

The Restart

Eight actions CEOs can take to ensure a safe and successful relaunch of economic activity.

by Hodayoun Hatami, Sébastien Lacroix, and Jean-Christophe Mieszala



As governments in Europe announce plans to end the lockdown, a new phase in the COVID-19 pandemic is upon us. It is a time for hope but also for caution. The end of the lockdown will not spell a return to the old “normal”, nor will it be universal. The opening will take different shapes, with different countries, different regions, and different business sectors opening up in different ways and at differing speeds. The virus still lurks and the ability to contain its spread will dictate what happens next; any resurgence will likely bring about renewed restrictions. Large-scale testing and tracing, the broad availability of masks, and sufficient intensive-care capacity in hospitals will determine the pace of recovery.

How can companies navigate this difficult environment, especially in the next few weeks, as the restrictions are loosened? Their eagerness to restart and rebuild is understandably large, but so are the questions that a return to business raises. What is the financial health—and state of mind—of suppliers and consumers? How can employees be motivated to return to work and reassured about their safety? How quickly will demand return? What will health and safety stipulations mean for the organization of operations and supply chain?

Companies will need to take a holistic approach to restarting. This article focuses on eight key actions. It is based on our research and conversations with leaders of large French, European, and Asian companies from all sectors, who provided a broad view of their issues and concerns about the end of lockdown.

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1. Creating a detailed relaunch map

The crisis has shattered many of the assumptions and tools that business leaders rely on for decision-making, but for the restart, they will need to define a solid framework for action in a highly volatile environment.

The best approach is to develop a detailed relaunch map—country by country, site by site, segment by segment, customer by customer, and product by product—in order to prioritize recovery opportunities. This map will guide production, supply chain, and marketing and sales efforts, and help determine a recovery timeline for each site. It will also enable business leaders to get a head start on reassessing investments and prospects for changing the geography of their value chains, for example through relocation of assets. It may be appropriate to freeze some planned or ongoing projects until the company has the capacity to reassess them.

The map should have a baseline reopening scenario as well as alternative scenarios that incorporate variables of high-impact market conditions—in particular, the risk of renewed contagion. The restart plan will need to be tested against such scenarios and include options for a fluid reallocation of resources if necessary. The map should cover two dimensions:

- **The geographical and regulatory axis.** Restart schedules will vary widely among countries. In Europe alone, there are already three groupings of nations: those that already began lifting restrictions on activities that include retail, schools, restaurants, hotels, and public events; those that have outlined specific timelines for the end of lockdown; and a third group that has announced a date for the end of lockdown but without specifying how it will be organized. Within countries, too, the lifting of containment rules may play out in different ways for different regions, sectors, and population categories. For employees, the return to work could be affected by other factors, including public transport and whether schools reopen. In China, for example, one month after the end of lockdown, the return-to-activity rate was 97 percent in the automotive sector, 70 percent in the textile sector, but only 40 percent in the restaurant sector. Outside Hubei province, 99 percent of large firms had restarted—compared to just 77 percent of small and medium-size enterprises (SMEs). Between sectors, the return-to-employment rate for employees ranged from 80 percent to just 20 percent.
- **Segmenting the client base.** In their planning, companies will need to clarify the parameters and assumptions about their customers. The issues will vary, depending on whether the activity is B2C or B2B.

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of consumers in France plan to reduce their discretionary spending over the next two weeks, compared to 34 percent in Italy, and 28 percent in Germany

For B2C, it will be essential to understand the impact of the crisis on household purchasing power and the confidence of households in the economic future of both their country and their own household. These determine their propensity to consume or save (Exhibit 1). In light of these factors, companies will need to review their traffic projections and the average customer basket. They will also need to anticipate changes in consumption habits and expectations. According to our analysis,¹ they could be substantial. In France, for example, 44 percent of consumers plan to reduce their discretionary spending over the next two weeks, compared to 34 percent in Italy, 45 percent in the United Kingdom, and 28 percent in Germany. In China, we calculate that 50 percent of scheduled purchases have been canceled (not delayed). Impulse purchases have fallen by more than 30 percent and online purchases have seen increases in penetration of 15 to 20 percent. Beyond these effects, the crisis seems to have accelerated other underlying trends, including consumer demand for health, sustainability, or local suppliers.

¹ For more, see "Global surveys of consumer sentiment during the coronavirus crisis," April 2020, McKinsey.com.

