

Good Money by Vancity – Episode 2 – The Local Economy

Leon Ng: When COVID hit, it felt like a one- two punch for us. A lot of the projects are completely on hold. So I'm sort of left with all the staff, all this overhead and all of a sudden, no projects, no cashflow. And obviously you were worried about everybody's health. But for me as a business owner, I'm worried about the business.

Anicka Quin: For small businesses. It's a game of survival. When COVID-19 first arrived, thousands of local businesses closed their doors. Restaurants, clothing stores, art galleries, ice cream shops, you name it, shuttered. A survey of Canadian businesses found almost half laid off staff, but it's not all bad news. Some businesses kept going remotely. Sofas and kitchen tables and tiny apartment patios became office spaces and pets got a whole lot happier. Other businesses had to kick into high gear. If you had anything to do with masks or hand sanitizer, you weren't getting any sleep. But just how important are these local businesses to our communities, and what can we do to help them survive? I'm Anicka Quin, and you're listening to Good Money brought to you by Vancity. In a few minutes, we're going to hear from a business owner who made a big shift, but first I'm joined by Joe Reid. Joe is vice president of wealth management and impact investing at Vancity. Hi, Joe. Welcome to Good Money.

Joe Reid: Hi, Anicka. How are you today?

Anicka Quin: I'm good. Thanks. Joe, we hear a lot about the importance of small businesses, but really what kind of businesses are we talking about, and what role do they play in the local economies?

Joe Reid: Local businesses are really the heart and soul of the local economy. They can be anything from service oriented to farming. They can be the end provider of the products. They can be the producers of products. They can be the producer of one little part of a large product. And if that small business isn't there, that product can't be made. When you start to look at the supply chain and how these small businesses are involved in it, it really has that ability to be a domino effect.

If there's a business that isn't there or is in danger within that supply chain, you can often see where that entire supply chain can fall. We've seen parts of the local economies where, when a small business leaves, that it creates food deserts if they don't have the local grocery stores or

the local markets there to go to. So small businesses really are that cornerstone of the local economy.

Anicka Quin: Okay. So what are some of the ways that local businesses have been hit by the COVID crisis?

Joe Reid: When you start to look at local businesses, they can be hidden in a multitude of different ways. We've seen companies have had to lay off staff. We've also seen where if the businesses closed, they're not getting that revenue coming in. And when revenue doesn't come in, they're not able to pay their suppliers. They're not able to pay the expenses that they have. And often those expenses, even though the businesses close, don't go away. So when you have heating and Hydro and products that you have to buy, contracts that businesses have signed, those are operating costs that are really there all the time. We've seen a lot of these businesses that have had to go to financial institutions, looking at requests on more credit or credit deferrals over the last little bit in order to help them to really pay the bills that they have. And we also know that small businesses have had to reach out to their landlords and look at seeing if they could defer some of those lease payments or those rent payments on the spaces, if they don't own the space that their business is in.

Anicka Quin: Yeah. In normal, non- COVID time, staff churn is a real concern, right? You don't want to lose your top performer. So it must be a real issue to have to lay off some of your best people right now.

Joe Reid: Especially when you start to look out, are those people going to come back? And those good people, those ones that are really the true key people within that small business. You think of at your local coffee shop, that personality, that when you walk in the door knows you by name, knows your order. When you lose that person or that key individual within a business, that can also take some of the experience of the customer, but also some of the institutional knowledge that that person has for the community, but also for the business itself. So definitely that's a challenging one for people.

Anicka Quin: Right, and I mean, it's an amazing stat that small to medium-sized businesses in Canada normally employ 69% of all employed Canadians. And so with many of them being forced to close, what does that mean for communities when we lose small businesses?

Joe Reid: Communities are made up of people. They're made up of the people that live in them, that work in them, that enjoy the community, enjoy the services that are there. So businesses, local businesses, help to make a community more vibrant, more resilient. And when we think about the walkability, for example, of some of our local communities, whether it be to walk down Commercial Drive area or you're in Kits, and you're looking at those small businesses that are there, that walkability part is part of what draws us to those neighborhoods, whether it's to live or to visit.

