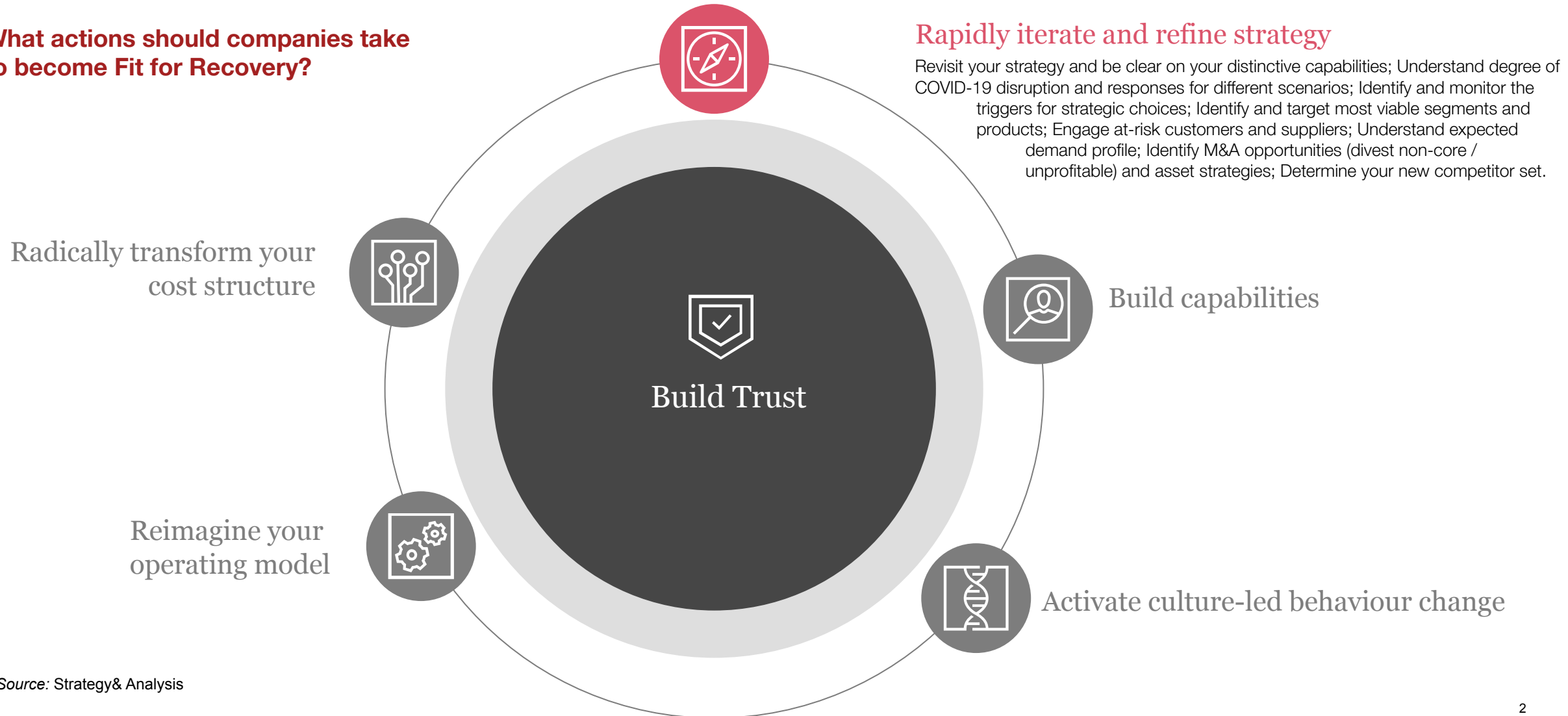strategy&

Part of the PwC network

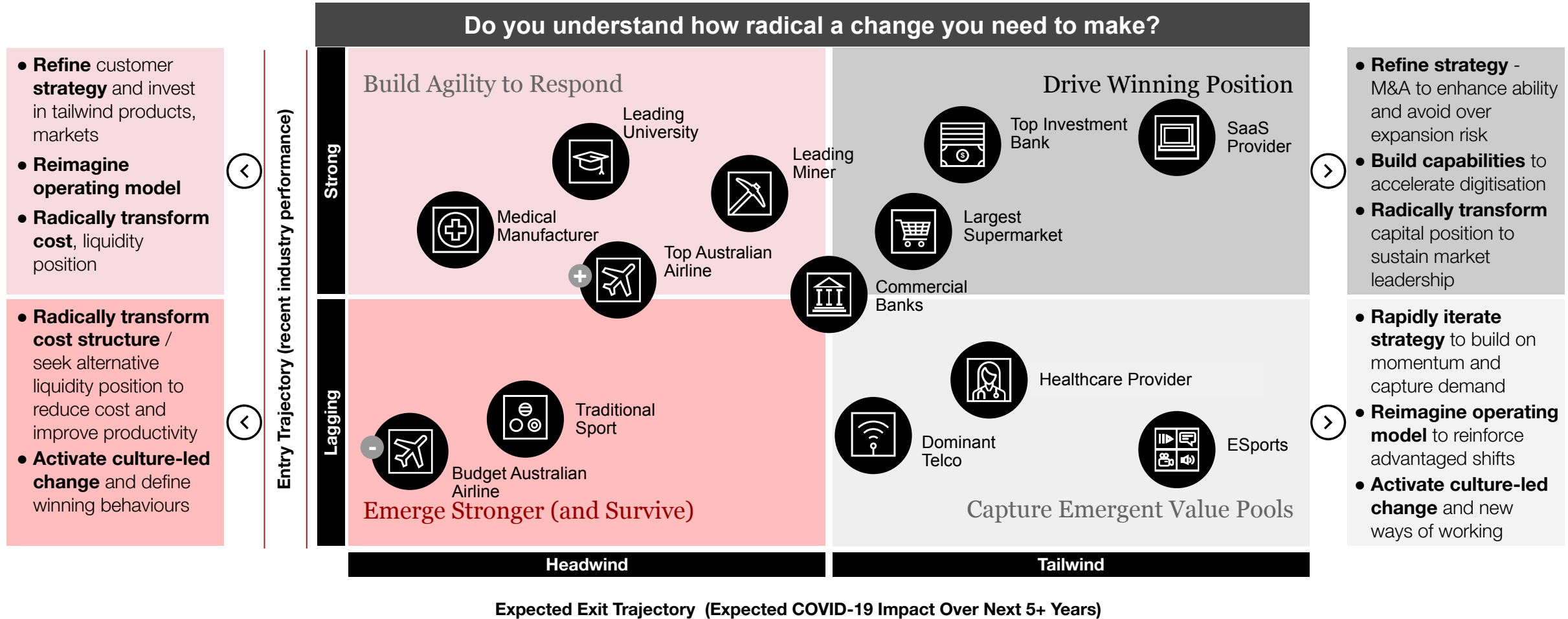# Rapidly iterate and refine strategy

June 2020

Becoming *Fit for Recovery* will require organisations to rapidly iterate and refine strategy in response to COVID-19

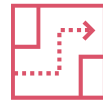**What actions should companies take to become Fit for Recovery?**

Rapidly iterate and refine strategy

Revisit your strategy and be clear on your distinctive capabilities; Understand degree of COVID-19 disruption and responses for different scenarios; Identify and monitor the triggers for strategic choices; Identify