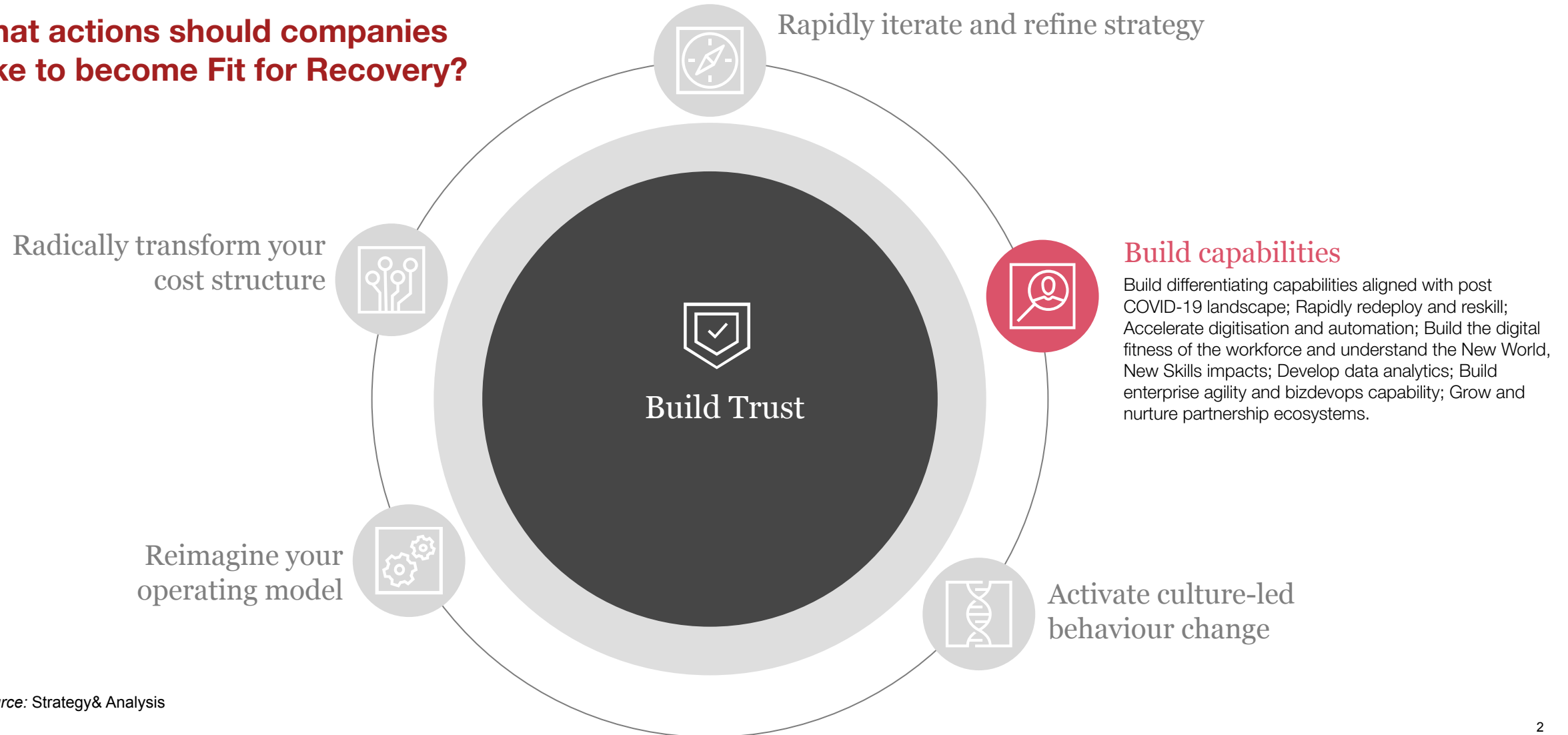# Building differentiating capabilities to emerge stronger from COVID-19

June 2020

Building capabilities is a critical factor in getting *Fit for Recovery* to emerge stronger after COVID-19

What actions should companies take to become Fit for Recovery?

Rapidly iterate and refine strategy

Radically transform your cost structure

Build Trust

Build capabilities

Build differentiating capabilities aligned with post COVID-19 landscape; Rapidly redeploy and reskill; Accelerate digitisation and automation; Build the digital fitness of the workforce and understand the New World, New Skills impacts; Develop data analytics; Build enterprise agility and bizdevops capability; Grow and nurture partnership ecosystems.

