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COVID-19:

Business and Capital Planning for the Next Normal

A typical crisis plays out over three time frames: **Respond**, in which a company deals with the present situation and manages continuity; **Recover**, during which a company learns and emerges stronger; and **Thrive**, where the company prepares for and shapes the "next normal."

1. Respond

As an organization responds to crisis, resilient leaders are defined first by five qualities which distinguish between surviving and thriving amidst crisis. Next, resilient leaders must take specific actions spanning three dimensions and evaluate them within the context of geographic location and sector. Finally, learnings from those experiencing the same crisis conditions should be leveraged to manage the response.

For more information on Respond, please explore The Heart of Resilient Leadership: Responding to COVID-19.

2. Recover

Resilient leaders view recovery as a journey for their organization, teams and stakeholders. There are five imperatives within the Recover phase to guide the business from Respond to Thrive:

1. Understand the required mindset shift;
2. Identify and navigate the uncertainties and implications;
3. Embed trust as the catalyst to recovery;
4. Define the destination and launch the recovery playbook; and
5. Learn from other's successes.

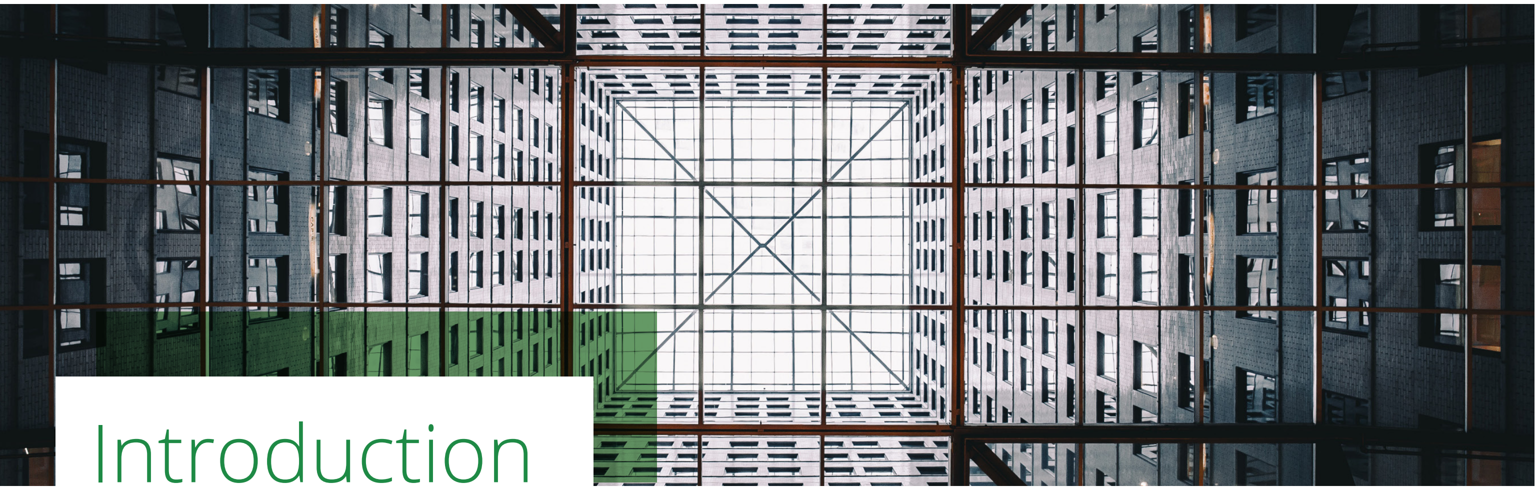
For more information on Recover, please explore The Essence of Resilient Leadership: Business Recovery from COVID-19.

We have developed supporting material across these priority areas to support leaders as they develop the recovery playbook:

Valuing Trust
Command Centre
Strategy
Workforce
Business Continuity & Financing
Supply Chain
Customer
Technology & Digital
Cyber
M&A

3. Thrive

Preparing for the next normal. Supporting materials to come.



