

COVID-19: Actions To Take Now – More Detail

March, 2020

DRAFT

BAIN & COMPANY 

Our overall view – a ‘wait and see’ approach is a non-starter

- **COVID-19 is unlike any previous crisis**; traditional ‘crisis response’ approaches will not be sufficient
- The process of ‘containment’ and ‘slowing the spread’ that is phasing in country by country will **create major disruption in itself**, irrespective of the seriousness of the virus spread itself
- **Prepare for the worst**, and be thankful if it doesn’t eventuate; **‘wait and see’ approach is a non-starter**
- High likelihood of a **substantial revenue disruption, leading to a potential liquidity crisis** for many
- The **recovery may not be a quick ‘bounce back’**, plan for multiple quarters of lower revenue
- **Employees and customers** likely experiencing **fear/panic**
- You need to appoint a **senior, fully dedicated COVID-19 “war room” team**, focused on this all day, every day
- As CEO, it’s critical for you to be out in front with a **planned cascade of possible actions** based on which scenarios unfold, likely **more aggressive than your team can imagine right now**
- **Customers will change behaviors in non-reversible ways**, accelerating prior trends; **bold action now** can set you up for success **through the downturn and beyond**

CEO checklist:

We recommend organizing efforts around the following six urgent priorities



Protect Your Employees and Customers

- Implement the best known guidelines available for both employees and customers - overinvest
- Monitor global health guidelines, other companies - and continue to fine tune
- Over-communicate with full transparency
- Provide assistance to epidemic-limiting initiatives in any way possible (CSR)



Model your exposure; Stress test P&L and liquidity

- Outline macro scenarios by market, translate to revenue decline and P&L scenarios
 - Units, revenue, costs
 - Cap Ex, working capital, cash/liquidity
 - 13 week, 4Q outlook
- **Build extreme downside scenarios – this has the potential to be a “100 year” event**
- Outline major operational actions triggered
 - Do now ‘handbrake’ actions vs. do-later ‘break glass’ initiatives



Defend against revenue declines

- Take a customer centric view to this situation – how will you build trust, loyalty and market share through and beyond this crisis?
- Build specific revenue mitigation actions for core revenue stream declines
- Pivot resources to pockets of current and future growth, online and beyond



Stabilize operations to “new normal”

- Stabilize supply chain of physical goods from likely geographic and labor disruptions
 - Manufacturing, distribution, suppliers, suppliers to suppliers
- Build contingency operational plans for all aspects of business
 - Front line facilities, costs, variable labor staffing
 - Cross regional variations in utilization
 - HQ, IT



Plan urgent cost take-out to conserve cash

- Spend handbrakes
 - Immediate actions (e.g. hiring freeze, op ex, cap ex, working capital)
- Set aggressive ‘break glass’ cost actions triggered by more extreme revenue scenarios
 - This is (may be) about saving the company – no ideas are too extreme
- Mid-term, outline a plan to lean out the cost structure for the future – more automated, more variable, more shock resistant



Play Offense, not just defense

- Define how you will outperform competitors and take share through and beyond the crisis
 - M&A roadmap
 - Product/service/customer intimacy investments
- Prepare for ‘bounce-back’ and recovery
 - E.g. Marketing investment, leveraging macro trends for “if, then” moves
- Plan for and leverage a ‘leap-frog’ change in customer behaviors
 - Especially digital



Protect your Employees and Customers (partial checklist)

Employee Safety

- Follow the **most conservative CDC protocols**
- Follow official advice **on deep cleaning and sanitization of most used areas/facilities in offices**
- Implement requirements for frequent **hand-washing**
- Equip employees with any needed sanitary or **personal protection equipment** (disinfecting wipes, masks, gloves, etc.)
- Re-iterate the importance of **staying home** if you are feeling ill
 - Consider **screening employees for symptoms** (temperature, etc.) and sending home staff that display signs of illness
 - **Policies around sick and personal time may need to be relaxed** during this time in order to ensure employee and customer safety
- Consider shifts to **alternative working arrangements** (e.g. working remotely) and leverage best practices and infrastructure to engage employees (e.g. videoconferences)
- Reduce or eliminate all **non-essential travel**
- Cancel non operationally-critical **gatherings of 20 people** or more
- **Regulate/minimize visits from third-parties to offices**; implement visit declaration forms and visitor screening policy

