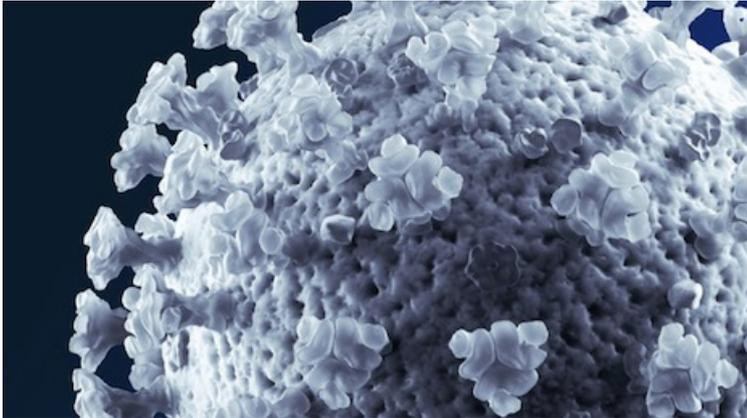


RESEARCH

McKinsey to business: Reconstruct for future, not solve for past

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McKinsey imagines a post-covid global economy. Image credit: McKinsey

By DIANNA DILWORTH

As corporations try to create post-COVID roadmaps in an uncertain future, McKinsey & Co. imagines a set of grounding principles that will guide these foggy roads.

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Elements on the horizon: distance, resilience and efficiency, contactless interactions, government intervention, business scrutiny, changing structures and silver linings.

"One possible next normal is that decisions made during and after the crisis lead to less prosperity, slower growth, widening inequality, bloated government bureaucracies and rigid borders," the McKinsey report said.

"Or it could be that the decisions made during this crisis lead to a burst of innovation and productivity, more resilient industries, smarter government at all levels, and the emergence of a reconnected world."

McKinsey's Kevin Sneader, Hong Kong-based global managing partner, and Shubham Singhal, healthcare global leader and senior partner, jointly authored the report. It is arguably McKinsey's most insightful on the global economic and political fallout from the COVID-19 coronavirus outbreak that originated in the central Chinese city of Wuhan.

Distance, resilience and efficiency

The global pandemic has closed borders and grounded planes. More than 3 billion people live in countries with borders closed to non-residents and 93 percent live in countries with new regulations barring others from entry.

Eventually, borders will reopen and consumers will travel again, but companies will need to rethink their supply chains and figure out how to operate in new ways.

Companies will need to be resilient and reimagine supply chains, likely bringing sourcing closer to end markets, according to McKinsey's report, "[How business leaders can plan for the next normal.](#)"

"Even when lockdown restrictions begin to ease, businesses will need to figure out how to operate in new ways," the report said.

"In short, resiliency the ability to absorb a shock, and to come out of it better than the competition will be the key to survival and long-term prosperity."

Companies will need to create succession plans that are wider in scope than the C-suite and should stretch throughout the organization.

"This pressure to include environmental, social and governance factors in valuing a business is likely to expand to incorporate resilience to outside shocks, such as pandemics," the report said.

"Many companies will rebalance their priorities, so that resiliency in all its manifestations becomes just as important to their strategic thinking as cost and efficiency."



Automation will replace key tasks in new normal. Image credit: McKinsey

Contact-free economy

Digital commerce, telemedicine and automation will be the drivers of the post-COVID-19 world.

Ecommerce has already been gaining in popularity and impacting sales at bricks-and-mortar stores.

The coronavirus has only accelerated this already changing behavior and cementing it.

In China, even consumers more than 36 years old and residents of smaller cities have already increased online shopping post-lockdown.

In Europe, 13 percent of consumers said in early April that they were planning to browse online shops for the first time. Italy saw ecommerce transactions increase by 81 percent since the end of February.

U.S.-based telemedicine service Teladoc Health saw a 50 percent increase in service in the week ending March 20, and is growing its network of doctors.

Sweden's KRY International, one of Europe's biggest telehealth services, has seen registrations go up by 200 percent.

Even before the pandemic, the McKinsey Global Institute estimated that 60 percent of all jobs could see more than 30 percent of their main tasks automated. This 2017 prediction will likely affect 400 million to 800 million jobs around the globe by 2030.

Automation accelerated during recessions, per the Brookings Institution, so this digital growth could increase even more than earlier predicted.

"It is becoming possible to imagine a world of business from the factory floor to the individual consumer in which human contact is minimized," the report said. "But not eliminated: for many people, getting back to normal will include popping into stores again, and the roadside kiosks typical of much of the developing world are not about to be replaced by cashless hyperstores."

Government involvement and scrutiny

Government economic intervention has reached a scale unseen for decades as economies have relied on their countries to stay in business.

Governments across the world offered stimulus plans to the tune of \$10.6 trillion, or eight Marshall Plans, since April. This money is being spent on basic needs, job preservation and helping businesses survive.

India is giving cash transfers to people in poverty. Indonesia expanded welfare benefits to 10 million more households.

The United Kingdom and France are covering wages up to 80 percent of workers affected by COVID-19.

Italy is suspending loan and mortgage payments.

Government intervention will vary by region and these investments will impact how businesses can rebuild. Some countries will nationalize, others will take equity stakes and some others will offer loans.

As such, business will be scrutinized in new ways.

"The implications for the role of the state will materially affect the way business is conducted," the report said.

"Business leaders in many more sectors will have to adjust to the next normal of greater government intervention."

Changing structures and consumer behaviors

Will luxury rebound or sustain lasting shock?

That is a question on the minds of business leaders in the sectors. Companies must assess their resiliency and their ability to adapt global supply chains to sustain their businesses.

Additionally, consumer attitudes must be considered in future planning. Distance, health and privacy concerns will likely last beyond the pandemic.

COVID-19 will be a defining disruption to Generation Z and millennials, for whom the pandemic is one of the biggest issues they have faced in their lives. Their attitudes could be profoundly affected and their points of view can change tourism, travel and hospitality sectors in the long term.

Concerned over future hard times, these demographics events could change how they approach financial security such as saving more and spending less.

"Given the intensity of these pressures, it is reasonable to question whether existing market positions will be retained without significant effort to reposition and respond to changes confronting industries and sectors as a whole," McKinsey said.

"To this can be added the economic impact of stretched balance sheets and valuations leading to changes in business ownership."



McKinsey shares thoughts on the next normal. Image credit: McKinsey

Silver linings

Even in dark times, consumers look for silver linings.

Grandparents who have never used Zoom or Facebook were motivated to do so to see their grandkids during lockdowns.

Businesses have adapted to remote working staff. Parents have learned to juggle homeschooling and careers.

Corporate leadership now has a much better understanding of what is possible beyond their traditional processes.

The coronavirus is promoting a much faster pace and scale of workplace innovation, as companies have to be savvy and find efficient ways to operate.

"Nurturing a next normal that will be better than what it replaced will be a long-term test of all our institutions, global and local, public and private," McKinsey said in the report.

"It will be critical to reconstruct for the future and not solve for the problems of the past."

[Please click here to download a PDF of the McKinsey report titled, "The future is not what it used to be: Thoughts on the shape of the next normal"](#)

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