



Kuwait Business Leader Survey 2020-21

Perspectives from business leaders on impact of COVID-19 – A KPMG survey

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September 2020

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Kuwait Business Leader Survey 2020-21

In these current uncertain times, it is important to understand the views of the business community on the direction the economy is headed towards and accordingly identify their priorities.

Accordingly, KPMG reached out to business leaders at prominent organizations operating across various industries in Kuwait between April and June 2020 to gauge their perspective on:

- the outlook for Kuwait's macroeconomic scenario;
- the extent of the impact felt by organizations due to COVID-19; and
- the measures being adopted by organizations to minimize the impact in the immediate and medium term.

We extend our sincere thanks to the approximately **100 CEO, CFO and COOs and senior management personnel** who supported this exercise by sharing their views.

This document summarizes the key findings from the survey

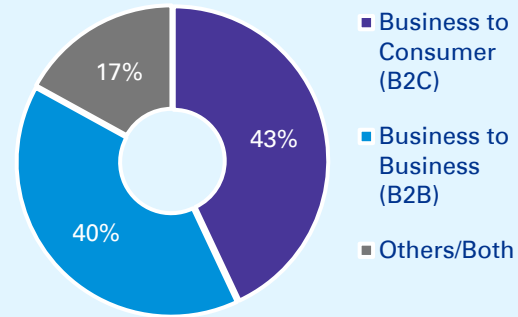


A balanced set of respondents provided comprehensive coverage

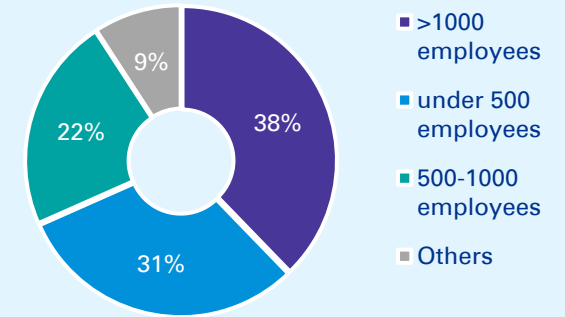
Industry coverage

- Agriculture, Forestry & Fisheries
- Automotive
- Business and Professional Services
- Capital Projects, Infrastructure, Engineering and Construction
- Conglomerate/Diversified Business Group
- Consumer Products, Retail and e-commerce
- Education
- Energy (including Oil and Gas)
- Financial Services (*Asset and Wealth Management, Banking and Capital Markets, Insurance*)
- Food and Beverages (incl. Cafes/Restaurants)
- Healthcare
- Hospitality and Leisure (incl. Tourism)
- Industrial Products and Manufacturing
- Information technology/ Technology
- Real Estate
- Telecommunications
- Transportation and Logistics (including airlines)

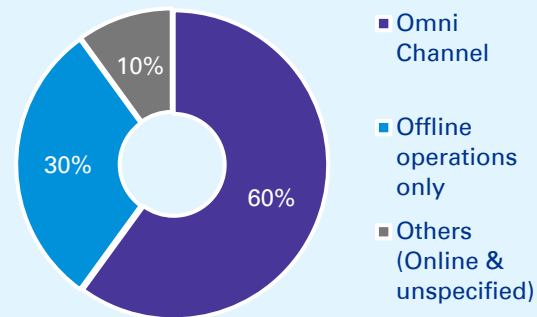
Nature of Business



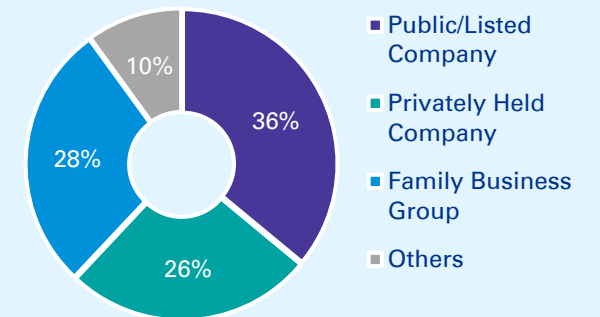
Size of the respondent businesses



Channels of operations



Ownership of respondent businesses



Key Findings

Impact on businesses



Almost two-thirds of businesses faced a decline in revenue since March, with supply chain disruptions and hampering of ability to service clients being the other key challenges