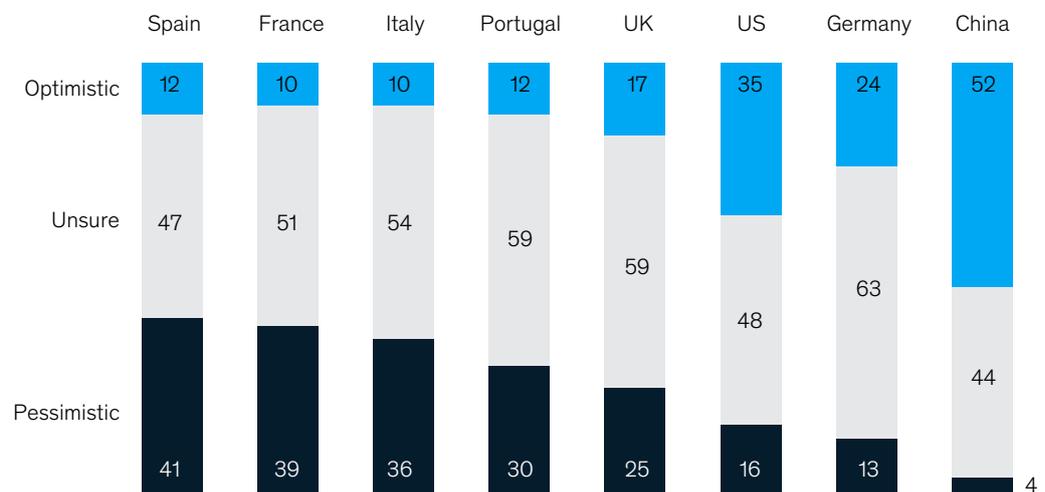
In B2B, a nuanced understanding of the issues at stake will be crucial for each of the major elements—the recovery, impact of the crisis, and emergence of new expectations for goods and services. Firms will need to take into account the health and safety protocols of customers. Initiatives they may have put in place during the crisis to strengthen customer proximity will help. Those who were able to develop relationships with their main clients (including on an emotional level) and to achieve an intimate knowledge of their customers’ challenges, constraints, opportunities, and aspirations will rebound in a stronger position. Companies serving clients in several sectors will need to take into account the highly variable level of exposure of industries to the crisis (Exhibit 2). Given the disparities between sectors—as well as between players within the same sector—setting commercial priorities will be essential.

Exhibit 1

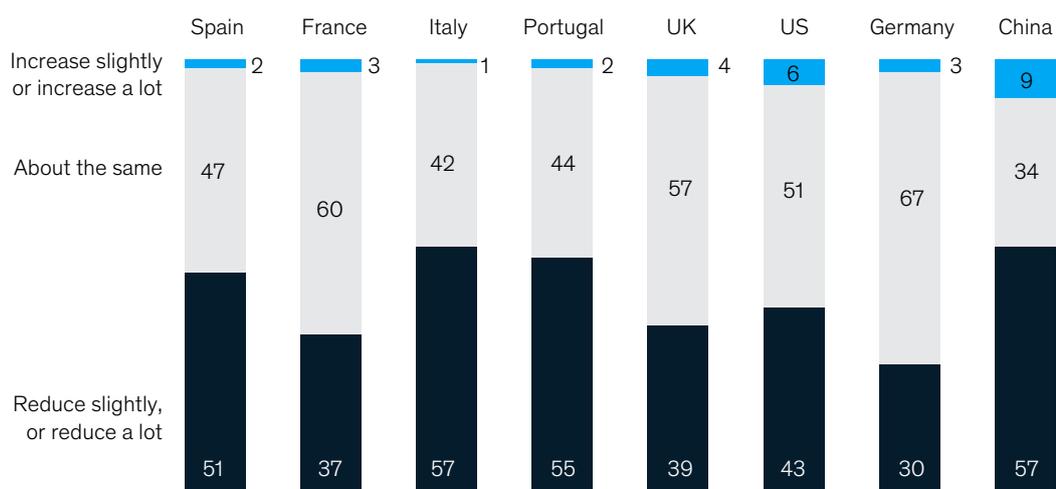
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Impact of COVID-19 on confidence and income of consumers, % of respondents¹

