

QUARTERLY REPORT

Outlook on the SME
Transport Sector... 6
months after the Pandemic



August 2020

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Challenges and measures for its reactivation or survival

Through this report, we present to you the results of a representative survey that was made among entrepreneurs in the land-transport sector, more specifically in the SME sector. The survey aims to evaluate the opinion and expectations of the sector concerning the economy, since it has been heavily affected by the quarantine measures implemented by the government to control the Pandemic. The survey allows for a better understanding of the complex challenges faced by this sector, which is essential for the reactivation of the economy.



The survey was completed by 243 entrepreneurs of SMEs belonging to the following subsectors: transport, freight transport, private and public transport of passengers, and school transport.

RESULTS

General expectations on the country's economy

32% of the interviewees believe that the economy will improve in the remainder of 2020, 41% believe that the current conditions will continue, and 27% think that it will retract even further.

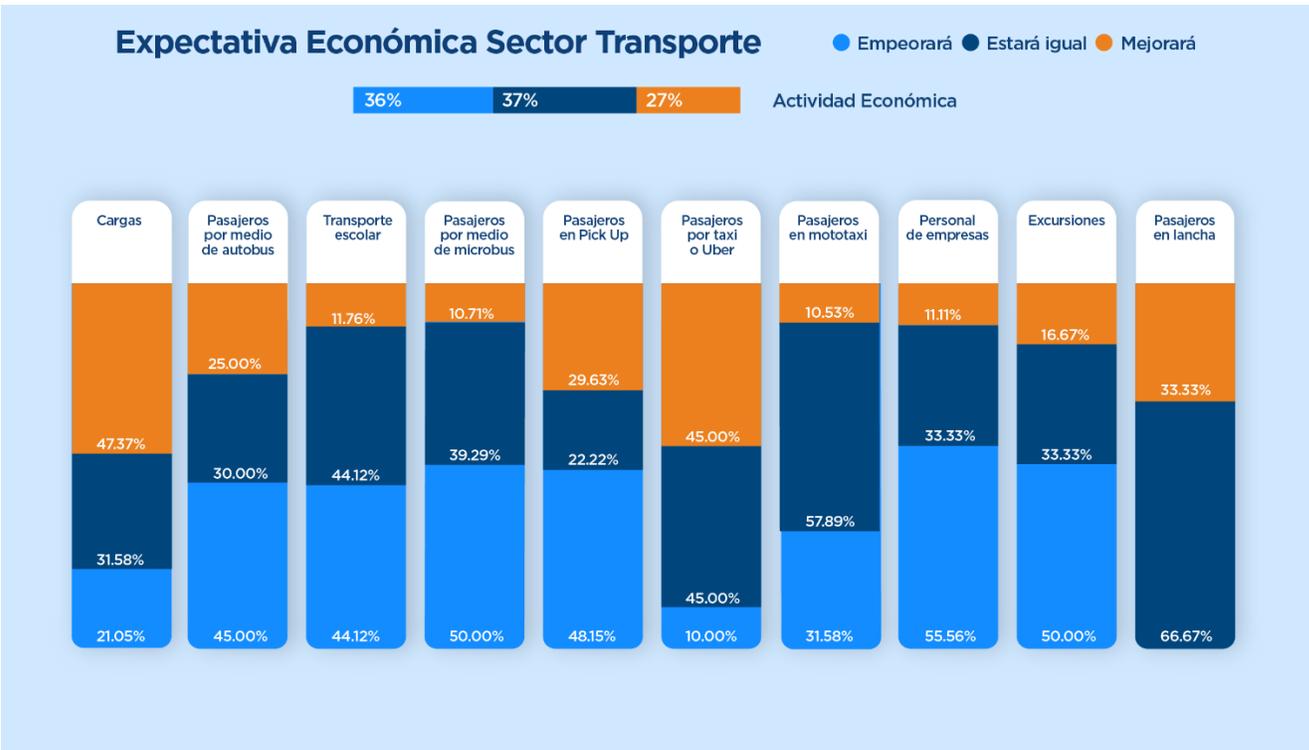
52% of the Expanded Accumulation Microenterprises believe that the economy will improve, making it the most optimistic market segment. Contrarily, Microentrepreneurs have a pessimistic view regarding the expectations of the economy in general.

The most optimistic part of the entrepreneurs belong to the transport and freight transport sectors, 51% have a positive opinion. The next sector that conveys a more positive outlook is Taxi Transport, 41% have a positive perspective.

Growth Expectations and Employment within the Sector

The widespread view of those surveyed (36%) is that their sector, the land transport sector, will either retract or contract in the remainder of the year. The expectations balance is negative by -9% (positive expectations minus negative expectations). In the following graph, it can be observed that the Transport of People and its economic activities have a darker outlook than the ones involved with Freight Transport.

Figure 1.
Expectations on the remainder of 2020, per Branch for the Transport Sector as a whole



Source: Research Department, SAC Integral SA.

Other relevant facts that were discovered by this research relate to the unemployment rate. According to the survey, during the month of March 2020 until now (August 2020), the total number of the interviewed entrepreneurs has reduced their salary and payroll, and they expressed that this reduction could go even further to 52% in the remainder of the year. Nonetheless, regarding inventory, only 3% of entrepreneurs contemplate reducing the number of circulating vehicles.

