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After the crisis: Three actions to reset cost and reshape your business for growth

Companies that emerge stronger after recessions are not those that cut faster and deeper. To emerge stronger, revisit strategic priorities, look for what's different in the value chain and bring your people with you into the new way of operating.

CEOs were already juggling cost challenges before the COVID-19 outbreak. Then the world's 20 largest economies went on lockdown within an eight-week window.

Having learned hard lessons from past crises, many leaders acted with speed to conserve cash and contain costs. Now that optimism for a quick recovery has dimmed, one big question looms: How do business leaders prepare for a future that will be forever changed, but is still so uncertain?

Most companies will seek to manage their costs to help protect the bottom line, while also building more resilience and agility into the organization. PwC's May 2020 global survey of 871 CFOs underscores that sentiment: 81% are planning cost-containment measures.

But while cost-cutting is necessary, it will likely not be enough. Even worse, done the wrong way, it can harm chances of survival. Leaders also have to pivot value propositions, figure out ways to grow and find new sources of revenue to find their place in the future. This involves cutting costs in a way that doesn't harm the business, while redirecting costs to the drivers of growth — capabilities that differentiate a company.

This crisis has upset past beliefs and models about costs. So much has changed that strategies may need to shift in new ways to redesign the business and cost structure for more enduring strength and agility. On one hand, costs that were once fixed in the minds of business leaders have become more variable (think office space), while capabilities that might have been differentiators in the past are now just table stakes (automation and collaboration technologies).

Some lessons from past recessions and crises are helpful, but those playbooks should be refined for a dynamic situation specific to this pandemic.

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Here are three actions that can help cut the right costs in the right ways and help your business emerge from this crisis fit for growth:

1. Revisit strategic priorities

Companies that emerge stronger after recessions are *not* those that cut faster and deeper. To emerge stronger, redirect costs to the right growth drivers.

Step one in achieving this balance is to answer some simple questions about strategy.

1. How has your market changed? What's happened to your customers, suppliers and competitors? What market trends or disruptors have accelerated?

2. What value propositions look promising in a post-COVID-19 world?

3. Can you articulate the few things your organization needs to do better than anyone else in order to meet those value propositions? What will your competitive advantage be?

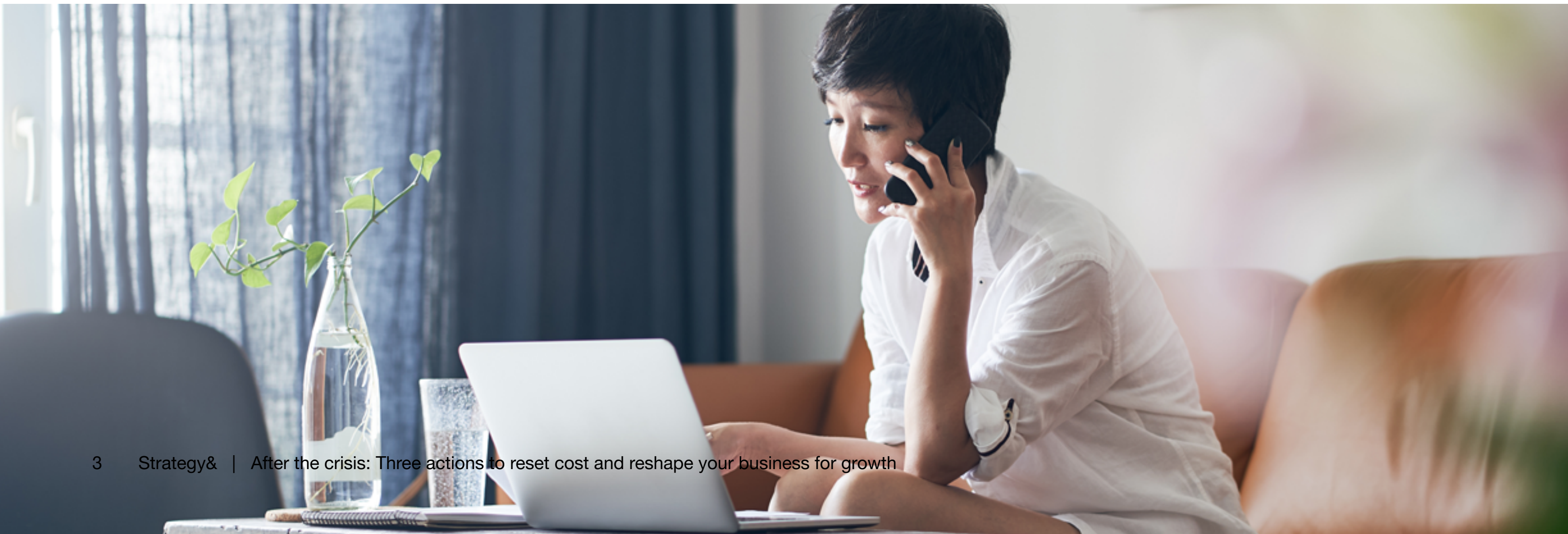
4. Are you investing enough in those few things? Where do you need to spend less so you have the funds to redirect costs to value-creating differentiation?

