

Rebuilding and breaking through uncertain times post outbreak : Summary of the March meetings of the COVID-19 Private Sector Group

The COVID-19 Private Sector Group (CPSG) was established in early February and includes socially responsible enterprises and leading experts who have come together to discuss responses and share best practices. As part of the discussions, CPSG members have brought together solutions for major business challenges in order to help build and break through these uncertain times and to help accelerate the restoration of the order of business. PwC was appointed to serve as the secretariat and has organised two online meetings that took place on the 12 and 24 March.

How to respond to the COVID-19 crisis

As COVID-19 continues to spread across the globe, its impact on various industries and sectors have been extensive. In the past two months, businesses have encountered many challenging situations including delays in resuming productions, slow sales, shortage in the supply of raw materials and pile up of inventory. In addition, many businesses have launched new operational strategies, migrating from offline to online and allocating resources to facilitate productions on a global scale. The CPSG members shared measures in how to respond more effectively to the crisis as indicated below:



Respond through change and achieve an agile decision-making process

The outbreak has magnified the importance of an enterprise's decision-making capabilities for its business. In their first meeting, CPSG members mentioned the significance of agile decision-making mechanisms in the face of major external uncertainties. In a crisis, those who are able to take the lead in making strategic changes will be better positioned to manage risks. The traditional 'by-the-book approach' used to be the norm of managing a crisis. Unfortunately, its long decision-making process, slow reaction and low operational efficiency can often hurt a business by not being able to provide for the rapid market changes caused by the crisis. CPSG members shared success stories of enterprises that have been able to stay updated in real time and rely on the latest news on

the development of the disease to determine how to respond quickly and adjust accordingly. The downtime in China has allowed for restructuring of their organisation, reprioritising their production resources as needed and making more effective production plans. Due to their agile decision-making, these businesses are able to minimise their risk and losses.

First, it is of critical importance to improve the end-to-end readiness across the organisation including procurement, production, manufacturing, sales, distribution and logistics. This is to ensure that the strategic decisions made in response to the outbreak can rapidly be communicated across every link along the chain and all functions can act immediately to any changes.

Second, put in place convenient communication channels online along with document sharing applications. Implement best practices such as daily update meetings, share latest information, promote transparency of each link and area of business operations and remove the barriers in internal information sharing. Effective online communications and tools can also be used to enhance cross-department coordination to enable a united effort in resolving the various ad-hoc issues that may arise following new developments.

Lastly, make regional adjustments in response to the outbreak, so that when domestic enterprises suffer, overseas resources can be mobilised in a timely manner to fill the gap in production. Currently, the coronavirus is now spreading much quicker overseas. As a result, domestic production is now stabilising and resuming steadily, restoring supply and resource reprioritisation can occur across multiple regions.

This outbreak presents a great opportunity for enterprises to implement effective organisational and management reforms. More capable enterprises and big companies, in particular, can take advantage of their resource diversity including people, supplies and business lines to facilitate organisational optimisation. This could mean re-engineering different areas to include production, procurement, sales, services and R&D. They now have an opportunity to build more efficiencies across departments, lines of business and cross their regional networks. This will in turn help them to achieve more agile response capabilities and accelerate development in line with corporate strategies and management needs.



Perform stress tests and increase cash flow management

CPSG members agree that the outbreak has created considerable pressure on cash flows of businesses. The challenges are especially tough for those with high inventories and low cash reserves. Revenues have been hit hard as enterprises experience a sharp decline with workers not being able to return to resume production, schools are not able to receive fees and dental hospitals can't perform procedures as they remain closed.

Even though businesses are experiencing sharp declines in their revenues, their fixed expenditures remain the same i.e. paying salaries, loan interests and rent. In addition, logistical restraints mean that production at factories that need to meet orders have to be rescheduled and inventory turnovers will fall. On the issue of cash flow management, the longer it takes to collect receivables, the more likely daily operations require additional support. From an investment and financing perspective, the outbreak has impeded the scales of production and business operations and will have an effect on the scale, terms and interest rates of their loans. There will be a range of uncertainties in relation to refinancing of bank loans. Companies may need to make early loan arrangements to meet their salary payment needs, further increasing the complexity of their financial costs.

