McKinsey & Company

The Next Normal

The future of business: Reimagining 2020 and beyond

In this special edition of *The Next Normal,* McKinsey senior partners envision how the COVID-19 crisis will transform entire industries in the coming 12 to 18 months.

In this issue

Business in 2020 and beyond

McKinsey's Dame Vivian Hunt, Kevin Sneader, and Bob Sternfels reflect on how the COVID-19 crisis is transforming all industries.

The COVID-19 reset

Kevin Sneader: It's become very clear just about everywhere that we are going to have to get used to waves of disruption and, as a result, a constant battle. In fact, the way I would describe this is we've moved from all-out warfare to the hunt for a dangerous criminal who pops up in many different places, who requires us to take different actions depending on where they appear, and who doesn't actually go away. COVID-19 is a criminal who will continue to plague us for some time to come.

Vivian Hunt: Healthcare and lives, the economy and livelihoods, and also civil liberties have really been challenged during this period. The concerns about the treatment of Black Americans at the hands of the police, the reactions to George Floyd's killing, and basically a reexposure on these global digital platforms of bias and concerns about fair treatment have really lit a very human and important touchpaper and a desire to address that as we think about ways to build back better.

Bob Sternfels: If I think about some of the potential pitfalls that I'm seeing senior executives [fall into], it's thinking about this next phase as "a return to what I had before" as opposed to taking the opportunity to say, "Can I reset or reimagine my organization?" I think some of the most inspiring conversations I've had with CEOs are about, "How do I rewire my organization for this speed that's based on design versus based on adrenaline?"

Dashboards and data-driven insights

Kevin Sneader: The first piece of advice I'd offer a CEO is forecasts are out, dashboards are in. The notion that you can now forecast the economy, healthcare, and other aspects of what can

disrupt life, I think, is gone. Now we're in an environment where we've also learned that what you really need to have a handle on are the metrics, insights, and what's actually happening on the ground—the dashboard of daily life.

Bob Sternfels: Are you investing enough in understanding the different sources of data and information to be able to adjust and make decisions? It comes with this notion of, "I'm going to have to make a lot of decisions and be agile, so am I investing to have my fingers on the sources of different parts of input?" Some of that may be input about my customers. Some of it may be input about regulatory environments changing. And some of it may be input about my suppliers and partners.

Vivian Hunt: It also requires CEOs and other leaders to be knowledgeable enough about data and technology to be able to make informed decisions. The chief information officer, the chief technology officer, marketing—every decision is now powered by a set of data and analytics that you have to understand quite deeply.

What leadership looks like now

Kevin Sneader: You really do have to think like an attacker all over again. Even if you were the incumbent, even if you were the leader before this pandemic, you're now the attacker, so you must take the steps that attackers take. Think very differently. Look for new opportunities, new markets. Reshape the portfolio and, yes, look at mergers and acquisitions. Plan to do things quite differently as the future unfolds.

Vivian Hunt: For business leaders, I think it's been really challenging to find the resilience to really lead in a more human way. Particularly when you think about some of the issues around inclusion, equality, social justice, and how to build back better toward a net-zero economy, how do you make sure you've got the resilience to be able to lead in a bold, empathetic, and ethical way? And if you never knew that you needed all of those skills, you know it for sure now. I think that's been an important insight for many leaders.

Dame Vivian Hunt, a senior partner in McKinsey's London office, leads the firm's work in Ireland and the United Kingdom; **Kevin Sneader**, based in the Hong Kong office, is the firm's global managing partner; and **Bob Sternfels**, a senior partner in the San Francisco office, leads the firm's client capabilities globally.

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July 2020 | Video transcript

The consumer sector in 2020 and beyond

In this video, McKinsey senior partners Liz Hilton Segel and Sajal Kohli reflect on how the COVID-19 crisis is transforming the consumer and retail industries.

Which consumer trends will stick?

Sajal Kohli: There are a few consistent shifts that we're seeing across the globe. What consumers value is truly shifting, and so is their channel choice. Consumer spending is "overpronating" massively toward value, and there's a material flight to online. We think that both of these trends are going to be very sticky. For example, what's happening to e-marketplaces is quite astounding in terms of the meteoric growth that they're all experiencing. Discounters as a format are truly running up market share and continuing their steady rise across the globe.