Survival Measures for Businesses adopted by Businesses during the quarantine

Not all activities within the transportation sector were kept from operating during the confinement (March to August 2020). However, some activities such as: public transport of passengers, transport for leisure, school transport, and many others were not able to work during this period.

To date, 46% of the entrepreneurs state that they haven't yet restarted operations. Meanwhile, 2% have decided to change their economic activity.

Of all entrepreneurs that haven't yet resumed activities, 44% consider that it will take at least 3 months for them to operate again, 16% think it will take one to two months, and 32% estimate that it will be less than a month.

Figure 2.
Adopted Measures to guarantee the continuity of operations



Source: Research Department, SAC Integral SA.

Main measures taken by companies to keep themselves afloat:

- 56% had to use their savings
- 36% suspended their payment of debts
- 29% carried out other commercial activities
- 22% stopped providing maintenance to transport units
- 15% laid off staff
- 7% sold business assets

Factors that have put the continuity of companies at risk

The above measures were adopted to prevent companies from being exposed to definitive closure of their operations. 76% of those interviewed believed that the situation generated by the suspension of operations triggered the following consequences:

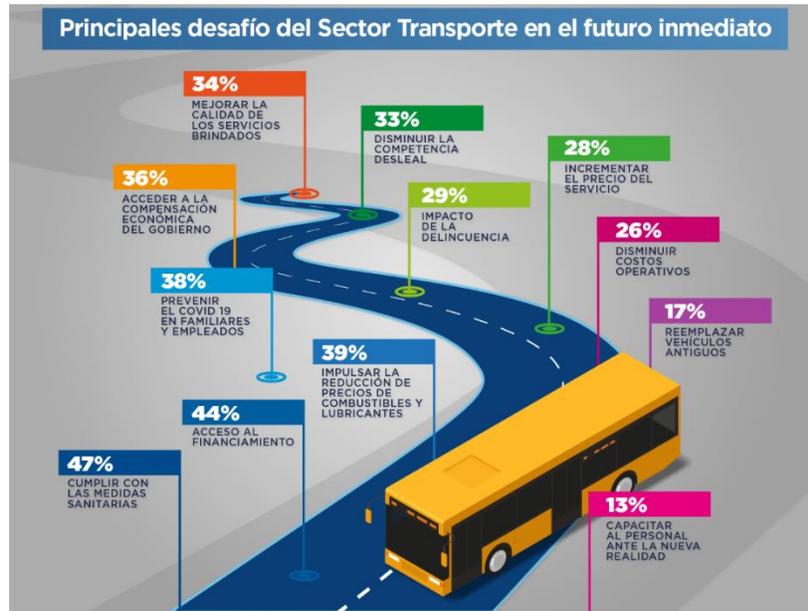
- 47% of the companies suffered a loss of income that puts their business continuity at risk.
- 23% have been unable to provide preventive and corrective maintenance to their transport units
- 12% have not been able to access financing
- 10% have not been able to repair units because their workshops have been out of work
- 4% have had to face the difficulties caused by getting infected with COVID19 through relatives or employees

In particular, 44% of the sector of public transport of passengers by bus or minibus considers itself vulnerable due to the lack of financial compensation provided by the government.

Main Challenges faced by the Transport Sector in the immediate future

The following figure represents the opinion of entrepreneurs regarding the challenges faced by the sector in the upcoming 3 months.

Figure 3
Challenges faced by the Sector during the next 3 months



Source: Research Department, SAC Integral SA.

To summarize, the main challenges that companies in the sector will have to face in order to improve their performance, according to the opinion of those surveyed, are: Complying with the sanitary measures (47%), getting access to financing (44%), promoting a reduction in fuel prices and lubricants (39%), preventing that family and employees get infected with COVID19 (38%), accessing economic compensations from the government (36%), and improving the quality of the services provided (34%).

Last but not least are the following tasks: reducing unfair competition (33%), managing the impact of crime (29%), increasing prices for services provided (28%), reducing operating costs (26%), replacing old vehicles (17%), and training the personal within the context of the new reality (13%).

Expectations

By the month of August, 5 months have passed since the closure or substantial reduction of operations in the sector. As was mentioned, during this period employers had to resort to different types of measures, in some cases extreme, such as the dismissal of personnel, suspension of their debt payments, or stopping the repairing of their units. Nonetheless, the sector has shown a lot of resilience: only 2% have resorted to shutting down operations definitely or to changing their economic activity.

We are entering a critical stage for the future of the sector. The next few months will determine what are the most realistic recovery expectations for the sector.

In any case, business owners within the sector could face two major scenarios:

a) If the demand increases gradually, the sector will enter a slow recovery phase, while it adapts to the required measures regarding the provision of services aimed at mitigating the risks of contagion among the population.

b) An aggravation of their situation due to the lack of demand, and therefore, difficulties to operate profitably.

The majority, if not most of them will have to take additional measures, which will probably have to be more drastic, in order to survive. As a result, the unemployment rate in the sector will be further affected.

Research Fact Sheet

Methodology:

a) Number of interviewed entrepreneurs of Micro and Small Businesses: 243

b) Origin: The whole country

c) Margin of Error: 5% and 95% confidence level

d) Surveyed Subjects: Business owners

e) Access route to the survey: Internet/web

f) Information processing: All surveys were coded and entered into a database that gets purified and controls inconsistencies. Regarding the information, it is processed by an information processing software.