

CLIENT CONVERSATIONS MAY 2020



Phoenix Change Management Ltd

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Background

As the Covid-19 pandemic became established and began to affect basic working life, Phoenix anticipated the immediate effect on clients would be a mixture of shock requiring rapid countermeasures followed by thought given to opportunity and future needs.

Phoenix also thought that clients acting in isolation would benefit from awareness and insight to the wider business context.

After testing that idea out with close client contacts, we decided to invest time and energy in a series of conversations designed to elicit feedback which could be synthesized into an overview and where relevant provide interesting details.

The purpose is to assist clients with understanding, awareness, and potential ideas. Phoenix wish to see their clients succeed as that is in our mutual longer-term interest. Phoenix believes relationships encourage sustainable business and no client should be in isolation when trying to engineer solutions to their business challenges.

Respondents

At the outset we envisaged a group of 10 clients and an informal feedback process. However, expanding interest means at present the number of conversations undertaken is 40. We envisage there are more we will undertake, and we think that this is not a single shot event but an evolving scenario with multiple moving parts. It will be interesting to see how things are perceived in future months.

The results presented here are based on conversations and feedback from the 40 clients referred to above.

46% of respondents are from the broader Financial Services Sector. This includes for our purposes what is referred to as FinTech. The sectors are as the table below.

SECTOR	DESCRIPTION
Financial Services	Re-insurance/insurance/retail banking/Payments/wealth management
Transport & Logistics	Tanker logistics/warehousing
Infrastructure Services	Road & Rail maintenance/IT support
Business Services	Consulting/outourced services
Infrastructure provider	Utility; Aviation
Other	Manufacture/Advisory

80%+ of the individual respondents are executive board members. The majority of these hold CEO positions with a small number of Chair roles. Several of the respondents have multiple non-executive roles and this has given enhanced perspective.

In total the respondents are responsible for approx. £4Bn in revenue and 90,000+ employees. Approximately 50% have global operations.

Executive Summary

All respondents were positive about the Client Conversations initiative and expressed interest in the outcome and some respondents expressed the desire for ideas about future challenges.

Most respondents have already acted to cut costs where possible. Salary, travel and other discretionary costs were the main targets initially. Property costs were also targeted if possible as the next priority. Property issues here relate to requirements / future organisation shape plus contractual constraints. All respondents accept that in the medium-term costs generally would need to be adjusted downwards to reflect-

- The impact of a general reduction in demand and a slow recovery
- The fact that working from home [WFH] will increase significantly
- The realisation that real estate is not needed in the same quantity
- The idea that new ways of working will be found

In describing what has been done already most respondents have taken actions that fit in what was called Scenario 1, which was focused on stabilising liquidity by dealing with cost overhang. [see table on page 22 for summary details].

There was a patchier response on Scenario 2 which was a prompt for further action to improve operating model performance. The details of limited actions that have been taken can be found at the same section on pages 22-25. Property and the use of property was consistently discussed but without clear plans. This is where most respondents focus is now and in the short term. For Scenario 3, which was to adopt a more disruptive approach to strategically reposition the business there was less evidence of action but plenty of thoughts.

Working from home has proved to be a positive experience for most respondents and in their view will act as a catalyst for the next phase of their re-configured operations / organisation. One respondent spoke of a poll taken of managers with only a 5% preference for a return to an office-based model. It was however accepted that with home-based working there were challenges with telephony/internet, space, and domestic boundaries in addition to isolation of employees. Most were unclear about the future space need/use; but many thought a hybrid of 'office-space' and home might be the more likely outcome in the medium term. Some sectors have already adopted home working as a standard way of working. MS Teams and Zoom are already in use in a significant number of sectors and client settings.

There were few believers in the V-shaped recovery with most opting for some form of staggered and slower rebound [U, 'Nike swish' or hockey stick and hopefully not a W]. There was a lot of positive support for initiatives such as the Furlough and business support provided. There were some complaints about the speed of the support to smaller

businesses. It was generally felt there could not be enough support; but most thought the support provided would be useful. The general view was that it was up to business to solve their own problems.

A minority of respondents observed that in some respects the Furlough scheme delayed the inevitable need to reduce costs. Most respondents agreed that a significant proportion of their furloughed staff were likely to become redundant given their view of the economy and the prospects for business in the short to medium term. With an ending of furlough likely in later 2020 that will be a decisive point.

When considering the question of Artificial Intelligence responses ranged from 'not particularly relevant to my business' to 'it will enable a complete revolution'. Some suggested alternative labels such as 'digitalisation' or 'smarter digital solutions'. Niche and creative businesses felt they might not be at the scale or their jobs were less amenable to 'AI' capture. Larger businesses in all sectors saw applications and had recognised it would happen. Some respondents accepted they had done little and were "pre-historic" in AI terms. FinServ generally are more comfortable with virtual teams and digitised processes / automation as part of ongoing transformation. Non-FinServ generally have some learning to achieve and decisions to make regarding how to integrate broader AI as a component of future business models.

Most businesses feel they can manage any cost reduction themselves which is contrasted with the acceptance that current costs are excessive. It is important to recognise the pandemic did not create the cost overhang; rather it has simply highlighted it. The short-term actions taken demonstrate the scope for working with a new operating model and lower costs. Several experienced respondents questioned the depth of experience / capability with managing costs as opposed to reporting costs

Most respondents feel they need a culture change in their organisation to adjust to a new more effective, flexible, and virtual model of organisation. In addition, new business models would be needed to support anticipated changes to supply chains and lower operating costs.

Recommended Change themes

1. Strategic rightsizing in alignment with future business models
2. Deepening of capability and awareness in cost management
3. Behaviour change for a more flexible, virtual and transparent organisational culture
4. More effective governance and business processes
5. Coaching managers for virtual business and operating models
6. Mental health and wellbeing upgrade



SUMMARY QUESTIONS

IS THE NEW NORMAL GOING TO BE VERY DIFFERENT TO THE CURRENT NORMAL?

IS THIS A LIQUIDITY CRISIS OR SOMETHING MORE FUNDAMENTAL?

IS MY BUSINESS MODEL STILL RELEVANT IN MY SECTOR?

DOES MY BUSINESS NEED A TURNAROUND?

