McKinsey & Company

COVID-19: Briefing materials

Global health and crisis response

Updated: March 25, 2020

Current as of March 25, 2020

COVID-19 is, first and foremost, a global humanitarian challenge.

Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly.

This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains, and financial results.

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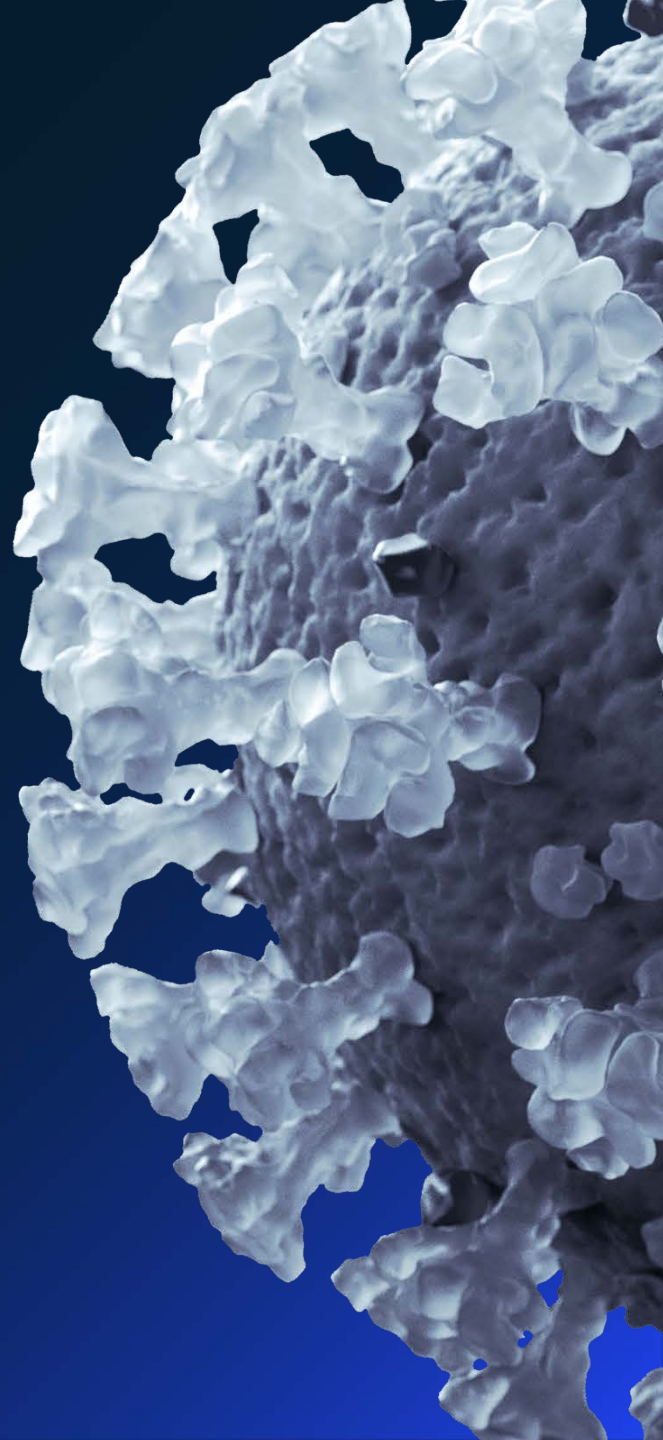


Executive summary

The situation now

At the time of writing, COVID-19 cases have exceeded 380,000 and are increasing quickly around the world, with concerns that a 15% hospitalization rate could drive hospital system overload.

To reduce growth in cases, governments have moved to stricter social distancing, with “shelter in place” orders in many areas in the U.S., Europe, India, and other countries. This has driven rapid demand declines—among the deepest in recent times—that are being met by attempts at bailouts.

Some Asian countries, e.g. China, have kept incremental cases low, and are restarting economies. So far, there is little evidence of a resurgence in infections.

How the situation may evolve

There is a limited window for governments to drive adequate public-health responses and meet demand drawdowns with proportionate economic interventions. Without this, the possibility of a deeper effect on lives and livelihoods is more likely.

Scaled-up testing will soon clarify the extent and distribution of spread in the U.S., and Europe.

Learnings from other countries and recent innovations (strict social distancing rules, drive through testing, off-the-shelf drugs that can address mild cases, telemedicine enabled home care) could provide basis for a restart.

Actions that institutions can take

1

Resolve

Address the immediate challenges that COVID-19 represents to the workforce, customers and partners

2

Resilience

Address near-term cash management challenges, and broader resiliency issues

3

Return

Create a detailed plan to return the business back to scale quickly

4

Reimagination

Re-imagine the “next normal”—what a discon-tinuous shift looks like, and implications for how the institution should reinvent

5

Reform

Be clear about how the environment in your industry (regulations, role of government) could evolve

Establishing a Nerve Center can ensure speed without sacrificing decision quality across these five dimensions.

Contents

The global spread is accelerating with more reports of local transmission

Latest as of March 25, 2020

Impact to date

>380,000
Reported confirmed cases

>16,000
Deaths

194
Countries or territories with reported cases[1]

>115
Countries or territories with evidence of local transmission[2]

>75
Countries or territories with more than 100 reported cases[1]

0.4%
China's share of new reported cases March 18–24

>160%
Increase in reported cases March 18–24 from Europe

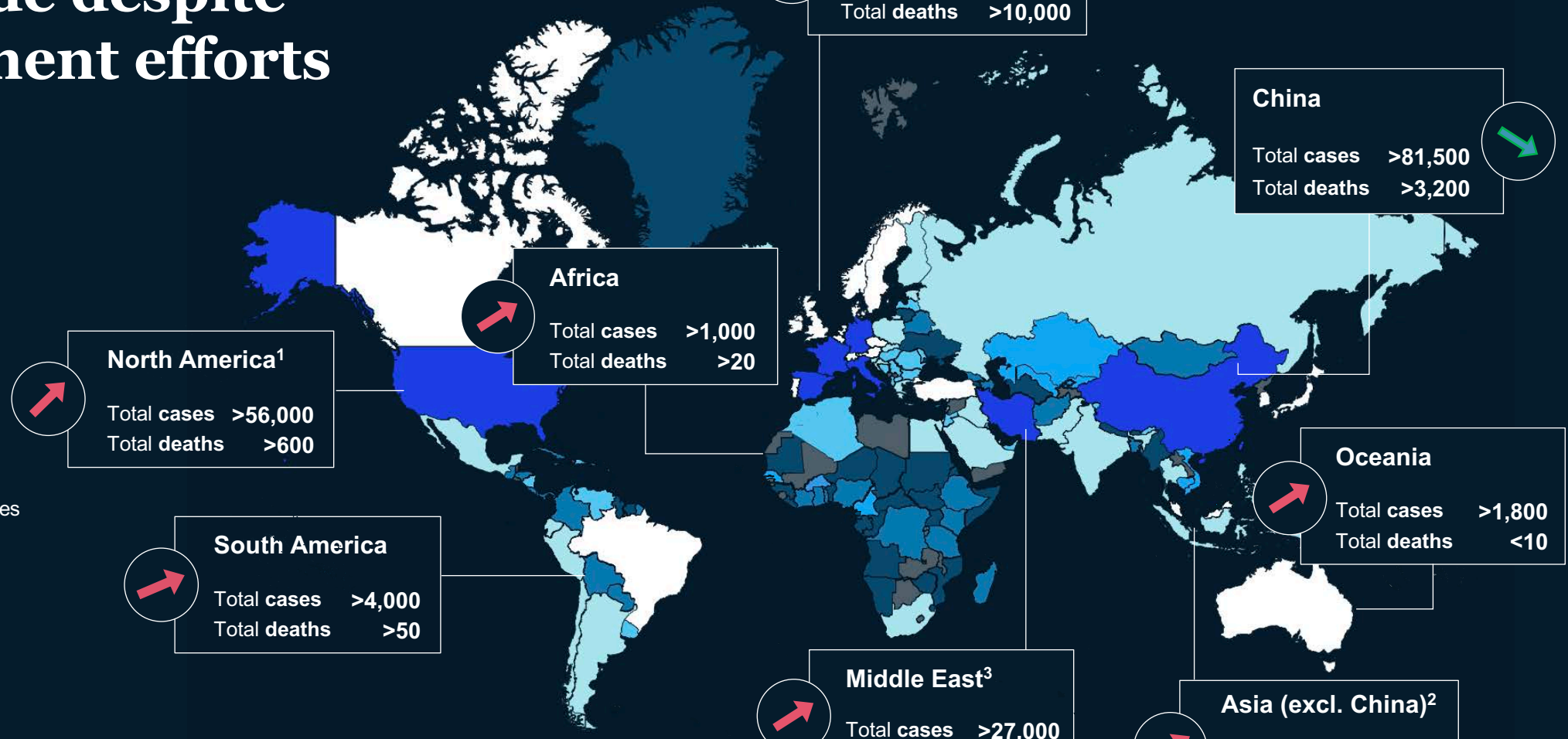
35
New countries or territories with cases March 18–24

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

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

Current as of March 25, 2020

The virus has spread worldwide despite containment efforts



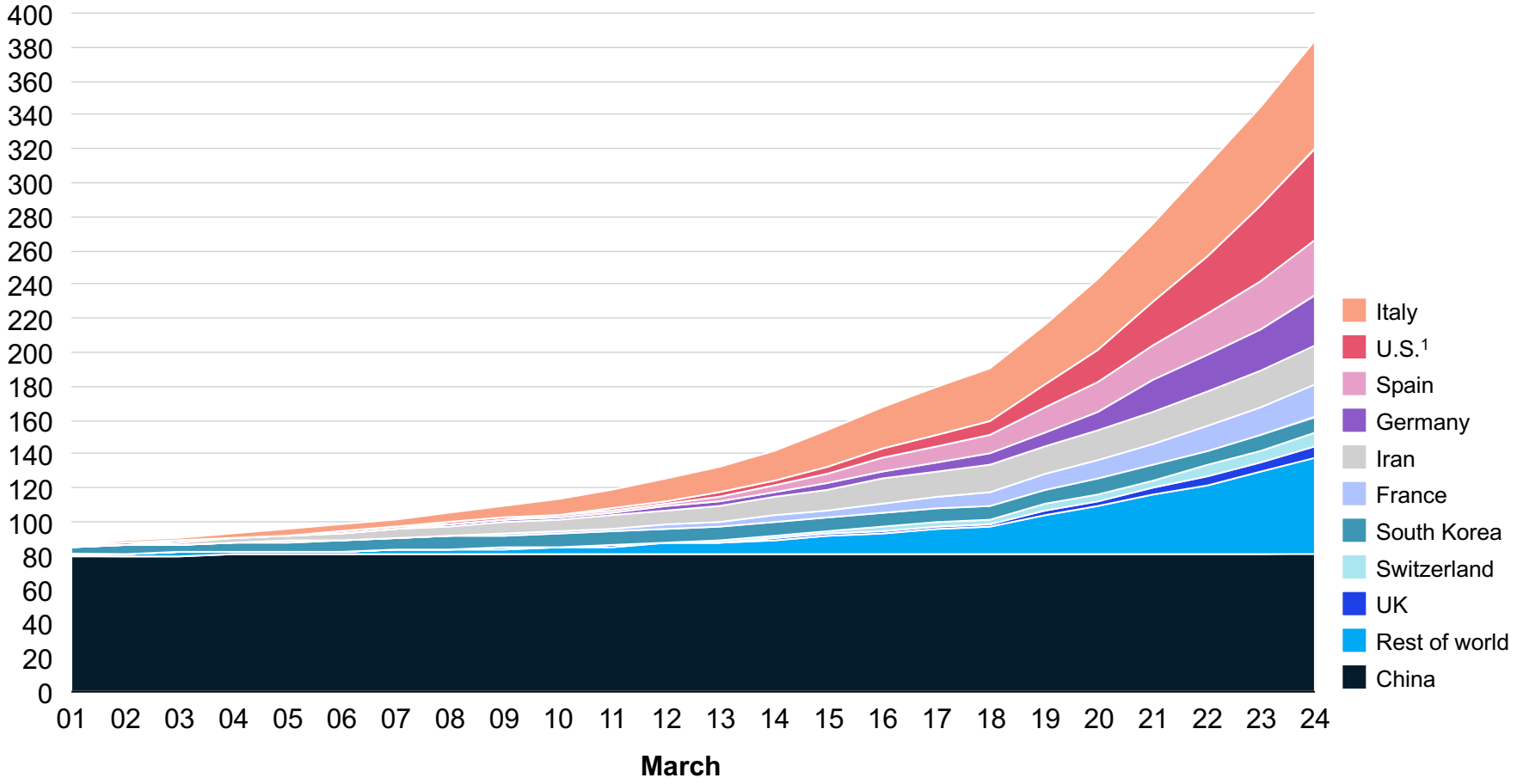
1. Johns Hopkins data used for U.S., all other North America countries reporting from WHO
2. Includes Western Pacific and South–East Asia WHO regions; excludes China; note that South Korea incremental cases are declining, however other countries are increasing
3. Eastern-Mediterranean WHO region

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

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

Cumulative number of cases since March 1 – March 24

Thousands



Asia

Incremental cases for China and South Korea have slowed significantly, with majority of new cases in China categorized as imported versus local transmission.

