

COVID-19 India Perspective 6.0

Leading the new reality

*With focus on how to restructure cost, and
manage cash & liquidity*

Version: 6 June 2020

COVID-19 India Perspective 6.0

Objectives of this document

COVID-19 is a global societal crisis

We at BCG believe that the COVID-19 outbreak is first and foremost a societal crisis, threatening lives and the wellbeing of our global community. Society now, more than ever, needs to collaborate to protect people's lives and health, manage mid-term implications and search for lasting solutions.

Source: BCG

The new reality is here – imperative for business leaders to plan the way forward

As the economy starts to open up, the new reality is unraveling across dimensions, impacting the way businesses function. Challenges and uncertainties expected to persist in recent future. Important for businesses to pro-actively plan for the new reality and emerge stronger from the crisis. This document intends to provide a thinking framework on how to transform costs, and manage cash & liquidity in light of the COVID-19 crisis. Additionally, we have also outlined 5 key priorities for business leaders to lead in the new reality.

Executive Summary | COVID-19 BCG India Perspective 6.0

As businesses re-start their operations, revenue & earnings are expected to take a hit; it is imperative to focus on cash and re-structuring costs

- India witnessed one of its worst downturns in the 2008-09 recession – however, **18% companies improved both revenue & EBIT margin**
 - Around 75% of these companies undertook quick cost take-out actions in immediate next year of crisis, without impacting revenue
- In the current crisis, the new reality has started to unravel across dimensions – costs expected to increase due to new safety protocols and labor shortage
- Sales across sectors expected to take a hit this year, which will overburden the impact on operating margins & liquidity positions of most companies
- Important for businesses to take pro-active action in the current crisis & **drive financial resilience through 2 key elements while re-starting operations**

Manage cash & liquidity

- Build centralized cash office for active cash governance
- Setup rolling cash forecasting dashboard to generate transparency
- Support key channel partner liquidity to ensure smooth operations

Drive cost transformation

- Re-think cost structure in line with new reality, new operating model
- Drive quick actions across all major costs, esp. discretionary costs
- Streamline costs based on dynamic modelling of supply chain network

Way forward: Leading the new reality

- COVID-19 has had a massive impact on the economy over the last 2-3 months; and while the economy is opening up now, uncertainty prevails
- To navigate through the crisis & emerge stronger, it is imperative that leaders guide the way forward along 5 key dimensions:
 - (1) **Demand 'Lighthouse'** to assess market trends & re-build value proposition, (2) **Supply chain cockpit** to proactively monitor & control supply chain;
 - (3) **Cost transformation** in line with the new operating model, (4) **Digital operating model**, (5) **Leadership** in the new reality

We believe during this crisis, leaders need to think along two dimensions:

1

Taking an integrated perspective on health/medical progression, governmental responses, societal reactions, and economic implications to understand business/sector impacts

2

Thinking multi-timescale in a Flatten-Fight-Future logic



1

Update on COVID-19 situation

Indicators across the COVID-19 chain of effect -
Epidemiological, Public Policy, Social and Economical

2

Guide for leaders: Re-structuring cost and managing cash & liquidity

Need for performance transformation across companies
How to restructure cost, and manage cash and liquidity

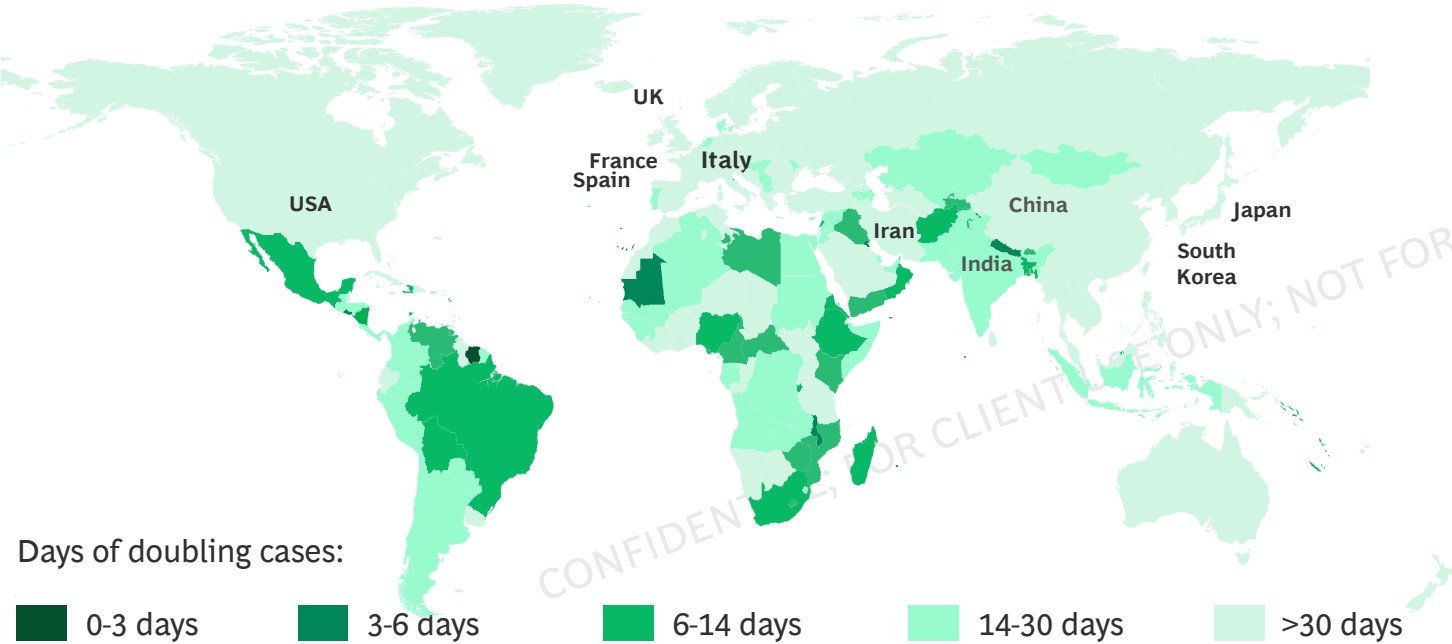
3

Way forward

Leading the new reality

COVID-19: ~44% reported recoveries¹ globally so far; case-doubling rate improves to 40 days

