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Consulting

COVID-19 Crisis Management

How to sail the rough seas of global crisis?

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COVID-19 is putting your company at severe risk – quick and decisive crisis management guided by clear priorities is essential

Situation: Highly negative impact on stock markets, focus so far on health response

- **Dax value drop** from ~13400 pts to ~8500 pts (- ~37%) in Jan-Mar

- Workforces in **home office** / public life closing down more and more

- **Implications if critical projects get halted?** (e.g., production of healthcare equipment, critical infrastructure or hard deadlines)

- **First analyses** show impact of **several weeks to months of crisis** on public life and overall economy

- Siemens Management Consulting already running **first EHS projects related to COVID-19**

Complication: Managing health and business impact is critical

- Response first priority and coordination **efforts strongly needed**

- **Impact on economy and businesses will be various** but not centrally known

- Following **knock-on effects** between producing companies and their entire supply chain unclear

- **Clear definition required** how to centrally coordinate short-time-work, vacation, EHS measures, home office obligation and remote working IT tools

Proposed solution

- Clear project organization directly **reporting to C-Level**

- One very capable **project manager** (e.g., from strategy or business) **steering an agile team** as extra PMO layer under the top management

- Ensure **best nomination for next level of sub-project** by function, businesses and region (proven and known leaders)

- **Daily working cycles**

- Use of **virtual collaboration tools**

- Support all relevant workstreams with **SMC-backbone**

EHS: Environment Health and Safety
Source: Siemens Management Consulting

From past experience, SMC would like to share what has proven helpful during crisis – and what is special about COVID-19

What SMC learned from the past – and what is special about COVID-19

2001 - Dot.com Bubble
Respond to markets in free fall

2008 - Financial Crisis
Navigate through rough seas of fiscal collapse

2014 - Islamic State
Ensure employee safety during volatile security situation

2020 – COVID-19
Balance safety and business continuity

What helped in the past

Interdisciplinary & Cross-functional response teams

Decentralized decision making and empowerment of employees

Clear & realistic communication with all stakeholders

Clear roles and responsibilities assigned by ability to act

One "Face of the crisis" to be in charge

Corporate values and responsibility as top priority

What's special about COVID-19?

Challenging communication as **collocation is impossible**

Global crisis with **regional and time dependent** implications

Unpreceded magnitude and speed of impact

Source: Siemens Management Consulting

To manage the crisis, quick and reliable decision making, decisive and resilient action and rapid recovery must be in focus

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Principles of Crisis Management

Priorities	Information	Speed of Action	Resilience	Recovery
• **One top priority** only! • **People** & society **first** • **Ensure resource allocation** according to priorities • Corporate crisis is **no time for internal politics!** • **Look beyond your company**: the sooner society returns to normal, the better for you!	• **Situational awareness** in all corporate levels is key for informed decision making • Carefully **evaluate news updates** & expert opinions! • **Be prepared to reconsider** based on new information • **Proactively share** updates: Top-down AND bottom-up!	• A **suboptimal decision is better than no decision** • **Decentralized decision making** enables tailored solutions • **Limit bureaucracy** to an absolute minimum • **Trust your employees!**	• Employ **scenario-based planning** and have a Plan B ready! • **Plan for the worst-case** but base execution on current situation • Plan for strategic & tactical **reserves whenever possible!**	• **Prepare for recovery** as soon as possible to return to normal • **Don't underestimate upside potentials!**