Introduction

In one sense, nothing has changed: The basic disciplines that underpin business and capital planning remain unchanged. Smart businesses still need to affirm their strategic intent, develop robust forecasts, communicate clearly with key stakeholders, back up their commitments with decisive actions and remember that, whatever happens, cash is king. In another sense, though, everything is different. The COVID-19 pandemic has radically shifted the context in which business leaders must view the fundamentals and execute on them.

To help leaders better understand the environment in which we all now operate, this report offers four principles for business and capital planning. These principles are designed to be relevant now, as the crisis continues to unfold, and in the near future as the "next normal" emerges. The goal is to focus on the knowledge and strategies that businesses need to recover and thrive as we move into a future characterized by uncertainty.

1. Reality has been reset.

The disruption to the global economy has been sweeping but also uneven. With many businesses devastated and a few newly advantaged, the starting points for recovery are polarized. Moreover, the contagion threat will linger, fear of the virus will persist, and customer behavior will change, permanently. Businesses need to recognize that a return to the pre-crisis normal will not happen. The environment they will operate in going forward will be different, for some sectors radically so.

2. The next normal is what matters.

There are one-time opportunities emerging from the disruption of the pandemic. Businesses should see the changes around them as an opportunity to radically reshape and restructure. They need to monitor fast-moving trends and, as a consequence, should design operating models and capital structures to be flexible and resilient.

3. Businesses are in it together.

Companies moved fast to add liquidity headroom as the crisis emerged, and they must continue to closely monitor and control their cash. Governments, recognizing the crisis facing their economies, are providing unprecedented support to households and businesses. Still, some companies will fail. So all businesses need to monitor key suppliers and customers, work with them, and address weaknesses in their value chains.

4. Financing for the future.

Organizations need to develop robust, realistic business and capital plans. There's an urgent need for scenario-based forecasting. Financing challenges will vary dramatically, depending on whether a business is emerging from hibernation or has come through mostly unscathed. Proactive and clear communication with financial stakeholders will be key.

Running through all four of these principles is the need to rebuild trust. The unprecedented scale and speed of the crisis stretched many established controls to the breaking point, driving relaxations in market disciplines, regulations and governance. This in turn opened the door for the unscrupulous and the unwitting alike, undermining confidence, and so this uncertainty too is part of the reset reality. Insofar as businesses and their stakeholders are in it together — and governments too, providing support for the economy — each needs to be able to trust the other. For a recovery to endure and enable a company to thrive, it must be founded on trust.

In this report, the first two sections are centered on establishing the new context in which business and capital planning will take place. The final two sections then lay out the actions leaders need to take to make their planning resilient and relevant in this changed world.

Five shifts resilient leaders need to consider

The COVID-19 pandemic has changed society, government, business, finance, and the economy in dramatic ways. In this environment, strong leadership is needed to build confidence and to make smart decisions. Keeping a clear focus on these five shifts can help leaders frame ongoing disruption as opportunity and build risk-resilient business and funding plans.

Human interaction with customers becomes a higher priority in a world where it is much harder to do. If you have time, please take a read of the sister article in the series on: A human-first approach as you recover and thrive.

The social contract has changed.

The pandemic has reshaped societal expectations. More than ever, businesses need to support employees, ensure the viability of suppliers, and contribute to the communities where they operate.

Institutions' roles — and rules — have changed.

Businesses are supporting governmental roles in this crisis, and government is moving into business and market roles.

Seismic shifts are occurring in financing.

Needs are difficult to forecast amidst wide ranges of economic scenarios. Markets and governments are stepping in to finance business, employment, trade, and gaps in healthcare. These seismic changes will be followed by aftershocks.

Consumer behavior has changed, but by how much and for how long?

Consumers, because of lockdowns and restrictions, have embraced digital shopping and entertainment. Retailers and some service businesses have moved online in ways that they had not envisaged. Much of this change will likely be permanent. Other behaviors will have changed in lasting ways too, such as businesses' ability to work through and resolve disruption.

The value of safety has risen.

The crisis has heightened sensitivities and expectations of physical, emotional, financial and digital safety. Anxiety and fear will likely persist among all stakeholders and will shape the post-COVID-19 world and business models.