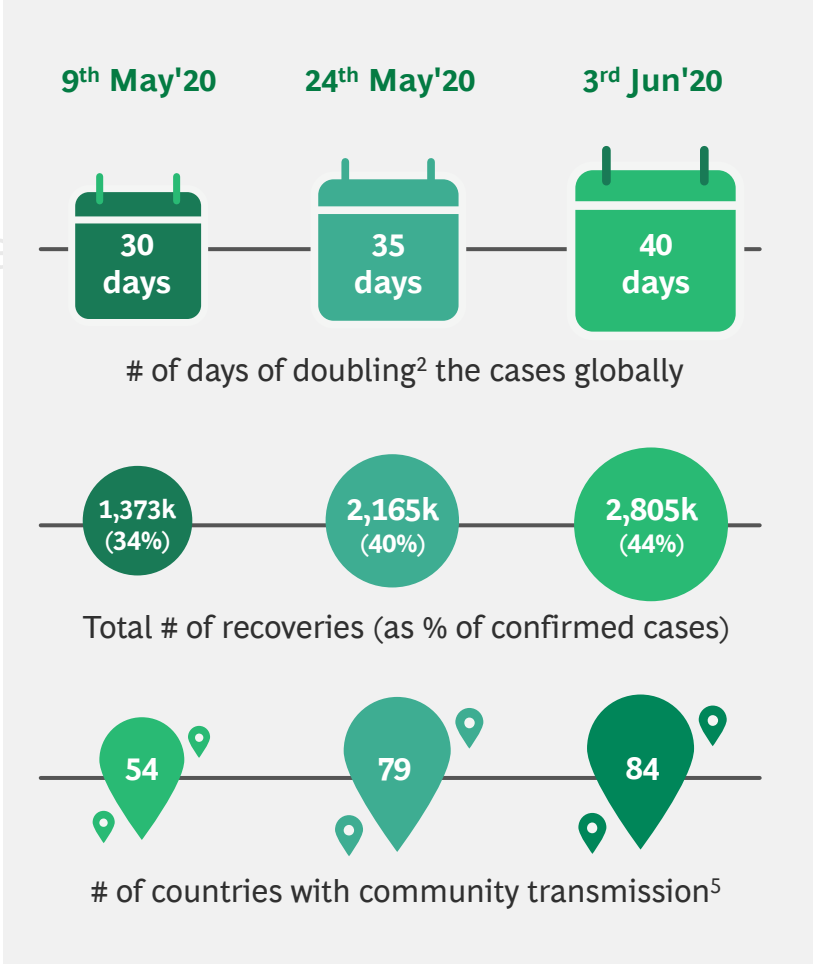
As of 3 Jun 2020



188
 Countries with cases³

6.4M [Δ1.8%]⁴
 Confirmed cases globally

386k [Δ1.2%]⁴
 Fatalities globally



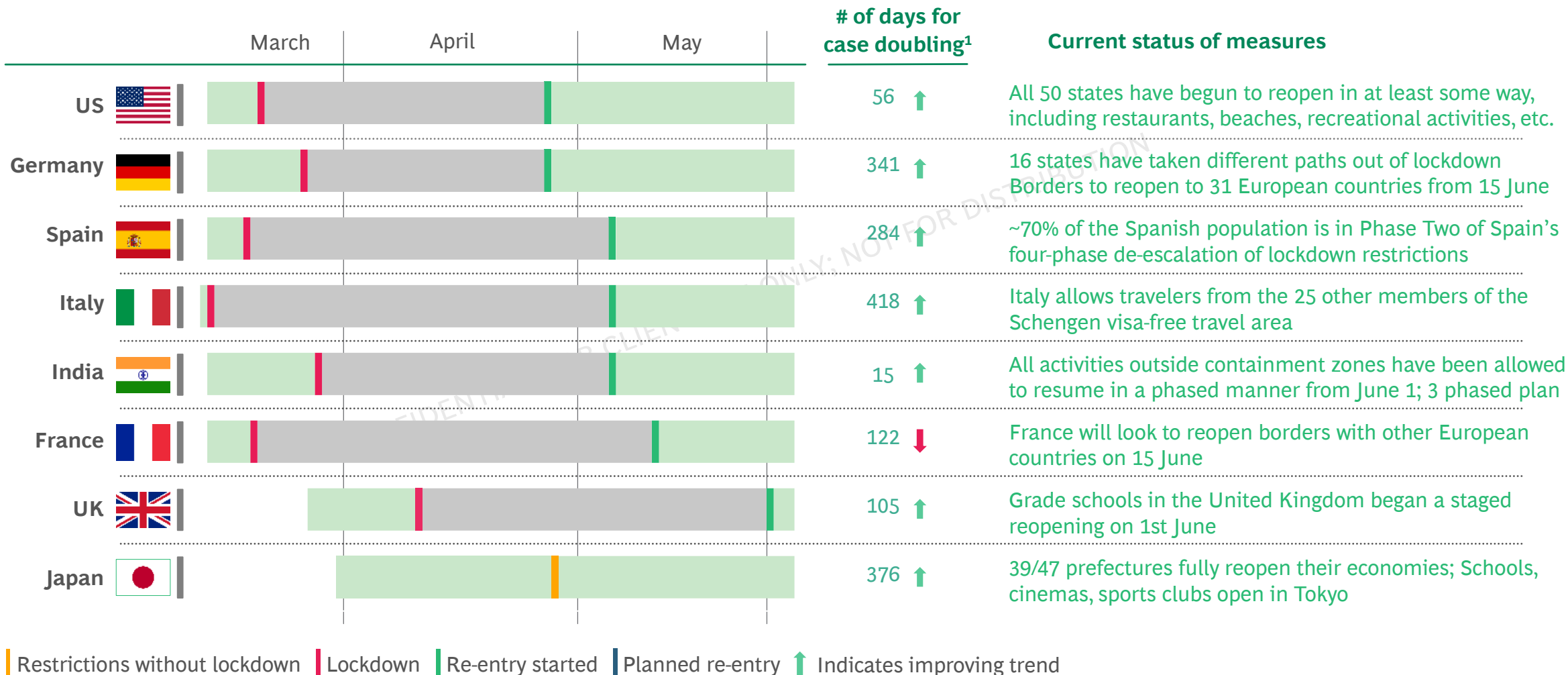
Note: Continued cases and fatalities are subject to different testing, propensity, reporting standards and hence are imperfect measures

1. Refers to total reported recoveries as a percentage of total reported infections (cases), 2. No. of doubling days based on 7-day CAGR 3. Basis Johns Hopkins CSSE; 4. Daily growth rate basis 7-day CAGR; 5. Community transmission defined basis WHO - Countries experiencing larger outbreaks of local transmission on basis of decided factors

Source: Johns Hopkins CSSE, Our world in data, WHO situation reports, BCG analysis

Countries witnessing an improvement in doubling rate are moving into the restart mode through easing of lockdown measures

As of 3 Jun 2020



1.No. of doubling days based on 7 day CAGR

Notes: Lockdown definition varies across countries; date when non-essential businesses were ordered to shut down. Easing of lockdown is subject to certain restrictions in the countries;
Source: Oxford COVID-19 Government Response Tracker, World Economic Forum, Our World in Data, John Hopkins CSSE, Worldometers for France data; Press search, BCG Analysis

COVID-19 in India has crossed ~207k cases with doubling rate of 15 days

PANDEMIC
PROGRESSION -
INDIA

Data as of 3 Jun

Disease spread in India

207k

Total no. of cases¹

15

Days doubling rate
(14 days last week)

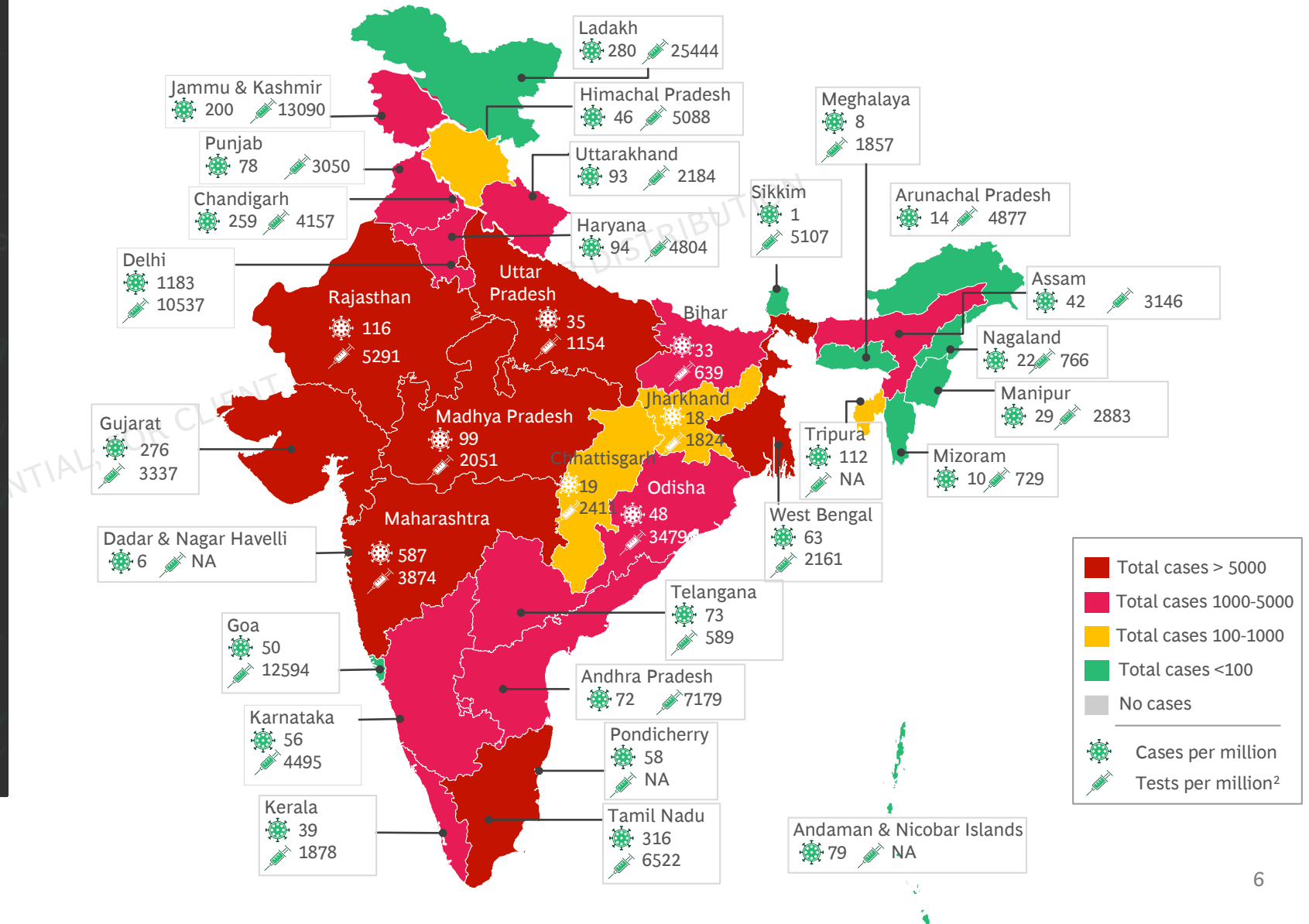
100k

Cases recovered
till date

3%

Fatality rate

Note: NA for testing rates where no testing rates available
Source: Ministry of Health & Family Welfare (MoHFW); The Hindu;
State govt, COVID releases; BCG analysis 1. Of 207k cases, data for
state mapping not available for 7.1k cases; 2. Testing data is as of 1 Jun
for all states except: Ladakh, Assam, Delhi (31 May), Manipur (30 May),
Uttar Pradesh (29 May), Telangana (15 May)



Key Indicators: COVID-19 India (I/II)

Epidemiological Indicators

207k

of cases
As of 3 Jun

100k

of recoveries
As of 3 Jun

5.8k

of fatalities
As of 3 Jun

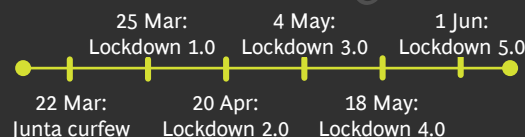
5 May 24 May 3 Jun

# of days of cases doubling	11	13	15
# of tests/ million	1,004	2,394	3,119
# of states with 1000+ cases	11	16	19

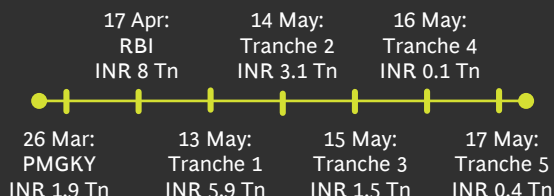
Public Policy Measures



Lockdowns



Economic stimulus ~INR 20 Tn



Social Indicators

(% change vs. Pre-COVID baseline)

AQI Trend

Index (Baseline: 2019) (As at 10 AM IST)	1 May	16 May	3 June
Delhi	-42%	-19%	-68%
Bangalore	-36%	-15%	-64%
Mumbai	-8%	62%	-48%
Chennai	-38%	-59%	-62%

Mobility Trends

	Pre-COVID (Jan)	1 May	16 May	25 May
% visits				
Retail & Recreation	-	-85%	-77%	-71%
Workplaces	-	-64%	-41%	-51%
Transit Stations	-	-65%	-52%	-51%

Media Indicators

	Pre-COVID (Jan)	1 May	8 May	22 May
Avg. daily smart phone consumption (mins)	202	16%	14%	10%
Avg. daily TV (mins)	226	20%	23%	7%
# of app downloads(Mn)	3.8	60%	61%	54%

Economic Indicators

(YoY, %)

Industrial Activity

	Jan	Mar	Apr	May
Power consumption	3%	-9%	-24%	-15%
PMI – Mfg.	3%	-2%	-47%	-42%
PMI – Services	6%	-5%	-89%	N/A

Trade/Logistics Indicators

	Jan	Mar	Apr	May
Imports	-1%	-29%	-59%	N/A
Exports	-2%	-35%	-60%	N/A
Railway Freight Traffic	3%	-14%	-35%	N/A
FASTag (volume)	279%	216%	-61%	100%

Financial Activity Indicators

	Jan	Mar	Apr	May
Bank Deposits	11%	8%	10%	11%
Bank Credit	8%	6%	7%	7%
Retail Transactions (vol.)	59%	24%	7%	N/A
- Digital	75%	36%	25%	N/A

Inflation/Price Indicators















	Jan	Mar
Consumer Price Index	7.6%	5.9%

Foreign Investment Indicator

(\$ Mn)	Jan	Mar	Apr	May
Foreign equity inflows	1372	-8389	113	1719

Key Indicators: COVID-19 India (II/II)

