

J U L Y 2 0 2 0

Fast-Forward to the Future

Defining and winning the Post-COVID New Normal

COVID-19 has heralded one of the most pronounced periods of uncertainty for businesses in history, forcing us to ask hard questions of our economic and social future. However, despite this unprecedented economic and social stress, the easing of lockdown restrictions in key markets means that organizations' thoughts are turning to how they navigate the post-crisis era and drive the transformation necessary to succeed in the "new normal."

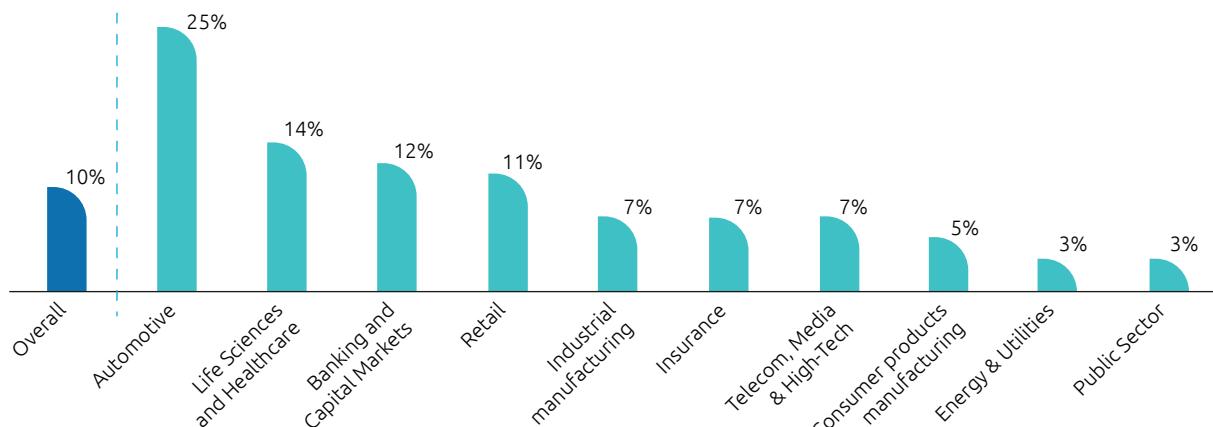
To understand what lies ahead – from the immediate future of work to emerging business models – we surveyed more than 1,000 senior executives across the world and a range of sectors (you can find more about our research methodology in the appendix). Drawing on that extensive research, we have identified a number of critical themes:

- The pandemic has cemented technology's role at the heart of transformation, driving new ways of interaction, sharing, engaging and decision making.
- Three trends will define the new normal:
 - Remote working as part and parcel of our working lives
 - A digitization and automation boom
 - Organizations will rethink production and supplier networks, with nearshoring top of the agenda.

The pandemic has cemented technology's role at the heart of transformation

The COVID-19 crisis has significantly disrupted businesses globally. In fact, in a stark reminder of how significant the impact has been, one in 10 organizations in our survey (10%) actually said that it is such a profound crisis that their organization will not be able to overcome it. This is particularly pronounced in automotive, where 25% actually doubt their continued viability (see Figure 1). And, many organizations are under no illusion about how long it will take to get back to normal. Our research found that 37% feel that it will take more than 12 months for revenues to stabilize.

Figure 1: 10% of organizations say that COVID-19 is a challenge that their organization will not be able to overcome

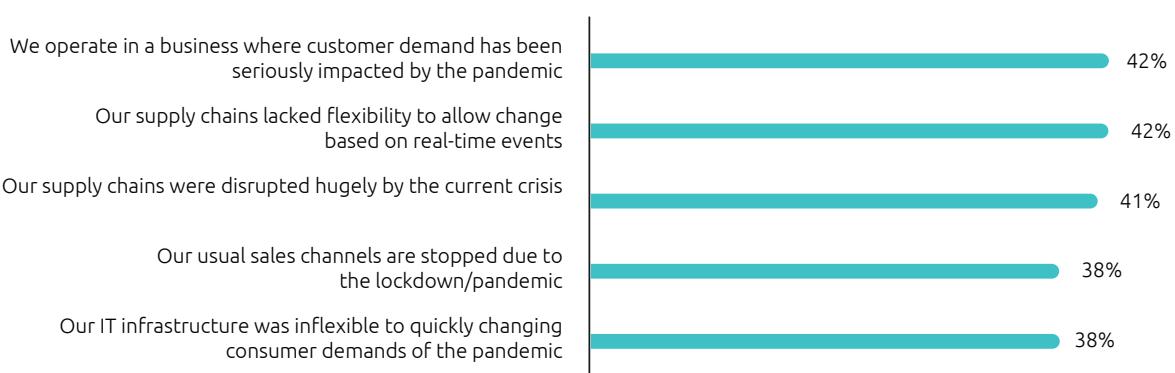


Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May-June 2020, N=1,000 respondents globally.

When we asked what specific factors were driving this major disruption, the top 5 challenges were headed up by a decline in customer demand and a lack of flexibility and resilience in supply chains (see Figure 2).

Figure 2: Lack of customer demand and rigidity of supply chain emerge as top reasons for the impact

What in your view were the reasons behind the impact on your business? – Top 5 reasons



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May-June 2020, N=776 respondents globally who mentioned that COVID-19 has had a major/disruptive impact on the business.

However, while some may see their future as cloudy at best, others are viewing the pandemic as an opportunity. Close to a third (30%) believe that the current pandemic is an opportunity to transform their business. Despite the turmoil in global markets, they are looking to accelerate technology-driven transformation. For instance, PepsiCo has launched a first major direct-to-consumer (D2C) operation,

supported by two new websites selling its range of brands. Both sites (PantryShop.com and Snacks.com) were completely developed in-house by PepsiCo in less than 30 days.¹ *"I think people have realized that efforts that would traditionally be scoped out to be months and quarters can actually be done in a lot shorter period of time if you put your mind to it,"* says Adobe's CIO Cynthia Stoddard.²

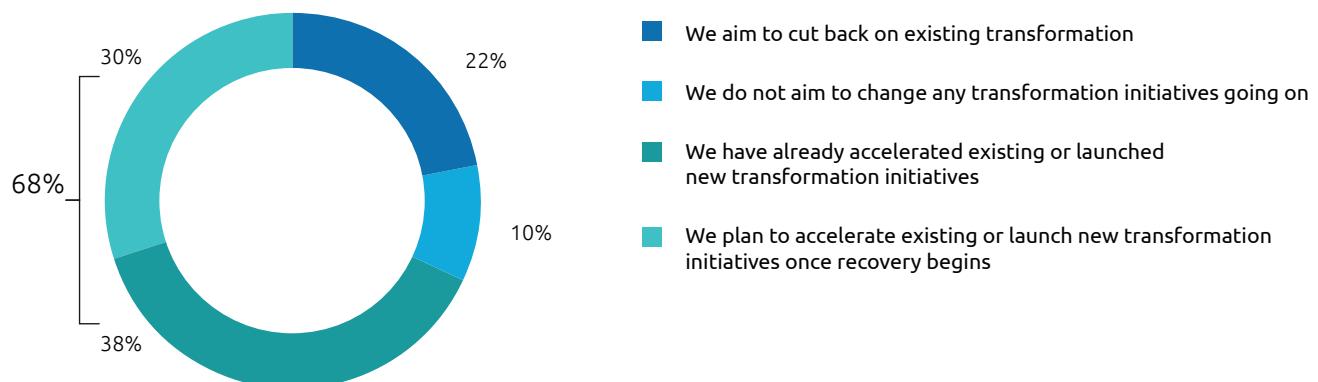
A majority will accelerate their transformation investments, with technology-led transformation at the core

Despite today's focus on cash management and immediate crisis response, our research found significant determination to accelerate transformation initiatives in over two-thirds of organizations (see Figure 3):

- 38% say that they have already accelerated existing transformation initiatives or plan to launch new ones.
- 30% will accelerate or launch new initiatives once recovery kicks in.

