

Passing the agility stress test

How Europe, Middle East and Africa (EMEA) private businesses are building resilience
to manage the COVID-19 pandemic and beyond

EMEA's private businesses are currently facing a set of challenges that go far beyond what has been seen in previous crises. Plummeting demand, supply shortages, government-mandated closures, quarantines, rising unemployment, and capital market uncertainty have all been happening in parallel. Taken together these are posing a significant "stress test" that's challenging the limits of agility for companies. And while the vast majority of companies (94%) felt they were well-prepared to adapt and respond to crises when surveyed in February/March 2020, it's been tougher than they anticipated. In June, half of private business leaders surveyed said they expect revenues to decline over the next year, compared to just 9% earlier in the year.

The news isn't all bad: according to a recent survey, private businesses in EMEA have a more positive outlook than large public companies do¹. Given high levels of uncertainty, driven by fears of a second wave of infections triggered by local outbreaks, focusing on overall resilience is increasingly important. Our research shows the need for private business leaders to consciously invest in the capabilities and organisational structures that enhance agility and build resilience for the long-term. Some companies – we call them the "agility champions" – are already well on their way. Agility champions are

- 1 performing better under pressure:** While private businesses are seeing a major impact, agility is paying off in improved performance.
- 2 taking a strategic approach to resilience:** Agility champions are making tough choices around workforces and cost reduction, while continuing to invest in the key areas that will keep their businesses competitive.
- 3 emerging stronger from the pandemic:** To stay relevant and build the resilience needed to face future challenges, these private businesses are transforming, driven by customer needs and with sustainability top of mind.

All in all, agility champions are showing the way that private businesses can become more resilient — able to withstand strong external forces, quickly recover from setbacks, and stay in a position to benefit from new opportunities.

Survey background and methodology

In February and March 2020, COVID-19 rapidly developed from an isolated challenge to a wide-ranging threat. During this time period we conducted the initial research for our third annual EMEA Private Business Survey, including a telephone survey of 2,990 respondents in 53 countries, where we asked how respondents had navigated past crises and were responding to uncertainty as well as looking at a number of factors related to organisational agility and resilience. Due to the extremely severe impact that the COVID-19 pandemic has had since the end of our initial fieldwork period, we refreshed this research by reaching out to many of our survey participants to get an update on how their companies are responding to the current situation. Around 500 "callback" interviews were conducted in late May and early June 2020. Pairing these interviews with our original research revealed a number of important insights, particularly when we dug deeper and looked at how companies were performing on ten questions related to agility. We scored companies based on their average answers to all ten questions and defined the top quartile as "agility champions" and the bottom quartile as "agility laggards".

¹ PwC's COVID-19 CFO Pulse: Insights from global finance leaders on the crisis and response — 15 June 2020, <https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19/global-cfo-pulse.html>

1

Performing better

under pressure

Companies that have been able to combine flexibility with a focus on people, technology and their customers – the “agility champions” – are performing better than peers that lag in these areas.



Private businesses have seen a major impact

The current pandemic is having a major impact on private businesses in every industry and region. Twelve month revenue projections have dropped dramatically, with around half of private business respondents across EMEA now expecting revenues to decline, compared to just 9% in our initial research timeframe. Still, considering the dramatic impact expected on the global economy (the Organisation for Economic Co-operation and Development (OECD)'s June 2020 forecast² anticipates that global economic output will fall by 6% this year, or even by 7.6% in the event of a second wave), private businesses are actually holding up fairly well. Large public companies are anticipating even more dramatic drops in revenues. PwC's June CFO Pulse³, which surveyed chief financial officers (CFOs) around the world, showed that 81% expect their revenues to decline.

Agility pays off in improved performance

During PwC's initial survey, the vast majority of EMEA private business leaders,

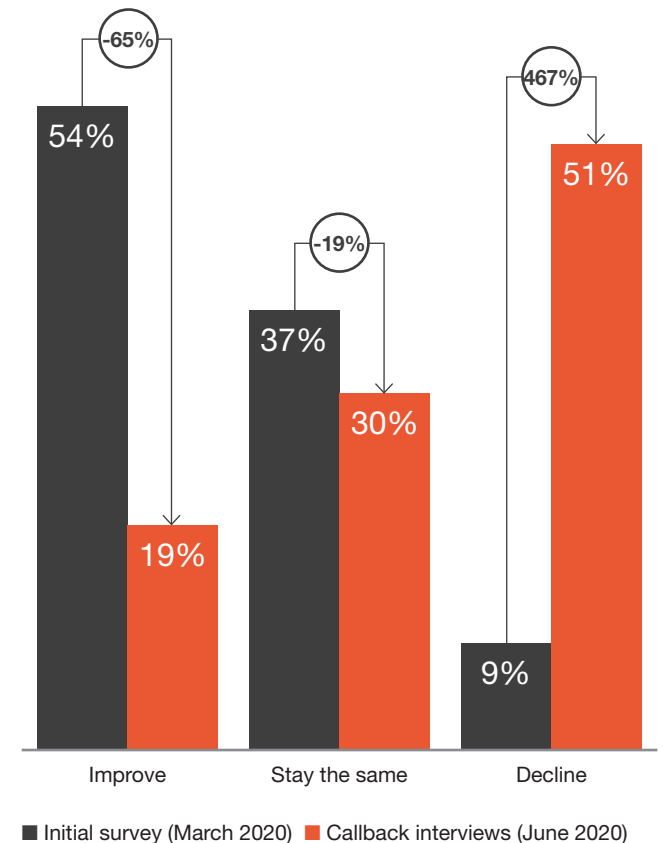
51%

of private business leaders now expect their company's revenues to decline

more than 90%, indicated that their company is able to adapt and respond to new market conditions effectively. Or in other words, they viewed their company as "agile". When we followed up with these same private business leaders, we found that the majority of those companies who regarded their companies as able to adapt and respond effectively are not coping with the pandemic better than others in their industry, and are not expecting higher levels of revenue. When the COVID-19 pandemic hit, many weren't as agile as they thought they were. We took a closer look to find out what set apart those that truly are more agile than the rest (see Box: Survey background and methodology, p. 2).