Market Sentiment Indicators (% change vs. 1 Feb 2020)

	Pre-COVID ¹	Lowest ²	3 Jun
 Pharma	-2.3%	-19.7%	23.1%
 FMCG	-3.9%	-23.2%	-2.2%
 Energy	-5.3%	-31.7%	-6.3%
 Infra	-4.8%	-33.2%	-7.4%
 IT	-5.7%	-31.3%	-11.8%
 Commodities	-4.6%	-34.4%	-12.3%
 Nifty	-4.6%	-34.7%	-13.7%
 Auto	-9.8%	-42.7%	-17.5%
 Services	-4.1%	-36.8%	-20.2%
 Metal	-7.0%	-39.7%	-21.3%
 Financial services	-3.3%	-39.7%	-24.5%
 Media	-7.6%	-43.8%	-27.8%
 Bank Nifty	-5.0%	-43.3%	-29.8%
 Realty	-8.1%	-46.8%	-34.2%

Sector Impact Indicators (YoY, %)

Sectors	Jan	Mar	Apr	May ⁵
Pharma sales (India)	7.9%	8.9%	-16%	-5%
Automotive sales (Domestic)				
- Passenger	-6.2%	-51.0%	-100%	N/A
- Commercial	-14.0%	-88.1%	-100%	N/A
- 2 Wheeler	-16.1%	-39.8%	-100%	N/A
- 3 Wheeler	12.7%	-58.3%	-100%	N/A
Oil & Gas consumption	0.1%	-17.8%	-70.0%	N/A
Cement production	5.1%	-24.7%	-86.0%	N/A
Steel consumption	4.7%	-23.2%	-90.9%	N/A
Chemical production	6.3%	4.3%	-11.7%	N/A
Insurance				
- Life (No. of lives covered)	39.1%	-17.8%	-51.5%	N/A
- Non Life (Gross direct premium underwritten)	7.2%	-8.6%	-10.6%	N/A

India GDP forecast revisions (FY21) (YoY, %)

Analyst	Latest release	Pre-COVID ³	Interim ⁴	Latest
Bank of America	1 Jun	4.1%	0.5%	-2.0%
Barclays	1 Jun	5.2%	0.8%	-3.2%
Moody's	1 Jun	5.5%	0.0%	-4.0%
Deutsche bank	30 May	4.5%	1.2%	-6.0%
S&P Global	29 May	5.2%	3.5%	-5.0%
Fitch Ratings	27 May	5.1%	0.8%	-5.0%
State Bank of India	26 May	<6%	1.1%	-6.8%
ICRA Rating	20 May	4.7%	-1.0%	-5.0%
Goldman Sachs	18 May	3.3%	-0.4%	-5.0%
DBS Bank	4 May	5.8%	1.5%	1.0%
India Ratings	27 Apr	5.5%	3.6%	1.9%
IMF	14 Apr	5.8%	N/A	1.9%

1. Pre-COVID refers to the average of index value from 2-Feb to 22 Mar 2. Lowest refers to lowest index value between 23-Mar to 02-Jun 3. Pre-COVID: Forecast before 25-Mar; 4. Interim period is from 25-Mar to 14-Apr; 5. Based on provisional data for May 2020

Source: SIAM, AIOCD, PPAC,, CMA, Joint Plant Committee, American Chemistry Council (ACC), IRDA, Analyst reports; Bloomberg; Press reports; BCG analysis



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Guide for leaders: Re-structuring cost and managing cash & liquidity

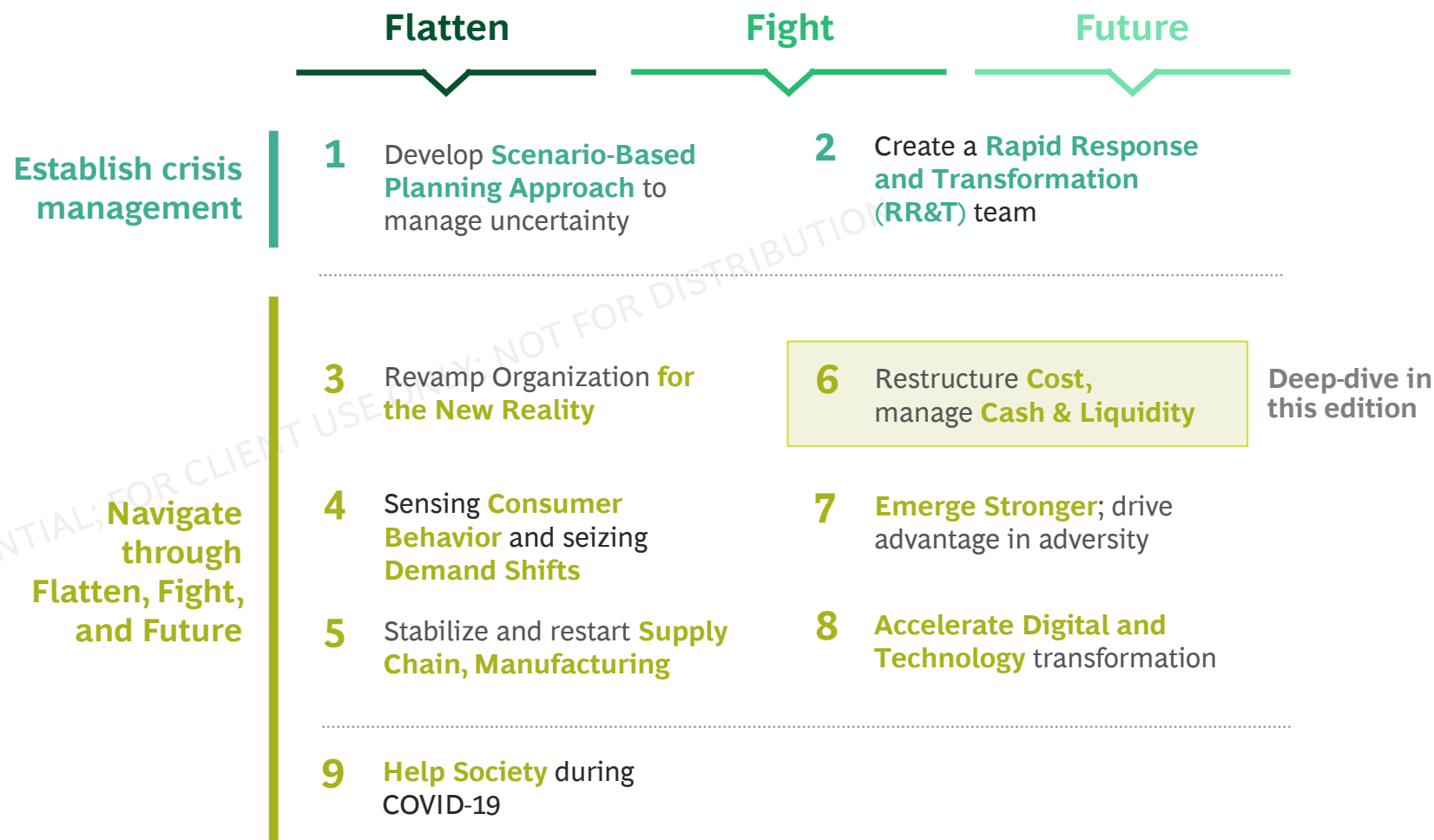
Need for performance transformation across companies
How to restructure cost, and manage cash and liquidity

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Way forward

Leading the new reality

9 action areas for business leaders



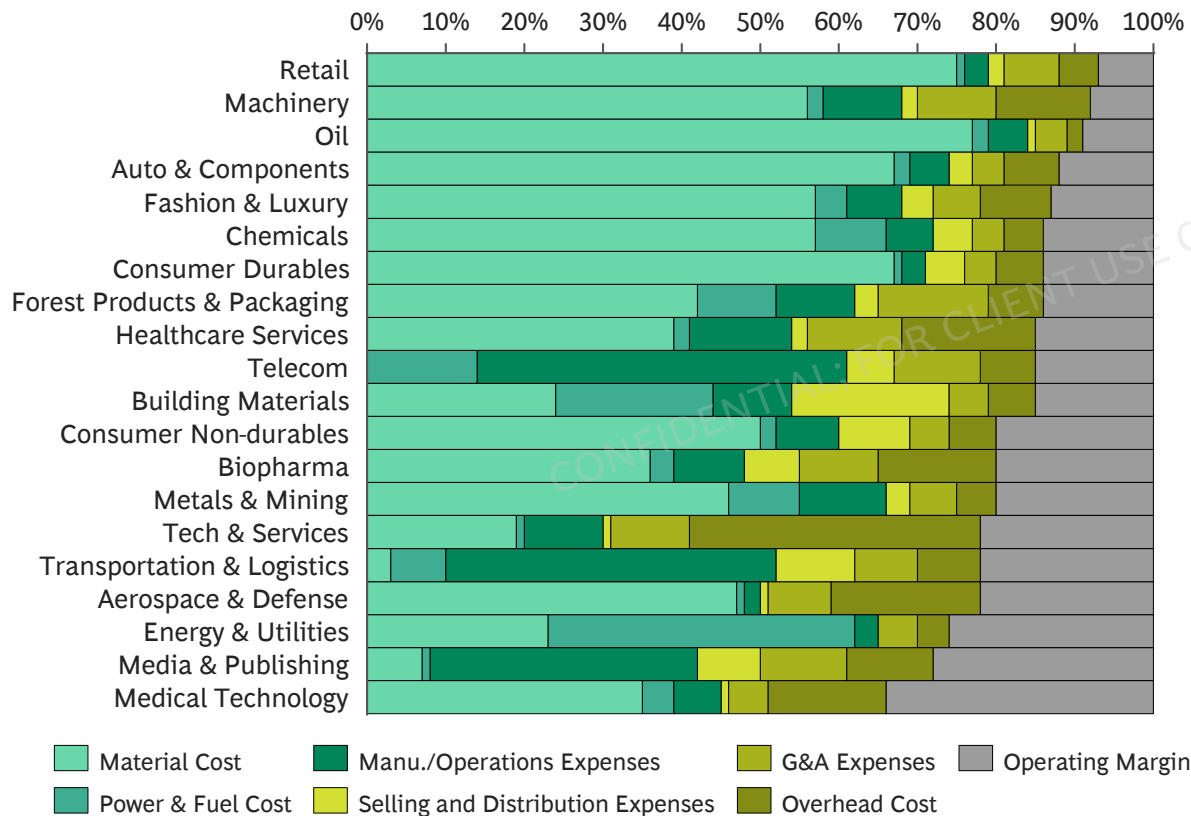
Note: RR&T = Rapid Response and Transformation Team
Source: BCG

