BUILDING FINANCIAL FORTITUDE

Quantuma

Why business across borders is no longer business as usual

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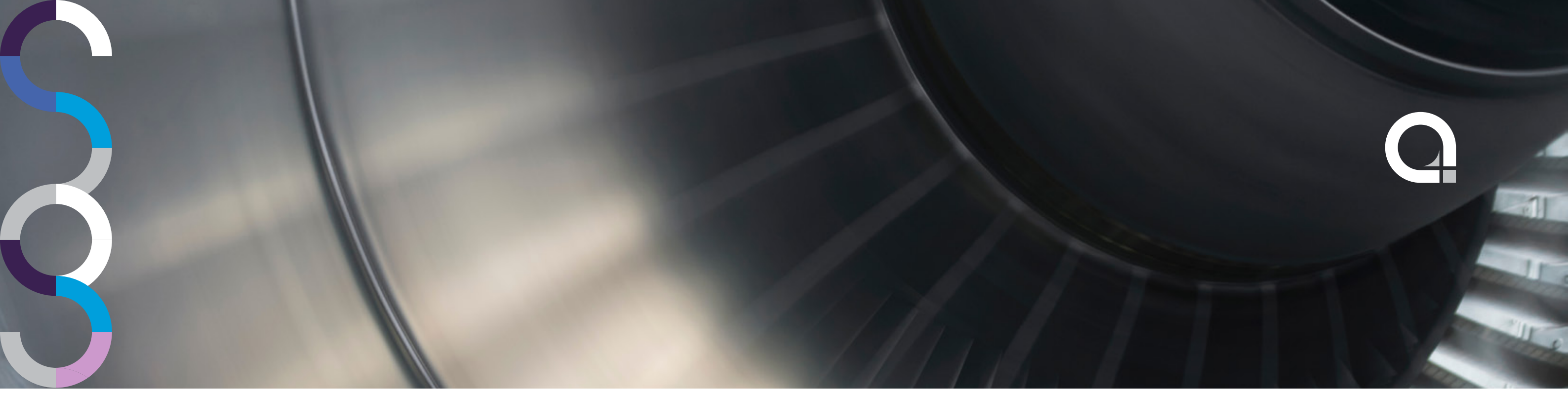

Coronavirus (COVID-19) has radically altered the way that businesses across the sector spectrum operate and trade. But how is today's new business landscape affecting companies that don't just trade within their own borders, but across multiple jurisdictions too?

Just like the virus itself, the financial fallout of COVID-19 has no respect for national borders. Economies and businesses right around the world have felt the impact of the pandemic – to a lesser or greater extent – and have been forced to adapt quickly to a business landscape that now looks very different to its pre-COVID-19 state.

Five key members of our global Restructuring and Insolvency team share their own first-hand experiences of how the pandemic is challenging businesses in their own particular countries.

International travel constraints prove a major stumbling block

For businesses that operate across borders, the current constraints on international travel represent a significant practical hurdle – and Quantuma is no exception. With beleaguered airlines now running a drastically pared-back schedule of long-haul routes, flying out to visit clients abroad has become a painful process punctuated by delays, soaring ticket prices, and the unwelcome prospect of a two-week stint in quarantine at the end of the journey.

These days, the decision to sign off on overseas business travel for employees means some serious considerations at a leadership level, points out Andrew Hosking:

"These are questions that the people at the top have never had to think about before. What is the business rationale for sending out those employees in the first place? And what is the potential impact on productivity and resource when those employees are put out of action by compulsory quarantine periods upon return?"

Carl Jackson has first-hand experience of the impact of the restrictions on Quantuma's ability to trade case-related overseas businesses:

"For some time, we've been preparing to kickstart operations at a coal mine we are appointed over in South Africa. The coal price has been rising and we've been raring to get started, but the country's tough lockdown and visa restrictions made it physically impossible for us to get a team on the ground there for at least six months. And that's also stopped us from developing conversations with local mining agencies, transport providers and other interested parties as we seek to realise the asset."

Supply chains are under serious strain

Supply chain disruption has posed another major practical problem, particularly in sectors that rely heavily on automated processes. In the UK, says Carl Jackson, one powerful – if not rather prosaic – example is the panic-buying of toilet roll triggered by consumers who feared a national shortage could be on the cards during lockdown:

"Consumers were busy stripping the supermarket shelves bare of supplies, but vast quantities of toilet paper were, in fact, sitting safely in major supply depots across the country. Manufacturers were actually still producing toilet paper at the same rate as normal, but with COVID-19 restricting the availability of lorry drivers and throwing delivery lines into disarray, that stock was effectively trapped in logistical limbo."

Mauritius: trouble in paradise

Mark Twain once wrote that "Mauritius was made first and then heaven, heaven being copied after Mauritius". Despite its well-deserved reputation for powder-white beaches, sapphire seas and luxury resorts, Mauritius has not been immune to the economic ravages of the pandemic. For a country whose imports are denominated in dollars, the sharp appreciation of the US currency against the rupee has left many businesses worse off – and Mauritius has relatively few exports to help offset that impact. But the extent of the damage has varied significantly from sector to sector. In the country's thriving financial services space, where most processes are already digitalised, many businesses have been well-positioned to keep operating as normal, albeit with new remote-working practices in place for now. But other sectors have taken a much harder hit.

