Beating the Covid Recession

What led to Recession?

How do we sail through this recession?

How big is it?

How can this disaster be an opportunity?

In March 2020, Jim Cramer of CNBC television said the only way to beat covid-19 is to risk a recession. Rightly so, there is a trade-off between health & economy and you would recall that we were applauding India for prioritizing health unlike USA. If we could have continued lockdown, we would have won over this disease. But for how long could we have afforded to run this lockdown? Doing so has already given a dent to the economy. With no wages & negligible savings, the poor may not survive anyways.

Lets start with understanding how & where did the recession start. Yes, you guessed it right, not only covid-19 but recession was also triggered from China. China supplies a large source of global demand of goods therefore it is highly integrated in the global supply chain. When the factories got shut, there was a supply shock and it triggered the crisis. Factories globally did not have any raw materials to work on and they began looking for new sources. If this wasn't enough, the workers started taking leaves to self-isolate themselves either due to catching the disease or out of precaution. So the production got halted and supply got disrupted.

Since it took us some time to ban international travel, the infection had already spread and people started falling sick. The lockdown further triggered the demand crunch. People were either getting laid off/pay cuts or they were anticipating such actions- in either case, it did not make sense to make any discretionary spending, thereby taking a toll on many industries that sell discretionary items. Lets not even talk about the luxury ones. The airlines ran out of business and so did travel agents & the economies dependent on tourists. People stopped ordering food from restaurants. For the first time in history, Industries which considered recession-proof were seen going through a deep slump.

What also worsened the crisis is that China was the biggest manufacturer of medical equipments and when we needed masks & test kits the most, our reliable manufacturing partner was not available. Covid-19, howsoever destructive, did teach us important lessons and made us revisit our old saying "Never put all your eggs into one basket".

In order to truly understand the nature of the covid-induced recession, let us understand how is it different from the Great recession in 2008. Great recession happened due to a housing bubble and was building for a long time in the background. However, covid recession happened all of a sudden due to a disease which was out of our control. Since it happened due to a sudden spread of disease, containing that disease early can help fix the recession fast. One similarity that the two recessions had was that the lower income earners were the ones worst impacted in both the recession.

How big is the recession?

- It is the deepest recession since Second world war
- Broadest collapse in per capita income since 1870
- IMF predicts that the global economy is going to contract by 4.9% on an average in 2020
- IMF predicts that the Indian economy is going to contract by 4.5% this year
- IMF has cut down India's FY 21-22 growth forecast to 6 % down from 7.4%

On-ground situation

- **In US, civilian job loss was 7.3M in Dec 2008 and in May 2020 it is already 13.3M!!**

- **In India, one in four employed people lost jobs in March and April.**

>>> About 11 crore people lost their jobs! We aren't even talking about the ones who had to take the pay cuts!

- Even once thriving & well funded start-ups like have made massive lay-offs.

Identifying the issue

So the issue we have identified i.e, covid-19 and consequent lockdown and now social distancing. Impact is either low revenue or slow churn. Therefore liquidity is threatened. Funding expenses is consequently a challenge and thus businesses are forced to shut shops. Unfortunately, the impact on startups or small businesses can be way more brutal as they have scarcer cash reserves and a smaller margin for managing sudden slumps.

How should the businesses respond?

1. **Manage your expenses**

A thorough cost assessment specially for your fixed expenses is need of the hour. Focussing on rents, workforce requirement for a given process, automation, paper-less processes or going digital can save you a good amount. Looking for alternate cheaper sources of raw materials and re-negotiating discounts with existing vendors right now would also help.

2. **Credit control**

Last thing you want after working hard to find /convince a client and supply a product is bad debt. Restructure your credit policies & tighten the credit controls. Seek legal help if need be for drafting the agreements meticulously.

3. Hygiene factors

Specially in industries like restaurants, hotel & retail. Focus on sanitisation-some have even built sanitisation tunnels, swab tests of kitchens, contactless ordering and payments, social distancing, employee shifts. **For retail**, some brands are smartly using virtual realty applications to try out clothes. Lenskart does and in fact has been doing a fantastic job at this even before the covid.

Staying at least 6ft away reduces the chances of catching covid. Accordingly, plant design modifications need to be done. Specially for some factories where doing 6 feet makes them work at 30-40% capacity which is not profitable at all.

Further, Large companies have a lot of complexity—many products and services. They would need to focus on fewer products because dealing with complexity in a plant would no longer be easy

4. Diversification

Both from supply side and demand side. From supply side, many people realised that over-dependence on one supplier or suppliers from one country can be detrimental. So diversify to make sure you maintain consistent supply of raw materials. From demand side, not only diversify your customer base-say income wise, or industry wise but look for new & complimentary revenue streams.

