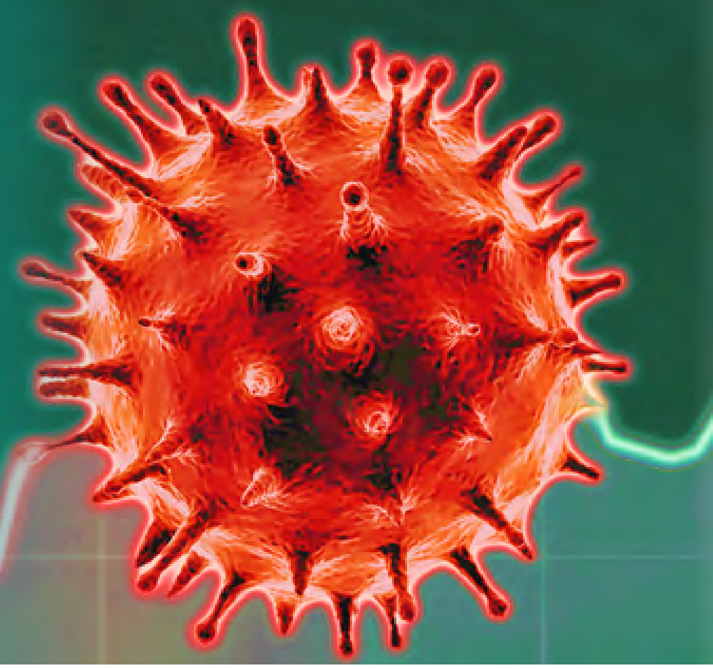
COVID-19: A Business Impact Series



Preparing for a Post COVID-19 World

Issue 10 | 01 June 2020

With Retailers and FMCG (Fast Moving Consumer Goods) companies grappling to come to terms with the impact of the COVID-19, we all face a future that is both uncertain and unpredictable. For many companies, the next six months will have only one goal: survival. For others, there may be an opportunity to focus on how to emerge from the crisis a stronger, better positioned, more valuable business. Whatever your objective, it is essential to take steps to position your business for the post COVID-19 world (the new normal) while taking care of your employees as well as your broader stakeholders.

Key actions to consider in a post COVID-19 world

Previous economic crises have shown lasting positive and negative effects across the global economy and have led to structural changes in the business environment. The COVID-19 situation is no different, hence it is significant to highlight various actions that businesses should consider in preparing and adapting to a post-COVID-19 reality to ensure business continuity and strengthen long-term competitiveness

Capital search: Creativity needed to weather the eye of the storm

There is no easy way to put it, the next few months are going to be challenging. Even strong, well-capitalized, and well-managed businesses are going to have to work hard to manage cash and maintain business continuity. Some businesses previously considered viable will fail as many are facing a period with zero revenue.

However, some segments are scrambling to cope with demand spikes. For example, in the week ended 21 March, US off-trade beer sales grew 34 percent - a category that remained in a low single-digit growth range for most of the last decade. Similarly, over the two weeks to the end of 21 March, total US CPG sales increased by $8.5bn, or 15x its average growth rate.

For those that find themselves needing additional sources of capital, we advise thinking creatively where possible. Broadening the search applies equally to companies facing severe, temporary headwinds as well as those struggling to meet a sudden rise in demand.

Portfolio optimization: separate the signal from the noise

While headwinds created by the viral contagion are likely temporary, the economic impacts are likely to be long-lasting. The post-COVID-19 world is going to be very different.

Online retail and direct to consumer offerings have enjoyed a significant step up, with Nielsen estimating that 600,000 households tried online grocery shopping for the first time in the UK during March. At the same time, gig economy shopping models such as Glovo in Spain and Buymie in Ireland have seen a surge in demand. Similarly, Takeaway.com reported a dip in order volumes in mid March in Germany and the Netherlands before ending the month with a higher run rate than January or February in both markets.

In contrast, many physical non-food retailers may have to weather prolonged closures. Similarly, many hotels, restaurants, and bars are unable to operate until restrictions are lifted. A Nielsen survey of mainland China consumers indicated that 86% now expect to eat at home more often than before the outbreak. We see the high street becoming a very different place over a very short timescale.

Disaggregating transient from structural changes will be critical to positioning your business to succeed post-COVID-19. For large corporates, dynamically reviewing which assets are going to thrive in the new world should allow you to maximize your ability to benefit from the recovery when it comes.

Be agile and proactive to maximize value

Just because asset valuations have fallen does not mean that vendors' expectations have rebased. M&A volumes usually fall during times of uncertainty. However, companies in need of capital may welcome investment from new well-capitalized partners. For trade buyers and private equity alike, now is a great time to draw up a wish list of assets where a future investment or partnership may be mutually beneficial. It might even be an opportunity to revisit previously reluctant targets. Companies who are able and ready to act can potentially benefit from the inactivity of others.