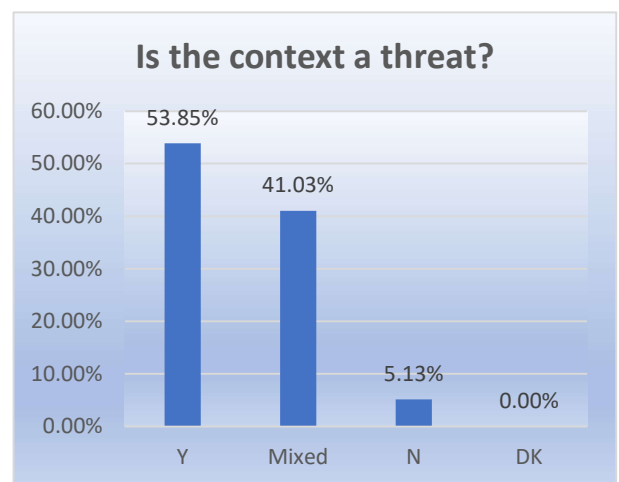
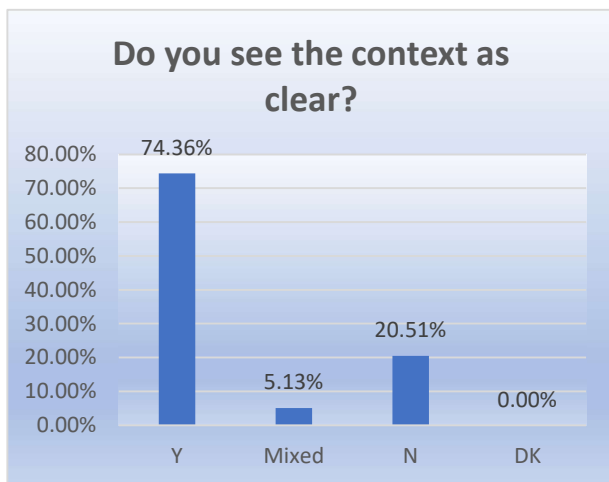
DO MY COLLEAGUES HAVE THE MINDSET TO DEAL WITH THIS?

IS OUR GOVERNANCE FIT FOR PURPOSE IN FUTURE?

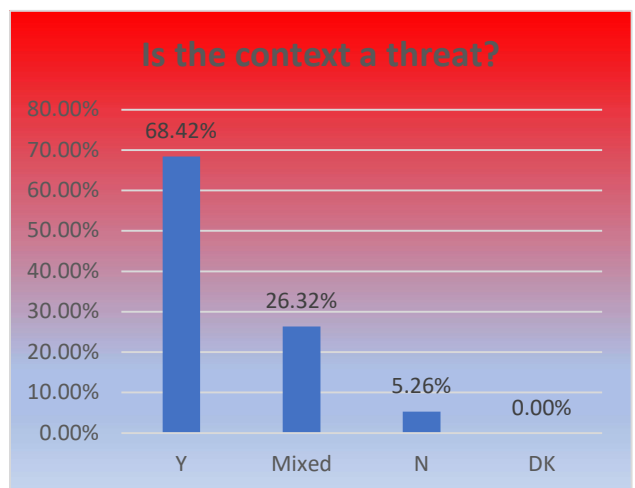
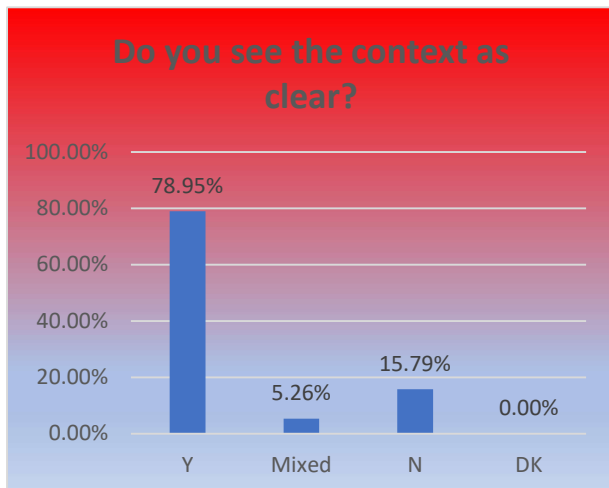
Context

Overall, most respondents declared the context is very clear. It is similarly clear that most found the context a threat, albeit with less strength of feeling. Some respondents described the context as both a threat and an opportunity. Mainly they accepted the threat is the dominant aspect, and that some businesses would have opportunity to seek opportunities.

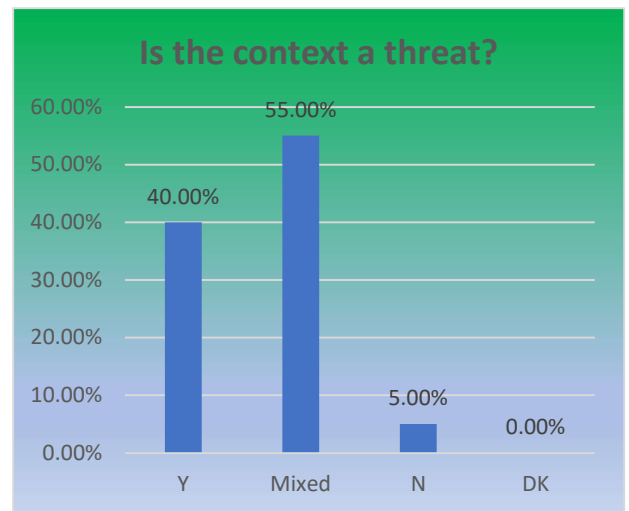
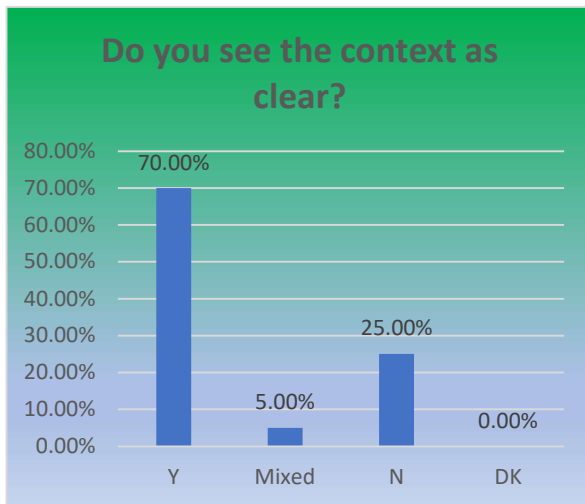
Overall



FinServ



Non-FinServ



Financial Services demonstrate a more emphatic view of the threat. Non-Financial Services have mixed opportunities, and some reflect a varying mindset in terms of risk and business model.

