



Covid-19 Pre-Normal Phase:
Contours of an Exit Strategy

April 2020

Introduction

Most of the current response to COVID-19 crisis has been reactive, not proactive. Social distancing is starting to slow down the spread of the contagion. This will provide the critical tactical opportunity for governments, businesses and society at-large to seize the initiative in the battle against COVID-19. In this paper, we assess the ideas driving the broad contours of an “exit strategy” for businesses and the economy at large.

Background

COVID-19 continues to be a fatal disease. While the contagion is still spreading, with the number of diagnosed cases at 1.8 million and more than 100,000 deaths as of April 13, 2020¹, recent trends of decline in “daily new cases” in Italy and Spain² and flattening of number of hospitalizations in New York³, indicate that social distancing norms, albeit extreme, may be finally slowing its spread.

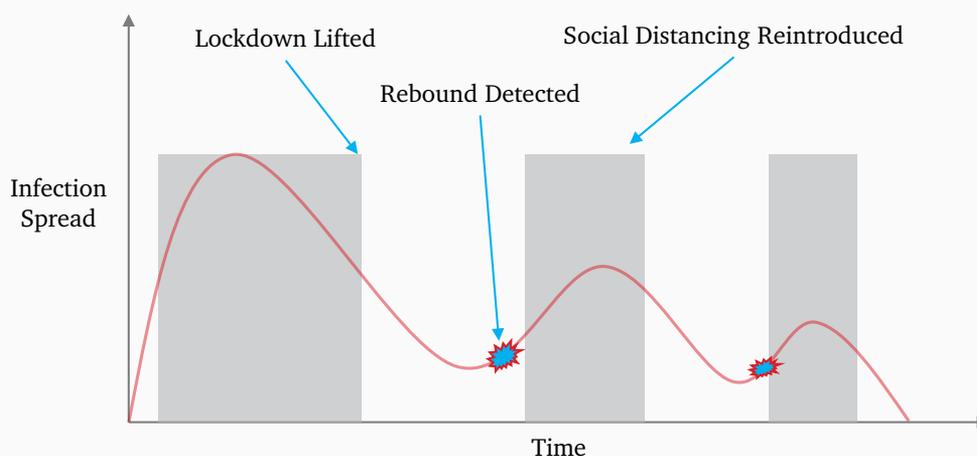
As a global community, our collective efforts are rightly focused on three main areas: (1) containing the spread of contagion, (2) ramping up scientific research and medical capacity, and (3) minimizing wider economic damage. However, the global response until now has been reactive, not proactive. A slowdown in the spread will provide critical tactical opportunities for governments, businesses and society at-large to seize the initiative in the battle against COVID-19.

A clear victory against the disease can be achieved only with a vaccine⁴, which may only be available after 18 months^{5,6,7}. The vaccine will still need to be mass produced, then administered globally to the most “at-risk” groups first – healthcare workers, national security workers, policymakers and workers employed by other essential services. This indicates that the general public may have to wait much longer than the timelines suggested by the more optimistic initial reports.

“Pre-Normal”: Persistent Risk of a Rebound

Normalcy can only return once the fear of spread can be reliably and predictably contained. In the absence of a vaccine, seizing the initiative afforded by extreme social distancing at significant economic costs, means preparing for a Pre-Normal Scenario, characterized by persistent risk of a rebound^{8,9}.

