



Win the Fight to Win the Future

How Chinese Companies Can Stay Ahead in the “Post-Pandemic Era”

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Executive Summary

The unfolding global COVID-19 pandemic is a human crisis of historic scale and complexity. Most of our frameworks for planning and problem solving are unable to manage the geographic variability, uncertainty, and changes brought by the COVID-19 crisis. BCG has developed a framework summarizing the economic and social changes brought about by the epidemic and has identified three distinct phases: the “Flatten” phase, the “Fight” phase, and the “Future” phase. China is currently in the “Fight” phase, ahead of many other countries. In this phase, countering the spread of the epidemic and restoring regular economic activity are equally important.

- **Flatten.** Cases for COVID-19 escalates rapidly, even exceeding the carrying capacity of the health care system; economic activities suffered from a severely hit.
- **Fight.** The curve has been flattened and the rate of new infections is moving toward zero, and economic activity start to restore. Close monitoring for upticks in infections and new cases is still a hallmark, as a vaccine is not yet available. Economic policy will play a critical role in keeping the crisis from doing structural damage to economic actors.
- **Future.** At this point a vaccine is approved, available, and widely administered, or at least a highly effective treatment is developed. In this phase, economic activity can be fully restored. Whether or not this restored level is weaker than before will be heavily influenced by the ability of the economic policy launched in the Fight phase to avoid structural damage to firms and households.

Although the epidemic has ineluctably impacted its macroeconomy, China has entered the volatile “Fight” phase, and has started its economic recovery. We have identified several features in the China’s economic recovery on the supply and demand side. Production

and supply have resumed as China has entered the next phase of restarting the economy. The biggest challenge in the next stage will be the uneven nature of the economic recovery, and the lack of coordination across industrial chains. On the demand side, Chinese consumers are gradually adapting to the new post-epidemic normal, according to BCG's COVID-19 consumer sentiment research. The consumers are still concerned about the pandemic but are cautiously optimistic and consumer demand is gradually recovering.

In the context of globalization, China is more closely connected with global supply chain. China's capital market took a shock as the COVID-19 pandemic continues to spread worldwide, as well as industries in its real economy. Based on the impact to these industries (positive or negative) and the urgency of the impact, BCG has identified three scenarios that major industries face in China: viability, stabilization, and innovative opportunities.

The post-epidemic recovering will be challenging, but worldwide top-performers show that companies can stay ahead and grow market share, even under adversity. Most of the companies and leaders BCG has observed have focused on these nine topics: scenario planning, building rapid response and transformation team, people and organizing for the new normal, topline security and building customer trust, supply chain and manufacturing stabilization, cost, cash & liquidity, advantage in adversity, digital & technology acceleration, and helping society during COVID-19.

Most of these response measures cannot be implemented in a single step. In order to create end-to-end, systematic change and substantial breakthroughs, they will require continuous, long-term efforts. In the long term, the pandemic represents not only a crisis for business leaders, but also an opportunity. In contrast to the rapid and passive measures of the "Flatten" period, companies will need to be more proactive during the "Fight" and "Future" stages. They will need to understand changes in the macro environment and in their industry to shape a plan for their own sustainable transformation. They must identify the intrinsic links between related initiatives and prioritize carefully. Therefore, companies can see the crisis period as an opportunity to transform from the inside out and generate substantive change.

BCG's experience shows that at least two years of bold and resolute transformation are needed, divided into three phases with clear focuses: rapid assessment, acceleration of response measures and value realization. As China is currently in the "Fight" phase, the complexity and uncertainty of the internal and external environment are increasing by the day. Rapid assessment to shape the transformation plan asks the company to assess their situations quickly and clarify their key priorities. Acceleration of response measures refers to an end-to-end response requires companies to consider all aspects of the busi-