5. Labour shortages

A lot of business owners have smartly made arrangements of accommodations for workers and thus their workers dint leave for hometown. It created a win-win situation for both company and workers and they fought the pandemic together.

Work from home(WFH): Companies like TCS, Facebook, Shopify etc declared work from home for much longer period than expected. Not only is WFH going to stay but it is going to change the way employers & employees engage and operate. For eg, you don't need to be in a Tier 1 city anymore to work for the same MNC. Urbanisation & craze and all the negatives like pollution and urban-rural technological divide would reduce. The costs are definitely expected to go down as the employer no longer needs to rent a large office and the employee need not take a house on rent. This obviously applies to jobs which can be done online. Manual jobs such as in hotels, airports etc would obviously continue to operate as is but some function would definitely undergo change, for eg, the marketing department of a hotel may work from home, if not entirely then for a few days a week.

6. Funding

The investors are also facing uncertainty and would not be easily writing big cheques at the moment. So burning out money to get market share is a big no at the moment. Sustainability of business, right-problem solving mindset/product/service and a lucrative price point should become the new goals. Existing investors may help as they already have their skin in the game and would protect you from dying.

7. Communication with stakeholders

At this point of time, transparent communication is most important. Keep communicating to your clients when you open the shop, announce a new product or expect a delay in the service. Ramp up the online customer service.
In fact, in today's era satisfying customers is a passé. You must delight them.

8. Scenario Analysis

But why? Because the businesses which can think and act with speed will survive better. Only the businesses who have already anticipated a possible scenario can act in speed. As Andy Grove said, 'Only the paranoid will survive'! Cash flow scenario analysis particularly is key. If you were doing monthly cash flow projections earlier, start doing weekly or in fact daily cash flow analysis.

Let us look at the possible scenarios below. Your business strategy should be different in case any of the following pans out.

Best case/Mild economic scenario	Moderate economic scenario	Worst case/Extreme Economic scenario
Assumption: Effective vaccination, social distancing combined with faster testing to contain the virus in the next few months	Assumption: The virus follows a spiral pattern, slows down and then shoots again in multiple geographies	Assumption: The countries that have virus under control face a another wave, while those still struggling today find difficult to contain it
• Rebound in late 2020 **•Recovery in early 2021** **•Speedy in second half of 2021**	**• Recovery begins in late 2021** **•Slow in early 2022** **•Speedy in second half of 2022**	**•Recovery in mid-2022**

9. Re-visit the Business Model

The markets have been evolving, more so now than ever, so it is imperative to reassess your business model. In fact start thinking from scratch, like when we started out the business-question why do we exist, what problem do we solve, what parts of the service/product are inevitable for solving that problem and what parts can we do without. Or can we offer different packages to the clients- starting from basic to advanced. This can be great for client retention as everyone is looking out to reduce costs. As the discretionary spending is hit badly, it may be wise to drop non-essential items or luxury items from your bouquet of offerings.

Consider adding service lines-ones that complement your strengths rather than feeding the current demand of masks, sanitizers & other healthcare products as too much of supply is driving down prices and trading at such prices may not be profitable unless the scale is high and that would need much investment. A restaurant starting a online deliver only brand is a smart move. A textile manufacturer manufacturing PPE kits is also smart.

Lets take an example of a large B2C company- Panasonic. As it waits for consumer demand for its appliances such as refrigerators to return post the lockdown, the company is working on a long-term strategy—diversify into the business-to-business (B2B) segment. Panasonic also makes industrial robots for the automotive sector. With growing automation in Indian factories & Panasonic's willingness to grow B2B business, this is a perfect fit for them.

10. Partnerships/M&A

Many companies are entering into partnerships/Mergers & Acquisitions to leverage each others' strengths-be it financial or otherwise. Case of Reliance is worth mentioning here as it has smartly raised $20bn while forming strategic alliances with Facebook, Google & other investors. While Reliance is leading the sub-5000Rs. Smartphone category, Google envisages collaborating with it to build a light android version that can run on such devices. Whereas facebook is looking to monetise its messaging app Whatsapp through Reliance's latest venture Jiomart, an online grocery store, which allows ordering & payment simply through Whatsapp. Therefore, Reliance is spotting opportunities in the market but collaborating strategically with partners who are interested in the opportunity & would also add value there.

