

TONY'S VIEW

Input to your Strategy for Adapting to Challenges

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My Aim

To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Adapting to a lockdown world

This week's issue of Tony's View is devoted entirely to handling lockdowns and includes results of the survey request I sent out on Saturday morning seeking subscribers' thoughts.

If you look at the top of Tview Premium or Tony's View you'll see a line which reads "Input to your Strategy for Adapting to Challenges". It doesn't say "Forecasting where the economy is going". Sure, economics does involve forecasting. But it is principally the business of analysing the impacts of new developments if everything else happening in the economy stays unchanged – ceteris paribus.

That vital assumption is never valid and forecasts are often wrong, need updating, need explaining, and history shows are too often relied upon by people at the same time as they laugh about their inaccuracy. As a rule, I avoid numerical forecasts.

I chose that subline because our world is one in which challenges keep coming along and you can't adequately handle those challenges by relying on predictions. We don't know what the challenges will be, we don't know when they will strike, but we learn each time when they do and we adapt.

One clear adaptation, or at least recognition of a new operating environment which needs to be taken on as a result of Covid-19 being in our world is the following.

The profitability of operating a business in the retail, hospitality, entertainment, travel, and tourism sectors, plus those which supply these sectors with their inputs, has permanently declined for the Covid-19 environment.

It's not just the down then up associated with Lockdown 1, and the current return to Level 3 Alert in Auckland and 2 elsewhere. Mainly it's the acknowledgement that this return up the Alert scale can happen at any time and will almost certainly happen again given the continuing incompetence shown on quarantine management. The downside for existing owners of these types of businesses is that their market value has declined. The upside is that a lower purchase price could suit someone with capital to get through the next 12-18 months and an eye to long-term returns.

I've never run a restaurant or retail outlet, but imagine that some of the adaptation required to this environment involves more than just an online presence and non-customer facing interactions. Risk management appears to require running lower levels of stocks, using more frozen and fewer fresh food items, and perhaps having back-up bulk discounted standby orders from customers who can immediately take perishable products and manage their own internal distribution of them.

If I were running a business which closes during Alert level 3, I'd have developed by now a special advertising plan to put in place during lockdown to let people know the discounts I'd be offering as soon I reopened. I'd have a rent discount plan agreed with the landlord for lockdown periods and agreement with staff on reduced pay rates and use of leave.

I'd have a protocol established with my bank for extra temporary finance if needed, and with my suppliers for delay and spreading out of payments. I'd have a list and materials ready for maintenance jobs which can be done at any time.

Again, I'm not a store operator and imagine most already have such plans in place plus others. But to assist those who have not, on Saturday I sent all Tony's View subscribers an invitation to submit their ideas for how to best handle operating one's business through a lockdown, recover afterwards, and prepare for the next one.

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Below, I reprint some of the suggestions which I think people might find useful. And don't forget, if you have been made redundant as a result of Covid-19, feel free to send me a 100-word CV advertising your desire for new employment.

To start with, here are three key themes I picked up. Many thanks to those who sent in their ideas.

1. If possible, run a business model which explicitly recognises that sometime operations will be at Alert Level 1 or 2, and sometimes at Alert Level 3 or 4. That can mean physical and online sales in place all the time – as supermarkets now offer, even though they don't have to.

Change the way you think about business success, away from profit and value growth, toward those things plus handling and bouncing back from lockdowns.

2. Think of how we older people criticise young people for lacking resilience, and how we try to teach them that bad times will unpredictably arrive and they need to know how to get through them – partly by expecting them.
3. Let clients know you are prepared for the next unpredictable lockdown, how you will service them when it is on, what your refund policy is, what the discounts will be for those who rebook once lockdown ends.

Submitted comments

“I really admired how Chevalier Produce in Auckland quickly pivoted to Chev2Home during the first lockdown. CP only supplies restaurants and cafes and C2H is direct to consumer. Just goes to show how many opportunities there are if business owners care to think more broadly.”

The business needs to find a way to move customer relationships away from physical contact based to transaction in shops conducted in person to remote non-contact-based relationships.

One example I have seen is from a retail business where I sometimes buy corporate clothes 'working style'. they are continuing to run individualised promotions, such as 'free socks for life' (if you spend over a certain dollar value every year). Their

promotions are targeted at their customer base and continuing providing something they need.

I've noticed subscription services starting to appear where for example instead of buying a bag of beans when yours run out, this is couriered to your door on a programmed cycle to ensure you are getting fresh coffee. This is being offered by Allpress and Jacks coffee in Auckland for example. This may offer a solution for retail cafes where they pivot to doing deliveries and catering services using their kitchens and skills to feed people, just in their homes.

