

Fast-Forward China: 30 ways companies are reactivating business and reimagining the future beyond COVID-19

by Nick Leung, Joe Ngai, Jeongmin Seong, and Jonathan Woetzel

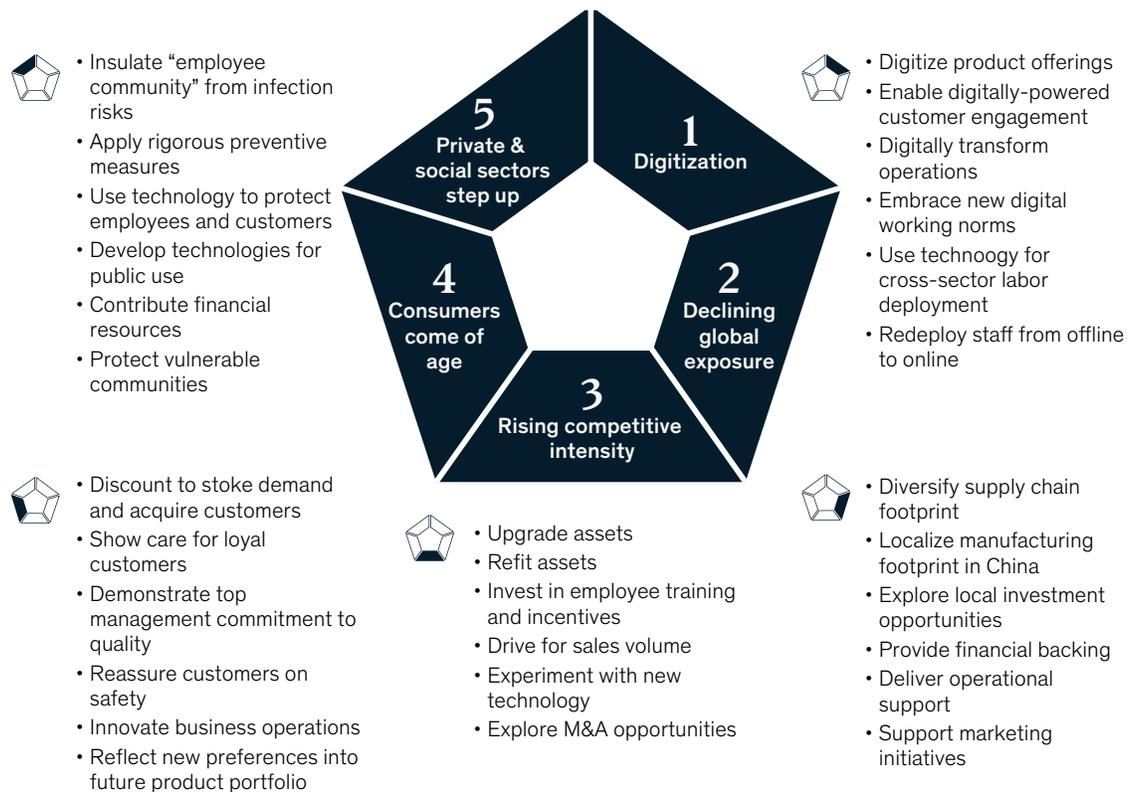


As the first country to suffer the outbreak of COVID-19, the Chinese economy was severely affected, with official statistics declaring first-quarter year-on-year GDP growth at negative 6.8 percent. Leading companies across sectors responded swiftly with a range of measures aimed at protecting their employees' health and safety, and engaged in creative ways to protect their business. Well before the outbreak subsided and lockdowns were lifted, they worked hard to find ways to reactivate business activities, identify new platforms for growth, and position themselves to survive the crisis—and thrive beyond it. Some firms doubled sales during the crisis, while others acquired tens of millions of new customers.

To understand what leading companies did to reactivate their business and adapt to a post-COVID-19 world, we conducted a study of more than 200 examples of initiatives taken by companies from across 15 industries in China, which we then sorted into 30 categories (Exhibit 1). These represent just a sample of the millions of microeconomic actions taken by individual companies that, when viewed in the aggregate, drove the acceleration of five major macroeconomic trends during the few months that COVID-19 'pressed the pause button' on the world's second largest economy: digitization, declining global exposure, rising competitive intensity, maturing consumers, and the stepping up of the role of the private and social sectors.¹

Exhibit 1

30 initiatives taken by companies in China to reactivate their business and reimagine the future during COVID-19.



Source: McKinsey analysis

¹Nick Leung, Joe Ngai, Jeongmin Seong, and Jonathan Woetzel, *Fast-forward China: How COVID-19 is accelerating five key trends shaping the Chinese economy*, McKinsey, May 6, 2020

Our research shows that companies that acted swiftly and decisively are likely to emerge stronger out of the crisis, and will be better prepared to withstand the next major disruption. On the other hand, companies that were slow to respond or which responded with ineffective measures were more likely to suffer a bigger hit to their business. Department stores that failed to make the shift to digital channels while their online competitors experienced a rapid expansion on the back of demand for contactless commerce, is just one example. Faced with immense pressure on their business, some firms opted for short-term solutions that backfired, such as salary cuts without proper communications that destroyed staff morale (and were leaked to the public), and price increases aimed at recouping revenue losses, but which ended up disappointing customers and turning them away.

In our research, we also identified several enablers—most of which existed prior to the outbreak of COVID-19—that were essential to the success of the reactivation initiatives companies took. These included a “through-cycle” mindset, the ability to build a pool of financial reserves and secure required funding, sufficient management capacity, an agile organization, adaptable technology infrastructure, and teams of technology and digital experts, among others.

Even as the number of confirmed cases of COVID-19 slows in some parts of the world, in the absence of proven treatments or vaccines, the possibility of new waves of infection and the reinstatement of lockdowns and other measures that impact economic activity are likely to be part of the “next normal.” Indeed, experts from several global institutions, including the World Health Organization, expect we will be grappling with the novel coronavirus for many years to come.

For companies operating inside China, these can serve as useful reference cases based on observations across sectors. And, as other economies around the world gradually lift

lockdowns and people slowly get back to work, the experience of companies in China could provide a reference for companies elsewhere in the world that are grappling with the same disruptions to their business, and thinking through similar challenges to reactivating their operations and planning for the future.

