As you return from the summer break, can you lead toward a COVID-Exit?

Here’s how to set your business on the right track for 2021 and beyond.

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The summer break is over. Most of us remained at home on “staycations.” More daring people jumped into their cars for road trips or even took “masked” airplane flights. What do we find after our vacations? The coronavirus is still around. In many places, new COVID-19 infections are rising faster than they were before the summer break. Many people have been hit directly by this pandemic; some have lost friends or relatives, and many have had their livelihoods undermined. Most of us are starting to get tired—tired of the drawn-out pandemic, tired of the lack of interaction with colleagues and friends, tired of leading under pressure through the crisis.

Yet as 2021 approaches, the world is planning for the year ahead—and beyond. Since uncertainty remains high, decision makers face a real “leadership moment”:

— How, at this point, do you guide your company toward the future?

— What is the right way to think about 2021 and beyond—and what should you do to set your business on the right track?

— Should you continue to batten down the hatches, or are you providing clear leadership toward a future COVID-Exit?

A COVID-Exit? Can we really start thinking about that already? Should we? Do we know enough about the future to plan, or is there still too much uncertainty? We believe you should start thinking about the exit from the COVID-19 pandemic. Your company is at serious risk of missing the train if you don’t.

For now, this crisis is still very much about continuing to safeguard lives and livelihoods, but the world has come a long way since the terrible days of March and April. In fact, we consider it entirely possible that the current uncertainty could dissipate or even “collapse” in the next few months. If and when that happens, the mood will rise and economic momentum will accelerate. You’d better be ahead of the game if and when it does.

We can already see hopeful changes in trends during the third quarter of 2020. Economic momentum has returned: the gains in global GDP are expected to make up about half of the second-quarter dip. Conditions are tracking toward an outcome in line with scenario A3 of McKinsey’s COVID-19 economic scenarios (Exhibit 1).

For now, the COVID-19 crisis is still very much about continuing to safeguard lives and livelihoods, but the world has come a long way.
Different countries and industries will take somewhat different paths, but for most businesses growth will be relatively straightforward in 2021, at least as compared with a challenging 2020. For a range of reasons, we see a need to raise your sights even beyond 2021 and to lead toward a COVID-Exit in 2022. That will include the following moves:

1. Add a positive outlook to the range of scenarios in your 2021 plans.


3. Launch all initiatives required to put your business on track for a COVID-Exit in 2022.

Before we get to those points, though, let’s start with the critically relevant context: where the world stands with the virus. Right now, it is still determining the direction of the economy. Will the positive tailwinds continue, or will the virus create further headwinds?

Exhibit 1

How soon will growth return?

Global real GDP\(^1\) index (2019 Q4 = 100)

<table>
<thead>
<tr>
<th>Q1 2019</th>
<th>Q1 2020</th>
<th>Q1 2021</th>
<th>Q1 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
<td>95</td>
<td>100</td>
<td>105</td>
</tr>
</tbody>
</table>

\(^1\) Constant prices and exchange rates.
The intimate link between safeguarding lives and livelihoods
Many countries—including Brazil, India, the United Kingdom, and the United States—still have high numbers of COVID-19 patients. Infections are also rising in a second, third, or fourth wave in a range of countries, including France, South Korea, and Spain. Even New Zealand has had a resurgence after three virus-free months (Exhibit 2).

Underneath the case counts, however, the impact on lives feels quite different from what the world experienced in March and April 2020:

— Many countries have adopted a wider range of public-health measures (including mask wearing) that slow the spread of the virus and enable faster control of outbreak clusters.

— The developed world is now testing most cases with symptoms. In March, there were not enough tests and 70 percent or more of all cases were missed. Moreover, test positivity rates are way down in most countries—often below the important 5 percent threshold.

— Countries are doing a better job of protecting vulnerable groups, which are taking additional voluntary precautions. Meanwhile, the average age of COVID-19 patients is a lot lower now, substantially reducing hospitalization rates.

— Hospitals have learned how to combine effective treatment methods, so outcomes for patients with severe cases are better, and mortality rates of people requiring hospitalization are much lower—in many places by 50 percent or more.

Exhibit 2
OECD mortality has largely stabilized even as the number of new cases and deaths has increased.

