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Surviving the Resurgent COVID-19 Crisis

Commercial agility – a rare combination of capabilities – is what will separate the winners from the rest as the pandemic persists

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Surviving the Resurgent COVID-19 Crisis

Commercial agility – a rare combination of capabilities – is what will separate the winners from the rest as the pandemic persists.

Thinking right now about an "after corona" world – what we would normally call a recovery – will only divert resources from your company's true existential challenge: surviving the wild roller coaster of the "with corona" period that will endure for the next 18 to 24 months until a vaccine becomes widely available.

Many companies are understandably eager for a quick return to normalcy when governments relax their stay-at-home restrictions. But this recurring global pandemic promises to take a very different course, likely confronting companies with rounds of devastating economic impacts that will force them to manage unprecedented complexity and volatility.

What "vaccine" can a company take to steel itself against these impacts?

In short, the ultimate key to surviving this crisis is commercial agility: the ability to make resilient design, sales, cost management, and pricing decisions with unprecedented speed and flexibility – over and over again – until some form of equilibrium returns to your market.

Companies that already have superior commercial agility – reflected in how flexibly their go-to-market models respond under extreme stress – will need to capitalize on that rare and valuable asset. Many that lack it at least know what it takes. It means implementing those exciting aspirational ideas that highlight their transformation plans, but usually get postponed because the consequences would be too disruptive and far-reaching.

Right now, disruption is occurring on an unimagined scale with no end in sight. There are no more excuses for waiting. Companies without sufficient commercial agility will need to either build it or buy it immediately, or face the withering effects of never finding a new equilibrium in any episode of the crisis.

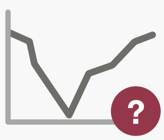
What makes commercial agility the key to survival

For most companies in most industries in the “with corona” period, three things will hold true:

You can forget what you know about demand patterns

Most companies recover from a “singular” economic crisis – such as a deep recession – when customer demand re-ignites. But in a resurgent crisis, volatile demand shape-changes right before a company’s eyes. In some cases, a combination of fear and confusion drives customers to find new ways to buy a product or service, or alternative ways to solve their problems. Their urgent searches create opportunities for other companies to tap into new segments. The longer a resurgent crisis endures – and the more stops and re-starts it has – the more customers will adjust their willingness to pay as they become accustomed to new behaviors, new buying patterns, more relaxed quality standards, and product scarcities. Some customers will revert to their old ways as fear and confusion subsides, but many won’t.

You can forget about one “alphabet recovery”



The answer to the question of whether the recovery from the COVID-19 crisis will have a U, V, or L shape is “all of the above.” No one knows how often COVID-19 will force economies – and thus companies – to hit the reset button between now and the beginning of 2022. But we anticipate multiple episodes of government interventions with sudden stops and uneven re-starts. Future stops may trigger downturns and slowdowns that eat back into or even wipe out all the gains from the previous re-start.

You can forget about time periods

A resurgent crisis renders months, quarters, and year-on-year comparisons irrelevant. The only time period that matters now is the one you are in, likely measured in weeks. The only fixed future date that matters is when a vaccine is available in mass quantities, but even then, there is no certainty on how long it will take for some form of economic stability to emerge.

In a resurgent crisis, demand fluctuations in some industries are already an order of magnitude greater than what any company or manager has ever experienced, with underlying causes that are likely to make lasting and fundamental changes to demand patterns. The corresponding stress on the go-to-market models will likewise be far greater than in any previous crisis, primarily because of severe restrictions on how companies can conduct business. In an era defined by social distancing and other constraints on human-to-human interaction, it is much harder for many businesses to sell their products and services, deliver them, and even more importantly, to maintain control over customer safety and the customer experience.

In all probability, these stresses on the go-to-market model will surge and recede several times as demand remains volatile and the pandemic lingers. The greater a company's commercial agility, the greater its ability will be to minimize or defuse that stress and turn it to its advantage. Agility in offer design, sales, cost management, and pricing – combined with the economic resilience to endure several resets – will greatly increase the company's chances of surviving the multiple stop-starts and emerging stronger when a resurgent crisis ends.

