

**COMPANIES ARE OPERATING IN
A FRAGILE ENVIRONMENT BUT
OFTEN MISS CAPABILITIES,
DATA AND PACE**

EXECUTIVE SENTIMENT ON REVENUE RECOVERY FROM THE IMPACT OF COVID-19

May/June 2020

AVASTA



STRATEGYPOD

#REBOUNDNOW



#REBOUNDNOW

The COVID crisis changes everything. We will not return to how it was before.

The future is uncertain. How do we plan, anticipate and imagine this “new reality”?

How do we convert this “new reality” into revenue recovery?

SETTING THE SCENE: REBOUND AND A FRESH START

How do we prepare for a “new reality” when so much is still so uncertain?

The COVID-19 crisis has vastly disrupted our daily lives and the pain is far from over. A “new reality” is emerging and the way we live, work and interact has changed. For most companies this means that their existing strategic and annual plans have become largely obsolete. Ensuring future cash flow and future revenue streams is most certainly at the center of every business leader’s attention. But how do you prepare for a “new reality” when so much is still so uncertain?

We therefore decided to ask business leaders across the world about their sentiment regarding revenue recovery. The survey took place from the beginning of May into the beginning of June – two months into the global lockdown and shows a snapshot of their sentiment at that time. What we start to see is that the sentiment changes over time, in some cases becoming more optimistic as the ease of a lockdown progresses.

In this report we have summarized the key findings and some of our observations from this research. Our aim is to contribute to the debate by providing fresh thinking and input to the discussion that you as business leaders are having with your colleagues.

We trust you will find these findings and inputs insightful and helpful. We look forward to discuss them in more detail with you.

Edgar, Björn, Fann & Karel

**S&P GLOBAL 1200
REVENUE DECLINE:**

-7.5%

The S&P Global 1200™ companies represent the world’s leading companies from a cross section of all sectors. Compared to 2019, the 2020 revenue estimates for the Global 1200 shows a 7.5% decline (as of 30 May 2020).

Source: S&P Global
Market Intelligence,
Capital IQ

ABOUT THE SURVEY:

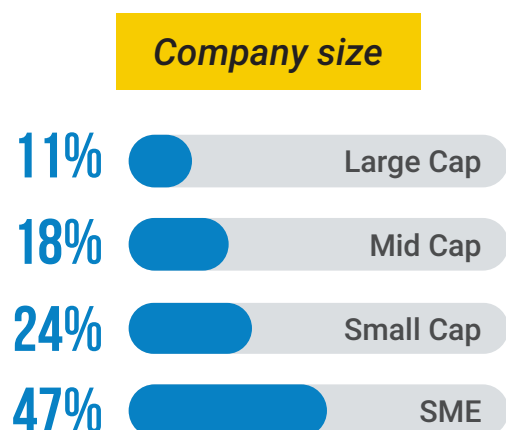
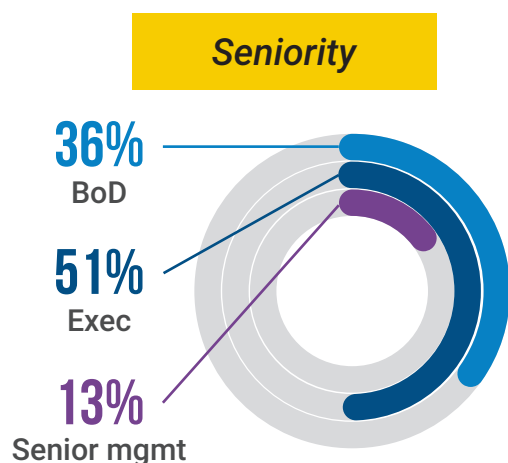
Avasta and StrategyPod in affiliation with Edgar Baum from the University of Toronto, have undertaken this research. We received feedback from over 300 executives on every continent and representing 10 broader industry sectors. We continue to survey executives to understand changes over time.

This research was undertaken during May and June 2020. The survey analyzed in this study was conducted between May 8 and June 8. We used a sample of business leaders across North America, Europe and the rest of the world. The survey was served in three languages to enhance user experience: English, French, and German. We used quotas to minimize biases of the study for: geography, age, gender, sectors, and employment. A rigorous vetting process of the data was applied to ensure the highest integrity and quality assurance (Removal of: straight liners, contradicting answers, unrealistic growth outlook by company size, any decrease of >100% for future outlook, and any respondents who are not senior management or above).