Exhibit 1: Twelve month revenue projections are down dramatically since the COVID-19 pandemic began



Q: How do you expect your company's revenues to develop over the next 12 months?

n = 436 (Initial survey (March 2020));
n = 441 (Callback interviews (June 2020))

Source: PwC EMEA Private Business Survey 2020

² OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 1*, No. 107, OECD Publishing, Paris, <https://doi.org/10.1787/0d1d1e2e-en>. Accessed 14 July 2020.

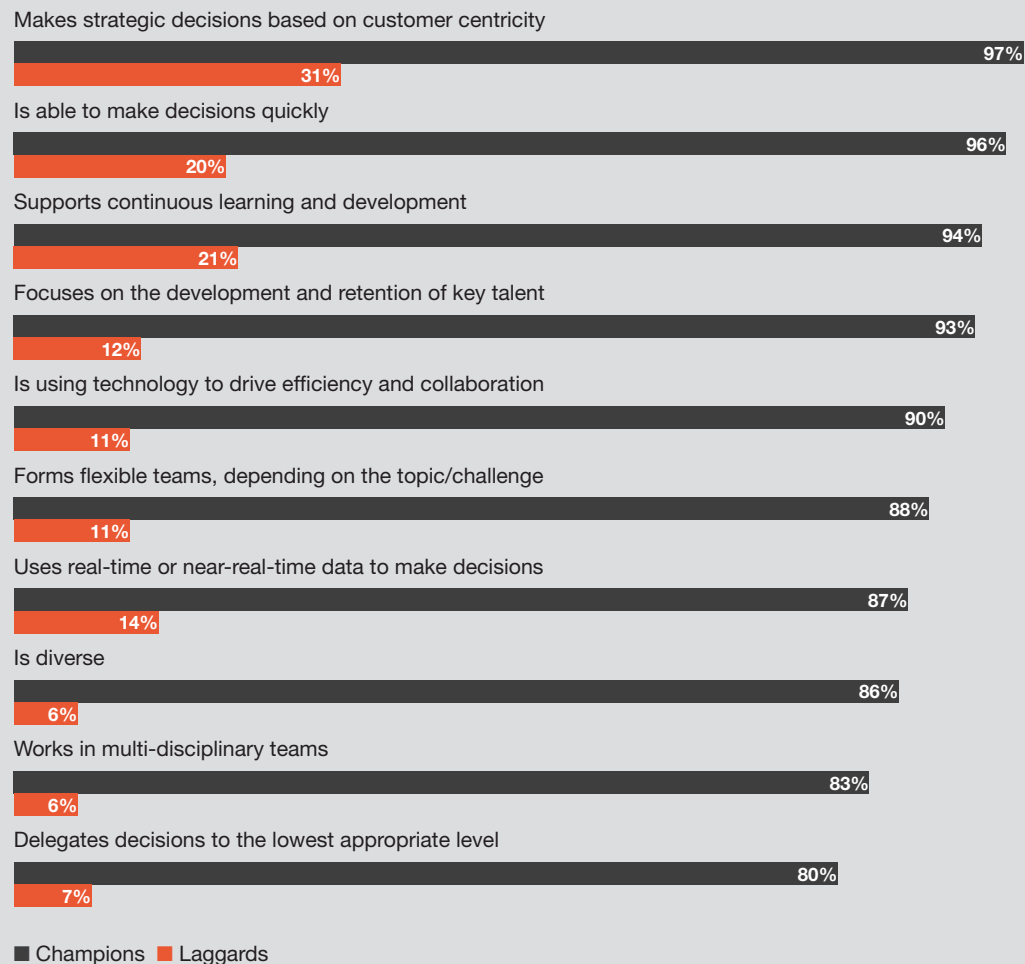
³ PwC's COVID-19 CFO Pulse: Insights from global finance leaders on the crisis and response — 15 June 2020, <https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19/global-cfo-pulse.html>

The terms “agile” and “agility” are widely used, both in the specific context of software development and more broadly. PwC’s own work on succeeding in uncertainty has also pointed out how vital agility is to thriving in uncertain times. It showed that agile companies “possess[ing] the balance and capability that enable them to shift focus, priorities, and resources to meet changing circumstances”.⁴ In this report, our definition of agility is based on a holistic approach. We believe that highly agile companies are customer-focused, people-driven, tech-enabled, and flexible. These different factors are mutually reinforcing. Strong leadership and a robust company culture is important; so is embedding each of these principles into the organisational structures that underpin the business, making it possible for organisations to “have a bias towards action.”⁴

In our initial field research, we asked private business leaders to rate the extent to which their business is customer-centered, people-driven, tech-enabled and flexible through a series of questions. Many agreed that their company already meets some of these criteria. However, when we looked at performance, we found that individual criteria are not differentiating in terms of performance during the pandemic. It is only when companies score strongly on all criteria that we see a notable positive difference with respect to profitability and expected performance. Agility champions – the most highly agile private businesses – stand out. While they are strong in all four areas, they’re especially skilled at making strategic decisions based on customers, and making decisions quickly, a key element of flexibility (see Exhibit 2).

