

How to stay strong? Business under coronavirus threat

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Coronavirus side-effects for the companies: costs cutting, rethinking the supply chains, reshaping the business models. What the managers need to handle the challenges? IMSA Search investigates business in the times of Covid-19.

The Economy is facing a major turbulence. According to BBC, more than 50 countries have cut interest rates in the desperate move to strengthen their economies. Governments imposed restrictions on traveling, introduced citizen lockdown and encouraged social distancing to avoid spreading the disease. There are closed schools and factories in more than 100 countries all around the world. Some industries like airlines, luxury hotels and resorts, along with service providers like bars, pubs and barbershops have experienced a slowdown on an unprecedented scale. Although China and Far East countries, who first experienced the coronavirus problems, report some faint signs of revival. No one knows what is going to happen next in the world economy. Nevertheless, some are trying to draw conclusions for the managers of the "new normal" times.

Economy under the pressure

In the McKinsey "Covid-19: Implication for business" (March 16th briefing), the authors distinguish two scenarios that are worth consideration.

The first one assumed that growth in case counts would be slowed by active social distancing through a combination of national and local quarantines. These measures will drive a sharp fall in consumer and business spending until the end of Q2, inducing a recession. As a result, it takes until Q4 for European and US economies to see a genuine recovery, and global GDP in 2020 will fall slightly.

The second scenario presumed that social distancing and other public-health control measures would fail, and the financial system will suffer significant distress. The global economic impact will be severe, approaching the global financial crisis of 2008-09. GDP contracts significantly in most major economies in 2020, and recovery begin only in Q2 2021.

Nevertheless, not all analysts are so optimistic. Some are arguing that the economic effects of the outbreak are currently being underestimated, and historical comparisons with SARS, or the 2008/2009 financial crisis are wrong. Nuno Fernandes from IESE Business School (University of Navarra) estimates in his study that "The results show GDP growth will take a hit ranging from 3-5% depending on the country, in a mild scenario. Every extra month of shutdown accounts for approx. 2-2.5% of global GDP growth". No matter who is right, leaders need to act. Immediately.

How to prepare your business for the near future?

There are many actions the companies have already taken. Gallup Managing Director Larry Emond gathered the strategies and policies for the COVID-19 pandemic among 100 members of the Chief Human Resources Officer Roundtable, an organisation that includes the CHROs of more than 650 of the world's largest companies. He learned that those companies have almost immediately gathered Crisis Management Teams, basically to put in significant travel restrictions for all the teams. That's just a start.

"These teams are also focused on management protocols, and business continuity plans to guide current actions and forecast possible responses to future events," wrote Emond. It leads to the steps most big companies have taken facing coronavirus, which are:

- monitoring the business impact to protect or sustain business functions,
- to assess risks to their employees' physical and financial wellbeing,
- introduce new technological solutions that allow staff members to work remotely,
- improve communication techniques and
- organise appropriate training.

Indeed, executives and CHROS have a lot on their plate right now. But the big question is: what are they missing?

These are the three most common questions business leaders are asking, right now

What kind of the disruptions can business expect? As analytics from McKinsey pointed out, "there are three questions business leaders are asking, and a small number of indicators that can give a clue". Those questions are:

- How deep are the demand reductions?
- How long could the disruption last?
- What shape could recovery take?

Answering this question is almost impossible, but there are some indicators to monitor and follow. According to McKinsey, those factors are:

Depth of disruption	Length of disruption	Shape of recovery
<p>How deep are the demand reductions?</p> <p>Indicators to monitor</p> <ul style="list-style-type: none"> • Time to implement social distancing after community transmission confirmed • Number of cases – absolute (expect surge as testing expands) • Geographic distribution of cases relative to economic contribution • Cuts in spending on durable goods (e.g., cars, appliances) • Extent of behavior shift (e.g., restaurant spend, gym activity) • Extent of travel reduction (% flight cancellations, travel bans) 	<p>How long could the disruption last?</p> <p>Indicators to monitor</p> <ul style="list-style-type: none"> • Rate of change of cases • Evidence of virus seasonality • Test count per million people • % of cases treated at home • % utilization of hospital beds (overstretched system recovers slower) • Availability of therapies • Case fatality ratio vs. other countries • Late payments/credit defaults • Stock market & volatility indexes • Purchasing managers index • Initial claims for unemployment 	<p>What shape could recovery take?</p> <p>Indicators to monitor</p> <ul style="list-style-type: none"> • Effective integration of public health measures with economic activity (e.g. rapid testing as pre-requisite for flying) • Potential for different disease characteristics over time (e.g. mutation, reinfection) • Bounce-back in economic activity in countries that were exposed early in pandemic • Early private and public sector actions during the pandemic to ensure economic restart

Source: www.mckinsey.com

How to navigate a business during the epidemic of coronavirus?

Knowledge is the first step to wisdom, but even the best-informed person may be confused if it comes to choosing the best strategy to lead the company during the time of crisis. A good leader should think and act across five horizons, named by McKinsey as: Resolve, Resilience, Return, Reimagination and Reform.

Resolve. A challenge is to address "the immediate social and mental challenges that Covid-19 represents to the institution's workforce, customers and business partners and take basic steps to protect liquidity". In short, it means that business leaders have to get used to making hard choices on almost every level. From setting new rules for leading remotely, through reinventing supply chains to building consumer trust in extreme circumstances. There is no place to take a step back and consider every decision carefully. Time pressure is immense, and stakes are high. The winners will be those who can act quickly.

Resilience. "Address near-term cash management challenges and broader resiliency issues during virus-related shutdowns and economic knock-on effects". Good advice is to learn from companies that actually survived a recession. Those businesses often didn't have any particular starting advantage, but they managed to achieve a small lead, and they expanded it over the next ten years.

Return. "Create a detailed plan to return the business back to scale quickly, as virus evolves and knock on effects become clearer". No matter how bad the situation looks right now, it'll be over someday. Business leaders have to be ready and prepare to take action. Return strategy is a document all business leaders need to write right now.

Reimagination and Reform. "Re-imagine the »next normal« – what a discontinuous shift looks like and implications for how the institution should reinvent. Be clear about how the regulatory and competitive environment in your industry may shift". Resetting to the normal is difficult and requires an appetite for big moves. Those who have the strength and determination to think about future bold moves, despite chaos and uncertainty they are experiencing at the moment, will conquer the market and left the competition behind.