Figure 3: COVID-19 crisis has acted as a catalyst for transformation in organizations

Actions taken with respect to digital/business transformation



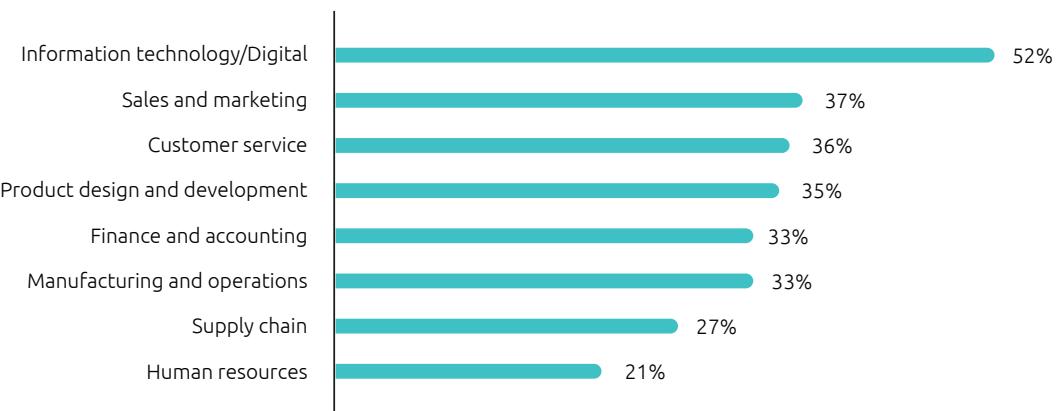
Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May-June 2020, N=1,000 respondents globally.

Technology will be at the heart of these transformations and new ways of working. As Jim Swanson, EVP and Group CIO at Johnson & Johnson, says, *"Technology was critical to us before this crisis, but it has taken a quantum leap in criticality for the future. Once this pandemic is over — and it will end — we will see much greater use of technology in healthcare than we've ever seen before."*³

This determination to focus on technology and digitization is reflected in organizations' priorities and their investment plans. As Figure 4 shows, the IT/digital function emerges as the number-one focus area for transformation (52% of

respondents made it a top-three priority). This increases to 67% for telecom, media and entertainment, and life sciences, and 66% in industrial manufacturing.

Figure 4: Function that will be the focus of transformation initiatives (ranked among top 3)



*Digital initiatives in other functions are also included under IT function by respondents

Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May-June 2020, N= 612 organizations which are accelerating/planning to accelerate transformation.

With the IT function the core focus of transformation, will we see more influence from CIOs at the executive table? Or a more coordinated approach between the business and IT?

These are still open questions but it is clear that IT will be more center-stage in most organizations going forward.

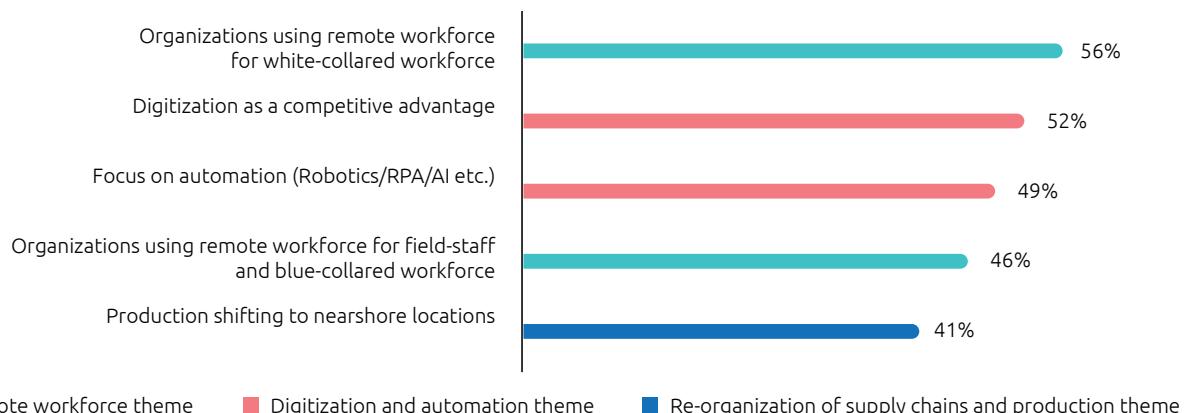
Three trends will define the new normal: the remote workforce, automation, and nearshoring

When we asked respondents what they felt defined the new normal, a number of themes emerged from the top 5 qualities they selected (see Figure 5):

- The world of work will look very different (remote workforce)
- Digitization will define how competitive and efficient you are (digitization and automation)
- Long and complex global supply chains will be rethought (reorganization of supply chain and production)

Figure 5: Top-five areas organizations associate with the “new normal”

How would you qualify the “new normal” for businesses post COVID-19 crisis?



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=1,000 respondents globally.

- **Remote workforce:** The pandemic has served as a crash course in virtual and remote working for many organizations. With remote working being the dominant way of work today, work is no longer a “place” where we go; instead it is what we “do.” In this scenario, how do organizations invent a remote working paradigm that nurtures the skills and know-how of talented people?
- **Digitization and automation:** The pandemic will accelerate existing digitization efforts. For instance, pharma company Takeda is planning to extend the use of RPA for collecting information on people who may be suitable for the trial of a COVID-19 treatment. By using RPA, the company estimates it will automate 4.6 million hours of office work per year.⁴ If automation is going to be key to performance, how can organizations make the most of

digitization and intelligent automation across areas ranging from customer experience to supply chain?

- **Reorganization of supply chains and production:** The COVID-19 crisis has exposed the vulnerabilities of long and complex supply chains. Organizations are therefore looking at diversifying suppliers and bringing production and suppliers closer to key markets ('nearshoring'). How can organizations make their supply chains resilient and improve visibility and transparency at the same time?

In the following sections, we take a deeper look at these three facets of the new normal and the specific actions that will be key to making them a success.

Trend One: Remote working will be part and parcel of work life

Many organizations now see remote working as part of a permanent working model – they are planning to move either to a hybrid working model or move a majority of their workforce online.