Exhibit 2: Key characteristics of agility champions

My company...



Q: How strongly do you agree or disagree with the following statements?

Respondents replying strongly agree (top 3 on a 1-10 scale.) n = 436 (Initial survey, March 2020)

Source: PwC EMEA Private Business Survey 2020

4 <https://www.strategy-business.com/article/How-to-succeed-in-uncertain-times>

2

Taking a strategic approach to resilience

Agility champions are taking the measures needed to achieve financial and operational resilience. That means not shying away from tough choices, while keeping the focus on the customer and the future.



Supporting the workforce today and reshaping it for tomorrow

Agility champions are people-driven, however this focus may be more difficult to maintain when personal contacts are reduced. In many countries businesses have been subjected to stay-at-home orders and the need to protect staff from infection, so companies have pivoted to work-from-home models where possible. Around three-fifths of private businesses say they are enabling remote work. Agility champions and laggards alike are doing so in roughly equal numbers (see Exhibit 3). These results echo the findings of other research on large public companies in the most recent PwC CFO Pulse Survey⁵. This survey showed that 59% of CFOs say their companies will consider making remote work a permanent option for roles that allow, and more than three-quarters of CFOs believe work flexibility will be the greatest long-term benefit arising from the current pandemic.

To achieve long-term advantages from the current shift to remote work, it won't be enough just to implement home-office options. Companies will need to pair enabling remote work with an equal commitment to ensuring staff have the skills they need to manage virtual working environments. Agility champions understand this; 57% say they are training and upskilling staff, compared to just 40% of laggards. In our view, humanising remote work and making sure that employees feel comfortable in the new environment will be one of the biggest challenges private businesses face in the years to come, and training can help. That doesn't necessarily mean week-long training sessions; bite-sized content, like PwC offers in the Digital Fitness app, can also be a great way to get employees thinking about new technologies and ways of working.

⁵ PwC's COVID-19 CFO Pulse: Insights from global finance leaders on the crisis and response — 15 June 2020, <https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19/global-cfo-pulse.html>

57%

of agility champions say they are training and upskilling staff as a way to manage the impact of the COVID-19 pandemic or prepare for the future



Exhibit 3: Agility champions are more actively training and upskilling staff

Enabling remote work



Training and upskilling staff

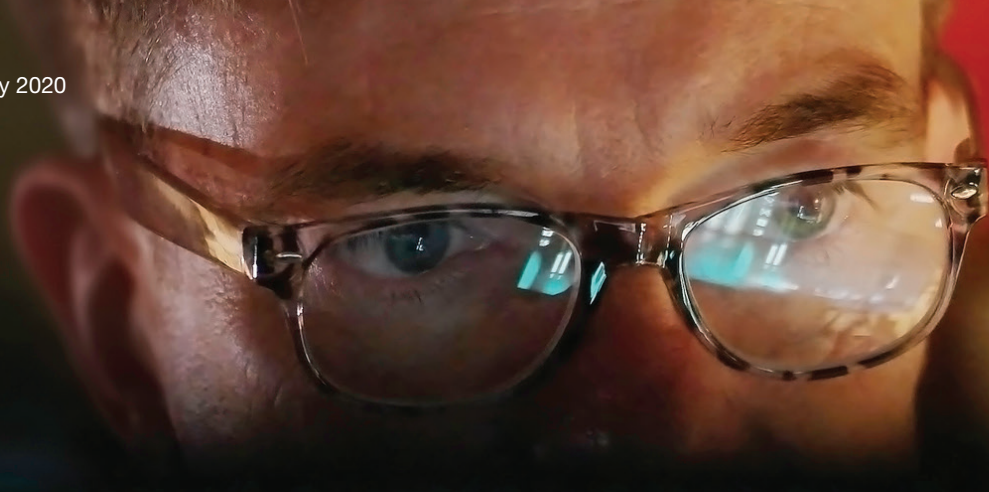


■ Champions ■ Laggards

Q: Are you using any of the following measures to manage the impact of the COVID-19 pandemic or prepare for the future?

n = 432 Callback interviews (June 2020)

Source: PwC EMEA Private Business Survey 2020



Agility champions' strong focus on training and upskilling staff suggests that some of these private businesses may be holding back on cutting staff hours and opting instead to get staff members ready for the future by offering additional learning and development options. Still, given that labour costs are often the largest line item in a company's budget, management boards are also facing tough choices when it comes to the workforce. Private businesses may favour options that keep staff on-board, like mandating the use of holiday or overtime pay, over staff cuts, but both agility champions and laggards are having to resort to both options to keep their businesses viable in the face of the current pandemic (see Exhibit 4).