Tracking the ratio of COVID-19 daily tests, cases, and deaths in OECD countries, pre-COVID-19 level of activity = 0, post-COVID-19 peak = 100, through September 4

Source: GitHub; McKinsey analysis
In many respects, COVID-19 infections and illnesses are a convex problem: every improvement, no matter how small, helps. Every measure taken to date along the entire chain, from infections to outcome, therefore adds up. This achievement implies that the risk across the entire chain has fallen. Despite the recent increase in the number of cases, mortality relative to actual infections is an order of magnitude lower in OECD countries than it was at its April peak. In the second quarter of 2020, there were devastating peaks in excess mortality, as reported by individual countries across large parts of Europe and the United States. Now, most countries are reporting that excess mortality has come back down (Exhibit 3).

What about the risk of further lockdowns? They are possible, but the world has made a lot of progress in readiness, too. The March—April lockdowns came when little was known about the virus and amid a lot of debate about which measures could help beat it. Singapore, South Korea, and Taiwan provided the early success stories, initially keeping the virus under control with various versions of “near-zero virus packages.”

Cultural differences among countries made the discipline of quarantines, testing, and mask wearing difficult to operationalize. There were also some very real practicalities that had to be overcome. In March and April, many countries initially had too

Exhibit 3

After devastating peaks in the second quarter of 2020, excess mortality has declined significantly.

Excess mortality for all ages in Europe,¹ deaths per week

¹Austria, Belgium, Denmark, Estonia, Finland, France, Germany (Berlin), Germany (Hesse), Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK (England), UK (Northern Ireland), UK (Scotland), UK (Wales).
Source: EUROMOMO, euromomo.eu/graphs-and-maps

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many undetected cases, too few tests, not enough personal protective equipment (PPE) for healthcare workers, or enough masks for everyone else. But progress was made as many countries transitioned to a near-zero virus strategy, eventually getting the virus under control. All this means that if there is a run-up in infections, similar to what the world experienced in March and April, countries will probably be able to lower their mortality rates with more targeted measures and less widespread lockdowns—there will be many more “bites at the apple,” so to speak (see sidebar, “Bites at the apple’ to get the virus under control”).

How the approaching winter in the Northern Hemisphere will affect the progression of the pandemic is not yet clear, but with greater understanding and control, governments and people will adjust their decisions and behaviors more successfully to the specific risks that arise. That’s not to say we don’t see a chance of further peaks in new infections or to rule out the possibility of further lockdowns (as Israel showed in early September), but we do believe that the world will be better able to deal with the public-health crisis.

The world also took a massive economic hit in the second quarter of 2020. Consider the economic-impact scenarios we projected in April. It turns out that most developed economies reported A1- or A3-type outcomes in the second quarter of 2020 and are tracking in the third quarter toward A3, with a more or less wobbly path toward full economic recovery. What became apparent along the way is that economies are actually less affected by the public-health interventions of governments, such as lockdowns, and more affected by the presence of the virus and its related mortality rates: when

‘Bites at the apple’ to get the virus under control

— Many people do wear masks—and that works. There is reliable evidence that masks, when combined with physical distancing and other nonpharmaceutical interventions, are at least as effective at suppressing the spread of the virus as widespread lockdowns, and without the economic, social, and mental-health downsides.¹

— The world’s medical and scientific community is innovating treatment and clinical management, and this is already reducing mortality.

— There is more testing capacity, and if that could be scaled dramatically, while reducing turnaround times and increasing operational ease, the ability to get the virus under control would be far strengthened.

— In some countries, people who have tested positive are isolated and their contacts are traced and quarantined. More widespread adoption of this practice could again boost the ability to get the virus under control.

— There still are limits on large-scale events in most places, preventing superspreading, and nursing homes and other care institutions with high-risk groups are better protected.

— There is some level of COVID-19 immunity in communities; while that immunity does not, and might never, reach herd immunity in most areas without a vaccine, it does provide one more bite at the apple.

— And, yes, there is even the possibility of at-scale COVID-19 vaccinations in early to mid-2021.

¹ De Kai et al., Universal masking is urgent in the COVID-19 pandemic: SEIR and agent based models, empirical validation, policy recommendations, April 2020, arxiv.org.
those are high, people tend to stay at home, with or without a lockdown (Exhibit 4).

So getting the virus under control while crushing virus-related uncertainty is what will eventually unlock the road to economic recovery. Safeguarding lives is intimately linked to safeguarding livelihoods.