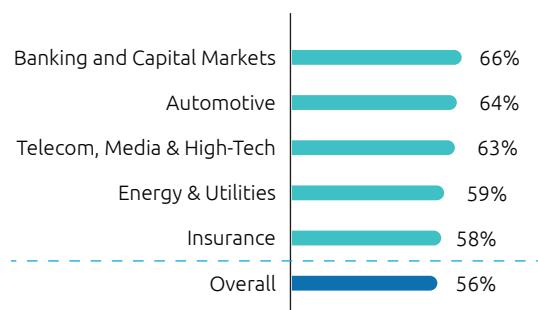
Nationwide, the insurance and financial services firm, will be exiting all locations except four by November 1, 2020. Kirt Walker, CEO says, *"We've been investing in our technological capabilities for years, and those investments really paid off when*

*we needed to transition quickly to a 98% work-from-home model. Our associates and our technology team have proven to us that we can serve our members and partners with extraordinary care with a large portion of our team working from home."*⁵

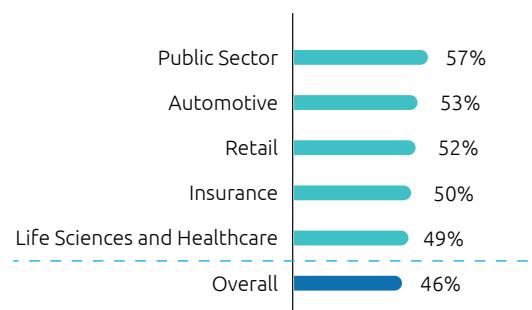
Our survey shows the executives across sectors view remote working as a part of the new normal (see Figure 6).

Figure 6: Two-thirds of financial services and automotive firms view remote working as part of the new normal

Organizations associating remote workforce for white-collared workforce as part of the "new normal" – top five sectors



Organizations associating remote workforce for blue-collared workforce as part of the "new normal" – top five sectors



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=1,000 respondents globally.

This trend is particularly pronounced in a number of sectors:

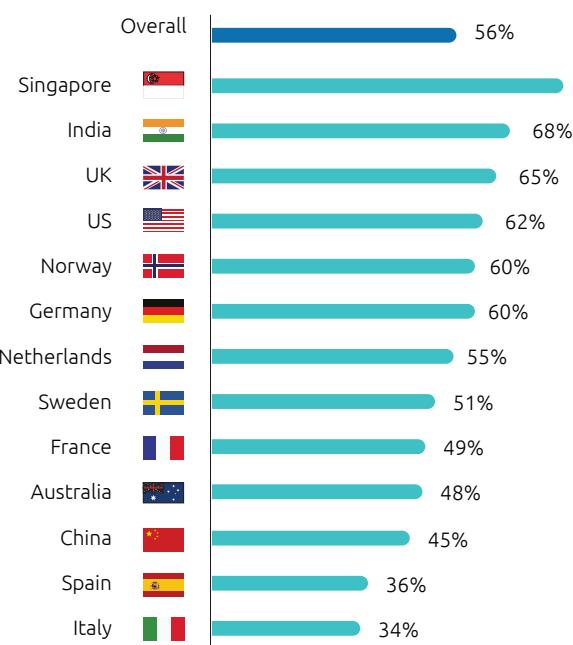
- Banking and capital markets: while some areas, such as bank branch operations and activities that are high value and real time, cannot be shifted to remote operations, other areas are prime candidates for remote working. James Gorman, CEO of Morgan Stanley, has said: *"Can I see a future where part of every week, certainly part of every month, a lot of our employees will be at home? Absolutely."*⁶
- Even in automotive, there is significant interest in examining remote working for non-production roles. Groupe PSA has said: *"Given the positive experience and efficient measures already taken in the context of the COVID-19 crisis, Groupe PSA has decided to strengthen teleworking and to make it the benchmark for activities not directly related to production."*⁷

This trend also follows for blue-collar workers. Almost half (46%) of the executives surveyed said that remote working as a new normal also applies to field staff and blue-collar workers. This is to not only enable employees to do their job remotely, but also to safeguard their health and safety. For instance, energy and utility firms are making use of drones to inspect and monitor electricity lines from a safe distance, both reducing risk and decreasing turnaround time.⁸ These models are likely be operationalized as a part-time remote model to begin with.

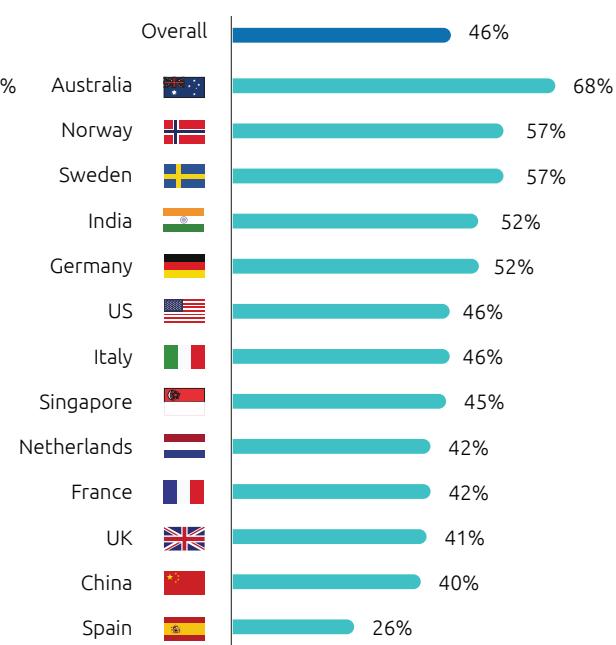
As Figure 7 shows, executives in some countries are particularly ambitious about the role that remote working will play. For example, 80% organizations in Singapore say that remote working for white collar workers will be business-as-usual.

Figure 7: More than two-thirds of organizations in Singapore and India view remote working as part of the new normal

Organizations associating remote workforce for white-collared workforce as part of the "new normal" - by country



Organizations associating remote workforce for blue-collared workforce as part of the "new normal" - by country



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=1,000 respondents globally.

Action points for organizations:

In the new normal, a large proportion of employees will work remotely. This raises some important questions for employers. What is the right balance between remote working and work at the office? What are the implications of remote working for the sourcing of talent? How do you offer an employee experience that meets everyone's expectations? Below, we look at some of the critical action areas, which are underpinned by data, analytics, and design thinking:

Reshape your virtual operating model

- Adapt your sourcing model:** Removing the need for people being present at a place of work means organizations can expand their talent sourcing boundaries and expand their talent boundaries. For example, making use of 'tele-migrants' – expert resources who are physically distant from the parent company, either nationally or across international borders. For instance, inspired by the success of remote teams during the lockdown, ING Australia is targeting workers from across the country for new technology roles.⁹ A shift in mindset from "deliver on-premise" to "deliver where you are" will also enable organizations to leverage fluid working models more effectively.

- Digitize core HR processes:** Our research reveals that within workforce management, organizations ranked "digitization of core HR processes - such as recruiting, onboarding, learning and development, and performance management - as among the top-three priorities they will be working on in the next 12 months. While digitization has made steady progress in recruitment processes, a focus is required on onboarding as well – from document submission to virtual introductions, and training and support.