Confidence in own country's economic recovery²



Impact of Covid-19 on household income³



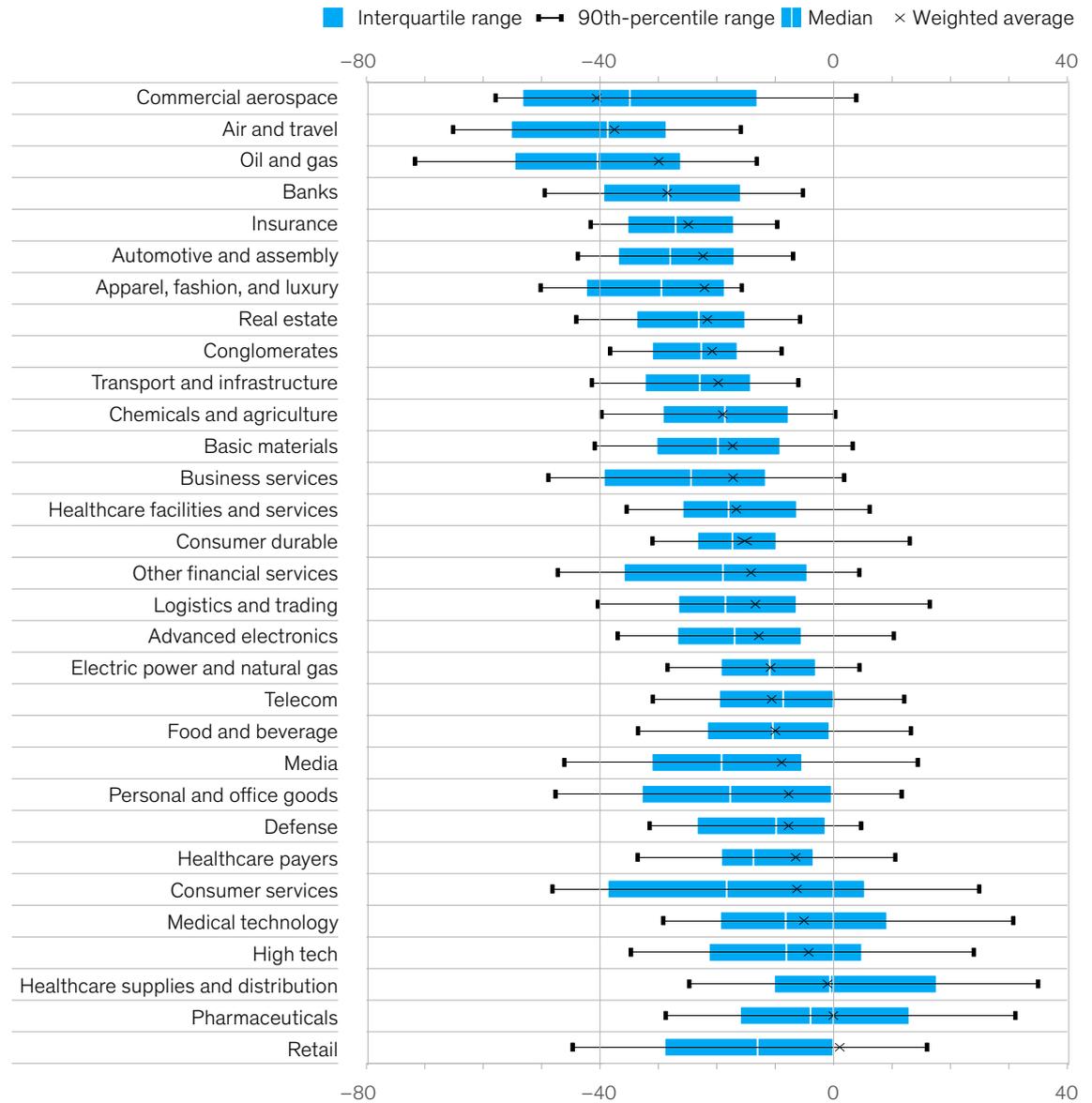
¹Survey April 13 to 19, 2020. Figures may not sum to 100%, because of rounding.

²Q: How is your overall confidence level on economic conditions after the COVID-19 situation? Europe: Rated from 1 (very optimistic) to 6 (very pessimistic); optimistic = 1+2; unsure = 3+4; pessimistic = 5+6.

