

COVID-19: Implications for business

March 2020 | Executive Briefing

By Matt Craven, Linda Liu, Mihir Mysore, and Matt Wilson

**COVID-19: Briefing note, March 9,
2020**

In the next few months, the phased restart of plants outside Hubei (and the slower progress of plants within Hubei) is likely to lead to challenges in securing critical parts. As inventories are run down faster, parts shortages are likely to become the new reason why plants in China cannot operate at full capacity. Moreover, plants that depend on Chinese output (which is to say, most factories around the world) have not yet experienced the brunt of the initial Chinese shutdown and are likely to experience inventory “whiplash” in the coming weeks.

Perhaps the biggest uncertainty for supply-chain managers and production heads is customer demand. Customers that have prebooked logistics capacity may not use it; customers may compete for prioritization in receiving a factory’s output; and the unpredictability of the timing and extent of demand rebound will mean confusing signals for several weeks.

Responding to COVID-19

In our experience, seven actions can help businesses of all kinds. We outline them here as an aid to leaders as they think through crisis management for their companies. These are only guidelines; they are by no means exhaustive or detailed enough to substitute for a thorough analysis of a company’s particular situation.

Protect your employees. The COVID-19 crisis has been emotionally challenging for many people, changing day-to-day life in unprecedented ways. For companies, business as usual is not an option. They can start by drawing up and executing a plan to support employees that is consistent with the most conservative guidelines that might apply and has trigger points for policy changes. Some companies are actively benchmarking their efforts against others to determine the right policies and levels of support for their people. Some of the more interesting models we have seen involve providing clear, simple language to local managers on how to deal with COVID-19 (consistent with WHO, CDC, and other health-agency guidelines) while providing autonomy to them so they feel empowered to deal with any quickly

evolving situation. This autonomy is combined with establishing two-way communications that provide a safe space for employees to express if they are feeling unsafe for any reason, as well as monitoring adherence to updated policies.

Set up a cross-functional COVID-19 response team. Companies should nominate a direct report of the CEO to lead the effort and should appoint members from every function and discipline to assist. Further, in most cases, team members will need to step out of their day-to-day roles and dedicate most of their time to virus response. A few workstreams will be common for most companies: a) employees' health, welfare, and ability to perform their roles; b) financial stress-testing and development of a contingency plan; c) supply-chain monitoring, rapid response, and long-term resiliency (see below for more); d) marketing and sales responses to demand shocks; and e) coordination and communication with relevant constituencies. These subteams should define specific goals for the next 48 hours, adjusted continually, as well as weekly goals, all based on the company's agreed-on planning scenario. The response team should install a simple operating cadence and discipline that focuses on output and decisions, and does not tolerate meetings that achieve neither.

Ensure that liquidity is sufficient to weather the storm. Businesses need to define scenarios tailored to the company's context. For the critical variables that will affect revenue and cost, they can define input numbers through analytics and expert input. Companies should model their financials (cash flow, P&L, balance sheet) in each scenario and identify triggers that might significantly impair liquidity. For each such trigger, companies should define moves to stabilize the organization in each scenario (optimizing accounts payable and receivable; cost reduction; divestments and M&A).

Stabilize the supply chain. Companies need to define the extent and likely duration of their supply-chain exposure to areas that are experiencing community transmission, including tier-1, -2, and -3 suppliers, and inventory levels. Most companies are primarily focused on immediate stabilization, given that most Chinese plants are currently in restart mode. They also need to consider rationing

critical parts, prebooking rail/air-freight capacity, using after-sales stock as a bridge until production restarts, gaining higher priority from their suppliers, and, of course, supporting supplier restarts. Companies should start planning how to manage supply for products that may, as supply comes back on line, see unusual spikes in demand due to hoarding. In some cases, medium or longer-term stabilization may be warranted, which calls for updates to demand planning, further network optimization, and searching for and accelerating qualification of new suppliers. Some of this may be advisable anyway, absent the current crisis, to ensure resilience in their supply chain—an ongoing challenge that the COVID-19 situation has clearly highlighted.

