Business Adviser

Issue 83

Commentary, opinion and intelligence for the New Zealand business community

NZ's housing crisis

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This isn’t a housing crisis, it’s a mindset crisis

New Zealand needs more houses.

Yet despite the simplicity of that goal, it's been impossible to keep up with demand. This problem has persisted through both National and Labour Governments – several of each. As much as we might tinker around with the demand side of the equation, putting LVR restrictions up and down and tweaking interest rates, the gravity of the problem clearly lies with the supply side and our mindsets.

Other countries like Germany and Switzerland manage to supply sufficient numbers of warm, dry homes for their people, at the same prices as 1970 (inflation adjusted) so why can't we? It's partly because this isn't just a housing crisis – it's a mindset crisis. New Zealanders keep clinging tenaciously to outdated ideas that are wildly unhelpful and have been for five decades.

To alleviate the pressure on our housing and rental markets, citizens, and local and central Government will need to make some big changes. We need a bold vision, aligned incentives, with different industries working together, to build more houses. That can't happen if we're held back by antiquated, short-term thinking. Our mindsets are hampering us, creating unnecessary problems in what should be the best country in the world to live.

In her first post-Cabinet press conference this year, the Prime Minister wanted to know if there were any silver bullets to fix this crisis. Here's a few big ideas.

The NIMBY and stick-build mindsets

A hefty chunk of the New Zealand population owns houses and likes the way the values keep going up. Not everyone who owns a house feels this way, but many do. These homeowners represent an enormous voting bloc; plus, they have the knowledge and resources to put up a real fight when they feel aggrieved. This creates considerable political inertia.

This inertia puts the handbrake on efforts to build faster, cheaper homes across the country. Strong objections emerge to any new developments in "our" area, with a preference for the construction of one-off homes that 'fit in' with the 'character' of "our" suburb, and a general want to protect their current wealth and lifestyle. New subdivision of prefab homes? Urrrgggh. Not in my backyard.

This mindset is a considerable problem because the way we build now is too large, too slow and too bespoke. We need faster and more cost-effective building techniques. That means using the full range of prefabrication types to their fullest capacity. This would allow us to build houses in factories, in any weather, then assemble them on site. There are solutions for metro, and solutions for the regions. Older Kiwis know all about prefabs: their mindset is coloured by visions of old post-war prefabs or boxy school classrooms. Modern prefabs are brilliant and would outperform our existing homes in terms of warmth,

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comfort and ease of construction. They can also look fantastic, too.

Considered logically, it is insane that a single draughty villa on a full section is somehow noble and desirable, while a warm, dry, affordable modern home, with a low maintenance garden, is an abomination because it looks too much like the house next door.

There's no reason we can't do this in New Zealand. We have the basic materials, with a flourishing timber industry and world-leading lightweight steel technology. We could have the people power too, with a little training and investment, especially as we now have considerable capacity in our tertiary institutions with the flow of foreign students down to a trickle. I believe we could produce tens of thousands of houses a year – and we know the demand is there for these to be snapped up by individual buyers, community housing providers, cooperatives, iwi organisations, Kainga Ora, and private developers.

The 'Government debt is crippling our future' mindset

Our public mindset when it comes to national debt is another factor making it very difficult for the Government to do what is needed. Every time the Government "borrows", there are indignant assertions that we are mortgaging our future, and that the Government is leaving behind an enormous pile of debt that will somehow cripple future generations.

We think about New Zealand's finances in the same way we think about our personal finances: debt is bad, it must be eliminated as quickly as possible, and it's better to cut back on spending than to keep borrowing. All that is perfectly true when it comes to household spending – fewer takeaways, cancel Netflix. But cutting back on spending for the Government means putting less money into essential public services and less investment in the future of New Zealand. It means those in charge have to think about how it looks to the public if they want to fund more money to fix a problem like the housing crisis. The Government's "deficit" is the private sector's surplus.

Should we fund the construction of hundreds of thousands of houses? What is the benefit? First, the investment we make in the housing market will increase the health and wellbeing of huge numbers of New Zealanders. That's a massive payoff, well worth achieving. Second, when we invest in having a better standard of affordable living, Kiwis don't need to spend their time worrying about where they're going to live. Instead, they can think about getting promoted at work, starting a business, and having a family. All these factors improve New Zealand's productivity, which is the main driver of an increase in the wealth of a society.

The 'rates must not rise' and the infrastructure is broken mindset

Rates are too high! It's honestly hard to find anyone who will disagree with this statement. Councillors campaign by promising not to raise rates. Homeowners are unanimous in believing that rates are extortionate. Yet the same people criticise the council when there's sewage in the streets, E coli on the beaches, and the water not only doesn't taste that great but could be harmful.