³Q: How has the coronavirus situation affected the overall income of your household in the last 2 weeks? Note: Results for European countries were collected between April 16 and 19, 2020, for the United States, between April 13 and 19, and for China, between April 15 and 19. Source: McKinsey M&S COVID-19 Consumer Pulse Survey, April 13–19, 2020; France, n = 1,009; UK, n = 998; Germany, n = 1,005; Spain, n = 1,006; Italy, n = 1,002; Portugal, n = 603, US, n = 1,052; China, n = 1,216.

We see significant variance of the COVID-19 impact on valuation, among industries and within each industry.

Distribution of year-to-date total shareholder returns by industry,¹ %



¹Data set, comparing last trading day with April 15, 2020, level, includes global top 5,000 companies by market capitalization in 2019, excluding some subsidiaries, holding companies, and companies that have delisted since. Source: S&P 500; Corporate Performance Analytics by McKinsey

2. Providing customers with safety guarantees that restore trust

Emerging from lockdown, clients will be more vigilant about health and increase their demands on safety. Companies will need to provide products and services that adhere to the most rigorous health and safety conditions, and be able to show or explain them to clients. Two avenues for action could be considered:

- **Define conditions for a safe experience for customers.** In Asia, this has led to the introduction of new practices such as temperature controls at the entrance of stores, the provision of hydroalcoholic gel in retail outlets and on public transport, the generalized use of contactless methods for both payment and delivery, the development of remote assistance

or maintenance services, the extension of “click–collect” approaches, and adoption of drive-through facilities outside mass retail, where they are still evolving. In the Middle East, the airline Emirates has introduced thermal screening of all passengers boarding its flights in Dubai and is asking them to wear face masks on board. The airline intends to deploy the same measures on a broader scale. For the hotel and restaurant industry, Accor and Bureau Veritas have partnered to create a label certifying the level of hygiene and safety post-COVID-19.

- **Proactively communicate about measures implemented that may not be visible to customers** in back offices, production, or storage sites. These could be end-to-end processes, minimizing human handling, testing procedures across the entire supply chain, traceability of components, or strict application of the highest sanitary standards in infrastructure and on every link in the supply chain (especially in the food sector).

3. Safeguarding the health of employees

Many employees are eager to return to work, but many are also worried about being able to do so safely. Companies will need to both reassure employees about safety and find ways to motivate them in a post-lockdown world. Three simultaneous actions will be needed:

- **Ensure employee safety in the workplace.** The top priority will be to strictly control access to the workplace, in accordance with national regulations. That may mean implementing measures such as checking employees’ temperature at the entrance of buildings and imposing a period of quarantine for those who fall ill. Remote work should be encouraged in order to minimize travel. Some categories of employees have shown that they can do almost all their work remotely and are likely to continue doing so without any significant impact on their activity. The lockdown period has also demonstrated that many processes can be shifted to remote work. In parallel, managers should focus on reducing the density of office space by redesigning the workspace. This can be done by delineating safe areas to prevent contagion, reconfiguring teams to ensure there are no skills shortages, or by altering working hours through shifts and daily rotations. Companies will also need to apply new hygiene and safety measures such as physical distancing and provision of masks and single-use utensils. It will be crucial to communicate actively about these measures. The first priority will be to establish the information and validation mechanisms for the protocols adopted with the public authorities. But companies will also need to have effective internal communication, particularly on the impact of protection measures. These could focus on indicators or meaningful milestones such as “more than ten days without new cases.” How rigorously and efficiently companies implement the new standards will determine the confidence and commitment of employees.
- **Extend protection measures to employees outside the office,** as has been done by multinationals in Southeast Asia and China. For example, some companies will want to encourage individual travel for commuting to and from work, or provide employees with safety equipment (hydroalcoholic gel, masks, gloves) for personal use. Human-resources departments can also, in accordance with national regulations, help make tracking technologies available to staff to prevent resurgences of the virus.
- **Remobilize employees.** Beyond their safety concerns, employees will raise questions about the extent to which new ways of working adopted during the lockdown will become the “new normal.” Many may have experienced confinement as an ordeal. It is possible that the experience will generate concerns and that there may even be family pressure to delay the physical return to their jobs. In China, for example, absenteeism rates in factories have

increased from 5 percent pre-lockdown to 20 percent after the end of lockdown. It will thus be necessary to restore a sense of meaning and clear direction for all. An essential basis is the “purpose” of the company and the way that this is enshrined in all activities and strategy. Finally, it will be crucial to strengthen the organization’s ability to monitor well-being at work and detect signs of fragility. This will mean continuing in the spirit of transparency and empathy that developed during lockdown.

