FTI CONSULTING

THE ANATOMY OF A CRISIS Volume 4

COVID-19: IS BUSINESS READY FOR A SECOND SPIKE?

2020

What about the second spike?

As the corporate world emerges blinking into the sunlight following its extended hibernation, communicators will rightly observe that a lot has changed in our world as well. The regularity, content and tone of corporate statements have all changed beyond recognition in the past three months. One wonders when things will return to normal or if indeed, they ever will.

The pandemic has created a sense of 'we're all in this together' and the wide range of supportive initiatives from companies has been as heart-warming as it has been surprising. When you think back to the confrontational mood at the start of the year, a lot has changed in a short space of time.

Now, as businesses turn their attention to the return to work, there is still the looming prospect of a second spike. Dominic Raab has warned that a second spike would "prolong the economic pain we are all going through". Dr Hans Kluge, director for the World Health Organisation, has warned that European countries should brace themselves for a second wave of coronavirus infections, saying that now is the "time for preparation, not celebration".

And yet, it seems that the topic isn't yet featuring in the business conversation as prominently it should be.

Our experience shows us that corporate audiences tend to be less forgiving to companies experiencing the same crisis a second time around. So, what preparations should companies be making now to get ready for such an eventuality?

What should businesses be thinking about?

A second spike will be a different challenge altogether compared to the first. Companies have already made their big moves: what is there left to do or say? Sustaining employee morale will be even tougher, investors may be less patient and the media is likely to scrutinise Board decisions in a way that they didn't in the first round.

In our ***The Anatomy of a Crisis*** series, we look at previous crises to see what they can teach us about responding to future events. We were therefore interested to see whether there were lessons from the first lockdown which might inform how companies should behave if there's a next time. There are a few general principles that should guide companies' approaches:

The overall environment will be less forgiving. Media scrutiny will increase. Investors may want more clarity over future plans and more drastic steps to preserve balance sheets.

Companies, investors and governments will be less able to provide support. As the financial and economic impact of existing measures starts to bite, support packages and the political will behind special measures may dwindle.

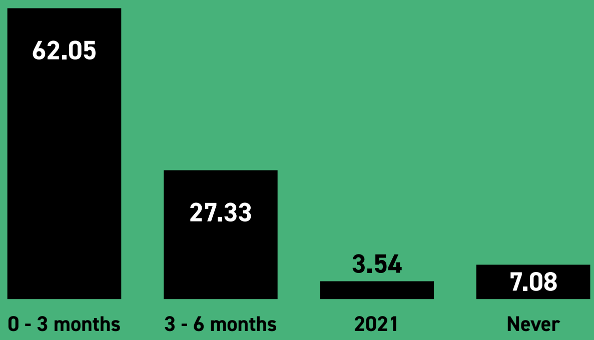
The timing and duration of a second spike will have a major bearing on how seriously it impacts business. Furlough becomes more expensive the longer it lasts, CEOs' voluntary pay cuts may have to be extended and investors would prefer the uncertainty to be resolved sooner rather than later.

To investigate these ideas we have partnered with Find Out Now, the polling firm, to gain some insights from the UK public into how they think business has handled the lockdown and their views on its role in the event of a second spike. We asked a range of questions to 1,200+ UK workers and our survey showed that 89% of them think that a second spike is likely before the end of this year. Of those, two thirds think it will be within the next three months.

Even so, we aren't sure that this topic is high enough up the corporate agenda.

Below we provide some thoughts and guidance for companies in terms of the various corporate stakeholder groups they'll need to consider as they plan for navigating the possibility of a second spike.

When do you expect a second coronavirus spike to occur? (%)



Customers: do businesses need to extend their support packages?

Some companies have improved their reputations by responding fulsomely to the Covid crisis – for example, LVMH and Smiths in adjusting their manufacturing to support the virus effort, BT in providing free connectivity for vulnerable customers, and the supermarkets in changing their opening hours to allow the elderly to more easily access their weekly shop.