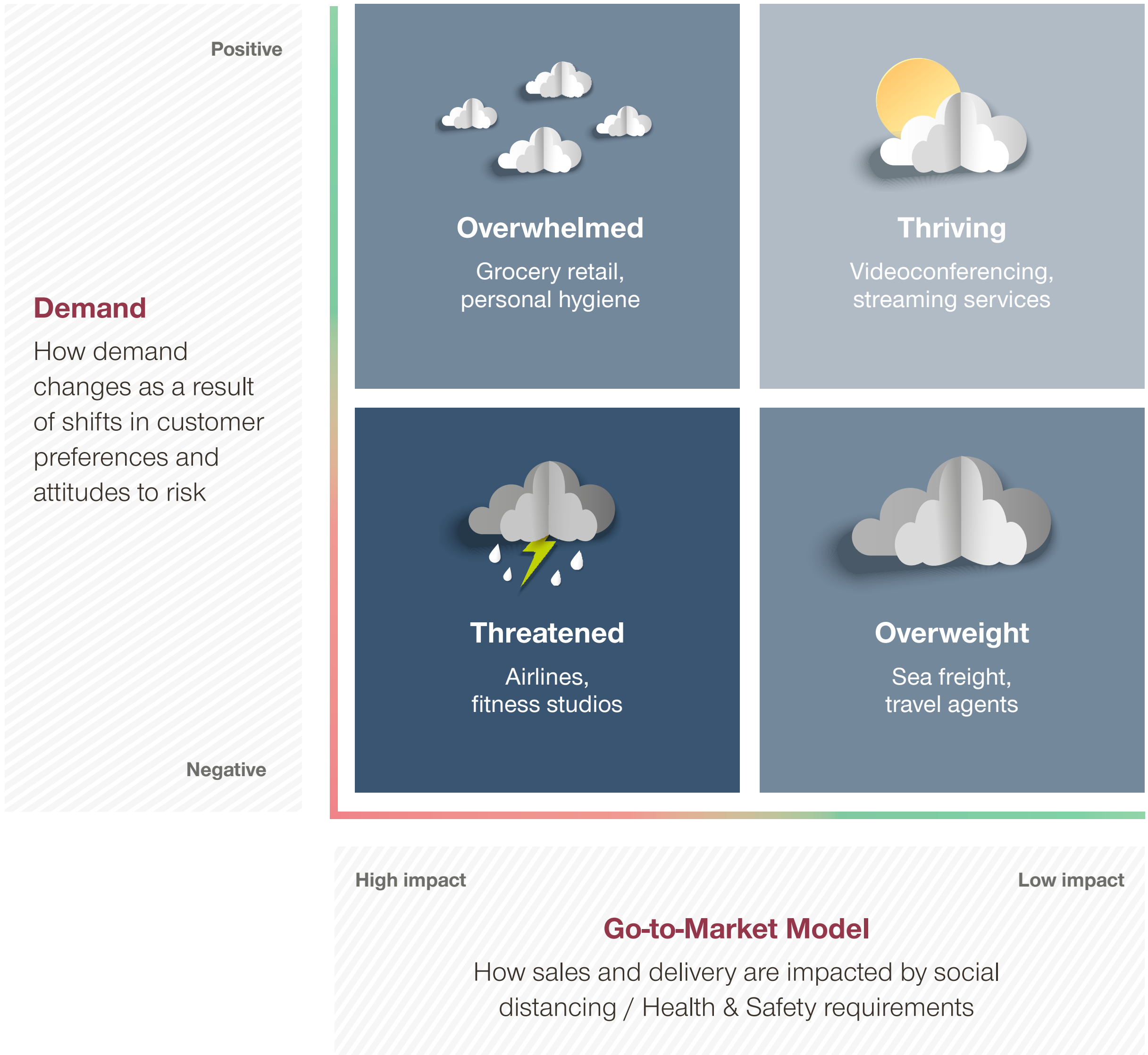
Commercial agility allows a company to maintain control over its pricing, its value proposition, and its sales channels.

