

Survey: Lockdown and COVID-19 restrictions lead to revenue and profit cuts in 2022

Shanghai, April 11, 2022

In the past few weeks, along with the spread of the Omicron variant, many cities across China have implemented partial lockdowns to conduct mass testing. Starting from March 25, Shanghai kicked off 2-phased lockdown right after the partial lockdown in an earlier stage. To assess the impact for Swiss companies in the region of the Yangtze river delta, SwissCham Shanghai, in cooperation with the Consulate General of Switzerland in Shanghai, launched a survey.

According to this flash survey, the lockdown in Shanghai and additional COVID-19 restrictions in neighboring regions have a big impact on Swiss companies.

The key takeaways from the survey are:

94% of surveyed companies expect lower revenue and 86% believe their yearly profit target will be impacted. The lockdown and further restrictions affect the companies in several ways.

- Over 93% say their general operation of the firm is impacted
- 64% say they have problems with importing goods / parts / machines
- 48% indicate that their manufacturing processes are affected and 35% encounter difficulties exporting goods / parts and machines

Additional and more specific challenges are:

- Sales staff can't visit clients (72%)
- Employees can't enter the company (67%)
- Logistics issues prevent the shipping of products to clients (65%)
- Costs have increased in the last weeks (56%)
- Production inputs cannot be obtained, which leads to the disruption of the manufacturing process (39%)
- A negative demand shock (38%)

The majority of the companies believe that they can return to normalcy by June (61%), while 20% believe this will be the case in the third quarter of this year. 17% think normal business will only be possible again in 2023.

To offset lower revenue and profits, companies say they will likely cut marketing and administration costs (58%) and try to expand their customer base (46%). 23% plan to adjust their headcount in China while 15% say they will ask the Swiss headquarter for financial support.

Quite surprisingly, over half of the companies (53%) say that the first quarter of 2022 was either better or about the same as the same period in 2021. About 20% say the first quarter is slightly worse and 26% note that the first three months have been much worse than in 2021.

When asked what kind of support from the government would be most helpful, 75% of the respondents mention subsidies for the social insurance payments of the employees, and reduction in tax rates. Other supporting measures that are desirable include: less red tape (38%), more market access (35%) and rental subsidies.

When it comes to communicating the implications of the lockdown and COVID-19 measures to the headquarter in Switzerland, 57% of the surveyed companies say that there is a need to provide more information to the HQ on a regular basis. 31% say that the HQ understands the situation and shows the necessary support, while 22% have the feeling that there is not enough understanding and support for the situation in China.

Impact on B2B companies

1. Production

According to the survey and further information from Swiss companies, which localized their production in the region, the impact on production disruption is still manageable. In March, most of the production was operated in a “closed loop” environment, as the staff agreed to stay and live on site for a period of time. On the other hand, this resulted in additional staff expenses such as fixed compensations, which in turn resulted in higher production costs.

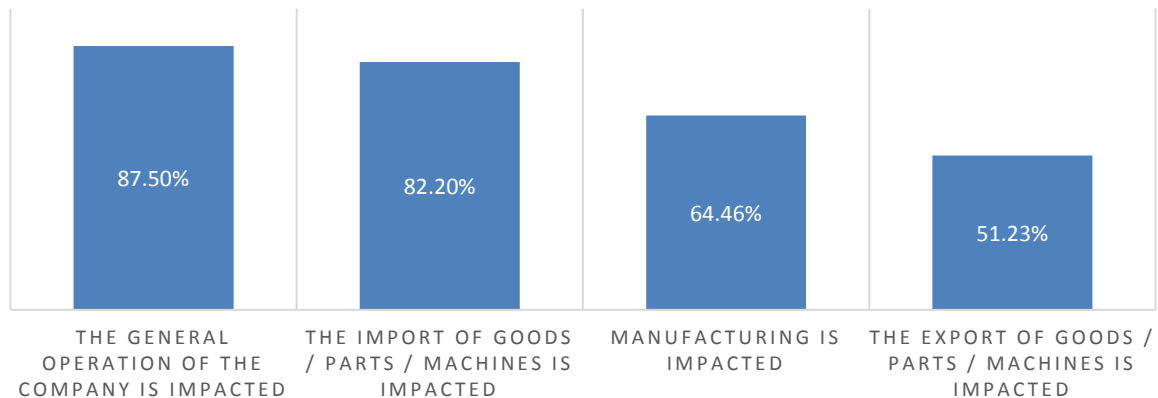
Swiss companies producing in Jiangsu province prepared contingency measures in an early stage for possible new waves of a COVID-19 outbreak, which include set up additional logistics centers near customers, increase of the inventory and stock level on direct and indirect materials, and running production during the Chinese New Year holidays for extra capacity.

