

Responding to COVID-19

ONE MONTH INTO THE CRISIS:
FROM FIRE-FIGHTING TO RISK MITIGATION

OPX | PARTNERS

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CHAPTER 1

Introduction

In mid-March, we shared our pragmatic, hands-on approach to tackling the initial effects of the COVID-19 crisis. **In this follow-up perspective, we summarize what we have seen management doing** as they move from fire-fighting to risk mitigation. It also includes our view on adapting to the **new landscape for demand** and **managing the supply chain** through the crisis.

On a macroeconomic level, the impact of COVID-19 is already profound. The Swedish Central Bank's March survey of large-cap corporations highlighted **wide-ranging supply disruptions, falling demand, and liquidity problems**. However, the **impact will be highly uneven** across sectors. Nasdaq's Nordic construction index has underperformed the broader market by over 10% in March; the healthcare index returned 18% more.

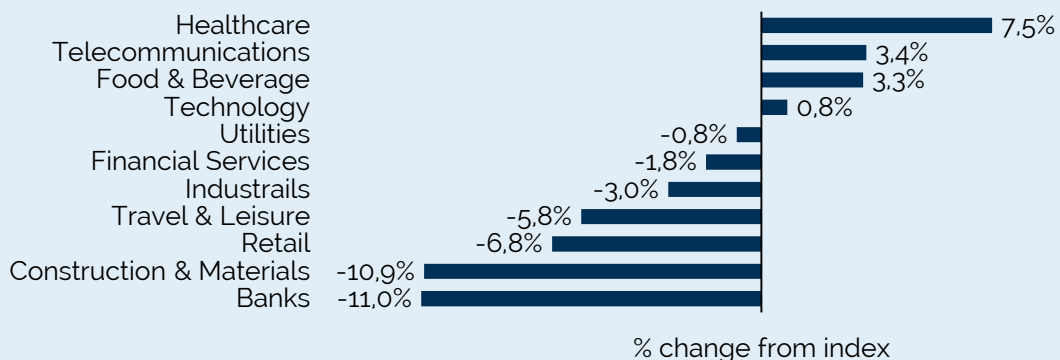
Against this backdrop, we **sounded out company leaders** in the mid-cap B2B space — primarily goods manufacturers — on their **outlook** and how they have **reacted** to date. (Our core client base, we should share up front, remains fairly optimistic. They believe in the disruption will be deep, but short.)

We have also assembled a **pragmatic guide for adapting to the new landscape for demand and managing the supply chain in this new context**, to be better prepared for the coming months; these chapters are broadly applicable.

This follow-up perspective is to share that guide and what we learned. In a future perspective, we will return to the question of how companies that need to structurally change can begin the process of transforming themselves.

Nordic industry segments, March 2020

Source: Nasdaq OMX 120 GI index and Nasdaq Nordic sector GI indexes from 2nd of March to 31st of March



CHAPTER 2

Executive Summary

The company leadership perspective

We have had the opportunity to discuss the situation with CEOs in our network, and have combined their reflections with a survey sent out to a broad set of mid-cap companies — primarily Private Equity owned, B2B goods manufacturers — and the conclusions are interesting indeed:

- Company leaders believe the **disruption will be deep but short**. Their outlook on their industry segment and especially their company is **optimistic**, and they believe it will have greater impact on demand than supply
- **Cash is king** in an uncertain world. Companies are acting to preserve cash, reduce personnel costs, and reduce short-term operating costs. They are also taking action to **adapt commercial strategies** to protect revenues and **focusing on what matters now** by delaying non-critical initiatives and large investments

Demand: Adapting to COVID-19

As companies try to adapt to a 'new normal', commercial teams need to manage downside risks aggressively, even as they set up to be first movers when new opportunities emerge. The questions that commercial teams face have probably not changed. However, the answers likely have. Summarized, companies should consider

- **Update your forecasts**. Make sure the guidance your operations team relies on has the most accurate view you can assemble.