Liz Hilton Segel: Some of the changes that have already taken place are, for example, the shift to more people cooking at home, maybe making more healthy eating choices, or the increase in in-home exercise equipment. I do believe that the shifts to digital will be permanent. I do think that mall traffic and department-store visits will be challenged going forward. My guess would be that the shifts in terms of healthy eating and exercise are likely to be more fleeting.

Sajal Kohli: We're also seeing another seminal trend: a real shock to loyalty. We are seeing consumers, on the one hand, shift to trusted A brands. On the other hand, there is a lot of pervasive promiscuity because consumers have so much choice as they've shifted online that their consideration set has expanded quite dramatically.

What are the top priorities for consumer companies?

Sajal Kohli: I believe it's very important for management teams to take stock of a few things. One, clearly, is a programmatic look at your portfolio. You've got to very aggressively look at new

growth opportunities through inorganic routes—so make acquisitions but also equally focus on divestitures. This is a great time to reset your portfolio and basically chase how consumer shifts are happening in terms of consumer preference.

Liz Hilton Segel: I think the most common pitfall that I see consumer companies falling into is just being too grounded in even the most recent past—an assumption that things that have held true in the recent past will be true two to three years from now. The COVID-19 crisis is a time where, more than ever, there's a real need to try to look around the corner and anticipate how trends are going to affect your business and then to prepare for those trends and build capabilities that will lean into them.

Sajal Kohli: It's amazing to me how agile organizations have been in the past three months. And wouldn't it be terrific to actually make this the new way of working as we go forward? Renew how you organize yourself and how you think about decision making, especially for speed. Where should you be global versus where should you be local?

Liz Hilton Segel: The first thing I think consumer companies should do is double, triple, quadruple their ambition around the scale and pace of their digital transformation—whether that's the adoption of analytics or whether that's improving the productivity and the experience of digital channels.

Sajal Kohli: You have to accelerate productivity and reset your cost structure to be more competitive going forward. This is much more than the budgeting process of 2 to 3 percent productivity gains to beat inflation. It is actually a 20 to 30 percent reset in your cost structure so you're competitively fit.

Liz Hilton Segel: Really take reskilling seriously as a competency in your organization. There's no question that all of the shifts that are happening—whether it is the shift of sales channels or service channels to digital or whether it is the use of automation—will mean changes for everyone's workforce.

Sajal Kohli: And this is, frankly, not a time for admiring the problem and incrementalism. This is actually a time for being massively transformational and not tweaking on the margins. Challenge every assumption, challenge your value chain, challenge your asset structure, and see if you can reinvent the organization or the company.

Liz Hilton Segel, a senior partner in McKinsey's New York office, is the managing partner for McKinsey in North America; **Sajal Kohli**, a senior partner in the Chicago office, is the global leader of the Consumer Packaged Goods and Retail Practices.

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Healthcare in 2020 and beyond

In this video, Penny Dash and Shubham Singhal, two leaders of McKinsey's Healthcare Systems & Services Practice, reflect on how COVID-19 is transforming the healthcare industry.

Healthcare goes digital

Shubham Singhal: In healthcare, coming into the COVID-19 crisis, there was the promise of the use of virtual health, digital health, telehealth. We had been talking about that for a while, and it had been growing off a small base. What the COVID-19 crisis has done is accelerated that.

Penny Dash: And what's happened in the past three months has been an unbelievable level of adoption. In many countries, we've seen 70 to 80 percent of primary-care consultations either go online or be carried out by phone.

Shubham Singhal: Interestingly, we've also seen physicians who would not have been, historically, willing to engage in those virtual modes now doing so and actually thinking that even post COVID-19, they want to stick with it. So we've seen a big movement in that direction.

Penny Dash: I would really emphasize, do not go back on the adoption of digital and remote working. I think it will be very tempting to say, "Whew, right. We're through the first wave. Now we'll cancel the remote consultations and we'll go back to how things were." That would be such a lost opportunity and a wasted opportunity and, of course, would also detract from what is going to be needed, which is more efficient services in order to deal with the backlog. So keep hold of the digital technologies and the remote working.

