PRESENTERS

Ali Potia
Partner
McKinsey & Company

Simon Wintels
Partner
McKinsey & Company

MODERATOR/HOST

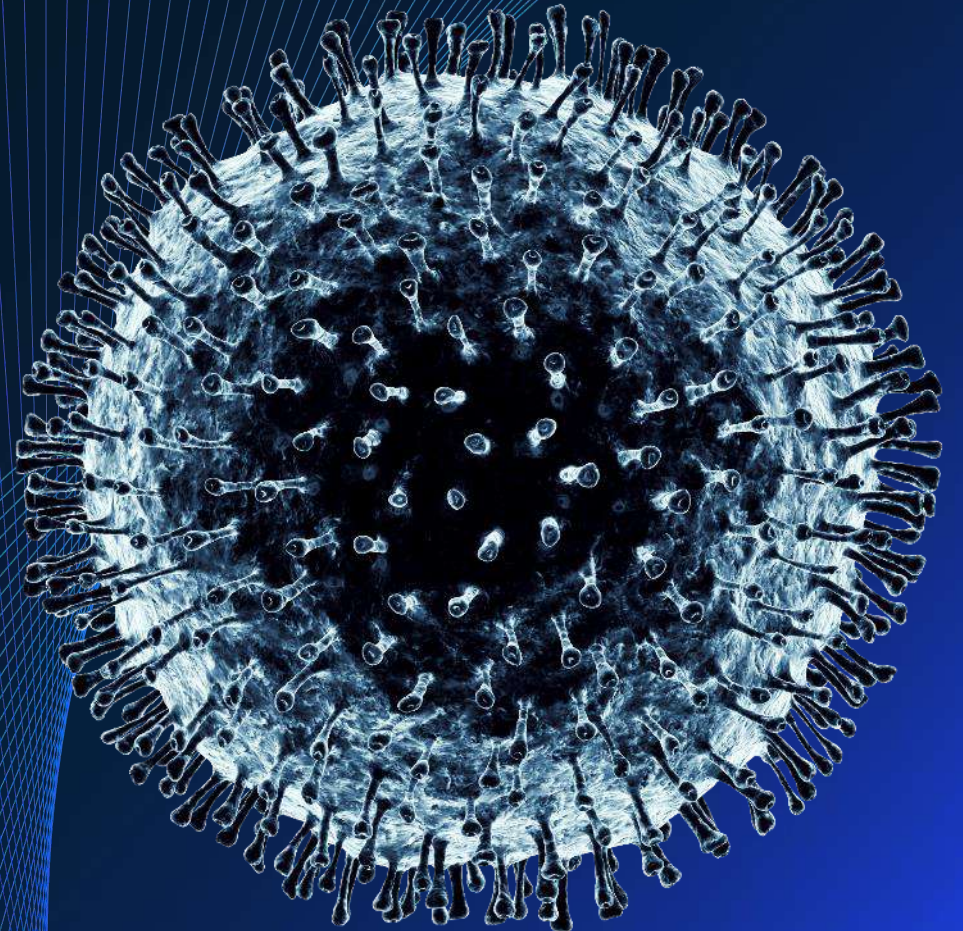**Rohit Dadwal**
Managing Director
Mobile Marketing Association
APAC

COVID-19:
Preparing for the Next
Normal

Webinar

May 27th, 2020

COVID-19 is, first and foremost, a global humanitarian challenge. Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly. This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains and financial results.

We are happy to provide additional deep dives on topics of your interest.

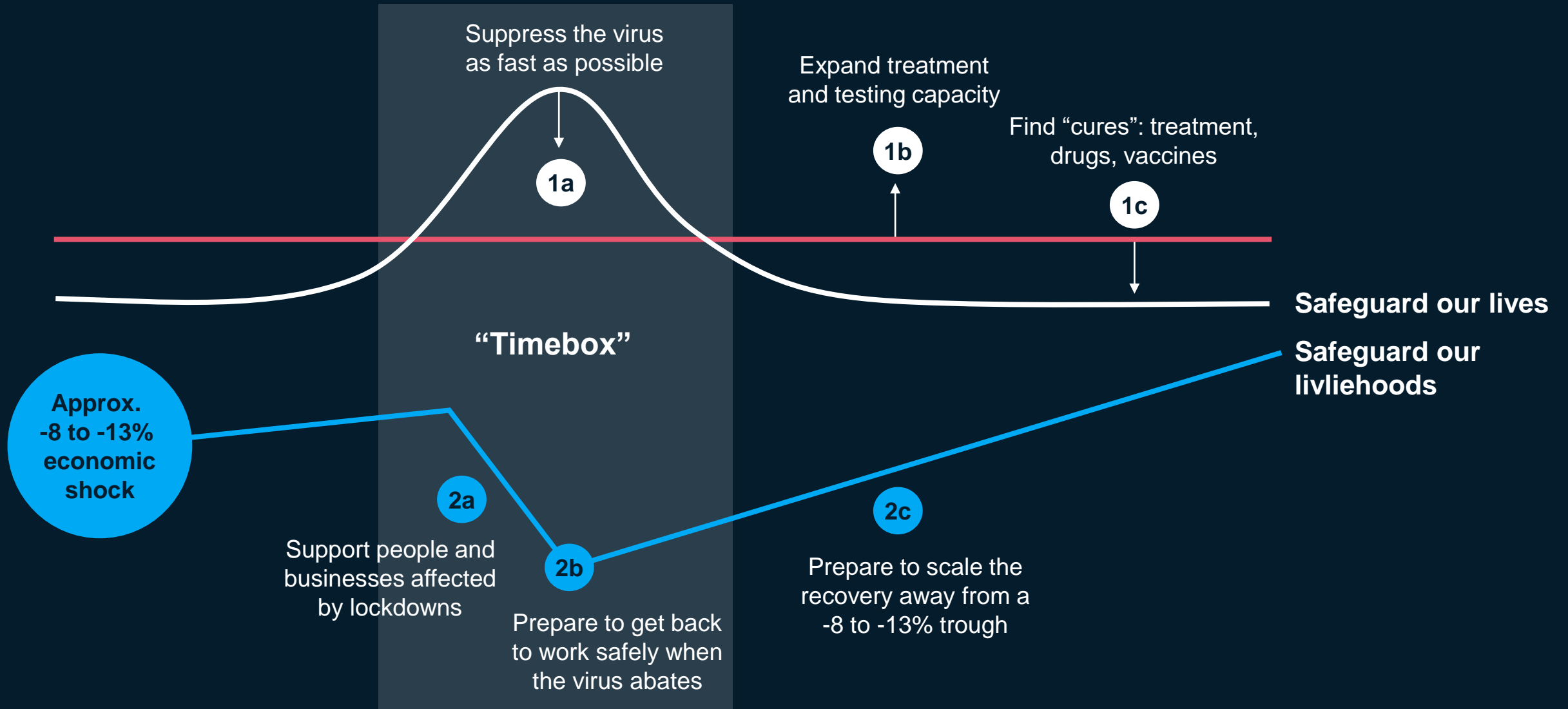Read more on McKinsey.com $\longrightarrow$

Agenda

Update on macroeconomic situation

How can return look like: insights from China

Revenue Recovery: insights into discretionary spend

Planning ahead

Imperatives for "timeboxing" the virus and the economic shock

Suppress the virus as fast as possible

1a

Expand treatment and testing capacity

1b

Find "cures": treatment, drugs, vaccines

1c

Safeguard our lives

"Timebox"

Safeguard our livliehoods

Approx. -8 to -13% economic shock

2a

Support people and businesses affected by lockdowns

2b

Prepare to get back to work safely when the virus abates

2c

Prepare to scale the recovery away from a -8 to -13% trough

Scenarios for the Economic Impact of the COVID-19 Crisis

GDP Impact of COVID-19 Spread, Public Health Response, and Economic Policies

Virus Spread & Public Health Response

Effectiveness of the public health response
in controlling the spread and human impact
of COVID-19

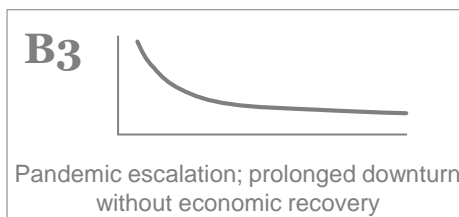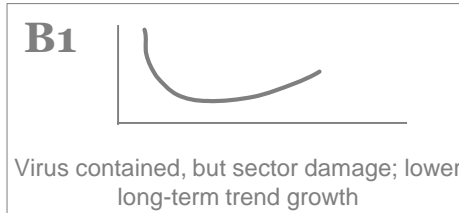**Rapid and effective control of virus spread**

Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective response, but (regional) virus recurrence

Initial response succeeds but is insufficient to prevent localized recurrences; local social distancing restrictions are periodically reintroduced

Broad failure of public health interventions

Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)