But as well as digitizing processes, organizations need to make new joiners feel part of the team while working remotely. Meeting this challenge means:

- Clearly defining the role of a new joiner - and how they integrate into the wider organization - can help them quickly find their feet, even in a remote environment

– Traditional constructs, such as a mentor programs, are even more significant - helping ensure new team members are properly assimilated with the wider team.

- Shape your real estate towards more collaborative and secure workplace:** The COVID-19 pandemic imposed new hygiene related rules in the workplace (social distancing, wearing masks, changed cleaning policies etc.). The new normal also demands organizations to look at their real estate strategy differently – including changed layouts, finding an optimal balance between remote and on-premise workforce, and using analytics to optimize real estate use. These will help organizations to find a balance between real estate costs, people productivity and wellbeing and environmental impacts.

Redefine the "employer value proposition"

- Revisit the "social contract":** As more employees move to remote working, employers must also take this opportunity to revisit the social contract that underpins the employer-employee relationship (a contract where traditionally the employee offers loyalty and commitment and the employer offers comfortable compensation and benefits). Our research reveals that among those organizations that see transformation of workforce management as a key priority over the next 12 months, over a third (34%) see "revisiting the employee social contract" as a priority.

This means creating a social contract that focuses on:

- Meeting employees' remote working needs:** With a remote workforce, how do you ensure that your people have the right infrastructure in place to do their jobs efficiently? Many organizations are increasingly considering a home office stipend, designed to be used for essentials such as office furniture, a robust internet connection and other infrastructure they might need. Google recently offered a stipend of \$1,000 to their employees to buy home furniture.¹⁰

- Building a culture of belongingness:** While remote working and the associated flexibility is an attractive prospect for employees, many miss face-to-face interaction with colleagues. In a recent US-based survey, Millennials and GenZ employees faced the most challenges in working from home during the pandemic.¹¹

Organizations will need new collective rituals for teams to keep them motivated and engaged. Providing opportunities to express opinions will build employee trust and connection. Advertisement agency McCann is using Microsoft Teams to do group happy hours.¹² Automattic, a 100% remote web development company uses “water coolers,” chats or activity streams created for non-work-related discussions with colleagues to foster a sense of community.¹³

- **Catering to the need for recognition:** Recognizing the impact of work done becomes even more important when working with remote employees. Recognition drives a strong emotional connection and shows them how they can contribute to the wider organizational value chain. GitLab, a 100% remote software company with over 1,200 employees in 67 countries has a Slack channel – #thanks – for the purpose of giving credit where it’s due and saying thank you, a core value of the company.¹⁴

- **Focusing on being a purpose-led organization:** Purpose will be the new glue for employees to be a part of organization in the new normal world. Organizations with purpose-driven cultures get greater talent attraction, strong retention levels, increased engagement and productivity.¹⁵ Sustainability director of a large consumer white goods company tells us, *“We see the rewards of sustainability and purpose coming from different stakeholders. We see that people want to work with us. We are convinced that we get access to higher quality talent because we have a clear purpose as a company.”*

- **Reinvent the role of leaders:** As organizations embrace remote working, a new management framework is a must to handle this new system and recreate team bonding. In this scenario, leaders need to focus on promoting a culture of autonomy and accountability. Managers will need to adjust to the fact that a remote workforce requires more autonomy, when closer supervision is what many managers feel more comfortable with. Alex Turnbull, founder and CEO of Groove, a software company that has been working 100% remotely for the past seven years, says: *“Badgering your people is a recipe for resentful, low-performing employees.”*¹⁶

Building emotional intelligence among managers is equally crucial. For example, 48% of organizations say that “building soft skills such as emotional intelligence, adaptability, and collaboration” is a key priority as they look to build a digital culture.

Build a digital workplace that is collaborative but secure:

- **Setting up the right collaboration tools:** Effective virtual collaboration demands a strong digital infrastructure, with digital tools that are intuitive and make virtual collaboration as ‘real’ and effortless as possible. In our research, 51% of organizations are either planning to invest more in collaboration technologies - such as remote working, knowledge-sharing tools – or maintain existing investment commitments.

Collaboration tools need to break down silos and offer a user-friendly experience (co-editing, real-time collaboration) while ensuring people do not suffer “digital fatigue” from 90% of their interactions being virtual.

- **Managing cybersecurity risks:** As cyber risk has grown in a virtual environment, organizations need to:

- Run security awareness campaigns and provide training sessions that are dynamic, engaging, and sustained
- Introduce multi-factor authentication for critical applications
- Implement security orchestration, automation, and response (SOAR) technologies to help cybersecurity teams to define, prioritize and drive incident response activities with improved accuracy and speed.¹⁷

Trend Two: A digitization and automation boom

The race to digitize and automate had set off before COVID-19. However, the pandemic will further accelerate existing digitization efforts:

- 74% say that accelerating digitization and automation initiatives are key priorities for them (37% say it is a current priority and 37% treat it as a key priority in the next 12 months). However, the challenges that stood in the way of digitization efforts pre-COVID – such as inflexible IT – are still a major issue.
- Of those organizations, which associate accelerated digitization as a new normal, 41% faced challenges due to “inflexible IT infrastructure” during lockdowns.

Digitization and automation of Customer Experience (CX): a key priority for organizations

The crisis has accelerated the impact of digitization, automation, and AI on the CX. As consumers look for engagement that is characterized by touchless interfaces

and other safety-conscious approaches – we see examples emerging from numerous sectors:

- In retail, US food and drug retailer Albertsons Companies is implementing an AI-powered virtual assistant. This is in response to their customers increasingly shifting to web and mobile shopping apps as a result of the crisis.¹⁸
- In automotive, BMW has launched an online digital showroom in China that is integrated with WeChat. This enables consumers to interact with BMW product experts.¹⁹ Audi India has launched its online car-buying platform and it makes use of Augmented Reality (AR).²⁰
- In banking, India-based ICICI Bank introduced voice assistant services during the pandemic. Consumers could use voice-enabled smart speakers to access a range of banking services, such as account details, credit card history, or transaction details.²¹

Our research found that the use of AI to transform the CX will be a key priority for organizations in the next 12 months. As Figure 8 shows, using AI was ranked as the number-one CX priority by organizations, followed by building contextual and personalized digital customer experiences.

Figure 8: Ranking of top priorities within customer experience

Rank	Initiatives within customer experience	% of organizations that identified this option as a priority for the CX efforts
1	Use of AI to improve CX (chatbots, voice bots, virtual assistants, etc.)	43%
2	Using digital to build contextually relevant/personalized experience	39%
2	Health and safety measures for customers and employees at customer touchpoints	39%
2	Enhancing customer loyalty (prioritize loyal customers/going above and beyond usual customer expectations/rewards)	39%
3	Increasing wallet share with current customers through cross-selling or new partnerships	37%

Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=763 respondents who mentioned CX as a priority in the next 12 months.

There are a number of reasons why organizations are accelerating investments in CX technologies. For example, 70% of those who are accelerating their AI initiatives said that they were struggling to retain key clients. And 60% of those that are looking to build personalized experiences said they are struggling to find new clients because of the COVID crisis. It is clear that these organizations see that emerging technologies are critical to attracting clients and driving growth.