Customer safety

- Follow CDC guidance on customer facing operations and **frequently communicate potential impacts to customers**; shift online where possible (sales and servicing)
- **Reach out to key accounts** and maintain open lines of communication; implement **voice of customer monitoring / social listening** to understand consumer and customer experience and sentiment
- Prepare **communications plan** to re-assure customers on product and operational safety concerns and communicate measures to monitor
 - Maintain consistent “brand image”

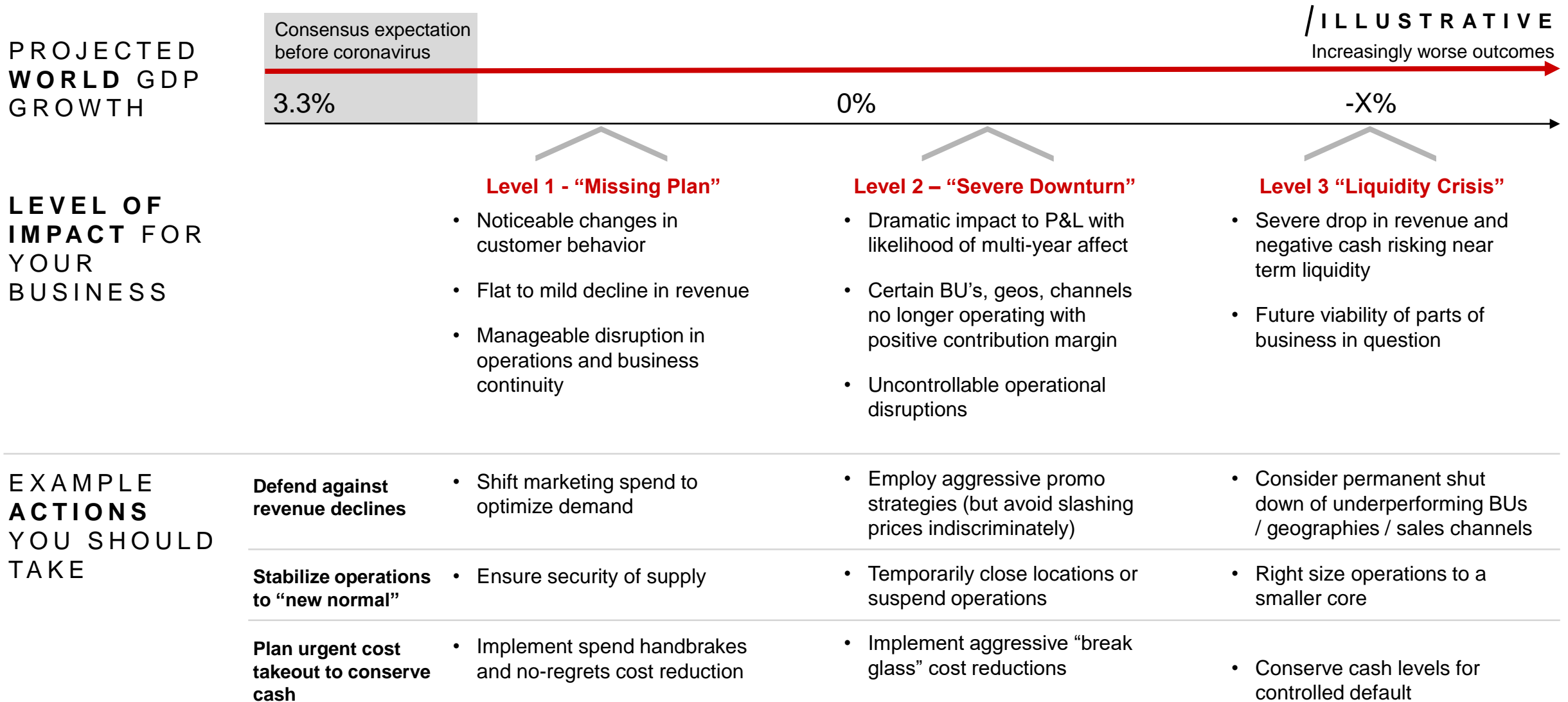
CSR efforts

- Mobilize **impactful donations / supplies** to provide assistance to epidemic-ridden geographies
- Support **epidemic limiting efforts** in any way possible

