Mitigating the adverse effects of COVID-19 on your business

Lessons learnt from China
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Introduction

As Covid-19 spreads rapidly around the world, posing unprecedented challenges to every multinational enterprise, it is worth looking to China to gather knowledge about how to successfully weather this storm as businesses there were the first to be affected. Now, having ward off the initial outbreak, China-based companies are ready to share their experiences with their global peers.

While it is important to acknowledge and learn from their experiences, it is also useful to understand that not all measures and outcomes in China are directly transmissible to a foreign business context. China was somewhat fortunate in that the emergence of the crisis coincided with the Chinese New Year, such that extending the holidays by a few days gave the government a comparatively comfortable time frame to implement with comprehensive policies under which conditions businesses can restart their operations. Not all other countries have governments who are able to impose such strict regulations at such a rapid pace for businesses that continue to operate, leaving more room for individual decisions taken by crisis management teams.

In this article, we aim to provide an overview of successful practices companies adopted to safeguard their employees and operations in China. We will also look at what leaders did to prepare their business for the months ahead, and how they plan to assess long-term consequences. Finally, we want to show that this crisis also presents an opportunity for companies to seize upon.

We have gathered insights from companies and other stakeholders of China’s business ecosystem, practices shared by colleagues, partners, and customers, as well as our observations and recommendations based on our own experience on the ground in China. Hopefully, these observations and best practices serve you to provide some guidance during these challenging times.

Best,

IoT ONE Team

team@iotone.com

Shanghai, China
April 2020
How to keep operations running under the current circumstances

Successful and productive remote working – best practices from China:

Temporary reconfiguration of teams to keep everyone aligned to the strategic goals:

- Teams should be small and cross-functional, with leaders specifying clear goals as well as a common purpose for every team member to adhere to. One Chinese company that has operated similarly for years, leading home appliance manufacturer Haier, has been able to become fully operational again much faster than its competitors. The company has long fostered an entrepreneurial attitude among its staff, leading it to organize itself into around 4,000 entrepreneurial units, mostly consisting of 10 to 15 employees each. This structure provides widespread autonomy to employees and enables fast, evidence-based decision-making at the team level. This can be crucial to swiftly react in times of crisis.

- Attach importance to communication methods:
  - With face-to-face meetings largely obsolete right now, it is important for companies to recognize that many important facets of communication, such as body language and other non-verbal cues, are transported insufficiently by digital means. In these uncertain times, employees value reliability and consistency. Many companies in China have increased the frequency of exchange between management and team members, and institutionalized jour fixes and tools to conduct virtual meetings. There has also been a large uptick in the use of real-time messaging services, such as Alibaba’s DingTalk or Tencent’s WeChat.

- Attach importance to communicating beyond work tasks:
  - While in isolation in their homes, it has proven crucial for employees’ well-being that companies routinely not only check in to assess the status of their work, but also relay updated crisis response strategies to their employees. This includes explaining why specific measures are taken as well as providing an honest outlook into the future prospects for the business in the coming weeks. Additionally, management should make itself approachable for
employees to ask questions and express if they are feeling unsafe for any reason.

**Showing compassion and concern for employees’ well-being:**

- Companies in China have used communication routines not only to discuss business matters, but also to connect on a personal level. Human interaction is paramount for personal well-being, and employers who acknowledge that their staff may also face additional pressures beyond adjusting to new working environments, such as caring for stay-at-home children or sick family members, also show that they empathize with and share these struggles. After all, this crisis affects everyone in society on multiple levels, and showing compassion has proven to be a great way to sustain employee well-being and a productive working culture.

- ‘China’s largest kitchenware manufacturer Supor instituted very specific operational guidelines and procedures for its employees, such as instructions for limiting exposure while dining in canteens and emergency plans for abnormal situations. In addition, the company instituted health checks for employees and their families from the early stages of the outbreak and procured preventative equipment.’ [4]

**Tackling security issues:**

- Especially larger companies have invested significantly into security capabilities: For example, leading insurance company Ping An has conducted mandatory safety awareness training, and limited data access on a need-to-know basis.

**Taking the time to explain new policies:**

- As many companies transitioned to home-based work with little prior preparation time, management and employees alike found themselves caught without any company policy and operating procedures to adhere to. These had to be made up hastily, and it proved valuable for management to take the time to explain and discuss those new policies and workflows with their team members. It is also important to ensure that all employees working from home have a proper setup to do so, including access to the necessary hard- and software, ample space, and sufficient access to networks and databases.

