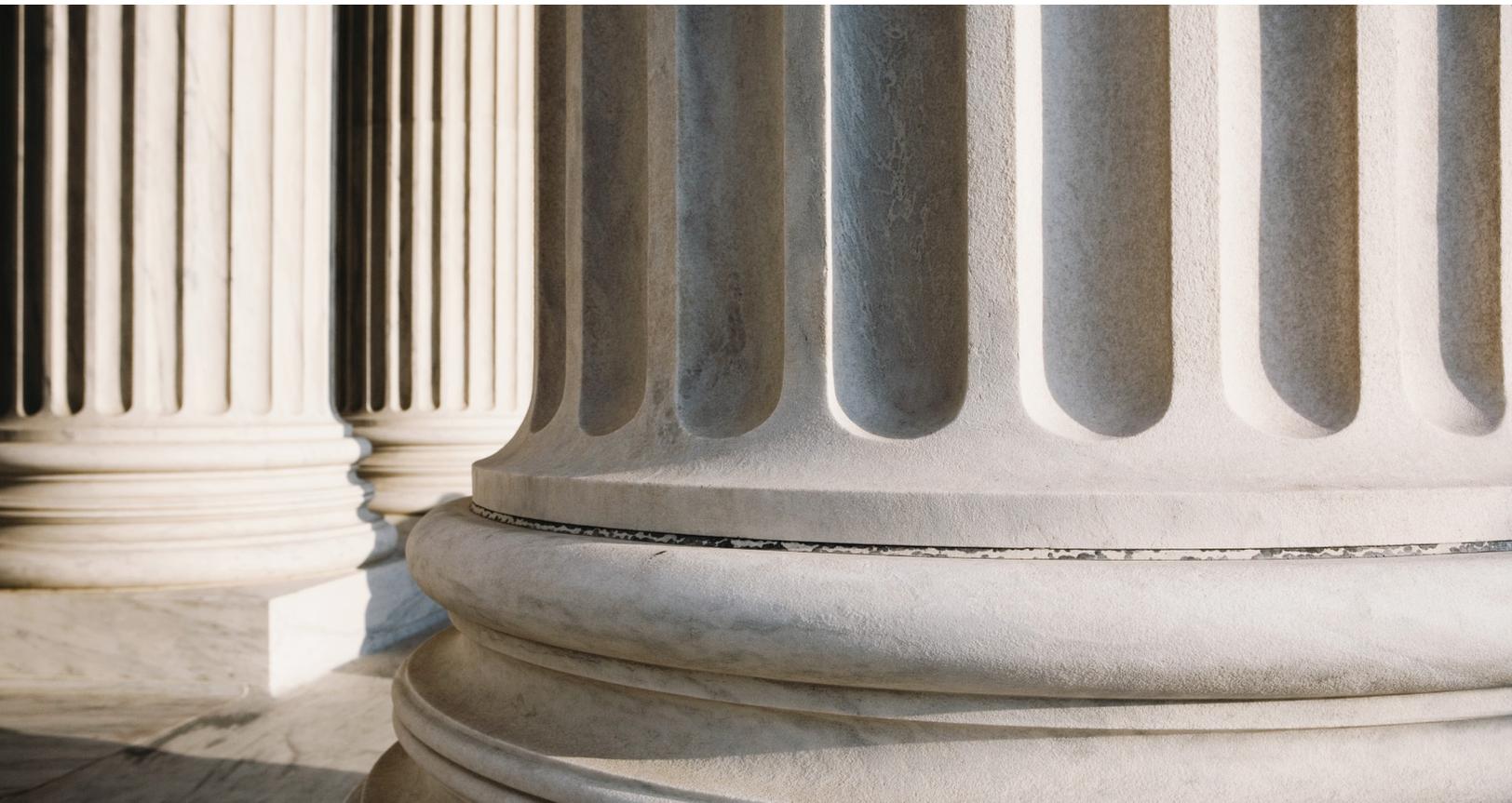


Strategy & Corporate Finance Practice

Strategic resilience during the COVID-19 crisis

Organizations that rapidly reinvented themselves in response to the pandemic can provide lessons on resilience.

by Dago Diedrich, Nicholas Northcote, Tido Röder, and Karolina Sauer-Sidor



As we approach the one-year mark of the global coronavirus crisis, it is heartening to see that many organizations have stepped up to the challenge, adapting their businesses both to protect their employees and to continue serving their customers and communities. In a recent survey, 80 percent of executives told us they believe their organizations have responded effectively to the pandemic.