Cost starting point is different across sectors – critical for organizations to recognize buckets of opportunities

Operating margin varying from
7%-34% across sectors

Certain costs expected to rise due to
safety SOPs, PPEs & shortage of labor

FY19 distribution of costs as a %age of revenue¹



“... ~35% expected increase in operating costs for retailers due to new SOPs including social distancing norms, token systems ...”
- MD, Leading Retailer

➤ Increase in G&A expenses

“... 20-25% increase in logistics costs due to current shortage in truck drivers ...”
- Leading Logistics Player

➤ Increase in distribution costs

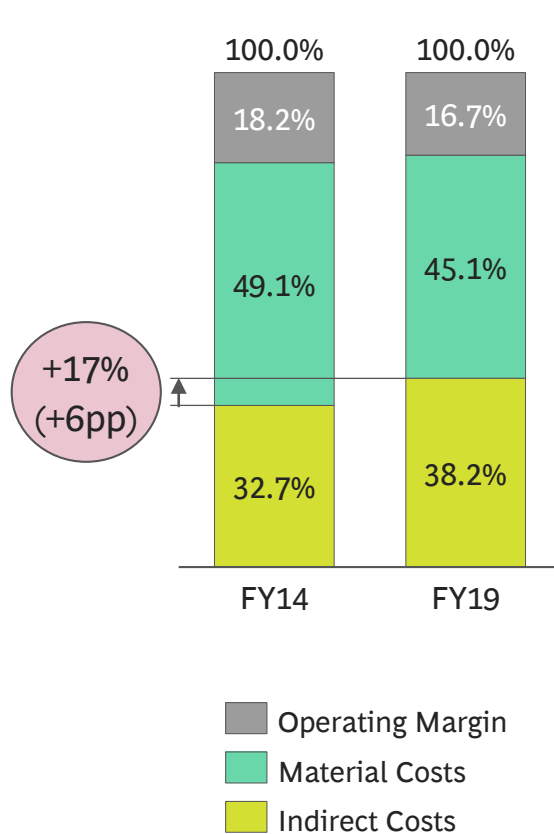
“Reverse migration will create shortage of trained labor, increase the labor costs and impact operating efficiencies in the medium term.”
- CEO, Leading FMCG brand

➤ Increase in manufacturing costs

Need to drive quick cost take-out based on current cost structure & expected increase in costs

Indirect costs have risen by ~6pp in past 5 years, driven primarily by Banks and Oil & Gas sectors

Costs as a
%age of Sales¹



	%age point change in Indirect Cost as a %age of Sales from FY14 to FY19	%age point change in Material Cost as a %age of Sales from FY14 to FY19	%age point change in Operating Margin from FY14 to FY19	Contribution of sector to Net Sales of 1000 Companies
Oil & Gas	8%	-10%	2%	27%
Banks	24%	0%	-23%	13%
Automotive	-1%	0%	1%	10%
Metals & Mining	-1%	-1%	2%	9%
IT/IT Services	1%	-1%	0%	5%
Chemicals	0%	-3%	3%	4%
Energy & Utilities	-4%	1%	3%	4%
Fashion & Lifestyle	-9%	15%	-6%	4%
Consumer Non-durables	-2%	-2%	4%	3%
Building Materials	0%	-3%	4%	3%
Construction	-2%	1%	1%	3%
Pharmaceuticals	2%	0%	-2%	3%
Machinery	-3%	-3%	6%	2%
Telecom	7%	3%	-10%	2%

Sectors with improved cost or margin

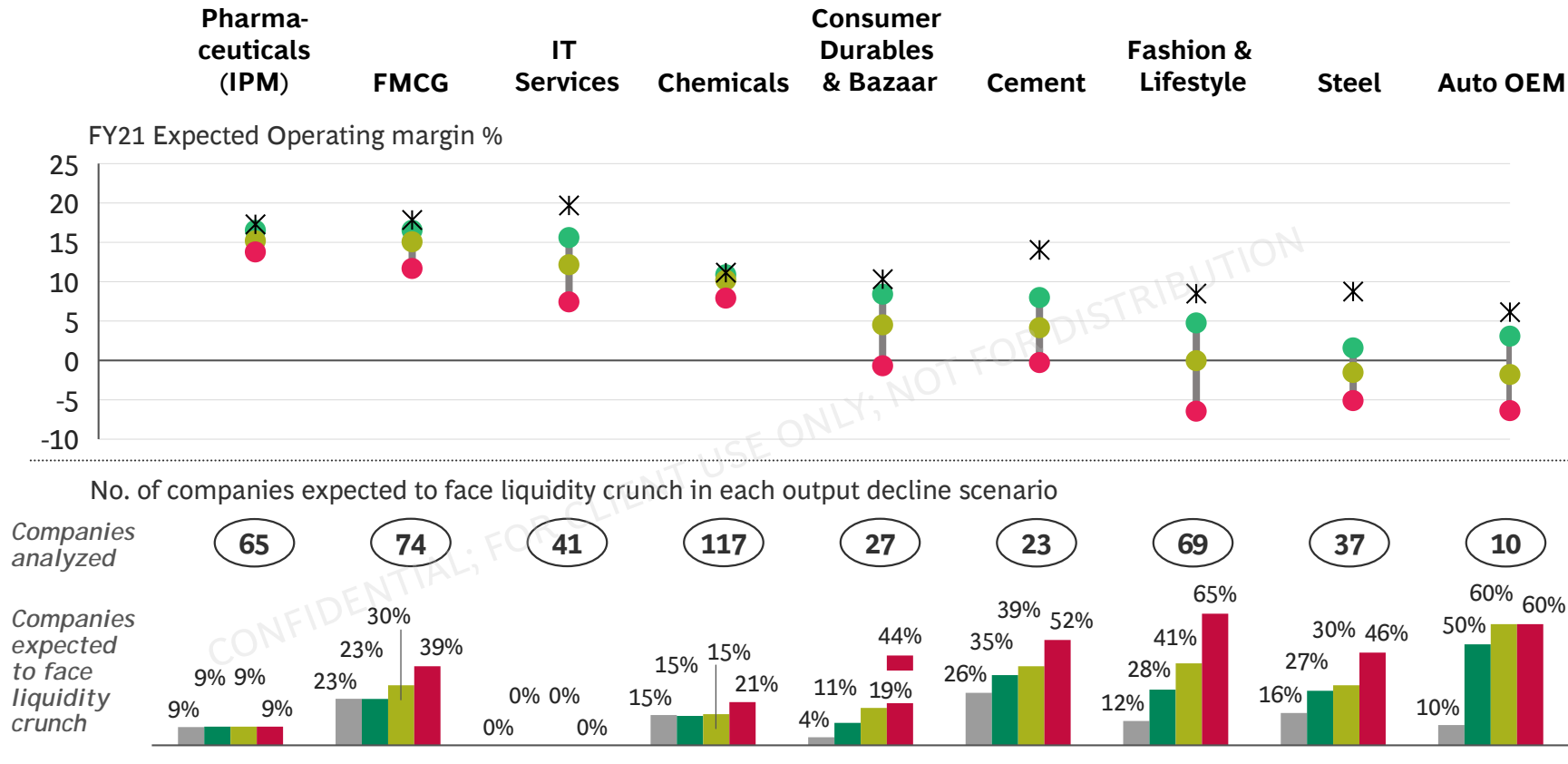
Sectors with higher cost or lower margin

Operating margins expected to decline varying across sectors; Many companies in select sectors could come under liquidity stress

**CASH & COST
MANAGEMENT
EXPECTED IMPACT**

Operating margin decline varies under multiple output growth scenarios; based on fixed cost % of each sector

Sectors are differently vulnerable to liquidity crunch



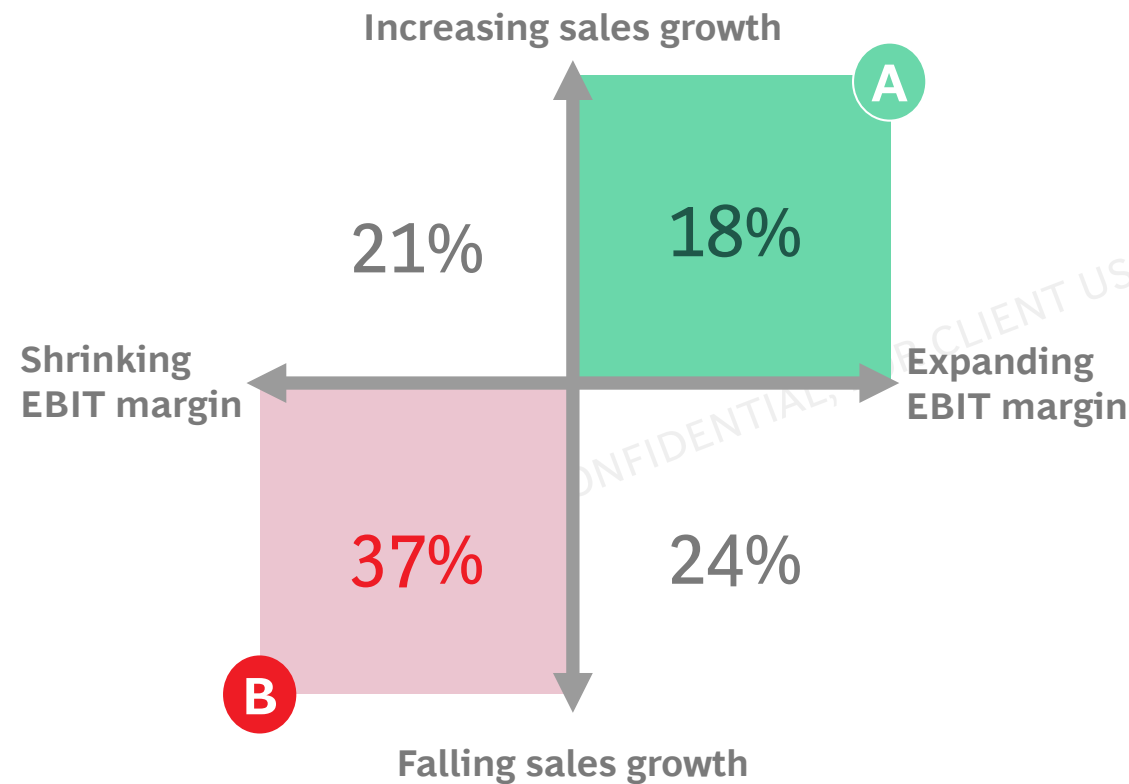
Disclaimer: The situation surrounding COVID-19 is dynamic and rapidly evolving. As with any attempts to model dynamic systems, modelling presented in these materials should not and cannot be relied upon as the sole driver for decision-making, it is a single piece in what must be a complex and multi-faceted process for reaching a final decision on these critical topics. These materials do not: (i) constitute medical, legal or safety advice, and is not a substitute for the same; nor (ii) should be seen as formal endorsement or recommendation of a particular decision. The provider of this modelling and output, together with contributors into the model, assume no liability with regard to the use of, or decisions arising from the use of the model and its output.