Those respondents with significant Private Equity participation and one respondent with largely a single owner were much more positive in describing the situation as one of opportunity. Indeed, it is collectively shared there will be a number of casualties and this is part of the strategic thinking in the more positively positioned companies.

“The context is a bizarre event and is a threat to some airlines, rail freight and infrastructure maintenance. In airports concession businesses are directly threatened with immediate loss of revenue and a slow recovery.” [transport]

“in the old saying you shouldn’t waste a good crisis; it is a time to do the things we have avoided doing” [FinServ.]

All respondents are aware of the underlying uncertainty at this point in the evolving pandemic crisis pattern. There was a general expectation that early actions were needed to survive but a second phase would emerge to ensure a more defined path. All respondents sought more certainty to the pandemic shape and to broader macro-responses.

"This crisis, like others, is an opportunity in which managers need to identify and create new models to go after their objectives" [transport]
"We have a 5-year plan and we see losses in this and next year but recovery within the 5 years." [infrastructure services]



CONTEXT

THE CONTEXT IS CLEAR

FOR MOST THE CONTEXT IS A THREAT

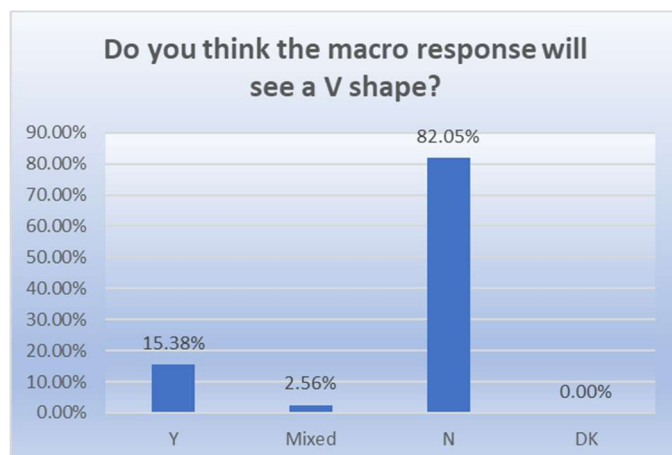
THERE IS CONFIDENCE THAT SOLUTIONS WILL BE FOUND EVEN THOUGH THEY MAY NOT
BE CLEAR

FOR MANY THIS IS AN OPPORTUNITY AS THEY EXPECT THERE WILL BE CASUALTIES

cc2020

Macro outlook

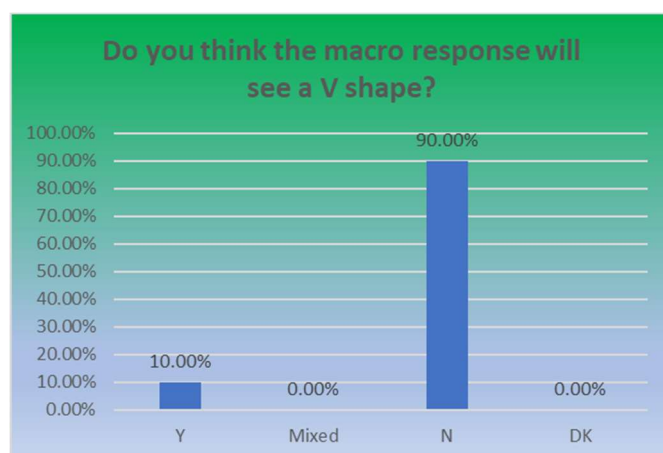
Overall



FinServ



Non-FinServ



There is significant confidence that there is no V shape. Non-FinServ respondents were more certain of this. A W or 45° L recovery were most often cited as an alternative, accepting that there is uncertainty.

It is clear that at this stage it is too early to tell but there was hope of a short deep contraction with an early bounce.

Institutions are broadly signalling the same response although the BoE has projected as close to a V shape as possible.

In classical measurement models the **depth** of the contraction is felt to be as severe if not more severe than the Great Depression. The number of jobs lost, and the % of GDP lost are classical measures; these are expected to be record making for Q2.

The **diffusion** of the contraction is expected to be widespread affecting all sectors and regions, and therefore pervasive like the Great Depression and more so than the 2008 Great Financial Crash.

The **duration** is one area where there is hope and confidence of a perhaps a record short 6 months contraction with a rebound immediately. At present most expect the rebound to be fragmented by region and sector.

"I see it as a U shape lasting until 2022 or a W shape until 2023." [aviation sector]

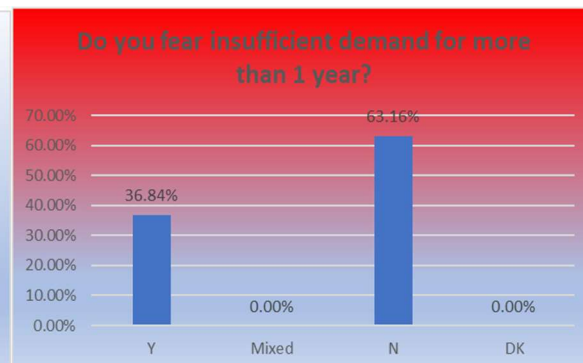
"We have surveyed all commentary and it seems the worst case is some form of U shape. The question is whether it is a short or prolonged bottom." [FinServ]

The **'diffusion'** attribute of the contraction offers the greatest complexity via leverage across global supply chains, the level of existing debt and the current political environment. Each organisation is in an economic ecosystem that requires high levels of coordination and a lot of risk taking.

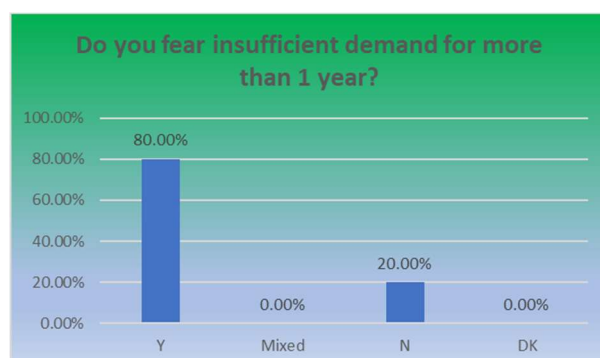
Overall



FinServ



Non-FinServ



The outlook for demand is varied across the FinServ / Non-FinServ divide. There is significant concern rather than 'fear' that demand will take longer to return than in other sectors. Air travel and other travel related sectors in particular are felt to be exposed to a slow return and potentially a recalibration of demand downwards to reflect changes to consumer expectations and attitudes. Respondents and sectoral bodies [IATA/Airport Operators] feel 2023 is likely to be when they might see volumes near the 2019 levels.