B1

Virus contained, but sector damage; lower long-term trend growth

A3

Virus contained; growth returns

A4

Virus contained; strong growth rebound

B2

Virus recurrence; slow long-term growth insufficient to deliver full recovery

A1

Virus recurrence; slow long-term growth with muted world recovery

A2

Virus recurrence; return to trend growth with strong world rebound

B3

Pandemic escalation; prolonged downturn without economic recovery

B4

Pandemic escalation; slow progression towards economic recovery

B5

Pandemic escalation; delayed but full economic recovery

Ineffective interventions

Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis
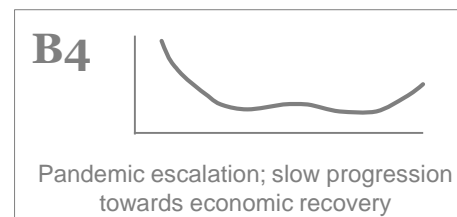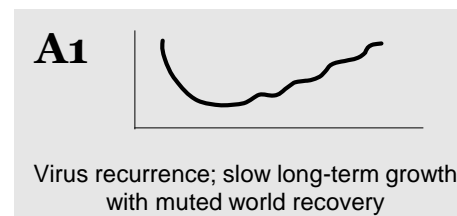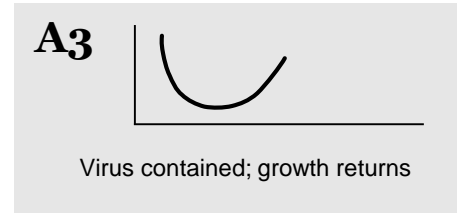
Partially effective interventions

Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted
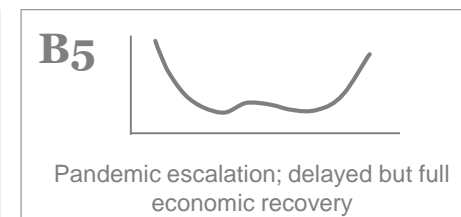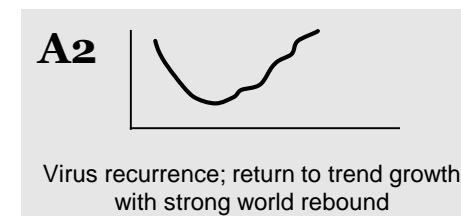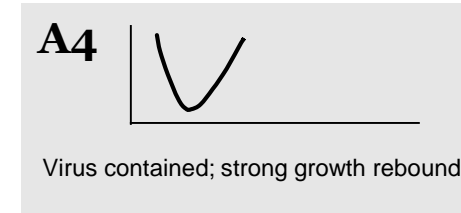
Highly effective interventions

Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

Knock-on Effects & Economic Policy Response

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

Executive expectations about the shape of coronavirus crisis in the World and ASEAN

Most likely scenario, % of respondents

	A1	A2	A3	A4	B1	B2	B3	B4	B5
	Virus resurgence; slow long-term growth. Muted World Recovery	Virus resurgence; return to trend growth. Strong World Rebound	Virus contained, slow recovery	Virus contained; strong growth rebound	Virus contained, but sector damage; lower long-term trend growth	Virus resurgence; slow long-term growth	Pandemic escalation; prolonged downturn without economic recovery	Pandemic escalation; slow progression towards economic recovery	Pandemic escalation; delayed but full economic recovery
World (59%)	31%	6%	16%	6%	15%	11%	3%	9%	2%
ASEAN (63%)	34%	2%	20%	7%	13%	11%	1%	13%	1%

Indonesia's speed to recover may be faster than other regions and the global average

— China[1] — Eurozone — Indonesia[1] — United States — World

Scenario A3 – Virus Contained

Real GDP Growth – COVID-19 Crisis
Local Currency Units Indexed, 2019 Q4=100
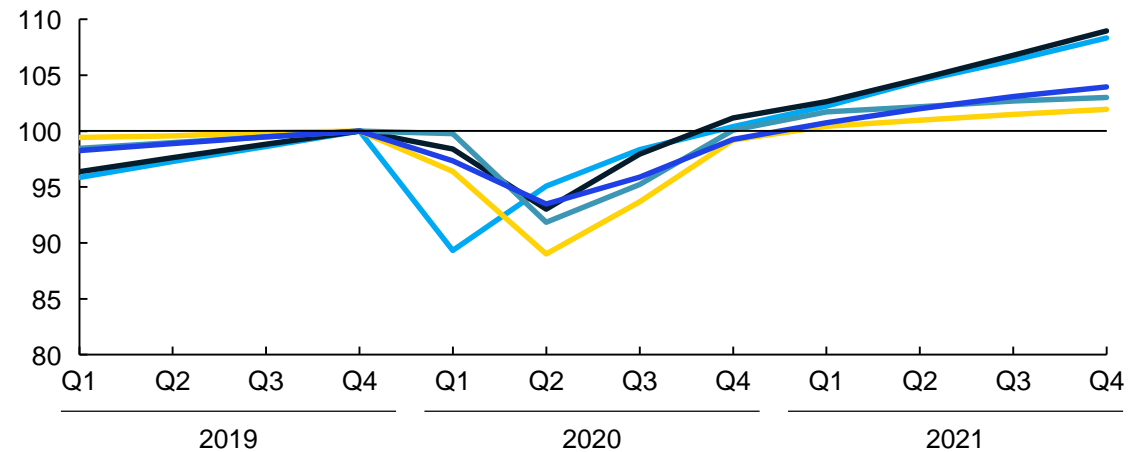
| 2019 | 2020 | 2021 |

	Real GDP Drop 2019 Q4- 2020 Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
China[1]	-4.9%	-2.0%	2020Q4
Eurozone	-11.0%	-5.2%	2021Q1
Indonesia[1]	-7.0%	-0.6%	2020Q4
United States	-8.1%	-2.5%	2020Q4
World	-6.5%	-2.7%	2021Q1

Scenario A1 – Muted Recovery

Real GDP Growth – COVID-19 Crisis
Local Currency Units Indexed, 2019 Q4=100

| 2019 | 2020 | 2021 |
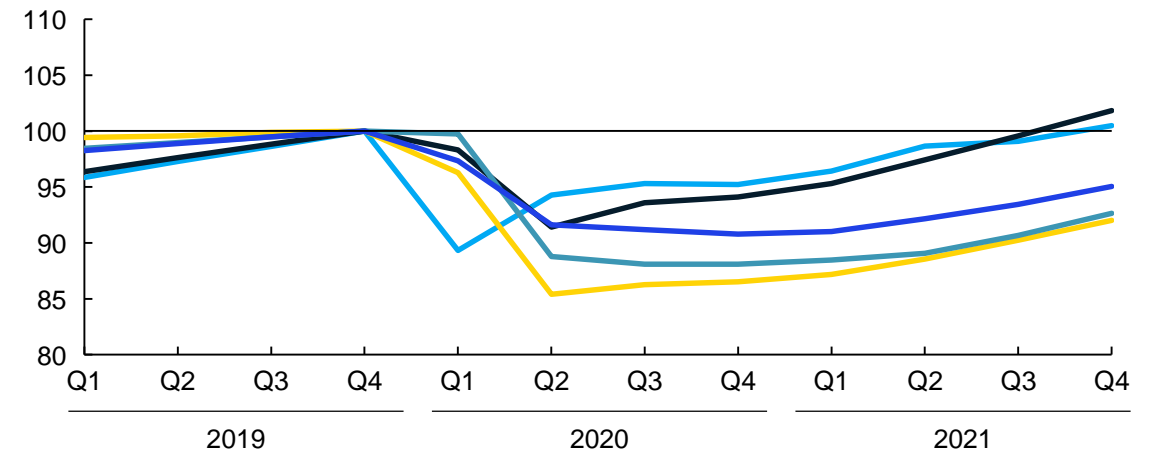
	Real GDP Drop 2019 Q4- 2020 Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
China[1]	-5.7%	-4.4%	2021Q4
Eurozone	-14.6%	-11.1%	2023Q3
Indonesia[1]	-8.6%	-4.0%	2021Q4
United States	-11.2%	-8.1%	2023Q1
World	-8.4%	-6.5%	2022Q3

1. Seasonally adjusted by Oxford Economics

Indonesia may also recover faster than regional peers

Legend: ― Indonesia ― Malaysia ― Philippines ― Singapore ― Thailand

Scenario A3 – Virus Contained

Real GDP Growth – COVID-19 Crisis
Local Currency Units Indexed, 2019 Q4=100
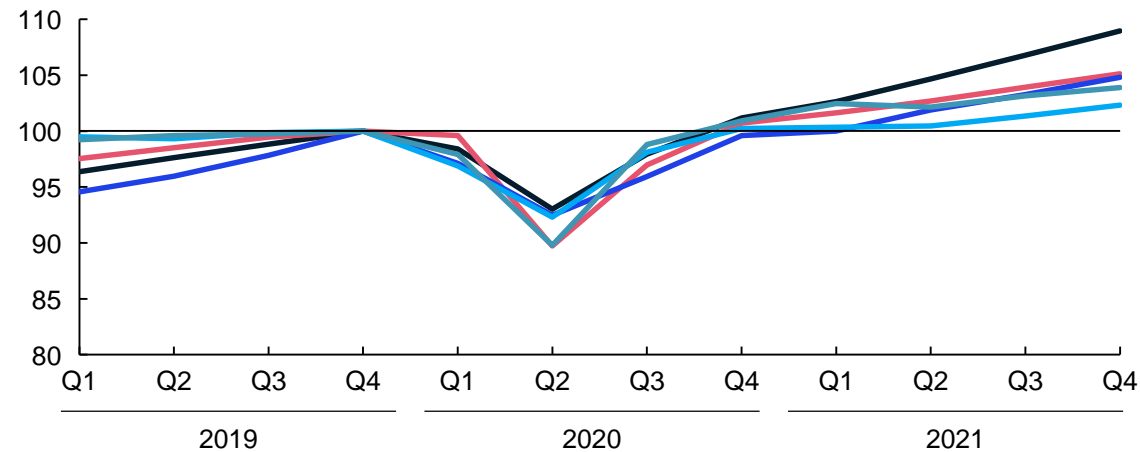
	Real GDP Drop 2019 Q4- 2020 Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
Indonesia	-7.0%	-0.6%	2020Q4
Malaysia	-10.3%	-2.1%	2020Q4
Philippines	-7.5%	-0.9%	2021Q1
Singapore	-7.7%	-2.8%	2020Q4
Thailand	-10.2%	-2.7%	2020Q4