Fast-forward trend 1: Digitization

While digitization may have been, for some companies at least, just a widely used buzzword before the COVID-19 crisis hit China, once many cities were forced into lockdown, businesses hoping to survive discovered just how essential it was to go digital. Companies in China pursued a variety of digital transformation initiatives, including digitization of product offerings, customer engagement, and operations, as well as rolling out new digitally-enabled working arrangements such as work-from-home and remote meetings, sharing staff with other organizations, and redeploying talent to keep them employed, productive, and safe (Exhibit 2). Some companies were able to drive these initiatives because they had already established a set of enablers prior to the outbreak. These include capable technical teams that can rapidly design and deploy digital solutions, adaptable technology infrastructure that can accommodate changes to processes and shifting demand, and agile organizations that are capable of embracing new ways of working. Companies that accelerated their digital transformations were able to ensure business continuity and even capture new growth opportunities during COVID-19. In a post-COVID-19 world, digital transformation efforts are only likely to gain momentum.

Digitize product offerings: Physical distancing has accelerated the need for digital solutions. With the onset of COVID-19, Ping An launched a one-stop portal for virus-related updates and advice.² When their online medical consultation app, Ping An Good Doctor, offered information and advice to deal with the epidemic, visits to the platform surged to more

² PingAn launches online health solution “AskBob” to provide latest COVID updates, bimtdoctor.com, January 2020, <http://www.bimtdoctor.com/yhij/36620.html>.

Exhibit 2

Fast-Forward trend 1: Digitization

Examples of business digitization in China during COVID-19

Digitize product offerings

>600M

Views of a new movie 3 days after its launch on Tik Tok/Xigua platforms

Enable digitally-powered customer engagement

~35x

Increase in VR showroom customer engagement on real estate platform Beike in February compared with January

Digitally transform operations

~1.6M

Online drug orders processed on the Yaoshibang platform serving pharma companies and pharmacies in February

Embrace new digital working norms

~3.0x

Increase in DingTalk's monthly active users in March 2020, compared with December 2019

Use technology for cross-sector labor deployment

~2,700

People hired by Freshippo's "employee co-sharing" program in 10 days

Redeploy staff from offline to online

~10,000

WeChat groups created by Perfect Diary to encourage offline makeup experts to engage with customers online

Key enablers

- Capable technical teams that can rapidly design and deploy digital solutions
- Adaptable technology infrastructure that can accommodate changes to processes and shifting demand
- Agile organizations that are capable of embracing new ways of working

Source: Literature search; Expert interviews; McKinsey analysis

than 1.1 billion in just 20 days.³ Instead of waiting for cinemas to reopen, several movie producers distributed titles on streaming video platforms. "Lost in Russia" was released for free on TikTok and Xigua, video platforms owned by ByteDance, racking up more than 600 million views in the first three days.⁴

Enable digitally-powered customer engagement:

Quarantines and city lockdowns inspired customer-facing companies to rethink customer interactions, particularly in industries that rely on in-person interactions, such as real estate. Beike, an online residential real estate platform, launched more

than 10 million virtual property showings through its virtual reality (VR) technology, 35 times the number of such VR-based showings conducted in January. The surge in popularity of VR-powered property showings inspired Beike to host a campaign featuring 360,000 real estate salespeople and targeting 10 million customers in early March.⁵ AB InBev's Budweiser brand launched new e-commerce and omnichannel in-home customer experiences, including DJ livestreams and e-gaming events that provided a platform for customizing marketing and home delivery promotions for loyalty program members.⁶ Baidu, JD, Ali Health, and Tencent all launched free online medical

³ Ping An Good Doctor Launches Global Medical Consultation Platform in 24/7 Support of Anti-COVID-19 Efforts, PRNewswire, April 8 2020, <https://www.prnewswire.com/news-releases/ping-an-good-doctor-launches-global-medical-consultation-platform-in-247-support-of-anti-covid-19-efforts-301037344.html>.

⁴ ByteDance leverages loss in Russia to make a strategic move, Huxiu, February 12 2020, <https://m.huxiu.com/article/339103.html>.

⁵ Beike VR property sales reshaped the sales service of real estate industry, Xinhua, March 13, 2020 http://www.xinhuanet.com/house/2020-03-13/c_1125706856.htm.

⁶ Xin Huang, Alex Sawaya, Daniel Zipser, How China's consumer companies managed through the COVID-19 crisis: A virtual roundtable, McKinsey, March 2020.

consultation platforms. According to interviews conducted by McKinsey with general managers of leading pharmaceutical companies in China, all of the executives interviewed said their companies used digital tools, and around 70 percent indicated they may adopt an online-offline sales rep model after the epidemic.⁷

Digitally transform operations: Amid cashflow challenges, companies were pressed to accelerate digitization to both minimize costs while maintaining strict quality control. Yaoshibang, an online B2B drug sales platform for pharmaceutical companies and pharmacies, processed 1.6 million orders in February, triple the level from the same month last year.⁸ Digitized manufacturing is also accelerating as it can enhance productivity, reduce the need for human labor, and provide a horizontal view on their suppliers. For example, Haier, provides an industrial IoT platform that can enable transparency across the supply chain and shorten manufacturing time. The platform allows the digital manufacturing of 100,000 masks and protective clothing daily.⁹ Using an analytical model powered by big data, Procter & Gamble China was able to maintain smooth production runs and fine-tune downstream distribution based on information about the coronavirus and its projected trajectory.¹⁰

Embrace new digital working norms: During the lockdown in China, remote working and automation allowed companies to remain productive. However, remote working models also expose companies to inefficiencies, and increase the potential for leaks of confidential information. Many firms leveraged tools

to help mitigate these risks, while also adopting new digitally-enabled methodologies. In the post-COVID-19 world, companies may consider adopting a hybrid model that combines the lessons learned from this experiment with the features of offline and face-to-face interaction. Many industries have officially approved digital work arrangements. For example, some Chinese insurers now allow agents' virtual client meetings to count towards their key performance indicators, whereas only face-to-face meetings were included in the past. Alibaba used internally developed software to manage network security and security for individual devices.¹¹ Externally, it promoted its DingTalk corporate communication platform to enterprise customers. DingTalk's monthly active users rose from about 65 million at the end of 2019, to roughly 177 million by March 2020, a nearly three-fold increase.¹² Alibaba also designated one employee during each online meeting to track and evaluate the efficiency and productivity of the session, and provide immediate feedback on ways to improve.¹³ Tencent Meeting's daily active users exceeded 10 million just two months after it was launched.¹⁴

Use technology for cross-sector labor

deployment: While companies enduring hard times encountered spare capacity issues, expanding industries required new talent as they ramped up production. These companies modified the traditional single-company recruitment process by forming shared labor platforms between companies. Vveryeast.cn, China's online recruitment platform, and Cainiao, Alibaba's internet solution arm, set up a platform that enabled tourism companies to

⁷ Sizhe Chen, Franck Le Deu, Gaobo Zhou, and Josie Zhou, *How COVID-19 changes the game for biopharma in China*, McKinsey, April 24, 2020

⁸ *Yaoshibang handled 1.58 orders during COVID*, ChinaZ.com, February 27, 2020, <https://m.chinaz.com/mip/article/1113317.shtml>.

