BCG

Executive Perspectives

The CEO's Dilemma

Building Resilience in a Time of Uncertainty

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(Data refresh only)

Introduction to this document

Global disruptions and an increasingly complex 'polycrisis' macroeconomic outlook will be key elements of the strategic environment for the foreseeable future

For leaders, the only certainty is that waiting for clarity is a losing move

The best organizations know how to turn uncertainty into opportunity. Their playbook relies on two critical elements: a shared and clear view of the world and the strategic challenges/opportunities it presents—and a resilient and adaptable plan to win

In this BCG Executive Perspectives edition, we address what it takes to win in the face of uncertainty

Executive Summary | The CEO’s Dilemma: Building Resilience in a Time of Uncertainty

A view of the world

Today's global disruptions (e.g., geopolitical tensions, supply chain bottlenecks) **and economic headwinds** (e.g., soaring inflation, rising interest rates, decelerating growth, and currency fluctuations) have created **a complex 'polycrisis', a once-in-a-generation, competitive environment** with significant variations across geographic areas and sectors

Navigating this unprecedented complexity requires business leaders to develop a dynamic perspective not only on the most likely scenarios for how their operating and economic environments will evolve, but also on the distinct opportunities and risks these scenarios present for their organizations

Our research shows that “winners” in economic uncertainty do not just sit back and wait for recovery—instead, they are proactive and **turn ambiguity into opportunity**

A plan to win

There is no “one size fits all” solution to today's complex strategic challenges. But our research suggests that **the best companies do two things well** in crafting their unique plans to win

First, they have a clear understanding of their **strategic starting point** that takes into account nuanced and deaveraged perspectives on the economic and operational stability of the markets in which they operate—as well as on their own organizations' financial strength (e.g., profit volatility, free cash flow to debt ratio) ultimately falling into four high-level starting-point archetypes

And second, they embed a **“dynamic strategy” mindset** into their planning, comprising three elements:

- **Sensing:** Observing trends, defining and monitoring critical uncertainties, and outlining a set of scenarios against which to assess business decisions
- **Adapting:** Building operational and financial stability by shaping and reshaping strategies based on market trends and data-driven forecasts
- **Thriving:** Moving rapidly from assessment to action to seize growth opportunities and strengthen competitive advantage

In the News | How geopolitics, the pandemic, and policy choices continue to feed an increasingly complex economic and competitive environment

Forbes — Dec 7, 2022

China appears to ditch Zero-covid in overhaul to pandemic rules

NRF National Retail Federation — Oct 17, 2022

Despite lower volumes, supply chain challenges persist

The Guardian — Oct 27, 2022

World close to 'irreversible' climate breakdown, warn major studies

BARRON'S — Dec 7, 2022

Russia trying to 'freeze' war before spring assault: NATO Chief

FT Financial Times — Dec 8, 2022

Global regulators calls for 'urgent action' on clearing houses & insurers

THE WALL STREET JOURNAL — Dec 6, 2022

IMF to cut China's medium-term growth estimate

ET EconomicTimes.com — Dec 8, 2022

Dollar struggles as recession worries simmer

The New York Times — Dec 3,2022

Default looms as poor countries face an economic storm

BUSINESS INSIDER — Dec 7, 2022

A key indicator of a coming economic downturn is pricing in nearly 100% chance of a 'Powell recession' in 2023

THE WORLD BANK — Nov 30, 2022

Remittances grow 5% in 2022, despite global headwinds

Sources: BCG, press search from Forbes, NRF, The Guardian, Barron's, Financial Times, *Wall Street Journal*, Economic Times.com, *New York Times*, *Business Insider*, The World Bank

BCG Executive Perspectives

AGENDA

A view of the world

A plan to win

Increasing uncertainty driven by a set of global disruptions and exacerbated by macroeconomic headwinds needs to be met head on

Global Disruptions

Geopolitical tension

With tension unlikely to ease soon, organizations need to rethink—not just de-risk—their business models for greater advantage in a multipolar world

Supply chain bottlenecks

Bottlenecks will continue, increasing strategic importance of agile & sustainable supply chains to support strategies and boost advantage

Tech disruption

The inexorable rise of new technologies (e.g., AI, Quantum) will raise the bar for disruptive innovation and reinvention

Consumer behavior shifts

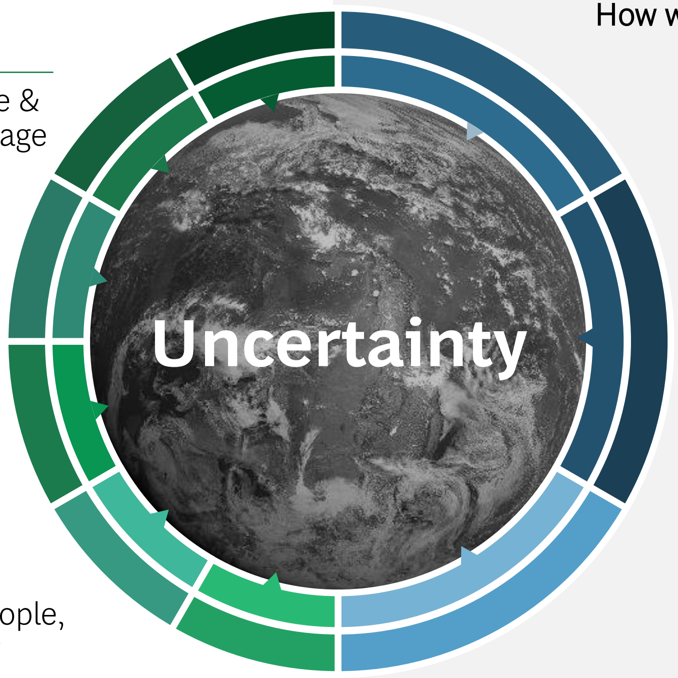
Consumers are rapidly changing purchasing behavior as a result of recent disruptions (e.g., COVID-19)

People challenges

Talent is a critical source of advantage; companies focused on people, culture, and new ways of working perform stronger in uncertainty

Climate change

The climate crisis, the defining challenge of our time, is challenging companies to step up with ambitious ESG and net-zero strategies and commitments



Macroeconomic Headwinds

1 Soaring inflation

Inflationary pressure and consumer demand shifts continue to affect global businesses with impacts on labor, energy, and materials costs.
How will inflation evolve globally and how can leaders blunt its impact on their businesses?

2 Rising interest rates

Central banks are moving carefully and decisively to tamp down inflation via higher interest rates with knock-on effects for borrowing costs, investment levels, and relative currency values.
How will rising interest rates affect capital access for businesses and consumers, and will they create tectonic shifts in competitiveness around the world?

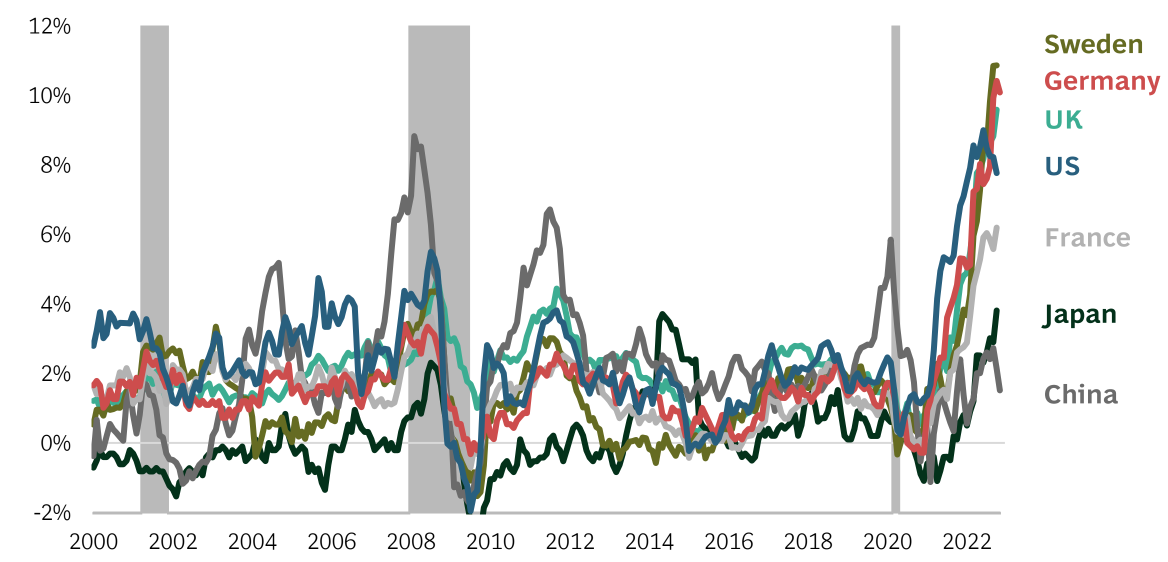
3 Uncertain recession outlook

Global economic sentiment has been gloomy, with recession indicators mixed and a wide range of forecasts.
What is the economic outlook, how does it differ from previous downturns, and how will it play out across sectors?

