

A photograph showing several hands of different skin tones cupped together, holding a bright red heart in the center. The hands are arranged in a circle, with some wearing dark blue or maroon sleeves. The background is a soft, out-of-focus light color.

# COVID-19 Private Sector Group



**pwc**

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# Coronavirus Private Sector Group

Newsletter of the first meeting on 12 March 2020



As the novel coronavirus spreads globally, fighting the disease has become a top priority for countries and enterprises around the world. The first meeting of the Coronavirus Private Sector Group (CPSG) was successfully held on 12 March to address the situation, and in this meeting, PwC, functioning as the secretariat of CPSG, engaged corporate representatives and special guests in in-depth discussions about the trend of the disease, the economic impact, and actions adopted by enterprises in fighting the disease, among other things. The central points of the discussions in the first meeting and the insights from the guests are presented below, as expanded and updated by the secretariat in accordance with the latest information and development.

## **Point of view on the covid-19 development and economic impact**

### **I. The development of the covid-19 disease: medium and long-term preparations are in order**

China has achieved significant results in its fight against the disease, as the overall situation has been noticeably stabilizing. However, the disease has spread to 114 countries around the globe, and WHO, having formally announced the covid-19 disease as pandemic on 11 March, is calling on all countries to make the containment of the covid-19 disease as a top priority and take prompt actions and make full preparations. On the one hand, the virus, characterized by its low sensitivity to temperature and geographical environment high morbidity rate, among others, is still evolving, and presents more uncertainties for its control and prevention. On the other hand, the effectiveness of disease control and prevention in a country depends highly on the level of the medical capabilities, the government's ability to execute its policies, the awareness and cooperation of the people, the ability to respond quickly, stockpile of supplies and funding, among other things, and in the short term, it would be a tall order for different countries to work together in a concerted effort to control and prevent the disease from spreading more extensively around the globe.

As such, all things considered, the disease may well last until the second half of the year, or even extend to the next year, and all countries and business enterprises need to prepare themselves for a prolonged fight against the disease.



## **II. The development of the covid-19 disease: medium and long-term preparations are in order**

Through lockdowns, transportation regulation, and global trade control, among other things, the covid-19 outbreak has severely disrupted the order of the world's economy, as the coordinated operations in the world's production chains have been hampered and certain supply chains have broken down. Various signs, including the drastic fluctuations of the world's stock markets, general falls of the risk-free interest rates, the historical bottoming out of the international oil prices, and the slumps of bulk commodity prices, all indicate a significant increase in the probability of another global economic recession. If the world's countries work together in formulating and executing synergistic fiscal and monetary policies, the global economy may be able to maintain a growth of 2% in 2020, and if not, the growth of the global economy may well drop to below 1%, then the global economic recession will be inevitable.

For China, the covid-19 outbreak has dealt the most severe blow to its economy since 2009, as China experienced trade deficits in January and February and also significant drop in both export and import. In February, the Purchasing Managers' Indices (PMIs) for the manufacturing and non-manufacturing sectors in China both plummeted to 35.7% and 29.6% respectively. Though China has now begun to resume manufacturing activities, it will still need to take a long time for the return to full capacity, and due to the spread of the disease across the globe, there will be a significant decrease in demands. PwC China has lowered its estimate of China's expected economic growth from 5.2% ~ 5.3% down to 4% ~ 5%, and in order to achieve a growth of 5%, there has to be a greater increase in the growth of investments. The contributions of consumption, investment and net export to the economic growth in 2020 are expected to be 40%, 65% and -5%.

If the outbreak can be fully put to bed in China before the end of April, China's economy will enter a period of solid rebound, and this promising prospect may well make China's stock markets the most bullish ones in the world. China is expected to be the most desirable destination globally for direct investments in the second half-year or even the next year, especially in sectors earmarked for further opening-up, including financial services, public health, and medical care and pensions.



## **CPSG Knowledge Sharing and Discussions**

### **I. Turn the crisis into opportunities to accelerate digital transformation**

The covid-19 outbreak is a major test for everyone, and exacerbates the uncertainties for all industries and sectors in their development in 2020. In this first meeting, the consensus among the group members is that those enterprises who had the foresight to carry out their digital transformations now have major advantages over their competitors, as they have suffered less from the impact while positioning themselves to capture more opportunities from the crisis. A host of new industries, new formats, and new models have experienced rapid expansion and development during the outbreak, including smart home appliances, online education, unmanned delivery, and Internet-based medical services and health care, among others. The group members shared their success stories where they began to build their online portfolio of medical offerings before the crisis, resolved online business issues before the Spring Festival, and acquired their first online customers, which enabled them to smoothly ease into a new business development model during the crisis and deliver digitized smart home services. The online education businesses, according to the corporate members of CPSG, also owe their remarkable success during the outbreak to their efforts in developing online education platforms before the disease spread as well as the use of AI technology, which enabled them to rapidly deploy wide online education applications. In addition, online education involves not only students and teachers, but also parents, and online education has an edge over classroom education in that the families and schools can communicate better and more effectively monitor the studies of the students.

