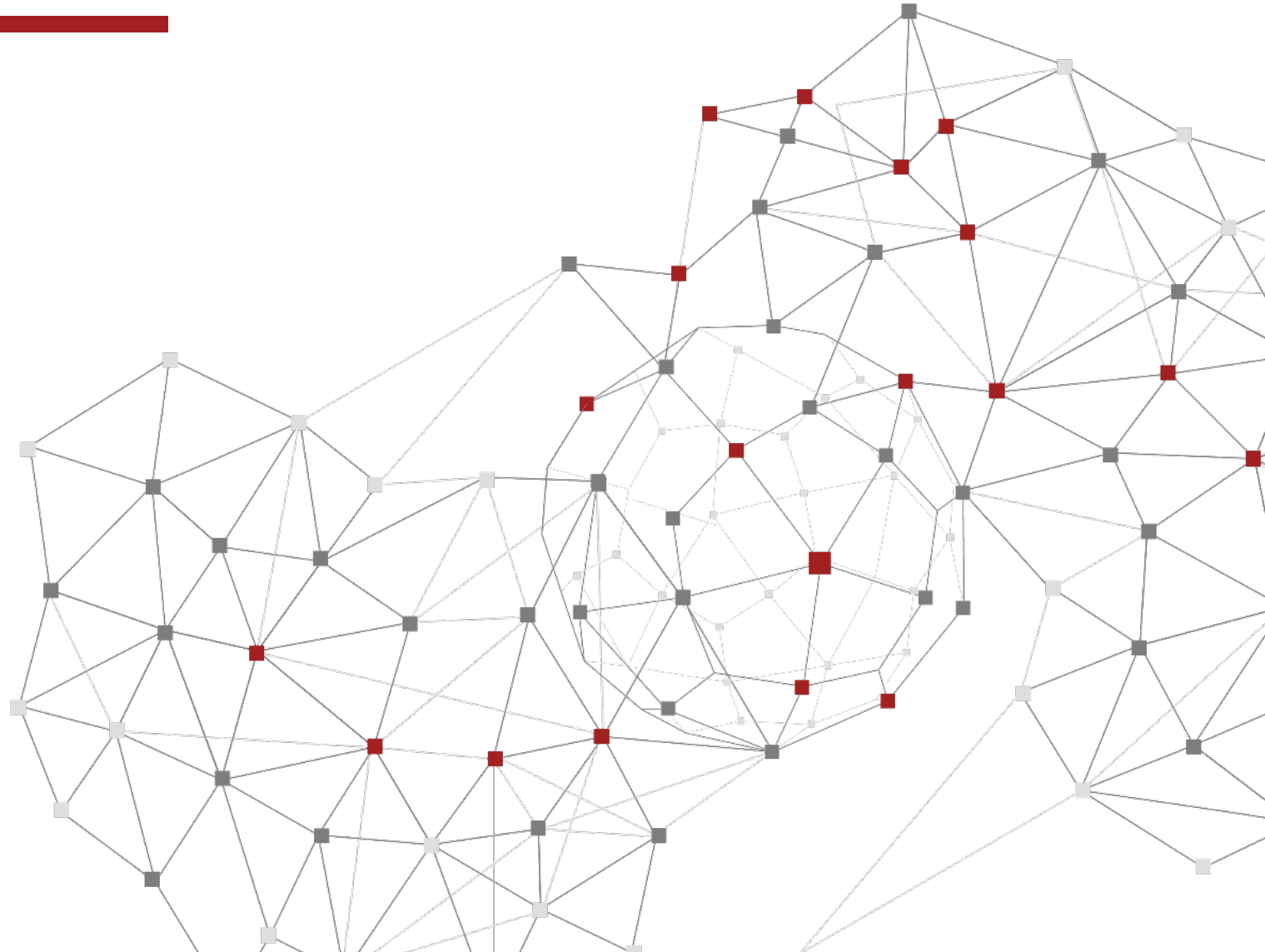

Post COVID-19 Management Agenda

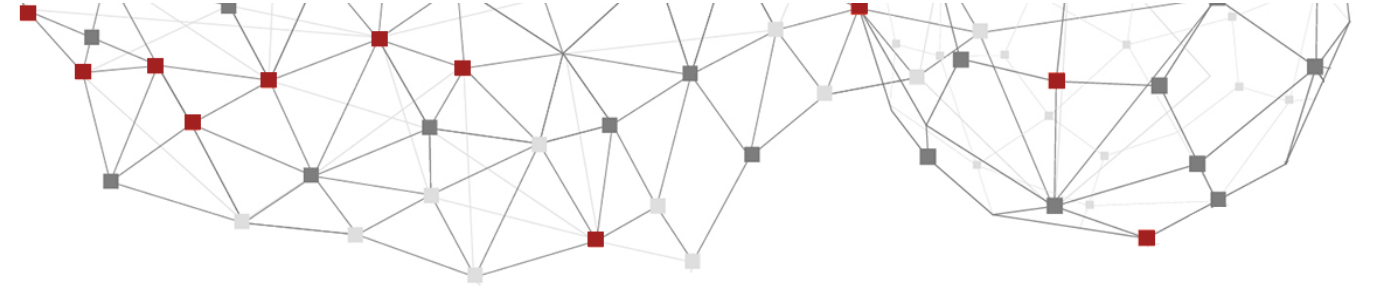
Strategy&
June 2020



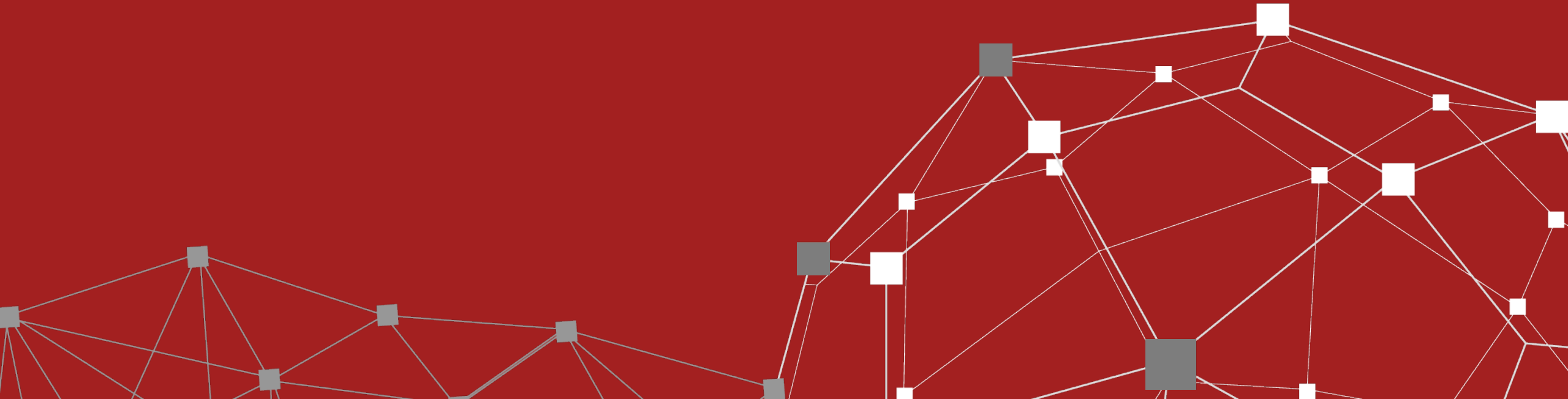
Agenda

How should management operate business in post COVID-19?