The CPSG members shared their experience at the group and parent company level. This includes stress tests on cash flows, tracking cash inflows and outflows, predictive analysis of overall cash flow movements, incorporation of emergency response plans in cash flow management, identification of remedial measures, building cash reserves and establishing effective funding allocation mechanisms. With additional resources, group companies may have the ability to combine equity, debts and guarantees to optimise their overall funding efficiency. They can take early action to help their subsidiaries that are more vulnerable on how to better manage their funding needs. This includes working with banks to make advance re-financing arrangements and providing guarantees as needed to improve the overall risk mitigation capability of the group as a whole. The group and the finance department of the parent company may compile and study the state's relevant policies to provide guidance to its affiliates and subsidiaries in their efforts to raise funds and obtain local policy support, among other things.

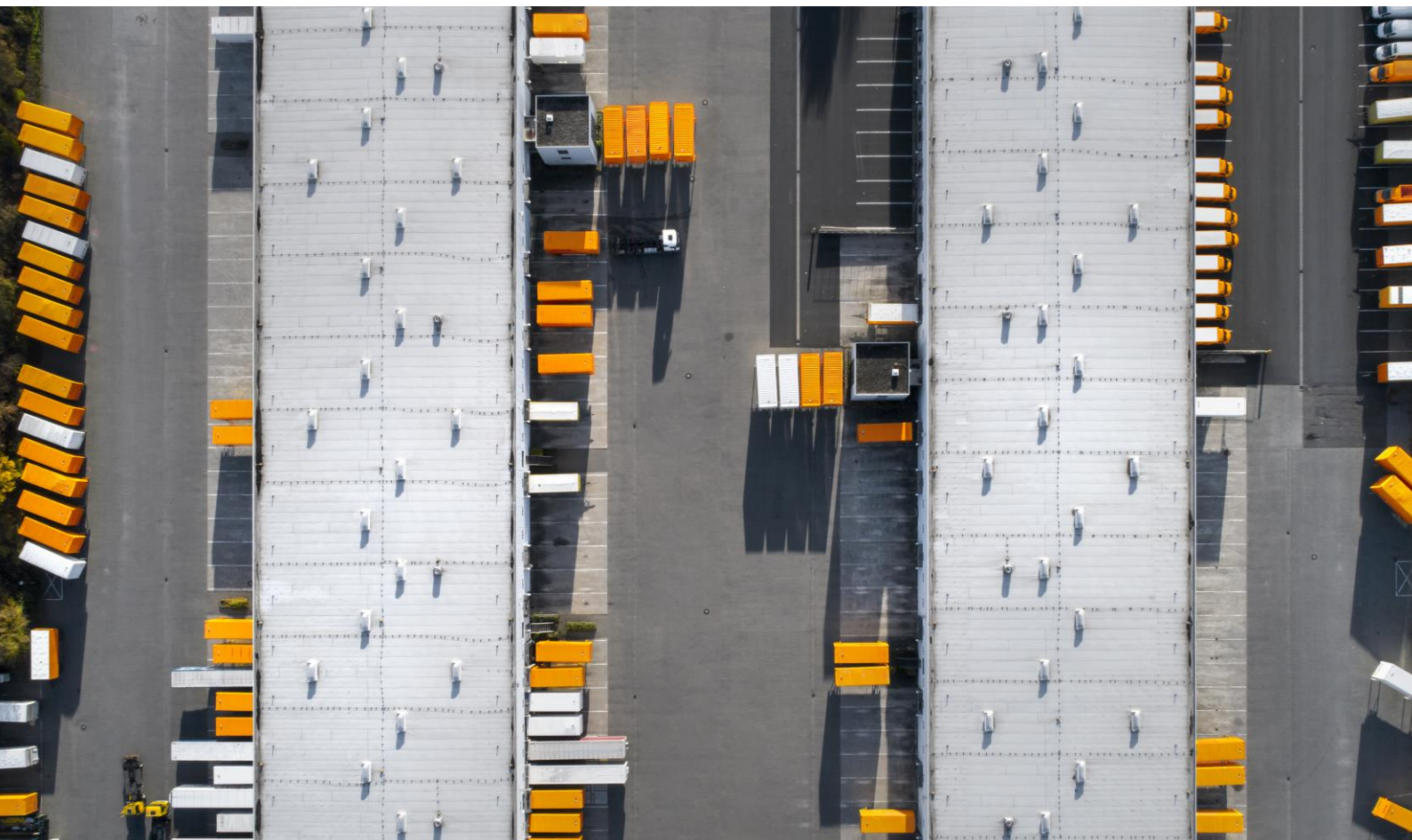


Mobilise leading enterprises to drive the resumption of work and production

A production chain is interconnected by multiple enterprises and no individual business can prosper without the other. The failure of one link makes it impossible for the other stream of players to continue normal operations. Currently, the resumption of work and production face a number of issues including people movement and logistics, under-funding for small and medium-sized enterprises, undersupply of raw materials, misalignment in the resumption of work and production between upper and lower stream businesses, overall low efficiency of production chains, among others. In the meeting of the State Council on 10 March, Premier Li Keqiang emphasised the need to remove bottlenecks and reduce congestion in production and funding chains to facilitate the resumption of work.

All CPSG members came to the consensus that major and leading enterprises should be drivers in facilitating the coordination of resources within production, supply and funding chains. They should help small and medium-sized enterprises to overcome these times of hardship and strengthen their collective capabilities to decrease the risk of impact.

The members also shared their best practices including leveraging communication channels between large enterprises and governments. This will aid negotiations between upstream raw material suppliers and local governments to resume work and production while ensuring effective disease control and protection, easing of logistical bottlenecks by improved information sharing and communications within the supply chains and the adoption of innovative measures. Measures can consist of delivery of goods at the entrances/exits of expressways, disinfection of cross-province materials, assistance to more vulnerable enterprises and deferral of loan repayment. Conducting joint studies and analyses of industry policies and helping small and medium-sized enterprises can be helped by more policy support and providing timely feedback on issues affecting the resumption of work and production. These recommendations will provide relief and address the obstacles and difficulties at this time.