⁹ *Haier and Alibaba captured new business opportunities during COVID*, Baidu, May 6 2020, <https://baijiahao.baidu.com/s?id=1665917387605732914&wfr=spider&for=pc>

¹⁰ *P&G was well prepared for the epidemic crisis*, Guangzhou Daily, March 20, 2020, <https://baijiahao.baidu.com/s?id=1661626775767174433&wfr=spider&for=pc>

¹¹ Raphael Bick, Michael Chang, Wei Wang, Tianwen Yu, *A blueprint for remote working*, McKinsey, March 23, 2020

¹² Qianfan, 2020 March Mobile App Top 1000, Analysys Qianfan, retrieved April 23, 2020, <https://qianfan.analysys.cn/refine/view/rankApp/rankApp.html>; Analysys Qianfan, 2019 December Mobile App Top 1000, Analysys Qianfan's official post on Zhihu, January 16, 2020, <https://zhuoanlan.zhihu.com/p/102983491>

¹³ Raphael Bick, Michael Chang, Wei Wang, Tianwen Yu, *A blueprint for remote working*, McKinsey, March 23, 2020

¹⁴ *Tencent's profit grew 30 percent in the first quarter*, Sina, May 13, 2020 <https://finance.sina.com.cn/stock/s/2020-05-13/doc-iirczymk1463195.shtml>

'lend' employees to companies from in-demand sectors such as e-commerce and logistics.¹⁵ Alibaba's Freshippo supermarket brand launched an 'employee co-sharing' program, taking on workers from shuttered restaurants and retail outlets under simplified onboarding procedures. Within the first 10 days, it had partnered with more than 40 enterprises and hired about 2,700 employees.¹⁶

Redeploy staff from offline to online: Chinese cosmetics company Perfect Diary turned offline 'beauty advisors' in 49 stores who typically assist with sales into opinion leaders¹⁷ through their 10,000 WeChat groups¹⁸ and livestreaming apps. The company also relocated offline staff to serve as online customer service assistants to manage surging online demand.¹⁹ In February, viewership of Perfect Diary's livestreaming shows grew by three to 10 times, as customers turned to new forms of brand engagement.²⁰ Once the outbreak had passed, staff resumed their offline beauty advisor roles, and Perfect Diary was able to sustain its business momentum.

Fast-forward trend 2: Declining global exposure

Even prior to the outbreak of COVID-19, China's engagement with the rest of the world was undergoing a fundamental shift. As the McKinsey Global Institute identified through its China-World Exposure Index, China's exposure to the rest of the world has declined over the past decade, while

the world's exposure to China has increased on a relative basis. The crisis has accelerated this trend with many companies doubling down on their China supply chain while others diversified their risk outside of China (Exhibit 3). Companies that have pursued these changes have been enabled by dynamic resource allocation that allows them to adapt to a changing environment, operational capabilities to explore new opportunities, and a partnership mindset to ensure long-term sustainability across the value chain.

Diversify supply chain footprint: Before the outbreak of COVID-19, many companies were already evaluating their manufacturing sites with a view to more closely managing risk and meeting growing demand in other regions. The epidemic disrupted global supply chains, causing companies to revisit their production line and supplier strategies. Southeast Asia and India typically have been a target location for diversification, under the so-called 'China+1' strategy. For example, a global smartphone maker was reportedly planning to shift 30 percent of their production to Southeast Asia.²¹ Chinese companies are not an exception, as they seek to globalize their businesses and expand into new markets. Vivo and Xiaomi, for example, are expanding production volume in India to capture growing market demand.²² Chinese solar players have moved some manufacturing lines to Vietnam and India.²³

Localize manufacturing footprint in China: Another trend we observed during the COVID-19

¹⁵ *Flexible recruitment may become a new 10-year trend*, Meadin.com, February 18, 2020, <https://kuaibao.qq.com/s/20200218A03BJE00?refer=spider>

¹⁶ *Freshippo launches "employee co-sharing" in 40 enterprises for 2700 employees*, 163.com, February 2020, <http://zj.news.163.com/20/0216/10/F5GHOTLH04099C50.html>

¹⁷ *Interview with the CMO of Yatsen, the mother company of Perfect Diary*, Jocal, February 27, 2020, http://www.jcoal.com/chanjing/20200305_0319069.html

¹⁸ Perfect Diary, Johnny Ho, Daniel Hui, Aimee Kim, Yuanyan Zhang, *Cautiously optimistic: Chinese consumer behavior post-COVID-19*, McKinsey, March 2020

¹⁹ *Interview with the Head of E-commerce of Perfect Diary*, Pinguan, February 27, 2020, <https://www.pinguan.com/article/content/18318.html>

²⁰ *Interview with the CTO of Yatsen*, Ebrun, February 21, 2020, <http://www.ebrun.com/20200222/374562.shtml>

²¹ *China's Smartphone Production Falls Under 70% for the First Time in 2019*, CounterPoint, March 23, 2020, <https://www.counterpointresearch.com/chinas-smartphone-production-falls-70-first-time-2019/>

²² *China's Smartphone Production Falls Under 70% for the First Time in 2019*, CounterPoint, March 23, 2020, <https://www.counterpointresearch.com/chinas-smartphone-production-falls-70-first-time-2019/>

²³ *Covid-19 and dependence on China's PV supply chain*, PV magazine, March 30, 2020, <https://www.pv-magazine.com/2020/03/30/covid-19-and-dependence-on-chinas-pv-supply-chain/>