Inflation levels have risen sharply around the world but are expected to come down in the next two years

Global inflation trends by country

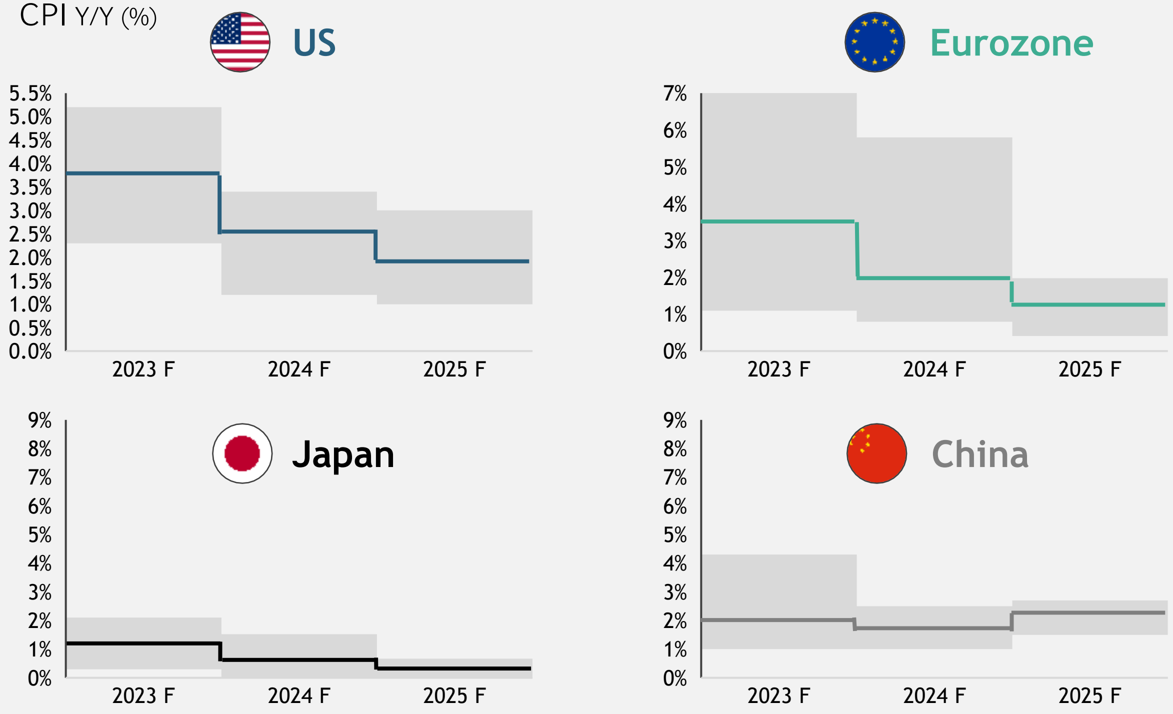
CPI Y/Y (%)



Legend: — Actual inflation ▬ Historical recessions

Forecasted inflation ranges by region

CPI Y/Y (%)



Legend: — Median forecast ▬ Forecast range

Current high inflation levels are geographically broad-based, with many countries matching or exceeding peak levels seen in past recessions

But early indicators might suggest inflation slowing as the economy cools in various parts of the world

Analysts do not expect inflation to become entrenched, however
An aggregation of recent inflation forecasts suggests a gradual inflation slowdown over the next several years barring any shifts or additional external shocks

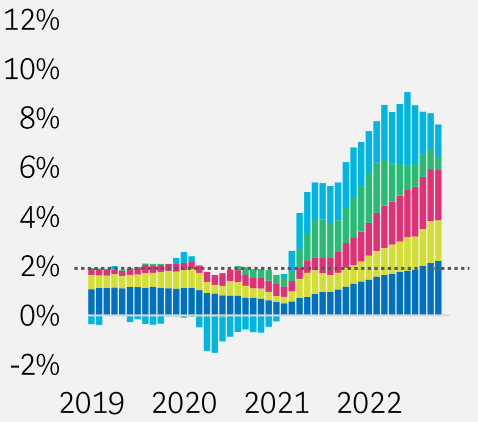
Note: Inflation data through 11/2022 for US, China, Sweden, Germany, France, Japan, UK; US—CPI full-year % change, Eurozone—HICP full-year % change, Japan—Core CPI fiscal-year % change, excluding fresh food core inflation; China—CPI full-year % change.
Source: NBER, Institut National de la Statistique/Economique, Istituto Nazionale di Statistica, Office for National Statistics, Bureau of Labor Statistics, Deutsche Bundesbank, Ministry of Internal Affairs and Communications, China National Bureau of Statistics, Statistiska Centralbyran, Refinitiv, Oxford Economics, BCG analysis

Dramatic shifts in inflation drivers vary across regions and countries with energy emerging as one of the strongest drivers

Breakdown of headline inflation by driver (%)

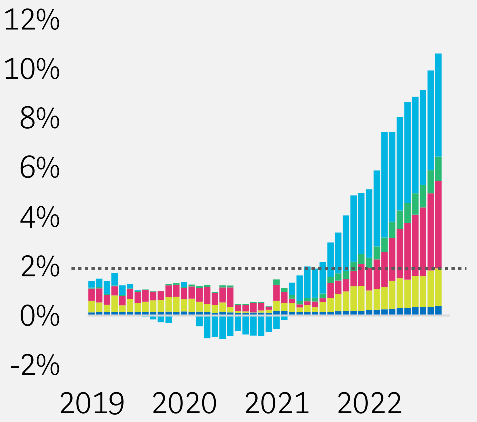
Legend: --- Central bank inflation target | Energy | Durable goods | Services | Housing | Nondurable goods

US



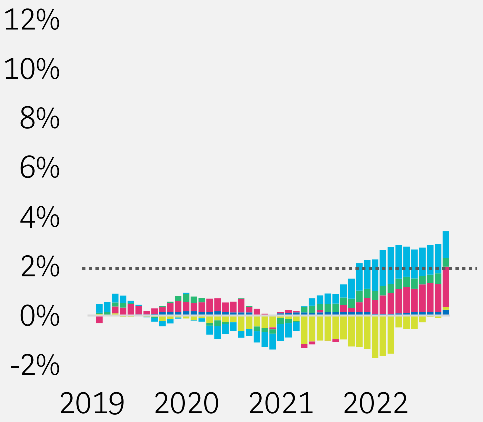
US inflation drivers shifting from durables to energy, services, nondurables, and housing

Eurozone



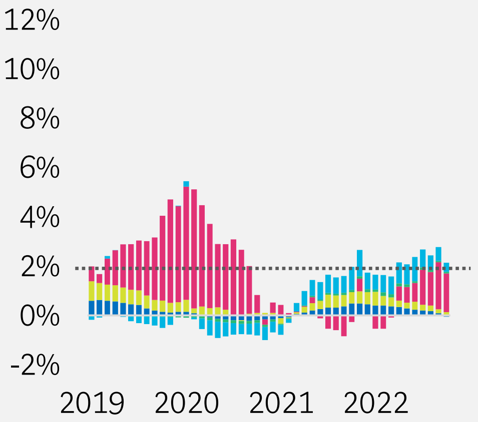
Energy costs are the primary driver of Eurozone inflation—accounting for nearly half of the headline number

Japan



While surging on energy and nondurables, inflation in Japan is low compared with the US and Eurozone

China



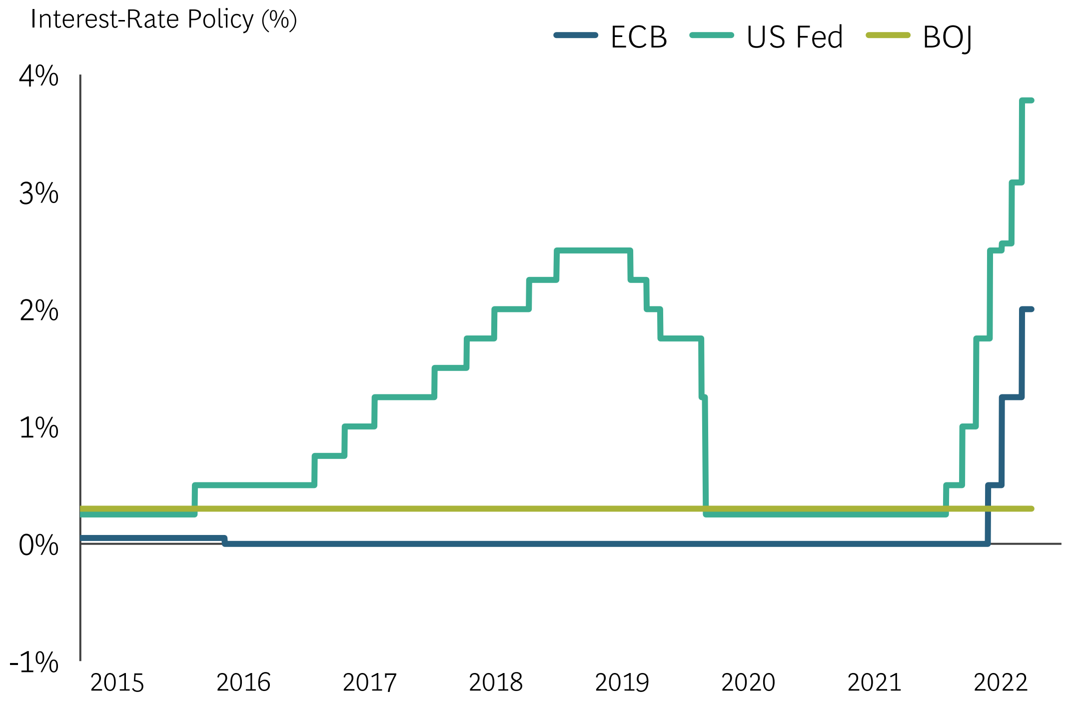
Apart from energy, inflation in China is running well below the central bank target

