McKinsey & Company

Beyond coronavirus: The path to the next normal

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Contents

Current as of April 6, 2020

The global spread is accelerating with more reports of local transmission

Impact to date

>1.2 million

Reported confirmed cases

>69,400

Deaths

183

Countries with reported cases

>160

Countries or territories with evidence of local transmission[2]

>55

Countries with more than 1000 reported cases[1]

~.2%

China share of new reported cases March 27–April 2

~38%

US share of new reported cases March 27–April 2

~52%

Europe share of new reported cases March 27-April 2

6

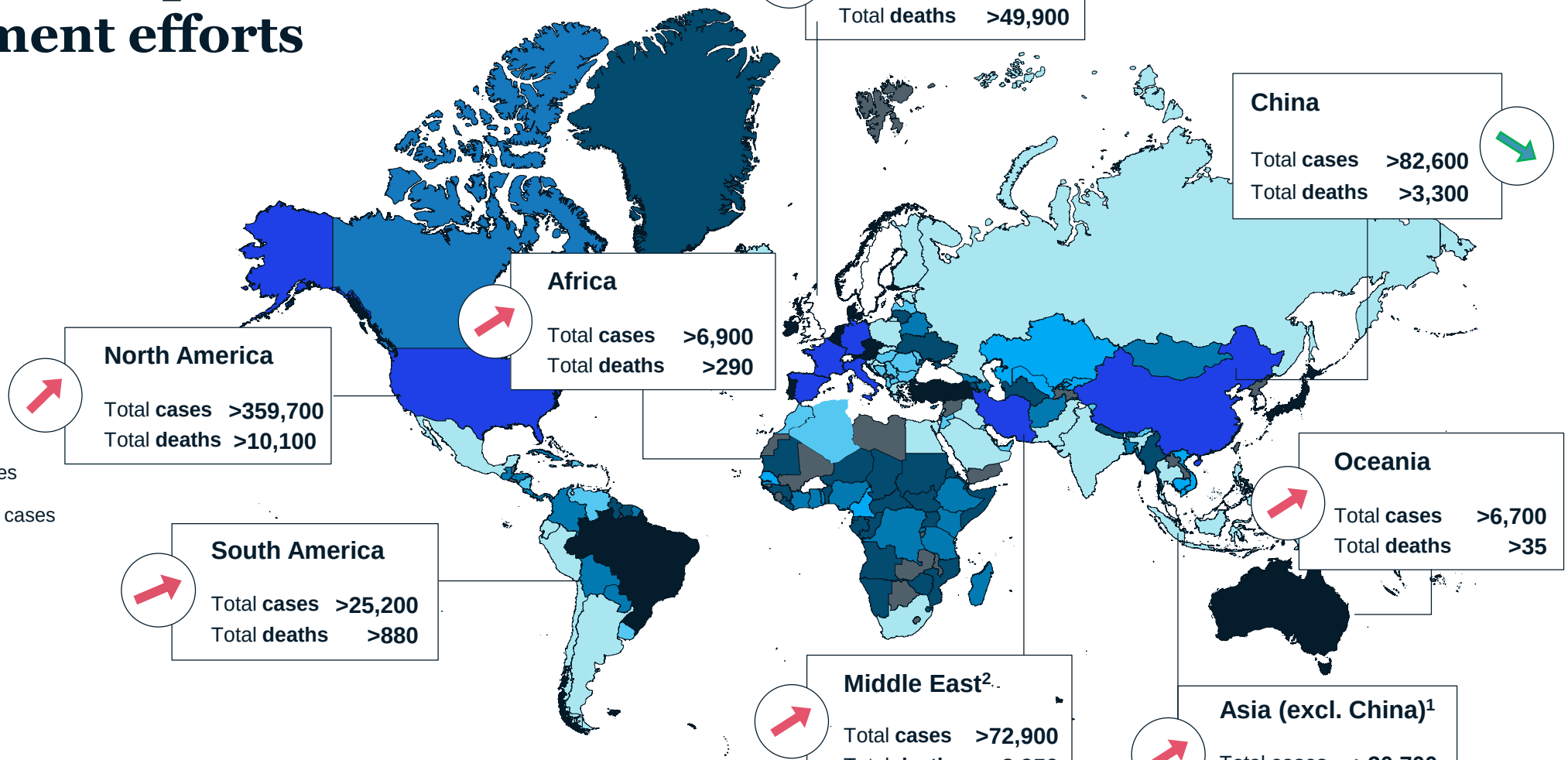
New countries or territories with cases March 27–April 2

1.Previously counted only countries; now aligned with WHO reports to include territories and dependencies; excluding cruise ship
2.Previously noted as community transmission in McKinsey documents; now aligned with WHO definition
NOTE: Data from Johns Hopkins, that include among “confirmed cases” also “presumptive positive cases”. WHO updated data not available

Sources: World Health Organization, John Hopkins University, CDC, news reports

The virus has spread worldwide despite containment efforts

Current as of April 6, 2020



1. Includes Western Pacific and South–East Asia WHO regions; excludes China; note that South Korea incremental cases are declining, however other countries are increasing
2. Eastern-Mediterranean WHO region

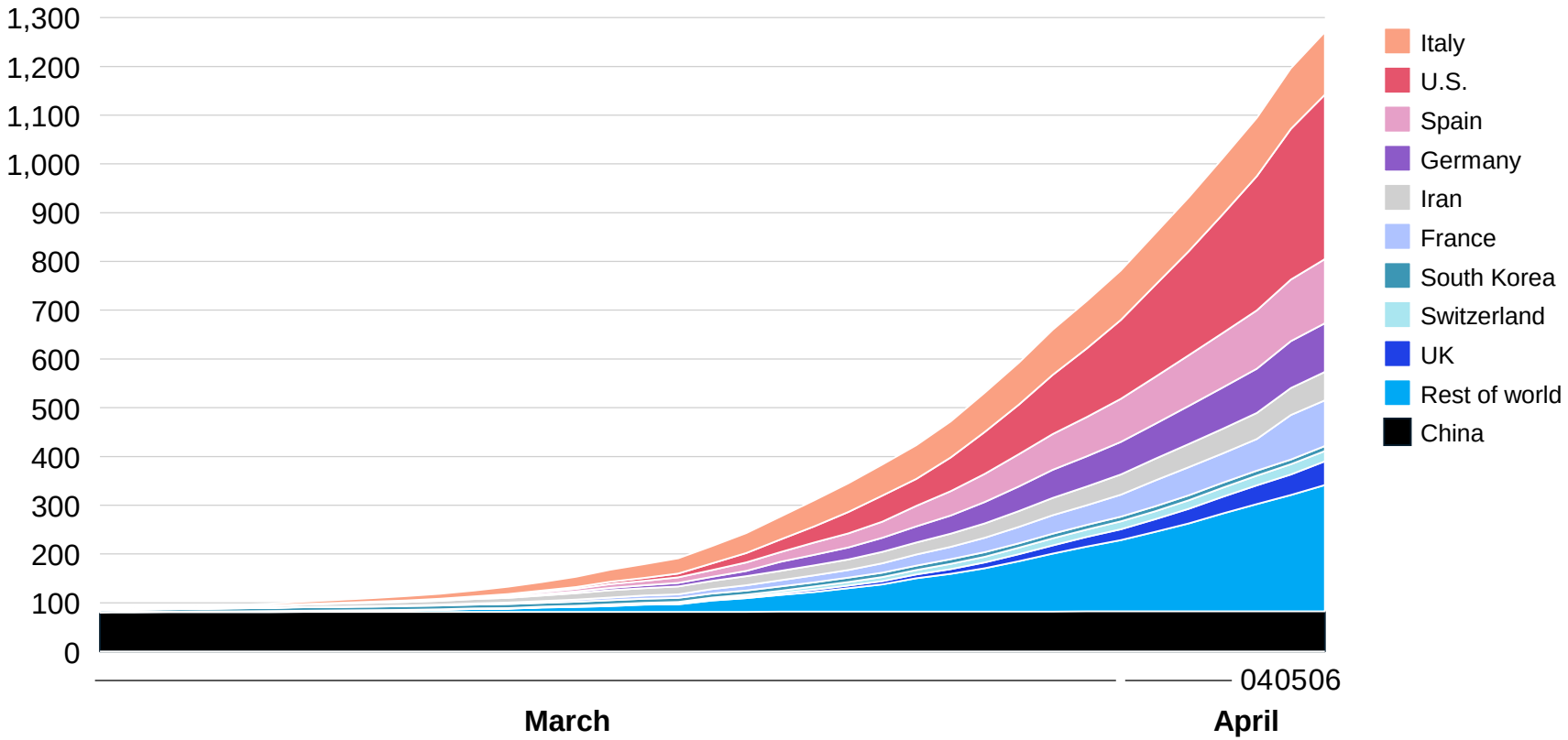
Source: World Health Organization, Johns Hopkins University, McKinsey analysis

Greatest share of recent cases comes from Europe, although U.S. cases are rapidly accelerating

Current as of April 6, 2020

Cumulative number of cases until April 6

Thousands



Asia:
Incremental cases for China and South Korea are now ~100 per day with continued focus on disease surveillance and management of imported cases and localized transmission

Europe:
Cases and deaths continue to increase across the region. Effects of national lockdowns are beginning to show effect in Italy (which recorded relatively flat incremental cases for the past 3-4 days); close monitoring should continue in upcoming days to understand the impact of distancing measures across European states

United States:
Dramatic rise in cases in the past week have led the U.S. to exceed all other countries (including China) in total cases; incremental cases are now above 10,000 per day with highest concentrations in New York, New Jersey and California