How to look for new opportunities?

The novel coronavirus outbreak has had a heavy impact on the economy and society at large, from short-term shock to mid-and-long-term ramifications, and has even begun to change people's values. Our mind set and behaviours in regards to our livelihood, consumption, social activities, work and drive have created a series of new technologies, business models and industries. Currently it is positioned to change the entire industrial ecosystems and possibly the interrelationships between supplies of goods, trade interactions and economic activities at a global scale.

At the same time, navigating through the short-term challenges forces us to stay up-to-date with any new changes and to be flexible when assessing current conditions. Based on any external changes, necessary adjustments will need to be implemented into the business strategy and model in accordance with changes to policy, technology, market, customer needs and behaviours, and industry competitions and ecosystems. Being able to adapt will put businesses in a better position to prepare for new competition, expansion into new markets and adopt innovative business models to turn a crisis into a growth opportunity.



Accelerator to drive innovation and new developments

COVID-19 presents not only challenges to business enterprises but also countless potential opportunities for change and development. All enterprises, regardless of industry, can make effective use of the down time to regroup and assess market opportunities. They can realign their thinking with new strategic scenarios and embark on a second wave of development to re-invent themselves.

The slowdown of market development has offered the much needed time and space for businesses to look internally and re-examine their core values and strategic development directions. They can now address weak and vulnerable areas and refocus their goals while waiting for the external environment to return to normal. This really gives them an opportunity to identify drivers that will accelerate their long-term sustainable development.

With respect to market opportunities, the general course of China's economic growth remains the same and follows the advances in technologies and changes in business models, new market space, with new tracks also emerging. Businesses in traditional industries may consider M&A opportunities to achieve strategic targets including vertical integration, global expansions, conversion of products into services and vice versa, as well as synergies between online and offline businesses. For emerging industries, new infrastructure initiatives driven by technology hold tremendous opportunities under favourable policies, and is set to bring about fundamental changes to the industry and to people's lives, including AI-empowered industries, AI-empowered agriculture, digitised public health, social governance and education.



