

Strategy & Corporate Finance Practice

Getting ahead of the next stage of the coronavirus crisis

First the virus, now the economic fallout—you need to launch your plan-ahead team.

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The COVID-19 pandemic is spreading at an extraordinary speed. You have put a crisis team in place and are doing all you can to keep your people safe, stay on top of your business, and deal with the uncertainty amid constantly changing conditions. However, that isn't likely to be good enough.

Close on the heels of the coronavirus outbreak, the next wave of disruption—the biggest economic shock since World War II—is headed our way. And it isn't just an economic shock: it is a shock to customer behaviors and business models too. The challenges associated with it will be orders of magnitude bigger than what we are used to dealing with. To handle them, you need to adopt an operating model that accommodates the extreme level of uncertainty facing your business.

Most companies will be very vulnerable to the economic fallout of extended public- and employee-isolation measures. As the number of issues your business is facing will likely rapidly escalate, there are two practical steps you can take to help stay ahead:

1. Launch a PLAN-AHEAD TEAM to get ahead of the next stage of the crisis.
2. Direct that team to work across *multiple time horizons*, using *five frames*.

The plan-ahead team will help elevate your view above the day-to-day response that your crisis team is managing. Its objective is to enable modular, scalable thinking that any CEO needs to navigate this unprecedented and rapidly evolving situation. The plan-ahead team will deliver a STRATEGIC CRISIS-ACTION PLAN to guide and accelerate your decision making.

Launch a plan-ahead team

Military organizations, which specialize in dealing with large-scale crises, often establish granular structures accountable for highly specific tasks, such as operations, communication, and intelligence

gathering. However, they all use plan-ahead teams for key decision makers to leverage when dealing with complex and escalating sets of issues.

Your plan-ahead team should be charged with collecting forward-looking intelligence, developing scenarios, and identifying the options and actions needed to act tactically and strategically. Unlike a typical strategy team, it will have to plan across all time horizons (two, four, and seven days; two and four weeks; one and two quarters; one and two years; and the next normal) to enable you to stay on top of escalating issues and the decisions that you need to make in this time of high uncertainty.

A plan-ahead team delivers scenarios, recommendations for actions, and trigger points to the CEO and the management team so that they can decide on the right course of action. The decisions will be communicated to the crisis team or other parts of the organization for execution. If further clarification is necessary, the plan-ahead team will do another turn, collecting further information to reduce uncertainty.

Importantly, the structure of the plan-ahead team is modular, with individual cells focusing on specific issues across time horizons. As new issues come up or time horizons expand, you may need to add new cells. This will enable the team to scale in line with the magnitude of the crisis (Exhibit 1).

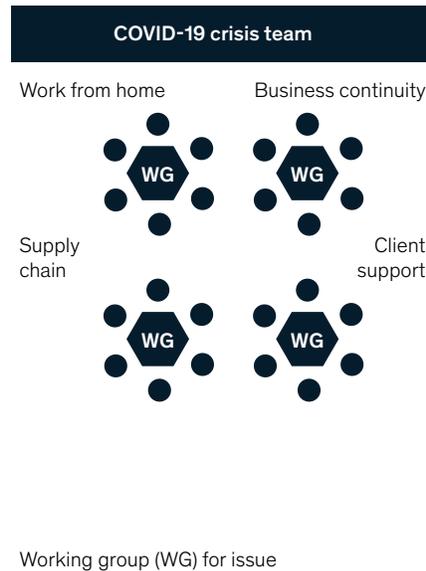
While staff from a regular strategy group may form part of a plan-ahead team, the team's responsibilities are far from the strategy function's usual purview. Planning ahead today requires a dedicated effort, with a full-time senior executive leading and accountable for a team of ring-fenced high-potential employees located "next door" to the CEO.