Commercial agility allows a company to maintain control over its pricing, its value proposition, and its sales channels while – in the interest of speed and efficiency – devolving as much decision-making responsibility as possible to the people closest to the customers. Doing that is not part of most companies' DNA. In our experience we know that most companies swing toward an extreme response in a time of crisis: either they exert excessive control, or they delegate vast responsibilities without adequate structure or tracking.

Navigating the Crisis Map

A classic economic crisis has one standard “linear” scenario: demand declines, putting temporary stress on the economic model, but little or no stress on the go-to-market model.

When renewed confidence eventually releases pent-up demand, the recovery’s overall gains more than offset the losses in the downturn. But the overall constraints on a business do not change. Nothing stops the business from running normally in the period of weaker demand.



Instead of one basic scenario, the COVID-19 resurgent crisis has four scenarios or spaces, as shown in the map above. The crisis is giving customers a crash course in what they don't need and what they can live without, and companies are quickly confronted with what they can (or can't) do well in response. Both their economic models and their go-to-market models have come under duress, creating a double-barrelled nightmare that has no precedent for a playbook. We expect most companies to experience the demand extremes and the stresses of at least two of these scenarios in the next 18–24 months, perhaps even simultaneously depending on how the pandemic progresses in different markets around the world.

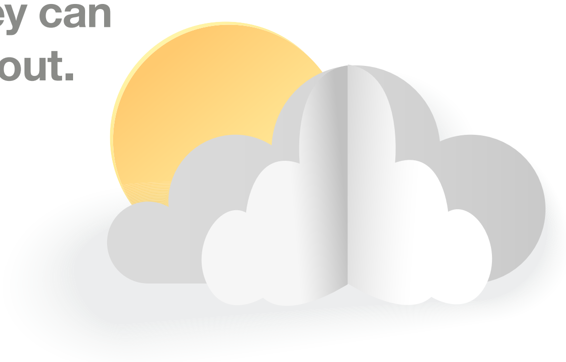
The demand effects represented on the vertical axis are multi-dimensional, not simply a "higher or lower" calculus easily measured in straightforward changes in volume or revenue. The axis also indicates the extent to which shifts in the market – defined in terms of customer needs, occasions, product alternatives, and channel choices – are working to your advantage or working against you.

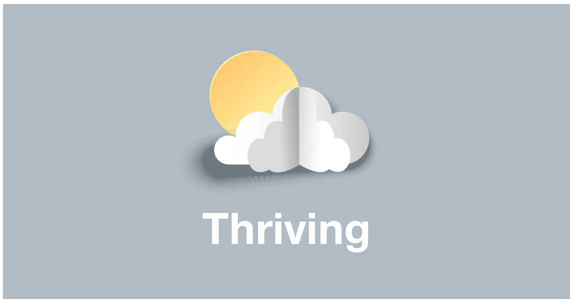
The go-to-market effects on the horizontal axis indicate the extent to which lockdowns, social distancing, and other requirements are impeding your ability to sell and deliver a product or service and manage your customers' safety, experience and engagement.

In normal situations, the decline in demand is usually not enough to warrant a rethink of either the economic or the go-to-market model. But this crisis poses a challenge to customers' ingrained habits. The hard truth is that many businesses continue – even through a conventional recession or crisis – primarily because their customers cling to their established ways and see neither the desire nor the need to change. A resurgent crisis gives them enough impulse to overcome their inertia, and many old habits will never return to the old "normal."

Right now, every industry – and every player in those industries – lies within one of the four spaces that we will elaborate on below. Whether they can move to a better position, or defend a desirable one, will come down to their commercial agility.

The crisis is giving customers a crash course in what they don't need and what they can live without.





Situation: The Crisis Map has no safe spaces, but this is the most desirable one.

Demand shifts are working in a company's favor, and the effects of social distancing and other measures do not inhibit the company from absorbing greater demand, addressing new segments, and responding with different price-product combinations. Profitability and cash flow are essential in this crisis, and this space creates the most lucrative opportunities. That is why competitors will strive to reach this space as well, if they aren't already there. Competition will intensify, and success through multiple crisis episodes will come down to commercial agility.

