Elevate
A monthly newsletter from the Sri Lanka@100 Platform, focused on useful, relevant & topical business information

Issue #3 – April 2021
Welcome readers, to the April 2021 issue of Elevate, the monthly SL@100 newsletter focused on bringing you informative and relevant content. The March issue’s lead article, Strengthening the Economic Backbone: Digital Adoption to Drive SME Productivity, continued our theme of the adoption of digital technologies, and we hope that it gave you some useful insights and tips on how to improve productivity in your own businesses.

While we will continue to share content on digital adoption, this month’s feature article takes up the topic of “Customer Retention: How SMEs can increase penetration within their existing customer base”, something critical to SMEs in a size-constrained market such as ours. As ever, we hope this piece gives you some easily-actionable yet thoughtful suggestions on how to optimize existing customer relationships.

It has been a busy few months at the Sri Lanka@100 project, with the pitch round meetings for round 2 of the project now complete and the due diligence phase in progress, the Selection Committee commented on the high quality of the applicant firms in this round. We also conducted our very successful Q2 webinar yesterday, featuring Paul D. Roberts of Singularity University, with an audience of nearly 300, and we will host Day 2 of the webinar, a workshop limited to 60 participants only, on the 5th of May.

We look forward to partnering with you on your company’s growth journey, and would be happy to receive suggestions on what content you would like to see in future issues.

SL@100 Editorial Board
Downturns in demand have led to adverse economic impact, with a more lasting effect on SMEs. The Covid-19 pandemic has caused disruption to multiple businesses across the globe, owing to inadequate demand and a loss of momentum in customer relationships. Whilst most economies expect consumption to return to pre-crisis levels, the recovery and lingering effects would largely depend on the period for which the pandemic persists. In the period of recovery, consumers are likely to switch to more era-relevant suppliers. Hence, companies that prioritize customer needs and make vital shifts in time to stay relevant to its consumer base are those that are likely to sustain demand and survive and thrive beyond the pandemic. Given that SMEs are generally faced with a traditional set of challenges such as poor cost optimization, delayed customer payments, multiplicity of taxes, poor record keeping, funding constraints and low digital capability, their resilience to pandemic shocks is lower than their larger counterparts, resulting in a more lasting adverse effect. Hence it has become more important than ever before for SMEs to ensure minimal revenue leakage. While it is ideal to explore all avenues for revenue generation, SMEs that are cash-strapped should focus on customer retention first as it has proven to be a more cost-effective strategy that generates higher return.

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<td><strong>Returning customers offer higher ROI</strong></td>
<td><strong>Returning customers help a business predict working capital and investment needs</strong></td>
<td><strong>Returning customers are low-cost marketing targets</strong></td>
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<td>5% increase in retention can result in a profit of 25% or more.</td>
<td>Starbucks Customer Loyalty Program: ~16 million consistent members drive 40% of total sales. The company’s insights on its loyal customers show a growing preference for digital order-ahead methods. Starbucks plans to adjust its operations after COVID-19 to implement more order-ahead store layouts.</td>
<td>It is 5 to 25 times more expensive to attract a new client than it is to keep an existing one engaged. It is statistically proven to be worth it to invest in loyal relationships – 75% of the US companies with loyalty programs generate a positive ROI.</td>
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So, what are some of the customer retention strategies that SMEs could explore:

1. Short term - analyze consumer behavioral trends and respond to urgent needs to ensure retention

Consumer sentiment and behavior across the globe is impacted by the uncertainty of COVID-19; however, the impact is felt in varying degrees in different parts of the world and as a result, there is significant variance in how consumers respond to the crisis and adapt to the next normal.

Hence, analyzing consumer behavior is vital to yield insights on level of retention risk based on shifts in purchase motivation, what drives brand affinity and the primacy of online. This would enable SMEs to respond quickly in areas that matter most to the consumer.

a. What drives consumer purchasing behavior in a crisis?

The main aspects that impact consumer purchasing behavior in a crisis situation include the type of income and the essential nature of the product. In addition, the safety and convenience of the product also plays a key role in impacting consumer behavior in the immediate aftermath. Below we have provided a brief outline of each three.

i. Type of income (fixed or variable)

In Sri Lanka, daily wage earners have been the most vulnerable to pandemic shocks while fixed salary holders have relatively not been impacted. An island wide survey conducted in August 2020 revealed that daily basis workers were the most vulnerable to pandemic shocks (92 per cent of respondents claimed so). However, the loss incurred by other segments is not limited to income foregone, but includes the fixed cost they have to bear (for example, monthly rental for premises) even in the absence of income.
ii. Essentiality and value of product

In many countries, consumers intend to continue shifting their spending to essentials during the crisis and cut back on most discretionary categories. While consumers across the board are looking for value in what they buy, lower-income consumers are trading down more than higher-income consumers are. 58.6 per cent of Sri Lankan households revealed that they would reduce consumption of non-essential materials.