The SARS outbreak in 2002 fueled the boom of Internet-based services, such as online shopping. This outbreak represents another opportunity for business enterprises to speed up their digital transformation, forcing those slow in action and reluctant to change to take to digital transformation, including digital offices and digital management. This outbreak may well mark the beginning of comprehensive digital upgrade for Chinese enterprises.



## **II. Respond through change and achieve agile decision-making**

The outbreak is also like a magnifier that magnifies the impact of an enterprise's agile decision-making capabilities on its business. In this first meeting, all members mentioned the importance of agile decision-making mechanisms in the face of huge external uncertainties. In a crisis, those who take the lead in making the right strategic changes will be better positioned to manage the risks. The strictly-by-the-book approach and departmentalism (on a global level) that used to be the norm of managing a crisis situation, and the long decision-making process, slow reaction and low operation efficiency and other major ills that often plague the enterprises can no longer measure up to the rapid market and external changes caused by the outbreak. CPSG members shared the success stories of enterprises that have been able to stay updated on a real time basis on the development of the disease as well as the downtime in China to respond quickly, adjust their organizational structures timely, reprioritize their production resources as needed, and make production plans effectively, and agile decision-making has played a major role by minimizing the loss of the downtime.

First, heighten end-to-end readiness across the organization, including procurement, production, manufacturing, sales, distribution and logistics, to ensure the strategic decisions that change in response to the development of the disease can be rapidly communicated to every link along the chain and all parts can act in concert. Secondly, put in place convenient communication mechanisms, adopt effective online communication and document sharing applications, and implement practices such as daily update meetings, to share the latest information, promote transparency of each link and area of business operations, and remove the barriers in internal communications and information sharing. Effective online communication and information sharing tools can also be used to enhance cross-departmental coordination to enable joint efforts in resolving various issues that may pop up following new developments. Lastly, make regional rearrangements in response to the disease, so that when domestic enterprises suffered from the impact of the disease, overseas resources could be mobilized in a timely manner to step up production, while when now the disease is spreading overseas and the situation is stabilizing with production resuming steadily, domestic production and supply can be restored to achieve optimal synergies in resource reprioritisation across regions.

This outbreak may present great opportunities for enterprises to implement their organizational and management reforms. Capable enterprises, big group companies in particular, may take advantage of their resource diversity, including people, supplies and business lines, to facilitate organizational optimization and reengineering in different areas, including production, procurement, sales, services and R&D, build their coordinated cross-departmental, cross-line-of-business and cross-regional networks, and achieve agile response capabilities and rapid iterative development in line with corporate strategies and management needs.

### **III. Perform stress testing and step up cash flow management**

CPSG members all agreed that the unexpected outbreak has created considerable pressures on the cash flows of the business enterprises, and the challenges are especially tough for those with high inventories and low cash reserves. The revenue situations hit hard as enterprises experience sharp decline because their workers cannot return to resume production, the kindergartens receive no fees when they remain shut, and the dental hospitals get no revenue when they remain closed for business, and though the business enterprises experience sharp decline in their revenues, their fixed expenditures do not decline, such as salaries, loan interests and rents. In addition, logistic restraints mean that the productions to meet orders have to be rescheduled and inventory turnovers will decline. In terms of cash flow management, the longer it takes to collect receivables, the more likely daily operations require additional support. From the investment and financing angles, the outbreak has impeded the scales of production and business operations, and will then affect the scale, terms and interest rates of the loans. There will be a host of uncertainties in relation to the refinancing of bank loans, and certain companies need to make early loan arrangements to meet their salary payment needs, which further compound their financial costs.

The CPSG members shared their experience at the group level and the parent company level, including stress testing of their cash flows, tracking cash inflows and outflows, predictive analysis of overall cash flow movements, incorporation of emergency response plans in cash flow management and identification of remedial measures, building cash reserves and establishing effective funding allocation mechanisms. Group companies may combine equity, debts and guarantees to optimize their overall funding efficiency. They should take action to help subsidiaries more susceptible to the impact of the outbreak in effectively manage their funding needs, including working with banks to make advance refinancing arrangements and providing guarantee as needs, so as to improve the overall risk mitigation capability of the whole group. The group and the finance department of the parent company may compile and study the state's relevant policies to provide guidance to the affiliates and subsidiaries in their efforts to raise funds and obtain local policy supports, among other things.



