McKinsey & Company

Strategy & Corporate Finance Practice

Why your COVID-19 exit needs 'strategy inserts'

Targeted updates to your strategy can help you fight incrementalism and hit the right "escape velocity" for recovering from the COVID-19 pandemic.

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One of the most common questions our client CEOs ask us these days is, "How can I ensure that my 2021 strategic-planning process prepares me for the post-COVID-19 recovery?"

More than a year into the COVID-19 pandemic, the world continues the fight to safeguard lives and livelihoods from the coronavirus. While uncertainty remains higher than normal, optimism is on an upswing. Although some regions are suffering renewed outbreaks, the success of massive vaccination campaigns that are under way in other areas gives hope that the end of this awful pandemic is in sight.

If you have started your 2021 strategic-planning cycle, you are probably anticipating a flood of PowerPoint decks and asking yourself how to make sure you get something valuable out of the process. You may be asking yourself: How do I steer my company toward a COVID-19 exit? How do I shape an exciting postpandemic future for my business? How do I best leverage the energy and talent of my people to build momentum? How do I create strategic distance from competitors during this year of transition?

We would argue that for many companies, this is a real strategy moment.

The moves you make in the next few months could determine your company's path through the upcoming recovery period. Given that crisis exits often reset the competitive landscape, they represent crucial opportunities to get ahead of trends and extend the distance from competition. Furthermore, our research on past crises suggests that the momentum your business gains over the next 18 months may well carry it through many years to come. This context makes it all the more important that your 2021 strategic-planning process delivers what you need to devise, decide, and execute moves that exceed the typical annual incrementalism.

If you have any doubts about whether you can establish a clear direction for the moves that matter most right now, such as the speed of resource reallocation, the scale of your strategic initiatives, and the level of differentiation you can achieve, then you should act now. Some organizations, including a major European consumer-products company, have decided to fundamentally overhaul the process of how they develop strategy to ensure their COVID-19 exit is executed correctly. However, if you opt to avoid performing "open-heart surgery" on your strategy process at this point, you have another option: keep "the machine" running, but find a way to make it produce answers to your most pressing strategic questions.

To improve the chances of that happening, you can deliberately fill the gaps that most concern you in your strategy process. These could include interventions to identify new growth pillars for the future corporate portfolio, create breakthrough business and market strategies in priority areas, or proactively shape the evolution of your industry structure. We call these elements "strategy inserts." They are short interventions designed to help you get what you need from your 2021 strategy process, fight the incrementalism that so often weakens strategic planning, and keep ahead of economic trends as the pandemic continues to evolve.