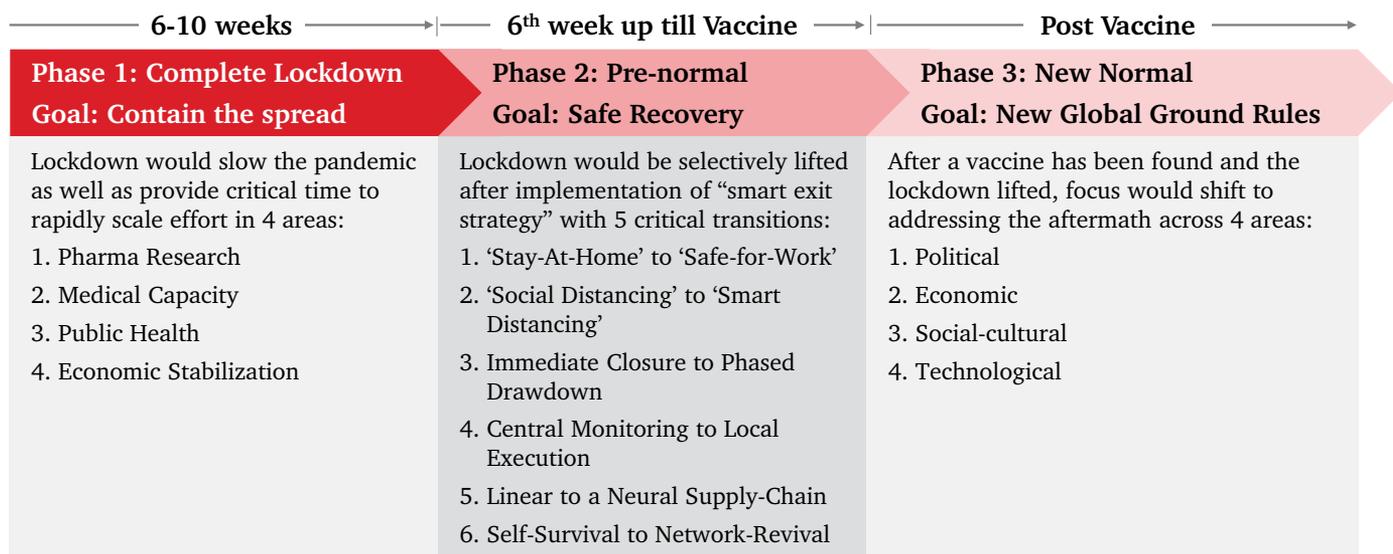
Fig 1(a): Pre-Normal phase may have repeated lockdowns



Source: RocSearch Analysis

A critical component of a proactive response in the pre-normal phase would be to plan and implement a “smart exit strategy” that restarts the economy while factoring in the health risk. Without a strategy, stakeholders risk squandering the precious tactical advantage gained at a massive global economic cost. Figure 1(b) below outlines the trajectory to be traversed to achieve the new normal.

Fig 1(b): Trajectory to be traversed to achieve the new normal



Source: RocSearch Analysis

The situation in East Asian countries – South Korea, Hong Kong, Taiwan, Japan and Singapore – offers a cautionary tale, where opening up the economy is proving a bigger challenge than initially anticipated¹⁰. A close examination of the implementation of the steps announced by a number of European countries, including Austria, Czech Republic, Denmark, France and Spain, and many US states – California, New York, New Jersey, and Washington – for reopening provides insights into some of the challenges ahead¹¹.

Businesses should account for five main imperatives while developing a “smart exit strategy”:

- **Safety-first:** Since the number of cases are still exponentially rising around the world, it may be too early to lift social distancing rules, and an early loosening of the rules could initiate a catastrophic second wave and further threaten economic recovery.
- **Non-binary:** An “exit strategy” should not be a false-choice between two binary options – an indefinite lockdown vs. “back-to-normal”. Neither option offers a sustainable environment for a stable economic recovery. A smart strategy has to acknowledge wide regional and demographic variation in the impact of COVID-19.
- **Sector-Specific:** The approach to stable recovery will have to be sector-specific since all sectors of the economy are not impacted equally by this crisis.
- **Cooperation:** This crisis has disrupted intricately designed global ecosystems of supply and demand. Any strategy for restoration of these ecosystems has to factor in their transnational nature. No one country or sector can ‘flip the switch on’, while its downstream supplier or upstream consumer are still hurting from the pandemic.
- **Preparedness:** Success of an exit strategy will hinge on our collective preparedness for sporadic regional outbreaks. For businesses, this means effectively undertaking “workforce risk stratification”, “smart distancing”, “critical continuity planning” and “technology adoption”, and also reassessing their value-proposition and competitive strategy in the wake of changing consumer expectations, both in the short-term and the long-term.

Implications for Businesses: Six Critical Transitions

A path out of the current phase of complete lockdown requires *six critical transitions* to be made by all stakeholders. While being prepared would be a basic expectation from businesses, being unprepared could be a significant competitive disadvantage. These transitions are not mutually exclusive and would have to be made under a *coordinated enterprise-wide or industry-wide strategy*.