Align your thinking to strategic scenarios

In recent years, many Chinese enterprises have followed an opportunity-driven path and piggyback off of the high-speed economic development in China. They have generally adopted a capability-centred strategic system that emphasises efforts in strengthening their operating models, value chains, products and channels. As the

impact of COVID-19 extends to the medium and long term, the outbreak no longer represents a single event, but a series of changes in scenarios. To survive, enterprises need to adopt a system that is based on the shifting circumstances.

Align your thinking to strategic scenarios

Scenario 1

Enterprises need to place more emphasis on the restructuring of the international industrial ecosystem and shift from a global strategy to a local one. It has been discussed in the past on how to expand and achieve optimal allocation of resources on a global scale. COVID-19 has caused serious challenges to regional allocation of resources and underscored the role a culture of a particular country or region may play in its management and development. In the latest round of strategic assessment, a more global strategy may be considered to further diversify the risk effectively. Many global enterprises, including Apple and Samsung, are making the shift from a more geopolitical perspective to a greater emphasis on the global synergy and resilience of their supply chains. By revisiting their strategies, many Chinese enterprises need to combine their innovative and technological strength with how they can optimise their global resources and advantages. One critical factor to consider is how to re-shape and increase the weight of domestic supply chains as well as reduce their dependence on overseas supply chains.

Scenario 2

Chinese enterprises have a major task at hand in that they need to make a strong and diligent effort to promoting innovation and to help China evolve from 'Made in China' to 'Innovated in China'. Exports have dropped by 17.2% in January and February 2020 as compared to the same period last year. It is without a doubt that there has been an adverse impact caused by the outbreak. However, there needs to be a deeper look into pursuing the relative competitiveness of China's innovation towards the 'Made in China' brand reputation. The more complex and challenging the market environment becomes, the more enterprises are able to adapt and survive if they possess proprietary cutting-edge technologies and are able to deliver constant innovations. Businesses engaged in simple and preliminary processing and manufacturing, such as the production of garments, will be hit the hardest, while those producing high-tech products, such as AI-powered medicine-delivery robots, will continue to receive orders. In response to the prospect of a new global economic recession and the new challenges imposed by the outbreak on the sales and operations of enterprises, it is important that innovations continue to take place. Be it manufacturing technologies, business models, operating formats or methods and processes, a new core within businesses today will help to redefine their strategy and implement better transformation.

Scenario 3

Businesses should fully embrace the digital world in order to achieve full integration between their offline presence and online services. Those who have taken early actions to become digital and build an online presence before the crisis have suffered less and decreased their risks. The future is without a doubt going to be digital. Technology has not only changed sales channels, but also the outcome of business scenarios and the levels of competition as well as the norms of industries and societies. It calls for every enterprise and every industry to think and evaluate thoroughly how they can incorporate and make the best of the latest IT and AI technologies, webcasts, and VR presentations. Flexibility and agility should both be included as key components in their strategic upgrade.



The changes to 5G and its opportunities

As a critical component in the new infrastructure initiatives from the state, 5G applications will bring about changes and opportunities for enterprises that will need to be taken into account in their strategic repositioning. 4G has changed our lives, so the introduction of 5G may change the very society we live in and will also trigger changes in every industry and sector. As clearly stated in the Circular

concerning the Acceleration of 5G Development issued on 24 March by the Information and Communications Department of the Ministry of Industry and Information Technology, efforts will be stepped up to quicken the pace of 5G development geared to empowering the industries, increase diversified 5G application scenarios and create new 5G+-enabled economic models.

Opportunity 1

The new infrastructure initiatives, championed by 5G, will usher in new waves of infrastructure investments and construction as well as create significant market opportunities for the information and communications industries, especially within telecom equipment enterprises. It's estimated that 4G base stations and services in China account for 50% globally and its new 5G base stations will account for about 40%. China Mobile says it will invest RMB 179.8 billion in 2020 to build 300 thousand base stations this year and work to ensure 5G coverage for all urban areas in cities above the prefecture level across China. As discussed in this session, the construction of 5G base stations alone will enable the upper and lower stream of the industry supply chains to attract about RMB 500 billion worth of investments, which will provide tremendous fuel to facilitate the growth of small and medium-sized enterprises as well as new entrants into the ecosystem.