Survival moves: The biggest challenge of this space is staying there: how do you protect share, and how do you retain (new) customers throughout the crisis and beyond it? How do you rethink your offers and enhance your sales processes to preserve or increase your advantages? Companies here need to divert resources to capitalize on surging demand and adopt pricing models (e.g., free-to-paid or subscriptions) that will help them monetize and hold the demand. They will also need to review and perhaps expand their range of channels.

Examples: videoconferencing, streaming services, remote IT support

Situation: Demand shifts have worked in your favor, but are straining your operations.

For example, grocery retailers and companies that offer non-discretionary goods (especially in health and safety) are seeing huge, sustained spikes in demand. The downside of this favorable demand profile is that the capacity of your business may not be able to absorb it while maintaining quality and service standards. Prolonged negative customer experiences – such as longer queues, extended waiting periods, lower levels of support, and stockouts – degrade the normal customer experience and can compel customers to renew their search for adequate alternatives or simply revert to their old habits.

Survival moves: If there were ever a time to make mass improvements to your revenue and operating models and invest in digital capabilities, this is it. Companies in this space need to urgently examine their operating model: what can you change to improve customer experience and economics? The mission here is to beat your competitors into the *Thriving* space and avoid sliding down into *Threatened*.

Examples: grocery retail, personal hygiene, cleaning products, home exercise equipment, domestic parcel services

Overweight

Situation: This space corresponds most closely to what companies witness during a conventional downturn, recession, or crisis.

Demand shifts have worked against you, because of outright declines or changes in the nature of demand. But the stress on your go-to-market model is low, warranting few if any changes.

Survival moves: Companies here can fall back on proven crisis responses that help them maintain customers and volume without sacrificing margins. They should reduce capacity and provide discounts in kind rather than lowering their prices. They should also invest in reducing barriers to purchase.

Examples: Sea freight, travel agents

Threatened

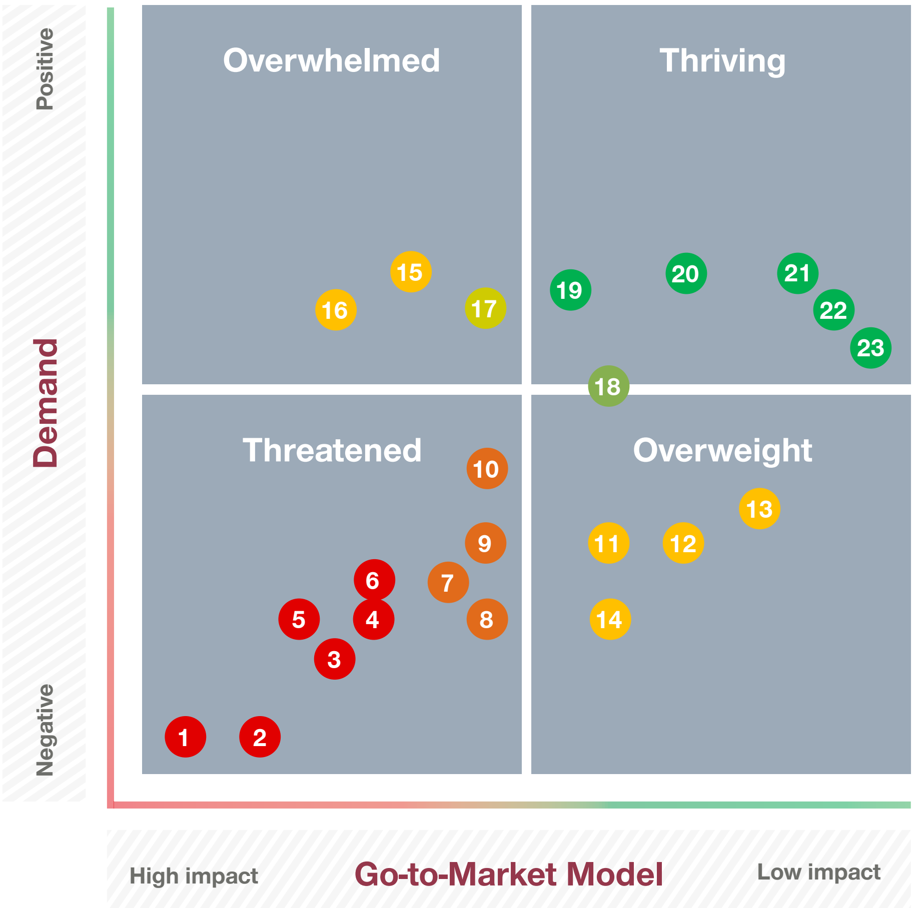
Situation: This is the most dangerous space on the map. The crisis is exposing the major weaknesses in a company's go-to-market model.