Reimagine your operating model

Activate culture-led behaviour change

Source: Strategy& Analysis

Iconic companies have built capabilities that enable them to sustain a competitive advantage through turbulent times

Differentiating capabilities

A combination of processes, systems and tools, skills, knowledge, behaviours and organisational structures that allow a company to deliver a defined outcome
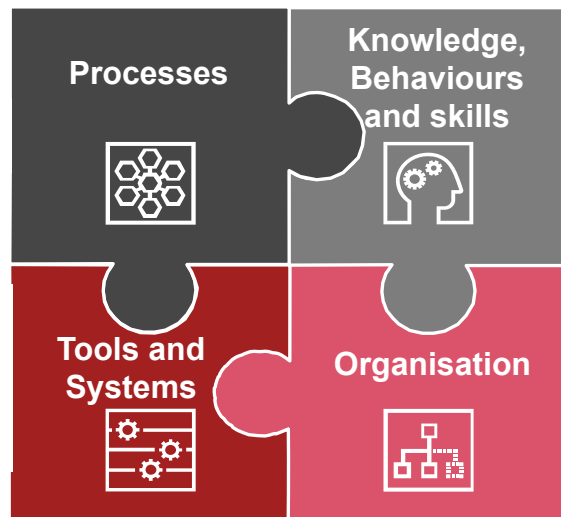
Focusing on building differentiating capabilities is critical for companies to solidify a 'Right to Win' in chosen arenas

Global companies with Capabilities-Driven Strategies

McDonald's delivers superior value through its seamlessly streamlined processes, low cost products and wide accessibility. Their 'right to win' is grounded in their commitment to providing the superior fast food customer experience.

Differentiating capability system:
- Adaptable and resilient supply chain (eg. selling essentials at Drive-Thrus in response to COVID-19 disruption)
- Unparalleled assembly line production innovation
- Investment in customer experience through playgrounds and iconic initiatives such as Happy Meals
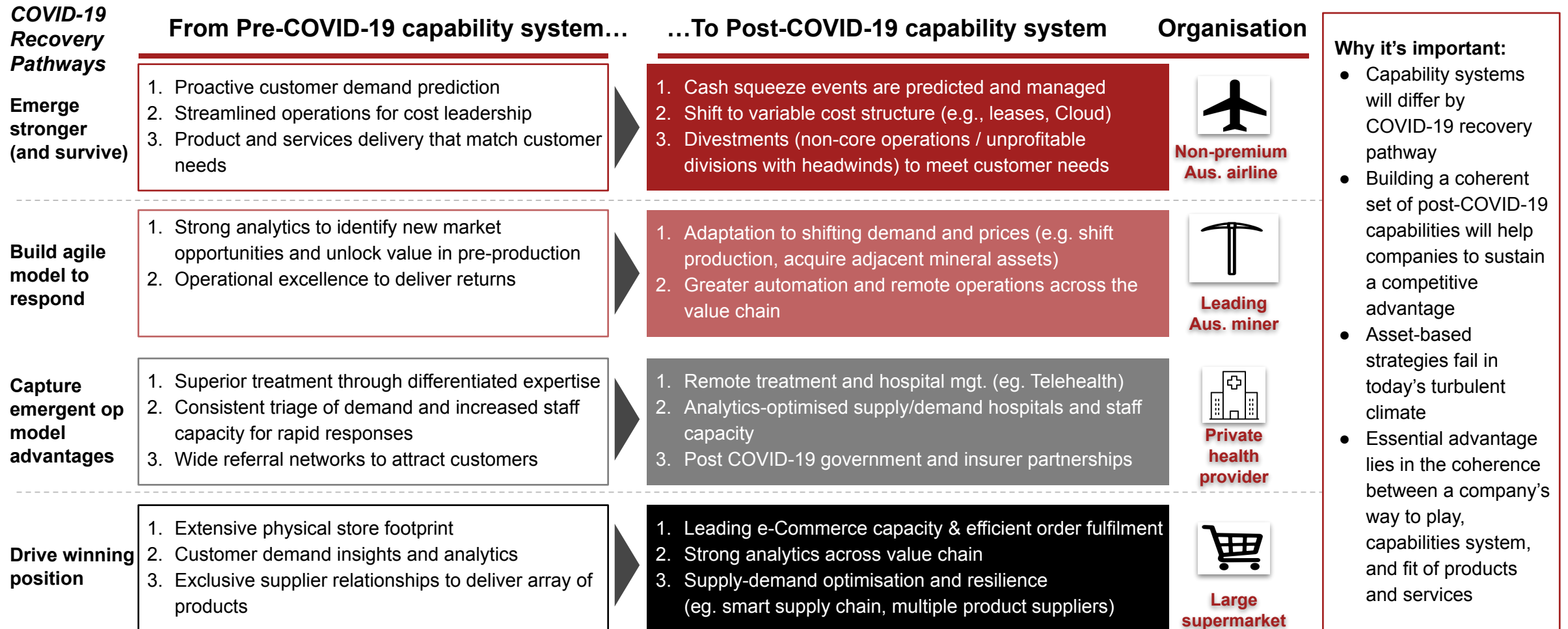- Standardised global model that allows for local adaptation and flexibility

IKEA delivers value through providing functional & stylish home furnishings at low prices with high levels of customer engagement. IKEA differentiates itself through the holistic alignment to its original vision "to create a better everyday life for many people".