0. Steps for Sustainable Growth in Post COVID-19
1. Shifts of Megatrends Driven by COVID-19 and its Impact
2. New Operating Model
3. Required Capabilities in Post COVID-19



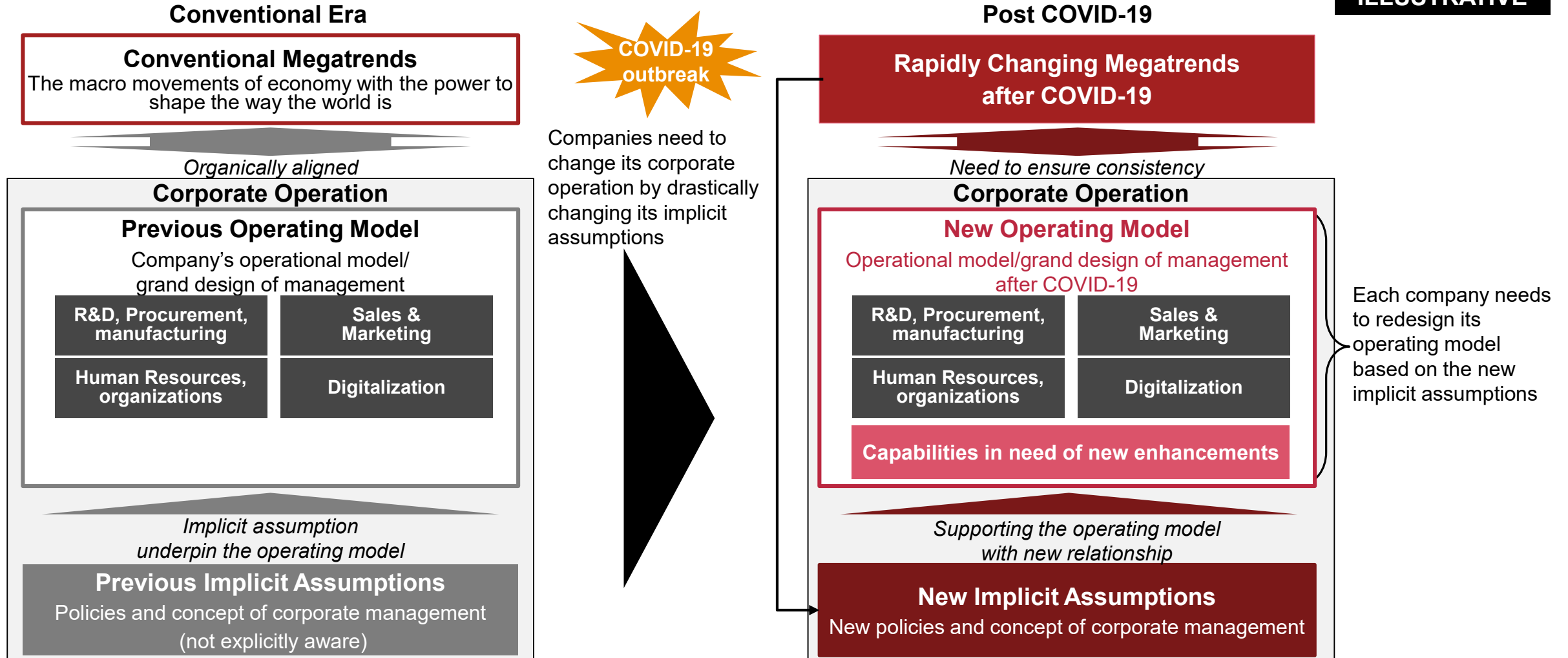
o. Steps for Sustainable Growth in Post COVID-19



In post COVID-19, redesign of corporate operation in light of megatrends and implicit assumptions shifts are required

Shift of Corporate Operation driven by Changing Megatrends

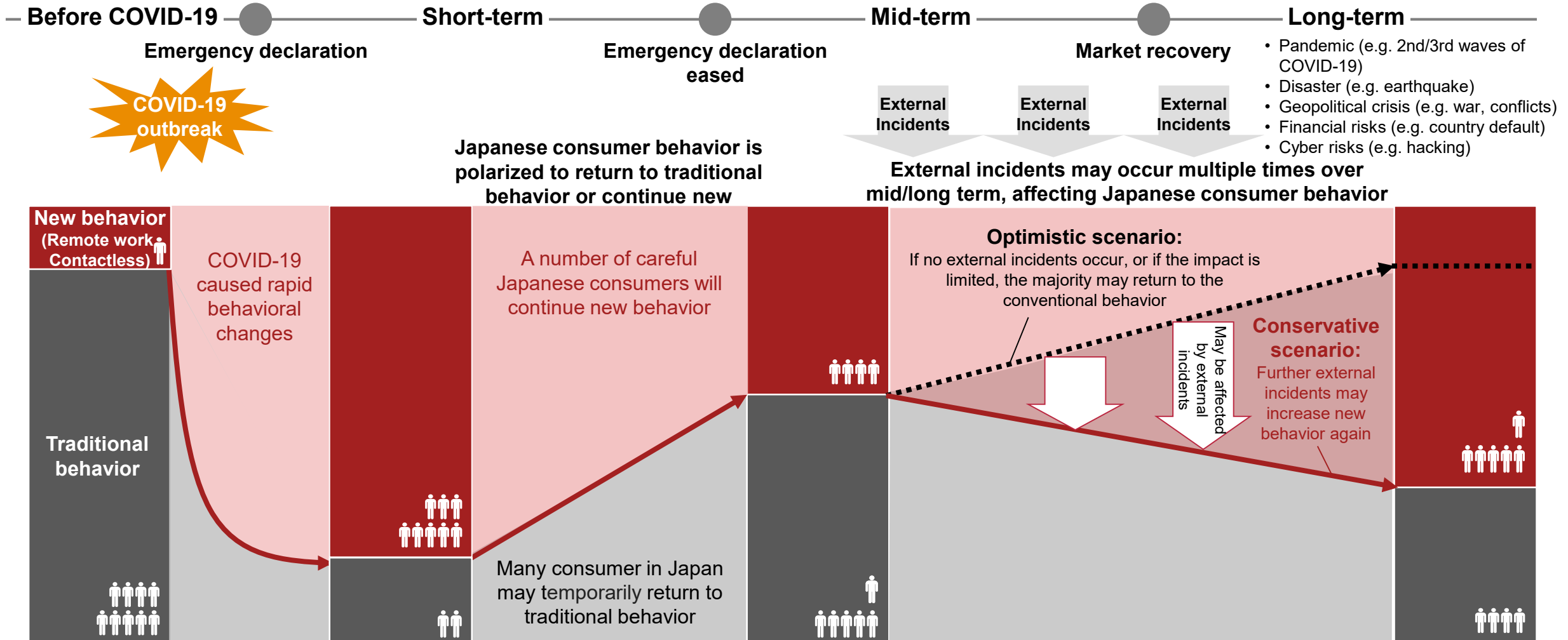
ILLUSTRATIVE



Management has to be prepared for the scenarios where the impact of COVID-19 is not temporary

Assumed Scenarios of People's Behavioral Change in Japan

ILLUSTRATIVE



Besides COVID-19, external incidents such as natural disasters risks will change corporate attitude towards volatility

