

Advanced Electronics Practice

Coronavirus: A response framework for advanced industries companies

As the coronavirus causes worldwide challenges for healthcare systems and economies, advanced industries companies are looking for strategies to navigate the difficult, evolving situation.

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Note: This article focuses on companies in advanced industries and reflects our thinking as of March 20, 2020. We are regularly updating our global perspective on the business implications of COVID-19.

COVID-19 continues to spread rapidly around the world, straining healthcare systems and creating a humanitarian tragedy. The number of new cases caused by the coronavirus (SARS-CoV-2), appears to have crested in China, where the disease originated, but other countries are now reporting increases. The situation changes daily, prompting governments to announce quarantines, travel restrictions, and other measures to minimize risk.

Although patient health is the paramount concern, corporate leaders are also evaluating the business implications of COVID-19, including the disruptions resulting from factory shutdowns, lost wages, and product shortages. For companies in advanced industries, including electronics, automotive, and aerospace, such economic repercussions

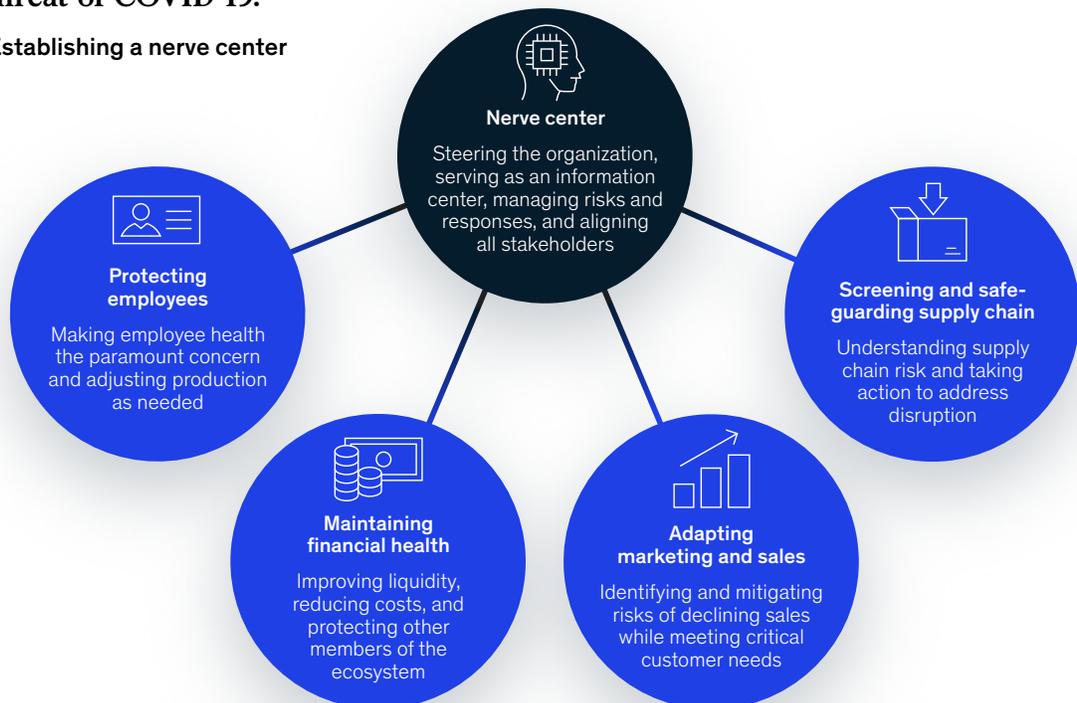
could be particularly severe, given the extent of their global footprints and the complexity of their deeply multitiered supply chains (see sidebar, “Why COVID-19 could be especially challenging for companies in advanced industries”). Some companies in advanced industries also follow a sales model that requires human contact (for example, at automotive dealerships), intensifying the impact of low foot traffic.

Companies in advanced industries understand the seriousness of the situation and have already begun implementing changes to sustain their operations as COVID-19 continues its inevitable spread. Our recommendations for immediate and midterm actions focus on five areas (Exhibit 1). These recommendations will help companies plan ahead, set priorities, and accelerate their response during supply chain disruptions or lowered production capacity. We offer these recommendations to assist advanced industries companies with their long-term planning and recovery efforts.

Exhibit 1

Companies in advanced industries must respond quickly and decisively to the threat of COVID-19.