and target most viable segments and products; Engage at-risk customers and suppliers; Understand expected demand profile; Identify M&A opportunities (divest non-core / unprofitable) and asset strategies; Determine your new competitor set.

Radically transform your cost structure

Build capabilities

Build Trust

Reimagine your operating model

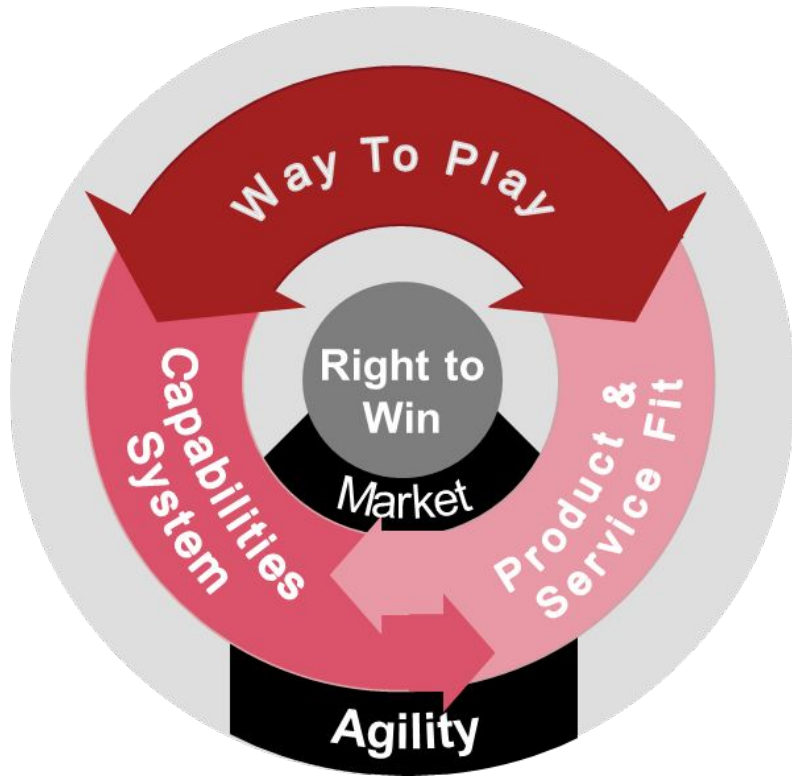Activate culture-led behaviour change

The magnitude of the change required to strategic direction will depend on COVID-19 entry and expected exit trajectory

COVID-19 Recovery Pathways and Actions

Do you understand how radical a change you need to make?