Companies here tend to sell discretionary products and services in a largely physical setting to customers who have many other alternatives. The ones that require human-to-human contact and have no obvious digital mirror (such as transportation services, dentists, and beauty salons) face complete collapse unless they literally invent additional ways to deliver their products or services.

Survival moves: Companies here have little hope of reaching another space on the map unless they re-invent the whole business. They need to organize teams to redesign the customer journey, and find new revenue models and value propositions that will work in a "with corona" world. At the same time, they need to shut down business models that have no obvious future for the next two years, and determine what assets have potential value in another space. Failing that, the final option is to shutter the business completely, wait, and try to reduce costs massively. Some companies might be able to survive a few months in that suspended state, but it is doubtful whether they could last a year or two.

Examples: airlines, fitness studios, mass transit lines, sports leagues, trade fairs

Our expert assessment of where individual industries currently lie on the crisis map:



1. Travel & Transport
2. Hospitality
3. Automotive
4. Manufacturing
5. Consumer Goods & Retail – Non-Essentials
6. Construction & Building Materials
7. Industrials & Machinery
8. Logistics & Shipping
9. Advertising
10. Business Services & Outsourcing
11. Chemicals
12. Base Materials & Metals
13. Power Generation & Utilities
14. Oil & Gas
15. Insurance
16. Consumer Goods & Retail – Essentials
17. Banking & Financial Services
18. MedTech
19. Media
20. Telecommunications
21. Software
22. Pharmaceuticals
23. Internet

The joker in all four spaces is government intervention.

The joker in all four spaces is government intervention. First, the extent and the frequency of their tightening and loosening of restrictions have vast first- and second-order effects on customer demand and on how companies go to market. Second, some governments are trying to prop up consumers, either through direct payments or by providing payroll protection to businesses to offset revenue losses and to keep unemployment down. Some are also subsidizing certain businesses or industries directly.

The crisis also shows how overarching labels for an industry – logistics, for example – can mask the true effects of the crisis on an individual firm. Domestic parcel delivery firms around the world are overwhelmed, as they can hardly keep up with surging demand. But the companies that operate ocean-going freight vessels have seen much of their demand evaporate, leaving them with persistent excess capacity.

The five pillars of commercial agility

Within a resurgent crisis, we have defined commercial agility as the the ability to make resilient design, sales, cost management, and pricing decisions with unprecedented speed and flexibility – over and over again – until some form of equilibrium returns to your market.

Manage volatility...

1 **Agile design**

2 **Agile sales**

3 **Agile cost management**

4 **Agile pricing**

5 **Economic Resilience**
Profit orientation + Resilient revenue model

Lengthen runway...

1

Agile design

The shifts in demand also include changes in customer needs, occasions, product alternatives, and channel choices.

The more pronounced and persistent these shifts are, the more they will make rigid product and service designs – and in many cases the processes that created them – vulnerable to competitors who can meet customers' needs better, without jeopardizing customer safety, experience and engagement.

Agile design starts with rethinking your minimum viable product (MVP).