As a first task, the team needs to develop a day-one version of a strategic crisis-action plan by working through the five frames outlined in the next section of this article. Speed is of the essence, and waiting for perfect answers can be counterproductive: you need to deal with

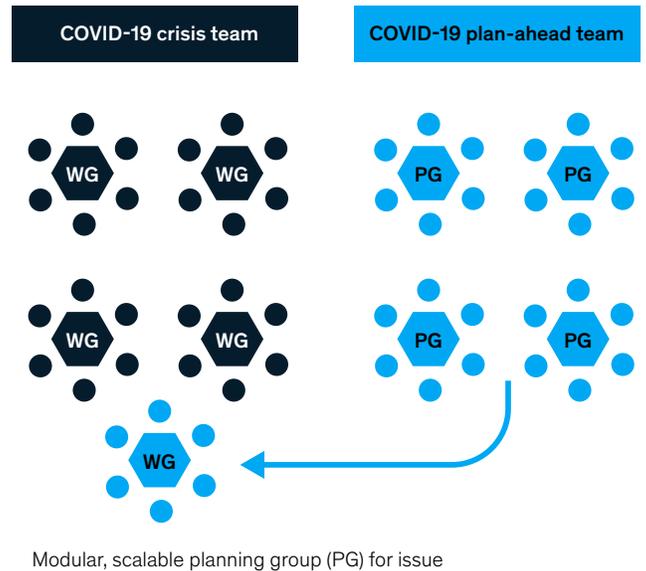
Exhibit 1

A plan-ahead team is modular, with cells focusing on specific issues across time horizons.

Immediate response to COVID-19 crisis:
Safeguard your day-to-day business



Getting ahead of next stage of crisis:
Launch your plan-ahead team



uncertainty, not let it bottleneck your decision making. Your plan-ahead team will need to update and improve plans continually by integrating new intelligence as it becomes available.

Work across multiple time horizons using five frames

The best response to navigating through the COVID-19 crisis and the subsequent recovery will differ based on a company's circumstances. For some, simply staying calm and carrying on will be the optimal approach. Others may need to undertake radical restructuring of their cost bases and business models immediately.

Even as you assess the best course forward, the one thing you shouldn't do is rely on what we frequently see in regular strategic-planning processes: ducking uncertainty altogether or relegating it to a risk analysis at the back of the presentation deck.

You can use a strategic crisis-action plan to guide your response through the next stages of the crisis as events unfold (Exhibit 2).

To produce this plan, you need to confront uncertainty head on. Your plan-ahead team needs to work through the following five frames:

1. Gain a realistic view of your *starting position*.
2. Develop *scenarios* for multiple versions of your future.
3. Establish your posture and *broad direction of travel*.
4. Determine actions and *strategic moves* that are robust across scenarios.
5. *Set trigger* points that drive your organization to act at the right time.

Exhibit 2

A strategic crisis-action plan guides responses to a crisis's unfolding stages.

Starting position (baseline and crisis context)

This week	2-4 weeks	1-2 quarters	1-2 years	Next normal
Zoom will run out of capacity Need to increase ventilator production 4-fold Exports 40% down Government bailouts offered	Capacity running out Supply-chain instability	Liquidity position	Growth likely to return	Business challenged postcrisis (eg, cruise ship) Business demand greater postcrisis (eg, home delivery)

Scenarios (issues and opportunities)

This week	2-4 weeks	1-2 quarters	1-2 years	Next normal
All exports shut down Share buyback unwise Need for/consequences of accepting government bailout	Access and nonaccess Claims on production Collaboration across players	Nationalization M&A wave Market rebound ahead of fundamentals No revenues Price controls	Still not recovered Quarantine still needed Surveillance government	Business returns to normal because of testing (eg, hotels) Drug approvals much faster Pace of all delivery expected to stay at crisis-level pace

Posture and broad direction of travel

This week	2-4 weeks	1-2 quarters	1-2 years	Next normal
Back to normal in 8 weeks Back to normal in 6 months Independence	Lean into government crisis response to get access	Through cycle, with good balance sheet Mothballing	Back to business as normal or reset	Will now be model of 21st-century cooperation Resilience over profit; more working capital

Strategic moves (options, safety nets, and no-regrets moves)

This week	2-4 weeks	1-2 quarters	1-2 years	Next normal
Scale capacity now Ship last supplies Split workforce Accept partial bailout	Push for critical-product funding Work to reopen exports safely to get supply Support clients and suppliers in critical areas	Test tourism to get back to work Massive testing 50-50 workforce quarantine	Keep certain projects; stop others	Prioritize investments now based on what what will be necessary in future