- ‘A China team member was on every call with global crisis managers to share lessons learned. Issues that came up included virtual meeting cadence, communications, taking care of those in quarantine, childcare, how to implement work-from-home and keeping buildings safe. We also covered making sure everyone had laptops with them every day and VPN connections as well as the materials to get critical financial documents processed from home.’ [3]

**Being flexible and agile with new measures:**

- Companies should always be ready to retain a high degree of flexibility with their measures. The situation is highly dynamic, and many of the measures now adopted by companies have never been tested on
a large scale in many of those companies. Therefore, it is important for leaders to closely monitor what works and what does not, and to adapt accordingly. The general openness among Chinese to quickly adopt new technology and experiment with it has helped them to deal with the crisis in a relatively successful manner. Companies across the globe should be able to learn from this example.

**Additional considerations**

**Employee protection is paramount:**

- Businesses started resuming operations adhering to strict security protocols. In China, various government bodies have issued strict regulations detailing the conditions under which operations can be resumed. Companies must demonstrate that they are able to follow those policies. Failure to do so may result in prolonged closure of the business. The regulations with regard to business operations in other parts of the world are often not as encompassing as in China. This gives companies more flexibility, but also increases the risk of registering infections among the workforce, which may lead to a temporary closure of the business.

- The process of issuing and administrating employee protection guidelines by the government underwent several transformations: Initially, the process was centralized and bureaucratic, with widespread closures forced upon businesses. Then, the central government gradually started decentralizing authority, providing provincial and local authorities with a degree of autonomy to adopt measures that would best suit their circumstances. While this decentralization led to improved reaction and implementation capability, it also increased difficulties for businesses that had to navigate multiple sets of rules in their various locations.

- ‘On January 21, we set up the China crisis management team, and two days later received protection masks at our warehouse. We gave our detailed action plans to HQ. They mirrored us and avoided some missteps.’[3]

- Even after the Chinese government has encouraged most groups of white-collar workers to return to their offices, many companies have given employees the choice to continue working from their homes for an extended period of time. By doing so, employers build goodwill with their staff and ensure that they would not force people to come back to the office when they were not ready to do so emotionally. Many people who are returning to the office are given the option of flexible working hours to be able to avoid busy commutes. It would be wise for MNCs to implement similar policies during the transitioning period from home office back to mandatory office presence. This will show employees that their safety is valued and their autonomy respected.

- Where companies have fully returned to office work, most have strict health and safety measures in place. This includes mandatory minimum distances, limiting face-to-face group meetings, mandatory mask-wearing in the workplace, and in common areas, and some times shift-
based working hours to reduce the number of people using an office at the same time.

Maintaining customer focus:

- “Companies that navigate disruptions better often succeed because they invest in their core customer segments and anticipate their behaviors. In China, for example, while consumer demand is down, it has not disappeared—people have dramatically shifted toward online shopping for all types of goods, including food and produce delivery.”[5] If companies in other countries are generally able to sell their products or perform their services online, they should increase their capacities to do so. This will enable them to still take in revenue during this time, thereby supporting their efforts towards financial stability. Additionally, customers’ changing preferences are not likely to fully revert back to pre-outbreak norms. Preparing for the new market conditions now will thus give companies a competitive edge after the crisis is over.

- Even while customer spending in both B2B and B2C markets is limited, forward-thinking companies in China have not stopped engaging their customers or leads. While it may be difficult for many to actually make sales during the height of the crisis, it will pay off to stay in touch with all business stakeholders. Discussion can shift away from the usual product- or transaction-oriented topics towards providing mutual support wherever possible, sharing best practices, or simply checking in to show empathy towards business partners in those challenging times. Like nations, companies who isolate themselves throughout the crisis are likely not to be remembered as trustworthy partners once the time comes to do business again.

- ‘Rather than going through the formality of scheduling a meeting, there are more quick daily online calls. I think we’re talking to customers more which makes us more connected than we were with face-to-face meetings.’[3]

Demonstrating purpose:

- “Businesses are only as strong as the communities of which they are a part. Companies need to figure out how to support response efforts—such as by providing money, equipment, or expertise. For example, some companies have shifted production to create medical masks and clothing.”[5] Such actions will be well received by governments, customers, and employees alike and provide an opportunity for businesses to honor their self-proclaimed commitments of servicing the communities they are a part of.

Communication:

- A stringent and comprehensive communication policy has proven important in ensuring employees’ support for measures taken by management. While in isolation in their homes, it has proven crucial for employees’ well-being that companies routinely relay updated crisis response strategies to their employees. This includes explaining why specific measures are taken as well as
providing an honest outlook into the future prospects for the business in the coming weeks. In turn, management must make itself accessible for employees to ask questions and express if they are feeling unsafe for any reason.

- Communication is also important in correctly transferring learnings from the situation in China to other countries as well as to the headquarters of international companies. Many Chinese business leaders have reported that their experience sharing has provided other locations with valuable insights and enabled to structure their response in a timely and adequate manner.