Scenario A1 – Muted Recovery

Real GDP Growth – COVID-19 Crisis
Local Currency Units Indexed, 2019 Q4=100
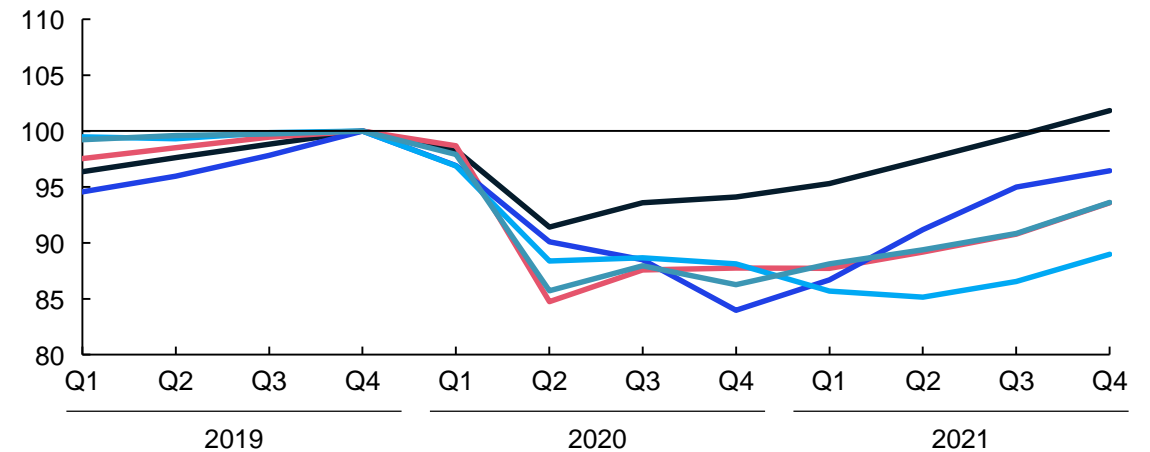
	Real GDP Drop 2019 Q4- 2020 Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
Indonesia	-8.6%	-4.0%	2021Q4
Malaysia	-15.2%	-9.4%	2022Q4
Philippines	-9.9%	-7.7%	2022Q1
Singapore	-11.6%	-9.2%	2023Q1
Thailand	-14.3%	-10.1%	2022Q4

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Two main sources of insight to get a view of the current picture in China

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Miya

Consumer survey

Leading China
Mobile Payment Provider

A rapid mobile/ online consumer survey on discretionary spending attitudes and intent covering:

Leading mobile payment solution provider for offline merchants. For this analysis, we analyzed

Shopper Perspectives

3,500+ consumers

31,000+ stores

3 countries, 92 cities

150+ cities

~120 million payers

16 broad categories, 6 category deep-dives

~700 million transactions

After the easing of lockdowns, offline consumption in China resuming with some lingering effect...

China offline avg. consumption by day and week

100%= avg. daily consumption in Dec 2019

Prior to COVID	Pre-Chinese New Year	During COVID peak	After peak (early stage)	After peak (late stage)
100%	**123%**	**37%**	**76%**	**84%**

First confirmed case in Wuhan

2020 new year

Wuhan lockdown Chinese Lunar New Year

most local lowered emergency response level[1]

Labor holiday week

Weekly
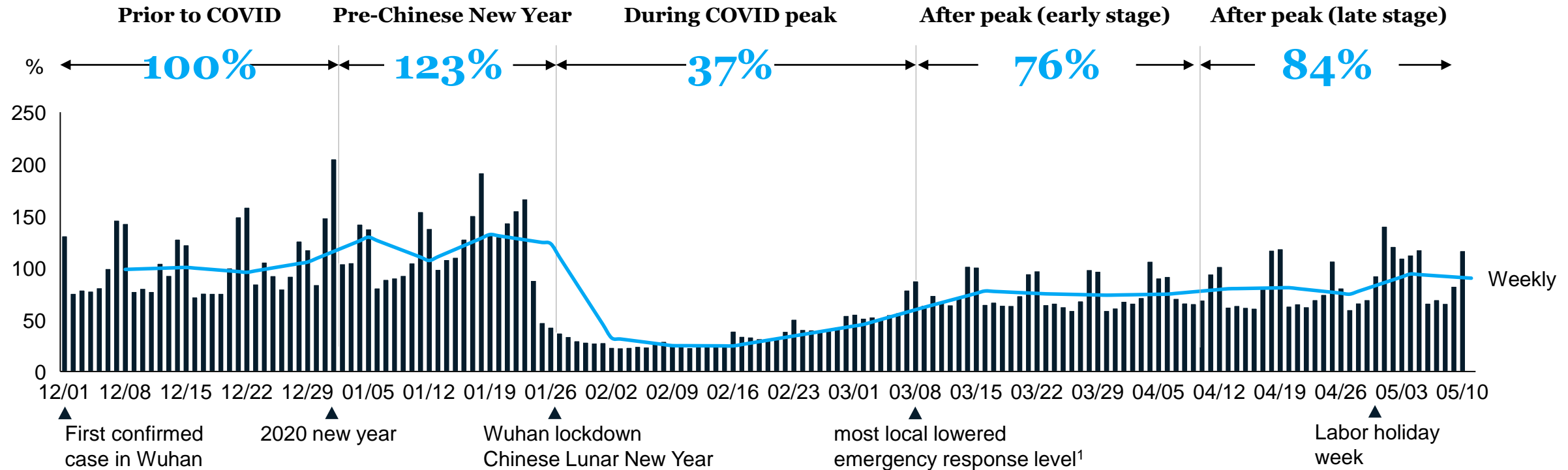
1. On March 8th, 21 provinces of China announced to lower the epidemic response level, which involves over 70% population of the country.

...but not for discretionary channels such as apparel and department store—CVS maintains some uplift momentum

Daily Consumption

100%=avg. in Dec 2019

	During vs pre	After-1st mo vs pre	After-2nd mo vs pre
Hypermarket/ Supermarket	18	-1	0.4
Convenience Store	15	8	7
Drugstores/ Pharmacies	16	12	30
Food Specialized Retailer	-59	-25	-18
Foodservice	-68	-28	-22
Beauty Specialized Retailer	-67	-33	0.3
Apparel Specialized Retailer	-91	-59	-40
Department Store	-80	-57	-30
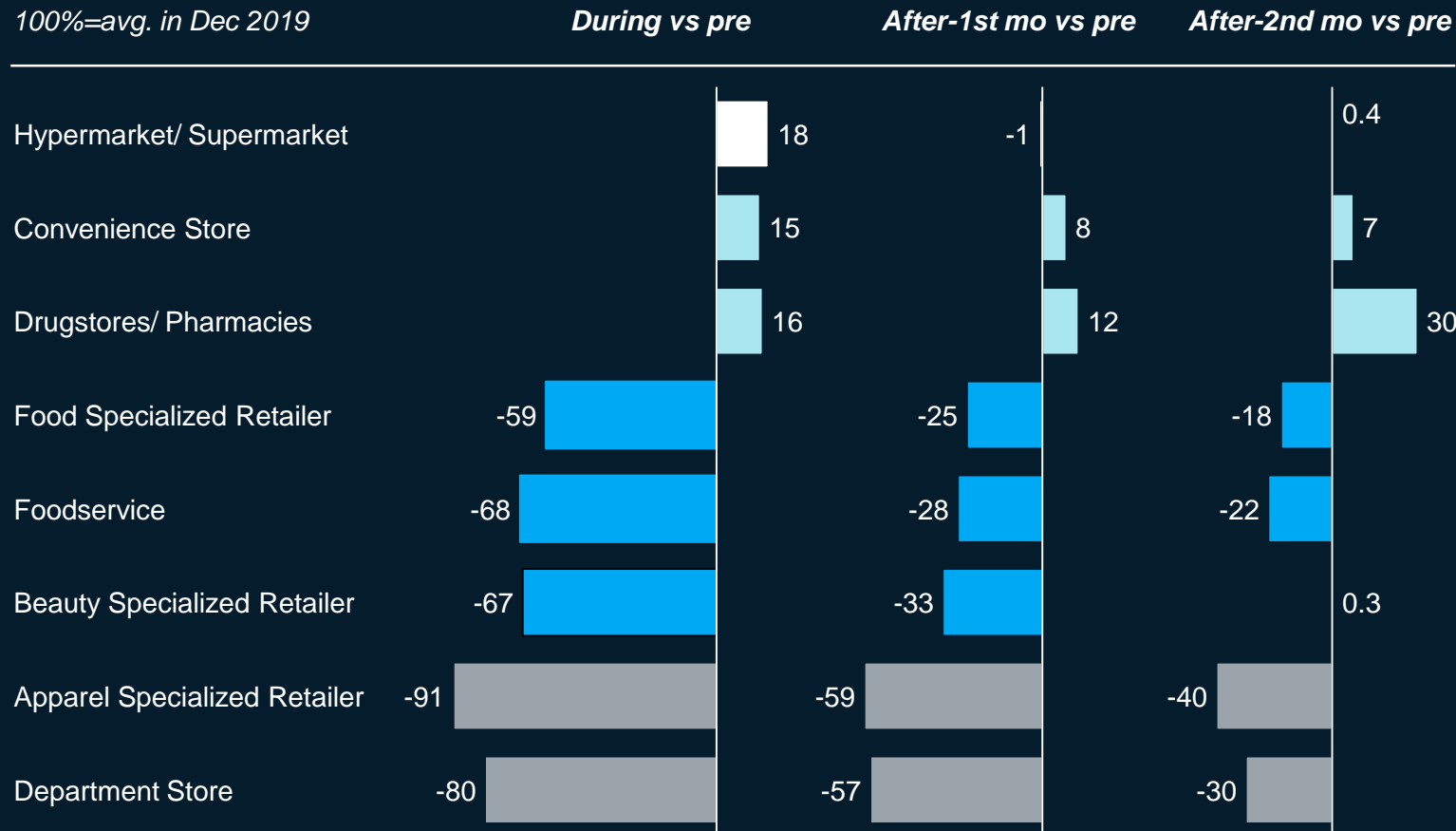
Hyper and supermarkets, along with CVS, showed a spike during crisis due to shift towards cooking at home—but consumption levels in these channels have largely come back to normal