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4. Reviving demand

Perhaps counterintuitively, our analysis shows that demand constraints were responsible for 85 percent of the weekly GDP loss recorded at the beginning of April in Germany and more than 70 percent in France. In a large majority of the 25 sectors we studied (17 in Germany and 20 in France), the effects of the demand shock on value added outweighed the impact of the supply shock. This was linked to the availability and productivity of labor or raw materials and components (Exhibit 3).

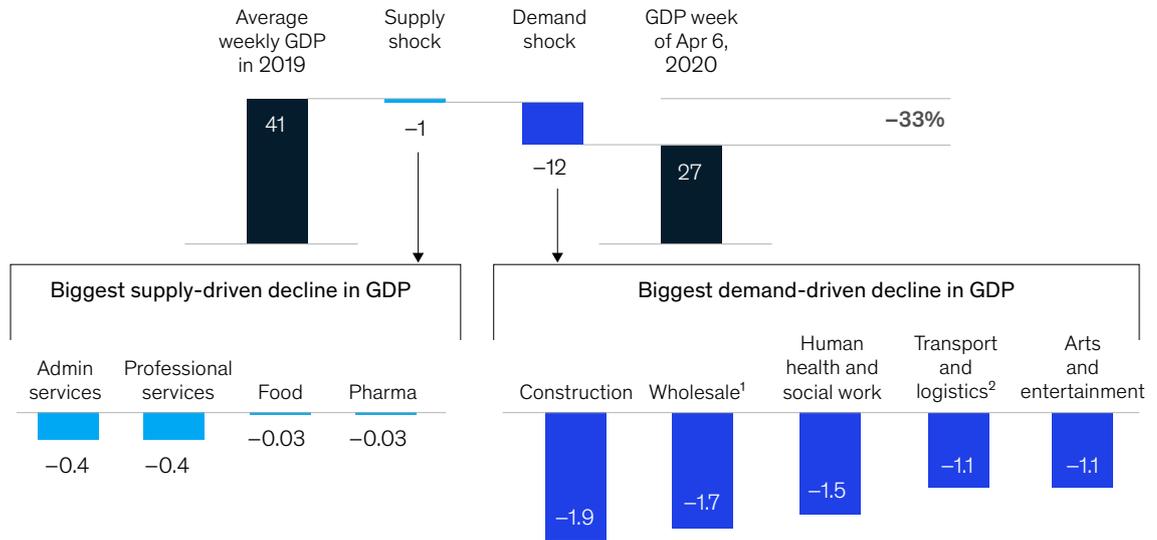
One imperative for businesses will therefore be to revive their customer base. They will then have to stimulate demand, guarding against any risk of distorting price models or, worse, fueling a deflationary spiral. More than ever, it will be important to win on several fronts:

- **Identify and capture pockets of profitable growth.** Investor logic will be needed to fund demand; companies will have to be ready to reallocate exploration and marketing expenses quickly. Every commercial investment or promotion must be weighed against the risk of triggering a price war that could aggravate a situation already marked by a slump in volume. To achieve this delicate balance, companies must also think about the unilateral communication they intend to conduct on this risk with all players in their sector, in order to prevent competitive approaches that destroy value.
- **Adopt tactical pricing.** The aim is to ensure the material and psychological conditions that enable customers to make their purchases and create favorable business conditions for a rebound in consumption, while avoiding a dangerous situation in which simultaneous pressure on prices from suppliers and customers put companies in difficulty across the value chain. Depending on these requirements, companies will have to finely measure the promotional or discount models they will use. On all of these issues, it will be necessary to demonstrate high ethical standards, as customers, consumer associations, and public authorities will closely monitor pricing practices.
- **Help core clients with solvability.** To secure sales, pragmatic assistance should be provided to customers and suppliers in financial difficulty by providing them with payment facilities or extensions of deadlines in a highly targeted way. Again, the choice between usual practices and exceptions must be made strategically so as not to upset the economic balance of the whole sector.