- 'We looked at China and beyond for best practices in setting the manufacturing game plan. China was often very straightforward because we did what the government told us to do. I encouraged HQ to look closely at what was done in Singapore, Japan, and South Korea because they were better templates to follow for the US and Europe. We took the lessons learned from our North Asia offices and documented it all.' [3]

Additional reading and overviews on recommended measures can be found here:

COVID-19 Strategies and Policies of the World’s Largest Companies:

How to prepare the business short-term for the months ahead

Actions taken by companies directly affected by the outbreak include the following [6]:

- **Transporting available inventory to areas away from quarantine zones towards near ports or major transportation hubs where it can be accessed for shipping.**

- **Securing capacity and delivery status for Tier-2 and Tier-3 suppliers and securing allocated supplies and overtime assembly capacity where possible.**

- **Buying ahead to procure inventory and raw material that is in short supply in impacted areas.**

- **Securing future air transportation as supply and capacity become available, shortening what might otherwise be ocean freight-based lead times.**

- **Activating pre-approved parts or raw-material substitutions in places where the primary supplier is impacted but a secondary supplier is not.**

- **Activating product redesign or material certification resources where reliable second sources of parts or raw material are not already available.**

- **Updating customers about delays and adjusting customer allocations to optimize profits on near-term revenue or to meet contractual terms.**

- **Shaping demand, by, for example, offering a discount on available inventory in cases where supply may be short for late winter-early spring fulfillment, optimizing near-term revenue.**

**Building resilience**

- The current crisis exposes the vulnerability of highly globalized supply chains that are optimized for efficiency and just-in-time delivery. With production output coming to a standstill in multiple countries, even those countries less affected by lockdowns experience extreme difficulties maintaining production in certain sectors, as they struggle to obtain supplies for their operations. Increasing supply chain transparency and visibility are likely to become increasingly important, as will ensuring excess capacity and enhanced inventory management. Finally, companies will likely look towards reducing dependency on any one country for their global supply chains. This may accelerate the trend of businesses shifting some manufacturing operations from China to other countries in Asia, such as Vietnam.

- This also includes evaluating the success of existing response plans for a crisis. Not all companies had such a plan in place prior to Covid-19, and even among those who did, many were not tailored
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specifically towards dealing with a pandemic. When emerging from this crisis, all companies should have a comprehensive plan in place that details how to react to any future such crisis.

- To avoid large-scale layoffs, companies in China are now also increasingly adopting reduced working hour schemes, enabling them to save labor costs. While there are legal mechanisms for adopting such kind of schemes available in many countries, Chinese law does not know such provisions. However, faced with the possibility of soaring unemployment, the government has indicated tolerance of these measures. [7]

**Empowering local leaders to take their own decisions:**

- With the accelerating global spread of the virus, companies should consider giving increased autonomy to their China teams. Global HQs are facing a multitude of challenges now, and with China being in relatively calm waters for the time being, now would be a good time to provide local organizations with increased autonomy, while maintaining high velocity of communication. This would alleviate some pressures on global business functions.

- ‘I think we underestimate how the normal Chinese New Year ramp down and ramp up minimized the lockdown’s impact. In other countries, the ramp down has been entirely disorganized. The supply chain is not prepared: when their lockdown ends, it will take them longer than China to ramp up.’ [3]

- ‘The supply chain ramp up we have seen in China was astonishing. We now do not even see any substantial barriers in the supply chain in the most impacted region Hubei, but are generally more worried about the global supply chain.’ - China Head, large Western automotive OEM.

**Shifting manufacturing capacity to China:**

- Roles between China and the West are reversed now: As production in China picks up speed again, factories in other countries are closing down. This means that global companies should quickly shift some of their production to China, if they expect to serve the global market in the coming weeks.

- ‘For a brief window, China might be the only viable supplier to the global economy as the US and Europe are in lockdown. Eventually, we’ll have to focus on the drive for domestic demand.’ [3]

**Continuing investments into in China:**

- Companies should resist the temptation to cut costs across the board and focus on a long-term outlook. The danger of cutting costs in China now is that Chinese competitors and forward-looking MNCs continuing to invest moderately into the Chinese market will use this time to gain a competitive edge in terms of market share, which will be extremely difficult to win back under normal circumstances. It can even be argued that China should be the last market for MNCs to curb investments in: It has already put the health crisis behind it, and is currently making good progress in tackling the economic fallout. With Western countries, the outlook is
much less clear, and in fact, many indicators point to much more drastic effects in countries like the US and Germany than is the case in China.