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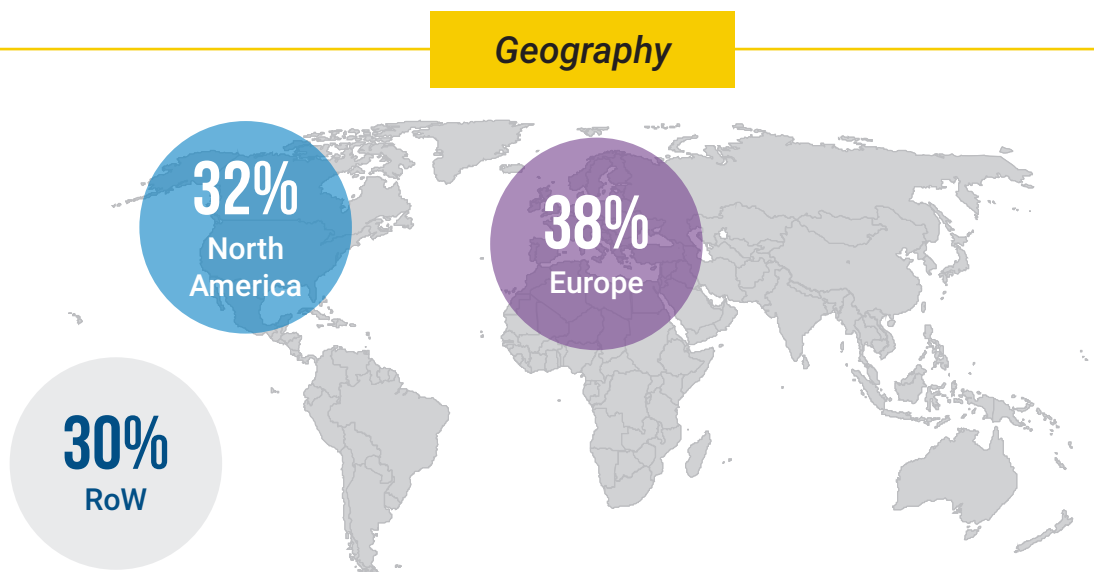
ARE RESPONDENTS THINKING ABOUT RECOVERY AT TWO-SPEEDS OR EVEN THREE DIFFERENT SPEEDS?



Our aim has always been to explore executive sentiment for a cross section of industries, geographies and company sizes. We reached out to hundreds of Board directors (BoD), Executive team members (Exec) and other senior managers (Senior Mgmt) globally.

We were able to capture a significant input from (larger) Small and Medium Sized Enterprises (SMEs). This is important as SMEs are a leading source of economic growth and employment but also tend to be more vulnerable in times of crisis. We could discern a difference in responses between SMEs and other companies to the extent that SMEs were more extreme in their responses, more often often showing very strong revenue increases or decreases during the crisis and generally they were more bullish of their prospects post-crisis.

Mid cap and large cap companies have similar views on recovery and how geography has some impact directly linked to the stage of the pandemic in a country. As the following pages will show, most companies are predicting a new reality and expecting important changes to how, where and with whom they are doing business.



Total accepted responses: 269

MOST SECTORS ARE ADAPTING TO A CHANGED GAME WITH NEW RULES

The survey feedback shows that most companies predict important changes to their sector and company. Whatever rebound scenarios a company is considering; it is highly probable that developing new sources of revenue is a crucial part of the long-term strategy. In fact, it's highly probable that the role of new sources of revenue in the future is much more prominent than before, requiring adjusting operations quickly and rapidly building new capabilities.

The highly fragile environment puts existing revenue at risk and makes future revenue more uncertain:

- The confinement period was long enough for consumers to change habits.
- Pre-crisis planning and predictive data is meaningless.
- Different channels and changed consumer behavior will require different focus.

Uncertain outlook has major implications for businesses:

- Downstream and upstream value chains have been disrupted and need to be re-established and, in many cases, re-routed or re-built.
- Existing sources of revenue have suffered important losses and operating models and supply chain approaches need to be recalibrated.
- New sources of revenue gain relative importance putting focus on capabilities, business models and innovation.