- **Re-allocate commercial resources**. Don't treat everyone equally. Segment your customer base and focus where it is most important
- **Review your product portfolio**. Understand what will and will not sell during the COVID-19 crisis.
- **Accelerate your digital agenda**. COVID-19 and social distancing will accelerate the move to digital.

Supply chain: Managing COVID-19

Supply chain priorities have traditionally been centered on reducing costs. Today, the challenge may well be ensuring continuity of operations, possibly in the face of dramatically altered demand. Companies may need to think differently in profound ways. Consider the following three perspectives on your supply chain:

- **Supplier reliability**. The risk of losing key components will change rapidly. There are new risk factors (e.g. lockdowns), and these will likely change week to week, not monthly or quarterly
- **Logistics accessibility**. Logistics routes can be shut down suddenly, by anything from border closures to container shortages. Risk assessments and alternative plans should be in place
- **Production optimization**. Parts inventory was a drain on working capital; now it may be the cheapest insurance you can buy. Almost every part of your operation now has a new risk profile

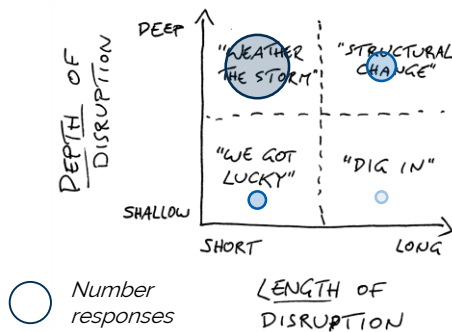
CHAPTER 3

The Company Leadership Perspective

We have reached out to clients and conducted a small survey to get their perspective on the business outlook and which actions they take in the midst of this crisis. This sample is skewed towards mid-cap Private Equity portfolio companies in the B2B Goods space.

Outlook

- **Most believe in a deep but short disruption.** Roughly two thirds consider 'weather the storm' to be the most likely scenario, and believe their segment will be 'business as usual' within a year.

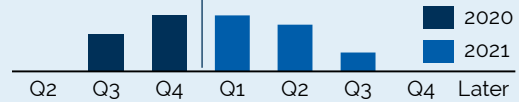


- **Optimistic outlook among company leaders.** Everyone that we have spoken to believe that their company will handle this crisis better than competitors in their segment. Also, while almost everyone believe that demand will be disrupted, at least two thirds believe that their segment will be less impacted than other segments.
- **Demand disruption is more likely than supply disruptions.** Over twice as many respondents strongly agree that demand

will be disrupted over the coming six months compared to those who believe that supply will be disrupted.

- **It will be business as usual within a year — but not before Q4.** Most respondents believe that we will be back to business as usual between Q4 2020 and Q2 2021.

When will your segment be 'business as usual'?



Reactions to date

- **Cash is king in the short term.** Almost all companies have taken action (about two thirds 'aggressively') to preserve cash by e.g. accessing credit facilities, selling assets, or re-negotiating payment terms. A majority are also taking actions to reduce personnel costs and short-term operating costs.
- **Commercial strategies are being reviewed.** More than two thirds of companies have taken actions to adjust their offering, and two thirds are adapting their go-to-market approach.
- **The focus is on what matters now.** All companies have taken action to put non-critical initiatives on hold, and virtually all have have paused large investments (or are planning to). To boost execution capacity during the crisis, Almost all have established a 'SWAT' team or similar setup.

CHAPTER 4

Demand: Adapting to COVID-19

Though the initial outbreak of COVID-19 was, for most commercial organizations, characterized by short-term 'fire-fighting', the focus now is shifting towards the medium term. As we enter this phase, the fundamental commercial questions will not have changed, but **the way we approach them** will need to be modified, and **the speed at which we act will need to increase**.