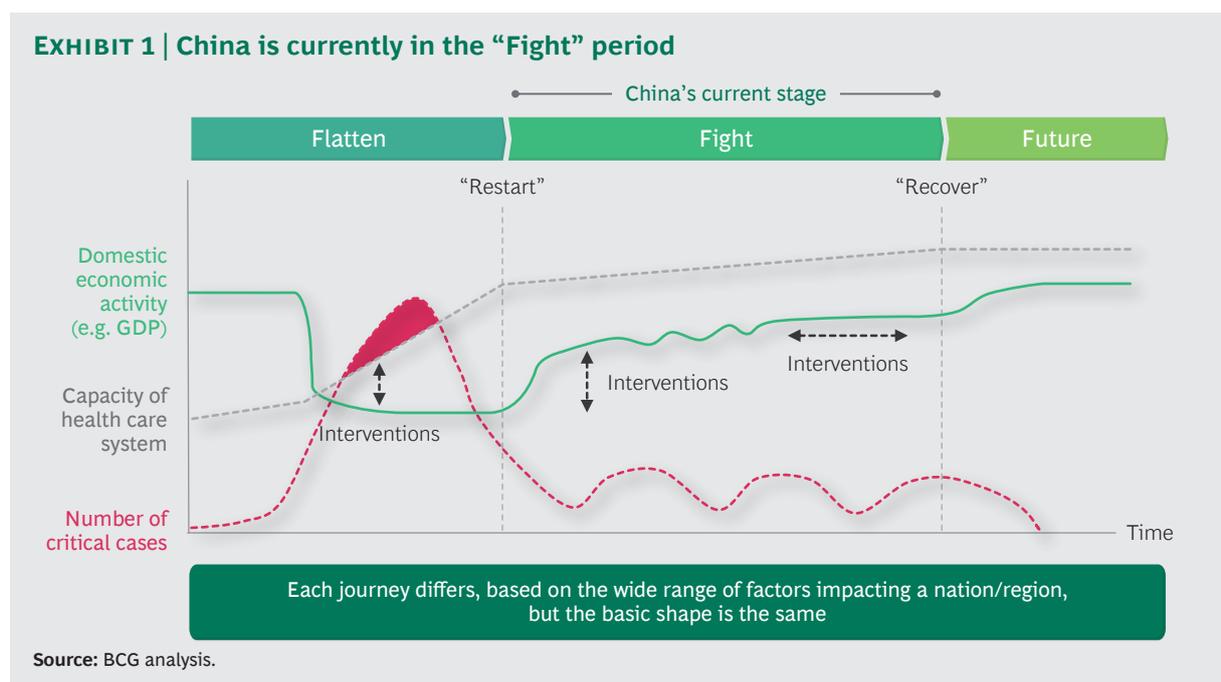
ness, including costs, revenue, customers, strategy, organization and digitalization. Therefore, companies should review response measures after two to three months. One feasible approach is to implement a “100-day plan,” and evaluate the value of initiatives in each area against key indicators. It is also a good time to build an agile working culture and optimize the organization to increase efficiency. As for value realization, companies will generate the most value one to two years after starting their transformation. They will need to create an appropriate culture to build long-term resilience and provide an additional impetus for growth.

1. China Has Entered the “Fight” Period, as the COVID-19 Pandemic Continues to Spread Worldwide

The unfolding global COVID-19 pandemic is a human crisis of historic scale and complexity. It is straining health care systems, government fiscal capacity, and the ability of many organizations. The level of uncertainty for most leaders is unprecedented, and most of our frameworks for planning and problem solving are unable to manage the geographic variability, uncertainty, and the exponential change brought by the COVID-19 crisis.

Three months into the COVID-19 crisis, we are starting to see patterns in its impact on countries and cities, as well as in these areas’ responses. **BCG has developed a framework summarizing the economic and social changes brought about by the epidemic.** We have identified three distinct phases: the “Flatten” phase, the “Fight” phase, and the “Future” phase. (See Exhibit 1). In the “Flatten” phase, countries or cities lock down to flatten the virus’s exponential growth curve. Second comes the “Fight” phase, during which a country or region restarts its economy while maintaining a low rate of infection, while still running the risk of having to implement further lockdowns. Finally, countries or regions will enter the “Future” phase, which begins only after a vaccine or highly effective treatment has been developed and deployed.

- **Flatten.** The initial stage of response takes place when a nation or area is locked down in order to reduce the peak caseload to “flatten the curve,” and to avoid over-



whelming the health care system. Strict social distancing, bans on gatherings, and the cancellation of all but essential activity are hallmarks. The US, most of Europe, and an increasing number of locations around the world are currently in this phase. However, flattening the virus is also flattening the economy. The effect of economic policy is limited in its ability to offset the shock's intensity, resulting in more complex economic and social problems.

- **Fight.** Once a sizeable, sustainable decline in new cases and new infections is reached and public health officials feel that the situation is under control, we enter the “Fight” phase. In the second phase, the curve has been flattened and the rate of new infections is moving toward zero, giving the health care system time to prepare, expand capacity, and manage the caseload. At this point it is possible to consider reducing some restrictions and, while maintaining social distancing, to restore a moderate level of economic activity. Close monitoring for upticks in infections and new cases is still a hallmark, as a vaccine is not yet available. Economic policy will play a critical role in keeping the crisis from doing structural damage to economy, even as activity remains depressed. The adequacy of policy will determine if the economy is able to return to its pre-crisis growth path. Avoiding further lockdowns during the “Fight” phase will be critical because of the limitations of policy interventions in such a context.
- **Future.** The ultimate goal is to reach the “Future” phase, at which point a vaccine is approved, available, and widely administered, or at least a highly effective treatment is developed. In this phase, economic activity can be fully restored. **Whether or not this restored level is weaker than before will be heavily influenced by the ability of the economic policy launched in the Fight phase to avoid structural damage to firms and households.**

