
Sectors

Small to medium enterprises





Current position and challenges

SME businesses in New Zealand have borne the brunt of the economic challenges brought on by COVID-19. Not only do they dominate key sectors which have been hit the hardest - tourism, hospitality and retail - but SME businesses also play an important role in the economic supply chain that underpins prosperity in New Zealand. The “business bubble” of most SME owners includes the staff they employ, the suppliers they use, and the flow on to their families whose economic prosperity depends on all players in that chain surviving and adapting. This is a big responsibility and burden for SME owners.

The challenges faced by SME owners fall into four distinct phases:

- **Reaction:** the first four weeks, where shock and uncertainty reigned over decision-making, and the short-term focus was survival
- **Resilience:** happening now, where priorities are shifting to truly understanding the new economic dynamics and how to play in the new world. The focus is now on understanding customer behaviours and how to adapt, looking at the core finances and doing the basics right to manage cashflow, understanding a world that has suddenly become very digital, and acting boldly to redesign business strategy and processes
- **Recovery** – the next 6 to 12 months, where businesses will need to be executing strongly in the new environment. This may include reviewing the ‘old playbook’ to determine what worked well in the past and how to bring it back. Or, it may involve a complete reset, a new direction borne out of necessity
- **New Reality** – the next 12-24 months, where SME businesses will need to adapt to new markets, respond to future financial shocks, manage risks to ensure the long term sustainability of their business.



Recovery to new reality

As SME business owners start to think about the recovery and new reality, there is an opportunity for all to build the type of business they really want. We've been thinking about the key issues to address, and here's a quick summary to get you started.

A new view of your customers: what this crisis has taught many businesses is how important it is to have deep knowledge of what your customers want, how they buy, where they look. In this period of rapid change, a business owner who does not know the answer to these questions can quickly find themselves selling a good or service that no one wants to buy. Understanding consumer behaviour has become much harder as predicting demand is impacted by unprecedented economic constraints. The new reality is that there is a range of services that used to be popular that will no longer be popular going forward. So, businesses that adapt to this change and reach a new level of understanding of their customers will be much better placed to succeed.

Strong financial management: another new reality is that SME business owners that have good financial housekeeping will survive and prosper much easier than those that don't. This requires hands on financial management to ensure there is strong cashflow. Banks want to see business owners with a good understanding of business data to support their ongoing funding. Away from daily management, capital and debt structures will need to be reviewed as businesses emerge into the new reality. SME business owners will need to take a realistic view of their ability to run businesses with more debt on the balance sheet, or consider alternative sources of capital such as new investors or business partners.

Responding to new export market dynamics:

SME business owners that can grow the market for their products and services overseas have bigger and more profitable businesses. How do these businesses respond to border restrictions/closures, increased government protectionism, potentially faster recovery in Asia and the trend towards digital exports? Those SME businesses that get to grips with these issues early in the new reality phase will prosper.

Accelerated trend towards digital: many SME business owners have had to rapidly embrace digital under a lockdown environment. This rapid evolution was already under way before COVID-19, but it is clear that this will continue at pace to serve a changing market. This will require many businesses to unfreeze their current strategies, and realign and communicate their purpose to consumers.

Commitment to innovation: SME businesses that have the ability to innovate and redesign their business from time to time will prosper in the new reality. This will favour businesses that have a culture underpinned by a strong sense of the purpose, a high degree of trust in their teams, and thrive on challenging their status quo.

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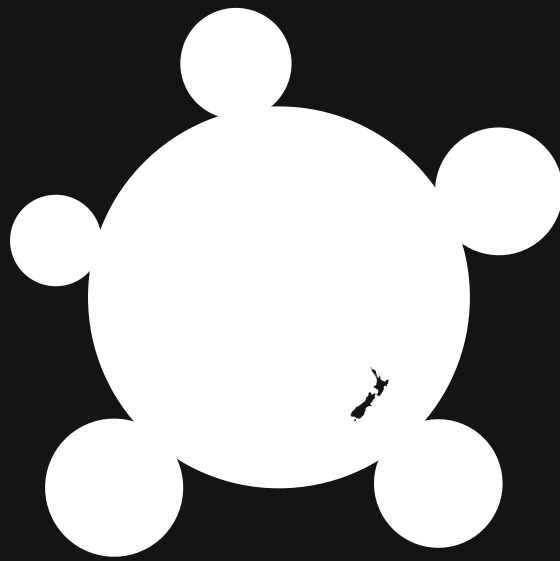
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