Europe

In contrast, European transmission has increased significantly this month, led by Italy with nearly 60,000 total cases. Close monitoring of incremental case counts across a number of European countries in the upcoming days will be critical to determining if distancing measures are having effect.

United States

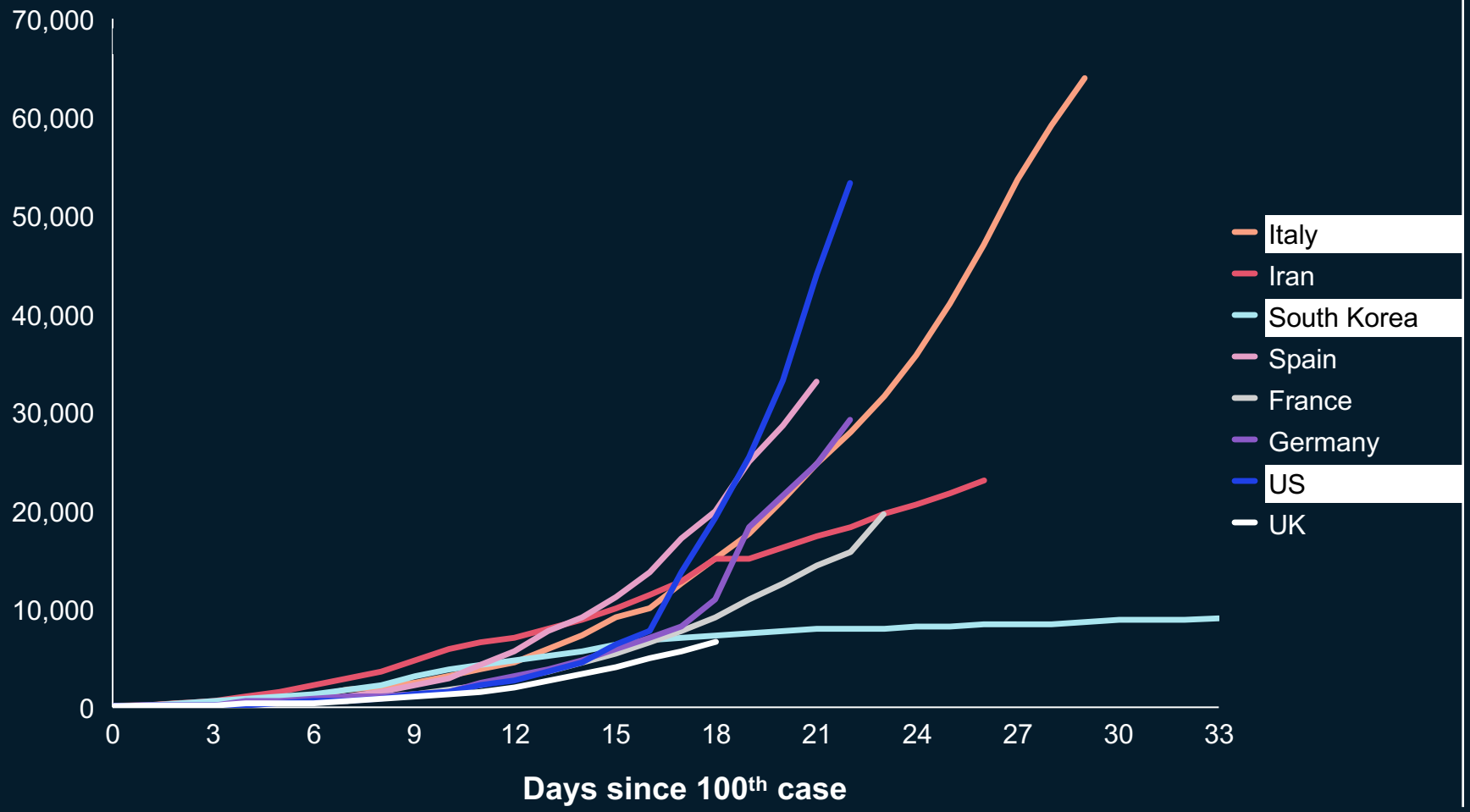
The U.S. has seen total cases increase nearly ~8x in the last week, from ~6,500 on March 17 to ~50,000+ on March 24; the U.S. now has the third largest number of total cases, following China and Italy and is growing at a rate of ~10k cases per day (March 23-March 24).

1. U.S. data from Johns Hopkins University CSSE (March 24 data point from live tracker from 1400PT); all other data from WHO Situation Reports

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

Countries begin with similar trajectories but curves diverge based on range of measures taken

Cumulative number of cases



Select country detail

Italy: In response to the rapid increase in cases, a lockdown (first regional and then nationwide) was implemented and the country has since significantly expanded access to testing.

South Korea: Aggressive testing, contact tracing and surveillance, and mandatory quarantines are helping isolate virus clusters and dramatically slow spread of outbreak in Daegu.

United States: Accelerating transmission and recent scale up in testing have seen dramatic rise in cases at a rate higher than that of Italy; social distancing measures are being rolled out primarily at the state and local level.

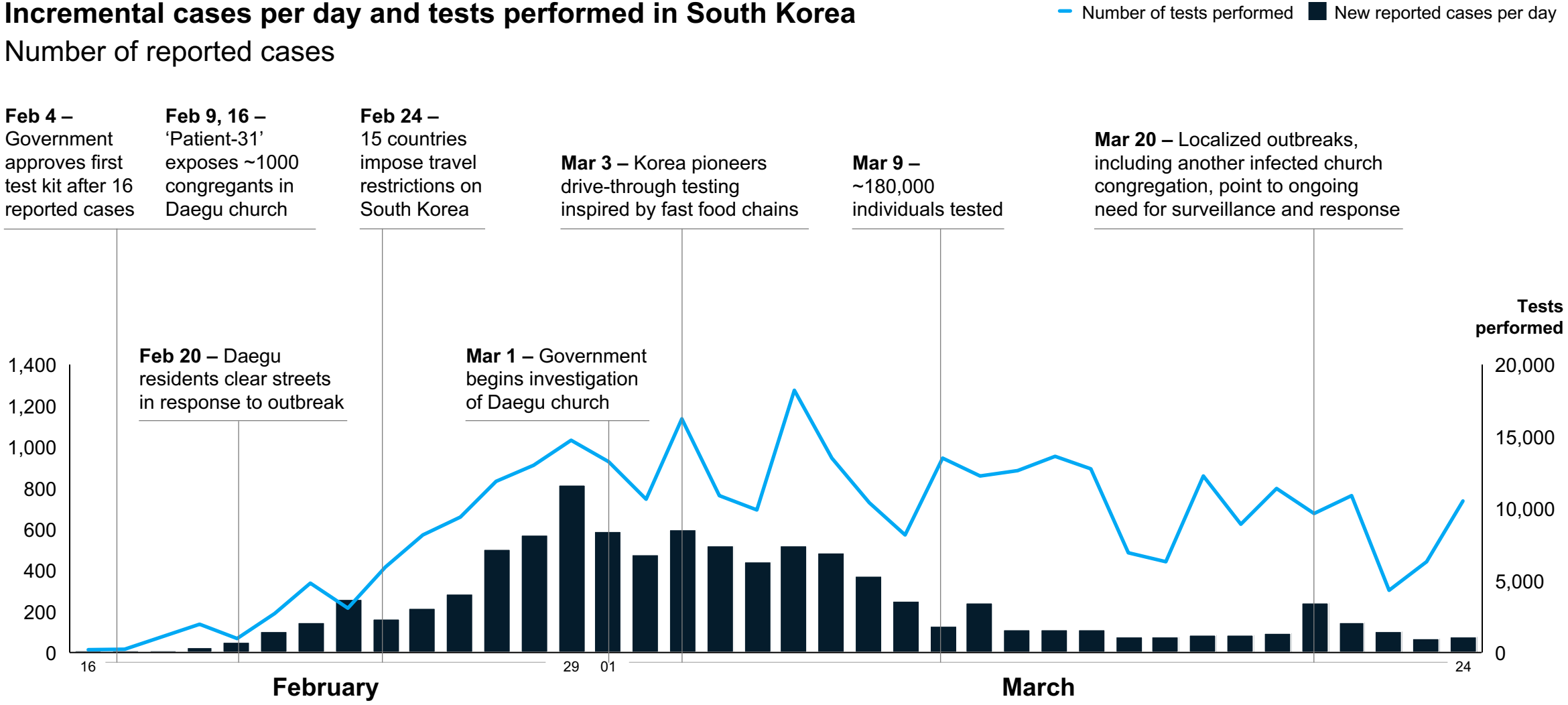
1. U.S. data from Johns Hopkins University CSSE (March 24 data point from live tracker from 1400PT); all other data from WHO Situation Reports

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

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

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

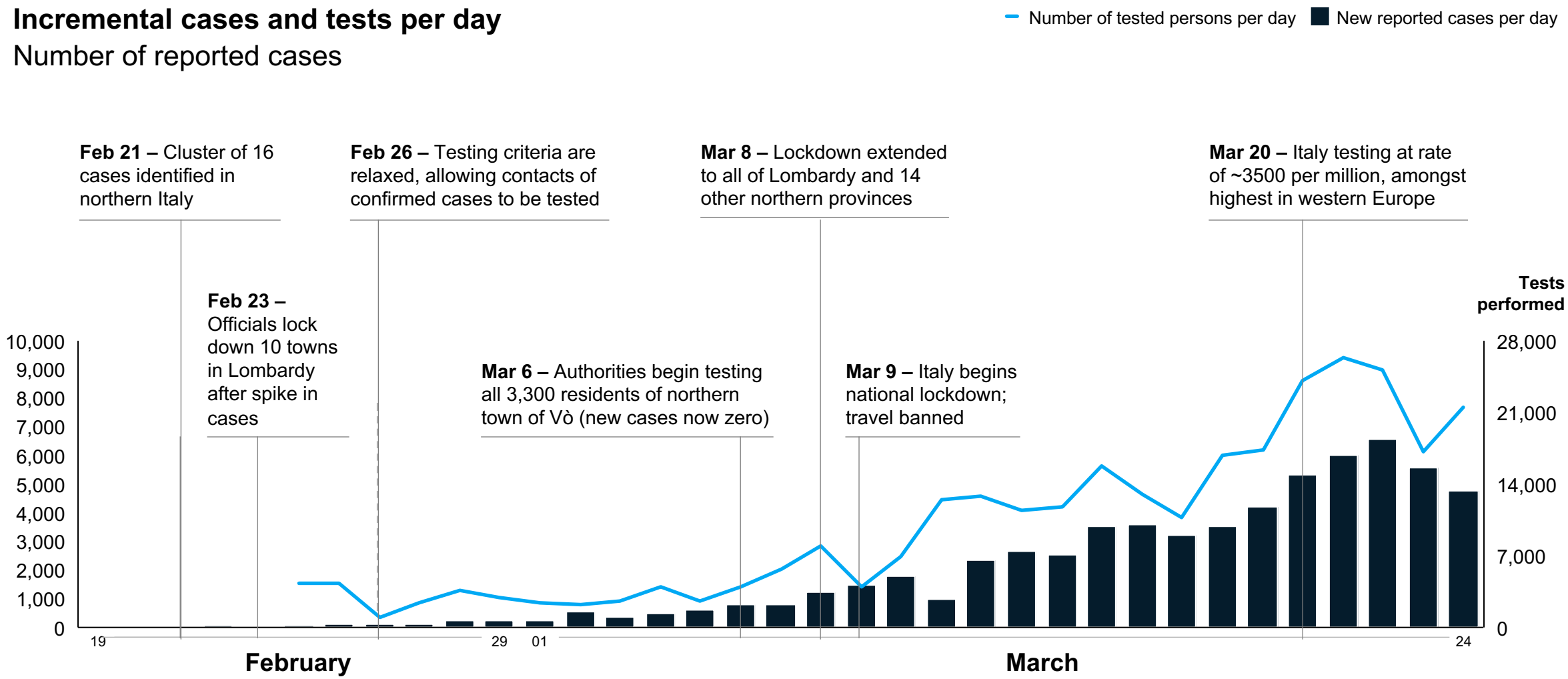
Number of reported cases per day

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

Italy: There are early signs that the number of cases are plateauing

Incremental cases and tests per day
Number of reported cases



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

Current as of March 25, 2020

Western countries are largely instituting the "Early China model," focused on immediate containment while ramping up testing