Establishing a nerve center



Establishing a nerve center as the central crisis steering organization

Companies in advanced industries need a nerve center—a dedicated team in a central location—to coordinate their response to COVID-19 across locations and business units. Staffed with a cross-functional team that has decision-making power about important issues, a nerve center could focus on the following deliverables:

- *Creating a threat-map dashboard.* Working with IT, nerve-center leaders will use digital tools to create threat maps with real-time data imported from internal and public sources. For instance, a threat map may document disease spread in critical export markets, employee-absentee rates by location, dealerships' foot traffic, and supply chain disruptions.
- *Establishing a risk log.* While a threat map will make many risks visible, it will not capture every important development. If teams or functions become aware of any additional threats, they can immediately log the information in a database accessible to all critical employees, allowing the nerve center to respond quickly with interventions.
- *Developing an integrated plan.* A nerve center will get updates from all affected regions and functions—ideally, at least twice a week. Its leaders can then integrate these reports into a plan to ensure that all groups coordinate their efforts and follow best practices.

A nerve center typically has a simple meeting cadence and follows agile principles to eliminate bureaucracy in decision making. It also encourages transparency, providing employees, suppliers, customers, and shareholders with frequent updates about the potential risks of COVID-19 and the company's response. From inception, a nerve center can serve as the main source of information and single source of truth, with its leaders creating communication plans and aligning on key messages.

Protecting employees

Companies are acting to protect employee health and quickly relay information about potential threats

throughout their organizations. The advanced industries sector is no exception, with businesses taking measures that include splitting shifts to minimize employee contact, distributing protective gear, curtailing travel, providing on-site health monitoring, and increasing on-site sanitization. The specific measures will vary by role, location, and company. Some measures that may be universally valuable include the following:

- developing contingency plans that describe actions to take in different scenarios, such as how leaders will respond if their team members become infected
- enabling employees to work from home using remote-collaboration tools
- updating operational procedures—from safety protocols to operating hours to ramp-up processes—if companies deviate from standard processes

Since employee safety comes first, some plants will function under capacity or find that their suppliers may not meet delivery dates. Their response to such challenges is critical and will help set the stage for a quick recovery. For instance, companies could set new production priorities if their capacity falls, looking at factors such as the strategic importance of each customer, the potential for product shortages, and possible revenue decreases. Leaders from the production, supply chain, and marketing and sales functions will likely collaborate on these decisions.

Screening and safeguarding the supply chain

Advanced industries companies have large and complex supply chains that stretch across continents and include hundreds or thousands of vendors. Beyond their direct suppliers, company leaders may have little insight about supply issues. But with COVID-19 disrupting production globally, more transparency is essential. For example, automotive OEMs cannot simply determine if their weather-stripping suppliers are functioning; they also need information about disruptions at the companies that provide rubber to the weather-stripping suppliers.

Companies do not have time to build all the capabilities that they would want to have, but they can still take some important steps. First, they could work closely with their direct suppliers to gain greater insights about their production capacity and possible issues. It is critical to get this information now. Given the length of supply chains, the impact of disruptions beginning in January 2020 may not be felt for several months. Ideally, companies and their direct suppliers might create a joint agreement to monitor lead times and identify potential problems.

If companies anticipate shortages from their preferred vendors, they can consider other options that they have previously vetted or seek new suppliers from lower-risk areas. When onboarding new suppliers, companies could expedite the qualification process for parts and evaluate how future shifts in suppliers might affect negotiating dynamics.

Other actions that companies could take to alleviate shortages include prebooking freight capacity, stocking up on critical parts, purchasing components that their direct vendors might need, and making plans to leverage existing aftermarket inventory.

If critical suppliers shut down operations, companies could establish recovery plans that describe how they will deal with shortages, support their vendors, and promote recovery. Leaders could also work with individual business units to determine how supply chain disruptions could affect production.

Companies that depend on Chinese suppliers have not yet experienced the full impact of the shutdown, but they will likely do so in the coming weeks as their direct suppliers cannot get the parts or materials needed for production. Some Chinese suppliers have begun to recover, and companies can monitor these developments closely.

When possible, companies might want to build stock, either of components or finished products, so that they can continue to meet customer needs for as long as possible.

Adapting marketing and sales to suit new consumer behaviors

In-person contact is essential to many purchases, especially those within the automotive sector, where customers traditionally have extensive interactions with salespeople at dealerships as they seek product information, consider their options, and evaluate available models. COVID-19 has changed this dynamic in hard-hit areas, since many people are staying at home, either voluntarily or because of quarantines and travel restrictions. To serve these regions, automotive OEMs can strengthen their online marketing and sales channels, such as by allowing customers and dealers to make offers and purchases through their computers.

For many customers, online information cannot substitute for a test drive. In these cases, OEMs could consider supporting dealerships in providing at-home demonstrations and test drives for customers. Such strategies limit personal contact while also giving customers the on-road experience they need.