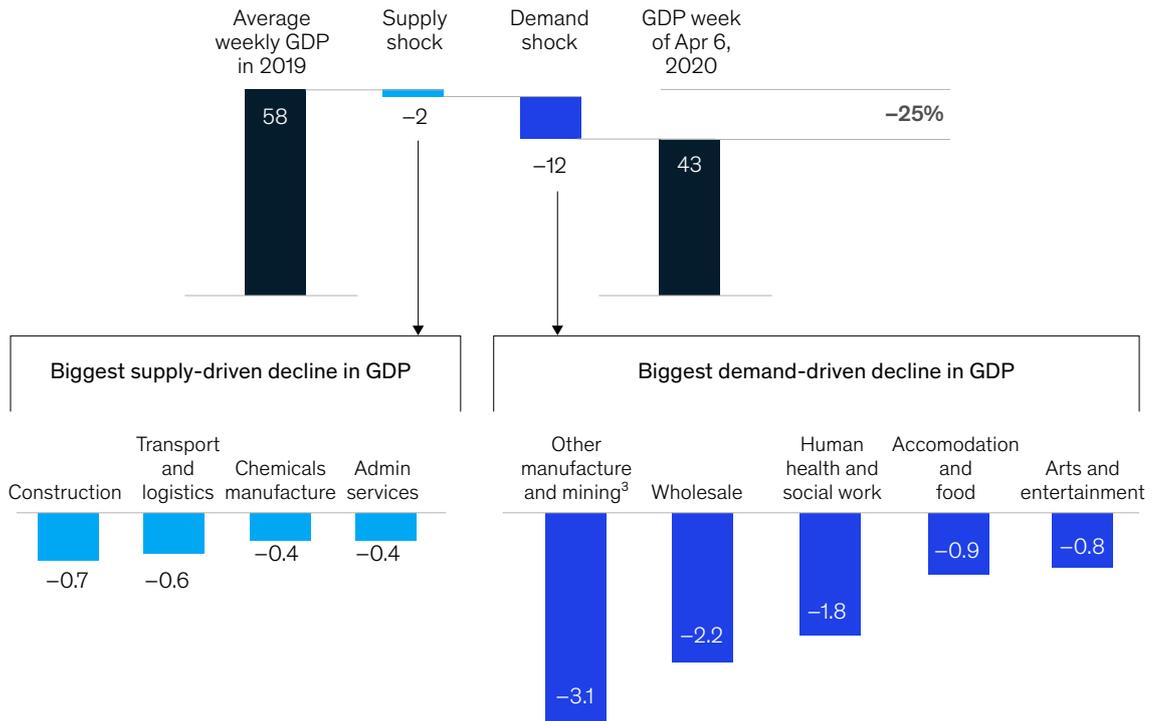
In a majority of 25 sectors, the effects of the demand shock on value added outweighed the impact of the supply shock.

Impact of demand and supply shock on weekly GDP in France and Germany

France: Estimate of weekly GDP variations during lockdown (week of April 6, 2020), € billion



Germany: Estimate of weekly GDP variations during lockdown (week of April 6, 2020), € billion



¹Including automotive sales.

²Excluding airlines.

³Includes extractive industry and other industries, ie, car manufacturing, machinery and equipment manufacturing, and other manufacturing.

Source: Eurostat; O*Net OnLine, US Department of Labor; McKinsey analysis

- **Optimize the marketing mix.** Marketing departments must ensure that the offering is in line with the crisis-related shift in demand. In the short term, this will mean actively encouraging customers to interact through digital channels. Winning the battle of the brand will also be essential. Indeed, brand loyalty is likely to be tested by the crisis: according to our research, 33 percent of Chinese consumers changed food brands during the crisis, while 20 percent of them plan to stick with the alternatives that they tried out. “Test and learn” brand-building initiatives will need to be launched with great agility; the new testing time is, in some segments, just a matter of hours. In the medium term, companies need to strengthen their ability to detect all the signals sent by their consumers along their entire omnichannel journey. This will help companies determine all solutions that can quickly enrich the customer experience.

5. Rebooting operations and supply chain

The optimal restart of operations requires returning to the market at the desired speed to serve the demand accumulated during lockdown—but without going faster than the pace of recovery. At the same time, CEOs will seek to consolidate their company’s competitive position. Several prerequisites must be met:

- **Secure the supply chain on strategic procurement** (for example, booking truck capacity until freight returns to normal), as well as for operational processes that are critical to ensure recovery. For example, companies may have to convert some production in order to cover their needs for essential equipment such as masks, gloves, or hydroalcoholic gel.
- **Strengthen the company’s ability to anticipate and meet demand.** This includes adjusting the ramp-up speed to avoid generating new stocks of finished products for which customers may be few and far between. Among the best practices in this area is the establishment of a “control tower” with end-to-end visibility on different demand scenarios, inventory movements, production deployment, and associated logistics. This tower can be used to identify and track strategic indicators related to inventories (coverage rate, availability of raw materials). Above all, this will enable a company to test the robustness of its ecosystem, assessing the long-term strength of its main components (suppliers, partners, and distributors) and the need to act with them (using a risk heatmap, identifying alternatives, accelerated vendor qualification process, or targeted support in some cases).
- **Set out a phased recovery, site by site.** This sequencing is based on four major criteria: the regional regulatory environment of the site and its distribution centers; the state of local demand; the site’s capacity in terms of production volumes and the availability of labor and protective equipment; and finally, the solidity of the subcontractors’ finances and operations. Other financial factors can also be taken into account, such as the marginal cost per unit produced. The gradual resumption of activity should be an opportunity to purge the stock of partially finished products and use nonproductive time to pull forward needed maintenance.

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- **Reassure all partners about operational reliability.** The best option in uncertain times is to make operations more flexible. A promising solution in this area is to implement adaptable production programs, reviewed on a weekly basis with request planning. These programs need to be underpinned by a daily dialogue with tier-one suppliers, and a systematic review of production adjustment opportunities. Among the best industrial practices is the design of “digital twins” of reopened factories, which allow companies to model the impact of corrective measures.

In just a few short weeks, companies will have to plunge into a new phase of the restart with many unknowns.

6. Shifting IT and technology to restart mode

From the start of lockdown, chief information officers (CIOs) and chief technology officers (CTOs) have made heroic efforts to cope with spiraling new demands against tight deadlines. They have had to orchestrate the massive and sudden switch to remote work for employees, using new collaborative tools in a way that is both efficient and cybersecure. They have had to ramp up digital channels to serve customers, even as they solidify their company’s IT infrastructure at a time of very large load increases. For all these achievements, there’s still an opportunity to do more. The importance of digital to customers, suppliers, and to the entire economy has rapidly accelerated—and executives must speed up their digitization plans.

On the technology front, three priority actions must be launched to ensure a successful restart:

- **Accelerate digital transformation to serve new customer and employee needs.** The IT infrastructure must be relevant, secure, and able to meet the emerging expectations of both customers and internally. On the customer side, we measured, for example, that 55 percent of consumers in China are likely to continue shopping online after the end of lockdown. In the face of such growth, the reliability and development of digital sales platforms will be a key challenge for distributors. In another example, several car manufacturers in Asia have developed virtual showrooms that allow a customer to visit a dealership from their home—and are now working to integrate such innovation into a new end-to-end digital journey. Executives will need to draw up a business-led technology road map to accelerate their digital transformation with urgency and build new digital businesses. On the employee side, the crisis saw rapid growth in the adoption of technological solutions. Maintaining these solutions sustainably will require more employee training in the use of new tools that can raise their performance, as well as training in cybersecurity best practices. Most companies heading into the crisis already had a digital transformation agenda, but too often it was a collection of sub-scale pilots with insufficient top-down alignment and business leadership, or insufficiently linked to business objectives. Now is the time to rethink and raise the aspiration.
- **Improve data-driven decision making and data availability.** In the case of a partial restart of production lines, for example, the reconfiguration of the supply chain will require the calculation of a new optimum from commercial, logistics, and production data. Additional data sources must also be considered to inform strategic and operational decisions. For instance, some distribution companies are adapting their inventory forecasting models based on public propagation or regression data from COVID-19 at the regional level. During lockdown, we have seen rapidly evolving consumer sentiment and channel preferences. After the restart, that will likely not go back to the way everything was previously. Marketers will need more granular data to steer their digital marketing and media spend in order to stimulate demand with greater precision. Algorithms trained on a pre-pandemic world and assumptions on digital adoption rates will need to be revisited.

- **Rethink the portfolio of IT projects and technology spending.** The expected decline in revenues in most sectors will result in pressure on costs and investment capacity in the short-term. At the same time, internal work-from-home collaboration tools will see growing adoption and executives will want to accelerate their digital transformation to meet e-commerce demand. The CIO and CTO must reprioritize their technology programs, projects, and purchases accordingly, in order to meet a dual objective—namely, to contribute to a reduction in the company's cost base during the crisis, while absorbing new technological investments needed to restart and to build or further scale digital businesses. The imperative is to be much more relevant in digital ecosystems.