Most appropriate for high-burden settings

Most appropriate for low-to-medium burden settings

Characteristic actions

Contain and restrict movement

"Early China model"

Border closures and city-level lockdowns, quarantines

"Shelter-in-place" restrictions on individual movement

Mandatory closures of businesses

Test, track, and isolate

"South Korea model"

Aggressive testing of suspected cases, clusters (5000+ tests per million population)

Contact tracing and isolation via surveillance

Quarantine enforced by government monitoring

5,000 → 10,000

	U.S.	France	Spain	UK	Italy	Norway
Testing XX = tests per million people[1]	~310	~560	~640	~960	~3,500	~8,000
Countries' responses	State and city-level closures; testing lagging other countries	National lockdown with strict police enforcement; has performed targeted vs. widespread testing	National lockdown limiting non-essential movements; reported logistical issues limiting testing capabilities	Early strategy focused on scaling testing vs. lockdowns, though officials began enforcing lockdown March 20	Imposed strict regional and national lockdowns early; testing per capita is ~4x most peer EU countries with some regions testing nearly full population	Quickly scaled testing, e.g. drive-through testing available 7 days after first confirmed case; instituted punishment for quarantine violations

1.Based on University of Oxford, "Our World in Data- How many tests for COVID-19 are being performed around the world?", accessed March 20, 2020. U.S., Italy and Norway figures from March 20, Spain from March 18, UK from March 17, France from March 15.

Sources: University of Oxford, Sante Publique France, Istituto Superiore di Sanità (ISS), UK Department of Health and Social Care, Ministerio de Sanidad, Consumo y Bienestar Social, U.S. CDC, press search

Contents

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

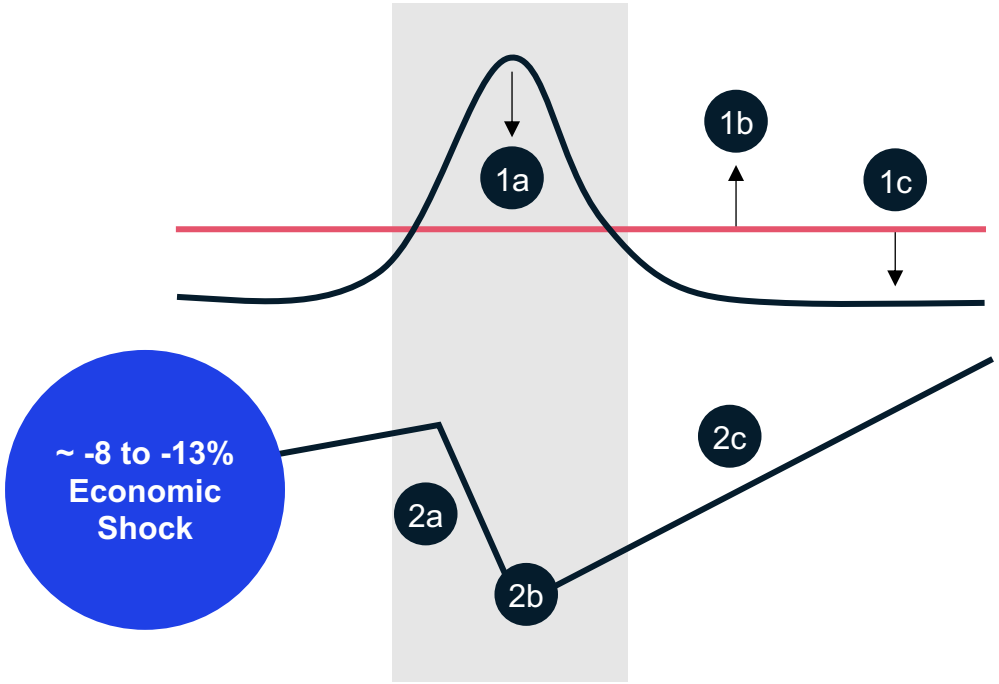
Safeguard our livelihoods

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** away from a -8 to -13% trough

"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

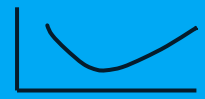
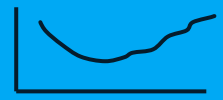
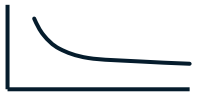
Strong public health response succeeds in controlling spread in each country within 2-3 months

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 	**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

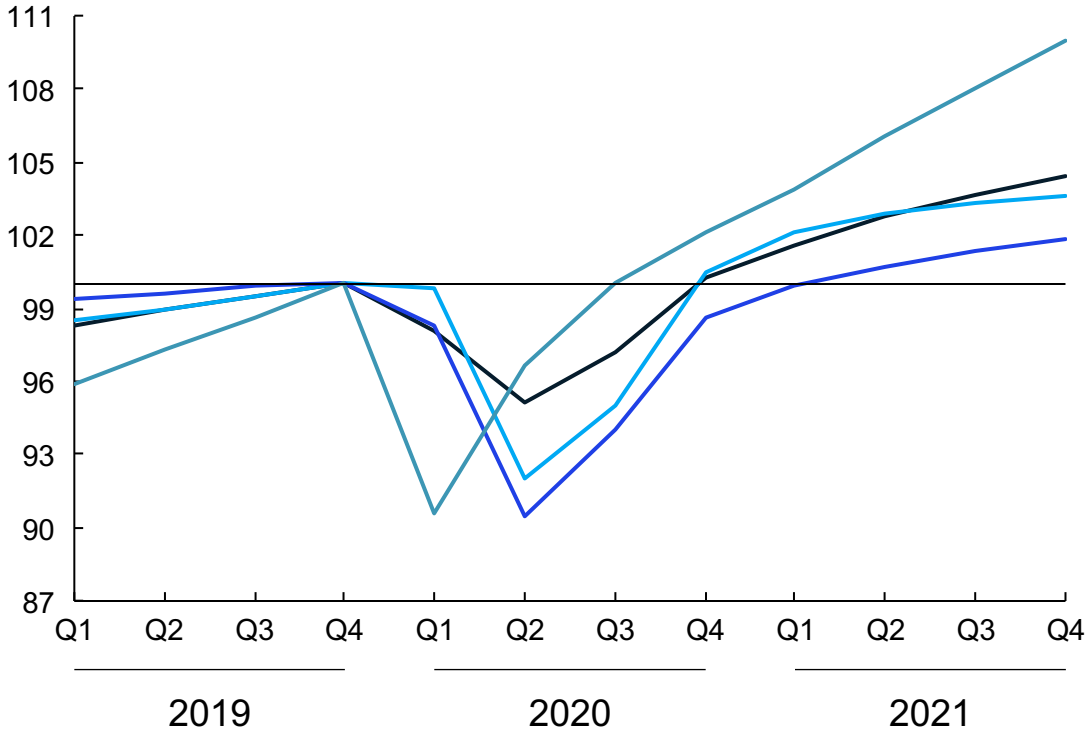
Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

Source: "Safeguarding our lives and our livelihoods: The imperative of our time," Sven Smit, Martin Hirt, Kevin Buehler, Susan Lund, Ezra Greenberg, and Arvind Govindarajan

Scenario A3 Virus contained

Real GDP, Local Currency Indexed

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	-3.3%	-0.4%	Q4 – 2020
USA	-8.0%	-2.4%	Q3 – 2020
World	-4.9%	-1.5%	Q2 – 2020
Eurozone	-9.5%	-4.4%	Q1 – 2021

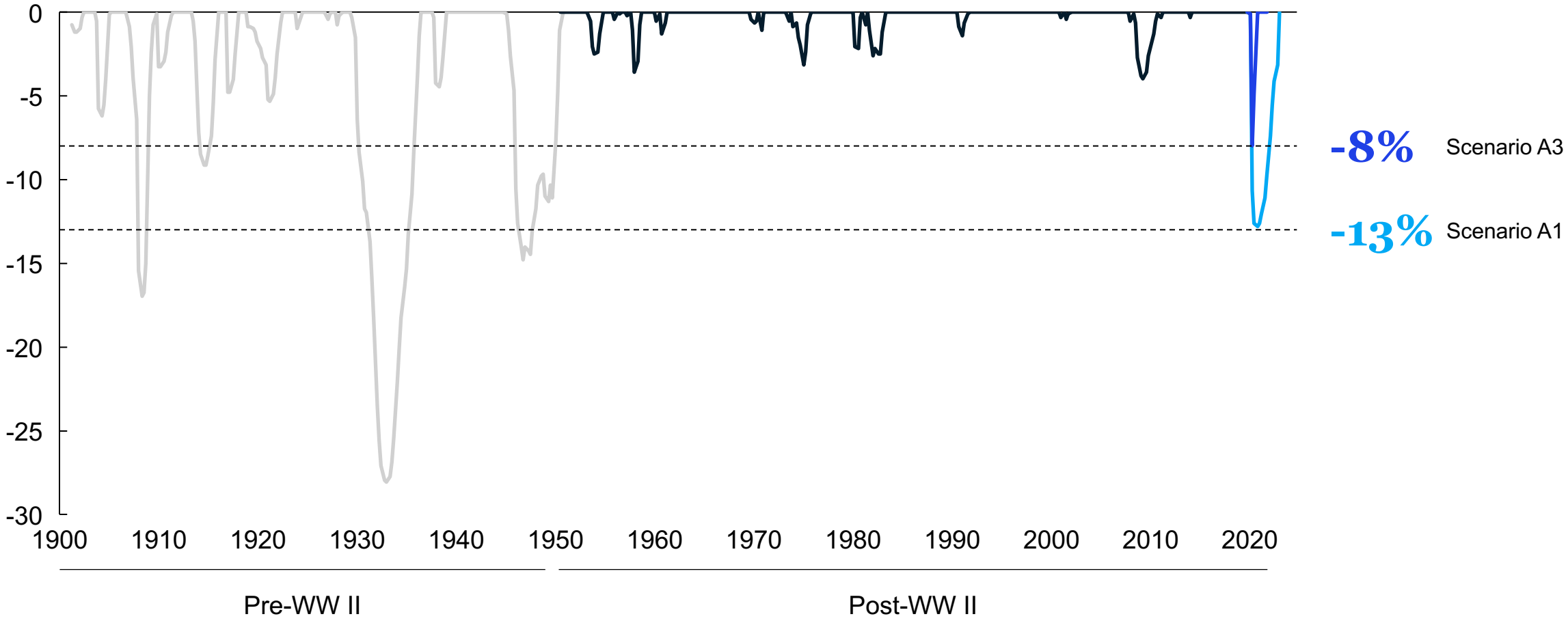
1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

