

# How do you reframe for growth in a volatile environment? (1)



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Decisions on transformation can no longer be delayed. To be growth-ready for the post-pandemic recovery, businesses must reset, reimagine and reinvent. Here's how.

## IN BRIEF

- ▶ To be ready for recovery businesses must achieve a lower and more flexible cost base, supported by strengthened resilience across supply chains and cybersecurity.
- ▶ Investment in enterprise-wide digitalization must be increased.
- ▶ Transformation efforts must focus on five areas where the pandemic will leave lasting impact: health, connectivity, relationships, ingenuity and accountability.

Every business executive knows COVID-19 crisis has been a force for change, or more typically - disruption. But the critical question is: how much of this change is temporary and how much may be lasting? The pandemic has acted as a reactant for shifts that were already transforming business practice and consumer behavior - such as digitalization and sustainability. But it has also surfaced entirely new challenges. Both sets of drivers need to be understood as leaders plan for an eventual return to a new, more stable environment.

While external forces have pressurized business from the outside, the pandemic has shone a light onto previously unrevealed weaknesses on the inside of companies. It has highlighted unfinished homework - many organizations have already paid a heavy price for deferring necessary changes, such as digitalizing large areas of their business or cleaning up balance sheets. The pandemic has turned a "should do" wish list into an urgent "must do" agenda for enterprise transformation.

Here, we'll set out what businesses need to prioritize in the short-term to get growth-ready for the imminent but uneven recovery, and how they can reframe their future in the long-term by accelerating delivery of that urgent transformation agenda.

## Chapter 1

### Responding across three-time horizons, simultaneously

**To ride a saw-toothed post-pandemic economic recovery, leaders must act and plan for the now, next and beyond.**

EY sees three main phases of response to the pandemic: the immediate emergency response (**the now**); the move to stabilization and resiliency (**the next**); and the longer-term plan for a new market (**the beyond**).

Now, next and beyond are not defined phases that follow sequentially: rather leaders have to keep all three horizons in mind as they navigate the post-crisis phase. While the "now" of immediate crisis management has largely abated, there is every reason to expect there will be further resurgences of infection that put communities, and businesses located within those regions, into lockdown and emergency response. The "next" phase, in which resilience and agility are rebuilt, isn't universally applicable. Some industry sectors (airlines, hospitality, fitness gyms, for example) have not yet emerged from the emergency response phase. And while leadership must learn how to switch gears between these two phases, they must also look to position themselves for the environment that emerges after - the "beyond".

In a recent EY article, we argued that economic recovery is likely to be saw-tooth shaped. We have already seen this choppy return to growth with setbacks following swiftly on rebounds. Recent encouraging spikes in US employment figures, for example, have not recovered the jobs lost to the pandemic and returned the global economy to pre-pandemic levels, and markets remain dominated by VUCA (volatility, uncertainty, complexity and ambiguity).

## Heightened uncertainty driving divergence...

Moreover, volatility is exacerbated by another phenomenon that we are only just beginning to understand: how COVID-19 has acted as a force for divergence. We see an acceleration in the decoupling of stock market performance from GDP; of business performance from the broader economy; of employment levels from economic growth. The historic indicators that were once in lockstep are now decoupled, increasing pressure on executives to build agile response mechanisms as they navigate confusing market indicators.

The shifts are not just economic - they are also social and psychological. The immediate impact on public confidence and trust is likely to have a long tail, as are the accelerated moves to digital. Even after lockdown restrictions have lifted in many parts of the world, the public has been slow to board buses or trains, for example. In the U.S., public transportation use is down 85%, with 70% of survey respondents reporting cleanliness concerns as the principal reason. In the EY Future Consumer Index survey, 51% of consumers in Germany say they are uncomfortable traveling on public transport. Conversely, from Los Angeles to Taiwan, bicycle ridership levels are soaring. The world's largest bike manufacturers, and a Japanese maker of bike gears and components have seen 40% - 50% rises in sales as city dwellers eschew public transportation in favor of two-wheeled commutes.

## ... and convergence

In other areas, confluences are driving change: the growth in virtual health, for example, can be attributed to technological developments, a higher level of trust by the public in using digital tools, and a more benign regulatory environment. In the U.K., 42% of consumers plan to increase their use of telehealth post-COVID-19.

Company executives have to consider the potential impact of all these changes on their own value proposition: economic, social, psychological and operational. And as they focus on how these shifts will likely play out over the long-term, the beyond, they must also transform their operations to meet these new, uncertain, challenges.

"Creating a digital enterprise is far more radical than simply augmenting physical operations with digital equivalents. It involves re-imagining the business from its foundation by placing humans at the center of the organization, deploying technology at speed and driving innovation at scale to outperform competitors."

**Errol Gardner**

EY Global Vice Chair - Consulting ■

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