To implement this change my local cafe would need to know my name and contact details and get my permission to contact me for this purpose. I go there often enough and would be personally happy to provide this permission and support them.

In Central Otago where I'm based, a lot of small Ma and Pa hospitality/ tourism businesses are stuck in two ways (in my opinion after speaking with several).

1. They are not prepared to reinvent themselves.
2. They think moving a few tables around and a bottle of hand sanitizer is reinventing themselves to enable them to continue to operate in different alert levels.

They are left wondering why their custom is reduced, as they have no plan and lack the expertise to develop a plan for their business.

I run an events business (Paintvine), and have a digital marketing background. Lockdowns had everybody on their phones, browsers etc. I found a lot of online advertising reduced in cost by up to a half in respect to costs per 1000 impressions (a typical measure for online ads) - lots of people were pulling back from running ads. While I saw this as a great time to be running ads and get some attention for the post lockdown period, and push for pre-sales to events after the lockdown period.

We saw a huge amount of catch up and revenge spending at our events, and we still are seeing strong sales across the country. We're now moving all these sessions in Auckland online for those that can't attend, just as we launched an online offering last time. We're also trying to add in extras to help us keep this revenue from being refunded (like adding a free drink to their ticket for when they can come back)

We also need to ship a lot of stuff, we've lost access to our storage facility due to restrictions, so we prepared by having 2 weeks of some supplies at our personal homes in order to use couriers still. Saves us from having to shut down due to lack of stock access.

We have experimented with running new concepts, like online events and the like - better to be busy than not in times like these and the perfect time to pick up new skills and learn some new lessons.

Post-lockdown, we offered discounts to get people to rebook, we also included in our marketing messaging all the Covid safe stuff we would do to keep them safe, in order to give people piece of mind and counter fears they might have - however counter to that, we removed this messaging after a few weeks of normality due to Covid-fatigue.”

We have adapted a PPE “gold rush” product for when lockdown strikes.

We have developed multiple outlet relationships online, supermarkets, big box retailers, and in the primary industry. Our clients know we can supply them instantly when lockdown comes. We are now building stock ready for Lockdown 3 as stock for Lockdown 2 is currently being run down. The cash flow peak from lockdowns will be used to accelerate long term product offering/ “increase sustained turnover” expansion into more store fronts. (Response paraphrased.)

- More zoom meetings, making contact with more people. General conversations with clients and business contacts
 - Keep "trimming the fat" This is an opportunity to give yourselves a couple of weeks to shed the business of unnecessary costs which you can take advantage of out the other side when cashflow returns.
 - Look after your staff at all costs (within reason), they are a business asset and keep them aware of what is going on. Share the issues with them and keep them employed, don't make knee jerk reactions. If you are unsure, sleep on it. One more day of deep thinking can remove fear and emotion from decision while one day more will not affect the balance sheet.
 - Think long-term, this lock down could be 2 weeks it could be 4 but in 12 months or even 5 years this will be a blip on the radar that we will remember as tough but you will want to look back and regret handling it incorrectly.
 - If you are struggling badly, search for advice. Talk to your accountant, talk to an adviser. Put effort into making decisions. A second set of eyes can often direct you away from something that takes up 80% of your attention for very little return.
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This may be quite obvious, but I'm sure there are a lot of business owners that haven't done it: Create a cashflow forecast spreadsheet and update it frequently, if not daily.

I've setup a cashflow spreadsheet for a business I'm involved with, that details the expected in-comings and out-goings on every single day for the next 3 months.

Due to the nature of my business, we have 3 scenarios – operating with normality (level 1-2), reduced (level 3) and not operating (level 4).

At a glance I can see how long we'd still have money in the bank at each of these levels. It's quite reassuring any would give early warning signs if a long would be needed.

As far as I know, most businesses are just 'waiting to see what happens'... Whilst we can't predict the future, we can inform ourselves on where we could be.

With the retail food sector hurting so much, it would be great to see these businesses building on convenience meals more and ideally doing this in non-lock down periods firstly. I do wonder why more cafes are not providing coffee through a safe covered doorway in this lockdown level 3 and a few lines to go with. This could be fine safely. Uber charges too much to food operators so having ability to order and pick up ideal option.

We have a seed roasting business supplying into food service and also promote our own brand of seed snacks. We've been running for 20yrs. Lots of producers like us, large and small, seem to all be streamlining our businesses, cutting out the things that don't make money and concentrating on the things we are good at. We had all got very comfortable with chasing every type of lead and new idea or trend. Also, lots are cutting staff by a good third on average.”