Staying abreast of the changing commercial landscape is best done, as always, through an insightful understanding of the customer. The exigencies of the day, however, also call for actionable data to be fed through to the operations team, and we suggest four activities to navigate the coming months: **Update your forecasts, re-allocate commercial resources, review your product portfolio, and accelerate your digital agenda.**

Update your forecasts

Creating clarity amidst uncertainty is perhaps the best way the commercial organization can help the rest of your company to adapt to the current situation in the way that it needs to. There is no need to re-invent the wheel, but we suggest two actions: Add a few high-level filters, and increase your forecast frequency. Note, however, that in most cases it will be better for businesses to plan ahead based on large but valid intervals, instead of creating a false sense of accuracy.

Add a few high-level filters to your forecast to ensure that you are not caught out by events; the demand drivers right now probably differ from what they were when

you designed the forecast process. Make sure that the commercial organization is keeping an eye on:

- **Events in certain geographies:** Are lockdowns in place or coming? When will they be lifted?
- **Sector-specific exposure:** Are we selling into a sector with globally falling demand?
- **Customer-specific situation:** How are our main customers reacting? Are they taking a risk-averse view, or preparing aggressive moves?

For sectors where insecurity is particularly high, it makes sense to simplify further and allocate customers to a limited number of categories (e.g. "growing", "stable", "declining", "declining rapidly"), and quantify the demand per such group (e.g. +5%, +/-0%, -10%, -20+%). This rough approach would still be very helpful compared to not estimating the demand at all given the purpose here: to pragmatically reallocate resources in a structured way.

Increase your forecast frequency given the current speed of change in the market. Your outlook today is likely different from what it was a month ago, and it will likely change again by the end of April.

In many cases it will be better to over-invest in large, critical accounts in order to update them at a higher frequency, at the cost of less frequent updates for smaller, less critical customers. This will also allow commercial teams to give fact-based input to other functions on critical prioritizations they may need to make, e.g. which products to produce or which payment terms to prolong.

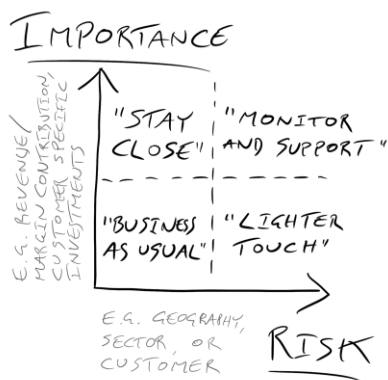
Update your forecast checklist

- ❑ Differentiate forecasting effort, granularity and frequency across customers based on importance (e.g. consider updating your critical customers in more detail and more often)
- ❑ Deploy commercial resources to reach out to customers and understand their current situation
- ❑ Secure understanding of importance and risk, per customer if possible

Re-allocate commercial resources

Commercial teams risk treating all customers and leads the same way or focusing on those screaming loudest - a sure path towards low commercial effectiveness. Hence, commercial teams need to take control and secure a structured, deliberate way of working.

A concrete way to secure effective and efficient use of commercial resources is to allocate activities and approach to customer groups based on estimated importance and risk.



It is easy to do an all hands-on deck approach and try to help all customers as much as possible. Business-savvy commercial teams, however, will quickly realize that reallocating their focus and

differentiating aggressively across customer groups is needed here:

- **'Stay close'** – Secure delivery and business as usual with minimum resources. Given the high importance of these customers, this will however still mean investing time up-front with these customers in many cases. Avoid changes to prices, terms and conditions, and other areas which could spark re-negotiations and demands for better conditions.
- **'Monitor and support'** – Monitor these important, high-risk customers closely, and identify within this group where it makes sense to offer support to save business, e.g. by reducing prices/investing margin or extending payment terms/investing capital. Some customers might be beyond saving and should be addressed accordingly to minimize losses, e.g. by adjusting credit and payment terms, stopping deliveries and minimizing customer specific inventory.
- **'Business as usual'** – Only address this group if time allows, but keep in mind that customers in this group could prove useful if business models are altered or go-to-market approach changes and grow more important in the future.
- **'Lighter touch'** – Given the high risk and low importance of this group, resources should not be allocated at the expense of other customer groups. The approach needs to be more mechanical and less hands-on, e.g. through segmented communication via digital channels rather than individual interactions.

