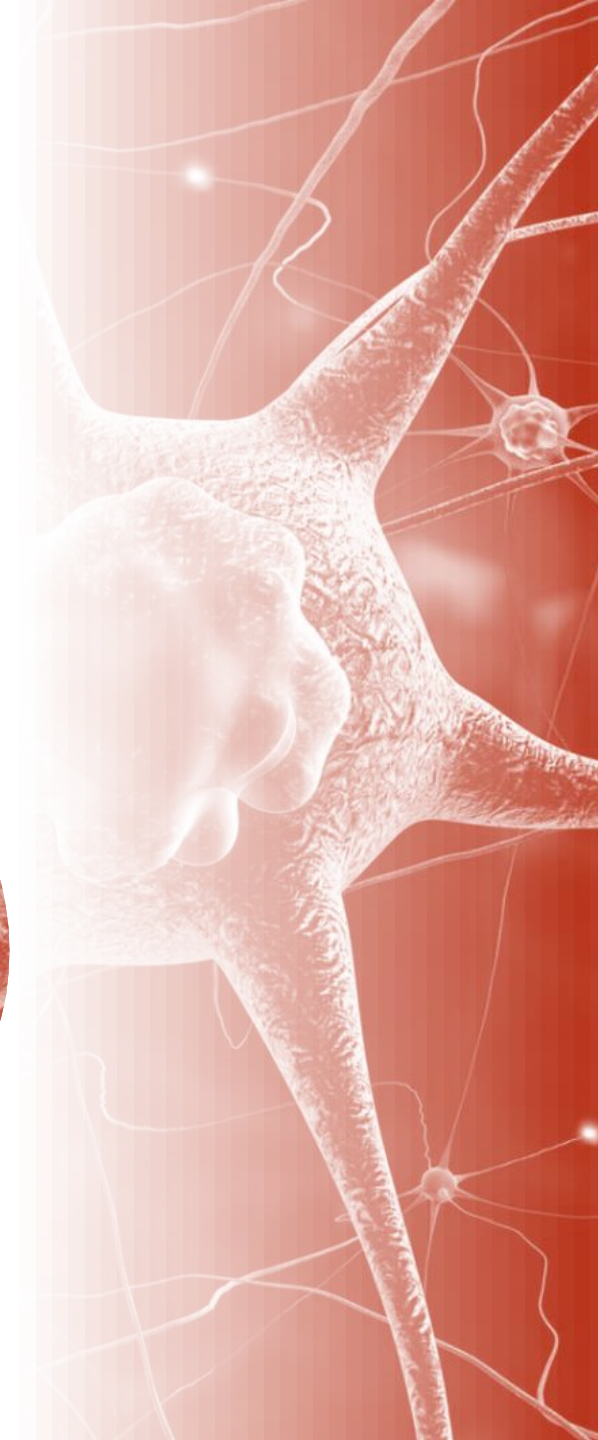
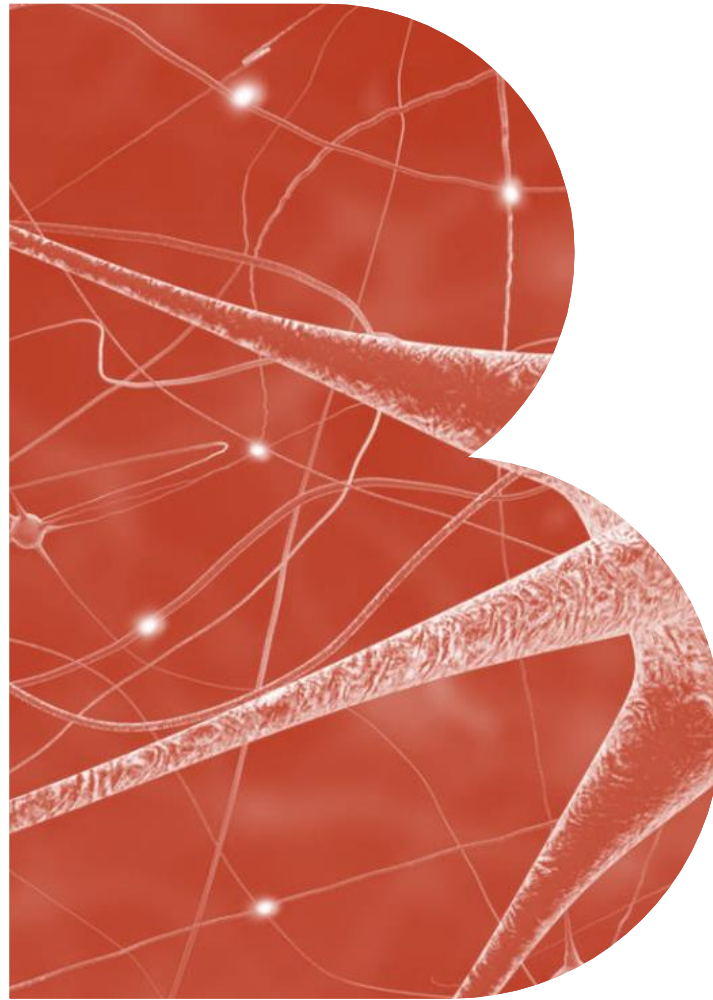