Nevertheless, some companies have proven to be more resilient than others, rapidly adapting their strategies to address both the challenges and the opportunities created by the crisis. What did they do that others did not?

To answer the question, we surveyed approximately 300 senior executives in Europe to understand their organizations' responses in more detail. Three major findings stood out in our analysis of the survey responses. First, roughly half of executives reported that the crisis exposed weaknesses in their companies' strategic resilience, which we define as the extent to which an organization's business model and competitive position prove resistant to disruption. Second, business-model innovation was by far the most important strategic lever in addressing the crisis, with three-quarters of respondents reporting such initiatives—including almost 90 percent of those who felt their company's response to be very effective. Finally, 60 percent of the executives polled said they expect these innovations to persist beyond the crisis, with more projects to come.

The critical importance of business-model innovation highlighted by the survey aligns with our earlier research. In a recent article, we demonstrated how the disruption caused by the COVID-19 pandemic has led to a rapid acceleration of trends that were present before the crisis. The study additionally found a widening gap between the best- and worst-performing companies as organizations with future-ready business models pull away from the pack. As companies start to prepare for a postpandemic world, those that have fallen behind more resilient players will need to take fast, bold action to make up for lost ground.

Testing your strategic resilience

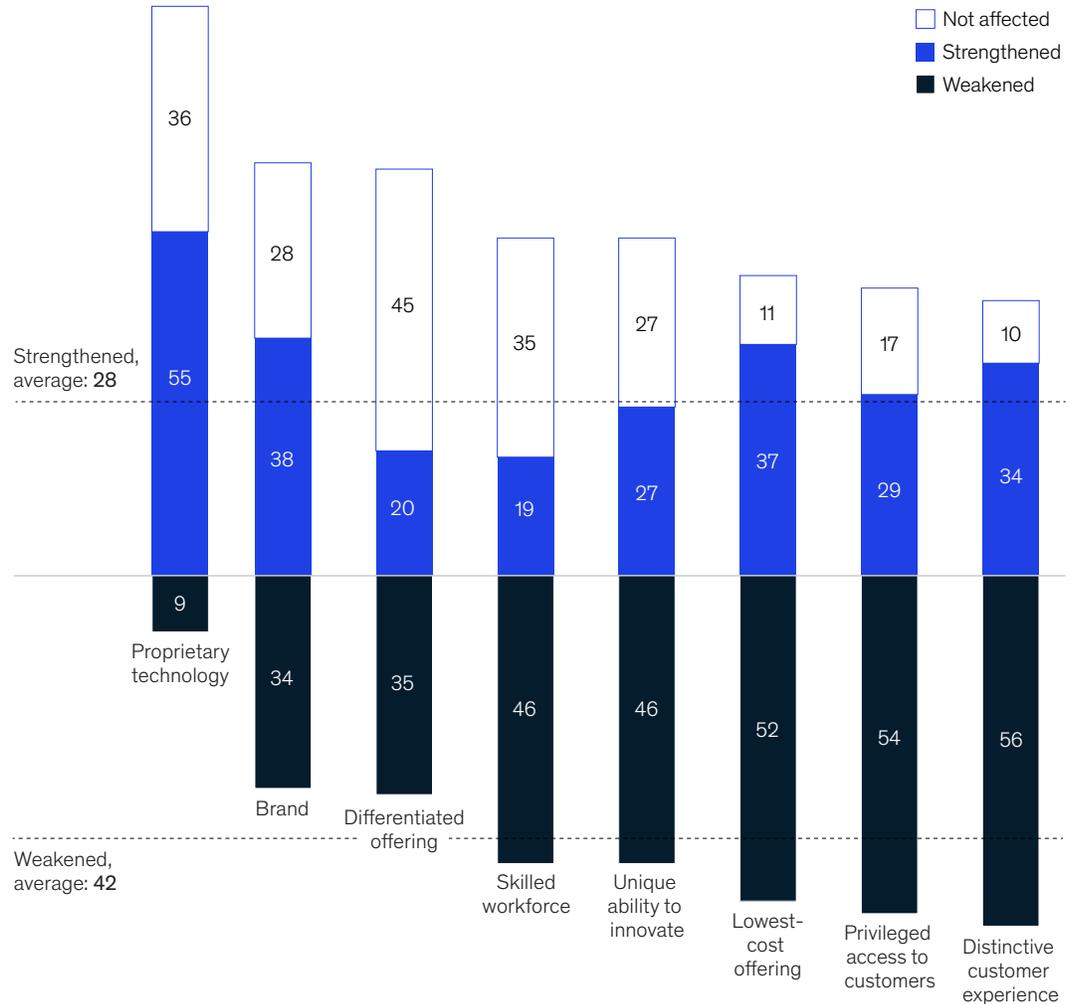
The COVID-19 pandemic has put businesses through rigorous strategic-resilience tests. For many, it was a rude awakening. In our survey, an average of 42 percent of respondents report that the crisis weakened their companies' competitive position, compared with an average of 28 percent who say their companies increased their competitive edge. We found that these "antifragile" organizations (to use author Nassim Taleb's term for entities that become stronger when exposed to stressors) relied primarily on proprietary technology or a strong brand to thrive amid widespread economic shocks (Exhibit 1).