More flexibility in the workforce

Shubham Singhal: This has been a wake-up call that, in the healthcare system, we don't have the resilient plan that we need to have in place—whether it was workforce, whether it was supplies, whether it was having enough beds, having enough ventilators, et cetera. That is a bit of a wake-up call to say we need to stress-test our system. During a crisis, do we have established protocols for allowing a nurse in the hospital so that they can be trained to be an ICU [intensive-care-unit] nurse and capable of helping with ventilators, for example? So the flexibility in the workforce is a very important part.

Penny Dash: There are many, many people working in healthcare and in care settings and so on who have had a really tough few months. And those people are going to need support—both emotional support as well as a bit of time to rest. One particular piece that I would point to is the use of volunteers, who are not necessarily people who've been through extensive training over many years in order to be qualified to care for people, but actually people with far less training who have been able to play a very important, a very supportive role in looking after some of the more vulnerable members of society.

Building capacity—and doing it fast

Shubham Singhal: When an emergency like this one strikes, how do we convert hospital beds into ICU beds? And, if needed, how do we convert other areas—like hotels, et cetera—into lower-acuity sites of care when the hospitals are full?

Penny Dash: If you'd asked anyone working in healthcare in Europe or in the US in January, "Could you build a new hospital in two weeks, like Wuhan is planning to do?" people would have laughed. And guess what? Many places did. So this ability to ramp up capacity in order to meet a surge in demand has been demonstrated as perfectly feasible and is really important for the future.

Shubham Singhal: How do we take the learnings around the rate and speed at which you can change—and take that speed that you've shown during "wartime," if you will—and take it forward to "peacetime"? Obviously, we have moved extremely fast. How we lock in that speed is going to be a big imperative as we look ahead.

Penny Dash, a senior partner in McKinsey's London office, leads the Healthcare Systems & Services Practice in Europe; and **Shubham Singhal**, a senior partner in the Detroit office, is the global leader of the Healthcare Systems & Services Practice.

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October 2020 | Video transcript

The technology industry in 2020 and beyond

McKinsey senior partners Brendan Gaffey and Lareina Yee share their perspectives on how the COVID-19 crisis has changed the technology sector—and how tech companies can thrive in the next normal.

Technology as a differentiator

Lareina Yee: In the last century, we often thought about technology as enablement, as the back office, as something that we use to support our businesses. In this century—and certainly, post COVID-19—technology's going to be very much in the front. It will be the competitive differentiator for how all businesses and ecosystems work.

Brendan Gaffey: Technology itself disrupts industries. Things that would've been difficult or that would've taken ten or 15 years to break down the barriers because of how industry dynamics were set up over 50 to 70 years—those have been changed and wiped out. So as tech players think about the future, it's not just, "How do I recover my business and grow fast coming out of the COVID-19 crisis?" I think it's as much about how to take advantage of the relative strength and the changes in the marketplaces that tech has historically looked at but struggled to really make significant inroads in. I think now is the time.

Lareina Yee: When we look at the tech sector, we look at everything, from the services to the application to the backbone—some of the things "in the water closet" that you don't see. And one of the things I'm incredibly optimistic about is that, when put to the test, all of these things individually and collectively worked. If all of that works, what more can we do? What are additional ways in which technology can help the way we work, the way we learn, the way we care?

Technology as an accelerator

Lareina Yee: The question is, can you do it faster? So I'll just take a very simple example. The trend around hyperscale and cloud has been here for a while. But now I think there's an

opportunity for tech providers to work with companies to say, "How do we get there? Instead of a decade, how do we manage that transition in 24 or 36 months?"

Brendan Gaffey: One of the things that has always inspired me about the technology sector is it's nimble and it's fast. I think this is not just an opportunity for tech to recover faster than other industries. This is an expansion opportunity for tech in terms of growth and bringing its ability to disrupt and drive efficiencies to sectors that have yet to really feel that disruption.

Lareina Yee: Certainly the ethics and the thinking on how technology does good in and of itself, but also how we think about things like data privacy and protection of information—all of that is coming to a head. So what's wonderful is it gives us a chance to think about that collectively with the industries and consumers together.

Priorities for tech leaders: M&A, design, and talent

Brendan Gaffey: If M&A's far down on your agenda, that's probably a miss. On a relative basis, many tech companies are actually above pre-COVID-19 valuations. That gives a currency to think differently about acquisitions, offensively and defensively.