Exhibit 3

Fast-Forward trend 2: Declining global exposure

Examples of supply chain restructuring in China during COVID-19

Diversify supply chain footprint

~30%

Share of production of a global smartphone maker relocated from China to Southeast Asia

Localize manufacturing footprint

~4,000

Electric vehicles manufactured per week by Tesla's Shanghai factory in 2020

Explore local investment opportunities

~100%

Share owned by leading financial players on their China JVs as part of their global resource reallocation

Provide financial backing

~1bn RMB

Ctrip's "Comradeship" plan to reduce hotels and travel agencies' commissions and charges

Deliver operational support

~150

Staff dispatched by an automotive company to resolve suppliers' labor shortage during lockdown

Support marketing initiatives

~1.5bn RMB

Invested in marketing by JD's "Spring Rain Plan" to help small suppliers stay active

Key enablers

- Dynamic resource allocation that allows them to adapt to a changing environment
- Operational capabilities to explore new opportunities
- A partnership mindset to ensure long-term sustainability across the value chain

Source: Literature search; Expert interviews; McKinsey analysis

crisis is the localization of value chains in China. This was a response to disruptions in global supply chains as production plants shut down in other countries. It was also to meet rising local demand in China. Tesla's new factory in Shanghai gives it a local production base from which it can deliver vehicles more quickly to customers, reduce import tariffs, and expand its access to the Chinese market. Tesla recently announced plans to expand weekly production from 3,000 units to 4,000 units.²⁴

Explore local investment opportunities:

Strengthening the China footprint also applies

to service sector companies, especially as China reduces regulatory barriers to ownership in some sectors. Foreign financial institutions such as JP Morgan²⁵ and HSBC are deepening their footprint in China through the full acquisition of their joint venture partnerships.²⁶ Global pharmaceutical companies are also putting more resources into China. Boehringer Ingelheim built their first overseas research center in Shanghai with the first-phase-investment of EUR 3 million.²⁷ Novo Nordisk launched a new program during COVID-19 aimed at accelerating registration of innovative drugs in China by partnering with Chinese hospitals.²⁸

²⁴ Tesla Shanghai fab is planned to realize weekly production of 4,000 units in June at the earliest, Sina, May 19, 2020, <http://auto.sina.com.cn/news/zz/2020-05-19/detail-iircuyvi3824841.shtml>

²⁵ J.P. Morgan Applies to Take Full Control of Its Chinese Futures JV, YICAI, April 29, 2020, <https://www.yicaiglobal.com/news/jp-morgan-applies-to-take-full-control-of-its-chinese-futures-jv>

²⁶ Chad Bray, HSBC to take full control of its Chinese life insurance joint venture, South China Morning Post, May 4, 2020, <https://www.scmp.com/business/banking-finance/article/3082791/hsbc-take-full-control-its-chinese-life-insurance-joint>

²⁷ Foreign pharma companies look for opportunities in China, Xinhua, April 29, 2020, http://big5.xinhuanet.com/gate/big5/www.xinhuanet.com/2020-04/29/c_1125924092.htm

²⁸ Liu Zhihua, Novo Nordisk launches China Essentials program, China Daily, April 27, 2020, <https://global.chinadaily.com.cn/a/202004/27/WS5ea650f5a310a8b241151f5d.html>

Provide financial backing: Companies are only as strong as the weakest link in their supply chain. COVID-19 highlighted the need to strengthen domestic Chinese supply chains, with many companies launching initiatives to provide financial, operational, and marketing support to their suppliers. Online travel services platform Ctrip launched a 1-billion-RMB ‘comradeship’ plan to support partners. For eligible hotels, Ctrip provided marketing support, and subsidized commissions for six to 12 months. For offline agencies, Ctrip alleviated their financial burden by eliminating management fees for three months.²⁹ Alibaba launched the ‘2020 Spring Thunder Initiatives’ (single quotes) to support local small- and medium-sized (SME) vendors that supply their e-commerce platforms. Alibaba also helped accelerate SMEs’ digital transformations, and extended settlement services until June 30 to help ease cashflow pressures.³⁰

Deliver operational support: During the crisis, many companies in China provided operational support for their supply chain partners to ensure the smooth delivery of essential goods. While food delivery services was one of the few industries that experienced growth during the COVID-19 pandemic, many of their partner restaurants struggled to survive. Food delivery company Meituan helped restaurants quickly pivot to food delivery by streamlining its five-step restaurant onboarding process to just six hours.³¹ During the peak of the epidemic, Meituan increased its prepared food and grocery revenue by 400 percent.³² A leading automotive player deployed 150 staff to resolve supplier bottleneck issues, and serve as temporary labor for suppliers whose employees had not yet returned to work.

Support marketing initiatives: In e-commerce, JD.com’s ‘Spring Rain Plan’ supported small suppliers by investing 1.5 billion RMB worth of marketing resources. The online retailer integrated seven platforms to stimulate sales, offering livestreaming, membership discounts, and coupons, while lowering merchants’ settlement thresholds to enable their suppliers to remain active.³³

Fast-forward trend 3: Rising competitive intensity

While China has long been marked by exceptional levels of industry competition, the substantial decline in demand and the lockdown that gripped the nation between February and April notably increased its intensity. While some companies suffered from the drop in demand and the disruption of supply chains, other companies used this period to reposition themselves as even stronger players both during the crisis and beyond. Some firms turned the downtime into a platform for renewal and growth through refitting core assets and training employees, while others adopted bold strategic moves aimed at shifting their competitive position, experimenting with new technology, and exploring M&A (Exhibit 4). These were enabled by a ‘through-cycle mindset’ to navigate through the downturn and invest in core competencies, management capacity to devote time on their growth agenda and debate bold moves, and resources to weather short-term operational challenges while placing big bets for the future.

Upgrade assets: Many companies were forced to temporarily shut down or exit the market during this difficult period, while others became more conservative when it came to spending and investment. Some firms, however, made the most of their enforced downtime by investing in

²⁹ *Ctrip launches billion RMB fund to support suppliers*, Sina News, February 2020

³⁰ Shawn Lim, *Alibaba launches 2020 Spring Thunder Initiative to give Chinese SMEs a leg up during Covid-19*, TheDrum, April 7, 2020, <https://www.thedrum.com/news/2020/04/07/alibaba-launches-2020-spring-thunder-initiative-give-chinese-smes-leg-up-during>.

