-line performance.



- Focus on accounts payable and receivable to mitigate financial risk, as well as current and upcoming government stimulus packages
- Focus on overall governance and risk management to prevent any internal crisis that would negatively affect the action plan
- Focus on domestic digital sales, marketing and service channels to reach current and new customers that are profitable to serve
- Focus on end-to-end supply chain planning and improved visibility to be ready to answer sudden demand shifts and value chain disruptions

## TOP-LINE PERFORMANCE

*Sustaining constant revenue flow*

Align current business model and value proposition to prioritize major revenue generators and re-allocate investments to leverage short-term demand boosts

## BOTTOM-LINE PERFORMANCE

*Keeping profits above water*

Target pocket margin by understanding profitability of your portfolio, adjust your pricing strategy and cut out any complexities in the supply chain

# Liquidity & finance

Fluctuating demand and disrupted supply-chain cause organizations to experience challenging cash flow and working capital issues.

## Main disruptions



Widespread liquidity shortage



Delays in payment terms



Difficulties in cost control



Changing credit terms

## Key suggestions

Execute scenario planning to better understand how much cash will be needed and for how long to determine decisions to make today or defer



Negotiate more flexible financing terms with lenders



Implement cash conservation and recovery actions while evaluating working capital and liquidity requirements



Implement cash tax strategies / leverage government incentives



Rapidly optimize working capital and evaluate credit solutions



Focus on cost control to maintain business continuity



## GOVERNMENT SUPPORT TO SMEs

In order to reduce the effects of Covid-19 on SMEs, 3 different **financial support** options have been initiated for SMEs by the Ministry of Industry and Technology. They will give financial support up to **6 million TL (%70 repayment)** per enterprise for the local production of products such as disinfectant, protective clothing, protective glasses, masks and gloves through KOSGEB. Also **KOSGEB receivables are postponed** for 3 months and they give **4 additional months for KOSGEB projects.**



The other governmental support is about **receivables insurance**. Under the measures taken for Covid-19, **conditions of receivables insurance changed** as SME's revenue limit increased to 125 million TL from 25 million TL.



# Governance & risk

While fighting constant fires, companies should also make sure to pay necessary attention to the governance & risk management capabilities to make sure identifying any vulnerabilities that would prevent effective response and recovery.

## Main disruptions



Increased remote working



Constant emergency mode



Rapid legislation changes



Increased data breach

## Key suggestions

Itemize organizational vulnerabilities by impact and value for crisis and resilience planning



Review employment contracts for potential issues and gather documentation for potential negotiations



Focus on company-wide cyber security measures as remote working becomes the new normal



Understand impacts on contractual obligations (e.g. loss quantification, force majeure)



Develop action plans to counteract constant legislation changes made by the government to fight against the pandemic spread



Adopt «above-the-bar» regulatory and governance controls to prevent future legal conflicts



### CONFRONTING UNCERTAINTY

In uncertain times, executives of SMEs and family businesses are not spared the responsibility of critical decision-making. **The time-frame for making choices shortens, even as the contextual uncertainty makes decision-making much more challenging.** Embracing this «new normal» means confronting Covid-19 head-on and building it into your decision-making. Our perspectives on how to do so entail the following:

1. Consider uncertainty under different time horizons
2. Use uncertainties to envision multiple different futures as scenarios
3. Seek diverse perspectives from those outside your generation, industry and business.
4. Incorporate scenarios into decision-making and use them to assess viability of potential options
5. Distinguish implications such as required moves, no-regret moves, big bets, contingent moves etc.
6. Make choices and monitor as scenarios point toward which indicators need to be observed

# Digital customer

As physical channels are closed or not preferred by customers, SMEs and family businesses need to focus on digital channels, first to find and then reach and serve their customers.