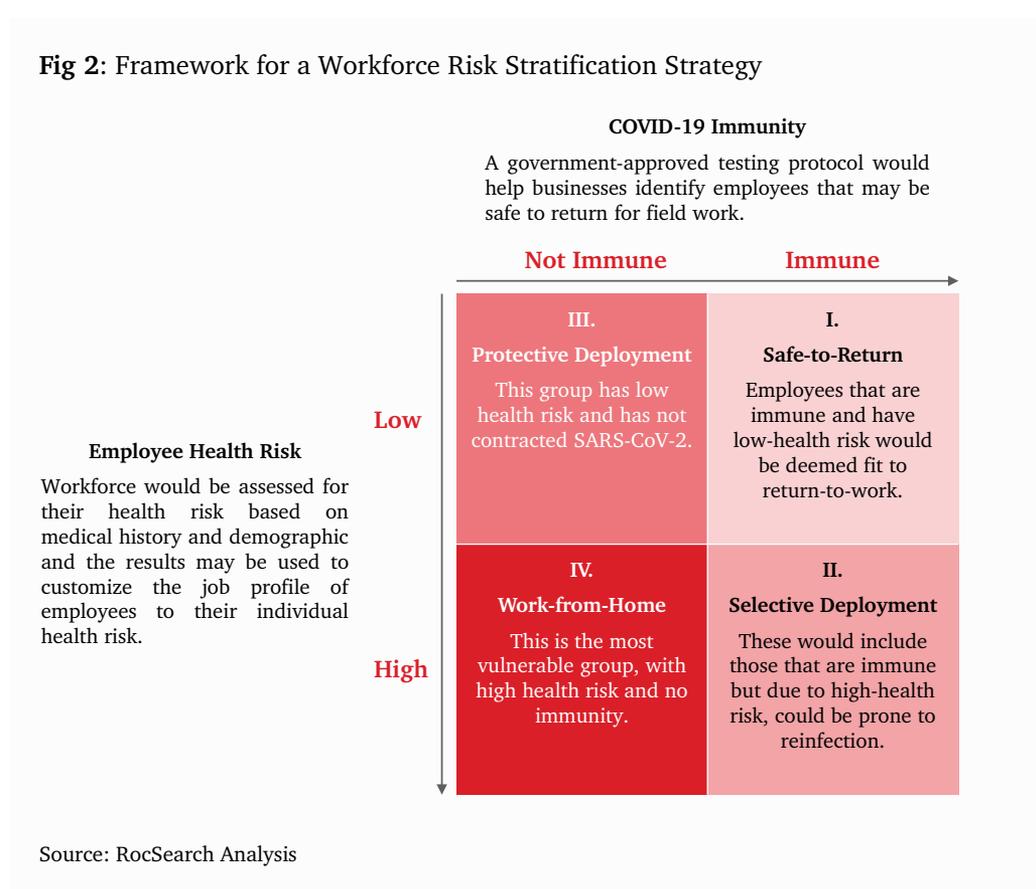
1. **‘Stay-At-Home’ to ‘Safe-for-Work’:** There is a significant variation in the impact of COVID-19 across demographic segments. The elderly and those with pre-existing conditions are at higher fatality-risk^{12,13}, while the younger demographic without pre-existing conditions may never develop serious symptoms themselves but can spread the virus¹⁴. It will be critical for businesses to assess the health risk across their workforce.

Advances in testing methods will determine the speed and effectiveness of this transition. Serological or antibody tests are expected to quickly indicate if a person has developed antibodies to the virus¹⁵. The presence of antibodies indicates that either that person has survived the disease or is about to develop symptoms. However, the one major cause for concern is that research on accuracy of these tests is limited, which has led to some experts raising an alarm^{16,17,18}. In spite of this concern, the test is expected to speed up population-level risk assessment and, under an organized effort, could still provide a measure of the spread^{19,20,21}.

Businesses should expect that a significant share of their workforce may not yet have sufficient immunity to return to normal functioning²². Businesses must also be cognizant of the threat posed by reinfection²³. However, experts are still assessing if recent reports of recovered patients turning positive again are actual reinfections or these are cases of flawed testing that diagnosed the patients as positive initially²⁴.