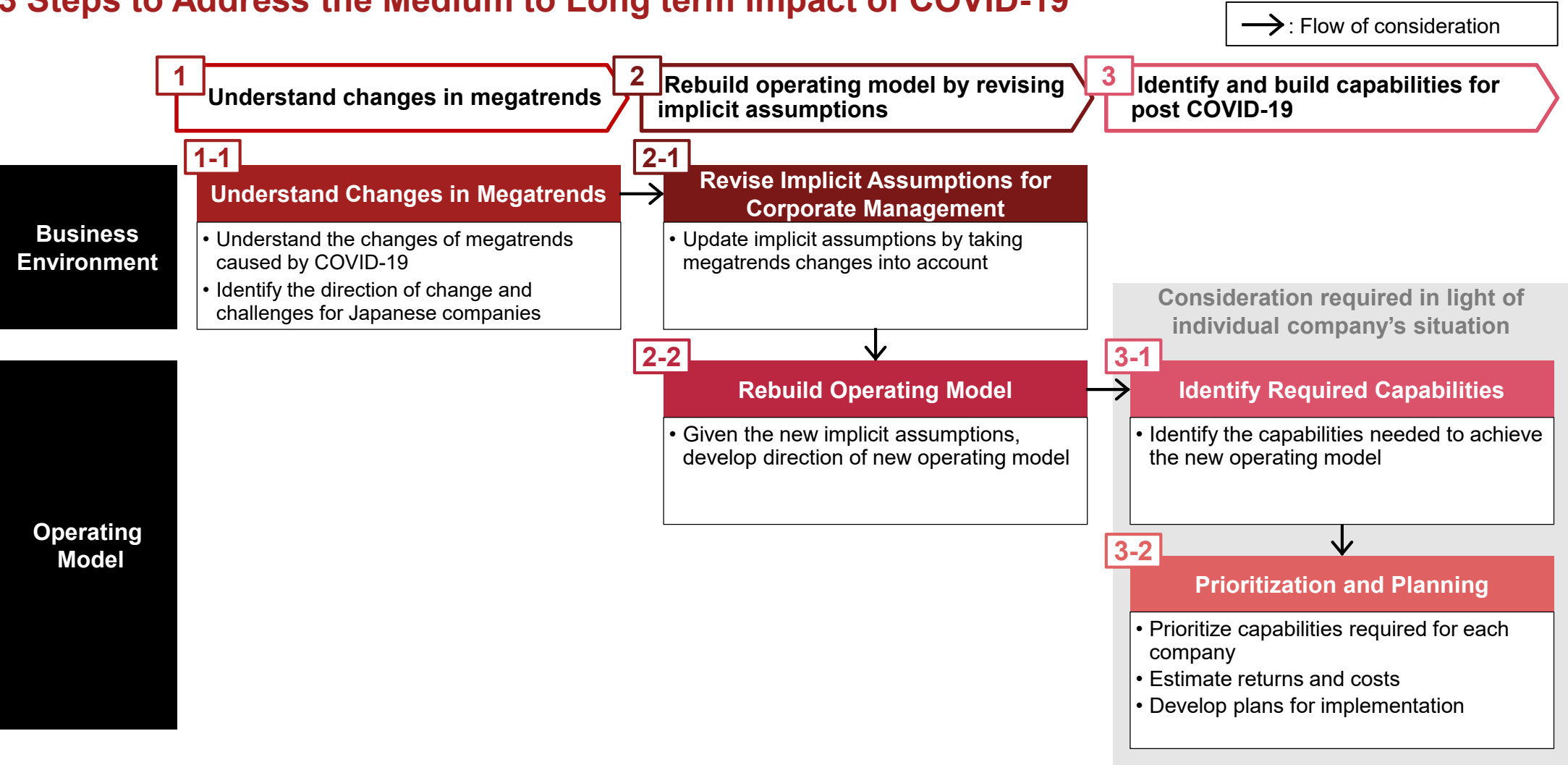
Examples of External Incidents and Risks in the Future

Risk Category	Expected External Incidents (recent examples)
Pandemic	<ul style="list-style-type: none">• Resurgence of existing diseases: 2nd/3rd waves of COVID-19• Pandemic of new diseases: pandemic by unknown viruses
Natural Disasters	<ul style="list-style-type: none">• Uncontrollable disasters: unexpected disasters (e.g. earthquakes, tsunami)• Worsened disasters: disasters with more serious impact driven by climate change (e.g. floods, wildfires)
Geopolitical Risk	<ul style="list-style-type: none">• Conflicts between nation states: political and economic conflicts (e.g. fossil fuel price plummet, US-China conflict)• Internal conflicts, riots, protests: movement with historical/cultural context (e.g. Black Lives Matter, Anti-Japan movement in Korea)
Financial Risk	<ul style="list-style-type: none">• Low market liquidity: bankruptcy/managerial crisis of financial institutions (e.g. Italy Veneto Banca)• Country defaults: developing countries' defaults due to excessive debt (e.g. 9th Argentine defaults, hyperinflation)
Cyber Risk	<ul style="list-style-type: none">• Data security breaches: hacking to personal information expected to be further accumulated• Unexpected system shutdowns: massive system outage of platform that

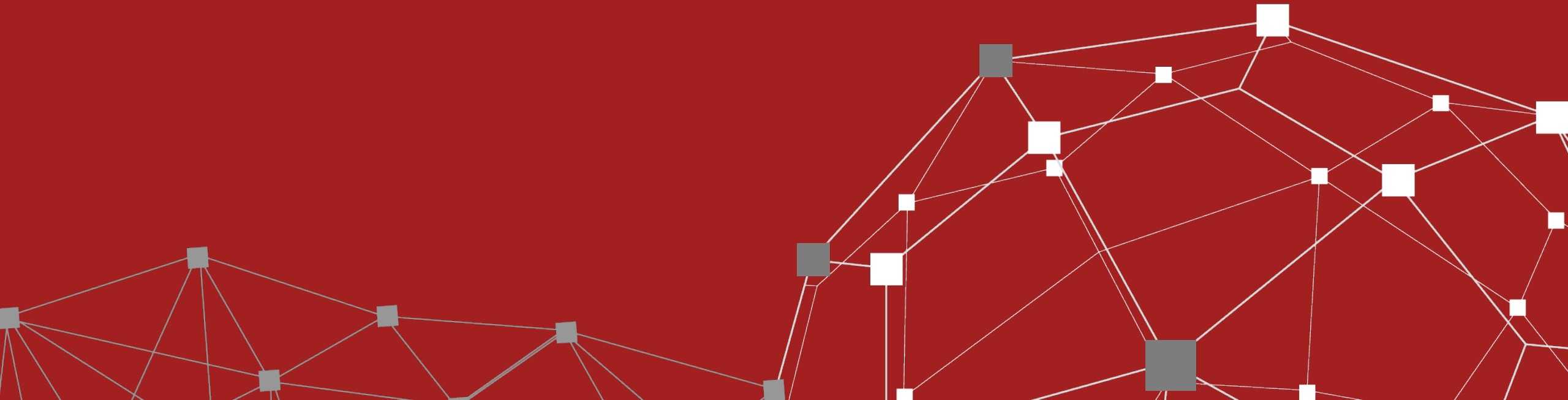
- In addition to COVID-19, external incidents are **diverse and frequent**
- To cope with incidents and related risks, **companies has changed its attitude / perceptions to BCP**

Plan for post COVID-19 by analyzing the changes in megatrends & implicit assumptions