1. Reality reset

The spread of COVID-19 has impacted the global economy in unprecedented ways, and with an abruptness that's without historical parallel. For many businesses, the shutters have come down and revenue has collapsed. These enterprises have been scrambling for liquidity and struggling for survival. Others are coming through relatively unscathed. And a select few businesses have seen a spike in demand, which brings its own risks and rewards.

Almost every business has been impacted. Just 2 percent of businesses said they could carry on as normal during the pandemic, according to a Gartner survey.[1] Everyone will need to adjust and adapt to the reality of a world reset by this disease.

While a pandemic had been seen as a real possibility, nobody envisioned a crisis that would unfold with the sweep and impact of COVID-19. And surprises are likely to keep unfolding. Immense uncertainties persist about the nature, timing, and speed of the recovery.

The disease itself is unpredictable. Experts reason that, after an initial wave of illness has been suppressed in a particular location, the virus may recur, requiring that suppression measures are once again put in place.

The economic damage has been deep, and the business disruption dramatic. In a seven-week period in the United States in March and April, 33.5 million workers filed new applications for unemployment.[2] That's more than all the jobs created in over 10 years since the global financial crisis. Jobs in hard-hit industries globally — airlines, hotels, restaurants and discretionary retail — have evaporated. In response to the economic devastation, governments worldwide have provided previously unthinkable levels of spending to support struggling businesses, strengthen the social safety net and stimulate their economies. Because of these actions, it becomes more important than ever for companies to build trust as they emerge from this crisis. The last government intervention internationally, in response to the global financial crisis, was aimed at propping up the over-leveraged banks, and their reputations have taken more than a decade to repair.

In an effort to stave off job losses, small businesses, that may have less liquidity and less access to bank financing, have been a particular focus of developed economies' government interventions. Businesses with fewer than 100 employees comprise 35 percent to 55 percent of their gross domestic product.[3]

The relative success or failure of these government responses may largely determine the timing and strength of the recovery. The rebound in growth as economies reopen is likely to vary by geography, with countries in the northern part of the Asia Pacific region seeming to be picking up earlier than some in the West. It will also vary by sector.

Much of the attention has gone to the heavy impact the pandemic has had on certain businesses, most notably those tied to travel, live entertainment, and bricks-and-mortar (non-essential) retailing. However, there have also been winners. Grocery stores have seen strong new demand, and largely digital businesses are surging, particularly those focused on working-from-home, entertainment, home delivery, and education.

Consequently, businesses will be emerging from this crisis in very different positions. Some will have been hibernating, others will have been booming. Some will be advantaged by the dramatic changes in consumer behavior that in many instances seem likely to be lasting, while others may be badly disadvantaged.

What does it all mean?

- The **reality reset** means risks and opportunities will be different going forwards, and so business and capital plans need to be viewed through a new lens.
- Rebuild business, operating, and financing models that are geographically agile, able to flex for differing levels of growth around the world and for unexpected constraints.
- Focus on critical business drivers, and be able to make and remake forecasts rapidly.
- Build a liquidity buffer given likely future volatility both in business conditions and in capital markets.

2. Next normal

The world is going to be a very different place, even when the pandemic eases and lives begin to return to a semblance of what they were pre-crisis. The classic advice, that one should never let a crisis go to waste, is newly relevant. Businesses that expect to thrive in this next normal should view the changes going on around them as an opportunity to radically reshape and restructure.

Some changes we already know about. The switch to online is accelerating fast. Work-from-home is viable for many more roles than employers had realized. We can guess that changes in consumer behavior, born of social distancing and fear of the disease, may persist. Payment habits may favor electronic payments more than ever, as people avoid cash.

The healthcare industry is likely to get a boost. Travel is likely to be different, possibly slower and more infrequent. We may see increased local sourcing, with remote support. We should see more resilient supply chains. Protectionism is likely to increase.

The government's share of GDP is going to be huge, but it's not yet known how governments will tackle deleveraging. Other significant unknowns include the depth and duration of the global recession, whether the recession will lead to a major contraction in capital availability, and the geographies that may be most impacted by any resurgence in COVID-19 infections.

