

Speaker 1: Hello, and welcome to the CPA Australia Podcast, your weekly source for accounting, education, career, and leadership discussion.

Gavan Ord: Welcome. My name is Gavan Ord, CPA Australia's business policy advisor, and I'm your host for this podcast discussing issues faced by businesses that have actually done very well through or due to COVID-19. I'm joined for this podcast by Mike Sewell FCPA. Mike is a Director of Market Gap Investments, with interest in helping companies transition through second-stage growth. He has successfully grown a number of SMEs in diverse industries, including mentoring, printing, direct marketing and medical research.

Mike is also a business advisor with The Entrepreneurs' Programme, providing guidance and support to qualifying SMEs in the medical, technologies and pharmaceutical sectors. Mike is 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 the types of business that have done very well throughout or due to COVID-19 and some of the challenges they faced. How best should businesses manage a temporary spike in demand, and what lessons can other businesses take from these high growth businesses? This recording was made on Wednesday, 27th of May, 2020.

Mike, let's get started. While it may surprise many listeners, some businesses you're working with are struggling to keep up with the demand. Could you give a brief overview of the types of industries these businesses are from and some of the major challenges they're facing in keeping up with that demand?

Mike Sewell: So a broad brush of industries, Gavan, but there's been a surge in demand for particular products. Whether that's been driven by consumer demand, whether that's been driven by medical needs, there has been a need to get product, and it has largely been product, into the client side and out to customers and in use.

The demand in some instances has quadrupled in such a very short period of time. That's been challenging in a number of ways, particularly in an environment where businesses don't necessarily hold a lot of stock. If you're doing for example, six stock turns a year, so you've got every two months, you've probably got two months' worth of supply on hand, and all of a sudden you've got demand for four months' worth. Then it creates a whole lot of pressure to A, first of all, make sure you can get stock. There's logistics, there's cash flow issues about how do you fund the stock levels and then supply issues, where does that supply come? For example, if it's international and the borders start to be closed, how much pressure does that put on the supply chain? So there's multiple layers to the growth that need to be managed carefully.

Gavan Ord: Given your experience, what are your tips to help these very high growth businesses manage through such periods of extraordinary spikes in demand? Mike, I suppose, part of that is also how do they set themselves up to be a sustainable business?

Mike Sewell: There's several ways to the response to that. The first is to identify whether this is likely to be a long-term demand or is it a reaction that needs to move stock today and there's no long-term benefit for the business because that affects the capacity. What do you do? A number of businesses have increased their premise size, have increased their warehousing, have increased their manufacturing capacity, but the discussions we might have had around that is make sure you've got long-term contracts with the client who is buying what you're needing, so that if you've got an investment now, it's also an investment for the future, that you have a long-term client relationship established so that you don't overinvest.

Then how long does it take you to meet the pent-up demand and what do the numbers look like? Having then talked to your client and say, "If I'm going to invest X, then I need payment terms to be a percentage on order," for example, so that you can cope with the increased working capital drain that your business will face.

Gavan Ord: You mentioned about pent-up demand. Is there a bit of an exercise here around managing client expectations, particularly with such a huge spike in demand, and problems possibly with delivery? Is there a role in managing those client expectations at this point for these sort of businesses?

Mike Sewell: That's a really complex question. I have not experienced what happened with toilet paper at the start of COVID-19, but if you look at then perhaps, the just-in-time warehousing that will be servicing supermarkets, and then at who's supplying that toilet paper to the warehouses and where that came from, and how that supply chain, the way it was disrupted by people panic buying. When I suspect if you look at six months' worth of sales of toilet paper from March until September of this year, there might be a spike in March, there'll probably be a fall in sales in April and May, and it'll all even out in the end. So how do you manage that risk at the front end so that you don't overinvest? So that's one example. It may be different to, for example, the need for a sanitiser product.

Gavan Ord: You make a really good point around not overinvesting. I suppose that leads to another question about long-term demand. How do you suggest businesses analyse the potential for long-term demand for their product or services at this point in time?

Mike Sewell: If there's a change in behaviour though that sanitising might drive, then that's different because there's a new market starting to open up and that is a significant change in what some suppliers will be able to deliver to market. So what does that look like? How do you equip yourself to be able to do that, and then also, I guess, will become a population or a numbers driven calculation

about how many people are in an office, about many people in a home would use it, and those in a cafe, whatever that is, that would be a consumable item that will create opportunity going forward?

Gavan Ord: That leads to an interesting discussion around some of these businesses that might be in a situation where they might have been the sole supplier for a product in the market but suddenly has spiked in demand. Now with that spike in demand obviously it will attract competitors. How do such businesses ensure that they remain the supplier of choice as new competitors emerge?

Mike Sewell: Maybe some companies who have got an early monopoly advantage, but that advantage is not going to last forever. If people take too much advantage of the monopoly position, then that drives competition, people will ... market if margins are too large. So I guess generally, economics will start to work its way through the system over a period of time. In the short-term, people may well have a windfall gain.