3 Steps to Address the Medium to Long term Impact of COVID-19



1. Shifts of Megatrends Driven by COVID-19 and its Impact

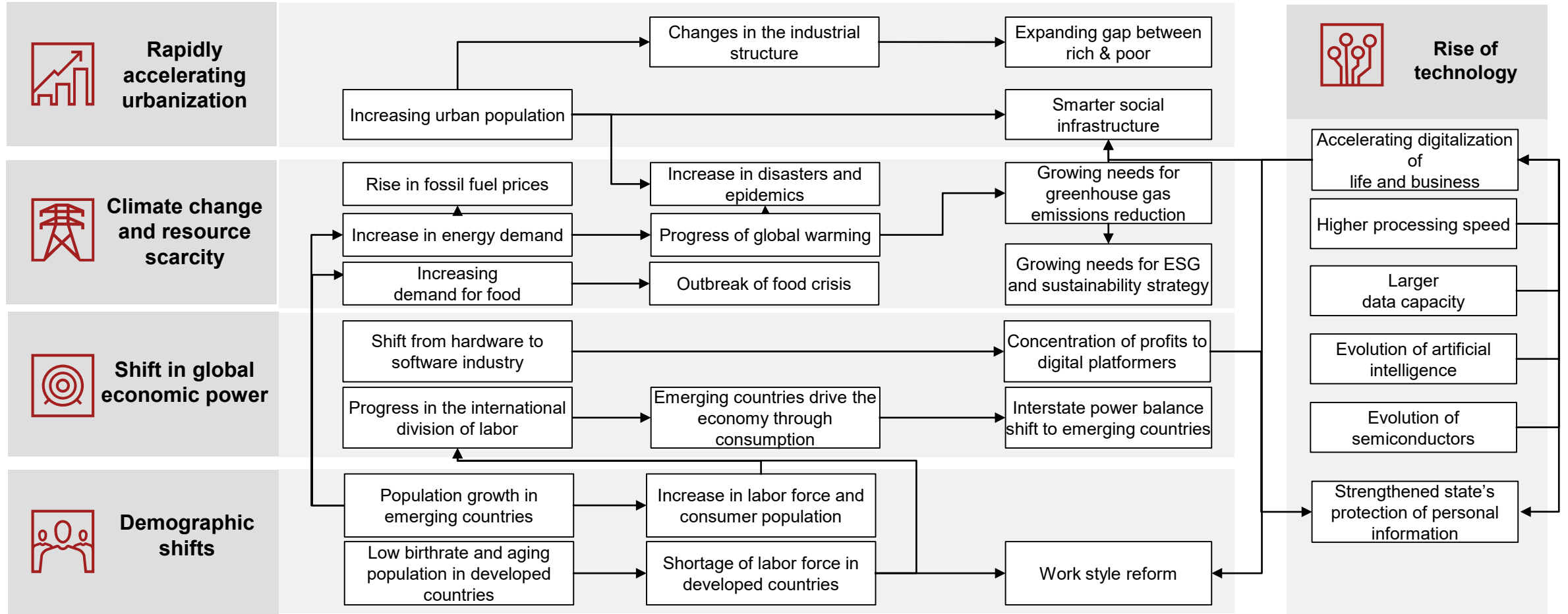


Responding to COVID-19 Effects: Step 1



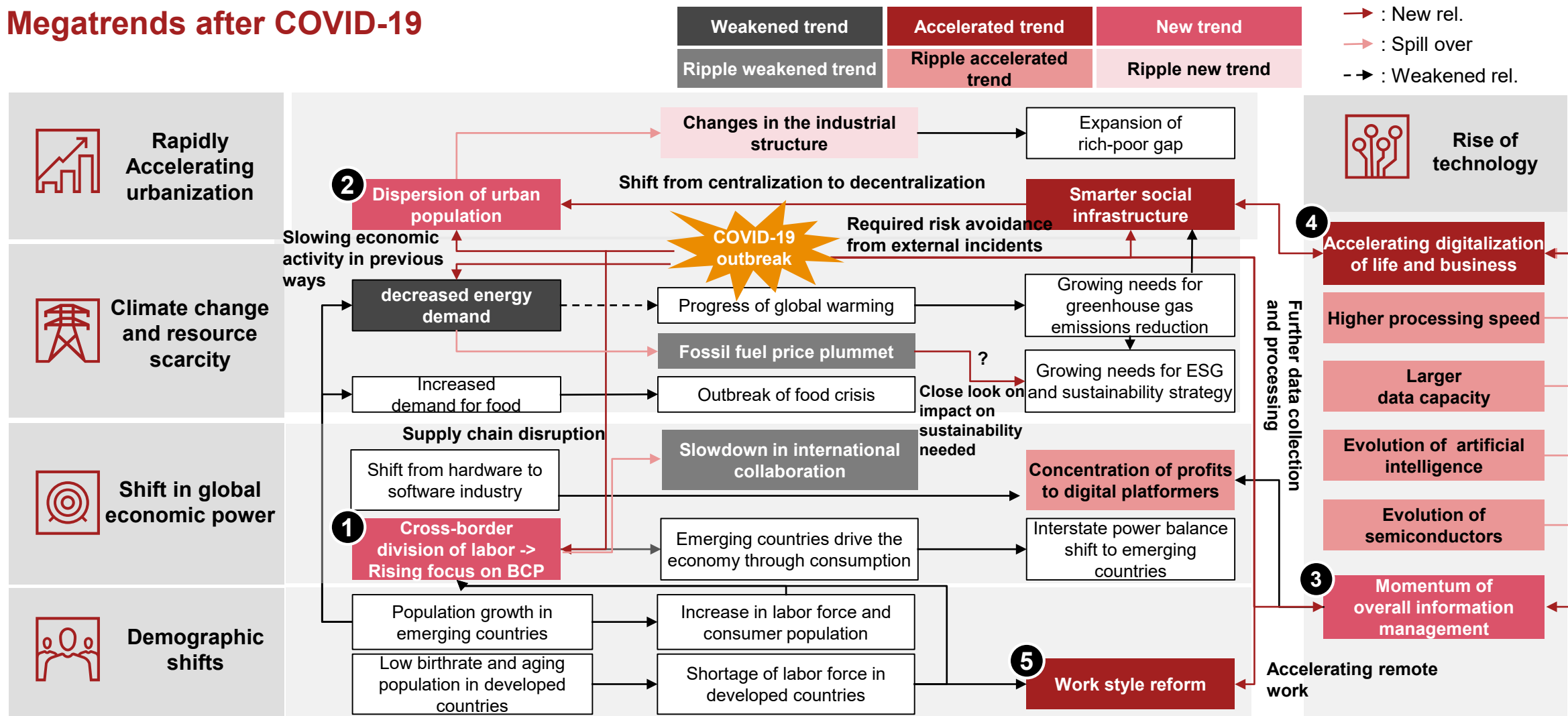
Before the outbreak of COVID-19, economy growth accelerated urbanization, leading to climate change and resource scarcity

Megatrends before COVID-19



Outbreak of COVID-19 generate new megatrends and abrupt changes in previous trends causing new long-term impact

Megatrends after COVID-19



*New trend, a big change in point of view in the world from previous megatrends

Source: PwC "Mega-Trends-Five Mega-Trends and Potential Impacts" Strategy & Analysis

In Japan, digitization of lifestyles & operations, risk management, and work style reform are expected to accelerate

Important Megatrends¹⁾ in Post COVID-19 and Direction in Japan

COVID-19 Outbreak

		Descriptions	Direction in Japan	
New trends	1	Cross-border division of labor → Rising focus on BCP	Increased flexibility of the supply chain <ul style="list-style-type: none">Decentralization of manufacturing due to higher risk in the production system only in ChinaArisen needs for supply chain monitoringShift from ROI focus to investment / BS mgmt. aligned with BCP	Building supply chain with larger focus on BCP <ul style="list-style-type: none">Prepare multiple suppliers and manufacturersCreate buffers in the supply chain, etc.
	2	Dispersion of urban population	Decentralization of people and increased distribution <ul style="list-style-type: none">Accelerated focus on private spaceDecentralization of residence and storesRebuild optimal distribution network	Dispersion from Tokyo area <ul style="list-style-type: none">Changes in values due to work style reform leads to changes in lifestylesDemographic backflow to rural areas, etc.
	3	Momentum of overall information management	Development of common data platform for data collection and analysis <ul style="list-style-type: none">Increased collection of consumer's activity dataIncreased demand for data arrangementIncreased presence of data platform	Partial use of personal information inside the country <ul style="list-style-type: none">Acceleration of using anonymized dataAdvancement in policies for using personal info.
Accelerated trends	4	Accelerating digitalization of life and business	Normalization of non-F2F sales and service <ul style="list-style-type: none">e.g.: (Retail & Consumer) EC expansion, increase in non-contact payments at stores, and sales strategy & marketing based on consumption data(Healthcare) Acceleration of online medical care and prescriptions, etc.	Transition to non-F2F sales & services <ul style="list-style-type: none">Implementation of online sales & service and acceleration of data utilizationStarting update on legacy system and responding to non-digital natives
	5	Work style reform	Transition from pyramidal to agile organizations <ul style="list-style-type: none">Establishment of workstyle that enable remote workOnline internal processesSimplification and automation of back-office functions	Getting out from ineffective organizational structure & workstyle <ul style="list-style-type: none">Reform of decision making process with inappropriate number of peopleRecovery from delays in digitalization

1) Selection of important accelerated and new trends

Source: PwC "MegaTrends: 5 MegaTrends and Potential Impacts" Strategy & Analysis





(Ref.) Changes in megatrends lead to changes in the business environment for every industry