Differentiating capability system:
- Value creation through deep understanding of customer home living
- Price-conscious and stylish product design; integrating customer engagement into the design process
- Efficient, scalable and sustainable operations
- Customer-focused retail design and online accessibility, mobilised through supply chain flexibility
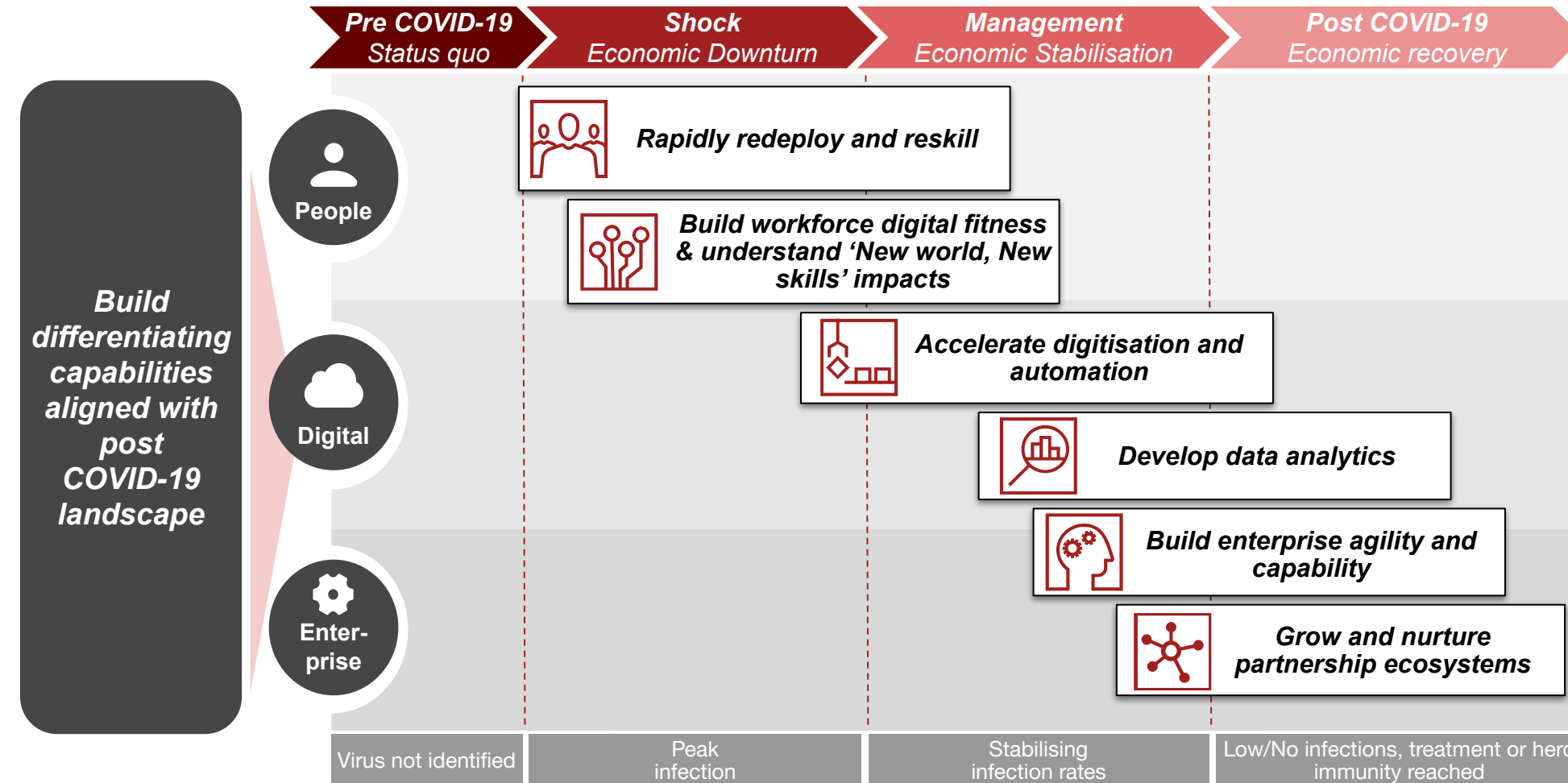
Source: PwC Strategy& Analysis

CEOs will have to build differentiated capability systems depending on their COVID-19 response

Example Pre vs. Post COVID-19 Capability systems, for various recovery pathways

COVID-19 Recovery Pathways	From Pre-COVID-19 capability system…	…To Post-COVID-19 capability system	Organisation
Emerge stronger (and survive)	1. Proactive customer demand prediction 2. Streamlined operations for cost leadership 3. Product and services delivery that match customer needs	1. Cash squeeze events are predicted and managed 2. Shift to variable cost structure (e.g., leases, Cloud) 3. Divestments (non-core operations / unprofitable divisions with headwinds) to meet customer needs	**Non-premium Aus. airline**
Build agile model to respond	1. Strong analytics to identify new market opportunities and unlock value in pre-production 2. Operational excellence to deliver returns	1. Adaptation to shifting demand and prices (e.g. shift production, acquire adjacent mineral assets) 2. Greater automation and remote operations across the value chain	**Leading Aus. miner**
Capture emergent op model advantages	1. Superior treatment through differentiated expertise 2. Consistent triage of demand and increased staff capacity for rapid responses 3. Wide referral networks to attract customers	1. Remote treatment and hospital mgt. (eg. Telehealth) 2. Analytics-optimised supply/demand hospitals and staff capacity 3. Post COVID-19 government and insurer partnerships	**Private health provider**
Drive winning position	1. Extensive physical store footprint 2. Customer demand insights and analytics 3. Exclusive supplier relationships to deliver array of products	1. Leading e-Commerce capacity & efficient order fulfilment 2. Strong analytics across value chain 3. Supply-demand optimisation and resilience (eg. smart supply chain, multiple product suppliers)	**Large supermarket**