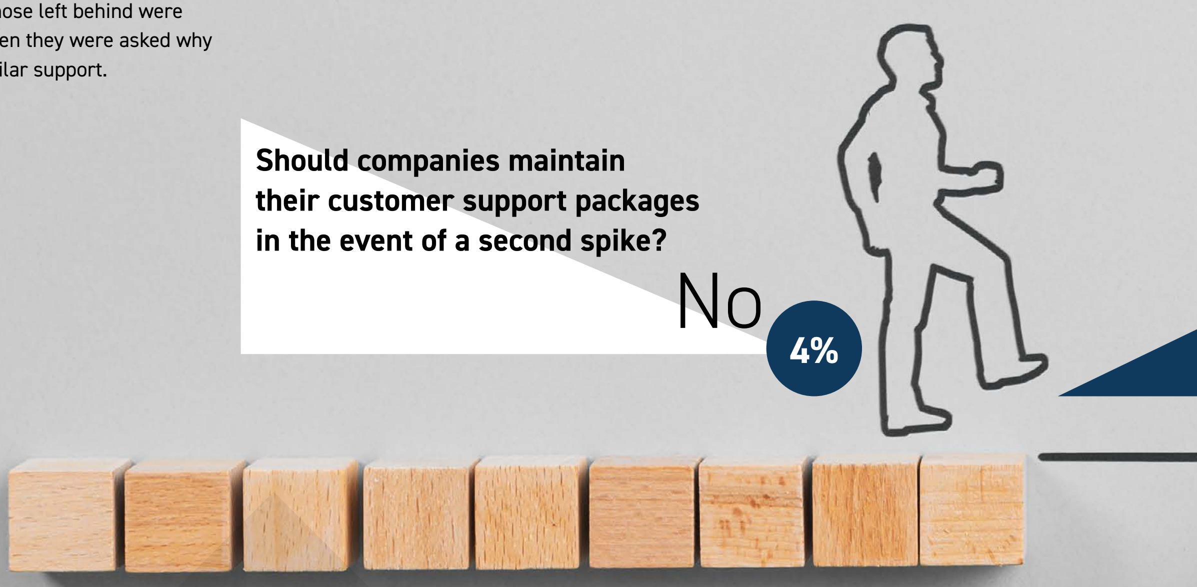
We saw great reputational benefit accrue to those firms who were fast out of the blocks with their packages of support, but those left behind were caught on the back foot when they were asked why they weren't providing similar support.

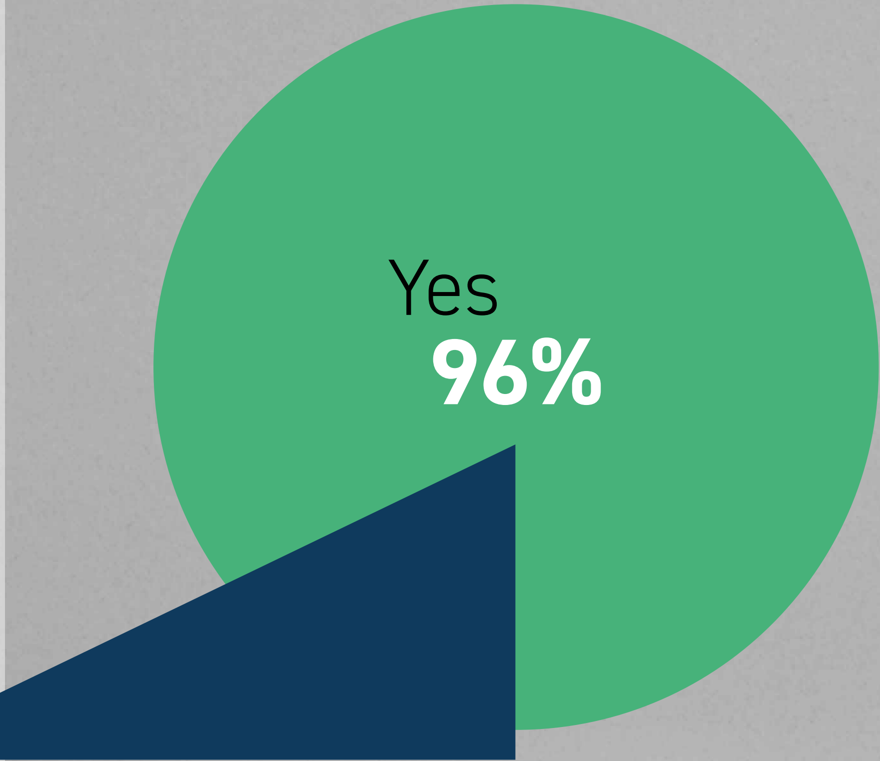
The issue is that many companies are currently thinking about how best to unwind their Covid policies as we return to normal – but a second spike throws a different perspective on the topic and needs thought. A huge 96% of people feel that companies should continue with these packages if a second spike were to occur. With the extra financial pressure that these offers bring to companies, how do companies respond?

