



Commercial Insights with Regions Bank

Episode #11: The Industry Breakdown

You've heard about different approaches to supply chain management, fraud prevention, hybrid work, digital transformation, and more throughout this season of Commercial Insights with Regions Bank. On this episode, we dive deeper into how those issues vary on an industry-by-industry basis. Thriving in a post-COVID world looks different in manufacturing than in healthcare, for example, but there are risks — and opportunities — in every industry.

Episode Transcript

Geoff Green:

If you think about it, when a customer has to purchase online, they're bringing a lot of information with them. And so there are opportunities there to take advantage of and grow, perhaps, that relationship with that customer that you may not have for somebody who just walks into your store.

Chris Blöse:

During the global pandemic, “opportunity” is not a word that came up too often. But Geoff Green, research manager for the credit portfolio management group at Regions bank, notes that businesses emerging into a post-COVID world are thinking more now about the opportunities in front of them.

That includes opportunities to learn from what we've seen about customer behavior, digital acceleration, supply chain shifts and more. Green and colleague Matt Welch, senior commercial and industrial credit portfolio manager, say those opportunities aren't the same across all industries.

Welcome to Commercial Insights with Regions Bank. I'm your host, Chris Blöse. On today's episode, Green and Welch are joining us to talk about the state of various industries, from retail to healthcare, manufacturing to hospitality.

The goal: to assess what has worked, and what has changed, in the past year and a half, and to use that knowledge to identify new opportunities.



Chris:

Welcome to the podcast, Matt and Geoff. When we look back at business during the pandemic, we think about it in phases. So tell me a little bit about the industries that faced the most challenges at the start of the pandemic, and how that has evolved as we're now in mid-2021.

Matt Welch:

I think if you look at it, you know, most acutely affected early on were the consumer-facing industries such as restaurants and hospitality, and to a lesser degree healthcare, you know, especially with elective procedures within that industry. Energy was also affected, and that was partially COVID and partially just OPEC doing what OPEC does. That became much more of a bigger problem later on as we saw it shift, we started to see it affect more travel, commuting, and purchasing, and consumers directly.

A lot of face-to-face service businesses like salons and barbershops had and continue to have issues. And because of the shutdowns, the workforce was forced to adjust, and recruiting to industries with high turnover during good times has led to problems in getting those jobs filled.

Geoff:

We are starting to see reopening, we are seeing a recovery in spending and services, you know, last year was a great year if you were selling goods, this year it should be a good year as consumers look to significant pent-up demand for experiences, and so we would look for that service-related spending to make a comeback here in 2021.

You know, energy was one that, obviously, hit very hard very early in the pandemic, but we've seen relatively stable prices going on in much of 2021. That's been a beneficiary of the return to driving and just more transportation, moving of goods, and, again, probably get a little bit more of a bump as we start to pick up air traffic a little more.

Chris:

And how have you seen, you know, both industries and individual businesses adapt within that time period as well?

Geoff:



The pandemic, if you think about retail, it's reset the board there. The most successful retailers coming out of this, you know, they have come back with customers in ways by leaning in on their digital omni-channel and in-store technology. So even in areas where they were opened, again, they were able to operate so that it was less face-to-face, more digital-oriented experience when you go into the store to provide that extra comfort to the customers.

Matt:

Yeah, I'd say telehealth has also picked up significantly, and we anticipate that people will probably become more comfortable with that mode as time passes. And we've actually even seen it accelerating, Congress being more open to waiving Medicaid requirements among other requirements to enable better access to healthcare in areas like rural and underserved. And I think this will probably cause lasting effects on the way that healthcare is delivered.

Chris:

Yeah. I mean, what's interesting about each of those examples that you two have given, too, is that they depend largely on digital acceleration, right? So it was maybe tools that existed before the pandemic but were not in large-scale usage. I mean, telehealth existed before online ordering for restaurants existed before, but they've seen just massive uptake in the last year. So if I'm a business at one of those industries, should I be thinking about what lessons I take forward from this past year, even as people do return in person?

Geoff:

I think it definitely has an impact on the investments that you might wanna make in your business. Again, do you wanna do things more digitally? If you think about site location, you know, if you're a restaurant, if you're, you know, not in a location that might be able to have a drive-through, if an event like this were to come along again, that affects your ability to operate. So you have to start taking into account, you know, how do I operate under pretty much any circumstances? And then what are the investments I need to best make that happen going forward?

Chris:

Well, adaptability, obviously, that's huge, and that's something that we've actually talked quite a bit on this podcast. So we're now adapting to a new reality, right? I mean, people are starting to go back to more in-person interaction. You know, we've got a larger portion of the population vaccinated. So with that, you know, how much are industries taking a look at those



lessons that they've learned in the last year about touch-free communication or touch-free sort of service. Let's look at telehealth as an example.