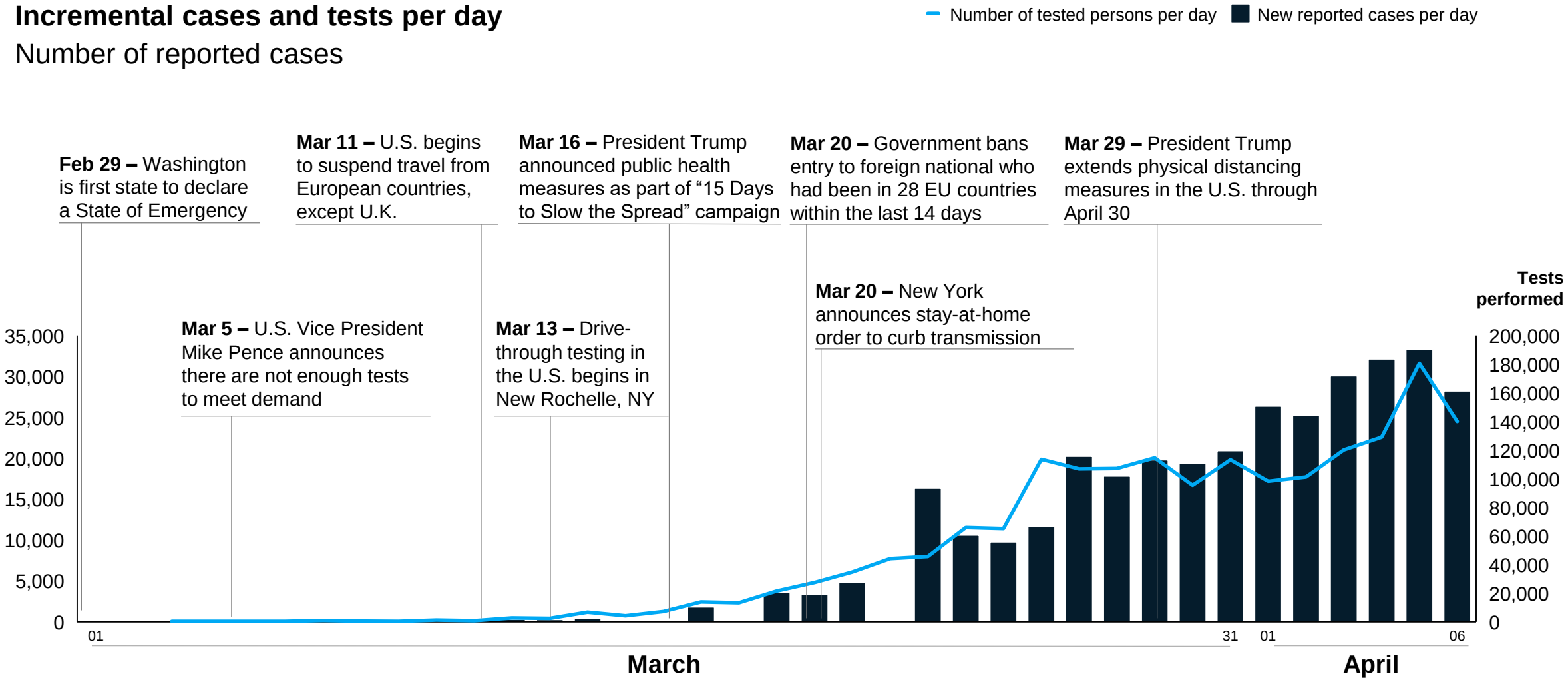
Sources: WHO situation reports, Johns Hopkins University, press search

Current as of April 6, 2020

US: Exponential growth in the past two weeks has made the US the newest COVID-19 epicenter

Incremental cases and tests per day

Number of reported cases



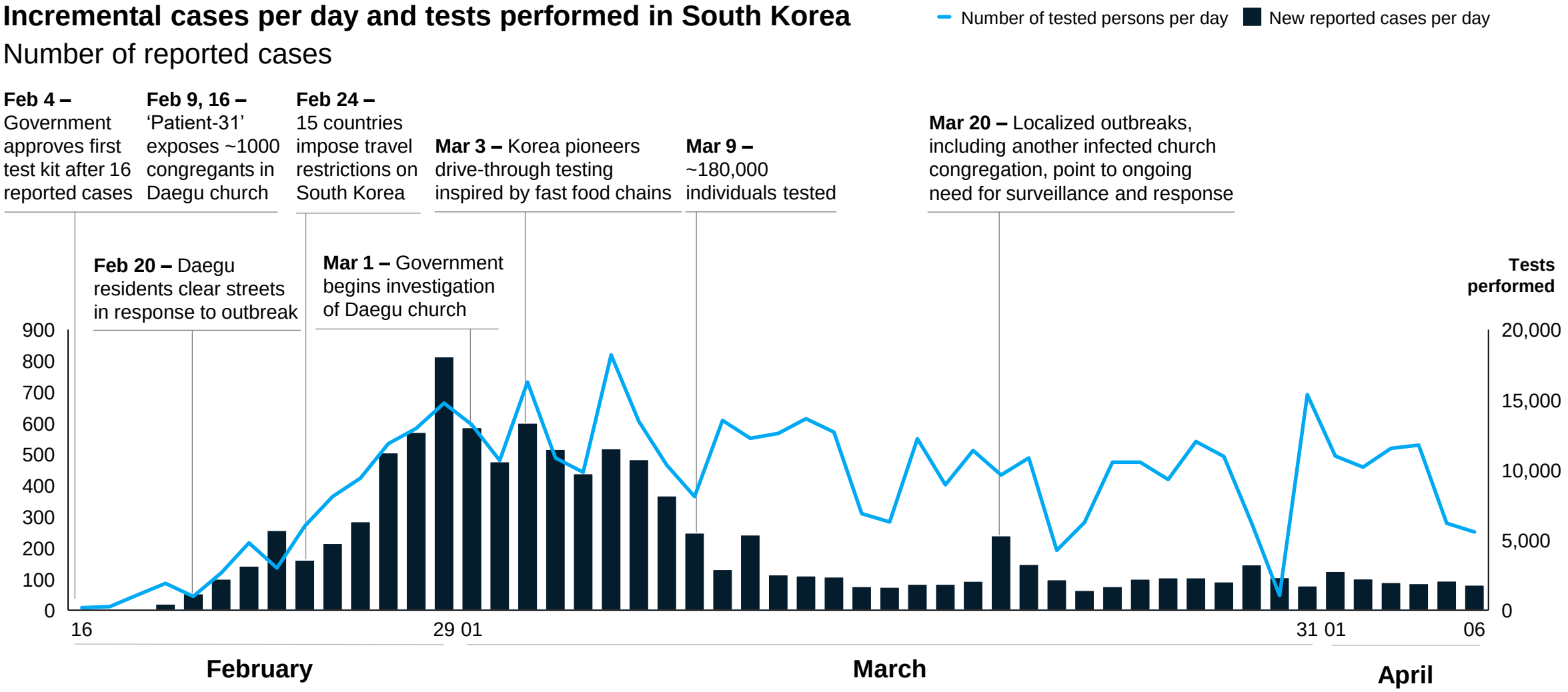
Source: Johns Hopkins University, COVID Tracking Project, NY Times, press search

Current as of April 6, 2020

South Korea: Rigorous investigation of outbreak clusters and rapidly scaled testing capabilities limited spread

Incremental cases per day and tests performed in South Korea

Number of reported cases



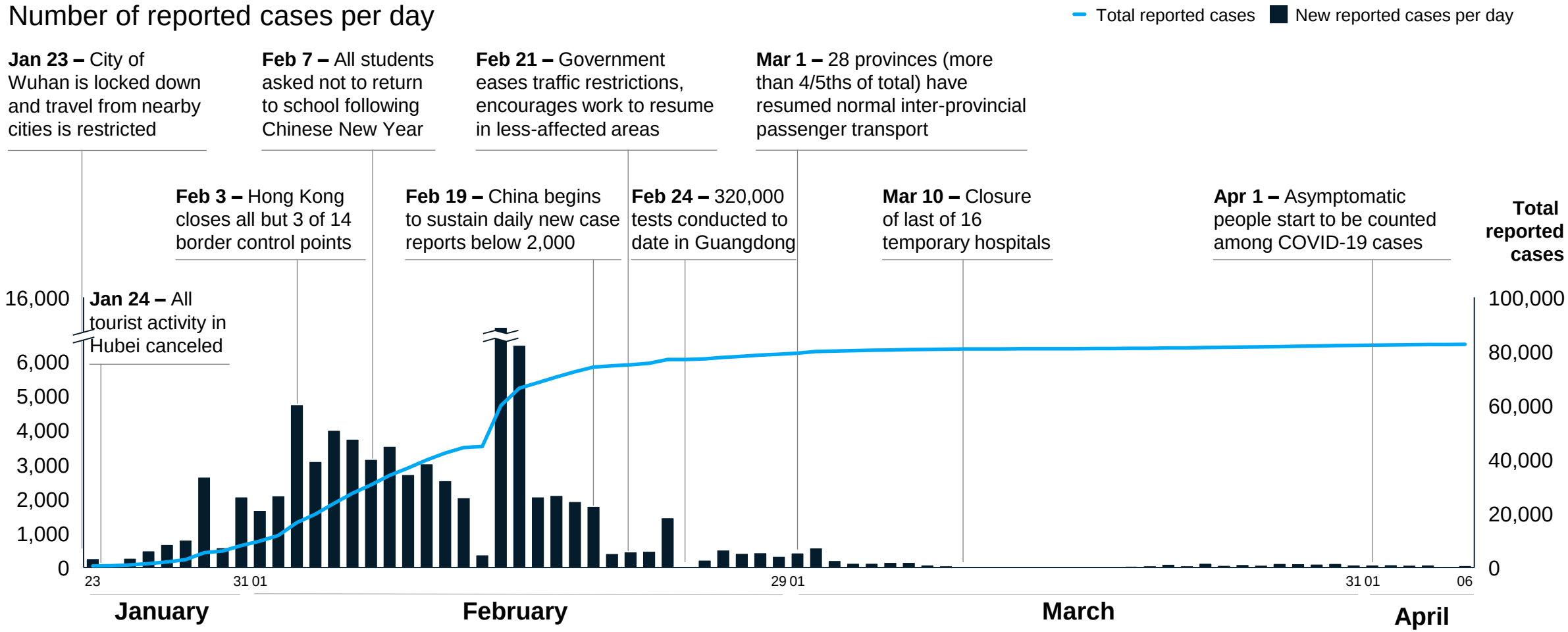
Source: WHO situation reports, CNN, New York Times, Korean CDC, press search

Current as of April 6, 2020

China: Rapid lockdowns were employed to manage outbreak before ramping up testing and response capabilities