Exhibit 4: Private businesses prioritise keeping staff members employed when possible

Working reduced hours, mandatory use of annual leave, holidays or overtime



Reducing workforce (layoffs)

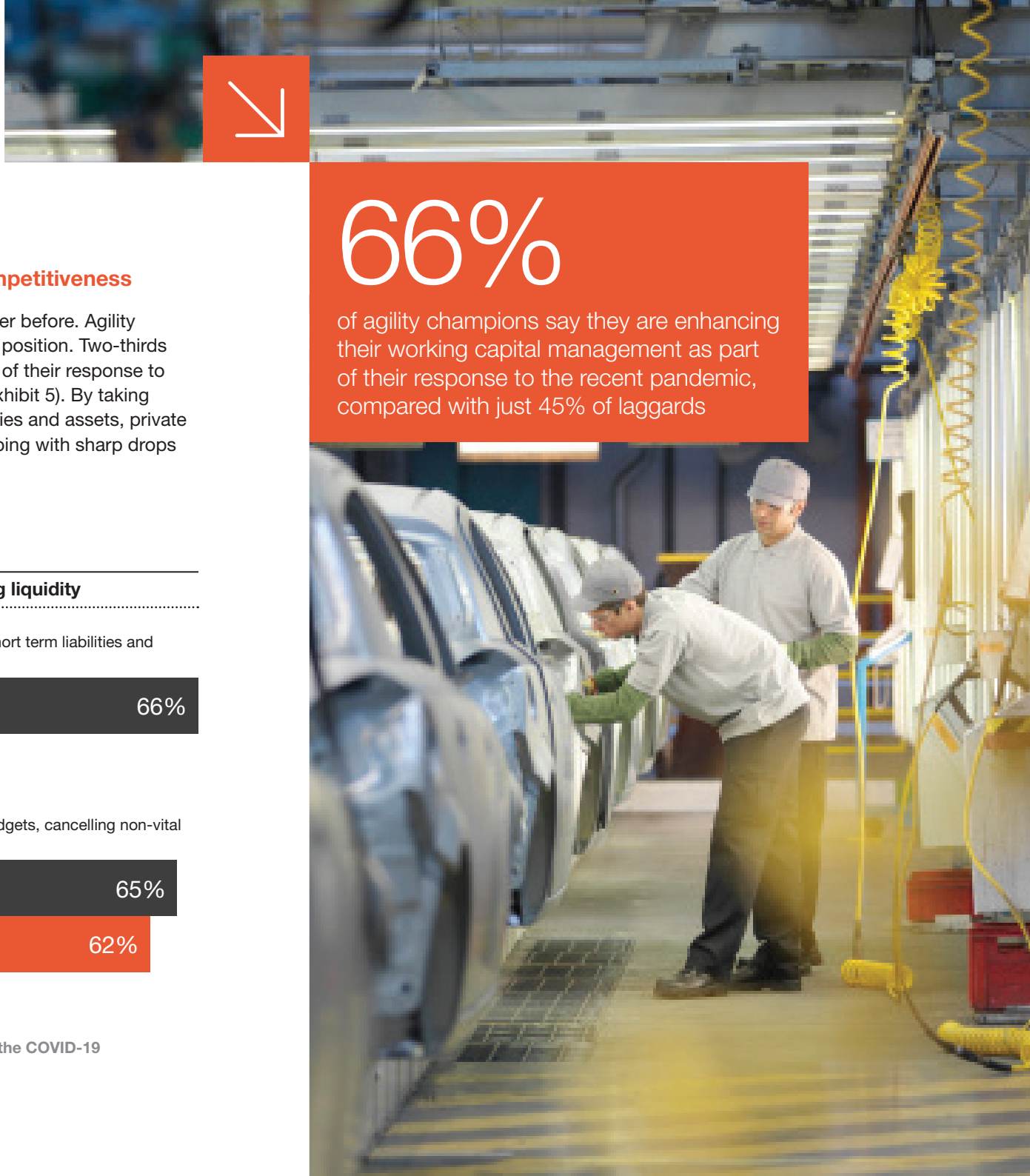


■ Champions ■ Laggards

Q: Are you using any of the following measures to manage the impact of the COVID-19 pandemic or prepare for the future?

n = 432 Callback interviews (June 2020)

Source: PwC EMEA Private Business Survey 2020



66%

of agility champions say they are enhancing their working capital management as part of their response to the recent pandemic, compared with just 45% of laggards

Improving the bottom line without compromising competitiveness

In 2020, maintaining liquidity has become more important than ever before. Agility champions are more skilled at taking action to improve their cash position. Two-thirds say they are enhancing their working capital management as part of their response to the recent pandemic, compared with just 45% of laggards (see Exhibit 5). By taking active measures to reduce inventory, or manage short-term liabilities and assets, private businesses can protect cash flow. That's especially vital when coping with sharp drops in revenues.

Exhibit 5: Agility champions are reducing costs and enhancing liquidity

Enhancing working capital management (e.g. reducing inventory, managing short term liabilities and assets to protect your cash-flow)



Implementing other (non-staff-related) cost savings (e.g. cutting marketing budgets, cancelling non-vital services etc.)



