

Five Risk Trends Affecting SMMEs

Clayton Ellary, Aon South Africa's Commercial Risk Solutions Division

The world certainly looks very different a year later, and nowhere is it more apparent than in the Small, Medium and Micro Enterprises (SMME) space.

The sector has faced more than its fair share of obstacles during the COVID-19 pandemic amidst a contracting economy and lockdown measures that reduced income streams to a trickle.

The SMME sector is critical to South Africa's economic growth, [employing around 80% of the African continent's workforce](#). It is also the sector that has been hardest hit by the pandemic and the subsequent lockdowns, making it crucial for SMMEs to identify the trends impacting their businesses and finding ways to leverage new opportunities. [Aon South Africa](#), risk advisors and insurance brokers, delves into the top five trends affecting the SMME sector:

1. CHANGING CONSUMER BUYER BEHAVIOUR

The key factor in demographics is not just how the world's population will grow, but how consumer buyer behaviour is changing amidst an upended world. Failure to innovate and meet customer needs was one of the top ten risks, rated at number nine in Aon's [2019 Global Risk Management survey](#). The pandemic shifted the importance of this risk into top gear. Many companies had to scramble to reimagine their product delivery and consumer purchasing journey in a pronounced shift into a digital world that is likely to remain long after COVID-19

has abated. In fact, 86% of respondents in a [PWC Global Consumer Insights Survey 2020](#), said they are likely to continue to shop online when social distancing measures are removed. Innovation is a necessity, not an option. It also means that disruptive technologies, such as artificial intelligence, blockchain or the Internet of Things may be the key to transforming the current playing field. Start-up companies tend to be more agile in their efforts to meet the changing needs of consumers. The fine line between success and failure is defined by an organisation's ability to reinvent itself in an ever-changing market where disruption is fast becoming the norm.

2. TECHNOLOGICAL RELIANCE

As companies become more reliant on technology, technological developments and increases in data and analytical power create unlimited opportunities for business; But also [bring risks around cyber security and data privacy](#). Cyberattacks on South African organisations show no signs of abating. Whether a large or small business, a cyber breach has the potential to inflict enormous reputational damage, cause major interruption to normal business operations and income potential, and can also have legal ramifications if personal and financial information is compromised in context of the Consumer Protection Act (CPA), the Electronic Communications and Transactions Act (ECT) and the Protection of Personal Information Act (POPI). South Africa will continue to see large-scale ransomware attacks that target administration credentials to gain access to and infect, wider networks – often targeting SMMEs and



contractors to gain access to larger client corporations. With the expected increase in ransomware attacks designed to spread through a network, organisations of all sizes and industry sectors need to take steps to protect their networks and ensure that their risk management and insurance programmes are fit for purpose to protect them in a worst-case scenario.

3. THE RISE OF INTELLECTUAL PROPERTY

A misalignment on the value of data, information and intangible assets, such as IP of a business could have dire consequences. We currently find ourselves in a business environment where a huge shift is taking place from tangible to intangible assets, making it crucial for companies to identify what its value-producing assets are and to re-evaluate its risk and liability in this space.

4. THE RESILIENT WORKFORCE

In a world of work that has been largely affected by the COVID-19 crisis, ensuring that your people strategy enables employees to adapt to change, maintain motivation and face adversity now and in the future is imperative to business success. Wellbeing is critical, the difference between a business surviving and thriving, especially to SMMEs where the skillsets of its people are so intrinsically linked to the success of the business.

According to Aon's [Rising Resilient report](#), businesses will need to recognise the impact the pandemic has had on their employees' physical, emotional and financial wellbeing. For employers that get wellbeing right, the effort can help their teams perform more effectively and productively, and foster resilience — bringing adaptability to change, sense of belonging and ability to reach one's full potential. Recognising the pandemic's various

impacts on employees and helping address them should be part of any overall strategy for guiding an SMME through, and beyond the crisis.

5. LIQUIDITY

The COVID-19 pandemic has been a major catalyst to a host of serious business challenges that led to greater levels of insecurity and business failures. SMMEs face greater risks, possibly even closure, if a major debtor defaults as their balance sheets are often not strong enough to pull them through a major and extended financial crisis. The question that trade credit insurance answers is whether you are dealing with a potential bad debtor, which is crucial in a financially strained environment. SMME's would be foolhardy not to have payment protection in place, given the tough trading conditions we find ourselves in at present.

The key premise of credit insurance is to protect your debtor's book, and in turn ensure that cash flow remains in the case of a bad debt. It also allows management to get a deeper understanding of their debtors' book due to the extensive credit vetting done by the insurer.

UNDERSTANDING THE TRENDS TO MAKE THE RIGHT DECISIONS

The trends that will reshape the world — and business — should inform the decisions SMEs are making today about their future. It is a task best undertaken with the assistance of an expert broker by your side.

A comprehensive risk assessment will establish how prominently new trends feature in your business, so that you can make informed decisions that will guide your business strategy beyond the pandemic.