Incremental cases per day and total reported cases in China

Number of reported cases per day



1. Changes in new case tracking and reporting methodology yield spike in reported cases

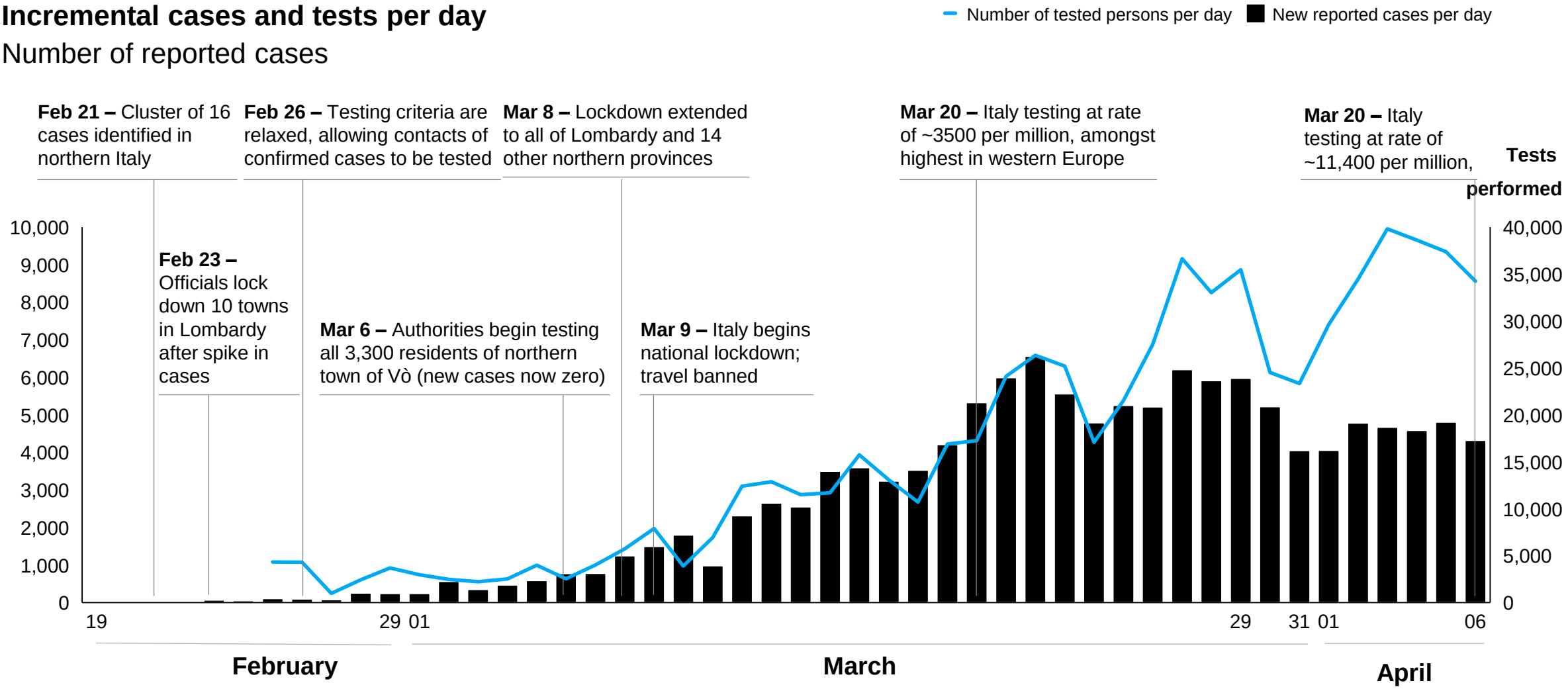
Source: WHO situation reports, New York Times, Chinese government official notices and reports, press search

Current as of April 6, 2020

Italy: The number of new cases has trended slowly down over the last 10-14 days

Incremental cases and tests per day

Number of reported cases



Source: WHO situation reports, CNN, New York Times, press search

Key considerations for disease progression

A

Growing evidence on the extent and role of asymptomatic cases and transmission

Although the range is large for estimated share of total cases (~20-50% for percentage of cases that are asymptomatic and ~10-60% for percentage of transmission due to asymptomatic cases)

There is significantly higher prevalence than confirmed cases, that could require continued strict social distancing for a while

B

Seasonality is unlikely to be a major contributor to stopping the spread of COVID-19

Prevailing outlook is that while COVID is likely to transmit more effectively in winter than summer, seasonality alone will not be enough to curtail transmission, requiring ongoing public health intervention even as weather gets better

C

Promising testing innovations may greatly expand disease surveillance capabilities

At home sampling and point-of-care diagnostics can improve convenience and reduce processing times. Additionally, new antibody diagnostics under development may facilitate testing for prior exposure, which may allow significant segments of the population with immunity to resume activity

D

Economic restarts in Asia reflect possibility to restart limiting local transmission however need for renewed travel restrictions

experience from Hong Kong, Singapore and Taiwan has shown spike in cases following return to in-person employment and relaxation of travel restrictions. While most cases are categorized as imported, Hong Kong especially has also seen renewed growth in local transmission. In response all three economies have reinstituted restrictions on travel and in-person gatherings.

The Imperative of our Time

Imperatives

1

Safeguard our lives

1a. **Suppress the virus** as fast as possible

1b. **Expand treatment and testing** capacity

1c. **Find "cures";** treatment, drugs, vaccines

2

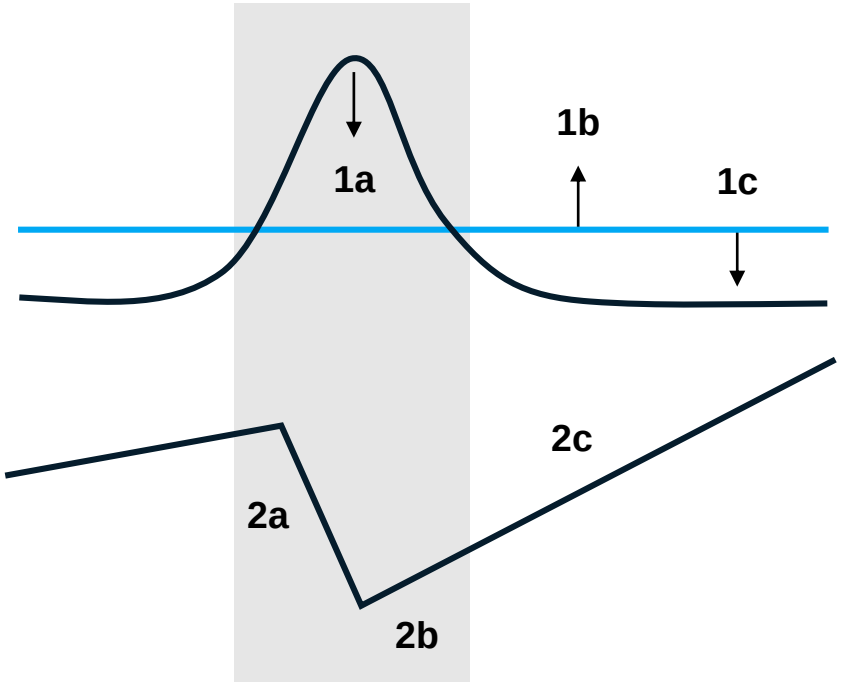
Safeguard our livelihoods

2a. **Support people and businesses** affected by lockdowns

2b. **Prepare to get back to work safely** when the virus abates

2c. **Prepare to scale the recovery**

"Timeboxing" the Virus and the Economic Shock



Source: McKinsey analysis, in partnership with Oxford Economics

Scenarios for the economic impact of the COVID-19 crisis

GDP impact of COVID-19 spread, public health response, and economic policies

Virus spread and public health response

Effectiveness of the public health response in controlling the spread and human impact of COVID-19

Rapid and effective control of virus spread

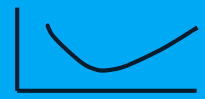
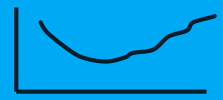
Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective response, but (regional) virus resurgence

Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues (regionally) for several months

Broad failure of public health interventions

Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)

B1 Virus contained, but sector damage; lower long-term trend growth 	**A3** Virus contained, slow recovery  **Virus Contained**	**A4** Virus contained; strong growth rebound 
B2 Virus resurgence; slow long-term growth 	**A1** Virus resurgence; slow long-term growth  **Muted World Recovery**	**A2** Virus resurgence; return to trend growth  Strong World Rebound
B3 Pandemic escalation; prolonged downturn without economic recovery 	**B4** Pandemic escalation; slow progression towards economic recovery 	**B5** Pandemic escalation; delayed but full economic recovery 
Ineffective interventions Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis	**Partially effective interventions** Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted	**Highly effective interventions** Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

Knock-on effects and economic policy response

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

Source: "Safeguarding our lives and our livelihoods: The imperative of our time,"; available online at https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/safeguarding-our-lives-and-our-livelihoods-the-imperative-of-our-time; date of access: Mar 31st 2020

Scenario A3: Virus Contained

The virus continues to spread across the Middle East, Europe and the US until mid Q2, when virus seasonality combined with a stronger public health response drives case load reduction

Epidemiological scenario

China and East Asian countries continue their current recovery and control the virus by early Q2 2020

Virus in Europe and the United States would be controlled effectively with between two to three months of economic shutdown; new case counts peak by end April and declines by June with stronger public health response and seasonality of virus

Economic impacts

China will undergo a sharp but brief slowdown and relatively quickly rebound to pre-crisis levels of activity. China's annual GDP growth for 2020 would end up roughly flat

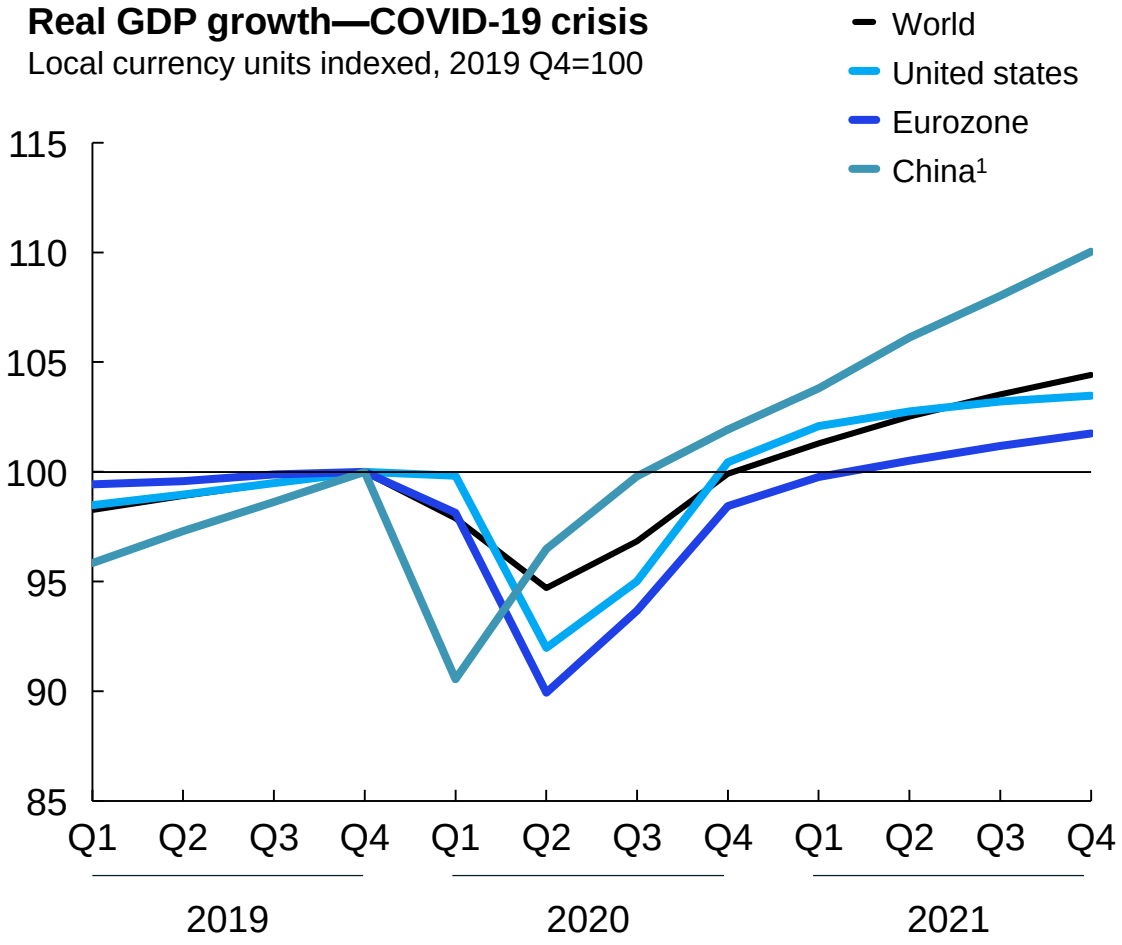
In Europe and the US, monetary and fiscal policy would mitigate some of the economic damage with some delays in transmission, so that a strong rebound could begin after the virus was contained at the end of Q2 2020