³¹ *Meituan launches “green track” delivery – expediting registration process to 6 hours*, Jianshu, February 2020, <https://www.jianshu.com/p/9d2704d1ff51>.

³² *Meituan contactless delivery results in 400 percent growth in groceries*, February 2020, http://www.360doc.com/content/20/0214/11/34440108_891912809.shtml

³³ *JD.com launches new program to support vendors affected by coronavirus*, cnTechPost, March 4, 2020, <https://cnetechpost.com/2020/03/04/jd-com-launches-new-program-to-support-vendors/>

Exhibit 4

Fast-Forward trend 3: Rising competitive intensity

Examples of business investment in China during COVID-19

Upgrade assets

~5x

System capacity improvement on Shanghai Metro's upgraded security equipment

Refit assets

~1,000

China Eastern Airlines' weekly cargo flights, accounting for half of their total international cargo flights

Invest in employee training and incentives

~90

Courses conducted online over 2 months for Springtour employees

Drive for sales volume

~2x

SF Express doubled sales volume in February, driven by their strong assets including air transport and a high degree of control over the logistics process

Experiment with new technology

~10

Days to complete construction of Huoshenshan Hospital using BIM technology

Explore M&A opportunities

57%

Executives in China plan to initiate M&A deals in the next 12 months, according to a survey

Key enablers

- A "through-cycle mindset" to navigate through the downturn and invest in core competencies
- Management capacity to devote time on their agenda and debate bold moves
- Resources to weather short-term operational challenges while placing big bets for the future

Source: Literature search; Expert interviews; McKinsey analysis

the maintenance, refurbishment, and upgrading of assets. During the outbreak, public transport operators such as Shanghai Metro accelerated equipment maintenance and upgrade programs. By upgrading security equipment, including installing automatic temperature testing technology, they increased the system's capacity to process passengers from 300 people per hour to 1,500 people per hour.³⁴ China Railway Shanghai Bureau also undertook comprehensive safety checks and upgraded ventilation systems to ensure air freshness in the stations and trains. They cleaned, disinfected, and repaired trains and central air

conditioning systems. They also installed 72 contactless thermometers in stations and enhanced staff training regarding virus prevention.³⁵

Refit assets: Global travel restrictions led to a huge drop in passenger demand for airline seats. To make use of spare capacity, China Eastern Airlines removed 160 seats from each of their A330-200 passenger aircraft so they could carry cargo. At the peak of the crisis, the airline was making 1,000 weekly cargo flights using refitted passenger airplanes, accounting for half of their total international cargo flights.³⁶

³⁴ *Contactless temperature-measuring security equipment appeared in Shanghai Metro*, ifeng, February 13, 2020, <http://finance.ifeng.com/c/7u2QruSSyzs>

³⁵ *China Railway Shanghai Bureau implemented serious gate control for Shanghai*, Hebnews, April 17, 2020, <https://www.jfdaily.com/news/detail?id=205853>

³⁶ *Wang Keju, Passenger jets converted to boost air freight space*, China Daily, April 23, 2020, <http://www.chinadaily.com.cn/a/202004/23/WS5ea0d6c5a3105d50a3d1823b.html>

Invest in employee training and incentives:

During the crisis, when their business came to a halt, Springtour launched 90 courses for their 2,200 employees aimed at deepening their knowledge of the travel business and of relevant regulations.³⁷ Between February and March, each employee spent about 160 hours taking online courses. Faced with the evaporation of their business, one restaurant group closed unprofitable stores and introduced stock incentive programs in their remaining restaurants to retain and motivate employees.

Drive for sales volume: COVID-19 not only had a negative impact on global consumer demand, it also reshaped the competitive dynamics in many industries. Even in the midst of the crisis, some companies leveraged their competitive advantages to accelerate growth and capture market share. Package delivery company SF Express doubled their sales volume in February, at the peak of the outbreak, when their peers showed drops of 30 percent or more. To ensure on-time deliveries, they used air transport, instead of widely-used road transport, which was severely constrained during large-scale city lockdowns. They also maintained a high degree of control over the logistics process through direct sales models, while their competitors, which used a franchise model, faced supply disruptions.³⁸

Experiment with new technology: Leading real estate developers connected existing building information modeling (BIM) systems with financial information to provide an integrated view of their cashflow position. The incredibly fast 10-day construction of Huoshenshan Hospital ignited strong interest throughout the real estate sector in prefabricated construction. The 70 percent less trash produced through prefabricated construction

than through traditional building methods was another powerful feature which echoed the growing sentiment among the general public around health and the environment.³⁹ Myhome Real Estate adjusted their supply chain strategy with a view to tapping into the prefabricated building trend.⁴⁰ In logistics, a few players experimented with robotic delivery during the COVID outbreak. JD.com made its first robot-powered delivery in Wuhan when an autonomous robot delivered large packages from their Renhe delivery station to Wuhan Ninth Hospital.⁴¹

Explore M&A opportunities: While the number of overseas acquisitions by Chinese companies plunged in the first quarter of 2020 by 43 percent and China's domestic deal volume also decreased by 30 percent on a year-on-year basis due to the crisis, M&A remains at the top of the agenda for many companies.⁴² A survey conducted between February and April 2020 shows that 57 percent of executives in China plan to initiate M&A deals in the next 12 months.⁴³

Fast-forward trend 4: Consumers come of age

China has experienced a gradual shift toward a consumption-driven economy over the past decade, in tandem with the vast expansion of the middle class and the evolution of consumer behavior and attitudes, trends accelerated by the outbreak of COVID-19. Companies in China pursued several initiatives to engage and adapt to the consumer during the crisis: some firms doubled-down on serving customers, implementing creative marketing tactics to stimulate demand and acquire new customers while making sure they were retaining their most loyal customers. Others

³⁷ *Springtour post-COVID plan*, wshgz.com, March 4, 2020, <https://www.wshgz.com/quwen/105996.html>

³⁸ *SF Express was growing in a declining industry*, 10jqka, April 24, 2020 <http://stock.10jqka.com.cn/20200424/c619630969.shtml>

³⁹ *Prefabricated building's advantages were outstanding to prevent epidemic*, Sohu, February 28, 2020, https://www.sohu.com/a/376491009_100134371

⁴⁰ *Myhome Real Estates: COVID's impact on real estate is limited for the long term. Prefabricated building is trending up*, Sina, March 3, 2020, http://k.sina.com.cn/article_3164957712_bca56c10020016euk.html?from=estate