China is currently in the “Fight” phase, ahead of many other countries. This is because the government took unprecedented and strong social distancing measures in the early stage of the epidemic. It locked down 16 cities in Hubei Province, and initiated a first-level response in all 31 provinces to restrict flows of people, flatten the curve and prevent the disease from spreading. In the eyes of global observers, the Chinese government wanted not just to bring the virus under control, but to crush it completely. And, after two and a half months, data indicate that China's measures have largely succeeded. After two to three weeks of zero local transmissions, the Chinese government has started to lift restrictions. Hubei has reopened, and the country has moved from the “Flatten” to the “Fight” phase. In this phase, countering the spread of the epidemic and restoring regular economic activity are equally important.

By contrast, many other countries are still in the “Fight” phase, as they imposed lockdowns more slowly and less restrictively. In these places, cases escalated rapidly, exceeding those in Hubei. They are only now beginning to level out. Both the overall caseload and burden on hospital systems remain high.

2. Priorities During the “Fight” Phase: Restoring Order and Restarting the Economy

Having responded quickly with decisive measures, China has emerged from the “darkest point” of the epidemic. It has entered the volatile “Fight” phase and has started its economic recovery. The epidemic has impacted China’s macroeconomy on both the supply and demand sides. Industries have seen varying levels of impact. In some cases, the entire industry growth trajectory is under threat. The Chinese government has started to restore production and get the economy moving again, while preventing the disease from reoccurring. The government’s epidemic response is in line with its measures to improve governance and people’s livelihoods.

Although the government has brought the epidemic under control, the strict measures have inevitably had a negative impact on the economy. According to official data, China’s GDP growth fell by 6.8% in the first quarter of 2020, reflecting ~14% delta Q1 GDP. Total retail sales fell by 19% year on year, fixed asset investment fell by 16%, and the total import and export value fell by 6%¹.

Although China has moved from the “Flatten” to the “Fight” phase, it is still closely connected to the global economy. Major financial institutions have lowered their China growth forecasts. Bloomberg’s data show that between the end of March and the first ten days of April, many financial institutions adjusted their 2020 China GDP forecasts to about 2.7%, but they remain optimistic about 2021, predicting a median growth rate of about 6.5%².

The BCG analytical framework mentioned above allows us to evaluate the potential annual loss of economic output (GDP) in different scenarios based on the length of different phases and the economic loss during each period. The duration of each period will be determined by the amount of time it takes to develop a vaccine or an effective treatment for COVID-19. However, it is not easy to assess the potential economic losses during the “Fight” phase, as any estimate would need to measure the effects of economic and social policies on industries and individuals in the real economy and convert it into a structured model to produce a macroeconomic output indicator.

Although international institutions have lowered their macroeconomic forecasts for China, the pessimistic views are usually based on the structural damage to supply-side growth factors, which has not occurred in China. Supply-side factors are generally recovering

¹Source: China’s National Bureau of Statistics.

²Bloomberg statistics from March 27 to April 10.

well. For example, the labor market is much more stable than in the early stages of the epidemic, as production and regular social order have been restored. According to data from China's National Bureau of Statistics, urban unemployment stood at 5.9% in March, down 0.3% from February³. Despite the impact of the epidemic, there have not been large-scale layoffs in China after production was resumed, therefore we need to look at forecasts rationally and objectively.

We have identified several features in China's economic recovery on the supply and demand side.

Production and supply have resumed as China has entered the next phase of restarting the economy. Most Chinese companies resumed production in April; 99% of scaled industrial enterprises had resumed work⁴. However, with the impact on global demand and supply chains, some Chinese import and export firms have been strongly affected, due to a slump in orders resulting from falling overseas demand, as well as the reduced supply of raw materials and components as foreign economies stagnate. Many Chinese companies have therefore been forced to reduce production and adjust their production plans. **The biggest challenge in the next stage will be the uneven nature of the economic recovery, and the lack of coordination across industrial chains.** This poses a new challenge for Chinese companies. It will also force companies to strengthen their crisis awareness, build more flexible supply chains and increase their investment in digitalization and technology.

Consumers are cautiously optimistic and consumer demand is gradually recovering. According to BCG's COVID-19 consumer sentiment research⁵, consumer willingness to spend is gradually recovering, compared to the period before the epidemic. However, spending on travel services and other related categories is growing more slowly. Chinese consumers are gradually adapting to the new post-epidemic normal. The cautious optimum among consumer is evident in four regards:

- **Daily life is returning to normal.** Consumer sentiment in China is gradually becoming more positive, causing changes in consumer expectations as regular everyday activities resume. Furthermore, given that Chinese consumers have a high level of savings, consumption in China are returning to normal faster than in other regions.

³Source: China's National Bureau of Statistics.