Why it's important:

- Capability systems will differ by COVID-19 recovery pathway
- Building a coherent set of post-COVID-19 capabilities will help companies to sustain a competitive advantage
- Asset-based strategies fail in today's turbulent climate
- Essential advantage lies in the coherence between a company's way to play, capabilities system, and fit of products and services

The focus of capability building to emerge stronger from COVID-19 will shift over time

Example capability actions during COVID-19 recovery

Change process

Pre COVID-19 Status quo	Shock Economic Downturn	Management Economic Stabilisation	Post COVID-19 Economic recovery

Build differentiating capabilities aligned with post COVID-19 landscape

People

Rapidly redeploy and reskill

Build workforce digital fitness & understand 'New world, New skills' impacts

Digital

Accelerate digitisation and automation

Develop data analytics

Enter-prise

Build enterprise agility and capability

Grow and nurture partnership ecosystems

Virus not identified	Peak infection	Stabilising infection rates	Low/No infections, treatment or herd immunity reached

A blueprint followed by micro-strategy sprints to identify and build capabilities.

Stakeholder alignment, showcases, steering committees and virtual collaboration are instrumental to success.

Immerse and blueprint
- Wargame models COVID-19 scenarios
- Case for change co-developed
- Integrated recovery pathway agreed

Micro-strategy sprints
Targeted sprints for each prioritised initiative in pathway
1. Plan and analyse
2. Design and deploy
3. Measure and review

Rapid redeployment and reskilling is necessary to address key skills gaps in response to the COVID-19 economic downturn

Redeployment in the COVID-19 Crisis

The redeployment process involves the proactive identification of emerging skills gaps, including:

- Identifying both the technical capabilities and soft skills required to achieve the organisation's vision and strategy

- Pivoting investments towards building the required capabilities

- Modelling different scenarios to help identify potential changes in demand / supply and any resultant gaps

- Planning to understand which pools of FTEs will be affected and being proactive in identifying the size and intensity of capability gaps

COVID-19 has highlighted redeployment as an effective response...

- During the crisis, rapid redeployment has been used to deal with the significant external shocks, particularly temporary demand changes
- Redeployment is an alternative to "hiring and firing" and/or "borrowing" that can save jobs and businesses and allow quick pivots in an unstable environment

...and has demonstrated that it is a critical lever with several key benefits

Avoids high costs of recruitment, hiring, and onboarding	Becomes future-fit in building capabilities that may not even exist
Builds cross-organisational / cross-enterprise skill sets	Demonstrates commitment to current employees to keep employee morale high and build a positive employer brand

"Amidst a chronic shortage of existing talent, Australia's employers face escalating costs associated with hiring and retaining rare talent. Simultaneously, they have a responsibility to protect their existing workforce to ensure future prosperity for all."
PwC CEO Survey

Assessing workforce digital fitness and understanding the New World, New Skills impact is critical to COVID-19 recovery

Building a 'digitally fit' workforce

Digital fitness assessment and transformation is the upskilling of employees to acquire skills needed for an increasingly digitally enabled business. Through cross-functional teams and agile approaches, digital workforce transformation can help to change the way employees learn, think, interact and solve problems.

Digital fitness transformation involves:
- Building the right digital skill sets to be successful in a digital age
- Changing the values, beliefs,   attitudes and ways of thinking
- Creating the right connections, collaboration, relationships
- Applying new learnings to adapt habits and actions

Digital assets to improve workforce digital fitness:
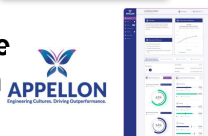
Connected Digital Enterprise

Connect and Perform

Digital Fitness Assessment and Leadership app
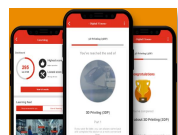
CultureTech Measure Behaviour Adoption and Change
APPELLON
Engineering Cultures. Driving Outperformance.

Benefits for organisations

Digital Innovation enables growth in the changing world of work
- 78% of CEOs say that availability of key skills is a top threat to growth
- Digitally fit organisations are able to evaluate workforce skill-set gaps through digital assets

Organisations that take a strategic approach to digital upskilling are differentiated from competitors
- Only 31% of orgs actively identify skills needed to drive future growth strategy
- To emerge stronger from COVID-19, strategic workforce upskilling using digital assets can differentiate an organisation from its competitors

Now is an opportune moment for organisations to focus on digital fitness of the workforce
- Strategies are changing due to COVID-19 responses and JobKeeper wage subsidy is offering much-needed time and financial relief
- Both factors bring workforce upskilling and digital competency-building into sharp focus for proactive organisations

**Digital fitness transformations have exceeded employee expectations and created a new "digital" culture**
- Organisational digital platforms engage employees in a more immersive way and support holistic skills
- Upskilling provides a mechanism to foster a more innovative start-up culture, as 63% of CEOs cite lack of skilled teams as a key obstacle to digital innovation