⁴¹ Minghe Hu, *China's e-commerce giants deploy robots to deliver orders amid coronavirus outbreak*, South China Morning Post, February 21, 2020, <https://www.scmp.com/tech/e-commerce/article/3051597/chinas-e-commerce-giants-deploy-robots-deliver-orders-amid>

⁴² *China M&A market was less active in 1Q20*, PE Daily.cn, April 9, 2020, <https://m.pedaily.cn/news/453765>

⁴³ *Global Capital Market Confidence Barometer during the epidemic*, EY, May 18, 2020 <https://baijiahao.baidu.com/s?id=1667011438728498338&wfr=spider&for=pc>

redesigned their product and service offerings and changed their business models to meet the needs of current as well as future customers (Exhibit 5). These were enabled by a corporate culture of customer centricity, established relationships with their existing base of loyal customers, and organizational agility that allowed them to quickly identify changing customer preferences and make adjustments in product offerings and business processes to serve them.

Discount to stoke demand and acquire customers: The outlook for global consumer demand is understandably lackluster, but rather

than falling victim to pessimism, some companies are actively stimulating demand through new customer acquisitions, or loyalty enhancement schemes. Following an unprecedented plunge in air travel, the airline industry adopted proactive approaches to stoke demand. Spring Airlines, a low-cost carrier in China, slashed prices to stimulate traffic and build brand awareness.⁴⁴ Insurance companies including WeSure and Prudential rolled out free COVID-19 coverage to capture new customers.⁴⁵ WeSure's offering attracted 25 million new users, nearly doubling their September 2019 base of 30 million active users.⁴⁶ They automatically added COVID-19 coverage to existing insurance

Exhibit 5

Fast-Forward trend 4: Consumers come of age

Examples of consumer engagement in China during COVID-19

Discount to stoke demand and acquire customers

~25M

New customers attracted by WeSure's offer of free COVID-19 insurance coverage

Show care for loyal customers

>60M

VIP membership extensions offered by Air China

Demonstrate top management commitment to quality

~350M RMB

Sales by Gree electronics during 3 hour live streaming show hosted by the Chairwoman

Reassure customers on safety

10 measures

Implemented by Cathay Pacific to ensure the health and safety of passengers

Innovate business operations

~24,000

Robot deliveries conducted by the Huazhu Hotel Group in first month after the introduction of contactless service

Reflect new preferences into future product portfolio

>50%

New users installed wealth management and stock trading app in February were below 30

Key enablers

- A corporate culture of customer centricity
- Established relationships with their existing base of loyal customers
- Organizational agility that allowed them to quickly identify changing customer preferences and make adjustments in product offerings and business processes to serve them

Source: Literature search; Expert interviews; McKinsey analysis

⁴⁴ Spring Airlines launches optimal time to purchase tickets, Jianshu, March 2020, <https://www.jianshu.com/p/eb3026c2124d>

⁴⁵ COVID-19 treatment expenses are covered by the government. Is commercial insurance still useful?, Sina, February 13 2020, <http://finance.sina.com.cn/roll/2020-02-13/doc-iimxxstf1183684.shtml>

⁴⁶ How can Tencent WeSure grow healthy?, Sina, April 8 2020, <http://finance.sina.com.cn/stock/relnews/hk/2020-04-08/doc-iircuyvh6581295.shtml>

contracts, making customers who had contracted the virus eligible for 50,000 RMB in cash compensation.⁴⁷

Show care for loyal customers: Apart from acquiring new customers, tightening bonds with existing customers has helped many businesses with membership programs, particularly those reliant on high-value repeat customers. By maintaining close relationships, customer loyalty will translate to business value once the pandemic passes. These companies may choose to extend loyalty memberships, or reduce tier renewal thresholds, to retain top-tier members. For example, Air China offered automatic membership status renewal to reward all of their VIP members⁴⁸, covering more than 60 million customers.⁴⁹ Intercontinental Hotels Group (IHG) announced a 12-month membership status extension for all of its members, becoming the first hotel chain in China to do so.⁵⁰

Demonstrate top management commitment to quality: Chinese consumers are becoming more cautious about the quality of the products they buy. The epidemic has elevated awareness of the importance of health and safety features. Companies strengthened their value proposition and marketing communication by demonstrating top management commitment to quality. Executives of Chinese automaker SAIC hosted a livestream marketing event that addressed their commitment to high standards, attracting 500,000 viewers.⁵¹

The Chairwoman of Gree Electronics hosted a livestreamed broadcast to explain how they leveraged advanced technologies to enhance product quality and health. The event, which was held on Mother Day's, achieved sales of 310 million RMB in just three hours.⁵²

Reassure customers on safety: Companies launched several actions to meet their customers' increasing needs for safety, or strengthen their bonds with customers to enhance their reassurance during the economic downturn. Cathay Pacific issued 10 measures to deal with the crisis, including deep-cleaning its planes, reducing flights, conducting temperature checks, installing high efficiency particulate air filters, and instituting new health safeguards for its catering services.⁵³ Food delivery company Meituan recorded the temperatures of all those involved in contactless takeout deliveries, including chefs, waiters, and couriers, and shared the results with customers together with their food deliveries, providing both protection and peace of mind.⁵⁴

Innovate business operations: Companies are changing their business models to adjust to changes in customer requirements. Huazhu Hotel Group deployed smart contactless services in their 5,700 hotels during COVID-19, including self-help check-in, robot delivery, and immediate check-out.⁵⁵ Their robots conducted around 24,000 deliveries in the first month of implementation, and their self-

⁴⁷ WeSure launched the first welfare fund to compensate COVID-19 patients, Sina, February 6, 2020, https://tech.sina.cn/2020-02-06/detail-iimxste9233379.d.html?ivk_sa=1023197a

⁴⁸ Because of the epidemic, Air China VIP membership automatically extended for one year, Bnews, February 4, 2020, <https://baijiahao.baidu.com/s?id=1657609978944230579&wfr=spider&for=pc>

⁴⁹ Air China 2019 annual report, Air China, http://pdf.dfcfw.com/pdf/H2_AN202003311377298733_1.pdf