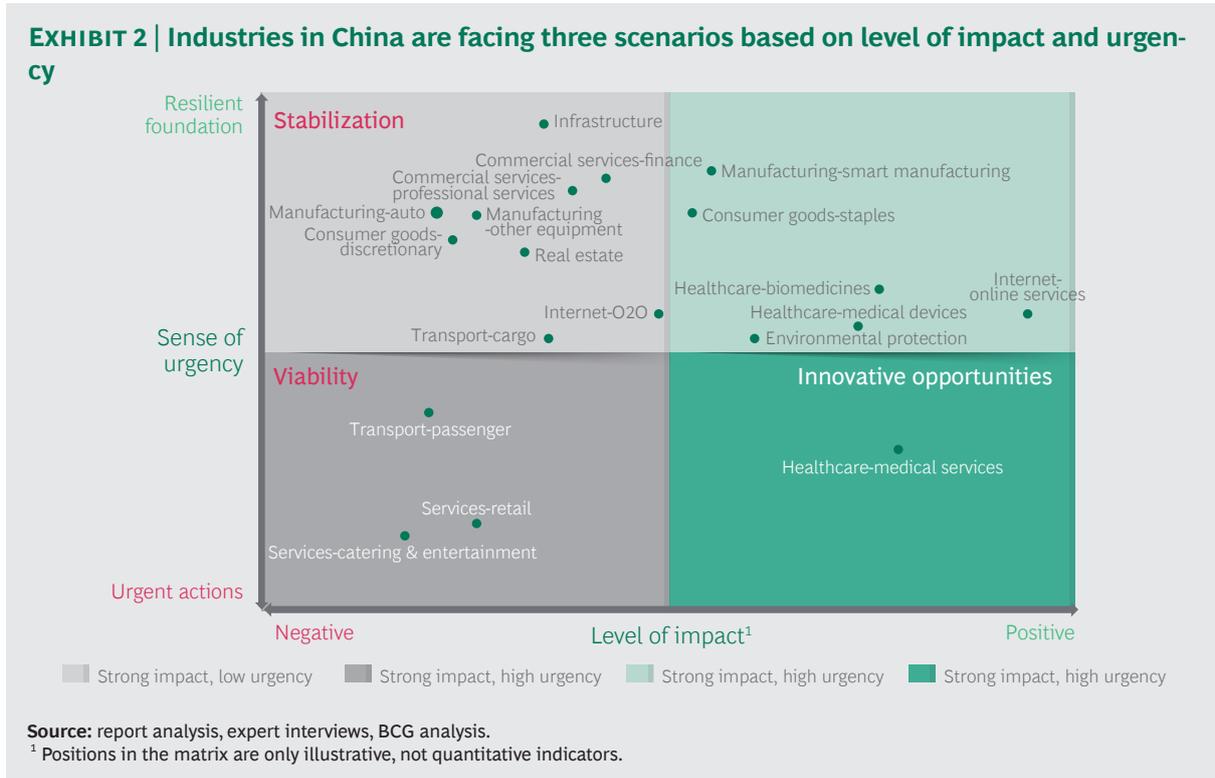
⁴Source: China's National Bureau of Statistics.

⁵BCG's COVID-19 consumer sentiment research is based on a bi-weekly global survey which currently covers China, Italy, France, the UK and US, carried out by BCG's Center for Consumer Insight (CCI) and the world's largest data insight platform Dynata (the latest survey was on April 13, with a sample size of 2,532).

- **The public are still concerned about the pandemic.** 77% of consumers said they were concerned about an economic recession, and 59% said they were worried about their personal finance. Moreover, in terms of consumer behavior, consumers are not confident about travel and crowded public places, therefore travel-related categories will still face challenges, while preventive healthcare, vitamins and supplements, fresh and organic food, and childcare categories are performing well.
- **Lifestyle changes.** Consumers have shifted their focus from “home quarantine”, to “quality of life at home” and to “stay-at-home scenarios,” which has created new attitudes to spending; 79% of consumers believe that their daily lifestyle has changed and 42% believe the virus has changed how they live. Many new habits that consumers have adopted during the epidemic are likely to stick, for example cooking at home, home leisure activities, new e-commerce driven by live-streaming, pet care, beauty and fitness.
- **Chinese consumers are more optimistic than consumers overseas.** According to the BCG survey, 38% of Chinese consumers believe that the toughest stage of the epidemic is over, and 43% believe that China is now safer than the rest of the world, ten times higher than the proportion of consumers in Europe. In addition, Chinese consumers have demonstrated a greater willingness to spend than their European and American counterparts.

Based on BCG analysis, estimated private sector micro-economic activity (i.e. weekly revenue) impaired relative to pre-COVID levels ranges from ~5-15%, which means ~5-15% gap to full economic activity from direct impact of social distancing measures. While figures are not directly comparable to GDP forecasts as not capturing Mitigating uplift of public policy on employment & consumption, 2nd order impacts of reduced consumer spending & business investment as the crisis lengthens and Distinction between final and intermediate consumption, impact on balance of trade, etc. In addition, these outcomes vary significantly both by geography and sector and should be customized based on context.