~ 60%

~ **60%** of respondents have admittedly experienced a disruption to their core product/service offerings, forcing a rethink of business and operating models

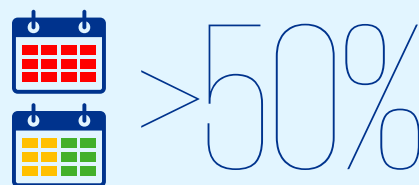
44%

44% of respondents foreseeing liquidity related challenges in 2020.

Outlook for Kuwait economy



70% of respondents expect a relatively **longer time impact on the economy due to oil revenue drop** than due to COVID-19



Economic recovery is not expected to be swift - **more than 50%** of respondents are **expecting more than 12-18 months for recovery**



Persistent economic slowdown and potential liquidity constraints are the key concerns for most respondents emerging out of the prevailing situation.



Ability of the government to continue with planned spending and investments is a key concern for sectors dependent on government spending.

Competing in the new normal



95% of respondents foresee a greater role for digital and smart businesses and tools. This signals a potential acceleration of digital adoption across businesses and inclusion of technology into operations



75% respondents expect businesses to become leaner to compete in a post COVID-19 world. This bodes well for outsourced services business across segments such as logistics, shared services etc.



More than 75% of respondents agree that revisiting strategy for future growth is a key priority for the medium term



Almost two-thirds of respondents are considering financial restructuring, exploring new means of financing and non-core divestments to improve medium term financial position

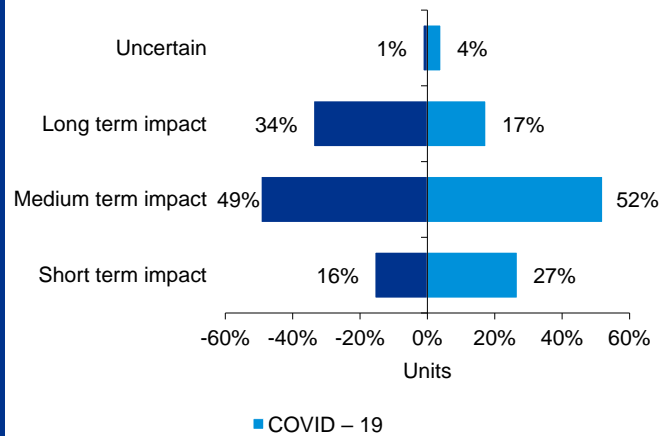
What do business
leaders in Kuwait
foresee?



01

Businesses in Kuwait expect the drop in oil revenues to have a relatively longer term impact on Kuwait economy vis-à-vis COVID-19

Impact on Kuwait economy due to COVID-19 and drop in oil revenues



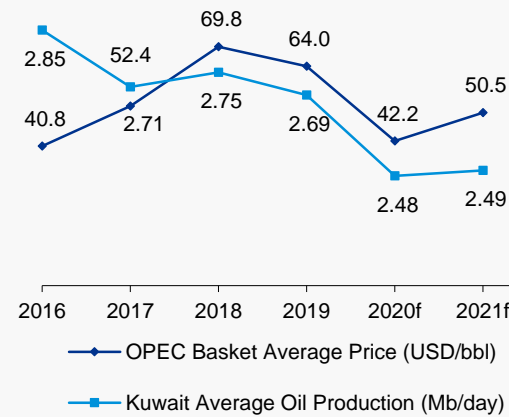
83%

of respondents expect a **short to medium term** negative impact on economy due to COVID-19

69%

of respondents expect a **medium to long term** impact due to decline in oil prices and demand

Kuwait's oil revenues are expected to be affected in 2020 and 2021 due to production cuts and drop in OPEC basket price driven by weak demand