Action points for organizations

Build strong data foundations

Use the power of data – which includes consumer behavior insights, demographics, usage patterns, etc. – to anticipate what the customer may want to do next and why. To effectively do so, organizations need to:

- Design systems to put data collection at the core of how they operate. They need to explore new sources of structured and unstructured data, structure and harmonize complex data through data catalogues, with a focus on data quality, security and privacy.
- Put in place robust data governance – building ‘data trust’ by defining guidelines and enforcing policies and arming AI and other teams with high-quality data.
- Remove data silos by transforming legacy IT, monolithic architecture and putting in an integrated architecture.

Strike the right balance between human and AI interactions:

[Previous Capgemini research](#) on the use of AI in the customer experience clearly laid out the case for humanizing machine interactions. For example, nearly 64% of consumers want AI-enabled conversational interfaces to be more human-like.²² Today’s consumers want a collaborative human-AI experience, with emotional intelligence and human empathy seen as critical for solving complex issues. At Google, for example, around 25% of the calls placed through to its AI-based voice assistant, Duplex, started with a human.²³

Organizations should:

- Clearly define tasks, delineating those that are delegated to AI and those that fall to humans.
- Design a seamless handoff from AI to humans.
- Use AI for relieving employees from repetitive tasks and supporting them in decision making, improving their focus on customer-facing interactions.

Anticipate customers’ “intentions” before they express them:

Focusing on an intention-driven design helps to meet and exceed customer expectations. For this, organizations should:

- Capture expectations throughout the customer journey and establish a business case for AI at various pain points
- Focus on a digital-first and standardized customer interaction process with avenues for implementing AI (personalization, recommendations, voice-based interaction, among others).
- Build in empathy to their approach to handling consumers’ complex and exceptional issues, including offering other ways of connecting with the organization when AI is not able to resolve a customer’s issue.

Intelligent automation in operations will be at forefront

The increasing use of automation and AI in operations was a significant priority before the crisis. In 2019, Japan's Mizuho Bank developed a solution leveraging AI, optical character recognition (OCR) and robotic process automation (RPA) to automatically process more than 80% of its checks and documentation processes, transforming back-office

operations.²⁴ CPG companies, such as PepsiCo, Danone, and Anheuser-Busch, are using AI-powered inventory software to maximize supply chain efficiency and provide their salesforces with timely insights.²⁵

Organizations are now accelerating the integration of automation roadmaps in their digital transformation strategy. As Figure 9 shows, 46% of organizations rank the use of AI as the top priority within operations transformation.

Figure 9: Ranking of top priorities within operations

Rank	Initiatives within operations transformation	% of organizations that picked up the given option as a priority
1	Using AI and insights and data in operations (e.g., in predictive maintenance, or quality inspection)	46%
2	Using IoT in operations	37%
2	Designing products/services digitally	37%
3	Process automation through RPA (robotic process automation)	36%
3	Restructuring operations organization to improve agility	36%

Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=739 respondents who mentioned operations transformation as a priority in the next 12 months.

Action points for organizations

Rationalize your automation portfolio

- [Previous research](#) we conducted on automation use cases found that although a majority of organizations have implemented automation or were in process of doing so, 39% pointed to lack of coordination among business units as a key challenge.²⁶ Many of the automation initiatives in organizations today are disconnected, siloed, and sometimes redundant.

However, in a new-normal era, as cost efficiency pressures mount, organizations need to re-evaluate their automation plans and take a pragmatic approach when choosing

automation use cases in operations. Finding and developing viable automation and AI use cases gives leaders a clear understanding of how these technologies fit with the organization's business strategy, competencies, and current and future technology capabilities, and what impact they have on revenue, cost and risk.

Ensure processes have been optimized before shortlisting them for automation

- A proper selection and assessment of the suitability of business processes for automation is crucial for success, especially when evaluating automation of existing processes. The key is to start with identification of the right

processes, re-imagining an AI-first approach in mapping processes and even re-engineering certain processes.

For this, a five-step approach – “ESOAR” (eliminate, standardize, optimize, automate, robotize) – can help. The first step, for example, eliminates unnecessary process steps, activities, approvals, reports, etc., that are either simply not required (in the automated world) or the results of which can be better achieved in other ways.

Maintain and foster automation

- The task of automation does not end with implementation, as ongoing maintenance is required to ensure smooth operations. Organizations should:
 - Look at a Center of Enablement approach with structured governance and clear processes and responsibilities in place.
 - Build dedicated teams for automation project execution and maintenance, coordinated through a central command center.
 - Develop a shared reusable asset library by functional area, which will help in sharing the best practices and learnings of automation in one function with others.

Given that this is a continuously evolving area, leaders will need to have an appetite to continuously innovate – always looking at how inefficient processes can be transformed to deliver new levels of performance, transform the customer experience, and create new revenue opportunities.

Involve your workforce, invest in their capabilities, and drive a dedicated change management program

- With COVID-19, and with increasing reliance on automation, organizations also need to undertake a comprehensive upskilling of their workforce. Our [previous research](#) on automation and workforce shows that organizations that have an ongoing upskilling program have more successful intelligent automation initiatives, higher productivity, and higher employee morale.²⁷

To design and implement a successful upskilling program, a number of factors are critical:

1. Assess your tech investments and to what extent they will impact the workforce
2. Define the skills you need and when you need them.
3. Make the upskilling program a win-win for your people and organization by making them relevant to the needs of the company.
4. Align learning with organizational strategy.
5. Equip leaders to communicate effectively.
6. Ensure you have a change management strategy in place that will take into consideration a different approach than classical means to adapt to remote engagement/distant interactions.

Trend Three: Rethink of production and supplier networks with nearshoring at the top of the agenda