These questions should help you quickly frame your few must-haves — the handful of capabilities that differentiate your company in the market. Doubling down in these areas helps ensure that no matter what the outcome, your business has the right muscles to emerge stronger.

Keep in mind that what was differentiating your firm before the crisis may no longer be working. (See Exhibit). Think how your competitors are already prepared to respond in areas such as:

- Long-term shifts in consumer preferences: People expect greater options with digital experiences, so expectations around face-to-face contact will fundamentally change.

- A more volatile and ambiguous business environment: Business leaders are investing as a way to withstand strong external forces and quickly recover from setbacks. They're committing to dynamic strategies that can help them become more resilient. They're testing and tweaking assumptions, so they can adjust without losing speed or getting knocked off course.



- A shift in the nature of work: Employers are moving from fixed and predictable workforce models to more flexible, virtual and diversified models that support autonomy, flexibility and adaptability.
- Erosion of trust in business: Even before the pandemic, people's confidence in governments' and employers' ability and willingness to do the right thing was in steep decline. In this crisis, there are concerns that the health information people share to control contagion could be misused. Company investments to protect health and safety, support business resilience and help secure data privacy may become competitive differentiators.

Your industry's structural change should point to what's no longer working as a differentiator. Once every function and business are clear on the few things they must have, they will need to reprioritize their activities to support their differentiating capabilities and begin to shape the future organization.

EXHIBIT

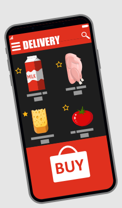
How has COVID-19 accelerated the structural trends you've been expecting?

Global food and beverage giant

Before

Balance physical and online commerce. Customers prefer a combination of in-store and online experiences.

What changed



- Buying behaviors shifted to more and higher-touch online interactions
- Less value for fixed costs in real estate

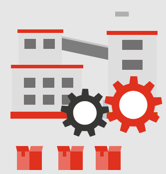
What they're doing

Shifting the value chain to support online business models, including faster direct-to-consumer distribution and virtual sales and marketing models.

Global industrial supplier

Before

Focus on efficiency with fixed manufacturing, supply chain and logistics. Maximize scale to achieve lower costs.



What changed

- The need to optimize flexibility, resilience and scale
- Misaligned supply and demand caused a greater need for end-to-end visibility in the supply chain

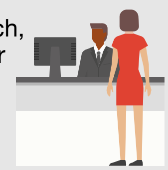
What they're doing

Moving to distributed operations clusters, increasing focus on robotic-enabled manufacturing and logistics tools, and protecting the digital operations core, which is increasingly a table-stakes capability.

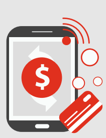
Financial services leader

Before

Focus on high-touch, in-person customer service and a tailored, localized footprint.



What changed



- Customers' expectations shifted to personalized and on-demand virtual services
- More willingness to share personal data, but higher demands for trust and security

What they're doing

Reshaping service models across customer segments, shifting to multi-country, low-cost virtual service hubs, and doubling investments in data security.

Source: Strategy& client experience based on active client engagements with industry leaders

2. Look for what's different across the value chain to reset your cost structure

Corporate vision is often not expansive enough in times of significant cost pressure. Too often, a playbook based on belt-tightening and across-the-board cuts gets deployed: These include cutting from a project or functional budget; reducing vendor spend; and shuttering underperforming locations. Each of these cuts may be necessary, but they should support more than just a cost objective. Instead, combine steps to get lean, so that it's possible to reinvest and grow.

Where to take action? How fast to push? Leaders should assign these decisions to teams that can look across the value chain. Work together to identify what's changed for good and how the business should respond. You'll need to solve the immediate problems, while keeping the ever-changing future in mind.

Actions in both the short and medium term will be a combination of "no-regrets" moves (low-risk moves that help in any scenario) and "strategic bets" that are high-reward moves in the scenario on which you're placing your bets.

Here's where to start

What's different now: **Commercial**

Research, development, sales and marketing, and mergers and acquisitions

After the financial crisis of 2008, consumers' perceptions of brands changed and drove permanent demand shifts toward lower-priced brands. At the same time, the perceived value of online channels increased. What will this crisis bring? Anticipate demand shifts and envision the type of organization you need to take advantage of them. Coupled with digital acceleration, demand shifts have significant potential to change the competitive landscape.

Actions to take (examples)

No regrets

- Shift marketing spend to channels gaining demand
- Prune low-return products, SKUs and customers
- Rebalance product and services portfolios — for example, accelerate innovation to support rapid rationalization and substitution strategies

Strategic bets

- Cut complexity (e.g., service tiers) and tie innovation to new demand patterns
- Divest products and portfolios not fit for the future and fill capability gaps with opportunistic M&A
- Reset salesforce and customer engagement capabilities
- Accelerate integration of legacy and new business models (e.g., traditional vs. ecommerce, product vs. service, face-to-face vs. virtual)

What's different now: **Operations**

Supply management, manufacturing, warehousing, transportation, service operations and customer service

Supply shocks have shifted the focus from efficiency to resilience and agility. In some industries, demand cratered almost overnight, leaving the viability of suppliers at risk. Faced with constrained or disrupted supply, many companies started paying premiums.

