

Intro:

Hello and welcome to the CPA Australia Podcast, your weekly source for accounting, education, career, and leadership discussion.

Gavan Ord:

Welcome. My name's Gavan Ord, CPA Australia's Business Policy Advisor, and I'm your host for this podcast on business recovery from COVID-19. I'm joined for this podcast by Mike Sewell, FCPA. Mike is a Director of Market Gap Investments, with an interest in helping companies transition through second stage growth. He has successfully grown a number of SMEs himself in diverse industries, including metering, printing, direct marketing, and medical research.

Gavan Ord:

Mike is also a business advisor with The Entrepreneurs Programme, providing guidance and support to qualifying SMEs in the medical, technologies, and pharmaceutical sector. Mike is also a former president of CPA Australia's Victoria division, and a former chair of CPA Australia's Environmental, Social, and Governance Centre of Excellence.

Gavan Ord:

Listeners will be hearing Mike's thoughts on how business that have been significantly impacted by COVID-19 have responded to the crisis, and are recovering. We're going through a number of topics including tips for improving the cash position of business, suggestions for how business should be approaching the recovery phase, and how business can go about reconsidering their strategy for the post-COVID-19 environment. This recording was made on Wednesday 27th of May, 2020.

Gavan Ord:

Mike, let's get started. First question is in the industries you specialise in, how have businesses whose revenue has dried up responded to this crisis?

Mike Sewell:

Initially Gavan, the response was shock, assessing what their current positions were, assessing how long that they could survive without say revenue. In some instances, revenues dropped 80%. Significant change in what the business outlook looked like and then just recognising the problems that they were facing. Probably not in the first week because I think the first week was really just not understanding what may or may not be coming, but then realising that the revenue was drying up, what are the alternatives?

Mike Sewell:

Then I guess what we talked about with clients was to get really close to their customer base, and to their supplier base, to find out what was happening in their markets. And also to make sure that they could work with their clients and suppliers together to get through whatever the restriction period was going to be.

Gavan Ord:

Okay. That's really interesting around the initial phase was shock, then they started to ... The realisation kicked in, and then they started to engage more closely with their customers and suppliers. In terms of

the responses by businesses you've worked with, what responses worked best and what responses didn't work?

Mike Sewell:

A couple of responses that were really good and one of those was remaining connected to the key, your top 10, your top 20 influencers in your business, to understand the problems they were going through, and then recognising where you might have been able to help them. Some businesses started to introduce additional product lines. Some businesses started to work with clients to see that they could help them in other ways than what they were traditionally supplying, so that by the end of this then, when things get to some level of normal trade, that both businesses get through and they can work together going forward.

Mike Sewell:

What didn't work so well was just saying, "We're going to stick to the knitting" and just hanging on to see what would happen. I think the businesses that tried that and at this point, we're in late May, the businesses that waited for four weeks started to recognise that that wasn't going to work. You had to adapt to what was happening because cash was starting to dry up. That was the critical issue that was happening in all businesses, I suppose. Assessing how much of the debt could be collected, and what risks financially all businesses were facing.

Gavan Ord:

You mentioned cash drying up. Obviously this is a common theme that we've heard for businesses all around the world. Do you have any tips for finding extra cash within your business that are practical at this time? I'm not talking about selling assets in a distressed market, but are there other tips that you might have for finding that extra cash you need?

Mike Sewell:

It became almost a strategic issue. Initially the first couple of weeks were probably tactical, just trying to understand what was happening out in the market, and then how do you adapt to that? And then how does that fit with your strategy and do I have to go and revisit my strategy going forward? That's one sort of question. Not directly related to cash, but almost. Because then you could assess what the cash position would be and what do you really need? In terms of stock, in terms of resources to actually deliver what you're doing.

Mike Sewell:

There's been a number of different changes. I mean, working from home for example, which has been a practise widespread in many service industries, for example, rather than hard manufacturing perhaps, but working from home has made people look at, "What are my real premises needs?" Those sort of things are ongoing, so they're both tactical, reviewing the business model, and then rethinking strategy going forward about freeing up cash going forward.