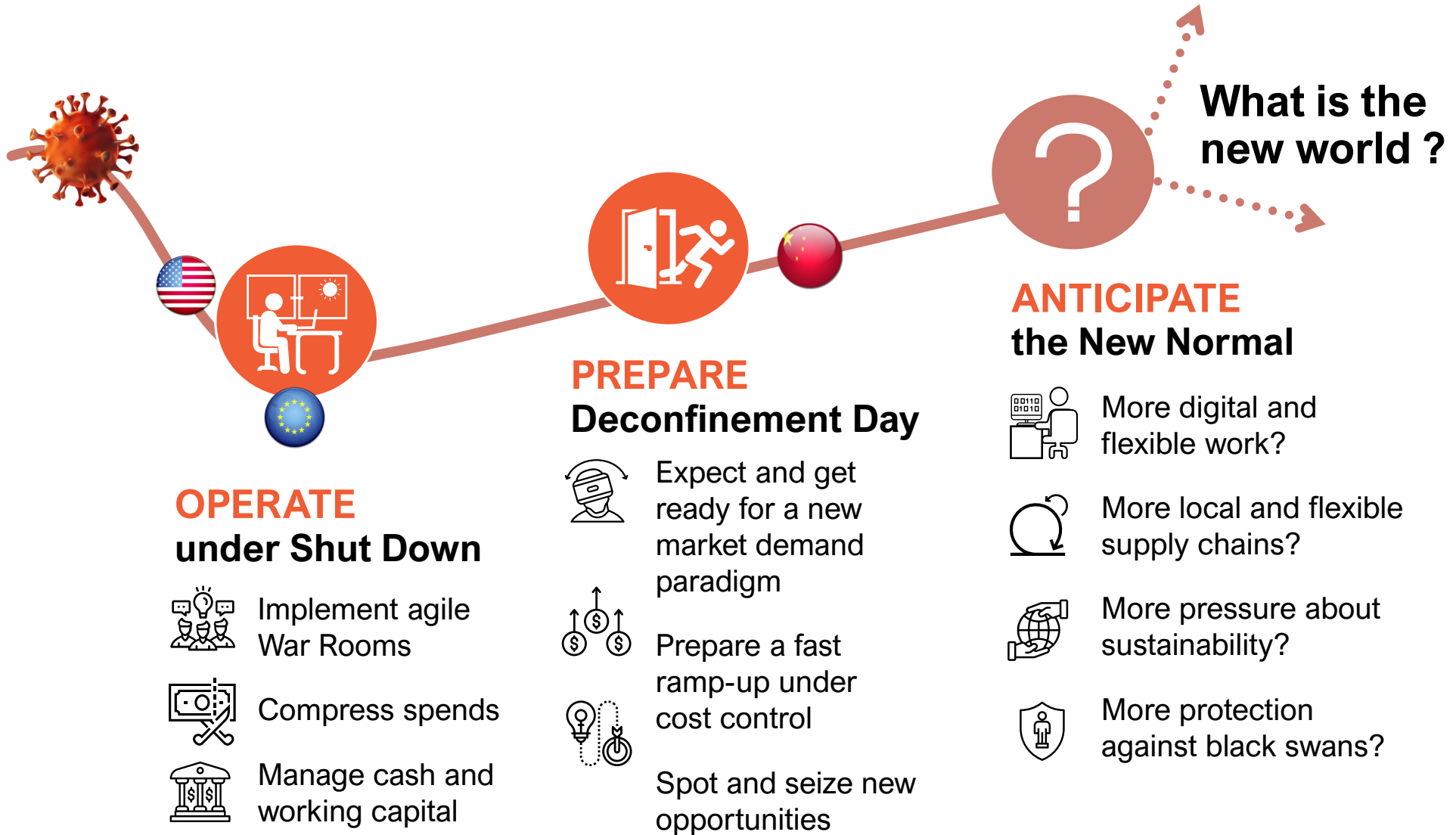
# COVID-19 – Manage downturn and prepare deconfinement