We already know a lot about the post-COVID-19 future

Financial markets aggregate collective expectations about the anticipated future performance of businesses. They are not perfect predictors, especially in the short term, but tend to be good indicators of long-term trends. During the last five years, certain sectors that are ahead of some fundamental trends of our times accelerated their performance, both in economic profit and in total returns to shareholders. During those five years, top-performing companies in each sector also accumulated a larger share of its total economic profit than they had previously.

The COVID-19 crisis catapulted those trends forward—the future is now! Consider, for evidence, the rapid acceleration of e-commerce, the new ways of working, the novel 21st-century organizational

Exhibit 4

Economies are less affected by public-health interventions and more affected by the presence of the virus and its related mortality rates.

Average impact of typical reopening efforts on aggregate economic activity¹

<table>
<thead>
<tr>
<th>Change in consumer spending,² index (Jan 2020 = 0)</th>
<th>States that ordered reopening</th>
<th>States that did not order reopening</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in employment² among low-wage workers, index (Jan 2020 = 0)</td>
<td>Reopening day</td>
<td></td>
</tr>
</tbody>
</table>

¹Based on analysis of 20 states that issued partial reopening orders on or before May 4. For each reopening date (April 20, 24, 27 and May 1, 4), the trajectory of spending in states that issued reopening orders was compared with a group of 13 control states that did not issue reopening orders until after May 18.

²Consumer spending represented by credit and debit spending data from Affinity Solutions; employment figures represented by Earnin, Intuit, and Homebase.


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approaches, and the sudden prevalence of telemedicine (for example, in the United States, the number of Medicare beneficiaries receiving telehealth services each week increased to 1.7 million by the end of April, 130 times more than the average week before the pandemic). These may not be new trends—most of them have been around for decades—but they have accelerated overnight, dramatically.

Of course, “where to play” also matters. Including M&A, this “industry effect” (the choice of where to play) explains 80 percent of the growth of the largest and most successful companies. The COVID-19 crisis has accelerated value shifts along these trend lines, and that implies an even higher bar to stay ahead. All companies must now reflect on the position of their business portfolio and orient it toward future sources of value. Companies that have done well through the crisis can transform their advantage into a very strong position for years to come. Companies in sectors that are being left behind and companies that underperform their sectors might have only one last chance to beat the odds.

**Showing leadership—planning for 2021 and beyond**

As the Northern Hemisphere heads into autumn, there will be more information about how to control the virus and about innovative treatments and vaccines. Life will become more predictable, and uncertainty will fall—or even collapse in the event of a breakthrough (Exhibit 5).

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**Exhibit 5**

As initial unknowns about the virus have clarified, uncertainty has fallen.

**Economic uncertainty in the US, index (2015–19 = 100), through September 10th**

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Source: Economic Policy Uncertainty Index; McKinsey analysis
Is it possible that COVID-19-related uncertainty could largely disappear? Can you imagine that? Can you imagine how it would feel if even much of the uncertainty went away? What we do know from past crises is that the mood will then swing, and it could swing big time. We see some signs of that in our August executive poll (Exhibit 6).

In countries that have successfully controlled the virus for a few months, confidence is already up—way up. Such a mood swing could happen in Europe and the United States, too, and we see early signs of just that. Taking the average of this poll as an indication, executives believe that global GDP could increase by 4 to 7 percent in 2021.

Exhibit 6
Executives expect economic growth to return as the virus is contained.

August results from survey of some 2,000 executives around the world on ‘most likely scenario,’ % of respondents

Note: Shifts in survey results are rounded to the nearest %.

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(depending on how well expectations for the third quarter are realized) and that a full recovery to 2019 levels could be reached by 2021–22 (Exhibit 7).

With a COVID-Exit on the horizon, what plans should business leaders make to give their companies the best possible shot to perform well coming out of the crisis? Contrary to what we see a lot of CEOs doing right now, you should consider three moves.

1. **Add a positive outlook to the range of scenarios for your 2021 planning**
   For most businesses, 2021 will be better—a lot better—than 2020, even if they do not make up all the ground lost in 2020. Many of the advances in ways of working, and the cost reductions that came with them, may trigger a serious productivity revolution: companies will not build “back to legacy” but rather toward a future optimum. There is also a reasonable chance that COVID-19-related uncertainty might collapse earlier than expected. If it does, that will potentially catapult the global economic recovery forward on its current A3 trajectory, just as it already has in some Asian economies.