Impact of Important Megatrends¹⁾ for each industry in Japan

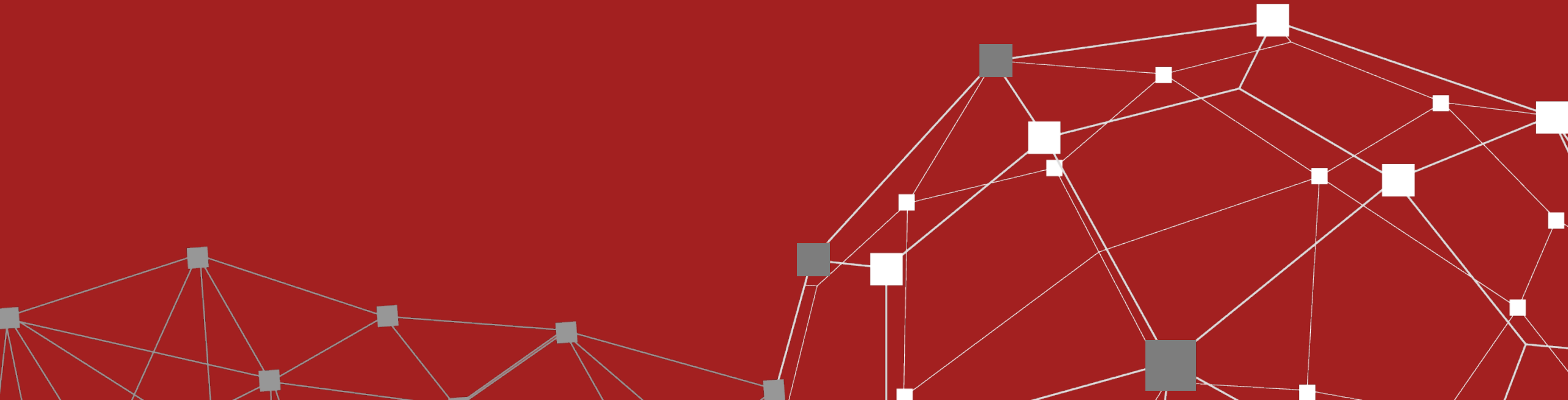
Impact of Important Megatrends¹⁾ for each industry in Japan

Accelerated trends

New trends

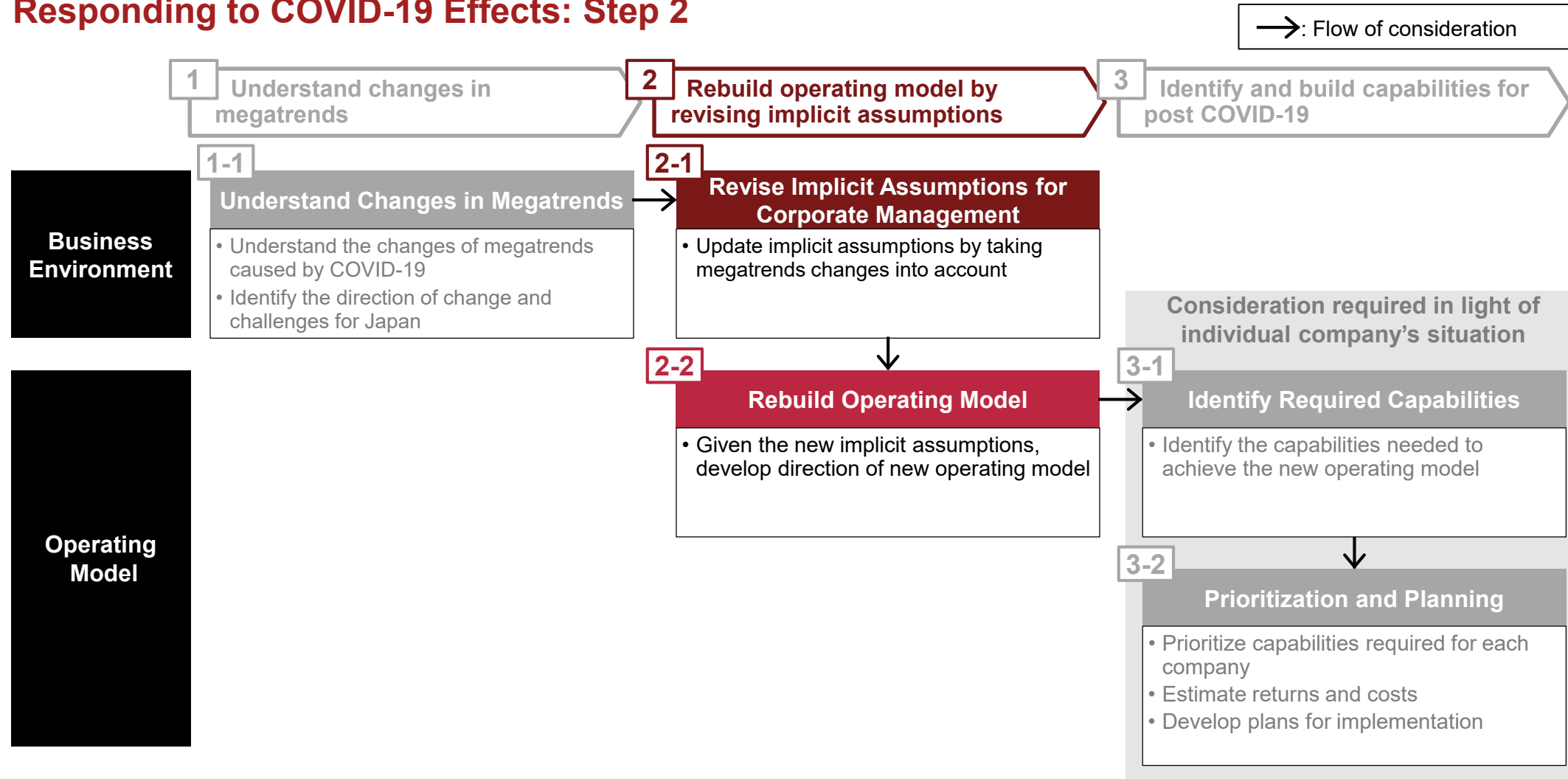
		Retail	Automobiles	Finance	Healthcare	...
 Shift in global economic power	<div>①</div> <div>Cross-border division of labor → Rising focus on BCP</div>	Online monitoring of supply chains				
			Reconsideration of suppliers globally to overcome the weakness			
 Rapidly accelerating urbanization	<div>②</div> <div>Dispersion of urban population</div>		Dispersion of mobility			
		Increase in logistics due to growth of online consumption				
 Rise of technology	<div>③</div> <div>Momentum of overall information management</div>	Establishment of mechanism to manage and monitor personal activity data on a regular basis by government, local governments, or corporate associations, etc.				
	<div>④</div> <div>Accelerating digitalization of life and business</div>	Further expansion of EC	Online sales and marketing	Non face-to-face services	Remote sales & diagnostics	
 Demographic shifts	<div>⑤</div> <div>Work styles Change</div>	Standardization of remote and agile workstyles				

2. New Operating Model



Derive new implicit assumptions impacted by changing megatrends and consider direction of the operating model

Responding to COVID-19 Effects: Step 2



Previous operating model has been based on implicit assumptions such as F2F communications & cost optimization