Should companies maintain their customer support packages in the event of a second spike?

No

4%





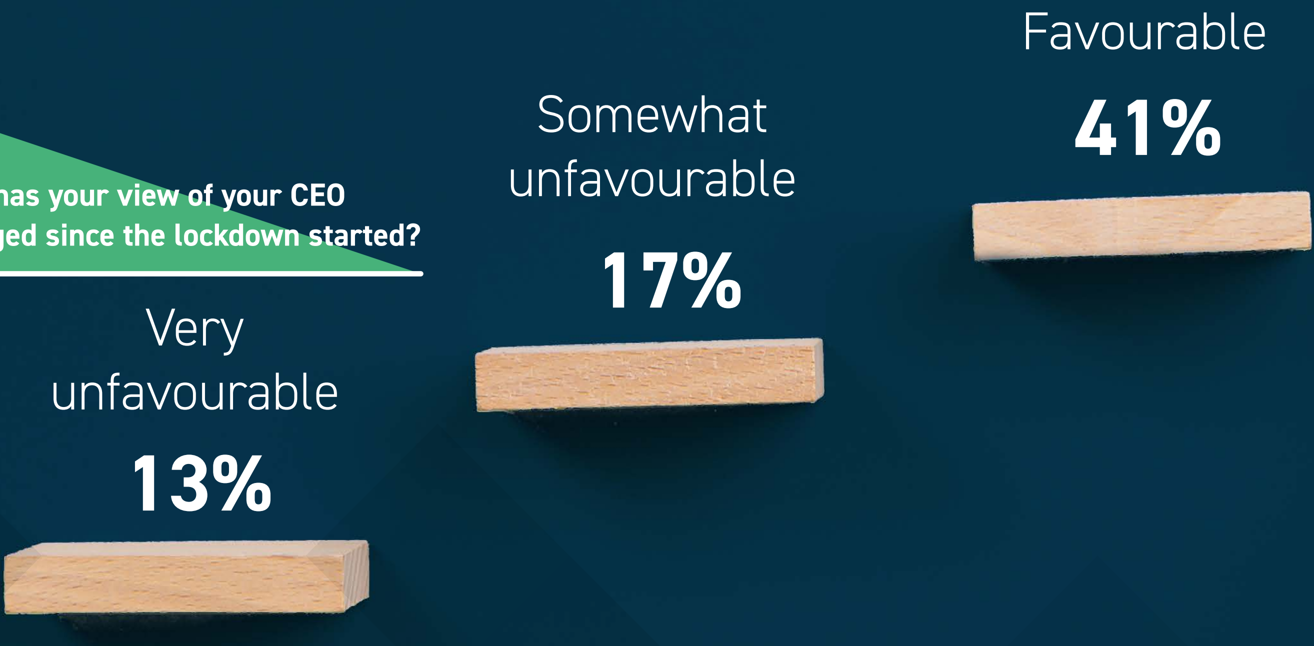
Recommendations:
Thought should be applied to what these customer support packages might look like through a second wave. Companies will benefit from being amongst the vanguard in the event of a second spike and will need to continue to be creative in thinking about what their customers will need most. And if that sort of support is unaffordable a second time around, then at least be ready to deal with the question if original offers are revised or peers start announcing further support packages.

Employees: how to keep people motivated?

Business has acquitted itself well through the lockdown and the data shows that employees have appreciated the increased level of visibility from their bosses through this time. Half of the workers we polled were neutral, but of those offering an opinion, 70% said their view of their CEO had improved through the crisis and 29% said their view had changed very favourably. Given the generosity of employee support – whether Government backed or not – this is not surprising. And while management may start to worry about overcommunicating, the evidence shows that this level of proactive disclosure is still valued.

The question in a second wave is how companies sustain morale with the infantry already weary from the first campaign. Lockdown for eight weeks is a very different proposition from finding ourselves in this state for a much longer period of time.

How has your view of your CEO changed since the lockdown started?