Roland Berger



March 24th, 2020

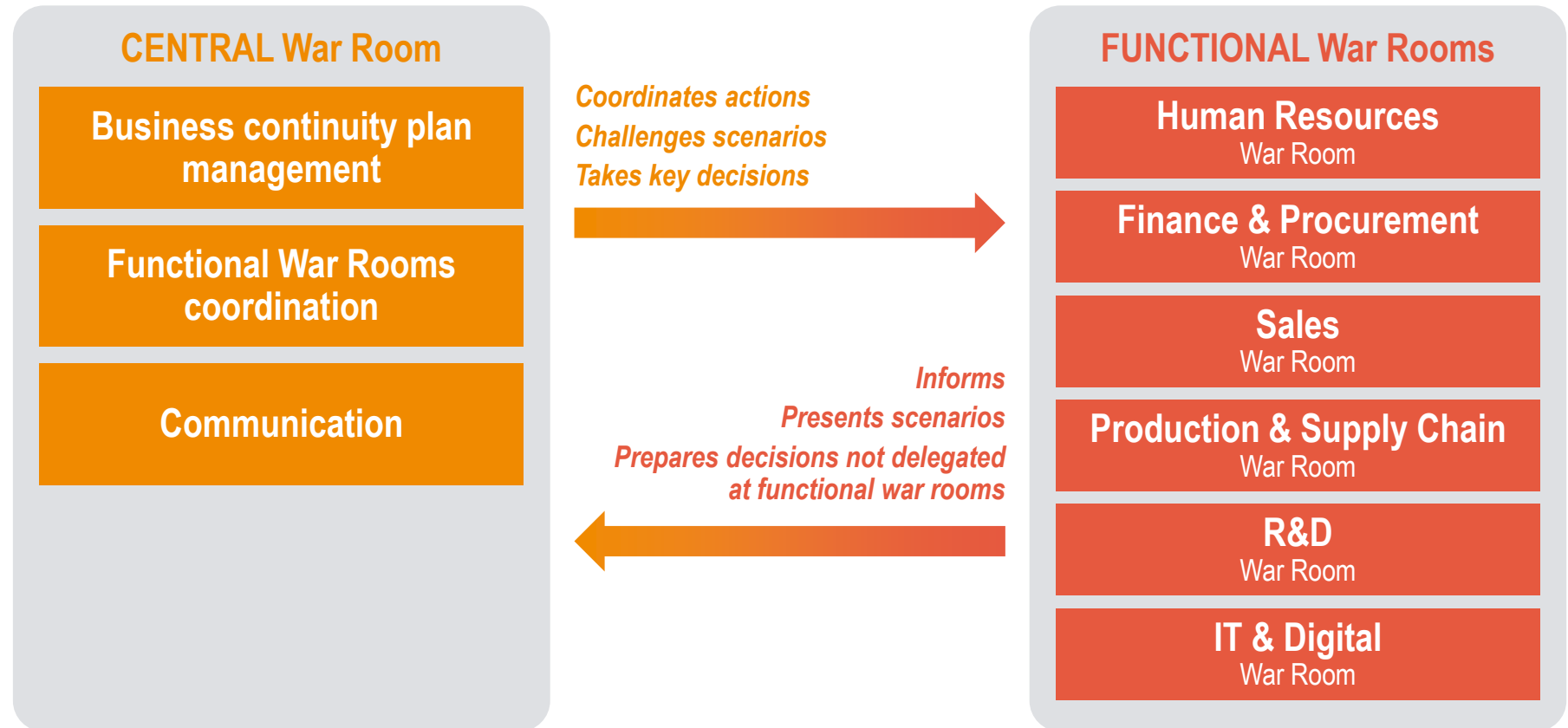
# Company path to deal with the COVID

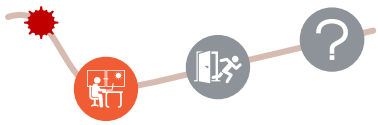




# Companies should implement Corporate War Rooms (WR) to manage the Shut Down

## Central & Functional War Rooms





# Each War Room is focused on anticipating issues, ensuring up & down communication, proposing and making fast decisions

## Priorities for War Rooms to manage the shut down

### Human Resources War Room

- 1 Ensure total employee safety
- 2 Leverage government support schemes in each region
- 3 Manage social issues, with transparency and swiftness – watch psychological risks
- 4 Communicate empathetically with employees, create a sense of community

### Finance & Procurement War Room

- 1 Monitor financial parameters (liquidity, covenants), negotiate with lenders
- 2 Implement spend compression and cash mgmt. measures