Drug Stores still showing increased consumption

Food stores & restaurant have not fully recovered

Apparel Retailers & Department Store were hit hard and recovery remains slower. Offline spending on apparel has been devastating with -90% decline during virus peak; and still -30 to 40% in May

Traffic drops and basket size increases remain a common theme

100%=avg. in Dec 2019	Traffic # transaction			Basket Size in Value Avg. value per transaction		
	During vs pre	After-1st mon vs pre	After-2nd mon vs pre	During vs pre	After-1st mon vs pre	After-2nd mon vs pre
Hypermarket/ Supermarket	-31	-23	-20	70	29	26
Convenience Store	-49	-27	-12	124	49	22
Drugstores/ Pharmacies	0	-6	-19	16	20	60
Food Specialized Retailer	-68	-38	-17	28	10	0
Foodservice	-78	-47	-33	47	36	15
Beauty Specialized Retailer	-76	-39	-8	38	9	10
Apparel Specialized Retailer	-88	-46	-26	-21	-23	-19
Department Store	-56	-35	-11	-54	-33	-21

A Consumers **drastically reduce the number of shopping trips** but increase their baskets **significantly**

B While ~**95% of apparel stores and department store have re-opened**, traffic still ~**20% below** pre-COVID levels

People were stocking up food, and now also less essential categories

Based on grocery basket analysis, data from supermarket and CVS

Daily Consumption in value[1]

100%=avg. Dec 2019

		During vs pre	After-1st mon vs pre	After-2nd mon vs pre
Food	Grains	63	44	41
	Ready to cook	99	25	18
	Packaged food	88	16	6
	Snacks	72	24	17
	Diary	14 **(A)**	27	56
	Beverages	11	21	49
	Water	6	17	86
Fresh	Seafood[2]	-80	-79	-76
	Meat	57	0	-6
	Vegetable&Fruit	56	31	44 **(B)**
	Egg	74	27	22
Others	Pet life	110	10	17
	Baby products	56	-14	-8
Non-food Grocery	Household supplies	7	1	44
	Personal care	-6	-12	22
	Cosmetics	-56 **(C)**	-56	-28
Alcohol& Tobacco	Alcohol	3	28	41
	Tobacco	-13	32	33

1. Based on grocery basket analysis, data from supermarket and CVS
2. due to the limitation of fresh seafood supply - from fishing to delivery - the seafood are still over 70% down vs before

Source: MIYA payment data engine, McKinsey China retail POS analysis 20191201 – 20200510

Consumption shift in short term with increase on necessity; non-essential consumption picks up later

(A) **Food first during crisis:** people stocked up 60-80% more food and fresh, to prepare for staying at home during lock down

(B) **Healthy trends** in dairy, vegetables, fruit and egg as these categories went up during the outbreak and are still 30%-40% higher after the peak

(C) **Cosmetics has experienced a shift to on-line during and after the peak**

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Discretionary spending comprises ~20% of most countries' GDP

Discretionary consumption as % to GDP, 2019

Country	Value
China	15
Singapore	19
Indonesia	21
India	22
Philippines	22
Korea. Rep	24
Japan	25
South Africa	25
Vietnam	26
Thailand	27
Italy	27
Canada	27
Spain	28
Malaysia	28
Australia	29
United States	29
United Kingdom	32
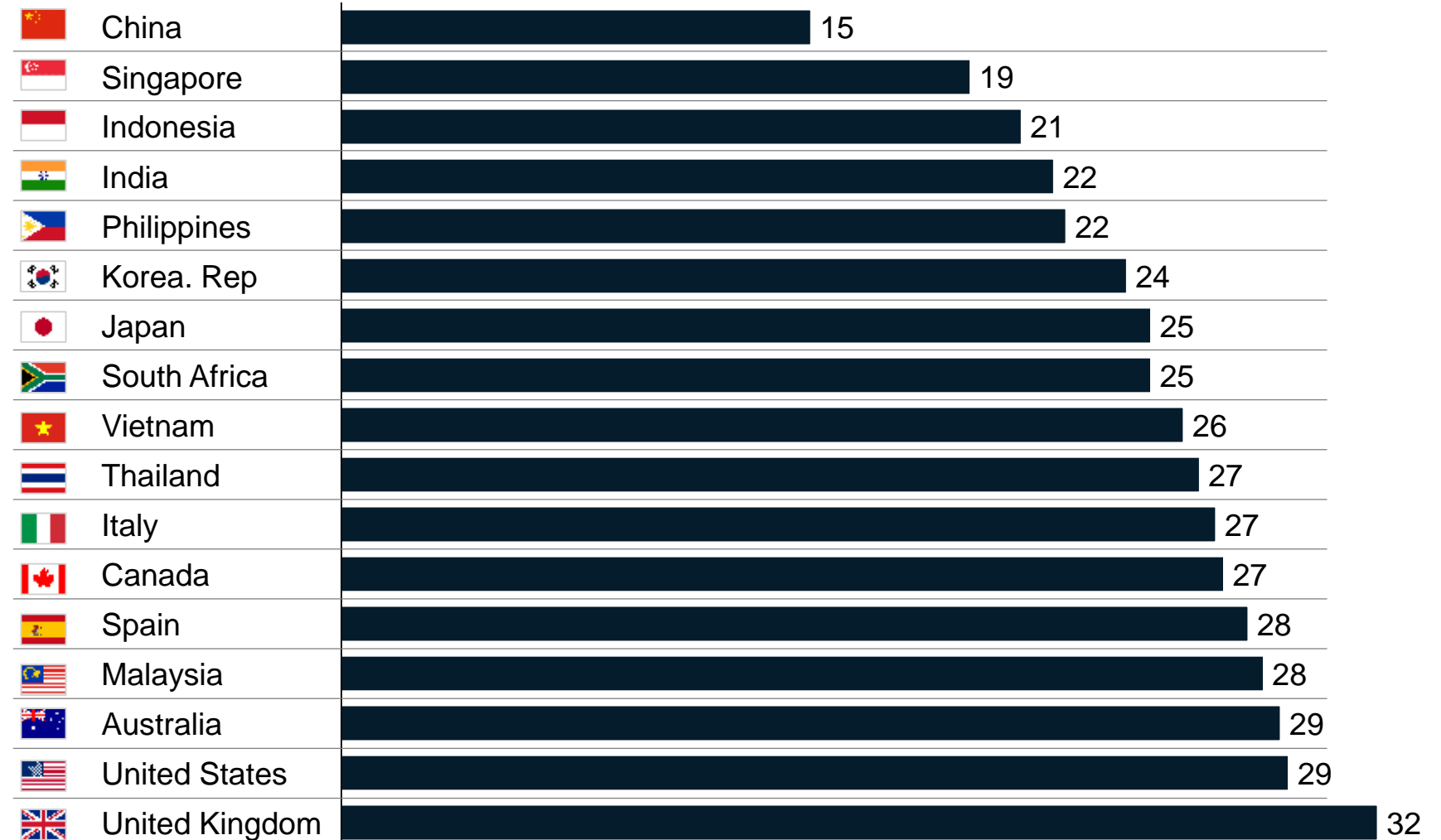
Discretionary categories also tend to behave differently vs essential—and have a different recovery pattern

More discretionary ← → **Less discretionary**

| Apparel | Home appliances | Consumer Electronics | Cosmetics | Fresh food | Packaged food | Personal hygiene | Consumer health |

Discretionary recovery – ILLUSTRATIVE

Nearly immediate drop in sales

Gradual recovery with consumer sentiment

Deep "trough" corresponding with store closures

J F M A M J J A S O N D | J F M
2020 | **2021**

Non-discretionary recovery – ILLUSTRATIVE

Demand spike during "stock up" period

Quickly regain normal growth rate

Brief slowdown during peak confinement

J F M A M J J A S O N D | J F M
2020 | **2021**

Up until early May, consumers were relatively optimistic about the recovery of their countries' economies

Chinese consumers' optimism has improved since mid-April, with more than half optimistic about recovery

Confidence in country's economic recovery after COVID-19[1]

% of respondents

Optimistic: The economy will rebound within 2–3 months and grow just as strong as or stronger than before COVID-19