Nevertheless, China’s capital market took a shock during the “Fight” period and is still experiencing volatility. According to Capital IQ’s database of the top 500 Chinese companies by market value, total shareholder returns in all industries in China fell sharply at the beginning of the epidemic, but later rebounded. The spread of the epidemic worldwide at the beginning of March reversed the recoveries somewhat, and the response of the capital market has varied by industry. Food, health care, household products and software industries fared best, while the transportation, consumer durables, apparel and retail industries were the hardest hit.



Behind the performance of the capital market, we can analyze the factors affecting each industry in the real economy to different degrees. BCG has identified three scenarios that major industries in China face during the “Fight” period and in the future. (See Exhibit 2), based on the impact to these industries (positive or negative) and the urgency of the impact (determined by the industry’s resilience).

- **Viability.** These industries have suffered the greatest negative impact from the crisis. Many are industries that depend on direct contact with individuals and real-time service industries, which have been affected by the uncertainty caused by COVID-19 (such as transportation, catering and F&B). These industries face a cash flow crisis, and it is not yet clear how long it will take for demand to recover.
- **Stabilization.** These industries have been negatively affected by the crisis but are more resilient. Such industries include supply, manufacturing and service industries (e.g. real estate and automobile manufacturing). If they are not able to bounce back quickly, they may be affected by shifting supply chains and damaged market confidence.
- **Innovative opportunities.** These industries have adopted new digital business models or are well placed to take advantage of opportunities (e.g. biomedicine and Inter-

net businesses), as the epidemic has promoted shifts in use cases and consumption habits.

During the epidemic, the Chinese government introduced fiscal, tax and loan policies to stimulate economic recovery and growth, stabilize jobs, and help companies survive. These measures have been more cautious than those of other countries. The Chinese government lowered taxes and fees to stimulate the economy rather than offering direct subsidies. It has empowered firms by concentrating on tax reductions and subsidies, extending payment periods, loans and capital support, and stimulating market demand⁶. The government can continue this trend. In the “Flatten” and the “Recovery” stages it must consider how to create progress, for example by transforming the business environment to revitalize the economy, building resilient supply chains, guiding the recovery of industry and strengthening technology and innovation.

⁶Source: Beijing Daily, www.gov.cn, brokerage research reports, literature review.

3. Preparing for the “Future” (New “Post-Epidemic” Normal)

China is winning against the virus, and people are looking forward to economic recovery. However, even if the economy does fully recover, there is unlikely to be a return to the pre-pandemic status quo. We anticipate that there will be major changes in all fields, from trade to supply chains, from business operations to consumer habits and preferences.

The epidemic has changed the way people work and live. Employees have adopted remote working practices, and struck new work-life balances, combining work and family life. Businesses have been investing in making remote working more efficient and sustainable. There has been a strong shift towards online consumption, and a rise in delivery services to meet demand. As schools and universities have closed, students have started taking their classes online, owing to the convenience of remote office software and video conferencing systems.

These changes in behavior may well be permanent, creating a larger “ripple effect.” For example, we anticipate that the widespread conversion to remote working will reshape the business travel industry and have a profound impact on the air travel and the hospitality industries. The popularity of online goods and services will lead to structural changes in e-commerce, shopping in stores and entertainment. Remote and non-contact working practices also create new possibilities for the health care and education industries.

However, there is still much uncertainty. How will consumer preferences and consumption habits evolve? What will trade, tourism and capital flows look like in the future? How will the pandemic reshape the roles of government and business? More detailed scenario planning will be necessary to answer these critical questions. During scenario planning, we need to understand which parameters have the potential to shift results and what game-changing factors could lead to different outcomes. Given the timing, we think that the most meaningful potential shifts will take place during the “Fight” phase. We are monitoring three potential game-changing innovations, which may take us to the “Future” phase more quickly.

A vaccine or treatment breakthrough in nine to 12 months. Given the lives and value at stake, it is certain that the financial and human capital devoted to this search is unlike anything we have ever seen. We are already seeing capital commitments to scale up vaccine production on an at-risk basis, and we expect that regulators will do everything in their power to accelerate progress. We don’t see this as an unrealistic outcome, but we also don’t see it as the most likely one.