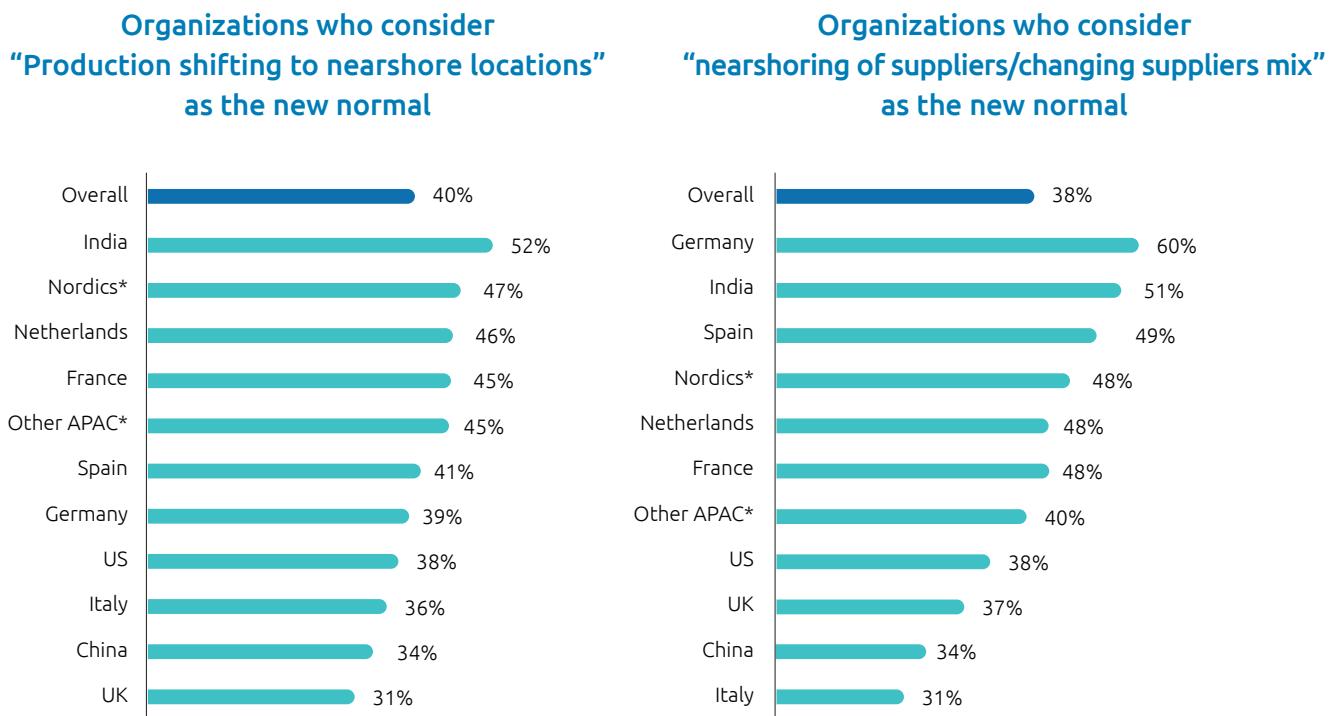
The COVID-19 crisis exposed the limitations of globally dispersed supply chains and production, and the inherent risks in these parts of the value chain being highly optimized for costs and efficiency, as opposed to resilience.

Automotive, for example, was one of the earliest hit sectors as China's Hubei province – which was among the first regions to be affected by the coronavirus and lockdowns – is a major part of the supply chain of multiple large automakers.²⁸ Supply networks have become increasingly concentrated beyond tier-1 suppliers. Recent research (published in February 2020) showed that 938 of Fortune 1000 companies have one or more tier-2 suppliers in the Chinese provinces impacted by the crisis till then.²⁹ Such concentrated supply chain can create

a domino effect where a single point of failure can lead to shutdowns worldwide.

Executives in our research acknowledge the vulnerability of their supply chains. We found that 42% of those organizations that saw major operational disruption as a result of the crisis pointed to inflexibility in their supply chains as a major reason. Our survey shows that organizations will increasingly reorganize their production and supply chain networks in the new normal. As we saw earlier, 40% of executives expect nearshoring of production and 39% expect a change in supplier mix, such as nearshoring of suppliers. As Figure 10 shows, India, Nordics and Netherlands lead in preference for nearshoring production, whereas, Germany, India and Spain lead in preference for changing supplier mix.

Figure 10: Close to half of manufacturers in Nordics, Netherlands and France will look to nearshore their production



*Nordics includes Norway and Sweden; and Other APAC includes Australia and Singapore.

Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May-June 2020, N=675 manufacturing and supply-chain oriented organizations (sectors included: automotive, consumer products manufacturing, industrial manufacturing, retail, energy and utilities, TMT (telecom, media and technology), and life sciences manufacturing).

Several implications of the COVID-19 crisis underscore these priorities:

- More than two-thirds (68%) of organizations who prioritize having a network of geographically diverse suppliers had their production negatively impacted during the COVID-19 crisis.
- 62% organizations that are prioritizing changing sourcing locations had suffered a negative impact on production of goods during the crisis.
- Recent Capgemini research found that 68% of consumers plan to purchase more locally-made products in the next 12 months rather than imported or non-local.³⁰

From our research – as well as our experience of working with large, global manufacturers and suppliers – we believe that a new industrial model could emerge with the following characteristics (see Figure 11):

- **Reshoring, local sourcing or localizing (short to medium term):** Policy initiatives by governments around the world to incentivize local manufacturing and increasing consumer preference for locally made/sourced products will accelerate this trend. Consumers also plan to purchase more locally made products rather than imported or non-local ones. This trend is driven by a number of factors – perceived level of safety (e.g., hygiene) in local products, greater trust and traceability of local products over imported ones, a reduced overall carbon footprint with local products, and a sense of providing support to local communities. It will be a key model for emergency supplies and products linked to national security, such as critical medicines. It will also see companies diversify suppliers – having a mix of local and offshore suppliers, providing more resilience in times of disaster or crisis.

Figure 11: Different reorganization models for production and supply chain



Source: Capgemini Research Institute analysis.

- Nearshoring (medium to long term):** Nearshoring allows you to take advantage of the cost competitiveness of non-domestic markets while having the security of being 'closer to home'. For instance, Mölnlycke Health Care – a leading Swedish provider of medical solutions – recently faced many issues supplying its finished products out of Lyon, Belgium, and Morocco due to government-enforced export bans. Reacting to it, Mölnlycke's chief executive Richard Twomey said, "*One thing that's 100% certain is that the way we supply things is going to have to change. We're working with various countries in Scandinavia to put in place an element of local manufacturing.*"³¹

- Relocation out of designated production and supplier hubs (longer term):** Organizations will reassess "make vs buy" decisions to factor in flexibility, autonomy, resilience, and sustainability in their production and supply chain KPIs. This will potentially lead to diversification of production and suppliers, with new investments fully relocating production and supply chains out of large production hubs such as China. Due to heavy capital investments needed in relocation, this will be a long-term trend. An April 2020 survey of American firms in China shows that 28% of organizations plan to shift sourcing and 16% plan to move production either partially or fully out of China.³²

The global economic contraction in GDP terms, trade wars, and rising protectionist policies by states, will further accelerate these trends beyond the pandemic period.

Action points for organizations:

Select the right reorganization model for your organization.

- Reshoring:** To take advantage of favorable local government policies, and meeting large, homegrown consumer demand. Also, the model that allows you to build a set of essential suppliers and manufacturers in local markets for emergency needs (e.g., medical equipment (ventilators), face shields, personal protective equipment, medicines, etc. for a healthcare organization).
- Nearshoring:** Onboarding of some strategically-important manufacturers and suppliers near home country, to have greater control and resilience in times of future crises while also diversifying the risk of export bans in countries where suppliers may be concentrated.
- Relocation:** Fully move production or supply chain to a new country when the primary supplier country no longer offers a favorable economic and/or political/social environment. It makes more sense when the primary supplier country is not the key market.

Rebalance your supply chain networks on the dimensions of risk management, resilience, and sustainability.