Methodology: (1) *Scenarios:* Analysis done based on sector-wise expected output growth / decline % scenarios for FY21, which are as follows: Auto OEM (-9 to -28%), Fashion & lifestyle (0 to -25%), Cement (-8 to -20%), FMCG (5 to -10%), Steel (-10 to -22%), Consumer durables & bazaar (0 to -25%), Chemicals (2 to -7%), Pharmaceuticals (8 to 2%), IT services (2 to -7%); (2) *Operating margin:* Operating margins calculated for each sector by taking weighted average of company-wise operating margin, weighted by revenue; (3) *Liquidity crunch:* Cash flow pressure test on LTM Dec' 19 financials, extrapolated to June '20 for each output growth scenario; Liquidity crunch = Final cash position (+ve or -ve) post mandatory obligations (fixed costs, interest expense, capex) Assumptions: Cost of Revenue declines with revenue; SGA, R&D, D&A, Interest Expense, Other Operating Expenses, Capex, change in working capital remains constant and extrapolated pro rata basis; No dividend, debt repayments assumed

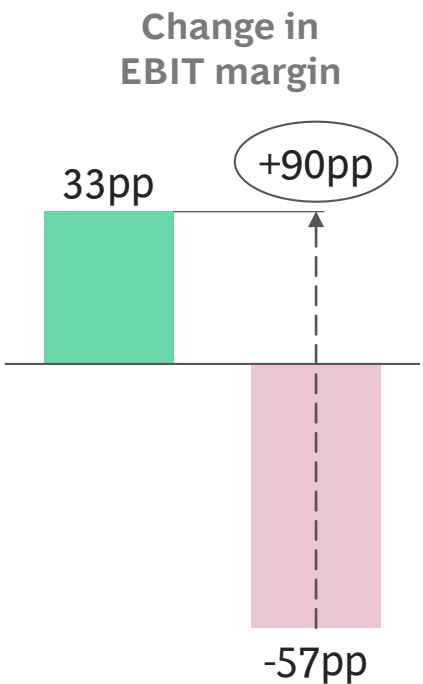
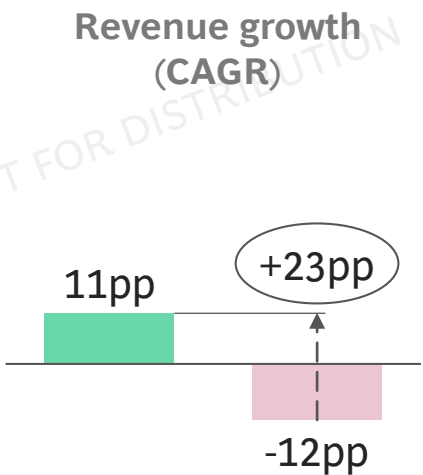
18% of top 1000 public companies¹ in India improved both sales growth and margin during the 2008-09 Global Financial Crisis

LEARNINGS FROM
PAST CRISIS

18% of companies¹ improved growth and margin, while 37% declined in both...



...and the performance gap between them is substantial



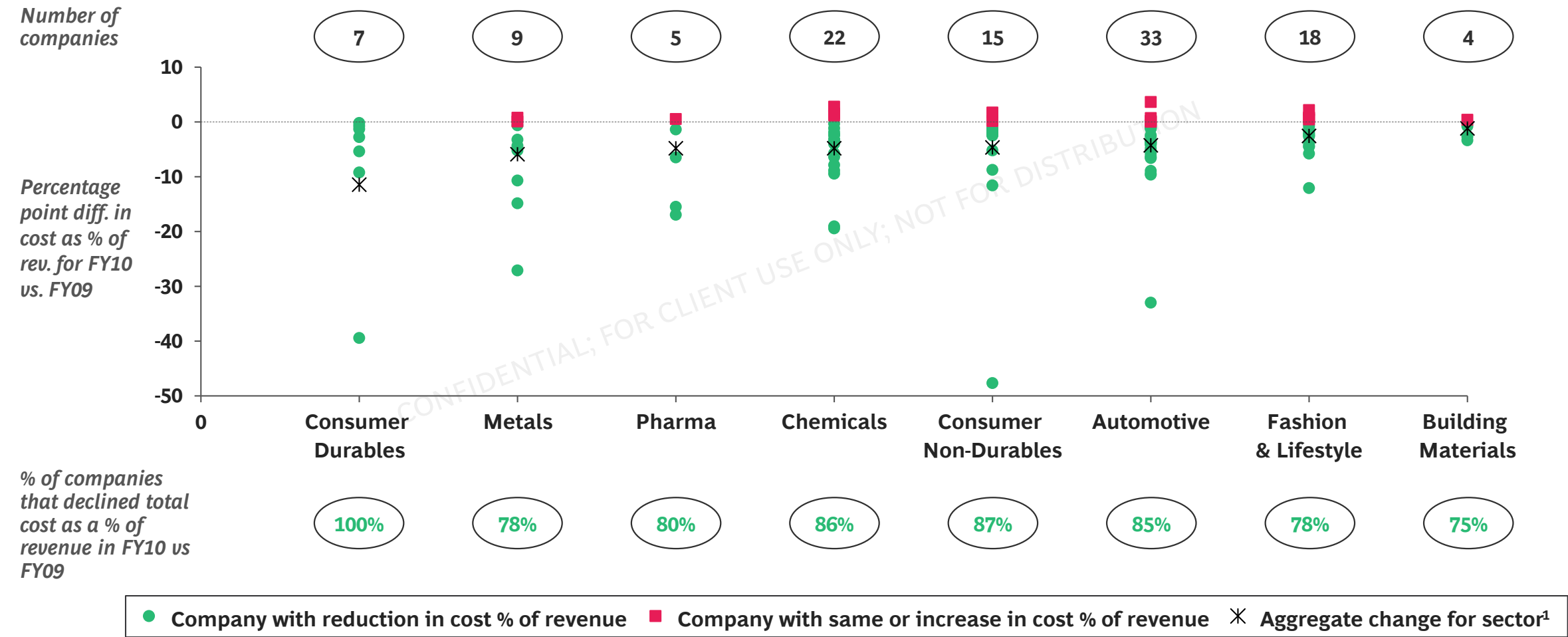
1. Indian public companies with Market Cap > \$10M, excluding Banks, Insurance, Asset Management companies
Note: Based on revenue growth & EBIT Margin growth (from FY'09 to FY'12) compared to three-year pre-downturn baseline (from FY'06 to FY'09)
Source: S&P Capital IQ Financial Statements, BCG analysis

A

~75% of the category A companies improved their cost structure in FY10 compared to FY09 across sectors

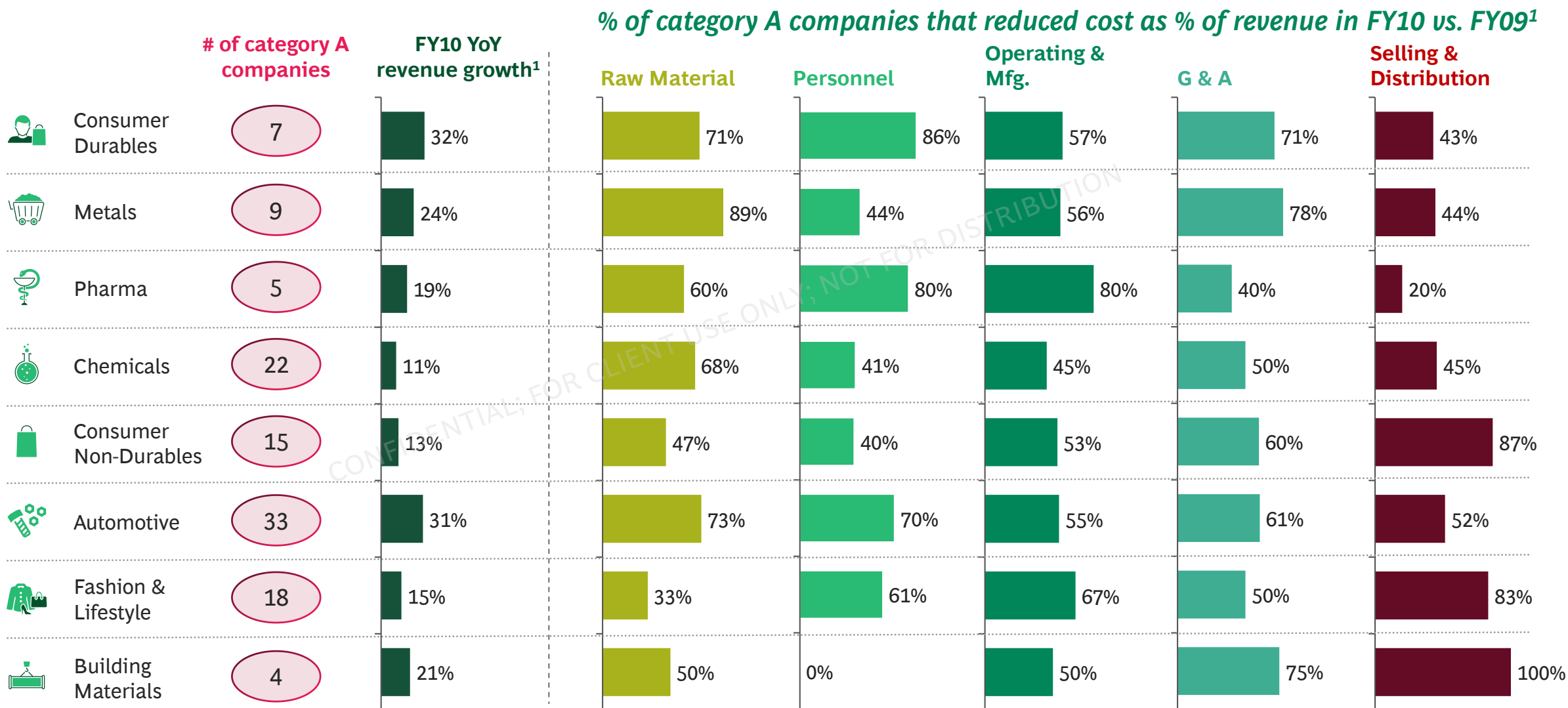
LEARNINGS FROM
PAST CRISIS

Change (in percentage points) in total cost as a % of revenue for Category A companies in FY10 compared to FY09