Similarly, dense travel spaces such as London and other metropolitan areas are challenged to get the same volume flow for commuters. London Underground is quoted as forecasting 12-15% capacity at the current social distancing rules.

FinServ businesses exposed to international travel in particular are already experiencing 90%+ fall in current volume. Thus, their revenue is on the floor and the challenge is the cost overhang versus the rate of recovery. The first hurdle is to see that recovery is possible.

Airports non-aviation revenue is also 'on the floor' and some scenarios see some passenger volume may not include non-aviation revenues until later. Large passenger volumes moving into and through airports will be prioritised for flying initially.

These aspects are particularly dependent on the pandemic management itself. A managed and effective process will build confidence. Testing and a vaccine will build on that. Practices that are tested will enable travellers to return to their existing practices and therefore restore some volume to all of these sectors.

At present there is low confidence that air-travel will be more than 35% in 2020 with hope for 60-75% by mid-2021.

"Rightsizing the resource base is an immediate need. New ways of working with increased flexibility. The employment contract will be assessed and re-designed where appropriate. Supply chain performance and costs will be assessed and improved. "[aviation]

Macro Support:

There was a strong and positive view on the level of support provided to date. The Furlough scheme in particular got a lot of praises as a very welcome tool that gave all businesses breathing space.

In the UK while it has been viewed by some as slow there is a welcome for the support schemes introduced. However, there was some robust views on FinServ responsiveness from Non-FinServ respondents.

It is generally the view there will not be enough support ultimately and that it could never be enough. Non-FinServ in particular feel that to be the case. There was no begging bowl mindset, but respondents wanted clarity and time to prepare for what they saw as a phase 2 following initial actions already taken. The extension to autumn for the support schemes has been positively received.

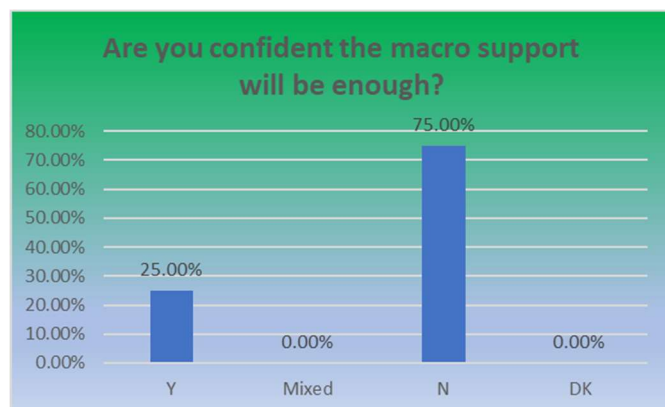
Overall



FinServ



Non-FinServ



“Macro support has not been enough in the first phase. Financial services have not covered themselves in glory in providing assistance in UK. £2.6bn of £330bn released after several weeks is not good enough. The funder and the banks made a mess of that. This has been too slow.” [transport]

“What the government have done has been useful, especially the Furlough scheme. It will never be enough” [transport]

“there was crap lending in 2006/07 and this has not changed, bank capital requirements are higher, but lending is still crap” [finserv]

There will always be objections and critique for any scheme in this catastrophic scenario. The US and UK have issued support [Fed- CPFF/MMLF/TALF and BoE CCFF/CBILS programmes] to many large corporations. Almost 500,000 SME in the UK have accessed business support financing from the Chancellors initiatives. It is now proposed to look at further support possibly with ‘state’ equity stakes. It is also proposed to reduced state contribution to furlough.

There were certainly some respondents who asked if there was potential for overreaction and that like 2008 the world was not turned upside down. Air travel returned after 9/11 eventually. One respondent fully expected to be at football or rugby this year; “maybe with half the crowd”. But the following season with a full crowd.

There is general acceptance that the macro- dynamics are uncertain and will see a further wave of problems in form of business and personal defaults and redundancy which will impact on demand generally. Either way macro policy must provide sufficient support to enable whatever routes chosen to be accessed. There was not much talk of the cost of the debt and it was accepted there is no choice.

Some respondents commented on the role of debt in the economy generally and that it would take generations if there was an attempt to move away from it.



MACRO

THE FIRST WAVE HAS FLOORED SOME BUSINESSES AND DENTED AGGREGATE
DEMAND IN A RECORD DEGREE

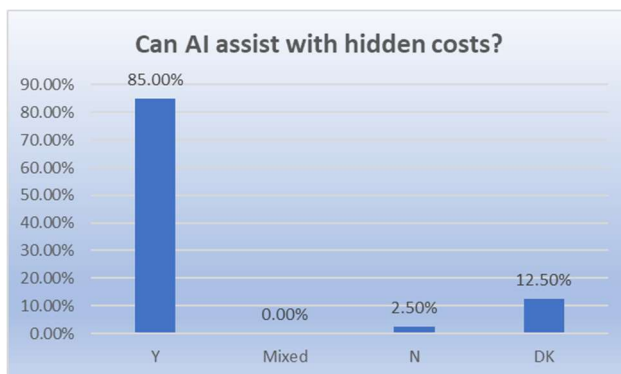
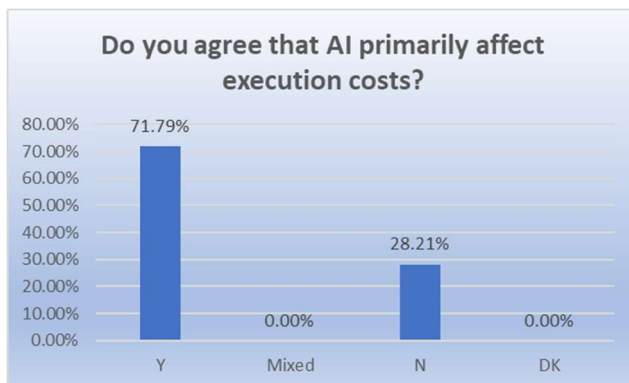
THERE WILL BE NO V-SHAPE BUT FURTHER WAVE OF DEFAULTS AND FURTHER
DEMAND WEAKENING

ASSET SUPPORT IS DOMINATING THE MACRO RESPONSE

LESSONS FROM 2008 HAVE NOT BEEN LEARNED OR BEEN FULLY IMPLEMENTED

Costs

Overall



Generally, it was accepted that costs were too high and that this issue had been avoided in the pre-crisis period. Furlough has now made this decision for many managers. Some respondents had already done something in addition [see Actions Taken below].