Rates are not too high. The typical Auckland homeowner, for instance, might have paid $3,000 in rates during 2020 on a home that increased in value by $150,000 during the same period. There are people with homes that cost them $12,500 back in the Dark Ages and are now worth $10 million, and those people are particularly unhappy with the idea of higher rates.

They're also unhappy with the idea of a capital gains tax, or a wealth tax, or an estate tax. Yet this increase in value derives from the commons – the proximity to services, amenities and neighbours. Those who don't believe in carrying their share are a big part of the wealth distribution problem in New Zealand. They like the end of the see-saw they're sitting on, believing firmly that their success is due to good choices and hard work, and they don't want to tilt it even a tiny bit in the other direction.

Rates are an excellent way to specifically target housing wealth and start to redistribute it. They are also a great way to fix the local/central government disconnect that the Germans and Swiss have solved. The more houses you own, the more you pay. The more your properties are worth, the more you pay. If house values drop when we build thousands of new houses, your rates drop. If you don't own a house, you don't pay rates. We could adjust the rates calculations to put more weight on the land portion, rather than the 'improvements' (the house) of councils' rateable valuation (your CV or RV). That could provide for a more accurate way to capture the highest rates from the properties in the most expensive areas. Put simply, rates should be higher and we need to change our thinking on this.

Higher rates can fund major infrastructure projects in your region, taking that burden off the Government. There's no reason that councils should be grappling with overflowing wastewater systems and contaminated drinking water. All the infrastructure needed for local developments is also the responsibility of councils, and they need more money to carry out that work; tying rates to land values should help with that.

There's also no reason that the consent process should be so slow – why not retrain tourism workers to process consents? They can work remotely from anywhere in New Zealand. We can also train and employ more Kiwis to speed up the consent process. We know our tertiary institutes have capacity at the moment and I know they would like some more enrolments.

Collect more rates, deal with local problems locally, issue more consents faster, and leave the central Government with more money and time to spend building houses at a national level.

The short-term mindset

Most of us are focused on our immediate goals: deadlines, bills, to-do lists. Thinking about national productivity, or future living standards, or infrastructure? Not only boring, but not your job. Your job is to focus on you and your family, and maybe your business. That attitude is perfectly natural, but it extends even into construction industry business owners and the other types of industries that support it. Without working together, we're not going to get anywhere.

Last year's pandemic demonstrated that we can pull together to protect and support each other, which is extremely encouraging. Our lack of houses is a national problem that's stifling our productivity and leaving younger generations feeling helpless. Solving the housing crisis depends on us working together, on some wealth redistribution, and on a widespread shift in our mindset. We need businesses large and small, central and local governments all working together. And they need us to support them in funding more, building faster and cheaper, and making New Zealand a better place to live for everybody, not just those who've already made it onto the housing ladder.

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The rental crisis affects us all – and it's crippling New Zealand's progress

If you think the rental crisis doesn't affect you, you're wrong. Maybe you think you're not affected because you own your own house, and you're not a landlord. Wrong. New Zealand's rental crisis isn't only causing homelessness and poverty, it's dragging down wages, stifling innovation and suppressing productivity for the whole country.

You can't get ahead when you're at the bottom of the rental market

People in poverty need two things in order to flourish and raise their children: a home and a living wage. Housing unaffordability is working against them. Nearly 10% of renters are 'in-work poor', according to a 2020 report by the Human Rights Commission, and among poor working households, over 50% of earnings are being spent on rent. These households struggle to pay the rent and move regularly; this transience has "flow on effects on work, education and social connections." They're more likely to live in sub-standard accommodation too, which has a negative impact on health.

These renters are working full-time, trying to get ahead, and never making any progress. Unwell children, low-quality accommodation, constant stress. This is not what life should be in a rich, egalitarian nation like New Zealand. People in this situation cannot achieve their potential at work and can't be creative, and it's much harder for them to be the kind of parents they would like to be. This has a knock-on effect and their children are disadvantaged, too.

New Zealand needs to raise our productivity and our wages. The people in these households have a lot to offer – but their energy, focus and money are being consumed by their precarious housing situation.

First you have to build more houses

The first and most obvious way to fix the rental crisis is to build more houses. We have some major mindset problems that hold back large-scale construction; changing our thinking will go a long way to accelerating home building. Having more houses to rent and buy is the single most

10%

Nearly 10% of renters are ‘in-work poor’

important way to ease the pressure on our rental market. With a perceived physical shortage of houses, it’s impossible to meet everyone’s needs.

