

Pandemic provides catalyst for business transformation

Most companies have had to make profound operational changes as the second wave of coronavirus lockdowns were enforced around them

Some businesses, such as travel operators, leisure and hospitality players now face an existential threat and must make critical changes to survive and build resilience as the coronavirus pandemic continues. Others continue to see milder or even positive effects from the pandemic. But they too are looking to make rapid changes as they seize the opportunity to accelerate new ways of working.

When the first European lockdowns started in March, many of the most affected firms expected only six months of economic pain and relied on rapid cost-cutting in an attempt to preserve short-term liquidity.

But now the recovery timeframe has become much less certain, with lockdowns potentially lasting another six months or more, irrespective of emerging good news on vaccines. The path to a fully vaccinated global population is potentially several years long, even assuming large-scale programmes are implemented in 2021. This uncertainty is forcing businesses to build more long-term flexibility into their operations.

One strategy has been to optimise capacity. For example, companies in the leisure industry, when allowed to open, might consider staying closed at unprofitable times. They could also use discounts and dynamic pricing, which flexes price according to demand, to maximise financial returns at peak times or fill up at slower times.

Others might reassess the sustainability of their locations. For example, a financially stressed high street retailer needs to review its locations, renegotiate rents or perhaps move towards turnover rent, which links payments to sales.

Accelerating trends

Operational transformation is about much more than just survival,

however. For many businesses, at all levels of affectedness, the second wave presents an opportunity to catapult themselves into new operational models across people, process, systems and assets. Many also aim to bring forward moves they had been eyeing for some time, but thought were still five or ten years away.

John Maloney, senior managing director in FTI Consulting's Business Transformation practice, says: "Many businesses are looking to reduce costs by using more remote working and less central office space. We are seeing that some are eliminating expensive central locations completely and may never go back. They are changing the way they think about property assets."

"We've also seen firms accelerate digital and online provision of goods and services. For example, filmmakers are releasing major films through streaming channels while viewing from cinema release is reduced."

Many are taking advantage of the situation to make their workforce and supply chains more flexible and more efficient.

Adam Bradley, also senior managing director in the Business Transformation team at FTI Consulting, says: "Companies now need long-term flexibility in supplier relationships. For example, they need contracts that allow them to build inventory in some periods, but go below normal minimum contract spend at others."

"With workforces, some companies such as airlines have wanted to change their relationships with employees in terms of numbers and how they work, for example, moving to more flexible arrangements. COVID-19 has catalysed these conversations, even in unionised environments. They know their existing labour model might not be viable long-term, so they need to have these realistic conversations to remain sustainable as an employer."



"It is leading to different relationships with workforces and they must have a constructive, open communication strategy to make this transition successfully."

Many firms are also looking to accelerate changes in technology and redesign systems to be virtual from the ground up. Most had already been moving towards self-service software, cloud systems and robotic process automation, but the pandemic has accelerated all these projects as they build long-term resilience and enable lower-contact transactions with customers and more decentralised working.

Acquisition and consolidation opportunities

While acquisitions might seem a low priority for many, companies should

consider potential deals seriously as they may never have a better chance to buy a target in terms of price and availability.

Returns from deals done during or shortly after the 2007-8 financial crisis generated higher shareholder returns compared to those done in 2010.

Maloney says: "If you have the will and the finances to take the risk, you can buy cheaper, so now is the time to do it from a value-creation perspective and we recommend acting quickly. Some companies have stressed cash positions, which could create new opportunities. Heavily affected sectors such as high street retail, travel and transport are particularly likely to see consolidation."

"Also, some pharmaceuticals and medical companies have products they need to bring to a huge market very quickly, but need capital to do that, so there is a logic to being acquired."

This links to the trend towards more flexing of staff, locations and interactions with customers, which leads to more flexible cost structures. The pandemic has led to an acceptance of the need for accelerated consolidation and large IT transformations. This enables acquirers to extract better value from deals by transforming their operating models.

Bradley adds: "With our clients, synergies can come from consolidating

operational locations, overlaps in workforce and technology systems. One extra thing that could help them is using more data science to understand their operations and FTI Consulting has built a reputation for dealing with big data sets."

Navigating through the storm

Company boards are doing their best to cope in a snowstorm of activity and developments. But now they must stand back and see the big picture of how their business will operate over the longer term. They must ensure they are well positioned to harness potential opportunities in light of changing customer patterns and the wider operating landscape.

The coming years will be extraordinarily difficult to predict. But with more flexible and resilient operational strategies, and more sustainable cost structures, companies will be able to survive and thrive in the long-term.

Adam Bradley and John Maloney, Senior Managing Directors in the Business Transformation team at FTI Consulting were talking to journalist Tim Cooper.



Businesses are looking to make rapid changes as they seize the opportunity to accelerate new ways of working