



Rising to the Challenges of COVID-19 Recovery

Which companies and industries seem to be getting it right, and which are floundering?

In the middle of the COVID confinement, many companies asked their senior executives to conduct scenario planning after **McKinsey** and others published their projections. Now that many countries have flattened the curve, people are anxious to get back to work in the next few weeks. What actions should they consider? Here we present three broad categories of actions for the short-, medium- and long-term success of your businesses.

Short-term: Prioritise social impact

The pandemic presents tremendous challenges in every country, and businesses must contribute to the recovery effort. This presents an opportunity for firms to show that they are not only committed to their shareholders, but also to their employees, clients and to the broader society.

First, firms are primarily collections of employees, and they must look after those employees. Firms that do not protect their employees in this situation not only run the risk of damaging their reputation, but they might also encounter legal troubles. In France, Amazon has been ordered to shut down warehouses employing about 10,000 people after a court ruled that the firm was putting some of its employees in danger linked to COVID-19. Renault had to close its Sandouville plant for the same reason. In contrast, several temporarily closed bars, clubs and theatres have partnered with e-commerce firms to provide

Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>

gig work for hospitality workers to ensure their financial security during the crisis. Chinese e-commerce firms have worked with insurance companies to increase COVID-related healthcare cover for their front-line workers.

Second, many firms are seizing the opportunity to make a positive difference in their country's fight against the virus. In Japan, Toyota joined forces with other carmakers to produce medical ventilators. In Italy, the jewellery and perfume firm Bulgari has made a number of donations to local hospitals and research institutions and has been collaborating with its historical partner in perfumery, ICR, to produce large quantities of **hydro-alcoholic gel**. Hotels all over the world have turned their properties into recovery wards and quarantine centres. Some restaurants supplied food to hospitals for free. In Moscow, restaurants created a more sustainable business model: Volunteers collect money from their friends or community members, these funds are paid to the restaurants that produce the food at cost and then the food is delivered to hospitals. This **initiative** preserves restaurant jobs over the short term, feeds health workers and allows community members to feel that they participate in the effort to fight the virus.

Medium-term: Rebalance your business and develop scenarios

COVID confinement has put many businesses on hold. The soaring cost of physical interaction has made many firms unprofitable while others were forced to shut down entirely. Airlines, for example, have been hit particularly hard.

To survive the crisis, nimble firms are rebalancing their portfolio of activities toward those activities that involve little physical interaction. For example, major airlines have shifted passenger flights to freight-only services. While Delta hadn't operated cargo-only flights since 2009, it is now flying between Shanghai and Detroit three times a week. Southwest is flying **cargo only** as well. This shift allows airlines to redeploy their expensive resources – e.g. pilots – and generate revenue to keep the companies afloat. At the same time, cargo services support regional and national supply chain management for critical goods.

For restaurants and retail stores, shifting in-store purchases to take away or delivery is not an easy task. For example, major retailers in France suffered long waiting lines at store pick-up points. Queues of over three hours appeared when McDonald's reopened its **drive-thru service** at outlets around Paris. Firms are innovating and learning to develop new capabilities such as digital warehouse system functionality (e.g. pickers and packers) and last-mile delivery capacity. Many leverage partnerships with start-ups and established technology companies that provide digital solutions or delivery services as a short-term fix. As companies plan for various recovery scenarios, they need to consider whether it would make sense to bring some of these capabilities in-house.

For Zoom, many e-commerce firms, and certain manufacturers such as 3M and Clorox, the shift may be at the level of the activity rather than the business offering. Due to increasing demand, Zoom has shifted its attention away from marketing activities and is focusing instead on scaling their product, specifically on improving **quality, stability and security**. Similarly, e-commerce companies have shifted away from growing their customer base or product categories and now focus instead on meeting the demand for essential items. This includes securing supplies, coordinating manufacturing activities and increasing logistics capacities. These shifts are likely to remain relevant during the early recovery so businesses need to plan accordingly.