Breakthrough developments in “Epinomics”. Historically, there has been little connection between the studies of epidemiology and economics, as modern outbreaks have not been significant economic events. Today, however, local government officials and public health decision-makers will have to make decisions that balance the disease trajectory with policy choices—and understand the implications of these tradeoffs. They will also have to adapt and improve the virus-monitoring system to get better, faster information about changes in the virus’s local status and tune the monitoring system to reflect policy decisions (such as accompanying a choice to open schools with a surge in testing of students). In addition to the local nature of these decisions, there needs to be a central capability to learn from the distributed experiences and use that knowledge to adapt the distributed models. We can’t run controlled experiments, but the “Fight” experience itself becomes a live experiment. If we can rapidly develop AI-based tools to track the results of different local interventions on the disease to improve our models, it may be the most valuable AI research project in human history. This would not shorten the “Fight” period, but it might allow us to both save lives and make the economy much more open during the “Fight”.

Precise predictions of highest-risk individuals. Most of the discussion on testing technology and research focuses on different forms of diagnostic and immunity testing. There is the potential, however, that we can use a combination of genetic, immunologic, and disease-status data to identify individuals most at risk for a severe form of COVID-19. With that capability, we could shift strategies from “Flatten and Fight” to something more like “Protect and Provide.” Instead of locking down full populations, once some herd immunity is built, we could choose to let the disease run its course in the very-low-risk population while allocating economic and social resources toward protecting and providing for those at high risk. If the Fight phase is proving to be very costly in terms of lives and resources because we are unable to control the virus, the better approach may be shortening the phase through accurate prediction of high-risk groups.

BCG believes that the “Future” phase cannot begin until a vaccine or highly effective treatment has been developed and deployed. Many countries including China and the United States have successfully isolated coronavirus strains and are in the process of developing vaccines. As of April, China was working on 28 vaccine research projects. More than 40 companies, including private companies and public research institutions are working in parallel to develop a vaccine. China is currently ahead of other countries in selecting possible COVID-19 vaccine candidates for clinical trials. It is also working closely with the US, UK, Germany and other countries on projects, half of which have animal testing in pipeline. Based on current information, we anticipate that it will take 12 to 36 months to develop and deploy an effective vaccine or treatment and enter the next stage.

4. Win the Present to Win the Future

The post-epidemic recovery will be challenging, but history shows that companies can stay ahead and grow market share, even under adversity. In order to succeed, leaders must fully understand their organizations and act accordingly. By accepting and preparing for this reality, business leaders can build a foundation for survival and long-term success, even under highly unpredictable conditions. They can learn from leaders in global and domestic markets to plan for their own industries, regions and organizations.

BCG studied how the top 25 companies in the S&P Global 1200 recovered from the financial crisis from 2007 to 2009. Although these companies were deeply impacted by the downturn, they were able to take rapid mitigating actions out of a sense of urgency. They applied the preemptive philosophy of “fix it before it breaks” to reduce losses as far as possible and recover more quickly. Observing these companies, we identified five key factors that have implications for Chinese companies during the current crisis.

- **Act proactively.** Get cash and costs out quickly to protect and create a strong foundation for your organization. The top-performing companies have acted proactively rather than reactively. They have not only ensured liquidity but also proactively invested in strategic acquisitions. They applied the preemptive philosophy of “fix it before it breaks”.
- **Stick to a clear vision.** The top-performers understand the importance of vision. Even as they looked for new sources of growth, they pursued the clear vision that they had before the crisis—a vision that based on a small number of long-term themes. For example, most top-performers had planned to invest heavily to expand into new countries and to accelerate their digital transformations. The projects to support those objectives changed because of the crisis, but the objectives themselves remained fixed.
- **Increase demand vitality.** In a complex and ever-changing environment, it is difficult for an enterprise to maintain a long-term competitive advantage with a single product, service or fixed business model. Companies must create demand-focused capability and adapt their commercial efforts and offering, including their channels, marketing and sales capabilities, to what the customer needs now.
- **Create supply agility.** Given variability and uncertainty of the external environment, companies should build agility and adaptation into their supply bases and supply chains, as well as consider the potential impact of changes to upstream and downstream industry players.

- **Build enterprise resilience.** The top performers knew that they couldn't avoid future disruptions, so they built organizations not only to withstand future shocks but also to anticipate and react quickly to them, including streamlining core operations, diversifying their talent pipeline and redesigning processes to capitalize on digital capabilities.

When China's economy was experiencing double-digit growth, most companies were able to maintain strong growth and profitability whether their business models were effective or not. But market and complexity put an end to the rapid growth era, therefore looking inwards has become the key to success. Compared with the overseas performers mentioned above who rise against the trend in the face of crisis, many companies in China have adopted a crisis mindset. They are constantly exploring ways to create differentiated and sustainable advantages to ensure their success.

Facing a rapidly changing market, many Chinese companies have started to transform. Both traditional retail and manufacturing companies and emerging high-tech and Internet companies are actively transforming the status quo. They are building a foundation for long-term growth by remodeling their businesses to capture greater value and boost their competitiveness.