Unsure: The economy will be impacted for 6–12 months or longer and will stagnate or show slow growth thereafter

Pessimistic: COVID-19 will have lasting impact on the economy and show regression/fall into lengthy recession

China

	Feb 21–24	Apr 1–6	May 5–11
Optimistic	43%	53%	57%
Unsure	56%	45%	39%
Pessimistic	1%	2%	4%

India

	Mar 27-30	Apr 10–13	May 1–4
Optimistic	52%	58%	57%
Unsure	36%	30%	34%
Pessimistic	12%	12%	9%

Indonesia

	Apr 3–6	Apr 10–12	Apr 25–26
Optimistic	49%	53%	45%
Unsure	45%	41%	48%
Pessimistic	6%	6%	7%
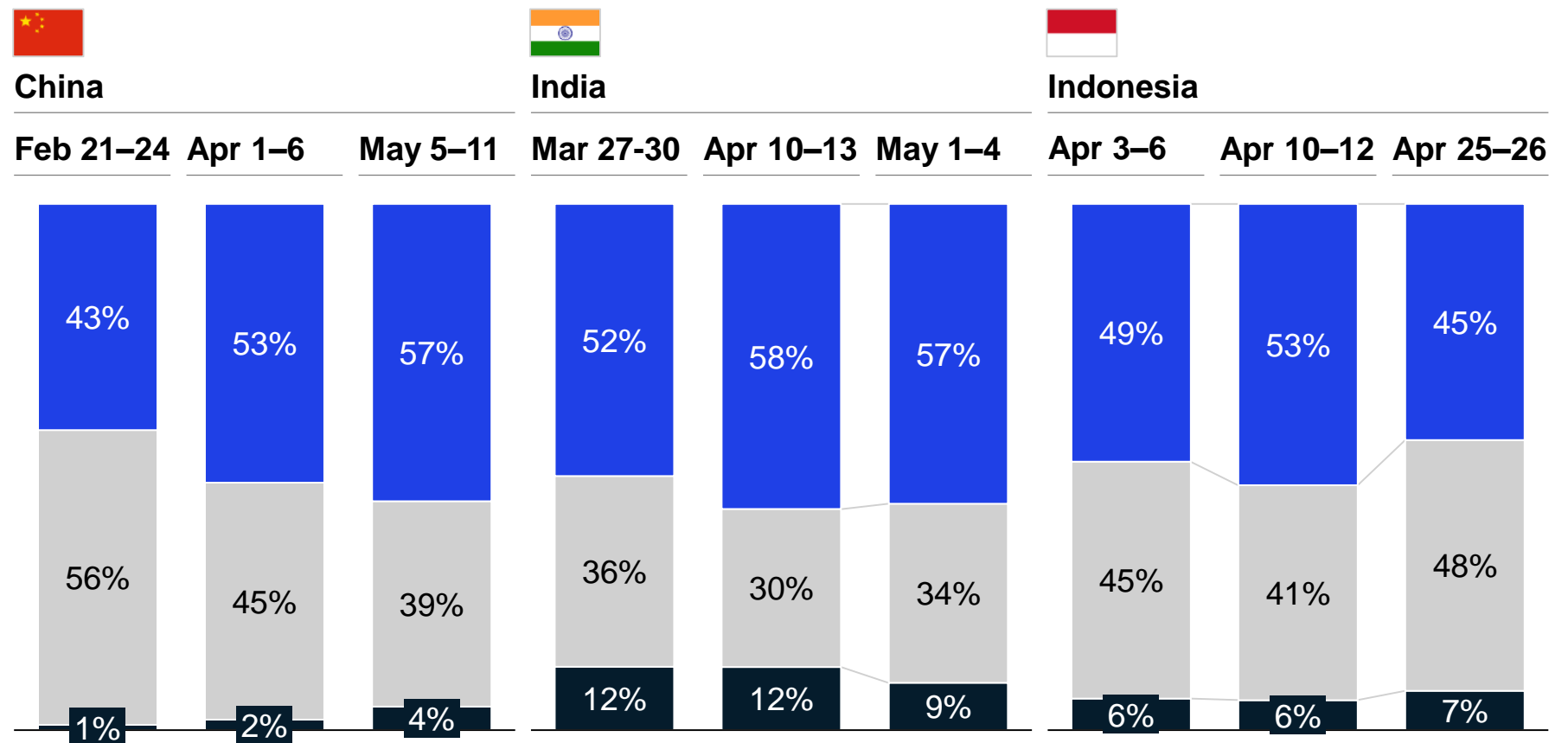
1. Q: How is your overall confidence level in economic conditions after the COVID-19 situation? Rated from 1 "very optimistic" to 5 "pessimistic" for 2/21–2/24 and 3/20–3/23; rated from 1 "very optimistic" to 6 "very pessimistic" for 3/25–3/30, 4/1–4/6 and 4/8–4/13. Figures may not sum to 100% because of rounding.

Despite their optimism, consumers are concerned about their income and appear to be holding back spending in the short term

Overall sentiment in the country[1]
% of respondents

■ Strongly disagree / disagree   ■ Somewhat disagree / agree   ■ Strongly agree / agree

	China			India			Indonesia		
I am **cutting back on my spending**	13%	45%	42%	3%	28%	69%	4%	29%	67%
My **income** has been negatively impacted by coronavirus or COVID-19	12%	43%	45%	11%	27%	62%	8%	30%	62%
Uncertainty about the economy is **preventing me from making purchases** or investments that I would otherwise make	10%	45%	45%	5%	34%	61%	3%	29%	68%
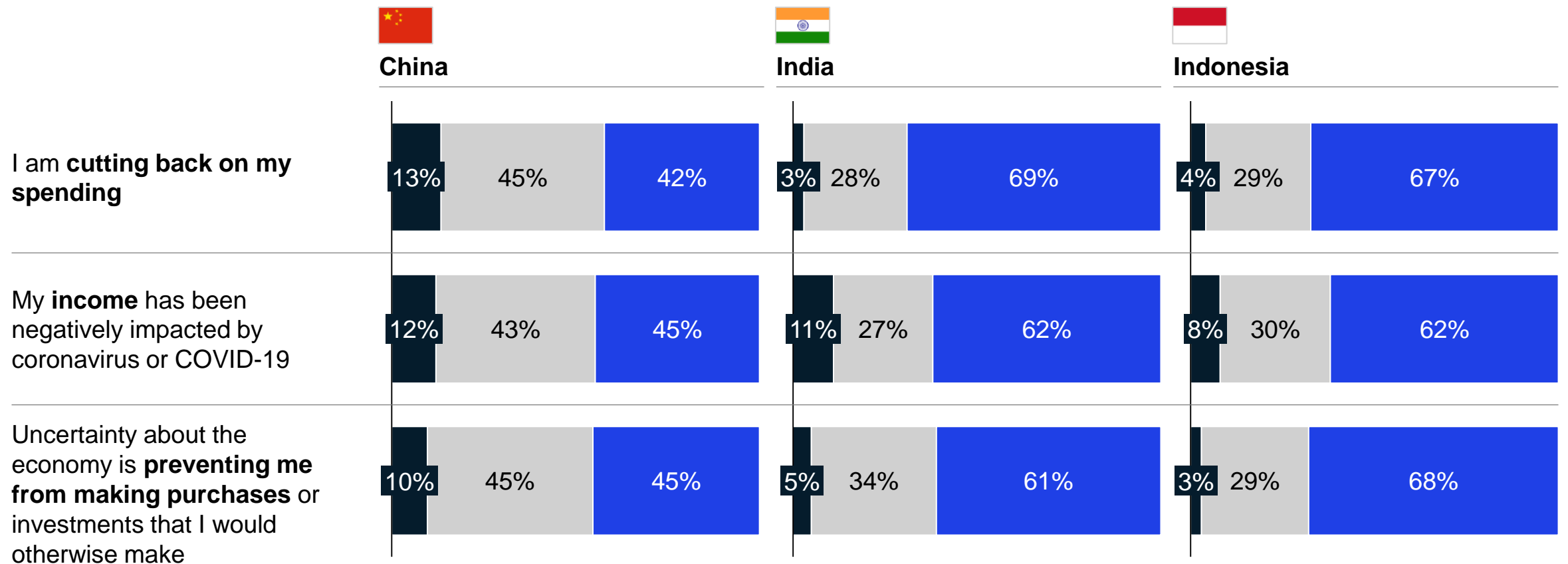
1. Q: Please indicate how strongly you agree or disagree with each of the following statements. Please select only one response for each statement; figures may not sum to 100% because of rounding.