Entry Trajectory (recent industry performance)

Strong / Lagging

Build Agility to Respond
- Leading University
- Medical Manufacturer
- Leading Miner
- Top Australian Airline

Drive Winning Position
- Top Investment Bank
- SaaS Provider
- Largest Supermarket
- Commercial Banks

Emerge Stronger (and Survive)
- Traditional Sport
- Budget Australian Airline

Capture Emergent Value Pools
- Healthcare Provider
- Dominant Telco
- ESports

Headwind | **Tailwind**

Expected Exit Trajectory (Expected COVID-19 Impact Over Next 5+ Years)

Left side actions (Strong / Headwind):
- **Refine** customer **strategy** and invest in tailwind products, markets
- **Reimagine operating model**
- **Radically transform cost**, liquidity position

Left side actions (Lagging / Headwind):
- **Radically transform cost structure** / seek alternative liquidity position to reduce cost and improve productivity
- **Activate culture-led change** and define winning behaviours

Right side actions (Strong / Tailwind):
- **Refine strategy** - M&A to enhance ability and avoid over expansion risk
- **Build capabilities** to accelerate digitisation
- **Radically transform** capital position to sustain market leadership

Right side actions (Lagging / Tailwind):
- **Rapidly iterate strategy** to build on momentum and capture demand
- **Reimagine operating model** to reinforce advantaged shifts
- **Activate culture-led change** and new ways of working
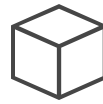
Source: PwC Strategy& Analysis

Regardless of the magnitude required, organisations need to rapidly iterate their 'right to win' through a capabilities lens
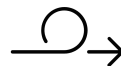
Capabilities Driven Strategy Framework

How has your strategy to create value for customers and suppliers changed in the post-COVID market?

Do you need to change what you are going to sell in this market and to whom?

What capabilities do you need to compete and distinguish yourself in a post-COVID market?

How can you continuously identify and monitor post-COVID triggers for strategic choices?

Coherence across an organisation's way to play, capabilities and product & service fit will be key to emerging stronger and ensuring your **Right to Win**

Organisations need to consider how COVID-19 has impacted their distinctive capabilities...

Audit the impact of COVID-19 on your capabilities system and enabling elements

1 **Understand how your capabilities system needs to adapt post-COVID**
— Capabilities that were differentiating before may no longer be
— New differentiating capabilities may have surfaced through the response

2 **Consider how COVID-19 has impacted the elements of your capabilities** - do elements need to change to enable value creation?
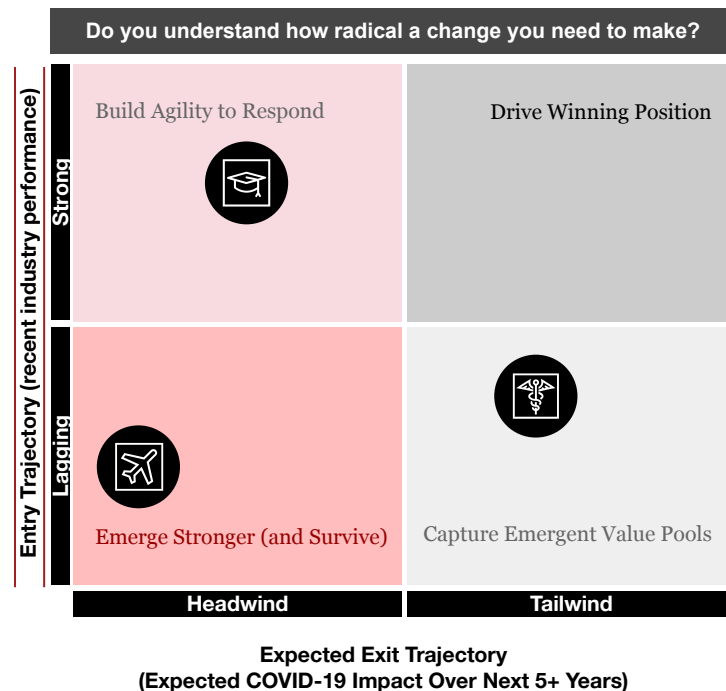
Elements of the Capability System

