

Leading Your Company in Difficult Times: The Potential Economics of COVID-19

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This article is the second in our Leading Your Company in Difficult Times series, co-authored by Dr. Faith Oi and Kemp Anderson.

On April 23, 1910, Theodore Roosevelt delivered a speech that would become known as “The Man in the Arena”; an inspirational and impassioned message that drew huge applause 110 years ago and feels particularly relevant today.

*"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while **daring greatly**, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."*

We are in the “arena” now with COVID-19; and President Roosevelt was rallying against cynics who looked down at men who were trying to make the world a better place. *Now is the time for us to rally as an industry. To fiercely hold on to valued employees, customers, and business future. Most of us will make mistakes, but that shouldn't stop you from gathering credible information and making informed changes that will help you weather this storm.*

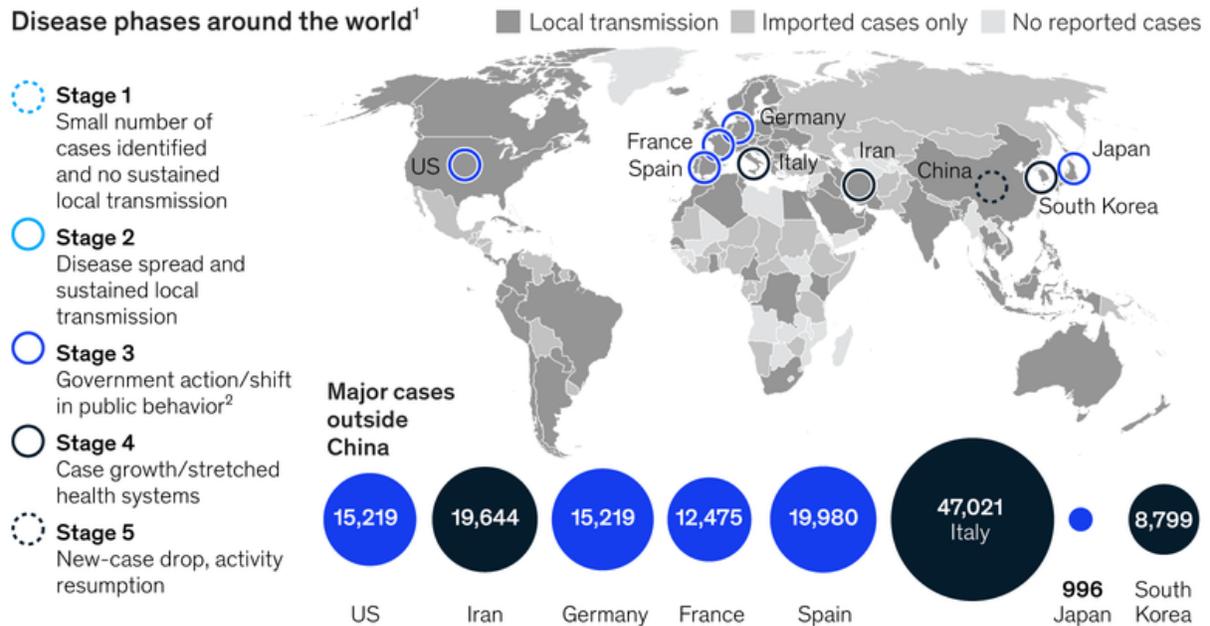
The everchanging Status of COVID-19:

COVID-19 is a healthcare issue that is clearly impacting the U.S. and global economy. The longer the healthcare issue goes on, the greater potential damage to related economies.

McKinsey & Company is one of the premiere global management consulting firms. Their March 21, 2020 analysis titled “Critical indicators of the impact of COVID-19” shows the stages of the disease phases for selected countries (Fig. 1). As of April 6, 2020, at 2:06 p.m. the United States has 347,003 confirmed cases with a reported 10,335 COVID-19 deaths according to Johns Hopkins global virus tracker – an increase of over 200k cases documented in less than 2 weeks. Opinions will vary regarding what stage the U.S. is in today (April 6, 2020); however, based on the McKinsey indicators below we are probably somewhere between stages 3 and 4. While government action both locally and nationally seems to be picking up pace and aligning, many

states and municipalities seems to be inconsistent; leading to significant positive COVID-19 confirmed cases on a national scale.

