5 Lasting Changes CEOs Need to Be Planning For Now

Covid-19 has thrown the world into turmoil. Most CEOs have spent the first 2-3 weeks of this crisis focused on business continuity issues – team health and safety, migration to remote working models where possible, supply chain assurance, and financial stress testing.

As our clients adjust their operations to realities of the Covid-19 world, many, in particular the ones at the helm of resilient businesses (strong balance sheets, sound underlying business models), are shifting their attention to trying to understand what the medium and longer-term will bring.

In light of this shift in orientation, a question we get asked again and again is: which of the trends and behaviours we are seeing accelerate in the Covid-19 world are here to stay, and what does this mean for me and my business?

We share our perspective on the 5 lasting changes every CEO should be planning for:

1) The Establishment of Remote Working

Business has adjusted to the realities of grounded airlines, closed borders, and social distancing very rapidly. For white collar workers, productivity is at best similar to what it was before – less time spent commuting is a net gain, a few more interruptions from family at home potentially a net loss.

The implications for the future of work are significant – the entire premise of the commuting model may be called into question, at least partially. The need for corporate office space may become less acute – companies may move to a variant of the "flagship store + digital" retail model – with a small central office space (i.e the flagship) to be used only when needed for important situations (e.g., client meetings, employee engagement conferences), with other work happening from home.

Clearly, we expect growth for companies delivering technology and services in support of remote working. On the other hand, companies exposed and indeed reliant on commuters for business (e.g., the lunch-time trade, hot drinks retailers, etc.), the implications may be negative. Finally, every CEO should be considering the embedded efficiency and employee engagement opportunities opened up by the rise of remote working.

2) Tipping Point Reached for Online and / or Direct Transacting

Online transacting and direct engagement with suppliers (i.e. not via an intermediary) were clear trends before the crisis, however their uptake varied by customer groups (e.g. the elderly were still behind younger generations). The crisis forces everyone to transact online and, in many cases directly with suppliers of services vs. intermediaries. This is pushing forward an unprecedented scale of "digital uptake" across a range of industries, including insurance and banking, investment management, cross-category retailing, and food grocery. This has profound implications for businesses that relied on face to face interactions like insurance brokers, and bricks and mortar retailers.

3) The Rise of "Cocooning" as a Persistent Consumer Behaviour

The social distancing and isolation requirements of the Covid-19 period have led to enforced consumer "cocooning" – a significant increase in time at home, a reduction of / journeys of any kind, a re-rooting of consumers to their local community and physical environment, and finally, an understanding that many basic needs for goods and even services can be met online. Early indications from China suggest that this trend may persist, especially because it becomes accentuated by persistent post-virus health anxiety (e.g. less frequent hand shaking, stronger and more prevalent fear of crowds, a decline in unnecessary in-person interactions and work travel). These changes will have profound implications for many industries (e.g., hospitality, food service, entertainment, sports and leisure, travel, personal care and hygiene to name a few). CEOs of businesses who may suffer as a result of this need to be thinking ahead, while clear growth opportunities beckon for certain sectors.

4) The (Partial) Reversal of Supply Chain Globalisation

Global supply chains have unceremoniously "snapped" as a result of Covid-19 – the virus has brought into focus the embedded risks of over-relying on global supply chains in manufacturing everything from cars to pharmaceutical products to electronics in the search for efficiency. It is likely that this crisis will bring a re-consideration of the "efficiency" vs. "control and predictability" equation – with many businesses looking to bring supply chains closer to home regardless of short-term hit to efficiency that the loss of lower-cost international suppliers might imply. In short, we expect an extent of re-shoring as unknowable risks effectively get priced into decisions. This trend will create opportunities for local businesses and industries that may have been struggling under the prior regime (e.g., Europe may reclaim status as a manufacturing hub), but will also require CEOs at the helm of companies currently heavily reliant on overseas suppliers to reconsider their strategies.

5) The Re-Definition and Re-Assertion of "ESG"

Environment, Social, and Governance parameters around investing have been around for some time – and indeed prior to Covid-19, there were indications from the financial world (e.g., Blackrock) that these considerations would increasingly take centre stage in investment decisions. At the same time, critics felt that ESG, based on an internally set but externally communicated standard was still a window dressing exercise for many companies – effectively a way to preserve license to operate while continuing down the "business as usual path".

Post Covid-19, expect an "ESG" or a "Company in Society" orientation and narrative to become more central to how CEOs articulate their objectives and strategies to deliver them. In parallel, expect as much focus on "S" and "G" as on "E". There are two core reasons for this:

a) The virus has brought into focus just how long-term, notionally "abstract" risks (e.g., Disasters, Diseases, Climate, Employee Discrimination, etc.) can threaten the very existence of businesses in a very short time-frame, once they materialise. Investors concerned with risk management will have this in mind when they grill companies about their plans in the future.
b) There are softer issues at play regarding subtle changes in public discourse. Societal reputation and behaviour during this crisis is being judged and rewarded (or not) not just by the public (e.g. NGOs and social media) but also, increasingly, by the investment markets. Witness J&Js bump in share price once it announced it was working on a not-for-profit Covid-19 vaccine. Public discourse was already heading in this direction pre-Covid 19, but the virus and the crisis it has created accelerates and attenuates this.

We hope the above serves as a helpful starting point as CEOs emerge from the fog and intensity of the first three weeks of the crisis and start to shift their attention on how to get their businesses set up for the longer-term. As always, pro-activity and staying out ahead of the unfolding reality is an important and useful exercise for CEOs and their teams to start to engage on.

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