COVID-19 has accelerated the need to digitise and automate; the extent of capabilities needed is driven by CEO pandemic responses

Digitisation focus based on COVID-19 recovery pathway
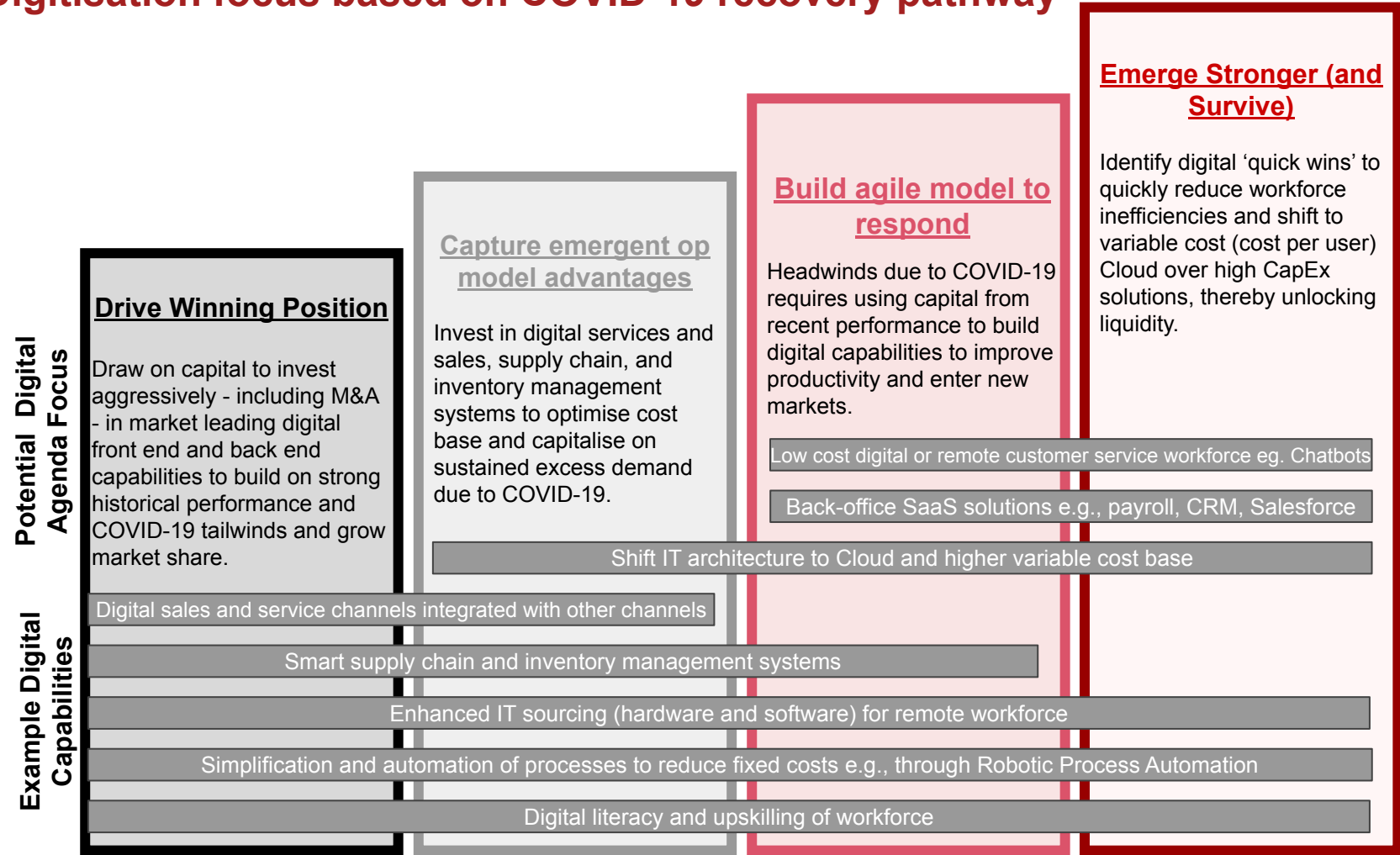
Companies that invest heavily in Digital, and 'rapidly restructure' see superior returns and costs savings, which will continue into the post COVID-19 landscape.

Case study: Digitising the upstream oil and gas sector
PwC Strategy& estimates that the use of digital technologies in upstream oil and gas sector could result in cumulative savings in capital expenditures and operating expenditures of US$100 billion to $1 trillion by 2025.

Potential Digital Agenda Focus

Drive Winning Position

Draw on capital to invest aggressively - including M&A - in market leading digital front end and back end capabilities to build on strong historical performance and COVID-19 tailwinds and grow market share.

Capture emergent op model advantages

Invest in digital services and sales, supply chain, and inventory management systems to optimise cost base and capitalise on sustained excess demand due to COVID-19.

Build agile model to respond

Headwinds due to COVID-19 requires using capital from recent performance to build digital capabilities to improve productivity and enter new markets.

Emerge Stronger (and Survive)

Identify digital 'quick wins' to quickly reduce workforce inefficiencies and shift to variable cost (cost per user) Cloud over high CapEx solutions, thereby unlocking liquidity.