Most countries are expected to experience sharp GDP declines in Q2, which would be unprecedented in the post WWII era

Scenario A3: Virus Contained

Current as of April 3, 2020

Real GDP growth—COVID-19 crisis
Local currency units indexed, 2019 Q4=100



	Real GDP drop 2019 Q4–2020 Q2 % change	2020 GDP growth % change	Time to return to pre-crisis Quarter
China	-3.5%	-0.5%	2020 Q4
USA	-8.0%	-2.4%	2020 Q4
World	-5.3%	-1.8%	2021 Q1
Eurozone	-10.1%	-4.7%	2021 Q2

1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

Scenario A1: Muted World Recovery

The virus spreads globally without a seasonal decline. Health systems are overwhelmed in many countries, especially the poorest, with large-scale human and economic impact

Epidemiological scenario

China would need to clamp down on regional recurrences of the virus

The United States and Europe would fail to contain the virus within one quarter and be forced to implement some form of physical distancing and quarantines throughout the summer

Economic impacts

China would recover more slowly and would also be hurt by falling exports to the rest of the world. Its economy could face a potentially unprecedented contraction

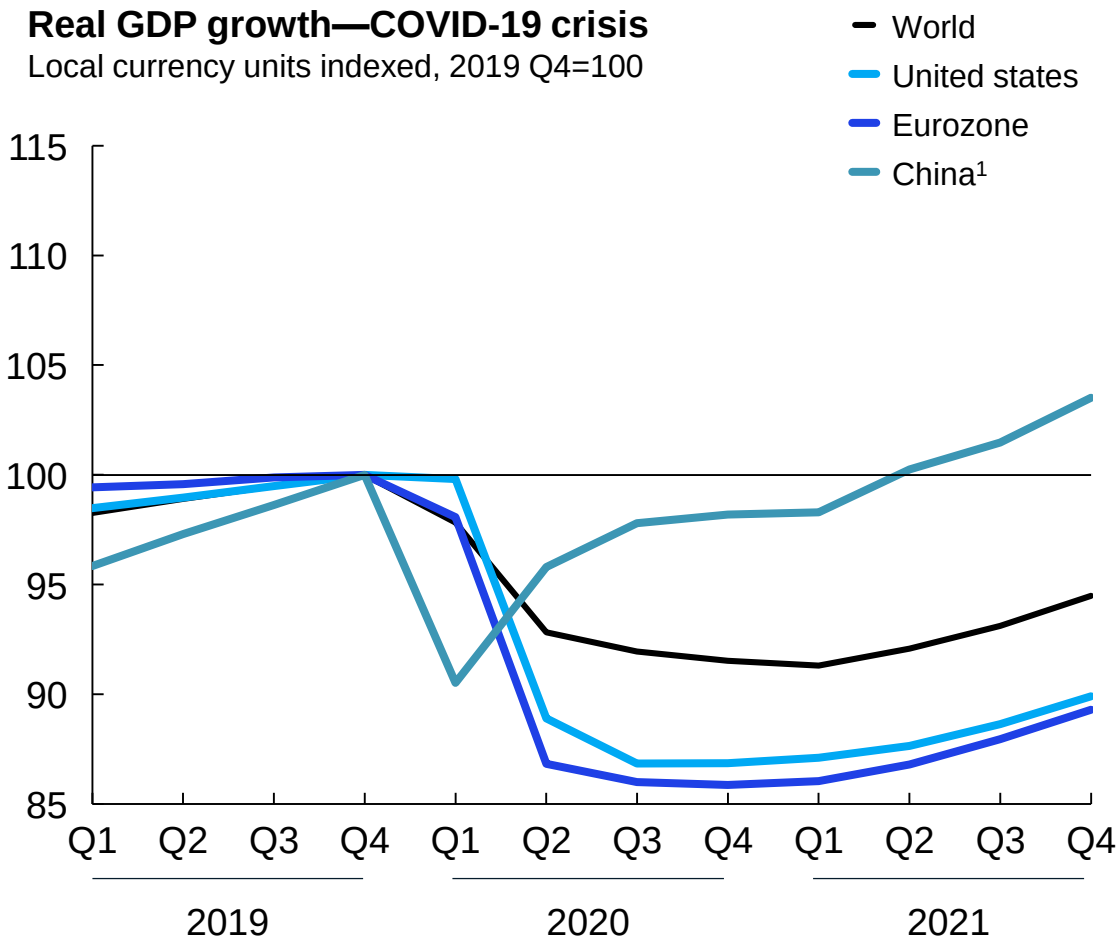
The United States and Europe would face a GDP decline of 35 to 40 percent at an annualized rate in Q2, with major economies in Europe registering similar performance. Economic policy would fail to prevent a huge spike in unemployment and business closures, creating a far slower recovery even after the virus is contained

Most countries would take more than two years to recover to pre-virus levels of GDP

Scenario A1: Muted World Recovery

Current as of April 3, 2020

Real GDP growth—COVID-19 crisis
Local currency units indexed, 2019 Q4=100



	Real GDP drop 2019 Q4–2020 Q2 % change	2020 GDP growth % change	Time to return to pre-crisis Quarter
China	-4.2%	-2.3%	2021 Q2
USA	-11.1%	-8.7%	2024 Q2
World	-7.2%	-5.7%	2022 Q4
Eurozone	-13.2%	-10.6%	2024 Q4

1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

What business leaders should look for in coming weeks

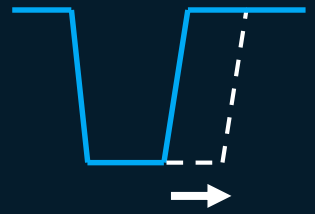
There are three questions business leaders are asking, and a small number of indicators that can give clues

Depth of disruption

How deep are the demand reductions?

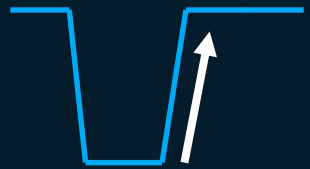
Length of disruption

How long could the disruption last?



Shape of recovery

What shape could recovery take?



Indicators

Epidemiological

Depth of disruption

- Time to implement social distancing after community transmission confirmed
- Number of cases – absolute (expect surge as testing expands)
- Geographic distribution of cases relative to economic contribution

Length of disruption

- Rate of change of cases
- Evidence of virus seasonality
- Test count per million people
- % of cases treated at home
- % utilization of hospital beds (overstretched system recovers slower)
- Availability of therapies
- Case fatality ratio vs. other countries

Shape of recovery

- Effective integration of public health measures with economic activity (e.g. rapid testing as pre-requisite for flying)
- Potential for different disease characteristics over time (e.g. mutation, reinfection)

Economic

Depth of disruption

- Cuts in spending on durable goods (e.g., cars, appliances)
- Extent of behavior shift (e.g., restaurant spend, gym activity)
- Extent of travel reduction (% flight cancellations, travel bans)

Length of disruption

- Late payments/credit defaults
- Stock market & volatility indexes
- Purchasing managers index
- Initial claims for unemployment

Shape of recovery

- Bounce-back in economic activity in countries that were exposed early in pandemic
- Early private and public sector actions during the pandemic to ensure economic restart

Major rating agencies and research institutes estimates lower GDP growth for Italy in 2020 due to COVID-19 impact