Given the significant variability in the intensity and drivers of inflation from market to market, leaders need to understand inflation's impact across their operating footprint and develop mitigation strategies

Note: Data through 11/2022; US latest CPI weights – Non-durables ex-energy at 22%, Durables ex-energy at 12.8%, Housing ex-energy at 32.5%, Services ex-housing at 24.4%, Energy at 8.3%; Eurozone data through 11/2022, EU latest CPI weights- non-durable ex-energy at 32%, Durables ex-energy at 12.7%, Housing ex-energy at 11.3%, Services ex-housing at 33.1%, Energy at 11%; Japan data through 11/2022; Japan latest CPI weights – Non-durable ex-energy at 34.3%, Durables ex-energy at 13.1%, Housing ex-energy at 21.5%, Services ex-housing at 24%, Energy at 7.1%; China data through 11/2022, China does not publish its CPI weights so the weighting estimated through Bloomberg and may differ from headline- nondurable ex-energy at 38.2%, Durables ex-energy at 5.8%, Housing ex-energy at 28.2%, Services ex-housing at 23.8%, and energy at 4% For 'Energy' we chose 'automotive fuels' as the closest comparison in China
Source: Bureau of Labor Statistics, Eurostat, Ministry of Internal Affairs and communication, NBS, BCG analysis

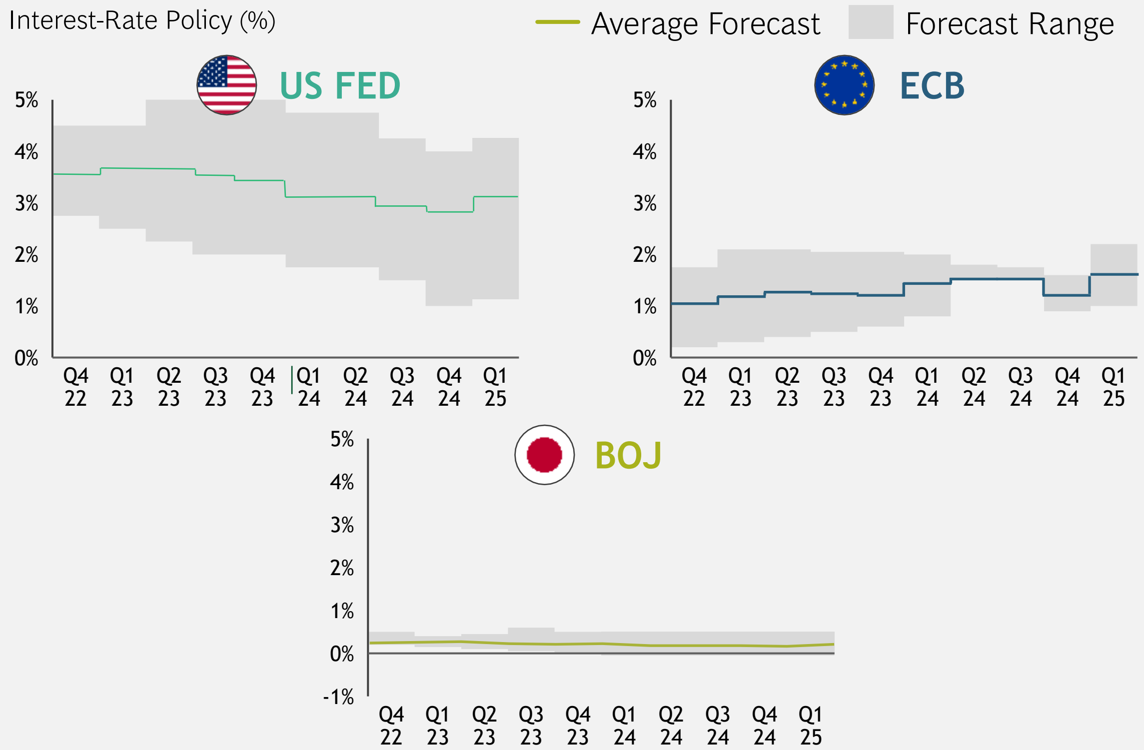
Varied central bank policy shifts curbing consumer & company spending power and access to 'cheap' capital—and many analysts expect high rates to persist

Current interest-rate policies



Central banks are seeking a delicate balance, hoping to slow inflation without triggering a deep recession. The US Federal Reserve and the European Central Bank have announced some of the sharpest increases in recent years—and many countries and businesses with significant debt are beginning to feel the squeeze

Interest rate policy forecast ranges



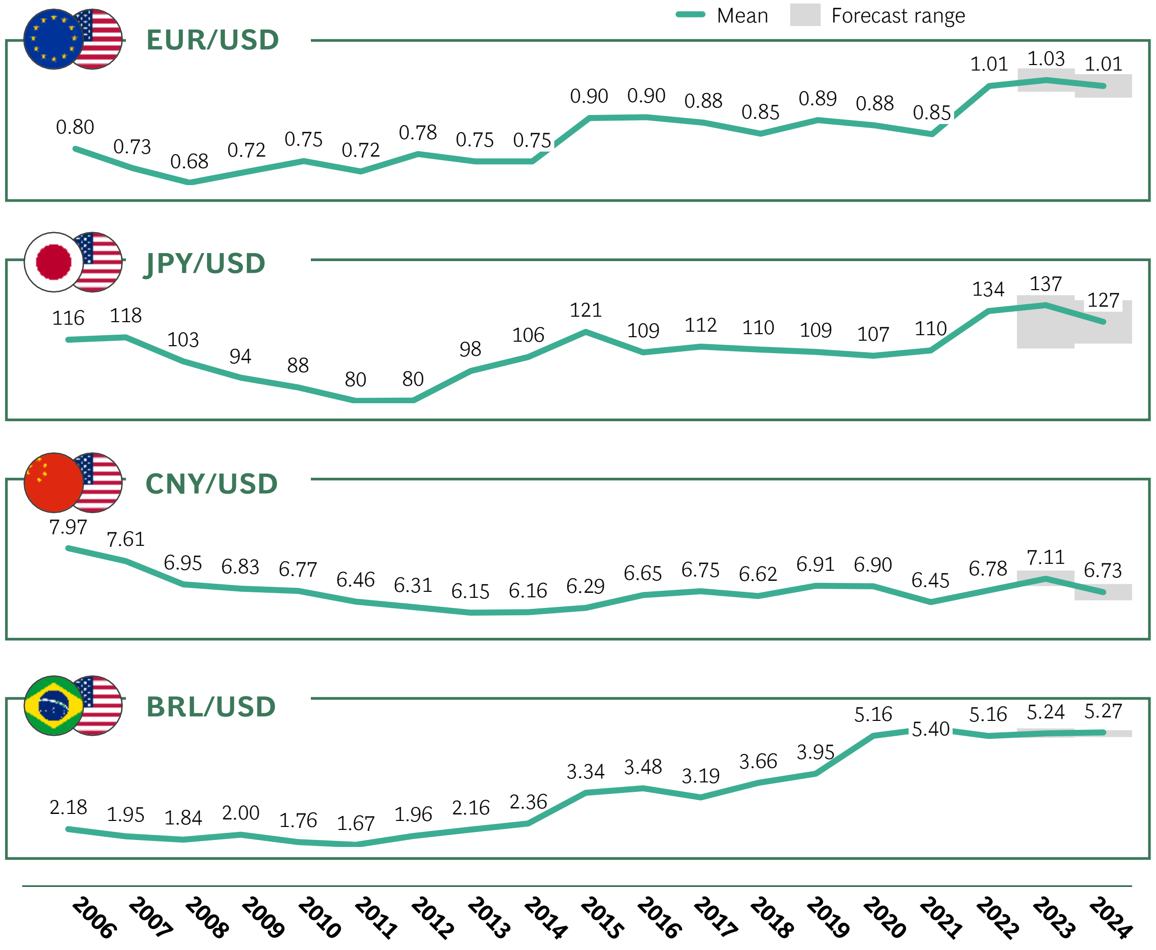
Analyst consensus is that today's higher rates will persist into the medium term implying decreased demand, higher debt service costs, continued currency pressures, and lower profits

This raises interesting questions around sustainability & healthiness of debt levels and the burden of higher interest rates for governments & businesses

Note: Eurozone- ECB main refinance operations announcement rate; US fed, Federal Funds Target Rate-Upper Bound; BOJ Policy-rate statement/loan/discount rate; Range includes highest and lowest forecast; aggregated average forecast as of Nov 30
Source: Bloomberg, BCG Analysis

Strong currency moves are driving tectonic shifts in competitive advantage and access to capital across the world

Diverging policy regimes and geopolitical factors drove currency moves, mostly strengthening the US dollar…