However, there still appears to be general optimism about personal financial recovery by the end of the year

This is more pronounced for middle-income segments and up

" " **By the end of the year, I will likely have recovered any income or savings that I lost during the lockdown**

Percent of respondents

■ Strongly Agree / Agree   ■ Unsure   ■ Disagree/ Strongly disagree

	India			Indonesia		
Total	67%	24%	9%	66%	27%	7%
Lower	43%	45%	11%	61%	29%	10%
Middle	76%	17%	7%	63%	31%	7%
Upper middle	70%	18%	12%	71%	23%	7%
Higher	75%	18%	8%	67%	29%	4%
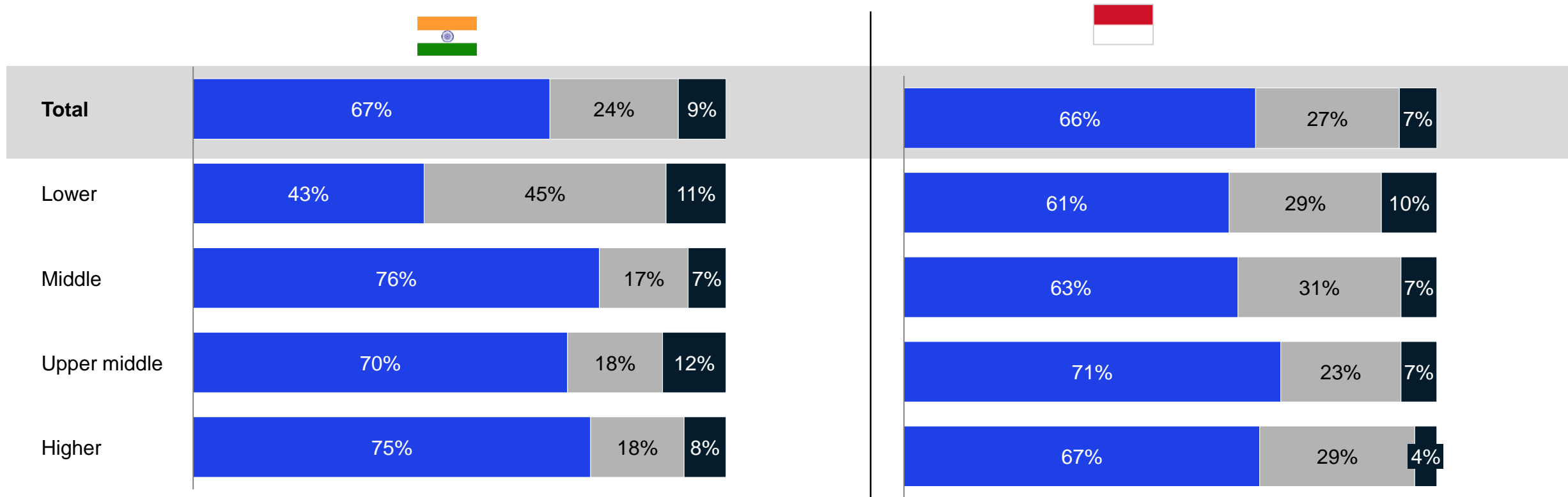
Broad themes from our survey

1. (Ticket) size matters

More consumers planning to **forego big ticket items** (e.g. vehicles, jewelry) vs. smaller ticket ones

2. Value polarization

Reset of price/ value relationship:

1 in 3 people planning purchases looking to trade down; but some (10 to 20%) also looking to spend more

3. Importance of trusted brands

Even among those looking to trade down, consumers generally **want stick to their preferred brands**

4. Perception shapes reality

Sense of guilt in spending during COVID-19 important reason to foregoing or trading down purchases

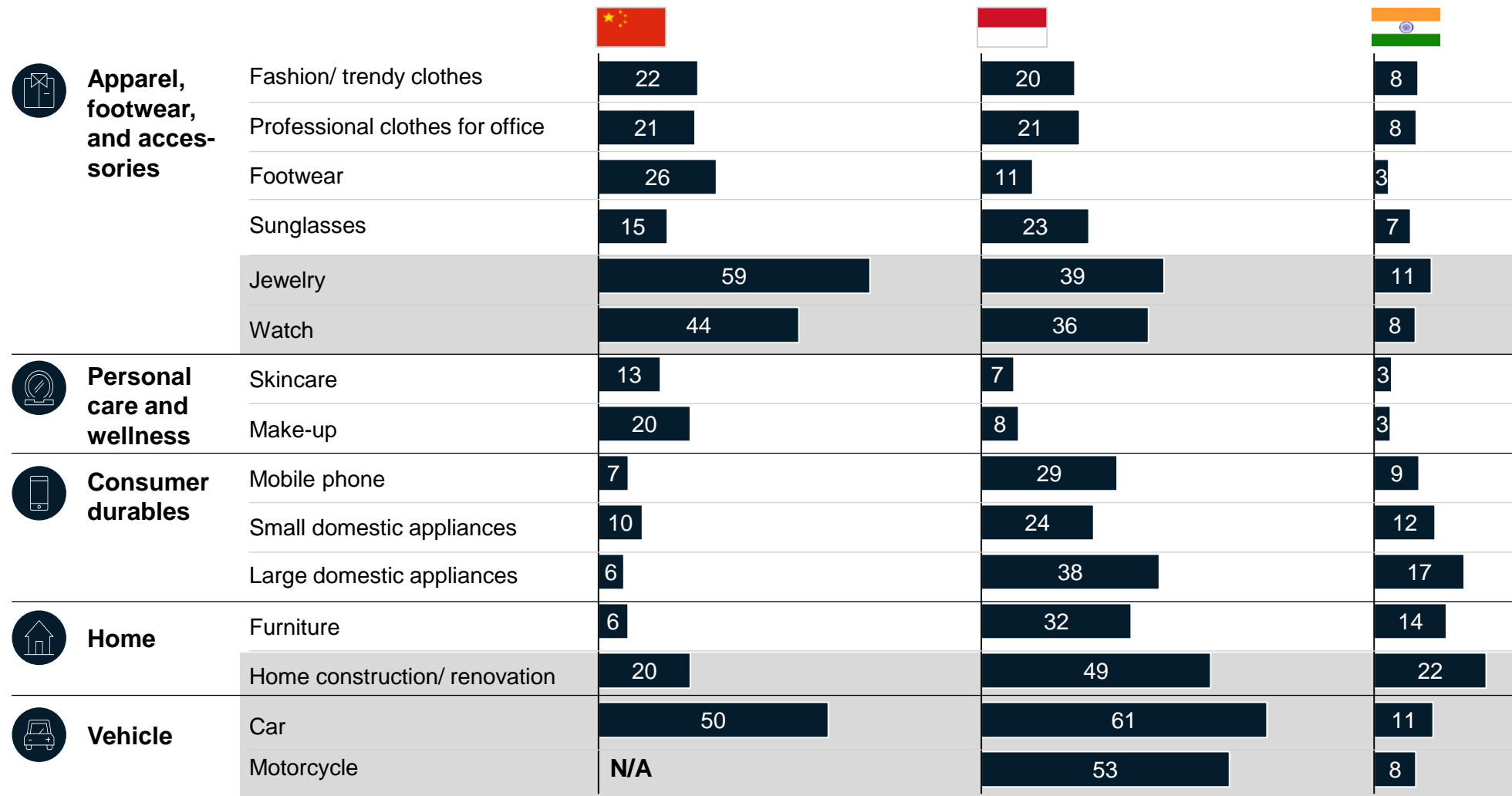**5. Digital accelerated, physical reimagined**

Accelerated shift to online/ e-commerce, AND a reconsideration of the **role that physical stores play**

1. Ticket size matters: Bigger-ticket categories could see a higher share of postponement or cancelled purchases

% of respondents with pre-COVID-19 purchase intent who plan to indefinitely postpone or cancel purchase[1]

		🇨🇳	🇮🇩	🇮🇳
Apparel, footwear, and acces-sories	Fashion/ trendy clothes	22	20	8
	Professional clothes for office	21	21	8
	Footwear	26	11	3
	Sunglasses	15	23	7
	Jewelry	59	39	11
	Watch	44	36	8
Personal care and wellness	Skincare	13	7	3
	Make-up	20	8	3
Consumer durables	Mobile phone	7	29	9
	Small domestic appliances	10	24	12
	Large domestic appliances	6	38	17
Home	Furniture	6	32	14
	Home construction/ renovation	20	49	22
Vehicle	Car	50	61	11
	Motorcycle	**N/A**	53	8

Cautious optimism:

~80%

of respondents in other categories have either bought or still plan to buy

1. Q: Thinking back to January 2020 (before COVID-19 happened), what were the items you were thinking of buying for yourself in the next 6 months to 1 year? Select all that apply.
   Q: Of the items you were thinking of buying, which ones did you buy in the last 3 months? Q: Which statement best describes your plan for the items you were planning to buy but haven't yet?

2. Value polarization: Among those planning to buy later this year, around a third intend to trade down—but also some trading up

Current declared intent among respondents with who plan to buy later this year, %

XX% % of those with initial purchase intent who still plan to purchase within the year[2]

■ Plan to spend less/ trade down   ■ Plan to spend the same   ■ Plan to spend more/ trade up