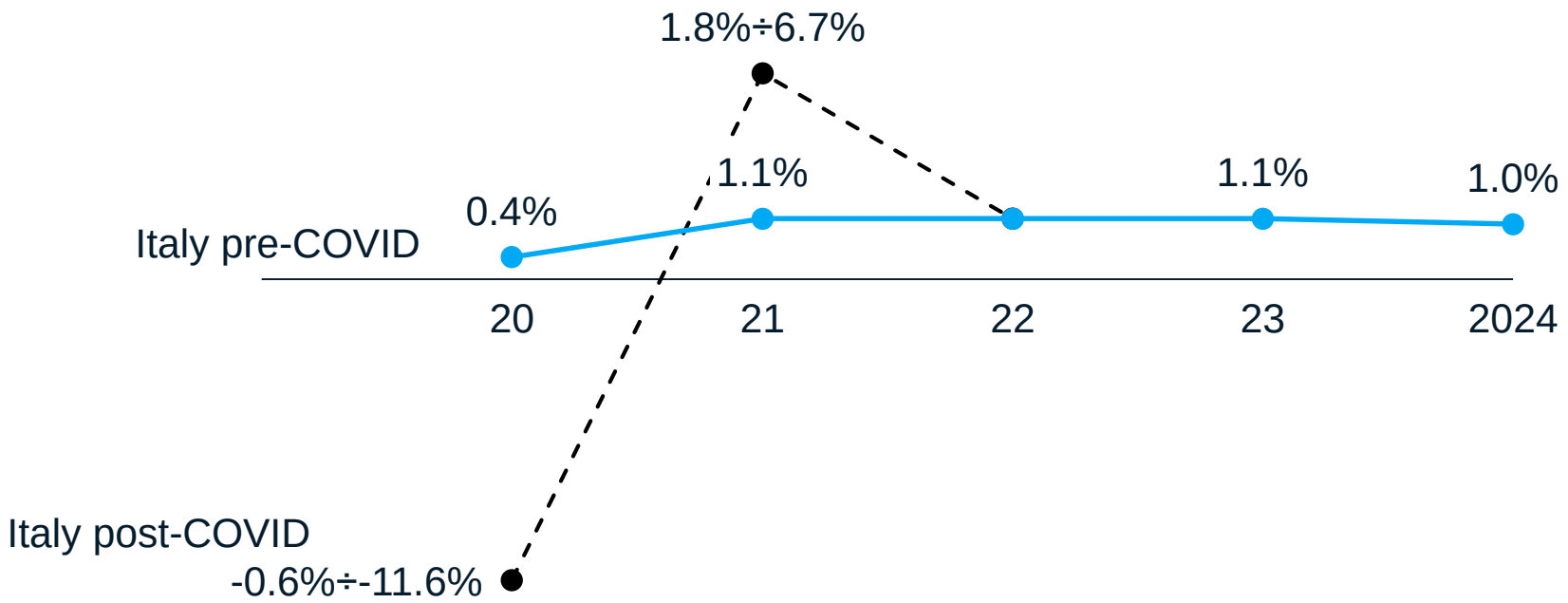
Estimated 2020 and 2021 GDP changes

	2020	2021	
Goldman Sachs *March 24th*	**-11.6%**	**n.a.**	*We are facing a **terrific economic recession**: Italian deficit will reach 10% of GDP, due to the urgent spending measures adopted to contain the emergency*
Prometeia *March 27th*	**-6.5%**	**+3.3%**	*… In one year, a **recession** equivalent to the **fall of the 2008-2009 crisis.** A rebound of **+3.3% in 2021** and **+1.2% in 2022***
Confindustria *March 31st*	**-6.0%**	**+3.5**	*The **loss** of **GDP** in the **first half** of **2020** will be "enormous" : a "cumulative fall in the first two quarters of around **-10%***
Fitch *April 2nd*	**-4.7%**	**+2.3%**	*... Fitch estimates for Italy **3.3% drop** in **consumptions for 2020**, **-6.4%** for **fixed investments** and **unemployment** up to **11%. Inflation**, on the other hand, is expected to **reach 0.2%***
Moody's *March 25th*	**-4.5%**	**n.a.**	*In the first half of 2020, advanced economies will experience "**severe declines in economic activity"***
Standard & Poor's *March 26th*	**-2.6%**	**+2.9%**	*If **preventive measures** ordered by Italian the authorities will **last up to 4 months**, the **collapse** would be much **more pronounced** and could **reach 10%***
IMF *March 20th*	**-0.6%**	**n.a.**	***Strong uncertainty** weighs heavily on estimates for Italy: "there is a high **risk**" that **growth will be much weaker***

Source: press release

Analysts expect a rebound in 2021 but uncertainty on economic impact remains high

Real GDP growth outlook for Italy



So far, COVID-19 outbreak lowered GDP growth outlook for 2020, with rebounds for 2021 and 2022-24 GDP growth forecast remaining at pre-COVID-19 level

Source: The Economist Intelligence Unit, Reuters poll

“

… Countries like Italy will see a **sharp drop in GDP** in the **coming months,** with a **huge impact** in the **short term**, especially in **non-essential consumer spending**

– Moody’s quote published on April 2, 2020

“

A **tremendous fall** in **two months** with COVID-19 “sinking” Italian GDP and, **afterwards**, a **slow recovery**

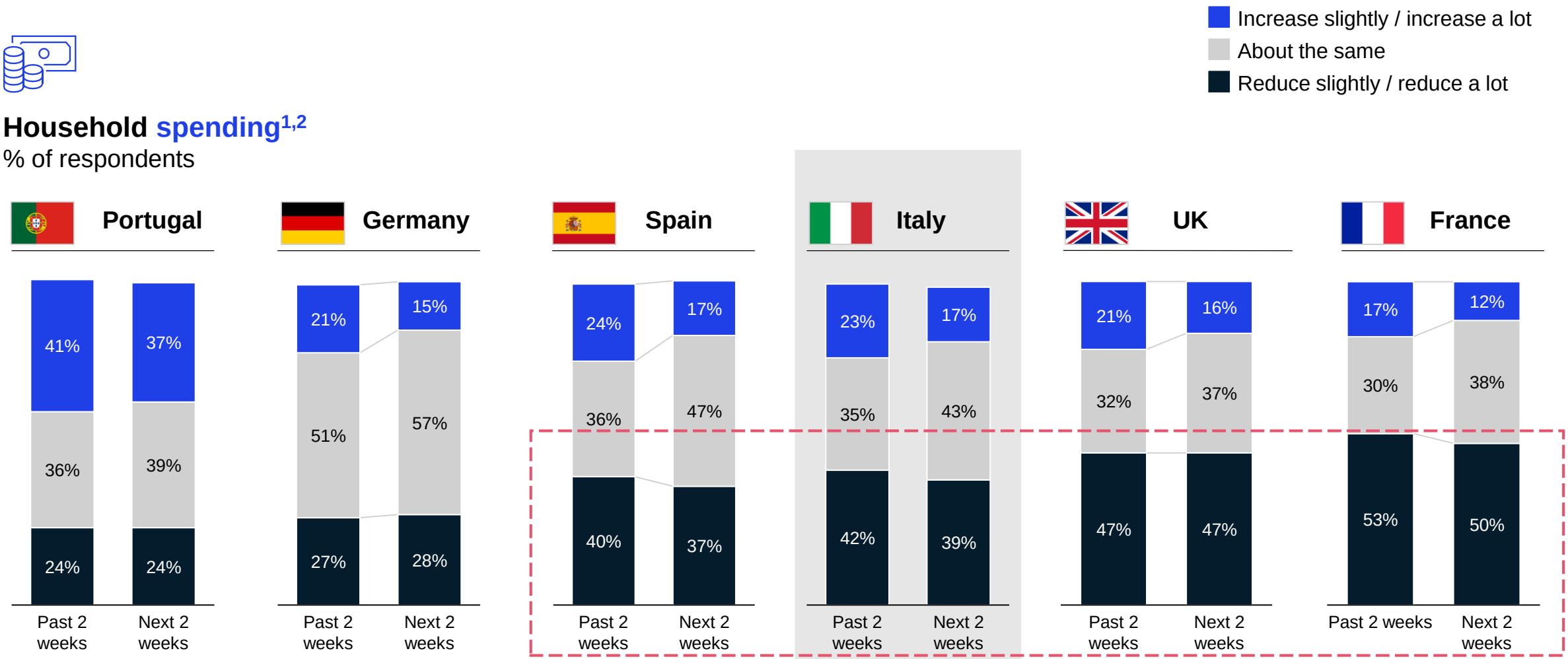
– Confindustria quote published on Mar 31, 2020

Contents

Over 40% of consumers have already reduced spending, with the exception of Germans and Portuguese

Household spending[1,2]

% of respondents



1.Q: How has the coronavirus (COVID-19) situation affected your (family) overall spending IN THE PAST TWO WEEKS?
2.Q: How do you think your overall spending may change in the NEXT TWO WEEKS?

Source: McKinsey & Company M&S COVID Europe Consumer Pulse Survey week 30th March 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,614 Sampled and weighted to match gen pop 18+ years

Majority of categories will most likely see a reduction in spending during the next two weeks (1/2)

Expected spend per category over the next 2 weeks compared to usual[1]

Percent of respondents

Net intent[2]

	UK	Germany	France	Portugal	Spain	Italy
Groceries	+2	+12	-3	+28	+16	+15
Tobacco products	-17	-9	-19	-26	-20	-22
Snacks	-20	-18	-54	-27	-28	-34
Take out/delivery	-43	-11	-52	-27	-30	-25
Alcohol	-28	-24	-42	-48	-43	-44
Quick service restaurant	-83	-71	-79	-73	-72	-77
Restaurant	-88	-85	-84	-92	-87	-87
Apparel	-71	-49	-72	-86	-81	-76
Footwear	-70	-56	-75	-85	-78	-76
Jewelry	-76	-65	-78	-90	-87	-80
Accessories	-76	-70	-75	-92	-84	-82
Household supplies	-9	-5	-40	+10	+11	-3
Personal care products	-18	-1	-24	-9	-11	-24
Non-food child products	-28	-13	-23	-28	-18	-30
Skincare & make up	-56	-25	-56	-76	-67	-51
Furnishing & appliances	-69	-62	-71	-84	-81	-77

1. Q: Over the next 2 weeks, do you expect that you will spend more, about the same, or less money on these categories than usual?
2. Net intent is calculated by subtracting the percent of respondents stating they expect to buy less from the percent of respondents stating that will buy more for each category

Source: McKinsey & Company M&S COVID Europe Consumer Pulse Survey week 30th March 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,614 Sampled and weighted to match gen pop 18+ years

Majority of categories will most likely see a reduction in spending during the next two weeks (2/2)

Expected spend per category over the next 2 weeks compared to usual[1]

Percent of respondents

	Net intent[2]					
	UK	Germany	France	Portugal	Spain	Italy
Entertainment at home	+13	+12	-5	+12	+12	+5
Books/magazines/newspaper	-29	-14	-32	-52	-38	-22
Consumer electronics	-61	-36	-64	-72	-61	-62
Out of home entertainment	-80	-87	-80	-96	-91	-84
Petcare services	-48	-39	-56	-32	-35	-61
Personal care services	-80	-76	-81	-84	-80	-12
Fitness & wellness	-77	-62	-67	-84	-81	-78
Vehicle purchases	-72	-53	-76	-81	-79	-75
Gasoline	-73	-49	-75	-78	-77	-77
Cruises	-79	-67	-64	-100	-70	-69
Short-term home rentals	-88	-68	-82	-92	-82	-77
Travel by car	-78	-74	-82	-87	-88	-82
Adventures & tours	-86	-76	-83	-98	-91	-83
International flights	-82	-81	-79	-97	-89	-86
Hotel/resort stays	-88	-86	-82	-95	-89	-85
Domestic flights	-82	-86	-84	-95	-89	-87

1. *Q: Over the next 2 weeks, do you expect that you will spend more, about the same, or less money on these categories than usual?*
2. *Net intent is calculated by subtracting the percent of respondents stating they expect to buy less from the percent of respondents stating that will buy more for each category*

Source: McKinsey & Company M&S COVID Europe Consumer Pulse Survey week 30th March 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,614 Sampled and weighted to match gen pop 18+ years

Wide-spread contraction of consumption is overshadowing channel dynamics

Expected net intent[2] by channel and category over the next 2 weeks[1] in each country

		UK		DE		FR		PT		ES		IT	
		In-store	Online	In-store	Online	In-store	Online	In-store	Online	In-store	Online	In-store	Online
Household essentials	Groceries	-20	+9	+11	-3	-12	-6	+7	+1	+9	-9	+6	-7
	Personal care products	-32	-2	-3	-3	-19	-14	-18	-12	-13	-16	-27	-11
	Household supplies	-27	-1	-5	-5	-24	-17	-1	-5	+6	-11	-6	-8
	Non-food child products	-36	-5	-11	-1	-21	-13	-28	-15	-20	-11	-35	-9
	Snacks	-30	-6	-16	-14	-30	-22	-27	-19	-22	-28	-24	-22
Discretionary	Tobacco	-28	-11	-11	-8	-14	-15	-18	-28	-14	-26	-19	-19
	Food take out & delivery	-61	-15	-26	+3	-34	-23	-46	-8	-37	-16	-45	-3
	Alcohol	-32	-12	-18	-12	-24	-21	-44	-24	-36	-31	-33	-26
	Skincare & make-up	-62	-26	-29	-6	-35	-25	-67	-39	-60	-42	-51	-18
	Apparel	-69	-38	-54	-11	-43	-28	-66	-32	-70	-47	-64	-28
	Footwear	-67	-35	-53	-18	-41	-29	-67	-38	-65	-42	-61	-30
	Fitness & wellness	-69	-33	-52	-29	-38	-31	-70	-35	-65	-42	-63	-36
	Furnishing & appliances	-64	-37	-50	-31	-36	-27	-65	-41	-65	-50	-65	-27
	Accessories	-75	-44	-58	-33	-42	-30	-72	-41	-70	-50	-66	-34
	Jewelry	-70	-46	-55	-32	-42	-38	-68	-51	-70	-54	-69	-36
Entertainment at home	Entertainment at home	-33	+20	-19	+19	-20	-2	-41	+19	-30	+17	-34	+25
	Books, magazines, newspapers	-42	-10	-28	+2	-28	-15	-55	-18	-47	-14	-35	-4
	Consumer electronics	-61	-33	-46	-3	-44	-31	-67	-28	-61	-29	-61	-17