Example Digital Capabilities

- Low cost digital or remote customer service workforce eg. Chatbots
- Back-office SaaS solutions e.g., payroll, CRM, Salesforce
- Shift IT architecture to Cloud and higher variable cost base
- Digital sales and service channels integrated with other channels
- Smart supply chain and inventory management systems
- Enhanced IT sourcing (hardware and software) for remote workforce
- Simplification and automation of processes to reduce fixed costs e.g., through Robotic Process Automation
- Digital literacy and upskilling of workforce

Efficiency increase from digitisation (% saving on total operating expenditure)

Upper range
Lower range

5%–7%	4%–6%	2%–5%	1%–2%	12%–20%
Operational excellence	Supply chain excellence	Artificial intelligence	Integrated platform	Total

Developing stronger data analytics will help companies to recover from COVID-19 and proactively model new risks and costs

AI Supply Chain Capabilities

To develop world class data analysis capability and to highlight pain points, companies can conduct an initial assessment of their maturity against leading capabilities for data and analytics management, and insights and analytics modelling.

Capability	Below Market	At Market	Above Market	World Class
Data and Analytics Management	• No data and analytics strategy • Analytics functions are mostly rebranded reporting functions • Data and analytics not a key consideration in project delivery	• Analytics strategy exists but not aligned to firm strategy • Analytics application confusion, culture not data-driven • Little communication delivering project • No clear process for stakeholder relationship management • Data impacts not considered when assessing new projects	• Role of data and analytics defined in firm strategy • Broad use data cases defined in culture of seeking analytics insights in decision making • Processes to manage stakeholder collaboration but not strictly followed • Frequently engaged in project delivery but do not take ownership of outcomes	• Clarity of Purpose, Vision & Strategy • Analytics embedded in all decisions • Clear roles aligned to op model • Strong use cases pipeline • Stakeholder collaboration • Business constantly engaged in project delivery; project has measurable business impact • Analytics key to IT related changes • Wide range of BI services that are constantly reviewed
Insights and Analytics Modelling	• No analytics capability, operational and management reporting used to drive decision making	• Each analytics activity done "once - off", no consistent code conventions • Outcomes not delivered in timely manner to inform executive decisions • Skill and tool capacity not reflective of current analytics usage • No external data use, time consuming to seek access permission • No enterprise grade analytics platform	• Some standardisation / conventions • Timely analytics access mostly for specific business decisions • Thinking to future capability needs but resourced for present • External data access but no expertise • Some tool pilots but lack funds/culture • Some enterprise grade analytics platforms but few insights	• Standardised process for all use cases with centrally stored IP • Skill / tool capacity for future needs • Agile prototype & insight generation • Timely structured & unstructured use case data and geo-demographic, social media & other source access • Dedicated environment to trial tools • Multiple connected data platform • Insights from extensive AI & behavioural economics

Impact of data analytics

Financial Services Data & Analytics Transformation Examples

22% Cross-sell completions increase

Global insurance broker
Data & analytics transformation implemented tools to strengthen broker relationships, generating ~$15 million new revenue, 22% increase in cross-sell completions and 30% additional service requests.

33% FTE reduction

Leading UK P&C Insurer
Established a Business Intelligence Competency Centre to streamline MI reporting, leading to 34% of reports eliminated, 33% FTE reduction and ~£3 million saving in tech & people.

$3M Existing customer revenue

Global property and casualty insurer
Formulated data strategy & improved quality & governance to integrate data-driven decision making in areas such as cross-selling & reducing customer churn. Generated ~$3 m revenue.

Irrespective of COVID-19 recovery pathway, enterprise agility and BizDevOps should be a CEO priority
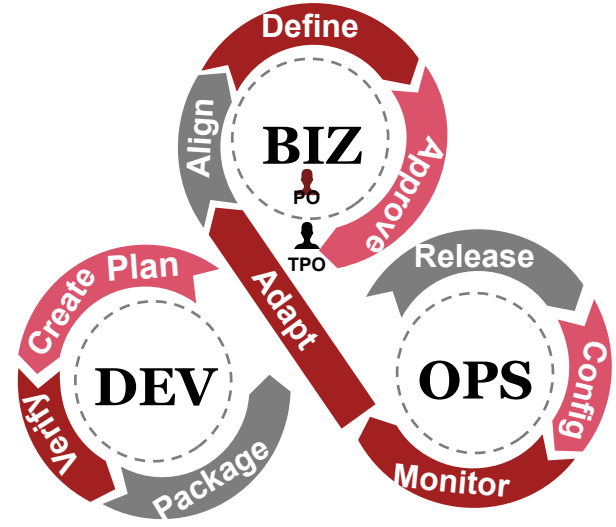
Enterprise Agility Benefits

