

How to transform in this new reality?

Business transformation during and after the pandemic

Chapter 1. Uncharted territory

Practice social distancing.



Stand within this circle.



The better the question. The better the answer.
The better the world works.

EY

Building a better working world

A little history

Historical perspective

Throughout recorded history, there have been at least 15 large pandemic events with at least 100,000 deaths.

Event	Start	End	Deaths
Black Death	1331	1353	75,000,000
Italian Plague	1623	1632	280,000
Great Plague of Seville	1647	1652	2,000,000
Great Plague of London	1665	1666	100,000
Great Plague of Marseille	1720	1722	100,000
First Cholera Pandemic	1816	1826	100,000
Second Cholera Pandemic	1829	1851	100,000
Russia Cholera Pandemic	1852	1860	1,000,000
Global Flu Pandemic	1889	1890	1,000,000
Sixth Cholera Pandemic	1899	1923	800,000
Encephalitis Lethargica Pandemic	1915	1926	1,500,000
Spanish Flu	1918	1920	100,000,000
Asian Flu	1957	1958	2,000,000
Hong Kong Flu	1968	1969	1,000,000
H1N1 Pandemic	2009	2010	203,000

Sources: Alfani and Murphy (2017); Taleb and Cirillo (2020); and https://en.wikipedia.org/wiki/List_of_epidemics and references therein.

The International Monetary Fund (IMF) has stated that "this is the worst crisis since the Great Depression" and forecasted a global economic contraction of 3%(1). However, the Great Depression is not the only crisis we have faced, as there have been a number of different crises in the past and current century: World War I, where the U.S. consolidated its status as a world power, and the Spanish Flu, which caused more deaths than WWI itself, although people don't remember much about it other than that it marked the start of anti-colonialism, international cooperation, the transformation and advancement of public health, among others. Then we have World War II, which resulted in the creation of today's supranational organizations (the UN, Hague Tribunal, etc.), the Soviet Union and its control block, the U.S. aligned block, and the foundations for the European Union. After that, different parts of the world suffered economic crises that were usually produced by developing countries with economies dependent on raw materials production. In fact, we can still feel the effects of the IMF financial rescue today, as it has brought about the strengthening of China after the fall of the Soviet Union and the current strained relationship between the European Union and the U.S.



Where are we?

As we can see, each crisis brought dramatic effects, both positive and negative, but there was a common impact: the world was reactivated by exploring uncharted territory. That said, the crisis we're currently experiencing in this hyper-connected world is certainly unprecedented.

People, organizations, governments, and leaders have realized that we're facing a new reality; everything changed practically from one day to the next, and the opportunities gravitated towards the companies that had been working to develop an operating model that rewarded the use of digital channels by their customers, suppliers, and partners, or those born with a digital model and heavy and rational use of technology.

It is still unclear when the health emergency will be over or what impact it will have, but some lessons have already been learned, and EY recently published a study called "The New Normal," in which it shared 5 general aspects that are now present in society:

- 1. Social interaction.** Having spaces specifically for home office or homeschooling purposes was not the standard, but now home structures and even geographical locations are being rethought. Entertainment has indirectly increased internet consumption, as well as competition among the different ISPs(2).
- 1. Responsible consumption.** Staying home and suspending mobility has sparked social awareness regarding local consumption, the impact of products and services on the environment, and the quality of production or delivery of products and services, translating into new positive habits.
- 1. Health awareness.** The confinement conditions, identification of risk sectors, and closing of gyms have motivated people to act and attend to their physical activity, diet, and general healthcare.
- 1. Redefined mobility.** Alternate forms of transportation were already becoming popular before. Now the people who cannot stay home and who have access to non-public transportation have started to use these alternate forms more frequently. Public transportation systems have implemented all required health measures in highly populated spaces, which people have accepted as part of their daily routines.
- 1. Work styles.** Home office has been generally adopted, with exceptions depending on the person's activities and role, and those who were not used to this way of working had to learn quickly. The tasks that could not be carried out remotely were adapted to comply with the confinement restrictions and health measures.