Lareina Yee: One trend that was here before COVID-19, which I think will increase, is to be incredibly user-centric if you are doing something that relates to the user experience. How do you think about a design-led piece? It's not just delivering technology. It's delivering an experience. It's not just, "Can you and I talk digitally?" It's, "From the moment that I turn on my laptop, or my iPad, or whatever device I'm using to connect with you—is it high fidelity? Does it meet the way in which I live and work?" And so I think design—and how technology is designed to delight—will be an even more prominent theme.

Brendan Gaffey: The tech industry has been driven by talent. Within the remote-work environment, I think we have an opportunity to think more broadly about where talent comes from. How can you find new talent pools without forcing relocation? The other thing we've seen is new leaders emerge. Experience has been less important. What's been important is that the person can understand and digest new information quickly, lead colleagues, and make decisions. And I think it's incumbent on leaders within tech to figure out who those new leaders are. Use this natural experiment we've all gone through on remote working to identify the leaders who have emerged as a new talent source for tech companies.

Brendan Gaffey, a senior partner in McKinsey's Dallas office, is a coleader of Fuel, a McKinsey company that helps start-ups and investors accelerate growth; **Lareina Yee**, a senior partner in the San Francisco office, is the global leader of the firm's work in technology hardware and services.

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The telecom sector in 2020 and beyond

McKinsey's Philipp Nattermann and Karolina Sauer-Sidor reflect on how the COVID-19 crisis has changed the telecom sector—and what lies ahead for telcos.

Resilience amid crisis

Philipp Nattermann: The biggest impact that the COVID-19 crisis has had so far on the telecom industry has been that the industry has become ever more central to how modern society operates. Think about how many people had the need to work from home and to log into the system—videoconferencing has been booming; file sharing has been booming.

Karolina Sauer-Sidor: For me, public health has been one of the key examples of how telecom operators have stepped up to the challenge and supported the transition. They have supported creation of contagion heat maps. They've even partnered with organizations to create virtual clinics. The initiatives and measures that used to take months—for example, creating a partnership—are now taking just a couple of days or, maximum, a couple of weeks.

Philipp Nattermann: An example of great resilience from a telco in this crisis is Telecom Italia. It moved from having its call-center agents working in the physical call center, which is the only place they had ever worked, to having 3,500 call-center agents working from home. And within 72 hours, I believe, the entire group of 7,000 agents were working from home.

Expanded services and stronger connectivity

Karolina Sauer-Sidor: Businesses are currently working differently, and this requires new products and a new sales-and-service model to support the digitization of multiple industries. This includes a faster shift to the cloud, as well as to an as-a-service model. We see a much greater demand for both artificial intelligence and automation services.

Philipp Nattermann: Increasingly, people are realizing the strong value of not just a broadband connection but a very viable, robust, and resilient broadband connection. They're willing to pay

more for fiber optics than they were before. So I think there's an opportunity to upgrade from plain old connectivity and move to 5G—consumers potentially being willing to pay a premium for 5G, almost as an insurance policy.

Karolina Sauer-Sidor: Operators are looking into providing an expanded set of services with higher bandwidth: educational services, entertainment services, digital-business building—for example, supporting retail customers in being able to sell online.

Philipp Nattermann: Given what most companies have gone through, the realization that having resilient connectivity with your employees across a wide-area footprint is increasingly important. And so I think if the telcos play this right and really define their propositions in an attractive way, this could be a very lucrative way going forward.

What the future holds

Karolina Sauer-Sidor: Most importantly, we see corporate social responsibility being a must. We see that the operators are collaborating, both within the telecom industry and outside.

Philipp Nattermann: How do we create new applications that allow safer home working but also allow tracking and tracing of infections to limit the spread of the virus? How do we allow for more effective remote learning? How do we enable students in very remote areas to have the same level of access to high-end education as people in metropolitan areas? These types of things, I think, are potential expansion opportunities for telcos.

Karolina Sauer-Sidor: Fully online entertainment. Fully online education. But also things that we've never imagined before: virtual visits to museums, virtual tastings—basically, a virtual way of living that has not been possible before. Above all, telecom operators need to think about the future: the future role that they want to play in society, within their communities, and also within their ecosystems.

Philipp Nattermann is a senior partner in McKinsey's London office, and **Karolina Sauer-Sidor** is a partner in the Vienna office.

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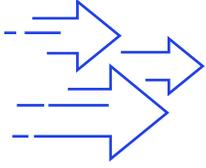
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