Critical indicators of the impact of COVID-19 (March 21, 2020)



¹The stage indicators highlight representative transmission sites. There are other sites at stages 1 and 2 that are not represented on this map. The previous version of the map used community transmission and local transmission interchangeably, based on the WHO definition. ²Not all affected regions enter stage 3, but significant government intervention/economic impact signal prolonged recovery. Source: CNBC; *Economist*; International Air Transport Association; Johns Hopkins Center for Systems Science and Engineering; *New York Times*; OAG Aviation Worldwide; Reuters; World Health Organization situation reports

McKinsey & Company

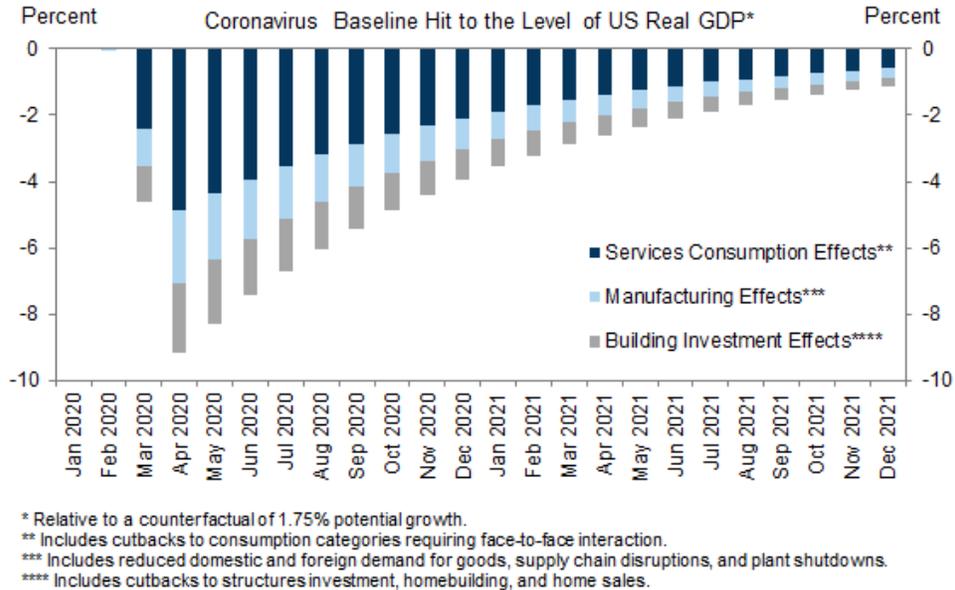
Figure 1 Critical indicators of the impact of COVID-19.

<https://www.mckinsey.com/industries/financial-services/our-insights/leadership-in-the-time-of-coronavirus-covid-19-response-and-implications-for-banks>

The Economic Impact

Goldman Sachs investment research is forecasting that the U.S. economy will shrink by an estimated 24% from April to June 2020 and expects a nearly 10% peak hit (=maximum loss) to the level of gross domestic product (GDP) in April of 2020 that fades only gradually through 2021 (Fig 2). While what we are going through today is horrific, Goldman Sachs is forecasting that we should begin to see improvements in GDP sometime at the end of April or perhaps May. However, as Goldman Sachs clearly projects in this chart, the repercussions of Covid-19

and all of its economic aftermath will be felt well into next year. Please remember real economic numbers do not come out in real time. They are historical by nature.



Source: Goldman Sachs Global Investment Research

Figure 2. Expect a Nearly 10% Peak Hit to the Level of GDP in April That Fades Only Gradually (<https://thebasispoint.com/u-s-economic-growth-to-shrink-24-april-to-june-2020-goldman-sachs/>)

Pest control customers may be struggling financially

The median (value lying at the midpoint of a data set) American household currently holds just \$11,700 in savings, according to a new analysis of Federal Reserve and Federal Deposit Insurance Corporation. Median balances are lower than the average savings rates. The top 1% of households in the U.S. by income have a median savings of \$1.1 million across a variety of saving accounts. The middle 20% by income have just \$26,450 saved. And the bottom 20% by income have no savings accounts. It is important to quantify the financial position of residential customers across the U.S. because in the current economic climate; and this is an indicator that commercial clients are also struggling. As an “essential service” our industry should try to accommodate our customers and keep them in service. Wherever possible, flexibility with both service rates and frequency are critical to our businesses and customers.