⁵⁰ Jackie Chen, Coronavirus: IHG, Hilton, Marriott offer membership and points extensions to Greater China members, Business Traveller, February 2020, <https://www.businesstraveller.com/business-travel/2020/02/24/coronavirus-ihg-hilton-and-marriott-offer-membership-and-points-extensions-to-greater-china-members/>

⁵¹ SAIC executive livestreaming attracted 500 thousand viewers, Gasgoo, February 14, 2020 <https://auto.gasgoo.com/news/202002/14/170156780C109.shtml>

⁵² Chairwoman of Gree hosted a livestreaming, achieving 310 million sales in 3 hours, people.cn, May 11, 2020, <http://it.people.com.cn/n1/2020/0511/c1009-31704712.html>

⁵³ Cathay Pacific Coronavirus Information Centre: Precautionary Measures, https://www.cathaypacific.com/cx/en_HK/travel-information/travel-preparation/travel-advisories/novel-coronavirus-information-centre/precautionary-measures.html

⁵⁴ Meituan contactless delivery results in 400 percent growth in groceries, February 2020, http://www.360doc.com/content/20/0214/11/34440108_891912809.shtml

⁵⁵ 5,700 Huzhu hotels implemented smart contactless services, Meadin, January 30, 2020, <https://www.meadin.com/info/210096.html>

help check-in machine served more than 15,000 guests.⁵⁶

Reflect new preferences into future product portfolio: Companies are designing new products to serve changing consumer needs spurred by the crisis. According to a survey of young consumers, more than 50 percent of new users who installed wealth management and stock trading apps in February were under 30 years-old.⁵⁷ Many financial institutions are actively introducing new financial management solutions, delivered independently or through partnerships. Ping An Bank recently conducted a young consumer survey to analyze their wealth management preferences and design products accordingly.⁵⁸ When consumers were confined to their homes and travel was restricted to within their immediate communities, their awareness of health and noise pollution increased substantially. In a survey of home residents, around 45 percent of respondents said they were dissatisfied with the sound-proof level of their homes.⁵⁹ A leading real estate company factored this insight into their product development strategy, incorporating sound-proof materials into their homes, and updated their marketing messages to communicate this enhanced feature.

Fast-forward trend 5: Private & social sectors step up

While the state sector continued to play an important role in handling the crisis, the private and social sectors expanded their roles in addressing the crisis. As employers of a large number of people with access to enormous resources, privately-owned firms pursued a range of initiatives that were essential in protecting employees, their customers, and the community at large. The private sector, along with social sector institutions such as non-profit organizations, also worked hand-in-hand

with public sector institutions to support initiatives aimed at protecting public health and maintaining employment (Exhibit 6). This was enabled by a strong sense of purpose among private firms toward taking on corporate social responsibilities, and the ability to make quick decisions and rapidly mobilize resources.

Insulate “employee community” from infection risks: Many companies across China spared no effort in improving the safety of the environments they operated in, while doubling down on investments in stakeholder health. Many manufacturers leveraged their production capabilities to protect their customers, employees, and communities. Companies protected their employees by conducting frequent and rigorously enforced health checks, and isolating them from external risks, as needed. Electronics manufacturer Foxconn implemented several health and hygiene practices to keep its hundreds of thousands of factory workers safe while maintaining productivity. Approximately 100,000 medical tests, including 40,000 chest X-rays, were conducted on the entire staff of their Shenzhen factories.⁶⁰

Apply rigorous preventive measures: A steel company in Wuhan was able to minimize disruption to productivity, even during the outbreak, through strict community grouping and distancing measures. Employees were grouped into three categories based on their exposure to suspected COVID-19 carriers. A well-designed workflow protocol, with various levels of countermeasures, was then implemented, which included mandatory medical inspections and quarantines.

Use technology to protect employees and customers: Customer-facing companies published checklists and standard operating procedures to ensure the effective implementation of protection

⁵⁶ *Around 90 percent of Huazhu hotels have resumed operation*, Eastmoney, February 25, 2020, <http://forex.eastmoney.com/a/202002251396431951.html>

⁵⁷ QuestMobile, *2020 Epidemic's Impact on Lifestyle Report*, QuestMobile website, March 25, 2020, <https://www.questmobile.com.cn/research/report-new/87>

⁵⁸ *Ping An Bank released young generation wealth management survey*, Sina, April 30, 2020, <https://tech.sina.com.cn/roll/2020-04-30/doc-iircuyvi0757881.shtml>

⁵⁹ *Consumers' preference on residence post COVID-19*, 163.com, April 15, 2020, https://www.sohu.com/a/388207934_120335975

⁶⁰ *Foxconn says recruitment ongoing for job positions*, Global Times, April 13, 2020, <https://www.globaltimes.cn/content/1185445.shtml>

Fast-Forward trend 5: Private & social sectors step up

Example of private and social sector stepping up in China during COVID-19

Insulate “employee community”

~100k

Medical checks provided for all the employees in Foxconn’s Shenzhen manufacturing site

Apply rigorous preventive measures

3

Community groups with dedicated epidemic countermeasures organized by a steel company in Wuhan to minimize disruption in manufacturing

Use technology to protect employees and customers

~43

Cities where Didi applied AI technologies to identify whether drivers wear masks properly

Develop technology for public use

>1bn

People tracked using Tencent healthcare codes within first 100 days of use

Contribute financial resources

~100k

Small and medium sized companies received a total of 100 billion RMB insurance coverage for free from a leading insurance company to ensure their business recovery

Support vulnerable communities

>2,000

COVID-19 patients accommodated by Taikang Insurance in their Tongji (Wuhan) Hospital

Key enablers

- A strong sense of purpose among private firms toward taking on corporate social responsibilities
- Ability to make quick decision and mobilize resource rapidly

Source: Literature search; Expert interviews; McKinsey analysis

measures, often using various technologies. For example, Didi Chuxing adopted AI-based technology across 43 cities to identify whether their drivers were wearing masks properly.⁶¹ They also provided free masks and car sterilization services to their drivers at 185 virus prevention service locations across the country.⁶²

Develop technologies for public use: Apart from enhancing internal competitiveness by upgrading physical assets, some companies innovated to

develop technologies to support the community and realize a wider social mission. Major technology companies collaborated with government to support the roll-out of official policies and programs. Alibaba and Tencent implemented a tiered ‘health QR code’ system to support the government’s quarantine control policies.⁶³ Tencent’s system was used by more than one billion people 100 days after its introduction, enabling police and security guards to quickly check whether people were properly observing quarantines.⁶⁴

⁶¹ Didi open sourced their mask identification technology, csdn.net, February 19, 2020, <https://www.csdn.net/article/a/2020-02-19/15988049>

⁶² Wu Ruofan, Didi urges passengers to wear face masks, SHINE, March 4, 2020, <https://www.shine.cn/news/metro/2003043452/>

⁶³ Tencent and Alibaba rapidly launched health QR code to integrate government service platforms, Baidu Baijiahao, February 2020, <https://baijiahao.baidu.com/s?id=1658793695624427255&wfr=spider&for=pc>.