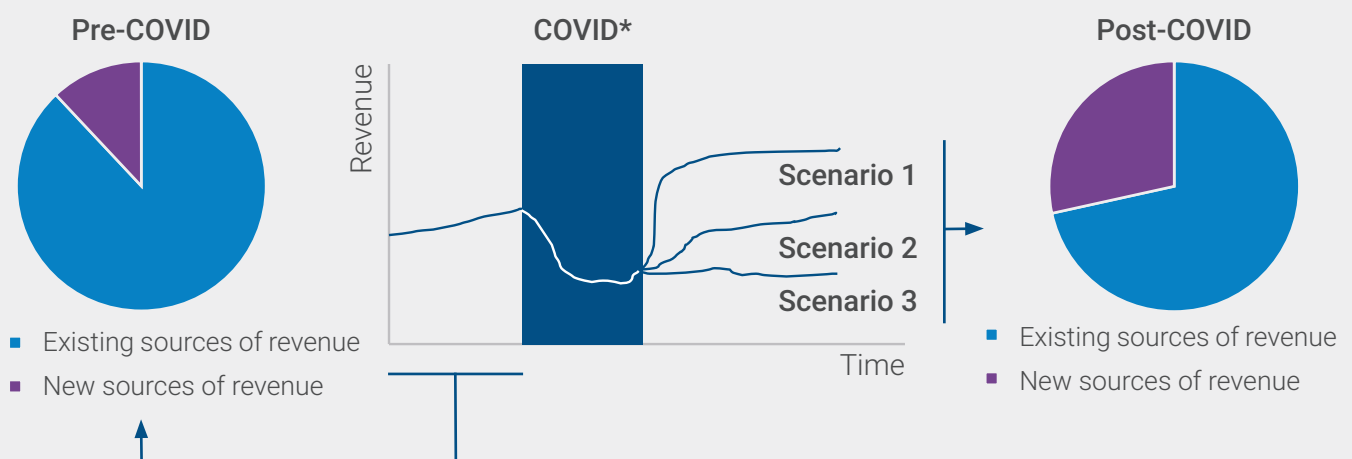
THIS MEANS BUSINESSES SHOULD:

1.

Organize and create time to design and prepare the shift to the "new reality".

2.

Develop a set of practical scenarios that give fast insight into how to plan and implement revenue recovery actions. Use technology to constantly monitor and refresh these scenarios and assumptions and adjust fast to changing realities.



COMPANIES ARE PREPARING FOR CHANGE — BUT CAN THEY TRUST THEIR DATA?

The research provides clear indications that most companies anticipate significant change and go about managing these changes very differently. Below we have summarized several interesting insights in terms of governance, decision making and managing uncertainty.



1. POSITIVE PSYCHOLOGY

The results reveal a more optimistic view than what the overall sentiment at the time of research would have suggested.

We attribute this to the mix of industries and geographies represented in the sample. We also think that the outlook of easing the lockdown and getting back to normal has significantly influenced such a change in sentiment in certain regions and therefore also encouraged companies adopting an agile approach in their strategic thinking.



2. LOOKING FOR PREDICTIVE DATA

Many companies adopt a strategy of “Block and Tackle”. Often this is not about whether there is enough data but whether the right data is available.

What we experience is that many companies use rear-view mirror data to inform decision making, but leading companies are mainly looking forward through the windshield using more real time data as predictors.



3. CERTAINTY FROM HISTORY

What can be observed is that existing historical data provides a pillar of certainty for many enterprises.

The high number of respondents who have indicated that they have enough data, provides some psychological safety. However, that data must be scrutinized in order to understand their validity for prediction. Sometimes we get the impression that many rely on good hope instead of good data. We recommend a combination of those two, with a strong focus on data.



4. CLOSER COLLABORATION AND DIVERSE THINKING

In addition to external experts, the research suggests that Executive Teams more than ever work closely with their Board of Directors for advice to steer through the fog.

Diverse Boards with broad experience and strong collaboration habits are important navigators through the fog. It's important the executive team and Board keep their calm in uncertainty and foster a healthy culture of debate and balanced decision making.

1. POSITIVE PSYCHOLOGY:

PERSPECTIVES ON FUTURE PERFORMANCE VARY GREATLY

Most companies reported a (significantly) negative outlook for 2020 and 2021. Predictably, many pharmaceuticals, technology companies and primary retail (e.g. food, medical supplies etc.) often reported a significant increase. Another important insight is that almost a third (1/3) of companies across all sectors expect overall performance to be unchanged when viewed over the next 18 months.

