

Strategy & Corporate Finance Practice

COVID-19: Strategies for getting ahead of the pandemic crisis

Even as organizations focus on the immediate business shocks, they need to plan for the postcrisis world. Here is how to respond to a disruption for which there are no playbooks.



© Johannes Hulsch/EyeEm/Getty Images

In this episode of *Inside the Strategy Room*, we share an excerpt from a webcast session on COVID-19's implications for business resilience. It was recorded at the 2020 Global Business Leaders Forum, which had been scheduled to take place in New York in early April but was instead held virtually. In conversation with Sean Brown, director of communications for strategy and corporate finance, two McKinsey experts offer their perspectives on how businesses can develop strategies for responding to the pandemic crisis and preparing for the “next normal.” Mihir Mysore is a leader of McKinsey's work on crisis response and recently coauthored “Responding to coronavirus: The minimum viable nerve center.” Shubham Singhal is the global leader of the healthcare practice who co-wrote “Beyond coronavirus: The path to the next normal.” This is an edited transcript. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Play.

Sean Brown: Mihir, why don't you take us through what business leaders should be doing in the coming weeks.

Mihir Mysore: Thank you, Sean. There is, of course, a large amount of uncertainty today, especially on the economic front, which makes it hard for business decision makers to start taking action. A lot of information is floating around, and depending on what you choose to pay attention to, you can be an optimist or a pessimist. By the time it becomes fully clear which of the several possible scenarios ends up being the reality, many strategic actions you could have taken while the scenarios were still emerging will be either not feasible or too expensive.

You have to make sure to remain flexible where you can be flexible, but you also have to make certain choices and commit to them in the face of uncertainty. So how do you balance that? This is not a muscle that many organizations have developed. So, we have created some guidelines for how you can start to think about the future (exhibit).

First, we recommend you identify the regions most relevant to your business—ones where you have large workforces or that represent your biggest markets. At this point, you should have a sense of which ones are most affected by the coronavirus and, based on that exercise alone, you can start to evaluate which regions are likely to return in some form sooner than others. You won't know this 100 percent; a lot will depend on government regulations and how the virus evolves. But it is nevertheless useful to engage in the planning exercise.

Then, for regions that are critical to your company, start breaking down the impact into a finer level of detail. You should pick some indicators that will provide a compass for your decisions. First, think about how much time passed in a particular region from the moment community transmission started to when the region got serious about social distancing. You can measure that in different ways—reduction in traffic congestion or the level of restaurant bookings—but what is important is how much time that took. Combined with the region's population density, this will give you a clue to how large a caseload of COVID-19 infections that region is likely to face. You won't have a perfect answer but directionally you should be able to rank your different business regions.

Secondly, you can start to get a sense of the length of the disruption based on how quickly governments and policymakers are addressing both the lives and the livelihoods part of the problem. Addressing them quickly will mean you primarily have to worry about demand drawdown. Addressing it slowly will mean that you need to be concerned not only about the demand drop now but the recession that follows, when even with no new cases there will a continued impact on the economy. You want to measure that. One way is to look at the daily changes in the rate of new cases. If that rate is dropping quickly, it effectively means the region is reacting quickly.

Then you can look at the economic side, breaking it down by sector in each region. For example, late payments or credit defaults, volatility indices—these are all early warning indicators of whether the initial demand drawdown is translating to a broader recessionary impact. Again, these are not perfect metrics, but they are valid early indicators of what could happen.

Finally, you look at the recovery. The question of what shape the recovery will take is still up in the air, but there are lessons we can already glean. We know that some countries are finding ways to get healthy populations back to economic activity. We also know there could be a virus resurgence in the fall, and the level of preparedness by public-health systems for that resurgence could provide a clue to the recovery's shape. Thinking about the recovery will allow you to begin detailed planning now rather than waiting until it's clear that the epidemic has passed and economic activity has restarted. At that point, you may be behind your competitors.

Sean Brown: How can leaders get a handle on these indicators? At last year's Global Business Leaders Forum, you did a presentation on business resilience that included the idea of creating a nerve center. Is doing that now important?

Mihir Mysore: Definitely. So far, we are seeing companies put in place project-management offices (PMOs) to oversee the biggest operational issues. How do I protect my people? How do I stabilize my supply chain? How do I make sure to physically protect any customers who may come onto my premises or, in a B2B situation, be transparent with my customers about our situation? A crisis nerve center is not an operational PMO. By definition, it needs to include a plan-ahead team—plan-ahead *teams*, actually—that do two very important things.

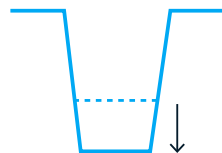
The first is to discover the truth about what lies ahead and then determine the portfolio of strategic actions that respond to whatever truth the team has uncovered. Most of the strategic actions will be trigger-based, meaning that when a certain leading indicator lights up, this is the moment to launch the action—or at least the detailed planning that will lead to that action's execution. It's important that the plan-ahead team consider every possible scenario. It should ideally have red teams and blue teams to make sure there are no biases in how it assesses the scenarios. Optimism bias can be a big problem in this situation.

At the end of this process, the organization needs to settle on a planning scenario that includes a

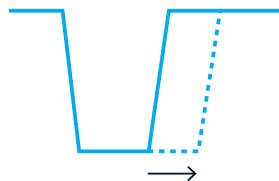
Exhibit

Business leaders should consider these indicators in the coming weeks.