- "The critical message delivered to headquarters is that while everyone is in panic mode, now is not the time for cost control. We need to focus on investing in China. The ‘New Infrastructure’ fiscal stimulus package has many items directly linked to our business and will boost the overall market.” [3]

- "This month shaped up to be much better than we anticipated. Our competition is running into supply chain challenges. We used our rapid turnaround to convince HQ of the China view and we are building our story. There are significant market opportunities to catch now." [3]

How to anticipate and prepare for long-term consequences

Most companies in China are trying to answer the following key questions when planning their strategy over the next few months:

KEY QUESTIONS - Consumers

- Will consumer sentiment plunge?
- Will consumers move faster to ecommerce and security buying behaviors (foods, insurance)?
- How will nationalist sentiments develop (‘buy local’)?
- Will consumer lifestyles change?
- Will pent-up demand in Q1-Q2 be fully released over Q3-Q4?
- Will consumers change their spending priorities/categories?
- Will consumers lift savings and trim debt at the expense of consumption?
- How much have consumers been hurt financially?
- Can consumers look forward to continued strong real income growth?

KEY QUESTIONS – Manufacturing and Supply Chain

- When will all migrant workers return to work?
- When will COVID-19 restrictions ease on operations?
- Will high inventory levels curb a Q3-Q4 rebound?
- Will we see large scale distress for SMEs as cash flow dries up?
- Will offshoring to Southeast Asia and other locations accelerate?

KEY QUESTIONS – Construction

- Will real estate sales recover in Q3-Q4 this year?
- Will home price growth remain positive?
- Will developers be confident enough to launch new projects?
- How big is a shakeout likely in the property and construction sectors?
How to identify opportunities and competitive advantages, in China and beyond

Most sectors are seeing an adverse impact, but not all:

- Online food delivery platforms in China saw triple-digit revenue growth in recent months. The entire e-commerce industry is likely to have won market share in a matter of weeks that would otherwise have taken years to amass. This is unlikely to fully recede even after the crisis fades.

- "We are fully loaded with projects and are hiring as quickly as we can. Our 2020 outlook is very positive. Demand has shifted from multinationals to domestic companies and local governments." – COO, Augmented Reality Startup.

- "Growth was strong for industrial automation in China in Q1 and we maintain a positive outlook on the year. The Chinese government is incentivizing investment in industrial upgrading." – Product Manager, Electronics Manufacturer (based in the UK).

New working methods are seeing fast adoption, and likely are here to stay:

- Businesses have been forced to come up with new working methods that grant their employees increased autonomy. Some of this autonomy is likely to stick after the crisis, providing a valuable opportunity for businesses to leverage innovative and entrepreneurial potential across the workforce. The forced experimentation with novel working methods and structures is also likely to teach companies valuable lessons about how to best structure their workforce and organization. Without such a crisis, many companies would never have initiated such changes on their own. By closely monitoring the output of their operations, both in terms of quantity and quality, businesses will be able to retain those policies that work well, while discarding what is only a temporary necessity.

- "As we move to online meetings globally – because everyone is working from home – the China team benefits. We are dialed-in to calls whenever we need to be and escaping the conference room. We are looking to keep this momentum after Covid-19." [3]

- "We realized a huge difference when moving business process to a virtual level between different countries. In China the transition to virtual work mode of the staff went relatively smooth, whereas in Germany there were many barriers in doing so. IT infrastructure is a "significant problem" in Germany, whereas in China this was not a
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problem.’ - Global Senior Executive, large IT Corporation.

Companies pilot new ways of keeping their customers and audiences engaged

- For example, live streaming services have gathered the attraction of home-bound consumers. Clubs streamed DJ sets featuring prominent product placements, real estate agents promoted properties, and video-game streams were stronger than ever. In a time of prolonged social isolation, live streams can provide the welcome feeling of belonging and group cohesion needed to be emotionally stable throughout this situation.

- ‘For example, the Chinese business of a global confectionary manufacturer accelerated its existing digital transformation efforts. The company canceled offline campaigns for Valentine’s Day and other promotional activities, reinvesting resources instead into digital marketing, WeChat programs, and partnerships with O2O platforms to take advantage of new consumer behaviors during the outbreak and beyond.’ [4]

Additional resources:

Table of positive and negative impacts on technology and companies globally, via Seedtable.com: LINK.
References


IOT ONE INSIGHTS

Mitigating the adverse effects of COVID-19 on your business:
Lessons learnt from China

IoT ONE’s mission is to increase the competitiveness of our clients by helping them to realize the opportunities and manage the threats that are created by digitalization.

We are known for:

- An intent focus on the interface of digital technology and strategy.
- Deep engagement with domain experts and startup ecosystems.
- Our focus on delivering practical results at China speed.

We are always looking for opportunities to better serve our customers and users. To learn more about us or to begin a discussion, email team@iotone.com.

Kind regards,

Erik Walenza-Slabe
CEO, IoT ONE