So when you see businesses that start to close, it can have that lasting effect on the community as a whole. It can change the demographics of a community. It can force people to have to move out of the community. So it can have effect on housing prices, on the viability of the community as a whole. And we can see where it can hurt in other ways. I'll use youth as an example. When you have these companies that employ youth, and those youth aren't able to work at that moment in time, it can actually affect their ability to go on to post-secondary and get jobs and careers later on. So it definitely creates a challenge within the community when you start to see these small businesses close.

Anicka Quin: Right. And I imagine there's even bigger impacts in terms of if you're suddenly having to drive everywhere, what that means in terms of our output in terms of fossil fuels. And it just has this sort of bigger and bigger rollout.

Joe Reid: Very much so. And I think that that's why there's been a trend so much lately in terms of not only wanting to buy local, but to live local and drop that commute. And when businesses are not viable, that can actually make it harder to do just that. And that creates that negative effect you're talking about.

Anicka Quin: One business that's had to make a serious shift is LNG Studios. It's a company that creates virtual reality simulations for architects, engineers, and developers, but now they're making personal protective equipment, or PPE. We caught up with the founder and CEO of LNG Studios, Leon Ng. And we started by asking him what it was like for his business when COVID hit.

Leon Ng: Primarily we work in the real estate space, and last year was a slow real estate year. And when COVID hit, it felt like a one-two punch for us. A lot of the projects are completely on hold. So I'm sort of left with all the staff, all this overhead. And all of a sudden, no projects, no cashflow. And obviously you were worried about everybody's health, but for me as a business owner, I'm worried about the business. The lucky part about my businesses, we were able to work from home, but yeah, it wasn't an easy time. And seeing and hearing a lot of my peers, other types of business in real estate, construction, all had to lay a lot of people off. And it was a

difficult decision for a lot of people, but I mean, it had to be made. Nothing was moving, everything was on pause. It wasn't a fun two weeks. That's for sure.

Anicka Quin: That's Leon Ng from LNG Studios, a company that creates 3D visualizations for architects, developers, and engineers. And we'll hear more about how LNG moved from real estate to PPE in a few minutes. So you really heard in there two parts, one that whole one-two punch. I think there were a lot of businesses that went into this phase, not necessarily in this super profitable position and how hard that must have been.

Joe Reid: Yeah. You know what, and I think that's not unlike what we're hearing from many, many business owners in the community.

Anicka Quin: So, Joe, what are some of the ways that local businesses have had to adapt over the last while?

Joe Reid: I think businesses have had to adapt to how they get productivity out of their employees when they're working from home. I think the other part that we're starting to see is businesses that are having to look at what their business model looks like and how they are going to look at getting their products and their services out to the end consumer.

Anicka Quin: Right. And there's been some pretty amazing stories out there too, of the ways that places are adapting, whether it's... There was a story in the Globe last week about this dress rental company that is, of course, no longer having an audience, given that there aren't any events for people to rent these fancy dresses, but they have these machines that are essentially ozone machines that clean the dresses, but they'll also clean a space. So they clean a business for safety. In between customer visits, that sort of thing, they can now be a cleaning operation.

Joe Reid: And I think that's where the creativity is coming into it. One of the great stories that I've seen is London Drugs and what they've done with providing shelf space to local producers of different products, which really gives some of these small businesses an opportunity to get a much wider audience than they would have normally.

There's been stories out there about restaurants, not only doing the takeout food, which we would expect to see them sort of move their business model towards, but also selling groceries. So having their suppliers bring in maybe more produce and then having grocery packs that go

out. We've also started to see where some of the local farmers markets have actually gone online. So, again, it allows them to get closer to the consumer and get their products and services out.

Anicka Quin: Right. Right. Big businesses usually have more resources to draw from during tough times. They're kind of big tankers with deep wells. What are some of the advantages that smaller companies have when it comes to quickly shifting their businesses?

Joe Reid: They're closer to the ground. Think Main Street versus Bay Street when it comes to small businesses. They understand the communities that they're in. They understand the customer's needs, so they can actually make those decisions quicker in order to adapt to maybe the way the consumers in the local community are looking for things.

