Covid-19: business must get ready for the new abnormal

Anyone who has tried researching the future will know that it can be a fairly dumb-assed thing to do. You can always extrapolate forwards from the past. And something similar must have happened back then that we can draw lessons from, don't you think? OK, let's factor in some new events and emerging patterns. Let's take a lot of evidence on intentions, actual practices from organisations and governments, and track these carefully for changes and patterns. Then let's hedge our bets by creating multiple scenarios ranging from optimistic to the most pessimistic, but just focus on the most likely futures. Oh, and don't forget the human dimension, that is – try to anticipate how people will respond, what their psychological states will be, what will be driving them. Throw in technological developments and the likely massive impact of digital technologies, some of which are only just emerging. Shake, stir and pour.

Well obviously it was more rigorous and carefully accomplished than that (I think) but I have been doing a lot of research into future scenarios for a forthcoming book on global business and technology. Here is my more brazen version of only some of the findings so far, as at end of May 2020.

Business futures: a guess at the riddle

What will emerge from the 2020 crisis? The pandemic and economic downturn has seen trade, financial flows and travel contract, but a single trend towards deglobalisation is unlikely. In the longer term the globalisation trends will continue, while reflecting increasingly the growing role of Asia and China with their continued growth in incomes, and homing two thirds of the world's population.

Speculating, we will see an acceleration of the trend towards reshoring production and services to move businesses closer to their final markets. This will be helped by the deployment of automation and digital technologies. Capitalising on the pandemic experience, managers will also become more digital in order to build resilience in systems, and deal with cost reduction pressures, while responding to customers expecting fast delivery of more customised products and services.

There will be a shakeout across business sectors and countries. This will show up weak business models, poor financial positions, and managements who failed to build resilience and adaptiveness into their competitive positioning and operations. Also during 2020 certain sectors were being hit more severely than others, notably travel, recreation, oil and gas, commercial aerospace, insurers, and (off-line) retail. Think American Airlines, event companies, the smaller oil companies, Marks and Spencer. Thus damage is likely to be unevenly distributed. How much general damage, and the business propensity to recover, will depend on the length and depth of the downturn. Just as a rising tide raises all boats, a receding (economic) tide can ground all too many. Government support for struggling businesses will be strong everywhere, but cannot be limitless.

Some firms will emerge from the 2020 general drop in sales and profits even stronger; many firms, where they survive, will be weaker. In the past three recessions, share prices of the top ten American firms in ten major sectors rose by an average of 6%, while those at the bottom fell by 44%. Some firms had the advantages of large size and strong financial position before 2020. Look at Apple with its $US207 billion cash mountain, and Unilever, able to fund its suppliers during 2020. The Economist (March, 2020) called such businesses ‘top dogs’. Their analysis of over 800 European and American firms showed technology firms making up 48 of the top 100. Microsoft, Apple, Facebook and Alphabet operate with big cash buffers. High demand for their products surged further during 2020. Cisco Systems, Nvidia, and Adobe were also in this ‘top dog’ technology group. Another 24 were pharmaceutical and health-care firms with spare cash and a captive market of people needing drugs. Think Roche, Novo Nordisk and Johnson and Johnson.

There will also be winners and losers within sectors. As an indication, the technology sector saw Amazon add 100,000 workers to its US workforce, while Softbank was announcing $US41 billion in divestments to raise cash. In the energy sector, BP, ExxonMobil and Royal Dutch Shell vastly outperformed smaller firms, and were better positioned to ride out the 2020 downturn in global oil prices. In cosmetics, L’Oréal has done better than its US rival Coty. In plane manufacturing, Airbus had $US32 billion in liquid funds in March 2020, just as Boeing thought of seeking a US government bailout.