About 3% (predominantly SME) of companies report an existential threat. This is much lower than reported in SME focused research across Europe and North America which currently (June 2020) predicts a 20-55% default range for 2020. The average SME that participated in the research was on average a larger SME. It is probable that these larger SME's are less vulnerable than the micro SME's (1-10 employees). *(Sources: The Economist, OECD, EuroStat, ONS, BFS)*

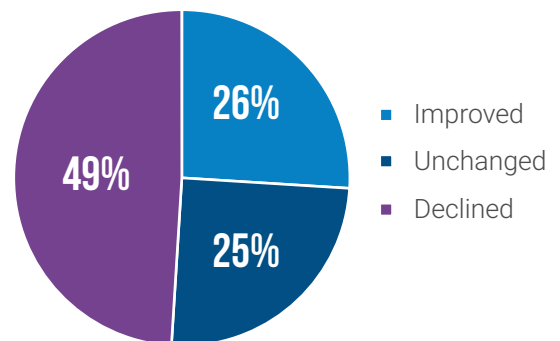
About 38% of all companies believe that, post-crisis, they will significantly outperform their competitors. These are predominantly SME and small cap companies. This suggests a contradiction with the overall economic outlook. Our view is that this optimism bias is probably caused by the sense of control the executives feel they have over their company's prospects as opposed to the economy at large.

SECTORS COVERED:

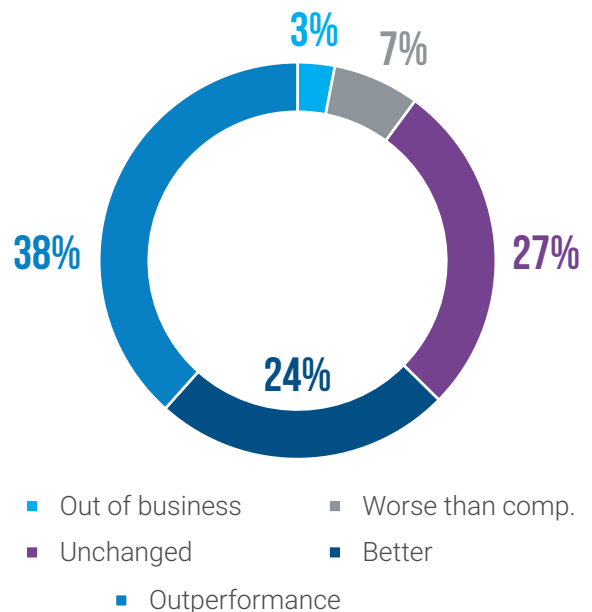
All sectors were represented with a slight lead for companies in consumer products, pharmaceuticals, retail and financial services.



Current outlook 2020/2021



Relative competitive performance



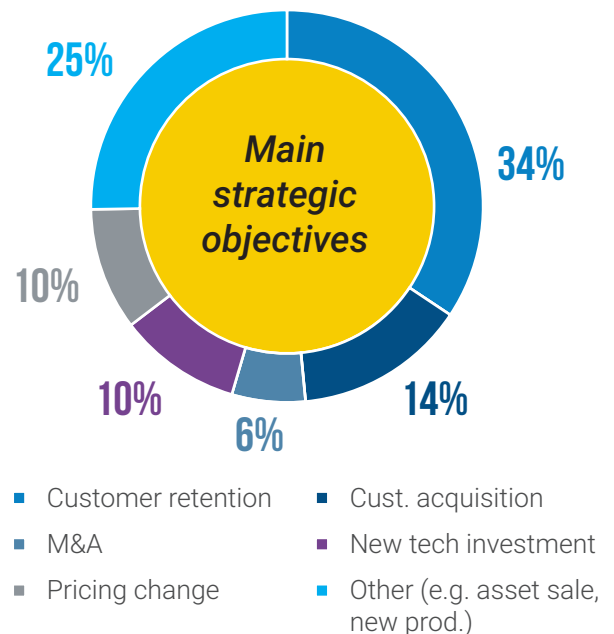
2. CERTAINTY FROM HISTORY:

DO COMPANIES HAVE ENOUGH VISIBILITY FOR THE REBOUND?

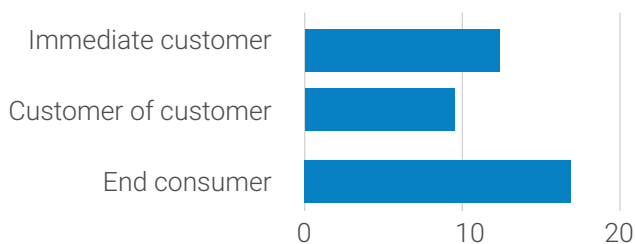
Many companies report good visibility on their direct customers (41%) and supply chain (43%). However, visibility one level removed (i.e. customer of customer and suppliers of suppliers) is significantly lower suggesting potential risks in the future. Moreover and rather worrying, almost half of companies report insufficient visibility on their customers and supply chain.

