



# Covid-19 – Are you clear on your exit strategy?

The Covid-19 pandemic has challenged many organisations' long-established strategies and business plans in a way few of us could ever have expected or planned. Changes that would normally have taken years to design and implement have been fast tracked and delivered in a matter of weeks. But as the dust settles from the initial response, executives are now turning their attention to what the medium-term future will hold... and how their business' strategy will need to adapt in response.

## Thinking ahead to life beyond lockdown...

A staged return to normal life may take many months, but forward-thinking organisations are already plotting a course to succeed in the environment that will follow on from this initial period of social and business disruption.

Refreshing or refining your business' strategy should not be daunting. It doesn't need to be a major management distraction. Good strategy always involves being clear up front on the most important questions your organisation is facing and then making evidence-based, objective choices. At a time of upheaval, it is just as important for your strategy to be clear about the opportunities your business will not pursue as well as the things you decide you will. And at every stage, robust analysis and business modelling will help you to better assess your choices under different external scenarios, soundly ruling options in or out.

## Example questions our clients are asking...

*How do we position ourselves now to come out of this stronger?*

*How can we rapidly develop a more realistic set of ambitions for the next two years?*

*We have already learned a lot during this crisis. How do we identify and embed those lessons to improve our business?*

*Everyone is working hard on our immediate response, how do I get it all to pull in the same direction?*

*There are very different ways that the medium term could pan out – how can we develop a more adaptable strategy?*

*We are proving to be more agile than I ever expected. How can we use this to our advantage in the future?*



## So where should I start?

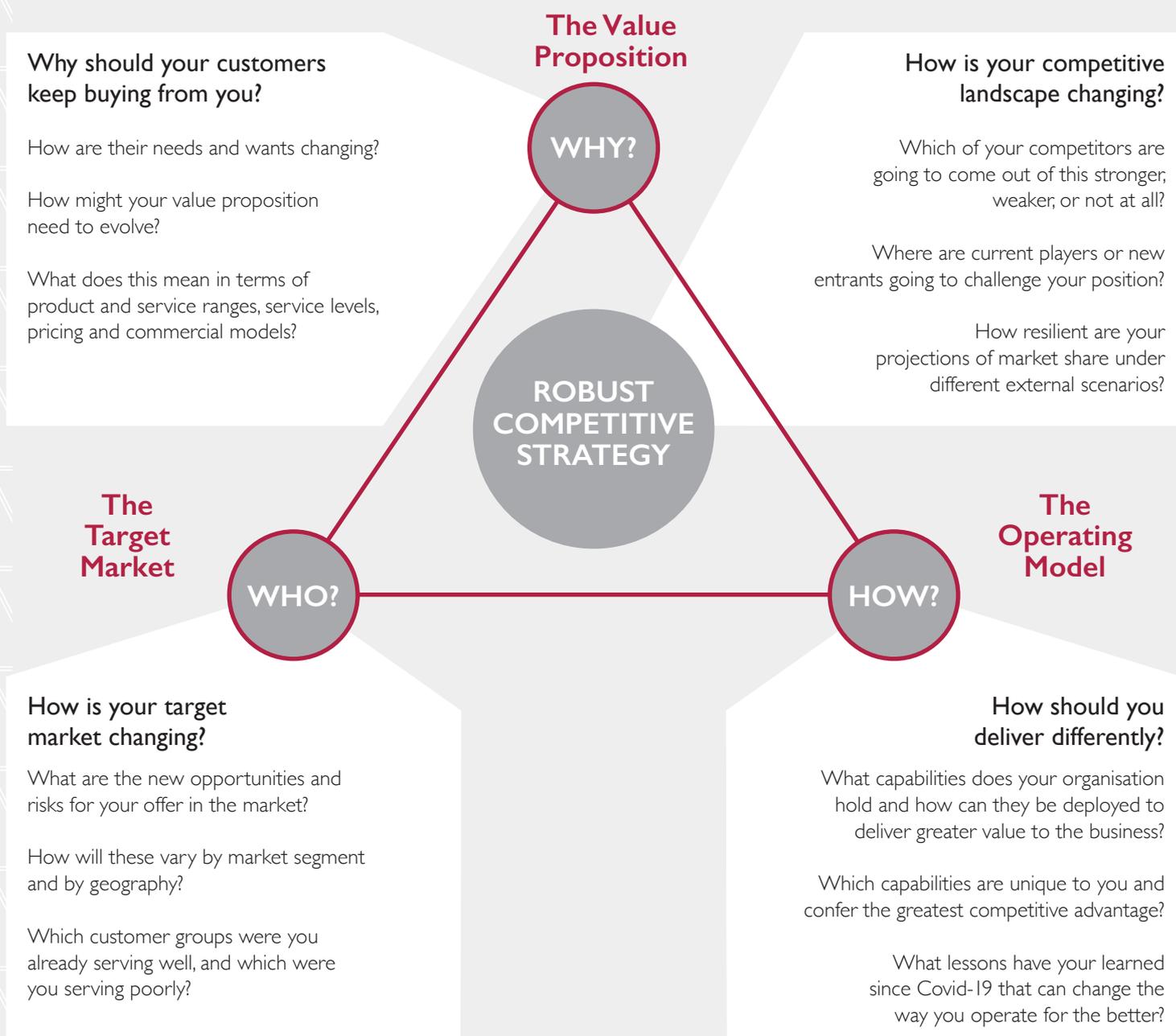
When Berkeley helps our clients with a strategy refresh, we work closely with them to break down their thinking into first order questions about their target market, products and services; and second order questions about how their businesses operates (also known as their “operating model”).

