

# Director Briefing



McKinsey  
& Company

## COVID-19: Business implications and the "New Normal" Key Takeaway

5Rs Framework for board members to use in handling the crisis



**7 Action** that board members and organizations should consider when responding to a crisis fall under McKinsey's 5R framework



McKinsey experts:



Dr. Tomas Koch  
Senior Partner



Mrs. Noppamas Sivakriskul  
Senior Partner and  
Managing Partner, Thailand



Mr. Jeongmin Seong  
Partner



Ms. Tunnee Sinburimsit  
Associate Partner



Mr. Kulvech Janvatanavit  
CEO  
Thai Institute of Directors

Moderator:

# Director Briefing



McKinsey  
& Company

## COVID-19: Business implications and the “New Normal”

### Key Takeaway

**Eight** main pillars for consumer New Normal



**Policy Level :**  
Social Contracts,  
Healthcare,  
Government  
& Regulations



**Industry and  
Organization Level :**  
Technology/  
Innovation, Energy/  
Environment,  
Supply Chain



**Individual Level :**  
Consumer/  
Shopper,  
Work from Home

**Four** significant shifts in consumer spending during the past 2-3 months

01

**Changing  
the Channel**

02

**Shift to Value**

03

**Healthy,  
Safe,  
and Local**

04

**Shock to Loyalty**

*McKinsey experts:*



*Dr. Tomas Koch  
Senior Partner*



*Mrs. Noppamas Sivakriskul  
Senior Partner and  
Managing Partner, Thailand*



*Mr. Jeongmin Seong  
Partner*



*Ms. Tunnee Sinburimsit  
Associate Partner*



*Mr. Kulvech Janvatanavit  
CEO  
Thai Institute of Directors*

*Moderator:*

# Director Briefing



McKinsey  
& Company

## COVID-19: Business implications and the “New Normal”

### Key Takeaway

The COVID-19 crisis has only become an accelerant for expansion of China’s digital economy on a nationwide scale

Digitization

Over 60% of China’s GDP growth being driven by domestic consumption

Declining Global Exposure

Social inequality, both at the individual and organizational level, will increase.

Rising Competitive Intensity

Consumers, especially Gen Z, are becoming more prudent

Consumer Comes of Age

Private sector plays a key role in driving the nation’s economy. 80-90% of employment, exports, and investments in fixed assets come from the private sector.

Private and Social Sector Step Up

Macro Trend being observed in China:

At the corporate level, Micro trends have been observed:

Health & Safety

Most nations are conducting individual distancing. China, on the other hand, is conducting community distancing.

Redeploy Staff

Redeployment of staff within an organization to carry out necessary tasks and ensure the company’s survival and Cross-Sector Partnership

Turned Downtime to Competitive Advantage

Turning the crisis into an opportunity by upgrading their assets during the downturn to prepare for the next normal.

Strengthen Public-Private Collaboration

The public and private sectors are collaborating. An example is Alibaba, which has developed an application health code.

Adopt Bold Strategic Move

M&A opportunities is increasing for brand presence regionally. 86% of Chinese executives surveyed said they expect to carry out at least one cross-border deal in the next year.

McKinsey experts:



Dr. Tomas Koch  
Senior Partner



Mrs. Noppamas Sivakriskul  
Senior Partner and  
Managing Partner, Thailand



Mr. Jeongmin Seong  
Partner



Ms. Tunnee Sinburimsit  
Associate Partner



Mr. Kulvech Janvatanavit  
CEO  
Thai Institute of Directors



McKinsey experts:



Dr. Tomas Koch  
Senior Partner



Mrs. Noppamas Sivakrskul  
Senior Partner and  
Managing Partner, Thailand



Mr. Jeongmin Seong  
Partner



Ms. Tunnee Sinburimsit  
Associate Partner



Mr. Kulvech Janvatanavit  
CEO  
Thai Institute of Directors

Moderator:

