



BUSINESS BEYOND COVID

Plotting Your Recovery

Editorial

We're in for a long recovery period. Let's use it wisely.

When a 'caution period' is issued in motorsports - to clean up debris from an accident or to wait out heavy rain - all cars are forced to slow down and stay in formation. Often, this is when changes happen. Some take advantage of the 'down time' to stop and make repairs. Some get ready for an overtake on the restart. Others lose their lead.

The situation we're in right now is a 'caution period' of sorts. The pandemic and its knock-on effects have forced us all to slow down. We don't know when normal racing will resume again, but we know that when it does, there will be new winners and losers. And there are things we can do to try to capitalise on the 'downtime' and build up an advantage.

The economic debris of this crisis will take time to clear, and stormy patches (in the form of new spikes in covid cases or political repercussions) might come in waves. So, far from the V-shaped rebound we were hoping for, what we'll probably see is a W-shape with a slow ascent.

While this means that businesses must brace themselves for a prolonged slowdown, it also means that we can (and should) take advantage of this time to refuel, do critical 'maintenance' work, and prepare to jump

ahead of competitors once things speed up. We're helping our clients in Greater China do this by focusing on three sets of actions simultaneously:

- **Surviving:** staying financially & operationally on track
- **Streamlining:** doing 'maintenance' work to improve performance
- **Strategising:** rethinking future strategies in light of current disruptions (see page 3)

Unfortunately, what we're facing is not a usual crisis where we can shift successively from 'survival mode' (where the focus is on bold cost cuts) to 'recovery mode' (which requires future-focused investments). We have to do it all at once in a complex, continuous balancing act - a challenging new task for decision-makers.

Adaptability: The Winning Trait

In adverse weather conditions, adaptable drivers excel. One of the many windows opened by the 'Great Lockdown' is that it's left us with no other choice than to adapt - quickly and drastically. Even conservative leaders of traditional organisations have voiced to me that, by pushing them to solve the unsolvable, this crisis will leave them with a higher change threshold - both personally and at work.

Now more than ever, companies need leaders who are ready to embrace and drive change because this crisis will redefine what it takes to succeed in China (see page 2). It will accelerate some trends (especially digitisation), reverse others (many predict the death of 'just in time') and may trigger new ones that we can't even envision yet.

At Fiducia, we're proud to be driving some of our boldest internal changes in the last decade - from crowdsourcing ideas on how to boost our bottom line to digitising at a much faster pace.

For this publication, our finance, tax, strategy, trade, and executive search experts have all chipped in with concrete ideas on how businesses can adapt to a new reality in the short and long term. Their suggestions show how surviving the Now can go hand in hand with streamlining and strategising for tomorrow.

Adapting to unimaginable disruptions has gotten us through the first stages of this crisis: the shock and the standstill. That same openness to change will remain critical in the next phases: to weather the recession, to withstand possible relapses, and to be ready for a rebound. Let's keep rethinking every corner of our businesses, because if not now, when?

Stefan Kracht
Owner & MD



Insights from Fiducia Strategy Advisory (FSA)

Gear Up for These Post-Covid Trends

If your idea of recovery is returning to pre-covid normality, you might be in for a disappointment. The pandemic will reconfigure market trends, and therefore competitive success factors, in important ways. Here are some trends that we expect to see. Keep them in mind when planning your recovery strategy.

Consumers

► **'Duansheli':** After covid, not all Chinese consumers will be indulging in 'revenge spending'; a new buzzword on Chinese social media. 'Duansheli', a term for cutting down on trivial things, is also trending. Surveys show that many consumers are planning to be more careful with their money in the months ahead.

This makes sense. Between 2010 and 2019, household debt in China as a percentage of GDP doubled to 57%. Much of that growth has been driven by the high-spending post-90s generation, who grew up in a prosperous China. The pandemic will be the first economic shock in their collective memory.

As a result, we expect to see more international brands and retailers expanding into mid-/low-range assortments, and offering more discounts or financing options.

► **Omnichannel acceleration:** We've all seen China's first-quarter spike in ecommerce with some skepticism. Yes, online apparel sales rose to 70% of overall sales (up from 60% last year), but will that extra 10% go back into brick-and-mortar stores once they reopen fully? We think China's online sales boost will be long-lasting. The lockdowns forced traditionally offline categories, and players, to go online. Geely and Ford, for instance, are now selling their cars on their websites and delivering them to your doorstep. A Fiducia client who

sells machinery just set up a B2B online store for their spare parts, to let offline distributors focus solely on their core products.

On the other hand, the crisis has underlined the need to be physically close to end customers. Some of our industrial B2B clients are planning to expand their offline presence to deliver after-sales services more conveniently.

We expect to see foreign players speeding up their online sales/marketing strategies for China with bigger investments and key partnerships. More importantly, they will be busy developing better online/offline integration models.