COVID-19 U.S. impact could exceed anything since the end of WWII

United States Real GDP

%, total draw-down from previous peak

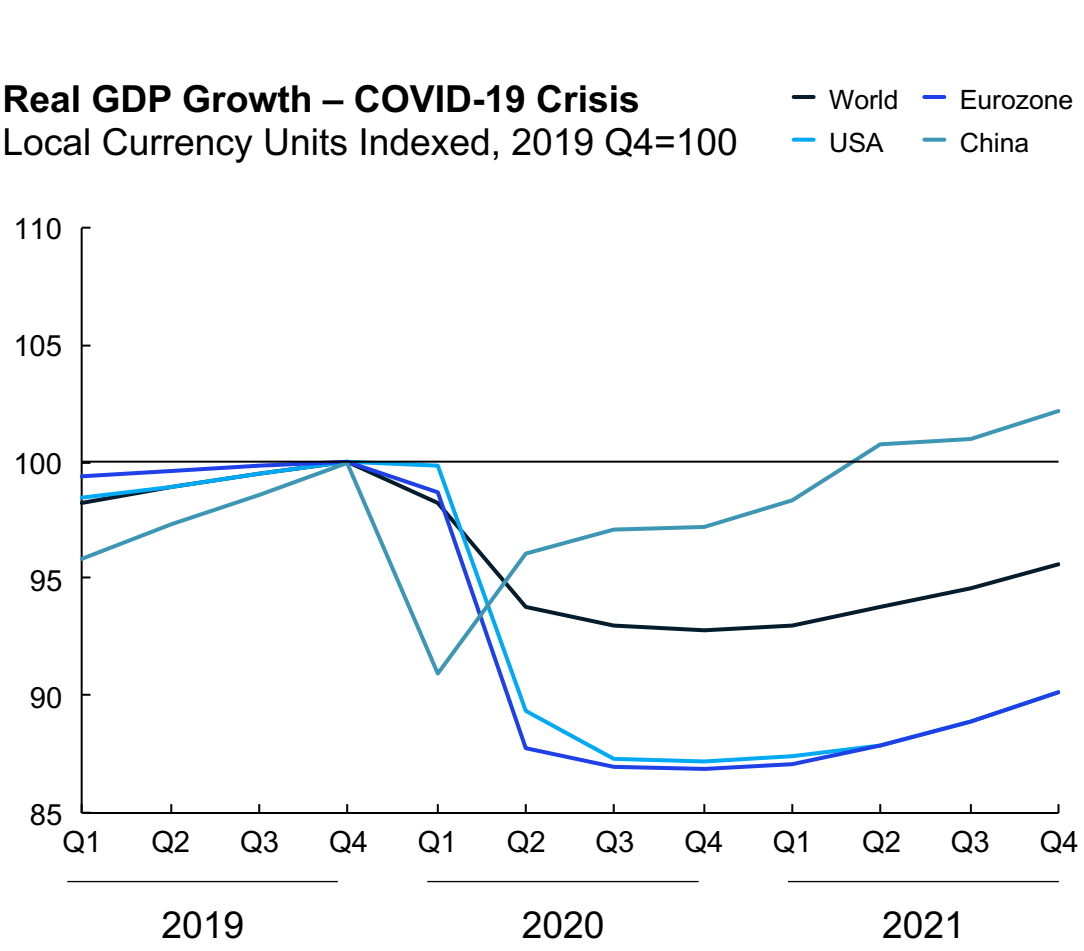


Source: Historical Statistics of the United States Vol 3, Bureau of economic analysis; McKinsey team analysis, in partnership with Oxford Economics

Scenario A1 Muted Recovery

Real GDP, Local Currency Indexed

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	-3.9%	-2.7%	Q2 – 2021
USA	-3.9%	-2.7%	Q1 – 2023
World	-6.2%	-4.7%	Q3 – 2022
Eurozone	-12.2%	-9.7%	Q3 – 2023

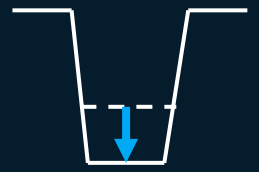
1. Seasonally adjusted by Oxford Economics

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



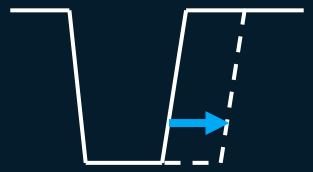
How deep are the demand reductions?

Indicators to monitor

- 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

- **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



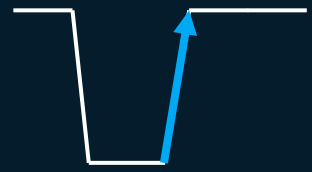
How long could the disruption last?

Indicators to monitor

- 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

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

Shape of recovery



What shape could recovery take?

Indicators to monitor

- 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)

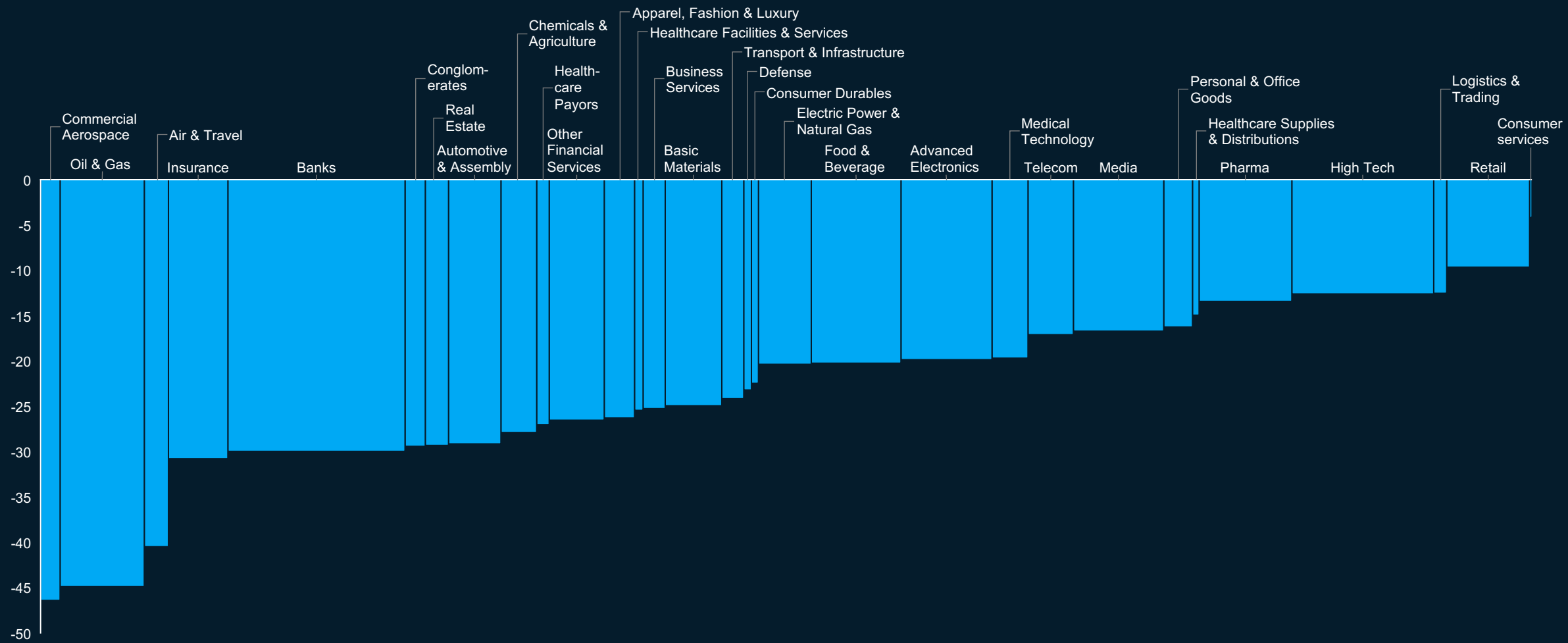
- **Bounce-back in economic activity in countries that were exposed early in pandemic**
- **Early private and public sector actions during the pandemic to ensure economic restart**

- Epidemiological indicator
- **Economic indicator**

Contents

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 $

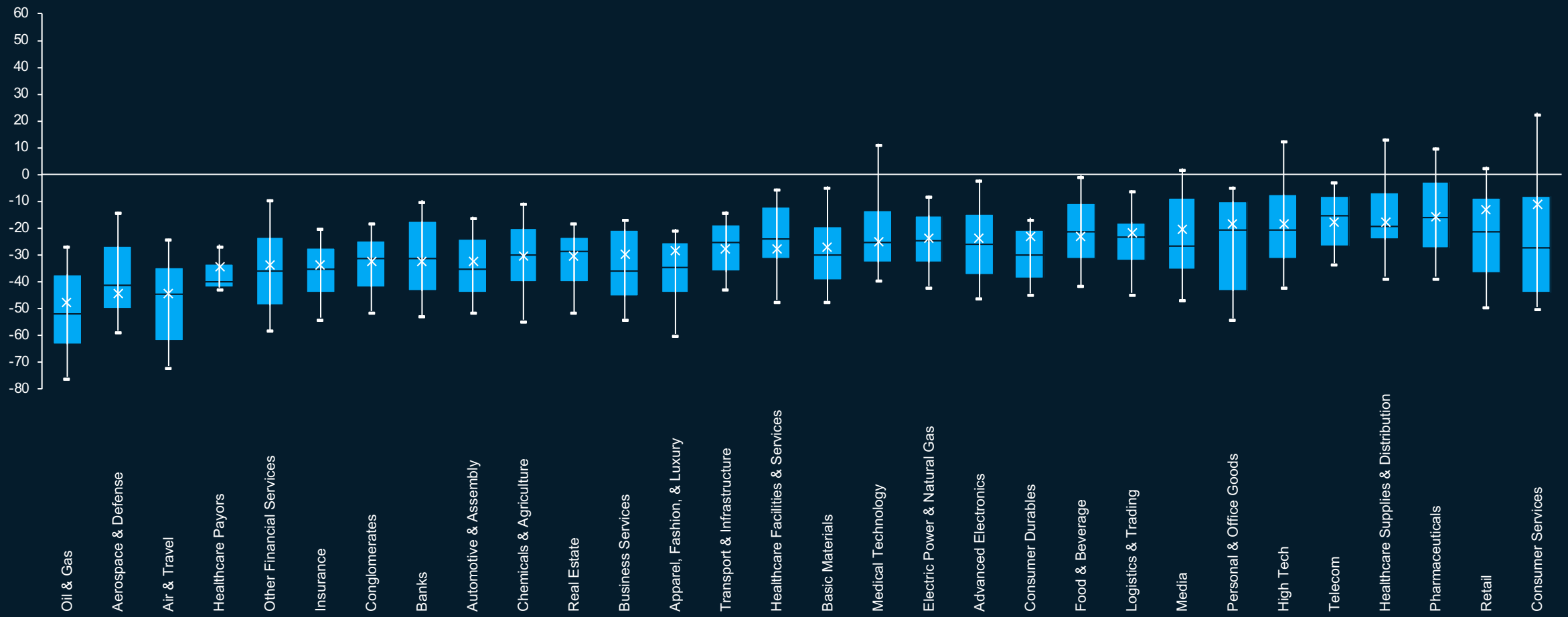


1. Data set includes global top 3000 companies by market cap in 2019, excluding some subsidiaries, holding companies, companies with very small free float and companies that have delisted since

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

The hardest hit sectors may not see restart until 2021

Preliminary views on some of hardest hit sectors based on partially effective scenario - subject to change

	Commercial Aerospace	Air & Travel	Insurance carriers	Oil and gas	Automotive	Apparel/fashion/ luxury
Estimated degree of impact, in terms of duration	Longest					
Estimated global restart	**Q3 / Q4 2021**	**Q1 / Q2 2021**	**Q4 2020**	**Q3 2020**	**Q3 2020**	**Late Q2 / Q3 2020**
Avg. chang in stock price	**-44%**	**-44%**	**-33%**	**-48%**	**-32%**	**-28%**
Industry specific examples	Preexisting industry challenges, a quick drop in possible revenue, and high fixed costs cause **near-term cash flow 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. Long order backlogs mitigate some concerns, though rapid adoption of remote work technologies may put a dent in high-profitability business travel.	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)	**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	**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 Chinese demand**, continued supply chain and production disruption (in China, rest of Asia, EU) to amplify impact despite ongoing Chinese economic restart Headwinds to persist into Q3 given **tight inventories** (<6 weeks), **supply chain complexity** (therefore, minimal ability to shift)	**Overall decline** in private consumption and exports of services. **Demand** for apparel categories **down sharply overall** and expected to take longer to return than economic restart**; online** growth exists (though hampered by labor shortage) Retail **stores temporarily closed** in many parts of the world – high regional variation

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.