Ensure you are over-communicating with full transparency to employees and customers



Model your exposure; Stress test P&L and liquidity: There will be critical “triggers” where more aggressive actions will be needed



Source: IMF World Economic Outlook, January 2020; Bain Macro Trends Group analysis, March 9, 2020



Defend against revenue declines

Take a customer centric view – build trust, loyalty, market share

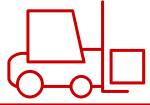
- **Proactively contact all customers** to let them know about ‘business continuity’ and ‘extraordinary actions’ being taken
 - E.g., Waive cancellation fees
- Issue **targeted account management / marketing** campaigns directed **at highest risk segments** to proactively double down on potential **segment / customer specific concerns**

Build specific mitigation actions for core revenue stream declines

- Develop and execute on actions to **mitigate downside risks**, identifying the best way to approach the most affected **customer segments, geographies, channels**
- Review current sales pipeline and orchestrate executives to **reach out on all late stage opportunities**
- Develop **clear pricing strategy** to maximize revenue for the short and long term
 - E.g., segmented value-based pricing, dynamic pricing as market conditions fluctuate
 - Avoid slashing prices indiscriminately, our findings show that this can take 2+ years to recover

Pivot resources to current and future growth

- In the short- and medium-term, identify **new / accelerated revenue opportunities**
 - E.g., pushing e-commerce as opposed to in-person purchases, capitalizing on ‘in-demand’ products or services
- *For the longer-term opportunities – see “Play Offense, not just defense”*



Stabilize operations to “new normal”

Sourcing, manufacturing, supply chain

- Begin **daily calls with impacted teams** (sourcing, manufacturing, engineering, etc.) to track latest risks
- Assemble **fact base to track all sourced components** from at-risk geographies
- Work with suppliers to conduct a joint **assessment of supply risks**, including up-stream risks in their supply chain, and set-up joint process to monitor
- **For at-risk components:**
 - Seek commitments on supply minimums
 - Increase stock levels where possible
 - Increase delivery frequency to smooth supply
 - Begin to qualify new suppliers with sourcing / engineering input
- **Ramp up / down manufacturing efforts** to meet changing customer supply needs
- Review **planned deliveries and develop contingency plans** if demand rapidly decelerates

Build contingency plans for all aspects of business

- Consider **adjusting operating hours (or temporary store closures), or pushing customers online** to address slower traffic and labor shortages
- **Flex labor as needed** to meet an increase or decrease in demand
 - Increase: Consider borrowing staff from less critical roles if needed; add capacity to certain account teams or call centers in anticipation of customers reaching out
 - Decrease: Consider redeploying labor in other units if suitable, or implement furloughs
 - Load-balance: Shift labor as much as possible to virtual customer service / maintaining inventory / online order fulfillment
- **Defer non-essential tasks** to free up labor and stay ready for potential greater disruption
- Consider implementing **“Red” and “Blue” teams**: Split core functions into teams that go to work every other day or are segregated within the office. If someone gets sick on the “red team,” the “blue team” can still function while the other is quarantined
- Ensure **HQ & IT functions are equipped for continuity** in any circumstance



Plan urgent cost take-out to conserve cash

Spend handbrakes

- **Freeze hiring** plans as relevant
- **Cancel all travel and/or training** that is not operationally-critical
- **Pause/furlough** contingent workforce
- **Freeze marketing/advertising** selectively
- Stop **non-critical consulting engagements**
- **Extend payables** with suppliers to preserve cash
- **Postpone** major investments

'Break glass' decisions

- Determine future **crisis milestones** that would trigger **additional corrective actions** (e.g. major RIF, store closures, production line shut down, route closures, geography exits etc.) – no ideas are too extreme
- **Line up owners and build 80/20 blueprint** for each corrective action to be ready to deploy once milestones are reached
- **Benchmark proposed action plans/milestones** with competitors to ensure timely responses are planned