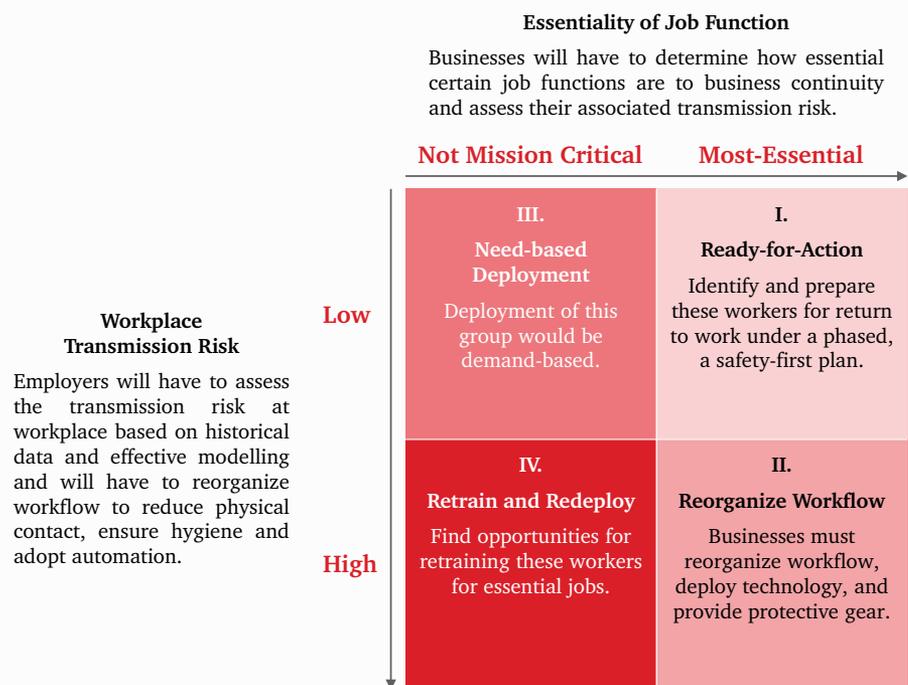
In the pre-normal phase, businesses may have to ensure periodic testing of their workforce to ensure early detection and quick response. Figure 2 below provides a high-level framework for ‘workforce risk stratification’²⁵.

Fig 2: Framework for a Workforce Risk Stratification Strategy



2. **‘Social Distancing’ to ‘Smart Distancing’:** The main objective of social distancing is to reduce the transmission of Sars-CoV-2, the virus causing the disease. The blanket lockdowns globally have led to forced social distancing and have started to achieve their intended impact. This provides the opportunity to assess the variation in the risk of transmission by industries and job functions. While some sectors, such as restaurants, travel, education and public events have high transmission risk, others such as certain manufacturing sectors can considerably reduce their transmission risk. Therefore, a ‘smart distancing’ strategy will be specific to each sector and job function. Figure 3 below provides a high-level framework for ‘Smart Distancing’:

Fig 3: Framework for a Workforce Risk Stratification Strategy



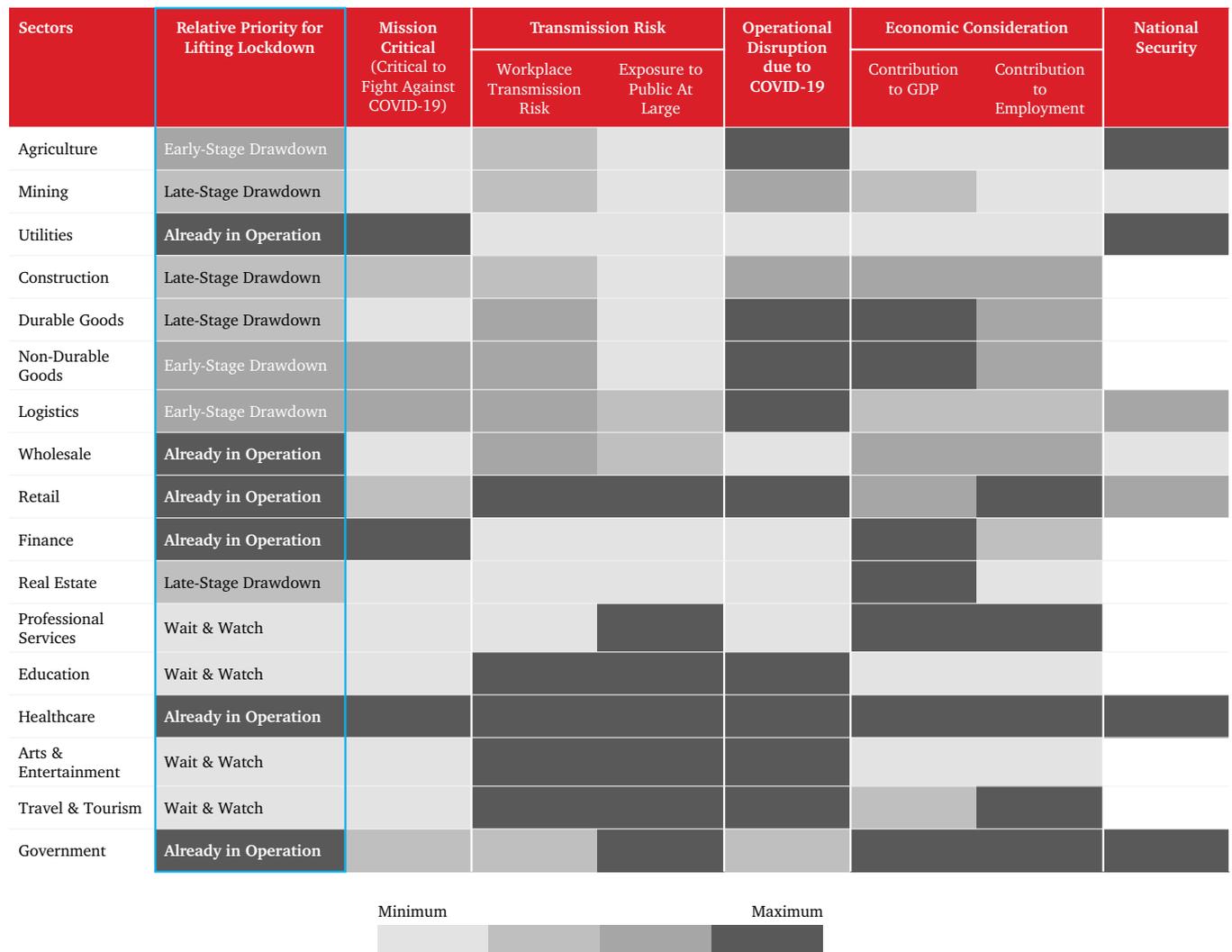
Source: RocSearch Analysis

3. **Immediate Closure to Phased Drawdown:** While the lockdowns had to be announced abruptly, the drawdown will be phased, where each sector will be assessed for its potential of spreading the contagion on the one hand and importance of its role in the economy on the other. Sectors may be classified into 4 categories –

- a. **Already in Operation:** Sectors that are critical to pandemic control, national security or are essential services.
- b. **Early-Stage Drawdown:** Sectors whose transmission risk is low, economic contribution is relatively high, and whose operations are significantly disrupted.
- c. **Late-Stage Draw-down:** Sectors whose transmission risk is high, economic contribution is relatively limited, and whose operations remain unaffected.
- d. **Wait & Watch:** Sectors whose transmission risk is high and are neither mission critical nor an economic priority.

Businesses must be prepared to explain the importance of their role in driving economic recovery, if required. Figure 4 below highlights the likely framework for a ‘Sector-wise Drawdown’. The sectors depicted in this figure are broad categories, while a practical implementation would be more granular and nuanced based on the interconnected nature of certain industries, and would vary depending upon the economy of the country and the extent of the lockdown.

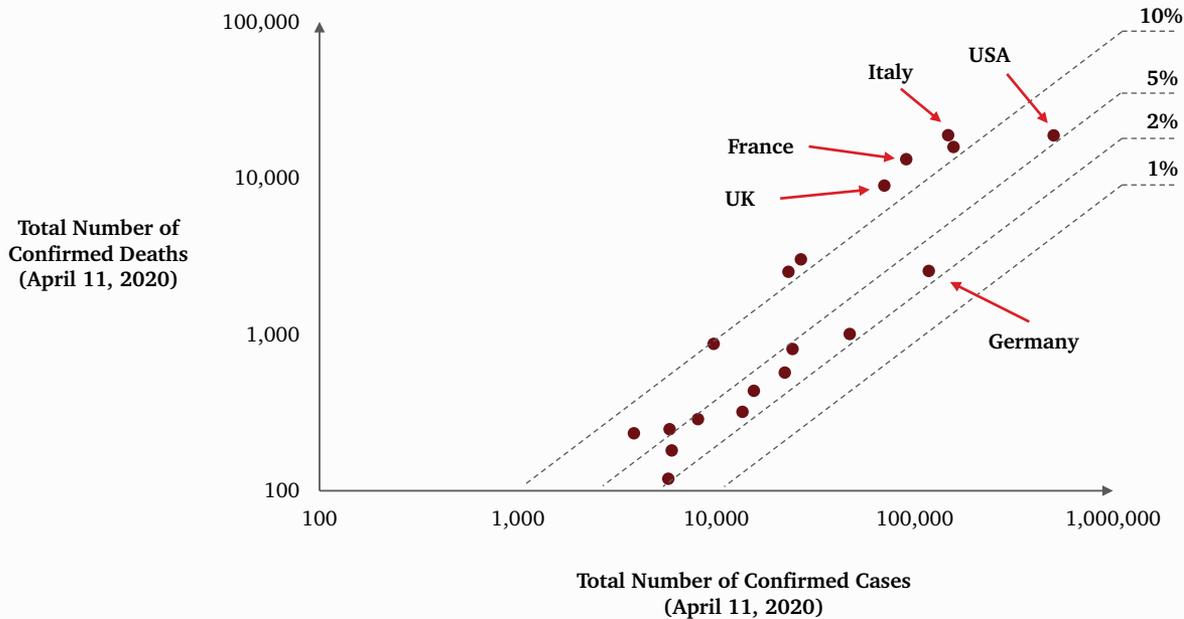
Fig 4: Framework for a ‘Sector-wise Drawdown’