Competition

► **Market consolidation:** The top 10% of companies in China take home about 90% of total economic profits, compared to 70% in the rest of the world. Big players here already have a huge upper hand in terms of resources, degree of digitisation, and other strengths that are crucial during this crisis.

The 'Great Lockdown' widened that gap. In February, the online market share of the top ten sports apparel brands in China grew an extra 8% from the previous year.

We expect to see small and mid-sized foreign brands respond to this by branching out into new customer segments, either organically (e.g. by introducing new product lines) or through partnerships and M&A.

► **The rise of ecosystems:** Size is not the only trait that matters. What gives the likes of Alibaba and Amazon an unmatched resilience in this crisis is their ecosystem advantage. By owning autonomous cloud, logistics, ecommerce, and fintech businesses,

Alibaba's bets are hedged.

The magnitude of these ecosystems is not something many can replicate, but we do expect to see more companies diversifying and 'crossing over' to new segments to compete on more than one front. For example, component suppliers who relied on the hard-hit automotive sector are seeking opportunities in other industries, especially medical. The temporary 'pivots' by respected global players (e.g. ventilators by Tesla and hand sanitiser by LVMH) will also play a role in fueling a more experimental mindset among conservative Western companies.

Supply Chains

► **The end of 'just in time' (JIT)?** The crisis has exposed the fragility of JIT supply chains. For Chinese suppliers, the timing of the outbreak was a stroke of luck: their warehouses were full in preparation for Chinese New Year, so many could avoid shortages/delays. Companies exporting to the West were also 'saved' from shortages because demand plummeted right after the supply shock. Still, the crisis was a wake up call. Companies will start managing their purchasing, inventories and logistics with a greater focus on 'just in case'.

But the crisis is also pushing companies to 'play it safe' financially, which usually implies doing the opposite (keeping inventories at a minimum). We have spoken to garment/textile companies who are actually looking to switch from a large-advanced-order system to a small batch/JIT system to tackle the issue of dead stock piling up upstream.

The fate of JIT is yet to be seen. What's certain is that companies everywhere will be looking for new models to safeguard both their supply chain and their financials.

Marshall Chen
Equity Partner, FSA



Advice from our experts

Business Beyond Covid: A Recovery Dashboard

Our team in Greater China recently celebrated coming out of the phase that we call '100 days of covid'. We gave this critical chapter a name, and marked its end, to symbolically turn the page. Although we know that delicate times are far from over, we have enough stability now to snap out of pure survival mode and focus also on the future.

But juggling short term urgencies and long term priorities is not easy. We came up with a 'Recovery Dashboard' to keep our balance in

check. It reminds us to focus simultaneously on:




- surviving the now while streamlining/strategising for tomorrow
- reducing costs while driving income up and enhancing productivity

We hope that this framework - and the advice shared by our experts - can help decision-makers like you keep a balanced approach too and identify possible gaps in your current action plan. For instance, is your team's focus on cash conservation blocking IT investments

that could drastically boost productivity? Are you foregoing a good moment to simplify your setup and operations in China? Is top management too hesitant to discuss out-of-the-box ideas that could become your company's next big growth drivers?

The post-covid recovery path will be long, bumpy, and uncertain. Keep this dashboard as a 'reality check' that you can keep coming back to, to make sure you're gearing up on all fronts.

A RECOVERY DASHBOARD FOR LEADERS

	 SURVIVE <i>Stay financially & operationally on track</i>	 STREAMLINE <i>Do 'maintenance work' to boost performance</i>	 STRATEGISE <i>Rethink & strengthen your future 'race strategy'</i>
Cost down	<ul style="list-style-type: none"> ▶ Cut discretionary spending ▶ Consolidate expenses (e.g. combine events/trainings) ▶ Negotiate with vendors/landlords ▶ Hold salary increases/bonuses ▶ Consider performance-based layoffs 	<ul style="list-style-type: none"> ▶ Perform cost benchmarking ▶ Optimise legal structure ▶ Optimise tax structure 	<ul style="list-style-type: none"> ▶ Consider closing less profitable business units/locations ▶ Consider a leaner business model (e.g. from manufacturing to licensing)
Income up	<ul style="list-style-type: none"> ▶ Consider government aid ▶ Apply for loans preemptively ▶ Consider temporary income streams ▶ Sell assets ▶ Extend AP & shorten AR to conserve cash 	<ul style="list-style-type: none"> ▶ Reallocate resources & people to most profitable revenue streams 	<ul style="list-style-type: none"> ▶ Identify & invest in new revenue streams ▶ Accelerate online sales & marketing ▶ Test new geographic markets ▶ Plan/develop critical talent & leaders ▶ Consider growth through M&A
Productivity up	<ul style="list-style-type: none"> ▶ Install critical plug-and-play IT solutions ▶ Get temporary third party support 	<ul style="list-style-type: none"> ▶ Digitise manual/paper-based work ▶ Outsource admin/commercial functions ▶ Optimise financial controls ▶ Optimise team structure & workflows ▶ Restructure jobs of underutilised people 	<ul style="list-style-type: none"> ▶ Digitise cognitive work (e.g. QC, demand forecasting) ▶ Diversify and optimise supply base ▶ Rethink organisational culture



Survive



Don't overlook critical government support

Even clients with strong balance sheets are looking for ways to enhance liquidity, because no one really knows how long or deep the downturn will be.