Improvement in cost position for mid-to-long-term

- Assess cost position and build longer-term roadmap of **cost saving opportunities**, without cutting 'muscle'
 - **Optimize supply chain** to reduce cost of logistics/storage/labor, **increase automation and shock resistance**
 - Drive **procurement savings program** to reduce spend with vendors
 - Right size **G&A costs**
 - Establish **Zero Based Budgeting**
 - Shift to a more **variable cost** structure
- Put the financial house in order: diligently manage **liquidity** and **balance sheet**



Play Offense, not just defense

Define how you will outperform competitors and take share through and beyond the crisis

- **Enact bold actions now** to help outpace competitors in recovery
 - M&A consolidation roadmap
 - Strategic product, customer intimacy, or service investments
- Review pitfalls and update supply chain to achieve **greater agility** and **increased capabilities**
- In case of persistent low consumer demand, lay out a path to build **sustained relative cost advantage**
- Ensure **balance sheet is robust** enough to create a safety net and resilience against hostile approaches

Prepare for 'bounce-back' and recovery

- Continue **sales, marketing, and R&D** investments to maintain market share; **prepare supply chain for bounce-back**
- **Leverage macro trends** and industry signals to identify **comeback point**; have clear “if, then” moves identified in advance
- Learn from this crisis to **'build the resilience muscle'** for **future external shocks** (economic downturns, terror attacks, natural disasters)
- Invest in the **teams, tools, systems and redundancies** that will protect your business going forward
 - E.g. implement **Agile ways of working**, adaptive risk planning into operations

Plan for and leverage a 'leap-frog' change in customer behaviors and technology

- **Plan for and leverage sustainable shifts** in customer behaviors
 - E.g. digital solutions, automation
- **Act swiftly with investments** to maintain competitive advantage as **customers 'leap-frog' through traditional S-curve progression**

Getting started:

We recommend immediately launching three actions in parallel



Align your senior team with a wake up call

- Must get full team aligned with the true severity of the macro COVID-19 situation, and worst case financial scenarios
- Set safety as #1 priority...
- ... and cash conservation and liquidity a close #2...
- Avoid inaction, “wait and see” could damage the company



Establish a dedicated senior team in a “war room” setting

- Stand-up a senior, dedicated team from multiple disciplines (ops, sales, HR, finance)
- Prioritize and action major work streams; set a tone of daily progress using Agile approach
- Break the usual reporting and update cycles – urgency requires a different model, i.e. daily informal CEO updates
- Put in place a tracking tool



Outline macro scenarios and translate to contingency plans

- Outline specific macro COVID-19 scenarios, by major geography
- Translate those scenarios into tangible revenue decline and operational disruption scenarios
- Begin to outline no-regret moves – there *will* be impact, start acting
- This needs to be done in days, not weeks (and from there can iterate)



Align your senior team with a wake up call

Get full team aligned with the true severity of the situation

- Illustrate the potential magnitude of the impact in the worst-case scenario, underscoring the highest risk areas (e.g., what is the total dollar revenue if we went to zero in all biggest red dots on the map?)
- Set expectations that needs will change based on how the situation evolves

Set safety as #1 priority...

- It goes without saying – follow the most conservative CDC protocols (e.g., limit unnecessary travel, cancel / hold remote large non-critical large meetings) and call for re-examination of / potential changes to policy (e.g., visitor policy, employee benefits, shifts to remote working and leverage best practices and infrastructure to engage employees)

... and cash conservation and liquidity a close #2...