Mike Sewell:

Critical though, was to look at the big ticket items that were in the current assets and how can they be converted to cash easily and manage that risk?

Gavan Ord:

Often what follows from that discussion on cash is cost cutting. You can go over the top on cost cutting. What do you suggest are the cost cutting measures you would suggest for businesses, and maybe the cost cutting measures you would suggest they don't undertake at this point?

Mike Sewell:

I actually think the good businesses, and even the businesses that have faced really difficult times, have got a much better handle on what their real costs should be, and what their actual cost structure needs to look like going forward. When things go well, businesses tend to not look at the real revenue drivers and the costs associated with that. So, all costs need to lead to revenue, and if they're not doing that, then your surface needs, how do you look at those costs that don't try revenue and get them out of your operating costs or balance sheet?

Mike Sewell:

Have a look at your stock levels. What moves? What doesn't move? Get behind [inaudible 00:07:58] items and sell more of them and if it's not moving, don't pull the cash equivalent in there. Get rid of it. Those sort of issues, and then the harder issues around what do your people need? What are your real costs to deliver what you're doing? And to build capacity to grow, because make no mistake, when we get through this, there will be significant opportunities for many businesses, even those that are in trouble now.

Mike Sewell:

You need to under your competitive landscape. If competitors can't provide your services, then that market will start to open up. Businesses will start to fail. Some will fail and won't get through this, and that's clear. Look at your business. Is it robust enough to survive, and then build capacity to grow in a changed and future market would be a recommendation.

Gavan Ord:

That's really interesting, because yes, I suspect that a lot of businesses are not thinking about this growth phase. They're just in almost a survival mode. But now we're moving on to the recovery phase, so economies are opening up, businesses are opening up. How do you think businesses should begin approaching the recovery phase?

Mike Sewell:

With caution is the first word. But also strategically. Think about what your current business model is and what you deliver to the market. Think about the last 6-8 weeks and what other opportunities have arisen, what you've seen happening in the market. How do you then understand what's happening in your market, what you're good at, what you can make money at, and start to build on that.

Gavan Ord:

You mentioned the way you get to market, and you also mentioned working from home, that leads to the conversation around technology. How important has technology been to your clients as they respond and recover from the crisis? Do you have any suggestions on how businesses can build their capability capacity to implement the right technology going forward?

Mike Sewell:

Look, I think digital strategy has been critical for a number of years, and people put it to one side because it's seen as complex. One of the fascinating things that I have seen though, broadly against all of the clients that I've got, is their ability to tactically go, "Well look, if we can't get sales normally, what do we do to change so we can get eCommerce happening?" In probably 80% of my clients' cases, they have increased their online commerce by if not double, up to four times.

Mike Sewell:

Now, that's been a tactical response because they had to do it. Just think of ways of getting revenue through the door. Now's a perfect time to look at how your business model is constructed and how you use technology in the business, and what will that look like going forward? Whilst we're all sick of Zoom meetings probably, and we are by nature social creatures, and there's a social importance to work, there's also a productivity increase by being able to do your face-to-face online without travelling. Going forward, what are the safety implications that businesses have to introduce?

Mike Sewell:

There's all those things about what businesses are doing now that add value to the customer, that will be important going forward, so how can they do that and review their technology? That's one of the things that we through The Entrepreneurs Programme do continually, assess every aspect of the business from a technology perspective and look at ways to improve it.

Gavan Ord:

Do you think it's worthwhile to engage an expert, and if you were to engage an expert, what are the things to look for in that expert, on technology?

Mike Sewell:

Yeah. Look, that's a really vexed question. The simple answer is yes. You need someone who understands technology, but you also [inaudible 00:12:24] who needs to understand how technology adds value to business. Not just tech for tech's sake, but tech for adding value, and you need to check their credentials. Let me do a little plug here for The Entrepreneurs Programme and say if you qualify to enter that programme, there are services, free services available to help you analyse what your needs might be, and give you alternatives. That's some of the things that we do to help businesses improve their technological footprint.