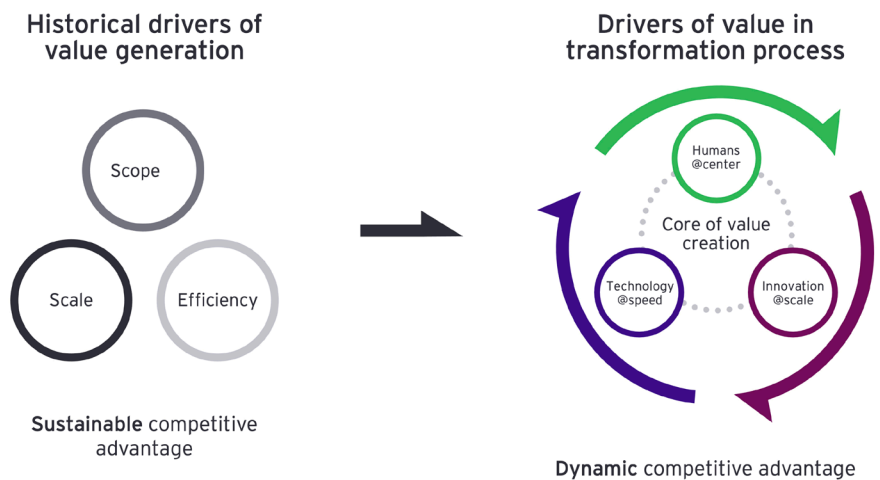
This is only one of the many studies that have been conducted during this period, each addressing different perspectives and with diverse effects. This new reality, as was previously mentioned, pushes us to explore territory that may be unknown, but has well-defined characteristics: a context with **multiple pressure points** that have caused change agendas to accelerate and priorities to be redefined, and in some cases, even the determination that it is necessary to reinvent the core of business because the customers' perception of value has also changed.

An example of this transition is the textile sector in the fashion industry, which from one day to the next, started producing face masks and medical supplies, and even incorporating accessories to face the pandemic, all while trying to increase participation in events held on digital platforms, such as the Fashion Week Online (FWO), which started in 2011, but has now set the trend due to the experience it had already acquired, allowing it to gain access to renowned brands and designers who have previously resisted the idea of using a virtual platform as an effective channel to showcase their work.