Note that some new sales activities will (and should!) continue, and in those cases an updated approach to lead prioritization is a must.

Potential customers have probably changed what they value in their suppliers (e.g. financial stability, geographical proximity) and typical lead qualifiers may have changed as well (e.g. interest in physical meeting). It may also be possible to take new customers opportunistically, e.g. by proactively reaching out to companies served by struggling competitors and by seeking out companies in market segments with shortages.

Re-allocate commercial resources checklist

- ❑ Categorize customer groups based on importance (i.e. revenue and gross margin contribution, customer specific investments and high profile customer)
- ❑ Categorize existing customers in groups based on risk (i.e. industry, geography and financial stability)
- ❑ Allocate commercial resources and define actions per customer group (e.g. 'stay close')
- ❑ Identify new customers in current segments (e.g. can we serve new customers that are served by struggling competitors?) and dedicate a team to address those opportunities
- ❑ Dedicate capacity to pursue new leads (e.g. review targeting of new customers and new customer segments)

Review your product portfolio

Many products and services have seen a dramatic decline in demand, but there are segments where COVID-19 has increased demand, and we see two ways in which companies are responding: Re-prioritizing which products to push and seeking out adjacencies.

H&M provides protection clothes to be used in health care, pivoting to a new customer group

– Reuters

Re-prioritizing which products to push has been a theme over the past two weeks. Apart from direct COVID-19 effects, indirect effects are driving demand changes. For example, the trend of working from home has led IT retailers to see increased demand for monitors, keyboards and cables, and hotel/restaurant wholesalers to see increased demand for take-out products — but at the expense of other product portfolio components.

Seeking out adjacencies has also been a theme in much media coverage, but most companies can make a structured effort to explore adjacent offerings to offset decline in their traditional business. Given media interest, there may even be a marketing advantage to be had if something can be found.

Bauer has switched their production from hockey visors to medical visors

– Financial Post

Review your product portfolio checklist

- ❑ Identify implications on demand per product/service based on updated demand forecast (e.g. which products are still in demand?)
- ❑ Close down commercial activities related to products/services no longer in demand
- ❑ Focus and increase efforts on products/services still in demand
- ❑ Identify and evaluate opportunities in adjacent products or services (e.g. are we seeing a surge in demand in our proximity?)

Accelerate your digital agenda

When quarantines and social distancing restrictions limit physical interactions, companies need to find new ways of reaching their customers and selling their products — and, in almost all cases, the best tool to reach for is digital.

Demos and sales materials **adapted to digital format**, 'do it yourself guides' for services the company normally performs during the sales process, and video-based support capabilities are all examples we have seen. In almost all cases, these were ideas that already existed; **COVID-19 was simply the catalyst** for making them happen in record time.

*Experience from **China** shows that companies which **pivoted commercial efforts** quickly from **offline to online** channels managed to **substantially offset** offline declines and **even grow** their sales during the crisis*

– Harvard Business Review

Accelerate your digital agenda checklist

- ❑ Review sales material and necessary digital to in light of the current situation
- ❑ Review sales channels (e.g. is it possible to push the agenda on moving to digital platforms or offer delivery services?)
- ❑ Review alternate business models (e.g. can we offer subscription based payment?)

*Munters has launched a new platform for **Remote Assistance** to support their customers in a **merged reality environment***

– Dagens Industri

A properly accelerated digital agenda can even be an opportunity for companies to accelerate their business development agenda in other respects, e.g. by **laying the groundwork for an online offering**, digital platforms to sell directly to consumers, or building up delivery services. Friction with existing stakeholders (e.g. wholesalers and retailers) from such moves could be significantly reduced right now, and thereby open a window of opportunity. New revenue models, such as subscriptions for services, may even be welcomed by liquidity-constrained customers.