Organizations have to think beyond the traditional parameters of cost and efficiency, and focus on balancing dimensions of risk management, resilience, and sustainability:

- For improved risk management:** Reevaluate how you measure the diversity of your supplier network. Assess the risk of supply disruption from at least tier-1 and tier-2 suppliers (e.g., concentration in a region, dependence on single source of raw materials, etc.) and their potential impact on revenues vis-à-vis just their cost or efficiency. Also, strengthen risk management by running stress tests and simulating distress scenarios.
- For building resilience in sourcing:** Where alternate suppliers are available in the home country or a nearshore

country, consider bringing some of them onboard for sourcing a part of the bill of materials or as backup of low-cost offshore suppliers. Evaluate if these suppliers can quickly ramp up production in case of supply disruptions from primary suppliers. Where no alternate supplier is available, thoroughly assess their risk management practices and encourage them to stock up inventory in multiple locations. For example, having learned from the Ebola crisis in 2014 and Hurricane Maria in Puerto Rico in 2017, Johnson & Johnson maintains key inventory at major distribution centers away from high-risk areas and works with its suppliers to mitigate the impact of crises.³³

- **For sustainability:** Invest in advanced track and trace solutions to track raw materials to their actual source and improve inventory tracking throughout the length and breadth of supply chain and distribution network. This would entail significant sustainability benefits in terms of carbon footprint reduction and a positive impact on society.

Assess the resilience maturity of your supply chain.

- The “new normal” is likely to be constantly evolving and hard to predict from a consumer demand perspective as there is little historical precedence of it. In this scenario, it is vital for manufacturers to get a grip on the resiliency of their supply chain to withstand any disruption.
 - Use a model to assess the resilience maturity of a supply chain network. For instance, the model can evaluate a network on various parameters, such as business strategy, demand management, supply planning, inventory management, and business continuity, among others.
 - Further, it can help organizations benchmark themselves against the standards of high-performing peers and look to emulate best practices: integrated strategic planning, scenario-based risk management, highly automated execution processes, and real-time data and analytics for fact-based decision making.

Conclusion

The COVID-19 crisis has been a major economic, humanitarian and societal crisis. For businesses, it has highlighted some of their weaknesses and vulnerabilities, but also pointed to some of their greatest strengths. While we are all confronted with the spectre of significant recession in key global markets, now is a time when executives also have an opportunity to make changes that will see their companies through that downturn and position them for long-term success in the new normal.

Adopt a new inventory policy that promotes visibility and transparency.

- Our research shows that building end-to-end visibility of supply chains is a top priority for 45% of organizations – one of the top-three supply chain transformation initiatives for the next 12 months. The new normal will require resilient and smarter inventory allocation – more agile, flexible and with improved capabilities to respond to any uncertainty.
 - **Extend transparency.** Set up an end-to-end collaborative approach involving all stakeholders (all tiers of suppliers, distributors, logistics partners etc.) powered by data sharing.
 - **Map your supply chain network.** It took a Japanese semiconductor manufacturer a team of 100 people more than a year to deeply map the company's supply networks following the earthquake and tsunami in 2011.³⁴ It highlights how effort-intensive, yet crucial this exercise can be.

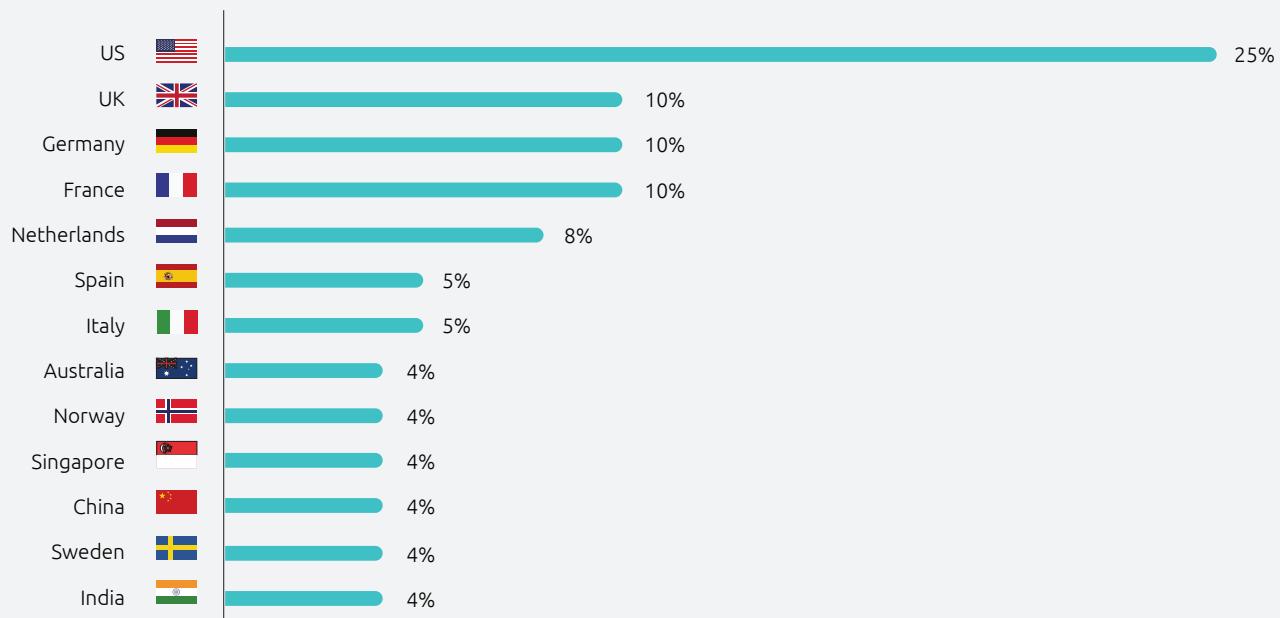
Reinvent a new distribution scheme geared for e-commerce and omni-channel.

- The exponential uptake of e-commerce owing to lockdown and social distancing measures during the pandemic has made a considerable impact on consumer behavior. We found that 40% of consumers expect a high level of interaction with online retail channels in the next 6–9 months versus 30% before the pandemic struck.³⁵ The greater consumer reliance on online channels means that organizations, along with their supply chain partners, have to reimagine their approach to distribution for the new normal, with ecommerce and omnichannel distribution at its heart.

Research Methodology

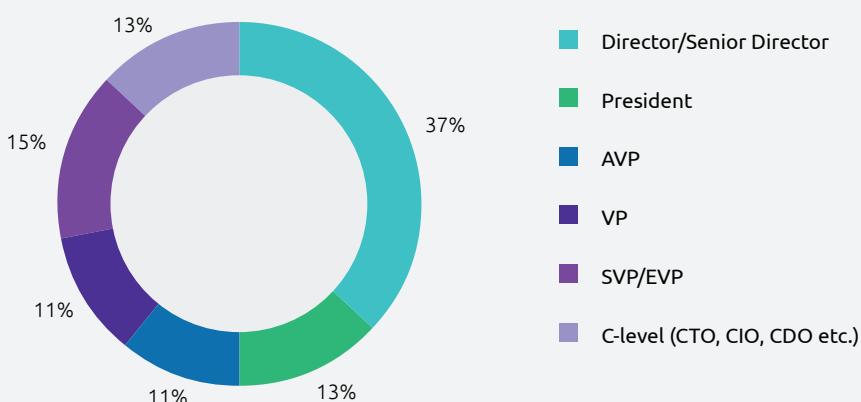
We surveyed 1,000 executives across North America, Europe, and Asia.