Mike Sewell:

The reality is a lot of people have been burned in the past by technology projects that haven't delivered value. So, that is one of the reasons there's been poor digital uptake and leveraging. Just broadly in most businesses. But that's changed, and it's changing more and more, and this gives most businesses now the opportunity to look at their digital footprint, how they can improve their business model digitally, and then add value to the bottom line by doing it. And their customer base, by the way.

Gavan Ord:

Yeah. Are you seeing changes in customer behaviour? As you said, it's not just the business itself is responding to the situation, how to get to market, but are you seeing the customers themselves change how they use technology, use technology more?

Mike Sewell:

Yes. They are. Look, initially I thought with the response to COVID that the world might have become a little more collaborative and adopt technologies together more effectively. The reality of that is somewhat different. Some businesses are working really close together because they understand where they add value and those value points across the technology barrier, and how can they then become closer collaborators, as well as just being client and supplier? But mutual benefit in using technology going forward.

Gavan Ord:

You mentioned about suppliers, so obviously supply chain risks emerged from any businesses that they may never have considered beforehand. How do you suggest businesses manage supply chain risk? Not just in the short term, but also in the longer term as well.

Mike Sewell:

I think that's a picture that as a country, we're starting to recognise the risks that are inherent in a lot of the things that we do. From an individual business' perspective, you need to look at alternatives. Where are you at risk? How are you exposed to any particular supply line, and what are the alternatives if that fails? That's not a simple question, Gavan. That's really complex. Over the past 20 years, we've built up a significant dependency on imports.

Mike Sewell:

We've had a focus on driving [inaudible 00:15:47] without necessarily looking at the value equation. One of the benefits that COVID that may happen is people don't just look at cost, but look at the value equation, how important it is in, for example, a hospital supply chain, to have constant supplies so that we can look after the medical needs of our population, is a really important [inaudible 00:16:11] and it's not value when you look at costs alone.

Gavan Ord:

I think that's a really good point, that we've allowed costs to drive these decisions, and these risks that were never considered have emerged in COVID-19, but it's not unique. If you look back to the Fukushima earthquake in Japan about a decade ago that realised a whole lot of supply chain issues in the ball bearing industry for the motor vehicle industry. I don't think people should treat this as a one-off situation. This just highlights the supply chain risks more broadly. You spoke about strategy. What steps do you suggest that businesses should take to reshape their strategy at this point in time?

Mike Sewell:

Again, I'll reinforce what I might have said earlier, and I'm certainly saying it with my clients. This is the time to look at what you do and importantly, what you don't do, and how do you then revisit your strategic planning? What's happening in the market so that you excel at what you do, and you create a market position and value for yourself and your clients in that, and then maybe you form collaborative alliances with people who do things that you don't want to do or can't do effectively.

Gavan Ord:

You make a really good point about not just what you do, but don't do. I suppose that leads to many things you did before the crisis that you won't do after the crisis. It's a different market. I do like what you said about collaboration, identifying different ways of doing things. It means to me, I look at it as the business you took into COVID-19's going to be different to the business you take out of COVID-19. With

that in mind, do you have any specific examples of COVID-19 strategies you think businesses could be considering at this point?

Mike Sewell:

Digital, I think is critical, both at an operational level, how you do business, at a client/customer interaction point, how you deal with your market digitally. And how you streamline that process so that it adds value and is not just an expensive item, but is actually a value creating business model transformation using digital. I think clarity around your strategy is really important, but also the strategic marketing piece. How do you let the market know what you're doing, where you create value to your clients and potential clients, but digital marketing, getting the story right, getting the sales right, and then having the operational expertise to deliver what you're promising to the market, and doing that profitably for yourself, and delivering value for your clients. It's just critical.

Gavan Ord:

Thanks Mike. That's really to me, that ties in with reinventing your business for the new environment. We've heard a bit about diversification restructuring from various people. How do you think businesses should go around this restructuring of their business or diversification of their business?

