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Crisis-driven innovation

VERDE undertook a survey of the nation during confinement and this was published in exclusivity with *Business Magazine* last week. Understanding the behaviour of the consumer and assessing their mood were key in this difficult period and we were the first to release a Covid-19 survey in Mauritius. Businesses are today striving to understand the market, the financial and risk implications of the pandemic and are looking to us for data, analytics and insights. Following our population survey, we are herewith presenting findings which we obtained by engaging with some 50 entrepreneurs across different sectors and sizes over the past three weeks. Many commonalities emerged from what we gathered in this qualitative collection of information.

On the supply side, companies have experienced a reduction in the supply of labour (due to the current lockdown and employees need to look after children or other dependents while schools are closed and movements of

“PANDEMICS TEND TO ENABLE ENTIRELY NEW CATEGORIES OF BUSINESSES TO EMERGE”



people are restricted), leading to decreased and even on-hold operations. On the demand side, a dramatic and sudden loss of demand and revenue are severely affecting their ability

to function, and/or causes severe liquidity shortages. Other insights we gathered are summarized below.

- Most microcompanies have quickly drying cash

flows, and if there is an extended lockdown or activity does not pick up very soon, they will not survive.

- Companies which have full-time employees are having to sustain salaries especially when they do not have any revenue stream for the time being. Many of them are also pressurized and stressed by ongoing rentals which have to be paid and are only hoping to start operations soon, fearing which their situation will be the more catastrophic. They are also grateful to the various support schemes and measures put forth by the Government, which they see as a lifeline.
- Services-related companies have had many assignments canceled or frozen as their clients are in 'wait' mode, and they mention that they are now likely to lose significant income for this year, derailing their initial plans and projects.
- Media, advertising and related agencies fear that clients will put a hold on



advertising budgets, impacting their operations and outlook.

- Real estate developers fear that their sales pipelines are now mostly lost and until confidence is regained globally, their projects will remain standstill.
- Many businesses that are labour intensive (especially in manufacturing and production) are also incapable of functioning and therefore cannot honour their commitments.
- Retailers (restaurants and other shops) feel that consumers will not be spending as before and are therefore prepared for the worse (The VERDE Covid-19 survey confirmed that feeling with 43.5% of the population today likely to cut their spending and buy important items only).

With consumers likely to experience loss of income or the prospect of it, fear of contagion and heightened uncertainty, this in turn will reduce spending and consumption. These effects are compounded because workers may be laid off and firms are not able to pay salaries. Some sectors, such as tourism and transportation, are being severely affected, also contributing to reduced business and consumer confidence. In these trying times, we have observed that some business owners are innovation and opportunity seekers. Having said so, economic recessions and pandemics change the trajectory of how governments, economies and businesses operate—making it in the history books.

The SARS pandemic of 2002-2004 propelled the meteoric growth of a then-small e-commerce company called Ali Baba. The company's owner, Jack Ma, recently supported Mauritius and other African countries through generous donations in kits and equipment to fight the coronavirus. Ali Baba's growth was fuelled by underlying anxiety around traveling and human contact, similar to what we see today

with Covid-19. Today, the use of e-commerce platforms has increased significantly with now roughly one-third of the population having purchased from a local store online to avoid going out.

The financial crisis of 2008 also produced some global brands. Airbnb and Uber shot up in popularity across the West as the subprime crisis meant lower savings and income for the masses, forcing people to share assets in the form of spare rooms and car rides in order to cover for the deficit. With Covid-19, we are already seeing early signs of

November 2009. In a situation where local businessmen and entrepreneurs may have been impacted, they are likely to be on the lookout for potential opportunities, in the 'next-normal' period.

Longer-term innovation and changes in trends will come about as consumers and businesses try earnestly to normalize the impact of the pandemic on their situation once containment is reached. A segment of the entrepreneurs we have been in contact with during the confinement, are all keen to bring an acceleration in their business model change,

beyond of this deadly pandemic. Two priorities defined are in (1) Technology-based products and services and (2) Social and policy measures in all stages starting from ideation and all the way to development stages, piloting, testing and integration within existing systems.

It also becomes quite clear that both pandemics and recessions are accelerants to innovation versus being direct causes of it. The ecosystem comprising private sector companies, start-ups and various other stakeholders remain all vivid to new opportunities and in putting

“BOTH PANDEMICS AND RECESSIONS ARE ACCELERANTS TO INNOVATION VERSUS BEING DIRECT CAUSES OF IT”



a shift in how consumers and businesses behave and will behave. For example, people who never thought of doing grocery shopping online, had to do so. In these market circumstances, several online platforms have made the most out of it, leveraging consumer behaviour to their business advantage. Interestingly, e-commerce is not the only segment to consider in a post Covid-19 environment. In 2009, businesses across different sectors raised capital from people looking for opportunistic to diversification opportunities. Dropbox raised US\$6 million Series A in October 2008 and Square US\$10 million Series A in

driving down costs and bringing innovation that makes them more competitive. On the other hand, pandemics tend to enable entirely new categories of businesses to emerge. The Mauritius Research and Innovation Council (MRIC), following other measures and incentives proposed by the Government, has launched a Special Call for Proposals (SCP). In this SCP, the MRIC is looking for short-term and long-term projects which aim at improving and accelerating the Government's response to the challenges posed by the coronavirus (COVID-19) and eventually contribute to counter the impacts and planning

innovation to the forefront.

Government intervention to support the entrepreneurial community is already in motion and will be more important in the coming weeks, as the country fights the Covid-19. Businesses in difficult situations and those striving in these times however make two extremes. Like the \$83bn which investors took out from emerging market shares in March 2020. Where many have lost, others have gained. Come what may – businesses, start-ups, consumers, stakeholders and Government are gaining tacit experience from this crisis and will prepare for the next-normal phase, post-Covid.