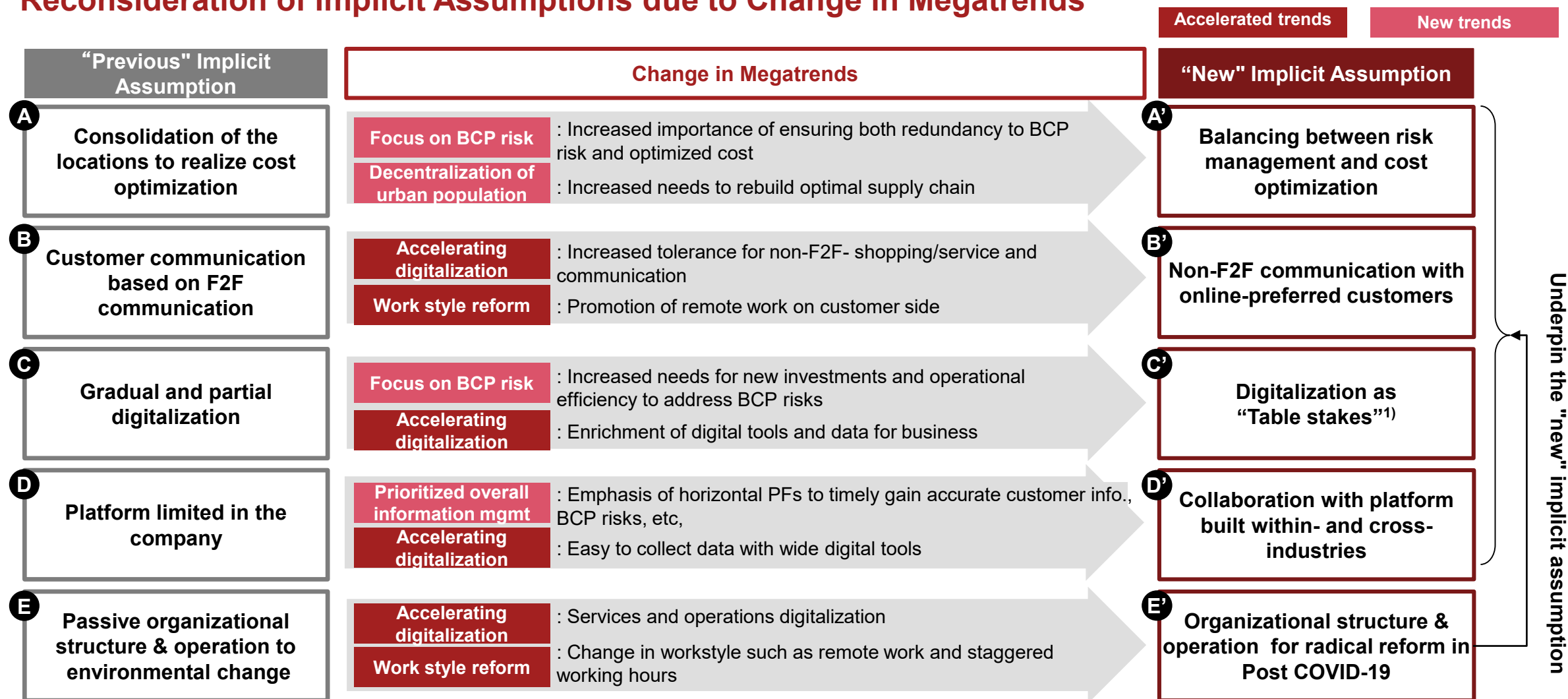
“Previous” Implicit Assumptions by Each Components of Operating Model

Used to be aligned naturally

Components of Operating Model	“Previous” Implicit Assumption	Examples of Operating Model Based on “Previous” Implicit Assumptions
R&D, Procurement, and Manufacturing	A Consolidation of the locations to realize cost optimization	<ul style="list-style-type: none"> Securing suppliers based on purchase price Establishment of manufacturing and development locations concentrated in low-labor-cost regions
Sales & Marketing	B Customer communication based on F2F communication	<ul style="list-style-type: none"> Allocation of sales branches and talent according to regions Value proposition through careful customer service unique to Japanese companies Apps & online services to assist customer communication
Digitalization	C Gradual and partial digitalization	<ul style="list-style-type: none"> Competitive differentiation through manpower cost reductions, promotions, etc. due to promotion of digitalization
	D Platform limited in the company	<ul style="list-style-type: none"> Development of own applications to enclosure customers Deployment of platform business based on the own platform
Talent and Organizational Structure	E Passive organizational structure & operation to environmental change	<ul style="list-style-type: none"> Hierarchical organizational structure with multiple decision makers Establishment of a physical contract and approval process with paper document

Reconsidering implicit assumptions is required for corporate management due to change in megatrends

Reconsideration of Implicit Assumptions due to Change in Megatrends

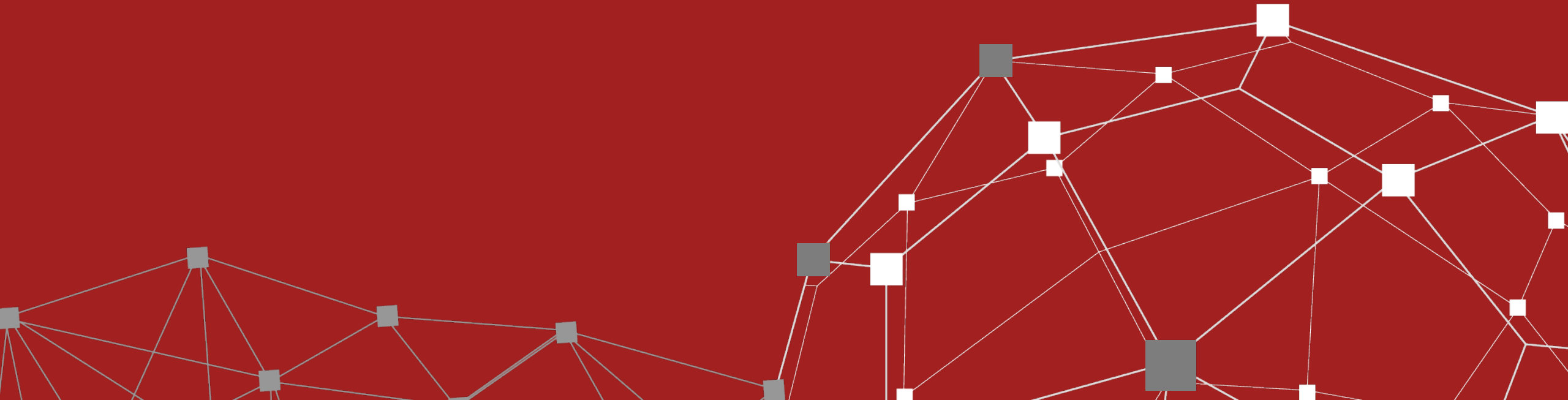


Operating models need to be changed in accordance with the shifts of implicit assumptions