One thing that is certain is that every business needs to be clear and confident in its purpose. This will help win the trust of employees, customers and investors alike.

The Chinese economy, the first to be impacted by COVID-19, appears to be recovering. While it's still early days, there are developments that are worth noting. Manufacturing appears to be rebounding first, driven by the government's stimulus measures, the support of state-owned enterprises, and the relative ease with which social distancing can be implemented. Because consumers in China remain wary of crowds, and are cautious about going out and spending freely, retail and service businesses are recovering more slowly. Similarly, those who could effectively work at home during the lockdown are only slowly returning to their places of work.

As political, cultural and commercial differences among countries are significant, they will determine what's possible where. Economic activity and trade volumes will remain depressed until confidence is restored. This may be exacerbated by protectionism, which was first triggered by supply constraints in health-related products and may be accelerated by government efforts to help local industries recover. Hence global organizations need to carefully establish what will work for them recognizing the ongoing constraints.

The lockdowns and social distancing enforced in response to the pandemic have been driving innovation. They have challenged businesses and whole industries to rethink how they operate. Companies are reassessing how and where their employees work, the systems and real estate needed to support their workforce, and the value and necessity of business travel. They are also reexamining how lean their supply chains should be, and how they should be financed going forward.

One thing we can be certain of is that online, digital, technology, and big data will all have a huge part to play in the next normal. The COVID-19-driven lockdowns have turbo-charged the growth of online shopping and entertainment and have proven that homeworking functions well for many jobs due to the wide range of collaborative technologies now available. Tracking and tracing technologies have been key to the successful suppression of COVID-19 in countries such as China, Taiwan and South Korea. Many other technology-driven changes have also been accelerated by COVID-19.

Digital capability and artificial intelligence should be at the heart of how businesses plan to operate in the post COVID-19 world. They should be used to harness and leverage the data companies possess, those that exist across their value chain, and those in the wider business and economic environment so that businesses can forecast multiple future scenarios quickly and with greater confidence.

Capital markets, however, may be constrained in the future, and most governments will be confronting record national debt burdens. Private financing therefore may be at a premium, but there are limitations here too, so financing markets will also need to adjust to the next normal.

Those are just some of the most obvious trends. This is an unprecedented opportunity to reimagine business, operating and financing models. This is a time to undertake more radical thinking and then take steps to reshape or restructure a business.

What does it all mean?

- In the **next normal**, it will be vital to monitor fast-moving trends, learn from countries, sectors or competitors who are further ahead in the cycle, and sense for the unexpected to mitigate the impact or maximize the opportunity, as the case may be.
- Designing more flexible operating models and capital structures, to allow for more digital enablement and to be more resilient will be the hallmark of thriving companies.
- Build a risk/opportunity matrix to evaluate priorities and inform planning and actions, thinking ahead in an uncertain world.
- Ensure digital technology is at the heart of your post-COVID-19 plans.
- Acting decisively on liquidity and funding plans to facilitate rapid change will favor the businesses that understand much has changed and that traditional practices are history.

3. In It together

Given the huge interdependencies of global economies and supply chains, businesses (and countries) will have to work together in order to recover as quickly, efficiently, and sustainably as possible. After all, a business can't recover if its customers, suppliers and partners are still in difficulty. This will require cooperation and trust at levels never before seen—in new areas and with stakeholders never previously considered.

Businesses that maintain a strong financial position and sustain momentum will find it easier to gain the trust of key stakeholders, and this will be key amid the uncertainty that will characterize the next normal. Delivering on commitments to customers, employees, suppliers, lenders and investors is more important than ever.

Meanwhile, governments across the globe have pledged support for businesses in a variety of ways: through VAT deferrals, rates deferrals, and direct and indirect funding schemes. More than $8 trillion (USD) in state loans and support has been promised for the private sector in North America and Europe, according to *The Economist*.[4] Some large companies have chosen not to participate due to uncertain or onerous strings attaching to the support on offer.