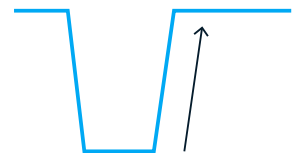
Depth of disruption
How deep are the demand reductions?



Length of disruption
How long could the disruption last?



Shape of recovery
What shape could recovery take?



“It’s important that the plan-ahead team consider every possible scenario. Optimism bias can be a big problem in this situation.”

–Mihir Mysore

set of simple assumptions that delivery teams can take as their go-to assumptions. For example, the scenario may take the view that Region A will be up and running by a given time. The delivery team does not get to question that assumption; the scenario-planning and the strategic-actions team, together with the decision-making team, define it. However, the truth-discovery team needs to make sure that the strategic-actions team has the benefit of all the different scenarios they have come up with. Confining the portfolio of strategic actions to only one possible scenario creates too narrow a planning effort. You need a series of possible futures as inputs into strategic actions, which then get translated into triggers for each of those actions.

One last point: operational-risk teams usually become very tactical very quickly, for the simple reason that we do not regularly update goals for operational teams. A critical part of a crisis nerve center’s role is making sure the scenario-planning team, together with the strategic-actions team, feeds into the operational-risk team on a weekly basis, so you can update goals, start new teams when needed, and reallocate resources as required.

Sean Brown: Thanks very much, Mihir. Shubham, now I turn it over to you to discuss the various horizons across which business leaders should be planning.

Shubham Singhal: Thank you, Sean. Businesses are obviously experiencing a significant shock, so leaders need to think through the stages this crisis, and by extension their companies, will go through. There are five stages we see, and whether you are a public-, social-, or private-sector institution, you need to be thinking about all five horizons, because they blend into each other. And they can move very fast.

The first stage is Resolve. This is where we find ourselves now—all the choices around public-health measures and the expansion of the healthcare system and testing capacity by a factor of four or five in a few weeks. If you are a private-sector institution, you face decisions about business continuity. What are the critical functions that must continue? What could close? The second state is the Resilience category. That involves significant planning around liquidity, solvency, and economic sustainability.

Next comes planning for the Return. Vaccines and other treatments are fairly far away, and just gaining control of rising infections and treating critical cases does not mean the virus won’t resurge. So how do you think about returning to normal business? How do you get employees back? What distancing measures do you keep in place? Which geographies and parts of the economy can return

to business? For a lot of businesses that shut down, it is not that easy to open again. You may have lost the workforce along the way, need to bring on new people, train them, get employees back to peak productivity. Then there is the issue of global supply chains. Companies in China are finding that they can restart an automotive plant there, but if the parts are made in Mexico, they have a problem. The return is a challenge for governments and healthcare organizations as well. How do you, as a hospital system, think about bringing back some degree of normalcy to operations? And how much capacity should you keep open for possible future critical-care surges?

Senior leaders, meanwhile, need to be thinking further out still. We hear executives say, “When we do return, I would like to come back into a reimagined future.” That is important, because the fundamentals will likely be different. You may be able to run some operations with fewer people. What can you do remotely? How much more productivity can you gain? How do you move to a digital, contactless world? The crisis is an accelerant to the Reimagination horizon of the business. Do we return to where we were, or to the next normal? Management teams right now are busy with crisis response, but most have a chief strategy officer, for example, who, along with their team, could be thinking about this.

The final one, particularly relevant to more heavily regulated industries, is the relationship between government, business, and individuals. We are in a wartime period, if you will, questioning how information is being used, what opens when, who gets what money. What part of that will sustain into peacetime? After the financial crisis, banks had to change their capital and liquidity policies. Will something similar happen here? Can we have supply chains designed globally for efficiency, or will governments intervene and want to put something else in place? Whether you are a policymaker, a business or an institution, you have to think about the future regulatory construct, and therefore the competitive construct. This is not just a few weeks, let's hold our breaths and we will come back. Organizations need to think through the implications across all these stages.

Sean Brown: Have you seen indications that leaders are already rethinking their supply chains, their manufacturing, their logistics, and other aspects of that third horizon?

Shubham Singhal: Yes. What we see on the Return so far is addressing the practical part, which is, where are we exposed? What is the weakest link in the chain? Will the weakest link prove to be getting our employees back or will it be where our parts or raw materials come from? Those who are

“We are in a wartime period, if you will, questioning how information is being used, what opens when, who gets what money. What part of that will sustain into peacetime?”

—Shubham Singhal

ahead already have a clear plan that helps them analyze that. Executives are also beginning to ask themselves how to build supply chains for greater resilience, and what choices they should start making now. At a minimum, that will mean not having concentration risk in one area and diversifying away that risk.

This presentation was recorded on April 2, 2020. The situation surrounding COVID-19 is evolving daily. For the most current information and insights on the implications of COVID-19 for your business, please visit [Coronavirus: Leading through the crisis](#), a regularly updated collection of McKinsey briefing notes.

Mihir Mysore is a partner in McKinsey's Houston office, and **Shubham Singhal** is a senior partner in the Detroit office. **Sean Brown**, global director of communications for strategy and corporate finance, is based in the Boston office.

Designed by Global Editorial Services
Copyright © 2020 McKinsey & Company. All rights reserved.