Discipline remains key to creating deal value

To borrow an often mis-attributed quote: "A great business at a fair price is superior to a fair business at a great price." It can be tempting in times of turbulence to lose focus on the longer-term trends and opportunities. Strategic fit, price, asset quality, and execution discipline will always be key drivers of deal value.

Look up and down to reimagine your supply chain

For many companies, business continuity will depend on the quality and viability of both their suppliers and their customers. For some, this will require a complete reimagining of their entire value chain. To cope with a sudden acceleration to double digit growth, one US food manufacturer has offered office employees employment in its factories. In China, some brands, like HEMA – a chain of grocery retailers currently being developed by online giant Alibaba – have responded by adding new layers of information about their products and, importantly, about the individuals making the 'last mile' delivery.

M&A solutions can help and can protect both market access and supply while building additional resilience into a business. As highlighted in our February 2020 report, 'Pursuing opportunities amid uncertainty (PDF 2.4 MB),' we argued that buying competency is increasingly common, and we believe this trend is likely to become even more common as companies adapt to the post-COVID-19 world.

Do the next right thing to protect your license to trade

There are numerous examples of consumer-focused companies taking steps to help society cope with the current challenges, including several FMCGs providing donations to London's new Nightingale hospital. At the same time, tobacco companies have been working on a potential vaccine, and alcohol (and fragrance) companies have been making hand sanitizers. One global FMCG / Health company has donated $20mn to support programs across the communities where it operates.

As companies position themselves for the coming months and the world after COVID-19, we believe it will be more important than ever to make decisions, where possible, with an ESG mindset. Cash, costs, and continuity will always be vital in a crisis. Still, at the core of it all, companies must protect their license to trade or risk losing the confidence of consumers and investors alike.

Without a doubt, these are challenging times. Many of our norms and supporting systems for retailers and FMCGs are strained. Survival and maintaining the license to trade remains a top priority. For many, that may include searching for capital, cash, or managing supply chains. But for others, this is an opportunity to re-examine one's objectives with an eye towards emerging as a stronger, more focused and more resilient business.

Sources: Nicola Longfield | Leadership, 15 April 2020
By Nicola Longfield, Global DA Consumer & Retail Lead; Mitchell Collett, Director Deal Advisory, KPMG in the UK

Economic and Regulatory Updates

CBN revises timelines for resolution of dispense errors, refund complaints

The apex bank posits that the revision is in line with its resolve to enhance the quality of service bank customers are given. Nigerian banks are, therefore, required to implement the revisions starting from June 8, 2020.

The Central Bank of Nigeria, CBN, has revised the timeframes for the resolutions of all botched online transfers, POS transactions, and ATM withdrawals. According to a brief statement that was posted on its official Twitter handle this evening, the apex bank said this is in line with its resolve to enhance the quality of service bank customers are given. Nigerian banks are, therefore, required to implement the revisions starting from June 8, 2020.

Output cut: Nigeria leads in OPEC non-compliance with 50 unsold cargoes of crude

Nigeria and Iraq were reported not to have kept to their commitment to the huge production cut deal that had promised to reduce output by 9.7 million barrels of crude oil per day.

As opinions continue to differ on whether OPEC will extend its current oil output cut beyond June, available information has shown that not all members of the oil cartel complied fully with their agreed quotas for the month of May. This is despite the fact that the oil output by OPEC member countries reached its lowest in almost 20 years.

President Muhammadu Buhari reshuffles NNPC's board of directors

President Muhammadu Buhari has approved the reconstitution of the board of the Nigerian National Petroleum Corporation (NNPC) after the expiration of the tenure of the current board.

The newly constituted board members are expected to serve for a tenure of three years, effective immediately. They will take over from the last board, whose 3-year tenure officially ended in 2019. Information about this development is contained in a State House press release that was published on the official twitter handle of the Nigerian Presidency on Saturday morning

For feedback and enquiries, please contact:

John Anyanwu
T : +234 803 975 4061
E : john.anyanwu@ng.kpmg.com

Omolara Ogun
T : +234 808 200 0128
E : omolara.ogun@ng.kpmg.com

David Okwara
T : +234 708 383 3853
E : david.okwara@ng.kpmg.com

Olusegun Zaccheaus
T : +234 703 417 0139
E : olusegun.zaccheaus@ng.kpmg.com

Ebenezer Ibeneme
T : +234 808 313 3019
E : ebenezer.ibeneme@ng.kpmg.com

home.kpmg/ng
home.kpmg/socialmedia