

## CPA Australia Roadmap to Recovery podcast 2: transcript

**Intro:** Hello, and welcome to the CPA Australia podcast, your weekly source for accounting, education, and 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 discussing how businesses ... are running out of work due to COVID-19, and how they should respond. I'm joined for this podcast by Mike Sewell FCPA. Mike is a Director of Market Gap Investments with interests in helping companies transition through second stage growth. He has successfully grown a number of SMEs in diverse industries, including ... printing, direct marketing, and medical research. Mike is also a business advisor with The Entrepreneur's Program, providing guidance and support to qualifying SMEs in the medical technologies and pharmaceutical sector. Mark 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.

In this podcast, we'll be going through a number of topics, including tips for business to manage through the drying up of future work, what lessons can such businesses learn from businesses that have already fallen off that metaphorical cliff because of COVID-19, and for businesses approaching this cliff, what can they do to prepare and respond when they do hit that cliff? This recording was made on Wednesday 27th of May, 2020. Mike, let's get started.

The focus of much public discussion and even the government stimulus has been on businesses whose revenue has fallen off that cliff. That 80% decline, 100% decline. There are other businesses who largely continue to operate as normal, filling past orders. But those orders are now starting to dry up. What industries do you believe are most impacted by this drying up of work, and what risks do such businesses now face?

**Mike Sewell:** Thanks, Gavin. A typical major problem is probably going to arise in the construction industry. And so a lot of construction contracts had already started, and continue to operate. But what we are seeing more broadly is that the amount of quoting has not continued, some projects that we're going to go ahead have been put on hold or cancelled. And so while these businesses may have work now and may have work for the next three or four months, it's inevitable that at some point that workflow will start to dry up, just simply as a product of not quoting. Similar things are happening in some IT companies where ... might have come back 10, 15, 20%, but because there are call contracts involved and because clients still need those services, there is ongoing work. But there's revenue starting to dry up, or the future revenue starting to dry up because businesses can see that they're not quoting, and their sales cycles might be up three, six, nine months long. And so that's the gap that starts to ... over the next three or four months.

Whether it's possible to recover that or not, it's difficult to say. In each of the instances where it's impacting on clients, again, it's really important for my clients to get close to the clients they're servicing to understand what's happening in their client's business. Is this a temporary measure? Have people

said, "Look, it's uncertain when the certainty will return to a project, and therefore the cash will start flowing in the next two months," or, "It's uncertain, we're not sure, we'll wait until we know better, and it'll take six to 12 months." Now if that happens, there's significant economic downturn, blatant economic downturn yet to come through the system.

Gavan Ord: How do you make clients realise that this potential cliff is coming up quickly? You said that the quoting's drying up, but how do you get them to realise that while they've seemed to be okay during at least the initial parts of COVID-19, this is not going to ... May not continue on into the future. How do you get them to see that reality?

Mike Sewell: So that's been somewhat complex, and that took probably four to six weeks of restrictions before people started to understand the implications. There may have been a general acceptance that this was a short term fix and that, yeah, it might be two or three weeks, but in two or three weeks we'll get back to normal. Well, the reality is that's been now about eight weeks at the end of May. It'll be 12 by the end of June, and we're still not going to be back at a level of normal then. So what does that look like? And they're starting to take tips to address that. And they're starting to look at alliances with competitors, or they're starting to look at competitors who have already fallen over. Because unless you had cash flow that ... And most businesses do not have two to three months solid cash flow. Most businesses doing it might have enough to run a quarter without revenue coming in.

So some businesses are starting to feel the pinch because, A, debtors are deferring payment, so their cashflow is starting to dry up. There is a restriction of credit and it's really tight. People understand the cash flow implications, and if your revenue has dropped by 10 or 20%, then you're not going to make criteria to get JobKeeper or any of the other packages that are available. So it's creating a need to, again, revisit your strategy, to understand what your market is doing, to understand the key clients who are going to get this with you, because some clients will get through with you, and how do you work with them to do this together? And again, it's a collaborative piece, and to recognise where your strengths are and play on those to make sure you come through this.

Gavan Ord: In terms of getting close to your clients, do you have any sort of suggestions or examples of what businesses could do to build that closeness that they may have ignored for a long time, and how do you think they can do it now?

Mike Sewell: Well, it's not a short term fix Gavan. You can't start to build a relationship in the space of two weeks and expect that that's going to result in revenue on the other side of COVID. But you can review how you're doing business with people and understand the key people in the businesses you deal with, and deeply understand the problems they face. And then you can offer solutions, and it's a period of time where you need to deeply understand your client's issues so that you can work with them to help them get through it. It's ... And you need to do

it at multiple levels in a business, both at an operational production type level, at a strategic sales to purchasing level, and at an inner level, so that you understand the big picture of all your clients. And if you don't do that, it's really difficult to ensure that your business has got ongoing future revenues as this starts to unwind.