### Sales War Room

- 1 Ensure commercial continuity: keep a link with customers, adapt business model and value proposition if needed
- 2 Take decisions on media investment

### Production & Supply Chain War Room

- 1 Monitor the desynchronization between regions: CN, EU, US, India...that will not be in the same dynamic at the same moment
- 2 For remaining running activities, closely monitor all critical purchases and react immediately (e.g., finding alternative supplies) if risks increase significantly or materialize

### R&D War Room

- 1 Reorganize R&D programs: focus resources working remotely on tasks not requiring lab (testing or validation)
- 1 Leverage global footprint (and deconfinements) to deal with urgencies

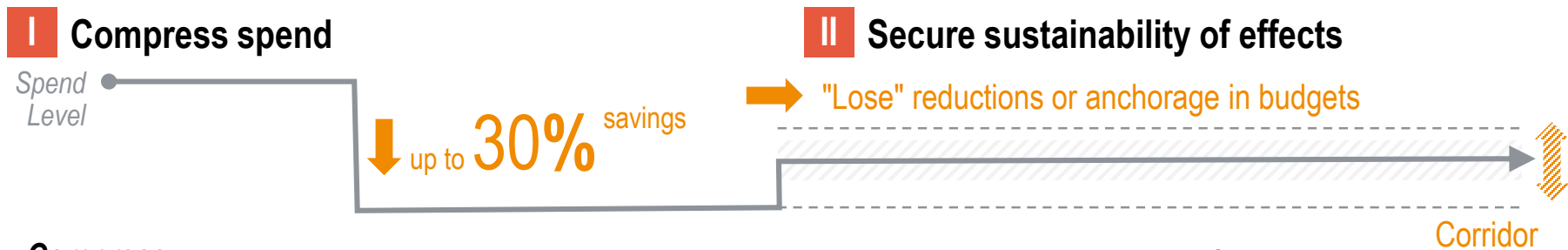
### IT & Digital War Room

- 1 Enable distant work: identify relevant tools, define and communicate on rules, support change management, ensure bandwidth
- 2 Monitor cyber risks and run upgrades