Mike Sewell:

Well, one of the things earlier talked about is cost cutting and cost cutting is not the answer. However, assessing what your cost structure is and where it delivers value is the answer. So, you want the low value items out of your cost structure, so that you can deliver the value that you set yourself up in business to deliver. And that the customers get the benefit for [inaudible 00:20:21].

Mike Sewell:

And there are many opportunities suddenly appearing that probably haven't been there before. From an oc health and safety perspective, and hygiene in the workplace and spacing in the workplace. Wayfinding in shopping centres or in retail outlets, how do you get spacing when there's lots of people [inaudible 00:20:44]? And spatial distancing is still going to be around in six months' time. That's not going to evaporate.

Mike Sewell:

There is a lot of opportunities there to consider and value that businesses need to consider as they deal with and reopen to the public.

Gavan Ord:

Yeah. Spatial distancing, you're right. Quite right. This is going to continue for quite some time. Do you have any other suggestions or looking into your crystal ball, how else do you think the business environment will change over the next 6 months, 12 months, and beyond?

Mike Sewell:

I'm not very good at predictions. With this environment, it's even more complex to predict what may or may not happen. I think businesses need to operate with a level of integrity and accept that there's a social purpose for business, and what does that look like from your business model perspective? Because there are risks now that businesses are exposed to, that they would never have considered

before. Crowding at reception, people in lifts, all of these things that you would take for granted and just deal with as recently as three months ago, the world is different.

Mike Sewell:

So how does that look different, A, from a business perspective? Because you still have to make a dollar, and make a profit, but you still have to create value for your clients, but now there's a layer of social responsibility in there, too, from a health perspective. So, how do you interact with the public and how do you make sure that you keep that interaction in a safe way?

Gavan Ord:

That's really fascinating, that I think you downplay your level to foresee the future, Mike. I think that is exactly what's going to happen. In terms of the future world, and some of your clients, have you seen them do anything really interesting to diversify their business? I'm not talking about the businesses which have gone on to make hand sanitizers. I'm just thinking, have you seen any other really interesting pivots by business in this environment?

Mike Sewell:

Some businesses have recognised that they weren't filling the customer need the way they thought they were. And there's opportunities plopped out of that. Look, without being frivolous I guess, and I know you don't want to talk hand sanitizer, but myself and a colleague introduced a gem maker to a dental hygienist company so he could have a supply of ethanol. That's a collaboration you wouldn't have imagined possible three months ago, and it's an example of things that are happening in the market now that are starting to evolve.

Mike Sewell:

I've got several manufacturers who are retooling now to manufacture to take supply chain risk out of their business model. [inaudible 00:24:05] manufacturing experience, they are investing in a future in manufacturing to do that. If we had talked about that in December, I'm not sure they would think about increasing manufacturing capabilities. Now they are, they can do it profitably, deliver value, and make money with it.

Gavan Ord:

Just a final question or observations from you. What business lessons have you learned from COVID-19, or maybe more accurately, what business lessons have you maybe relearned from the COVID-19 crisis?

Mike Sewell:

I come back to the importance of strategy and how often businesses don't do that. We're really good at tactical, we talk about being entrepreneurial and that generally means doing a deal. What it should mean is about reviewing your business model and building for the long term, both for yourself, for the business, and for your clients. One of the things that I've been really strong on for a number of years is to get strategy about right, review it constantly with your market, because the market changes. We can see that can happen dramatically, as it has in the last two months, but it changes suddenly and if you don't adapt with strategy to meet changes in the market, someone else will.

Mike Sewell:

But the future business model will be different and businesses need to monitor that and adapt their strategy to the changes as they evolve. Because it's happening in everything.

Gavan Ord:

Thank you, Mike, for sharing your experiences, insights in this podcast. CPA Australia have released several resources to assist businesses respond and recover from the current crisis. Links to those resources will be included in the show notes. That was Mike Sewell, Director of Market Gap Investments, sharing his suggestions for businesses to respond and recover from COVID-19. Mike will be joining us in the next podcast in the series about businesses whose pipeline of work is drying up.

Outro:

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