11. Government Reliefs- The Government has launched several initiatives under #AtmaNirbharBharat scheme incl:
a) Offering loan repayment moratoriums by RBI & launching funds to provide more loans
b) Widening the definition of MSME to cover companies with turnover upto Rs. 250 cr and capital upto Rs. 50 cr
c) Compliance due dates have been extended for filing TDS, Income Tax & GST returns. Due dates for making tax saving investments have also been extended. Deadlines for assessments & appeals have also been extended.
d) For three months, govt. would bear the contributions to provident fund if certain conditions are met. Contribution rates have been reduced from 12% to 10%. Payments & filing of returns for both PF & ESI have been given extensions.

How should the workforce respond?

Up-skilling

There are no new skills emerging as such. The skills have been there with us for the last 5 years. The adoption is just getting amplified.

• **Soft skills > Hard skills**. More so, now when the technology is automating a lot of hard skills. Soft skills are not limited to communications skills but how you use technology in your job.. Digital literacy is a must. Here the youth comes into picture. They have two advantages over adults-one they are digitally literate and are light on payroll. So a lot of companies are looking for refinancing their mid-level managers. But if the adults can adapt to learning digital skills, it can be a powerful combination with their experience & subject expertise. A logistics guy who knows GPS would earn more wage. The sales guy who was doing cold-calling earlier and now learns lead generation online would earn better. So within your industry itself, you can learn those soft skills and evolve with the industry. With so much of online learning available today, it has never been easier to learn soft skills.

•Having a **learner profile or high aptitude** is going to be key. Companies would want to hire freshers and train them. So keen learner, curiosity, right mindset are equally important as is a technical skill.

•**Vocational education:** In 1987, Indian & Chinese economy were almost equal but right now Chinese economy is almost 4.78 times the Indian economy. How did this happen? Among other things, China focussed on vocational education. Vocational education offers practical education in short period of time. It is much cheaper than conventional education in college and offers quick employment. For eg, course for a beautician or fashion design or photography is more practical & employment-oriented. Whereas we are stuck in the never ending race of gathering degrees. Our college education of 3 years doesn't help us in gaining jobs as the curriculum, pedagogy, research etc of 60-70% of the institutions are outdated.

Opportunity in #India

1. Never been easier to make-in-India
India's ease of doing business rank has now risen to 63^{rd}. We have moved 14 spots up this year. In fact, India has been consistently amongst the top improvers over the years. We have improved on various parameters such as starting a business, insolvency proceedings, cross border trade, construction permits, getting electricity etc. With a stable political environment, reform-driven government, transparent taxation, geographical advantages & business infrastructure, it is the right time to invest resources in India.

2. Dependence on China: Many countries and companies having faced losses & learnt lesson have made their minds to eliminate any dependency on China. Japan offered $2.2 bn incentive to Japanese companies manufacturing in China shift back base to Japan. Similarly, advisories are issued by many countries to their native companies having presence in China. Three countries where these re-directs would go is Vietnam, Mexico and India! Yes, globally companies are thinking to start producing in India. Our labour cost for most of the labours is around 5$ per day whereas for China it is $28.

3. Vocal for Local: A recent ban on using 59 Chinese apps by Indian Government and a voluntarily-introduced ban by Indian residents on Chinese products have created a new opportunity for locally manufactured products. Indian companies are gearing up to meet the increasing demand for local products.

4. Demographic Dividend: Since 2018, India's working-age population (people between 15 and 64 years of age) has grown larger than the dependant population — children aged 14 or below as well as people above 65 years of age. This will continue till 2055. This means more bread earners and less dependency. Wherever it has happened in the past, for eg., China in 1994 & Japan in 1964, it has impacted the economy positively.

5. Market: India is the fastest growing $3 trillion economy in the world. It has 40-50 cr Smartphone users and it is expected to go upto 90 cr by 2022. This along with 70 cr internet users can boost its digital economy immensely. India is no more a agriculture-led economy. Infact, its service sector contributes the most to its GDP.

There are many more strengths that put India in an advantageous position to sail through the pandemic or rather convert this disaster into an opportunity. It is a perfect time to be in India & invest in India. This is why Prime Minister Narendra Modi has been pitching to foreign companies to make-in-India, more so now than ever. And the multi nationals are looking right at India and the opportunity it presents. Many have committed investments recently. For eg, Google has committed $10bn over the next 5-7 years. Walmart increased its investment in Flipkart by $1.2 bn. Foxconn which manufactures apple phones in India wants to further invest $1bn to expand further in South India. Thomson, wework, hitachi, kia motors, Hyundai, Samsung—they are all looking to expand further in India and cash in the opportunity. What about you?!

Source: CMIE, IMF Report, ET, Livemint, Deloitte report & various govt websites