7. Steering the restart with care

The dual priority in this area will be as follows:

- **Increase the speed of decision making.** A successful restart will require addressing a large number of interdependent issues simultaneously. Many go beyond the usual corporate governance framework because of their scale, complexity, and the speed of response they require. Crisis-management hubs set up from the time of lockdown provide a solid foundation to navigate these issues. Their areas of specialization—protection of employees, stabilization of operations, customer engagement, and the conduct of financial stress tests—remain relevant even after business resumes. It will be important to maintain the flexibility, speed of execution, and simplified decision and reporting lines of these crisis management hubs. To initiate the subsequent phases of the actual recovery, a plan-ahead team² is needed. This focuses on five goals to ensure the safest direction of the company for the coming months: regularly establishing situational assessments, developing potential scenarios, designing and adapting the strategic road map, determining the tactical actions and movements to be undertaken in each scenario, and identifying trigger thresholds allowing the organization to act systematically at the right time.
- **Provide impetus through the optimal use of working capital.** Management of working capital requires special attention to ensure that cash flows will be sufficient to cope with the shocks of the crisis and recovery, regardless of which scenario takes place. Companies must model their financial data in each scenario and systematically identify factors that could affect liquidity. For each of these factors, companies can determine appropriate measures to preserve their financial resilience. Indeed, the restart phase is likely to further increase the liquidity pressure. Suppliers and customers, themselves looking for working capital, will lobby for advantageous payment terms. It should be answered in a targeted way. For example, some companies have used their own capital to stabilize demand or supply. These include telecom operators in the United States that have stopped cutting off lines for unpaid bills, or Unilever, which has launched a \$550 million cash facility plan for its suppliers. Beyond the working capital, it will be crucial to closely manage the balance sheet, on the one hand by reviewing existing credit or debt contracts (and possibly renegotiating them), and on the other hand by assessing the appropriateness of making greater use of long-term financing (in bond or capital form) to compensate for the burden of short-term losses.

It will be important to maintain the flexibility, speed of execution, and simplified decision and reporting lines of these crisis-management hubs.

² Martin Hirt, Sven Smit, Chris Bradley, Robert Uhlaner, Mihir Mysore, Yuval Atsmon, and Nicholas Northote, "Getting ahead of the next stage of the coronavirus crisis," April 2020, McKinsey.com.

8. Sustaining value creation born from crisis and reinvesting in recovery

Many companies with the ability to continue at least partially during confinement periods had to design and adopt a radically new “under strain” operating model within a few days. Some have succeeded in pivoting a large part of their activities.

Companies, particularly in professional services, have managed to increase their work-from-home rate from 5 percent to 90 percent in a matter of days. All companies have been forced to eliminate travel, while preserving their capacity to operate by videoconference. Others have had to resize their teams, make their business models more flexible, shorten decision chains, streamline their processes, and even convert their production lines. Finally, the skills of the staff have sometimes been developed in a hurry across multiple dimensions (in the business aspects, as well as in terms of piloting and execution capabilities, a stronger sense of initiative, greater versatility, and so on).

In many situations, the crisis has been an opportunity to strengthen relationships with large customers and solidify the supplier ecosystem. Having navigated through this collective ordeal, many companies can strengthen partnership relations with all the stakeholders in their environment.

In some business segments, dramatic productivity gains and agility have been achieved. For leaders, it is now important to determine which of the developments imposed by circumstance may have generated value, financially, operationally, and for their people. Some of these could then be incorporated into future thinking about the reorganization of work and reinventing the business model.

Finally, innovation of both process and product has made huge leaps during the lockdown. With the restart, these new performance achievements could be reinvested and contribute to enriching the company’s material and intangible assets in the longer term. It is worth making a rigorous inventory and integrating the new achievements into new post-crisis operating standards, in a process of continuous improvement.

In just a few short weeks, companies will have to plunge into a new phase of the restart with many unknowns that will remain nebulous for a long time. They may be far from having all their operational capabilities. They will lack links in their supply chain and have only restricted access to their various markets. Moreover, they will have to live under the shadow of a resurgence of the epidemic with new confinement measures. In our experience, embracing these eight actions can help them value-assure the restart. Further, the transition to a “next normal” will require them to reinvent their business models, even as they continue to respond effectively to the aftershocks of the crisis.

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