1

Resolve

Address the immediate social and mental challenges that COVID-19 represents to the institution’s workforce, customers, and business partners, and take basic steps to protect liquidity.

Resolve: Making hard decisions on immediate challenges

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

	Employees	Supply chain	Customers	Immediate liquidity	Technology
Emerging concerns	Current mix of work-from-home and at-work social distancing & worker safety concerns combined with economic anxiety is driving stress and reducing productivity	Supply chain shifting from initial concern about China restart, to, continuing logistics issues, and concern about macro-environment impact on demand planning	Extreme demand reduction raising need to assuage customer concerns and put in place strict protections	Revenue drops raising need to manage immediate liquidity	Need to sustain operations and enable remote working
Example, new ideas that leading organizations are experimenting with	**New team structures that work remotely**: smaller, cross functional network-of-teams vs. rigid top-down organization **New rules for leading remotely**: clearly defined outcomes, multi-channel team communication; clear milestones or decision points; transparency **Investing in the right collaboration processes:** active use of joint whiteboarding, polling, doc sharing, channel based communications **Leveraging technology team to empower remote work capability:** online articles, collaboration tools, training on appropriate channels **Caring culture:** acceptance of WFH realities such as "always on" professionalism; informal socializing (virtual "water cooler" chats); authenticity **Tighter routines for productivity:** commit to norms, have team launches, clarify most critical meetings, set aside personal time & routine **Enact "pods" for on-site personnel** and leadership to minimize employee exposure while on site **Agree on adaptations required for collective bargaining** units (e.g., unions) and contractors **Increase personal protective equipment** where employees come in close contact with surfaces that can spread the virus	**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 **Leverage direct communication channels** with direct customer when determining demand signals **Use market insights/external databases** to estimate demand for customer's customers **Identify critical functions and roles** and develop back-up plans	**Build a plan to prioritize & protect valuable customers:** • Understand what matters to them—and how their situation will evolve • Focus on cultivating the most important segments (e.g., highest margin, continuous customers, community needs, contractual obligations) **Build customer trust through transparency:** • Don't pursue "revenue at any cost"—judiciously choose where to invest, based on analysis and planning • Establish a rhythm of updates & engagement, offering more frequent update, targeted content, and/or individual outreach	**Understand current available cash** and project change over extended shutdown Identify and **execute immediate, low-risk levers to improve cash position** (e.g., capital projects, voluntary spend, inventory working capital) Stand up teams to **run rolling 13-week cash forecasts**, plan further action (e.g., monetize balance sheet), and control spend	**Strengthen the service desk** to prepare for higher call frequency (e.g., home work setup, remote access, VPN) **Design working model** (people and processes) to "keep the lights on" in critical IT functions (particularly incident coordination)

Employee work from home deep dive (1/2)

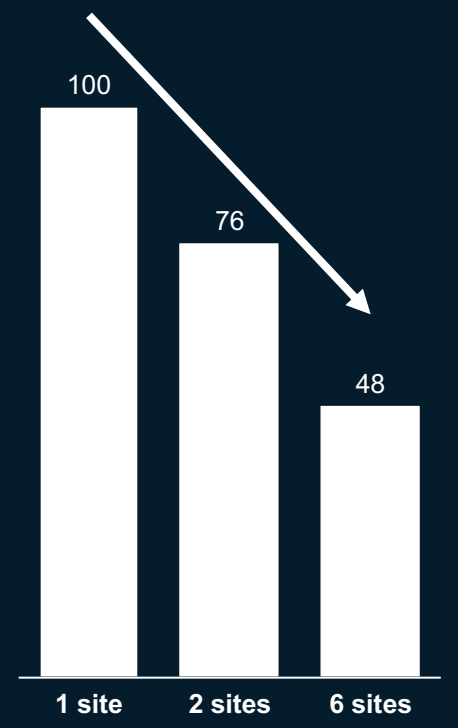
Key challenge of remote teams (if left unmitigated) is reduced efficiency and cohesion

Key sources of inefficiency and reduced cohesion

Structure	Any **lack of clarity** in roles and responsibilities, decision rights or objectives is **amplified** in a remote environment Difficult of **navigating large or hierarchical organizational** structures
People	**Sense of lack of direction** / isolation can degrade morale and performance **Misunderstandings** or lack of clarity on priorities leading to **wasted work** **Isolation** and lack of social interaction leading to **lower employee motivation** and **less cohesion** as a team
Process	**Lower communications efficiency** due to missing in-person touch, time it takes to write vs talk, finding time together, or bad connectivity **Difficulty in self-organizing** to address real-time challenges Risk to overlook **dependencies** and create **island solutions**
Technology	**Outdated architecture**, slow VPN access **Missing tooling** (e.g. for VC, co-creation, DevOps) exacerbate collaboration challenges **Impractical security** inhibits remote work, leads to team members adopting insecure workarounds

Productivity decay with # of sites

Complexity units per man-week, indexed



Sources: Press searches; Web pages; Interviews; McKinsey Numetrics; Team analysis

Employee work from home deep dive (2/2)

Approach to building effective teams in a distributed, online environment

Structure

Nature of work (e.g. real-time collaborative, vs. standardized individual; type of data accessed) influencing **work-from-home arrangements** and **structure**

Smaller, cross-functional teams with clear **roles and responsibilities** as well as synchronization mechanisms

A mixture of OKRs and KPIs used to communicate goals to the team and track progress against deliverables

People

Leadership's increased role in providing **direction, energizing teams & connecting** the dots

Focus on **cultural elements** at individual and group level that drive performance in remote work (e.g. proactiveness)

Investment into **soft aspects** to form a **cohesive group identity** despite social remoteness (e.g. through role-modeling, 1:1s, townhalls, retrospectives)

Processes

Cadence of **meetings** to **synchronize work** and **remove blockers** across teams

Clear **decision** and **escalation paths**, stage/quality-gates, workflows with roles & responsibilities to facilitate handovers

Tailored communication tools catering to different scenarios and accounting for topic complexity, output, reaction time, and team preference

Single digital **source** of **truth** across people (e.g. face book), content (e.g. standards, OKRs), performance (e.g. KPI dashboards) & process (e.g. task management boards)

Result-oriented performance management on all levels: individual, team and tribe enabled by digital dashboards

Technology

Technology setup and **infrastructure** for remote work (e.g. home office setup, VPN bandwidth, remote application access)

Adoption of **suite** of **SaaS digital tools** to facilitate effective co-creation, communication and decision making (e.g. VC, file-share, real-time communication, document co-editing, task management, etc.)

Automated **delivery pipelines** and **collaboration tools** to enable a remote product development environment

Strong and **practical security standards** and **practices**

Sources: Press search; interviews; McKinsey Numetrics; team analysis

On-site employee safety – Manufacturing example (1/2)

Manufacturing workforce safety can be increased by creating operating pods, but design considerations apply

Design considerations to building a pod	General guidance on how to apply levers	Example actions
Who to group into pods	Define the minimum size group to achieve desired production levels and minimize contact between employees and product	Remove any floating workers from potential pods Group pods vertically along production line and break inter line (workers working on multiple lines) and beginning/end of line transfer points (line employee picks up raw materials instead of a rover dropping off material)
What job is done	Reclassify jobs/roles to improve ability to form pods and decrease inter-pod contact	Reclassify jobs (can be temporary) vertically along production line so one worker does multiple jobs on same production line versus horizontally across multiple lines (line may need to slow) Remove or adjust unnecessary line contact (quality checks done by line employees versus central quality)
How the pod works together	Add additional safeguards within the pod to further limit exposure	Ensure job tasks within pod protect the pod from itself, including additional PPE and separation throughout the shift (tasks can be adjusted to ensure 6 ft. separation) Institute increased sanitation of pod and workplace (hand washing, deep cleaning after shift, etc…) Stagger break and lunch times/locations
When the pod performs work	Change shift time and structure to limit exposure	Adjust start/end times to avoid inter-pod contact for pods working at same time, if site has only day shifts for multiple lines – consider going to 24 hrs operation to limit lines on site at a time Adjust weekly schedule including going to 12-hr shifts and 2 week on/off to minimize the number of people on site over a day/week
Where the pod performs work	Move the location of work to create social separation between pods	Modify non-work arrangements to minimize exposure including where pod is housed and how they get to work (critical operations such as power plants and refineries are considering housing employees on site) Restrict access between pods, ideally with social barriers (card access, temporary walls) Move production lines to ensure adequate separation and consider temporary options (tents) Close public spaces (cafeterias, gyms) and find alternate locations for workers to eat and move around
Plan for pod event	Develop response scenarios for likely events such as a pod test positive	Practice and train on likely scenarios (immediate and long-term response) Define production flexibility and back-up options if line goes down Define backup pod staffing (refresh skills matrix to see who could cover, consider keeping a backup pod available in case of event)

Note: Certain actions must be implemented together to ensure mitigation of risk

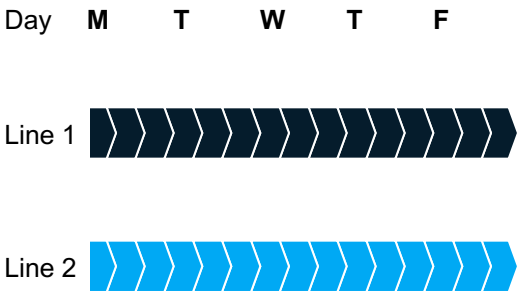
On-site employee safety – Manufacturing example (2/2)

Changing shift patterns is an option to limit exposure

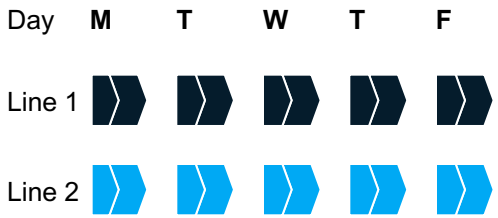
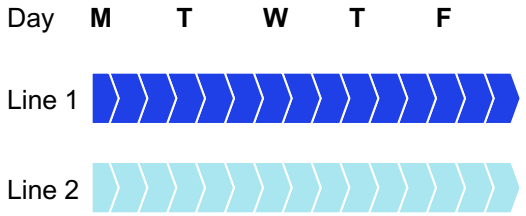
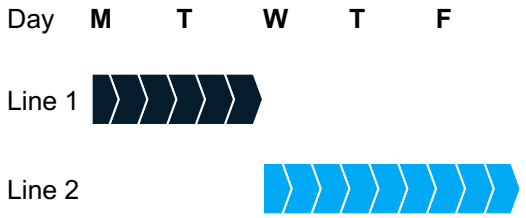
Current situation – 3 shifts

24 hours x 5 days model

Operators dedicated to either Line 1 or Line 2



Production “lines” are used for illustrative purposes but the reasoning can be extrapolated to manufacturing sites with the same products, different parts of a site, different steps in a process, etc.