Matt:

Well, for telehealth, if you think about it and you think, they've learned lessons on things they need to do to set the appointments up, things that they need to do to be more efficient. And what they're finding out is that things that people would have demanded that they come into the office for, they're less worried about doing those sorts of things within the office, and they're more willing to set things up from the comfort of their home or from their place of business. And so I think what you will see is they'll take those lessons and they'll use it to incorporate more efficiencies into their model, maybe for, well, procedures, for example.

Chris:

I'm curious too, are there other industries where, you know, maybe that wasn't the norm before, that sort of non-in-person interaction, that they have seen the digital acceleration in the past year that, um, they weren't necessarily thinking about before?

Geoff:

Well, I think, you know, obviously retail is one place where we have seen that immensely, the movement to online shopping, trying to connect to consumers, leaning into that digital and omnichannel technology.

So now we're watching to see how the consumers react as we go back to a more open economy. Do they continue those behaviors? What are some of the advantages we can take out of that digital storefront?

If you think about it, when a customer has to purchase online, they're bringing a lot of information with them. And, and so there are opportunities there to take advantage of and grow, perhaps, that relationship with that customer that you may not have for somebody who just walks into your store.

Matt:

And also the ability to use other medium and, and channels to expand their offerings through email or whether it'd be texting. Again, having that data is enabling them to be more targeted toward their customers and what they can expect to offer and make money on.



Chris:

Yeah, it seems like digital acceleration is a reality kind of across industries, and it's just a matter of whether people have taken advantage of it, or if they're gonna kind of accelerate their own ability to act in that mode in the future. I'm curious, a lot of what we've talked about so far is about kind of addressing the challenges that have come up in the last year for pandemics, but what industries have actually thrived or just had built-in opportunities because of the conditions that we've been in in the last year?

Matt:

I think the shipping industry has done quite well. Also trucking, the last mile delivery. You've seen a real boom in the need for developing those solutions.

Geoff:

What we've seen is a lot of expansion of our ports across the Southeast to capture a lot of the trade that's taking place. More freight is coming through the Panama Canal due to its widening, we have more trade coming from Europe as opposed to Asia, and just the West Coast ports have become clogged, and that's created additional opportunities for the Southeast ports.

And so they are expanding, doubling in some cases, their ability to take in more cargo, and that creates new opportunities for the firms that service those ports, whether it'd be a transportation company, a warehousing company, you know, maybe a restaurant serving the folks that are working there.

Chris:

A lot of that centers around supply chain. And so I'm curious, how does that affect different industries? And are there any kind of industries that might be rethinking their approach because of all of the disruption in the supply chain in the last year?

Matt:

Transportation companies are rethinking where they need to have their trucks, and how they need to service their customers. You're seeing manufacturers who, for years and years, have used just-in-time kind of inventory systems that are being caught up in the supply chain problems that are having to ask themselves if they need to have more than one supplier or more than one continent to source their goods from.



And so, you're seeing a disruption in, you know, those typical areas of sourcing, and you may have long-term effects for companies that take advantage of opportunities that have a good cost-structure to service those industries.

Geoff:

Again, resiliency is, is the key word here. We've seen shortages in semiconductor chips, we've seen shortages in lumber, we've seen shortages and gasoline at times. So companies are really changing that shift to, to focus on the ability to have the materials they need onsite when they need them. And that's sort of been an advantage for a lot of the larger companies. They're better able to flex their supply chain, they have, perhaps, more sourcing globally that are able to work around some of these disruptions.

So that leaves smaller firms to look for different solutions, you know, whether it'd be partnering with, with other companies, maybe it's adopting new technologies, reaching out to supply chain logistics providers to help them source their goods instead of going some of the traditional ways they might have gone in the past.

Chris:

Well, I'm curious too. I think you mentioned the semiconductor example, right?

Geoff:

Mm-hmm.

Chris:

So that's an industry, obviously, that affects everything from car manufacturing to computer manufacturing, et cetera. So on the supply side of that, the semiconductor companies, you know, are they rethinking where they're located? Are they rethinking how they do business?

Geoff:

They are, they are working on that. Part of the dilemma with semiconductor companies is the chips take a long time to build, and they're very expensive and they have long lead times in terms of production. So that's one issue that might not go away very soon. But, again, it does have a strong growth prospect as we look ahead.



Geoff:

And other industries where we think that might be happening in terms of manufacturing is medical devices, communications equipment, electronics, a lot of those similarly focused industries. In the last year, we've discovered how important it is to have some of this domestic manufacturing to provide critical health and safety and national security products. And so I think we'll see more of that coming back to the US.

Geoff:

Beyond supply chain, companies of all sizes are struggling to fill jobs, but I think small firms are feeling it more acutely as they have fewer people to pick up the slack, and they can't easily, you know, match pay, increases, benefits, and perks for the larger companies.