- Ensure executive mind-shift to cash, reinforce balance sheet, engage in renegotiations, assess / rethink overhead (e.g., conduct rolling 4 quarter, 13 week cash flow and liquidity assessment); however, make sure to trim parts that are unlikely to prompt uproar (e.g., think twice before cutting service salaries)

Avoid inaction, “wait and see” could damage the company

- Pursue ‘no regrets’ moves swiftly, as most decisions are ‘two way doors’ that can be reversed
- Obtain buy-in to stand up a centralized war room, get going, and start managing communications / engagement plan and day-to-day responses – war room leaders must be ‘100% time dedicated’
- Employees will be looking to leadership for guidance and direction; inaction can cause instability



Establish a dedicated senior team in a “war room” setting

Stand-up the team

- Establish a **centralized control** effort
- Staff a **senior, 100% time-dedicated team** and ensure sufficient cross-functional and leadership representation
- **Decide on decision rights** (RAPIDs)
 - For the war-room team
 - Revisit **decisions made by CEO vs. Board** and agree path to **fast-track** (input and agree rights may also change)

Prioritize, action major work streams

- Work streams should focus on the **critical action plans** for the business
 - E.g., defending against revenue declines, stabilizing operations
- Drive team to **quick 80/20 output**, which can be refined later
- Determine **essential sub-teams / initiatives and owners**
- Outline **clear daily responsibilities**

Initiate tracking tool; set tone of daily progress

- Put in place **complete tracking tool now** – doing this by the time you desperately need them will be too late
- Establish a **clear rhythm/scrutiny**
 - E.g., Agile approach – daily huddles, weekly “sprints”
 - Ensure all stakeholders join for swift, well-aligned, well-informed decisions

Break usual reporting and update cycles

- **Update scenarios** and revise action plans as new data emerges
- **Over-communicate** relevantly, consistently, and transparently to all stakeholders
 - Daily informal CEO updates
 - Announcements to customers
 - Engaging with key value chain partners both internally and externally



Outline macro scenarios and translate to contingency plans

Retail example

/ ILLUSTRATIVE

Level of COVID-19 impact

Level 1: Missing Plan

Level 2: Severe Downturn

Level 3: Liquidity crisis

Defend against revenue declines

- Customer communication to reassure safety, service, and commitment
- Shift marketing spend to drive online channels
- Increase stock on high demand items
- Begin scaling online and Click & Collect offerings

- Employ surge staffing in fulfillment centers
- Outsource/partner to supplement online delivery capacity, recognizing workforce shortages may limit ability to execute
- Increase call center capacity
- Employ aggressive promo strategies or temporary price drops on perishable / seasonable items (but avoid slashing prices indiscriminately)

- Increase loyalty program benefits
- Offer very attractive promotions to drive sales
- Offer free shipping on online orders

Stabilize operations to “new normal”

- Work with vendors to secure supply for highest risk items
- Reduce store hours in certain geographies
- Roll-out increased sanitization protocols, focusing on frequent cleaning of high-touch areas
- Prepare employees for potential schedule disruptions should the situation escalate

- Selectively and temporarily close highest impacted stores
- Implement back-up staffing plans to ensure continuity of critical operations
- Reposition inventory to highest need geos & channels
- Prepare pricing / promo / markdown adjustments

- Consider permanent shutdown of unprofitable locations, channels, lines of business
- Enact significant layoffs to right-size organization
- Implement “Red” and “Blue” teams at HQ and in stores where possible