Source: Siemens Management Consulting

Agile working mode and decentralized decision making help to increase speed of action and allows for adaption to local conditions
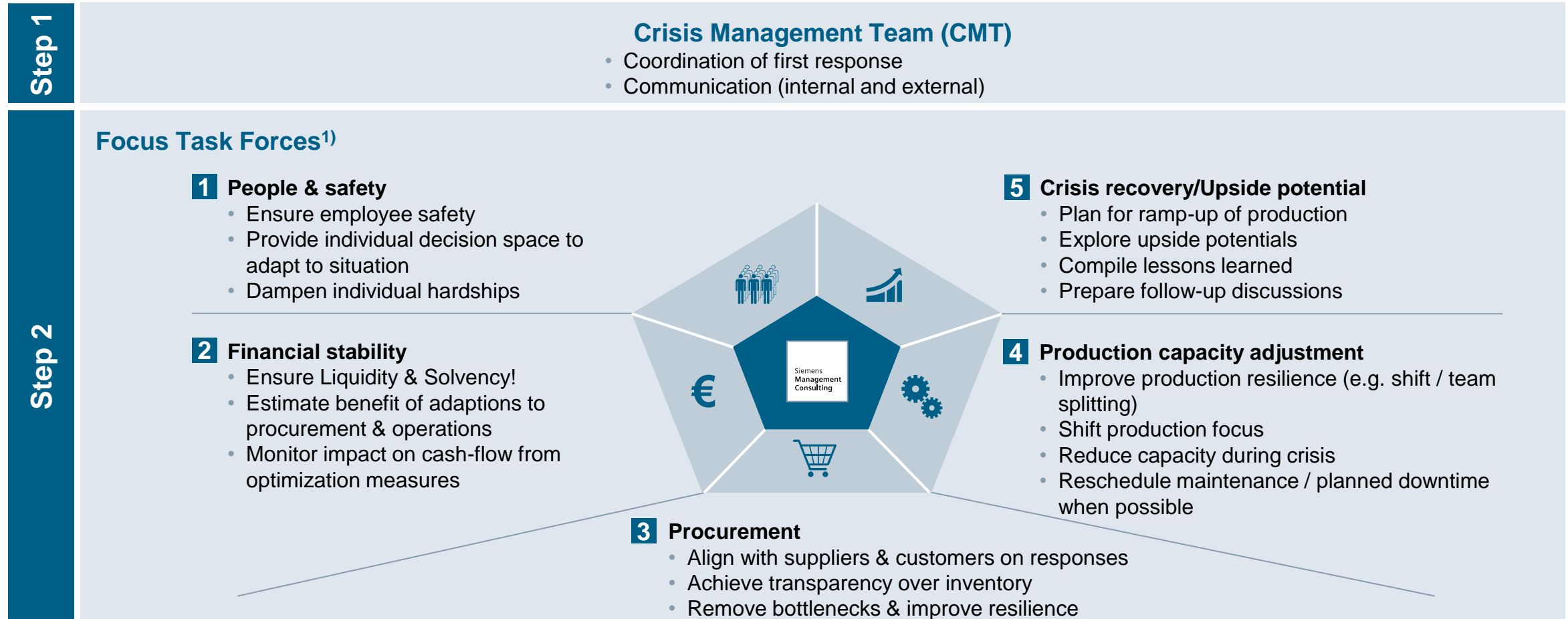
Decision making in a crisis

Guidelines & Priorities

Information on situation

C-Level
Provide direction on corporate level and determine priorities and responsibilities to facilitate resource allocation

Where do we need to go?

Regional Heads
Monitor regional situation and implement countermeasures aligned with functions

Which route do we use?

Middle Management
Understand specific challenges of own area of responsibility and adapt central priorities and initiatives to best suit the situation

How to organize the trip?

Employee
Execute tasks, monitor environment & communicate observations on new information or potential threats to superior

Right or left lane?

Constant re-evaluation guides decision making on all levels:

Decision Cycle
- What has changed?
- Is the rationale for previous decisions still valid?
- What is priority 1 now?
- What do we do about it?

Source: Siemens Management Consulting

A Crisis Management Team ensures transparency about ongoing activities and supports prioritization of topics

Framework for COVID-19 Crisis Management

Step 1

Crisis Management Team (CMT)
- Coordination of first response
- Communication (internal and external)

Step 2

Focus Task Forces[1)]

1 People & safety
- Ensure employee safety
- Provide individual decision space to adapt to situation
- Dampen individual hardships

2 Financial stability
- Ensure Liquidity & Solvency!
- Estimate benefit of adaptions to procurement & operations
- Monitor impact on cash-flow from optimization measures

5 Crisis recovery/Upside potential
- Plan for ramp-up of production
- Explore upside potentials
- Compile lessons learned
- Prepare follow-up discussions

4 Production capacity adjustment
- Improve production resilience (e.g. shift / team splitting)
- Shift production focus
- Reduce capacity during crisis
- Reschedule maintenance / planned downtime when possible