CHAPTER 5

Supply Chain: Managing COVID-19

One of the first signs of the COVID-19 outbreak on the supply chains were discontinued supplies from China resulting in component shortage and disruptions in global logistics flows. As the contagion spreads across Europe and the US actions were taken in a rapid pace. COVID-19 wasn't just affecting supplies from China anymore, it **fundamentally changed** the environment in which the companies operate.

In order to be successful in this new environment companies need to **re-think supply chain and production philosophies** that for long have been taken for granted. Traditionally, companies have for example aimed to reduce inventory through JIT deliveries and minimizing WIP stocks. In times like this, with high uncertainty both in demand and supply, minimizing inventory might not be the most feasible thing to do. Neither will consolidations of supplier base or optimizing equipment utilization to save costs be as high up on the agenda anymore.

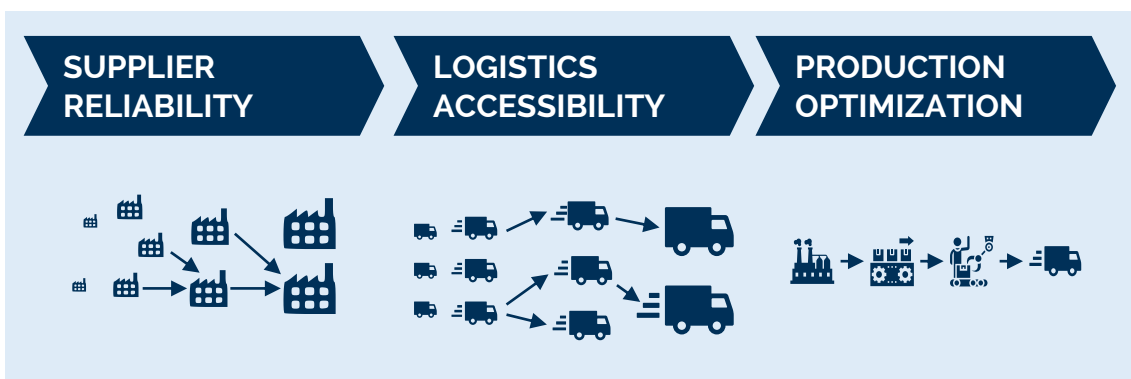
Companies need to **reassess their**

priorities in operations from raw material to finished goods, including **supplier reliability, logistics accessibility** and **production optimization**.

Supplier reliability

The purchasing department faces increased **risks in various dimensions**. The most obvious being the risk of supply shortage, but there is also a risk for suppliers if orders are cancelled or if they are seeing volume reductions.

As the crisis develops the **supply of commodity goods is increasingly at risk**. Companies need to identify critical commodities at risk soon so that they can act to mitigate the risk. Companies can push to get their orders confirmed and in case of supply allocation the company will have an advantage.



Having **time on your side is crucial** so that you can start looking for new alternatives, such as other suppliers or take actions to increase in-sourcing before it is too late..

Supplier Reliability Checklist

- ❑ Identify high risk suppliers with regard to increased risks for production limitations and bankruptcies
- ❑ For high risk suppliers, create a clear view of your obligations and what the penalties are if those are not fulfilled
- ❑ Identify strategical suppliers (i.e. suppliers that are difficult to replace) and focus your support on them (e.g. shorter payment terms, higher prices etc.)
- ❑ Identify critical components with regard to high risk suppliers (previous step) and changes in demand for those. Update their risk status (e.g. 'days in stock' calculations)
- ❑ For critical components, review split between dual- and multi source suppliers and opportunities to switch order volumes between them
- ❑ For critical components, review supplier's excess capacity and available inventory along the supply chain
- ❑ If components still considered critical (at high risk), review alternative sources and possibilities to in-source
- ❑ Allocate resources to initiate dialogue with high risk suppliers
- ❑ Set action plan together with supplier including purchasing orders (quantity and frequency), volume outlook, supply capacity, inventory, contract terms, routes and information flow