Why strategy is so important right now

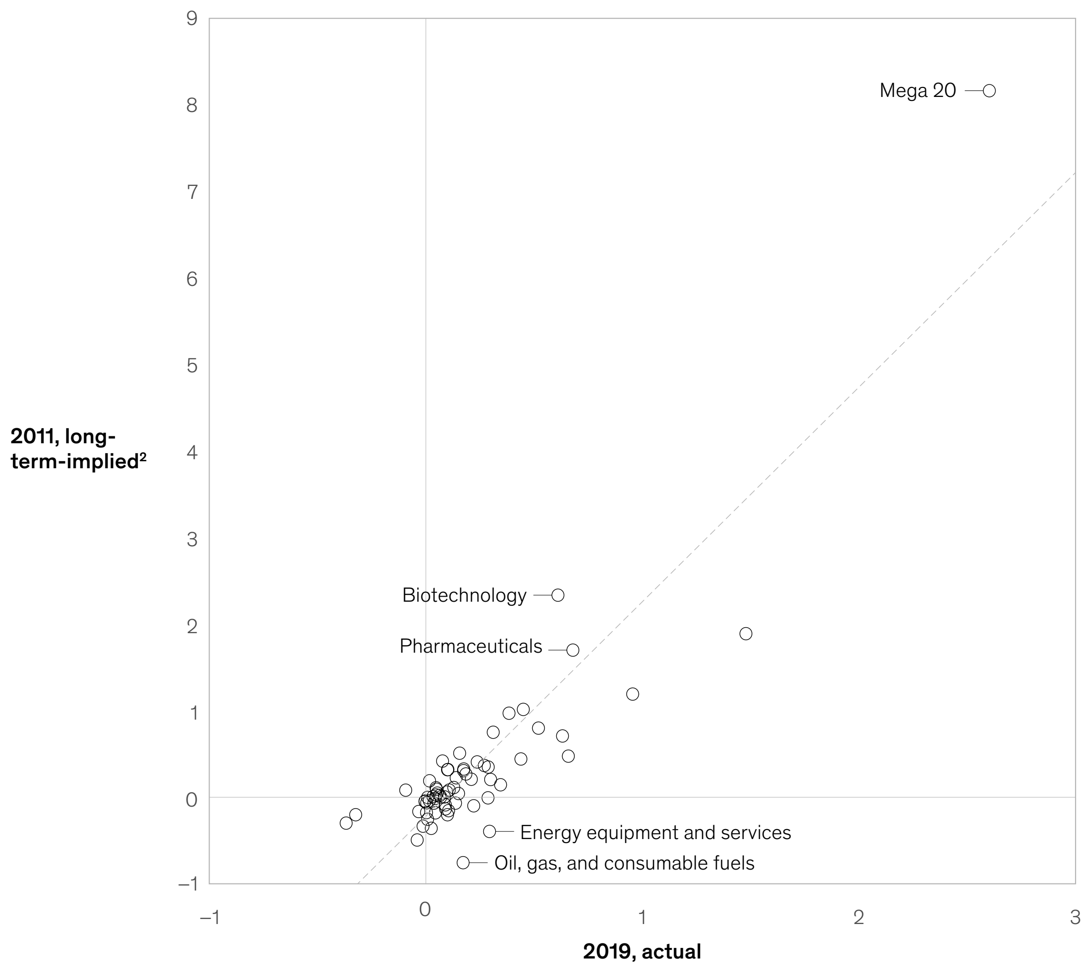
Not since World War II has the global economy experienced such dramatic gyrations in GDP, nor such sharp spikes in uncertainty. What makes this economic event especially unusual is its unprecedented pace and scale combined with the amplification of trends it has ushered in. Unlike the Great Recession that began in 2008, today's patterns were not created by a liquidity crunch that indiscriminately hit companies, industry sectors, and countries. That crisis led to an intense reshuffling of industries and companies. The economic situation today has been shaped by virus-induced lockdowns and related changes in customers' and business owners' behaviors. By materially accelerating trends such as digitization and e-commerce that were already well under way, this crisis has reinforced the positions of industry leaders and laggards.

Curiously, while our economies were struggling to process a once-in-a-century event, the stock markets recovered quickly from the initial drop. As of late May, capital markets were up roughly 25 percent from their pre-COVID-19 peak. You might argue that a sense of relief and a certain measure of exuberance are at play, but it turns out that stock markets are great predictors of long-term trends. Some initial analyses reveal an astonishingly high correlation between historic expectations from the stock market and the way major trends played out. When comparing projected levels of economic profit based on 2011 market valuations[1] with the economic profit that sectors actually generated eight years later, we found that the markets in 2011 were right on the money in predicting the trends that would have the highest impact on industry performance (Exhibit 1).

Exhibit 1

The markets accurately predicted the trends that would drive industry performance in the recovery from the 2008 financial crisis.

Average economic profit by industry,[1] preliminary analysis results, $ billion



[1]Largest publicly listed companies by revenue in 2018 with data available from 2003 to 2018 (n = 2,853).
[2]Long-term-implied economic profit is based on Dec 31, 2011, market valuation.

[1] Measured as long-term-implied (LTI) economic profit

So, what do the markets tell us about trends that will shape the post-COVID-19 world? It turns out that major trends we were observing before the crisis have been greatly accelerated and are expected to be the source of substantial economic profit for years to come. Some of the most prominent ones include the following:

— *The future is tech.* Virtually every business is being transformed by digital technologies and AI. For example, large industrial organizations such as container-shipping terminals, which have operated in the same way for decades, are now employing new tracking technologies and AI-based yard-planning algorithms to reduce the number of "dead moves" that decrease terminal throughput.

— *The future is health.* The pandemic accelerated the deployment of innovative technologies and platforms that were already in development, mRNA-based vaccines being the most prominent among them. The value of government, philanthropic, and private investments in shared platforms and enduring infrastructure has been demonstrated in the starkest terms. Even the sharing of once proprietary data and insights is now seen by healthcare players as mutually advantageous.

— *The future is sustainability.* Major institutional investors have made it clear that sustainability is a critical driver of value. As Larry Fink, CEO of global asset-manager BlackRock, noted in his 2021 letter to shareholders, "the pandemic has presented such an existential crisis—such a stark reminder of our fragility—that it has driven us to confront the global threat of climate change more forcefully and to consider how, like the pandemic, it will alter our lives."