Source: RocSearch Analysis

- Central Monitoring to Local Execution:** There is a wide variation geographically in the spread and case-fatality ratio of COVID-19 (see Figure 5). One of the factors driving decisions around relaxation of social distancing rules is the rate of hospitalizations and intensive care admissions. Since the spread of the disease was uneven, so has been the rate of hospitalization. Additionally, the nature of government response and the start of implementation²⁶ and planning for exit^{27,28} has varied significantly by country. Businesses should consider developing a regionally phased “exit strategy” to resume operations. This strategy relies on extensive monitoring and intelligence gathering given that there may be future disease hotspots developing due to spread by asymptomatic carriers. A clear recognition of that altered risk environment universally is critical to the success of resuming operations regionally.

Fig 5: Case-Fatality Ratio in OECD Countries



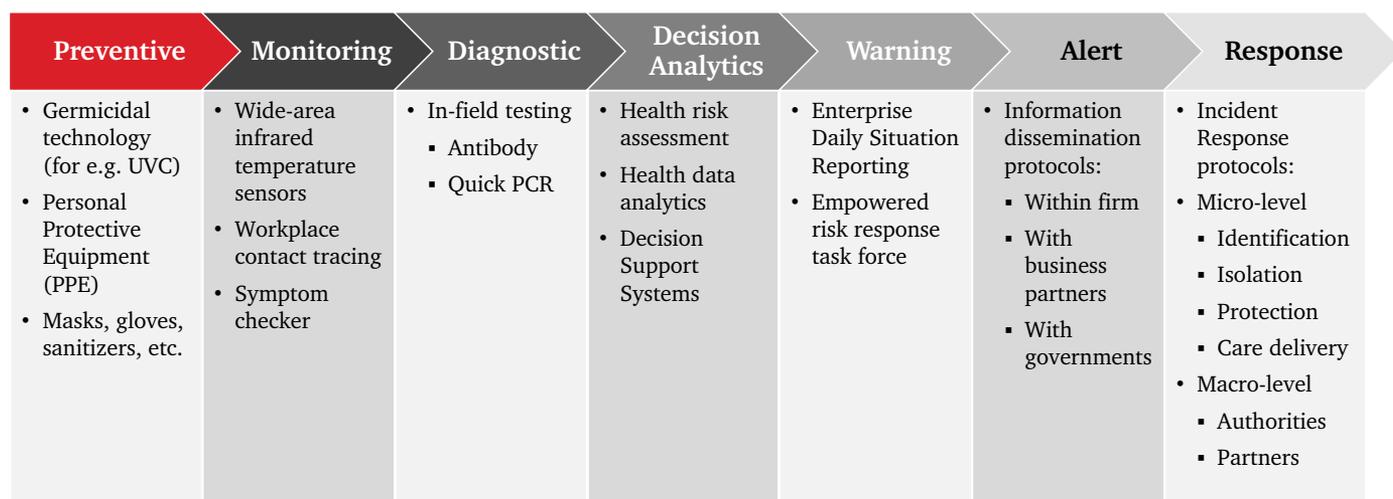
Source: The Center for Systems Science and Engineering (CSSE) at John Hopkins University, WHO, OurWorldinData.Org, RocSearch Analysis