These differing performances reflect previous good results and management, built-in financial and organisational adaptiveness and resilience, prescient long-term planning mixed in with happening to be in the right place, in the right industry, at the right time. As in previous recoveries, the ‘winner’ firms will be better placed to achieve, over time, greater market share and enduring advantage in their sectors. With better cash positions, higher profits, and lower cost of capital, they will be in a stronger position than rivals to make further investments, pursue mergers and acquisitions, restructure the business, and change strategic direction.

Riding the trends

The problem and reality for all organisations will be highly challenging: How to build an organisation for the new (ab)normal, that was likely to be increasingly in the hands of governments, developments in China and Asia, and the relatively few large corporations who emerge well from the health and economic crisis. There will be opportunities. Government and populations would need to increasingly address climate change, energy and water supply, and health care. In business terms, these all provided the source of not just potential crises, but also were potential growth markets for new products and services. Additionally, management could harness, rather than resist, six major future trends that accelerated during the pandemic period. What are these?

- *Digital technologies and automation.* Global businesses have had a crash course in the value of moving to digitalisation Technology may bring more opportunities to create value, while redefining work. But technological adoption has been uneven across countries, sectors and companies. There is a growing gulf between those who have embraced technological change and those that have not, which may place many companies, and even countries, at a growing disadvantage as the 2020s proceed.
- *Supply chain restructuring.* The crisis highlighted the need for greater risk mitigation and resilience. This will speed moving a critical mass of production/service closer to home, rethinking processes and suppliers, bigger safety buffers in inventory, and even greater automation.
- *Repatriation and less cross border investment.* This pushes further a pre-existing trend where better financial performance came from shrinking to regional or domestic markets.
- *Flexible labour models.* The pandemic experience will push core-periphery models even further, minimising the number of core workers, but privileging them, while automating more work and increasing automated control over the part-time, temporary and contracted workforces
- *Resilience in the face of uncertainty over business environments and human-made and natural disasters.*

While I expect this to be high on the agenda over 2021-22, past experience indicates growing complacency if no further widespread crisis, of whatever sort, occurs for a few years.

- *Greater focus on South and East Asia.* Countries here may well recover earlier. They contain two thirds of the world's population and were already rising to globalism. They will be in prime position to shape the new (ab)normal. Focus here will not just be on prospective markets and sourcing options. What can be learned from Asia is a key question for international businesses. This covers not just innovative uses of technology, but, for example, how retailing can be restructured, and how to mobilise resources fast and at scale. Marrying the learning and the opportunity with what is best for the business will be a key management task. Trade-offs will be necessary. For example, over-dependence on Chinese supply may be reduced by building resilience, and some repatriation of production.

Conclusion

Global business has already received a severe shock to the system. It had received many economic shocks before. But few businesses saw this coming because they had not trained themselves to sufficiently factor environmental human-made and natural disasters into their long-term scanning and scenario planning. Several commentators, including Ian Goldin and Bill Gates, pointed out as early as 2015 that a pandemic was long overdue, and that the world, including businesses, was not ready.

Global business trends have been shifted by the pandemic and financial crises. Some businesses will come to terms with the disruptions in different ways. But many businesses will not. And many who survive the crisis might not emerge in such good shape to compete with others who were building themselves more resilient business models even before the pandemic hit. The crisis is producing several likely trends that businesses need to ride and seize opportunities from: technology deployment, resilience, restructured supply chains, less foreign investment, greater focus on home markets, but also a greater focus on events and markets in South and East Asia.

This crisis points to several needs – for better forward planning, greater built-in resilience, for a new set of assumptions for managing what I have been calling the new (ab)normal. Interconnectedness has turned into a complex interdependence. This has created uncertainty and systemic risk. As several others have already pointed out, systemic risk requires systemic thinking, to shape systemic responses. If this becomes a collective wisdom, then we will have at least learned one major lesson from 2020 so far.

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Notes:

- *This blog post is based on the author's forthcoming book Global Business Strategy In Context.*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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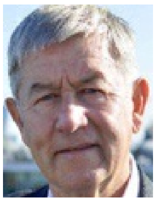

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