	Description	Pros	Cons
Option 1 – Reduction in shifts 	16h x 5day model 5 ramp ups per week Allows for deep cleaning on 3rd shift	Incremental change, easy to implement Dedicated people to each line Maintenance can be done in 3rd shift Flexible	Daily ramp ups and downs causing inefficiencies Process cycle time must be shorter than 16h if cannot be interrupted
Option 2 – Reduction in pace 	24h x 5day model Production run at lower speed (less FTEs assigned to lines)	Incremental change, easy to implement Dedicated people to each line Flexible One ramp-up and down per week	Depending on process, can result in inefficiencies
Option 3 – Dedication to a line 	24h x 5day model Operators are dedicated to line 1 and then to line 2 – creating time barrier for inter-line contact	Machines productive time/running time ratio is maximized One ramp-up and down per week	Cross training is needed for whole staff, more difficult to implement Needs good demand forecast

Source: Adapting production shifts to low demand in asset-heavy industries

2

Resilience

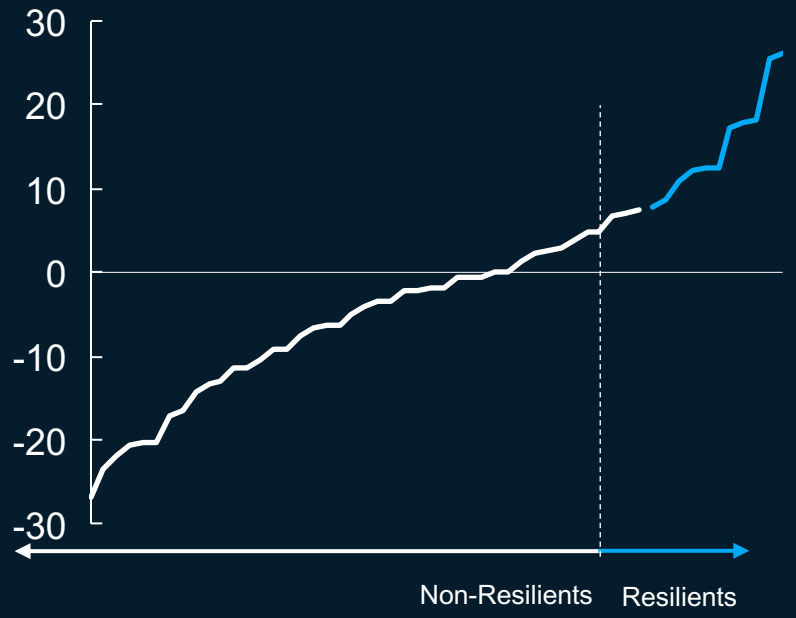
Address near-term cash management challenges, and broader resiliency issues

Speed + Discipline – the key to Resilience

Teams seeking to boost Resilience during COVID-19 need to learn lessons from the companies that survived & thrived in the last recession – the Resilients

Sector-specific power curves show dramatic differences in performance during the recession

Mean TRS for Automotive sector 2007-11



The top 20% of companies that emerged from the recession are called the Resilients

These resilients didn't have any particular starting advantage (e.g., existing portfolio). Instead, they managed to achieve a small lead, which they then extended over the next 10 years

Two words that define their success: Speed & Discipline

Speed+ Discipline – how the Resilients stood apart

Speed	**EBITDA & revenues outperformance**	Resilients companies sustained[1] organic revenue growth early and throughout the recession and on revenue in recovery
Speed	**Early & hard moves**	Resilients moved faster, harder on productivity; preserved growth capacity
Discipline	**M&A activities outperformance**	Resilients divested more during the downturn and acquired more in the recovery
Discipline	**De-leveraging outperformance**	Resilients cleaned-up their balance sheets ahead of the downturn

1 Resilients only lost 1% of organic revenue vs. 2007 level during 2009

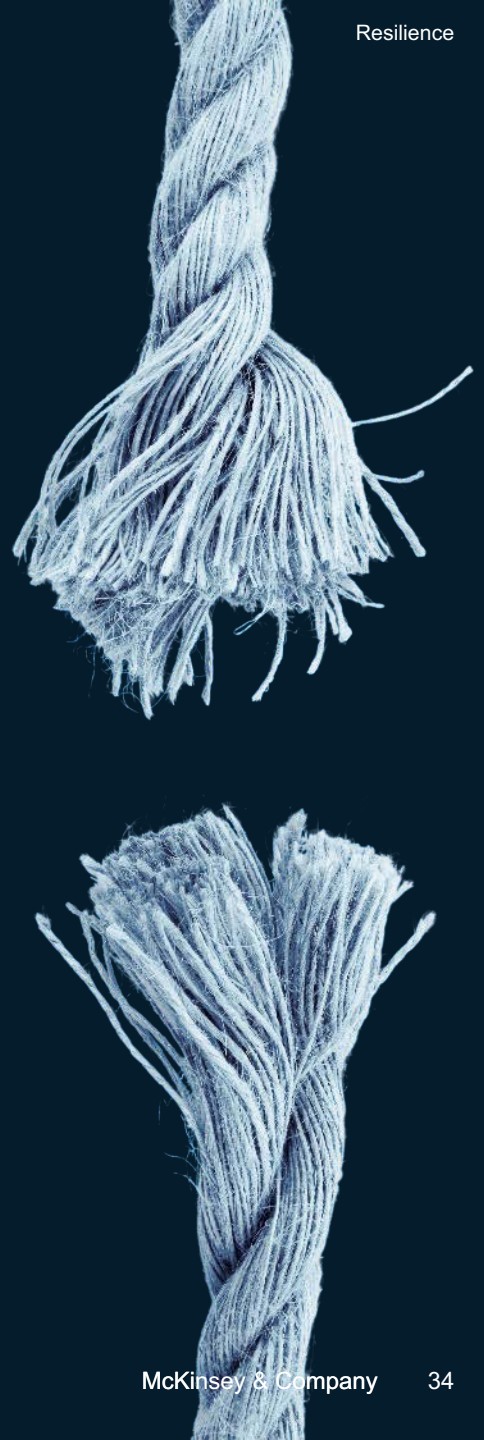
Compared to Non-resilients,

Resilients **increased revenue by 30%** …

Reduced operating costs by 3x and moved **12-24 months earlier** …

Divested by 1.5x in the downturn & **acquired 1.2x** in the recovery …

Deleveraged ~5% pts. higher before the trough



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 war room / dashboard

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

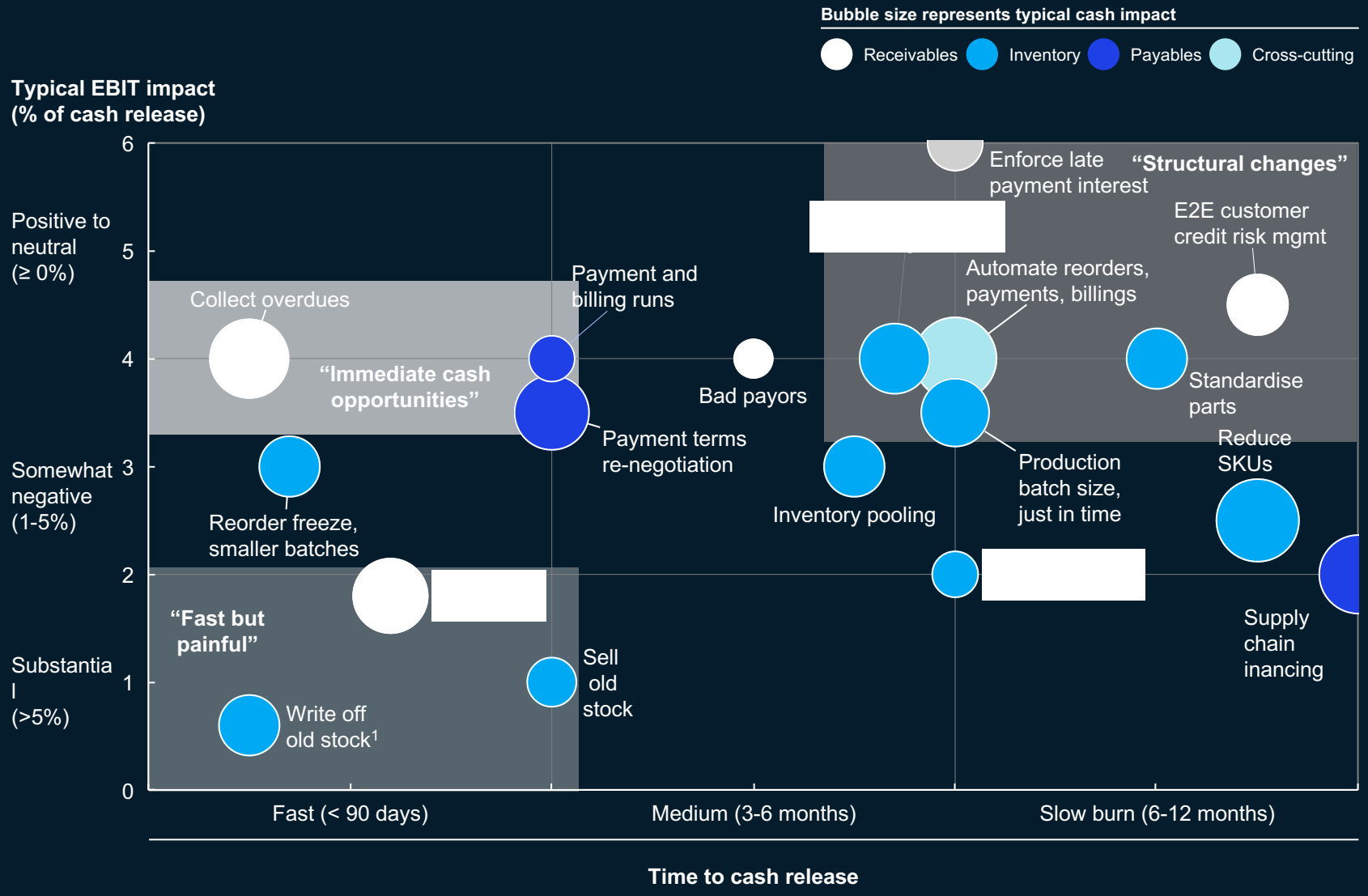
06

Build the resilience dashboard

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

Example prioritization of initiatives related to cash

Not Exhaustive



3

Return

Create a detailed plan to return the business back to scale quickly

Companies should be prepared for the “return”

Look for some of the following…

Decline in cases	• Sustained decline in the number of cases in your area without rebound • No community transmission / very low levels in your area
Health response ready	• Relaxation of shelter-in-place / quarantine orders • Testing widely available with fast turnaround
Herd immunity (will take time)	• Availability of antibody testing – available workforce who have immunity • Availability of an effective vaccine (Spring 2021 soonest)

Then start thinking about…

Protect employees	• Controlled access to all job locations: mandatory temperature checks, hand-washing • Targeted measures based on job function and “risk profile” instead of blanket shutdown
Reassure customers	• Invest in a “safe environment”: pre-flight tests of passengers and crew for airlines, in-store sanitizers for retail, transparent safety record e.g. “X days since last infection”
Restore supply chain	• Diversify supply chain and critical vendors to different geographic locations • Explore contractual features like take-or-pay to pool risk while rebuilding demand
Reinstate or revise?	• Consider the effects of business interruption or work-from-home – what business practices should be reinstated, revised, or even removed?

4 5

Reimagination and reform

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

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

Reimagination: Could we really emerge in a new normal?

Why this could be possible

The facts today (examples)

‘Shelter at home’ moves are causing the largest demand drawdowns modern economies have seen in decades

The virus spread, and public health and economic response vary widely across countries today

Consumers are recalibrating on spend, having experienced a new model of lower in-person & even higher virtual connections, while learning new skills

Doctors are pointing to the inherent challenges of providing hospital-centered care during pandemics

How this may evolve

A self-sustaining recession may occur if governments are not able to respond effectively to the new threats that economies face

The speed and effectiveness of countries response could reshape political and economic relationships globally

When consumer demand returns, it may be for different categories than what existed previously, and virtual services could get adopted far faster than originally expected

The world may move closer to a more community or patient centered model of healthcare, aided by newer advances in AI, health monitoring, telemedicine

Resetting to new 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

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

Reform: What does the “day after” look like?

The need for governments to intervene could drive meaningful changes to regulatory environment across sectors globally

Will healthcare go through a regulatory driven reform movement, similar to the financial sector after 2008/09 financial crisis?

How will pre-existing concerns on trade barriers play out in the post-COVID environment?

To what degree will bailouts of sectors come with conditions that meaningfully change the landscape of that sector in the future?

Will concerns around supply chain resilience spur a large-scale nearshoring or en masse qualifications of other suppliers, partly a result of regulatory and government considerations?