Trigger points

This week	2-4 weeks	1-2 quarters	1-2 years	Next normal
Availability of machines Government-bailout deadline	Analyze tier ≥3 suppliers to reveal critical-supplier exposure/extended shutdowns because of crisis	Analyze 13-week cash flow for liquidity challenges across scenarios	50% of geographic market regions facing demand drawdowns after Q4 2019	Significantly lower number of new-project opportunities because of market-segment shift

We can't stress the idea enough: speed is of the essence. Your plan-ahead team must move fast, give you the day-one answer tomorrow, and iterate at high velocity. If new issues or opportunities come up, add modules for your plan-ahead team; don't slow down. The next few weeks and months will shape the future of your company—and possibly, your industry.

1. Gain a realistic view of your starting position

In times of extreme uncertainty, you should start by developing a clear baseline of your company's last-known position. Think of it as doing a "system restore" back to January. You don't have time for a cleansheet exercise; your existing strategy can be an anchor to use in systematically assessing what has changed.

Your plan-ahead team should take stock in three main areas: your financial assumptions, your ongoing initiatives, and your big strategic choices. Referring to a three-year plan and cataloging the planning assumptions made in that document will help determine what drives the financial performance of the company. Those factors should be sorted into three buckets: those that still seem about right, those that are wrong, and those about which you are unsure. If possible, do a quick sensitivity analysis to assess which assumptions matter most.

The next task is to list the big ongoing initiatives, starting with major projects on the capital-expenditure list, and organize them into the same

bucket categories. The final step is to list the big strategic choices that underpin your company's business model—for example, sustain a price premium, keep investing in a physical network, and invest faster than the competition. Sort those into the three buckets too. You have now clarified the starting picture and brought the critical issues to the foreground.

2. Develop scenarios for multiple versions of your future

The traditional approach to strategic planning too often either adopts a head-in-the-sand position (assuming away uncertainty) or suffers from "deer in the headlights" syndrome (being paralyzed by unpredictability).¹ Now more than ever, you can't get rid of uncertainty; you have to confront it. A good way of doing this is to build scenarios, and McKinsey's global COVID-19 scenarios are a useful starting point (Exhibit 3).²

We took the two biggest uncertainties associated with the crisis—the virus spread (and the associated health response) and the economic knock-on effects (along with the public-policy response)—and combined them into potential macroeconomic outcomes.

The aim isn't to debate which scenarios are more likely but rather to explore what is possible—and to ready yourself for anything that looks plausible. Chopping off "the tails" to eliminate the most extreme eventualities is where scenario analyses often fail, resulting in mere variants of a base