Opportunity 2

The vertical industries of 5G and emerging new business models will become new economic growth points. Vertical applications of 5G will push the enterprises to upgrade themselves to become more web-based and IT-driven. It's estimated that investments to upgrade networking capabilities in the next five years alone will exceed RMB 500 billion. The combination of the control system in cloud as well as automation in robots will greatly reduce the costs of enterprises' 5G applications and tremendously speed up 5G commercial applications. Real-time control of assembly robots make it possible to achieve flexible manufacturing with an ability to not only improve production efficiency but be able to adapt manufacturing methods to meet the needs for personalisation. It is quickly becoming a reality as the Mercedes Benz 5G factory getting ready to go live. There have already been a host of 5G applications that are breathing new life into various industries and sectors such as the intensive deployment of unmanned operations in ports and similar places, stronger haptic and visual capabilities providing double safeguards to deliver more precise remote medical services, remote control of vehicles offering a new solution to mining and similar high-risk industries and drone-based high-voltage line maintenance systems that may reduce the cost of operators by 30%.

Opportunity 3

An accelerated building of an AI-enabled society post-outbreak will provide a bigger arena for the information and communication industries. The online-only economy, which includes no-contact services and automation have quickly taken shape. It will also provide a huge space for expansion for the lower stream of the information industry. VR can provide for a more popular way for people to enjoy panoramic views of the blooming cherry blossoms in Wuhan without having to step out of the door. In South Korea, there are now one million viewers who have subscribed to 5G-based TV programmes to connect with their favourite stars at home. In addition, VR has also been widely applied in education, with remote education becoming increasingly available and popular. In the future, there will be a lot more 5G applications in our society and livelihood including smart agriculture, smart medical services, smart education and smart city management. Along with other AI-enabled applications, it will also help to open up new markets, new tracks and new territories for the expansion of enterprises.

The discussion in the third meeting calls for every business to look for opportunities during this time of crisis. In doing so, businesses can embrace 5G in their strategies, piggyback on new technologies and innovations and further their strategic transformation and upgrade.



Speeding up digital transformation and implementing strategic AI plans

All parties who attended the meeting agree that following extensive applications of AI technologies, technology-enabled innovations should become increasingly important, if it hasn't already, to help tackle industrial development obstacles, improve efficiencies and unleash productivity.

1) AI is making real contributions to breaking the bottlenecks in industrial development

Over time, many AI technologies have made the transition from the development stage to live environments within various industries and have made huge contributions to businesses by improving efficiency and resolving challenges.

The CPSG members shared stories of how smart driving technologies and systems have brought about amazing changes to the logistics industry which has long been facing obstacles in their evolution journey including heavy dependence on drivers, low efficiency in the fleet and high accident rates. By applying AI technologies to their accumulated knowledge in critical skills and operator experience with iterative development, a new generation of smart logistics management has been developed. So far, the first smart trucks using full AI technologies and designed specifically for container shipping have been deployed at Tianjin Port, and have proved to be highly efficient in addressing a series of difficult issues at the port in its transportation management. Some of these difficulties include the continued increase in labour and fuel costs as well as the inability to improve transportation safety and efficiency. Driverless trucks are estimated to be able to save fuel costs by 40% which means a huge increase for the logistic industry which only has an average net profit of only 6%. As the lack of labour intensifies due to the outbreak, logistic-intensive sectors, including ports and logistics parks, are making sincere efforts to explore and adopt AI-enabled driving solutions.