Notwithstanding the unprecedented levels of investor and lender financing, and government support, many companies are going to fail in a business environment that's shifting so quickly and dramatically. Indeed some already have, which should lend urgency to efforts to monitor and assess the financial robustness of key customers and suppliers. Businesses also need contingency plans that take account of the implications for their working capital requirements and financing needs.

Where key suppliers or customers are vulnerable, companies may want to consider joint ventures or alliances, even with competitors, if that will help support and protect critical shared supply chain links or routes to market.

While ensuring one's own business is viable and ready to thrive, business should also be alive to potential M&A opportunities. Competitors may be vulnerable. They may be in need of liquidity or support and may be available to acquire at a discount. At the same time, it may be appropriate to sell non-core businesses or assets to boost liquidity or streamline operations.

There will be buyers in the market. Going into this year, private equity investors had some $2.5 trillion of dry powder and, following a decade-long economic expansion, some corporates have accumulated enormous cash resources.[5] Activist investors will be looking for good companies to buy cheaply. To ward off their attentions, leaders at all companies should be their own activist, looking critically at their own strategies and options. Organizations where management teams are judged to be slow to respond or weak in their actions are at risk of becoming targets.

In many companies contractual breaches have occurred because of the lockdowns or other restrictions imposed to help halt the spread of COVID-19, exposing companies to significant potential liabilities, which might also then impact their stakeholders. When negotiating with suppliers, customers and financiers it will be important to understand the implications and the interplay between existing contractual breaches or claims and future business model planning.

What does it all mean?

- Being in it together means that all businesses need to monitor the whole commercial ecosystem in which they operate, addressing value chain and financing vulnerabilities.
- Have contingency plans ready to deploy and be prepared to facilitate financial support to ease supply chain and go-to-market disruptions.
- Expect to work more than ever before with government organizations and even business competitors to address value chain weaknesses.
- Be alert to M&A opportunities, and examine your own business with an activist lens.

4. Future financing

In March, as the global spread and impact of the coronavirus pandemic became clear, many corporates drew down all available borrowing facilities. Private equity firms instructed their portfolio companies to do the same. Many more companies took the opportunity to arrange new facilities in anticipation of tougher times ahead.

A few companies in adversely impacted sectors have successfully raised debt, albeit at a high cost. Carnival, the largest cruise ship company, issued a $4 billion bond (USD) at 11.5% that was more than four times oversubscribed and has also raised more than $2.5 billion (USD) through the sale of equity and convertible securities.[6] Overall, a record US$2.1 trillion of corporate bonds were issued in the first quarter of 2020 as borrowers sought to build a liquidity buffer for an uncertain future.[7]

Increasing liquidity headroom was a smart reaction to the growing crisis—and still is. All businesses should be closely monitoring and controlling their cash. If the global recession is deep and prolonged, capital markets may sputter. Companies should take action in anticipation of this possibility, ensuring they have sufficient cash available into the medium term—enough to allow them to manage for possible downsides or contingencies.

While these actions will secure a business's future in the short term, with the duration, severity and impact of this pandemic unknowable, organizations need to develop realistic and flexible business plans and robust financial forecasts and projections. At the same time, however, the building blocks of business and capital planning remain same.

This uncertainty means businesses should plan for a number of different scenarios, involving people from all relevant departments. The guiding principles for scenario-based forecasting include:

- **Define plausible alternate futures** in which your decisions will be assessed. We suggest having four such future scenarios.
- **Focus on key drivers for the organization.** We suggest that no more than five key drivers for each core business.
- **Generate a range of operating and financial forecasts** for your business to reflect potential vulnerabilities, mitigating actions and potential upsides.
- **Use flexible time periods**, forecasting for the short, medium and long term in line with the nuances of each scenario.
- **Define and monitor early indicators** that can identify the signs that might differentiate between various scenarios.
- **Forecast, reforecast, and reforecast again**, monitoring the evolution of your response to foster agreement on how your assumptions may have to change.

Trust is at the core of business continuity and financing. Scenario forecasts that are credible form the underpinning for business planning that stakeholders will support, giving them confidence that the business can deliver what they are committing.