In simple terms, the writing is on the wall. The big challenge for you will likely not be figuring out what the future will look like but how *you* will be different in the future.

The starting point for your company's COVID-19 exit will be specific to your context, requiring unique choices about which trends to prioritize. In our book, *Strategy Beyond the Hockey Stick: People, Probabilities, and Big Moves to Beat the Odds* (Wiley, February 2018), we pointed out that staying ahead of industry trends is the single most powerful lever that management can pull to improve the probability of economic success. That implies reallocating resources to profitable growth areas, pursuing M&A to accelerate those shifts, and investing in capacity growth to capitalize on trends ahead of peers. These three portfolio-oriented moves explain 50 to 80 percent of companies' value creation and 80 percent of their top-line growth.

As mentioned above, crises quite literally make or break corporate fortunes. That's why the strategies you will put in place and how fast you execute them have never been more important than today.

Taking control of your post-COVID-19 future through strategy inserts

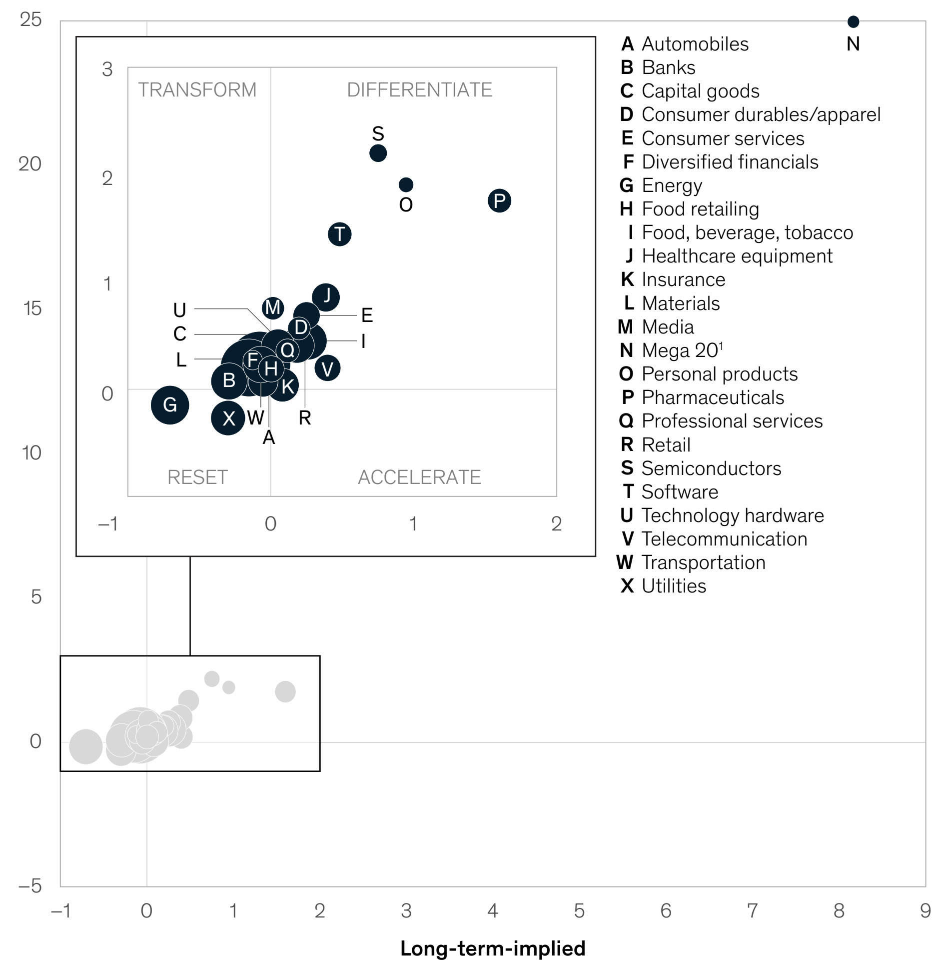
One of the biggest uncertainties today is a positive one. The rate at which COVID-19 cases are dropping and vaccinations are being rolled out suggests that many economies will grow above their 2019 levels sometime between the third quarter of 2021 and the first quarter of 2022. A COVID-19 exit is not in question; rather, it is whether our economies will grow at an aggregate rate of 20 percent or 40 percent between now and the next recession—the ranges we observed in the United States since the middle of the past century. The outcomes in terms of prosperity and value creation for businesses will be very different under these two scenarios.