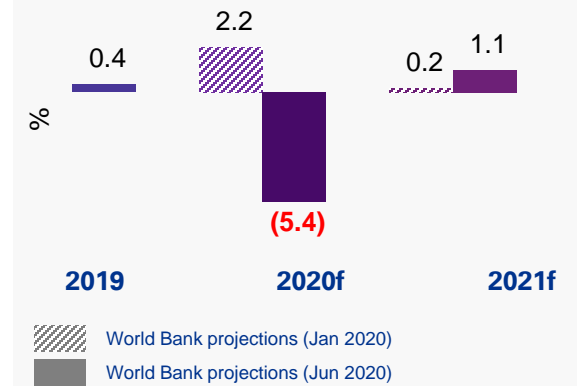


Oil production and price for Kuwait

- Kuwait budget, projected at OPEC basket price of USD 55/bbl for 2020, is expected to face deficit pressures due to drop in oil revenues in 2020.
- This can challenge Kuwait government's ability to spend on planned projects and also inhibit ability to take aggressive measures to prop up the economy.

Source: OPEC, U.S. EIA and KPMG analysis

Kuwait's oil-dependent economy is projected to see a decline of 5.4% in real GDP in 2020



Kuwait Real GDP Growth

- While the World bank's outlook for 2021 is positive in view of expected stabilization of oil prices and lower oil production cuts, economic growth is projected to be low.
- As per the survey, businesses in Kuwait seem to be expecting the negative impact on economic situation to continue in 2021.

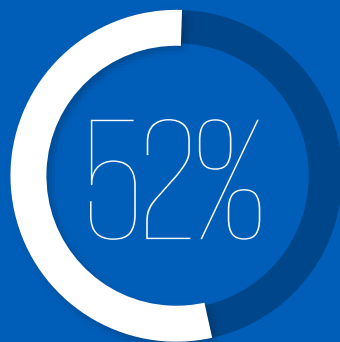
Source: World Bank, KPMG analysis

02

Persistent economic slowdown and the inevitable liquidity constraints that follow are the key concerns of the businesses in Kuwait

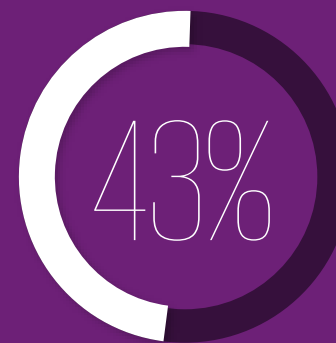
Key concerns

Persistent economic slowdown



While consensus from economists seems to be that of an economic recovery in 2021, the respondents take a dimmer outlook and expect the economic slowdown to last longer

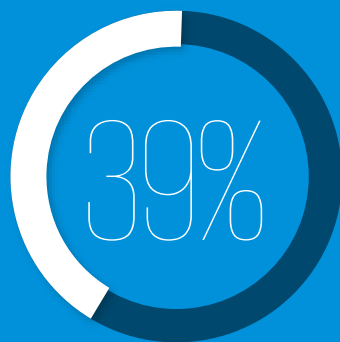
Liquidity and cash flow constraint



On account of revenue losses, businesses have been grappling with limited room to control operating costs, and have been dipping into cash reserves and bank facilities.

This can become an even more pressing challenge once banks tighten liquidity by calling on loan repayments.

Government spending and investment



With higher budget deficit expected in the face of COVID-19 and low oil revenues, there are concerns around ability of the government to continue with erstwhile planned spending and investments