One of the big benefits of a small business is that there is often much less levels of decision-making. We all know large businesses that you get an idea and it has to be run up the flagpole, and it may have to go through multiple layers before you actually get an answer. In a small business, not having those multiple levels actually allow them to get approval done quicker. And then because of that, they can actually be a lot more innovative than a large business can.

Anicka Quin: You're listening to Good Money, a podcast by Vancity. I'm Anicka Quin, and coming up, we're going to talk about how some local businesses have adapted during the COVID crisis. And we have lots more financial tips in the weeks ahead. So don't forget to hit subscribe.

A lot of business centers are being forced to go into debt right now. When is that an okay thing, and when is that a bad thing?

Joe Reid: You know what? That's a really interesting question because I think a lot of times we think of debt as being a bad thing, but debt can actually be a good thing. When debt finances something that can create new revenue streams, or it can finance a new product line or a new piece of equipment that allows you to create a new product line, that's the right type of debt that business owners should be looking for. Where I think that debt can be a bad thing is really around, are you financing at high interest rates, which can actually be crippling in times like this? So I think from a business owner's point of view, it's making sure that the debt you're getting makes sense, that it's not debt to cover other debt, or it's not debt that's there at a high rate. I look at the 'sleep at night' quotient when it comes to debt. If it's something that is going to keep you up at night, more than likely that's not the type of debt that you want to be taking on. And I think that's why when business owners are sitting and working with a trusted advisor, whether that's her accountant, their lawyer, their local credit union advisor, their bank advisor, it

allows them to maybe dig into why they're getting that debt. And helping them to understand, is that going to be something that's going to keep them up at night? Or is it something that's going to actually help to propel their business in a new direction?

Anicka Quin: That's good advice. I like that 'is this going to keep you up at night' as your metric. I think that makes a lot of sense. Sadly, we're already hearing about the closures of some of our favourite spots, and it's heartbreaking for the owners who have put their heart and soul into those businesses. How does one decide that it's time to cut your losses and close up shop?

Joe Reid: Yeah, you're right. We are hearing some large businesses, whether they're a multinational, like J. Crew down in the US, or local favorites and companies like Army & Navy, which is really a Vancouver institution. And then I live in the Langley area. We've just heard of a local bar/ nightclub in Langley, Gabby's, that has been around for over 30 years. And they're not going to be able to open back up again.

I think a lot of times an owner will look to try and do anything and everything they can. And that could be that taking on additional debt. It can be looking at, is there a way to change their business? But often the end result of even looking at some of those things is that there may not be another way out other than closing it. And it's just like Leon was talking about, having to make that decision around laying off individuals. And at some time, that's the only decision you have to make. And we're starting to see that right now for some business owners where what it makes more sense for them to close the doors and leave them closed, rather than opening back up again. But it definitely is a difficult decision to make.

Anicka Quin: And we've also seen for other businesses that it's been a time of massive growth. What are some businesses that have really been kicked into overdrive right now?

Joe Reid: It's those ones that have been able to pivot towards an online presence. And it's interesting on more of a national scale, Shopify, which is a digital platform for businesses to sell products. It's actually become one of the most valued companies in Canada when it comes to market capitalization. And they are actually, at one point, they were higher valued than RBC, than the Royal Bank. So there's a company that has really done well in the last while because of businesses and individuals needing to turn to that online mode to get their products and services out to customers.

Anicka Quin: A little earlier, we heard from Leon Ng. He's the CEO of LNG Studios. He didn't have to close up shop, but the company made a huge shift from 3D visualizations to PPE. So I asked him why he went that route and what that involved.

Leon Ng: I actually made an acquisition with a company that's been a decade long competitor of mine, and they actually pivoted four or five years ago to start producing 3D printed architectural models for architects. And when I acquired the business, two weeks after COVID hit, and we were approached actually by a doctor in Richmond Hospital, said, "hey, we're completely short with PPE. There's no face shields. There's no protection for us. Is it possible that you try to 3D print some face shields for us?"