1. Only the category A companies within each sector have been considered for the analysis; Category A refers to the top 18% companies among the top ~1000 public Indian companies (as per market cap) that improved both revenue growth and EBIT margin growth post the 2008 crisis; Sectors with 3 or less companies in Category A not represented in above analysis
Source: S&P Capital IQ, Ace Equity; BCG analysis

Most category A companies took a 360° view across cost heads



1. Only the category A companies within each sector have been considered for the analysis; Category A refers to the top 18% companies among the top ~1000 public Indian companies (as per market cap) that improved both revenue growth and EBIT margin growth post the 2008 crisis; Sectors with 3 or less companies in Category A not represented in above analysis
Source: S&P Capital IQ, Ace Equity; BCG analysis

*2 key elements to drive financial resilience
as companies re-start their business operations*



Manage cash &
liquidity

*Build centralized cash office
Generate transparency through
pro-active forecasting*



Drive cost
transformation

*Re-think cost structure in
line with new reality
Drive pro-active cost actions*

5 key actions for cash & liquidity management

Introduce cash office

Set up centralized **cash management office** for active cash governance & transparency in the near & medium term

Establish 13-week rolling cash flow model

Improve cash controls and processes

Generate transparency

Build comprehensive list of levers to improve cash availability through:

- Mapping suppliers and clients ("**cash impact**")
- Identifying **total cash available** vs. trapped

Analyze variances actual vs. forecast

Build liquidity scenarios

Set up a **cash flow forecast process**

Identify minimum **cash buffer**, based on history and peak levels

Create **upside & downside** scenarios

Overlay scenarios against base cash model

Define rules for discretionary spend

Define clear roles and responsibilities for **spend approval**

Create **authorization gateways** and spend limits

Set up rigorous **spend authorization processes**

Evaluate limitation of **payment timing**

Secure financing

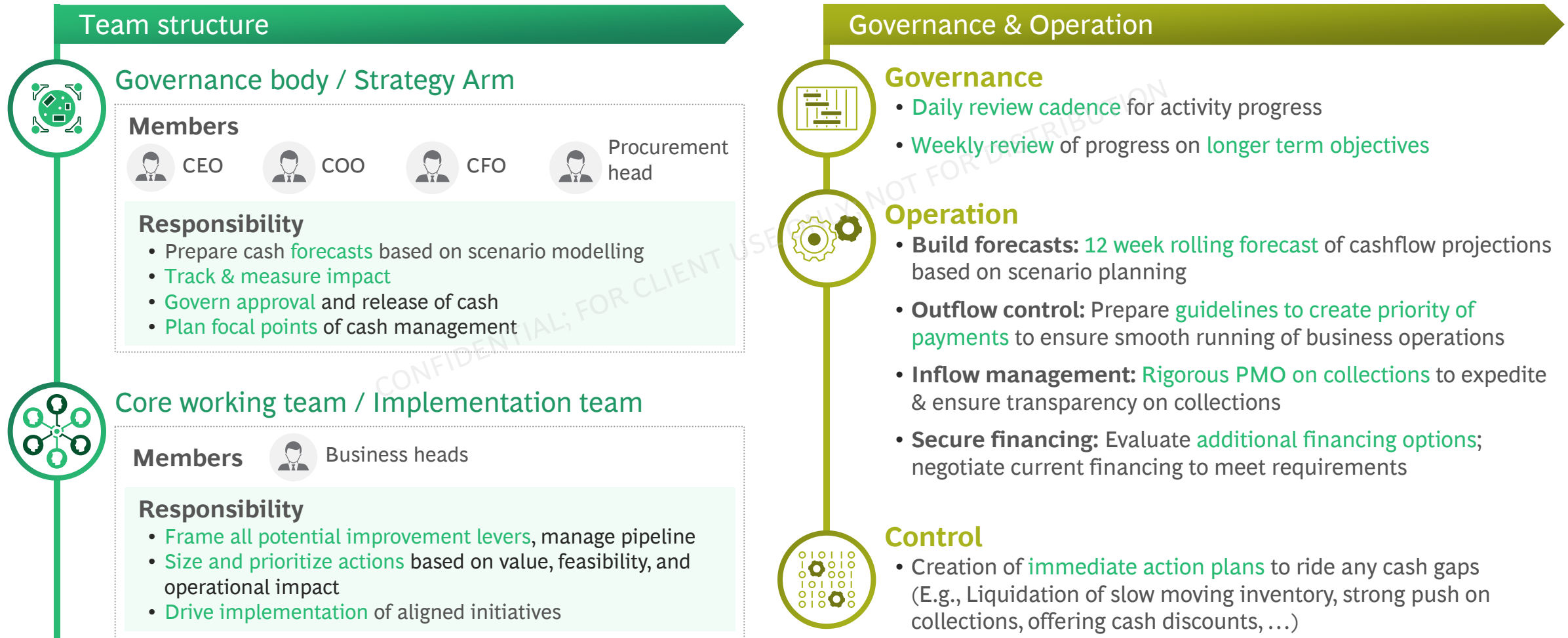
Map the financing structure and instruments

Evaluate and implement **cash-pooling**

Cancel / delay capex and other investments

Centralized cash management office critical for active cash governance & transparency

Illustration: Leading Indian consumer goods player actively running cash management office



Working capital being managed through levers across five areas



Manage
inventory levels



Leading steel player

- Pushed out delivery of non-critical inventory through production planning



Diversified mining company

- Rationalized inventory of maintenance spares across sites through digital centralized tool



Prioritize /
negotiate
payables



Leading consumer product manufacturer

- Retaining similar discount levels with material suppliers even with reduced purchase volumes
- Extended payment terms on non-core payables



Leading Automotive OEM

- Exploring extension of payment terms with major suppliers



Accelerate
receivables
collection



Leading consumer product manufacturer

- 30 day cash discounts offered to dealers
- Instructed distributors to follow “pay and pick” model with retailers



Indian conglomerate

- Educated distributors to enable digital payments



Postpone
investment /
capex



Indian conglomerate

- Paused all new Capex spend
- New product development spend postponed



Indian apparel brand

- Postponed automation plans for the next 6 months



Evaluate
financing / New
liquidity options



Indian apparel brand

- Existing working capital loan credit limit increased

Case Study | Indian apparel company managing working capital through active receivables & payables management



Tight receivables collection strategy driven by sales force

- Built **distributor-wise cash flow projections** basis scoring on - outstanding amount, payment trend, location
- Sales force given **weekly & monthly collection targets**
Incentives given for meeting weekly targets; additional incentives given for meeting 3 out of 4 weeks consistently
- Daily cadence** with cash management office for progress tracking
- Score-based collection **strategy per distributor**



Payables managed through receivables collection

- Payments made **only to the extent of receivables collected** in Apr & May to ensure no net outflow of cash
- Payables **prioritized** based on – criticality to business, immediate requirement for supplier, statutory dues, existing relationship with supplier
- Payment of **wages**, salary portion of job workers, **critical transporters prioritized**; rest on hold / minimally paid



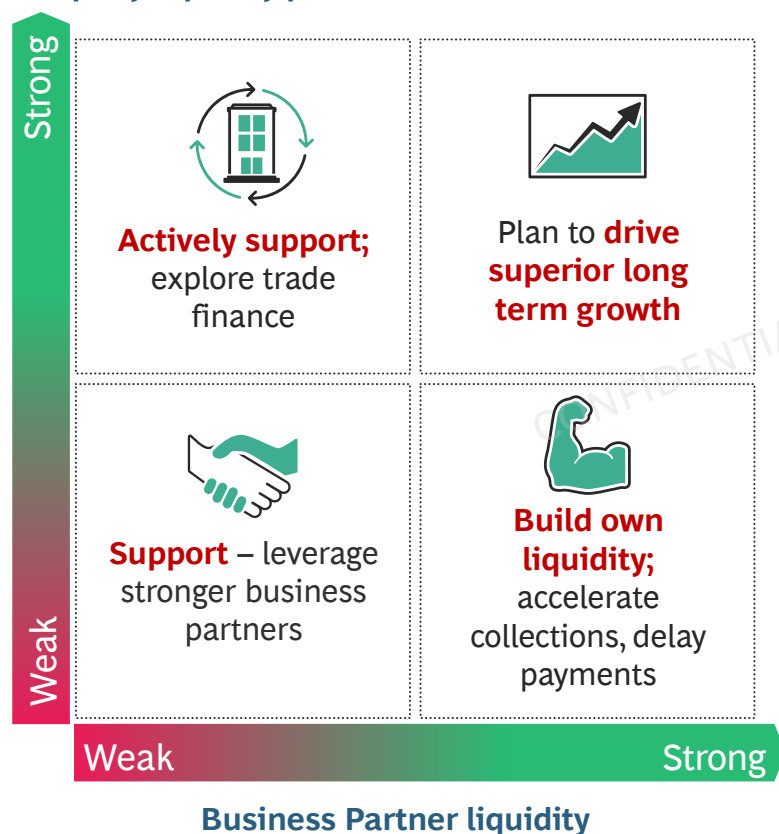
Impact

~**116%** of collections target met in **Apr**
May collections target met in **20 days**

Along with protecting own liquidity, companies are supporting key channel partners to ensure smooth operations

Strategy to be re-calibrated depending on starting position of company & channel partner

Company liquidity position



Example | Large Auto OEM

Infused **INR 900 Cr** liquidity through loans to dealers to overcome short term liquidity



Example | Leading tiles player

Provided channel financing to **~250 dealers** (covering **75% sales**) at **12% interest rate**
Channel finance **limit fixed at 1-2 month sale** value; company has provided channel finance **guarantee** to bank