Beyond the supply issue, there are several other ways we can address the rental crisis, ultimately benefitting everyone in New Zealand.

Change the incentives

What holds New Zealand back as a nation? Our low wages and low productivity are two major factors, and these filter down into poverty and lower standards of living. One clear cause is a lack of investment in industry. We run small businesses, inefficiently, and we have a tendency to throw low-cost labour at problems instead of investing in innovative systems that will lead to more sustainable growth. Our stock exchange is laughably anaemic; any business that wants to raise serious capital lists on the Australian stock exchange instead of our own.

And why do we have such weak investment in business? Partly because the rental market is sucking billions of dollars out of our economy each year. If we spent even a quarter of what we currently invest in rentals into business, that money could go towards funding research and development, innovation and higher wages. That would lift the standard of living for every New Zealander. It would lift your salary (or wages or profits). It would mean fewer homeless people on the streets, better outcomes for the average child and a more prosperous and sustainable nation. Instead, our addiction to rental properties has not only hamstrung New Zealand’s growth, it’s also funnelling billions of dollars in profit offshore to the shareholders of foreign-owned banks.

We don’t want to stop people investing in rentals if they choose to do so, but we can certainly change the incentives. At an individual level, buying a rental property currently makes perfect sense. People want to grow their wealth and have a more secure financial future. But your financial abilities might be someone else’s debt peonage.

Kiwis are responding rationally to the current economic incentives: rising values, increasing rents and a friendly tax system. Those incentives feed into each other and keep this vicious cycle turning. They need to be disrupted by separating the incentives to invest in providing shelter from investing in financial speculation on land value. Currently, the current tax system is unfair, favouring our wealthiest individuals and disadvantaging those who can’t get onto the property ladder. What if our system addressed these two values separately? The rising land value could be addressed by introducing higher rates to feed infrastructure development; this would benefit the whole community, not just some of it.

Rent rises should be justified

Not only do incentives drive everyday Kiwis to buy rentals, they push us towards buying cheap rentals and spending as little as possible on them. Renters at the bottom end of the market pay a much higher proportion of a property’s value in rent than they do at the top end. For example, a basic three-bedroom house in Kawerau will cost around $350,000 and rent for about $300 a week. A basic three-bedroom home in Ponsonby, Auckland, will cost you around $2 million and rent for roughly $900 a week. Yes, it’s triple the rent compared to Kawerau, but the house is nearly six times as expensive and you’re surrounded by many more job opportunities, public transport and amenities. As a tenant, you’re getting much better value for money in Ponsonby. As a property investor, Kawerau is a far better choice.

Rents are currently set by owners and property managers who work out a maximum amount that the market will bear. But that is not an appropriate method for pricing a basic human right. We don’t price power that way, because we understand that it’s not a choice, it’s a necessity. The Government regulates the power industry so everyone can have access to it, even when they

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can’t afford to pay their bills. When the price of power increases, the supplier must justify the rise to the regulator, and have systems in place to help those who can’t pay.

This should be the same for owners of rental properties. In order to raise the rent, they should justify how the actual dwelling has increased in quality - separate from the value of the land. What has the landlord done to improve the property? Why should a deteriorating asset cost more to live in this year than it did last year?

As for helping those who can’t afford market rent, the Accommodation Supplement is one of the current fall-backs, but its poor design means it actually drives rents up, according to research by the Child Action Poverty Group. We need to do better.

Every rental needs to be warm, dry and healthy

We understand that food is an essential human requirement, so we have vigorous food safety rules in place that start all the way back at the primary producer right through to the point of sale. It’s comprehensive, highly legislated and closely monitored. There are large teams of people who work hard to ensure our food is safe.

One motivator for this system is protection – for both consumers and New Zealand’s reputation. However, consumer protection for renters has been sub-standard for a long time, and we don’t seem to be too concerned about having a reputation for unaffordable, cold, damp housing that makes our children sick. This is insane in a beautiful, wealthy nation that prides itself on being kind and friendly. We need every home to be warm and dry. Preventable third world diseases, like rheumatic fever, in Kiwi kids is just horrifying.

A safe place to live is an absolute necessity. The only way to guarantee our homes are warm, dry and healthy is to regulate rentals. If we don’t, owners will not spend what’s required to maintain their rentals.

The Healthy Homes Standards are a huge step in the right direction, and there should be more where that came from. We can continue to raise the standards for rental accommodation until it becomes acceptable.