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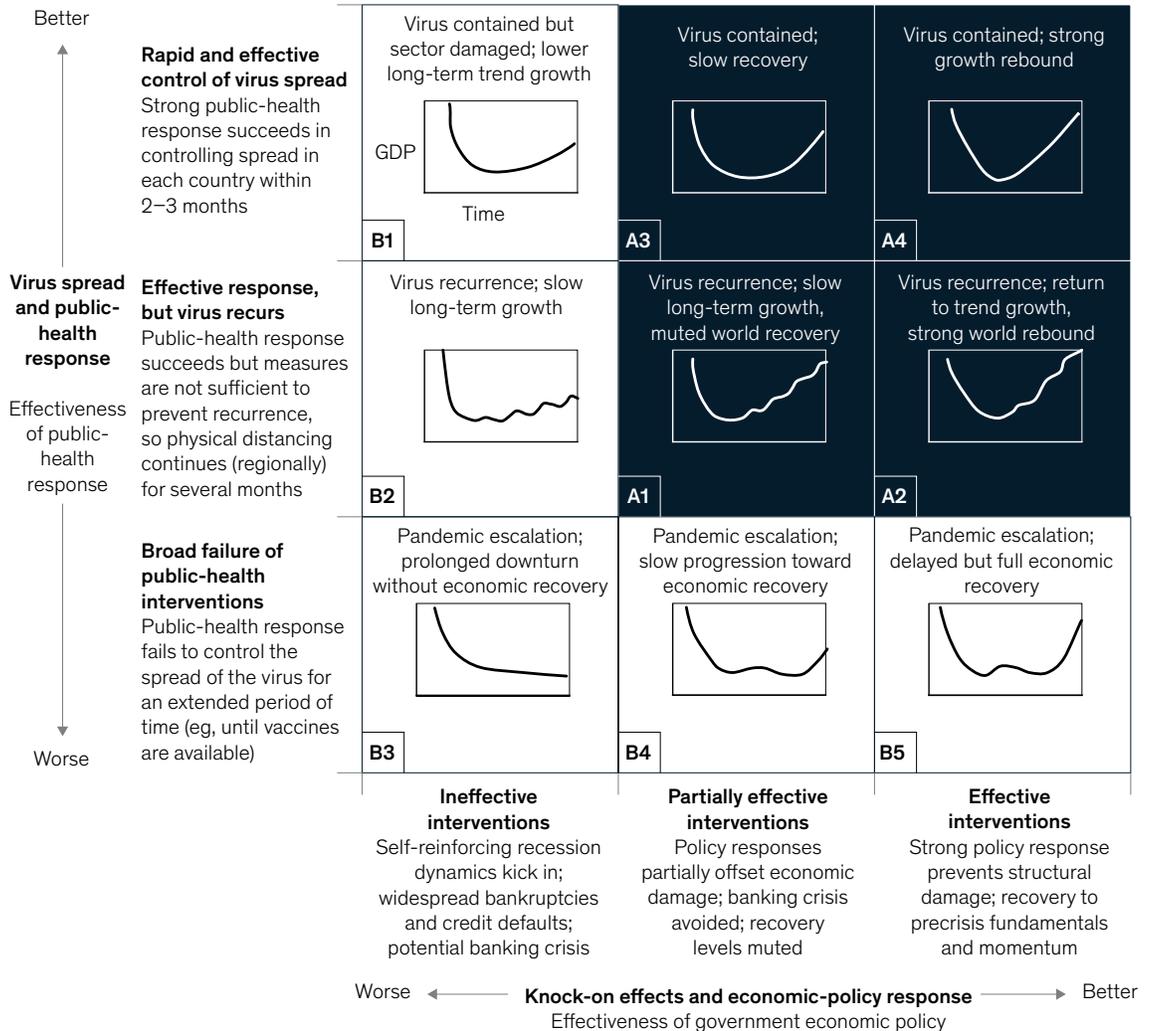
¹ Hugh Courtney, Jane Kirkland, and Patrick Viguier, "Strategy under uncertainty," *Harvard Business Review*, November–December 1997, pp. 66–81, hbr.org.

² Kevin Buehler, Ezra Greenberg, Arvind Govindarajan, Martin Hirt, Susan Lund, and Sven Smit, "Safeguarding our lives and our livelihoods: The imperative of our time," March 2020, McKinsey.com.

Exhibit 3

Scenarios for the economic impact of the COVID-19 crisis are useful as starting points.

GDP impact of COVID-19 spread, public-health response, and economic policies



case. While some scenarios may seem too awful to contemplate, that doesn't mean they should be disregarded. Your plan-ahead team should develop at least four scenarios. If you only have three, it is all too tempting to default to a middle option as the base case.³

Next, your plan-ahead team should stress-test your company's performance and strategy against each scenario by translating them into modeled business

outcomes. Identify where your business is most at risk and where it is most resilient; estimate your capital "headroom" (or shortfall) in the worst-case scenario. Then assess your current slate of strategic initiatives against each scenario, determining whether each initiative should continue as planned, accelerate, or stop.

Developing scenarios brings immediate benefits. It allows you to bound uncertainty into manageable

³ For more on scenario building, see Charles Roxburgh, "The use and abuse of scenarios," November 2009, McKinsey.com.

In a world full of uncertainty, you have to stand for a goal that will matter above all else.

and measurable boxes, reducing confusion, and to sort out what is truly unknown and what really matters. You can identify, with confidence, the no-regret moves with which you should promptly proceed while creating a clear structure to use when working through options to handle a range of possible outcomes. Finally, it enables you to identify the signals that will be early markers that a scenario is coming to pass.

