

Preparing to prosper post COVID-19

We are here to help you through



There is an old saying “If you fail to plan then plan to fail” nothing could be more true than that in these very challenging times.

The world has a long history of major events and pandemics and much research has been done trying to understand how and why some business survived and prospered, while others failed or never really got going again. The research found no silver bullet or formula, but rather a number of observations and examples of interventions carried out by various businesses. There is some similarity, but no guarantees.

The interventions described seem to be aimed at the big end of town, however they can also be applied to smaller enterprises - it's just a matter of scale.

New Zealand has around 515,000 small to medium enterprises (SMEs) and of these some 97% employ less than 20 staff, meaning only 5325 businesses employ 50 staff or more. That said, around 28% of our GDP comes from the smaller employers (based on 2017 MBIE statistics).

What this all means is that with many businesses including SME's being forced to close, cease trading for a while, or downsize, a recession maybe looming ahead. Recessions are defined as two consecutive quarters of negative growth. The cause can be many and varied including economic shocks, financial panics and changes to economic expectations. Businesses suffer because demand and revenue falls and there is uncertainty about the future.

One important thing to establish right now is open communication with your staff. They need to know what is going on, where the company is now and your plans to deal with both the short term and long term impacts of the pandemic.

Before you talk to staff, it is worth revisiting the company's vision/values and goal statements. Referencing these in your staff communications can help reinforce that in times of difficulty, these remain important and may help staff remain engaged and committed to the company's future.

“From “Roaring Out of Recession” by Ranjay Gulati, Nitin Nohria & Franz Wohlgezogen, it was found that of companies that survive a recession, about 80% take more than three years to regain their prerecession growth rates for sales and profits. Just 9% of them flourish after a slowdown, doing better on key financial parameters than they had done before the recession to outperform rivals in their industry by at least 10% in terms of sales and profits growth.

The strategy that has the greatest likelihood of producing post-recession winners is a combination of cutting costs, mainly by improving operational efficiency (rather than by slashing the number of employees relative to peers), and developing new business opportunities by making significantly greater investments than rivals do in R&D and marketing, while also investing in plants and machinery.

Using a combination of risk mitigation and being proactive yielded the highest probability (37%) that they would be front runners.

As stated above, what keeps businesses going and helps some to even prosper is planning.

Helping Business Succeed

Business response to a crises.

- » Typically there are four general behavior's that are observed during these times.
- » Prevention focused: this is a defensive type behavior aimed at their rivals, whilst avoiding losses and mitigating risks.
- » Promotion focused: invest more in proactive moves to provide benefits for their customers
- » Pragmatic: this is a combination of 1 and 2 above.
- » Progressive: these companies deploy optimal combinations of being proactive and risk mitigation.

Key strategies to consider

Customer base

Grow and maintain your customer base. If possible seek to add more customers to your business as this spreads the income streams and makes you less reliant on a few big customers. Having all your income eggs in one basket has never been a good idea.

Analyse your customer base. Understanding them will assist you to customise your responses and make them feel special or included in your responses to the crises.

There are several general traits of customers in a crises time.

- » Stop everything NOW.

These customers stop everything as they feel most exposed to any financial hardship. It's a kneejerk type reaction that is right for them in the now, however it may not be the long term solution.

- » Feeling the pinch, but in for the long haul

These customers are a little more resilient about the long term prospects in the short term, however may migrate to the stop everything now type as time moves on.

- » Comfortable and has resource's.

These customers feel secure and can ride it out. They continue spending at level prior to the crises, but now move to be a little more selective. This population tends to be in the top 5% of incomes or have secure savings

- » Live for the day.

This population of customers change nothing except perhaps timeframes. They continue to purchase until major lifestyle events occur to them, e.g. become unemployed.

Irrespective of which category customers fit into they will rank consumption by sorting products and services into 4 groups

- » Essentials- necessary for survival or perceived as being central to well being
- » Treats- indulgences whereby the purchase is deemed justifiable
- » Postponables- purchases that can be put off until later.
- » Expendables- deemed unnecessary and/or unjustifiable.

With these two sets of headings (1-4 and A-B) a matrix can be developed to identify your customer's propensity to spend. This can greatly assist in your marketing and advertising programmes. It also allows you to concentrate on the markets that are more valuable to you now and moving into the future.