The rental crisis is undermining New Zealand’s success

Our rental crisis is an embarrassment. It’s driving down our economy, restricting innovation and lowering our standard of living. It’s contributing to poverty, illness and homelessness. It’s unfair and inequitable in a nation that prides itself on fairness and egalitarianism. It is cannibalising the future of the next generation. They will inherit an underproductive economy which will not provide the income to rent or buy shelter. It will also affect those who think they are sitting pretty. As the demographic changes and those in work are out-numbered by the old, the productivity of the economy won’t be enough to support them either.

It will take significant effort to build more houses and raise the standard of rentals. Changing our rating and tax system could be done much faster, literally with the stroke of a pen. By failing to commit, we’re like that small business which doesn’t want to invest in a new online system, instead throwing cheap labour at the problem and becoming less efficient and productive every year. This is smart investment that would generate far more than it costs in the long run. Fewer families in poverty, lower medical costs, a more productive economy and a higher standard of living for every New Zealander.

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Women in senior leadership positions pass critical 30% mark despite global pandemic

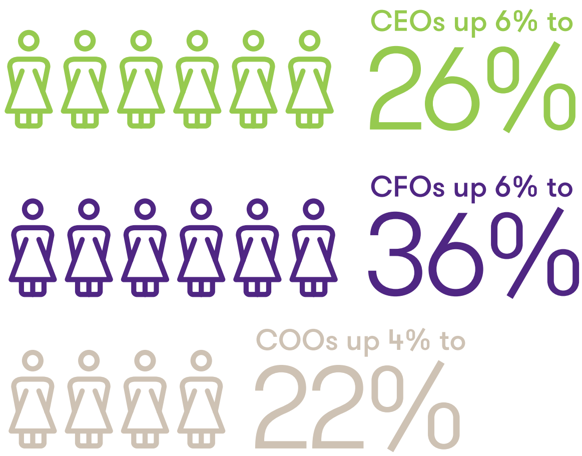
The number of women holding senior leadership positions in mid-market businesses globally has hit 31% despite the COVID-19 pandemic affecting economies around the world, according to Grant Thornton's annual Women in Business report.

Research[1] shows that 30% is the minimum representation needed to change decision making processes, so this is an important milestone particularly given the global figure stubbornly remained at 29% for the last two years, and ranged anywhere between 19% and 25% since our research began in 2004.

Further, in 2021, a significant landmark has been reached, with nine in 10 businesses worldwide having at least one woman in their senior management teams. By comparison, there has been a three-percentage-point improvement in this figure since 2020, and in 2017 that figure stood at two-thirds, with only 66% of businesses having at least one female leader. This is certainly a continuation of the positive trend seen over the past five years, and could have a number of causes. Work by businesses on their diversity and inclusion policies is paying off, but it is also possible that the coronavirus pandemic has emphasised the importance of diverse leadership in times of crisis.

Another encouraging finding is the types of leadership roles women are occupying. Global figures reveal higher numbers of women across operational C-suite roles compared to last year, with the proportion of female CEOs up 6% to 26%, female CFOs also up 6% to 36%, and female COOs up 4% to 22%.

However, questions remain over the impact of the pandemic on women, particularly working mothers. UN data[2] shows that, before COVID-19, women did three times as much unpaid housework as men, and mounting evidence indicates that the pandemic is only increasing



[1] Dahlerup, D. (2006). The Story of the Theory of Critical Mass. Politics & Gender,2(4), 511-522. doi:10.1017/S1743923X0624114X
[2] UN Women, Nov 2020

this disparity, as well as adding the extra responsibilities of childcare and home schooling while schools are closed.

But there has been a rapid paradigm shift over the past 12 months that will benefit women going forward. In this year's report, 59% of respondents say that new working practices as a result of COVID-19 have increased the leadership roles that women have been able to play within their organisations, and over two-thirds (69%) of respondents agree that these new initiatives will benefit women's career trajectories long-term.

Globally, a massive 92% of businesses say they are taking action to ensure the engagement and inclusion of their employees against the negative backdrop of the pandemic; a big part of this has been a sharp shift in attitudes towards how, where and when employees do their jobs.

Employers have become more flexible about working from home arrangements and many women have perhaps flourished in this environment given they have had to be more agile than most throughout their careers due to parental leave and juggling subsequent childcare commitments.

Leadership styles have also come under scrutiny due to the demands of the pandemic. Engagement with staff, a greater understanding of people's personal needs and circumstances, and support for mental and emotional health have been more vital than ever. As these 'softer' management styles, which are traditionally perceived as more 'female' than 'male', have proved their worth, a greater appreciation of, and a greater need for, diverse leadership has emerged.