Will the twin trends of remote work and gig economy mean that a move towards a new organizational social contract is accelerated, with new regulatory implications for worker rights?

Nerve center

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

Managing across 5Rs requires a new architecture: Nerve Center

"Team of teams" with clear roles, responsibilities, and decision authority

Team 1 - Discover

Scenario planning team

Maintains multiple scenarios; provides one planning scenario. Facilitates future state exercises

Owns

- Reform

Input to

- Reimagination
- Resolve

Divergent / creative thinking

5%

of Nerve Center capacity

Team 2 - Design

Strategic moves team

Uses planning assumptions (& scenarios) to craft trigger based portfolio of strategic moves

Owns

- Resilience
- Reimagination

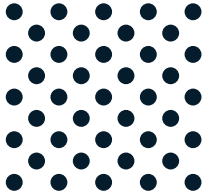
Input to

- Resolve

Divergent / creative thinking

5%

of Nerve Center capacity



Team 3 - Decide

Integrated operations team

Maintains operating cadence, risk maps, situation reports, tracks progress, and ensures ownership

Owns

- Timing & facilitation of strategic decision-making

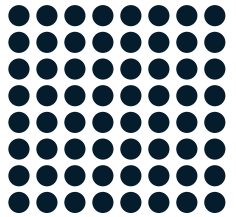
Input to

- All 5 Rs

Mix – Divergent / convergent

10%

of Nerve Center capacity



Team 4 - Deliver

Workforce, SC, customer, cash

Ensures extreme clarity & builds a cross-functional team to achieve outcome

Owns

- Resolve
- Return

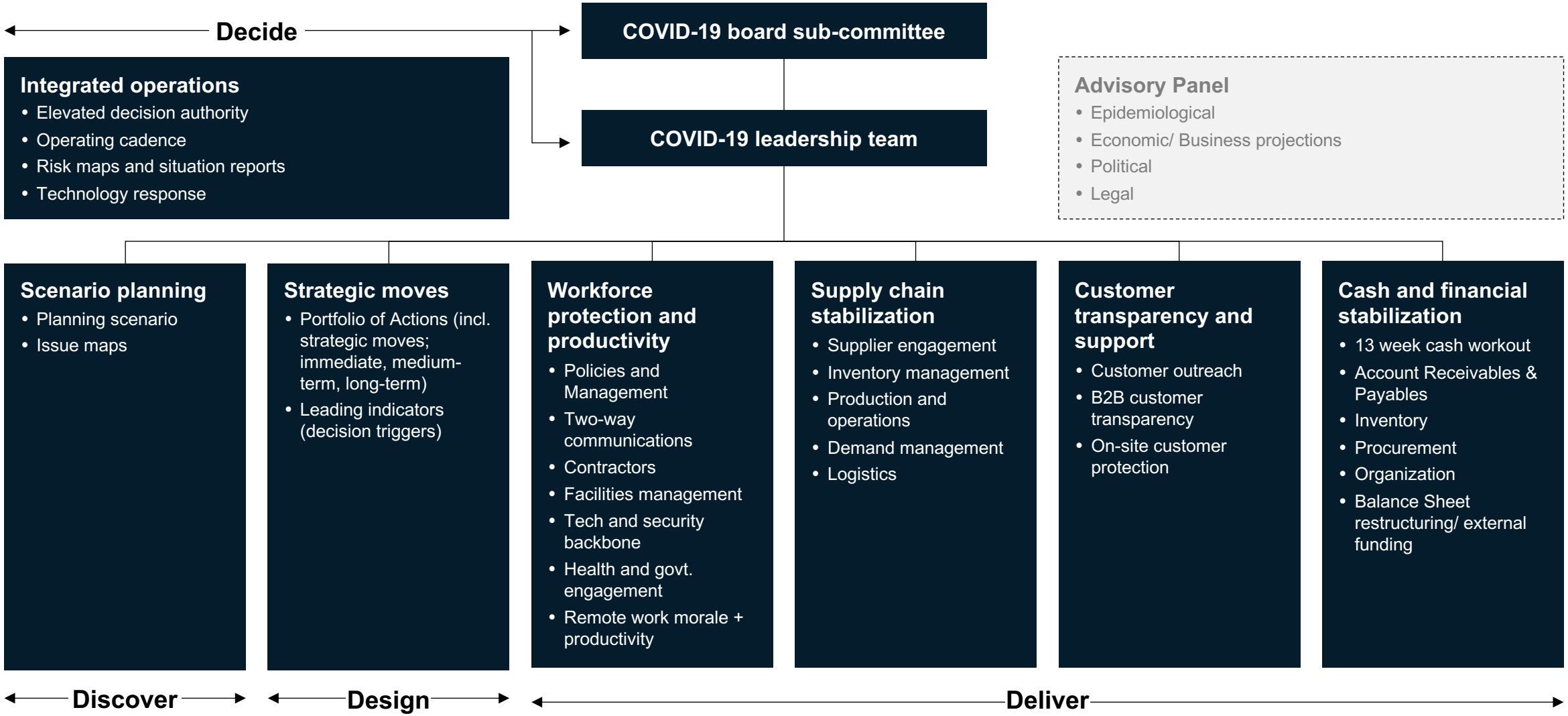
Convergent / linear thinking

80%

of Nerve Center capacity

Managing across 5Rs requires a new architecture: Nerve Center

"Team of teams" with clear roles, responsibilities, and decision authority



Leaders should expect Nerve Center to evolve as crisis shifts

Basic structure and operating principles remain unchanged, but leadership time dedication changes

Resolve

Gets most leadership attention in early phase

Can be integrated into ‘day to day’ operations over time

Resilience

Most critical post the earliest phase of the crisis (once the extent of impact is clearer, and rate of new news slows down)

Return

Reimagination

Starts to become critical post the earliest phase of crisis, as well as once early signs of a return begin to reappear

Reform

Contents

Supply chains are being disrupted around the world, but the full impacts have not yet been felt

Current as of March 25, 2020

Impact: High, Medium, Low

	Supply—production	Logistics—transportation			Customer demand
			or	or	
Situation today	**~80% plants restarted** Across China, ex-Hubei, with large enterprises restarting, albeit with partial capacity, at much higher rate than smaller ones	**1.4M idle containers** 5.5% of global container capacity affected by reduced demand	**60% China flights suspended[5]** Commercial flights account for ~50% of air cargo capacity, some airlines converting flights for cargo[6]	**60% truck staff available** 1–14 day quarantine- and capacity-induced increase in freight transport times	**20.5% decline in retail sales** China consumer sentiment since January sharply lower; online/express deliveries up
		66% BDI increase Baltic Dry Index[1] 66% higher since CLNY[3] but at 10% lower levels compared to March 2019	**2x TAC index** TAC index rate +27% for U.S.–China, +93% EU–China[2], +37% China–U.S., and +45% for China–EU since CLNY[3]	**MED** Demand for express last-mile delivery has spiked in China due to quarantine and social distancing	**MED** Europe and U.S. sentiments evolving, but localized
What to expect	**MED** Parts and labor shortages leading to further supply chain disruptions (e.g., decreased production capacity) Other regions will be facing production capacity reductions Customer pressure for prioritization	**7,000 TEU/week reduction** Volumes will return as factories restart, may see peak for restocks Future capacity 2.3% reduction for a Asia-U.S. route from May due to sea freight alliance revisions	**5% global air traffic decrease[4]** Decline in capacity available due to travel ban on commercial flights YoY global air freight belly capacity reduction of 14% in March 2020[4] Rates likely to continue to increase	**High** Trucking capacity constraints in China likely to ease Declines at U.S. ports foreshadow declines in U.S. intermodal (rail)	**High** Demand slump may persist Inventory “whiplash”—7–8 weeks for auto, 2–4 weeks for high-tech Inventory hoarding and demand spikes due to uncoordinated actors exacerbate supply chain
		MED Impact on freight will take an extended period of time to correct with slower ramp-up Logistics capacity returns but faces constraints; near-term price increases			

1.Assessment of risk premium to ship raw materials on a number of shipping routes, data as of 3/13
2.Frankfurt (FRA) to Shanghi (PVG) used as a proxy
3.End of extended Chinese Lunar New Year holiday (2/7-3/13 for BDI, 2/10-3/2 for U.S.–China TAC, 2/10–3/9 for other TAC routes)
4. Estimated prior to implementation of EU-US travel ban
5. Commercial flights from China
6. Companies such as Cathay Pacific and Singapore Airlines now starting to fly empty passenger aircrafts as dedicated cargo planes

Source: Baidu, WSJ, Bloomberg, Alphaliner, Quartz, TAC index, IATA, Seabury Consulting, A.P. Moller-Maersk Group of Denmark, Agility Logistics, Press search

COVID-19 Leading indicator dashboard for China

Tracking toward economic restart

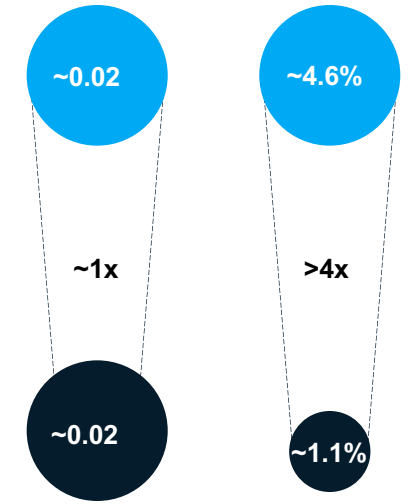
Hubei impact

How deep is the impact, and when could economic activity restart?

Late Q2 Hubei remains deeply impacted; return to economic activity tough to foresee until mid Q2

Recovery milestones

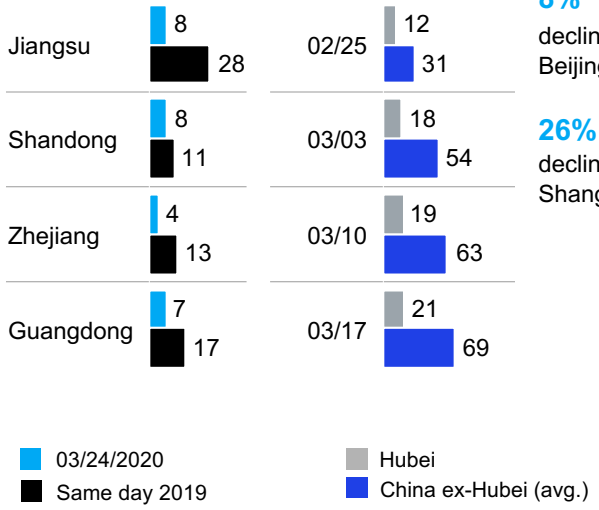
- Steady decline in confirmed cases
- New suspected and confirmed cases rates consistent with other provinces
- Quarantine lifted
- Public transport resumes
- Factory activity returns to pre-outbreak levels



China economic restart

When could economic activity restart in China (ex-Hubei)?

Late Q1 Restart has begun, especially for larger companies, despite challenges such as labor shortages and movement of goods



Air pollution (NO_2 level)

8% decline in Beijing[4]

26% decline in Shanghai[4]

PMI manufact.

14pt decline in Feb

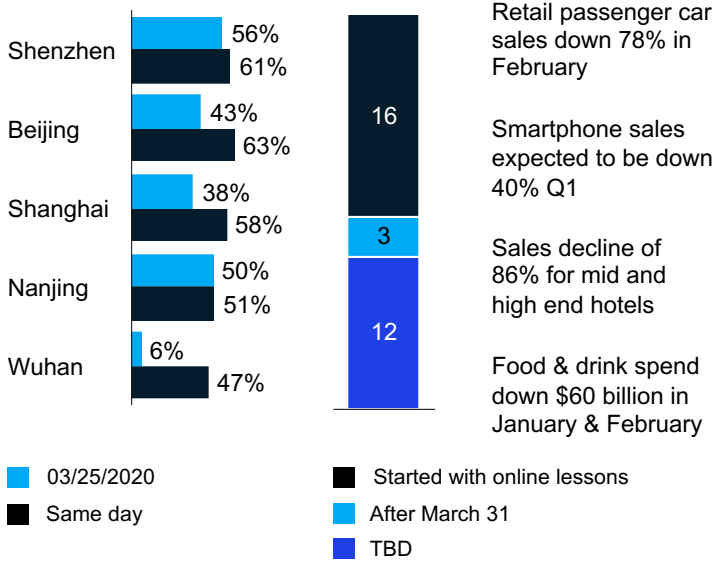
Small businesses face more labor disruption

China consumer confidence

When will Chinese consumer confidence and purchasing activity return?