Get in touch with your most valuable customers and tell them you appreciate their loyalty to you and how you are managing to stay there for them. Let them see that they are part of your crises planning and that you have their interests at hand. *Continued next page >*

In crisis times every dollar counts so looking at different options to advertise will help. Move from 30 sec ads to 15 sec. Consider cheaper radio over TV, especially if the campaign requires a lot of repetition. Consider selected targeted advertising for segmented markets as identified in the matrix exercise above. The rule is do not cut the advertising budget too much, in fact some would argue grow it, but target more. If customers do not see you out there they may assume you have exited the scene.

Innovation

All research in this area points to need for and strength of innovation during these times. Seek IT solutions. Get staff who may be working at home (or not) to think about how things could be done differently. Get them thinking in solution mode to generate new ideas. They may not all be good or correct, but often there is a little gem of an idea. It also reinforces their contact with the business.

In 1519, the headmaster of Winchester and Eton, William Horman, used the Latin phrase *Mater artium necessitas* ("The mother of invention is necessity") so it has been around for a while and is still true today.

Many companies use times like this to explore new IT solutions for their business. With the fast and expanding range of IT solutions, AI, digital, Industry 4 and robotics, there is a case for considering is this the time to make the move? Indeed the future of work as we know it and knew it is changing. Early adopters will have the clear ground moving forward. Good business cases are needed before implementing these types of interventions, but don't wait too long, if you keep on doing what we always did, we will go backwards. The world is simply moving on and at a faster rate and as one writer puts it; "it used to be that manufacturers could be the cheapest in the market, or could stay nimble, but not both - however digital technologies create much more flexibility around product changes and volume changes as well as the entire supply chain". The world is different.

Upgrade your product lines. Keep what is working well and drop whatever does not add value to your business. Customers want and need more value during these times. There is a temptation to cut prices, however low price is not the same as value. Market on the value of your product or service even though it may not be the cheapest in the market. Customers want to get value with their purchase and know the product or service is going to be of high quality or last. Cutting process is not sustainable in the medium to long term and remember other suppliers will also be cutting their prices. Instead, market on the great value they will be getting.

Finances

Good financial analysis is vital in these times. Really pull apart spend budgets and ask is that cost really needed. Removing too many staff costs however can be a negative e.g. papers, magazines, coffee tea etc. staff will view cuts in these areas as a negative, especially if they see other cost centers not be tackled.

Managing cash flow and having cash flow planners are vital. Understanding when cash comes in and when it goes out allows more micro tuning of finances. It also limits surprise costs. Understanding non payroll spending is important. More oversight on these expenses will make significant savings over the medium term.

Having good oversight and monitoring of all budgets is a must. This is not to stop spending, far from it, but rather looking at other options that could be cheaper, leased or contracted out. Another option is to consider using suppliers to undertake more work at their end or look for group discounts.

Looking at non-essential spending will curb costs. Can some spends be delayed or suspended. Looking at the raft of staff benefits may highlight other areas for savings, but remember cutting too deep here may have negative consequences. Perhaps get staff to come up a list of items or options under this heading. After all if it's their idea they will be more than likely to embrace it.

Have a good look at what you are carrying as stock or parts. Look at your inventory and consider making adjustments within the list. Not everything is vital or needed now. The freed up space could be sublet to another smaller business or stakeholder again improving your income stream.

Check suppliers, are there options here for guaranteed volumes over time for a discounted price. It's a win win situation. They have secure forward orders and you get a discounted price. Remember in these times everybody is looking for concessions and security. There may be some advantage in talking with your suppliers about your business and investigating how they could help, nothing ventured nothing gained.

Consideration could be given to leasing arrangements as opposed to a capital expense. Leasing may have justifiable short to medium benefits rather than committing cash up front. Lease to purchase options may also be explored. Check all options. *Continued next page >*

Second to labour costs is process and manufacturing costs. Streamlining processes can save time and money. Part of the problem could be too many decision makers too many avenues to waste time in. Keep all process and manufacturing decisions as simple as possible. Why create barriers and unnecessary options. If processes are working well see how they could be optimized elsewhere in the business. Where there are obstacles fix them quickly. It's all about efficiency in a time of need. There is no fat.

Create a budget for innovation and special R&D, this will put you apart from most of your competitors and position you to jump quickly and securely when an upturn occurs. Set up special sales teams to focus on key customers and to expand a new customer base. Marketing budgets need to be maintained as best you can to keep you in your customers eyes plus the wider public space. Out of sight out mind. Keeping up the customer experience is vital, adding a little more value to the value proposition is also worth considering. It's a matter of keeping your key accounts and assisting them where you can.