It is extremely important that a plan-ahead team considers multiple scenarios as input and converts them to tangible ideas for action. However, it is also important that the team has a set of planning assumptions provided as an input to delivery teams. If the plan-ahead team believes that the company needs to operate under an assumption of an 8 percent drop in GDP, then the team that is constructing the financial portfolio can't make an assumption that is different than that.

One approach we have found useful is to start by developing a clear view on how the primary threat or opportunity that you face (for example, macrolevel and industry trends, operations, and regulation) could evolve. Then think through how the evolution of that threat or opportunity could affect your business performance. Running this loop a few times helps you acquire a nuanced view of how the environment is likely to change.

A plan-ahead team is in the best position to define the inputs that are necessary for an organization's scenario-development and decision-making processes because it is the team responsible for gathering pertinent, high-quality information for the organization. The reason is simple: gathering

high-quality information about the environment is a costly exercise that usually requires a lot of nuance and judgment. It is far more involved than a simple exercise of analyzing positive and negative sentiments on Twitter.

3. Establish your posture and broad direction of travel

One of the key responsibilities of a plan-ahead team is to determine the best response to an evolving situation based on the company's circumstances after the immediate crisis passes. While some companies may need to enter a long and difficult period of slow rebuilding, others will find near-term opportunities in big, strategic moves and innovations. The point isn't to develop detailed plans but rather to figure out your broad direction of travel—the big thematic idea around which you can form a strategic response. In a world full of uncertainty, you have to stand for a goal that will matter above all else. This big idea will bring coherence and determination to your evolving tactical response.

In a disruption of the magnitude of the COVID-19 pandemic, a point of view on what has changed permanently is essential. It helps you avoid a hedging approach to the future in which you spread your resources like peanut butter across a range of opportunities without really taking a clear stance. Many successful companies have confronted these moments when they have had to commit to a vision of the future. In the 1980s, for example, Bill Gates didn't know which operating system would emerge as dominant, but he did know that, in all scenarios, personal computing would be the next big thing and computers would run on graphical user

interfaces. He also knew that it was likely that the winners would take all. This led Microsoft to adopt a clear posture of trying to win the race for the PC operating system.

Coming out of developing your scenarios, you will have thought through how the dual shocks to your demand and your business model might play out. You might see a few possible versions of the next normal. While you are staying open to multiple possibilities, it might help to consider in which direction you need to establish your broad direction of travel (Exhibit 4).

With the COVID-19 crisis, hardly anyone will be in the bottom corner of the map shown in Exhibit 4, as the challenge is so ubiquitous. Some businesses will have a dominant imperative to sustain, as they will return in similar form but at different recovery speeds (for example, with essential subscription services, such as core consumer telephony and electricity retailing). Others will primarily orient to restructure to match a much leaner demand environment (for

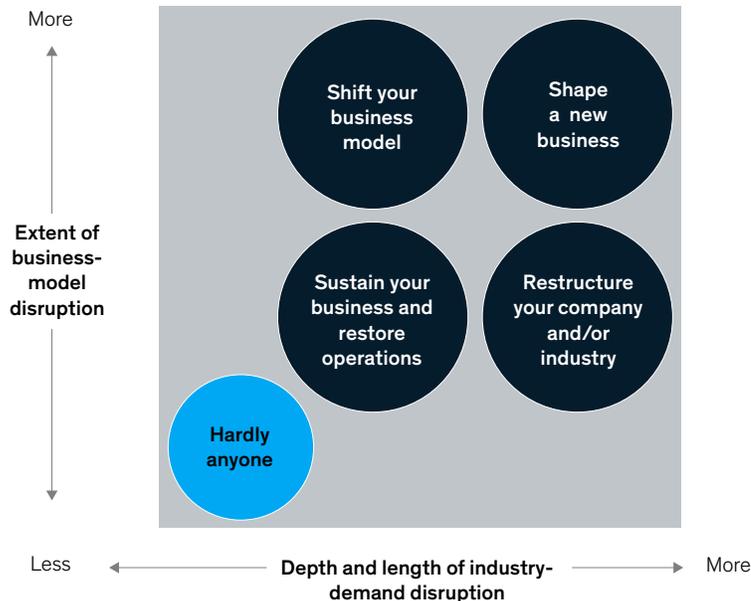
example, the cases of airlines and cruise ships). Other companies will have less severe demand shocks but will face radically different customer behaviors. They will have to shift their business models. Yet other companies and industries will find themselves in a completely different territory on both the axes shown in Exhibit 4, and they will have to shape entirely new businesses.