And we looked at ourselves like, "You know what? This is totally possible." We only had five 3D printers, and we were printing around one every 45 minutes, and it totally wasn't enough, but it did do the job. So I had to crowdsource more 3D printers in the community, and we were actually able to rally 300 local 3D printers in the community. And just started to 3D print face shields for local hospitals and health authorities.

But very soon, we were just out of funds and the demand was still there. I was approached by someone from Vancity to look at this Pivot Loan. And what they were able to provide me, allowed me to buy more 3D printers and buy more materials for getting into this PPE. And just since then, we were able to not just produce 3D printed face shields. We were able to provide other sorts of PPE for different various hospitals and even local retailers now. So my business has totally pivoted from just 3D printing face shields to actually importing and reselling other types of PPE.

Anicka Quin: So that seems like a perfect demonstration of how nimble a small business can be. He saw a need, figured out how to very quickly mobilize on it and ramp up super quickly.

Joe Reid: And I think it shows the interconnection of the different groups, him reaching out to other business owners in the community, looking at coming to a financial institution like Vancity, where he mentioned the Unity Pivot Business Loan, which is a loan that Vancity created. And it's available to all small businesses that have been in existence for two years or more and were profitable before COVID- 19. And it really helps with a business to be able to, much like what Leon said, sort of change the track of the way they were doing their business. So it really allows a business like Leon's to change the business model and actually do some good for the community like he was able to do.

Anicka Quin: Right. Joe, we've seen the government rollout emergency programs to help businesses. There's the Canada Emergency Wage Subsidy. And in fact, the business I work for is a beneficiary of that. There's the Canada Emergency Business Account, interest-free loans, commercial rent assistance. And I know there's more programs being announced all the time. How else do you think government should be helping small businesses?

Joe Reid: We've seen government at the beginning of this really taking a reactive approach, where they brought in government programs to helping businesses pay for their rent and helping businesses to pay for payroll of their employees in order to keep employees working. What we're starting to see now is where the government is going to need to make that shift into being a little bit more proactive. Helping small businesses with tax incentives, maybe to hire employees on. Creating retraining programs in areas of the economy that may be damaged and may need to completely change.

I remember years back when you saw the fishing industry on the East Coast, and then how you saw a lot of those individuals that were involved in that industry needed to be retrained into doing something else. But I think the larger role for government is really starting to look at some of the systemic things that are out there. We've talked a little bit about supply chain through this podcast. And when you're thinking about the supply chain, in many cases for us that extends to a global international supply chain. And the challenge with that is at times like we're going through with COVID that actually when governments around the world are starting to want to keep everything for themselves and not export, it puts us at in a dangerous and sort of awkward position.

And Leon's conversation around PPE is a prime example of that. Had we been creating that and building that within Canada, or making that within Canada, and not being reliant on other areas, it would have made it easier for us to be able to get that to the frontline workers quicker. So I think the government really needs to start to look at how we can turn into more of a buy Canada, buy local. That's where I think that the government is going to really have to move toward because that's what's going to keep our economy going. If we're buying within Canada, buying locally, that's going to help to protect us in times like this.

Anicka Quin: And so what kinds of things are financial institutions doing or looking at doing to fill in the gap left by government?

Joe Reid: I think there's a new dialogue that's starting to happen in this country. Financial institutions have done well financially for a long period of time. You look back to 2008, after the financial crisis, and financial institutions made a lot of money. So financial institutions, through making that money, have a responsibility back to the community. And I think that's where we're starting to see Canadians say they want more from their financial institutions.

We've seen financial institutions that have deferred mortgages and loans, reduced credit card payments or deferred credit card payments. At Vancity, we reduced our interest rates on credit cards to zero. And we did that so that our members would have the most amount of credit that they had available, available to use for the products and services they needed.

We also created a term deposit that enabled us to have our members in the community invest into this term deposit. They get an interest rate, but at the same time that money is then turned back into the community. And basically the money that our members are investing, goes back into businesses like Leon's through that loan that we provided to the community. So I think that's where Canadians are starting to look at financial institutions and say, " We need you to step up to the table and be more creative, be more responsive to our needs at that moment in time."