		Category	%	Less	Same	More
🇨🇳		**Sunglasses**	**59%**	43	43	14
🇮🇩		**Apparel**	**39%**	29	59	12
🇮🇳		**Large appliances (white goods)**	**44%**	27	55	18
🇮🇳		**Small appliances**	**48%**	27	57	15
🇨🇳		Mobile phone	**38%**	31	63	6
🇮🇩		**Skincare**	**20%**	13	75	12
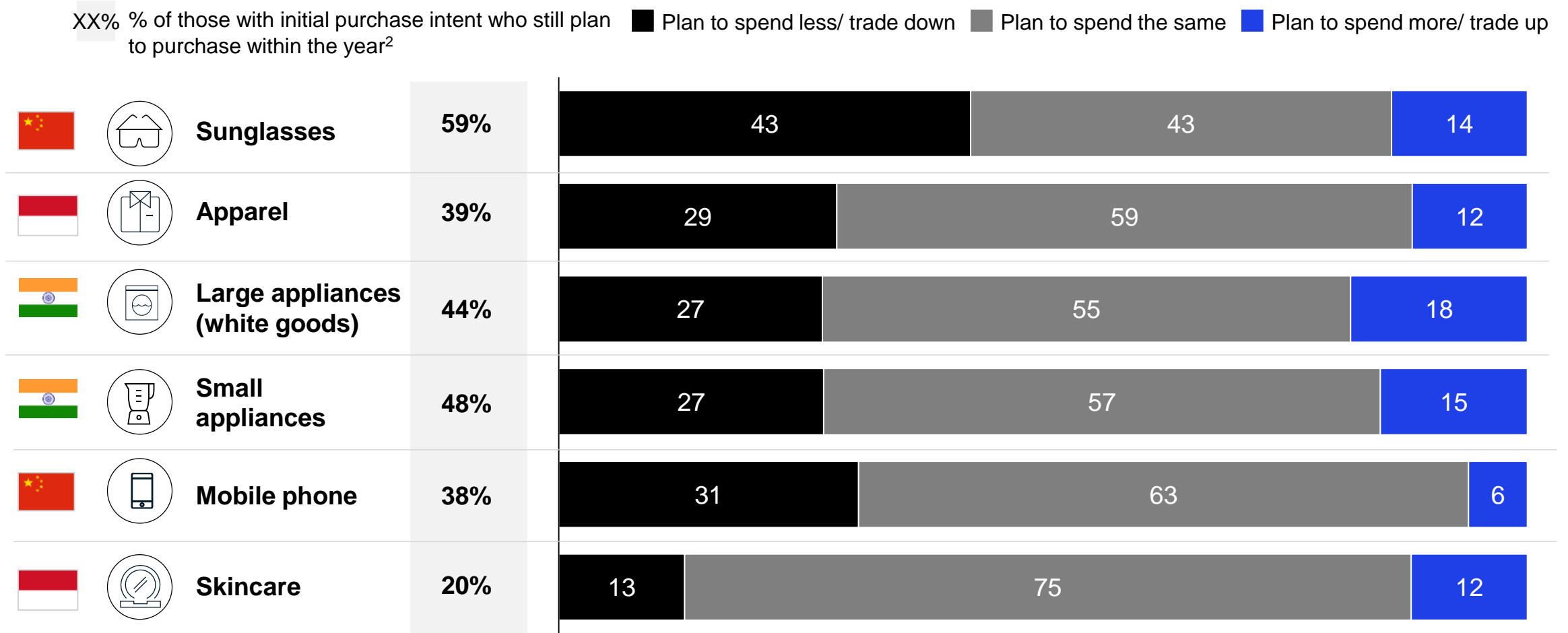
1. Q: Which statement best describes your purchase/ planned purchase   2. % who have not yet made any purchase in the category and who state that they still plan to buy

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3. Importance of trusted brands: Among those planning to trade down, preference is to stay within the same brand—particularly for durables

Stated intent among respondents with plans to spend less/ trade down[1]
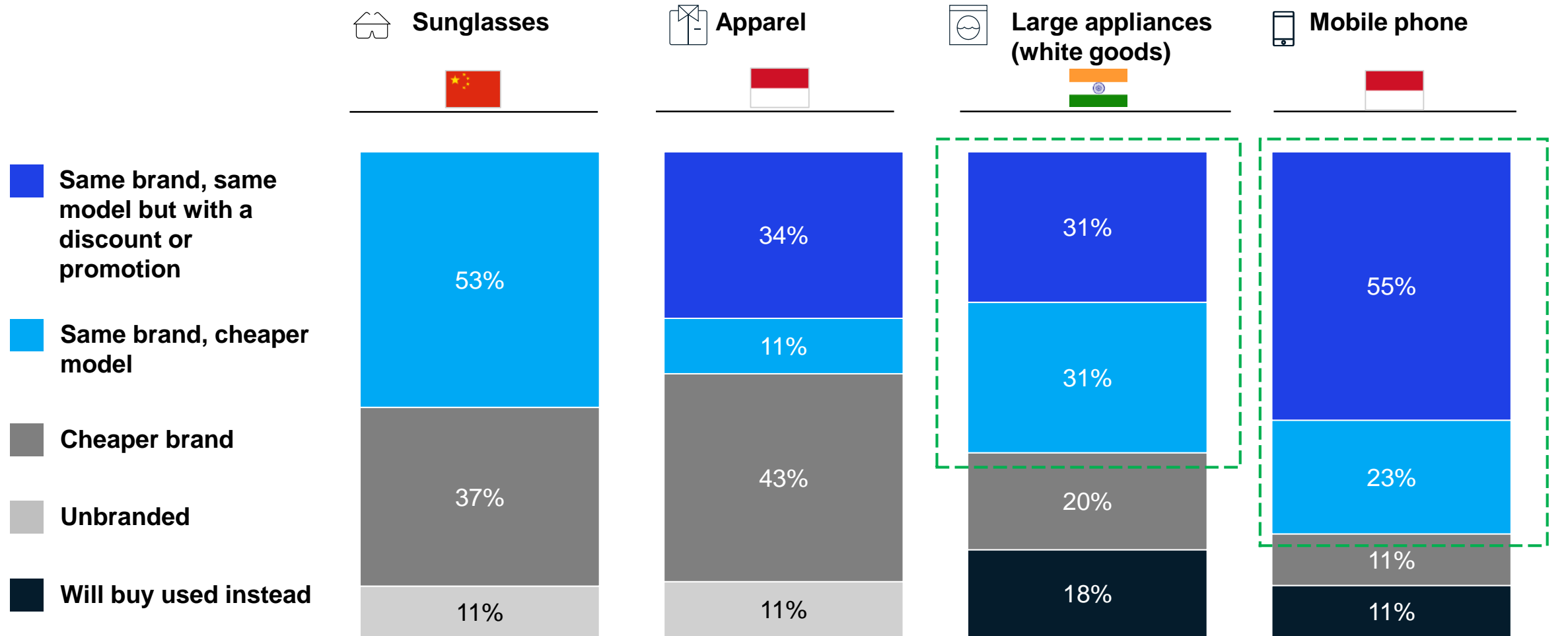
	Sunglasses 🇨🇳	Apparel 🇮🇩	Large appliances (white goods) 🇮🇳	Mobile phone 🇮🇩
Same brand, same model but with a discount or promotion	53%	34%	31%	55%
Same brand, cheaper model		11%	31%	23%
Cheaper brand	37%	43%	20%	11%
Unbranded	11%	11%		
Will buy used instead			18%	11%

4. Perception shapes reality: Social guilt also plays a role among those intending to trade down or forego purchases

Reason for planning to spend less or foregoing future purchases, %respondents

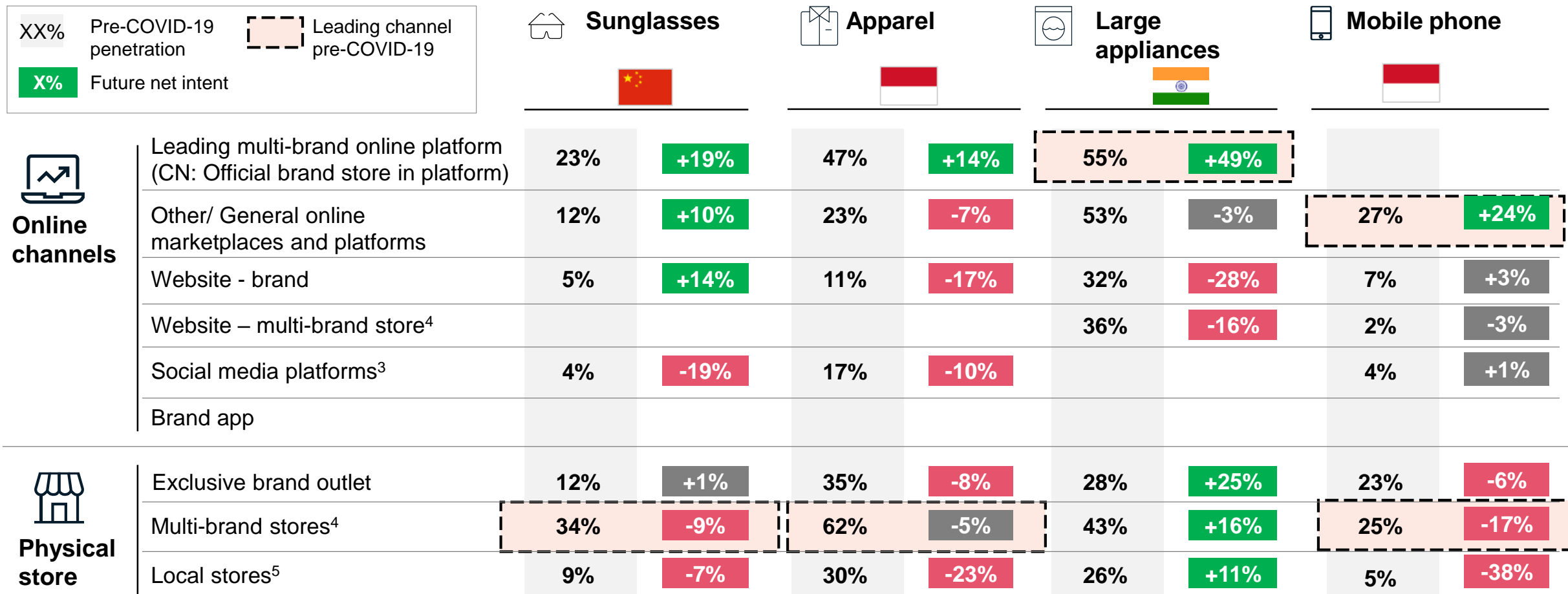|	Sunglasses	Apparel	Large appliances (white goods)	Mobile phone
I want to save money because I'm worried about the effect of COVID-19 on my income	27%	49%	48%	55%
It does not feel right/ I feel guilty to spend on this given the serious impact of COVID-19 on society	19%	10%	20%	11%
My plans/ lifestyle have changed (e.g., stay home more, vacation/ home renovation plans, etc.)	15%	12%	10%	0%
I have to spend money on other things	13%	10%	8%	14%
I have less time to browse in this crisis	8%	2%	2%	0%
I could not find anything I liked, either online or in stores	8%	1%	0%	2%
I have other things on my mind, and this is not a priority	6%	13%	4%	10%
I do not want to leave my house and don't want to buy online	5%	1%	2%	4%
I lost interest in the items I had planned to buy	0%	2%	6%	0%

1. Q: Which statement best describes the reason for spending less on your FUTURE purchase? Q: What made you decide not to buy [category] anymore?