Examples of offering flexibility to your customers might include:

- Allowing customers to defer or pause existing service
- Adjusting their service frequency
- Allowing customers to pay in installments. Example, if you service quarterly at \$100/quarter, allow the customer to start paying \$33.33/month

- Accepting credit cards as an alternate form of payment
- Bartering relevant services
- A greater focus on social distancing with safety in mind including: disposable booties, gloves, respirators or masks and, at a minimum, staying a minimum of 6 ft. from customers, avoiding contact with any of their possessions and so on.

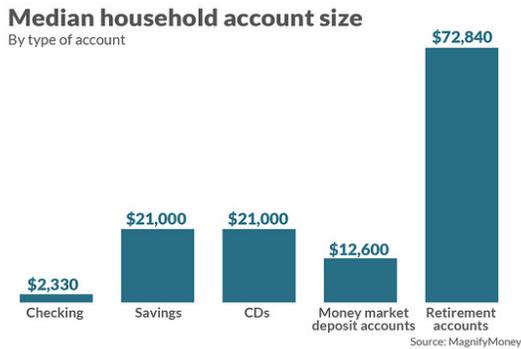


Figure 3. March 2020, Magnify Money Median Household Account Size in U.S.

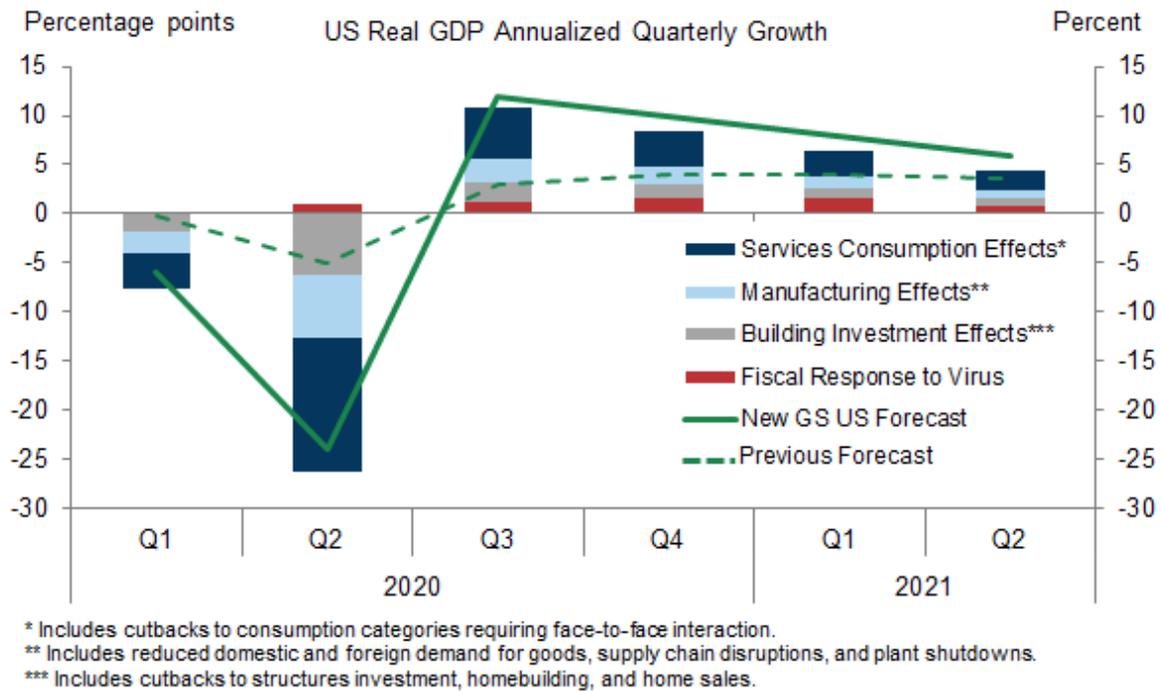
How consumers define an essential service may differ from the government's definition