3 Procurement
- Align with suppliers & customers on responses
- Achieve transparency over inventory
- Remove bottlenecks & improve resilience

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1) Numbering of tasks indicates priority
Source: Siemens Management Consulting

First step is establishing a Crisis Management Team to centrally coordinate responses and communication

Ensure transparency on status of ongoing measures towards executive mgmt. as lean as possible

Centrally coordinate major **communication**

Organize daily sync on top and mid mgmt. level

Crisis Management Team

Setup **central processes** (e.g., add. funding request process)

Prepare and distribute guidelines for the organization

Serve as **central address** toward to the organization **to raise concerns**

Keep the **overview of all lose ends** and distribute tasks

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Source: Siemens Management Consulting

Detailed and intensive communication must be ensured with internal and external stakeholders

Step 1 Communication (selective communication topics per phase and target group)

		Lock-down phase	Reduced operation phase	Ramp-up phase
General guidelines		• Regular (=at least daily) updates • Control over "truth" / prevent rumors & gossip • Continue to be a "Business to Society"		
Internal	**Employees**	• Actions, and protection measures • Crisis mgmt. status • Certainty that mgmt. controls the situation	• Motivation (e.g., via positive outlook) • Transparency about ongoing measures	• Guidelines on how to recover best from the crisis
	Mgmt.	• Immediate measures and guidelines to act (e.g., employee protection, home office exemptions)	• Guidelines and transparency • Crisis mgmt. plans • Stress ownership of mgmt. for their units	• Guidelines and transparency • Recovery plans
External	**Clients**	• Protection measures and situation at Siemens • Delay in delivery times	• Status requests for situation on client slide • Transparency on delivery times • Control of the situation and normality	• Options on how to recover best with the support of Siemens
	Suppliers	• Requests about status of delivery • Requests about financial situation	• Support options in supply chain optimization • Support options of financial support	• Potential for future supply chain improvement • Recovery measures and upcoming production target at Siemens
	Capital market	• Adjustment of financial outlook (if needed)	• Transparency on internal measures on how to cope with the crisis	• Transparency on internal measures on how to evolve with a benefit from the crisis
	Governm. / NGOs	• Alignment on measures for crisis containment • Options for crisis relief	• Application for financial help / short-time-work • Crisis relevant status updates from company (e.g. availability of food supply chains)	• Forecasts on reduction of short-time-work

Source: Siemens Management Consulting

Priority one must be to ensure employee safety and prevent further spread of the disease – also beyond your own employees

Step 2 People

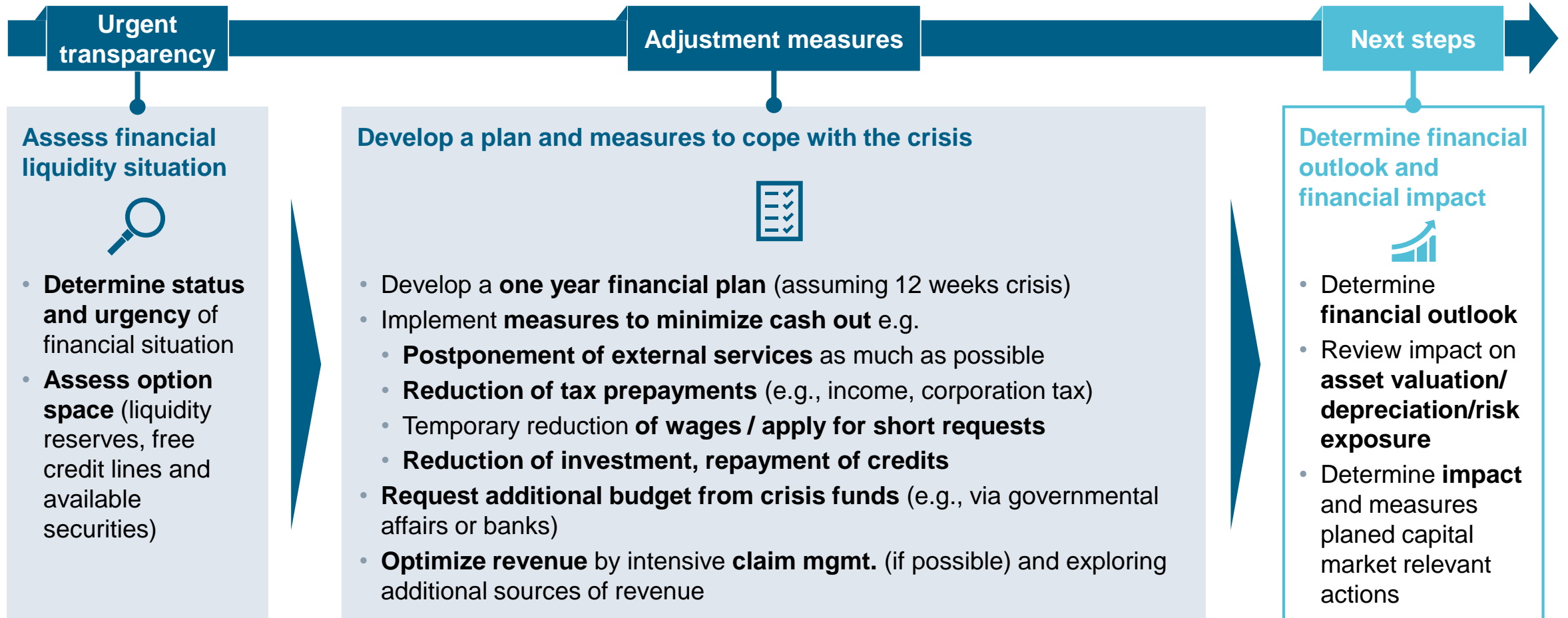| **Immediate: Focus on safety**	**Soon: Enable continuity**	**Later: Contain consequences**