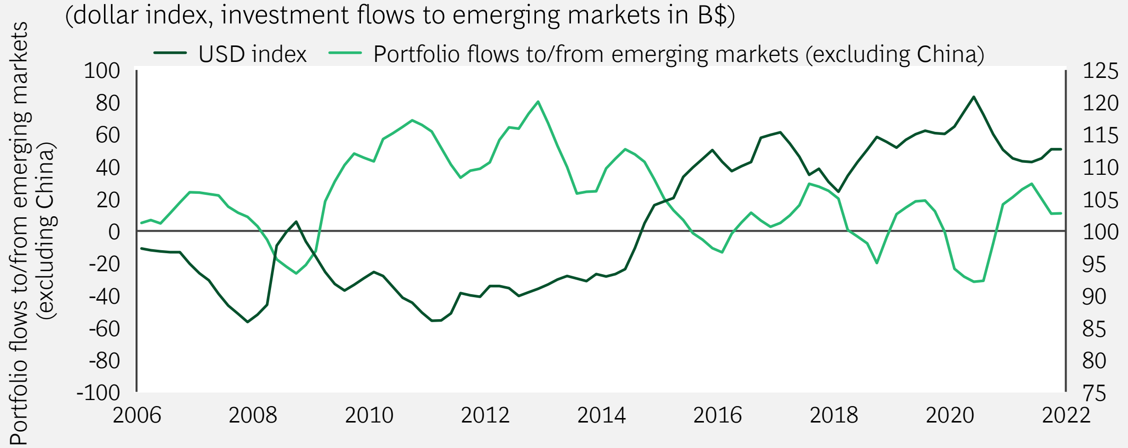
Note: Yearly average exchange rates shown; Source: BCG analysis; Bloomberg FX data as of Nov 30

…and leading to tectonic shifts in competitive advantage and access to capital across the world

High interest rates in US translate into a **greater interest in dollar-denominated investments** in general, strengthening the dollar and **increasing liquidity and access to capital in US**

Emerging economies historically have **weakened and lost competitiveness** when the US dollar appreciated relative to other major currencies—there may be discussion around what **will happen this time, including, if emerging economies could benefit from global economic slowdown**

Correlation USD index and capital flows to/from emerging countries
(dollar index, investment flows to emerging markets in B$)

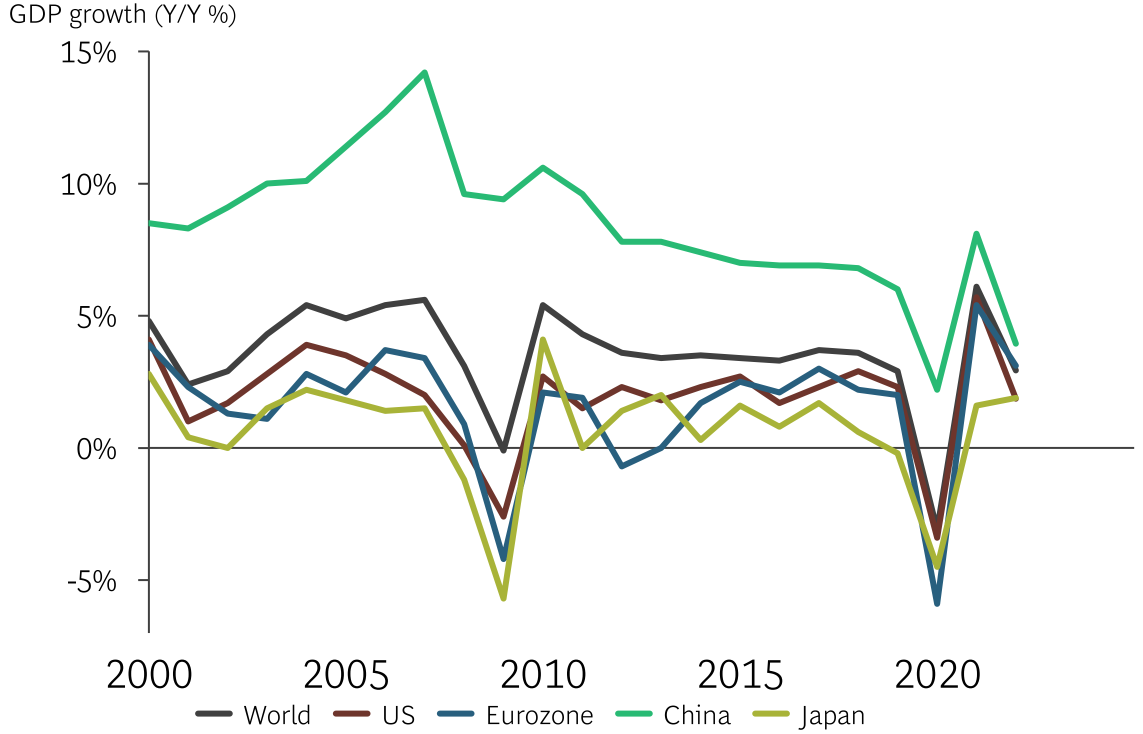


Correlation coefficient = -0.67

Source: International Monetary Fund

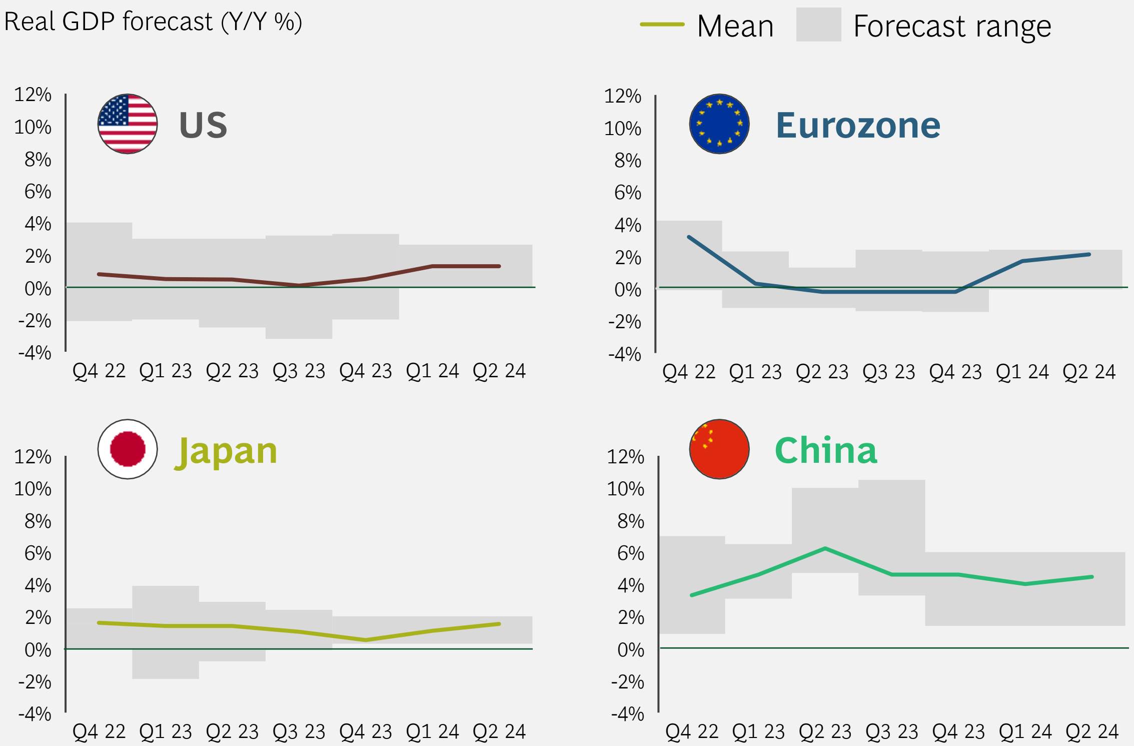
While recession remains a risk, recent forecasts suggest that a period of relatively flat growth is more likely

Recent GDP deceleration suggests significant recession risk…



Global growth slowed from 5.7% in 2021 to 3.1% in 2022, 1% lower than forecast in January 2022

… however, aggregation of GDP forecasts points to some downside risk, but not near-term recession



Interpretation of these forecasts is not as simple as we wish

For instance, US economy shows conflicting indicators, clouding the outlook. Implication of China's flatter GDP growth for the global economy may create diverse interpretations and hence different strategic choices

What's worse, another disruption could immediately impact the forecasts

Source: IMF GDP Actual Growth Y/Y % including combined 2022 actual & H3 2022 average forecast as of De, Bloomberg GDP quarterly forecast consensus data as of Dec 08; BCG Analysis

US Deep Dive | Conflicting indicators cloud the outlook for the US economy

Monitoring indicators that are…

Not exhaustive

Decreasing recession risk

Increasing recession risk

Households savings
US consumers well positioned to absorb shock given **significant cash on hand**

Earnings per share
Current EPS estimates for 2022/2023 **remain very high** providing a buffer to withstand some downgrades

Real wages
Employee compensation growth beats inflation aided by labor force growth

PMI indexes
Purchasing manager indexes, while not yet at troubling levels, have recently weakened

GDP growth
GDP forecasts point to downside risk, but not necessarily to a near-term recession

Unemployment rate
The **labor market remains strong**, although hiring and wages are easing, potentially indicating a slowdown in the economy

US fiscal policy
Fiscal policy contribution to GDP growth **will likely remain negative** for the next two years

Yield curve
Inversion of yield curve is the market's favorite recession signal, but weakened by negative term premiums