## Main disruptions



Shrinking global trade value



Consumers staying home longer



Hesitated physical interactions



Closed physical sales channels

## Key suggestions

Focus on domestic customers as international trade routes are disrupted and trade barriers increase



Analyze customer segments with a cost to serve focus to understand which one of them are actually profitable



Leverage currently existing online sales channels such as marketplaces to find and acquire customers



Revisit pricing policies and customer contracts based on new demand shifts and company's current positioning



Improve remote sales and customer service capabilities to assist your customers afar



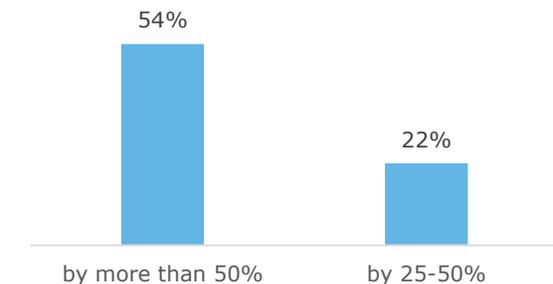
Re-allocate marketing budget to high-traffic digital channels and re-purpose nonessential sales & marketing expenses



## EXPECTED REVENUE DECREASE<sup>1</sup>

### «How did Covid-19 crisis impact sales/business volume of your enterprise?»

Based on survey results, 22% of participants experienced a decrease between 25-50% and 54% of participants experienced a decrease by more than 50%. **The impact is much more severe on small businesses that employ less than 50 people, as more than 60% of small businesses reported that their revenue is decreased by more than 50%.** Tourism, media, textile and automotive sectors experiences the most adverse impact.



# Supply chain

High demand fluctuations and disruptions in the global logistics network require even more agility in supply chain operations and visibility through the value chain.

## Main disruptions



Poor market and channel visibility



Disrupted logistics network



Fluctuating demand forecasts



Harder import raw material sourcing

## Key suggestions

Set-up a dynamic sales and operations planning processes (S&OP) to be prepared for demand shifts and requests



Secure logistics capacity, considering alternative routes and modes to and from impacted areas



Prioritize serving most loyal and important customers to keep SLAs high to ensure customer loyalty



Enhance dynamic inventory deployment capabilities and focus on demand management to control stock levels



Analyze profitability, demand trends and operational complexity of products at the most practical level



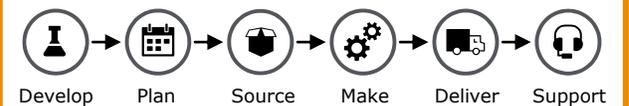
Enhance extended sales channel visibility through the value chain to better plan demand and inventory



## END-TO-END SUPPLY CHAIN VIEW

When performing an impact assessment in scenario planning, a firm should consider the end-to-end supply chain, starting from the product development to delivery and including the support and returns. **According to Deloitte Turkey's survey<sup>1</sup>, more than 73% of participants believe that they poorly performed in assessing Covid-19's potential impact on their end-to-end supply chain operation.** Moreover, impact assessment will continue to be a struggle as the continuing ambiguity in the demand will trigger **the bullwhip effect** which will augment the disruptive nature of supply chain shocks even more for middle players through the value chain.

Traditional supply chain flow



# Supply chain – UK highlights

Disrupting the global manufacturing markets (especially China), Covid-19 presents a significant opportunity for Turkish manufacturers to gain market share since weaker local currency makes its exports relatively less expensive for international buyers. In addition, Turkish Ministry of Foreign Trade<sup>1</sup> declared supporting exporters to UK Market as targeted period 2020 - 2021.

## Opportunities

- Economic benefits and cost of logistics
- Government incentives
- Investment opportunity to secure capacity

## Threats

- Transportation barriers at borders

## Deloitte Turkey's supply chain survey<sup>2</sup> insights

**Demand shifts and forecasting** will be one of the hardest issues to be resolved.

#secure\_sourcing #alternative #flexible

**Government incentives** are/should be benefited.

#eagertoinvest #production #eagertodevelop #Biotech #Pharma #HighTech #youngworkforce

Significant amount of imported raw materials can/will be **supplied/produced locally**.

#turkey #manufacturing #hub #capability

**Supply chain resolution** is essential as never before.

#sceneriobased #strategicsourcing #hugedelays #rerouting #customer\_interaction #borders

Trade dynamics are disrupted and eco system is **financially stressed**.