Anicka Quin: Right, so just like Canadians bailed out financial institutions in 2008-2009, it's time for financial institutions to help Canadians. So I want to bring it back to small businesses. What are some of the things that they can do to offset the financial effects of COVID-19?

Joe Reid: I had a former manager that I worked with, who, her famous saying was, "You have to keep your knees bent." And I think very much that describes what business owners need to do and small businesses need to do. Keep their knees bent and lean into what they know about their consumer. Lean into what they know about their community, and look for ways to shift within the new realities that are out there. But then also look where they can do, much like what Leon's done, and look for other businesses maybe that they can partner up with. On Mother's Day, we went out and we got Earnest Ice Cream for my wife. So we drove downtown from Langley, came to get Earnest Ice Cream, but we didn't pick it up at Earnest Ice Cream. We actually picked it up at Cartems Donuts. So here's two good local businesses that teamed up together to provide that product and that service out to the community. So it comes back to that maybe old way of doing things, where you would help your neighbor out. And I think that's a really unique thing that small businesses, much like Leon talked about, can really reach out and help each other out at this time.

Anicka Quin: You're talking about having your knees bent. I heard another interesting analogy was that the time period right now is not a sprint. It's not a marathon. It's interval training. That there's going to be super tough periods, just sort of cycling. So it's going to be like getting used to doing that kind of days when it might feel okay and days when it's not going to feel great. And you just keep moving through those intervals.

Joe Reid: That's actually a great way of looking at it. I think it's that fast, slow, fast, slow, recovery part that comes in. Definitely, that's a great way to look at it.

Anicka Quin: So earlier we heard from Leon Ng of LNG Studios, and he talked about going from making virtual reality video to making PPE. So we asked him about what the response has been and what the future holds.

Leon Ng: It's been an amazing response. I've received literally dozens of letters from hospitals, government agencies, just thanking us. They're sending us photos of them wearing our face shields. It's been very rewarding, and it really felt like we were actually making a direct difference. The real estate market is starting to come back slowly. So I'm starting to get busy from the old business I was working on. Then at the same time, there's still a huge demand for protective gear. So I don't really have a complete answer into what the future holds right now. I'm just kind of living day by day, making these decisions as we go.

Anicka Quin: So he said it's day by day. And I think everybody can kind of resonate with that, regardless of what part of the economy you're a part of right now, right? That's very much how we're living this time.

Joe Reid: I think so. And I think that day to day is really what it's been over the last little bit.

Anicka Quin: So we've really seen a huge appetite for helping local businesses stay open. I know that I've seen on Instagram, there's this hashtag campaign for ordering takeout from your favorite restaurants. How else can listeners help local businesses?

Joe Reid: One of the clearest and easiest ways is to start to look within your community. We need to see the government starting to change the way that our supply chain works. But I think as individuals, we can do the exact same thing. So looking at those businesses that maybe are your favorite ones that you would normally buy from, even if they're not open right now. Finding out if they've got gift certificates or gift cards that you could buy now and help them right now. And then come in and get your product or your service at a later date.

One way people can help is by visiting a local website, supportlocalbc.com, where they can buy gift cards for things like local restaurants, some of the bars, salons and grocery stores in their local community. And they're not for big chains. I think this is what's the really cool part about this, is there for independent local businesses in places all throughout the entire province, like the 100 Mile House, Smithers, all through Vancouver Island, Haida Gwaii, as well as the Tri-Cities and the Lower Mainland.

Looking at where things are manufactured, and are they locally built? Are parts of it locally built? I'm hoping that we start to see as the economy opens up in the province, more people travel within the province and looking at ways that we can put money back into those local communities. I think that's the key part for us as individuals is support those companies, support those local businesses that you love, because that's the way that you ensure that they're going to be able to be sustainable and viable as we move forward.

Anicka Quin: Okay. Thanks so much, Joe. It's really so interesting to learn how small business truly is the heart and soul of our communities. Joe is Vice President of Wealth Management and Impact Investing at Vancity. That's it for Good Money this week. I'm your host, Anicka Quin. We also have more great advice in the weeks ahead with a new episode out every two weeks. So don't forget to hit subscribe. Thanks for listening. Take care and stay safe.