Don't differentiate between L2 and L3 – we're either at work under normal conditions, at work under alert level conditions or not working at all. Simpler is better.

When going into L1, all PPE was stored and all processes, posters, infrastructure etc preserved in readiness to go back up an alert level. Going from L1 back up to L2 took literally one bulk email.

Operate to best practice, not the minimum standard. There will always be human errors, but if you are

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operating to best practice, they are less likely to be catastrophic and will certainly be more defensible.

Put a communications tree in place so everyone knows what is happening

Have contact details and preferred method of contact for all staff. Don't insist on a one size fits all method – some will email, some will Facebook, some will text. Some might even pick up the phone!

Be ready for more frequent and longer duration absenteeism. A cold or sick household member can mean a call to Healthline, test, wait for results and then back to work. What was either no time off or maybe a day or 2 can turn into a week off.

Try to figure out potential impacts on productivity. Adjust hours, customer expectations or both accordingly.

I was referred to this good article which people might find useful, written by a subscriber Max Montgomery. <https://www.jbs.cam.ac.uk/insight/2020/seven-cashflow-strategies/>

To reduce your cost base businesses literally need to go through their bank statements and for every item ask themselves two questions.

Is this expense essential for me to survive?
Can I reduce my exposure to this expense?

This means cutting subscription services, bringing outsourced services back in house, and reducing your utilities any way you can. To reduce the risk of your payroll expenses you can change staff from being on salary to paid per hour. Finally, always be upfront with your landlord. Landlords are running a business as well; they just pay interest rather than wages. Most landlords want their tenants to have a successful business so will do what they can to help.

Now let's boost sales, or at least focus on high margin sales. Something that is easier said than done in a Pandemic, but there are still people out there that are relatively financially unaffected by Covid and they have money to spend. If you're in hospitality the obvious thing is to optimise your delivery service, but what else can you do with your space? Maybe put together bread making kits that can be ordered online, or look at renting out tables

as work stations for people that need to work from home but don't have a space to do it.

If you're in tourism how about optimising your marketing videos into a full VR or immersive video experience on the location, space, or experience that people all over the world can buy to get a mini holiday without leaving their house.

As for some lockdown tips, here are a few things that I have found useful for my own businesses:

- Be human first, call or email current and perspective clients but start the conversation with 'how are you?' and listen to them talk about whatever they want. The transaction, sale or prospective purchase might not even be discussed - connect with them as a human first.
 - Value them and let them know, if appropriate, send the same groups of people a small token of appreciation - a magazine, coffee voucher etc with a note saying you're thinking of them, you were reminded of them, you wish them well. Again, not about the 'sale'.
 - Connect with your suppliers and associate professionals - again, ask them how they are and what you might be able to do to help them/what's their biggest challenge right now. You might not be able to help but you'll leave them feeling you care about them.
 - Plan 3 things you can do for your clients, suppliers, team when your Level is lifted - then do them. They don't have to be big things, just something to connect with them as humans. Maybe it's a morning tea shout, maybe it's beers on a Tuesday, maybe it's an offsite event - you choose but choose to connect with them.
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Accommodation providers currently largely have cancellation policies requiring 72 hours' notice for a full refund. The speed with which lockdowns can come means such a policy is not realistic while Covid-19 is in our world. "In general, all businesses types should look at their cancellation policies and bring them up to reflect post-Covid scenarios". (Paraphrased)

Top tips for lockdown trading:

- 1) Communicate to your customer data base - stay connected.
- 2) Offer e commerce, drive and collect, click and collect, personal deliveries.
- 3) Trim wage costs by careful rostering to meet peak times, review trading hours.

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4) Triage - don't be afraid to close poor performing sites that cannot be resurrected.

5) Get to know your customer better than ever & make it easy for them to do business with you.

6) Value key staff."

Do the groundwork ahead of time with your bank.

"Engage early (expect extended turnaround times).

- Define the challenge, cause and actions taken (include and demonstrate engagement with trusted advisors).
- Set out what the requirements are.
- Support any request with considered information (aged debtors/creditors, budgets & forecasts, lease agreements, statement of position etc).
- Be sure to consider how any support will be repaid and over what timeframe.
- Keep the Bank updated and restart debt repayment as soon as possible.

In summary, build confidence and make it easy for both parties by doing the groundwork - demonstrating that you are in managerial control."