# Director Briefing

## COVID-19: Business implications and the “New Normal” Summary

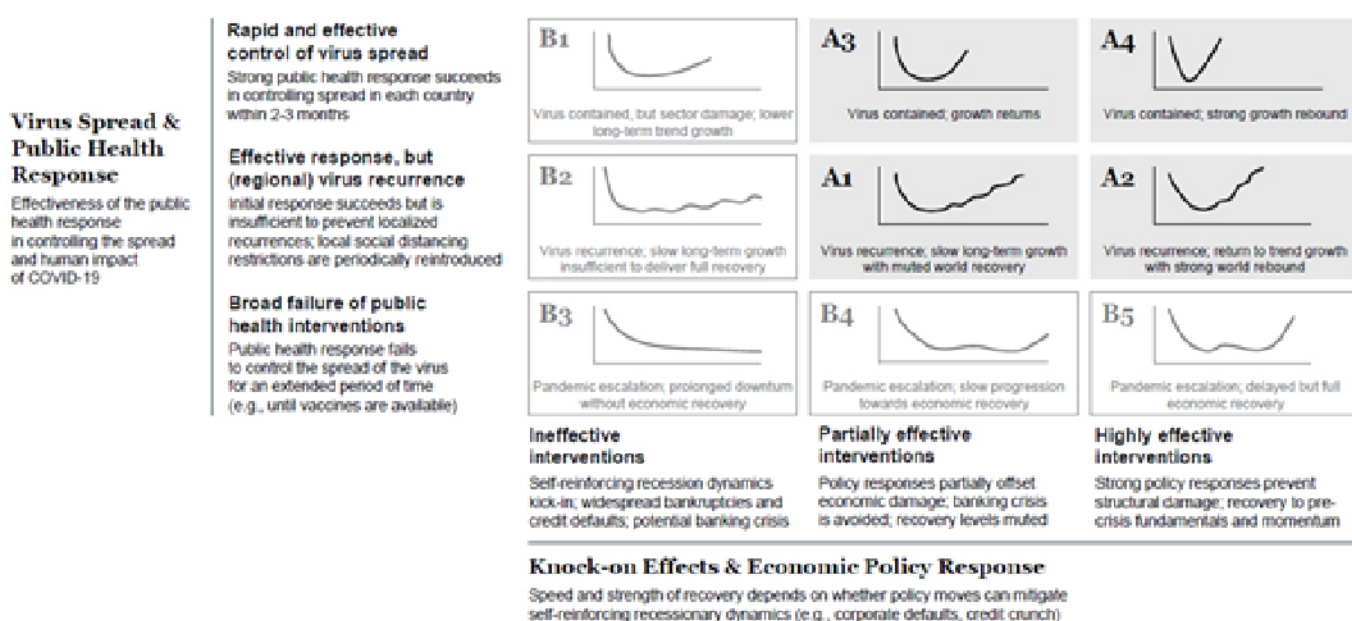
### COVID-19 Economic Implications

Experts from McKinsey & Company shared their insights on the economic implications of COVID-19 through multiple scenarios, with each scenario reflecting the different levels of effectiveness of public health responses and economic policy responses. The McKinsey team assessed GDP growth through 9 main scenarios, as shown in the matrix below. While this matrix is not specific to Thailand, it does provide analyses to help audiences better understand and visualize the sensitivity under different scenarios.

Current as of April 24, 2020

### Scenarios for the Economic Impact of the COVID-19 Crisis

GDP Impact of COVID-19 Spread, Public Health Response, and Economic Policies



McKinsey & Company 7

In scenario A3, we can see that economic policy responses were partially effective, while control of the virus was rapid and effective, with the virus contained within 2-3 months. This results in GDP growth of -2% to -3%, with economic recovery expected in late 2020 or early 2021. On the other hand, in scenario A1, economic policy



responses were partially effective, but virus recurrence occurred. This results in GDP growth of -8% to -10%, with economic recovery taking 2-3 years and the severity of the economic downturn worse than during the Asian Financial Crisis.

We can see that economies show very high sensitivity to the effectiveness of virus control. Each nation's own socioeconomic context also affects sensitivity. For example, China's recovery might have been more rapid than other nations due to high domestic consumption. Thailand's recovery might be slower in comparison due to the nation's reliance on tourism and the service industry, and high spending on luxury goods by Thai consumers.

### The Role of Board Members and Leaders

McKinsey developed the 5R framework and shared it with board members to use in handling the crisis:

- ▶ **Resolve** – Address immediate COVID-19 challenges for the institution's workforce, customers and business partners.
- ▶ **Resilience** – Address cash management challenges to stay solvent.
- ▶ **Return** – Create a detailed plan on how, when, and in what form companies can return to business.
- ▶ **Reimagination** – Prepare for the future by considering how to reinvent operating models, technologies and supply chains.
- ▶ **Reform** – Be clear about how the regulatory and competitive environment in your industry may change.

