

Coronavirus - Economic Impact & How to Navigate

By Sajid Khetani | 1st April 2020

Over the weekend, I attended a webinar which was focused on understanding the economic impact of the ongoing crisis and how to navigate through it. The panelists* were leaders in the field of economics, banking, business & human resource who provided a global as well as an India perspective on the ongoing event.

The pain is real -

Uncertain factors

The world has not seen a pandemic of this proportion for almost a century now. The last known instance was the Spanish flu (circa 1918). In the recent past, the world has witnessed pandemics in the form of SARS, MERS & H1N1. The pandemic is as democratic as it can be, impacting all the nations equally.

An important point to note is that SARS & MERS tapered pretty quickly which did not allow enough time for researchers to investigate the virus. Covid-19 belongs to the same family and hence we are still grappling with understanding the virus which is a precursor to the development of the vaccine.

Business impact

All businesses are impacted irrespective of the size and sector, although the intensity varies - Travel, Hospitality, Food & Retail have been the hardest hit.

- Travel industry seems to be completely disrupted and there doesn't seem to be a respite even after the crisis tapers off its peak. We are likely to see a 2nd & 3rd level travel restrictions still in place for a considerable time
- SMEs which are the largest employment generator in India have also been impacted hard with their cash cycles & supply chain being disrupted.
- Businesses which have undertaken mindless leveraging and investment into unproductive/non-core assets will see considerable pain as their ability to service these commitments have been hit.
- Small & mid-size retailers are facing a double whammy of managing landlords and their employees. There is a need for continuous dialogue and collaboration to successfully navigate this crisis.
- In the short term, the pain will be severe. Don't expect a V-shaped recovery. Things could take at least 9 to 12 months to stabilize.

Impact on jobs

With businesses being hit, there is an expected impact on the jobs as well. We have already seen small businesses which are directly impacted by the crisis viz., travel & hospitality - they have either downsized or closed down.

Startups are the next in line which are forced to relook at their unit-economics and try to improve the cashflow. These are followed by businesses with weak balance sheets.

Aga Khan Economic Planning Board for India

People can expect zero increments and no promotions with a high possibility of a pay cut. The brighter side is that people will still have a job.

Ray of hope -

With all the gloom surrounding there are certain rays of hope

- India is in the early stages of the epidemic with ~1200 cases and the approach has been 2 pronged - lockdown & fiscal stimulus. On account of a large population and lack of testing infrastructure, India has taken a Wuhan style lockdown approach. Indian citizens have been largely cooperative, which is a good sign. India very well may set an example for the world in containing the pandemic.
- There has been no impact of the virus on the crops, which is a good sign for the agriculture sector. There are temporary hiccups in the supply chain, which will be overcome. With the agriculture sector doing well, it has a positive correlation with the economy.
- Weak business which were in a way riding the wave, will be eased out. This is good news for businesses which have a fundamentally sound business model.
- Overall, the cash cycle has been disrupted, but there is a silver lining. Businesses which had some level of adoption of the digital payment ecosystem, will do marginally well.
- Pharma, Healthcare, FMCG, Technology (to some extent) & Large Conglomerates are better placed to navigate through this crisis.

"Don't let what you can't do overpower what you can do" - Murali Natrajan

What's next -

How to identify green shots?

Actively, keep an eye on the global supply chains. China has restarted its factories within a short period of time, considering they were the hardest hit. Singapore, South Korea, Hong Kong, Taiwan have contained the crisis well and are ready to ramp-up when the need arises. Will see some realignment in the global supply chains.

Key attributes for retail businesses

The focus of businesses should be on conserving cash, which can be achieved by focusing on the cash cows. Rather than spreading too thin, it is the time to refocus on the core and go deep.

There has been a massive drop in discretionary spending owing to the lockdown. During this period, the consumer behaviour is undergoing a drastic change and we will see a critical shift in consumer behaviour once the dust settles down. Businesses have to demonstrate agility and nimbleness to readapt to the changing preferences.

Can we expect a V-shaped recovery?

*Diamond Complex, 4th Floor, 39/43, Nesbit Road, Mazagaon, Mumbai – 400010
Tel – 022-23767720 Email – programme.edc@djtrust.org*

Aga Khan Economic Planning Board for India

Understanding the economy is a patient who has had multiple organ failures, he may be recovering, but will still be a long way from a full recovery. The recovery will be gradual, as the confidence building will take time. Don't expect a China style recovery.

What should business do vis-a-vis their banking relationship?

Businesses should actively reach out to their bankers and find out ways to navigate through this crisis. Bankers are more than willing to walk the talk, as they are equally impacted and are looking for good businesses.

What should a salaried individual do?

There are 5 things to keep in mind:

- Position yourself as a valuable contributor and be proactive in going beyond one's KRAs. Work from home has changed the dynamics, so making the presence felt becomes more crucial.
- This is a time to upskill & one-up your game.
- Activate your professional network.
- Prepare for the worst-case scenario, i.e., a job loss. Reassess your cashflow and actively monitor your expenses.
- Last but not the least, the 3 Ps - Positivity + Perseverance + Prayer

Shabbir Merchant summarized the session well by using the Formula 1 race as a metaphor. We have been on a fast lane all this while, we have got a breather from that - we are in a pit-stop. This is the time to Recognize, Respond and Adapt to Change.

(Sajid is a Strategy Consultant and leads research & strategy at Turian Labs)

**Panelists profile*

- Rafiq Dossani - Rafiq is the Director of the RAND Center for Asia Pacific Policy (CAPP), a senior economist at the RAND Corporation, and a professor at the Pardee RAND Graduate School.
- Murali Natrajan - Murali is a tenured banker and is currently the MD & CEO of DCB Bank since 2009 and has been the Global Head of SME Banking at Standard Chartered.
- Rafique Malik - Rafique is the Chairman and Managing Director of Metro Shoes Ltd. – the largest national chain of fashion footwear and accessories in India.
- Shabbir Merchant - Shabbir is the founder and Chief Value Creator of Valulead Consulting, a boutique consulting firm. He has a global outlook and has been a part of the domain for close to 3 decades.