Recommendations:
Much of the discussion recently has been about the return to work, but a more likely outcome is that we flip flop between homes and offices over an extended period. If that's the case, organisations need to think very differently about how they facilitate the intersection between work and home, they will need to rethink how they engage with their customers, and thought will need to be applied to office configuration. In a world of social distancing, just how many of your office meetings rooms are capable of holding an effective meeting? It seems likely that the value of actually being in the office will be limited by the fact that it will be so hard to achieve anything useful or additional.

Companies also need to look at training. So much of what we learn in an office is through osmosis – listening to colleagues' thinking and ideas. In the absence of that, how do companies maintain proper learning for their staff? These questions need to be pondered, especially if we do end up moving from lockdown to office and then back again over a protracted timeframe.

Investors: whither ESG?

Perhaps the corporate audience that has come furthest during the lockdown is the investor community. Usually companies worry about the share price impact when signing big cheques for employee support packages or generous customer offers, but the investment community has played a vital role in supporting the war effort, even encouraging businesses to stop dividend payments and focus on tackling the pandemic. Company forecasts have been withdrawn, investors have been understanding and now we see stocks recovering. It's a situation one couldn't possibly have foreseen a few months ago.

The question is whether this lenience will sustain through a return to normal and even a second spike. The question of the timing of a second spike is important here. Another lockdown in the near term is likely to be less damaging for companies and investors than one which takes place at a later date. Given the medium-term view that most institutional investors take, 2020 is already seen as a write off, but there is an expectation that 2021 will see a recovery. Another spike late this year or in early 2021 is likely to be much more problematic.

As for management teams, investors have supported Boards who have cut dividends because the pain has been shared by CEOs taking pay cuts. Most of these are short term in nature, so what happens in the event of an extended second spike? Will CEOs be happy to share the pain again?

As for ESG, if the E was the main priority prior to the pandemic, and S was the focus for business during the pandemic, then it seems likely that G will be the main priority for investors afterwards – particularly in the context of stewardship of business resilience. And will ESG sustain through a longer battle against the virus? There are two schools of thought here. The first is that ESG sustains because the virus has proved its importance. Businesses are talking about the importance of 'building back better' in the way we start to rebuild the economy. The second theory is that companies are going to be facing some existential decisions in the aftermath of this crisis – and particularly if there is a second spike – so ESG may be forced to wait.

As for debt investors, their importance increases in the event of a second spike. Discussions about restructuring become more urgent, we see equity value drain away and bond holders end up calling the shots.

Finally, some organisations have promised to provide greater detail on outlook as the year unfolds, but if a second spike occurs, that clarity may be hard to come by. What are you going to say if the second lockdown happens at the moment that you have committed to provide more clarity?

Recommendations:
For business, this means they need a different plan if a second spike were to occur. Investors are likely to give short shrift to any companies acting 'surprised' by a return to lockdown. Good contingency planning, and good evidence of contingency planning, will be vital.

Consideration needs to be given to the impact that a second spike might have on cash flow and covenant calculations. Some debt structures are particularly sensitive to cash flow moving out to the right, even by a few months, so Boards should consider how a continuation of the crisis might impact the balance sheet and how to communicate with bond holders in anticipation of such an event.

And remuneration committees should think hard about the steps that they might take in the event of another lockdown, given the impact that it might have on C-suite pay, bonus and LTIPs.