The global fall out from Covid-19 may well be changing the market you operate in, and the relative value of your products or services in the eyes of your current, and prospective, customers. Many organisations are now facing up to this reality and adapting their strategies to reflect that. We are seeing media distributors bypass cinema and deliver content via paid home streaming and B2B food wholesalers establishing direct to consumer offerings.

Simultaneously, we are seeing pharmaceutical firms enter in to new commercial tie-ups on R&D and manufacturing, and retailers planning post-lockdown expansion into markets vacated by distressed competitors.

As you think about your strategy, you need to consider how different medium-term scenarios will affect your target market, your value proposition to your customers and the capabilities your organisation requires in order to respond. When doing this it helps to supplement your understanding of your business with a view of the wider external environment, and lessons you can learn from other industries.

## Step 1: Be clear about the changes you expect in your target market, your customer value proposition and your operating model:

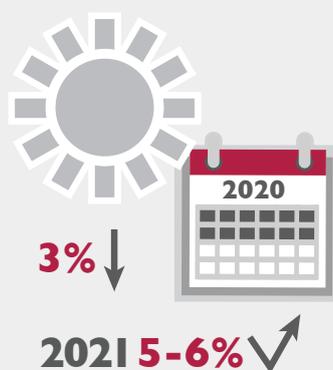


## Step 2: Now test how you would adapt under different scenarios

No strategy can be developed in isolation from your market environment. Covid-19 has changed external dynamics for most industries. Looking beyond the lockdown, we anticipate new regulatory changes, new political pressures, changing consumer behaviours, acceleration of tech adoption, changes to the organisation of cities, and labour market impacts. All of these will affect local economies in different ways.

For every organisation, it is worth considering how your medium-term strategy will serve you under different macro-economic scenarios. Your strategy will need to adapt now, and then remain adaptable as the macro-economic situation evolves – being clear on the leading indicators for which scenario you are in. Berkeley have modelled three macro-economic cases against which we would recommend testing your strategy.

### Summer 2020 recovery The “V-shaped” recession



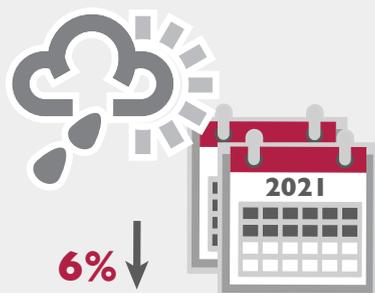
In the **Summer recovery** or “V-shaped” scenario, we assume that the pandemic is largely contained in Asia during Q2 of 2020 and in Europe and North America around the end of Q2.

China and East Asian countries start recovery early, but with some consumer spending being subdued due to increased unemployment and reduced demand from the West. In Europe and North America, the state and central bank funded business stimulus packages will have managed to retain a significant portion of the workforce in position, with unemployment only rising by a modest amount.

In-country travel restrictions in Europe and North America begin to ease and schools, offices, retailers and the leisure industry have all re-opened by the end of Q2. International travel restrictions lift later in Q3. Supply chains stabilise, without significant business failures, and consumer demand bounces back relatively strongly during Q3, albeit to below pre-crisis levels. Consumer and business spending that is largely deferred is starting to flow back into the economy. As a result, the global economy falls into recession in 2020 with a forecast 3% decline in global GDP, but with 2021 forecast for a strong bounce back of 5-6%.