On average, 42 percent of respondents say the COVID-19 crisis weakened their companies' competitive position, compared with 28 percent who say their companies increased their competitive edge.

Exhibit 1

On average, 42 percent of respondents say the COVID-19 crisis weakened their companies' competitive position.

Effect of COVID-19 crisis on competitive advantage by primary source, % of respondents



Source: McKinsey executive survey, n = 304, October 20, 2020

Business-model innovation emerged as the key differentiator for those that have gained ground during the pandemic. In fact, the survey respondents who said their companies addressed the crisis very effectively were 1.5 times more likely to report undertaking business-model innovations than those who thought their organizations' responses were not effective.

Those who adopted new business models have tended to focus on five areas:

- ***New digital experiences, products, and services in response to changes in customer behaviors and needs.*** For example, many sports

and entertainment venues have moved to fully digital experiences, while a technology provider has launched an on-demand fitness offering to capitalize on the category's surging popularity.

- ***New partnerships, both within and outside of the industry.*** For example, an insurance group has partnered with a connectivity provider to set up a virtual clinic, and pharmaceutical companies have been teaming up directly with healthcare centers to accelerate vaccine development. Meanwhile, sports leagues have banded together with software companies to create virtual-reality experiences for sports enthusiasts.

- **Supply-chain and operating-model adjustments to manage risk.** Companies are trying to balance the need for just-in-time delivery with protection against delays or shutdowns by securing alternative sources of supply and ensuring that the labor force can continue to operate. Contact centers, for example, have moved to remote operations or split their teams into cohorts that can isolate in case of infection, allowing others to continue working.
- **Sales-model changes.** Many businesses have had to adapt the way they market and sell their offerings, from logistics companies that have introduced contactless delivery to restaurants shifting to home delivery and pick-up orders. Business-to-business sales have likewise largely moved to remote and digital models.
- **Faster product development through more rapid iteration.** For example, telecom companies, working with insurers and healthcare providers, quickly responded to the pandemic by creating telemedicine applications to assist in remote COVID-19 testing and diagnosis. Meanwhile, a consumer-packaging player transformed its product development and trial process into an immersive virtual experience.

It is noteworthy that most of the innovations highlighted by survey respondents focused on the customer-facing parts of their businesses, such as launching new products and services to meet changing customer demand, adapting the sales and service models, and improving customer experience. By and large, cost and workforce reductions were mentioned only by executives in industries most severely affected by the crisis.

While the urgency of crisis response spurred or accelerated many of these innovations, they are here to stay in most cases. Sixty percent of the respondents expect their business-model changes to persist in the long term—and see more coming. Some retail banks, for example, are considering

not reopening the branches they closed during the pandemic, and numerous organizations are planning for a future where employees work at least a few days a week from home. All of these reaffirm a well-tested maxim: in times of great disruption, there is also great opportunity.