Another huge positive emerging from the research is that 90% of executives within the organisations that are taking action to improve their work culture will continue or even increase their emphasis on these actions after the pandemic. On average, across the action areas, 46% expect the emphasis to remain the same and 44% expect the emphasis to increase once the pandemic is over.

Some of these areas include instilling new working practices to better engage all employees, adapting existing learning and development programmes to the current environment and promoting more flexibility for employees.

Fantastic progress has been made since our research started 17 years ago, and while passing the 30% mark for women in senior roles globally is a mission-critical milestone for businesses, it's not the end goal and these gains can easily be lost. If organisations want to leverage the benefits of a better gender balance, they must continue to take action to enable women to realise their ambitions.

Now more than ever, businesses need to stay focused on what is enabling women to progress to leadership positions, so that they can move forward rather than back as a result of the global pandemic.

Visit our website to download your copy of Women in Business 2021: A window of opportunity.

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New financial year, new approaches to asset impairment testing

The economic impacts of COVID-19 will continue to persist well into 2021. Our borders remain substantively closed and the national roll-out of a COVID-19 vaccine is yet to reach critical mass in New Zealand.

Teams which perform inhouse impairment testing need to consider how the ripple effects of the pandemic will influence their financial statements over the next 12 months.

What are the key considerations for asset impairment testing?

Assets measured at amortised cost must be tested for impairment when indicators exist or, in the case of goodwill and indefinite life intangible assets, at least annually. An impairment charge is booked to profit or loss when the carrying value of an asset exceeds its recoverable amount. Recoverable amount is determined based on the higher of an assets value in use (VIU) or fair value less costs of disposal (FVLCD).

Is the COVID-19 pandemic an impairment indicator at the reporting date?

Since the declaration of a global pandemic in early 2020, businesses have needed to consider COVID-19 as a potential impairment indicator for financial reporting purposes.

What are the most relevant indicators to the COVID-19 pandemic?

Detailed examples of impairment indicators are included in NZ IAS 36.The most relevant indicators are listed below.

External indicators

- Observable indicators of decrease in value
- Significant changes with an adverse effect on the entity, it's economic environment or market have occurred during the pandemic
- The carrying amount of the entity's net assets is more than its market capitalisation

Internal indicators

- Assets becoming idle
- Evidence that economic performance is worse than expected
- Plans to dispose of an asset
- Plans to restructure

Given the prevalence of certain indicators, we encourage management to consider and carefully document these factors along with the consequences they might have on financial statements.

Which assets are likely to be impacted?

Long-lived assets including:

- right-of-use assets arising from lease contracts
- property, plant, and equipment
- intangible assets.

NZ IAS 36 requires these assets be tested where indicators of impairment are identified. This analysis is performed for individual assets if they generate cash inflows independently from other assets. For other assets and goodwill, testing is generally achieved by reference to the cash generating unit (CGU) that the relevant asset belongs to. In some cases, it is possible to reliably estimate fair value less costs of asset disposal (FVLCD) at an individual asset level, but value in use (VIU) only at CGU level. If the FVLCD estimate shows there is no impairment, it is not necessary to test the CGU.

Remember, goodwill and indefinite life intangible assets must be tested for impairment at least annually, irrespective of whether indicators exist or not.

Entities may have assets that are subject to impairment testing that do not qualify as long-lived assets and are not financial assets. These assets should be assessed for impairment as they could be impacted by the COVID-19 pandemic, particularly if these amounts reflect historical transactions with third parties where the creditworthiness of these third parties is now called into question. For example, a business might have prepaid for goods or services, but the counterparty may no longer be able to provide these or to refund the payment.

How is COVID-19 likely to impact the impairment test?

The recoverable amount is the higher of VIU and FVLCD and COVID-19 will often affect both. Many entities start by estimating the VIU; if it exceeds the carrying value, there is no need to determine the FVLCD (and vice versa). However, if VIU indicates an impairment, then FVLCD should also be estimated, unless facts and circumstances indicate that FVLCD would not be materially higher than VIU, or it cannot be estimated reliably. The main building blocks of the VIU estimate are:

- cash flow projections
- an appropriate discount rate and adjustments to incorporate variability
- uncertainty and other factors that would reflect in pricing the asset or CGU.

These changes will also be affected by the COVID-19 pandemic and can be reflected by adjusting either:

1. the discount rate
2. the cash flows (including the long-term growth assumptions).