Processes	Knowledge, Behaviours and Skills
Tools & Systems	Organisation
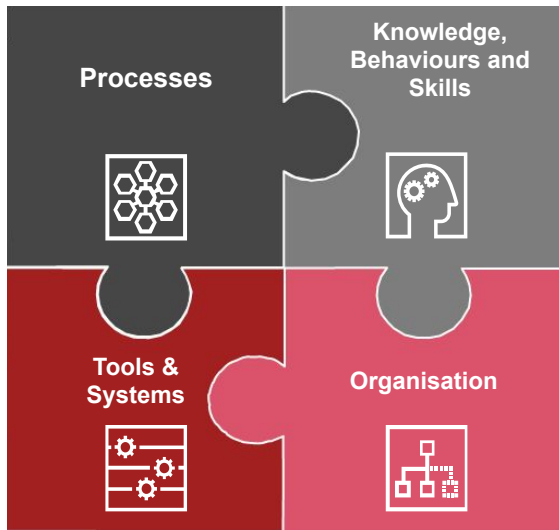
Example impacts of COVID-19 on differentiating capabilities

	Online Retailer	Mid-sized Rural Bank	Large Aust. Telco
Capability	Leading e-commerce platform	Relationship management	Rapid resource redeployment
COVID Impact	No longer differentiating	No longer differentiating	Emerging differentiator
Discussion	▪ Provided customers a more convenient and enjoyable shopping experience than competitors ▪ Increased investment in e-commerce across retail sector reduced differentiation value - online presence is now 'table stakes'	▪ Traditionally built stronger customer relationships and trust than larger banks through its rural branch network and customer centricity ▪ Large banks now focused on customer relationships e.g. financial support through mortgage holidays, and have more scale to maintain this ▪ Branch network less valuable as COVID restrictions push customers online (and this trend is likely to be maintained)	● Rapid resource redeployment of local staff from own and other organisations to cover for service demand spike and unavailable offshore resourcing models

...and determine their post-COVID-19 capability system

COVID-19 Recovery Pathways and Actions

Do you understand how radical a change you need to make?

	Headwind	Tailwind
Strong	Build Agility to Respond	Drive Winning Position
Lagging	Emerge Stronger (and Survive)	Capture Emergent Value Pools

Entry Trajectory (recent industry performance)

Expected Exit Trajectory
(Expected COVID-19 Impact Over Next 5+ Years)

Example Pre vs. Post COVID-19 Capability Systems

Example	Pre-COVID-19 capability system	Post-COVID-19 capability system
Major Aus University	1. High quality, broad-based research and education 2. Leading face-to-face international and domestic programs 3. State of the art campuses	1. Targeted, discipline-focused quality research and education 2. Micro-credentials and reskilling 3. Leading remote learning programs 4. Leading online platforms 5. State of the art campuses
Private Health Provider	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 management (eg. Telehealth) 2. Analytics-optimised supply/demand hospitals and staff capacity 3. Government and insurer partnership management
Low-cost Airline	1. Proactive customer demand prediction 2. Streamlined operations for cost leadership 3. Product and service delivery that match customer needs	1. Proactive customer demand prediction and dynamic pricing 2. Agile network design 3. Variable cost structuring and management 4. Streamlined operations for cost leadership 5. Social License management 6. Strategic M&A

COVID will change the dominant 'ways to play' across industries - we see several emerging models in Higher Ed.

Ways to Play Expected to Prosper Post-COVID-19 - Higher Education Examples

Education Ways to Play[1]	1. Bespoke Model	2. Hybrid Educator	3. EdTech
Description	Small number of universities offering **full on-campus experience** similar to today, including residency options and intensive individual support and mentoring. Largely agnostic of research capability.	Top 500 - 1000 universities offering **combined online and face to face education models**, looking to differentiate through learning experiences. Suited to larger student body (250k EFTSL) and higher campus utilisation.	**Fully online education model** focused on accreditation. Delivered by "mega universities" in partnership with major technology companies and social media platforms to provide a collective learning experience. No research expertise.
Breadth of offering	▪ Narrow discipline set ▪ Skew towards disciplines that provide skills required in the local economy	▪ Broad discipline base ▪ Skew towards disciplines that drive global rankings	▪ Pursue disciplines which span geographic borders and which are able to be converted into a distinctive online education offering
Differentiating capabilities	▪ Targeted, discipline focused quality education ▪ Industry relationship management ▪ High quality teaching staff and curriculum design in target field	▪ State of the art campuses ▪ High quality research pathways ▪ High quality teaching staff and curriculum design in broad set of fields	▪ Leading remote learning programs ▪ Leading online platforms ▪ Digital course design

1) We expect that COVID-19 will primarily impact the education models of Universities. Education 'ways to play' is therefore the focus of this example.
Source: PwC Strategy& Analysis