We could also see the opposite, that suppliers **have overcapacity and face**

financial difficulties, becoming more likely since COVID-19 due to the weakening demand. To handle these situations companies should **prepare by having a clear view of their obligations** towards suppliers and what the penalties are if those are not fulfilled. Companies also need to consider which suppliers are of strategical importance to support through the crisis. An **intact supplier base** will enable companies to **scale-up quicker** when the pandemic is over.

IKEA supports their suppliers
suffering from lower volumes by
offering shorter payment terms,
credits and education

– Dagens Industri

Logistics accessibility

Increased boarder controls have caused congestion in the road traffic. Canceled departures and closed airports have disrupted air freights. Shipping flows have also seen major disruptions due to shut downs in China. Now is really the **time for logistics departments to be innovative**.

Companies within the pulp and
paper industry have **re-planned
their shipments since shipping
prices increased**

– Industry association Skogen

In order to minimize risks related to logistics accessibility, companies can **review their operational set-up** to eliminate impassable routes by e.g. changing warehouse locations, spread inventory at multiple locations, provide customers from other sites or source materials from suppliers at other locations.

For routes likely to be **affected with longer lead-times, worse delivery precision or higher cost**, it is worth assessing the alternatives in terms of transportation mode but also shipping quantities.

Logistics Accessibility Checklist

- ❑ Identify routes that are or are likely to be affected with longer lead-times, worse delivery precision or higher cost and map incoterms (i.e. who is responsible for the freight)
- ❑ For affected routes within your responsibility, assess the alternatives in terms of transportation mode, routes and shipping quantities
- ❑ Continuously inform suppliers and production about deviations
- ❑ Review possibilities to increase number of warehouses, change warehouse location, change supplier location or provide customers from other factories
- ❑ Initiate dialogue with 3rd party logistics providers to get their expertise, secure capacity and plan changes

Production optimization

Production optimization needs to be handled at group, or even industry level, as well as at single sites. On group level, considering several production sites, warehouses and similar, it is important to have clear **back-up plans in case sites are forced to shut down**. To what extent sites can cover for each other depends on the group's previous investments in redundant and excess capacity.

At single sites, companies can act to minimize risk due to uncertainties in supply and demand. **Higher inbound inventory levels** by updating both order quantities and safety stocks is an efficient lever to reduce risks in supply. Demand risks can partly be handled by **applying postponement in production**, which implies that the product is kept generic as long as possible and stored as semi-finished goods to be able to fulfill the demand from various customers. Risk of demand fluctuations can also be reduced by more frequent and shorter production planning cycles.

*The **automotive industry** in Europe **gather around one date to 'Exit Corona'** and start production collectively at the same date*

– Dagens Industri

The risk of not having sufficient personnel to run the operations also increase due to sick leave and quarantines. To reduce the risk of personnel shortage companies should **increase staffing flexibility by broaden knowledge** of existing workforce and set-up collaborations to activate if additional capacity, despite increase in flexibility, is needed.

*Scania has **provided production personnel** to Getinge to help producing respirators*