Whether you are in a financial downturn or not, staying in contact with your bank is vital. Your bank is your business partner and therefore should be made aware of your current situation, what your plans are and what you are doing now to maintain and create a larger customer base. If they are made aware of any problems early they have more ability to be part of the solution. Banks are offering a raft of products and services to assist both employers and employee to better manage their finances. Banks do not welcome being put into a corner with little prospect of finding a solution for them or you. Get in early.

The single biggest cost to a business is labour, the cost of employing staff plus all the associated costs that go with staff. It's natural then to start cutting cost here first. While this may be the case, successful businesses didn't use the knife here too early or too deep. Rather they took a longer view and kept staff on. When things improve there comes a time of reemploying staff. This is a very expensive exercise both in terms of money and time. The cost of onboarding a staff member can range from 6 months' salary up to 3 years for senior executives. This included training, PPE, benefits, supervision, ACC costs, Kiwisaver etc. up until they can go solo and become productive. Therefore cutting too many staff too soon can have a negative long term effect.

Businesses should consider other options including, reduced hours, shift and furloughs. If too many staff have been let go it makes getting started again that much more difficult. If senior and experienced people have been let go where will your company's intelligence come from in the future?

If your plan is to retain staff (or most of them), share it, staff will benefit from this information. It puts their minds at ease while they remain at work and thus they are more focused and productive. Remember large staff cuts require large scale reemployment later on. This is expensive.

If you need to go to reduced incomes (pay cuts) then don't expect staff to do the same hours as this equates to a decreased hourly rate for them, rather move to reduced hours as the pay rate remains the same. Its small things like this that have great perceived value or can leave staff disillusioned.

If staff are at home on leave keep them engaged with the business by utilising their knowledge of how to fix things. Get them to find solutions to long standing problems. Make it a kind of competition or reward type exercise.

Expand internationally

Consideration could be given to look internationally, especially when all businesses will be looking for suppliers and customers. If you can use this "downtime" to conduct all your R&D, then you will be better able to maximise the opportunities later. Being first off the blocks is a game changer.

Stress test your business

Any strategies that you come up with need to be stress tested to ensure they are the correct strategies and therefore able to reap the benefits you are looking for. Using different currency rates or interest rates in your calculations is helpful when forecasting import and exports for example.

Lessons learned

Seek assistance early if required. There are many business consultants and the like ready to assist. Talk with your suppliers and customers on ways they can help you and how you can assist them.

Responses to a slowdown

Marketing

Adopting a cost sensitive strategy is a winner. Tell all your customers that during this time of crises you will be doing things a little different. If customers know you are doing your bit then they can relate to what they are doing. Advertising on the “cheap” or a “bare bones” approach can win sympathy from customers.

The power of the pen is also widely known, so using key phrases that resonant with customers is useful. Phrase like “We are here for the long haul, we are with you, were going to get through this together, you can depend on us, value plus, etc.” are all words that connect loyalty and emotions with your customer and you.

Use social platforms. They are effective and work 24/7. The cost to you is time. You must be prepared to update and modify your messages regularly. Hard sales pitches may not work here, but information sharing and can be a great way to keep you top of your customer’s minds.

The public at large really connect to companies that champion a cause. The cause needs to be public and worthwhile. The connection the customer and public get is an emotional one and this is long lasting and firm. Having a cause allows the public to see inside the company soul, its core values and compass direction. It is important that any cause you adopt is within your companies set of values, goals and ethics. Trying to recover from a public backlash is expensive and extremely time consuming.

Think about adding value to the sale. Can you provide guarantees for example? It shows that even in these difficult times you are ready to stand by your product or service. Be aware though, that there are inherent risks with providing guarantees that could outweigh any gains. Customer service can be levered to help your business. Responding to customers’ needs and issues quickly, efficiently and above all fixing their problems is paramount.

Running customer competitions is another angle to keep your customers and current non customers attached to you. It can generate many leads which you follow up in a timely and empathic manner. In times of crises being seen as a loyal and trustworthy supplier is valuable.

Summary

What has been presented is a menu of options and considerations. There is no one formula, or silver bullet, but rather a combination of strategies that if considered, tested and implemented will assist in getting you through.

Here at EMA we are committed to providing the best and most up-to-date information to our members through these times. We will be here for all. We will provide strong leadership and direction to our members plus continue to advocate on behalf of our members to ensure Government policies and settings are aimed at getting all of us through while reducing unnecessary red tape.

References used to assemble this document.

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