

Anchor business decisions in a view of the post-COVID-19 era

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The economic impact of the COVID-19 pandemic is expected to be worse than that of the 2008 Global Financial Crisis. This requires immediate and decisive actions by companies to protect staff, ensure business continuity and strengthen finance. Previous economic crises, however, have also shown us that their effects will be felt for years to come and could lead to structural changes in the business environment. How then can companies prepare for and adapt to a post-COVID-19 world, and remain focused on the here and now at the same time?

COVID-19 has become a global health crisis, putting nearly every facet of business and society at test. Despite the fact that we are still at the early stages of this global public health emergency where the exact economic impacts are still uncertain, the impact on companies is enormous. Business in sectors such as aviation, tourism and entertainment almost came to a standstill. Other sectors are also experiencing significant declines in demand and supply. Companies are responding to this crisis situation by, among other aspects, focusing on the health and well-being of their employees, solving cash and liquidity challenges, cutting costs, postponing investments, suspending dividend pay-outs, considering governmental aid and refinancing debt.



Building understanding of how a post-COVID era could look like is critical

Such a strong focus on optimising organisational efficiency and strengthening short-term finances is understandable and absolutely necessary. However, to respond effectively to the COVID-19 pandemic a longer-term perspective is equally critical as well. Companies that exclusively focus on efficiency and short-term financial performance are inadvertently putting themselves at risk and miss value creating opportunities in the future.

Lessons learned from previous economic crises point to a situation in which a focus on what is ahead is of paramount importance. Like other economic crises in the past, it is likely that the societal and economic impact of COVID-19 will rumble on for many years and could lead to structural changes in, for example, what and how customers consume and how companies work, allocate capital, manage finances and organise their supply chains.

It is also not inconceivable that existing societal trends such as deglobalisation and deregionalisation will accelerate and that new governmental policies will come into force in areas such as social welfare, employment and healthcare.

It is critical companies build an understanding of how their business environment will look like post-COVID-19 and already start preparing and adapting their business and operating models to strengthen their long-term competitiveness and earning capacity in a post-COVID-19 era.

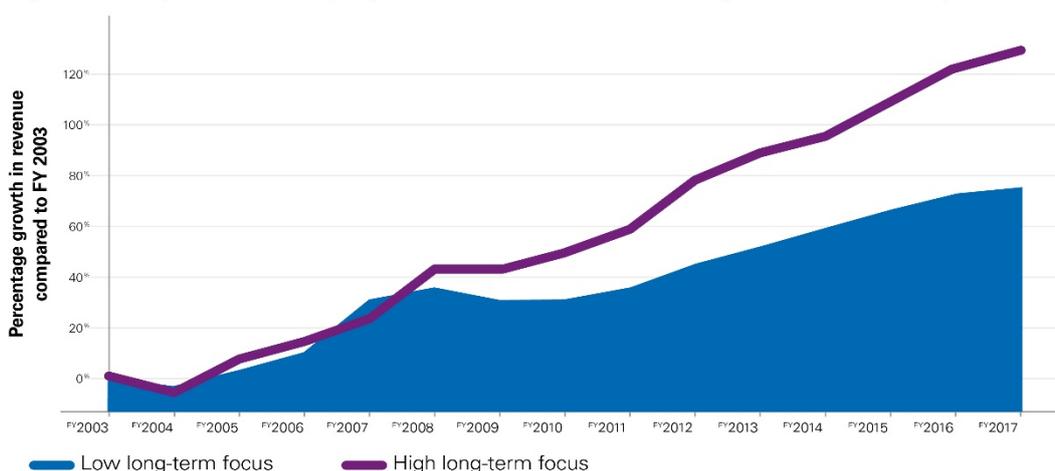


Focus on the company's future competitiveness in financial crises pays off

Looking at the previous economic downturn in 2007-2009, recent KPMG research shows that an exclusive short-term orientation to the crisis by companies might lead to suboptimal outcomes for them. Companies that kept focusing on their long-term performance and competitiveness during the Global Financial Crisis showed better financial performance, both during and beyond the economic downturn. Figure 1 on the next page shows that long-term oriented companies increased their revenues by 16% during the downturn, while more short-term oriented companies showed no growth. In addition, with only a 0.6% decrease in company earnings in the first year of the Global Financial Crisis, they were able to keep earnings reasonably stable, whereas short-term oriented companies suffered a 17% fall (see figure 2).