■ Champions ■ Laggards

Q: Are you using any of the following measures to manage the impact of the COVID-19 pandemic or prepare for the future?

n = 432 Callback interviews (June 2020)

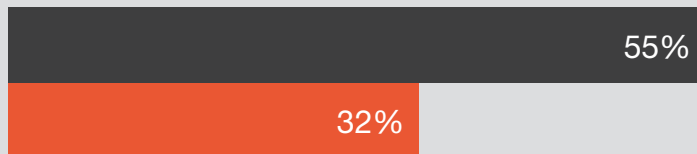
Source: PwC EMEA Private Business Survey 2020

Exhibit 6: Private businesses are using new technology and adjusting product portfolios and supply chains to cope with the COVID-19 pandemic

Increasing use of new technologies



Adjusting/expanding product portfolio to meet new demand



Adjusting your supply chain



■ Champions ■ Laggards

Q: Are you using any of the following measures to manage the impact of the COVID-19 pandemic or prepare for the future?

n = 432 Callback interviews (June 2020)

Source: PwC EMEA Private Business Survey 2020

With the top line under pressure, private businesses are also looking for other ways to enhance the bottom line. Agility champions and laggards alike say they are using cost-saving measures, like cutting marketing budgets or cancelling non-vital services, as a way of managing the impact of the pandemic. As PwC's Strategy& has pointed out, while cost-cutting is necessary, it will likely not be enough. Even worse, done the wrong way, it can harm chances of survival. Leaders also have to pivot value propositions, figure out ways to grow and find new sources of revenue to find their place in the future. This involves cutting costs in a way that doesn't harm the business, while redirecting costs to the drivers of growth — capabilities that differentiate a company.⁵

This pandemic has upset past beliefs and models about costs. So much has changed that strategies may need to shift in new ways to redesign the business and cost structure for more enduring strength and agility. On one hand, costs that were once fixed in the minds of business

leaders have become more variable (think office space), while capabilities that might have been differentiators in the past are now just table stakes (automation and collaboration technologies). Private business leaders should revisit strategic priorities and understand differentiating points in their value chain when making cuts. Equally important is staying focused on people and making sure your employees are ready for your new way of operating.

Agility champions are leading the way when it comes to keeping the focus on the capabilities that differentiate a company. For example, while it may be tempting to slash technology investments as a quick way to cut costs, the majority of agility champions (58% compared to 41% of laggards) are actually increasing their use of new technologies (see Exhibit 6). Some of these solutions likely support the shift to remote working we've already described, while others may provide the technical backbone needed for other types of cost reduction, such as automation, or for new ways to interact with customers.

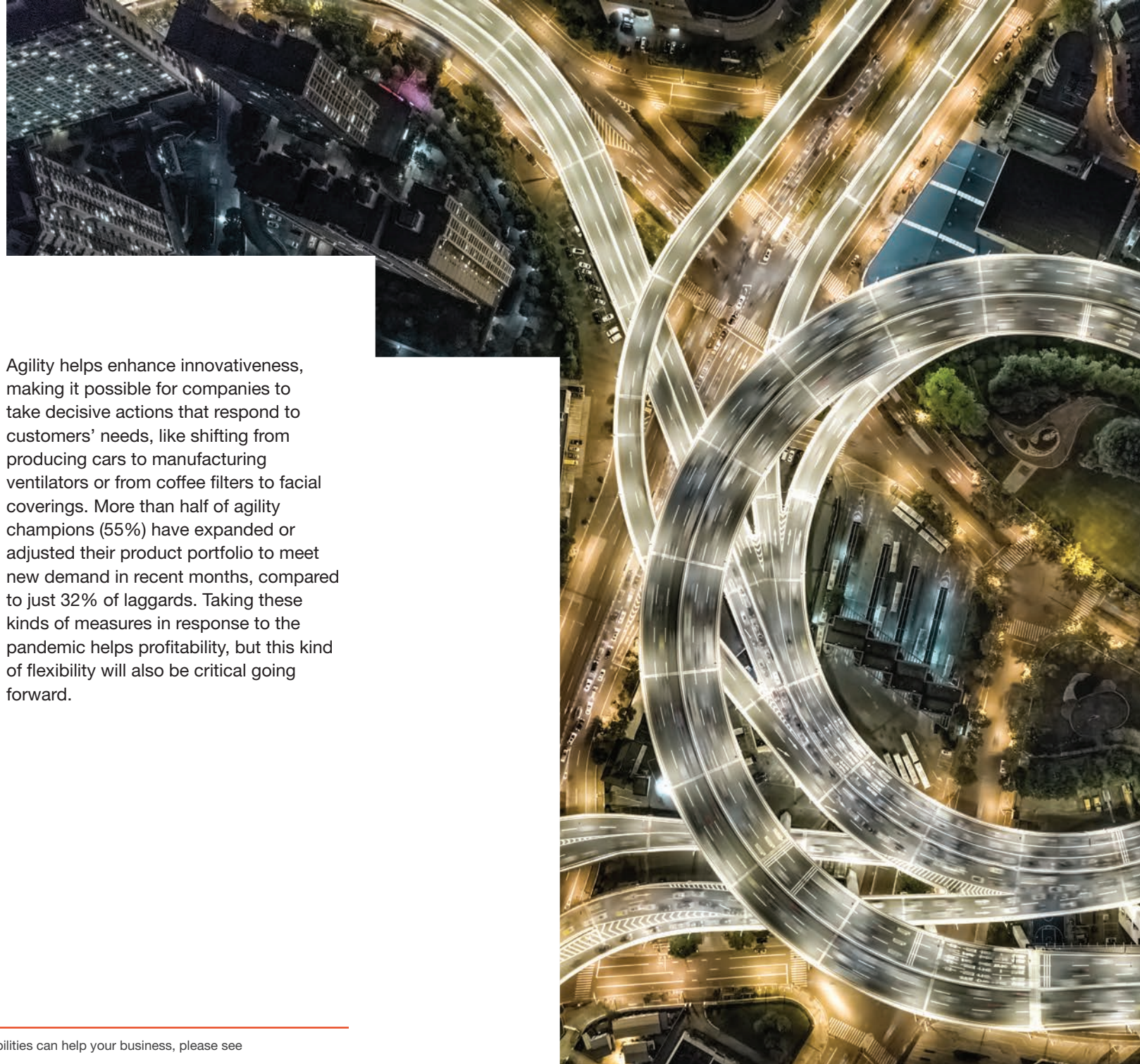
⁵ PwC's Strategy& calls this type of cost-reduction "Fit for Growth". For more information on cost-cutting in the current environment – Fit for Growth for the new normal – please see <https://www.strategyand.pwc.com/gx/en/unique-solutions/fit-for-growth/respond-and-emerge-stronger.html>