#cash\_flow #currency #continuity

**"Turkey is a strategic business partner for UK with increasing investment opportunities for sourcing and business continuity."**

#proximity #currency\_adv #incentives #dynamicworkforce #capabilities #borders

## FOREIGN TRADE: UK – Turkey (2019)<sup>1</sup>

**Total exports from Turkey : ~180B USD**

**Exports** from Turkey to UK : ~11B USD

**Top 10 exported goods:**

- |                    |                           |
|--------------------|---------------------------|
| 1. Vehicles        | 6. Textiles               |
| 2. Automobiles     | 7. Spare Parts (vehicles) |
| 3. Gold/Jewelry    | 8. Household Appliances   |
| 4. Cables/Wires    | 9. Iron and products      |
| 5. Electronic Equ. | 10. Food                  |

**Imports** from UK to Turkey : ~5B USD

**Top 10 imported goods:**

- |                  |                           |
|------------------|---------------------------|
| 1. Gold/Jewelry  | 6. Spare parts (vehicles) |
| 2. Motor Parts   | 7. Turbines / generators  |
| 3. Iron Products | 8. Motor Yacht & Boats    |
| 4. Automobiles   | 9. Organic Chemicals      |
| 5. Medicine      | 10. Alcoholic Beverage    |

**2008 -2015 total investments**

UK invested **10B USD** to Turkey (409M USD 2018)

Turkey invested **2.6B USD** to UK (323M USD 2018)



---

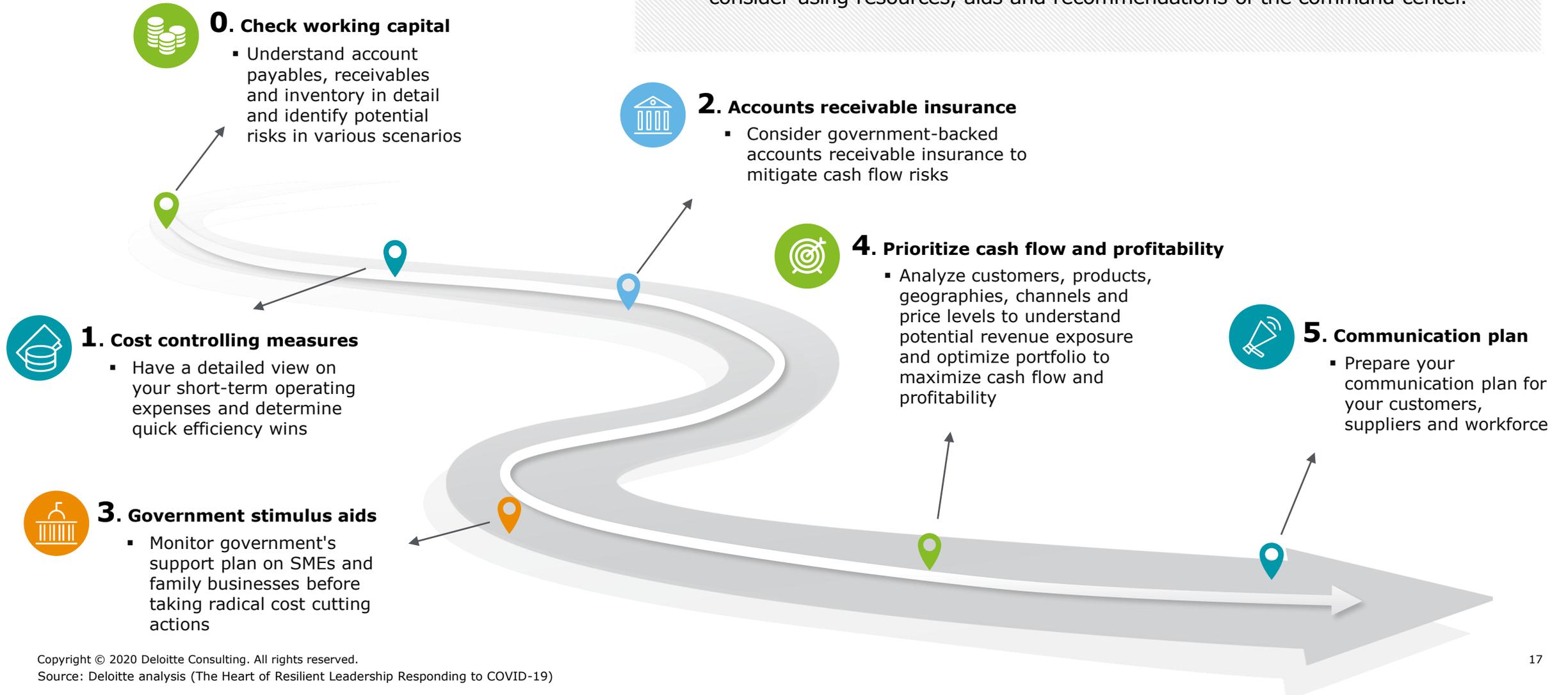
# Tomorrow's checklist

What to do next?