1.Q: And where do you expect you'll buy these categories? Tell us if you will shop in the following places more, about the same, or less in the next 2 weeks.
Please note, if you don't buy in one of these places today and won't in next 2 weeks, please select "N/A" – did not ask this question for travel and multiple other categories
2. Net intent is calculated by subtracting the percent of respondents stating they expect to buy less here from the number of respondents stating that will buy more here for each category and type of channel

Source: McKinsey & Company M&S COVID Europe Consumer Pulse Survey week 30th March 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,614 Sampled and weighted to match gen pop 18+ years

Behavior is fundamentally changing as Europeans shift to consume more news and media

Expected change time allocation over the next two weeks[1], Percent of respondents

	Net intent[2]					
	UK	Germany	France	Portugal	Spain	Italy
Live news	+42	+45	+36	+50	+31	+52
Texting, chatting, messaging	+47	+19	+34	+56	+54	+46
TV	+36	+32	+35	+37	+42	+48
Reading news online	+34	+38	+25	+52	+28	+54
Movies or shows	+34	+15	+24	+42	+49	+36
Social media	+27	+13	+20	+49	+42	+40
Video content	+20	+12	+12	+39	+39	+33
Reading for personal interest	+18	+5	-2	+18	+23	+23
Video games	+7	-0	-4	+9	+11	+2
Online groceries	-1	-30	-22	-21	-22	-20
Reading print news	-26	+6	-22	-42	-44	-22
Online non-food purchases	-16	-27	-39	-34	-34	-23
Working	-29	-19	-34	-24	-34	-23

1. Q: Over the next 2 weeks, how much time do you expect to spend on these activities compared to how much time you normally spend on them?
2. Net intent is calculated by subtracting the percent of respondents stating they expect to decrease time spent from the percent of respondents stating to increase time spent

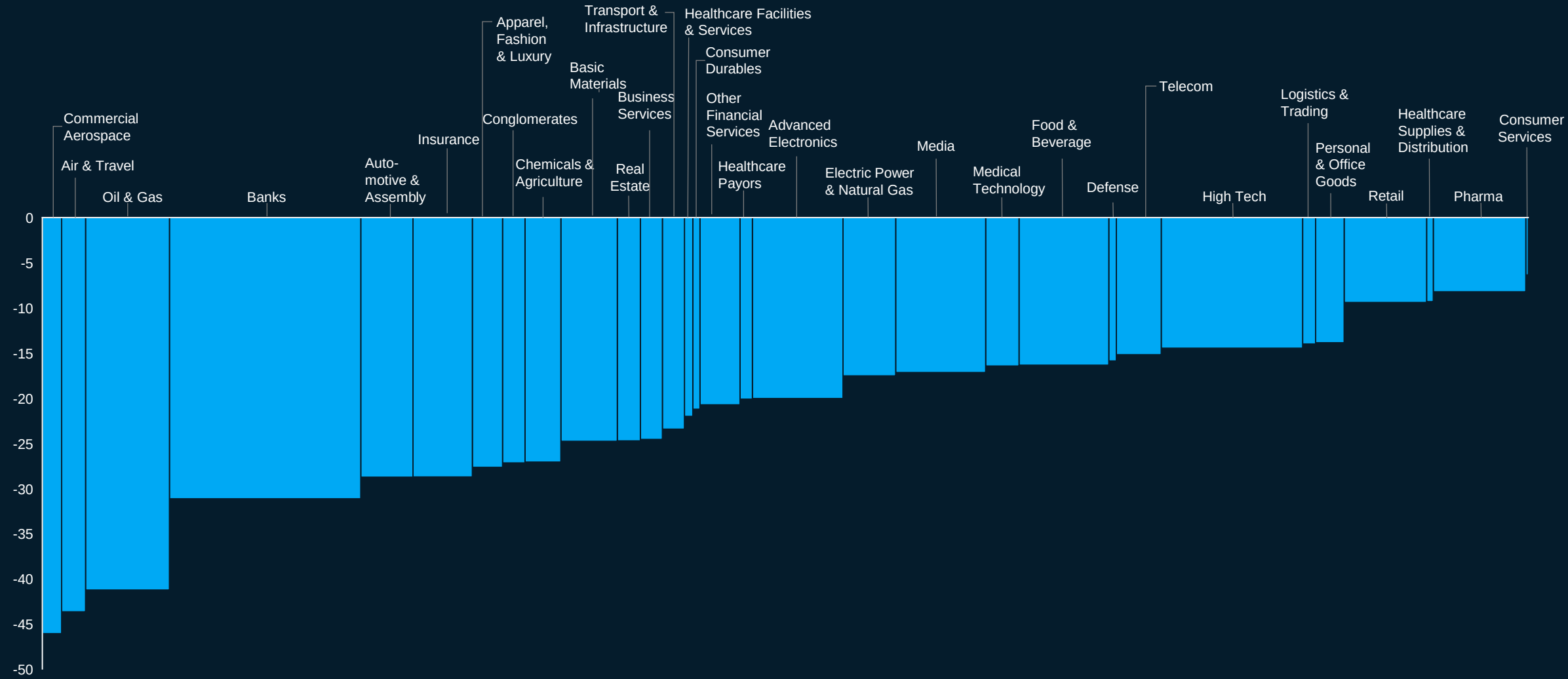
Source: McKinsey & Company M&S COVID Europe Consumer Pulse Survey week 30th March 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,614 Sampled and weighted to match gen pop 18+ years

Contents

Current as of April 2, 2020

Market capitalization has declined across sectors, with significant variation to the extent of the decline

Weighted average year-to-date local currency total shareholder returns by industry in percent[1]. Width of bars is starting market cap in $

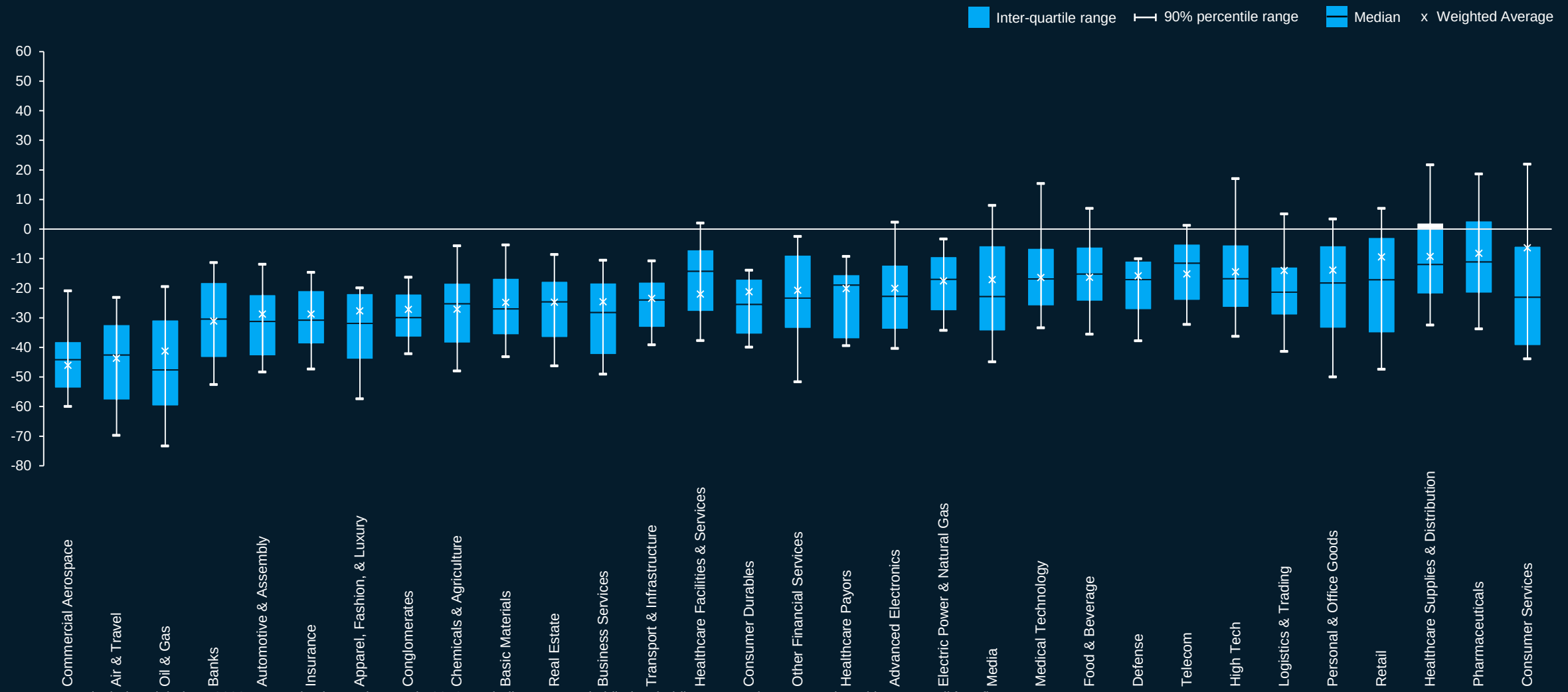


1. Data set includes global top 3000 companies by market cap in 2019, excluding some subsidiaries, holding companies, companies with very small free float and companies that have delisted since

Source: Corporate Performance Analytics, S&CF Insights, S&P Global

Even within sectors, there is significant variance between companies

Distribution of year-to-date total shareholder returns by industry percent[1]



1. Data set includes global top 3000 companies by market cap in 2019, excluding some subsidiaries, holding companies, companies with very small free float and companies that have delisted since