Reasons for trying a New Brand in the Past Three Months

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iii. Safety and convenience

The need for safety and convenience has led to the popularity of 3Ds – Digital, Delivery and Drive-through. COVID-19 has acted as an ice breaker for digital familiarization of households in Sri Lanka, enabling faster access to cash during lockdowns and enabling cashless mode of payments to avoid contamination. Most companies and SMEs have already explored speedy doorstep delivery and drive-through options for restaurants, supermarkets and grocery stores.

b. How has purchasing behavior been impacted?

The world may never return to the normalcy previously experienced before COVID-19, given the impact it has had on peoples’ lives, lifestyles and attitudes. Some shifts in shopping behavior are likely to persist beyond the pandemic.

For instance, globally, 72 per cent of consumers expect their purchasing habits to change:

• Consumers across the globe have expressed a high intent, 65 per cent or more, to incorporate these changes in behavior going forward. However, the change has been less pronounced in countries with a moderate degree of economic shock, such as Germany and Japan.

i. **Not bound by loyalty anymore**
Consumers have shown that they will change retailers during COVID-19 as they adapt to a redefined sense of convenience:
- Only 26 per cent have expressed that they will continue shopping with businesses they know and trust.

ii. **Primacy of online**
Reliance on digital was growing before the pandemic began, and a meaningful amount of this online penetration is expected to persist after the pandemic is over.

### c. What immediate measures can be implemented to capitalize on such behavioral changes and avoid the risk of falling behind?
Most businesses have either begun introducing some of the measures outlined below as a short-term response to the pandemic or have successfully implemented these measures to survive the aftermath.

i. **Offer a multi-channel experience to fulfill more orders**
SMEs could offer buying online, in-store pickup, curbside pickup and doorstep delivery. It is important to provide consumers the products they want, when and where they want to buy them.

ii. **Offer increased health and safety to encourage more purchases**
Businesses could offer increased health and safety protocols such as improved in-store queue management, temperature checks, sanitization and contactless payments.

iii. **Reaching end consumers directly**
For example, vegetable farmers have increased their reach to end consumers directly via online presence through e-commerce development, subscribing to virtual markets or platforms, developing own brands and websites and signing up on social media.

iv. **Increase brand affinity to retain loyal customers**
SMEs could provide incentives to engage consumers such as deferring payments, increasing credit periods and limits, offering more discounts and promotions, pausing subscriptions/fees for no-service period.
SMEs could focus on personalization and empathetic messaging and demonstrate purpose by communicating how supportive the company has been to its employees and local communities.

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**In this article, we focus more on how SMEs should rethink their business models and customer retention strategies in the medium term and adopt measures to thrive in this new normal.**
2. **Medium term: identify shifting priorities and prepare to pivot strategy to remain future proof.**

The coronavirus pandemic has forced small businesses everywhere to rethink their business models, even if on a temporary basis, as many businesses, not deemed "essential", have had to cease operations entirely.

*As part of rethinking business models, businesses could follow a 3-step approach: map revenue profiles, keep a pulse on consumers’ evolving needs and pivot swiftly to retain existing customers or onboard new ones. This is vital in helping business become crisis proof, ensure sustainable cashflow and stay afloat.*

- **a. Map revenue profiles**
  SMEs that identify unprofitable revenue streams in times of the crisis can transfer skills and funds faster to more relevant areas within the business.
  - SMEs could invest to market their relevant products more aggressively as funds become available for viable revenue streams.
  - For example, boutique hotels could temporarily redirect time and funds to focus solely on local revenue generation as cross border travel remains restricted, and as upper income earners who used to spend large sums of money on overseas vacations are seeking for more local alternatives.

- **b. Keep a pulse on consumers’ evolving needs**
  As a result of the crisis, businesses have witnessed a surge in the need for many products. SMEs that have had the possibility of immediately transferring skills to capitalize on such needs have managed to sustain business operations.
  - For instance, car manufacturers and apparel firms have started producing personal protective equipment, alcohol companies have ventured into the hand sanitizer market and education service providers have shifted their services online.