Uncertain business environment

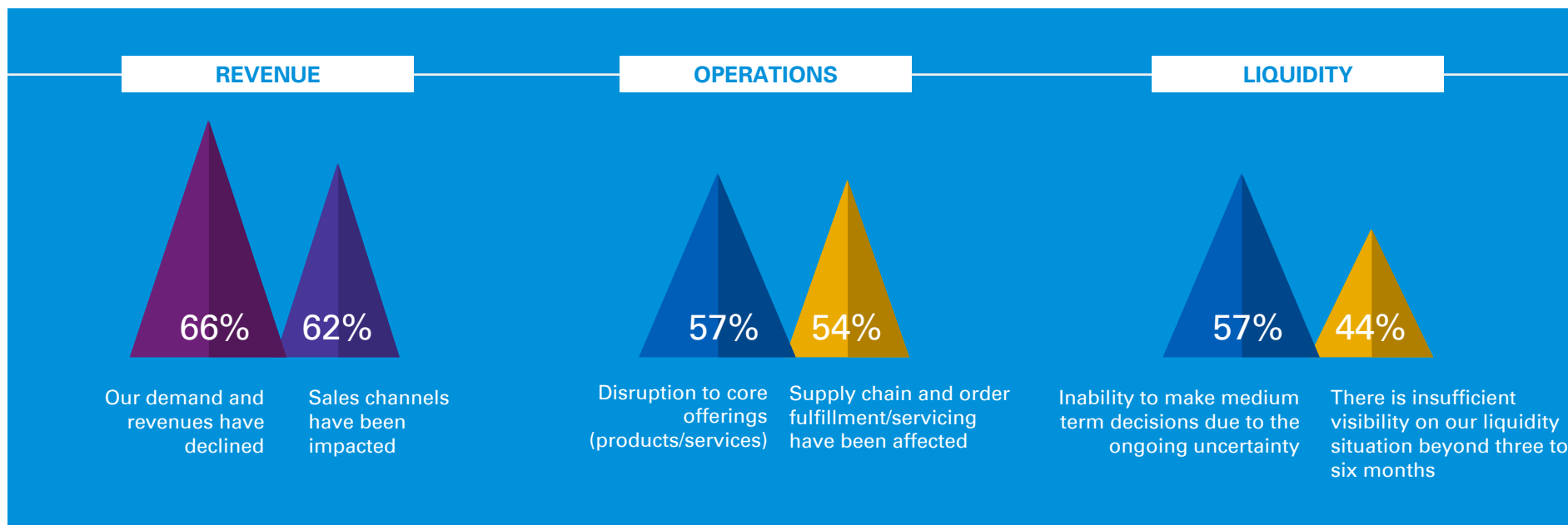


Businesses are finding it challenging to take decisions until there is more certainty around how the pandemic and economic scenario will emerge

03

Decline in demand and revenue and highly uncertain climate for decision making have been cited as the major impacts of COVID-19 on businesses

Elements of business and operating model that have been affected by COVID-19



- COVID-19 has adversely impacted revenues across all sectors. Drop in demand (economic activity), channel and supply chain disruptions and liquidity constraints are the key drivers for the decline.
- Agile businesses managed to identify the need for embracing digital channels and quickly launched an e-commerce channel to reach customers to minimize impact on revenues, where possible.
- Ability to honor fixed costs in the face of declining revenues has created liquidity challenges for the businesses. Uncertainty around the business climate created challenges for businesses to explore financing options.

How did
organizations in
Kuwait react to
COVID-19?

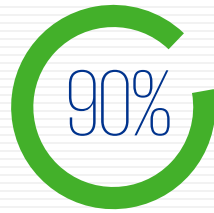


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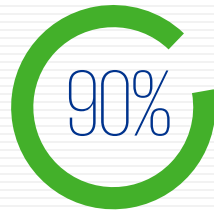
Immediate measures organizations have identified include ensuring business continuity and managing liquidity

**% of respondents who undertook or are currently undertaking these measures*

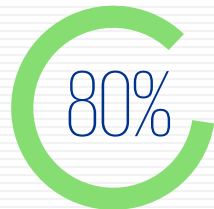
Ensuring business continuity*



Adopting remote/work from home solutions for employees

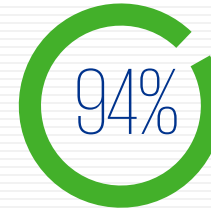


Prepared a Business Continuity Plan

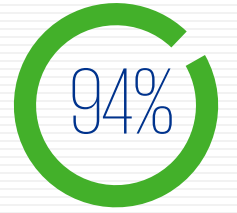


Changed the way customers are serviced

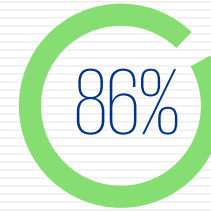
Managing liquidity*



Prepared a cash management plan covering any funding requirements



Cash flows management measures such as re-prioritizing capital expenditure and reviewing operating expenses.