⁶⁴ Tencent’s profit grew 30 percent in the first quarter, Sina, May 13, 2020 <https://finance.sina.com.cn/stock/s/2020-05-13/doc-iiirczymk1463195.shtml>

Contribute financial resources: Insurance companies also took unusual steps to cover business losses from the COVID-19 outbreak. Ping An Property Insurance provided 100,000 SMEs with free insurance coverage worth a total of 100 billion RMB.⁶⁵ Some property-and-casualty insurers rolled out new policies, or expanded existing ones, to provide compensation backed by local government copayments.⁶⁶

Protect vulnerable communities: Taikang Insurance voluntarily donated beds in their 4-billion-RMB Tongji (Wuhan) Hospital to accommodate COVID-19 patients before construction had been completed. They then accelerated the construction process, accommodating a total of around 2,000 patients.⁶⁷

Preparing for the next wave of disruption: A checklist for companies

As the COVID-19 situation evolves, so will the actions that companies take in response. Some of the 30 initiatives we discuss in this paper may eventually become outdated, but outperforming companies will continue to make new decisions and drive a fresh set of actions. What matters as much as which initiative will work in the future, and which won't, is whether companies have the key enablers in place that allow them to constantly adapt to an ever-changing environment. Companies with a broader and stronger set of enablers will be better positioned to withstand the next disruption.

The following is a list of enablers which businesses can use as a checklist:

- **A “through-cycle” mindset:** How do you develop a range of scenarios that account for several possible outcomes through economic cycles? How do you focus on your core competencies, invest through business cycles (including downturns), and adjust your M&A strategy to adapt to a changing world?⁶⁸
- **Ability to build financial reserves and secure required funding:** How do you build sufficient reserves to weather the short-term challenges per various business discontinuity scenarios?⁶⁹ How do you raise financial resources to make a big bet when you spot game-changing opportunities?
- **Management capacity:** How much time and effort does your management team dedicate to plan ahead across multiple time horizons? How do you identify bold ideas, rigorously debate them, and make big decisions to reposition your company post-crisis?
- **Agile organization:** How fast do you make important decisions before introducing new products, changing processes, redeploying staff, and adopting new digital tools (compared with competitors)? How do you build a governance model that allows dynamic and rapid resource reallocation to deal with a changing environment?
- **Adaptable technology infrastructure:** How do you ensure scalability and adaptability of technology infrastructure in order to accommodate new business processes (e.g., remote working model) and meet surging demand (e.g., online traffic)? How do you constantly advance your technology platform

⁶⁵ Ping An Property Insurance provided protection to 100,000 SMEs, Sina, February 8, 2020, <https://baijiahao.baidu.com/s?id=1657976330459307686&wfr=spider&for=pc>

⁶⁶ With the resumption insurance, insurance companies help companies to resume operations, Sina, February 20 2020, <http://finance.sina.com.cn/money/insurance/bxd/2020-02-20/doc-iimxstf3110949.shtml>.

⁶⁷ Taikang leveraged all their resources to fight against COVID, Sina, April 2, 2020, http://k.sina.com.cn/article_1652484947_627eeb5302000x7r0.html

⁶⁸ JD is a responsible internet company during COVID-19, iNews, March 24, 2020, https://view.inews.qq.com/w2/20200324A004SK00?tbkt=J&strategy=&openid=o041BAEweamcwKQGF3NUE4Pa3pR8&uid=&refer=wx_hot

⁶⁹ Martin Hirt, Sven Smit, Chris Bradley, Robert Uhlener, Mihir Mysore, Yuval Atsmon, and Nicholas Northcote, *Getting ahead of the next stage of the coronavirus crisis*, McKinsey, April 2, 2020, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/getting-ahead-of-the-next-stage-of-the-coronavirus-crisis>

to enhance competitive advantages during and after the crisis?

- **Teams of technology and digital experts:** Do you have sufficient digital talent to identify technology solutions, design new business processes, and quickly implement them to meet the urgent need for business reactivation? How fast can your team trouble shoot and improve processes?
- **A customer- and employee-first corporate culture:** How do you ensure a customer-centric culture that enables you to understand changing consumer preferences throughout the crisis and mobilize resources to offer what they need? How do you strengthen your relationship with employees to retain core talent while raising the bar for employee protection?
- **Supply chain partnership mentality:** How do you ensure visibility on the health of priority suppliers and provide the necessary support in order to minimize supply chain disruption? How do you balance the profitability of your own business and the sustainability of supply chain partners?
- **A strong sense of purpose:** Do you have a clear value system that is shared among employees across the organization? Does your value system

prioritize crisis response efforts? How do you ensure a stakeholder view to provide support to value chain partners (not just solely focusing on your own operations)?

- **Corporate social responsibility capabilities:** How do you mobilize company resources to organize initiatives and teams to support your social agenda? How fast can you launch supporting actions in response to the needs of society?

Companies in China have proven remarkably resilient throughout the crisis. In the immediate aftermath of the crisis, scores of companies across sectors have worked hard to recover lost business, while keeping an eye trained on the future. While some firms may never fully recover from the impact of the crisis, several are, surprisingly, emerging stronger than ever. Perhaps, as the rest of the world gradually reopens and resumes work, the experience of companies in China could prove as a useful reference point for companies elsewhere.

Nick Leung is chairman and **Joe Ngai** is managing partner of McKinsey's Greater China region; **Jeongmin Seong** is a partner and **Jonathan Woetzel** is a senior partner and director of the McKinsey Global Institute.

The authors wish to thank Spencer Liu, Rainy Wang, Jessie Xue, and Glenn Leibowitz for their contributions to this article.

Designed by Sydney Design Studio
Copyright © 2020 McKinsey & Company. All rights reserved.