Organizations forced to hibernate will face particular challenges as they emerge from the lockdowns and social distancing measures are eased. Any government support they have received will not entirely alleviate such challenges, and may in fact complicate the situation, for example where the funding is required to be refinanced or repaid.

For a paused business, restarting operations won't be easy and may involve net cash outflows at first. Difficult conversations may be necessary with lenders, suppliers, and customers, particularly around the timing and size of payments to be made toward costs that were deferred during the shutdown. The stakes are high, as failure at this juncture could quickly lead to bankruptcy.

In some cases, partial operation may be necessary for a time. Until normality returns, some businesses may want to consider a flexible operating model that can be ramped up and down if there are further or localized Covid-19 outbreaks, causing demand (and supply) fluctuations.

Financing solutions also need to be viable for the longer term. The goal should be to test and implement a phased refinancing or restructuring of debt obligations, whether these obligations are to lenders, investors or the government. In some cases, raising equity may be appropriate to rebuild the capital structure. It's important to communicate such financing plans effectively for the benefit of existing and new stakeholders, and to stay ahead of activist investors.

M&A strategies and efforts should be proactive, and should be tailored to the specific circumstances a business is facing. For sectors with structural disruptions, there may be a need to plug gaps in the supply chain or route-to-market in order to maintain strategic momentum.

In sectors with irreversible changes, organizations may find that inorganic growth will be of prime importance. In sectors that are resilient and in situations where a company is relatively unscathed, it may be appropriate to seize the moment. A business that can fast track a once-in-a-cycle acquisition opportunity, gaining a key technology or capability or growth driver, will be a company that can thrive in a changed world.

What does it all mean?

- **Future financing** means taking into account how new and previously unimagined scenarios are going to unfold. Explore these scenarios, and forecast based on them.
- Ensure you have sufficient liquidity, not just for the worst of the crisis but for the longer term and to help endure through the uncertainty that will persist even as the economy recovers.
- Harness the power of big data in your planning and modelling.
- Communicate clearly with key financial stakeholders and leave no room for doubt.
- Recognize that the fundamentals of business continuity and capital planning are unchanged.

Conclusion

As resilient leaders guide their organizations through this unprecedented humanitarian crisis, and the economic turmoil that it has wrought, they need to hold onto the core skills established through many business cycles. At the same time, they must take into account the dramatic changes COVID-19 is making to daily life and the business world and recognize that these will facilitate and necessitate equally dramatic changes as to how businesses operate in the future.

Focusing on and leveraging digital and technology solutions will be key. It will also be vital to act decisively on liquidity and funding plans, ensuring they are sufficient not just for the worst of the crisis, but for the longer term. Here are some other actions organizations should consider:

- Take into account how new and previously unimagined scenarios may unfold, and forecast based on them.
- Build a risk/opportunity matrix to evaluate priorities and inform planning and actions, thinking ahead in an uncertain world.
- Rebuild business, operating, and financing models that are geographically agile; design with flexibility in mind.
- Monitor the whole commercial ecosystem; have contingency plans ready to deploy and be prepared to facilitate financial support to ease supply chain and go to-market disruptions.
- Be alert to M&A opportunities, and examine your own business with an activist lens.

We believe leaders need to understand **how reality has been reset** and bring that knowledge to bear to see both risks and opportunities clearly as we enter into the **next normal**. They need to operate on the basis that **we're all in it together**, and will need to work together in new ways to recover as quickly as possible, recognizing how this will create new standards for cooperation and trust. With regards to **future financing**, given the level of unknowns still out there, businesses will need to plan for multiple scenarios, be flexible and dynamic, and regularly revisit forecasts as the situation changes.

It's our hope that these principles, taken together and deployed pragmatically, with discipline, can help you shape your business and capital planning to thrive in the post-pandemic world.

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Supporting Materials

[1] Gartner Business Continuity Survey Shows Just 12 Percent of Organizations Are Highly Prepared for Coronavirus

[2] US: Unemployment Insurance Weekly Claims

[3] Meeting of the OECD Council at Ministerial Level

[4] Bail-outs are inevitable—and toxic

[5] Bain Global Private Equity Report 2020

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