S&P index
Drawdown of ~25%, although not necessarily a precursor of recession

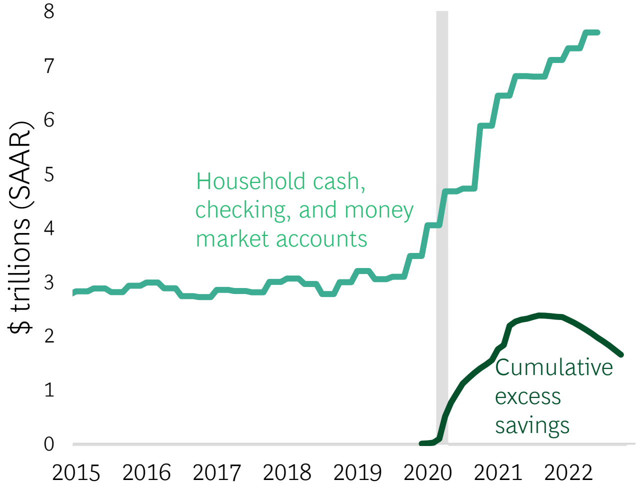
Source: BCG analysis

US Deep Dive | In contrast to the lead-up to previous downturns, the economy remains strong with unemployment at historic lows

Decreasing risk

US consumers well placed to absorb shock with significant savings

Household cash and equivalents—and cumulative excess savings

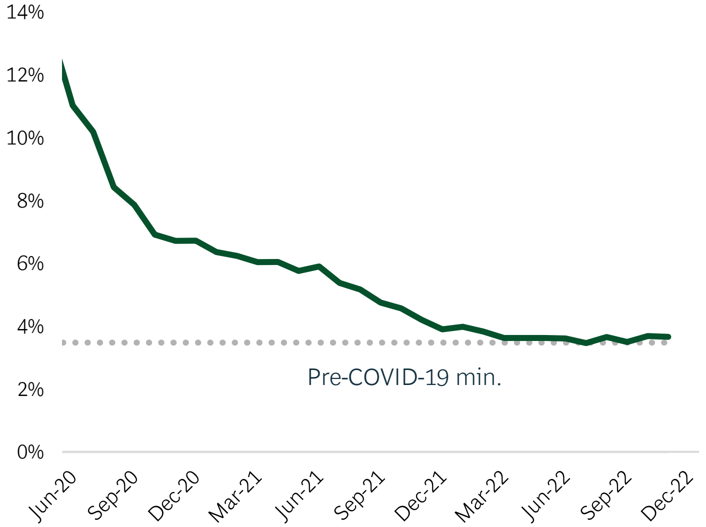


Cash and equivalents held by US households nearly doubled between 2020 and 2022, providing a significant buffer against near-term recession

Neutral

Unemployment rates are back to pre-COVID-19 levels...

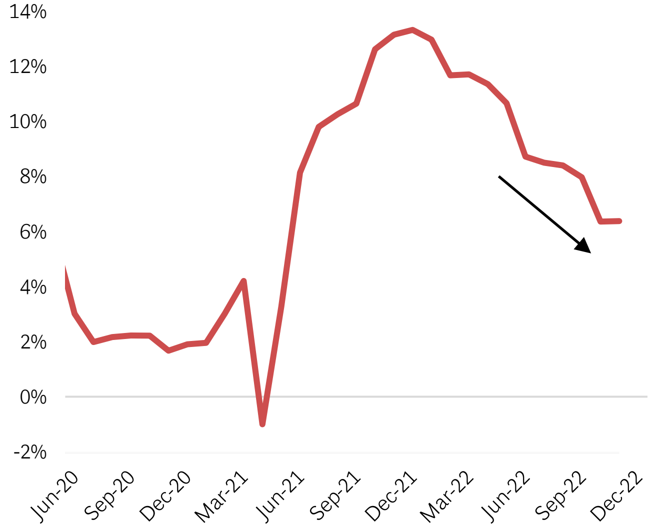
Unemployment rate (%)



Nearly record low unemployment could be a sign either of a strong economy or that the economy is overheating

... while wage growth is slowing from recent peak

Change in average hourly earnings (%)



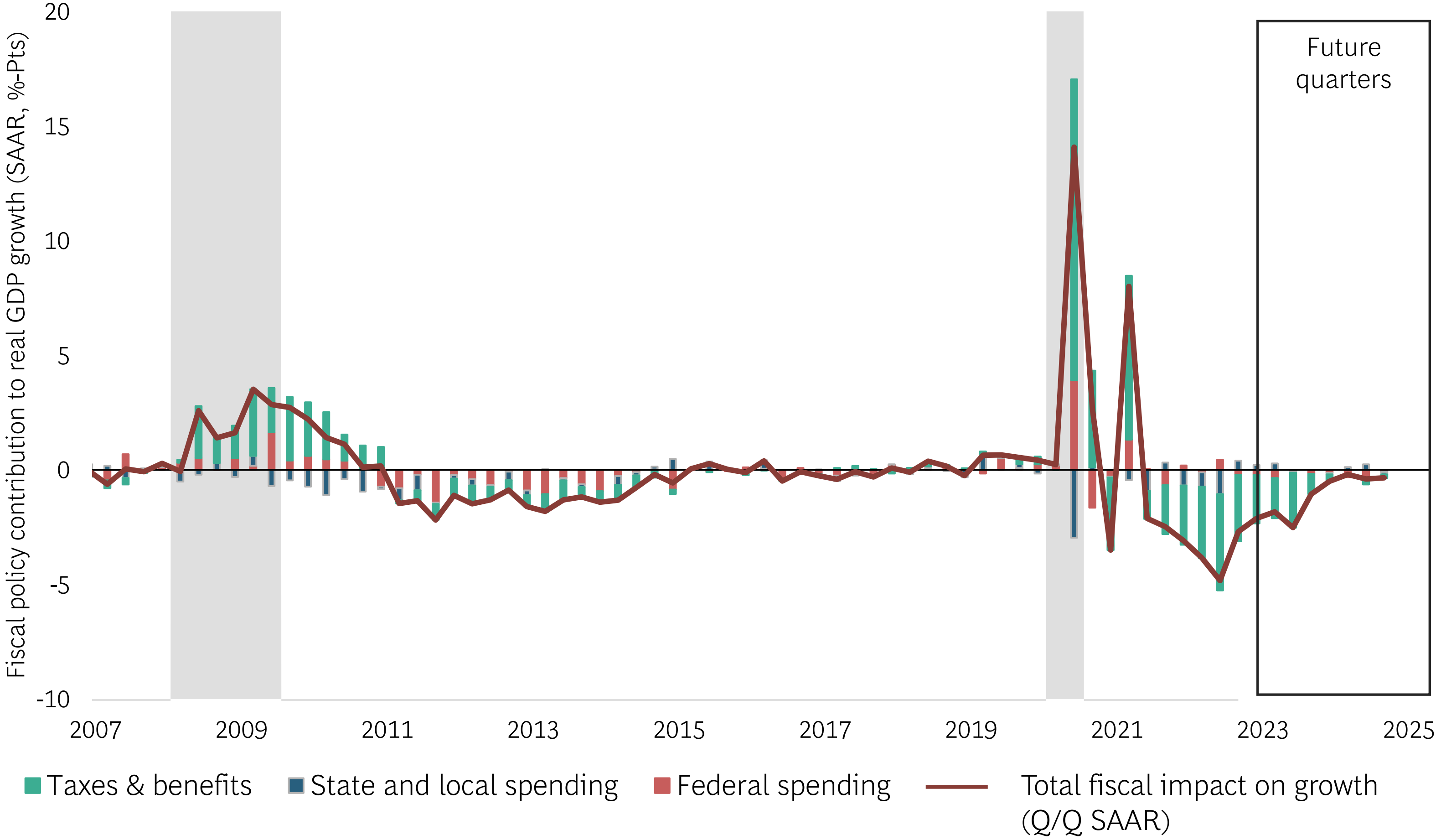
Slowing wage growth makes hiring more attractive after a significant wage uptick over the past few months

Note: Savings and household wealth data as of Q4 2022; unemployment data through 11/2022; wages data through 11/2022
Source: NEBR, Federal Reserve Board, BLS, BCG analysis

US Deep Dive | Expiration of COVID-19 stimulus eliminated a significant tailwind for GDP growth

Increasing risk

US fiscal policy contribution to real GDP growth (Q/Q SAAR, % pts)