Many have approached us to help them raise long term financing, review their cash flow or take over some work-intensive functions (especially payroll management). But interestingly, in Hong Kong not many clients are proactively applying for government relief. One reason may be that we're not used to such government interventions here. Many wrongly assume that they're just for small, struggling companies.

If you have a Hong Kong company, definitely look into:

- the 50% wage subsidy (capped at HK\$9,000 per month)
- 100% government guaranteed loans
- special funding for IT investments

Hudson He & Rebecca Fan
Accounting Services



You'll need people on the ground in China

The announcement of the first charter flight for business people from Germany to China is encouraging, but the reality is that - for most business travelers - quarantines and travel bans are likely to remain for weeks or even months.

Chinese counterparts are coming up with great ways of staying in touch, e.g. suppliers doing 'virtual showrooms' on Zoom for buyers in Europe. But that's often not enough. Especially now, when you need to have an even closer eye on your supply chain.

As part of our usual support, we were helping clients to visit suppliers, carry out inspections, take over order follow-ups, and so on. But we started getting more and more questions about local restrictions, about what's going on in the ports, in customs, on the highways and distribution centres. So we have started offering packages of ad-hoc 'troubleshooting' support. Basically, a dedicated trade assistance hotline for companies who need eyes and hands on the ground in China.

Dale Dai & Song Lin
Trade & Technology





Streamline



Digitisation is no longer a “nice to have”



International companies in China are constantly innovating their R&D, production, and sales. But when it comes to their administrative processes, digitisation tends to be sidelined as a ‘nice to have’. Accounting, order management, and HR often remain shockingly paper-based and labour-intensive.

Covid will change this. Not as a driver, but rather as an indicator: it will reveal the opportunities that many companies have missed out on.

To reach next-level cost reductions and productivity gains, and to enable remote collaboration, businesses will need to optimise every corner of their internal procedures. And this will require a digital strategy.

The biggest challenge for many is not knowing where to start. Decision-makers are rarely software experts, and their in-house IT teams sometimes lack a ‘big picture’ view. We’re helping clients bridge this gap with what we call ‘Digitisation Roadmapping’. Together, our IT experts and business advisors review the client’s operations, identify areas of improvement, and plan a course of action.

Our focus is not just: What software do you need?. It’s also: Do your systems match your workflows? Will this IT investment unlock sufficient cost savings? Should these tasks even stay in-house, or should they be outsourced? We also help companies ask themselves: “What do our clients want?” rather than “What are we able to do?”.

Successful digitisation requires much more than simply investing in technology; it requires a mindset shift. It starts with recognising that creative problem-solving and improvisation are as crucial to success as the methods of detailed planning and calculation.



Alexander Nowotny
Chief Digital Officer

Redesign your regional setup

Many of our clients set up roots in China 10 or more years ago. Their business strategy and the market reality have changed, and in some cases their setup hasn’t been optimised to match the times.

Right now is a great moment for some deep ‘tidying up’ - whether that’s withdrawing resources from under-performing locations, closing down redundant legal entities, or simplifying a tax structure that has gotten too complex. From our experience, these are the initiatives that lead to the most significant and sustained cost savings and efficiency gains.

One area particularly worth rethinking is your regional focus. Even before the pandemic, we were already helping many clients set up sales/purchasing hubs in Hong Kong. The crisis has highlighted the need for geographical diversification, so we expect to see even more companies setting up regional hubs in Hong Kong or Singapore, both of which offer strategic access to APAC markets. Governments will be competing to lure in foreign investors that help prop up their economies, so also in that sense it’s a good moment to consider a new regional hub.



Helen Wong & Shirley Wong
Corporate & Tax Advisory



Strategise



Review your leadership lineup

Whether you’re planning a deep reorganisation or pushing operational excellence, chances are this crisis will urge you to realign roles and make critical staffing decisions. This offers a unique opportunity to reevaluate competencies and potential within your current team. High-performers are in high demand when times are tough, so it’s crucial during a crisis to identify who your A-players are and hang on to them.

The right type of assessment process can help you select the best internal candidates for new positions - and even ensure that the restructuring process is legally defensible. We’re supporting clients with assessment centres that are strategically suited to the current scenario.

Take Trait-Map®, the advanced personality assessment that we use for leadership candidates: it’s web-based, low-investment, and takes only 15 minutes to complete. The depth of analysis is impressive, though. It gets to the bottom of candidates’ motivation drivers and whether they’re likely to live up to new expectations.



Thaddaeus Mueller
Fiducia Executive Search

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