Rebuilding Operating Model Based on New Implicit Assumptions

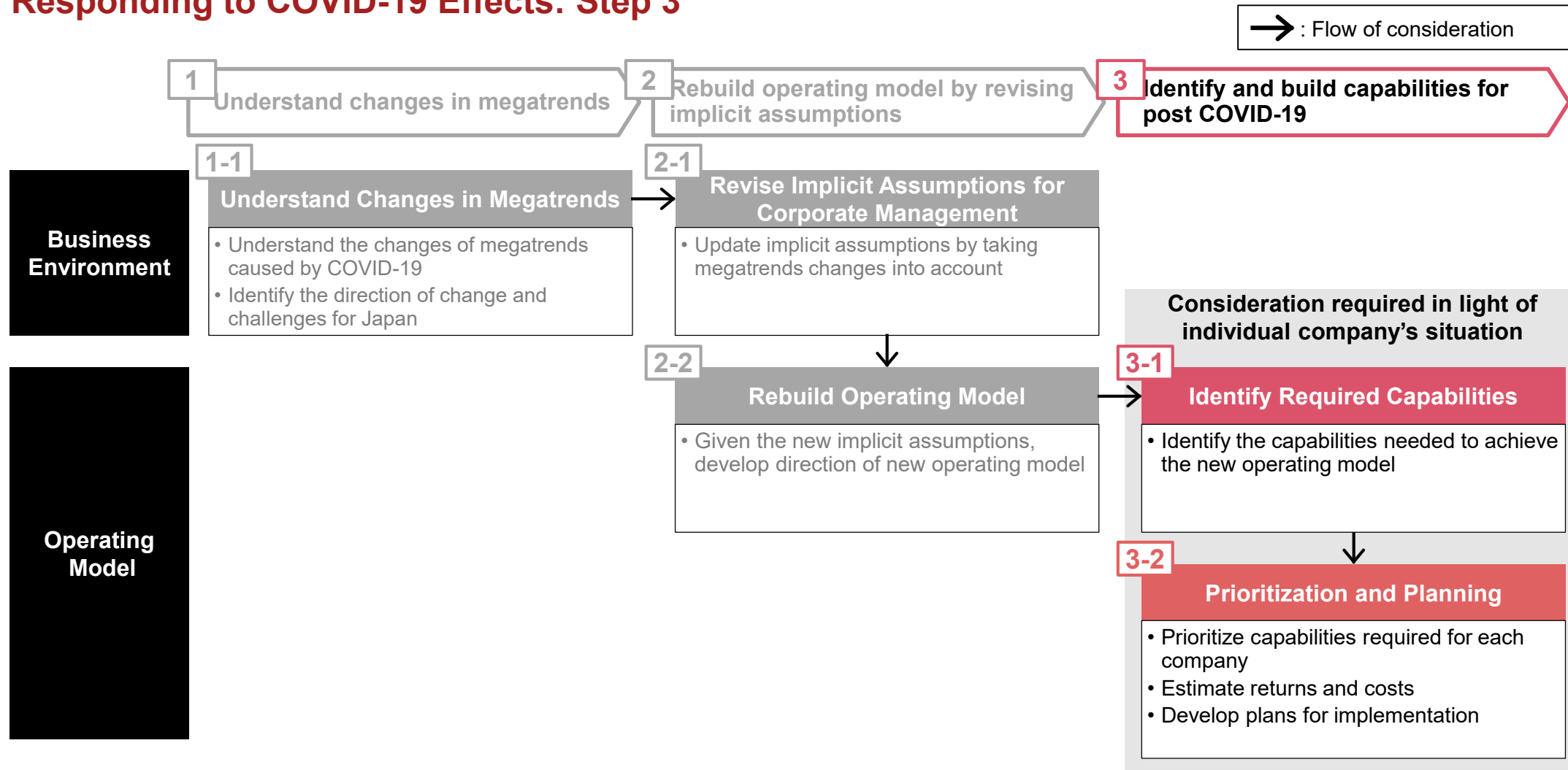
Components of Operating Model	"New" Implicit Assumptions	Direction of New Operating Model	Examples of Operating Model based on "New" Implicit Assumptions	
R&D, Procurement, and Manufacturing	A' Balancing between risk management and cost optimization	1 Supply chain & PL structure with redundancy to risk and optimized cost	<ul style="list-style-type: none"> Establishment of resilient supply chain system Securing lean PL structure by reforming cost structure while focusing on BCP risk 	Secure funds for investment (Cost reduction)
Sales & Marketing	B' Non-F2F communication with online-preferred customers	2 Customer data collection & individual strategies based on non-F2F communication	<ul style="list-style-type: none"> Collecting customer data across multiple channels by sharing data and standardizing formats across multiple channels Analysis of individual customer needs 	
Digitalization	C' Digitalization as "Table stake"	3 Reform business processes linked with aggressive promotion of digitalization	<ul style="list-style-type: none"> Design of IT systems assuming data analysis Reform toward data-driven business processes in all aspects of corporate activities Promotion of automation of personal works 	Require funds (Re-investment)
	D' Collaboration with platform built within- and cross-industries	4 Data collection and analysis collaborating with platform built within- and cross-industries	<ul style="list-style-type: none"> Selection and construction of data PFs within- and cross-industries necessary for higher demand forecasting and inventory management Analytics based on collected data 	
HR and Organizational Structure	E' Organizational structure & operation for radical reform in Post COVID-19	5 Creating organizational structure & culture realizing both new workstyles and adaptation for rapid reform	<ul style="list-style-type: none"> Creating corporate culture that allows diversity with operational feasibility Shift from seniority-oriented culture to performance-oriented culture Cross-divisional change management 	

3. Required Capabilities in Post COVID-19



Plan for post COVID-19 by analyzing the changes in megatrends & implicit assumptions

Responding to COVID-19 Effects: Step 3



New operating models of Japanese companies in post COVID-19 require reinforcement of capabilities

Required Capabilities to Support New Operating Models

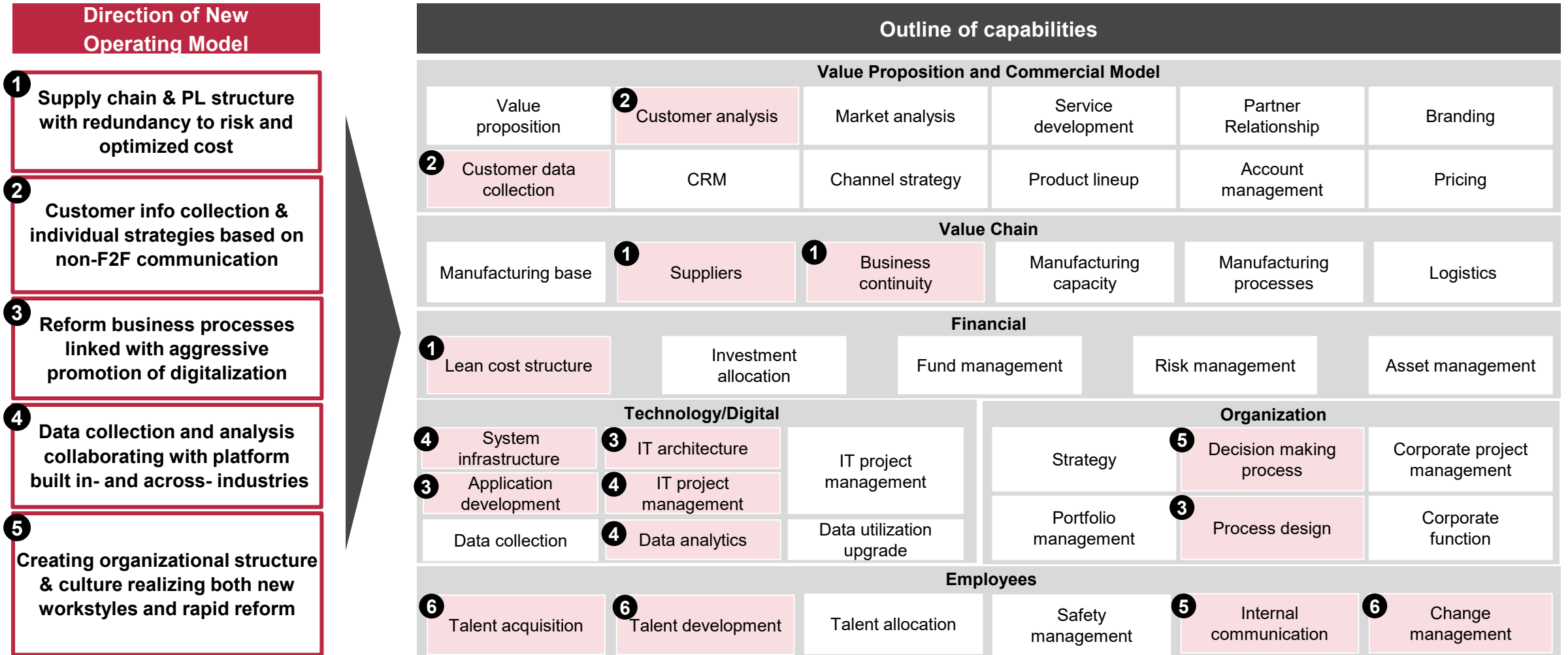
XX: Particularly important points for Japanese companies

OM' Components	Direction of New Operating Model	Required Capabilities	
R&D, Procurement, Manufacturing	1 Supply chain & PL structure with redundancy to risk and optimized cost	Business continuity	Ability to design supply chain that ensures both redundancy for BCP risk and low cost
		Procurement	Ability to manage inventory & logistics jointly across industries through integrated mgm't
		Lean cost structure	Ability to realize fundamental lean cost structure through liquidation of non-core or unprofitable businesses, not just from reducing indirect expense
Sales & Marketing	2 Customer info collection & individual strategies based on non-F2F communication	Customer data collection	Ability to share data across multiple channels and gather customer data across channels
		Customer analysis	Ability to analyze individual customer needs & reflect them in product dev't & pricing
Digitalization	3 Reform business processes linked with aggressive promotion of digitalization	IT architecture	Ability to use big data & AI to design systems that assume data analysis in business operations
		Process design	Ability to build data-driven business processes in all aspects of business activities
		Application development	Ability to develop applications by identifying assignee works that can be automated
	4 Data collection and analysis collaborating with platform built in- and across- industries	Data platform	Ability to select and build data platforms across the companies in/across the industries that are necessary for more advanced demand forecasting & inventory mgm't
		Data analytics	Ability to properly analyze inputs from data platform and utilize them in businesses
		System infrastructure	Construct system and infrastructure to visualize supply chain's real-time data
HR and Organizational Structure	5 Creating organizational structure & culture realizing both new workstyles and rapid reform	Decision making process	Ability to design processes that allow rapid decision-making even in remote work environment
		Internal communication	Ability to create a corporate culture that supports diversity in working style and people and that ensures rapid company-wide transformation
		Talent education	Ability to identify the skills required to realize digitalization & design necessary training
		Talent acquisition	Ability to attract talents by shifting from seniority to performance-based evaluations
		Change management	Ability to build a system that enables flexible, cross-divisional change management