An interesting (potential) contradiction relates to end consumers. Most “experts” on consumer behavior and trends indicate that the confinement and work from home (WFH) requirement of the past few months will have significant and permanent changes to consumer spending, priorities and preferences. If this trend indeed materializes as predicted, the reported strong visibility on end consumers may be a substantial “false positive”. (Sources: Euromonitor, Nielsen, McKinsey)

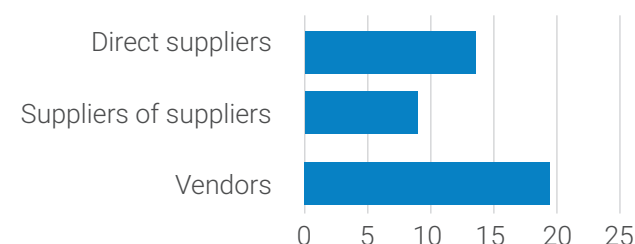
Strategic focus of most companies is defensive in nature. Customer retention, pricing and sale of assets feature prominently in strategic responses to this crisis. Some companies (6%) see future M&A opportunities presumably consolidating their more fragile competitors. Finally, important investments in technology (e.g. automation, AI, analytics) are already reported by 10% of companies. This is likely going to increase as we get further into 2020.



Good visibility on customers



Good visibility on supply chain



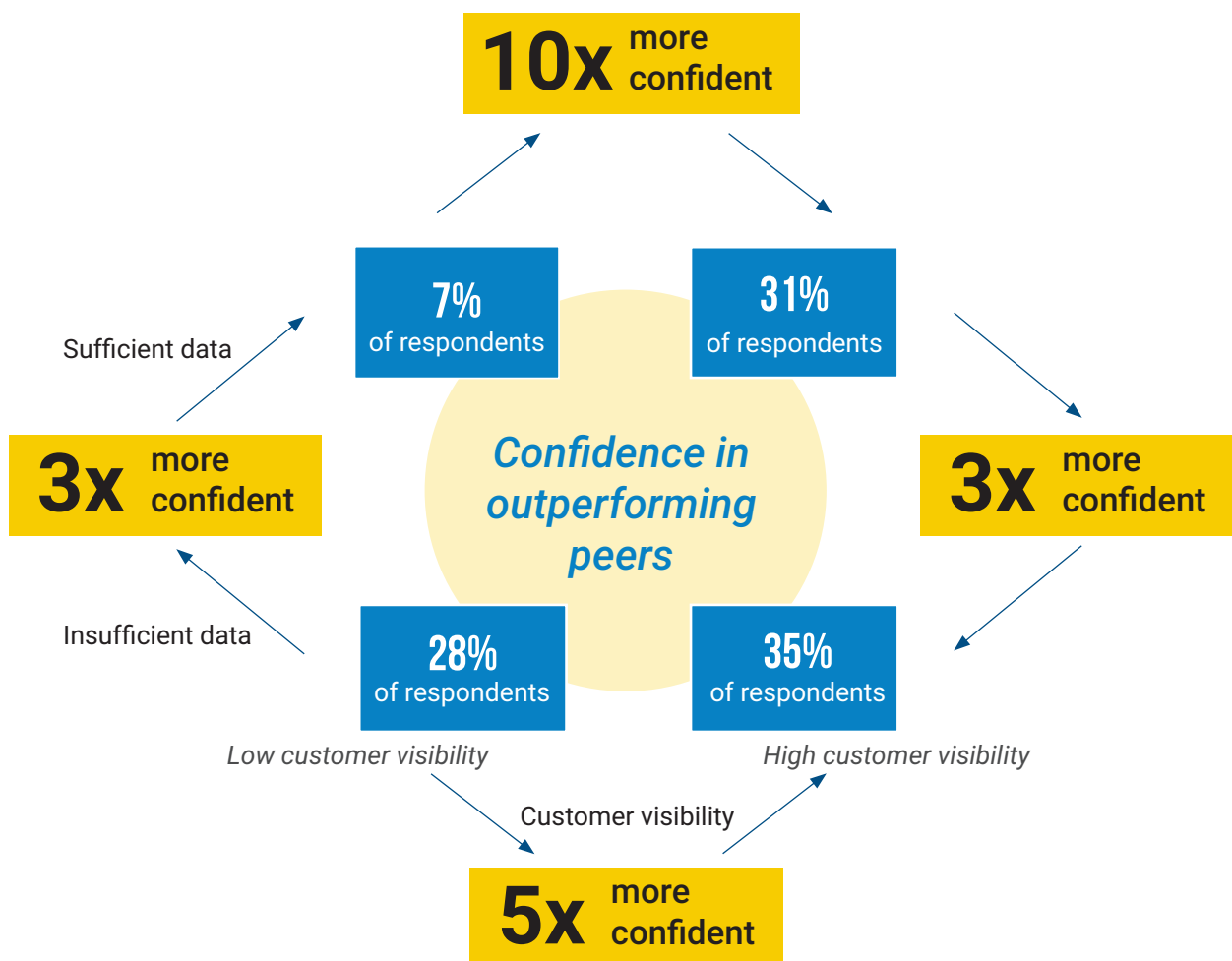
2. CERTAINTY FROM HISTORY:

MANY COMPANIES RISK "FALSE POSITIVES"

When analyzing the visibility of customer base with competitive performance and the sufficiency of pre-COVID data, a cohort emerged who are 10X more confident that they can outperform everyone else in their relative market under similar circumstances.

OBSERVATIONS:

- In times of crisis and major uncertainty, historical data is often an imprecise predictor of future performance.
- Regardless, our research shows that most surveyed companies derive more confidence from customer visibility, even when they do not have sufficient data.
- Strangely, companies with low customer visibility reported significantly higher confidence when they also had limited data.



3. LOOKING FOR PREDICTIVE DATA:

**DECISION MAKING DATA IS
10X MORE IMPORTANT**

The study reveals that companies act in a very fragile environment which also means that data changes rapidly and gets outdated very quickly. Most companies need weeks to collect, integrate and consolidate data and report information with a lot of manual work. That cannot continue going forward. Today's, post-COVID companies need faster updates, and for that leadership needs to invest into drastically shortening the information cycle, not just of main KPIs but at a granular level across finance, customer and supply chain.

MAKE DATA WORK FOR YOU

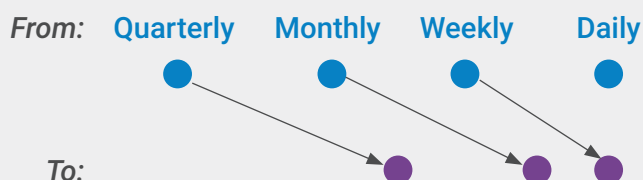
Making decisions in very uncertain environments is complicated. But you cannot “fly blind” and need critical data available almost real-time and constantly updated. Therefore, smart data approaches makes a critical difference and speeds up your rebound.

OUR DATA CHECKLIST:

- ✓ Work with what you've got.
- ✓ Agree and document assumptions where data is missing.
- ✓ Agree scenarios and determine implications for your business (e.g. geographies, products and services, customers etc.).
- ✓ Agree and develop a playbook to respond to these implications.
- ✓ Implement your preferred playbook.
- ✓ Measure progress continuously.
- ✓ Scan for proof points for your assumptions and scenarios.
- ✓ Update decisions and plans quickly when progress is at danger and or when scenarios and assumptions change.

SHORTEN THE DATA CYCLE, FAST

1. **Integrate** as much data as possible without disrupting day-to-day processes.
2. Increase **speed** of data and reporting:



3. Begin major digital innovation is needed across all main processes. This is not another disruptive IT project. Companies must get these data flows up and running immediately.
4. Strategic planning will see a rapid shift to agile decision making, where company leaders constantly adapt and adjust the course of the business based on real-time data and assumptions. This needs to be underpinned by a strong company purpose (why do we do it) and company culture (how do we work together).

4. CLOSER COLLABORATION AND DIVERSE THINKING:

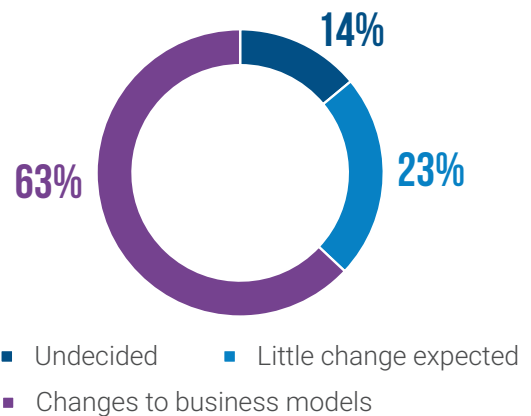
ADJUSTING TO THE NEW REALITY

We were surprised to find that in May and June 2020 14% of companies have not yet started to prepare for the new reality. One quarter of companies are not planning major changes, while another quarter of companies are preparing a major or complete overhaul of their operating and business models to rebound after COVID.