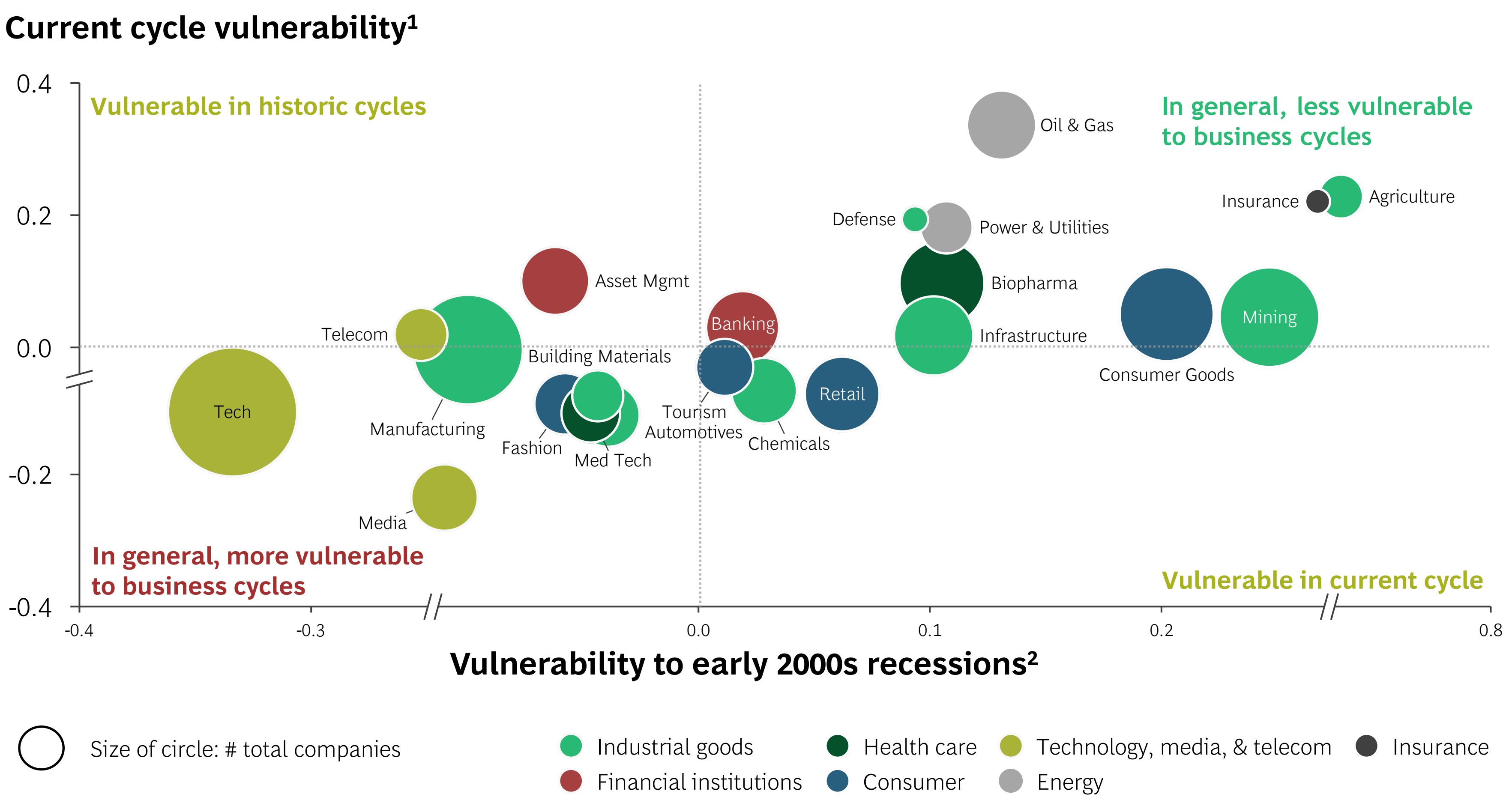
Source: Brookings Fiscal Impulse, BCG analysis

Fiscal stimulus was the **largest driver of US GDP growth** during the early stages of the pandemic

The last stimulus package was in 2021, creating a high base period for comparison, followed by a **sharp inversion as stimulus programs end**

Assuming no additional legislation, we estimate the fiscal policy contribution to GDP growth **will remain negative for the next two years**, reaching 0% by Q4 2024

Different sectors are affected differently by macro uncertainties



Note: This graph reflects the delta between the sector and S&P index. X & Y axes are normalized against the group average. Used publicly listed major companies. Major companies: companies with market cap above $5B USD; 1. Measured by % downturn of publicly listed major companies in each sector between Nov 21 – Nov 22, compared with S&P 500. 2. Measured by average % downturn for major publicly listed companies during 2 cycles between 2000-2009 (03/00-03/03, 06/07-08/09), compared with S&P 500; only downturn periods of historical cycles were analyzed; to make the size of companies comparable to S&P 500, only top 10% of companies in each industry were selected for this analysis. Source: Capital IQ, BCG analysis

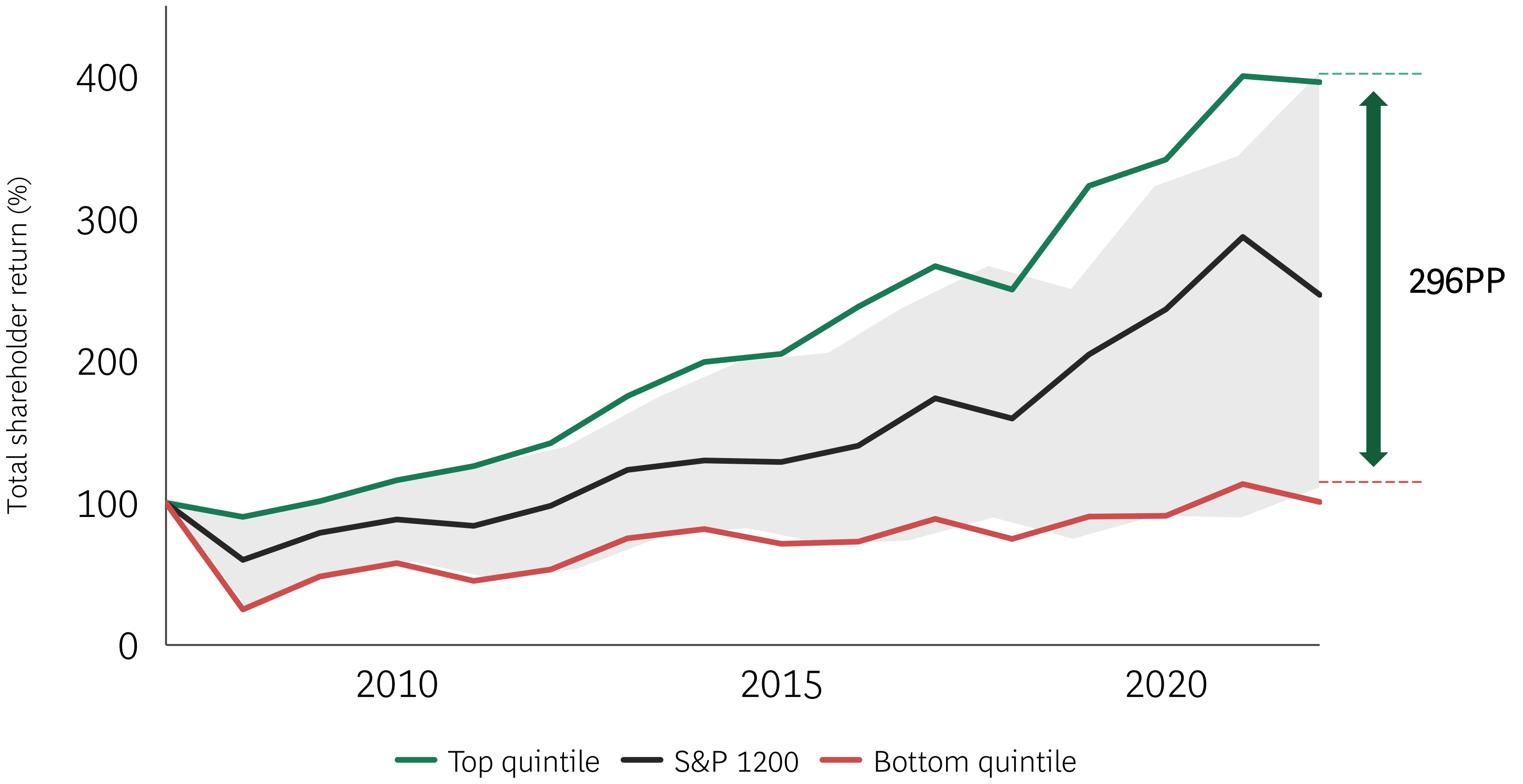
Sectors like agriculture are typically less vulnerable to business cycle shifts, while other sectors (e.g., media, tech, fashion) tend to be more affected. But this varies by recession depending on drivers

Some sectors (e.g., retail), which were less vulnerable in the early 2000s recessions, are showing greater vulnerability in the current environment

Top performers in economic uncertainty do not just wait for recovery; instead, they build competitive advantage and turn ambiguity into a source of opportunity

Total shareholder return of ~1,000 international companies

Comparison of top vs. bottom quintile TSR



Note: S&P 1200 (ex. financials and real estate companies)
Source: Capital IQ, BCG analysis; 1. BCG Digital Enablement Score; 2. Refinitive, BCG analysis; 3. BCG Global Innovation Survey; BCG i2i team

Key moves top performers make to grow and thrive over the long term:

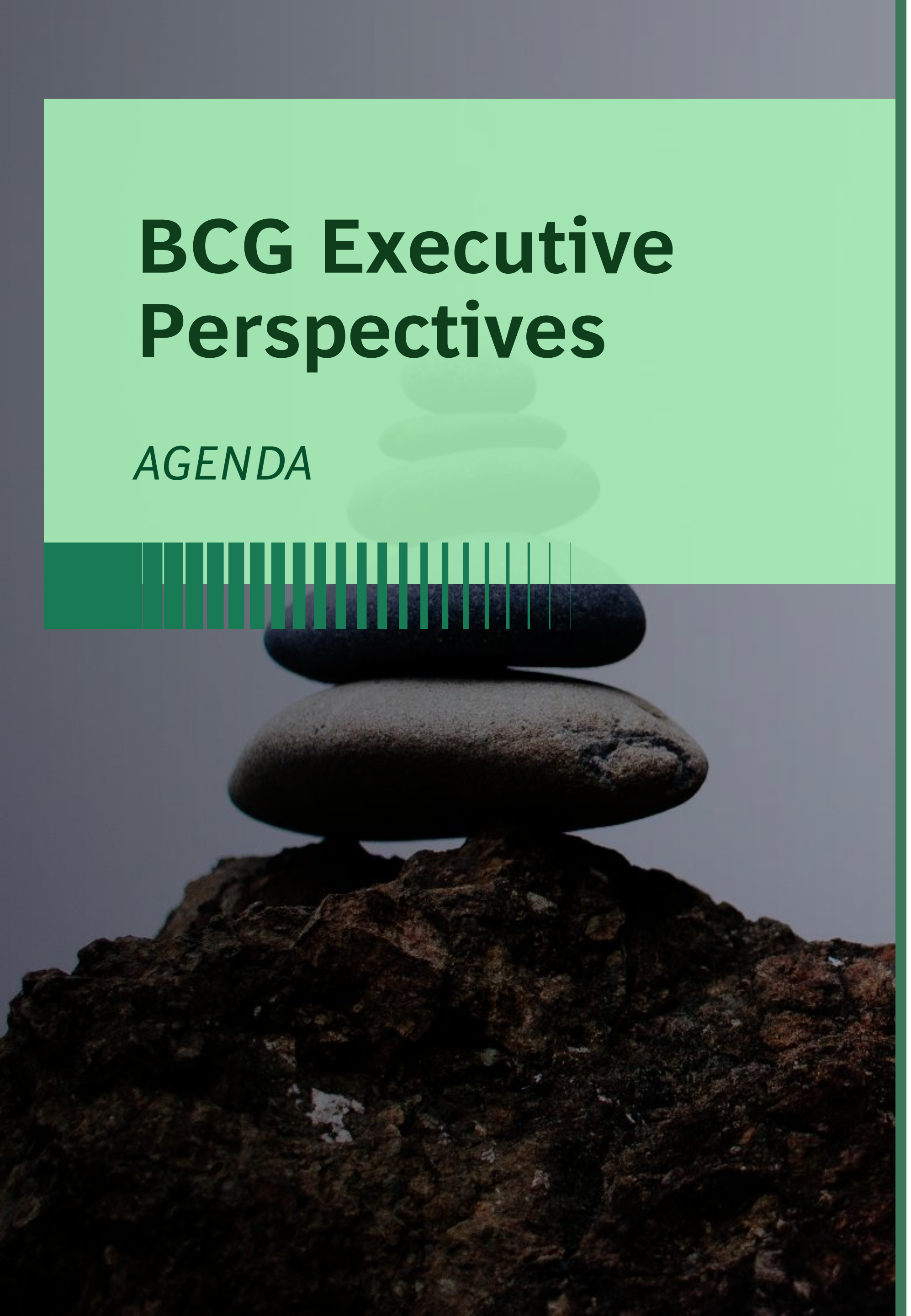
Scaling digital solutions to drive significant impact[1]
- **3X** higher returns
- **15-20%** revenue growth
- **15-20%** cost savings

Taking advantage of lower valuations to double down on M&A[2]
- **4.6%** one-year RTSR on core industry acquisitions
- **8.5%** one-year RTSR on non-core industry acquisitions

Committing to innovation[3]
- Innovation leaders **invest 1.4X** and take more time, but deliver **~4X outperformance** compared with innovation laggards

BCG Executive Perspectives

AGENDA



A view of the world

A plan to win

Business leaders must balance contrasting priorities amid strong macroeconomic headwinds

Global disruptions		Macroeconomic headwinds (interest rates/inflation/recession)
Evaluate and **shift geographic footprint** for conducting business across value chain	**Geopolitical tension unlikely to ease**	Leverage derivative tools to counter the risk of **forex charges** while maintaining business model
Diversify supply chain and material sourcing for increased flexibility	**Supply chain challenges are strong**	Strengthen existing supply chain to cope with **inflation** and uncertainty
Accelerate **tech innovation and digital transformation** of existing business model	**Tech continues to disrupt the world**	Postpone digital and tech investments to **preserve cash balance**
Adapt business model and invest in e-commerce to meet **rapidly shifting consumer demand**	**Consumer demand shift continues to evolve**	Maintain current business model while adopting **dynamic pricing** to increase profits
Accelerate hiring and **upskill existing talent** to fit business needs and new ways of working	**People challenges persist**	Freeze recruiting efforts to **bolster bottom line**
Commit and fulfill net-zero targets through significant investments	**Climate change pressuring our future**	**Postpone ESG capital** commitment, risking brand equity

Note: List not exhaustive

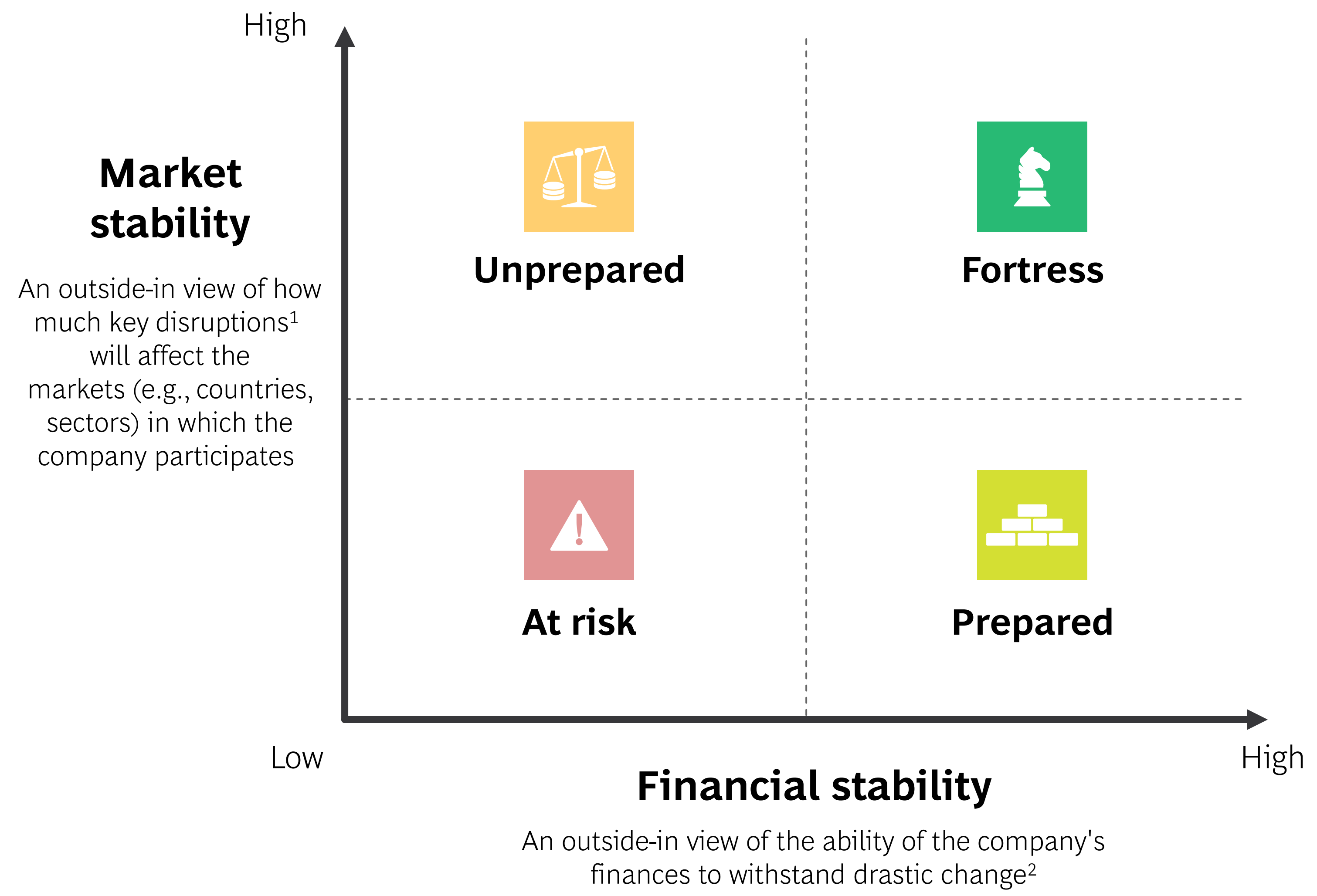
Understanding the "starting point" is critical to successfully navigate this uncertainty

With the current **disruptions and uncertainties**, it is imperative for business leaders to reevaluate:

1. The **stability of their portfolio** against economic downturns & market disruption
2. The **internal financial stability** to cope with uncertainty

Each business context is distinct, but four **starting-point archetypes** can help leaders understand the moves most relevant for their organizations

Four starting-point archetypes for organizations faced with uncertainty



Fortress

Strong position with minimal risk: positioned to thrive through high market stability and high financial stability

Prepared

Moderately vulnerable: significant financial stability to mitigate risk and seize opportunity in an unstable market

Unprepared

Weak, but relatively fortunate, position: more stable markets reduce risk from low financial stability

At risk

Most vulnerable archetype: operating in volatile markets with minimal financial safety net

1. E.g., supply chains, labor pools, geopolitics, consumers, investors, rival moves; 2. E.g., profit volatility, free cash flows, debt levels, funding options, leadership readiness

Defining starting point based on archetype characteristics & related inaction risk

Fortress

'Fortress' companies should take an aggressive stance to **leverage** & further solidify their **advantageous starting position**

They should **capitalize** on their favorable market situation & strong financial foundation to pursue **bold** initiatives such as:

- Proactive **M&A**
- Explore **new business models through innovation**
- Accelerate **digital & ESG transformation**

Inaction Risk:

- Decline in competitive advantage by simply resting on an initial strong position
- Lose unique growth opportunities that uncertainty exacerbates

Prepared

'Prepared' companies should **consolidate** their existing market position & seek to **leapfrog competitors**