Companies located in Zhejiang province have been informed about the lockdown with a very short notice. The time for management to carry out backup plans seems extremely challenging or even too short.

Several Swiss companies in Shanghai had to stop their local production on April 1, even if they run in a “closed loop” environment.

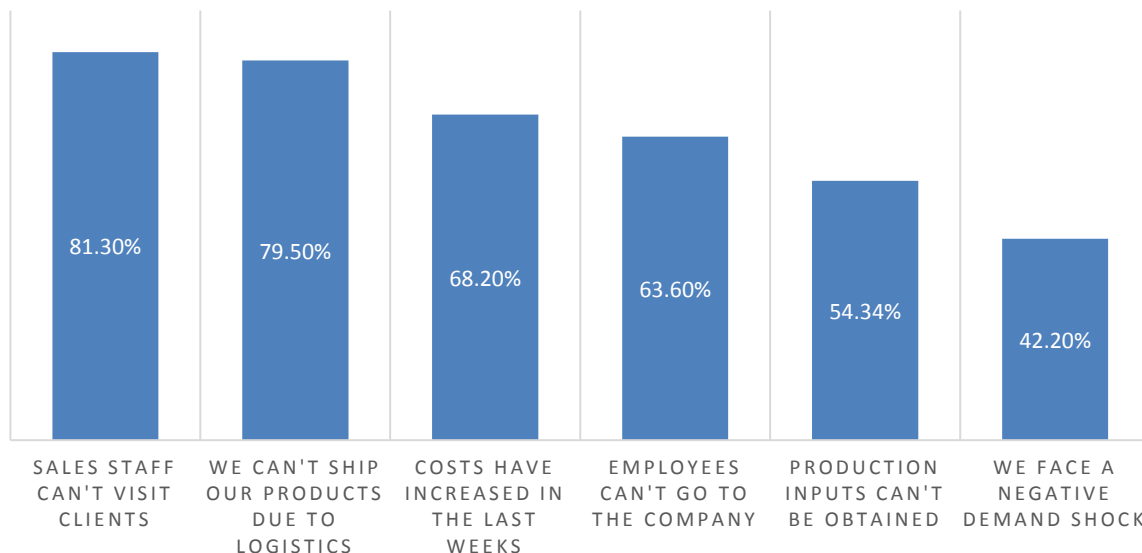
Major challenges for many companies are the international supply chain and the local logistics framework. Many of the direct and / or indirect materials (e.g., spare parts, chips) are still sourced from abroad. As a result, the suspended customs clearing pose a major issue for the localized supply chain.

HOW DOES THE LOCKDOWN / COVID-19 MEASURES IMPACT B2B COMPANIES?



According to the survey, close to 90% of Swiss B2B companies say that the general operation has been influenced. The import of goods, parts and machines is another major problem.