One notable feature of the COVID-19 crisis is a radical shift to distance business models. In a matter of days, people massively stepped up their use of technologies that enable remote learning, working, services, and consumption. Will that adoption recede postcrisis, or will we move to a new status quo? As a result, should you now accelerate your investments in a digital business model? Do you need to scale back your capital-investment plans focused on increasing your physical footprint and instead secure bandwidth to host your virtualized business? Given the level of uncertainty, you can't put all your eggs in one basket or bet on hope. The critical output of this frame is to establish conviction on future themes before defining any initiatives.

Exhibit 4

Choose a strategic direction based on shifting disruption and options.

Broad direction of travel toward next normal



4. Determine actions and strategic moves that are robust across scenarios

In a world of extreme uncertainty, a rigid, deterministic plan won't be right for very long. But making everything flexible can be an expensive path to nowhere. Rather, you need to think about building a portfolio of strategic moves that will perform relatively well as a collective across all likely scenarios, even if every move isn't a winner on its own.

A tried-and-tested approach is to work through one scenario at a time, defining the optimal set of moves you would make if you knew for sure that the scenario would pan out. Start with your list of existing initiatives—those that were on the slate before the crisis—then scan widely for opportunities and threats before deciding which initiatives to cull and which new ones to add. Then check for the big commonalities and differences among the scenario-specific strategies.

Some initiatives will make sense in all scenarios; those are no-regret moves with which you can proceed with confidence. Others will pay off big in some scenarios but may hurt in others; those are big bets, and the key here is to gather as much information as possible before making a go/no-go decision. If possible, you should try to break them down into smaller parts, investing in phases to reduce the risk associated with a large, one-off investment under high uncertainty.

Other moves are about buying the right to act preferentially later—real options. Options are worth a lot more money when volatility is high, so now is a good time to create optionality where you can. Companies in oil and gas exploration and movie studios, for instance, do this as part of everyday business, but real options can be everywhere in your business when you look for them. Finally, there are moves you could consider that mostly protect you from the downside. You can't avoid risk, but these safety nets help you make sure your risk exposure is smart and offers a good upside, with a protected downside.

The outcome of this frame needs to be a portfolio of several dozen strategic moves, ranging from no-regret moves to point-of-no-return moves that can irreversibly alter the future of a company. Ensure that the moves on each topic are thoroughly syndicated with major decision makers and stakeholders, inside and outside the organization. Ideally, you do this through tabletop exercises or workshops that force decision makers to engage on the very real possibility of pulling the trigger on moves that may appear unlikely at the moment.

5. Set trigger points that drive your organization to act at the right time

In an environment as uncertain as the one with COVID-19, the passing of time will make a rigid plan rapidly outdated. The world is going to evolve fast. You don't yet know which scenario we are approaching. But you need to try to be the best learner (the first to know where the world is going) and the best adapter (the one making the best decisions and iterating the plan). It isn't about starting with the perfect plan: it's about being on the fastest improvement trajectory. In a fast-moving world, that will matter most, as even a great plan will become obsolete.

As discussed, the majority of the moves we describe will only make sense to make under a certain set of circumstances. However, many companies that face disruption only start to debate those moves once the circumstances clearly present themselves. This, together with high emotive and potentially consensus-driven decision making, is the root of the delayed or lack of action that befalls many management teams.

To avoid such an issue, it is extremely important to ensure that every move comes with a clearly articulated set of trigger points for when the organization should begin detailed planning and execution for that move. That point, or the trip wire, is the time at which the probability of that move being necessary has increased and it makes sense to invest a team in ensuring that the organization can act quickly. Making a decision on when trigger points

have been reached—and when detailed planning and execution should commence—is a key role of the CEO, in conjunction with the plan-ahead team.

be the first to know and the fastest to act. This requires a sentinel that can see the signals first, combined with a plan that is flexible and ready to act on the trigger points.