### Delayed recovery into early 2021

The “U-shaped” recession



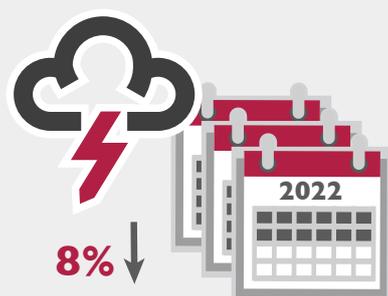
In the **Delayed recovery** or “U-shaped” scenario, we assume a more prolonged health crisis during 2020 particularly in North America, together with some resurgence of the health crisis in Europe and Asia, albeit at lower levels to the initial wave.

Remote working, reductions in unnecessary travel, ongoing closures to parts of the sports, hospitality and leisure industries, shielding of the vulnerable, and overseas travel restrictions are largely in effect throughout much of Q3 2020.

Layoffs broaden as businesses use up cash reserves and the central government stimulus packages become increasingly unaffordable. Corporate and individual bankruptcies grow, with a second order downturn hitting industries in the financial services sector.

Recessionary dynamics persist throughout most of 2020, with a forecast decline of 6% in global GDP, followed by a period of flat growth during Q4 of 2020 and Q1 of 2021. Recovery commences from Q2 of 2021, ending with a c4% year on year growth.

### Prolonged contraction The “L-shaped” recession



In the **Prolonged contraction** or “L-shaped” scenario, we enter into a long-term recession. This could be driven either by a worsening health crisis, or by failures of governments, central banks and businesses to adequately shape and deliver an appropriate economic recovery plan.

This is the most damaging of all scenarios, with corporate bankruptcies prevalent in several sectors and governments taking a lead role in nationalising critical businesses where it is essential to do so. The financial sector enters into significant distress and

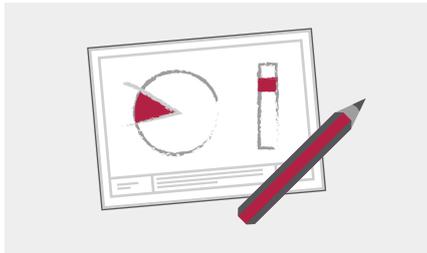
consumer spending globally is severely contracted due to increased levels of unemployment and personal debt.

The major contraction in GDP observed in most economies continues into the first two quarters of 2021 and growth is then flat for the remainder of the year, with recovery not picking up until 2022. Global GDP is forecast to contract by 8% compared to 2019 and does not recover to 2019 levels at any point over the three-year time horizon that is so crucial to most organisations' strategies.

### Step 3: Above all else, your strategy needs to be implementable

Consideration of how your plans will be implemented and embedded is essential as you go through a strategy refresh process. This is paramount to ensure you can reap the

benefits, it gives you a strategy that is “ready to go.” You need to create strategy that not only has clear medium-term direction, but is also owned and is immediately actionable.



#### Define your target state

What does your organisation’s future blueprint look like under different external scenarios?

Your thinking may have resulted in multiple potential responses, each with varying levels of impact on your organisation’s future blueprint.

Your responses need to clearly define the **capabilities your organisation will require** to adapt to the “new normal”. Take account of which **business processes** may need to adapt, **the impact on your people, skills**, the **governance structures** that will oversee them and your optimal **sourcing** options.

To effectively operate, consideration also needs to be given on your organisation’s **information assets** and what new data, **systems** and infrastructure may be required to support the above.



#### Create the delivery roadmap

What does the implementation roadmap look like and how does this align with (or replace) existing initiatives?

The uncertainty we are currently operating in requires any implementation plan to contain **transition states** and **have built-in leading indicators and control points** which allow you to adapt your response early to different external circumstances.

To maintain control over programme delivery, strengthened **governance forums** and a **Strategic PMO** facilitating rigorous management of cross programme dependencies, risks and issues should be considered.

To ensure effort is spent on initiatives that deliver the most value based on the latest developments, **continuous retesting of business cases** should be considered.



#### Resource and embed change

What capabilities do you need to deliver the required changes and how will you manage their delivery?

Establishing the **right delivery team** is critical for your plan’s success. For a swift and efficient response, being able to identify and quickly **mobilise the skills** required both within your organisation and externally is key.

In order to maintain your employees’ morale and productivity, especially in periods of uncertainty, thought needs to be given on your **change management approach**. It is important that change work is woven into the core transformation activities and that your plans contain steps to **prepare the business** for the upcoming change, invest effort in **equipping individuals** as well as pave the way for real **ownership** of change, supported by your **leadership**.



## What next?

In any context, good strategy is about making evidence-based choices, having a clear plan on how your organisation can deliver them and all the while being mindful of the external environment and how your strategy may need to adapt over time.

Whilst no one can predict with certainty when the current crisis will end and what the impact will be, you can prepare your business now in order to be in the best position possible for the medium-term.

If you are interested in learning more about any of the topics raised in this article, please contact partners

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