

# Beyond COVID-19

Reflections on  
the long-term  
impact of a new  
type of crisis

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At EY-Parthenon, we are also guided by the adage: We tend to overestimate changes possible in the short term and underestimate the scale of the change in the longer term.





# The global effects of COVID-19

COVID-19 has become a unique event in modern history with as yet unknown ramifications. For the first time, we are trying to constrain a pandemic through the broad restriction of economic and social activities around the world. This is done to prevent unnecessary loss of lives and to protect our most vulnerable fellow human beings.

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All of us and our businesses are currently struggling to keep things moving while protecting our past achievements. Next steps are crucial, but not necessarily evident. Luckily, there are a huge number of “hot takes” on this crisis, with mostly helpful advice and, more importantly, a lot of creativity and solidarity on how to help in dire times.

Accordingly, we have tried to set out some key questions and impacts we anticipate over the longer term, recognizing that this is not just an economic but a social and political crisis as well.

We plan to use this in conversation with our clients, advisors and colleagues to refine our understanding as we go. We would be delighted if you joined us in this conversation.



## A new type of crisis ...

COVID-19 is simultaneously a demand and supply-side crisis that affects industry ecosystems and consumer behaviors at many different levels. Markets such as the EU and the US that companies could previously treat as “single markets” have in many respects become patchworks with local restrictions and regulations. The size of rescue and stimulus packages, equivalent to around 10% of worldwide GDP already, as well as the immediate damage to the labor market indicate its enormous economic impact.

In addition, this crisis not only affects people's financial and job security like “normal” economic crises, but also their ability to interact with their nearest and dearest, affecting everyone at a deeper sociological and psychological level.

Exacerbating the magnitude of these challenges is the uncertainty of how long these restrictions should last. Responses and reactions of governments, companies and consumers are likely to haunt us for many years. Resulting debt levels from fiscal stimulus packages as well as the loss of resources will clearly be felt for a long time. We will tackle new challenges after the crisis, albeit handicapped and significantly poorer than when we started the new decade just a few months ago.

## ... but not the last of its kind

For all its uniqueness, this crisis is unfortunately not likely to remain a one-off. Health crises have become more frequent, and the trend is continuing. COVID-19 is the seventh international health crisis in only 20 years. Any new health crises may similarly affect the global community. And climate change will certainly be sending us a whole raft of new environmental crises.

Achieving suitable mitigation will become a key societal demand. The COVID reactions may serve as a blueprint for how to tackle other global crises – or for how to fail to solve global challenges.

One way or another, governments and companies will define measures and establish buffers to deal with

future catastrophic events, which will increase society's resilience at the cost of underlying economic efficiency, and therefore of reduced growth rates.

Given the above, chaos is a ladder. Markets are disrupted in the short term. Here are a few hypotheses and key questions we need to answer to prepare in the longer term for the world beyond COVID-19:

### How will consumers evolve?

#### Some old habits die easily

The months of isolation plus the loss of wealth may lead consumers to think through their priorities: the “known unknown” is to what degree this will lead to consumers fundamentally re-evaluating priorities and trade-offs, e.g., in travel behavior, in a way not seen in previous crises.



Consumer habits may well see a lasting change where a quality “in-home” alternative is available, permanently boosting the share of in-home spend. How many categories will follow online video and music? And what will happen to the “high street”: does it become “shopping as theater” or simply a destination full of cafes and entertainment? What happens to the value of commercial real estate?

For strongly suppressed categories without comparable alternatives, consumer habits may mostly bounce back. Especially in leisure, consumer memory has traditionally been short: restaurant visits, box-office figures and ticket sales can be expected to largely shift back once health risks are addressed.

## What will “new work” look like?

### The next Digital Wave

The “lockdown” has thrust a new generation of interactivity tools into the spotlight. Email traffic has been superseded by new collaboration tools; video calling has become normal. Within days, the digitalization of services from entertainment to shopping to accounting to conferences to trade fairs to higher education has significantly increased. After two weeks in “lockdown,” roughly a quarter of the German workforce was already working from home.

What will be the permanent impact on other sectors from medicine to commercial delivery to retail to office buildings to B2B sales? Where will personal interaction be even more high-tech, and where will we roll back to our good old “human touch?”

While the way this will play out is still undetermined, we will see another step change in the way businesses leverage technology going forward.

## Will transformation needs be different?

### A catalyst for change

COVID-19 will almost certainly accelerate adoption of some previously existing cost measures (e.g., automatization and modularization) and transformations (e.g., D2C sales and diversification).