# Company can immediately compress spend by up to 30% towards the implementation of eight modules

## Spend Compression – Modules



### Compress...

### Sustain...

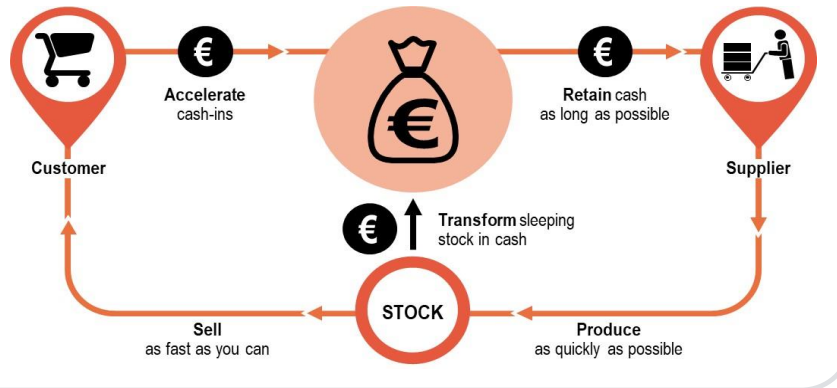
<p><b>1</b></p> <p><b>"Demand Challenge"</b> Radical challenge of large spend</p>	<p><b>3</b></p> <p><b>"360° Spec Challenge"</b> Radical review of approved spend and specification regarding specs, comfort level, etc.</p>	<p><b>5</b></p> <p><b>"Commercial Pressure"</b> on top/large suppliers (re-negotiation, kick-backs, etc.), target of &gt;5%</p>	<p><b>7</b></p> <p><b>"Budget Cut"</b> Immediate cut of current budget, reflection for future budgets</p>
<p><b>2</b></p> <p><b>"Negotiation Factory"</b> Sourcing alternatives and "post-procurement" discount claim</p>	<p><b>4</b></p> <p><b>"Muda last dance"</b> Radical identification of excessive expenditures leveraging input from employees and steamroll implementation</p>	<p><b>6</b></p> <p><b>"Supplier contribution"</b> smaller suppliers (general, undifferent. extra savings demand 2-5%)</p>	<p><b>8</b></p> <p><b>"Control Tower"</b> Digitally enforced process / spend compliance to monitor risks of savings leakage</p>

**Business in the driver seat supported by Finance and Procurement**



# "Cash Preservation" is an actionable holistic approach addressing liquidity management & WCR, consisting of six modules

## Cash Preservation – Modules



### "Variable costs reduction"

- > Investigate activities where non-permanent workforce can be reduced/stopped and reallocated to permanent workforce
- > Stop/delay recruitment,...

### "Trading and cash flows reforecasting"

- > Evaluation of impacted operations
- > Scenarios planning and cash requirements estimation

### "Transactions Audit Factory"

- > Audits on payables and receivables transactions
- > Extension of payables and quick collection of receivables

### "Financing flexibility Negotiation"

- > Regular discussions with financial stakeholders to get financial support & ensure lines of credit
- > Exploration of new/additional options incl. supply chain financing

### "Supply & Production Continuity"

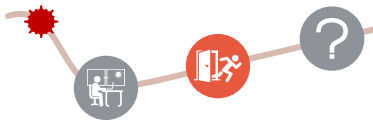
- > Key trading terms assessment
- > Assessment of suppliers capacity to maintain business continuity & contingency plans definition
- > Stock quick reduction & JIT production

### "Supply Chain risks insurance"

- > Insurance policy for supply chain risks negotiation

Business in the driver seat supported by Finance and Procurement





# Companies might expect and get ready for a new market demand paradigm after the Deconfinement Day

## A lot of uncertainties for market demand

### Uncertainties on global crisis recovery

- > **V shape** – fast recovery
- > **U shape** – full recovery only in Q4
- > **W shape** – fast recovery & relapse (virus comeback)
- > **L shape** – recession/depression