# Kick-off

## COVID-19 COMMAND CENTER

The command center represents your sector's business ecosystem, including thought leaders, NGOs, unions, the government and firms. For every action, consider using resources, aids and recommendations of the command center.



# Action plan

	<b>Respond</b>	<b>Recover</b>	<b>Thrive</b>
<b>Objective</b>	Prepare and manage continuity	Learn and emerge stronger	Prepare for the new normal
	<b>1-12 weeks</b>	<b>12-36 weeks</b>	<b>36+ weeks</b>
	  	  	  
	<b>Cost Control Activities</b>	<b>Identify Opportunities</b>	<b>Define New Normal's Strategy</b>
	<b>Focus on Working Capital</b>	<b>Prioritize Targets</b>	<b>Identify Capability Gaps</b>
	<b>Analyze Profitability</b>	<b>Develop Action Plans</b>	<b>Design Success Roadmap</b>
<b>Key Activities</b>	<ul style="list-style-type: none"> <li>Implement cash conservation and recovery actions as well as cost control measures</li> <li>Understand impacts on contractual obligations towards customers, suppliers and employees</li> <li>Analyze profitability of customers and products to prioritize</li> <li>Identify demand and supply side shocks and develop inventory strategies to buffer volatility</li> </ul>	<ul style="list-style-type: none"> <li>Ensure internal audit resources are re-allocated based on risk and initiate claims and dispute resolution</li> <li>Focus on profitable consumer segments by utilizing online marketplaces and develop remote sales/customer service capabilities</li> <li>Develop S&amp;OP mechanism and collaborate with customers and suppliers to synchronize operations to priorities within constraints</li> <li>Monitor and apply for new incentives and stimulus aids to protect assets and investments</li> </ul>	<ul style="list-style-type: none"> <li>Identify major shifts in demand and supply dynamics and re-focus your value proposition</li> <li>Determine major disruptions in the value chain and re-position your firm</li> <li>Consider investing in digital solutions to improve agility and resilience of the supply chain operation</li> <li>Re-imagine the operating model with an emphasis on agile workforce management to strengthen operational efficiency and agility</li> </ul>
<b>Immediate Decision Points</b>	<ul style="list-style-type: none"> <li>When should I apply for government stimulus aids?</li> <li>Do I need accounts receivable insurance?</li> <li>Should I cut any customer and product line?</li> </ul>	<ul style="list-style-type: none"> <li>Which online sales and marketing channels should I utilize to maximize ROI?</li> <li>Do I need low-cost debt refinancing and can I exit non-core, under-performing assets?</li> <li>Which digital capabilities and assets can help me to recover faster?</li> </ul>	<ul style="list-style-type: none"> <li>What I need to do differently in order to thrive in the post-pandemic normal?</li> <li>How will I generate value to my customers in the new normal?</li> <li>What capabilities, partnerships, segments, ecosystems and workforce strategies do I need?</li> </ul>
<b>Command Center</b>	<ul style="list-style-type: none"> <li>Support firms' cost control activities by presenting industry-specific quick wins</li> <li>Provide guidance on government debt refinancing and asset programmes</li> </ul>	<ul style="list-style-type: none"> <li>Monitor &amp; negotiate new stimulus packages to accelerate sector's recovery speed</li> <li>Provide access to global databases to improve scenario-planning efforts</li> </ul>	<ul style="list-style-type: none"> <li>Support firms to design their strategy roadmaps to grow in export and domestic markets</li> <li>Focus on e-commerce support and initiatives for physical-heavy sectors</li> </ul>



# Thank you

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms. Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges.

To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#). This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2020. For information, contact Deloitte Turkey, Member of Deloitte Touche Tohmatsu Limited.