• **Behaviorall instructions** to prevent spread of disease
• Coordinate **repatriation** of employees stranded abroad
• Create i**ncentives** for desired behavior
• Identify employees with **crisis relevant skills** (doctors/nurses, firemen, reservists, child care, critical infrastructure)
• Evaluate further options to **support crisis response on societal level**/provision of corporate resources for crisis management, (e.g., buildings, products, services, production capacity, employees, …)
	• Provide **individual freedom** to adjust to circumstances
	• Consider reduction of **external suppliers/**lease workforce/facility mgmt. etc.
	• **Assign new tasks** if regular operations cannot continue
	• Create "**Rules for the exception**" (e.g., working mode, smaller teams)
	• Adjust **hiring pipeline**
	• Ensure **IT security** during times of home office!
		• Consider **personal implications** of:
		  • Salary adjustments
		  • Short work/re-work
		  • Taken vacation for crisis…
		• **Negotiate counter measures with workers council** (if needed)

Source: Siemens Management Consulting

Financial focus must be on liquidity during crisis – Minimization of cash-out to be complemented by optimization of revenue intake

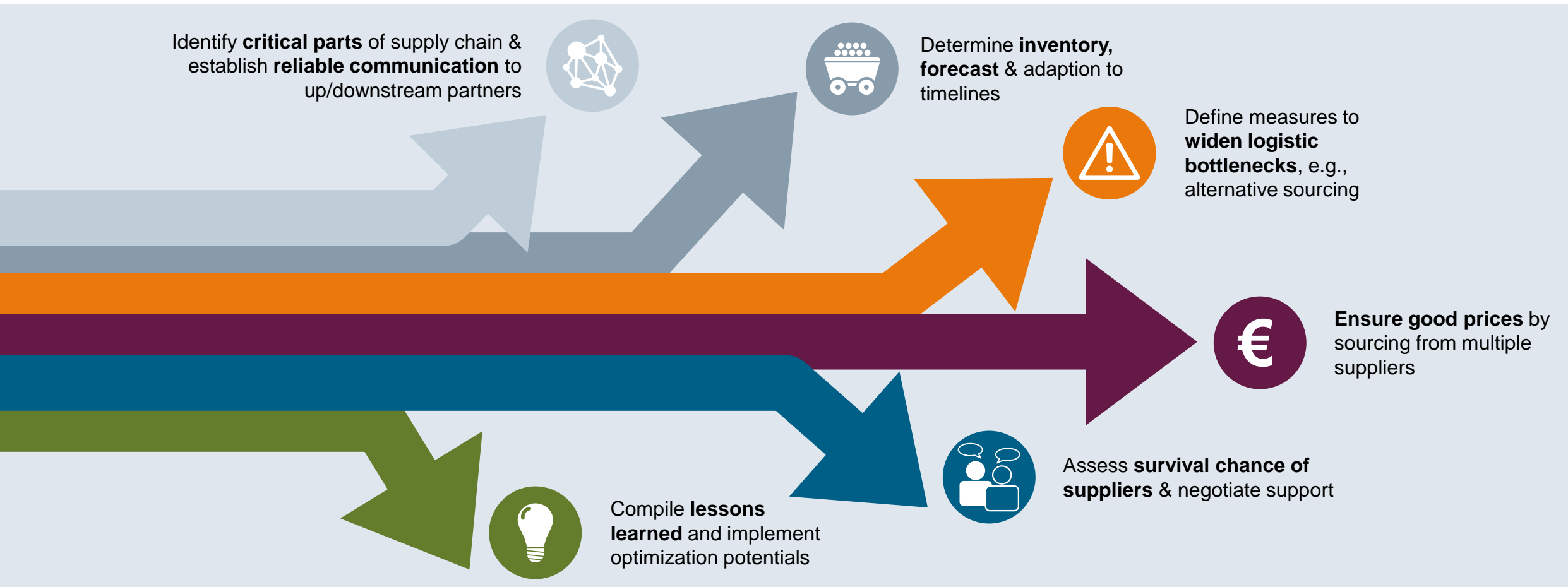**Step 2** Financial stability

| Urgent transparency | Adjustment measures | Next steps |

Assess financial liquidity situation

- **Determine status and urgency** of financial situation
- **Assess option space** (liquidity reserves, free credit lines and available securities)

Develop a plan and measures to cope with the crisis

- Develop a **one year financial plan** (assuming 12 weeks crisis)
- Implement **measures to minimize cash out** e.g.
  - **Postponement of external services** as much as possible
  - **Reduction of tax prepayments** (e.g., income, corporation tax)
  - Temporary reduction **of wages / apply for short requests**
  - **Reduction of investment, repayment of credits**
- **Request additional budget from crisis funds** (e.g., via governmental affairs or banks)
- **Optimize revenue** by intensive **claim mgmt.** (if possible) and exploring additional sources of revenue

