

Surviving the Resurgent Coronavirus Crisis

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I would like to start the article by quoting directly from reports published by the World Bank and the OECD in June 2020.

“Covid-19 has triggered a global crisis like no other – a global health crisis that, in addition to an enormous human toll, is leading to the deepest global recession since the second world war. While the ultimate growth outcome is still uncertain... the pandemic will result in output contractions across emerging markets and developing economies. Moreover, the pandemic will exert lasting damage to fundamental long-term growth prospects, further eroding living standards for years to come.” — World Bank

“The global economy is now experiencing the deepest recession since the Great Depression in the 1930s, with GDP declines of more than 20% and a unprecedented surge in unemployment. The economic outlook is exceptionally uncertain.” — OECD

Thinking about an ‘after coronavirus world’ now is not an easy thing to do. Many companies in Malaysia are understandably eager for a quick return to normalcy when governments relax their Movement Control Orders (MCO). But this could be a reoccurring global pandemic forcing companies to manage unprecedented economic hardship, complexity and volatility.

The first step is to cut costs to a minimum, immediately. This is to buy time to adapt and to adopt new business models.

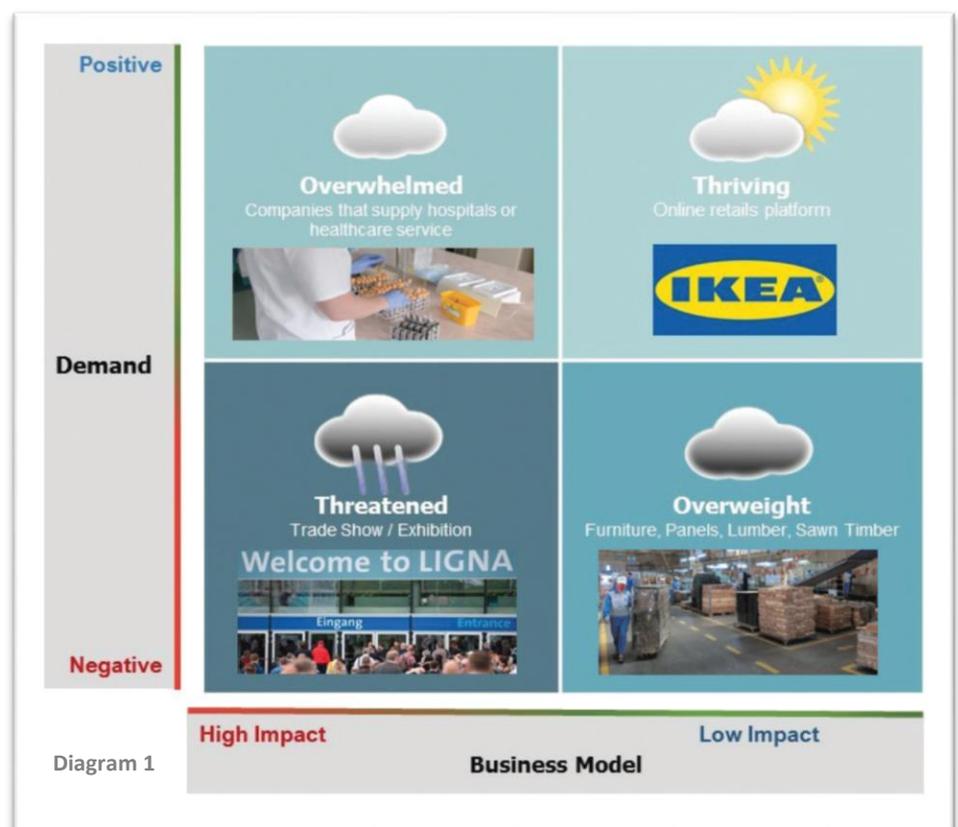
The second step is to assess your business model. To help you do this, you need to know where your current business is in relation to the new world order. Refer to Diagram 1, which will help you visualise it. Here I have made two axis – on the x-axis is how the COVID-19 situation has impacted the business model and on the y-axis is the impact on demand. This gives us four quadrants:

1. Threatened

This is the most dangerous space on the map. The crisis is exposing you to major weaknesses in your business model. Examples are airlines, sporting events and large public gatherings. In the timber business, this will adversely affect trade shows and exhibitions. Companies here have little hope of reaching another space on the map unless they totally reinvent themselves.

2. Overweight

This space corresponds most closely to what companies witness during conventional downturns, recessions or a crisis. This is a classic case of an imbalance between supply and demand. Demand has suddenly and dramatically reduced, reversing an on-going trend of every greater demand and investment in supply. Examples are what we see in most wood related businesses at the moment, from furniture, panels, lumber



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to sawn timber. Companies here can fall back on proven crisis responses, but need to be aware that this recession could be prolonged. Sensible and responsible action should be a controlled reduction in capacity, as well as to avoid price wars and discounting. Unfortunately, bankruptcies of inefficient or poorly managed operations will occur.

3. Overwhelmed

Demand shifts have worked in your favour, but are straining your operations which may not be sustainable in the current environment. For example, grocery retailers are seeing huge spikes in demand especially for PPE and health related products. The downside of this favourable demand is that the capacity of your business may not be able to absorb the increase whilst maintaining, quality and costs. Customers are experiencing long queues, stock outs, poor service and lack of choice, all of which are negative experiences. In the timber industry, good examples would be companies that supply hospitals or healthcare services. If there was ever a time to make crucial investments then this is the area to do so now. The mission here is to beat your competitors to the “Thriving” space and avoid sliding down into “Threatened”.

4. Thriving

There are no safe spaces but this is the most desirable quadrant. Demand shifts are working in your favour. The effects of social distancing and other measures do not inhibit your company from absorbing greater demand. Good examples here are online retail platforms, companies such as IKEA are claiming online sales increased by 95% during April/May whilst instore purchases are down more than 75%. More companies will invest to grow and strengthen their online presence very much at the expense of physical sales models. This is well established in the Business to Consumer (B2C) market, but relatively untried and untested in the Business to Business (B2B) sales model. The real challenge for traditional timber manufacturing companies is how to expand their range of products and most importantly increase sales channels, whilst rebalancing supply vs demand.