Govt. Monetary Relief measures could also impact channel partners

	Schemes	INR cr	Description
NBFC	Special liquidity scheme	45,000	<ul style="list-style-type: none"> Short term debt of NBFCs acquired through issue of securities Securities will be fully guaranteed by GOI
	Partial credit guarantee scheme	30,000	<ul style="list-style-type: none"> Existing PCGS scheme to be extended to cover borrowings; primary issuance of Bonds/CPs First 20% of loss will be borne by the GOI
MSME	Collateral-free automatic loan	300,000	<ul style="list-style-type: none"> 100% credit guarantee cover to Banks/NBFCs No guarantee fee, no fresh collateral 45 lakh units can resume business activity
	Subordinate debt for stressed MSMEs	20,000	<ul style="list-style-type: none"> 2 lakh MSMEs are likely to benefit Functioning MSMEs which are NPA/stressed will be eligible
	Equity for MSMEs	50,000	<ul style="list-style-type: none"> Will encourage MSMEs to get listed on main board of Stock Exchanges

3 key actions to drive fundamental **cost transformation**

Reduce non-personnel costs

Direct Costs:

- Rigorously review and renegotiate all key procurement contracts

G&A Costs:

- Tackle G&A cost buckets for savings (e.g., Establishment cost, IT cost, Travel, Office services)

Selling & Distribution costs:

- Bring down budgets and retain lower in-crisis spend
- Optimize consumption/behavior patterns (zero-based mindset)

Establish **cost conscious culture** with clear horizontal cost-ownership

Streamline personnel costs

Identify and pursue **valuable and business-critical** activities

Determine and stop investing in **non-essential** tasks

Make use of **governmental programs** and special legislations

Establish appropriate **workforce flexibility** to ramp up/down

Adjust **FTEs** using **HR instruments**

Drive efficiency in operations

Optimize number of operational units (e.g. manufacturing locations, warehouses)

Reduce **non-essential factor cost** (e.g. overtime balances, leave, contractors)

Strike **insourcing vs. outsourcing** balance (per industry and function)

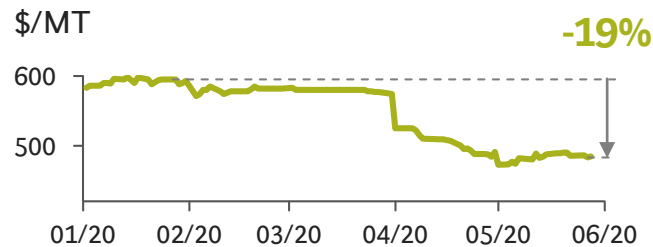
Drive **benchmark cost per FTE** compared with industry standard

Direct Cost | Metals & Mining major – Linking supplier payouts to commodity exchange in order to variable-size fixed costs

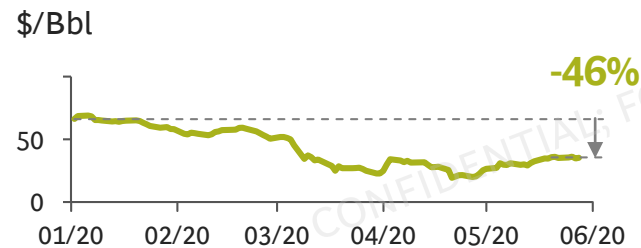
Most commodities trading at **multiple year lows** globally..

..company **changing cost model** to overcome fall in commodity prices

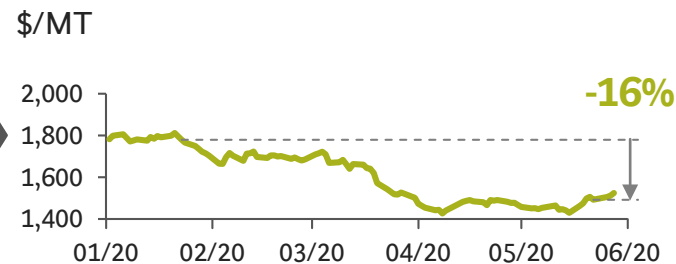
Steel



Crude Oil



Aluminum



"Variable-size"
Production
Costs



Rationalize all
expenses

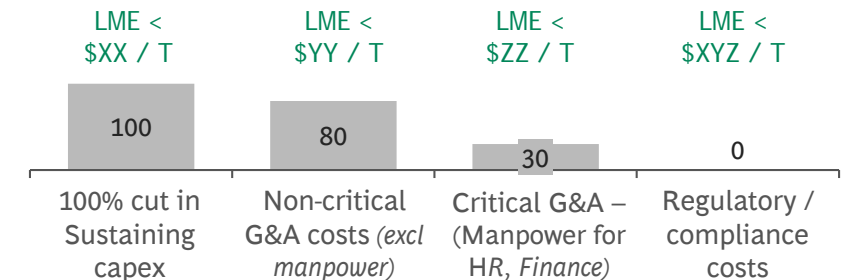


Production
Efficiency

Target moving to a **variable based model for pricing** all contracts to hedge against falling LME prices

- Part of Utilities contract pricing to be linked to LME (London Metal Exchange) prices
- Manpower, maintenance contracts to be linked to volume performance metrics

Stages & Degree of Rationalization linked to LME levels



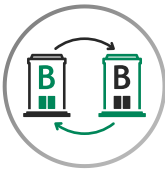
Design of specific initiatives to drive **production efficiency**

- Target to improve throughput, recovery and concentrate grade
- Reduce specific consumption for key consumables / spares

Establishment Cost | Companies leveraging WFH to cut down on Rent, Office space while restarting operations

COST MANAGEMENT
NON-PERSONNEL
COST

Immediate Measures – Rapid Cost Cutting



Do we need office premises for all functions?

- Incorporating **work from home** for functions like Customer support, Tech support, Analytics etc.
- **Reducing office space capacity** in line with the benefit from work-from-home policy

Medium Term Measures



Have we taken advantage of higher supply in market?

- **Price re-negotiation** basis current market availability of commercial property
- Pushing for long term agreements at cheaper rates



Is there potential to optimize space?

- **Centralization of offices** to single location, where feasible
- Redesign layout to optimize space, keeping in mind safety SOPs



Example | Leading Mining player

- **Moved all senior executives and shared services from HQ to the plant**
- Skeletal team operating from outside city

Example | Mid-sized NBFC

Exploring closures of branches which were new and did not reach critical mass, with transfer of staff to adjoining branches

Example | Mid-sized BPO

- **Shutdown 2 facilities** constituting ~30% of total workforce seating capacity
- Planning long-term permanent WFH for 10-15% staff based on accounts which allow WFH models

Example | Mid-sized apparel company

Deferred / staggered rent payments for warehouses, facilities till lockdown ends

Example | Leading building material supplier

Identified 10-20% savings by right-sizing warehouses, renegotiating rents, reviewing overheads across warehouses, offices

Selling & Distribution Cost | Companies consolidating marketing spends, investing in right promotions, sharing logistics costs

Immediate Measures – Rapid Cost Cutting



Do I spend the same on marketing for all my customers?

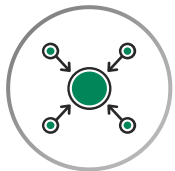
- Demand management **through segmentation based sampling** for a pharma company
- Re-alignment of spend **for non-target customers**



Am I investing in the right promotions?

- **ROI analysis for all promotions** and events to align with market opportunities
- Zero based planning for promotional budget

Medium Term Measures

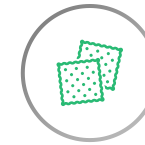


Why deal with so many vendors for promos?

- **Consolidation** of Ad & Design Agencies
- **Aggregators** for long tail categories; **in-house artwork**



Example | **FMCG & Retail companies**



- **Collaborating sharing of vehicles, personnel to minimize logistic premiums**
 - Synchronizing return loads
 - Borrowing capacity from non-essential industries

Example | **Indian FMCG Company**



- Tele-orders & internal order app actively leveraged for demand capture instead of physical visits to reduce sales expenses
- **Increased order size, decreased distribution frequency** to a week/fortnight to reduce sales & distribution costs

Example | **Leading Elec. & Consumer Durable Player**



- Optimizing service architecture by merging divisions and **reducing number of salesmen visiting per store from 6 to 4**
- Divisions with common customer base and serviceability to be merged



Example | **Mid-sized apparel company**



- **Renegotiated marketing / media agency spends with one-time discounts for May-June period**
- Deferring payments to Brand Ambassador

IT Cost | Companies maximizing IT value & efficiency while minimizing cash outflow

Immediate Measures – Rapid Cost Cutting



Does everyone need the same services?

- Enrolling for online version of O365 for plant employees
- Re-defining policy on data card eligibility for specific users only
- Using Shared services / Reduce charge of office IT infra (LAN)

Medium Term Measures



Do we have more S/W licenses than employees?

- Suspending licenses mapped to resigned employees
- Procuring firm level licenses with lucrative prices/discounts



Do we need to buy our laptops?

- BYOD policy with VPN / VDI
- Select purchases on lease with buyback option



We have **stopped 15% of our project spend;**

reallocated to digital & partner enablement

- CTO, leading Indian
- FMCG company



You have to be conservative, defer & **suspend capex** and do **bare essentials**

- CFO Largest cinema chain



We are seeing **60% of our clients requesting discounts..** From 20-50% with 30% average

- Partner & President, Global tech research and advisory firm



Expenses to ensure all apps are up and running is **non-negotiable**

- CTO, Major housing finance provider



This is a good time to look at opportunities to **outsource some non-critical work** to third party vendors

- CFO India, American staffing firm



Number of phishing emails linked to COVID-19 lockdown has gone up dramatically risking **Cybersecurity**

- CEO, IT security solutions firm

6 point action plan to re-structure cost, and manage cash & liquidity





1

Update on COVID-19 situation

Indicators across the COVID-19 chain of effect -
Epidemiological, Public Policy, Social and Economical

2

Guide for leaders: Re-structuring cost and managing cash & liquidity

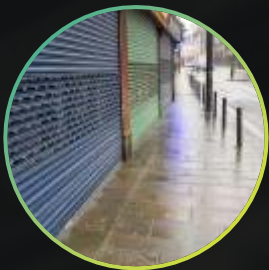
Need for performance transformation across companies
How to restructure cost, and manage cash and liquidity

3

Way forward

Leading the new reality

COVID-19 has created a massive impact on the economy in the last 3 months



Most businesses shut for 8-12% of FY21¹

- ~70% of economic activity came to a standstill in Apr²
- Businesses gradually re-opened in May in permitted areas



Steep decline in sales in Apr³

- Biggest hit to non-essential sectors
 - Zero domestic sales in auto in Apr
 - ~90% YoY drop in steel, 46% for fuel
- Even essential sectors like Pharma saw 16% YoY decline in sales in Apr



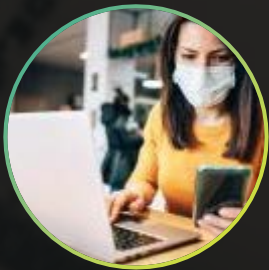
Migrant labor reverse migration

- ~40 mn internal migrants impacted⁴
- 5.7mn+ migrant workers have travelled home by 'Shramik Special' trains⁵
- Shortage of labor being experienced as businesses restart operations