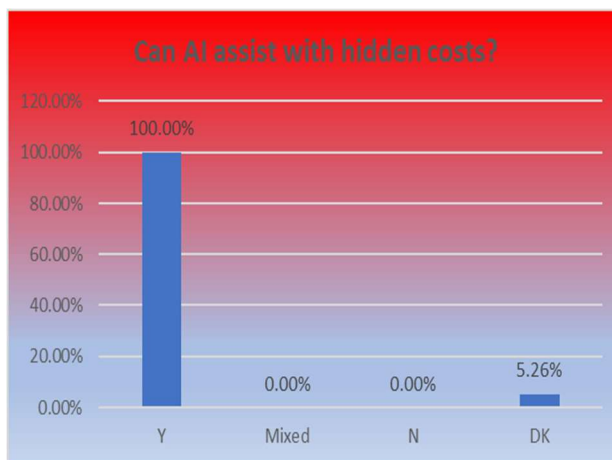
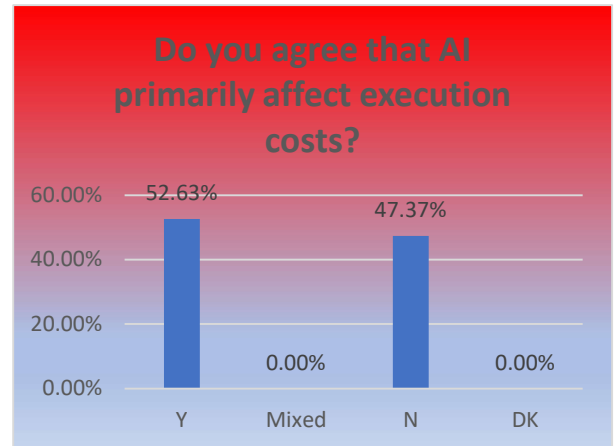
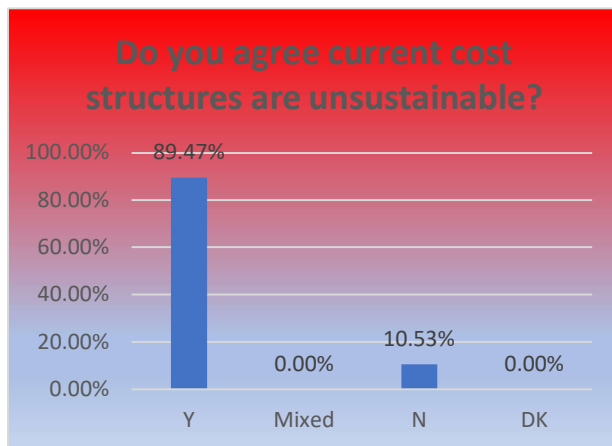
In part some respondents saw it as a survival action and focused on what had been done to get through 'this phase'. Most expect a second phase with 'harder decisions' to make. Rightsizing was a much-used term in this part of the conversation.

When discussing AI there was broad but basic understanding. However, there is also in some cases a lack of recognition that this would affect business in the near term. The majority of respondents accepted there is a relevance and it would affect costs but that this was not an immediate issue. FinServ respondents generally were more accepting of the relevance of AI.

Balancing demand recovery, space requirements and skills were the main items going forward but respondents needed more time to think that through and see how the macro context evolves.

There is a lot of confidence that businesses can manage their costs down. However, some senior respondents doubted the depth of experience and skill in managing costs.

FinServ

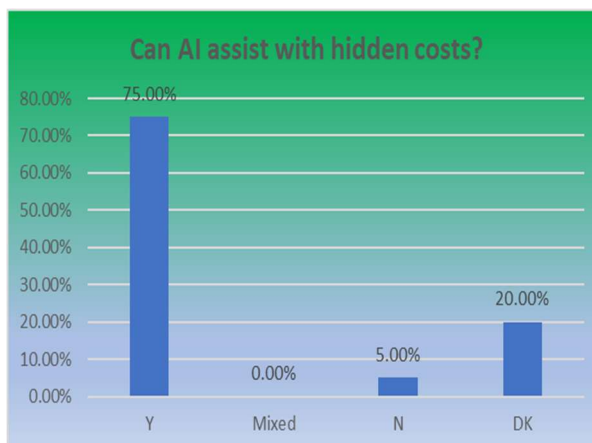
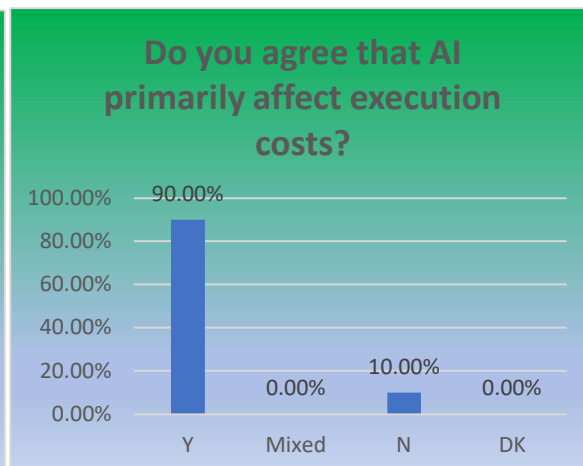
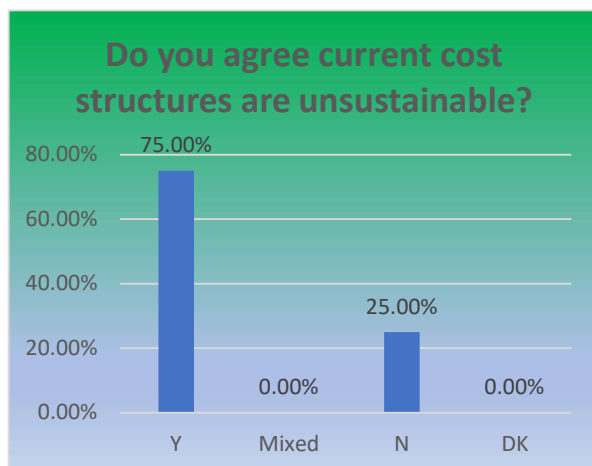


FinServ respondents are very clear about costs requiring re-alignment. However, this does not reflect in their actions taken already. Mainly the Furlough has been the scheme utilised to give breathing space. One large re-insurer was in the midst of a restructure and so costs were being removed in any event, with the result that they may be replaced more slowly and on a more modest basis. A few respondents are able to make significant changes as they have relatively higher demand related labour costs with lower liability for the employer.