### Transformation of consumer behaviors

- > **Focus on essential** – less spending?
- > Faster churn from ownership to **sharing/leasing**?
- > More **On-Line** purchase?
- > Priority to **"ethic/green" companies and products**?
- > Prime to **local** sources/brands?
- > Research of **new product features/new brand promises**... helping to cure traumatic impact of the crisis

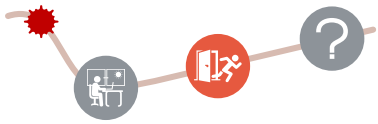
## Solutions

### To anticipate global economy dynamic

- » Leverage robust econometric & pandemic **models built by global experts**
  - > Do not try to build your own model

### To anticipate your specific market dynamic

- » Build a demand **model** that robustly **takes into account** the global **economy** dynamic
  - > Desynchronized scenarios EU/ US/ CN/ India: COVID progress + state incentives for economy rebound
- » Run **customer surveys** during the shut down to detect changes in consumer expectations / behaviors
- » Consider **future actions of States and Competitors** to relaunch demand
- » **Observe** countries that crossed the Deconfinement Day: **China / Korea / Japan as**
- » **Synchronize** visions with customers, peers, suppliers



Preparation of the Deconfinement Day, 3-5 weeks in advance, will enable a fast ramp-up and a tight control of costs & cash

Prepare the Deconfinement Day



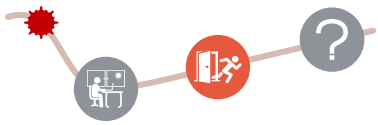
## Objectives

- > **Secure the optimum ramp-up of business operations:** product & service delivery, sales, R&D, ...  
... in a uncertain context: demand acceleration (or not), supply chain conditions, company assets & employees remobilization
- > **Prepare cost containment and further cost compression** to absorb losses resulting from the shut down: **avoid costs coming back** to pre-covid level during the ramp-up, **turnaround** the cost structure ... and potentially **restructure**
- > Deal with **extreme cash constraints:** ramp-up will keep on burning cash

## Approach

- > Consider the Deconfinement Day (D.D.) as **the start of a race for survival** (EBIT, Cash, Stock Market)
- > Prepare a robust, detailed and holistic **ramp-up and cost containment/compression program ... as for a PMI:**  
realistic demand scenarios, delivery/capacity/inventory planning, actions to reboot of the value chain, cash planning
- > Ensure **synchronization between internal** stakeholders and **with external** stakeholders (e.g. customers and suppliers)
- > **Set-up real-time steering** of the preparation and of the execution: HR, Operations, Finance, Communication





# COVID also creates opportunities to be grabbed after the Deconfinement Day... or even before!

## COVID opportunities

### Suppliers

- B** > Negotiate **favorable long-term terms with suppliers** in exchange for secured volumes
- > Refinance with **lower interest rates**

### Regulations

- B** > Negotiate with **Governments Bodies more favorable regulations** to help the industry to recover (eg. CO<sub>2</sub> tax in Automotive)

### Company

- B** > Catch up on **R&D project backlogs**
- B** > Catch up on **plant evolutions / reparations**
- B** > Negotiate favorable **working conditions with unions** and employees to restore company profitability and ensure its sustainability
- > Speed-up **digitalization** by surfing the wave of remote working imposed by COVID

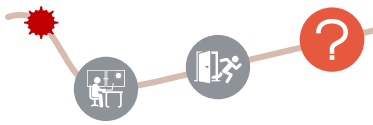
### Ecosystem

- B** > Grab aggressive **M&A opportunities** with distressed / undervalued companies
- > More easily build win-win **new alliances** to favor the recovery

### Customers

- B** > **Negotiate specific terms** with best customers in exchange of delivery priority for ramp-up
- B** > Leverage **post COVID Smart Pricing**
- > Adapt **CRM / Marketing Campaigns before and after** Deconfinement Day

**B** Priority 1 to be initiated **BEFORE** the Deconfinement Day



# Companies should also start anticipating what will be the New Normal after the COVID Crisis

What will be the New Normal?