Agile design starts with rethinking your minimum viable product (MVP). For airlines, cinema chains, and sports teams, what is the MVP that accounts for social distancing and the resulting lower density or load factors? Retailers, restaurants, and personal services firms obviously face the same challenge that may confront companies in most industries at some point: how do you design a product or service that succeeds on customer experience, customer safety, and economic feasibility in a world defined by social distancing? Answering that question in B2B environment is more nuanced, because many services will still work, but not as well. They will be clumsier and costlier, and they will change the bars for the quality levels that buyers will demand and tolerate. The more customized a B2B service is, the lower the margins tend to be. B2B companies need to understand that the MVP really is an MVP, and not merely the same thing at a lower price.

The basic recommendations that transcend industries include converting services and in some cases products to digital forms, while decreasing capacity and fixed costs. If you have a digital basis already, this is the time to accelerate it and exhaust its full potential.

But two particular types of businesses may be harder hit than others. The first is premium suppliers. If the shifts in demand alter perceptions so strongly that customers become accustomed to accepting "less for less", what adjustments do premium supplies need to make to their MVP without sacrificing their brand advantages and pricing power?

The second group comprises the young companies commonly known as unicorns: firms with high valuations but low levels of profitability. Their model depends on having enough time for their exponential growth – often propelled by low prices, excellent service, and a strong brand – to translate into the bottom line. A resurgent crisis compresses those timelines massively while also greatly increasing the risk of these business models. While some are thriving thanks to the commercial agility they built into their DNA from the outset, the compressed timelines may force many of them to alter or abandon their original plans.

2 Agile sales

Digital selling and e-commerce channels now need to move from the long-term "wish list" to the top of the sales department's priority list.

This is especially true for remote sales: the ability to replicate face-to-face or field sales interactions as closely as possible using communication tools such as video-conferencing.

In short, firms now need to become experts at remote selling, and they need to move quickly. Many firms already have a mix of traditional field and remote sales, with key accounts usually receiving close personal attention through the traditional field channel. Sustaining that level of attention is now impossible, meaning that the mix must change radically in favor of remote sales. Even if travel restrictions loosen, conducting "normal" field sales will be very inefficient for at least the next two years. The expense will drive up cost of sales, never mind the general burdens of traveling in a social-distancing world.

This transition will require specialist training on two fronts. First, there is the "hard" side of implementing the new tools, understanding the technical aspects of conducting product demonstrations remotely, and demonstrating the ROI in this environment. Then there is the "soft" side, as salespeople learn how to understand customer needs, build trust, and work their way around the decision makers without the advantages of a personal presence. This will be particularly challenging for large-ticket items.

The small silver lining is that many firms have an immediate opportunity for improvement. We estimate that 23 percent of a typical field sales representative's time is spent traveling. Firms can now re-direct that time to far more productive uses.

In short, firms now need to become experts at remote selling, and they need to move quickly.

3 Agile cost management

Commercial agility does not come cheap. The cost of doing business will increase, especially in capacity-driven businesses.

Some companies may also repatriate their supply chains, because the lower risk of disruption offsets the comparative cost advantage of foreign sourcing.

At some point, the companies making these investments will need to pass along at least some of those costs through the value chain. This is another point where agile pricing comes into play: how can a company increase its prices at a hypersensitive time when any such moves risk being viewed as profiteering or price gouging?

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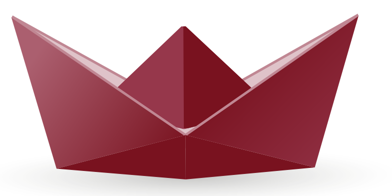
Answering this question requires companies to find the right timing, the right levels, and the right level of differentiation, all backed by a communications plan that minimizes the risks of any misunderstandings. Companies can benefit from adopting concepts from revenue management. These include demand forecasting as well as the intense monitoring of key indicators.

In a B2B environment, efforts to pass through costs and raise prices will probably meet stiff resistance from buyers, who will be taking whatever steps possible to reduce their own costs. But a combination of advance planning and flexibility can mitigate this resistance. Such a plan should be developed at the customer-product level, because contract terms and price lists may preclude price changes at some customers.