– Ny Teknik

Production Optimization Checklist

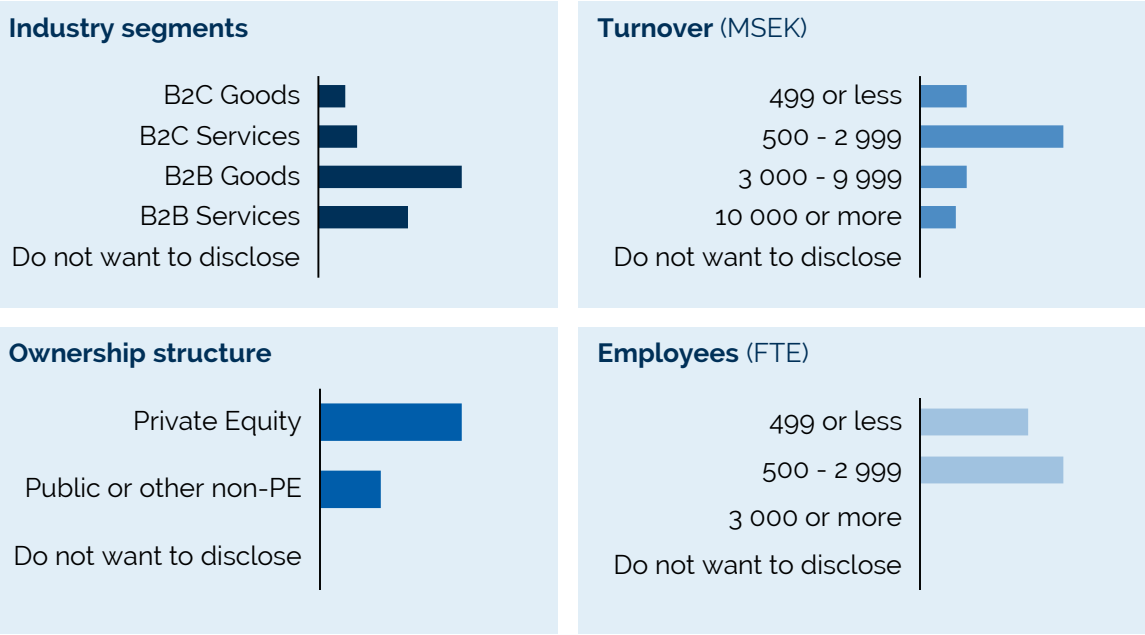
- ☐ Coordinate across group to not sub-optimize operations and set-up backup plans in case of site closures
- ☐ Adjust safety stock and order quantities with regard to new uncertainties in supply and demand
- ☐ Reduce complexity in production by eliminating unnecessary differentiation/customization
- ☐ Apply postponement in production to higher extent, i.e. keep units generic as long as possible in production to be able to fulfill various customers' demand
- ☐ Establish new collaborations to allow for flexible personnel planning (e.g. to cover for personnel shortage due to quarantines or sick-leave)
- ☐ Broaden knowledge and skill of existing workforce to increase flexibility in staffing
- ☐ Review shifts required and possibilities to reduce personnel (e.g. assisting other companies that see surge in demand for production lines)
- ☐ Shorten production planning cycle and planning horizon to minimize changes in production plans due to

APPENDIX

Summary of Results

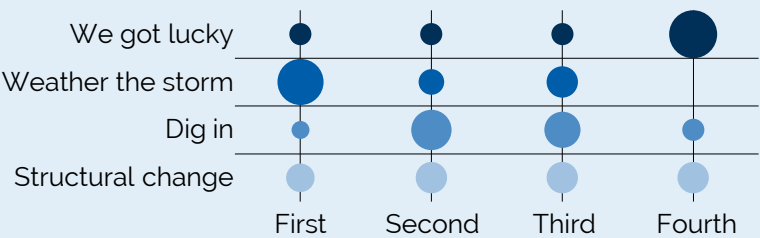
Summarized results from 21 individual companies can be found on the following three pages.

Company demographics (I / III)
Share of respondents



Outlook (II / III)
Share of respondents

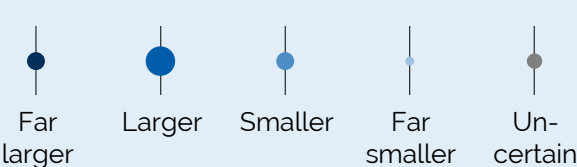
1. Rank which scenario best describes your situation?