The underlying costs issues are yet to be addressed and the furlough period is the time to think and plan.

"AI can make a major impact on our processes; we have initiatives looking at parts of the supply chain and this will be accelerated by the crisis." [re-insurance]

Non-FinServ



Non-FinServ are equally clear about costs but less confident about managing those costs down. This reflected the lack of clarity about the future as much as the challenge posed by reducing costs.

Overall, on the question of AI and how it may affect costs the discussion was less energised and respondents in the main made broadly the same point that costs must be affected by AI but not with many examples. One insurance respondent outlined the use of Bots in motor claims and the scope to reduce labour costs by 30%. Another reflected that the high number of touch points in claims processing demanded using AI. Other respondents in infrastructure and transport were able to relate to examples such as drones inspecting sites or autonomous tractors moving bulk tankers in yards, there was little detail and an acceptance there is scope but work to be done. Financial Services is an IT rich environment but there was no wave of projects ready to go in this space. One re-insurance respondent related to a project that could possibly replace the 'broker model' supply chain.

It seems there is a sense of potential but not a close understanding of what and when it might occur. There is a view for many sectors that 'where tech goes, we go'. Thus, new sector models will expand their application to other sectors. Commuting may reduce but that will also affect local recruitment and possibly see lower local pay rates on average displacing city pay rates.

The confidence in the ability to manage costs down amongst the respondents is contrasted with agreement that costs are high. It was agreed that the pandemic is a trigger but has not altered costs, these were already in place. A significant number of leaders expressed concern there was a lot to learn for managers in managing costs; it was felt there was a basic ability and lots of metrics but not effective management of costs.

Most managers were able to describe areas that they thought would be targeted as cost reduction areas accepting these could always have been addressed. The question seems to be one of management culture as well as technical cost management.

At any time, legacy costs in any business come up to remind leaders and managers of things that have not been dealt with. The crisis is not kind to this issue and indeed highlights the latency of problems. It seems there is some scope to deepen awareness and capability in this area. It is clear therefore that productivity may be an area for greater focus.



COSTS

THE COVID SHOCK DID NOT CAUSE COST OVERHANG, IT REVEALED IT

REPORTING COSTS IN MONTHLY REPORTING IS A RECIPE FOR BEING PASSIVE IN
RELATION TO COST MANAGEMENT

ENGAGING EMPLOYEES AS COST RESOURCE PROMOTES A FOCUS ON TASK EFFORT

PRODUCTIVITY SHOULD BE A DAILY ROUTINE AND BE EMBEDDED IN MINDSETS AND
BEHAVIOURS

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Culture

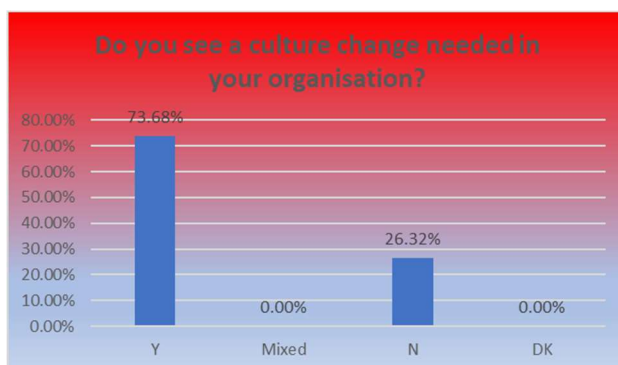
Overall



There is little doubt about the desire for culture change for most respondents.

Issues driving this view related to the new business models and the shape of demand, the shift towards a more remote and flexible operating model, and for many a general need to be more attentive to cost and performance.

FinServ



Non-FinServ respondents were much more emphatic in this view that FinServ. In part this reflects a varied starting position for many Non-FinServ organisations as they are less engaged with new organisation models.

“Yes, our cost structures are not where we may need to be. Yes, AI would affect that, and we have not really thought too much about it in practical terms. We are aware of areas that can be automated and affected by AI, but we are pre-historic really.” [transport]

Non-FinServ



In part respondents are reflecting the need for their organisations to adjust to new ways of working and the pandemic is the trigger but not the cause.

Culture change is an ill-defined subject at the best of times and some respondents found it difficult to put their views into words, except to say they thought there would need to be change. A significant number related the culture change issues to new ways of working and some managers would be challenged to deal with remote and distributed workforces. Managers would need more people skills. Employees would need clarity on process and priorities.

One very experienced leader observed that behaviour needed to change, and culture would follow. The basic message seems that non-financial service is unanimous in their view, and financial services are in broad agreement with some significant alternative views.

“yes, we need some culture change, but it is tweaking in my view” [infrastructure services]

“it is not so much culture change as a new business model” [financial services]

One experienced FinServ manager observed that potentially new business models and employee relationships may require greater reward for some as there would be more engagement expected and more commitment to delivering effective cost management. Working in a flexible operating model would possibly be more sustainable with fully engaged employees.



CULTURE

CULTURE DERIVES FROM THE EMBEDDED BEHAVIOUR, ROUTINES AND NORMS
ADOPTED WITHIN THE ORGANISATION

IF THAT IS TO REACT TO SHORT TERM OPERATIONAL PROBLEMS THEN THE CULTURE
IS A REACTIVE PROBLEM SOLVER WHICH IS GOOD OPERATIONALLY

IF THERE IS A DESIRE TO SHAPE THE MARKET AND ITS DYNAMICS, THERE IS A NEED
TO ADDRESS FUNDAMENTAL MANAGEMENT BEHAVIOURS

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Actions taken

Many respondents have created a dedicated team at board or executive level to address the actions in dealing with the impact and then the short-term ongoing decisions. These teams have met online weekly. In any event dedicated team or not respondents as board members have been in constant touch with executive colleagues and also staff generally to maintain the livelihood of their internal communities.

There are some themes in the various actions taken and the following table is a summary from respondents. It serves as a good indicator of the areas of immediate impact.

Summary of Actions taken:

Scenario 1-reduce costs short-term

Key Actions	Comment
100% WFH	Exceptions being security and other critical technical staff
75% Furloughed	90% Non-FinServ / <50% FinServ
Salary cuts -10%+	Mainly -20%+; often voluntary
Directors	-50% in many cases, bonus cancelled
Real Estate	Leases reviewed and notice already given in some cases. Medium term view is less space needed and reviews underway / immanent.
Business operations	Closure of some FinServ retail channels
Other	Travel costs/Cancelled CAPEX/ Major programmes/share buyback cancelled

Some sectors such as retail, payments and transaction services, transport are heavily impacted by the demand fall off. Many respondent organisations had made use of the furlough scheme and this eased immediate challenges of severe reductions in activity / revenue. Not every organisation made use of furlough but those of scale certainly did. Those respondents that did use the furlough also agreed a significant number of furloughed staff may not be needed.