The sales organization should be prepared with target prices and fallback plans for every account. Salespeople should be able to respond quickly with pre-authorized concessions, sweeteners, or other alternatives. Detailed scripts and FAQs will enable salespeople to explain and defend their actions with one confident voice.

The critical step is real-time tracking. Execution will not improve if you follow a traditional calendar to make assessments. The combination of real-time tracking and a flexible incentive model will help keep salespeople focused.



4

Agile pricing

The longer that demand remains volatile – both in terms of form and extent – the more it will expose the risks and flaws of rigid pricing models, especially ones that were highly optimized for a market that essentially no longer exists.

We recommend several ways for companies to add agility to their pricing processes and price models. First, companies will need to move to differentiated pricing as quickly as possible, ideally at the micro-segment or even the individual level. Differentiated pricing is no longer a distant goal as you wait for techno-logy and customers to catch up. It needs to happen right now.

Doing this will require changes to governance and tools. The need for efficiency, flexibility, and speed dictates that companies decentralize their decision-making so that business units, teams, and individual salespeople can make price decisions with the right combination of authority and guidance. This in turn will require an infrastructure for delivering pricing guidance and monitoring selling prices in a structured, real-time way.

B2B companies will need to provide significantly more guidance on what a 'good' price is, as well as tightening their discounting guardrails and their escalation procedures. B2C companies need to seize the opportunities to tighten the accountability around their discounting and promotional policies. In both situations, the need for greater analytical power, deeper and more reliable data sets, and human intervention raise the stakes. Some companies will seize these opportunities to stake out a position in the *Thriving* space, then shift their focus to securing their gains.

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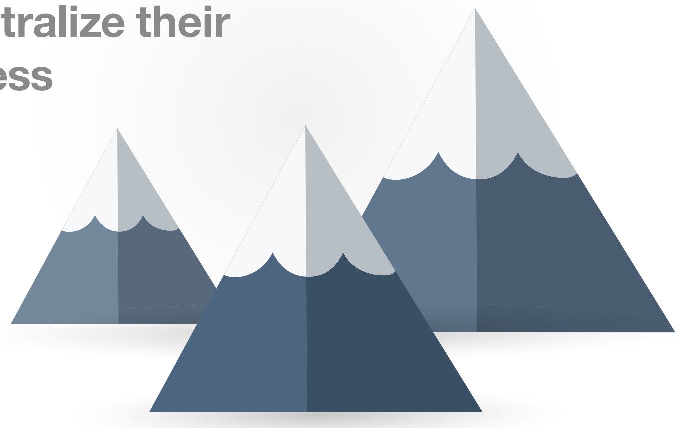

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Economic resilience

The final pillar of commercial agility is an economic model that can cope with the further shocks that we feel this crisis will inevitably cause.

"Resilience" is used in many business contexts, but in terms of surviving a resurgent crisis, it has two very specific meanings. First, companies need to emphasize profit and cash flow over market share. The time for razor-thin margins is over, as is the time of preserving "strategic customers" through cross-subsidization. High volatility may limit access to outside capital, which places even greater priority on a company's ability to self-finance any necessary investments and preserve enough money to weather multiple downturns.

Second, this is the ideal time to implement – and even force – shifts to recurring revenue models such as subscriptions. For many companies, this idea resides on that list of "down the road" transformations that usually seemed too difficult, expensive, or disruptive in a stable or growing market. But right now, the advantages of shifting to a subscription model can be a matter of survival, even if the initial transition is not yet optimal in terms of execution.

First, companies need to emphasize profit and cash flow over market share. Second, this is the ideal time to implement – and even force – shifts to recurring revenue models.

Five urgent questions about your company's commercial agility

For most companies, whether and when to reinvent their commercial models is no longer their decision. The answers are "yes" and "now." The "with corona" period will last for so long that they will not see the "after corona" world unless they fundamentally change the way they do business.