While this macro uncertainty will play an important role, the path each business takes also matters. Not every company will need to fundamentally reposition its business to be successful going forward, but it is important to be realistic about your starting point and how much of a reset is needed (Exhibit 2).

Exhibit 2

Companies facing negative market expectations will need to reset their business or transform.

Average economic profit by industry, $ billion (circle size = number of companies)



[1]20 companies that added the most economic profit.
Source: Corporate Performance Analytics by McKinsey; S&P Global

Your industry and your relative position within it will dictate how strongly you will need to intervene to position your business ahead of trends and competition. The one thing that is certain is that your strategy process in 2021 needs to deliver these moves:

— a clear direction and sufficient resource reallocation to stay ahead of trends

— a calibration that determines whether your moves are big enough to get you where you need to be

— the confidence about your path to increasing differentiation relative to competitors

How certain are you that your 2021 strategic-planning process will get you what you need?

If you feel there are gaps, consider selectively intervening by deploying strategy inserts into your ongoing strategy process (Exhibit 3). These are proven methods and approaches to boosting the quality of specific outcomes.

Exhibit 3

Certain actions can help fill the gaps in your strategy.

Strategy inserts

Framing the strategic posture	**Defining the right big moves**	**Linking strategy to action**
– Calibrated ambition	– Growth analytics	– Dynamic road map
– Activist teardown	– Scenario planning	– Initiative tracking
– ESG[1] teardown	– Collision workshop	– Performance management
– Digital disruption	– Removing bias	– Stakeholder engagement

[1]Environmental, social, and governance.

Some of the strategy inserts you might find relevant include:

— *Framing your starting point to ensure you are asking the right strategic questions.* One company inserted an “*activist teardown*” into their strategy process to take a contrarian view of the organization’s performance. By looking at the company through the lens of an activist investor, business leaders were able to identify ideas and targets for driving better financial returns that were less constrained by internal assumptions.

— *Colliding major trends and subtrends to synthesize investable business ideas.* A large technology firm wanted to seize the opportunity created by its customers increasingly looking to automate their processes. It opted to insert a “*collision workshop*” into its strategy process: a method of identifying the convergence of various trends in technologies, business models, and consumer behaviors. The resulting insights led the company to place major bets in three new markets.

— *Uncovering growth pockets or new markets.* A large chemicals player sought to identify new growth opportunities for existing products. It turned to a “*growth analytics*” solution, using an AI tool to mine 400 billion web pages for new product applications and customer segments it could pursue. By inserting this powerful analytical process into its idea generation, the company unearthed 30 adjacent applications for its offerings and invested in five of them.

— *Finding ways to get ahead of climate risks.* For oil and gas companies, climate change and concerns around sustainability are sources of both potential risks and new opportunities. One organization inserted an environmental, social, and governance (ESG) analysis into its planning to identify how climate controversies were impacting its noncore businesses. As a result of this “*ESG teardown*,” it adopted a more holistic set of levers to improve its ESG performance and ratings.

— *Debating real alternatives.* In an effort to *remove bias* from decision making, the leaders of a major European carmaker conducted a series of structured workshops around the major strategic choices they were facing. This not only created a common language and shared fact base among the team but also increased their confidence in the decisions because a genuine debate on the alternatives had allowed them to reveal hidden assumptions and prosecute questions to a level that had not been possible before.

These are just a few examples of practical strategy inserts that led to breakthrough outcomes without requiring companies to rewire their strategic-planning processes. There are numerous other strategic gaps or concerns that could benefit from strategy inserts, such as making your resource allocation more dynamic to ensure that potential breakout businesses have the resources to succeed; assessing whether you are in the right businesses to which you bring an ownership advantage; or developing a systematic approach to M&A that will advance your strategy. Once you are clear on what is missing from your current process, you can make a specific strategic intervention for your 2021 planning cycle to boost your odds of emerging from the pandemic stronger than you entered it.

Whatever challenges your business confronts today, you may have a historic opportunity to pivot toward trends that will shape the next decade and beyond. It is imperative to have confidence that your strategy can get you to that new destination. By improving your strategy process using strategy inserts, you can accelerate your response to changes in your business context and your pace of reallocating resources to new opportunities.

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