**More digital and flexible work?**



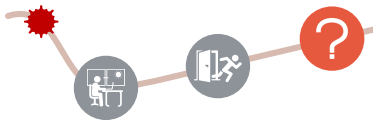
**More local, shorter & flexible supply chains?**



**More pressure on sustainability?**



**More protection against black swans?**



# More local, shorter & flexible supply chains?



More local & flexible supply chains?

Get ready!

## A new context: mass pressure for relocation

- > Numerous publications and articles, politics insist on the **necessary relocation of production** capacities after the crisis
- > The objective is to **improve supply chain safety** in case of another unexpected crisis
- > Bruno Le Maire, ministry of Finance, has been working for weeks now on a "**pacte productif**".
- > However, is this really the solution? Is this simply realistic? The question revolves around: **how should companies and states respond and prepare for potential new disruption to supply?**

## But is it realistic

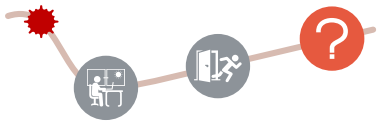
- > Local production / near-shoring may be **in some instances possible**, especially with industry 4.0 solutions  
... **but impossible in most cases**: day-to-day competition will force the search of best-price and some competitors will not include the costs of risk occurrence in their sourcing strategies
- > **Will Europe create a "systemic risk-free ecosystem"** towards regulation? at least for strategic industries/ products?

## Restructure the supply-chain if you can

- > **Embed "cost of the risks" to test relevance of your supply chain...** and decide case by case if you consider it
- > **Develop mitigation strategies**: R&D/ Production in multiple regions, vertical internalization... when volumes allows
- > **Push your suppliers** to develop their mitigation strategies
- > **Consider near-shoring** options when new technologies allow competitive cost
- > **Consider safety stock** if cash allows

## Monitor & anticipate

- > **Develop better visibility** to the **entire value chain** including purchasing (all parts), manufacturing, transportation
- > **Deploy scenario-planning techniques** to proactively (real time) assess various disruption scenarios



# More pressure on sustainability, notably on CO2... but not only



More pressure on CO2?

Get ready!

## Before COVID: rising climate concern

- > Climate change and other environmental related issues concerns have been rising and triggering some changes in purchasing behavior

## Consequently, rising corporates' commitments on carbon neutrality

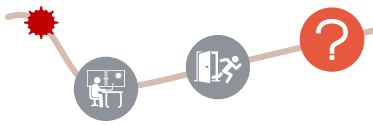
- > End of 2019, 40+ major companies had committed to become carbon neutral
- > Trend was strongly accelerating

## Post Covid-19, contradicting trends

- > Increased concern on natural risks impacting the economy could push stakeholders to be more demanding
- > At the same time, companies will be impoverished and most likely incapable of financing required investment

## » Build your post COVID Carbon Neutral Strategy

- > **(Re)assess your current carbon footprint** in light of new economic conditions
- > **Identify levers to reach a carbon-neutral situation**
  - Energy, Value chain, Product,..., buy Credits
- > **Consolidate coherent strategic options**
  - **Scenario 1:**  
Acceleration of stakeholders pressure
  - **Scenario 2:**  
Temporary increase of society tolerance
- > **Prepare a communication strategy to manage stakeholders' expectations**