Q2 Consumer spending in China spend may lag behind economic restart

Tourism and some other sectors impacted well into Q2



Example consumer behavior metrics (anecdotal)

- Retail passenger car sales down 78% in February
- Smartphone sales expected to be down 40% Q1
- Sales decline of 86% for mid and high end hotels
- Food & drink spend down $60 billion in January & February

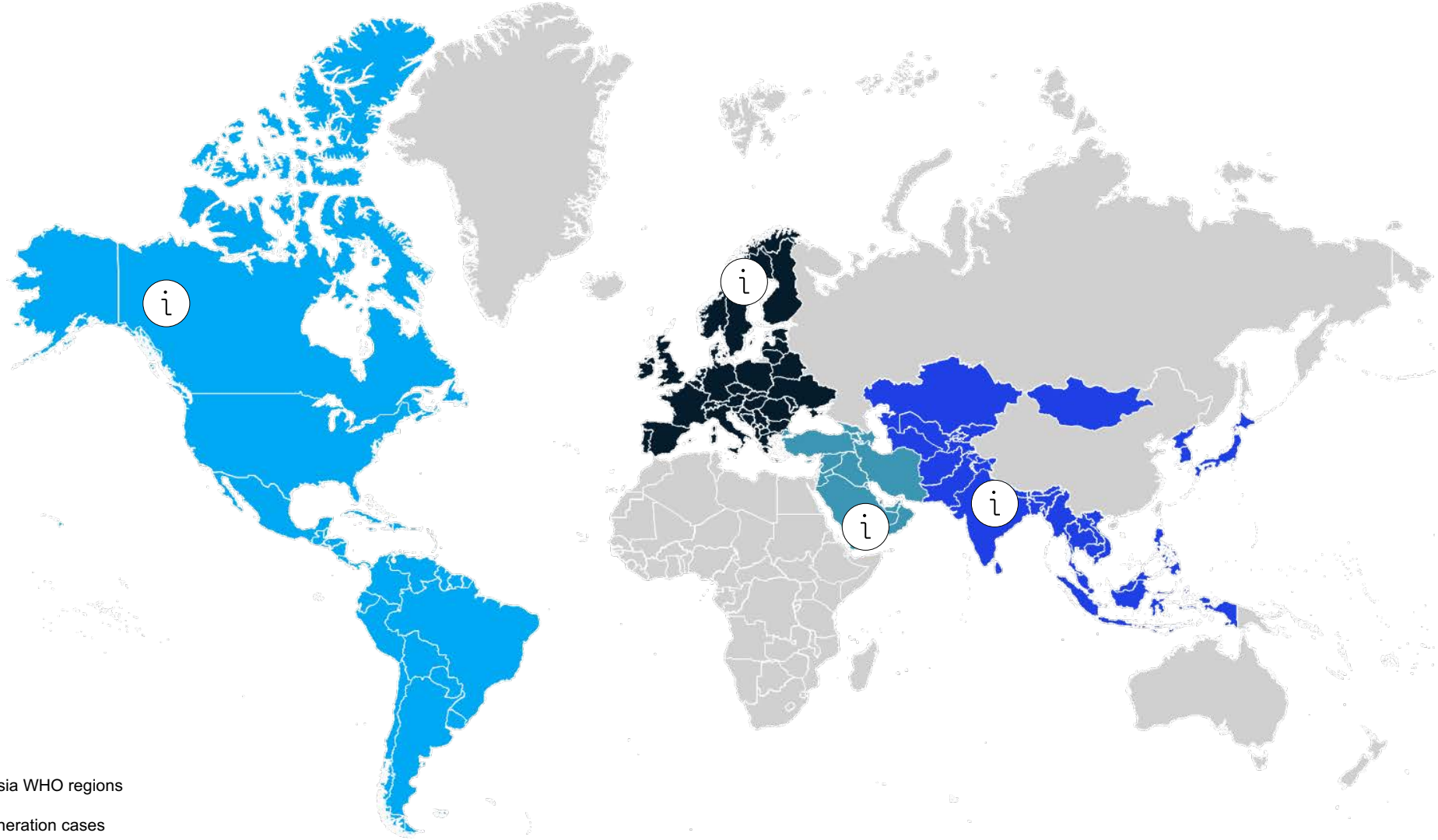
Source: WHO Situation Reports; National Bureau of Statistics of China; McKinsey Global Institute; OCED data, Johns Hopkins CSSE, press research, TomTom traffic index, Baidu QianXi, CDC, New York Times, Reuters, The Economist, Peking University, HSBC Business School, Tencent News, Sina News, Beijing Environmental Protection Monitoring Center, Shenzhen Environment Network

COVID-19 leading indicator dashboard

Propagation of COVID-19 across new transmission complexes

Click on buttons for more detail

- Europe
- Americas
- Asia (ex-China)[1]
- Middle East[2]



1.Includes Western Pacific (excl China) and Southeast Asia WHO regions
2.Eastern-Mediterranean WHO region
Note: All countries and regions have documented 3rd-generation cases

Source: WHO situation reports, TomTom traffic index, Baidu QianXi, CDC, IATA, BBC, New York Times, Japan Times, NPR, Reuters, press search

Middle East

Example country	Epidemiological Indicators[7]					Economic/policy indicators			
	Date of initial case	Total number of cases	New cases in last 14 days	5-day new case trend	Crude case fatality ratio[1]	Number of countries/ territories restricting travel	Number of airlines suspending service to country[3]	Traffic congestion[4]	School closures
Iran	02/20	23,049	15,007	1,046, 1,237, 966, 1,028, 1,411	7.3%[6]	142	x9	**Data N/A**	Country-wide
Rest of region	02/15	4,166	3,630	195, 359, 348, 678, 429	1.3%				

Current phase

- **Stage 1:** Small number of cases identified; no sustained local transmission
- **Stage 2:** Disease spread and sustained local transmission
- **Stage 3:** Government action and shifts in public behavior. Not all affected regions enter stage 3, but interventions and economic impact signal prolonged recovery
- **Stage 4:** Case growth and stretched health systems
- **Stage 5:** New cases drop, activity resumes

CDC travel health notice

- Warning level 3
- Alert level 2
- None

Traffic congestion[5]

- 03/25/2019
- 03/25/2020

Source: WHO Situation Reports, TomTom traffic index, Baidu QianXi, CDC, IATA, BBC, NYT, Japan Times, NPR, Reuters, press research

Europe

Example country	Date of initial case	Total number of cases	New cases in last 14 days	5-day new case trend	Crude case fatality ratio[1]
Italy	01/31	63,927	53,778	5,322 → 5,986 → 6,557 → 5,560 → 4,789	8.6%[6]
France	01/25	19,615	17,841	1,834 → 1,598 → 1,821 → 1,525 → 3,794	3.4%
Germany	01/28	29,212	27,916	2,801 → 7,324 → 3,140 → 3,311 → 4,438	0.3%
Spain	02/01	33,089	31,450	3,431 → 2,833 → 4,946 → 3,646 → 4,517	5.2%
Rest of region	01/29	43,014	40,112	3,448 → 5,503 → 5,253 → 5,420 → 5,582	1.2%

Epidemiological Indicators[7]

Number of countries/ territories restricting travel	Number of airlines suspending service to country[3]	Traffic congestion[4]	School closures
143	x 18	60 / 13	Country-wide
126		71 / 9	Country-wide
127		59 / 23	Country-wide
123		46 / 8	Country-wide

Economic/policy indicators

Current phase

- **Stage 1:** Small number of cases identified; no sustained local transmission
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Traffic congestion[5]

- 03/25/2019
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Americas

Example country	Epidemiological Indicators[7]					Economic/policy indicators			
	Date of initial case	Total number of cases	New cases in last 14 days	5-day new case trend	Crude case fatality ratio[1]	Number of countries/ territories restricting travel	Number of airlines suspending service to country[3]	Traffic congestion[4]	School closures
US	01/23	42,164	41,468	3,355 4,777 0 16,354 10,591[5]	1.0%	111		69 9	Local
Rest of region	01/27	7,280	7,069	772 829 808 977 1,837	0.9%				

Current phase

- **Stage 1:** Small number of cases identified; no sustained local transmission
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- Alert level 2
- None

Traffic congestion[5]

- 03/25/2019
- 03/25/2020

Source: WHO Situation Reports, TomTom traffic index, Baidu QianXi, CDC, IATA, BBC, NYT, Japan Times, NPR, Reuters, press research

Asia (ex-China)

Example country	Epidemiological Indicators[7]					Economic/policy indicators			
	Date of initial case	Total number of cases	New cases in last 14 days	5-day new case trend	Crude case fatality ratio[1]	Number of countries/ territories restricting travel	Number of airlines suspending service to country[3]	Traffic congestion[4]	School closures
South Korea	Prior to 01/20	9,037	1,282	239, 147, 98, 64, 76	1.2%	141	x 13	**Data N/A**	Country-wide
Japan	Prior to 01/20	1,128	560	77, 46, 50, 43, 39	3.6%	119		63 / 47	Country-wide
Singapore	01/24	507	341	32, 40, 47, 23, 52	0.4%	117		60 / 24	Not noted
Rest of region	Prior to 01/20	4,161	3,826	542, 339, 473, 617, 630	1.1%				

Current phase

- **Stage 1:** Small number of cases identified; no sustained local transmission
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- Alert level 2
- None

Traffic congestion[5]

- 03/25/2019
- 03/25/2020

Source: WHO Situation Reports, TomTom traffic index, Baidu QianXi, CDC, IATA, BBC, NYT, Japan Times, NPR, Reuters, press research

COVID-19 Stage Detail

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Epidemio-logical indicators	Small number of cases identified No sustained local transmission	Disease spread and sustained local transmission	Disease spread widely and sustained local transmission	Case growth and stretched health systems	New cases drop, while surveillance continues to monitor subsequent waves
Economic indicators	No significant impacts	Minor impact, primarily on supply side	Government interventions are instituted, impacting consumption	Consumption slump and inventory "whiplash" due to quarantine measures Inventory hoarding due to uncoordinated actors exacerbating supply chain	Consumption begins to rise, as quarantine begins to be rolled back
Social indicators	Activity remains normal	Governments may begin coordinating containment activities Activity remains mostly normal	Shifts in public behavior begin in response to and multi-sectoral government actions	Larger numbers of citizens remain at home in response to the implementation of gov't contingency plans	Social activity begins to resume

Source: WHO Pandemic Stages

References

COVID-19 leading indicator dashboard for China

1. Case fatality ratio calculated as (deaths on day X) / (cases on day X). Previous versions of this dashboard calculated CFR =
   (deaths on day X) / (cases on day X–7) to account for incubation
2. Measures movement of population into destinations as of 3/22/2020
3. Wuhan included only for comparison
4. 7-day average (17-Mar to 24-Mar) compared to 2019
5. Car traffic only. Congestion reflects percentage increase in travel time compared to free-flow conditions

Region-specific details

1. Case fatality rate calculated as (deaths on day X) / (cases on day X). Dashboards before February 29 calculated CFR as (deaths on day X) / (cases on day X–7) to account for incubation
2. Assessment based on observed stoppage in growth of cases and medical community's opinion validated by external sources
3. Anecdotal reports of airline suspensions based on press searches
4. Based on representative cities: Tokyo, Singapore, Milan, Paris, Berlin, Madrid, Los Angeles
5. 0 new reported cases in US on 3/22 likely a reporting anomaly and not indicative of overall trend
6. Crude case fatality ratio likely to fall as testing becomes more widely available
7. Epidemiological data current as of 3/24 WHO situation report

Note: All countries and regions have documented third-generation cases

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