## **IV. Mobilize the leading enterprises to drive the coordinated resumption of work and production**

A production chain is forged by interconnected enterprises where no individual business can prosper without others, and the unavailability of one link makes it impossible for its upper and lower stream players to continue their normal operations. At the current stage, the resumption of work and production face a number of issues, including impedance in people mobility and logistics, underfunding for small and medium-sized enterprises, undersupply of raw materials, misalignment in the resumption of work and production between upper and lower stream businesses, and low overall efficiency of the production chains, among others. In the work meeting of the State Council on 10 March, Premier Li Keqiang emphasized the need to remove bottlenecks and reduce congestion in the production chains and funding chains to facilitate the coordinated resumption of work and production.

The CPSG members were of the consensus that major and leading enterprises should be drivers in forming the mechanisms that facilitate the coordination of resources in the production chains, supply chains and funding chains, help small and medium-sized enterprises to overcome the hard time, and strengthen the collective capability to mitigate the risks. The members also shared good practices in this area: the leveraging of communication channels between large enterprises and governments to facilitate negotiations between upstream raw material suppliers and local governments to resume work and production while ensuring effective disease control and protection; easing of logistic bottlenecks by improved information sharing and communications between upper stream and local stream players, and the adoption of innovative measures, such as delivery of goods at the entrances/exits of expressways, and disinfection of cross-province materials; adopting measures to assist the more vulnerable enterprises in the ecosystem, including deferral of loan repayment and extension of the orders; conducting joint studies and analyses of industry policies and helping small and medium-sized enterprises to obtain more policy support; and providing timely feedback on issues affecting the resumption of work and production, and policy recommendations to help address the obstacles and difficulties

## **V. The confidence of the leadership is the cornerstone in the fight against the outbreak**

The confidence of the leadership in the face of the covid-19 outbreak is critical in preventing panics among the employees, facilitating efforts to identify solutions, adopting effective actions, and turning the crisis into opportunities.

The biggest challenge of the covid-19 outbreak for business management is its uncertainties, from uncertainties around the development of the disease since the beginning, to uncertainties in connection with the resumption of production, to uncertainties arising from the global spread of the disease, but as shown in the sharing session, the leadership of the CPSG members all has expressed strong confidence in leading their enterprises to meet the challenges of the disease, and has communicated positive messages to their people in a timely manner. The clear and solid tone from the top has formed a cornerstone to anchor the enterprise as well as its people in the fight against the disease. The onslaught of the disease has yet to end, with the overseas spread of the disease creating more uncertainties to the global economy, and by staying confident, agile decision-making, effectively reprioritising the cash and resources, and speeding up and expanding investments in digital transformation, the corporate leadership will lead their enterprise to achieve success in an environment full of uncertainties.



# **Proposition of the first meeting of Coronavirus Private Sector Group:**

## **Overcome the hard time through corporate accountability and by fighting together**

Right now, the covid-19 is rampant across the globe, threatening the life and health of all global citizens, and once again, the human race faces the same enemy and shares the same destiny. The world is flat, and there is no alternative but facing and overcoming the crisis together; in a matter of life and death, nothing matters more than people's lives, and everything and anything that may be useful in the control and prevention of the disease should be shared, learned and used. There should be concerted efforts among enterprises, between enterprises and governments, and among countries, with all stakeholders acting as one.

### **Policy recommendations of the first meeting of CPSG**

In the future, end-to-end no-contact user experience will become a trend, and it calls for enterprises to embrace digitization, and endeavor to meet the new demands through the application of technologies and innovation of services. Drawing on this insight, the meeting recommends that government agencies and public facilities step up efforts in building the digital infrastructure, including the 5G networks, NB-IoT, industrial Internet-based platforms, to provide the physical and technological bases for industrial digital transformation, and implement favorable fiscal, tax and credit policies to guide and encourage the digital transformation of the business enterprises, and provide a sustainable driving force for the high quality development of the Chinese economy.

We express special thanks to the following special guests and representatives of the CPSG member organizations who shared their insights in the first meeting:

Professor Zhang Liqing, Chief Economist, PwC China

Director Yao Lan, Peking University International Hospital

Pan Longquan, President, CHERVON Group

Li Pan, Vice President of Haier Smart Home and Overseas Market General Manager of Haier Group

Cao Jianguo, Party Committee Secretary and Chairman, Hailiang Group,

Lai Yonggong, Chief Financial Officer, Lenovo Holdings