Determine financial outlook and financial impact

- Determine **financial outlook**
- Review impact on **asset valuation/ depreciation/risk exposure**
- Determine **impact** and measures planed capital market relevant actions

Source: Siemens Management Consulting

Understanding impact on supply chain helps understand room for action in production – and how to improve resilience for the future

Step 2 Procurement

Identify **critical parts** of supply chain & establish **reliable communication** to up/downstream partners

Determine **inventory, forecast** & adaption to timelines

Define measures to **widen logistic bottlenecks**, e.g., alternative sourcing

Ensure good prices by sourcing from multiple suppliers

Assess **survival chance of suppliers** & negotiate support

Compile **lessons learned** and implement optimization potentials

Source: Siemens Management Consulting

Crisis puts operational focus on capacity reduction or achieving alternative output where regular operations is not an option

Step 2 Production capacity adjustment

Capacity demand and resource analysis

Details to be determined:

- Availability:
  - Market demand and forecasts for products
  - Available plants
  - Available employees
- Priority
  - Important deadlines
  - Critical product deliveries

Reduction of capacity

- Short-time-work/ Holidays/ Overtime reduction
- Shut-down of production facilities
- Introduce additional shifts and team splits to thin out production capacity and reduce probability of infection
- Plan operations to utilize inventory and minimize working capital

Reallocate Capacity / focus on alternative outputs

- Switch production towards other goods (if possible)
- Preschedule production downtimes (e.g., maintenance work)
- Support sales channels to sell w/o personal contact
- Consider new ways of sales (e.g., online)
- Assign unutilized workers to evaluate improvement potentials or draft "ramp-up" action plans

Ramp-up of operations capacity

- Adjust production targets & forecasts
- Adapt pricing strategy to sell items produced on stock and capture any delayed demand
- Execute and monitor action plan on ramp-up of operations