Ordinarily, the application of a risk-adjusted discount rate approach is common. However, given the levels of uncertainty in the current environment, the risk-adjusted expected cash flow approach is often preferable as it involves more explicit consideration of the wider range of possible future scenarios and outcomes. Whichever approach is applied, management must ensure the outcome reflects the risks, uncertainties and other factors that would influence market participants' pricing decisions. It is equally important to ensure that cash flows and discount rate concepts are aligned to avoid double-counting the risk factors caused by the pandemic.

How will it impact the cash flow forecasts?

Many businesses are experiencing major interruptions to their operations, with rapid declines in net cash flows and earnings, and there is ongoing uncertainty over the duration of this disruption and its longer-term impact. The VIU cash flow forecasts must nonetheless reflect assumptions about these impacts based on facts and circumstances at financial year-end. These assumptions should be explicit, clear and evidenced. In the current environment it is unlikely to be reasonable for most entities to base their estimates on their performances during past periods.

As the situation develops, more information about the severity of the financial impact may become available after financial year-end but before the date of the approval for the financial statements. While organisations are required to determine amounts based on their knowledge of events at the reporting date as a starting point, information obtained after the reporting date can be considered if such conditions existed at the reporting period end. Significant professional judgement of all the relevant facts and circumstances are required to make this

Entities may face real challenges in reflecting the COVID-19 pandemic impact in a single set of forecast cash flows due to high levels of uncertainty.

assessment.

Entities may face real challenges in reflecting the COVID-19 pandemic impact in a single set of forecast cash flows due to high levels of uncertainty. Companies should therefore consider developing multiple scenarios and applying probabilities for each to arrive at the expected cash flows. It's important to note that not all industries are affected in the same way, particularly when calculating risk-adjusted expected cashflow. Reporting entities should consider longer term scenarios based on market research and insights available to management to support their case; this could demonstrate a reduction of cash flows in the current year but a recovery at some point in the future (or the opposite if current performance is above trend as evident in some industries). Management teams' external advisors should have access to research, data and insights to quantify these scenarios.

What about fair value less costs of disposal (FVLCD)?

When estimating FVLCD, observable and arm's length transactions should be referred to as much as possible. Prices for fire-sales of assets or asset groups may not reflect an orderly transaction. In the current environment, it may be more difficult to determine the current fair value based on market evidence due to a lack of recent arms-length transactions between market participants as they are defined in NZ IFRS 13 Fair Value Measurement.

If management uses a valuation technique to estimate FVLCD, the inputs and assumptions should only represent information that would be available to market participants at the reporting date. Information not available at the reporting date (based on normal access and due diligence for a transaction involving the asset(s) in question) cannot affect fair value. When unobservable inputs are used for fair value estimates, management needs to assess how the available information about the COVID-19 pandemic at the reporting date would influence market participants' pricing decisions.

What about useful life?

Detailed and explicit VIU cash flow forecasts are generally required to be for no more than five years. Beyond the detailed forecasting period, NZ IAS 36 requires an extrapolation using a steady or declining long-term growth rate. The impact of the COVID-19 pandemic may mean that reporting entities will now be forced to use the asset in its current condition for a period extending well beyond five years. However, NZ IAS 36 permits using a detailed forecast period of more than five years only if management cannot demonstrate an ability to forecast accurately over such a period. Conversely, long-term growth rate assumptions applied previously may no longer be suitable, particularly if the economic impact of COVID-19 is viewed as being more than short-lived.

Cash flow projections must also relate to the asset in its current condition, and entities may restructure their operations as part of their response to the pandemic. Management may need to demonstrate that forecast improvements in the financial performance relate to the assets' or CGUs' current condition and not to an enhancement or uncommitted future restructuring.

Impacts on expected credit loss (ECL) calculations

Although determined based on the principles contained in NZ IFRS 9 Financial Instruments, the COVID-19 pandemic is also likely to impact the calculation of ECL irrespective of whether a business is using the simplified approach or the full model outlined in the standard.

How can Grant Thornton help?

Those who prepare financial statements will need to be agile and responsive as the situation unfolds, however your resources may be stretched at this time. Having quick and easy access to experts, insights, and accurate information is critical. Our team of experts can support you as you navigate accounting for the impacts of the pandemic on your organisation. Now more than ever, the need for businesses, auditors, and accounting advisors to work closely together is essential.

We provide time critical independent support and advice to organisations who must review or quantify any impairment risks relating to goodwill and other intangible assets caused by COVID-19.