Gavan Ord: I think also for these businesses that are sort of running okay at the moment but heading into this drying up in orders, one of the issues I have is that the stimulus measures are really for those businesses that have fallen off the cliff already. So these businesses are potentially entering the crisis, and they won't have access to the stimulus measures, taking that out of the equation, taking those cash flow cash from the government out of the equation. What could these businesses do in the lead up to this crisis, working with the scenario that they actually may not have access to that stimulus money.

Mike Sewell: This is a really complex area, and probably one of the hardest issues we are facing. And a lot of the businesses that have got long term contracts have done them on skinny margins, on the basis that ... regular cash flow coming through. And some of those industries drive on a low cost delivery. And so the businesses who are coming through this need to assess what their business model is, what their profit margin could be, and quite often that is they've got to have a low profit margin. So how do you operate in that environment ... uncertainty. It's about what inherent strengths you've got in your business, what you do to deliver, and I mean ... We're talking collaboration. I thought that the start of COVID-19 may be changing the business model to be more collaborative. I suspect if we don't, then it will be really difficult for all business to survive.

Gavan Ord: What lessons do you think that these businesses, which are starting to see their work dry up, what can they learn from the businesses that have already gone through the crisis?

Mike Sewell: Well, people who've fallen off a cliff have reacted differently because they've had to in circumstances that are different. But going forward businesses recognise that they're facing an impending crisis unless they do something different. So how do they strategically assess where they are now, where they need to be in the future, what opportunities are starting to open up that are aligned to what they do now that they can start to create value in so that they become a solution provider.

So, I talked earlier about the things that perhaps shopping centres might need. So if you are working with shopping centres, how do you help large volumes of people move around shopping centres within one and a half metres of each other? That's a logistical nightmare that I'm not skilled at, but someone will be. So how do they find those opportunities and start help people solve those problems in a range of different ways?

Gavan Ord: So Mike, you spoke about a lot of businesses in this area operate on very skinny margins. So their business models are going to obviously become under a lot of

threat in the next few weeks, if not now. How do you think they can change their business model quickly to adapt to an environment where these low cost, low value business models just might not work as they used to?

Mike Sewell: Again, it comes to the value add equation. And it's how do you then ... When you respond to tenders, you respond to tenders with the low cost option, but you also then may have a value add option that you could do a bit more. Well, if you understand your client well enough where you can say, "All right, I can just do the low costs, but I need to be paid in seven days so I can pay my workers in seven days, and that's the way I can turn cash," but what you really need in this to get it to where it needs to be is X, Y or Z, then make proper margin on X, Y, and Z. Deliver the low cost piece as you need to do, but look for the value adds in all of the opportunities that you're faced with.

And I'll return to something I might've done in my career, and that was when reading meters, we did that at low cost. And that's just what we did. We did it, but what we saw when we were in the field was an ability to change meters, to look at different things that happen in the field that we would see every day because we were in the field and we sold those services of value add. So it's just to look at different things that your workers would understand because they're working on site in the field with clients all the time, where can you then leverage what that knowledge is to create value for your business and survive?

Gavan Ord: How do you think ... That's a really good point around workers. How do you ... And innovation. How do you suggest businesses could exploit or leverage that knowledge their workers have? Those frontline staff having, and converted into something that's useful or potentially highly profitable for this business at this point in time?

Mike Sewell: Well, that may well come back to a technology point. How do people do work now? Are people using iPads in the field? Are people using technology devices in the field? What blank fields are in there that they can provide feedback on the things that aren't working so that there is an analysis of data on a daily basis about what things are creating problems that could be solved? And if you can solve problems, you can drive value for your client, and you can create money for yourself. Innovation doesn't come from a lab. It comes from understanding what the client needs are and actually selling them a solution to a problem.

Gavan Ord: And how do you recommend these businesses keep on top of their work, their working progress? And how do you recommend ... How do you suggest that they respond now, or prepare now before their work really does dry up?

Mike Sewell: I guess scheduling work in progress is important. Scheduling pay in to that work in progress as it comes forward is important, but also looking after the staff involved in this. Because on the other side of this you're going to need good people to do the job. So what can you do to ensure that they're with you on the journey, and how do you spread the workload so that you've got a skilled

workforce to help you get through this as the economy starts to change and opportunities start to come back into the market.

So I guess there's multi layers to that. One of those is around skills and having the skills to do the work. The other is about balancing the workload to make sure you're meeting the client needs and deadlines and deliver what is on time or what can be flexible. And the third thing is managing the cash flow issues around that, so how do you negotiate with your client so that you get cash flowing through the system in ways that ensure both businesses can survive.

Gavan Ord: Thank you, Mike, for sharing your experiences and insights. 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 that are about to be hit with substantial reductions in revenue as orders dry up due to COVID-19. Mike will be joining us in the next podcast in this series about businesses who actually can't keep up with demand during COVID-19.

Outro: Thanks for listening to the CPA Australia podcast. For more information on today's episode, please visit the show notes at [www.cpaaustralia.com.au/podcast](http://www.cpaaustralia.com.au/podcast). Never miss an episode by subscribing to our podcast on Apple podcasts, Spotify, or Stitcher.