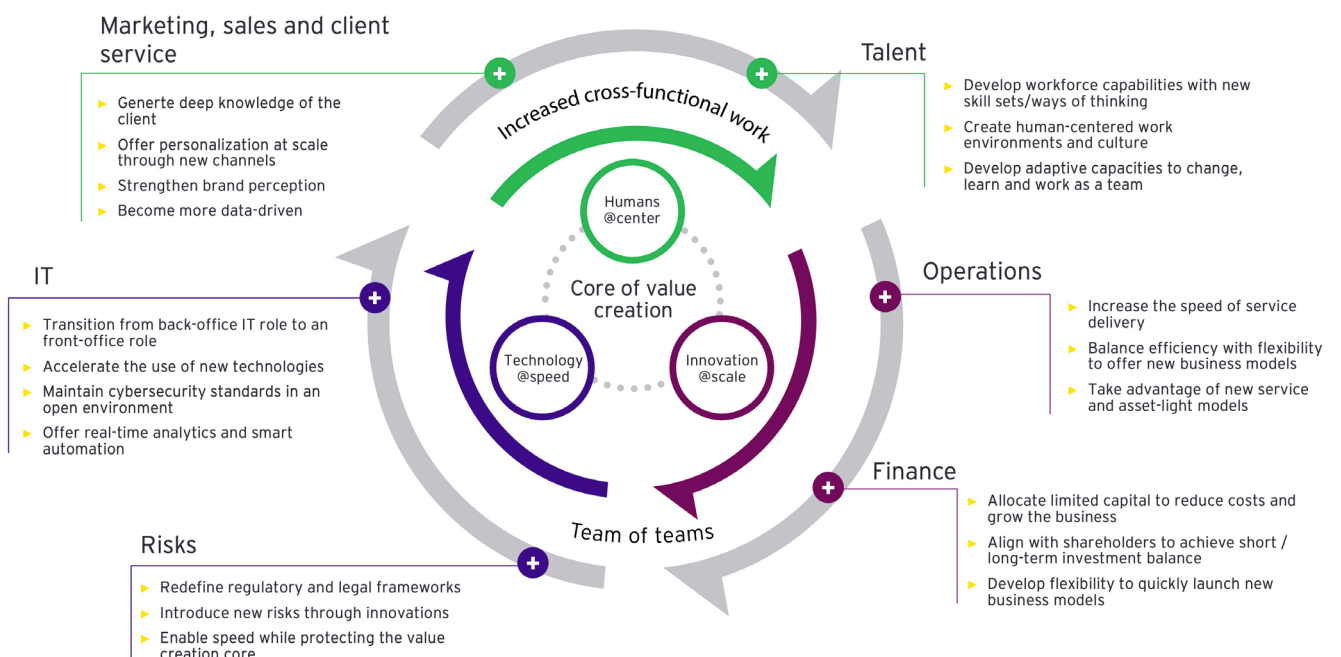
What have we learned thus far?

There are certainly big winners due to this crisis, mainly those who had an operating model geared towards a digital environment or those who had been developing their adaptability, innovation, and flexibility as part of their daily activities. There are also big losers, those who had not developed the capabilities required to face an extremely demanding environment in their own context.

But what has changed? EY has discovered that the traditional drivers that established a sustainable competitive advantage, namely scope, scale, and efficiency, have lost relevance because now the trend is dynamic competitive advantages based on context, which require new value drivers, such as humans at the center, accelerated adoption of technology and innovation on a large scale.



In order to achieve a dynamic competitive advantage, all functions must be optimized to change the core of value creation, which, as can be observed in the diagram above, is the result of a vision centered on people in every part of the value chain (*Humans @center*), accelerated and rational adoption of technology to enable new products and services (*Technology @speed*) and a passion for building an organization willing to innovate every aspect of the business (*Innovation @scale*). The image below shows the areas affected by the development of a dynamic competitive advantage:



To close this chapter, I would like to share an inventory of questions that should be considered before moving on to the next chapter, which will address the first step to creating a future with a transformative mindset.

Self-assessment

There is no one reality after the pandemic. Still it is very important to answer a series of questions that will allow us to build and start to redefine (really, we have been doing so from the beginning of the COVID-19 health crisis, if not earlier) ourselves, our business, organization, leadership and personal brand and by being part of a whole, where individual actions mix with group actions and organizational efforts in a comprehensive transformation process. Many of the questions will seem obvious. There are also probably many more questions to ask, but what is important is to try to answer them as strictly and objectively as possible to establish the foundation for an action plan.

1. Preparation


- a. How prepared were we for this crisis or any other potential crisis?
- b. Was our competition prepared?
- c. Which of our competitors stood out during the crisis? Why?
- d. What transformation initiatives did we have in mind, or were in the process of implementing?
- e. Were those initiatives useful in facing the pandemic?
- f. Do we have a solid plan for transformation?

2. Leadership

- a. Do we have a clear vision of what transformation means for our organization?
- b. Are we clear on what we want our organization to look like in the future? What are its characteristics?
- c. Do our leaders have the right mindsets to face the demands of adaptability and flexibility?
- d. What changes are needed in our leadership styles in order to face the currently developing landscape?
- e. Do our leaders accept and encourage new ways of working?
- f. How willing are our leaders to transform the business model? Are they willing to take new risks?
- g. As leaders, should we change our performance assessment model based on our adaptability and flexibility?
- h. Are we fostering a culture of collaboration, or do we only intend to?