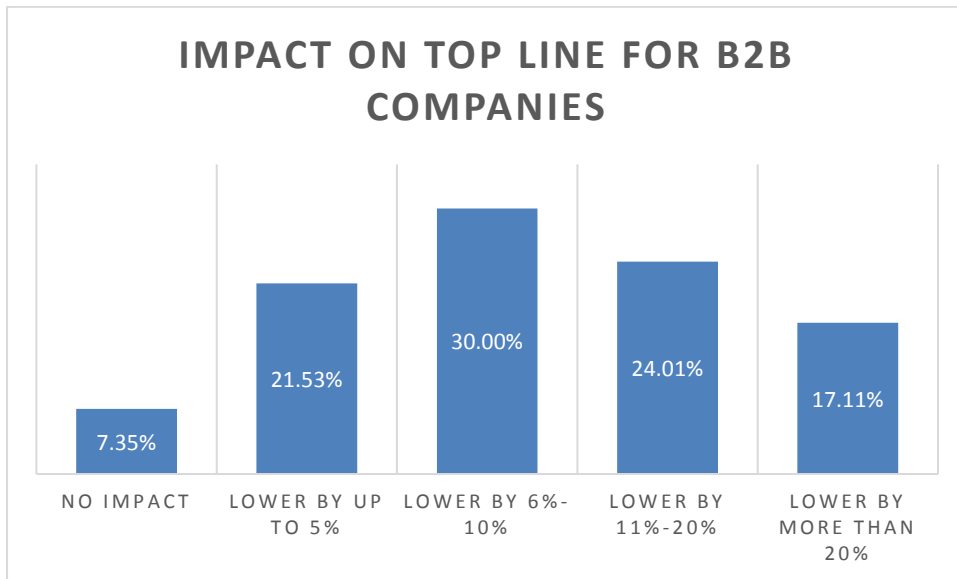
CHALLENGES FOR B2B COMPANIES



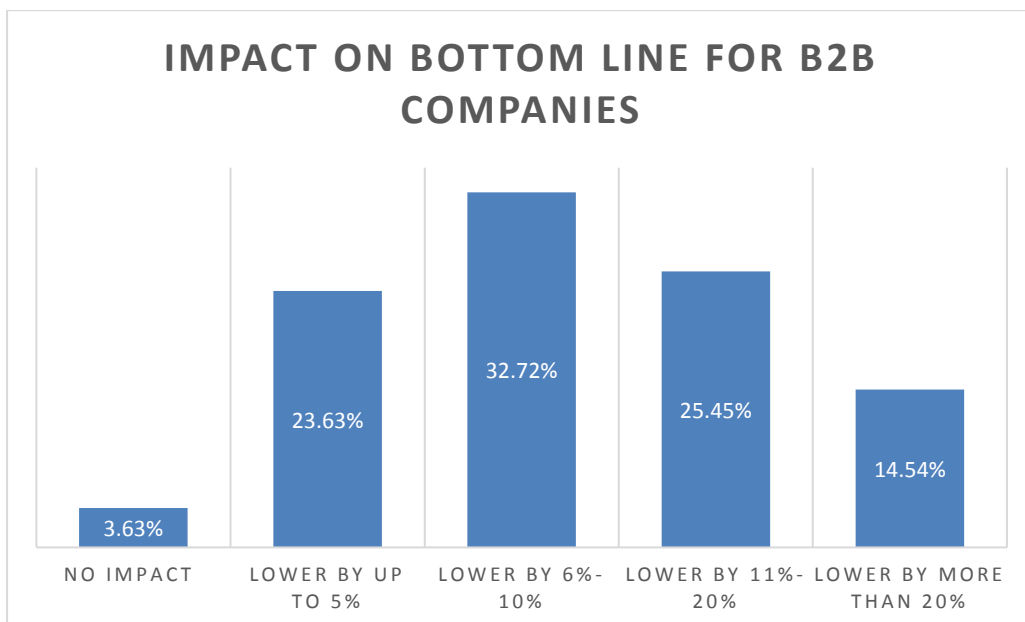
Above chart shows that the challenges for production mainly stem from transportation / logistics problems (visiting and shipping to customers). Consequently, the cost increase, which are further exacerbated by the fact that employees cannot go to work.

2. Trading

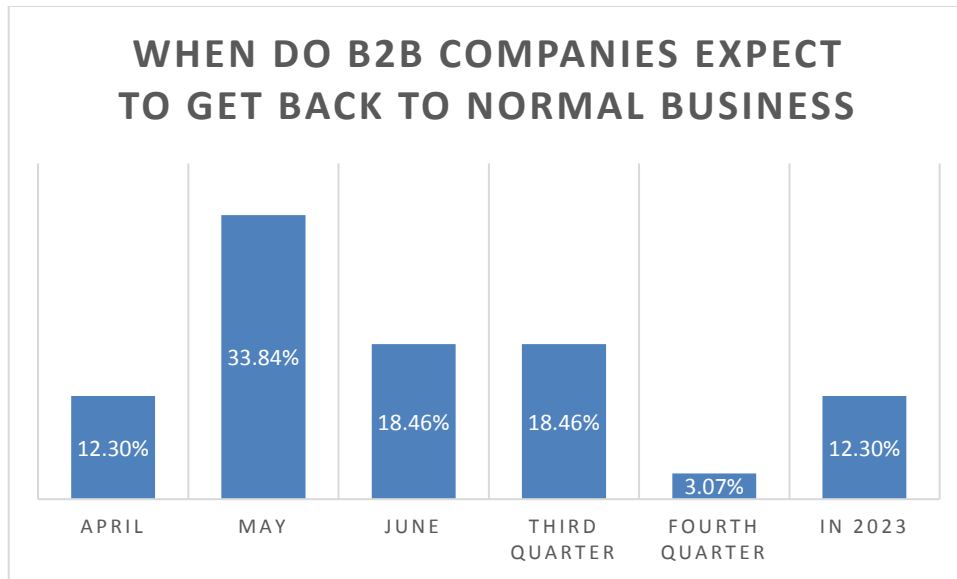
30% of Swiss companies in the B2B sector expect their turnover in 2022 to be reduced by 6-10%, while 24% expected a drop between 11-20%. Another 17% forecast the reduction on the topline to be larger than 20%.