Acer is a typical example from the high-tech industry. Since 2011, Acer's personal computer business was hit hard by competition from smartphones and tablets. Its 2013 losses were equivalent to around two-thirds of its market cap that the time. In 2013, Acer founder and then-chairman Stan Shih realized that the company needed to make **dramatic changes in order to adapt to the technology disruptions in the industry.**

From 2014, under the leadership of its new CEO Jason Chen, Acer has regained a leading position in the tech industry based on a three-part framework. First, it focused on developing high-margin products and services. It divested its money-losing mobile business and focused on growing its core PC business. It identified business laptops as well as high-performance desktops and gaming laptops as having huge innovation potential. The key to building a culture of innovation for Acer was to operate on the "guard band" theory that sets a stop/loss time frame for all new business, so that an idea has time to succeed or fail but the risk of failure is contained.

Second, Acer wanted to find differentiated competitive advantages and use customer insights and feedback from focus groups to identify its most unique capabilities. For example, Acer had more than 300 patents for cooling fan designs, which are very attractive to game console customers who needed high-performance products. The customer inter-

action also helped Acer identify attractive niche markets to target. In 2019, Acer launched the ConceptD series of high-performance PCs for the 15% of gaming laptop customers who use their laptops for design work.

Third, Chen realized that he needed to adjust Acer's organizational structure to build a solid foundation for the company's transformation journey and build a more forward-thinking corporate culture. He strongly believed that Acer's vision should focus on finding opportunities to create value rather than being occupied by solving problems. Chen optimized the company's organizational structure and management mechanism. He developed a new operating model, under which new businesses can operate independently from the core business, and innovative talents and ideas can be cultivated.

These measures have achieved excellent results. By continuing to strengthen its capabilities, Acer has become a global market leader in gaming laptops. Over the past two years, its stock price has traded at almost double its historical low, and the company has been profitable since 2017.

Innovation has not just taken place in the high-tech industry. Many industries in China are responding adeptly to an increasingly challenging environment. Some top performers think and act preemptively and make early transformations to stay in the forefront of industry trends:

In the consumer goods sector, traditional Chinese retail companies face the imperative to rebrand in response to strong competition from fast-fashion MNC consumer brands. In order to capture growth and achieve operational excellence, some retail companies have executed comprehensive end-to-end transformations. First, they have analyzed category trends to identify new growth engines. Second, they have driven growth by capturing opportunities in e-commerce, improving the online and offline customer experience through big data analysis. Third, they have optimized their supply chains. They have sped up production, and worked with key suppliers to achieve economies of scale. Lastly, they have built corporate cultures and infrastructure capable of fostering continuous innovation.

Similarly, in the automotive manufacturing sector, traditional Chinese auto manufacturers faced a declining market share. As consumer needs became more complex, some of the players realized that they had to transform their product lines and brand image. A three-pillar transformation strategy was proposed: The first pillar was to help the company grow organically, and to change its image as a cheap, low-quality brand. The second was inorganic growth. The company grew its overseas business through strategic M&A and partnerships. The final pillar was to invest in technological innovation and talent training.

China is still in the “Fight” period. It will be some time before it enters the final “Future” stage. Most of the companies and leaders BCG has observed have focused on nine topics. China has already passed the “Flatten” period, therefore it must concentrate on “Fight” initiatives, as well as how to adjust during the “Future” period. (See Exhibit 3)

- **Scenario planning.** Continuously update intelligence to understand scenarios throughout the progression of Fight and Future; adjust the planning to sector-specific issues and estimate the impact on business.
- **Set up rapid response and transformation team.** In the “Fight” period, the team

EXHIBIT 3 | Key actions during the three phases of the crisis

	Flatten	Fight	Future
1 Set up RRT and TMO	Set up a rapid response team (RRT), develop initial scenarios, stabilize people and operations	Plan for the business restart, set up COVID-19 TMO to manage “partial economy” reality	Set up a strategic team (now) to respond to the new normal and, therefore the need to digitally transform and/or build AiA
2 People and Organizing for the New Normal	Set up policies to keep employees safe, boost morale and enable remote working	Adapt organization as far as possible to the expected new normal: keeping team, restructuring and/or reforming to accelerate digital transformation	Continue to adapt the organization to the new normal with a strong focus on accelerating digital capabilities / becoming a bionic company
3 Topline Security and Building Customer Trust	Reach out to customers to understand their situation and needs, initial actions/messages to show confidence and ensure ability to deliver	Assess changes in customers’ behaviors, dynamically adapt channels (e-commerce), sales, marketing spend, pricing, & support	Ramp up commercial efforts significantly to fully recapture market rebound; leverage learnings to accelerate digital capabilities
4 Supply Chain and Manufacturing Stabilization	Take measures essential to ensure operation continuity, including workforce management, supply chain stabilization and site readiness	Re-open facilities, set up model to manage unstable supply chains and accelerate production as demand rebounds	Adapt supply chains to improve resilience; accelerate digital and bionic capabilities for both supply chain and manufacturing
5 Cost, Cash and Liquidity	Develop initial scenarios & act quickly to manage liquidity, working capital, credit, and debt commitment etc.	Take decisive structural actions: TURN PMO, zero-based budgets, delayering / restructuring, re-base tech portfolio etc.	Record and leverage lessons learned to ensure greater resilience in the future
6 Advantage in Adversity	...	Selectively invest in areas where the crisis creates a unique opportunity to grow share: talent, customers/marketing, markets, M&A	Double-down on bold moves as rebound materializes
7 Digital and Technology Acceleration	Establish immediate technical needs for remote working and digital customer engagement and support	Identify the key digital use cases that will drive value (now and in the future) – accelerate these use cases to meet customer needs or reduce costs	Build on digital momentum to become a truly bionic company
8 Helping Society during COVID-19	Support your employees, customers and communities – work on medical response as appropriate	Live your purpose: support your employees, customers and communities – work on medical and economic response as appropriate	Live your purpose: support your employees, customers and communities – work on medical and economic response as appropriate