- **c. Pivot strategy to stay relevant**
  - i. Product extensions/innovation
  - ii. Market development
  - iii. Revised value proposition/business model
  - iv. Leverage digital
  While pivoting, it is important to continue monitoring the evolving needs of consumers, prior to discontinuing existing product lines or over-investing in new ones as demand for core products may normalize faster than expected.
a. Pivot to retain customers
If a business is to pivot to sustain demand during a crisis, it is best implemented sooner considering its competitive advantage, transferable skills and cashflow, while also being mindful that any shift in direction could be impermanent. Pivots in business strategy could include:

i. Product extensions/innovation
To avoid a race to the bottom, SMEs should focus on differentiation, value-addition, brand-building. This may require building new capabilities and acquiring talent.

- Approximately 10 per cent of SMEs in the apparel and textiles industry in Sri Lanka adjusted their business strategies to suit requirements that arose due to the pandemic. They retooled parts of production lines to supply personal protection equipment (PPE) such as face masks, health personnel uniforms as well as respirators.

ii. Market development
If primary markets are international, businesses could pivot to domestic markets at times when cross border activities are restrained.

- Some smaller Sri Lankan apparel firms pivoted to meet the needs of the domestic market, much of which was met by cheaper imports from other South Asian countries. Some apparel firms began developing their own brands which were then retailed across the country through departmental store chains.

iii. Revised value proposition/new business models
This could help businesses redirect existing products to create more value to even existing customers.

- A music streaming platform that had a subscription-free user base to which it offered music content primarily relied on advertising revenue for income. Post crisis, when advertisers cut their budgets, it revised its value proposition to offer original content, in the form of podcasts. The platform saw artists and users upload more than 150,000 podcasts in just one month, and it has signed exclusive podcast deals with celebrities and started to curate playlists. It now charges for such podcasts from its premium subscribers in addition to its advertising revenue.

iv. Leverage digital
COVID-19 has accelerated consumers’ shift to online around the world, making digital strategy critical to retailer success. Sri Lanka will eventually follow the trend seen elsewhere and move towards digital offerings because businesses need to keep pace with shifting consumer expectations.

- Boxscore Fitness, a software for managing CrossFit gyms, created a feature to help closed gyms offer online programming to their members. This new feature release reflected the urgent needs of their customers and has increased leads by nearly 300 per cent just a week since its release9.

- This has been evident in Sri Lankan gyms and yoga studios as well, offering virtual classes for consumers that are concerned of COVID-19 related risks.

While this would also generate digital customer acquisition, businesses can prioritize onboarding existing customers followed by mobile customers for increased retention.

- Mobile acquisition is especially high with an increase of 62 per cent in acquisition, indicating that in customers adapting to digital, a large number of them are engaging with brands on mobile first.

- However, new users present new challenges. Surveys show that after two months, shoppers acquired during COVID-19 have an 82 per cent lower retention rate than those acquired during a non-COVID, non-holiday time period.

- With consumers more likely to jump ship, prioritizing mobile-first customer retention is more important than ever. Customers acquired through mobile were 10x more likely to make a purchase—and 12x more likely to make a second purchase—than users who came in through other channels.

By Seyeda Mowhiba
Seyeda is a Consultant at Stax and has been with us since 2016. As a holder of ACMA, CGMA, and four world awards in Financial Management and Strategy, she has led multiple projects assisting companies across diverse industries on business strategy formulation, process improvement and financial modeling. Prior to her role at Stax, she worked at Moody’s Analytics and Dilmah.
SRI LANKA@100 PORTFOLIO SPOTLIGHT

In this segment, we feature two of Sri Lanka@100’s Portfolio companies – Lanka Spice (Mc Currie) and InsureMe on their compelling journey to date, their successes and what they are planning next.

Mc Currie – Sri Lanka’s Premier Spice Brand

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Lanka Spice was setup by Chairman Nalin Pathikirikorale in 1984, when he spotted an opportunity in the local market for a premium spice brand. Having started with just 10 employees in their Makumbura factory, they now employ over 200 staff between the original factory site and another facility in the Nalanda Industrial Zone, in the Matale District. The company’s Mc Currie label is now a household name across Sri Lanka and in Sri Lankan expat communities overseas, with the distinctive red and white branding found across the country at all major supermarket chains. Currently headed by Managing Director Mikhail Pathikirikorale, Lanka Spice offers a range of products – whole spices, spice related powders, blends, baduns, sambols, pickles, chutneys, pastes, and ready-to-eat jar products

Although Lanka Spice worked closely with the Singapore Institute of Scientific and Industrial Research (SISIR) in developing curry pastes and other products, many of Mc Currie’s recent products have come from Lanka Spice’s in-house laboratories. In addition to the routine testing of raw materials, work in progress and finished products, the lab also works on improving the quality of the existing range, and new products are developed.