Why COVID-19 could be especially challenging for companies in advanced industries

COVID-19 will affect all sectors, but the following factors may exacerbate problems for companies in advanced industries:

- a lack of transparency into the supply chain, beyond direct vendors, making it hard to anticipate potential disruptions
- complex global footprints that make it difficult to develop a coordinated response
- an automotive-sales model that involves dealership visits and test drives—something that may be challenging or impossible if customers cannot leave the house or voluntarily stay at home

Finally, automotive OEMs could consider how COVID-19 will affect their product mix on a monthly basis, then adjust their incentives and promotions accordingly. If they are going to have a shortage of certain models or parts, then planned promotions or upselling may no longer be appropriate.

China provides a good example of these strategies in action, since many automotive OEMs have made some critical changes to ensure that they can still satisfy critical customer needs for transportation (Exhibit 2).

Maintaining financial health during disruption

COVID-19 will affect profits and liquidity by increasing procurement expenses and capital costs while simultaneously forcing customers to defer purchases. In some cases, these consequences are already apparent. To protect their business and rebound as quickly as possible, companies will benefit from financial stress tests

in which they examine their current cash flows and balance sheets. They can then determine how company finances might evolve if any of the scenarios defined by their nerve centers materialize.

Given the challenges ahead, companies will likely improve liquidity whenever possible, including by renegotiating agreements with suppliers, giving customers an incentive to make advance payments, and asking banks for extended payment terms. Cost control will be particularly important, and companies can establish spend-control towers to increase transparency. Ideally, functional leaders will review spending plans every few weeks and make changes, such as decreasing billboard spending in quarantined areas with little road traffic (Exhibit 3). Functional leaders can also review new spending requests in daily or weekly meetings, always considering whether COVID-19 will influence their returns on investment. With so much concern about profitability, leaders will likely be cautious about approving any new expenditures.

Exhibit 2

Companies in advanced industries must adapt their marketing and sales approach because of COVID-19.

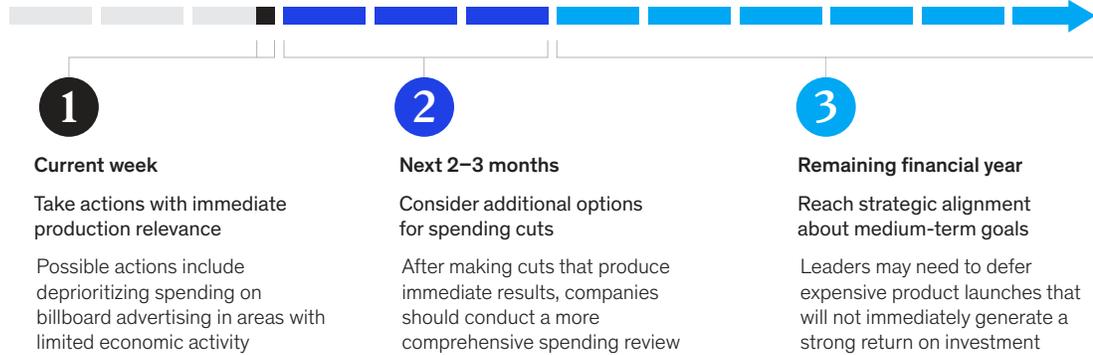
China example: COVID-19 changes customer journey for traditional, offline car purchases

	Observations	Action needed
1 Purchase trigger	Customers may be very concerned about getting transportation to help their families avoid public transit Deferral of car-purchase decisions because of economic uncertainty	1 Understand how COVID-19 affects customer concerns
2 Initial consideration	Uncertain availability of some models because of supply chain disruptions	2 Adjust marketing to focus on available models to avoid frustrating customers
3 Information gathering	Much wider usage of online channels as customers avoid dealerships	3 Shift marketing-channel mix online and develop better digital capabilities
4 Purchase experience	Customers want to avoid test drives and purchases at dealerships	4 Transport cars to homes for test drives and enable online sales channels

Exhibit 3

Companies in advanced industries must set new spending priorities, considering different time horizons.

A timeline of priorities



Over the longer term, leaders can look for other opportunities to reduce costs and review strategic goals. For instance, they might want to postpone costly product launches that would not increase profits during the upcoming fiscal year.

To protect their ecosystem, companies in advanced industries could look beyond their walls. As one example, automotive OEMs could help dealerships maintain their financial health by granting them more lenient payment terms, or

they help suppliers remain in business by allowing them to increase their prices.

The impact of COVID-19 will continue to be felt for months to come, but advanced industries companies can move quickly to protect their employees, customers, and other members of their ecosystems. The recommendations in this article represent an important first step—one that could minimize damage.

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