2) The earlier a business becomes digital, the greater the benefits will be

COVID-19 has been a major test for everyone. It exacerbates the uncertainties for all industries and sectors in their development for 2020. In this first meeting, the consensus among group members is that those enterprises who have had the foresight to carry out digital transformations are now in a beneficial position over their competitors. As a result, they have suffered less from the impact while being able 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 CPSG members also shared success stories from their own crisis response. From building an online portfolio of medical offerings before the crisis to resolving online business issues before the Spring Festival and acquiring their first online customers, members have been able to create a new business development model to deliver more digitised home services. The online education businesses also owe a remarkable success to their efforts in developing online education platforms before the virus spread as well as implementing the use of AI technology. This has allowed them to deploy wide online education applications rapidly. In addition, online education involves not only students and teachers, but also parents. Online education now has an edge over classroom education because it opens the line of communication for families and schools to better monitor a student's studies.

The SARS outbreak in 2002 fuelled the boom of internet-based services, one great example is online shopping. The current outbreak represents another opportunity for business enterprises to speed up and get on board with new digital transformations, forcing those slow in taking action and reluctant to change to start new practices including digital offices and management. Due to this outbreak, we may see the beginning of a comprehensive digital upgrade for all Chinese enterprises.

3) It's imperative to create an inclusive corporate culture and embrace tech talent

Technological innovations are essentially the result of human creativity. Technological innovation teams are getting younger and younger. Enterprises should cultivate an inclusive culture to embrace innovation-minded talent and be able to create a favourable environment for them to unleash their creativity.

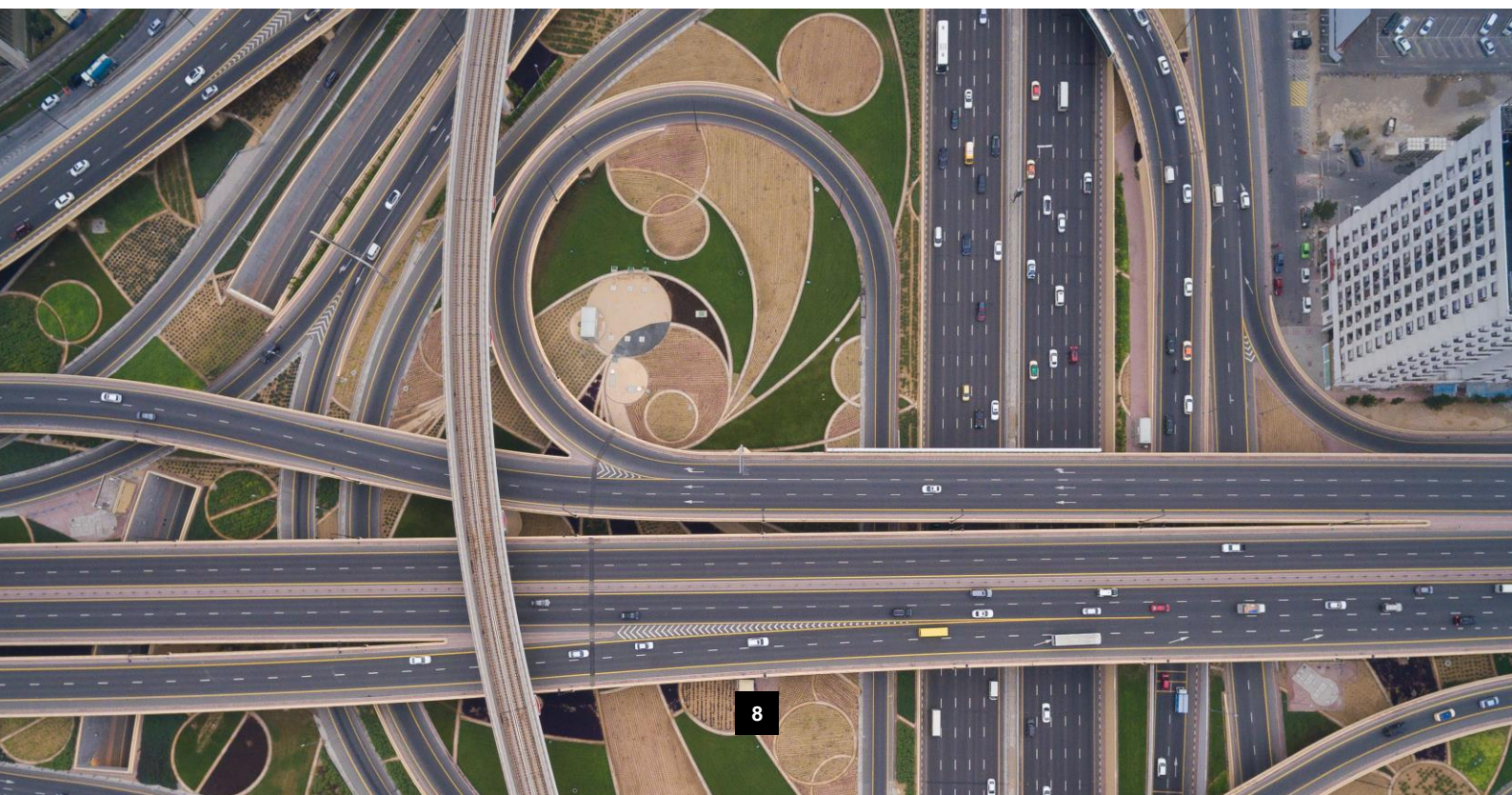
A CPSG member shared a story about an engineering team which had an average age of 27. Firstly, the group of engineers are proud and hard-working with a people-centred approach. Their culture respects creativity and is necessary and effective in motivating the engineers to scale technical heights higher than before. A leadership-driven approach, on the other hand, may be doing a disservice in promoting an innovation culture as 'leadership' implies that the responsibility falls on the leaders. It also tends to suggest a 'following orders' mentality, which makes it hard to inspire creative engineers. Secondly, the corporate culture for innovative talents should be geared to the needs of the enterprise. A 'you can count on me' culture that promotes professionalism and accountability can make a difference, whether it be during general R&D and communications or in responding to the COVID-19 outbreak and helping the enterprise to overcome the challenging time. A robust corporate culture is the bedrock to responding to a crisis. With the right culture, this should inspire employees to be creative and help the business pull through the crisis.