Enterprise agility allows autonomous working on strategic priorities.
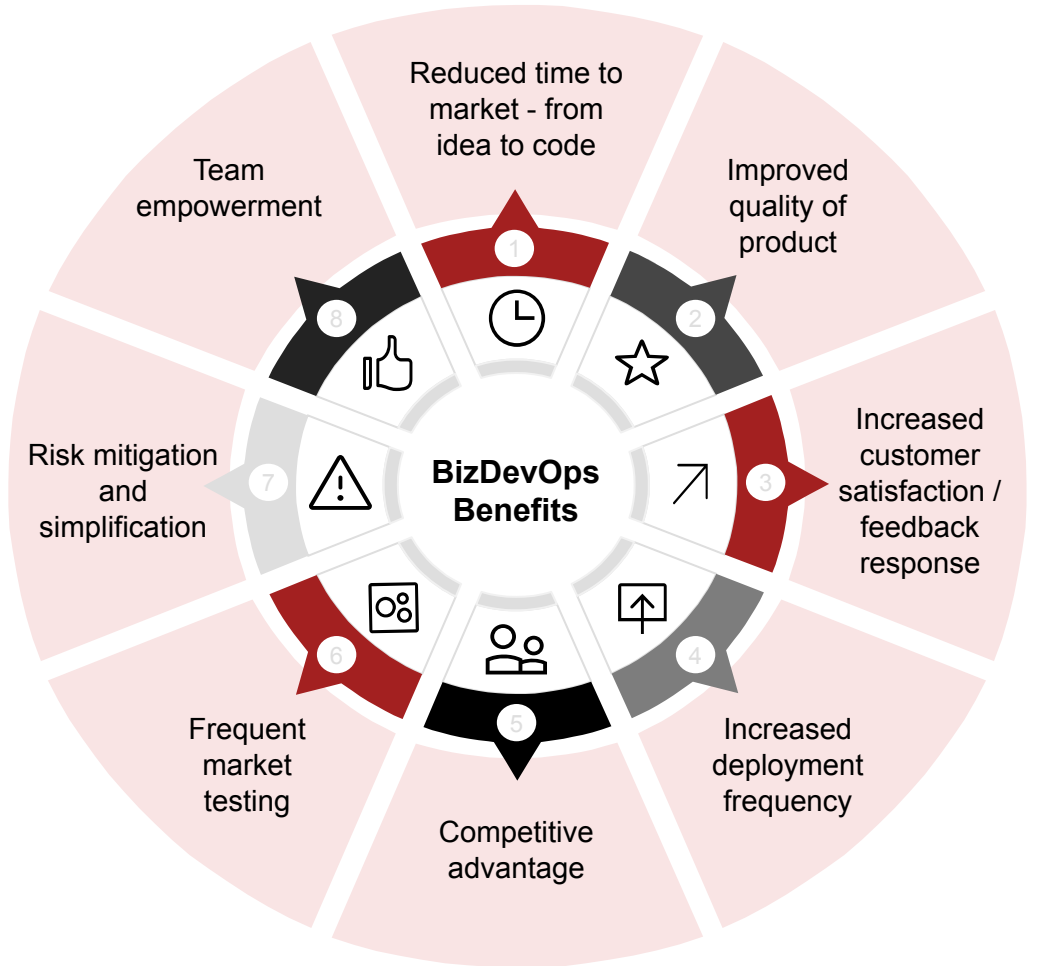
Establish **dedicated and cross-functional delivery teams** ("Agile Team")

Enhance collaboration by **physically co-locating** delivery teams or advanced collaboration tools

Invest in **highly skilled technical resources**

Engage in **regular face-to-face interactions** where possible (vs. email)

BizDevOps

BizDevOps is a model that ensures business stakeholders are part of the software/product development lifecycle

BizDevOps Benefits

- Reduced time to market - from idea to code
- Improved quality of product
- Increased customer satisfaction / feedback response
- Increased deployment frequency
- Competitive advantage
- Frequent market testing
- Risk mitigation and simplification
- Team empowerment

BizDevOps Benefits

Growing and nurturing partnership ecosystems is key to building resilience against future shocks

Partnership Ecosystems for COVID-19 Recovery

Ecosystems emphasise customer centricity to provide a connected network of goods and services

How marketplaces worked…   *…how Industry 4.0 is changing this*

Ecosystem

● *Business*
● *Customer*

Industry 4.0 increases the connections between ecosystems, providing opportunities for further innovation

- Mobility
- Home
- Auto-maker
- Real Estate Agent
- Ecommerce platform
- Airline
- Health Insurer
- Travel / Lifestyle
- Health

- Limited space exists for organisations to play the 'connector' role (e.g. the Ecommerce platform) and provide single point of customer convenience
- Different companies should strike distinct balance of cooperation and competition

Benefits of partnerships ecosystems

- Ecosystems solve a common problem for a customer and provide a point of convenience

- Companies within ecosystems can respond faster to increasing "digital native" customer expectations

- Ecosystems connect companies to draw upon joint technological capabilities

- Ecosystem companies create advantages not through physical assets but alliances, innovation and partnerships

Resilience Impacts

Ecosystems are better enabled to **adapt to changing ways** that organisms (businesses and customers) **connect,** in light of **digitisation** and COVID-19

Ecosystem companies can leverage their network to re-think what it means to be **customer centric** and how to be more **responsive** to "liquid" customer expectations

As COVID-19 disrupts industries, companies can **pool data analytics** and **digital resources** to enable machine learning for **future shock resilience**

Rapid innovation provided through partnerships become **differentiating capabilities,** as physical asset ownership becomes less beneficial