Cash preservation and generation initiatives



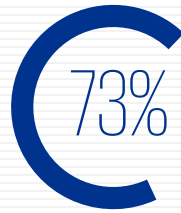
Financing/refinancing and restructuring long term loans

02

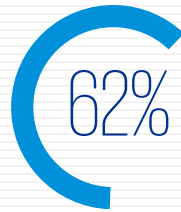
..reorganizing human resource strategy and assessing impact of COVID-19 on the business.

% of respondents who undertook or are currently undertaking these measures

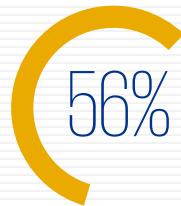
Managing human resources*



Identifying critical positions and key people that will need to be retained

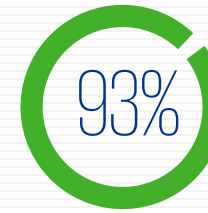


Headcount rationalization

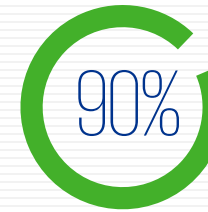


Making adjustments to compensation

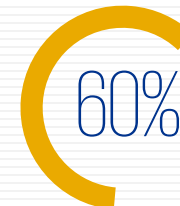
Business impact assessment*



Re-forecasted the business plan



Analyzed the impact of the changes in the market on the business



Monitoring and analyzing changes in the customer segments and behaviors

Preparing for a post COVID-19 future



Expected characteristics of the "New Normal"

Most businesses expect a larger role for digital technologies in the so called 'New Normal'

95%



Larger role of digital and smart businesses:

Respondents foresee **'digital' as a way of business** and believe **leveraging data for 'smarter' decision making** would be key to emerge stronger in a post COVID-19 world.

This trend will have implications for the organizations in terms of their business and operating models and investments into infrastructure, people, systems and processes to integrate digital technologies into business activities.

75%



Greater adoption of remote working:

This trend will have implications for organizations in terms of preparing their people (mindsets and skills), systems and processes to enable and adopt remote working.

A greater adoption of remote working can have a negative impact on demand for office space.

71%



Leaner organizations:

Organizations are increasingly focusing on **reducing fixed costs on non-core activities** and mundane and/or low value adding tasks.

Focus on automation and outsourcing may increase. Technologies like Robotic Process Automation may grow in prominence.

39%



Tightened government spending:

With revenues of the governments affected in a COVID-19 scenario and low oil revenues (esp. in Kuwait's context), the government spending may be tightened.

This could also have positive implications such as a greater role for private sector in infrastructure development and potentially in select segments of service delivery, if supported by the government by creating an enabling environment

Other characteristics explored include: more value conscious customers (32%), greater focus on risk management (32%), and focus on domestic/regional rather than global supply chains (25%).

01

More than 2/3rd of the respondents believe that revisiting business strategy is an important medium term measure post COVID-19

Importance of below activities for respondents once the COVID-19 situation stabilizes