This meeting is a call out to every business to cultivate a better cultural environment and to fire up creativity within talent workstreams and deploy new technologies quickly. Technology is like a fast train which seems far away when you hear it coming, but as you question its viability and hesitate as what to do, it can thunder past you in a blink.

It's important to note the consensus among CPSG members that the confidence of the leadership is the cornerstone in the fight against the outbreak. Confidence is critical in preventing panic among employees and facilitating an effort to identify solutions, adopting effective actions and turning a crisis into an opportunity.

The biggest challenge of COVID-19 for business management is its uncertainties stemming from the development of the coronavirus, to the ability of how quickly it is spreading overseas to when production can resume. However, as shown in the sharing session, the CPSG members expressed strong confidence in leading their businesses to meet the unprecedented challenge and communicate positive messages to their employees in a timely manner. The clear and solid tone from the top will be the cornerstone in anchoring staff in the fight against this outbreak.

There is no end in sight yet, especially with the rapidly evolving situation abroad creating more uncertainties to the global economy. By staying confident, agile decision-making, effective reprioritising cash flows and resources, speeding up and expanding investments in digital transformation and strong corporate leadership, enterprises will be able to achieve success in the current uncertain environment.



Proposition from the COVID-19 Private Sector Group

Overcoming hardship through corporate accountability and fighting together as a community

Right now, COVID-19 is rampant across the globe, threatening the life and health of all citizens. The world has no alternative but to face and overcome this crisis together. Of course in a matter of life and death, we value life above all and anything that may be useful in the control and prevention of the disease should be shared, learned and used. There should be a conscientious effort among all enterprises, governments and countries to act as one.

We welcome all business enterprises to join the COVID-19 Private Sector Group to share their experiences and insights in addressing the challenges of the outbreak. We will work together to identify opportunities to continue to develop and transform.

We express special thanks to the following representatives of the CPSG member organisations and the special guests for sharing their insights.

Lan Yao, Director, Peking University International Hospital

Longquan Pan, Chairman, CHERVON Group

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

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

Yonggong Lai, Director, Finance Department, Legend Holdings

Tianlei Zhang, President, Trunk Tech

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