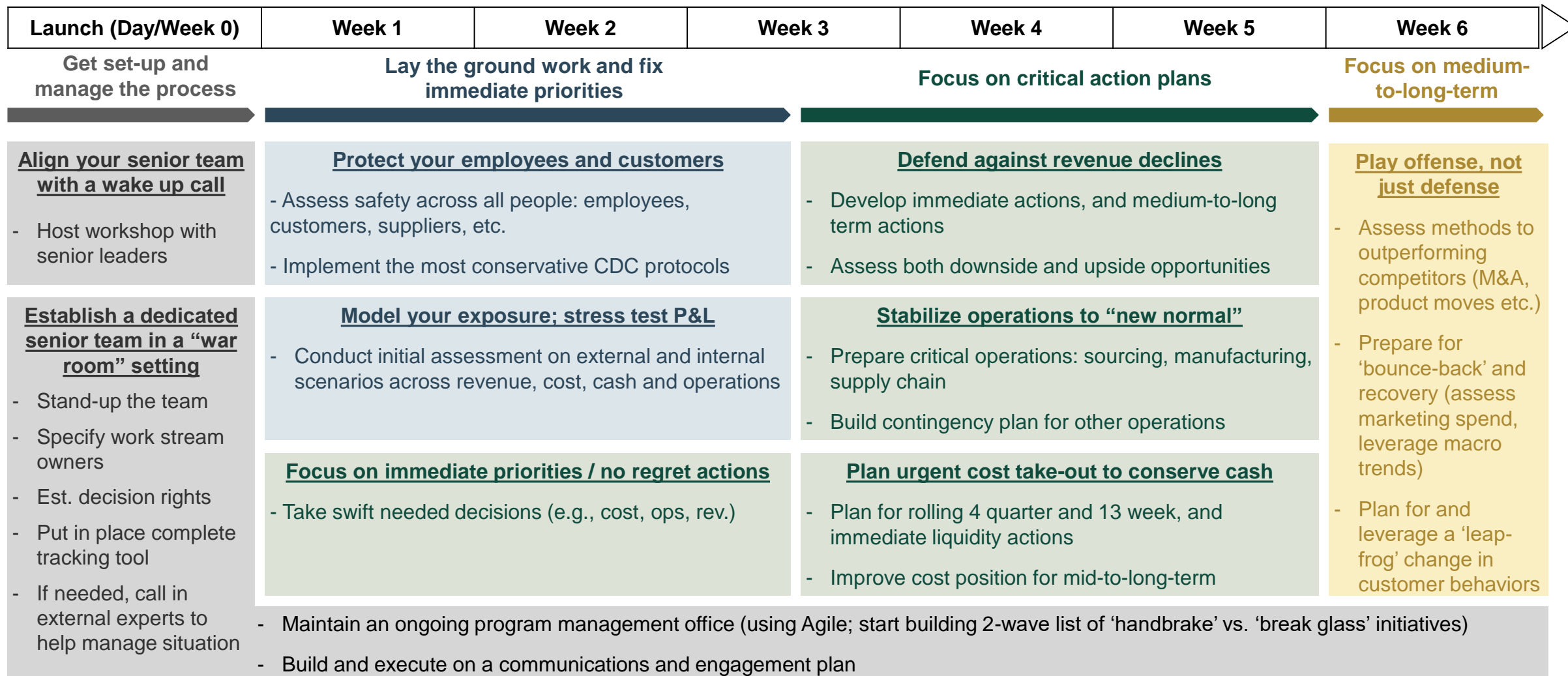
Plan urgent cost take-out to conserve cash

- Implement spend handbrakes and no-regrets cost reduction
- Freeze hiring plans
- Issue guidance on limiting travel and other discretionary spend
- Solicit volunteers for unpaid leave
- Delay major projects/investments

- Reach out to potential sources of additional credit
- Restrict all business travel and trainings that are not operationally critical
- Approach suppliers to flex payment terms
- Explore opportunities to increase inventory turns to accelerate cash conversion
- Furlough non-critical contingent labor

- Conserve cash levels for controlled default
- Call down all available credit sources
- Issue complete travel freeze
- Cancel non-critical projects/investments
- Cut marketing spend
- Liquidate excess inventory

Representative war room plan



How Bain can help

Workshop with senior team

- Share macro outlook; align around **magnitude of the disruption** ahead
- Share best practices and run **ideation sessions**
- Establish a **blue print** for action

Organize your war room approach

- **Launch team**, align on team **decision rights**, develop CEO/Board fast-tracked decision rights, clarify work streams
- Get a rhythm going (e.g., **Agile, daily huddles**)
- Lead/coach **transformation office** (e.g. start building list of actions - 'handbrake' vs. 'break glass' initiatives)
- Put in place a **tracking tool**

Scenario modeling

- Drive assessment of company exposure and **stress test the P&L** (e.g. scenario analysis across revenue, cost, cash and operations)
- Outline **actions triggered** by worsening scenarios

Deep dive on highest criticality areas

- Develop **detailed action plans** with milestones and trigger points for more important focus areas

Go on offense

- Begin scanning **M&A** landscape and organic growth opportunities, as well as front running recovery plans
- Develop strategy to prepare for **shift in customer behaviors**