Scenario wargaming can help companies iterate their 'way to play' through the unprecedented uncertainty of COVID-19

Navigating Through Uncertainty

Context:

Organisations are **facing a period of unprecedented uncertainty due to COVID-19. They are compelled to take action**, having learnt from the GFC that those who act now are more likely to outperform in the longer term
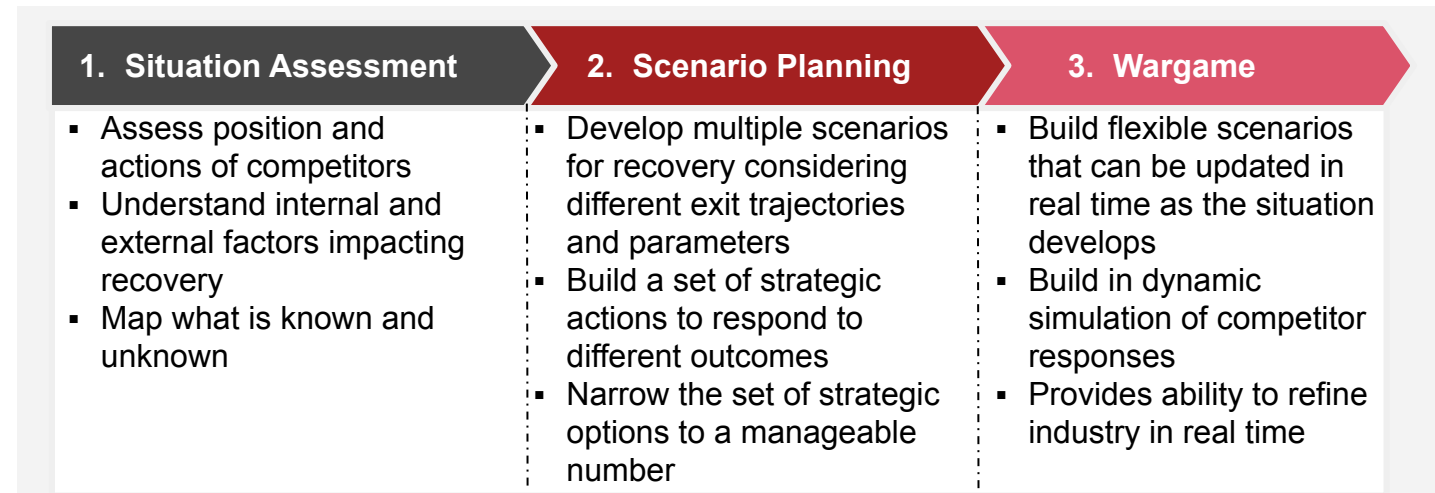
Strategic requirements in periods of uncertainty:

- **'Blue sky' thinking** to release constraints now less relevant and understand impacts
- **Agility to** react to 'signposts' of scenarios **rather than on getting it 'right' first time**
- **Explicit beliefs on what you expect to change vs remain the same**

Benefits of Scenario Wargaming:

- **Dynamically builds market / competitor understanding**
- **Provides deeper insight** into the consistency and performance of different 'ways to play' across scenarios
- **Increases buy-in and ownership** from management
- Lays **foundation for iterative strategic bets** based on triggers

Scenario Wargaming - Approach and Example

1. Situation Assessment	2. Scenario Planning	3. Wargame
- Assess position and actions of competitors - Understand internal and external factors impacting recovery - Map what is known and unknown	- Develop multiple scenarios for recovery considering different exit trajectories and parameters - Build a set of strategic actions to respond to different outcomes - Narrow the set of strategic options to a manageable number	- Build flexible scenarios that can be updated in real time as the situation develops - Build in dynamic simulation of competitor responses - Provides ability to refine industry in real time

Case Study Example

- Wargaming used to test ways to play and market strategies for a chemicals manufacturer (e.g. bidding strategy on long-term contracts in an oversupplied market)
- Approach surfaced market tensions around supply, distribution and key geographic constraints, helping executive team understand interrelated considerations and align on priority contracts to pursue
- Wargaming allowed the business to enter negotiations with a clearer understanding of market dynamics, and first and second order implications of their competitive positioning
- Following from the wargame, manufacturer changed their 'way to play' and market-orientation, adopting a more targeted geographic approach, and honing their value-added service offering to differentiate in a commodity market

Product and service arrays should be coherent with distinctive capabilities, the chosen way to play and emergent value pools

Capabilities-driven Portfolio Assessment Framework

To become *fit for recovery*, companies need to reevaluate their product/service portfolio across two metrics:

1 **Post-COVID Financial Value**, which factors in the structural changes in markets and customer demand

