The Unprecedented Disruption of COVID19: What Distributors Should Do Next

By Mike Emerson

Most of us have been through natural disasters and recessions, but coronavirus, or COVID19, is a new kind of disruption. Meetings and events are canceled. Employees are working from home. As I type this, all the public schools in my state have been shut down, another burden on those who have children who will now need care during normal working hours. All major sports leagues have been suspended, and the theme parks an hour away from me in Orlando are all closing.

How long this will go on is unknown. The administration is saying it could be August until things get back to normal.

The uncertainty is a big part of the issue, which means that big supply and demand aftershocks will be part of the effects. It would be unwise to expect a bounce back to business as usual any time soon. Beyond the urgent, here are four critical steps distributors need to take now to strengthen their positions for a new normal.

Stress-test your business.

Stress-test your business under various revenue levels. Start by building a proforma with revenue levels of 80%, 60% and 40% of budget through the next four-plus quarters, and deliberate on the appropriate actions to scale expenses accordingly. These are difficult decisions that will ultimately involve dramatic payroll reductions. It is better to identify what you will do with forethought than how you'll react under the gun. Which positions will be eliminated? Which positions will be considered for salary reductions or reduced hours? Can leases be terminated or adjusted?

Look at your balance sheet.

To what degree and how long can your business sustain losses? Can you preserve capital by negotiating with suppliers on payable terms? What assumptions should be made on the vitality of your accounts receivable? Are there risks relative to lenders calling in loans?

Consider the what-ifs.

At some point the clouds will part, and the dust will settle. When that happens, the competitive landscape is likely to look much different. To prepare, focus on scenario planning. Scenario planning entails putting together a list of potential occurrences that you would need or want to react to. Some of these could be:

- A main supplier dissolves or becomes unable to fill orders.
- The line of a competitive supplier becomes available.
- Talent becomes available.
- A competitor in the market liquidates.

- A service company that serves the same customers or has a complementary offering is up for sale.
- A top customer goes bankrupt.
- A competitor's top customer goes bankrupt.

When your list has been put together, consider how you would identify its occurrence (some are easier than others) and what series of actions you should consider taking. Big market-share swings happen into and out of recessions. Those that retain capital sooner than others going in and those that have capital to deploy coming out can win big. So, even as we're in the throes of some unprecedented disruption, keeping an offensive mindset can pay off.

Focus on strategic planning.

Strategic planning in these circumstances doesn't mean doing a SWOT analysis and looking five years down the road. It's recognizing that there is an opportunity to make changes to your business while it's still in a semi-state of shock. It is much easier to make changes during times of disruption than when a heavy sense of status quo prevails. Three specific areas to consider are:

Organization structure: Consider the likelihood that personnel on-hand at the end of the year may look different than it did at the beginning. Use this opportunity to evaluate whether the organization itself has been, asking questions like whether there have been unnecessary bottlenecks, or manager positions that may have been artifacts of the 90s. Or would it make more sense if your sales effort was organized functionally or by industry vertical as opposed to geographically? A lot has changed in the market that demands a new approach to sales force structure. Are there opportunities to implement new or hybrid selling roles to meet customer needs? Should you invest in digital marketing? Don't let commission or incentive structures become obstacles to your creativity.

Cost to serve: It is important that visibility exists on costs, particularly variable costs. Understanding your costs will allow you to make decisions on service models and policies such as delivery fees or frequency and minimum or prepaid-freight order sizes. If you have incorporated cost to serve into your business, recognize that old cost-driver values no longer apply.

Strategic pricing: I do not mean velocity-based pricing, but strategic pricing more literally. Remember, there is an imperative to make money. Gross margin, to include fee revenue, needs to cover total costs. Furthermore, if there are supply issues with limited product availability, make sure those customers that drive profits are at the head of the allocation line. Now is the time to be discriminant and make sure "A customers" get "A prices" and customers where you're the last resort do not.
We find ourselves in difficult and unprecedented times. It is times like these that new trajectories are formed. Recognize that the situation we're in is likely not one that is just endured for a little while before things get back to normal.

It is going to be a struggle, but do not miss the opportunity that this disruption brings.

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