How much the topline is going to be impacted in this year depends a lot on the lengths of the lockdown and other COVID-measures.



40% of the companies believe the bottom line is impacted by 11% or more.



Most of the surveyed companies expect that the business will return to normalcy in the second or third quarter. To be more specific, over 30% say they will recover in May, while over 18% predict this will happen in June. 18% think a return to a normal business operation will only be possible in the third quarter.

In March, several companies reported that the order intake was still at a good level. This was mostly due to the fact that their industrial customers increased the inventory level facing the uncertainty, when partial lockdowns happened in Jiangsu and Zhejiang provinces right after Chinese New Year. However, turnover dropped, as the companies could not deliver and ship the goods.

The machinery (food machinery, metalworking and others) industry has surprisingly good order intake in March. Even the intake for bigger equipment / machines stays on a reasonable level. This is because the majority of the customers import directly from other cities. For an outlook of performance in this year, companies have concerns for this summer or the third quarter, when they could face a downturn.

A major challenge for the construction industry is that the project execution time is extending. This brings the risk of a slowdown during the year, especially when comparing it to 2021.

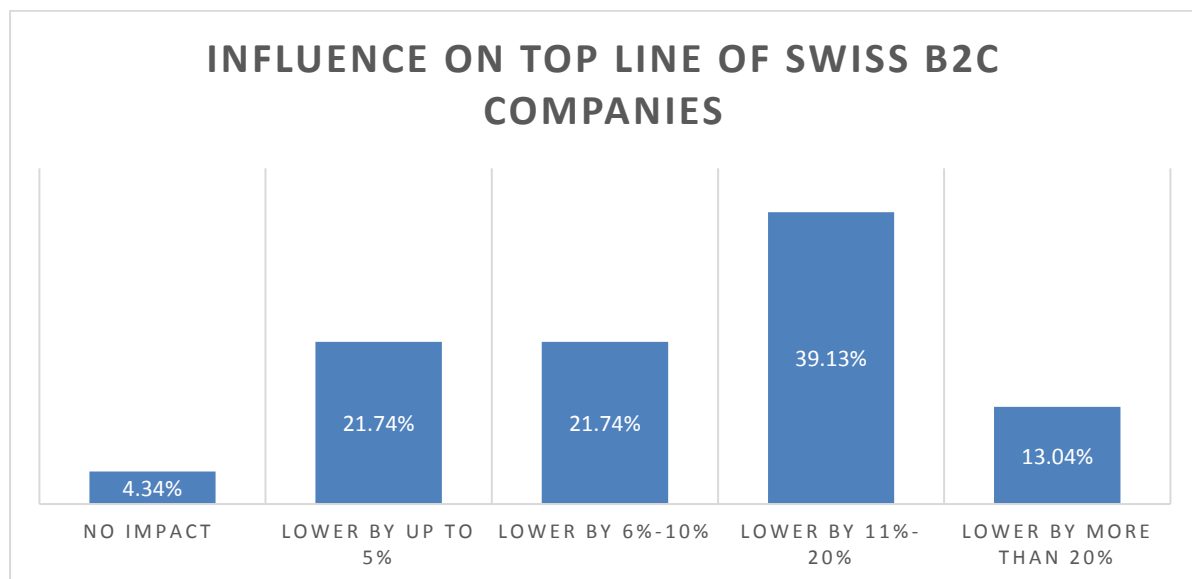
Impact of the lockdown and restrictions on B2C companies

Retailers, the food and beverages sector and the services sector started operating at limited capacity in the middle of March, with literally half of the staff under their community “grid” or compound soft lock down. By month end, this turned into an effective shut down as either staff or customers were homebound, or in mass quarantine facilities. Therefore, no shopping or dining out except for essential groceries shopping was possible. Also impacted is the logistics sector with inter-provincial and intra-city delivery because vehicles and trucks are effectively grounded, and with limited crew capacity, where the priority and emphasis are on supporting “essential” services.