### How the 'New Normal' Will Affect Consumers

Many organizations are currently looking at reimagination for their business. McKinsey views that, to reimagine, businesses have to understand the different dimensions of the new normal, with the firm identifying eight main pillars for the New Normal, divided into three levels:

Policy level: Social contracts, healthcare, government & regulations

Industry and organization level: Technology / innovation, energy / environment, supply chain

Individual level: Consumer / shopper, work from home

Findings from McKinsey's food retail survey, conducted with consumers across key markets in Asia, show interesting trends before and after COVID-19, especially in consumer spending. There were four significant shifts in consumer spending during the past 2-3 months, with China showing the clearest changes.

#### 1. Hanging the Channel

- Actual spending figures of consumers in China showed an increase in spending on consumer goods, both before and during COVID-19, at hypermarkets / supermarkets, convenient stores, and drugstores. After the COVID-19 crisis, spending at hypermarkets / supermarkets decreased but spending at convenient stores and drugstores remained the same. However, spending on food, food services, beauty products, specialized retailers, and department stores remained low and did not show signs of recovery, driving business operators to seek new growth opportunities, especially online, to reach customers and alleviate low confidence in the return to normalcy.

- When looking at Thailand, it can be seen that the use of online services has significantly increased, including in remote work via online platforms, communications via social channels, consumption of entertainment content via streaming services, and online shopping (which has grown 2-4 times). At the same time, use of offline channels dropped 50-60%. In light of this, consumer goods companies should consider how to capture a share of the growing digital channel market.



## 2.Shift to Value

The COVID-19 crisis has contributed to reduced income. McKinsey's food retail survey was conducted on the pandemic's impact on spending behavior among target groups in several Asian countries. It was found that people surveyed in Thailand have the highest level of concern over income, and are likely to reduce unnecessary spend due to low confidence in the recovery of the economy. People surveyed in China have lower concern over income than in Thailand, but do show a higher trend of reducing unnecessary spend. Generally, the purchasing power of consumers has decreased and they are more likely to seek goods that have value for money.

## 3.Healthy, Safe, and Local

The survey also revealed that hygiene and cleanliness have been ranked as the top factors for consumers seeking products and services. In the past, these factors have never reached the top-3 highest rankings. The change reflects shifting consumer demands – business operators should consider how to adapt their businesses to create customer confidence in safety and hygiene.

## 4.Shock to Loyalty

Various brands are launching a greater number of new product alternatives for customers. Online competition has increased, with a variety of marketing promotions now available, providing consumers with more options and easier access. This trend presents both opportunities, for businesses that can capture market share, as well as challenges, for businesses that are unable to adapt their operations to keep up with shifting consumer behaviors.

## Lessons Learned from China

China is currently moving towards its recovery phase, confidence is returning, and schools are reopening, albeit with social distancing safeguards still in place. China has been collecting daily statistics from multiple sectors to assess public behavior, with data showing that traffic congestion and air pollution are returning to pre-COVID-19 values – indicating that people's lives are returning to normal. However, travel between cities remains low, with only 33% of travel resuming so far. Movie theatres have yet to recover as the Chinese government is still prohibiting the reopening of these establishments.

Major driving forces for economic recovery in China is the high confidence of Chinese consumers and the extensive digitization of businesses. China has several advantages also in infrastructure and transportation/ logistics systems.

### **The COVID-19 crisis has led to the following macro trends being observed in China:**

#### 1.Digitization

China has been quick to adapt in the digital space, with consumers familiar with and able to embrace the digital economy well. The COVID-19 crisis has only become an accelerant for expansion of China's digital economy on a nationwide scale, such as through the use of telemedicine in the healthcare industry or the use of virtual vehicle showrooms by the automotive industry.

#### 2.Declining Global Exposure

Over the past 15 years, global exposure to China in trade has increased while China's own relative exposure to the world has decreased, with over 60% of China's GDP growth being driven by domestic consumption. When viewing this from the corporate lens, risk management has become an imperative, especially during the pandemic and in light of trade tensions between China and the US over the past 2-3 years.

McKinsey conducted a survey of American companies in China via the American Chamber of Commerce in China and found that several have adjusted their supply chain and source to minimize risk. Moreover, 70% of surveyed companies consider Southeast Asia to be a good alternate region for trade investment.



### 3. Rising Competitive Intensity

McKinsey conducted a survey of American companies in China via the American Chamber of Commerce in China and found that several have adjusted their supply chain and source to minimize risk. Moreover, 70% of surveyed companies consider Southeast Asia to be a good alternate region for trade investment.

### 4. Consumer Comes of Age

Consumers, especially Gen Z, are becoming more prudent, focused on saving money, and less likely to borrow due to concerns over employment opportunities for themselves and their families.