Executives by country



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May-June 2020, N=1000 respondents globally.

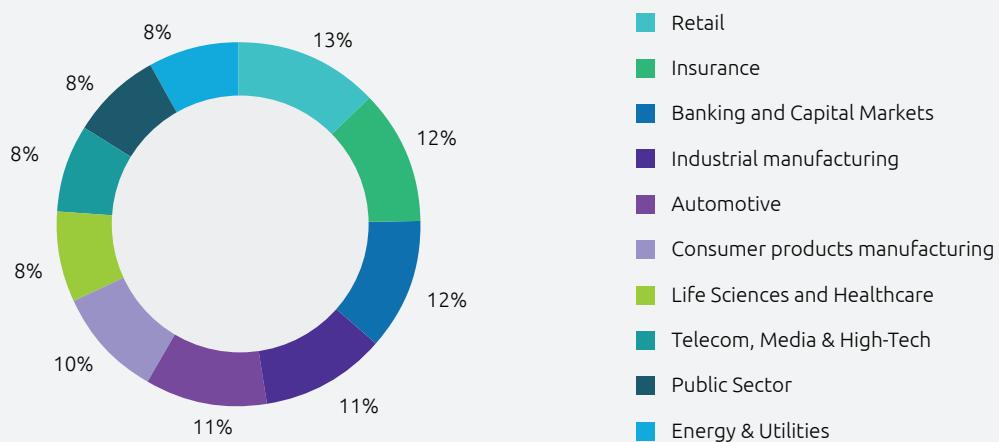
Executives by role



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=1000 respondents globally.

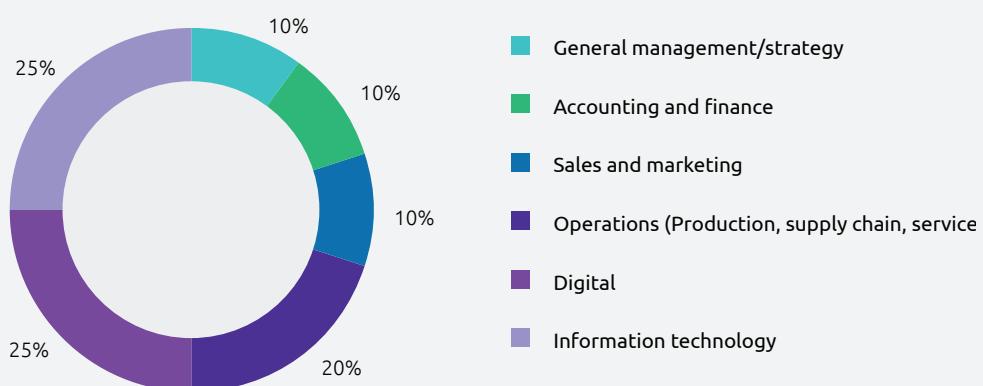
Research Methodology

Executives by sector



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=1000 respondents globally.

Executives by function



Source: Capgemini Research Institute, Transformation Agenda post COVID-19 research, May–June 2020, N=1000 respondents globally.

This document is part of the Capgemini Research Institute's special series of research notes on pragmatic tips to help organizations tide over the COVID-19 pandemic. You can find more such research notes and other tips and analyses at: <https://www.capgemini.com/our-company/covid-19-insights-for-today-and-tomorrow/>

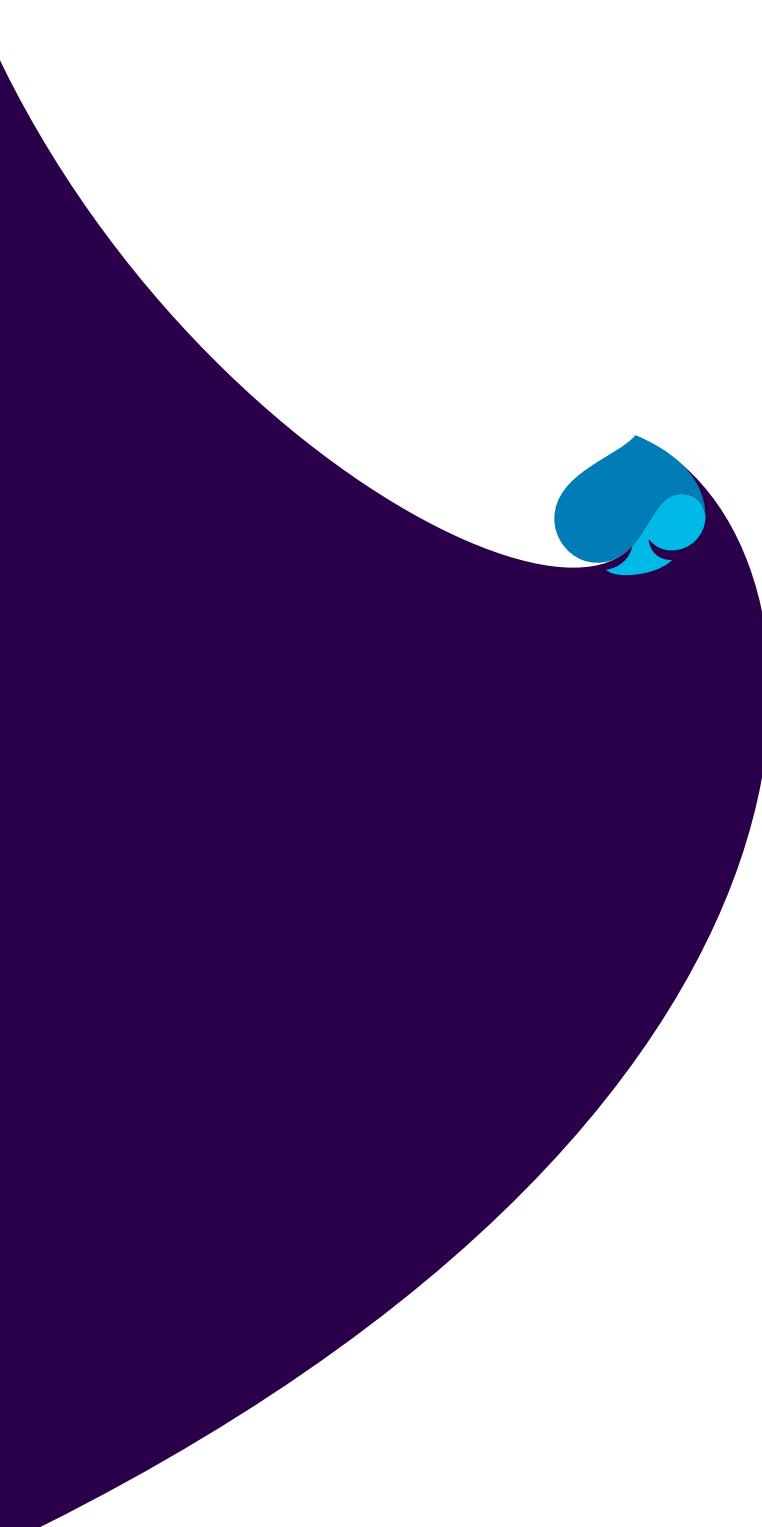
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