5. **Linear Supply-Chain to Neural Supply-Chain:** The pre-normal phase would be characterized by sporadic regional outbreaks. While the impact of these outbreaks will be regional, business operations could come to a complete halt if your supply chain passes through that region. To mitigate this risk, supply chains will have to be conceived of as a neural network as opposed to a linear unidirectional pipeline. A neural supply chain is characterized by the ability to nimbly reconfigure supply after a disruptive incident has occurred in a geography. Enablers for a neural supply chain – blockchain for supply chains²⁹, mass customization, additive technologies³⁰, on-demand distributed manufacturing^{31,32} - have already emerged before this crisis.
6. **Self-Survival to Network-Revival:** Businesses will be able to resume operations successfully only if their wider ecosystem also recovers simultaneously. Some businesses may need to alter their value proposition entirely, albeit temporarily, in order to recover. Therefore, in the pre-normal phase businesses will be required to work collaboratively with their supply and distribution partners while developing strategies. The need for network focus is being emphasized across industries^{33,34} and some corporations are responding fast^{35,36,37,38}. Collective effort can not only boost the chance of survival but can also create a competitive advantage in a post-pandemic recovery.

Response Protocol

The heightened risk environment in the pre-normal phase necessitates the development of a response protocol, akin to the disaster management response framework. The success of the six critical transitions described above relies on an enterprise-wide preparedness protocol. Such a protocol will be necessary from both a disaster containment as well as a business liability perspective. Technology will play a vital role in the effectiveness of these protocols as well as in enabling wider critical transitions. Figure 6 below outlines the critical components of an enterprise-wide preparedness protocol.

Fig 6: Critical components of an enterprise-wide pandemic response protocol



Source: RocSearch Analysis

Preparing for the “Unknowns”

There is a lot that we still do not know about COVID-19. Most of these unknowns can have a dramatic impact on the planning of an exit from the lockdowns. An “exit strategy” must be responsive to the effects of these unknowns.

Table 1. “Unknowns” that will have significant impact on “exit strategy” in the Pre-Normal Phase

Unknown	Description	Implication
Infection	Lack of data about true scale of infections makes it difficult to estimate the length of the pre-normal phase. The roll-out of mass scale tests should make the true scale of infection clear as in a recent German cluster study ³⁹ .	<p>Area of Impact: Length of Pre-Normal Phase</p> <ul style="list-style-type: none"> If a large section of the population is already infected and is either symptomatic or recovered after minimal symptoms, the <i>pre-normal</i> will be short. If the scale of infection is still limited to and the wider population is still largely not infected, the <i>pre-normal</i> phase will be long. Given the true scale of infection would vary by country, business should expect to vary their response strategies by geography.
Mortality & Reinfections	<p>Current analysis of case-fatality ratio shows a significant, and unexplained variation across countries: 4% in China, 1.5% in South Korea, and 11% in Italy , <1% In Germany⁴⁰.</p> <p>It is yet unclear how long the immunity to COVID-19 lasts and are reinfections possible^{41,42}.</p>	<p>Area of Impact: Risk Intensity during Pre-Normal Phase</p> <ul style="list-style-type: none"> If the reinfection risk is low and: <ul style="list-style-type: none"> If mortality appears to be converging to < 1%, there would be chance of a quick recovery in the <i>pre-normal</i> phase. If mortality is 1-2%, critical goal of businesses in <i>pre-normal</i> would be survival and opportunistic revival. If it is >2% or there is a clear short-term reinfection risk, chance of a stable recovery can only be in the <i>post-vaccine new normal phase</i>.

Carriers & Severity	There is a wide variation in the severity of the symptoms, which has only been partly explained by age and comorbidities. Additionally, role of children and animals as carriers of the virus is still not clear.	<p>Area of Impact: Productivity during <i>Pre-Normal Phase</i></p> <ul style="list-style-type: none"> • If working age segments continue to display low severity and children and pets are deemed low-risk, a quick scaling-up of productivity may be expected. • If working age segments display wide unexplained variation in severity and children and pets are deemed carriers, productivity will be low and unexpectedly uneven across organizations.
Seasonality	There is no expert consensus on how increasing temperatures will impact biology and transmissibility of the contagion.	<p>Area of Impact: Location and Length of the <i>Pre-Normal Phase</i></p> <ul style="list-style-type: none"> • If the impact is significant: <ul style="list-style-type: none"> ▪ Economic activity may return to northern hemisphere and provide a chance to prepare for a second wave in fall or winter. ▪ Economic activity in the southern hemisphere would continue to be affected. • If the impact is not significant: <ul style="list-style-type: none"> ▪ <i>The pre-normal phase will be long all over the globe.</i>