### 5. Private and Social Sector Step Up

Many might view that China is a socialist state, but in reality the private sector plays a key role in driving the nation's economy. 80-90% of employment, exports, and investments in fixed assets come from the private sector. The sector has also played a clear role in supporting the Chinese economy and society during COVID-19 (e.g. Alipay developing a personal QR code ID application, the private sector driving the development of China's IT industry).

**At the corporate level in China, 10 micro trends related to business recovery have been observed. This summary will cover some of the highlights below:**

#### 1. Health & Safety

Every nation in the world is encouraging social distancing. In practice, most nations are conducting individual distancing. China, on the other hand, is conducting community distancing. For example, factories that have reopened in Shenzhen and Wuhan are implementing widespread COVID-19 screening to ensure that everyone living in the factory community remain safe and healthy.

#### 2. Redeploy Staff

Staff redeployment can be implemented in two ways. The first approach is redeployment of staff within an organization to carry out necessary tasks and ensure the company's survival. For example, one cosmetics retailer in China redeployed staff that had never been involved in online duties before to become online makeup experts, to create engagement with customers. Another example is an automotive company's management promoting their products via live streaming, to create confidence among customers. The second approach involves cross-sector partnerships, with industries that have a workforce surplus setting up platforms to loan their employees to industries facing workforce shortages.

#### 3. Turn Downtime to Competitive Advantage

Many companies are turning the crisis into an opportunity by upgrading their assets during the downturn to prepare for the next normal. Examples include hotels investing in robotic service platforms, and airlines organizing e-learning for their staff to gain knowledge in the travel business and relevant laws.

#### 4. Strengthen Public-Private Collaboration

In China, the public and private sectors are collaborating. An example is Alibaba, which has developed an application health code to identify each person who enters a building for viral screening purposes, with the application launched in 200 cities nationwide. Another example is a donation by the insurer Taikang to support the construction of new hospitals in China.

#### 5. Adopt Bold Strategic Move

Many businesses in China have taken the opportunity to make strategic moves during COVID-19. An example is an air transportation company that was not affected by the lockdown continuing its airport transport and direct



sales own logistics team model, resulting in increased sales. There are also M&A opportunities for companies to use in increasing their brand presence regionally. 86% of Chinese executives surveyed said they expect to carry out at least one cross-border deal in the next year. All of these trends will contribute to trade opportunities for Thailand.

## How Organizations and Board Members Can Respond to the New Normal

Responding to a crisis requires looking at the situation in cycles, from Resolve to Reform. At the same time, the capacity of each organization to respond to a crisis differs. Seven actions that board members and organizations should consider when responding to a crisis fall under McKinsey's 5R framework, as follows:

**1. Setting up a Nerve Center:** A Nerve Center can be set up and led by a company's CEO and 1 leader from each of its core functions: cash, operations, supply chain and customers. The Nerve Center should include a dashboard for daily updates and to track economic indicators and other indicators that may affect the company's supply chain. This is especially important for companies facing liquidity crunches.

**2. Cash management:** CFOs should assess their cash portfolio, including on the speed, size, and severity of the crisis's impact and resulting cash management.

**3. Solutions for safer working and the future of HR:** To support business recovery, many companies are considering new solutions, such as contactless technologies, for their offices, business units, warehouses, canteens, etc. At the same time, the future of HR requires rethinking, reforming, and reskilling of workforces to support new ways of working.

**4. Supply chain strategies:** The ways in which supply chain efficiency are measured will change in the future, from measuring cost efficiency to measuring resilience. The pandemic and resulting lockdowns have caused manufacturing and imports to stall. At the policy level, many nations are considering how to adjust their economies to be more self-reliant and focused on domestic consumption.

**5. Connecting with customers:** Greater emphasis is being placed on customer safety, convenience, and confidence.

**6. Cybersecurity:** Work from home requires technology platforms, which can be vulnerable to cybersecurity threats if not sufficiently protected.

**7. Plan ahead team:** These teams oversee strategic actions aimed at seeking new business opportunities and looking ahead at various business scenarios. The new normal that everyone is discussing has been occurring for some time now, including in technology and automation, globalization new consumers, new sectors, physical climate risks, and changes in social contracts. The pandemic is accelerating the new normal.

## Parting Thoughts for Board Members

- Don't declare victory too early. It can always come back. Be prepared.
- People and safety come first.
- Don't let the crisis go by without making a new business and changing fundamentally.
- Set up Plan Ahead Team.
- Better to overreact than to underdo.