Source: Corporate Performance Analytics, S&CF Insights, S&P Global

Preliminary views of some of the hardest hit sectors

Based on the partially effective scenario

	Commercial Aerospace	Air & Travel	Oil & Gas	Automotive	Insurance Carriers
Avg. stock price change[1]	**-46%**	**-44%**	**-42%**	**-29%**	**-29%**
Industry specific examples	Preexisting industry conditions, challenges with airlines' balance sheet resilience, and high fixed costs cause **near-term cash flow issues and long-term growth uncertainty**. It may take years to recover from production and supply chain stoppages, due to critical vendors located in areas impacted by the virus and liquidity challenges especially amongst Tier 3 suppliers. Long order backlogs mitigate some concerns, especially on narrowbody aircraft, though widebody demand could be structurally impacted in the near-term	Deep, immediate demand shock 5-6x greater than Sept 11; ~70-80% near-term demand erosion due to int'l travel bans & quarantines now prevalent in 130+ nations N. Hemisphere summer travel peak season deeply impacted since pandemic fears coincide with peak booking period Recovery pace faster for **domestic travel** (~2-3 quarters); slower for **long-haul and int'l travel** (6+ quarters)	**Oil price decline** driven by both short-term demand impact and supply overhang from OPEC+ decision to increase production **Oversupply expected to remain in the market even after demand recovery**, and post 2020, unless OPEC+ decides to cut production	**Existing vulnerabilities** (e.g., trade tensions, declining sales) **amplified by acute decline in global demand**; Mar. 26 Survey of US auto consumers indicates 70% of car buyers are deferring by ~6 mo. or no longer intending to purchase; >2M units lost in China by Feb. Despite ongoing Chinese economic restart, there is **continued supply chain and production disruption** as majority of EU and US OEMs have temporarily closed plants and Hubei manufacturing remains at ~50% capacity	**US insurers have been strongly affected**, especially reinsurers and life & health insurers **Reduced interest rates** and investment performance **impacting returns – esp. for longer-tail lines** **Disruptions expected in new business and underwriting processes** due to dependence on paper applications and medical underwriting

1. In last 30 days for selected sector indices

Source: IHS Market, McKinsey Global Institute, Subject matter experts, press reports, Corporate Performance Analytics, S&CF Insights, S&P Capital IQ

Contents

Leaders need to think and act across 5 horizons

1

Resolve

Address the immediate challenges that COVID-19 represents to the institution's workforce, customers, technology, and business partners

2

Resilience

Address near-term cash management challenges, and broader resiliency issues during virus-related shutdowns and economic knock-on effects

3

Return

Create a detailed plan to return the business back to scale quickly, as the virus evolves and knock on effects become clearer

4

Reimagination

Re-imagine the "next normal"—what a discontinuous shift looks like, and implications for how the institution should reinvent

5

Reform

Be clear about how the regulatory and competitive environment in your industry may shift

Nerve center

Managing across the 5Rs requires a new architecture based on a team-of-teams approach.

Resolve: Making hard decisions on immediate challenges

Resolve employee, customer, supply chain, immediate liquidity, and technology concerns

Private sector focus

	Employees	Supply chain	Customers
Emerging concerns	Are my policies working (e.g., safety, productivity)? How well? How do I adapt to new developments (e.g., longer closures of business)?	How do I revise demand planning based on the evolving outbreak?	How do I stay in touch with customers and remain relevant to them when they don't desire or need my services? How do I inspire loyalty in my customers?
Example actions	**Continuous re-evaluation of financial models:** stress-testing financial forecasts based on latest developments (e.g., longer than 2 week closures) and adjusting policies accordingly **Monitoring productivity:** Comprehensive set of KPIs being tracked via dashboards (e.g., focus on productivity vs. utilization) **Tracking incidence**: Clear reporting mechanism for suspected / confirmed covid-19 infections and database that tracks cases **Redeploying "idle" talent against areas of the business experiencing demand surges:** Making short term adjustments to workforce deployment to maximize productivity and minimize service disruption **Partnering with other companies to redeploy "idle" talent externally** for the good of the broader community	**Conduct scenario planning** to understand how inventory buffer changes in various disease scenarios **Task S&OP team to build 3-6 plans under a range of demand scenarios month** to **determine required supply** **Work with tier 1 suppliers to understand supply chain risks throughout all tiers;** complement with outside-in analytics where tier 1s do not have transparency **Account for all inventory (e.g., in transit, in warehouses, in spares stock) and calculate inventory buffer** Run **supply chain "stress tests" vs. supplier balance sheets** to understand when supply issues will start to stress financial or liquidity issues	**Demonstrate flexibility to customers** during times of hardship • Airlines: Major airlines are offering change/cancel flexibility. Most are also allowing passengers to reseat themselves on the plane in accordance with physical distancing, Going out of their way to **keep customers and employees safe** regardless of impact to balance sheet • Hotels in Europe and Asia are providing "quarantine" service (e.g., room reservation with nobody next door) • Hotels are live streaming hotel room housekeeping to show how thorough they are cleaning their rooms between guests. Demonstrate **commitment to healthcare** • Car rentals are offering free rental cars to NYC healthcare workers • Furniture distribution centers are being repurposed as testing centers for NHS workers Other examples of companies **being 'agile' in attracting customers** • Hotels are offering point compensation for guests who purchased pre-paid non-refundable reservations. • Rideshare companies are pivoting to delivery

6 steps toward end to end resilience plan

01

Identify and prioritize key risks

Identify and prioritize key macro, sector and company idiosyncratic risks based on exposure and impact

02

Develop tailored scenarios

Develop company specific scenarios based on the range of outcomes of the highest priority risks

03

Conduct stress testing of financials

Stress test the P&L, Balance Sheet, Statement of Cash Flows to assess and frame the potential gaps for planning

04

Establish portfolio of interventions

Identify an end to end portfolio of interventions and trigger points

05

Set up a cash management dashboard

Improve cash transparency and implement tighter cash controls to mitigate downside scenarios

06

Build the resilience dashboard

Build the dashboard of key leading indicators to monitor that can be dynamically updated

There are 6 building blocks for a successful Return

Restarting supply chain

Secure alternative supply sources (if needed) to provide materials to industry

Separation of regions

Categorize regions based on severity to manage return based on region-specific situations

Testing & transparency

Build transparency on the state of infection in local populations so the “healthy” cohort can return to work

Infection reduction norms

Ensure conformance to transmission reduction norms in professional and public life

Health system capacity

Ensure healthcare capacity, preventing “drift” while ramping up surge capacity for additional intervention windows as needed

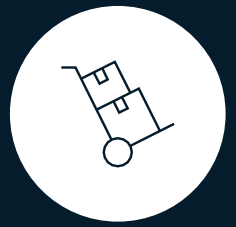
Rehiring and retraining

Prepare workforce to meet the new demands of the “next normal”

These building blocks should be rolled out and sequenced according to local realities

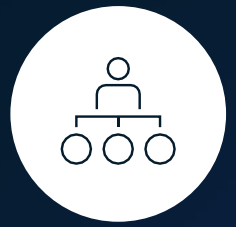
The “next normal” will be re-imagined across multiple pillars

A. New Consumer Behaviors



B. Flexible Supply Chain

C. Increase ESG Committment



D. New Ways of Working

E. Invest in Digital

A: Experience from China shows a "consumption shift" short term, with effects that appear to be lasting

Consumption shift during the peak of the crisis

50-70% **Reduction** in consumption of **discretionary** products

>50% **Male shoppers at offline stores during crisis,** majority of which are 30-40 years old

30-40% **Of consumers** have **not purchased discretionary** and impulse products

+15-20% **Increase in online** penetration

Confidence and emerging shifts after…

+20-30% **Lingering effects** in food as foodservice still not fully open

~50% Of **Chinese** consumers indicate giving up something that they had planned on buying

>6m Time to full recovery not unlikely when compared to MERS and SARS (esp. in apparel & luxury)

+3-6 p.p. Expected **stickiness of online** penetration after the crisis

…that appear lasting

Up to -45% Decrease in net intent to **dine in restaurants** (after vs. before). Continued shift to home-delivery and RTE

>55% Of Chinese consumers are likely to permanently buy more groceries online

>25% Of shoppers have shifted away from **primary store**; ~50% not intending to shift back

~33% have **switched brands** based on convenience and promo/display, of which 20% intends to stick

1.Skincare and make-ups section only have female samples

Source: 2020 February COVID-19 mobile survey; COVID-19 mobile survey 3/21-3/23/2020 N = 611 Sampled and balanced to match CN gen pop 18-65 years old

A: Developing clear e-commerce value proposition might become a key priority, as consumer behaviors are changing

Initiatives	Relevance
1 | Make E-commerce channel from scratch Players that need to set-up quickly an e-commerce platform need to develop 4 key building blocks: • Integrated E-commerce solution • Fully functional operations (end-to-end) • Standardized product assortment process • Multi-channel marketing launch campaign	**Relevant to capture market share on digital channels when the crisis is over**
2 | Accelerate existing E-commerce platform Players with an existing E-commerce platform boosted their sales, developing agreements with logistic players to manage increased deliveries (e.g., Amazon) and increasing their delivery capacity (e.g., set-up of *click & collect* hubs, reinforcing the capacity of their website)	**Relevant to intercept increased demand immediately during the crisis**

Source: Nielsen, web and press search

Case examples

Online sales of consumer products in Italy showed an increase of **+80%** between the last week of February and the first week of March

E-commerce sector in Italy is expected to grow **~8%** in revenues in 2020 vs 2019

Major players have offered **free courses to SMEs** to set up an e-commerce channel

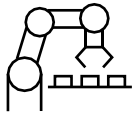
B: Supply chain agility will come from investments in four areas

Not exhaustive

New data sources

Integrate additional sources of data into supply-chain management to accelerate supply-chain response time

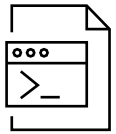
- Actual supply-chain status (e.g., demand, inventory, shipment)
- Promotional data, demand-variation data
- Social-media data



Automation

Deploy digital solutions to automate end-to-end supply chain for better productivity and risk mitigation

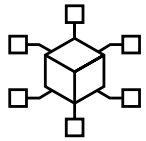
- Robotics (e.g., warehouse automation, industrial robots)
- Process automation (e.g., electronic data interchange, "no touch" planning)



New algorithms

Apply new algorithms driven by in-memory computing and cloud processing power to improve accuracy and transparency

- Interactive, real-time planning
- Improved accuracy in demand forecasts



Ubiquitous access

Establish multiple secured data interfaces to stay connected with real-time supply-chain status remotely

- Web and cloud applications
- Mobile applications
- Secured remote access

Source: web and press search

Case examples

A leading express company in China managed to **increase volumes** despite Covid-19 through swift and central reaction

Examples of actions taken include:

- Setting up a Coordination Control Center to centrally manage response actions
- Maintaining employment of self-owned couriers and using limited outsourced capacity
- Promoting routine disinfection and wearing masks at all times to keep business running, and thus capture more business opportunity than competitors
- Capturing volume during economic ramp up phase
- Expanding size of the air fleet

C: As part of connected ecosystems, stakeholders will need to increasingly focus attention on ESG topics

