



COVID-19 AND NIGERIAN BUSINESSES: FROM SURVIVAL TO THRIVING IN A CHANGING WORLD

EXECUTIVE SUMMARY

A Quake on the World Economy

Global collapse in world economy

Caused by the Severe Acute Respiratory Syndrome coronavirus2 (SARS-CoV-2), the Coronavirus disease 2019, code name COVID-19, has plagued nations, leading to over 1,000,000 cases and an excess of 55,000 deaths globally as at April 3. The coronavirus has, so far, had a devastating effect on human lives and has begun to leave its negative impact on economies and businesses worldwide. For example, Bloomberg predicts a scenario of Zero global growth in 2020 with a lost output of \$2.7 trillion. The Organization for Economic Co-operation and Development (OECD), in early March, noted that “annual global GDP growth is projected to drop to 2.4%, down from the 2.9% projected earlier”.

In its analysis, Renaissance Capital revised down the growth forecast for Sub-Sahara Africa from 3.5% to 1.3%. A reduction in global economic activity has lowered the demand for oil, taking oil prices to a multi-year low of a price in the neighbourhood of \$30 per barrel.

Collapse in national development indices

Nigeria is also not exempted from a downward revision of the GDP growth rate to less than 2% by major analysts, down from the initial 2.4% projection. Nigeria will lose an estimated 45% of its imports from its top 5 trading partners leading to domestic

scarcity. It will also lose another estimated N2.27 trillion worth of exports which should drive economic activities. There will likely be a spike in production costs, increased lead time to restock raw materials, hoarding, panic purchasing, and irregular price fluctuations as companies are forced to price goods and services at envisaged replacement cost and, at worst, cut production due to unavailability of raw materials and scarcity of FX given the reducing reserves leading to price adjustments by the Central Bank of Nigeria (CBN).

Human capital challenges

As people reduce social and economic activities and government revenue declines, we see a conscious decision by businesses to conserve cash due to low sales with jobs and salaries threatened. Government at the state and national levels are likely to slow down investments in human and physical infrastructure. Then, as schools close, low-income households have reduced chances of learning even with the online alternatives being hurriedly provided by some state governments, and reduced chances of returning to school at later resumption date. This translates to lower long-term earning trajectories for the students and their families and reduced overall human capital for the economy.



Even now, employee productivity is expected to drop especially for companies that were not designed for and have not made remote working a part of their processes. Business leaders must enable remote working for a portion of the workforce and support people as they transition to digital ways of working.

Cash crunch

Every business seeks to operate from a point of advantage, and this may create conflicts. As corporates seek cash flow to stay afloat, they must negotiate means to shorten their cash cycle but this advantage may be upended by bad debts and cash discounts. In addition, businesses must liquidate non-income generating assets to free up cash; pay up foreign currency-denominated debt as soon as possible; where possible, businesses must seek means to hedge against exchange rate hike and possible interest rate fluctuation; weigh the benefits of low-interest foreign debt against the impact of Naira devaluation; and understand the price elasticity for the demand of their products amidst competing alternatives.

Drop in purchasing power

With over 100 million people living on N700 daily, more than half the country will be under the immense pressure of inflation. As more people consequently seek cheaper but less healthy substitutes, this begins to lay the foundation for future pressure on our limited health infrastructure. Professional Services, Sports, Education, Entertainment, Transportation, Retail Energy, Hospitality and Tourism Services will need to plan and hunker down for the coming lull in their sectors. However, the new essential service providers – Food and Agriculture, Electricity, ICT, Trade and Manufacturing, Banking, and Healthcare businesses – may have to boost capacity to meet the coming demand as border closure prevails, movement is further restricted, and social distancing is enforced.

Pressure on health system

Beyond the economic implications, it appears apparent that Nigeria is not ready for a pandemic of

this magnitude. The need for the rapid introduction of innovative and affordable health insurance schemes and telemedicine options has now become more crucial than ever. Health insurance firms, as well as pharmacy chains, must scale up their operations, responsiveness, and overall customer service using technology while non-profits must seek collaboration with government.