3. Ecosystem

- a. Was our partner ecosystem prepared to adjust to urgency?
- b. How did our ecosystem react during the crisis? How prepared were they?
- c. Do we have partners that were better prepared than us?
- d. How did we interact with our partner ecosystem during the crisis? Were we empathetic towards them, or were they towards us? What was the correspondence like between us?

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- e. Did we have or were part of a solid ecosystem?
 - f. What lessons did we learn from the performance of our ecosystem?
 - g. Did we identify new partners for the ecosystem?
 - h. Did we extend our brand promise to all the partners in our ecosystem? Do they know and share our brand promise and execute the service according to our vision?

4. Culture and people

- a. Did the culture of the company facilitate the adaptation to the new environment?
- b. What could we have done better? What did we do right?
- c. What abilities did our workforce have to face the crisis?
- d. What new positive abilities, habits, or attitudes did we acquire? What are you doing to promote, maintain, and develop them?
- e. Is it necessary to develop new abilities and habits?
- f. Did the Human Resources leader react in time? Was he/she prepared for the crisis? What actions are we taking to create a link between our personnel and the organization?
- g. Did any leaders emerge that we hadn't identified before?
- h. How has our personnel reacted? How do they identify with the actions taken by the organization?
- i. What changes have been necessary for the workspace? What tools have been used to continue our operations?
- j. What other aspects have been modified to adapt?

5. Customers

- a. Did we stop serving our customers?
- b. How did our customers react? Were we able to meet the demand?
- c. Did we have any customer service issues?
- d. Did we lose any customers? Were they important customers? What actions are we taking to get those customers back or improve our service?
- e. Did any new competitors arise? Did they engage our customers?
- f. What was the most common complaint among our customers?
- g. Did we improve our response times?

6. Finance

- a. Did we have a strategy to finance our operations during the crisis?
- b. What type of financial alternatives do we have? Did we find new alternatives during the process?
- c. What strategies will we employ to reactivate our operations?
- d. How is the crisis affecting our operations, personnel, customers, suppliers, and partner ecosystem?
- e. What are our outstanding tax obligations? What strategy will we follow?

7. Innovation

- a. Is it clear what innovation means for our organization?
- b. What benefits will our organization gain from innovation?
- c. Are we enabling innovation, or is it a consequence of resourcefulness to overcome the crisis?
- d. How innovative are our competitors?
- e. Did we generate innovation as a result of the crisis? Are we supporting creative abilities?
- f. Is our team on the lookout for future possibilities for our organization?

8. Risks

- a. Are we aware of the risks that come with virtual or hybrid environments?
- b. Are we protecting our technological infrastructure?
- c. In order to serve our customers, are we empowering front-office capabilities, and are we aware of the risks posed by this strategy?
- d. Does our corporate governance model contemplate the risks associated with the new ways of working and operating?
- e. Did any new risks arise, and did we establish mitigation mechanisms?

9. Operating model

- a. Do we have a flexible and adaptable operating model?
- b. Are we adopting work methodologies that allow for collaboration and flexibility?
- c. Do our leaders support creating a truly dynamic model that can be adapted to the market conditions?

As was previously mentioned, there is not enough space in this first chapter to conduct a thorough analysis of the current situation. Still, it is essential to consider these points before moving on to the next step. The Companies' aspirations have been radically transformed, and consumers have also changed their habits and behaviors, putting companies under constant, growing pressure and demand.

This material is intended to help readers become aware of the terrain on which their organizations are standing. The purpose of Chapter 2 is to create a clear future vision of the organization to consolidate the strategy required to start a reliable process of transformation and adaptation to the new, post-COVID-19 environment.

Until the next chapter.

(1) *BBC World News, April 21, 2020.*

(2) *ISP - Internet Service Providers.*

About EY

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