Supply chain disruption

- ~60% decline in imports & exports in Apr⁶
- Intra-state & inter-state restrictions in Apr & May led to supply chain disruptions
- Increase in logistics cost: truck tariffs up by ~80%; emergency surcharge of 25%⁷



Customer sentiment extremely low⁸

- 85%+ customers fear economic recession
- ~65% in lower income skeptical about future income vs. ~40% in higher income



GDP forecasts spiraling downwards

- 5-7% YoY contraction in FY21 GDP estimated by global analyst reports⁹
- 6-18% expected loss in GSDP across states in FY21¹⁰

1. Based on MHA lockdown guidelines for industry restrictions; 2. Based on estimates by Economic Times, 13-Apr; 3. Based on data published for select sectors; 4. Based on World Bank estimates; 5. As of 2-Jun, as published by PIB; 6. 60% YoY decline in exports, 59% YoY decline in imports; 7. As of 14-Apr, Economic Times; 8. Based on BCG Consumer Sentiment Survey Wave 4 (May 18-23) 9. Based on latest analyst reports; 10. Based on SBI estimates - GDSP=Gross State Domestic Product; Source: Industry reports; Press search, BCG analysis

Economy is re-opening, however businesses will continue to face challenges



Disease progression

- Cases still growing at a fast pace in key commercial hubs
 - **53% cases in top 10 cities**¹
- Limited visibility on a sustainable cure yet
 - **~139 trials for vaccine** in pre-clinical stage & beyond²
 - **12-36 months** for approval & scale-up³ expected
- Risk of lockdown getting re-instated if spread continues



Consumption trends

- Expected length & depth of demand hit unclear
 - **~60% of household spend** at risk in next 6 months⁴
- Significant cutbacks likely on **discretionary items**, high income groups more resilient⁴
- Shifts in preferences observed in lockdown – here to stay?
 - **15-40% rise in digital** adoption across purchase, payments, media, learning & social⁴



Economic support

- Uncertainty on **credit availability** to individuals & businesses
 - **Reach to beneficiary** still being streamlined
- Impact of economic stimulus measures to **stimulate consumer demand** unclear
- Lack of demand due to **uncertainty in income and employment levels**

As leaders, you will need to think across multiple dimensions to navigate through the crisis and emerge stronger



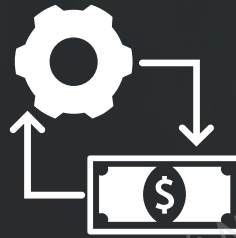
Demand 'Lighthouse'

Assess market demand trends using high frequency data; adjust value proposition accordingly



Supply Chain Cockpit

Monitor & control the supply chain centrally; pre-empt risks and drive pro-active mitigation measures



Cost Transformation

Streamline costs in line with the new reality; drive actions quickly to release large cost pools

Covered in earlier section



Digital Operating Model

Leverage digital to optimize op. model in line with changing preferences; also to streamline processes



Leadership in the New Reality

Leadership in the new reality requires empathy, along with a clear vision of the way forward

Demand 'Lighthouse' to enable demand sensing based on high frequency indicators to drive targeted actions ahead of competition across all fronts

Actively monitor micro & macro high frequency indicators for rapid demand sensing

External Indicators

Internal Indicators



Economic Activity levels

Activity levels by market, sector



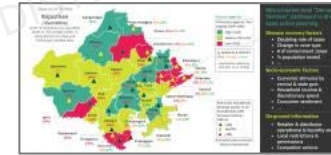
Consumer spending data

Spending trends by category, location



Demand Data

Demand by location & category



Epidemiological trends

Disease spread rate & demographics



Digital leading indicators

Media & smartphone usage trends



Product & customer master data

Product & customer attributes / hierarchies



Consumer sentiment

Expected outlook & spend patterns



Macro & government

Stimulus & lockdown measures



Inventory data

Inventory requirement & trends



Leverage market intelligence to **drive targeted actions** across customer value proposition, operating model, and supply chain

Supply Chain Cockpit to monitor & control supply chain at a centralized level to enable pro-active risk assessment, mitigation and planning

Supply Chain Cockpit

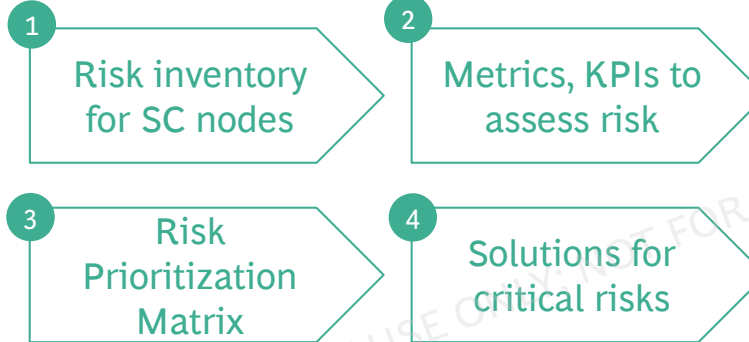


Supply Chain Risks & Decisions Tower



Responsive Planning under Extreme Volatility

Processes



Outcomes



- ✓ Risks inventory for E2E value chain
- ✓ Data & metrics to quantify risks
- ✓ Prioritization matrix
- ✓ Solutions / decisions library

Demand Planning

- Disease progression & speed of recovery
- Changing demand patterns across markets

Supply Network Planning

- Product-to-plant-to-market mapping
- Crisis response plan & bi/weekly review

Distribution Planning

- Zonal level demand patterns
- Inventory & logistics optimization



Supply Network Planning



Distribution planning

- ✓ Production of the right products/ SKUs basis evolving demand signals
- ✓ Dynamically optimized supply network planning
- ✓ Logistics planning to enable delivery

Digital Transformation key to adapt to the new reality

Leverage digital to adapt the operating model to cater to the changing customer preferences & streamline processes

Digital Transformation Journey



Immediate digital accelerators ...



... seeding ...



... full digital transformation

Outcomes

- Lighthouse control tower
 - Follow customer online, digital marketing
 - Return to work, track & trace, remote working
 - Data-driven supply chain stabilization
 - Rapid cost reduction through digital
- Customer experience: New E2E customer journeys, personalization and digital marketing, next gen sales
 - Operations: Full digital supply chain, factory of the future, digital support functions
 - New digital products, services and businesses

Tech

- Tech resilience and cyber security
 - Tech portfolio reset
- Accelerated data and digital platforms (DDP)
 - World-class tech function

Human

- Adaptive response management
 - Upskilling bootcamps
- Digital skill building at scale
 - Agile at Scale and platform organization

Leadership in the new reality



THE NEW
REALITY

- 1. Smart work**
Drive smart work to create a competitive advantage
- 2. Physical and mental health**
Ensure and sustain physical & mental health of employees
- 3. Flexible workforce**
Prepare for the new business environment, which requires more flexibility and more dynamic planning
- 4. New paradigm for skills and talent**
Build, buy, and borrow talent and skills at scale
- 5. Leadership with head, heart, and hands**
Lead with empathy & direction, empower your people
- 6. Purpose-driven organization & culture**
Foster a resilient, purpose-driven culture prepared to meet the challenges of the new reality
- 7. Resilient & Bionic organization**
Accelerate revolution of your operating model and create a bionic company to maximize potential

4 fundamental principles for leaders ...



Put people first

Paint a vision of
way forward



Empower others

Empathize &
acknowledge emotions

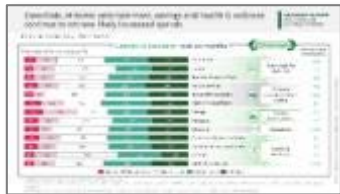


BCG can support you in leading the new reality



Proprietary analytical suite to support strategic decision making & dynamic monitoring

Lighthouse by BCG



Latest insights on consumer sentiment reflecting COVID-19 impact

Consumer Sentiments & Insights



Demand Sentinel dashboard to assess demand at district / micro-market level

Demand Sentinel



Experience in designing customer journeys at scale across industry sectors

End-to-end Digital Customer Journeys



Expertise in informed decision making, bringing in learnings from global crisis response

Next-gen Sales in the New Reality



Experience in developing sustainable world-class end-to-end digital supply chain capabilities

Digital Supply Chain



Experience in rationalizing cost structures across sectors

Zero Based Budgeting



BCG's 360° A&M Supercharger identifies the right commercial activation levers

Marketing Supercharger



BCG's proprietary & proven approach to organic growth creation

Demand Centric Growth



Brings Agile ways of working to the organization, gearing employees for success

Agile at Scale

How can BCG help you?



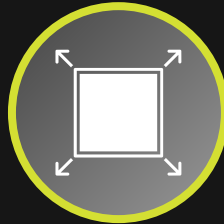
Engage as a partner

We will partner with you to navigate this crisis - ensuring a smooth restart, winning the fight and transforming to win the future



Plan for the 'new reality'

We will drive an assessment of the 'new reality', what it means for you and how can you quickly pivot to make the most of it



Support on immediate priorities

We will work with you to deep-dive on critical priorities to layout a detailed action plan and drive it to swift action



Capitalize on emerging opportunities

We will work with you to scan for emerging new opportunities (M&A, diversification) to enable acting early



Bringing best-practices to you

We will bring in the latest learnings, trends and best-practices from around the world

Further reading: Sense and shape the post-COVID era

Key trends & indicators covered in previous editions

COVID-19 impact in India across the chain of effect



Please refer to our [4.0](#) and [5.0](#) editions for further details

Global impact & recovery; global trade bloc shifts



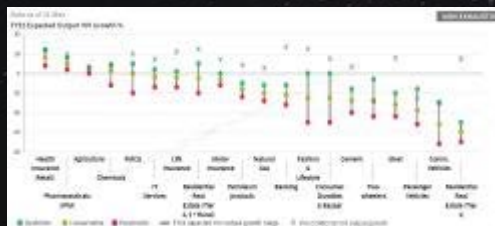
Please refer to our [5.0](#) edition for further details

Demand Sentinel – Micro-market level strategy



Please refer to our [5.0](#) edition for further details

Impact on FY21 output across sectors



Please refer to our [5.0](#) edition for further details

Understanding the consumer sentiment



Please refer to our [Consumer Sentiment Survey](#) for further details

Learnings from Indian and global players



Please refer to our [Learnings 2.0](#) document for further details



THANK YOU