Most organisations saw salary and other remuneration cutbacks. Senior managers and board members saw salary and bonus cuts. One respondent organisation had to cancel a share buyback. In a few the salary cut applied to all staff. In one this was done on a voluntary basis with 95% take up.

Scenario 2- improve operating model

One enterprising respondent [FinServ in specialist insurance] was able to develop new products for clients within 6/7 weeks offering new flexible cover and on short-term basis. This same respondent

has now committed to introducing 'bots' to the claims processing area to enable a 30% employee reduction.

Some areas like insurance that are people rich and in some operating models require many touchpoints are vulnerable to complete automation. One experienced entrepreneur related to transforming motor claims from 200 touchpoints to 2 using technology.

Re-insurance is an area with global and complex supply chains. One respondent related to a project to automate the broker channel thus targeting 10-15% of costs. This is an area that re-insurance generally experiences and as their clients will have major disruptions this could be a stimulus to this application. It seems this is not a new concept and the obstacle is not technical but cultural.

Other overhead areas and property costs were targeted, and, in some cases, some small changes had been made. Property cost reductions will take time to come through. However, some respondents had already actioned exit clauses in leases. Many respondents are considering some form of hybrid mix of home and office. Thus, property rethink is a route to a revised way of working.

One specialist is working on a model of working that sees dispersed teams working in a social setting like 'a family meal' as part of their design. Hubs and other dispersed spaces are also under consideration. That approach would suit others with high concentrations of desks such as traders

The outlook for each business is governed by a series of sector and market demand issues thereby creating a layer of differential responses that sees up to three years before anything close to pre-crisis volumes returns.

While no major decisions have been taken most respondents accept that some aspects of their cost bases and operating model are forever altered. People and property costs are definitely going to change. Travel and attendance in a specified workplace are also under some form of change moving to a more flexible arrangement.

Scenario 3- improve business model

With regard to Scenario 3 there was discussion of possible changes to business models with greater use of technology but that was speculative. However, it is fully expected by some that there will be change driven by more use of digitisation solutions, process automation. There was less recognition of task capture by specific algorithms.

One respondent is a provider of transaction services to major banking institutions and sees much more scope for transformation arising at this time. This respondent is aligning to those institutions that see opportunity at this time and have the capacity to manage the changes required. It is expected that some institutions will not make that move and offer thinner solutions but remain as second tier.

One transport respondent saw significant scope globally for much more regionalised production facilities and therefore more fragmented and complex supply chains. Another observer commented some products such as automobiles are no longer made by humans but by robots and they can be anywhere. Also, the 'China platform' was now questioned as its cost advantage was thin in many

areas due to intermediary costs and rising local labour costs. The transport respondent saw a major change to his property needs in Asia and in China especially.

An area discussed with several respondents was road and rail infrastructure but with a more benign outlook. A major provider saw stability in the fact that with 5-year regulatory cycles there was scope to take a hit if necessary and recover over the 5 years. It was observed that for the UK, Highways England and Network Rail would bring spend forward if needed. So, in this example there is resistance to any major disruption unless a radical alteration to procurement and delivery emerges. Another respondent did observe this approach would not work with other construction sectors such as major pharma/data/power projects which saw a greater move to better design upstream integrating supply chain and on-site construction using modular products. Construction in the broad sense is a fragmented area and made up of old and new methods and technology mix. There is a forecast by a major UK player of construction services without any humans by 2050. Some transformation must be expected in construction.

Airports are part of the air travel mix and have seen complete shut down in the last 10 weeks. forecasts for international travel stretch out to 2023 for comparable volumes to return. One respondent did observe the beginning of thoughts around managing large volumes of passengers through terminals. However, he accepted that for now this did not include non-air travel revenues. At some point perhaps a self-service model might emerge. It seems for the present there are major hurdles associated with air-travel and some of the associated revenue streams may be more difficult to re-start very soon.

Generally, there is acceptance that costs being addressed now could and should always have been addressed. There is a view / fear that there are 'zombie' companies, operating without a real basis for trading. Thus, for some respondents the pandemic is the trigger for more fundamental issues. Lenders will be cautious in their approach to ongoing support and this is what underpins the likelihood of labour shedding and capacity shakeout. However, without a clear sense of the macro policy approach there is not as yet enough to be clear which businesses, barring a few exceptions, appear to be vulnerable to major disruption and loss of control.

"The Airport retail model was already broken, and this crisis has brought that to a head. A large competitor is already up for sale. All our staff in that operation are on furlough. It is likely most if not all are in effect redundant when we try to assess the options." [FinServ]

WFH may at present be an afterthought as it is really like an emergency assembly point where staff go if they cannot get into the office. Apart from large scale laptop procurement and set up there is little that has happened or foreseen here. It is however recognised as a potential source of problems in terms of technical capacity, cyber security, productivity and HR issues.

Over the next 10-20 years millions of new workers will evolve their thinking and behaviour with the virtual workplace as the baseline starting point for their work experience. The current changes are in effect the transition years; will current managers be able to meet that challenge to engage, communicate, motivate and develop competence and capacity in order to compete.

Perhaps existing hierarchical organisation cultures and employment contracts will become anthropological artefacts to students of business in the future. No doubt some interesting theses will be written by eager entrepreneurs or maybe they will just get on with it.

It appears for all the governance across financial institutions and within corporates this did not prevent either the inability to prepare for such an event or a smooth management of the consequences. It must be understood that the contraction was in fact caused by the government's decision to shut the economy. It was not a cyclical or structural economic shift that engineered this. How is future governance of the economy going to make managing such events more effective and less disruptive to business. During previous events such as this business activity continued, and epidemiology and health services managed the crisis. In Covid-19 it seems we had to start from scratch to design and engineer 'solutions'.

Within business entities governance did not help either, except to assist in shutting down activity. There is perhaps a general lesson here in that at present governance is a passive activity designed to protect after the event consequences spilling over into asset prices. Is this an effective management tool? It seems a lot of cost goes into governance, but it is not clear that there is value in the present arrangements.