Reassessing the overall strategy



70%

Gaining visibility on growth avenues



77%

Undertaking a performance improvement program



70%

% of respondents who ranked the stated activities as important

- **COVID19 has disrupted markets extensively.** Legacy business and operating models have been challenged.
- New business segments, consumer segments and channels have grown in prominence. Organizations had to identify **new ways of doing business** to operate during COVID-19 related lockdowns.
- In light of this, organizations seemed to have realized the importance of **revisiting their core business strategy to ensure they are on the right path and geared for the new normal.**
- Post such a large disruption, businesses also see the need to **identify the avenues for growth in the new normal.** Accordingly, over more than **70%** of respondents believe reassessing strategy is important.
- Organizations with dry powder are expected to **foray into emerging segments** such as e-commerce, fintech, edutech, digital media etc. through organic or inorganic routes
- **There is increased potential for consolidation with** stressed assets up for acquisition as larger players tighten their grip on the sectors.
- Similarly majority of respondents also see a **need to undertake a performance improvement program (PIP) to become leaner and more efficient organizations.**
- Business groups are focusing on **reorganization of their portfolio of businesses/brands/outlets** etc. post the disruption esp. in light of emergence of digital channels.
- Initiatives such as **outsourcing non-core activities** to reduce fixed costs, automation etc. may emerge out of such PIPs.

02

There is a strong consensus among businesses that integrating technology into operations would be essential going forward

Importance of below activities for respondents once the COVID-19 situation stabilizes

Transforming operating model



Developing scenarios to prepare for such disruptions in the future



Integrating technology tools into the business model and operations



% of respondents who ranked the stated activities as important

- **New distribution channels emerged:** Majority of the businesses across sectors adopted remote working and many B2C businesses launched e-commerce channels on a war footing basis through patchwork solutions to reach customers.
- Similarly **businesses were quick to rework operating models** to optimize costs or increase reach. E.g. F&B businesses started adopting cloud kitchen models, while grocery players started adopting dark store models.
- COVID19 has **accelerated adoption of digital technologies** and tools rapidly as businesses grappled to continue operating during lockdowns.
- Accordingly, most respondents seem to have recognized that **digital is no longer an option and believe integrating technology tools into the business model and operations** would be an essential activity for the businesses going forward. Digital transformation, and process automation could grow in prominence in the near future.
- Adopting technology could also help make necessary transformation to the legacy operating models to serve the market needs.
- **Preparing for future pandemics:** There seems to be a consensus among the respondents that developing scenarios would be necessary to prepare for such disruptions in future and thereby minimize the disruption.

03

Financial restructuring, exploring new means of financing and non-core divestments are options under consideration by businesses in Kuwait to improve medium term financial position

Importance of below activities for respondents once the COVID-19 situation stabilizes

Developing a financial restructuring plan



Exploring new means of financing



Divesting non-core businesses to improve efficiency and liquidity



% of respondents who ranked the stated activities as important

- **The financial position of the businesses** has been gravely impacted during the COVID-19 related lockdowns.
- **Businesses continued to meet their operating cost obligations** despite low revenues. In light of the weak liquidity situation, the ability of the businesses to repay existing loans is challenged.
- **Accordingly, 60% of the respondents, believe undertaking some form of financial restructuring** may be necessary.
- **Similarly, 58%** of the respondents are believe exploring **new means of financing** such as Bonds, commercial paper, sale and lease back etc. may be necessary to address funding requirements.
- **Undertaking transactions for liquidity** (hive-offs, merger, de-merger, divestments etc.) is also an option, that businesses in Kuwait seem open to create further efficiencies in the business and generate liquidity.

KPMG can help address your business challenges



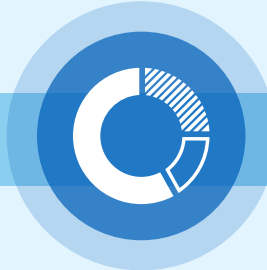
Strategy Review and Update



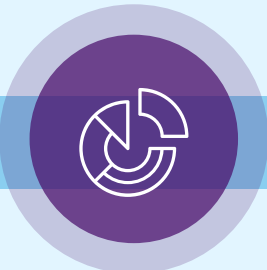
Growth Strategy



Digital Strategy and Transformation



Operating Model Review



Performance Improvement



Cash Management and Working Capital Management



Stress Testing of Financials and Scenario planning



Operational and Financial Restructuring

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