How to Prepare

"Have a plan, involve your team. Move more online. We built a site with Weebly. Wix is also easy. Google Docs. Snappa. Shopify. All cheap and easy.

During lockdown

- Implement things you have been putting off or too chicken to do, like only taking electronic payment or running weird/different rosters and or opening hours. Customers and team are open to change and new ideas ... and fairly forgiving at the moment if a test doesn't work out.
- Phone each person that buys through your website and ask what could be improved
- Read this book <http://www.scottsdevelopers.com/dont-make-me-think-revisited.pdf>
- Study <https://www.youtube.com/watch?v=gPUmY8WnnpU> Lean
- Build online training resources.
- Call your regional business hub for training funding for you and your team. Implement remotely during shutdown and then continue after.
- Keep your members updated, via newsletters, and social media
- Keep spending to a minimum
- Tell new customers what will happen if a lockdown comes

- Show integrity from the start – I.e., if you lose your job, we won't hold you to the cancellation conditions.
- Have some labour that is a mix of full time, part time, fixed term, casuals/temps. We have been carrying extra temps, paying premium, but the payback is now being able to quickly reduce labour with no restructure required (Fingers crossed)

What they can do during lockdown.

- Keep your members informed of what's going on, and how you are dealing with issues.
- Ask them for their help, carry on paying.
- Spreading the word about your business so their connections come to you - grow customer loyalty.

Stay visible, even if it's to say you're not operating at level 3 or whatever state you find yourself in, but will be as soon as we hit level X. Stay in touch!

- Talk to your circle of advisors, Accountant, Lawyers, Bank, Finance advisors.
- Talk to your landlord/agent.
- Talk to your staff.
- Look at what other business are doing in your sector, and do it better.
- An eatery or bar could offer the option of pre-purchasing vouchers with the aim of giving them valuable cash flow during lockdown. E.G. I pay let's say \$40 today and receive a \$50 'pre-purchase' voucher redeemable when Covid permits within the next 12 months. I have seen this with at least one bar but I think it was used as a 'come back to us' ploy as opposed to being used as a tool to bridge cash flow issues while being shut down.

How to recover

- Stick to your pricing
- Focus on the profitable products and products you can still provide during higher levels of lockdown
- Run offers that customers like ... and are profitable. Your version of the big mac combo.
- Be honest, but positive
- Speak to your suppliers – pay the smaller guys in full, negotiate with bigger guys
- Don't spend if you think you will go under, or just keep enough stock.
- Ask your customers to spread the word.

- Support associated business, i.e., other business in your retail space, or other business in your sector.
- All kiwis love deals – look at the camper vans. Free starter with your main? Local deals for local residents? Online voucher using your post code? Bring back the community.

Some experiences

- Big fashion players like xx reckon ecommerce saved their bacon. Their ability to connect remotely and stay relevant with their customer was key, such that upon reopening at level 1, the stores enjoyed good patronage.
- On the hospitality side, takeaway business does not cover the bills for restaurants but offering the service did keep those restaurants and cafes relevant and retained in the customer mind for future use.

Some businesses re-evaluated their trading hours and whether they need to open 7 days. Many have now closed Mondays - Wednesdays inclusive during Winter and will re-evaluate in Spring

For individuals

- Focus on strengthening your relationships with friends and family and on your own wellbeing.
- Invest some time into relationships: Write a hand-written letter to your parents or

grandparents, contact good friends you have not caught up with in a while and obviously spend time with your partner and kids.

- Invest some time into upskilling: Take an online-course, listen to webinars and podcasts.
- Invest some time into your house by doing some DIY: Make sure you have the supplies to do so.
- Invest some time into your wellbeing by doing something you've always wanted to do, but didn't take the time to do: E.g. read that book you bought ages ago & enjoy the quiet streets by going for some walks & bike rides."

Housing Markets

Back next week.

Interest Rates

Tview Premium contains detailed graphs and analysis of rate alternatives for borrowers and term depositors.

Back next week.



My daughter Lilia Alexander (finalist in the Youth category for Wellingtonian of the Year 2019) owns and runs Social Media based Wellington – LIVE (>200,000 followers)

<https://www.facebook.com/WellingtonLIVENZ/>

"...the largest go-to social media-based updates and news platform for the Wellington region..." Wellington – LIVE offers advertising options for local events and businesses.

Email: info@wellington.live

She also now has a photography site. <https://www.liliaalexander.com/photography>

This publication is written by Tony Alexander, independent economist. You can contact me at tony@tonyalexander.nz Subscribe here <https://forms.gle/qW9avCbaSiKcTnBQA>

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