At this point in the economic crisis resulting from the COVID-19 pandemic, many retail and consumer brands are focused on one thing: cash. And they are doing everything in their power to preserve it. Their success will largely dictate how strongly they emerge once the crisis has abated.

Consumer Retail – Industry Impact

The consumer and retail industries, like many others, have been impacted by the COVID-19 pandemic. In these industries, there exists risks that affect lines of income which can easily become cost problems if not managed properly. However, with adequate attention to key focus areas - especially cash - companies in these industries can weather this storm.

A resounding crunch

From the start of this pandemic, many retailers saw cash inflows come to a sudden and dramatic halt as physical stores closed down and consumers stayed home. Even those with a strong online presence suffered cash flow disruptions as delivery services seized up and online platforms prioritized essential goods.

Turning off the cash outflow taps was always going to be much more difficult. Employees would need to be paid; landlords were still expecting rents; suppliers were awaiting payments; lenders were expecting interest payments. Cash was flowing out as fast as it ever was.

On top of this, it is clear the cash implications of this crisis have long legs. Indeed, many retailers are looking into the storeroom and finding themselves staring at a massive inventory overhang. Converting this inventory into cash (even at steeply discounted prices) can help shore up liquidity but not necessarily profitability. Those with online channels are doing everything they can to move their products, while those without are seeing their cash problems multiply.

Building a bridge

Thankfully, many governments have been stepping in to help businesses bridge gaps. Indeed, the primary aim of most government emergency measures seems to be to help businesses keep cash on the balance sheet and creditors at bay. Some are delaying tax deadlines. Others are supplementing employee wages and offering interest-free loans and grants to businesses that soldier on.

Governments and the communities they represent, want viable businesses on the other side of COVID-19. So the whole idea about cash flow support is to help companies hibernate until economies come out of the economic freezer.

Self-help is important

Unfortunately, government around the world cannot save every business. The economic survival packages announced by governments globally amount to trillions of dollars and a huge percentage of GDP for many countries. The timely delivery of government packages also varies widely and SME retail and consumer brands may struggle to avail themselves of these new measures when they need it most.

In this case, what should businesses do? The first rule of crisis management is act decisively. This means prioritize your cash flow preservation actions into a few buckets:

1. Action the ‘no regrets’ initiatives first. These are often fast and simple measures that rapidly reduce the cash demands on your business (i.e. supplier payment terms; government support initiatives; variable labor costs; reduce forward commitments).

2. Consider ‘tactical’ measures that play to medium term cash preservation (i.e. Capex reduction; longer term strategic initiatives that will not benefit the business now; negotiate temporary deferral or waiver arrangements with landlords).

3. Identify the ‘last resort’ measures (i.e. standing down staff; closing or reducing business operations; tactical Bankruptcy or Administration initiatives).

Planning for the restart

It’s important to remember that at some point, the economy will come back to life. Consumers will start spending again. Those looking ahead to ‘life after COVID’ are planning now for their working capital and cash requirements to re-start their businesses.

For some, it may take significant working capital and cash reserves to rebuild their inventories, rehire employees and reopen stores. Until the public health crisis has abated - cash flow will likely be inconsistent for some time to come.

On top of this, we will likely see a permanent change in consumer behavior as globally, many consumers rapidly accelerated into the digital world of ecommerce, all at once! This means that online retail just got turbo charged and bricks and mortar retail businesses may not be as productive in a post COVID world.

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The challenge is complex and right now, cash reserves and lines of credit are being rapidly absorbed by many retailers seeking to protect businesses as they go into hibernation. The risk is that when it comes time to re-open, these businesses start from a severely cash depleted state and have exhausted valuable reserves needed to re-establish lines of credit and sustain operating requirements as communities slowly come back to life.

**Long road ahead**

Some retailers will find solace in a tactical bankruptcy or Administration. These businesses were stable and profitable before COVID-19. For many, it may be the only viable way to stave off the wall of creditors eager for payment.

Others, however, will continue to push through. They may implement cost and cash controls to help improve their management of working capital. They may sell off existing stock at discount prices to reduce their inventory overhang and generate cash. They may leverage government measures and pivot their business models in order to keep employees on the payroll and cash on the balance sheet.

Perhaps most importantly, they will likely be working collaboratively with their suppliers, landlords and creditors to restructure their current debts and develop new (and hopefully extended) terms of trade in order to fund an eventual restart. These conversations will not be easy.

**Cash management**

Clearly, cash preservation and cash management will be key to retail and consumer brand survival over the next period. But businesses should not allow themselves to become only focused on the near-term crisis. Plan now for the post COVID-19 world.

Our view of the market suggests that those that manage their cash with a long-term view are more likely to emerge from this crisis with their business ready for the new world. Those focused purely on today’s cash challenges may not be as lucky.

**Sources:**
René Vader, Global Sector Head, Consumer & Retail, KPMG International
James Stewart, National Co-Leader, Restructuring Services, KPMG in Australia
Mark Raddan, Global Head of Turnaround, Partner, KPMG in the UK

**Economic and Regulatory Updates**

**FG Grants New Micro Small and Medium Enterprises (MSMES) 80% Discount on NAFDAC Registration**

“It is quite clear that the President is committed to supporting existing MSMEs and encouraging the rise of new ones, as a sure way of energizing and sustaining our economy through these times.” – Professor Yemi Osinbajo, Vice President and Head of the Economic Sustainability Committee.

The Federal Government has announced that new MSMEs will access National Agency for Food and Drugs Administration and Control (NAFDAC) registration of their products at an 80% discount, over the next 6 months. Eligibility: This concession covers MSMEs that are into production of foods, drugs, and related consumables.

**Brent Crude Surges 5.4%, Global Demand For Energy Climbs Higher**

Brent crude rose by 5.4% last Friday, 15 May 2020, to its highest level since March. This growth was based on the growing demand for fuel, as nations around the globe eased travel restrictions, which they had imposed to limit the spread of COVID-19. Brent crude settled up by $1.71, or 5.49% a barrel at $32.84, last week when it surged by nearly 7%.

**COVID-19: Impact on Valuation of Investments in Sub-Saharan Africa**

Expectedly, governments and businesses in Sub-Saharan Africa (SSA) were not prepared for a disruption of this magnitude and are now actively making plans and formulating policies to survive the pandemic. For more details, please follow this link: [https://bit.ly/36a6X9C](https://bit.ly/36a6X9C)

**COVID-19: Financial Reporting and Business Implications for Insurers in Nigeria**

The COVID-19 pandemic has created new challenges for most businesses globally at unprecedented levels.

From supply chain and production disruptions, workforce restrictions, travel restrictions to reduced consumer spending among other factors. For more details, please follow this link: [https://bit.ly/2WCz2D4](https://bit.ly/2WCz2D4)

**The Twin Shocks (COVID-19 Pandemic & Oil Price Crisis) and Implications for Nigerian Family Businesses**

COVID-19 is in the first place, a pandemic with potential serious implications for people’s health. It is an unprecedented challenge for our modern societies and health systems. For more details, follow this link: [https://bit.ly/2ZfXmwu](https://bit.ly/2ZfXmwu)