

Did your base case already prove wrong?

Learning from two quarters with Covid-19

NormannPartners

The coronavirus outbreak and great lockdown have businesses everywhere asking themselves similar questions. When will the pandemic end? Will we have to learn to live with the Covid-19 disease in our societies? Will we face a few alternative global scenarios, e.g. as suggested by OECD and its single-hit or double-hit scenarios? Are we getting nearer to the beginning of the end, or to the end of the beginning?

But are these really the right questions to ask? Are they even possible to answer on a global scale? We are constantly fed with a stream of updated overly optimistic outlooks, and the regional differences of the pandemic development and response seem to be growing bigger by the day. From a perspective of strategy for large firms with global operations, what have we learnt so far as the pandemic has spread?

Oversimplifying the problem - three fallacies

In retrospect, it is of course easy to state that earlier expectations of the pandemic were naïve. However, we can consider three inter-connected biases that we can address to better prepare ourselves for the future.

The first bias is TIME. It is easy to fall into the trap of projecting your own vision and hopes, instead of objectively assessing what is realistic. Early expectations talked about V-shape effects, with fast and short severe medical, societal and economic effects, and a fast rebound. Looking back into the pandemic, rebound projections have constantly been overly optimistic. Obviously, a virus does not care about fiscal quarters or years, upcoming holidays and sports seasons or even presidential elections. Past pandemics indicate how also this one might develop, and our time perspective needs to extend several years, not just months.

The second bias is PROJECTIONS. Strategy should avoid attaching too much weight and certainty to projections – specifically ones that tell us what we want to hear. Most authoritative experts have sensibly steered clear of forecasts, but many businesses are used to working towards projections and targets that everyone can agree on. In these times of great uncertainty, what is agreed quickly as the “base case” might better be considered a “best case”. Strategy should instead focus more on a wider range of plausible outcomes that can have an impact on the business.

The third bias is UNIVERSAL ASSUMPTIONS. When a crisis hits, it is tempting to grasp for universal assumptions and remedies, before the problem is fully understood. We can

see regional differences grow stronger by the day in how the pandemic affects communities, the capabilities and policies to mitigate the effects, and the reactions of populations towards restrictions in mobility. It is increasingly clear that there is no global answer to simple questions such as “when will this be over?”, and policy and business remedies must be adapted to the local and regional conditions.

Three regional lenses for asking the right questions

To avoid the biases above, and navigate this complex and uncertain situation, we suggest a regional perspective, with focus on understanding the regional specificities rather than any global averages. The following three “lenses” can be helpful to explore the right questions:

First, and most obviously the **pandemic pattern lens** – how the infections spread, the expected mortality and the measures taken to secure adequate health care as well as mitigating the spread. For short-term outlooks of the next few months, strategy can consider the length of the first regional pandemic wave. One source to consider is [*The Institute for Health Metrics and Evaluation at the University of Washington*](#), which is constantly developing both the methodology and updating projections for several nations. A mid-term outlook can consider what the “tail” of the pandemic might look like in strategy critical regions. Different patterns that have been observed or can be hypothesized has been described well by [*The Center for Infectious Disease Research and Policy at the University of Minnesota*](#). Finally, longer-term outlooks with the pandemic pattern lens can consider the range of outcomes possible when it comes to vaccine deployment and potential therapies to reduce the health hazard to those at risk. The timelines that have made the headlines so far are clearly at the very optimistic end of that range.

Secondly, we need to understand how these varying outcomes will affect regions differently through an **economic and social impact lens**. World GDP has already been severely negatively impacted and continues to decline in most countries and regions. Both the depth of the decline as well as the shape of the recovery in different regions are highly uncertain. What might be the effects of economic rescue and recovery packages – and increased debt burdens, which are now surpassing all levels since World War II? What will be the geopolitical and market effects of higher state involvement in the private sector? Will some economies become trapped in recession for years to come? What economies will prove to be more resilient? How are different regional economic activities affected by the pandemic and the great lockdown?

The social impact also has great regional differences. This includes societies' ability to provide health care and other social welfare as well as societal cohesion, trust and security. What can different societies accept, in terms of social restrictions and medical casualties? In concluding, what will be the regional differences in terms of economic and social development, structure, cohesion and stability?

Informed by these macro lenses, strategy can apply a **market implications lens**. What are areas of genuine uncertainty that can impact our markets, segments, activities and partnering in our ecosystem? Are other macro or market trends accelerated or decelerated e.g. digitalization, automation, investments in public infrastructure and decarbonisation? Which companies, organisations and business models could become more or less influential? What permanent effects could be expected from health concerns and pandemic responses in consumer behavior, legislation, standards and public sector involvement? What are regional differences in how these developments may play out?

What leaders should do: Realism, Resilience and Renewal

For leaders, the pandemic needs to be understood with regional lenses. Beyond the absolute necessity in any crisis – catering to the safety of your own people and striving for a positive contribution to the society you are in – the pandemic calls on leaders to attend to the principles of Realism, Resilience and Renewal.

A first principle is to ensure realism in the view of the future during and after the pandemic. Ask unbiased questions and understand the complexity of regional differences. Recognise the genuine uncertainties, with input from past pandemics as well as making observations from a broad range of regional situations. Envisioning different regional scenarios is more effective than trying to make falsely comforting projections that are designated as “base case”.

The second principle is to safeguard resilience. Uncertainty does not make planning any less important. Resilience against the range of outcomes driven by genuine uncertainty is critical to be able to respond quickly and effectively. This starts by clarifying your own assumptions, and then testing your strategy and operating model against a range of outcomes, and along different time horizons. Use regional short-, mid- and long-term pandemic scenarios to explore how resilient your strategy is, and what options can help improve your robustness and flexibility.

The third principle is to attend to renewal. The Covid-19 crisis does not only create more uncertainty but also accelerates change in many industries, driven by recovery packages and how nations and businesses respond regionally to the pandemic challenges, including measure for faster shifts to more sustainable systems and societies. As all crises, the pandemic can also be an opportunity for renewal. Can your field transform, accelerated by the pandemic? Can new fields emerge faster in some regions, and take new shapes not yet anticipated? Changing fields in our inter-connected world calls for networked strategy, where firms collaborate and partner to utilize resources better, avoid waste, and create better values.

Some regions may offer unique pilot opportunities for renewal, while others remain stuck in decline or crisis. Effective crisis management is necessary but not sufficient to navigate the current situation. We need effective lenses to understand how specific regions might develop over the next years and what is required to drive both resilience and renewal.

Our expertise

NormannPartners is a world-renowned advisory firm fully dedicated to scenario-based strategy development. This whitepaper is based on research by and insights from NormannPartners professionals, produced in a spirit of sharing thoughts with clients, other businesses and organisations.

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