Supply chain excellence and portfolio adjustments can help

While supply chain is often considered to be purely operational, true supply chain excellence can actually be a strong differentiator as well.⁶ More than half of agility champions are making changes to their supply chain strategies as part of their way of coping with the pandemic. Such changes can help manage the impact when production needs to be slowed down, and are even more important when it comes time to ramp back up again. In addition to enhancing operational efficiency, enhancing the supply chain can also help maintain and strengthen customer relationships. For example, companies who make supply chain transparency a priority, from end-to-end, can better respond to customer inquiries about the status of an order or potential product availability. They can also better track and understand their carbon footprint, contributing to customers' own sustainability goals.

Agility helps enhance innovativeness, making it possible for companies to take decisive actions that respond to customers' needs, like shifting from producing cars to manufacturing ventilators or from coffee filters to facial coverings. More than half of agility champions (55%) have expanded or adjusted their product portfolio to meet new demand in recent months, compared to just 32% of laggards. Taking these kinds of measures in response to the pandemic helps profitability, but this kind of flexibility will also be critical going forward.

6 For more information on how advanced supply chain capabilities can help your business, please see [pwc.com/digitalsupplychain](https://www.pwc.com/digitalsupplychain)



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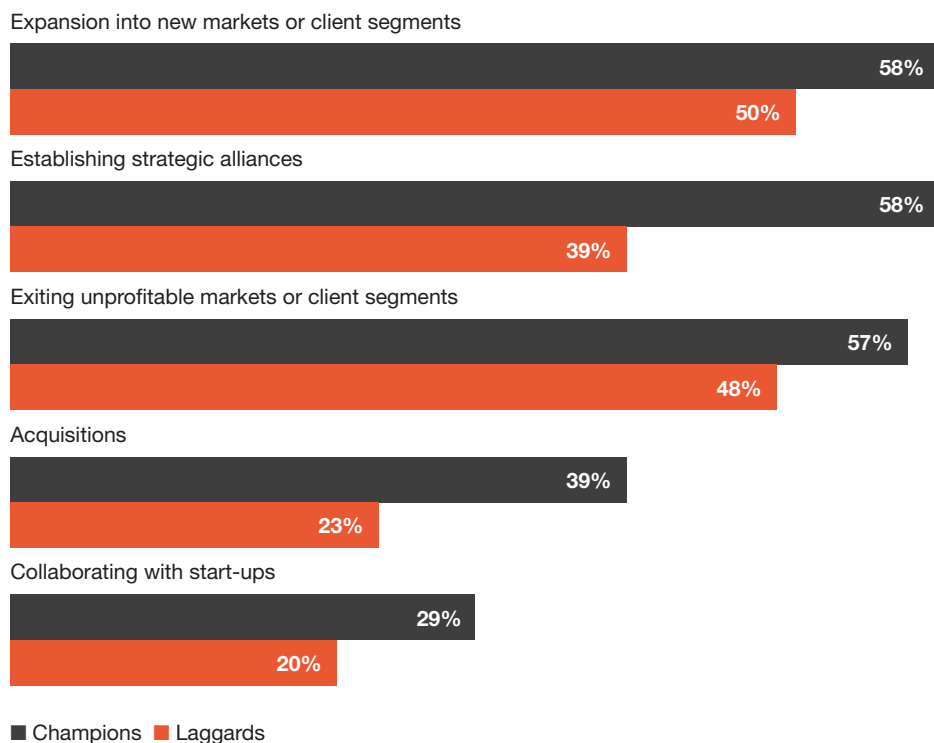
Emerging stronger from the pandemic

Agility champions are actively positioning their businesses to succeed in the “new normal” COVID-19 business environment in a variety of ways, using robust strategies with the customer at their heart, with the ultimate goal of transforming their organisations in a way that’s sustainable over the long-term.

Companies should make a plan for value creation before finalising any deals, rather than after, and cultural issues should be taken fully into account when considering whether an acquisition is a good match for their business



Exhibit 7: Agility champions prioritise fine-tuning their market strategies and emphasising collaboration



Flexible strategies, driven by a strong customer focus and collaborative approach

One of the keys to success in a challenging environment is to fully understand the markets and customer segments you serve. Is your business competitive? Can you bring customers in those markets and segments real value? Would your company’s unique strengths position you for success in other markets?

Agility champions are asking these important questions and taking action where necessary. The majority of them see both expanding into new markets or client segments (58%) and exiting markets that don’t prove profitable (57%) as critical to success in the future (see Exhibit 7).