The manufacturing sector, which typically relies heavily on raw materials that are shipped in from abroad, has suffered severe disruption to the logistics that keep its wheels turning, says Raj Thacoor:

"Consignments of materials can now be stranded at Mauritian customs for protracted periods of time, incurring unanticipated storage costs for businesses in the process. What's more, the inability to predict the timing or extent of any future lockdowns has left manufacturers effectively operating blindfolded: they have no real way of estimating their stock reserves, importing the materials they need, or storing them in the event that they make it safely through customs in the first place."

And then, of course, there's the island's vital tourism sector. With the bulk of its income generated by tourism in normal times, the suspension of most long-haul flights has put a significant dent in the nation's finances. This has left the country's hotel businesses guessing in the dark, with no clear visibility on when – or even if - airlines will once again be able to run at full capacity and bring back the tourists that are so vital to this outward-focused economy.

Changing circumstances are driving changing attitudes

One of the most significant changes to happen in Mauritius since the start of the pandemic is a tangible shift in attitude and culture, says Luvy Thacoor:

"Before COVID-19, the concept of employees working from home would have been inconceivable for Mauritian companies – particularly for the strong backbone of financial services companies that sit at the heart of our economy. But that shift has indeed happened – and surprisingly rapidly – with some businesses even considering giving up their premises altogether and allowing their staff to work from home for the foreseeable future."

The workplace does not represent the only COVID-19-driven shift in the Mauritian mindset. The way in which people shop for essential items like food has changed too, with a growing number switching to buying online – a shift that is nothing new to many economies, but one that marks a significant development for Mauritius. Meanwhile, the government is also taking action to reduce dependence on food imported from abroad by promoting a strong self-sufficiency agenda where Mauritians can capitalise on their own abundant supplies of fresh fish, fruit and vegetables.

Time for Mauritius to play to its strengths

Despite the ravages of the pandemic, the future for Mauritius looks far from bleak, asserts Raj Thacoor:

"Many of the hotels that are currently facing the threat of closure have been successful and profitable for many years, but even they cannot survive on their own reserves indefinitely. For cash-rich investors who are ready and willing to invest in viable businesses, the island's hotel sector is set to offer some attractive opportunities – whether it's by becoming an equity partner or a joint venture partner, or by investing in the short term until the situation stabilises."

This positivity is echoed by Luvy Thacoor:

"If this pandemic has taught us anything, it's that now is the perfect time for Mauritius to play to its core areas of strength. The country's flourishing financial services sector is well positioned to prosper and generate jobs going forward: it's underpinned by a deep talent pool of qualified professionals; and it largely operates online. Building on the country's robust reputation in areas such as business process outsourcing should represent an intuitive way forward for Mauritius as it feels its way through the current crisis and out the other side."

Cyprus: Lockdown leaves the 'divided island' in limbo

Four thousand miles west in Cyprus, the COVID-19 crisis has stirred up some similar challenges for businesses. With international flights effectively off the cards, the country's all-important tourism sector has been blighted by large-scale booking cancellations, which have significantly eroded revenues, driven up costs and ramped up liquidity pressures. And with the whole of the 2020 season written off, many hoteliers have been forced to respond by suspending their operations, slashing costs and laying off staff.

Beyond the hotel and restaurant space, the real estate sector – which relies heavily on foreign buyers - is also feeling the pinch as both individuals and businesses put significant investment decisions on ice in the face of ongoing economic uncertainty. By association, this negative sentiment is also feeding through to the country's construction sector, where many building projects have inevitably been delayed or shelved altogether.

Cross-border trading has also become more complex – and costly – than before the crisis, explains Kyriacos Kyriacou:

"We've seen first hand that companies that trade internationally – particularly if they have suppliers based in other countries – are now facing serious cashflow issues because their suppliers have restricted the credit period that they offer them. And that's left the companies themselves effectively passing on that adverse financial impact right on down the chain."

A body blow, not a knock-out punch

Around the world, different countries have handled this crisis in very different ways. Some have fared far better than others, whether it's thanks to their success in controlling the spread of the virus, the effectiveness of their policy responses, or even the pre-existing structure of their economies. But with a striking gap now opening up between the winners and the losers, the pandemic is actively reshaping and remoulding the world's pre-COVID economic order.

COVID-19 has undoubtedly thrown some unprecedented challenges at businesses around the world, but global trade must – and will – go on, says Andrew Hosking:

"COVID-19 may well be with us for the foreseeable future, but the wheels of worldwide trade will keep on turning regardless – even if the emerging business and economic landscape looks vastly different from the way it did before."

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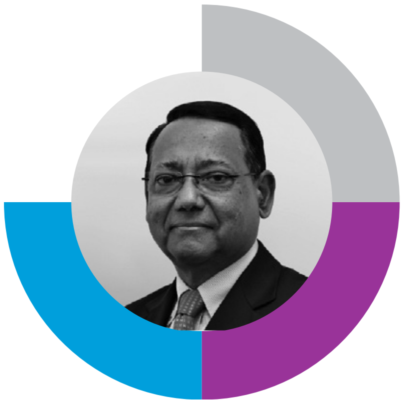

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