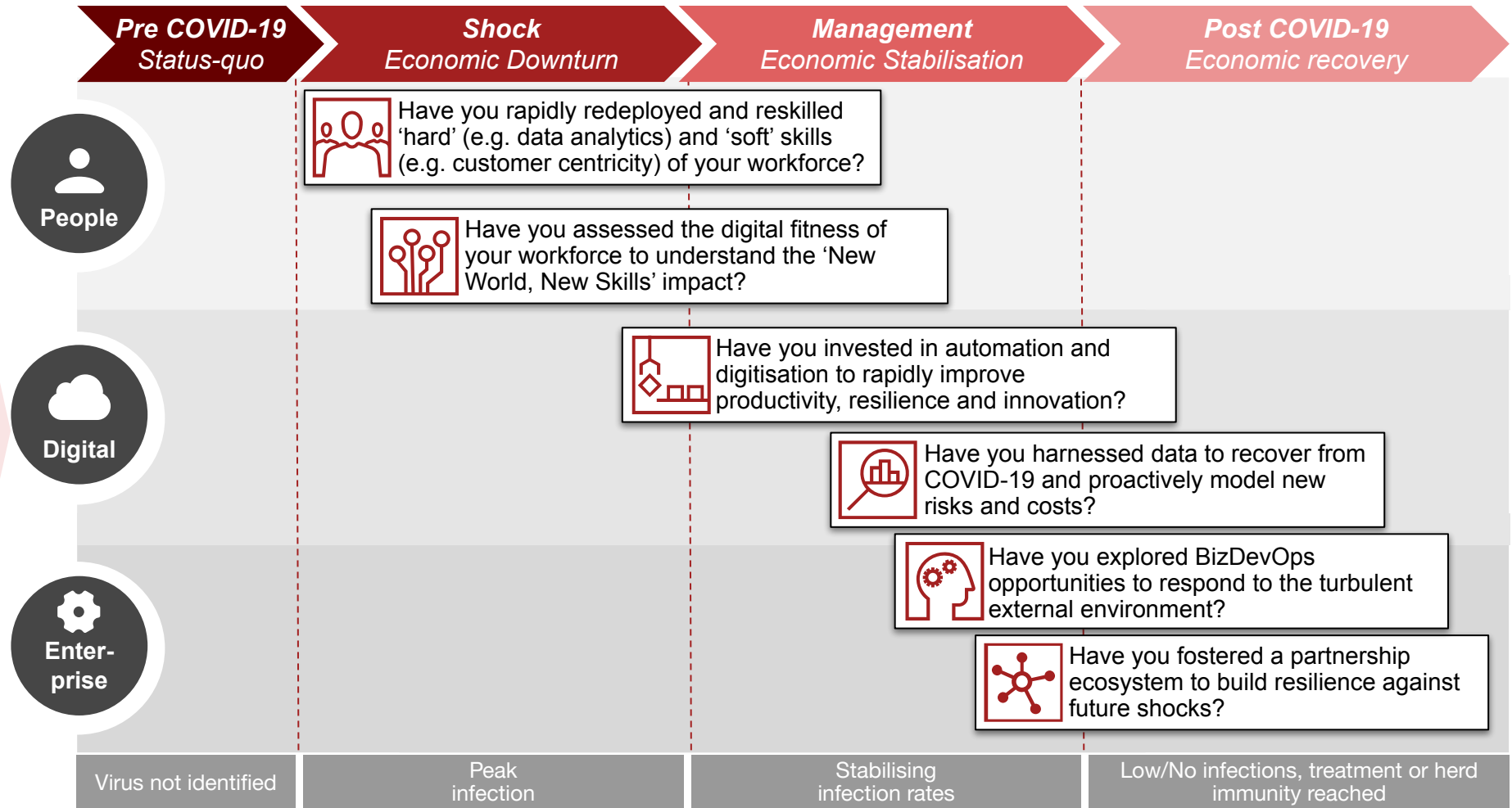# How will you build capabilities through decisive actions to emerge stronger from COVID-19, and when?

Capability-building questions during COVID-19's economic impact

Critical checkpoint questions will guide you through your recovery from COVID-19 disruption.

Build Capabilities

- Have you defined how different your post COVID-19 capabilities need to be?

- Do you have full clarity and organisation alignment on what should be your new 'differentiating' capabilities as digital becomes 'table-stake'?

- Do you have a plan of action?

Pre COVID-19 Status-quo	Shock Economic Downturn	Management Economic Stabilisation	Post COVID-19 Economic recovery

People

Have you rapidly redeployed and reskilled 'hard' (e.g. data analytics) and 'soft' skills (e.g. customer centricity) of your workforce?

Have you assessed the digital fitness of your workforce to understand the 'New World, New Skills' impact?

Digital

Have you invested in automation and digitisation to rapidly improve productivity, resilience and innovation?

Have you harnessed data to recover from COVID-19 and proactively model new risks and costs?

Enter-prise

Have you explored BizDevOps opportunities to respond to the turbulent external environment?

Have you fostered a partnership ecosystem to build resilience against future shocks?

Virus not identified	Peak infection	Stabilising infection rates	Low/No infections, treatment or herd immunity reached

What capability-building actions will lead you through recovery?

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