Some will use mergers and acquisitions (M&A) as a way to jump start expansion – 39% of agility champions will make M&A a priority, compared to 23% of laggards. Now may be a particularly good time to think about acquisitions and consider

potential bargains. It’s critical to make sure that these are a good strategic fit for your business. Companies should make a plan for value creation before finalising any deals, rather than after, and cultural issues should be taken fully into account when considering whether an acquisition is a good match for their business.

Agility champions are also well-aware that it’s difficult to achieve success on their own and are far more likely to be working together with partners to achieve their goals, whether via strategic alliances (58% vs 39% of laggards) or by collaborating with start-ups (29% vs. 20% of laggards). These kinds of partnerships can be particularly helpful for making sure that innovation efforts stay on track.

Q: Are the following factors important to ensure success in the “new normal” COVID-19 environment?

n = 432 Callback interviews (June 2020)
Source: PwC EMEA Private Business Survey 2020

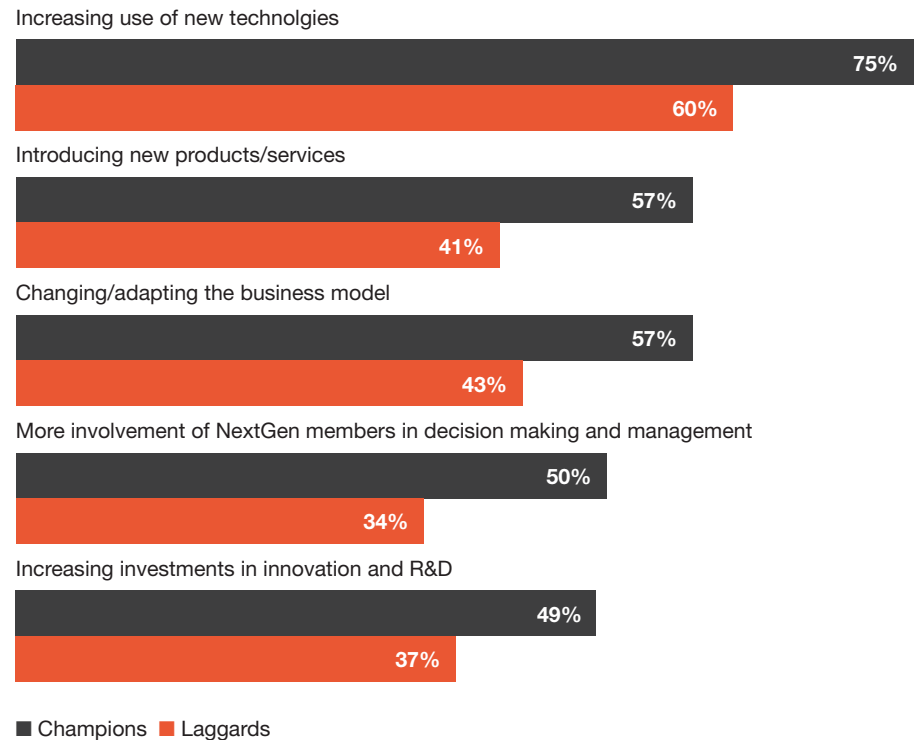
Transforming the future business

Looking forward, the status quo won't be enough to ensure success for many private businesses. Agility champions in particular are already gearing up to transform their businesses in a variety of ways, a process of change that's driven by increased digitalisation. Three-quarters (75%) of agility champions say that an increased use of new technologies will be critical to ensuring future success, compared to 60% of laggards. That builds on what many private businesses are already doing, and is in line with the findings of last year's EMEA Private Business Survey, which found that most private business leaders believe that digitalisation will have a major impact on the long-term viability of their business.

While technology is a starting point and enabler, it can't drive growth on its own. An important part of resilience is ensuring that your strategy remains dynamic. One way private businesses can do this is by introducing new products and services designed to meet customers' needs. Nearly three-fifths of agility champions (57%) say they're doing this, far more than laggards (see Exhibit 8). The same number, 57%, also believe that changing or adapting their business model will be vital to future success.

Past months have shown that in today's fast-moving business environment, new business models in addition to the core business can be vital. They provide a basis for changing and pivoting when circumstances force businesses to do so and the core businesses cannot continue, or are no longer profitable, for whatever reason.

Exhibit 8: New technologies, products and business models will power future success