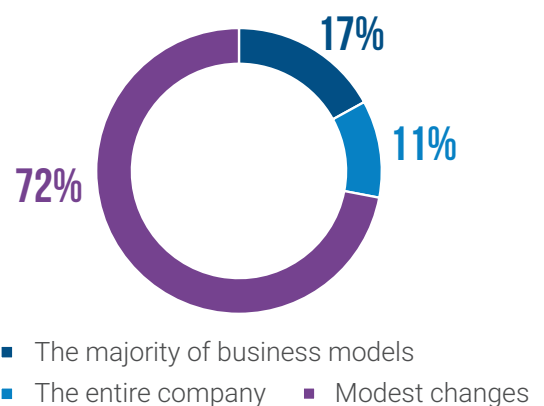
Two-thirds of companies that are preparing for change are adapting their business models (72%) while an important minority (28%) are planning a radical overhaul of their business by changing their operating and business models. Given the emerging changes to consumer preferences, this suggests they are planning on designing completely new customer experiences, products and services.

We are surprised to find that, while two-thirds of companies rely heavily on data for decision making, 33% either don't use data at all or have major gaps in their data for decision making. This will significantly hinder these companies in imagining, designing and implementing their rebound response.

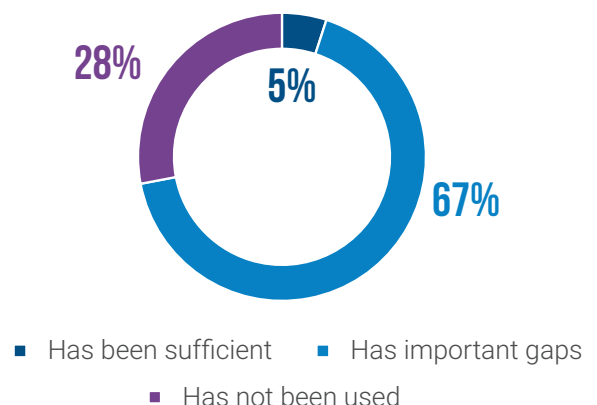
Our company's response to COVID



Companies anticipating changes



Our data on customers and operations



4. CLOSER COLLABORATION AND DIVERSE THINKING:

YOU NEVER WALK ALONE, BUT MANY COMPANIES ARE MAINLY FOCUSING INWARD

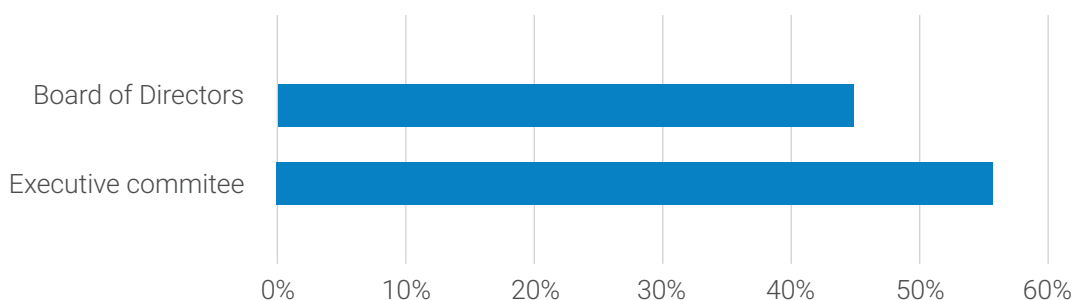


Unsurprisingly most companies rely on a mix of internal and external resources to prepare for and implement their rebound response to the new reality. Over half of companies, report using external consultancies at some stage in preparing their rebound effort.

Still, 45% of companies drive their rebound effort through internal collaboration and resources. This will require a strong focus on speed, data, assumptions and applying scenario planning and smart performance management.

The emergence of the Board of Directors (BoD) as a key sounding board, counsel and source of expertise for the executive team is a new trend, probably long overdue. This suggests that in many companies the BoD role is evolving from more a governance and compliance focus to becoming more directly value adding, without interfering with management.