Building up your strategic resilience

As the pace of change accelerates, the fastest and boldest movers are likely to pull further away from the pack. To keep pace, your strategic-planning process has to be flexible enough to deal with high uncertainty. Here are four ways you can adapt it to become more strategically resilient:

- **Set bold aspirations.** Economic disruption serves as an opportunity to explore new business avenues. Many executives have realized that if ever there was a time to set bold aspirations and reset long-term strategy, it is now. To illustrate the size of the prize, our analysis of the 2007–2010 downturn shows those companies that moved early and invested strongly ahead of the recovery increased their earnings before interest, taxes, depreciation, and amortization (EBITDA) by 10 percent on average, while their industry peers lost nearly 15 percent.

The accelerating trends and widening performance gap heighten the urgency to act. Many organizations managed to respond with unprecedented speed to the challenges the pandemic presented, doing in days or weeks what took months in the past. This is the time to reflect on the future role you want your organization to play—in customers' lives, in your ecosystem, and in society.

- **Develop scenarios, not forecasts.** Scenarios are back in fashion but are frequently misused. They are not intended to serve as forecasting tools but rather as a means of bounding the uncertainty you confront. The goal is to

understand the range of possible eventualities you may face so you can stress-test your portfolio of planned strategic moves against the extremes and ensure that your strategy can succeed in a range of future outcomes. Business leaders should develop scenarios together with finance and strategy functions to ensure they incorporate all relevant perspectives.

- **Create a hedged portfolio of big moves.** According to our research, companies that make big strategic moves—be they portfolio-related, such as M&A, capital spending, or resource reallocation; or be they performance-oriented, such as productivity and differentiation improvements—materially increase their likelihood of outperforming the market. Such moves are especially effective in times of economic upheaval when your competitors

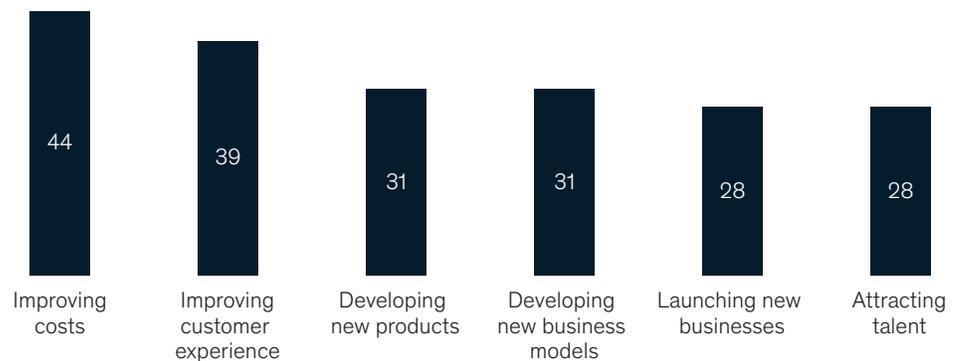
are often paralyzed by uncertainty. The organizations we surveyed plan to explore multiple opportunities in the next six months, with the largest focus falling on cost structure and customer-experience improvements and developing new products or business models (Exhibit 2).

But even as you move boldly, it is important to hedge your bets. That could mean only triggering the move once you are confident that a favorable scenario will unfold or combining big new initiatives with no-regret moves that would deliver benefits under all scenarios (digitizing processes, for example, or improving customer experience). Another route is to make small investments that you can later expand, such as taking a minority stake in a company with an option to increase that stake.

Exhibit 2

Opportunities present themselves in many forms.

Company expectations for business improvements in next 6 months, % of respondents ranking opportunity as top quartile



Source: McKinsey executive survey, n = 304, October 20, 2020

— *Adapt your strategy dynamically.* Dramatic shifts are happening too quickly for companies to continue the traditional annual strategic-planning exercise. In fact, almost half the executives in our survey expect to implement a process that allows for faster iteration on their plans. Some companies have shifted to monthly strategy meetings to review their portfolios of planned strategic moves and update them as new opportunities arise or changes in the external context render some obsolete.

The level of innovation in response to this crisis has been truly impressive at many organizations. But all signs point to more months of uncertainty and change as the pandemic's impact continues to evolve. To ensure your company is strategically resilient for whatever the future brings, start by establishing dynamic planning processes that will enable you to unlock the big moves required to come out on top while being flexible enough to change direction if needed.

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