However, some other traditional measures may very much go out of fashion as e.g., ecosystems and supply chains become more risk aware. Low-cost country sourcing and stringent inventory reduction may have seen their heydays. Customers and OEMs will demand redundancy and will avoid putting all their eggs in one basket.



While the intentional redundancy partially reduces efficiency, it must increase resilience and agility. New industry 4.0 technologies such as 3D printing and other novel manufacturing technologies will certainly become more important to enable such changes. The importance of embracing the opportunities provided by collaborative ecosystems will grow in parallel.

## Will trust in governments go up or down?

### The social contract rewritten

So far, strong government interventions in citizens' private lives on behalf of the greater good have been received surprisingly well. Longer term, this could partially rewrite the social contract between citizens and governments.

Looking at businesses, government intervention will likely take two forms: regulation (e.g., protecting critical infrastructure and setting standards for sustainability and employee protection) and active participation in the private sector through financing/ownership of firms or creating demand through targeted government spending.

Telecommunications providers, for example, now expect governments to realize the system-criticality of broadband networks. This can lead to stronger subsidies or public investments into fiber expansions, but also to stronger interference, e.g., concerning net neutrality.

If things go well, the current experience may lead to society continuing to allow governments to intervene more "forcefully" to safeguard the greater good in areas with a broadly accepted need for action. However, if governments fail to meet expectations and interfere with individual freedom in an unbalanced manner, trust will erode.

## Global supply chain or islandization?

### A new world connectivity

In the current crisis, global supply chains are primarily being discussed from a risk standpoint. However, global supply chains are also a driver of social progress and the buildup of wealth both in developing and developed countries.

To what extent will global supply chains survive the crisis, and what are the implications if they don't?

While the 20s and 30s of the last century have taught us that not even the strongest country can flourish on its own, it remains unclear whether we need to relearn this lesson in the 21st century. At the same time, we must hope we have learned our lessons from past instances when a strong expansion of liquidity met supply chain disruption.

## How do we manage international crises in the future?

### Rules and power

It is not only within individual countries and industries that COVID-19 is shaking up the current order – things may also change between countries. Will superpowers be able to provide more leadership to the world? Or will we find it more effective to look at some smaller countries that emerge as role models in dealing with the crisis, such as Singapore or South Korea? Post-COVID-19, they may gain further international weight due to their wisdom, and despite their size.

## What is the road to "better"?

### Efficiency will take a backseat to long-term value

It is clear that no simple set of prescriptions will suffice to address the post-COVID-19 world. But we have a reasonable degree of confidence that – beyond the immediate fight for liquidity – through the crisis, long-term value is going to become a much brighter "North Star" by which to navigate.

Numerous companies have learned that the combination of minimal inventory buffers and distant suppliers can lead to major shocks during a disruptive crisis. Ecosystems, supply chains (!) and business systems will be fundamentally rethought, rebalancing efficiency and resilience in the light of new government regulations, sustainability goals and shifting cooperation among nations. This will likely lead to mid-to longer-term flattening of economic growth vs. pre-crisis levels in traditional business fields.

Business plans and investment horizons may have to lengthen, with potential implications for public and private capital, and scenario planning becoming significantly more complex.

Therefore, companies will likely need to reorient toward creating long-term value for customers, their people and their investors, while more explicitly demonstrating they are meeting societal needs. The economy, pensions and future generations need risk-taking entrepreneurs and investors as much as they ever have. But they also need assurance that these risks are better managed than before, and not externalized for governments and taxpayers to pick up the tab.





# Authors



## Andreas von Buchwaldt

*EMEIA Leader*  
EY-Parthenon Strategy  
EY-Parthenon GmbH  
EMEIA



## Glenn Engler

*Managing Director/Partner*  
EY-Parthenon Strategy  
Ernst & Young LLP United States  
US



## Nobuko Kobayashi

*Managing Director/Partner*  
EY-Parthenon Strategy  
Ernst & Young Transaction Advisory Services Co., Ltd.  
Japan



## Matthew Robb

*Managing Director/Partner*  
EY-Parthenon Strategy  
Ernst & Young – United Kingdom  
UKI



## Dr. Otto Schulz

*Partner*  
EY-Parthenon Strategy  
EY-Parthenon GmbH  
GSA



## Andrew Hearn

*Associate Director*  
EY-Parthenon Strategy  
EY-Parthenon GmbH  
GSA

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- ▶ Thomas Holm Møller

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