Gavan Ord: You mentioned windfall gain and you mentioned about securing the long-term position for business. How do you suggest such businesses treat the windfall gain? Further, how do you think they should work to secure their position as a market leader? Because I think there's a point that often, it's not the first mover that wins in the end, but the second mover.

Mike Sewell: Yeah. Again, I work in the SME sector so it's difficult for me to talk about what a monopoly provider might provide. There will be a range of competitors in most markets that I deal with, but because demand will exceed supply, then that has a price effect now. Whether that's a market shift ... in some instances, it's not, in others it is. That may drive competition or it may leave businesses to go, "We're really good at this." The product is probably the top, if not the top, it's second, it's in the top two. We've got capacity to double production. Let's do that so that we maintain our market position."

Then they might be able to drive efficiencies through their manufacturing process in industry pool that's around now, the advanced manufacturing techniques are about delivering reasonably priced product to market and at high quality. So they're sort of things that businesses would be looking to do to secure competitive advantage now.

Gavan Ord: Going back to the discussion around where the spike is only a temporary spike in demand, what do you suggest to businesses that they ensure that they best manage that spike in demand without locking in long-term costs, for example? How do you suggest that they managed to subsequent large fall in demand?

Mike Sewell: It depends how they've invested to go forward. I mean, there are multiple ways you can respond. Again, there's collaboration in the supply chain where you can work with competitors to deliver peaks where you might say, "Look, it looks like this is short-term. If I do a third and you do a third and someone else does a

third, we can solve the problem today, but we don't have to overinvest in capacity because there's no future capacity for any of us." There needs to be a way to collaborate to meet a spike in demand, particularly if it's medically driven so that you can solve a problem and not overinvest at any individual business level so that you create a long-term problem for your business.

Gavan Ord: A lot of these businesses will be in a position where they had this spike in income coming through the door. At the same time, there are many businesses which are struggling because of COVID-19. Now, what opportunities do you think might emerge for these temporarily high growth businesses? What suggestions do you have for businesses on how best to exploit those opportunities as they emerge?

Mike Sewell: Well, again, if your business becomes or is cash flow positive and other businesses are starting to struggle, but because of competition, because of timing, because of whatever, but the product, the service offering is still required, then the cash will win in the end. The opportunities to either acquire more businesses or to acquire new customers to meet that demand.

So the harsh reality of what happens going forward, I suspect will be that some businesses who are strong, now will become stronger, and businesses who haven't got robust strategy, robust cash flow and solid business models will fall by the wayside.

That's why it's really important to test the market, understand your market, understand your strategy, have a look at your financing options, your cash flow needs, and when opportunities arise take advantage of them. You'd think with COVID-19, the opportunity window is compressed and that means that good businesses will be able to manage through this much better than businesses who aren't strategically adept or cash flow strong.

Gavan Ord: Just building on from those lessons. What other lessons can other businesses learn from these high growth businesses at this time?

Mike Sewell: Sometimes it's market position. So you're in the right place at the right time, but to be in the right place at the right time, you've got to know your customers well. You've got to have a product range and you got to be in the market continually understanding what's happening with an ability to service a customer need. It's still a basic fundamental, have the right strategy, closeness to customer and balance sheet strength so that you've got adequate funding for growth if and when the opportunity arises.

Gavan Ord: Do you see any opportunities for businesses that are struggling, as you said, collaborating with these high growth or vertical integration or opportunities like that?

Mike Sewell: There may be opportunities arise. I think it's too early to predict that and for me to see. It seems to me that there will be opportunities comes through, what they look like in terms of businesses need to be strategically adept but have a strength in what they do so that they can respond to the market with their skillset. If there are gaps, then is it better to expand the skillset or is it better to build alliance with [inaudible 00:15:34] partners who they're maybe identifying the supply chain, and bring those partners in to do that work, that may be a better solution then scaling and becoming vertically integrated?

Gavan Ord: Mike, do you have any final thoughts?

Mike Sewell: If I could just say, look, some businesses have seen a spike in demand that is changed because their market is now changed and COVID-19 has changed their market and that's provided an opportunity. In the short-term, they've been able to supply that opportunity. Long-term, they expect they will be able to, it may bring in further competition, or it may help them secure a really strong market position when we get through this because they have built up strong relationships and strong contractual obligations to meet supply as they go forward.

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 at Market Gap Investments, sharing his experiences and suggestions for businesses that are actually in the situation where they can't keep up with demand due to COVID-19.

Thank you for listening to CPA Australia Podcast on the businesses that the during really well out of COVID-19 and what others can learn from that.

Mike, I'd just like to thank you for being a part of this podcast series. I hope that the listeners do get something very valuable out of your considerable experience and knowledge.

Mike Sewell: Gavan, thanks for the opportunity to share, and it's been a pleasure to be part of the podcast program.

Speaker 1: Thanks for listening to the CPA Australia Podcast. For more information on today's episode, please visit the show notes at www.cpaaustralia.com.edu/podcast. Never miss an episode by subscribing to our podcast on Apple Podcasts, Spotify, or Stitcher.