Stay close to your customers. Companies that navigate disruptions better often succeed because they invest in their core customer segments and anticipate their behaviors. In China, for example, while consumer demand is down, it has not disappeared—people have dramatically shifted toward online shopping for all types of goods, including food and produce delivery. Companies should invest in online as part of their push for omnichannel distribution; this includes ensuring the quality of goods sold online. Customers' changing preferences are not likely to go back to pre-outbreak norms.

Practice the plan. Many top teams do not invest time in understanding what it takes to plan for disruptions until they are in one. This is where roundtables or simulations are invaluable. Companies can use tabletop simulations to define and verify their activation protocols for different phases of response (contingency planning only, full-scale response, other). Simulations should clarify decision owners, ensure that roles for each top-team member are clear, call out the “elephants in the room” that may slow down the response, and ensure that, in the event, the actions needed to carry out the plan are fully understood and the required investment readily available.

Demonstrate purpose. Businesses are only as strong as the communities of which they are a part. Companies need to figure out how to support response efforts—such as by providing money, equipment, or expertise. For example, a few

companies have shifted production to create medical masks and clothing.

The checklist in the exhibit can help companies make sure they are doing everything necessary.

Exhibit

COVID-19 response: Companies can draw on seven sets of immediate actions.

1 Protect employees

- Follow the most conservative guidelines available from leading global and local health authorities (eg, CDC, WHO)
- Communicate with employees frequently and with the right specificity; support any affected employees per health guidance
- Benchmark your efforts (eg, some companies have started to curb nonessential travel)

2 Set up cross-functional response team

- Overall lead should be at the CEO or CEO-1 level; team should be cross-functional and dedicated
- Create 5 workstreams: a) employees; b) financial stress-testing and contingency plan; c) supply chain; d) marketing and sales; e) other relevant constituencies
- Define specific, rolling 48-hour and 1-week goals for each workstream based on planning scenario
- Ensure a simple but well managed operating cadence and discipline that's output and decision focused. Low tolerance for "meetings for the sake of meetings"
- Present minimum viable products: a) rolling 6-week calendar of milestones; b) 1-page plans for each workstream; c) dashboard of progress and triggers; d) threat map

3 Test for stress, ensure liquidity, and build a contingency plan

- Define scenarios that are tailored to the company. Identify planning scenario
- Identify variables that will affect revenue and cost. For each scenario, define input numbers for each variable through analytics and expert input
- Model cash flow, P&L, and balance sheet in each scenario; identify input-variable triggers that could drive significant liquidity events (including breach of covenants)
- Identify trigger-based moves to stabilize organization in each scenario (A/P, A/R optimization; cost reduction; portfolio optimization through divestments, M&A)

4 Stabilize the supply chain

- Define extent and timing of exposure to areas that are experiencing community transmission (tier-1, -2, -3 suppliers; inventory levels)
- Immediate stabilization (ration critical parts, optimize alternatives, prebook rail/air-freight capacity, use after-sales stock as bridge, increase priority in supplier production, support supplier restart)
- Medium/longer-term stabilization (updated demand planning and network optimization—solve for cash, accelerate qualification for alternative suppliers, drive resilience in supply chain)

5 Stay close to customers

- Immediate stabilization (inventory planning, near-term pricing changes, discounts)
- Medium/longer-term stabilization (investment and microtargeting for priority segments with long-term growth)

6 Practice plan with top team through in-depth tabletop exercise

- Define activation protocol for different phases of response (eg, contingency planning only, full-scale response, other)
- Key considerations: clarity on decision owner (ideally a single leader), roles for each top-team member, "elephant in room" that may slow response, actions and investment needed to carry out plan

7 Demonstrate purpose

- Support epidemic efforts where possible