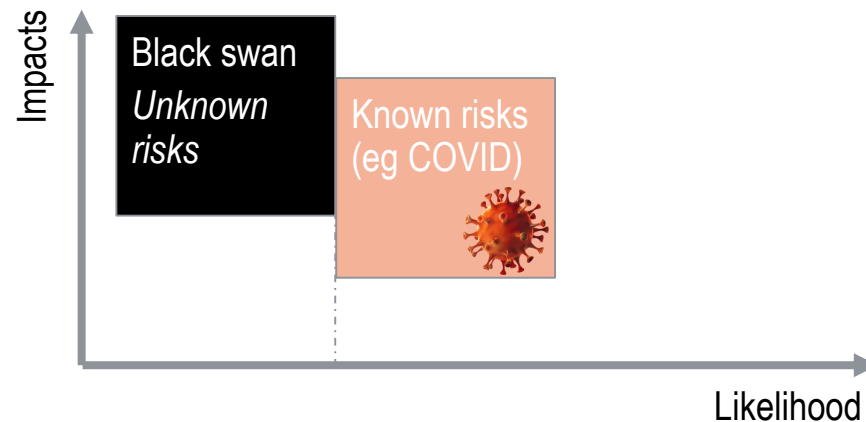


# More protection against black swans?



More protection against black swan?

Get ready!



## » Start by preparing your company to known risks

- > **Objectively assess** if your company is prepared to deal with known risks with low likelihood
- > Understand **WHY** it is not the case
- > **Change mindsets** and update the mitigation plans

## And prepare your company to deal with unknow risks (*the real black swans*)

- > **COVID is NOT a Black Swan:** it was a **known risk**... that the world did not decided to mitigate enough
- > Your company might have **identified risks**... and **implicitly decided** not to prepare their mitigation enough
- > Black Swans are **unknow risks** that most companies are **not ready to face to**
  - Most of Black Swans consist in **an unlikely combination of events** that go into resonance to collectively create a disaster

- > **Train selected managers**, at all levels of the organization, to deal with the unexpected... ... as **Commandos** do
- > Build a **network of sentinels** trained to imagine Black Swans related to your business, run war gaming and propose preventive actions
- > Leverage **analytics** to detect risks and evaluate impacts of scenarios to **ease decision making**
- > Disengage from businesses too much favorable to black swan emergence (*for large conglomerates*)

# Roland Berger can help your company to overcome COVID crisis

Roland Berger's expertise in performance improvement (2019)

brandeins

## #1 in Restructuring

#	Management consultancy	Colleague assessment	Client assessment
1	<b>Roland Berger</b>	●●●	●●●
	McKinsey & Company	●●●	●●●
3	BCG	●●	●●●
4	AlixPartners	●●	●
5	Bain & Company	●	●●●

## #1 in Automotive

#	Management consultancy	Colleague assessment	Client assessment
1	<b>Roland Berger</b>	●●●	●●●
	Porsche Consulting	●●●	●●●
3	McKinsey & Company	●●●	●●
4	BCG	●●●	●
5	MHP	●●	●●●

## #1 in Industrial Goods

#	Management consultancy	Colleague assessment	Client assessment
1	<b>Roland Berger</b>	●●●	●●●
	BCG	●●●	●●●
	McKinsey & Company	●●●	●●●
	Porsche Consulting	●●●	●●●
5	A.T. Kearney	●●●	●●

**Roland Berger as the consistent market leader in Restructuring, Automotive and Industrials is your proven partner for the upcoming challenges in the Industrial and Automotive sector**





# Our global COVID-19 Task Force and your personal team are at your disposal for an exchange

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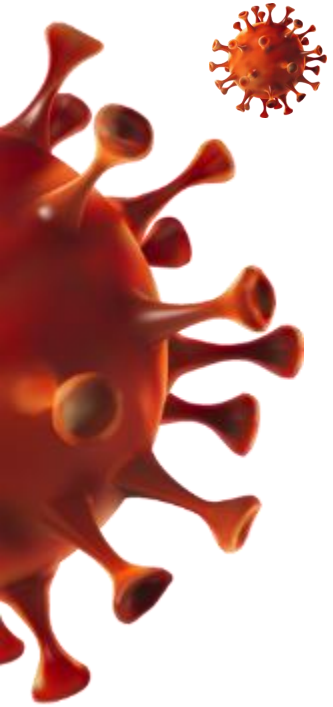
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