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Pause for a pit stop to retune your business

In times of economic challenge, don't just power through the crisis; pause for a pit stop to retune your business for the twists and turns on the road ahead.

As COVID-19 continues to challenge the business landscape, many organisations are now fully focussed on building a level of resilience into their organisations that goes beyond short-term survival and will achieve a velocity that returns the business to a growth trajectory. So where do you begin? Businesses actively responding need to look at the following external drivers.

Get to know your customers again

Understanding your customers' new world has never been more critical. Businesses will become irrelevant to their customer base if they fail to understand the changing behaviours and priorities brought about by the pandemic.

Audit your customer analytics

The right data analytics can give you a real-time overview of what is going on among your customers when activity picks up. There are plenty of tools to consider including:

- natural language processing and machine learning that can identify sentiment, key themes and trends in recorded calls with your customers
- social media monitoring that can help you measure customer sentiment in the online environment
- transactions and personal data analysis to alert you if customers are in a high-risk category following income drops or a sudden increase in expenditure, or are otherwise vulnerable.

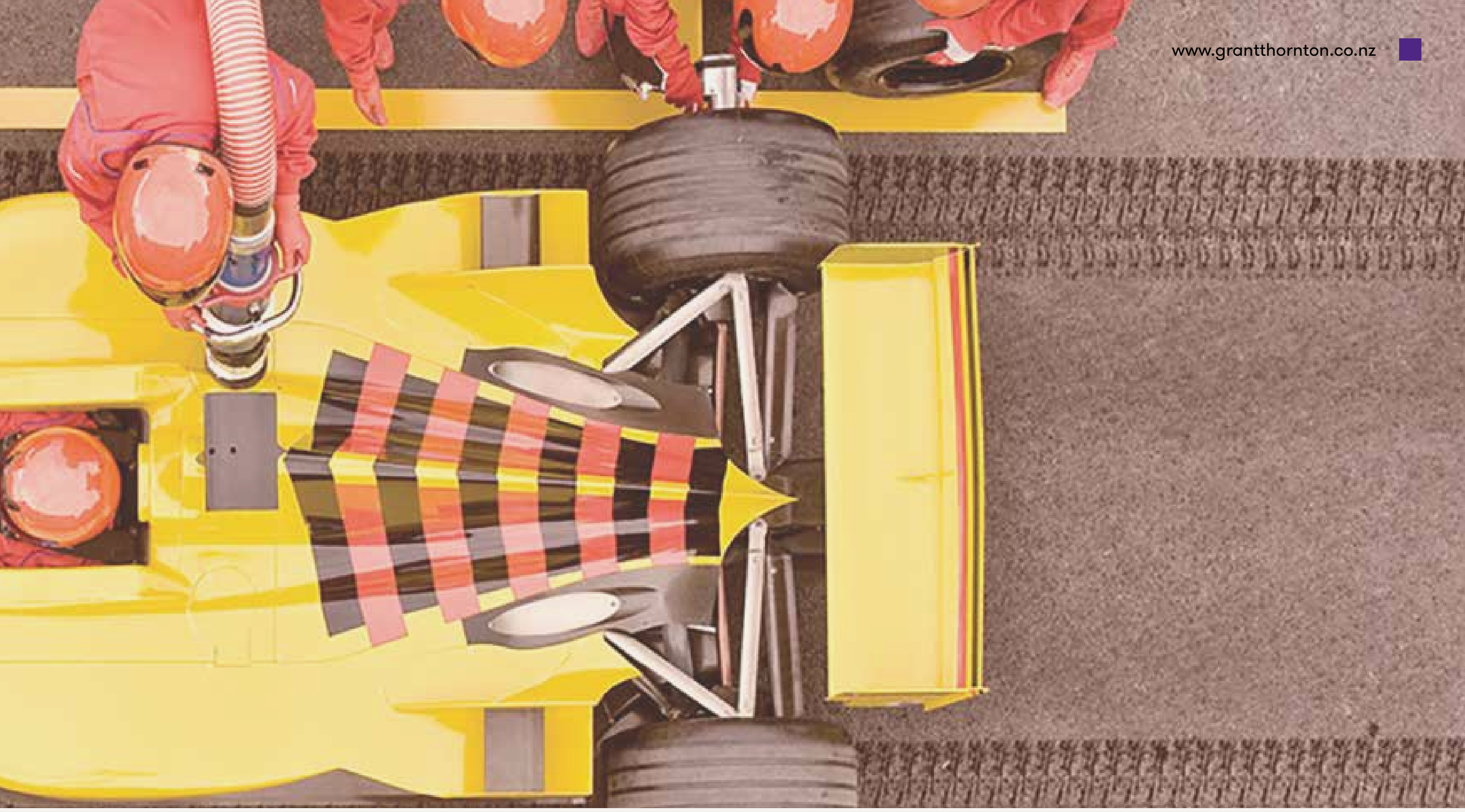
Communicate with your customers

While data analytics can give you actionable insights, customer communication remains more valuable than ever from both a basic survival and future trends perspective.