So that's an opportunity for automation to take a larger role for these companies, looking for roles that are easily repeatable, where you may not necessarily have to have a human involved in that. And there are new analytical tools to help you for labor intensive manufacturers to predict, manage employee attendance and skill matching and turnover.

Chris:

I think it's interesting, too. There's a couple of things you've brought up: the sort of shifts earlier that related to OPEC, and then talking about, you know, employee shortage, obviously, that there are implications from policy related to that, too. So none of this exists in a vacuum. Something we talked about on another episode of this podcast, obviously, is, you know, new administration, new Congress. So policy is likely to be changing too. Do you see any trends kind of across different industries related to that in the coming months as well?

Geoff:

We've already seen a number of different policy impacts across industries. We have seen the canceling of construction of the oil pipeline coming out of Canada, the restriction on leases on federal property for drilling, so those have impacted the energy industry. You know, we've seen large amounts of money going to consumers, and that's really helping out and benefiting consumer-facing sectors. So we've seen a surge in retail spending. If you look at the leisure spending by consumers for travel and hotels and restaurants, that's really coming back quickly.

Geoff:



The business component may be much longer to come, but we're definitely seeing that in the consumer side of things. For companies, stakeholder capitalism is gonna be a big thing that's gonna be pushed by this administration, I think. You know, there's gonna be a shift in providing value to shareholders, to where you're looking at, "What are the impacts on customers? What is the impact on suppliers? What is the impact on employees? What is the impact on the communities that you operate in?" So I think you're gonna see a lot more of that and a lot of that's gonna be driven by the policies of this administration.

Matt:

I would agree. E, S and G is the technical term for environmental, social, and governance issues. And what you've seen is, we moved out of the Paris Accords under President Trump, but with this administration coming back in — Europe is way ahead of us in this realm — and you're gonna start to see us trying to push to get back up to speed with what they're doing in the Biden administration.

Chris:

Yeah. And I think when people think of, you know, the environmental aspect of ESG, they might think of manufacturing or some other, um, industries, when they think of social, that kinda goes across the board, when they think of governance, that goes across the board. But even environmental, I think, in the larger world of ESG covers across the board too. But, are there any changes you see for specific industries with an increasing focus on ESG?

Geoff:

I think a lot of times when people think ESG, they focus a lot on the E. And so the last year, you know, with the pandemic, with the Black Lives Matters Movement, other things like that, the social is starting to get increased awareness and emphasis.

And if you think about G, some of that comes down to cybersecurity, cyber risk is covered under that. And, you know, obviously, the Colonial pipeline has raised issues around cyber security, ransomware attacks on a hospital in San Diego. We saw it on the city of Washington D.C.'s police department, the state of Illinois Attorney General's office. And so, you know, there continue to be these kinds of disruptions and these kinds of impacts that companies need to be aware of and be prepared for.

Chris:



So, one more question for both of you. You know, for industries that have thrived in the past a year, or, or even those that, you know, may have had a shock but have kind of adapted and really pulled themselves through the past year, how can they ensure continued growth in this shifting environment?

Matt:

If I said one thing, it's don't rest on your laurels. Pay attention to your competitors and to what's going on around you, because those that do not pay attention will be left behind.

Geoff:

I'll second that. If you think of something like the consumer goods sector, we had a real strong channel through the grocery stores for the last year. Companies that serve that market have done great. Well, now, again, we have a shift back to more restaurants-oriented dining.

And so those companies providing food for both the retail and food-service channels are gonna have to, again, readjust. And, you know, you were aware in the last year. Well, now things are changing. How, how do you, how do you adapt to that change in the consumer and how they're, how they're looking to have their food provided to them?

Matt:

You think about, like, wholesale meat, you know, places like butchers that sold directly to restaurants that started selling directly to the public, they shifted the other way, right? So it's almost a melding of the various styles of, and channels of, delivering things like food.

Geoff:

Absolutely. I mean, I mean, you know, malls are open again, but, I guarantee that online shopping is not going away anytime soon.

Chris:

Geoff Green's final note is worth paying attention to: A lot of new behavior from the pandemic era that won't go away, even as we return to past patterns and processes. Businesses across industries would be wise to pay attention to what consumers will and won't give up from the past year.



Across the board, we seem to be moving toward a hybrid of previous best practices and accelerated learning from the past year. That's true whether you're examining the future of telehealth within broader healthcare, the increased use of digital touchpoints even as in-person retail returns, or the implications of new policy for manufacturing.

Thank you to Matt Welch and Geoff Green for offering an industry-specific look at the post-COVID business world. On a future special season of Commercial Insights with Regions Bank, we'll be going deeper into the state of specific industries, so stay tuned.

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