Main internal contributor to rebound strategy

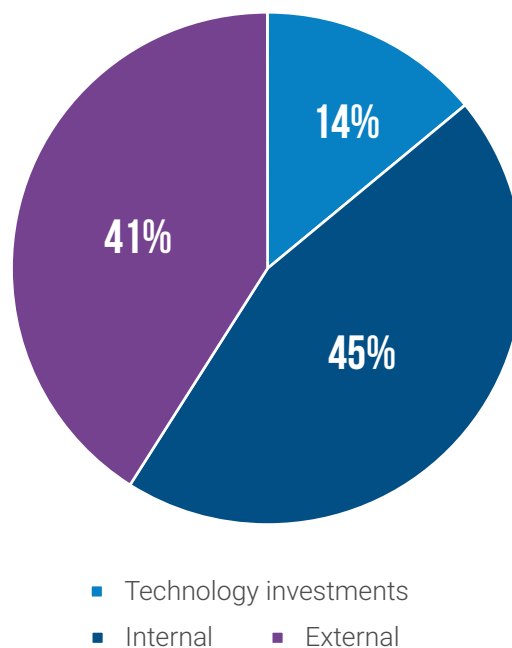


THE PACE OF DIGITIZATION HAS ADVANCED BY YEARS IN A FEW WEEKS

THE NEW ROLE OF TECHNOLOGY

- ▶ During this work from home (WFH) phase many companies have experienced how technology helped (or not) overcome the challenges of managing a crisis from a distance.
- ▶ A significant number of companies are looking to technology to create a step change in performance by introducing more automation and digitization to core processes.
 - *Key to this is to sharply accelerate the availability of granular data in an almost real-time environment with Artificial Intelligence and Machine Learning to quickly understand and anticipate trends.*
 - *In the future this investment will power strategic activities like integrated scenario planning and predictive sales and operations planning.*

Supporting the rebound effort



SO WHAT IS NEXT FOR LEADERS: WHERE TO START AND HOW TO START?

Leaders feel confident with the data they have – And take time to let decisions mature.

WHAT LEADERS CAN BUILD ON:

Many companies had already developed strong resilience and could react fast to changing circumstances. We see a few elements that are the key foundations to promise success.

- **Stabilize fast:** The global lockdown was a shock to many. Immediate action to stabilize funding allowed to clear the mind to gain a better view of how to react.
- **Data, Data, Data (+ Assumptions + Experience + Guts):** Data and assumptions are key inputs to decision making. But there will always be an element of uncertainty. So sometimes you must take decisions with what you have.
- **Obsess about your customers and their customers:** Successful companies understand more than just their immediate customers and suppliers. Understanding their ecosystem and being able to interpret the available data at each point provides a stronger basis for better decisions.
- **Keep calm:** Confident decision making requires a clear mind. Calmness helps, so that the right decisions can mature. Combined with transparent and confident communication about what you do and don't know, drives buy-in for your decisions and supports the engagement and ownership of your stakeholders.

LEADERSHIP BEHAVIORS THAT MATTER MORE GOING FORWARD:



Combine constant change with long-term perspective

This disruption has shown the value of a longer view. Companies with agile planning and smart scenarios capabilities recover faster because they can focus on and adjust quickly to that long-term perspective.



Let decisions mature so that you can act faster

Taking time to let decisions mature can be faster than fast decision making. The crisis has proven that you will never have all the information. So it is better to calm down, acknowledge your emotion, take a deep breath and then take a bold decision.



Get an additional pair of eyes to look forward

Uncertainty can elicit strong emotions. While emotions are good, too much of them can blind you. When feeling overwhelmed, look out for an additional pair of eyes. Allow space for negative emotions but be also ready to see that bright side.



From ad hoc decisions to scenario planning

Many companies experienced a crash-course in ad hoc decision making. Combining this new habit with scenario planning based on solid data can provide you with more certainty and agility in decision making.

**THIS IS THE FIRST OF A SERIES OF REPORTS
ON REVENUE RECOVERY FROM THE IMPACT
OF COVID-19. IF YOU ARE INTERESTED
IN HAVING ADVANCED AND MORE IN-
DEPTH ACCESS TO THE FINDINGS OR HAVE
FURTHER QUESTIONS, PLEASE EMAIL
strategypod@avasta.co**

AVASTA INC.

Avasta is in the business of bringing advanced mathematical approaches to link customer data together with an organization and create a better understanding of the drivers of business value.

Our approach utilizes brand, transaction, workforce, intellectual property, and other data to discover previously undetected relationships, opportunities, and risks that have a commercial implication or effect on the organization.

STRATEGYPOD POWERED BY ALIGNALYTICS

Our expertise is strategic decision making to improve value creation from implementation. We are guided by analytics and diagnostics to drive strategic alignment, people empowerment and build mission-critical capability. We don't sell ready-made solutions.



BUILDING FUTURE FIT CAPABILITY

As reality unfolds, it's critical to adapt direction rapidly and steer the business to where you want to be.



MAKING PROGRESS MEASURABLE

Complex change is not a linear process. How do you know that you have positive momentum?