2 **Post-COVID Strategic Value**, which factors in the coherence with the firm's post-COVID capabilities system and way to play

This will ensure post-crisis growth is focused on the areas that create the most value

Post-COVID Financial Value Pools

Attractive

Unattractive

Divest Opportunistically

Align and Grow Selectively

Grow

Manage to Divest/Discontinue

Leverage Coherence or Divest

Low ← Post-COVID Coherence → High
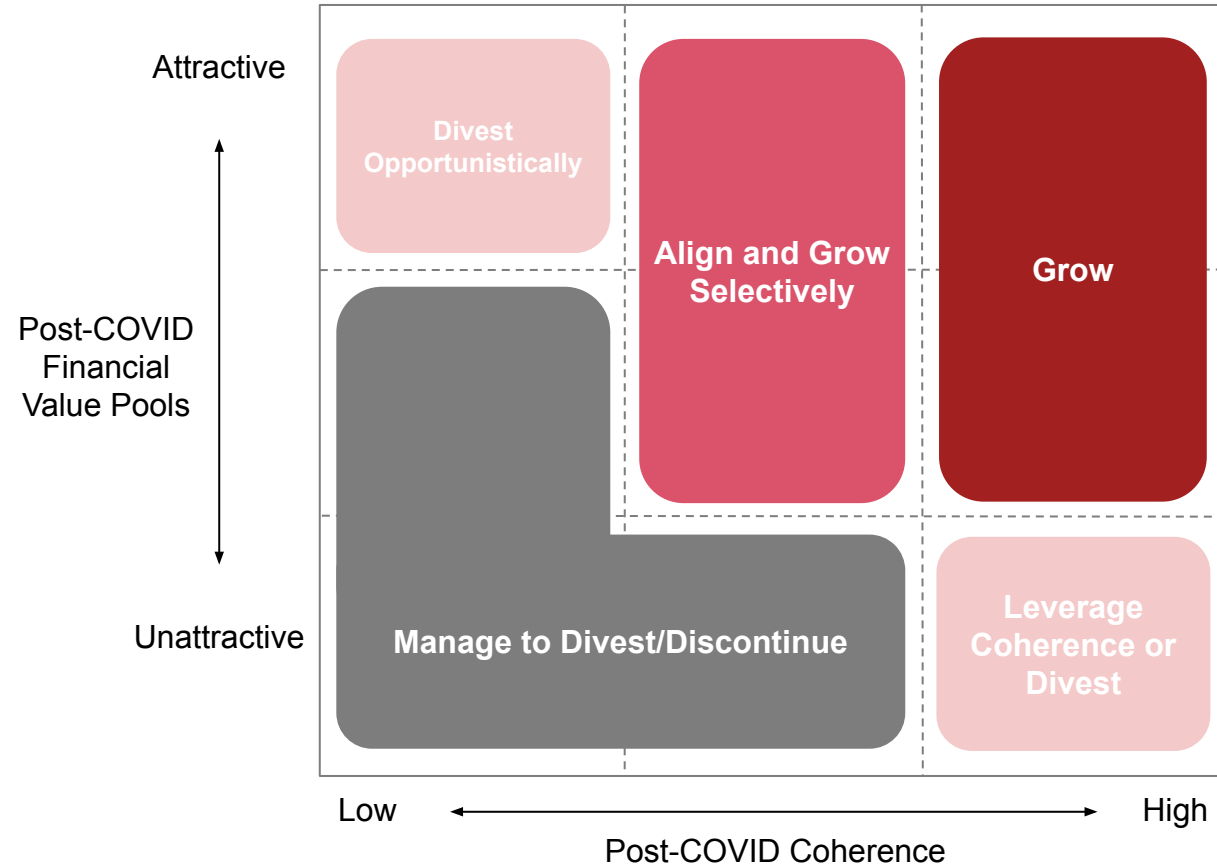
Grow and acquire products that are high financial and strategic value post-COVID

Example: Major Aus University

- **Grow**: High quality research output and face-to-face domestic programs
- **Align and grow selectively:** Online and distance learning offerings
- **Divest opportunistically:** face-to-face student advice

To execute on your new way to play and investment in capabilities, consider organic and inorganic growth opportunities