2. **Anchor 2022 on your 2019—not 2020 and 2021—trajectory**
   Despite improved expectations, 2021 is still going to be a mixed bag. Today, management teams and boards often don’t quite know what to expect. Many companies will probably transition back to a more predictable trajectory in 2021. (Of course, in the event of a new peak in infections, the forward momentum could pause.)

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**Exhibit 7**

**The current uncertainty may dissipate or could even collapse in the next few months as the virus is contained and growth returns.**

**Global real GDP,¹ index (2019 Q4 = 100)**

¹Constant prices and exchange rates.

Source: McKinsey analysis, in partnership with Oxford Economics
Some companies will combine high uncertainty with probable strong growth to clean up pending issues they could not move on before. We found, for example, that resilient companies divest 1.5 times more during downturns than nonresilient companies do. Other companies will reinvent their organizations for speed. Still other companies will act more deliberately and try to steer through the uncertainty with shorter planning cycles that stay within the time frames they feel they understand.

With a world returning to growth in 2021, and transitioning to a sustainable COVID-Exit development path sometime the following year, 2022 will probably be a better anchor point for corporate planning. Business leaders will have a more solid foundation for their plans, given what they know about the likelihood of sustained growth and the ability to apply the trends that have accelerated or decelerated as a result of the COVID-19 crisis. The year 2021 will then mark the transition from where we are today to that more predictable future.

However, this need not mean that 2020 and 2021 will be lost years. In fact, they are critical, as we explain below.

3. Launch all initiatives now to put your business on track for a COVID-Exit in 2022

Companies weathered previous economic crises better by intervening early. Even more significantly, these resilient companies tend to outperform not just during the recovery but also for years to come (Exhibit 8).

An important question to ask yourself right now is whether you actually know the full potential of your business in a post-COVID-19 world? Unless

Exhibit 8

Resilient companies did better at the outset of the downturn and afterward.

Total returns to shareholders by company type,¹ index (2007 = 100)

Note: This analysis excludes financial companies.
¹Calculated as average of subsector median performance of resilient and nonresilient companies; includes 1,140 companies.
²Resilient companies defined as top geometric mean TRS quantile by sector.
Source: CPAnalytics; McKinsey analysis.

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the answer is yes, it’s hard to see how you could exit in stride. Consider the following moves as you head toward a future when growth is high, trends have accelerated, and the performance differential between sectors and between individual companies will further increase:

— **Initiate the Full-Potential Assessment of your business after the COVID-Exit.** Plan to have the results in hand by November or December 2020, at the latest, to help ensure that you identify the right bold moves and the right timing and velocity for each of them. The goal must be to speed up the implementation of your plans through the recovery period—and, given the time line, to be able to batten down the hatches again in the event of further lockdowns.

— **Launch your Portfolio Transformation in 2021.** After so many massive, simultaneous disruptions, it is hard to imagine that many businesses will not need to reallocate resources toward future trends after the pandemic. This could imply divesting some activities and investing in megatrends that have accelerated through the crisis. The choice of where to play is a hugely important driver of corporate performance.

— **Overhaul your Digital Transformation in 2021.** Not surprisingly, we found that in crises, resilient companies cut their costs 30 percent faster than nonresilient ones do. What is more surprising is that the difference comes not from reduced overhead costs but from real productivity improvements in core processes. Today, those improvements arise from a successful digital and analytics transformation. Companies can measure the huge delta between effective and ineffective transformations through their direct impact on business performance and capability development. Coming out of this crisis, the ability to escape from “pilot purgatory” and into a focused, well-orchestrated transformation program will be a serious differentiator between companies.

In sum, we suggest using 2021 as an investment and transformation year, when you will put your business on track for outperformance over the next decade. Ask yourself whether you have the right initiatives and investments in place to do so.

As you return from your holiday and enter the planning season for 2021, can you think beyond that time frame and envision a COVID-Exit? Can you improve your readiness for a possible disappearance of COVID-19-related uncertainty, when moods will swing and the world will work toward a post-COVID-19 life?

We bet that you can literally feel the party you would want to throw the moment you can see the path out of the crisis, the moment that puts the spring back into your step. Our hearts and minds will still be heavy with lives lost and livelihoods undermined—and we will never forget them—but we will also be able to look ahead toward a COVID-Exit and a new, brighter prospect of life.

This may happen very soon … imagine that!