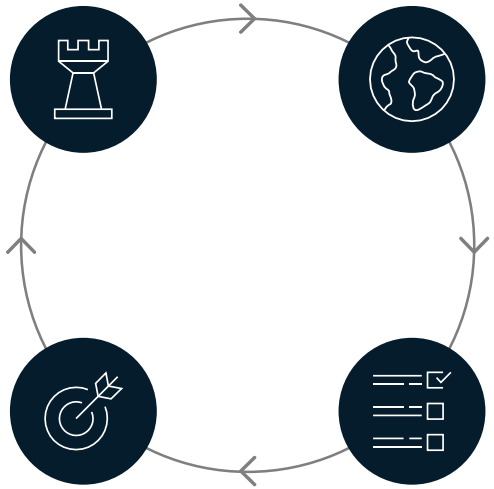
Not exhaustive

Engage radically

Translate “win the game” ESG themes into all external disclosure and reporting (e.g., link to SDGs, sustainability report)

Develop tailored stakeholder engagement plans for top 3-5 external stakeholders: e.g., communicate, influence, partner, invest

Ensure external communications activity (e.g., website, social media, annual report, speeches) fully reflect the ESG ambition



Map your world

Identify major trends impacting the business; distinguish “immutable” vs. “fads”

Pinpoint the ESG dimensions that matter most to critical stakeholders (e.g., local communities, government policymakers & regulators, end-consumers, ESG investors)

Benchmark ESG performance against peers and highlight “red flags”

Quantify, at a high level, the value-at-stake from ESG risks and opportunities (downside and upside)

Consolidate ESG best practices across and identify learnings

Embed in the business

Define target operating model for ESG management and integration across the business

Embed ESG metrics into top management goals

Integrate into key business processes (e.g., capital allocation, performance management, talent development)

Define your contribution

Brainstorm full set of potential sources of ESG distinctiveness

Prioritize “win the game” vs. “play the game” ESG themes (value-at-stake for company vs. value to society)

Ensure link from “win the game” ESG themes to corporate purpose

Determine KPIs and set quantified targets for “win the game” ESG themes

Identify and scope critical initiatives under each ESG theme: business case, impact on stakeholders, ease of implementation

Source: Connexia, web and press search

Case examples

Italian companies across all sectors have been launching **fundraising initiatives** to financially support hospitals for purchases of medical equipment in shortage and local areas, reaching a value of **575+ Eur Million,** raised from 170+ companies

All over the world, multinational companies have also started to **convert production sites** to manufacture medical equipment (e.g. a major automotive player converted an Asian site to produce 1 mln surgical masks each month)

D: Smart working best practices and daily organization principles to adapt to “next normal”

Not exhaustive

Examples of new ways of working and actions to consider

New smart working protocols	• Define smart working norms and best practices • Assess current work processes and identify criticalities in remote working context • Organize dedicated training sessions on smart working practices and tools • Set-up recurring IT training sessions • Identify state of the art technological solutions for smart working • Ensure all the workers are equipped with the necessary hardware to carry out smart working • Increase the frequency of interaction with clients and internally thanks to digital tools/VCs
New working spaces	• Design office spaces to be flexible for all employees needs • Re-think HQ spaces to allow for more flexibility and adaptability through co-design sessions
New hygiene protocols	• Clean frequently touched common surfaces • Define adequate hygiene and safety measures and provide ad hoc equipment • Improve hygiene practices by properly communicating guidelines to all employees

Source: Bva Doxa (research on ~300 companies), Italian Ministry of Labor, Politecnico di Milano, web and press search

Case examples

Due to the Covid-19 emergency, the number of smart workers almost doubled in mid March in Italy, reaching **more than 1 million workers** in private and public sectors

40% of Italian companies evaluate smart working as an **effective solution,** and will keep using it even after the Covid-19 emergency

Italian supermarkets started to provide employees with **surgical masks** to limit the contagion

E: A much digital world will require companies to increase focus on digital and analytics themes to adapt to “next normal”

Not exhaustive

Examples of digital and analytics themes to consider

Introduce new digital capabilities and tech enablers for the “next normal”

Adopt innovative capabilities to reinforce in the mid- long-term the technological solutions introduced (e.g. digital services and sales, digital marketing and remote/smart working at scale)

Customer analytics

Analytics for innovation to inform current portfolio mix as well as reshape R&D innovation pipeline for future products and services (e.g., buildout an engine for social listening which guides retesting of current offerings)

Digitization of business processes

Automation and digital improvements to make back-office processes (e.g., demand planning and management, logistics and supply chain) more resilient and less likely to fail in absence of human touch

End-to-end autonomous planning

Advanced analytics that uses real-time customer purchasing patterns by segment to inform the full lifecycle of planning (e.g., consumer demand, production plans and inventory management)

Source: web and press search

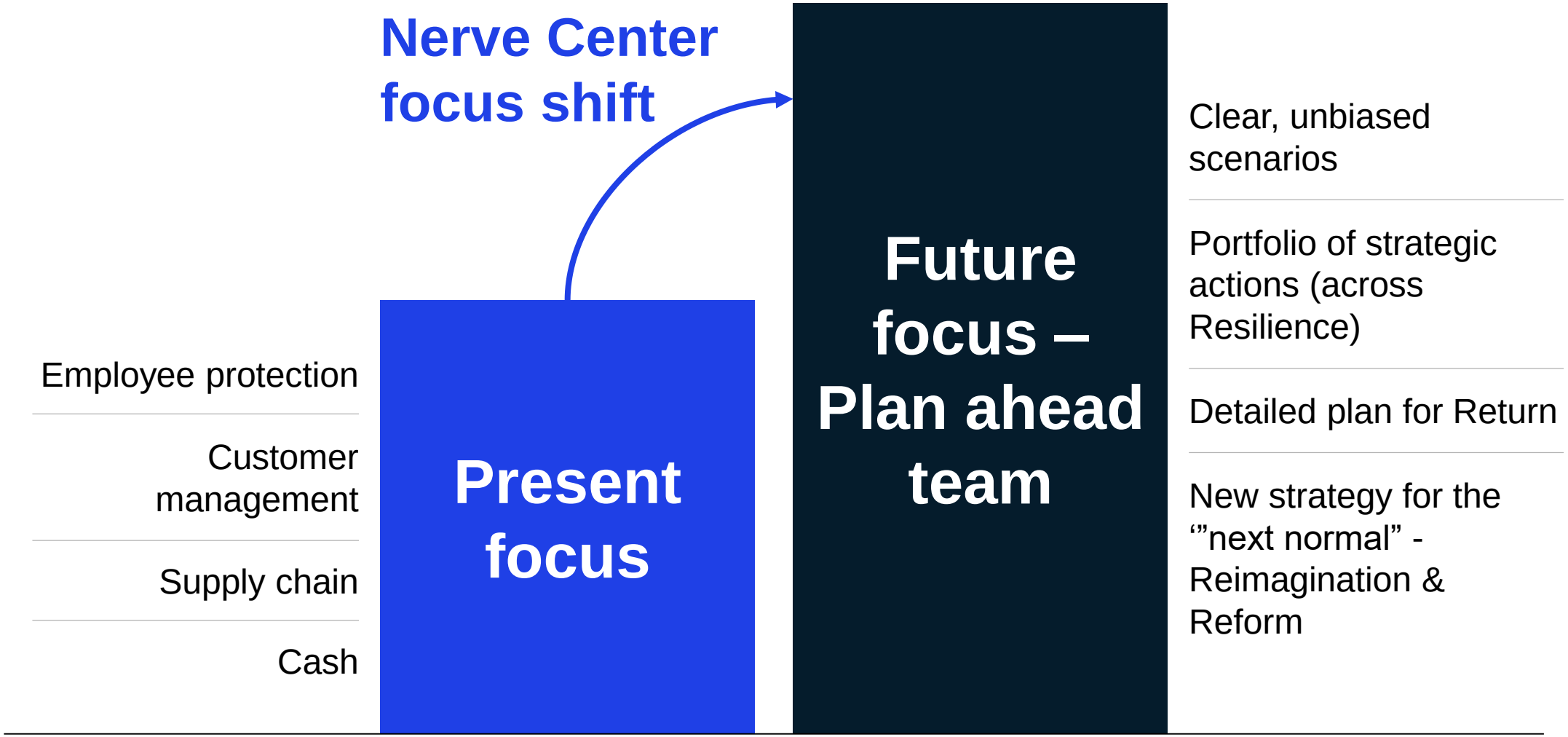
Case examples

Companies providing ICT services in Italy are experiencing a surge in requests for support

In the first week of the extension of the containment to whole Italy, a leader of ICT services registered: (i) +60% requests for consultancy for the secure implementation of remote connections and access to corporate networks in smart working; (ii) +70% requests for support and implementation of collaboration solutions; (iii) +48% requests of mobile devices

Tech companies are also creating task forces to provide clients with **free and quick installation of ICT services**

Nerve Center needs to evolve from present focus to include plan ahead teams



Some Asian companies have already started relevant changes in their activities

Area	Relevant examples	
Product offer innovation	BYD, FOXCONN, 蚂蚁金服 ANT FINANCIAL	Manufacturers facing decreasing demand from their typical markets, **shifted production lines to produce additional masks and disinfectants** Insurer **added Covid-related features to its products for free**, increasing demand for its products and promoting awareness of its brand
Development of innovative processes	康师傅, HUAZHU	Master Kong, noodle and beverage producer, tracked **daily retail outlets' re-opening plans to adapt its supply chain** in a flexible manner Huazhu hotel chain **communicated top-down guidance** to all the franchise **through an internally developed App**
Deployment of advanced technology	YOUKU, DingTalk, Alibaba Group, Baidu 百度	Social platforms **promoted online education**, compensating schools and universities closure Tech companies are supporting medical R&D and epidemic prevention by • **Sharing their AI algorithms and capabilities** • **Creating** innovative Apps to track locations of confirmed and suspected cases
Employees protection (health and social)	JD.COM 京东 **Lin Qingxuan**	**E-commerce players borrowed employees from hard-hit sectors** (e.g., restaurants) to face the increasing amount of online purchases Lin Qingxuan, retail cosmetic company forced to close a significant portion of its stores, **redeployed its store employees to become online influencers**, leveraging social media to drive sales online

Resetting to next normal is hard

- Much like resilients' research, our research on companies more broadly (Strategy Beyond the Hockey Stick) shows that most companies (80% of all corporations) did not add economic value beyond their cost of capital
- Only 8% of the companies studied were able to successfully move towards adding economic value consistently
- The ones that did so, did it through 5 moves that may be critical for companies to consider

Reimagination

Needs appetite for big moves

M&A: Conduct deals adding to 30% of market cap over a decade

Reallocation: Reallocate 50% of capital among BUs over a decade

Capex: Top 20% in sector on capital spending per unit of sales

Productivity: Increase productivity to be in top 30% of industry

Differentiation: Increase gross margin to be top 30% of industry

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