Organic and Inorganic Capabilities-Driven Growth Pathways

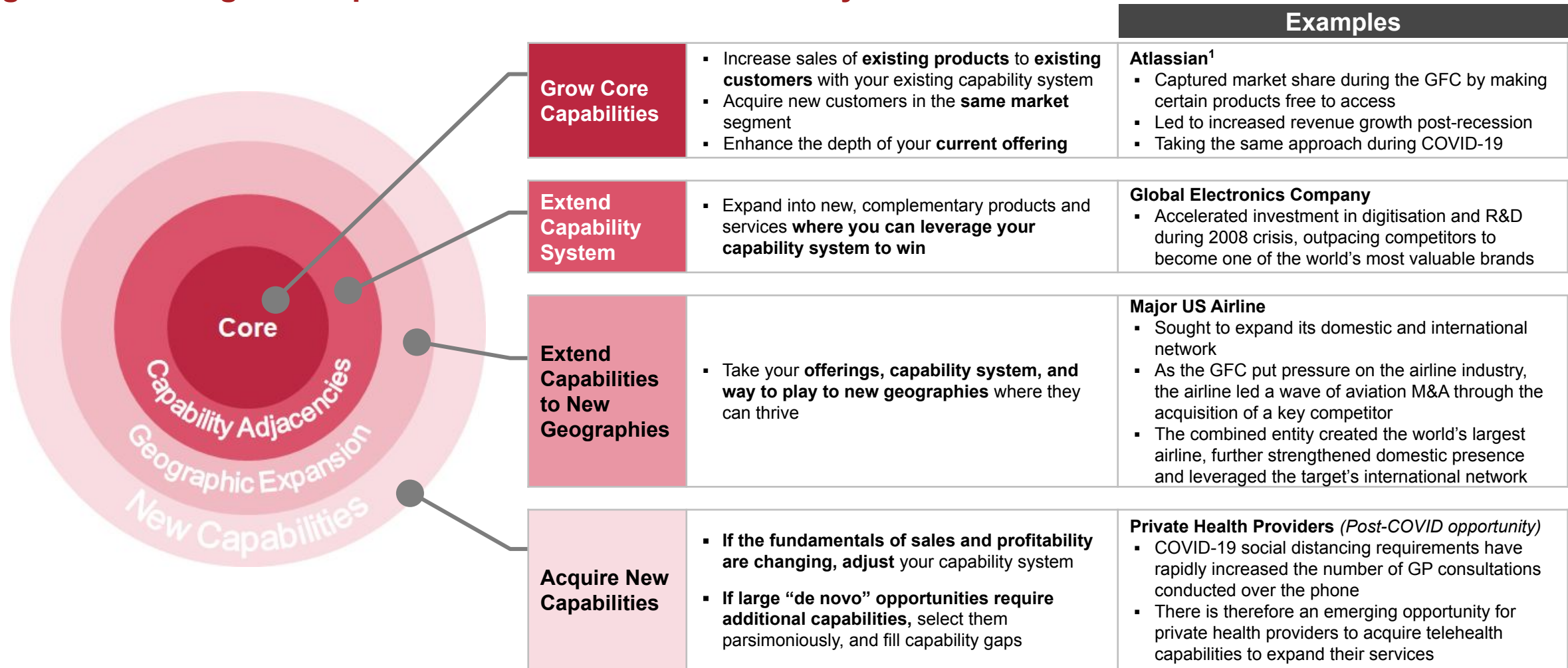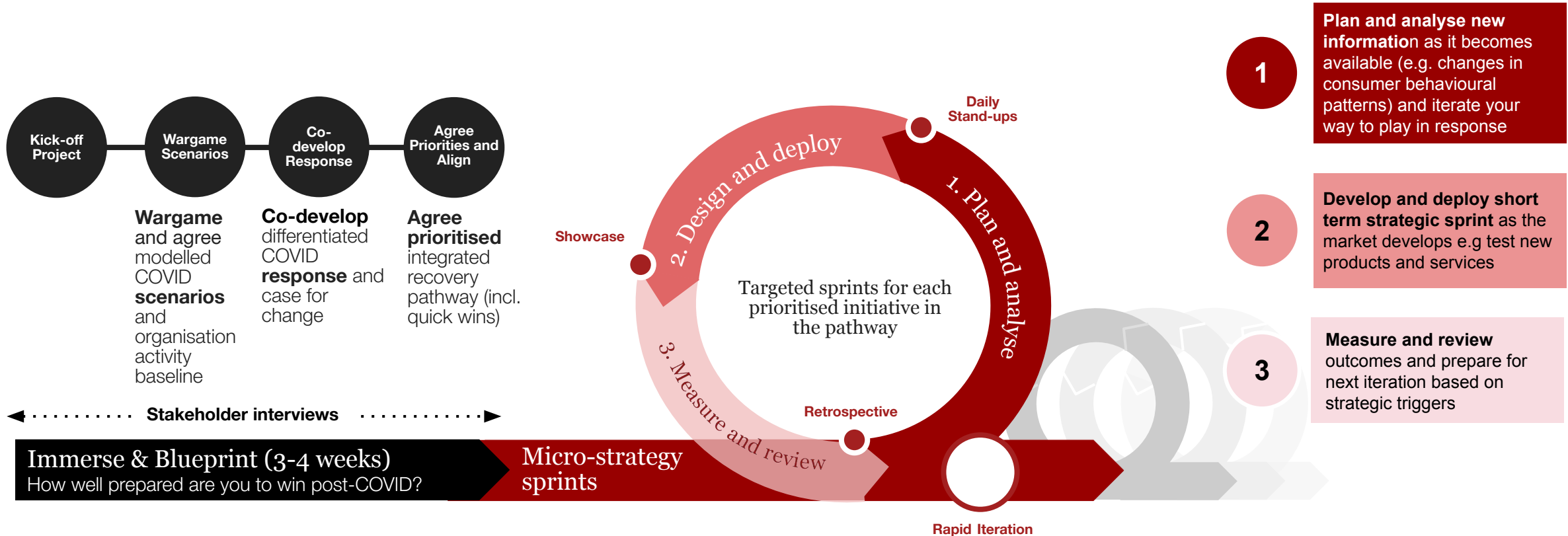|		**Examples**
Grow Core Capabilities	▪ Increase sales of **existing products** to **existing customers** with your existing capability system ▪ Acquire new customers in the **same market** segment ▪ Enhance the depth of your **current offering**	**Atlassian[1]** ▪ Captured market share during the GFC by making certain products free to access ▪ Led to increased revenue growth post-recession ▪ Taking the same approach during COVID-19
Extend Capability System	▪ Expand into new, complementary products and services **where you can leverage your capability system to win**	**Global Electronics Company** ▪ Accelerated investment in digitisation and R&D during 2008 crisis, outpacing competitors to become one of the world's most valuable brands
Extend Capabilities to New Geographies	▪ Take your **offerings, capability system, and way to play to new geographies** where they can thrive	**Major US Airline** ▪ Sought to expand its domestic and international network ▪ As the GFC put pressure on the airline industry, the airline led a wave of aviation M&A through the acquisition of a key competitor ▪ The combined entity created the world's largest airline, further strengthened domestic presence and leveraged the target's international network
Acquire New Capabilities	▪ **If the fundamentals of sales and profitability are changing, adjust** your capability system ▪ **If large "de novo" opportunities require additional capabilities,** select them parsimoniously, and fill capability gaps	**Private Health Providers** *(Post-COVID opportunity)* ▪ COVID-19 social distancing requirements have rapidly increased the number of GP consultations conducted over the phone ▪ There is therefore an emerging opportunity for private health providers to acquire telehealth capabilities to expand their services