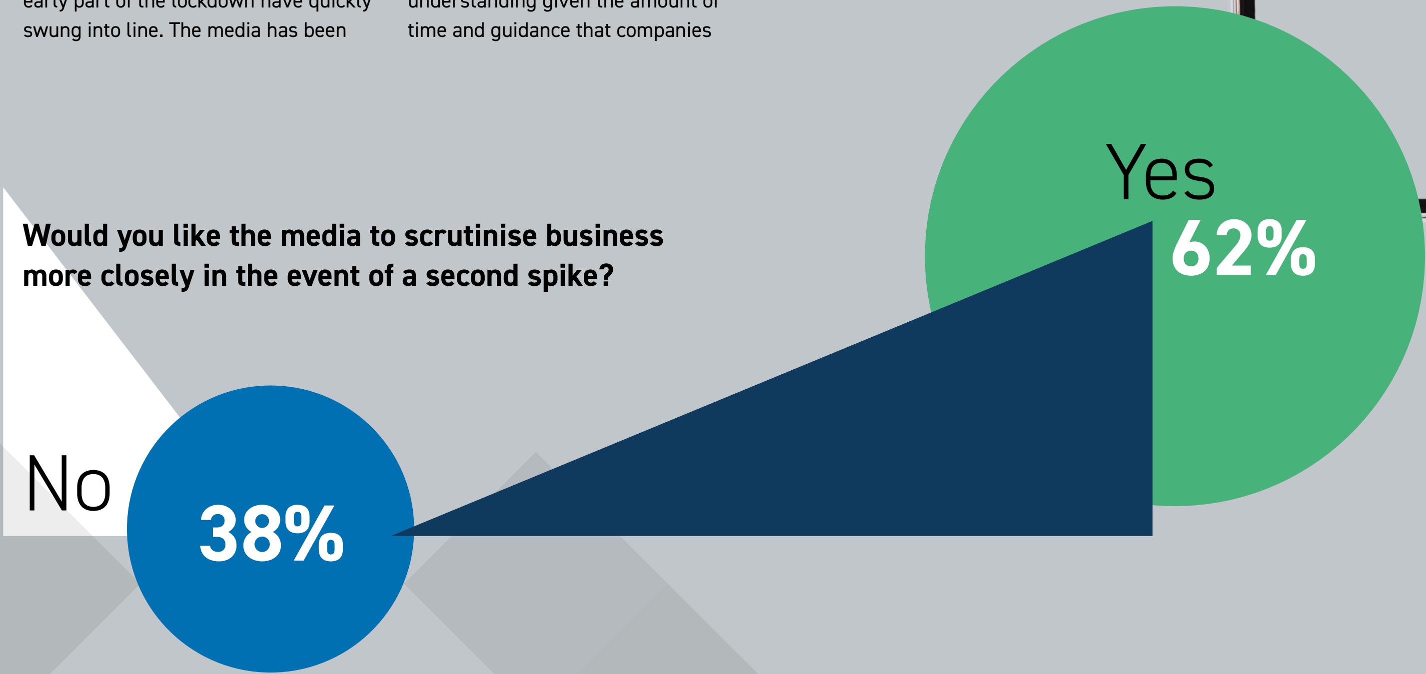
Media: what role will they play in a second wave?

For business, the media recriminations have been few and far between during the first phase of the lockdown. It has been very clear what line companies should take – follow Government guidance and provide uninhibited support for customers, the NHS and employees no matter the cost. As a result, companies have been shooting at an open goal with their messaging. Even the small handful of organisations who mishandled the early part of the lockdown have quickly swung into line. The media has been forgiving as companies have adjusted to the new normal.

And despite the drop in advertising revenues, the media has been more popular than ever through the lockdown, with many people watching, reading and listening to more news than before the crisis.

The second spike promises to be less straightforward, the media less understanding given the amount of time and guidance that companies have had. Our study suggests that people feel that business has had an easy ride so far – it showed that 62% of people want the media to scrutinise business more closely during a second spike. For example, if an outbreak occurs at one of your sites, the media will likely be interested to know how that was allowed to happen given the direction around social distancing and sanitation and the length of time companies have had to get ready.

Would you like the media to scrutinise business more closely in the event of a second spike?



Recommendations:
Companies can expect closer scrutiny of their plans. For that reason, companies should be ready for a less benign media environment in the event of a second lockdown. Our previous studies have shown that audiences are far less forgiving through a second crisis, so organisations should be ready with a clear plan for how they are handling the return to normal and their plans for managing a second lockdown. There will be limited patience for not having anticipated it.

Furthermore, we recommend keeping a comprehensive record so that plans can be shared easily with media if an incident does occur. If defamation becomes a factor, these records will be all the more important.

Government: how long can they sustain their support?

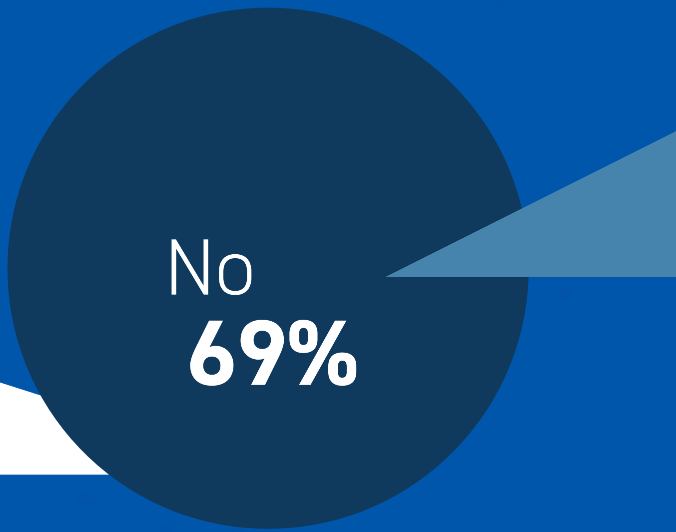
Needless to say, the Government is worried about the possibility of a second lockdown. Its support packages have been extremely successful and therefore expensive, so the sooner things return to normal the better. The fear of the second spike is real, not only because of the cost to life, but also to the economy.