Stay ahead in the race against time

In times like these, being on the fastest trajectory matters more than having a great plan because plans quickly become outdated. Staying ahead in the race against time means making the following moves:

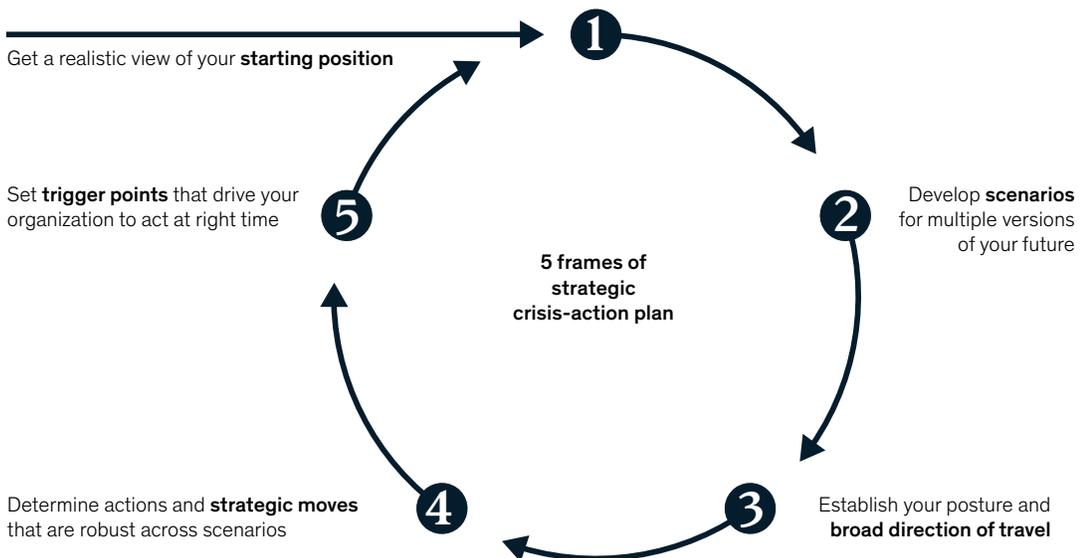
- Convert your actions and portfolio of moves into a *strategic crisis-action plan*, ideally syndicated and “decision primed” through a tabletop simulation.
- Roll back all initiatives in the plan to *near-term goals and decision points*. That will give you visibility and allow you to direct the action in real time.
- Create a set of indicators aggregated into a *control tower* that serves as an early-warning system to signal which scenario is emerging. Your job isn’t to know the unknowable but to

Additionally, a reality of many of the companies we are speaking to is that their current budgets are dead in the water and they have no credible way of setting new budgets. This will force a much more agile, real-time approach to resource allocation, perhaps one of working in quarterly sprints. Funding will be stage gated and released, and there will also need to be trigger points for disinvestment or further cutbacks. You might have to demolish the long-held divide between strategy and finance functions swiftly.

That all might feel like a lot, and you most likely don’t have the bandwidth to manage it on your own. That’s why, even as your crisis team is busy keeping the business afloat, you should have your modular, scalable plan-ahead team at your side to support your iterative planning cycle throughout the crisis—no matter how overwhelming the issues seem to become (Exhibit 5).

Exhibit 5

An agile plan-ahead team can offer quick responses to rapidly changing circumstances, using five frames.



Under high levels of uncertainty, you need to operate at high speeds. You will need to cycle through the playbook regularly. Bias toward speed rather than perfection; and the sooner you start, the better. Accept that the first pass won't be 100 percent right but that you are going to get better answers after each iteration. Scenarios will be refined and refreshed, and more information will surface as time unfolds. Some things will drop out;

others will be accelerated. Evolve your way to a more sophisticated answer.

When an escalating set of issues triggered by the next wave of the COVID-19 crisis hits you, your plan-ahead team will be what keeps your sights above the fray and what helps you win the race against time. *To get ahead of the next stage of the crisis, launch your plan-ahead team now.*

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