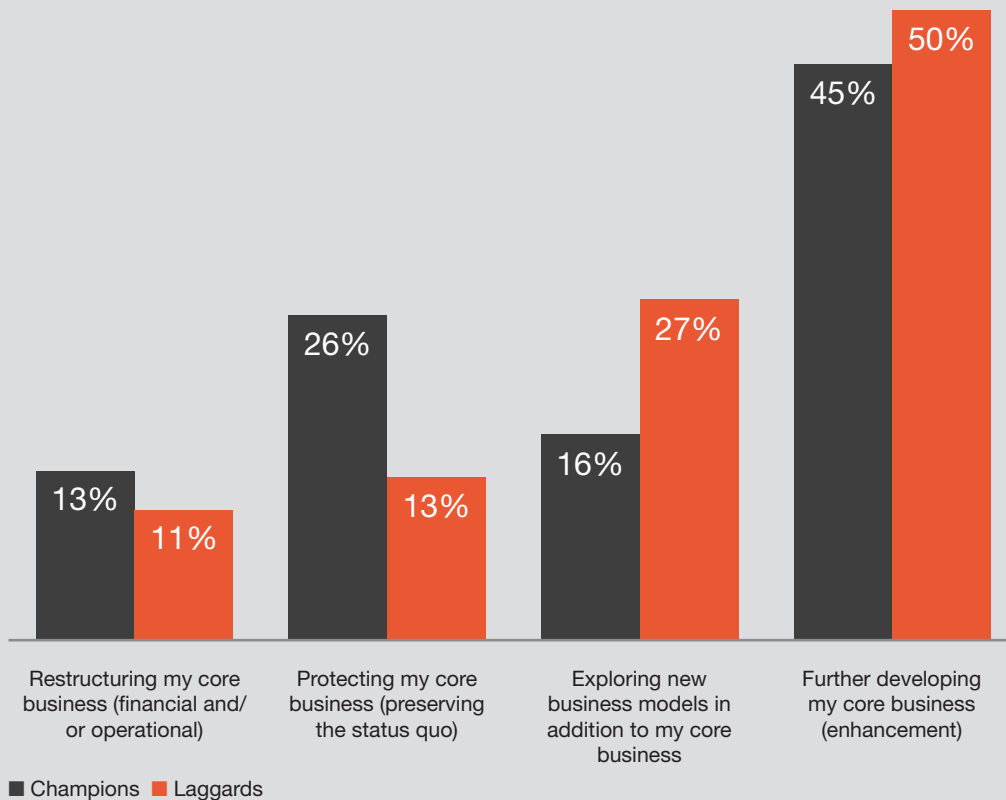
Q: Are the following factors important to ensure success in the "new normal" COVID-19 environment?

n = 432 Callback interviews (June 2020)

Source: PwC EMEA Private Business Survey 2020



Exhibit 9: Agility champions were already taking a close look at their business models in March 2020



Q: What is the focus of your business strategy in the coming 12 to 24 months?

n = 432 (Initial survey, March 2020)

Source: PwC EMEA Private Business Survey 2020

50%

of agility champions believe that getting the NextGen more involved in decision-making and management will be critical for the future, compared to just around a third of laggards (34%)

This strong focus on business models is not just a result of the current situation. More agility champions were already planning to explore new business models or enhance current models even before the COVID-19 pandemic put more pressure on revenues (see Exhibit 9) – in fact more than three-quarters saw this as a focus of their business strategy in the coming 12 to 24 months.

Many of the strengths that make the private businesses we’ve classed as “champions” more agile – like their ability to make decisions quickly and form flexible teams – will also be important when it comes time to make these kinds of changes happen. Innovation and R&D are critical to new product development, and agility champions are ahead of the curve in this respect as well, with nearly half saying increased investments in these areas will be a priority going forward.

When it comes time to change or adapt the business model, it’s also very important to set the “tone from the top” – leadership that is fully committed to driving forward change. For agility champions, this kind of tone is also coming from the next generation of leaders (Next Gen), whether they be family members or up-and-coming young managers. Half of agility champions believe that getting the NextGen more involved in decision-making and management will be critical for the future, compared to just around a third of laggards (34%), see Exhibit 8, p. 14.

Commitment to social responsibility

NextGen leaders often bring with them a strong commitment to environmental and social issues, although this level of awareness isn't unique to the next generation. Agility champions are committed to businesses that take a long-term view, and don't intend to transform their organisations at the expense of the environment or their community. Agility champions ranked sustainable business practices higher than any other consideration as a must for future success, with 81% seeing these as critical (compared to 69% of laggards). That puts sustainability above even technology as a prerequisite for building a strong foundation for future growth. Around three-fifths (60%) of private businesses overall also believe that business has a role to play in achieving societal goals such as diversity and equality.

Exhibit 10: Sustainable business practices are a top priority for agility champions

Sustainable business practices



Taking responsibility for achieving societal goals (e.g. diversity, equality)



■ Champions ■ Laggards

Q: Are the following factors important to ensure success in the “new normal” COVID-19 environment?

n = 432 Callback interviews (June 2020)

Source: PwC EMEA Private Business Survey 2020

Never waste a crisis

Private businesses that are truly agile – customer-centered, people-focused, tech-enabled and flexible – are also proving to be better at combining tough decisions with future-focused investments. This combination helps make agility champions not just agile, but also resilient, putting them in a better position to cope with external shocks. For industries that are more sensitive to systemic disruption and cyclical downturns, for example, exploring new business model options can help offset these factors. A strong balance sheet is critical too, and agility champions' focus on working capital management is helping provide the financial flexibility needed to weather tough times.

Resilience isn't something that companies can simply switch on when you need it. It often requires continued commitment and a willingness to invest time and money in all the essential agility criteria, from new technology, to talent development, to flexible team structures, leadership models, and customer-focus so that they become mutually reinforcing. Governments can help, by considering that taxation and regulation can add additional burdens or disincentives to investments for private businesses, whose growth is so critical to stimulating economic recovery.

By fostering a culture and mindset that's willing to combine the tough decisions needed to retain flexibility, when needed, with future-focused investments, private businesses can build resilience. Some private businesses are already doing this quite successfully, which is reflected in revenue forecasts that, while down, are notably better than those of larger public companies surveyed in other research. But the agility stress test has shown that many private businesses still have homework to do. Agility champions are leading the way when it comes to not only sustaining the business during a crisis, but laying the foundation to emerge stronger from it. Now is the time to use the learnings from this pandemic to invest in crucial areas and further solidify your business for sustainable performance. So you can manage not just the pandemic, but beyond, and adapt to whatever disruption the future holds.

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