Hope in the horizon

Surviving the storm – short term

It is necessary to borrow from Snowden and Boone's (2007) masterpiece, a Harvard Business Review article on managing in difficult times. The authors discussed how to respond in simple, complex, complicated, and chaotic business scenarios and market environments. Most unique to this present discourse is the complex business context as it references business situations characterized by flux and unpredictabilities, emergent instructive patterns, unknown unknowns, a myriad of competing ideas. It is crucial for business leaders to distinguish between hard facts, soft facts, and speculation, and to make fact-based decisions by probing situations and responding by creating environments and experiments that allow for patterns to evolve.

However, there are chances that the situation may snowball into a chaotic one considering the less than optimal state of many Nigerian institutions. Business leaders need to step up and act in what they consider to be the best interests of the firm. The danger with this command-and-control regime is that businesses may miss the opportunity to innovate amid the adversity except it responds appropriately. Leaders can mitigate this by setting up parallel teams that can pursue the spotted opportunities even in such chaotic environments.

Employees and the community are looking forward to business leaders to demonstrate responsible leadership inclusion, diversity, empathy, compassion, humility, transparency and openness in taking decisions while actively listening to divergent views and balancing the needs of critical stakeholders such as employees, clients, suppliers,



community, governments, and investors.

Consumers and partners are looking for business leaders to demonstrate empathy and provide support to ease the difficulties being experienced.

Businesses can consider providing special discounts, bonus scheme, flexible payment terms and other freebies to reward loyal customers and partners during difficult times. Such schemes should deepen the relationship with the brand.

Looking beyond today – long term

At every point in the history of global inflection such as this, few companies emerge stronger than others. Companies must be very prudent to know in what direction to spend their scarce resources.

While many businesses will be driving for cash at the expense of profits, smart firms must skillfully drive for both. Just as the Great Depression defined consumer habits for decades; oil supply crisis of the 70s led to the first efforts at energy efficiency, diversity and conservation; the 2008 financial crisis triggered a new regulatory framework across the financial service industry; the COVID-19 health emergency will change the way we work and live including online teaching, remote work, distributed supply chain, mobile delivery service, eCommerce and digital financial services.

Business Leaders must also build Resilience into their operations to enable the business to have the ability to survive and thrive through multiple crises. Operations must have definite business continuity plan that offer inbuilt redundancies and avoid dependency on one source or have a single point of failure. Diversity of the workforce across gender, culture, ethnicity, social status, religion and other dimensions must be actively promoted, as this would enrich the conversation and foster diverse thinking during moments of crisis. Infrastructure and machineries must be modular and be such that can evolve over time and can be fashioned for different usage. Lastly, business leaders must act with both courage and prudence, and ensure the business is embedded in an ecosystem to benefit from affinity and economies of scale.

To conclude, we urge our business partners to

brace up for what lies ahead and be agile, flexible and adaptable in a rapidly changing situation. The next crisis is lurking around the corner. There are many unknown unknowns and uncertainties ahead.

Business leaders would do well to consult multiple sources and experts, map out alternative scenarios, set up plans to ride the storm and come out of this with minimized damage to their business operations. Business Leaders must deliberately look for opportunities amid the adversity – new consumption habits, new products, new services, new clients – and rapidly innovate around new needs to create future income streams. Business leaders must reserve the ability to place bets on future opportunities and consciously reserve, at least, 1.5 hours per day for work focused on preparing their organization for the future, so they are not consumed by the urgent imperatives of today. Those who succeed will be leaders who can creatively lead the organization to navigate the crisis of today while also sensing and exploring the opportunities of tomorrow.

Reference

Snowden, D. J., & Boone, M. E. (2007). A leader's framework for decision making. *Harvard Business Review*, 85(11), 68.

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