With that in mind, companies should be aware that the Government is likely to be less forgiving of organisations who aren't prepared, and will expect certain industries – like construction and manufacturing – to continue with their business as long as possible.

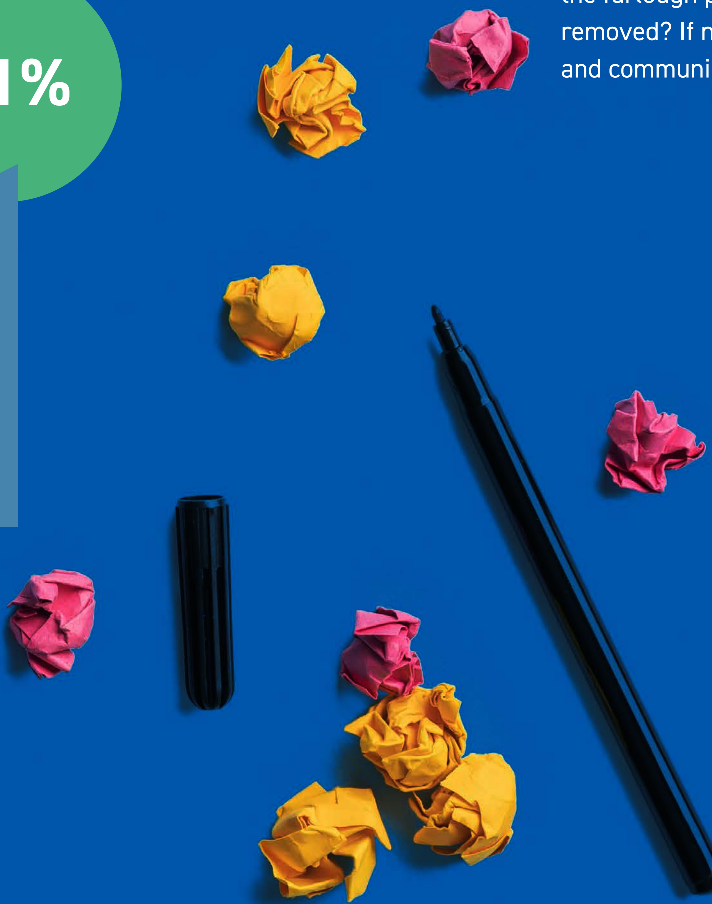
The Government is also likely to expect businesses to take more of the share of the pain next time around. There remains broad public support for the extensive action government has taken so far, but it can't last forever. Government has a long road ahead of it, and we anticipate that they will expect companies – particularly large businesses who haven't been as badly impacted – to share the burden through a second spike.

On the up-side, the Government will be into its stride much quicker in the event of a second spike and routine business will be resumed far more quickly than last time as Parliament has become more used to continuing its activity remotely. So, there is likely to be more appetite for normal business in the event of a second wave, although the focus is likely to remain on the big topics, such as education, tax and the health service.

As a taxpayer, do you worry that Government has spent too much money propping up business through the crisis?



Yes
31%



Recommendations:
The element of surprise will no longer be an excuse in a second wave, so companies need to think about how they quickly re-enforce voluntary lockdown structures if the attitude of government changes. Can they afford to keep staff if the furlough programme is reduced or removed? If not, what are the operational and communications implications of that?

Conclusion

As we prepare for the return to a more normal way of life and work, companies should keep a beady eye on the prospect of a second spike. The landscape will be less straightforward to navigate and so preparation will be key. Employee motivation will be harder to sustain, customers will have expectations from the first peak which may be hard to finance for an extended time, and investors, media and Government will be less tolerant of missteps.

As yet, the discussion around the second spike has yet to take off, but companies should be preparing their plans now.

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