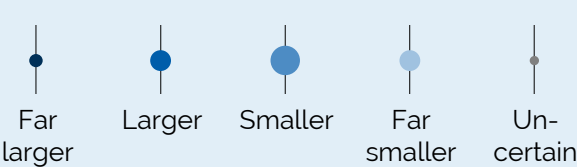
2. Over the next 6 months, disruption to demand will be an issue



3. Over the next 6 months, disruption to supply will be an issue



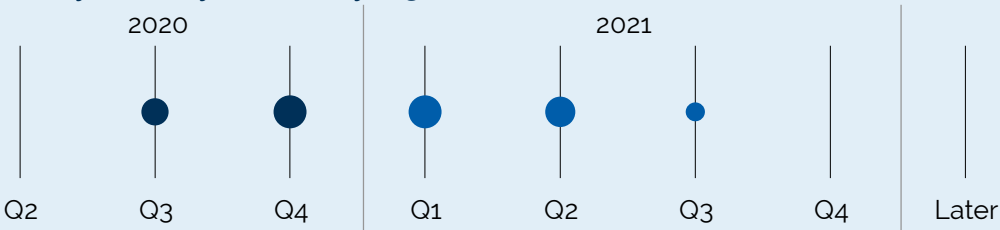
4. What is the impact of the crisis on your industry segment compared to other segments?



5. How do you think your company will handle the crisis compared to competitors in your industry segment?























































6. When do you think your industry segment will be 'business as usual'?




○ Size indicates share of respondents

Reactions to date (III / III)

Share of respondents

Area	Question	Not considering	Planning actions	Some actions	Aggressive actions
Protecting top line 	We have adjusted our existing customer offerings to protect revenues • e.g. lower pricing, increased flexibility in re-booking, etc.				
	We have adapted our go-to-market approach to protect revenues • e.g. pushing a different part of our product portfolio, increased use of online channels, etc.				
	We have begun planning longer-term initiatives to alter our business model in response to the current crisis • e.g. moving into attractive adjacencies, expanding our offering, etc.				
Cutting cost 	We have acted to preserve cash • e.g. drawn down credit facilities, sold assets, negotiated payment terms with suppliers, re-negotiated covenants or cancelled dividends, etc.				
	We have reduced personnel costs • e.g. layoffs, salary reductions, etc.				
	We have lowered our short-term operating costs • e.g. reduced marketing, closing stores, cancelling equipment leases, demanding supplier price reductions, etc.				
	We have taken longer-term operating cost measures • e.g. closing production lines, reducing delivery capacity, etc.				
	We have put large investments on hold • e.g. in factories, machines, capability expansions, etc.				
Manage risk 	We have mapped the demand risks and where they may come from • e.g. through a thorough review by our commercial organization				
	We have mapped supply chain risks and where they may come from • e.g. supplier bankruptcies or shutdowns, logistics disruptions, etc.				
Control tower 	We have set up a machinery to give us daily updates on the impact to us of unfolding events				
Execu- tional capacity 	We have established a SWAT team or other empowered body to boost executorial capacity through the crisis				
	We have re-prioritized initiatives (e.g. strategic plans, transformations, marketing campaigns, etc.) and put non-critical initiatives on hold				

 Size indicates share of respondents

About OPX Partners

OPX Partners is a Nordic management consulting firm. We support our clients in solving complex strategic and operational problems, from diagnosis to implementation – across a range of business topics.

Our approach has been shaped through working extensively with PE-owned companies across a variety of industries. Our approach is characterized by 3 factors:

Smart: By bringing experienced teams that know, and have first-hand experience of the problem at hand, but also have top-tier management consulting experience, we can hit the ground running, quickly understand and design the solution, and then move into implementation mode.

Pragmatic: Our extensive line experience and senior teams ensure that solutions are pragmatic, implementable and tailored to the client's specific environment.

Collaborative: We take a partnership approach with our clients and are normally present on the ground for the duration of the project, and especially during implementation to help ensure successful change. We work together to build our clients' capabilities and ensure ownership at all levels and functions of the organization.