The Harvard Business Review studied marketing successes and failures of companies that navigated recessions from the 1970s onward. They identified patterns in consumer behavior and company strategies that either propel or undermined company performance. Regardless of which demographic group consumers belong to, consumers prioritize consumption by sorting products and services into four categories:

- 1. Essentials:** purchases or services that are necessary for survival or perceived as central to well-being.
- 2. Treats:** purchases or services that consumers considered justifiable.
- 3. Postponables:** purchases or services that can be reasonably put off.
- 4. Expendables:** purchases or services perceived as unnecessary or unjustifiable.

Our industry prides itself as being somewhat recession-proof. Now is the time for our industry to embrace, learn, understand and promote what being "essential" means to and for our employees, customers, businesses and industry. Everyone in every pest control company should be able to communicate with anyone in the general public and especially the customer base what an essential service is and why pest control has that designation. Can every employee in your company simply and clearly explain this? Faith provided our idea of why the pest control industry is an essential service in Article 1 of this series.

Our industry is going to weather this storm. While the chart below from Goldman Sachs shows service consumption is projected down to the lowest point in Q2 2020 (April, May and June) it also shows a rebound in to 2021 that is consistent for service consumption, manufacturing, building investment, and so on. The following chart is from Goldman Sachs Global Investment Research who projects a “Sudden Stop in Q2 followed by a gradual recovery”.



Source: Goldman Sachs Global Investment Research

Figure 4. A Sudden Stop in Q2 Followed by a Gradual Recovery (<https://thebasispoint.com/u-s-economic-growth-to-shrink-24-april-to-june-2020-goldman-sachs/>)

There are a tremendous number of economic indicators that suggest the current global economic shut down will lead to a global recession. A recession is defined as two consecutive quarters of negative GDP growth. GDP is short for Gross Domestic Product and is a way, at a high level, to measure the economic activity of a country. A recession, by its nature is backward looking, so they can't officially determine we are in a recession until six months after it starts. Given the record high initial unemployment numbers reported as of March 26, 2020 and the continued closure of many US businesses, we have most likely already begun the next recession. The Goldman Sachs Global Investment Research shows real negative GDP in Q1 and projected negative GDP in Q2; they are effectively communicating that **we are probably in a recession right now**. It is hard to argue with the numbers.

Compare and contrast two pest control company's reactions to the COVID-19 crisis:

Company A: The owner of a large pest control company with over 100 full-time employees had an emotional reaction to all of the news, and rightfully so. Given a concern for safety and not knowing how to adjust his business, his leadership team decides to shut down for the month of April 2020, and possibly longer. What is the restart plan? What will the long-term damage to the business be? How and when will he re-start? What employees and customers will remain?

I don't see many advantages to taking this approach when pest control has received an "essential service" designation. The lost revenue will be recognized immediately and without a clear plan on when and how to re-start the business, customer communication becomes very complicated and more difficult with each passing day.

Company B: The owner of this large pest control company with over 200 full-time employees took a different path. He decided to stay the course, offering customers service flexibility and different payment options while making sure employees had the needed safety equipment and knowledge. Training for employees and communication for customers is now a daily briefing. He is constantly combing through good information and reacting daily with business, service, and detailed communication to both their employees and customers. In March 2020, this business was up a reported 9% and he is bullish on the upcoming summer months and year.

With the information shared from economic studies and different approaches being taken from leaders within our industry do to protect our employees, customers, and long-term business interests? At the end of the day, there will be hard choices ahead. The second quarter of 2020 (April, May and June) will probably bring bad economic news; however, we will pull out of this. What's happening in the world today is out of our control, but we can control how we choose to do business, our approach to safety, our communication both internally and externally, and we can choose to keep moving forward and be happy we are in the pest control industry...an essential service now and in the future.

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