RESPONDENTS ARE IN THREE CAMPS

- 1 THOSE HEAVILY IMPACTED AND WAITING FOR THE CONTEXT TO
CHANGE AROUND THEM TO OFFER EASING OF TRADING
- 2 THOSE LARGELY NOT OR ONLY marginally AFFECTED
- 3 THOSE SEEKING TO MOP UP CAPACITY THEY FEEL WILL BE LOST
THROUGH DEFAULTS

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Risk

Respondents generally agreed with the list of risks discussed in the conversations. The discussions tended to focus on a smaller subset of this list and associated themes.

➤ Planning horizons are not clear or certain
➤ Demand recovery is too slow and insignificant
➤ Time to develop revised operating models v. Competitor business models
➤ Adoption of virtual technologies is slow and uneven
➤ Management culture not aligned to virtual business requirements
➤ Implementation of 'cloud solutions' does not add value to the final customer and delivery performance
➤ Employee morale and productivity

Planning horizon is generally the area with most uncertainty and it is too early to say how things will look in 1 month or by end of summer. As we are writing the outlook is altering and the first wave of re-opening / returning is occurring. It is very early days and there is a lot of scepticism but desire to get something moving.

Once clarity about the pandemic reaches a level of satisfaction in regard to-

- Social distancing
- Test and trace practices
- Test capacity
- A credible date for a vaccine
- A policy environment that allows good businesses to find a way back to healthy trading

there will be more confidence and the outlook should become easier and clearer. What is not felt possible is a return to the same 'normal' as before and the density model of commuter travel and office occupation is perhaps now to be rethought. Some respondents are active in considering hybrid versions of the working-from-home and office configuration.

The scope for adopt a more flexible model of organisation and employment becomes central to considerations.

"We are considering how we will manage any return to work focused on roles needed, roles needed now / when. Roles needed in office/depot locations. Office staff are most likely to see a reduced requirement and reduced need to be in office." [transport]

Management culture and capability with new operating models and the demands of managing a re-configured workforce were issues raised by many respondents. One chairman observed he thought

there would be insufficient experience of managing the costs and performance of a more distributed organisation.

Other CEO's were thinking that morale/ mental health/wellbeing would become larger issues and at present it was not clear how that would be addressed. It is clear a new way of working is needed but that may be shaped by the extent of change needed within your sector and location / travel constraints.

"Our group recognised a while ago our culture needs to change to ensure we keep reinventing what we are and how we operate." [infrastructure services]

Most respondents recognised that the home environment would pose challenges for employees because of-

- Space limits / dedicated workspace
- Children / others at home
- Isolation
- Internet connection/workstation set up
- Work-life boundary management

These issues present businesses with enhanced and new HR issues in addition to IT and process issues.



RISKS

IT SEEMS MOST RESPONDENTS WILL WAIT AND SEE THE EMERGENCE OF MACRO
POLICY AND OTHER MACRO INDICATORS

RISK WILL BE MITIGATED BY TACTICAL ACTIONS TO MANAGE LIQUIDITY AND OTHER
PRESSURES

THE MAJORITY RESPONSE SEEMS TO WAIT TO REACT TO ANY FURTHER DISRUPTION
ARE CURRENT MODELS OF GOVERNANCE FIT FOR PURPOSE?

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Recommended change themes-

These points are made to reflect the conversations and the points elicited. No single point stands alone as there is cross fertilisation from one competence to another. Many businesses are in different stages of thinking and acting on some of the issues raised. Business is no different to other parts of eco-systems in that it evolves new ways of organising itself to perform at new standards.

- There is an urgent and a strategic need to right size but to get that right in a fast-changing world of new business models. Cost cutting in the immediate has been necessary but is not aligned to a clear strategic future. Macro policy is aimed at asset indices not fundamentals. Businesses need to get their business models clear and to drive that model to success. Rightsizing based on revised expectations of demand with new business models /operating models is a moving feast with potentially multiple routes to a new future. Allocating costs and priorities to customer value segments-map operating models to each segment at customer level. Some businesses may need to adopt a turnaround model.
- 1. A deeper culture of cost awareness and capability is desired to improve sensitivity to demand flow and the dynamics of competition. Businesses have recognised a cost overhang and need to move away from merely cost reporting and fixed cost structures. Everyone within the 'organisation needs to be a 'cost partner'. That may mean more sophisticated reward models to engage the core cost partners. Deepening the awareness, mindset and behaviour of managing costs aligned to customer value segments. Day to day costs are a source of leakage and waste. The Covid-19 shock highlights the exposure some businesses have of costs they cannot explain or justify. Some managers fear their inherent competence with cost is not sufficient. There is a lag in the culture of managing cost if excesses are discovered only in the scrutiny from a catastrophic event. The cost excess was always there. Has current organisational culture undermined managing and replaced it with passive administration. If the managers of cost are too distant from the cost attracting activity can they be effective in managing it?
- Behaviour change is a major area that sees challenge for leaders, managers and employees. The future appears to be a 'new normal' that is more fluid organisationally, transparent and dynamic operating model with aligned support and supply chains. Customer loyalty is now a bigger challenge requiring closer and interactive engagement online. Organisations that encourage their 'employees' to be more than 'employees' can start on a road that may see several base camps [transition states] towards an as yet not precisely defined end state. Leadership, management and new business models are required. The mindset of those leaders and managers will be critical to the followership and engagement of the 'employee' community.

- More effective governance with end to end process design and management at the core- with no waste. Customers pay for value delivered, which has an inbound material and information content to yield an on time fit for purpose result, that fulfils their desired / commissioned service. Hierarchies do not serve this well. Today we are in the midst of the transition away from hierarchy and towards value chains. This period may see much more radical innovation in fluid value chain / operating models. Governance is still a hierarchy culture and not a value-added culture. A review of governance at all levels to ensure value is being added and strategic preparations are in place to handle disruption caused by external parties or events. Integrate governance as a core behaviour rather than a post facto action.
- Coaching managers as managers of business teams with new processes and remote teams. New processes remove a lot of middle management tasks- checking/authorising/inspecting/consolidating/reporting. Remote and virtual teams are partnering with the business as nodes in a network delivering a package of value within an envelope of cost. The leadership of that team world requires a management competence to ensure focus, productivity, problem solving and communication. This will also produce people related issues that team leaders / first line managers must deal with as real time attention is mandatory. Before applying any automation or other technology led innovation business processes should be grounded to ensure poor behaviours and excess costs are not embedded in any rush to adopt process automation and other system-based tools.
- On a broader front in relation to new operating models that see large employee cohorts working from home there was recognition of the wellbeing/ mental health aspect of that development. It is recognised this is known in basic terms, but the future would require much more sophisticated management.

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