The experience is forcing decisions about the long-term tradeoffs of the cost-efficient, consolidated supply chains companies are used to running, when what they may need going forward is a more diverse and resilient supply base. PwC's May 2020 CFO survey shows that half (51%) of CFOs are considering developing additional or alternate sourcing options for their supply chains.

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In service industries, such as Financial Services, work has moved from headquarters or processing centers to employees' homes. This change exposes companies with a high dependency on manual processes and/or physical documents, and potentially leaves them looking to catch up to rivals that have already digitized and automated their work.

Actions to take (examples)

No regrets

- Accelerate automation for service operations
- Support the viability of a few critical suppliers or providers
- Understand structural supply risk from shocks and improve resiliency or diversification (a small, but meaningful shift of paying more for less risk)
- Increase transparency to supply and operations performance to adjust quickly (e.g., through advanced tracking and decision-support tools)

Strategic bets

- Develop flexible supply, production and logistics networks
- Rethink complexity while the product mix is changed and adjust specifications from both supply and demand
- Develop capacity in new regions and support resiliency from a global supply base
- Invest in customer service digitization

What's different now: **Enabling and compliance**

IT, finance, human resources, legal, risk, compliance and procurement

A period of mandatory working from home — and under extreme crisis conditions — has raised new questions about functional transformation. Departmental leaders focused their efforts on truly critical work and deferred nice-to-haves. Teams were given more autonomy to change processes. Decisions that may have taken weeks in the past happened quickly. At the same time, leaders saw weaknesses in areas where they lacked automation and digital capabilities.

This should point to new questions about the services the functions provide to the business. Leaders should now be able to see more clearly what truly matters to business performance and how they can best deliver it. This includes making adjustments to enable business resilience and agility and keeping overarching risk principles steadfast, while supporting a faster-moving pace of business.

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Confidence in remote work has increased too, which leads to another question: What are the benefits of assessing workforce, location and real-estate strategies all at once? The answers concern the size of big, sprawling corporate headquarters and campuses, their locations, their mix of talent and their ways of working — basically, everything to do with the office of the future for your enterprise.

Actions to take (examples)

No regrets

- Eliminate low-value work that was paused
- Replace manual tasks with automation
- Close gaps in security standards, IT infrastructure and collaboration tools for a remote workforce
- Evaluate third-party spend

Strategic bets

- Invest in end-to-end process improvement and digitization
- Reevaluate real estate occupancy for remote work
- Evaluate multi-country service delivery models, including diversity of supply both nearshore and offshore
- Reduce customization to enable better fungibility of resources

What's different now: **Across the value chain**

Workforce

In the US alone, approximately 33 million individuals left the workforce in a span of seven weeks. Across the world, businesses are working with governments to help keep more people employed and accelerate the recovery.

The scale of this crisis requires CEOs to balance people's safety, well-being, engagement and productivity at work — even if the reality means your company may eventually need new workforce configurations, such as a changed mix of full- and part-time employees, plus more contingent or gig platform workers. CEOs will need leaders who can embrace the paradoxes of cost pressures, fears of automation, and the need to inspire and lead a diverse talent mix into the future.

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Actions to take (examples)

No regrets

- Design total reward and benefit mix based on new needs
- Redeploy underutilized staff to newly high-demand areas
- Consider temporary furloughs, sabbaticals and reduced schedules before permanent layoffs
- Digitally upskill employees to work in new ways and with more remote interactions

Strategic bets

- Increase the mix of flexible talent based on new technologies, sourcing models or location strategies
- Update talent management and leadership development to incorporate new roles and competencies that embrace the digital world

3. Bring your people with you into the new way of operating

Disruption makes people question what they are doing, and it also makes them more willing to change. In the crisis, you saw people rally in real time. They connected more frequently, cutting through bureaucracy to share information, make decisions and get things done. Departments that normally thrive on friction came together naturally with a common purpose: to serve customers and keep the business running. In some cases, rigid rules fell away. In one case, executives at a bank wrestled with accepting digital signatures for years. When the crisis hit, they changed that policy within days.

Leaders should take action if these behaviors are to last. Isolate the few behaviors you want to promote and sustain — ones that have allowed your teams to solve problems quickly — then build them into your new way of operating and promote them religiously, so that you can keep the level of energy and effort you'll need. Changed behaviors resulting from the crisis include many examples, but here are a few standouts:

- Give teams autonomy to solve problems
- Collaborate across the normal boundaries of hierarchies and functions
- Show empathy, express gratitude and place value on learning
- Take accountability for decisions and raise the tolerance for imperfection.

PwC's research shows that people believe in a positive future and want to actively contribute to it, yet it's important to acknowledge that there's no going back to what was. Set the expectation that the future is unknown and fluid. Help people adapt quickly and confidently to what's likely going to be frequent transitions. Provide more opportunities for people to problem-solve with you and serve in new ways that help make them more resilient to future change. Taking these steps now offers an opportunity to lead with purpose toward a future where your company stays fit for growth.

About the authors

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