(Reference) Outline of capabilities to be reinforced

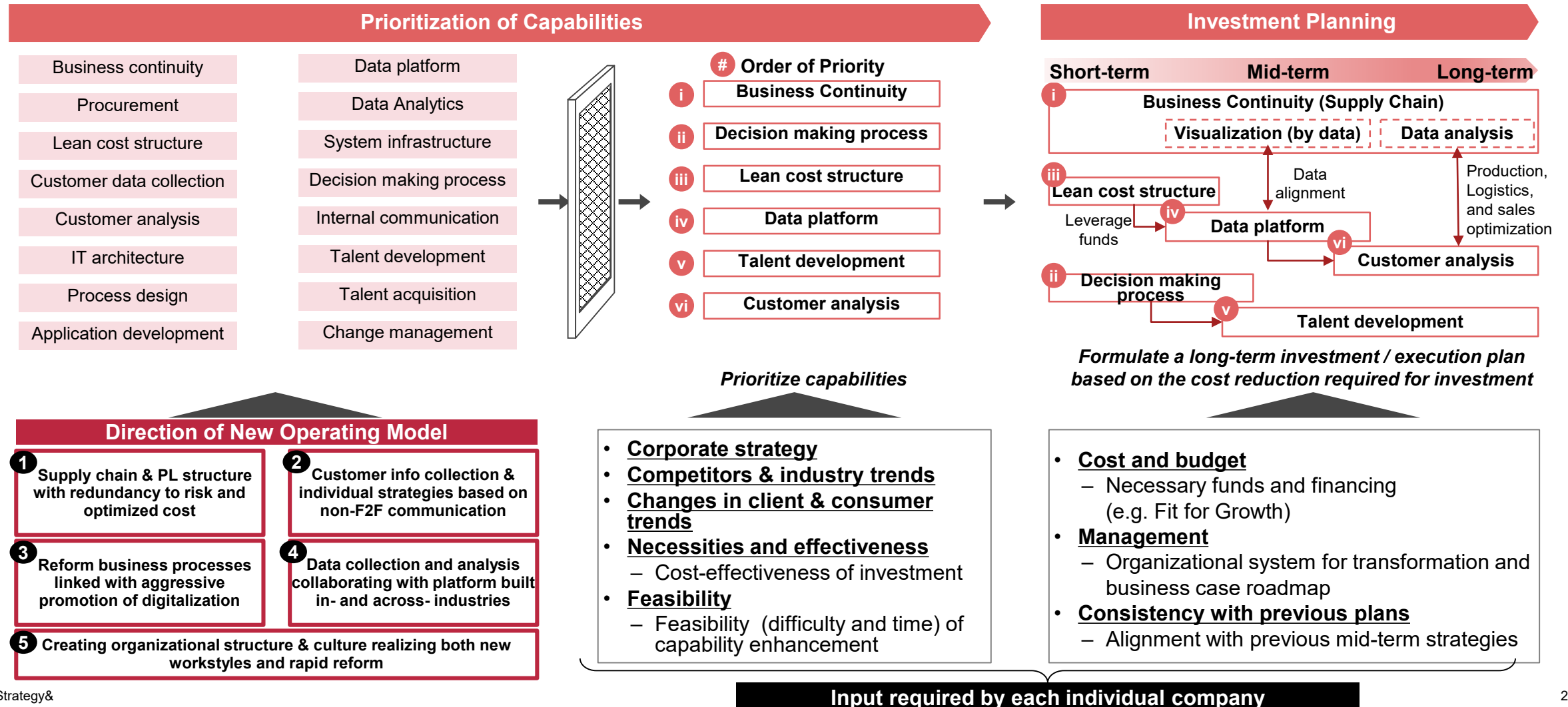
Correlation Diagram about Direction of New Operating Model and Capabilities

Capabilities to be reinforced



Planning for reinforcement should be developed after prioritizing capabilities based on individual company's context

Capability Prioritization and Planning Process Image



We are pleased to have a discussion on how to deal with discontinuous environmental changes in post COVID-19

- In the Japanese business climate, megatrends which existed before were drastically changed by the occurrence of COVID-19, and by the effect, the implicit assumptions of corporate management and the required operating model have changed.
- On a medium to long-term perspective, it seems to be necessary to prepare on the assumption that scenarios where the impact of COVID-19 is not temporary, and that the altered megatrend will continue.
- In order to restructure post COVID-19's operating model into an ideal form, for each individual company, it is essential to strengthen high-priority capabilities taking into account their strategies, competitive trends, cost situation, and management.

For many years, Strategy& has supported our clients by leveraging our strategic management capabilities and global network. We will set up a discussion regarding the priorities of measures and planning of implementation according to the business contents of each company. Please feel free to consult with us.

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Strategy& and PwC Japan Group discuss the impact of COVID-19 in different industries

Industry Reports

Company-wide Strategy	Consumer Goods, Retail, Logistics	“How Consumer industry can manage and recover from COVID-19 (Japan)” (in English and Japanese) <ul style="list-style-type: none"> Consumers switched to online channels due to COVID-19 are expected to continue online shopping in post COVID-19, leading to e-commerce market growth As some trends driven by COVID-19 expected to continue for medium-long term, companies with capabilities, such as lean operations can establish competitive advantages in post-COVID-19
	Financial Services	“COVID-19 Impact and responses in banking sector” (in Japanese) <ul style="list-style-type: none"> Banks have been impacted on its entire balance sheet due to rising risks in securities transaction. While facing long-term risks, banks will have inevitable impact on profitability and financial health On the other hand, COVID-19 response can be an opportunity for banks to transform business architecture. Re-allocation of resources is essential to drive initiatives across business
Function-specific Strategy	Auto	“[COVID-19 Response] Overcoming issues and forecasts for long-term development: 4 focus in Auto industry” (in Japanese) <ul style="list-style-type: none"> In Auto industry, COVID-19 reduced short-term consumer needs and worsened cash flows of upstream / downstream in value chain Companies need plans to mitigate mid / long-term impact, including supply risk chain management and acceleration of online marketing and digitalization

⋮

COVID-19 Relevant Portal Site

In addition to the ones on the left, we collect the most latest finding of Strategy and on the impact of expanding COVID-19 on people, businesses and industries for enterprise decision-makers.

Link: <https://www.strategyand.pwc.com/jp/ja/implications-of-covid-19.html>

COVID-19 Navigator

This tool will help you understand where your company stands as you respond to COVID-19 in the areas, including crisis management, finance and liquidity, etc.



Webcast

PwC has held online seminars on COVID-19 impact and responses (in Japanese)

Topic examples :

- COVID-19 and tax responses
- Proposal to Japanese companies in post COVID-19



Unique Solutions of PwC Strategy&

Examples of Our Unique Solutions



- Integrated platform support senior executives and middle managers on how to align their company's costs and organization with their strategy so they can grow, create value, and sustainably outperform competitors
- Additionally support digital transformations that lead to business outcome

Website: <https://www.strategyand.pwc.com/jp/ja/fit-for-growth.html>

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- Program to support mid- and long- term company-wide reform journey utilizing digital technology
- Leverage the eight-component framework to consider digital transformation to help comprehensive consideration



- Supply chain management was the management technique firstly used by Boos Allen Hamilton, the predecessor of PwC Strategy&
- Using unique approaches, Strategy& supports supply chain diagnostics, policy formulation for improvement, and roadmap formulation.

Thank you

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