5. Digital acceleration, physical reimagined: Future usage intent shows sustained lift in online marketplaces, but with a role for physical stores

XX% Pre-COVID-19 penetration
Leading channel pre-COVID-19
X% Future net intent

		Sunglasses (China)		Apparel (Indonesia)		Large appliances (India)		Mobile phone (Indonesia)	
Online channels	Leading multi-brand online platform (CN: Official brand store in platform)	23%	+19%	47%	+14%	55%	+49%		
	Other/ General online marketplaces and platforms	12%	+10%	23%	-7%	53%	-3%	27%	+24%
	Website - brand	5%	+14%	11%	-17%	32%	-28%	7%	+3%
	Website – multi-brand store[4]					36%	-16%	2%	-3%
	Social media platforms[3]	4%	-19%	17%	-10%			4%	+1%
	Brand app								
Physical store	Exclusive brand outlet	12%	+1%	35%	-8%	28%	+25%	23%	-6%
	Multi-brand stores[4]	34%	-9%	62%	-5%	43%	+16%	25%	-17%
	Local stores[5]	9%	-7%	30%	-23%	26%	+11%	5%	-38%

1. Q: Where have you purchased [category] before?
2. Q: How do you think your shopping preference for these channels will change in the following channels after COVID-19 compared to before? Net intent is calculated by subtracting % of using less and discontinue use from using more
3. Includes Facebook Marketplace, Instagram, as well as official brand channels in Weibo and WeChat
4. Includes electronics stores, optical chains, department stores, mobile phone stores
5. Fragmented trade: Small outlets or stalls, usually single-proprietorship, incl. local tailor shops for apparel

Source: McKinsey COVID-19 mobile and online survey, 4/28 - 5/10/2020 N = 3,648, sampled to match urban gen pop (China) and urban consuming class (India and Indonesia)
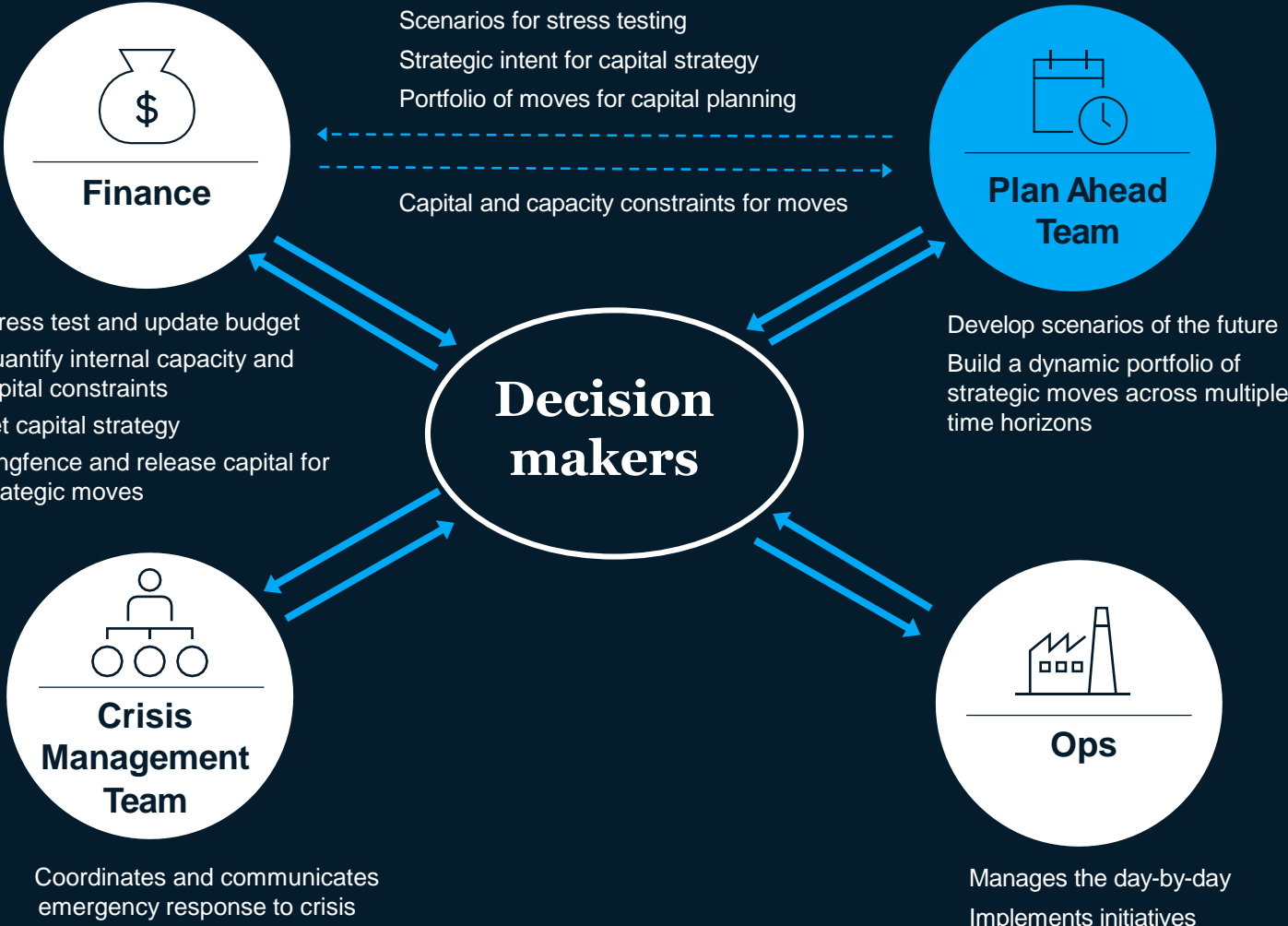
McKinsey & Company   27

Agenda

Update on macroeconomic situation

How can return look like: insights from China

Revenue Recovery: insights into discretionary spend

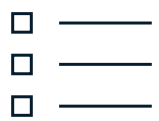**Planning ahead**

# As future is uncertain, critical to understand what might happen

Scenarios for stress testing
Strategic intent for capital strategy
Portfolio of moves for capital planning

Capital and capacity constraints for moves

Finance

Stress test and update budget
Quantify internal capacity and capital constraints
Set capital strategy
Ringfence and release capital for strategic moves

Decision makers

Plan Ahead Team

Develop scenarios of the future
Build a dynamic portfolio of strategic moves across multiple time horizons

Crisis Management Team

Coordinates and communicates emergency response to crisis

Ops

Manages the day-by-day
Implements initiatives

Introducing the Plan Ahead Team

What it does

Plans for multiple scenarios

Build a credible view of possible future worlds, based on the timing and depth of the demand disruption and potential disruption to your business model
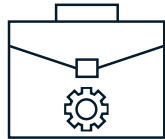
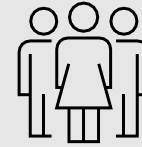### Builds a portfolio of moves

Build a coherent set of moves that are tuned to the distinct possibility of each scenario materialising

Instils dynamic adaption

Build a dynamic roadmap with clear trigger points which gives the flexibility to adapt to changing conditions, supported by the governance to drive execution
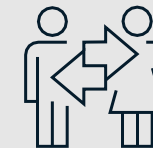
What it looks like

Agents of the CEO

Senior executive leading a small team of your best people with a view across all key business areas. Team members should be fully-dedicated

Agile and modular

Regular and informal interactions, rapid iterations and collaboration across workstreams. Scalable in line with the magnitude of the crisis

Integrated with your "nerve centre"

Standalone team but closely interfaced with other parts of your nerve centre, e.g., working with Finance to create a firm link between strategy and the budget, etc.

Themes for the PAT in "discretionary" segments

1

Don't just reopen, re-think your store

Redefine role of your store in the customer journey (esp. in experience)

Re-plan size

Re-evaluate physical store footprint

2

Experience, re-inspired

Take inspiration from beauty players:

- Seamlessly connect your online to offline experiences
- Reimagine consumer engagement on digital (social, influencers, D2C)

3

Radiate affordability

Lower the customer hurdle with offer positioning, affordability and ensure entry price points are captured

Simplify product assortment

Leverage a "test and learn", personalized approach in a heightened promotional environment

4

Follow the consumer

Stay relevant across multiple touchpoints (brand.com, platforms, e-retailers, own stores, multi-brand stores)

Allocate resources in line with journey shifts (e.g. trade marketing and ATL)

5

Communicate Purpose

Reset marketing tone and message reflecting consumers valuing authenticity and credibility

Q & A