The COVID-19 crisis is exposing the inertia and old customer habits that have propped up many business models. Shifts in demand are leaving some companies overwhelmed and struggling to keep up, while others face record-high levels of idle capacity. Only a small handful of companies have found a way to thrive. But this crisis is resurgent, meaning that companies will most likely need to weather multiple stops and re-starts. The only way to reach the "after corona" world is through greater resilience and commercial agility.

Surviving the crisis will depend on how managers answer these five questions:

1. How do we need to **redesign our offer** to deliver a safe and engaging customer experience AND still make money?
2. How well can our **sales model** adapt to a remote world?
3. What are our **playbooks and processes** to manage inevitable cost-base inflation in our pricing?
4. How prepared is our **pricing model and decision framework** to respond quickly enough to volatile demand?
5. How can we ensure that our r**evenue and profitability models** are resilient enough to endure multiple episodes of the crisis?

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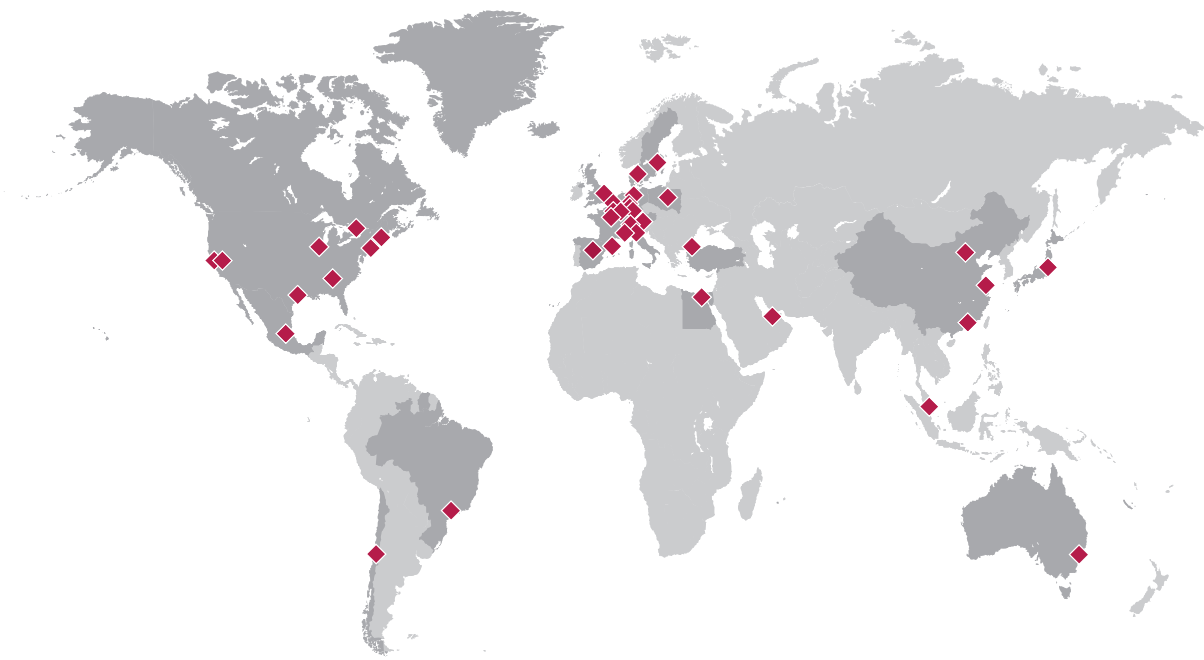

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Bilanz Magazine ranking, survey of the best consulting firms in Switzerland, 2019

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Simon-Kucher & Partners was a great partner during our research phase. We appreciated their support, expertise, and partnership throughout the process of developing Uber Rewards

Barney Harford, former COO, Uber

Simon-Kucher & Partners did some excellent work to help us break one of the great myths in our organization. They radically changed how we understood our core audience

Chris Stibbs, CEO, The Economist Group

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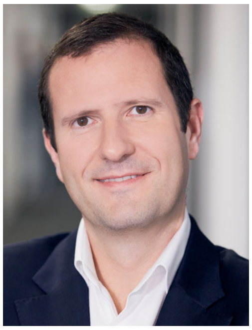

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