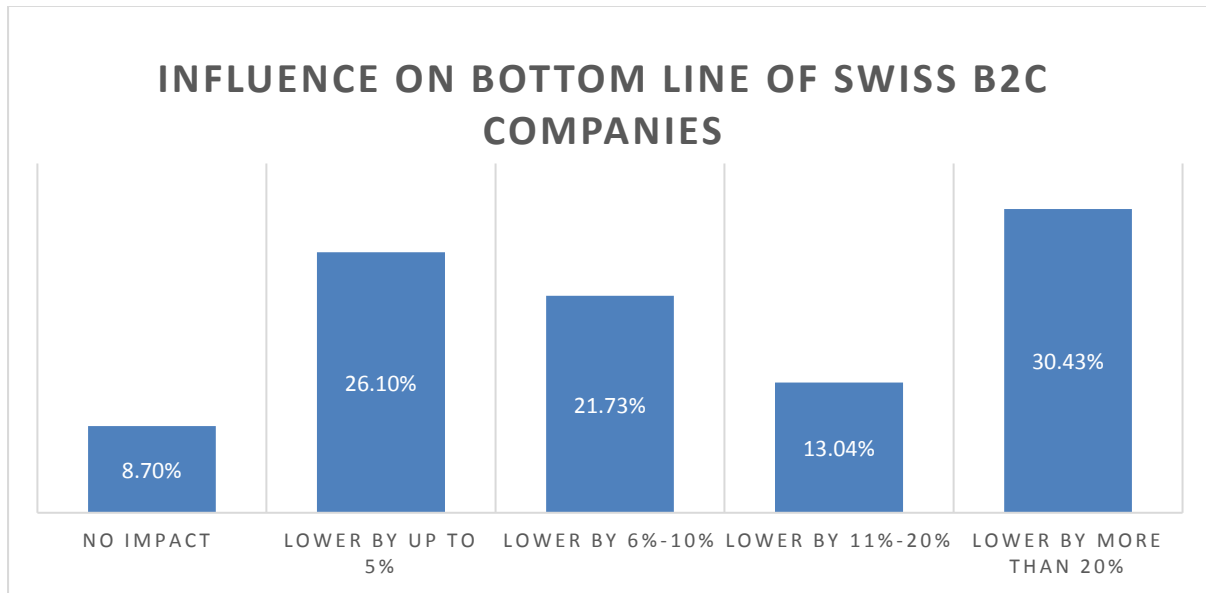
Vegetables Shopping – the new daily challenge

With the majority of residents in lockdown, the need for daily necessities, groceries and even prescription medicines have become acute. Already, before the “rolling” lockdown, Shanghai residents were forming long queues in front of supermarkets to buy supplies for up to two weeks or longer. At the top of Netizens’ and households’ mind is procurement of basic staple foods, vegetables and fruits. With supermarket shelves sold out, people turned en masse to the major internet shopping platforms only to face massive system overloads. Online shoppers staying up until seconds past mid-night, or 6-am, when these Internet giants’ platforms open up has literally become a “national sport”. In reality, groceries supply chains overload and logistics couriers operating at limited capacity simply could not meet the demand.

The conclusion for now is that consumer sentiment for buying leisure / consumer goods is not at the top of anyone’s mind these days; nor is the war between the Ukraine and Russia.



In terms of turnover forecast, 13% of Swiss companies in the B2C sector say they will likely be 20% or more below budget. 60% of the survey participants expect the drop will be between 6-20%.



At the same time, over 30% of survey participants think the bottom line in 2022 will drop more than 20%.

According to the survey, companies in the B2C sector may recover later than companies in the B2B sector. 56% of the respondents think that the business will be back to the normal level in the third quarter or even later.

Looking at society at large, it is difficult to see a festive or normal shopping mood both on and offline until the government truly frees everyone up from the lock down.

Facing influences of complex and volatile factors today, locally and globally, Swiss companies in China are taking different actions to adapt to the changing environment.

Further details about this survey:

- The vast majority (72%) of the companies surveyed is selling to other firms (B2B), while 28% is selling to other companies and to individuals
- 27% of the surveyed companies manufacture in China, 23% are trading companies and another 28% do both
- 74% of the companies that participated in this survey are located in Shanghai. Another 21% are located in Jiangsu and 5% in Zhejiang
- The survey was conducted by SwissCham Shanghai from March 29 to April 4. A total of 91 companies have participated in this survey.

Contact details for more information about the survey and SwissCham Shanghai:

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