Source: BCG analysis.

will plan how to restructure the business; in the future, it will focus on transforming the business to prepare for the new normal.

- **People and organizing for the new normal.** Build a mechanism to restructure the organization, teams and ways of working on an ongoing basis to meet business and strategic requirements at different stages.
- **Topline security and building customer trust.** Companies should always focus on understanding changing customer needs in order to buck the trend and find high-growth areas while competitors are suffering.
- **Supply chain and manufacturing stabilization.** Supply resilience is crucially important, as global economy become increasingly interconnected. Companies should build digital and flexible supply chains as soon as possible.
- **Cost, cash and liquidity.** Protecting cash flow and reducing costs are always important, but following the epidemic, companies should take decisive end-to-end actions to adjust budgeting, revenue and costs.
- **Advantage in adversity.** Focus on future growth, and invest strategically in different areas of business operations.
- **Digital and technology acceleration.** Identify and implement key digital use cases and plan an overall digital transformation.
- **Helping society during COVID-19.** Companies should live their purpose and demonstrate their responsibility to employees, customers and other stakeholders.

Most of these response measures **cannot be implemented in a single step. In order to create end-to-end, systematic change and substantial breakthroughs, they will require continuous, long-term efforts.** In the long term, the pandemic represents not only a crisis for business leaders, but also an opportunity. As the external environment changes, the market landscape could be completely reshaped. In some industries, a single company that takes opportunities and responds to the trend may dominate. Companies that miss opportunities or respond negatively will find it difficult to achieve long-term growth. Business leaders must not only stick to a clear vision, but also implement specific and methodical response measures.

Before the outbreak of the virus, many corporate leaders were considering large-scale transformations, but did not start due to internal and external constraints. In contrast to

the rapid and passive measures of the “Flatten” period, companies will need to be more proactive during the “Fight” and “Future” stages. They will need to understand changes in the macro environment and in their industry to shape a plan for their own sustainable transformation. They must identify the intrinsic links between related initiatives and prioritize carefully. These measures include large-scale applications of digitalization and AI on the cost side and breakthroughs on the revenue side, innovations in customer segments and business, growth opportunities from strategic M&A, sticking to the organization’s purpose, and identifying a clear vision. Therefore, companies can see the crisis period as an opportunity to transform from the inside out and generate substantive change.

BCG’s experience shows that at least two years of bold and resolute transformation are needed, divided into three phases with clear focuses: rapid assessment, acceleration of response measures and value realization.

Rapid assessment to shape the transformation plan: As China is currently in the “Fight” phase, the complexity and uncertainty of the internal and external environment are increasing by the day. Companies should assess their situations quickly, to clarify their key priorities. For enterprise leaders, this is a critical time to set long-term goals, prepare the necessary tools and evaluate the feasibility of new business models. At the same time, companies should also work together to get through the crisis and collaborate with external stakeholders to build a foundation for a possible economic rebound.

Accelerate response measures: An end-to-end response requires companies to consider all aspects of the business, including costs, revenue, customers, strategy, organization and digitalization. Therefore, companies should review response measures after 2-3 months. One feasible approach is to implement a “100-day plan” and evaluate the value of initiatives in each area against key indicators, for example, whether there has been an increase in revenue and whether market feedback has been positive, as positive feedback may indicate that the company is starting to capture increased value. It is also a good time to build an agile working culture and optimize the organization to increase efficiency.

Drive advantage in adversity: Companies will generate the most value one to two years after starting their transformation. They will need to create an appropriate culture to build resilience that leads to long-term growth. By this time, the new operating model will be in place. The new measures and technologies implemented will have been translated into efficiency improvements. The company’s costs will also fall, and savings can be reinvested, both provide an additional impetus for growth.

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