As they are rebalancing their business, companies need to develop financial plans for different scenarios. Companies could develop three kinds of plans: optimistic, pessimistic and disaster. An optimistic plan can assume some form of a U-shape recovery, a pessimistic one assumes more of an L-shape and disaster plan envisages no recovery

Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>

within the next 12 months. While the optimistic and pessimistic scenarios require adjustments to a company's business model (mostly in the form of cost cutting and looking for new revenue models), the disaster plan forces organisations to fully reconsider how they operate and suggest profound changes to the business model. While it certainly makes sense to borrow now in order to increase a cash cushion in these uncertain times, loans are better used to help transition from the pessimistic scenario to disaster fighting mode. Otherwise, if loan funds are used up in dealing with the pessimistic scenario, nothing would be left if disaster scenario materialises.

Long-term: Anticipate a new equilibrium

Although the "new normal" remains to be defined, it is already possible to anticipate altered consumer behaviours and business practices in the future. The new world will likely rely less on direct physical contact than the old one. As compared to the pre-pandemic world, we are likely to see greater e-commerce penetration, digital transactions, virtual meetings and digital engagements. However, compared to the extreme measures taken during lockdowns, there will also probably be a swing back. It is important for businesses to anticipate the new equilibrium and to prepare their resources now.

Zoom and other digital solution providers in high demand during the crisis have spent much effort expanding infrastructure and workforce. While some of the activities will stick, such as virtual meetings, demand for other products and services might sputter out or even disappear after the pandemic ends. For example, most schools are likely to reduce their online education significantly post-pandemic. Businesses that have flourished in this time need to explore new opportunities to grow even as the crisis ends. They also need to make investments in capabilities which can be undone when the virus recedes. For example, renting rather than owning additional capacity (e.g. data centres) required during the pandemic's peak makes sense.

Restaurants may face contrasting situations. Some patrons may be more eager and willing to return to dine in. As a result, we could see a rapid recovery. Others may have got used to food delivery and remain cautious about dining in. We have seen this happen in China. Restaurants in major cities have only seen a partial (e.g. 30-50 percent) recovery of their dine-in revenue, while food delivery through e-commerce platforms remains their main source of income. This is because Chinese customers are still wary of sitting in the same room with a person who may potentially carry the virus. The recovery will accelerate when a vaccine is found. Beyond the

operational challenges, this new equilibrium has a significant impact on restaurants' financials. As delivery services apply additional pressure on their already thin margins, restaurants need to evolve their business models.

Similarly, the travel sector may need to anticipate the reduction in business travel in the "new normal" and re-construct their profit formula. There will certainly be higher costs (and airport taxes) to cover the expenses of testing passengers for the virus either upon arrival or departure as well as the maintenance of social distancing on planes and in lounges.

Rising to the occasion

Every industry, indeed every business, will have to devise its own way of overcoming this crisis. Unfortunately, many will succumb. It is impossible to know exactly which way we are heading, but one thing seems clear: Those companies left standing after COVID-19 will be the ones whose strategies best balanced the demands of today, tomorrow and the highly uncertain world to come.

***Michaël Bikard** is an Assistant Professor of Strategy at INSEAD. He researches how individuals and firms use new knowledge as a source of competitive advantage.*

***Chengyi Lin** is an Affiliate Professor of Strategy at INSEAD.*

***Andrew Shipilov** is a Professor of Strategy and the John H. Loudon Chaired Professor of International Management at INSEAD. He is an academic director of the **INSEAD Blue Ocean Strategy** open programme and is the programme director of **Building Digital Partnerships and Ecosystems**.*

Don't miss our latest content. Download the free **INSEAD Knowledge app** today.

Follow INSEAD Knowledge on **Twitter** and **Facebook**.

Find article at

<https://knowledge.insead.edu/blog/insead-blog/rising-to-the-challenges-of-covid-19-recovery-14206>

Download the Knowledge app for free



Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>