Really engaging with clients is vital; it can flush out any challenges they are facing and present you with an opportunity to find solutions.

The decline of physical meetings presents challenges to relationships, but alternative interactions such as video calling have proven benefits of their own, and with people spending less time travelling there is more time to make those calls. Additionally, when you're talking to clients in their homes, it's almost a better, more personal relationship that you're building.

This rapid uptake of new communication challenges has also removed geographical constraints, so this is



an ideal time to access new customers and develop key relationships beyond your borders.

Prepare for a new competitive landscape

Knowing where, when and how to overtake your competitors requires planning and a thorough understanding of their strengths and weaknesses. Today's environment is a hotbed of innovation, quick pivots, divestments and acquisitions as businesses devise new models to recover growth.

How likely is it that your competitors will undercut you? Are businesses outside of your traditional industry going to change what they're doing? Suddenly you may find that you've got competitors that you've never had before.

Maintaining your existing competitive edge requires you to exemplify your business's strengths and differences, and to clearly articulate your superiority over other brands – whether it be price, quality or customer service.

Plan for strategic opportunities

Some direct competitors or suppliers may be under stress and struggling. Distressed assets and low valuations may provide suitable targets for acquisitions now or at a later date.

Being mindful of those potential targets, and being prepared and poised for any possible transaction, will allow you to move rapidly when the time is right. You will need a clear sense of how that acquisition supports your strategy, and how those targets align or complement your operating capabilities.

Prepare to pivot your business quickly

One encouraging aspect of the pandemic has been businesses' ability to pivot very quickly to where the demand is. This will only continue as global and regional economies recover.

Businesses will need to weigh up the short-term and long-term market scenarios and have plans in place which they can execute with speed. Part of that includes examining your competitors' customer base as well as your own, and assessing if you are addressing the right demand and the right customers that will put you ahead or protect you from the competition.

Put your people first

New ways of working have put increased pressure on managers and their teams. Lockdowns and remote working have blurred the lines between business and professional lives, and brought to the fore the physical and mental wellbeing of workforces.

Revisit your wellbeing policies

A happy and healthy workforce equals productive and profitable employees – as well as happy customers. We've helped organisations to look at how robust or present any wellbeing offering or strategy is in their organisations.

Businesses need to recognise the impact of wellbeing on the workforce and ultimately the bottom line; the next step is to work through a process that ensures the business systematically checks in with all staff on a regular basis to make sure that they're okay and provide support if they're not.

Don't ignore your culture and values

With so many businesses focused on survival, it is not surprising that culture has slipped off the radar. Often, there's not enough attention paid to the importance of core values, mission and vision statements, how you treat your people, and how you do business.

Even in these difficult times, businesses need to take the time to demonstrate integrity and their core values, and to communicate with sincerity. While there may be some tough decisions to make around headcount, you need to include many voices around the table and take people with you on this journey. If you start to compromise on your values, then you'll start to find yourself in hot water.

Rethink your skills strategy for a post-COVID world

The new challenges COVID-19 poses for businesses require new skills to deal with them. Organisations are being forced to snap out of antiquated ways of teaching people, to embrace technology, and adopt a much more inclusive approach to upskilling and reskilling people of all ages, across all communities.

While upskilling has a positive motivational impact on employees, by thinking now about teams' future skill requirements, businesses can position themselves strongly. With some roles having changed drastically to adjust to circumstances, the crisis has allowed people to develop new skills and identify where they fall short.

Businesses need to recognise the impact of wellbeing on the workforce and ultimately the bottom line.

Consider outsourcing specific roles

With many businesses reluctant or unable to bring in new permanent staff, there is a growing demand for outsourcing. For example, if you needed to hire a team of specialist FMCG marketers, using an agency can be more flexible until there is more certainty.

Or where very specific high-value skills are required, bringing in an individual specialist maybe more advantageous than creating a permanent role. This will benefit both providers and customers who want to be lean.

The track ahead has many sharp bends, and the way forward will be difficult in many industries. Yet the companies thriving in a post-COVID world will be the ones that learned to reinvent themselves during times of adversity.

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