Final Note

The COVID-19 health crisis is still a fast-evolving situation. The full scale of its impact on the population health and the economy is still unclear. Whether the crisis will lead to an economic recovery, which is V-shaped, U-shaped or L-shaped, is not only challenging to predict but comes with serious downside risks.

Nevertheless, we expect that a clear and safe end to this crisis will be marked by the development of a vaccine or a reliable treatment drug (for e.g., an antiviral). We believe that until then businesses will play a central role not just in the immediate response, but in ensuring minimal economic damage for all the stakeholders they serve. As with any Black Swan event, this one will require businesses to be creative, learning and adaptive - retooling and restructuring at an unprecedented pace.

RocSearch is publishing a series of papers to assess the impact of Covid-19 on the business environment globally and empower companies with timely information and analysis that will enable better planning for survival and recovery. In this series, we will next assess the impact of the crisis on private equity and corporate finance sector as they recover from the initial shock and prepare for the next phases.

Acknowledgements

This perspective is informed by a review of ideas introduced by the leading policy development institutions as well as interviews with business leaders across countries.

For this paper, we reviewed the ideas put forth by the following institutions:

1. National coronavirus response: A road map to reopening, American Enterprise Institute, USA⁴³
2. Making the Fight against the Coronavirus Pandemic Sustainable, IFO Institut, Germany⁴⁴
3. A National and State Plan To End the Coronavirus Crisis, Center for American Progress, USA⁴⁵
4. A “mobilize and transition” strategy could reduce COVID-19 mortality while cushioning the economic decline., Santa Fe Institute, USA⁴⁶

We also interviewed several of our clients, partners, and other respondents to assess the impact of this crisis on their businesses, portfolios, and strategies. Some of the participants included:

1. Munich-based Managing Director at German Corporate Finance Firm
2. London-based Partner at a Global Political and Economic Strategy Firm
3. Frankfurt-based Partner at a German Private Equity Firm
4. Head of Research at a Middle East-focused Private Equity Firm
5. Stockholm-based Senior Investment Manager at a Nordic Private Equity Firm
6. Minneapolis-based Partner at a US Private Equity Firm
7. London-based Director at a UK Corporate Finance Firm
8. Singapore-based Partners at a pan-Asia Strategic Intelligence Firm
9. London-based Founder of a Global Supply Chain Strategy Firm
10. Chicago-based Managing Director at a pan-US Private Equity Firm
11. Frankfurt-based Director at a French-Germany Private Equity Firm
12. Munich-based Director at a German Private Equity Firm
13. Chicago-based Director at a US Strategy Consulting Firm
14. New York-based Partner at a US Innovation Consulting Firm
15. Singapore-based Executive Director at a Global Financial Intelligence Firm
16. Frankfurt-based Director of a French Private Equity Firm
17. Senior Portfolio Manager at a Global Hedge Fund
18. Head of Corporate Finance at a Global Corporate Finance & Restructuring Advisory Firm
19. CFO and Partner at a Manchester-based Private Equity Firm
20. Head of Business and Enterprise at a Global Telecom Firm
21. Manchester-based Partner at a Global Corporate Finance Firm
22. Managing Director at a London-based Advisory Firm

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About RocSearch

At RocSearch, we are focused on offering meaningful perspectives and evidence-driven actionable intelligence to help businesses. Being data-driven, we continuously adapt and evolve these perspectives to help businesses plan better in uncertain times.

RocSearch's industry agnostic Research and Advisory offerings to support a robust operational and financial strategy for Covid-19 are listed below:

- “Pre-Normal” Operational Best Practices for Transition
- Technology Assessment for Pre-Normal Phase
- Supply Chain Resilience / Risk Reassessment
- M&A in uncertain times: how to spot the opportunity?
- Financial needs during the pre-normal phase
- Long-terms Impact: Political, Economic, Social, and Technological (PEST) Assessment
- Moonshot Scanning: Disruptive innovation post-Covid-19

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