The R&D team is proficient in matching existing recipes and developing new formulations as required by customers as can be seen by the success of some innovative products like the masala range of instant curry gravies that let home cooks make a traditional Sri Lankan curry by adding just vegetables and a protein of choice and cooking for 8 minutes, the instant string-hopper flour that works with cold water, and the cashew badun, among others
With current retail distribution and the majority of revenue made via Modern Trade (Supermarket) partnerships with all the major local chains, Lanka Spice also relies on several B2B partnerships with various hotels, restaurants and cafes, while also working directly with many several multinationals and large local manufacturers.

Although being primarily an ethnic F&B product manufacturer the company has begun exporting to Sri Lankan expatriate communities in overseas markets company also has several industry standard certifications, ranging from local standards such as SLSI to HAACP & ISO, which positions it well to expand into new markets. Mc Currie products are also halal certified and the company is a member of the Supplier Ethical Data Exchange (SEDEX)

Having left a long corporate career to take up a senior role at Lanka Spice, Mikhail Pathikirikorale is bullish about the future of the business – “Given the recent pandemic and the global economic situation, sound advisory services are becoming more important and will help in keeping us on track. We believe SL@100 is the right partner for us in this regard. We’re especially looking forward to SL@100’s support in all aspects of growth from export market growth to strengthening internal processes to support future growth. It’s been a pleasure to work with Stax and the SL@100 team so far and we’re looking forward to our continued collaboration with the platform.”
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E mail: vipula@insureme.lk
Website: www.insureme.lk

InsureMe, Sri Lanka’s first online insurance brokerage was conceived as the brainchild of two former Insurance CFOs, Vipula Dharmapala and Indika Prematunga. The two, along with another senior insurance professional, Niranjan Manickam, and others, combined their various skill sets and experiences to launch a 100% online end-to-end platform that allows consumers to compare and purchase insurance solutions offered by key insurers in the country, as well as process claims. For the first time, Sri Lankan customers could now purchase motor insurance (full and third-party), medical insurance, travel insurance and other similar products via mobile app or computer, 24 hours a day. Having gone live in 2017, InsureMe now has traction in the market, with over 20,000 monthly visitors to its website, over 15,000 paying customers and over 100 corporate clients. The company has also expanded on traditional offerings and has launched innovative insurance innovations, such as Per Day Motor Insurance.

InsureMe’s online insurance aggregator model was a disruptive force to the local insurance industry, allowing consumers to compare and contrast different insurance options in a transparent manner, with options presented within seconds. Having been inspired by regional insurance aggregators such as PolicyBazaar.com and CoverFox, the company has room for growth in a relatively under-insured market – in India, insurance accounts for around 4% in GDP, while in Sri Lanka it is still only around 1%. This growth potential was recognized by the Dialog Axiata Digital Innovation Fund, who took a significant stake in InsureMe in 2018, adding it to their ecosystem of digital products. The company was also selected for the Stanford Seed Transformation program in 2020 and is also a member of the Finance Forward Asia program run by PayPal and MetLife Foundation.

In addition to the insurance brokerage, InsureMe also has several other digital products in the development and sales pipeline. DigiEx, and employee expense reimbursement and supplier payment platform, DigiEye, a remote visibility tool for claims review, and DigiMed, an medical insurance claims platform, are of the new products developed in-house that can potentially see a wider reach across the. Growth overseas is a priority for InsureMe, with plans to expand into similar overseas markets in 2021. With that in mind, being selected to the Portfolio Level of the Sri Lanka@100 Platform has come at a perfect time for the company, with SL@100 consultants working with the InsureMe team on growth plans, new market entry feasibility studies etc.

“We have gone through an tough but an interesting learning journey building InsureMe over the last 4 years and now see a clear direction for the future. It is now clear better than ever the gaps in the markets and where InsureMe can fill into such gaps to add value to the market. I am confident that InsureMe could help change the insurance and technology landscape in the country and the Asian region over next few years, said Vipula Dharmapala, CEO InsureMe. “Learnings we gather from programs such as SL@100 also helping us shape our journey better for the future.”
SRI LANKA@100—WHY, HOW, WHAT?

A Diamond from the Rough

1. WHY?
Why Does this Platform Exist?

PURPOSE: To make Sri Lanka a High-Income Country within 100 Years of Independence (2048)—with equitable and inclusive growth enabling all Sri Lankans to realize their aspirations.

2. HOW?
How Will We Get There?

BY: Powering the Growth of Mid-market Firms and Adhering to the Values of INCLUSIVITY & EXCELLENCE

3. WHAT?
What Exactly Is This Platform?

AN ECOSYSTEM: Where mid-market firms can thrive and create value by focusing on:
1. Building Next-Gen Businesses
2. Operations Optimization
3. Revenue Growth
4. Smart Capital

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