They should leverage their **strong financial foundation** to **buffer** against unstable market conditions through **dynamic** initiatives such as:

- Diversify **business & organizational model**
- Enhance **supply chain**
- Create **ambitious agenda around digital, tech, & ESG**

Inaction Risk:

- Lose financial buffer during the next global or market disruption
- Lose out on unique growth opportunities that economic downturns can create

Unprepared

'Unprepared' companies should focus on creating **financial stability** & safeguard existing operations

They should **improve their weaker financial position** in a relatively stable market through **strategic** initiatives such as:

- Transform **business model with a financial focus**
- Utilize **data driven strategic planning**
- Consolidate **supply chains** & vendor relationships

Inaction Risk:

- High burn rate and opportunity to 'run out of cash'
- Lack of ability to invest in key growth areas or support strategic agenda

At Risk

'At risk' companies should focus on a full-scale transformation that **will stabilize their position** and limit severe consequences

They should **improve their poor financial position** in an unstable market through **transformative** initiatives such as:

- Implement **risk assessment** systems
- Build **strong financial foundation**
- Reexamine & **transform business model**

Inaction Risk:

- High risk of insolvency
- Potentially insurmountable position with additional disruptions
- Potential 'easy prey' for stronger positioned companies

How to navigate uncertainty:
Enhance resilience and secure clear pathway for sustained growth

Sensing

Harness data to discern market trends & evaluate potential impact and develop scenarios to support business decisions

Data-driven detection	Dynamic scenario-based strategic planning[1]	Rapid assessment & resilience diagnostic

Adapting

Build resilience across the value chain and functions

Financial resilience[2]	E2E cost management	Top-line resilience[3]	Supply chain resilience	Organizational resilience[4]	Tech resilience	ESG resilience

Thriving

Seize growth opportunities to build competitive advantage and medium- to long-term market position

Portfolio reshaping	Transactions Resilience	Tech and business model innovation

The How

Transformation Excellence

1. Including sensing the macroeconomics and analyzing scenarios based on client situation; 2. Including revenue resilience, investment, liquidity, cash and cost management resilience; 3. Including pricing, sales and marketing efficiency, e-commerce, dynamic inflation, streamline customer experience; 4. Including future of work, talent management, organizational structures

Fortress | Water & waste management company acquired major industry player to solidify global position and accelerate innovation

Recent example from the COVID-19 crisis with strong action:

The water & waste management sector experienced huge demand shifts due to the Covid-19 pandemic. These changes were compounded by a decrease in tariffs in the wake of unemployment, growing ESG pressure due to resource scarcity, and increased regulation intervention

Riding the wave of a very strong 2019 above-target revenue and profit performance in a historically less vulnerable sector, this global water and waste management company sought to create cohesion to better fight off new global challengers and increase tech innovation to support robust growth ambition and segment diversification. Through the acquisition of a major competitor, they increased their financial stability, expanded their global footprint, and harnessed innovative tech and ESG capabilities to accelerate their ambition

M&A

- Acquired global competitor with 30,000+ employees operating across all five continents
- Created a new entity with real growth potential and revenues of ~€5 Bn yearly

ESG resilience

- Leveraged acquired company to accelerate ESG agenda through circular economy blockchain, value creation in waste management through new recycling techniques and support drive for sustainable agriculture

Tech resilience

- Strengthened digital tools though influx of new tech from acquired company to optimize for management flow in real time, 24/7 monitoring of networks, accident anticipation software and smart operation centers

Source: Press; BCG analysis

Leading to significant impact

+50% 1-year relative TSR increase due to confidence in the acquisition

Share **capital increase of +€2bn** confirmed the rationale and support of the acquisition

- Total demand for shares amounted **~200 million shares**

Strengthened ESG & tech position, placing them in the top players in the industry

Prepared | Emerging biotechnology company led the way in groundbreaking R&D to gain value and profile

Recent example from the COVID-19 crisis with strong action:

The Biotechnology industry is largely composed of companies that are "pre-revenue" and conduct "high-risk, high-reward" innovation (e.g., new drug modalities) and are easily influenced by changing market conditions (e.g, liquidity, economic slowdown). However, investing in emerging tech and founding strategic partnerships can be a critical source of advantage

From the early onset of the Covid-19 pandemic, this emerging player seized the opportunity to be at the forefront of innovation by investing in R&D to provide a fast and highly effective Covid-19 vaccine clinical candidate, ahead of many competitors. This biotechnology company strategically entered a partnership with a global healthcare leader to accelerate clinical trials, regulatory, manufacturing, and commercialization. Due to their investments in the 'right technology' and powerful strategic partnership, the company's financial strength enabled them to leapfrog their competitors and lead in a very competitive COVID vaccine market

Business model innovation

- Entered a strategic partnership with one of the largest industry players
- Leveraged partner's extensive experience in clinical trial conduct and regulatory to gain speed in approval and increased the probability of success

Tech resilience

- Invested heavily in 'frontier' technology that far exceeded competitors enabling revolutionary product innovation (e.g., cell therapy and multi-specific antibodies)
- Diversified technology use cases across multiple segments (e.g., cancer immunotherapy and vaccine)

Supply chain management

- Expanded and diversified existing supply chain (e.g., raw material suppliers, coating process) to ensure flexibility given the high demand from the Covid-19 pandemic
- Together they operated one of the most sophisticated supply chains with >40 owned sites & >200 suppliers globally
- Implemented comprehensive preparedness plans to control site operates

Source: Press; BCG analysis

Leading to significant impact

x4 revenue growth between 2020 and 2021

4,000% increase in sales growth in 2021 alone

>200% change in market cap between 2020 and 2021

Considered as an **emerging leader and pioneer** of innovation within industry

Unprepared | Major chemical player temporarily pivoted to become the first mover to meet global demand

Recent example from the COVID-19 crisis with strong action:

The chemical sector has consistently outperformed the world index and has historically been shaped by long-term, stable trends. However, recent emerging industry trends (e.g., green chemistry, sustainability demand, new technology, etc…) has pressured players to innovate, distancing the gap for those who cannot keep up

Despite an EBITDA below the chemical industry average, this company sensed the market changes and adapted its production, organization, and supply chain capabilities to meet the rapid shifts in the market. They temporarily adjusted their portfolio to meet global demand.

Supply chain resilience

- Remained in close contact with suppliers and logistics providers to ensure continuity of production and 'find practical solutions'
- Diversified existing suppliers of a few key raw materials to reduce dependency on single source and minimize supply risks

Organizational resilience

- Pivoted workforce to accelerate production of hand-sanitizer to meet global need
- Reduced working hours for lower demand products therefore freeing up cash and reducing costs

A strong uplift was achieved

>**100% EBIT increase**

Return on capital employed was **+10% compared to 1%** the previous year

+30% increase of sales and cash flow; significantly strengthened their financial stability

+175,00 liters of hand sanitizer were produced weekly through Q4/2020

Source: Press; BCG analysis

At Risk | Clothing manufacturer protects long-term financial outlook with a conservative approach to liquidity management

Recent example from the COVID-19 crisis with strong action:

A leading global clothing manufacturer experienced major disruptions brought on by the COVID-19 pandemic including a record decline in business activity, decreased store traffic, outlets & franchise store closures globally, and significant supply chain disruptions (e.g., shutdowns of key suppliers of raw materials and manufacturing factories)

Facing extreme cost pressure and an expected decline in Q1 of 2020, the clothing manufacturer assumed a conservative approach to liquidity management across several key dimensions

Financial resilience

- Implemented strict cost and working capital control measures to maintain healthy balance sheet and sustainable liquidity
- Suspended a €1Bn share buyback program & dividend payments to shareholders

E2E margin management

- Implemented plans to reuse unsold inventory in the next financial year
- Launched multiple targeted online campaigns to boost e-commerce sales
- Slowly reopened factories, distribution networks, and brick-and-mortar retail stores

Supply chain resilience

- Gradually normalized and resumed operations with manufacturers
- Suspended supplier orders for Q2 & Q3 of the year

Leading to significant impact

>30% Y/Y increase in e-commerce sales in Q1 2020

- Including **triple-digit rise in e-commerce sales** in specific parts of the world

Survived disruption by increasing debt levels and implementing strict cost-cutting initiatives

+2M live-stream viewers during online 'Brand Day'

- Generated **~$30M** in the first 10 hours

Considered an **e-commerce market leader** as a result of doubling down on digital

Source: Press; BCG analysis

The time to act is now

Take 3 key steps to **navigate uncertainty** and **win in a downturn**

1. **Sensing** macroeconomic and disruptive trends to shape (and reshape) future scenarios that guide strategic decisions

2. **Adapting** business and functional strategies in response to new insights and to market, economic, and competitive developments

3. **Thriving** by building competitive advantage to turn adversity into opportunity

Actions should be based on the **specific business context**

Additional perspectives on uncertainty, resilience, and economic pressures

The CEO's Dilemma: Transform for Resilience

The CEO's Dilemma: Preparing Your Supply Change for Resilience

Inflation Is Forcing B2B CEOs to Rethink Pricing

The CEO's Dilemma: Competitive Cost Position

Perspectives on Building a Resilient Company

Real-World Supply Chain Resilience

The CEO's Dilemma: Building Financial Resilience

Perspectives on Resilient Leadership from Asia-Pacific Board Chairs

An Index for Tomorrow's Growth—and Today's Resilience

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