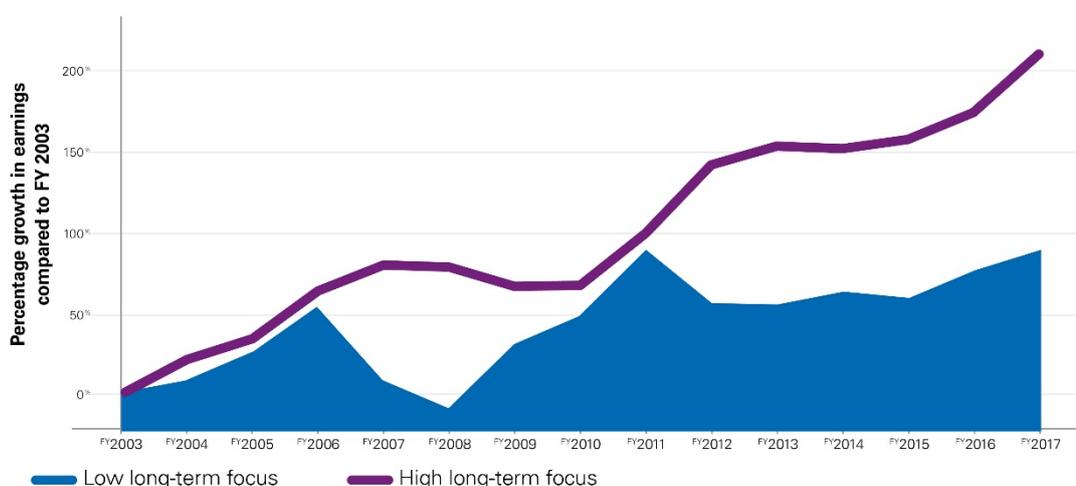
It is not unlikely that in the COVID-19 era the differences in financial performance between short-term and more long-term oriented companies will become even greater. Driven by technological disruptions, societal, political and economic changes, volatility, unpredictability and extreme uncertainty

Figure 1: Comparison of company revenue of short-term and long-term focused companies



Source: KPMG analysis (2018) based on data S&P Capital IQ

Figure 2: Comparison of company earnings of short-term and long-term focused companies



Source: KPMG analysis (2018) based on data S&P Capital IQ

in the business environment have become the ‘new normal’ for companies after the 2007-2009 Global Financial Crisis. In such a complex business environment a long-term orientation is even more paramount in order to adapt quickly to the new business reality.

How companies could prepare for and adapt to a post-COVID-19 world?

Next to the immediate actions to safeguard the day-to-day business, we recommend companies to consider the following steps to prepare for and adapt to a post-COVID-19 reality and strengthen their long-term competitiveness:

1. Work across multiple time horizons in strategic planning and risk management

It is likely the COVID-19 pandemic will have long-term implications in a highly volatile and uncertain business environment. To better prepare for and adapt to future events and potential disruptions caused by COVID-19, companies should collect forward-looking information, develop multiple strategic scenarios of what the future in their sector might look like and identify corresponding strategic responses. Key questions to answer could be:

which societal developments might affect the organisation? What will be the drivers of success in the post-COVID era? Which investments does the company need to make to adapt quickly to potential new market conditions? Companies should do this across multiple time horizons: e.g. next quarter, next year, next two years and beyond. Such insights could lead to better decision making by the company, now and in the future.

2. Put emphasis on long-term competitiveness of the company in investor engagements

It is critical for companies to construct and communicate a coherent and convincing investor story about their future competitiveness and long-term strategy for value creation. Such a long-term term plan should be one of the central topics to discuss with key investors. Investors look for companies that are resilient and they expect from companies a clear view on their competitiveness in a post-COVID era and corresponding planned investments that have the potential to deliver strong returns. The unavoidable deep economic recession that is in front of us, should not hold back companies from investing in future growth options that strengthen their competitiveness on the longer term.

3. Integrate interests of key stakeholders in key decision making processes

Strong relationships with key stakeholders are a prerequisite for the long-term competitiveness of the company in today's and tomorrow's market place. Companies should take into consideration the impact their immediate and more longer-term actions might have on their key stakeholders. For example, stretching supplier payment terms might be beneficial for the cash position of the company on the short term, but might harm the stability and security of supply on the longer-term. Furthermore, to better forecast, plan and predict future events companies should engage in active dialogue with their key stakeholders such as their key customers, suppliers, governments and public stakeholders.

4. Align all COVID-19 responses with the corporate purpose and values

COVID-19 crisis offers companies an important opportunity to securing and enhancing trust and goodwill across all key stakeholders. A key way to do this is to align all company actions in response to COVID-19 with the purpose and values of the company. Instead of spending marketing budgets on short-term sales promotions, or even cutting them, companies could consider to use this budget to exemplify the corporate purpose and values in the face of the actions it takes to cope with the COVID-19 pandemic. Furthermore, companies should pro-actively map the short- and longer-term reputation risks they might run in the light of the health crisis. Executive remuneration, dividend pay-outs, share buyback programs and financial reporting might be areas where reputational risks could pop up now and in the next one to two years.

5. Assess the ability to enhance the resilience of the company

It might be risky to consider COVID-19 as a one-off event. Extreme volatility and uncertainty have become the new normal in today's business environment. Companies need to be able to continuously prepare for and adapt quickly to new market circumstances, without undermining their short-term financial performance. We call this *corporate resilience* – the ability to blend long-term value creation with a shorter-term results focus. It is recommended companies start measuring and enhancing their current level of resilience to be able to master future market disruptions. Key questions companies could ask themselves: do we have in-depth insight in low-probability/high-impact risk events that could take place in our sector? Do we understand how longer-term societal trends could impact our business? Are scenario planning and stress testing fully integrated in our strategic planning and risk management process? Do we have growth options across different time horizons?

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The Covid-19 pandemic is the biggest health and economic crisis that the world has witnessed since decades. Its effects will be felt by companies for years to come. History shows that in such an economic downturn it is critical companies anchor their tactical and strategic responses in a view of the future. Companies that are able to start already adapting their business and operating models to a post-COVID-19 reality and safeguard their current day-to-day business simultaneously, are likely to maintain and improve their business performance both on the short and longer-term.

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