Immerse & blueprint followed by rapid micro-strategy sprints allows meaningful action despite the current uncertainty

Agile Approach to Strategic Choices

Kick-off Project

Wargame Scenarios

Co-develop Response

Agree Priorities and Align

Wargame and agree modelled COVID **scenarios** and organisation activity baseline

Co-develop differentiated COVID **response** and case for change

Agree prioritised integrated recovery pathway (incl. quick wins)

Stakeholder interviews

Immerse & Blueprint (3-4 weeks)
How well prepared are you to win post-COVID?

Micro-strategy sprints

Targeted sprints for each prioritised initiative in the pathway

Daily Stand-ups

1. Plan and analyse

2. Design and deploy

Showcase

3. Measure and review

Retrospective

Rapid Iteration

1 **Plan and analyse new information** as it becomes available (e.g. changes in consumer behavioural patterns) and iterate your way to play in response

2 **Develop and deploy short term strategic sprint** as the market develops e.g test new products and services

3 **Measure and review** outcomes and prepare for next iteration based on strategic triggers

The post-COVID future is unclear. An iterative, agile approach enables organisations to continuously adapt as new information arises, building in the flexibility needed to navigate post-COVID uncertainty based on planning done today.

How radical a change do you need to make?

Questions to Drive Insight in Agile Approach

1

What investment is needed to reinvigorate your distinctive capabilities?

2

Do you understand your way to play to capture emerging value from customers, competitors and suppliers?

3

Are you clear on your optimal set of products and services?

4

Are you capitalising on both organic and inorganic growth opportunities?

5

Is there coherence across your way to play, capabilities system and products and services, strengthening your right to win?

How will you iterate and refine your strategy to be *Fit for Recovery*?

Tim Jackson
Partner, Strategy&

+61 413 058 080
tim.jackson@pwc.com

Varya Davidson
Partner, Strategy&

+61 478 303 103
varya.davidson@pwc.com

Michelle Kam
Partner, Strategy&

+61 412 818 328
michelle.kam@pwc.com

Mahan Perera
Senior Manager, Strategy&

+61 434 685 644
mahan.b.perera@pwc.com

strategy&

Part of the PwC network

Thank you