Source: Siemens Management Consulting
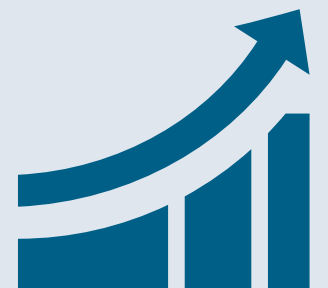
Return to normal operations and crisis recovery is supported by a concrete action plan including exploration of potential upsides
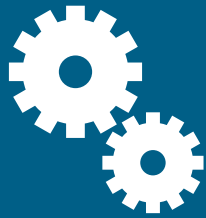
Ramp-Up Operations

- **Compile action plan** on how to ramp-up operations
- **Align with suppliers** on forecast adaptions
- Understand and set key **triggers to continue** operations

Recovery Plan

- Evaluate **impact on sales funnel** (Lost or postponed)
- Plan **sales-initiative** to compensate for lost revenue
- Identify savings potentials and goals to **recover profitability**
- Assign savings targets to regions/ businesses and **set up profitability program**

Upside Potential & Follow-Up

- Evaluate **M&A Opportunities**
- Compile **lessons-learned** and derive **improvement measures**
- Develop stance and **prepare** arguments for **upcoming political discussion** on:
  - "Strategically indispensable technology" to be kept within a country
  - Confiscation of (e.g. medical) intellectual property in times of crisis
  - Corporate social responsibility

Source: Siemens Management Consulting

Siemens Management Consulting has compiled an action plan with the most important direct response measures

Direct measures (1/2)

Crisis Management

⚠️

1. Assemble crisis Control Team & set up daily meeting cascade; Set up daily rapid response meetings to provide fact-based analysis to enable fast, high quality decision making
2. Initiate Focus Task Forces (Incl. Finance, Operations, HR, Procurement)
3. Immediate expansion of global quarantine & hygiene policies – especially in countries not yet hit!
4. Setup email address as central Q&A channel & Increase internal capacities for health counseling & information hotline!
5. Identify internal capabilities for civilian support and offer them to authorities (e.g., facilities, healthcare institutions, hygiene materials, etc.)
6. Establish regular cross-region calls to exchange status updates and best-practices
7. Establish monitoring mechanisms to monitor situation, identify inflection point and track competitors' situations and actions to inform strategic, operational, and financial decision-making
8. Establish communication with government/local crisis coordination entities

People Safety

👤

1. Identify and protect core functions/personnel by importance and risk group & ensure continuity (e.g., through doubling, reactivation of retirees, apprentices etc.)
2. Identify employees with relevant qualifications for civilian crisis support & free their capacity to support crisis fighting
3. Provide hygiene items for onsite-employees
4. Create a safe channel for employees to notify company about an infection
5. Tighten restrictions on travel
6. Immediate hiring stop and delay of onboarding measures
7. Align with workers council on measures & implementation thereof
8. Reward responsible behavior by incentives to prevent spread of disease from fear of loss in payment; Establish policies around forced time-off in case of infection/quarantine; refine paid time off policies -and return guarantees
9. Identify and repatriate employees in high-risk regions!
10. Call upon non-core employees to take vacation & reduce overtime and file / expand applications for short-time-work!
11. Compile & Communicate "Home Office Rules" and ensure IT availability & security
12. Build confidence with customers in small (e.g., sanitizer at POS) and big ways (e.g., mass outreach, adjust return policy) Identify and prioritize critical products/services needed for rapid response

Source: Siemens Management Consulting

Siemens Management Consulting has compiled an action plan with the most important direct response measures

Direct measures (2/2)

Financial stability

1. Compile list for additional measures for cost reduction incl. headcount (e.g., further delay of start dates, early retirement)
2. Immediate Stop to all non-essential cash-outs, especially CAPEX & review debt retirement schedule
3. Stop/reduce all external services not needed during crisis to reduce fix cost (SRE, Security, lease workers, etc.)
4. Assess available liquid assets
5. Mitigate or redirect discretionary spend to build financial flexibility (such as marketing, however, avoid removing all ads and cautiously select marketing channels during epidemic)
6. Estimate cash-out and perform liquidity forecast
7. Investigate expected cash-in & clean for default/delay risks
8. Start discussion with banks on potential expansion of existing credit lines

Procurement

1. Ensure procurement control tower in place (e.g., PO authorization processes, active management of open POs and delivery schedules)
2. Set up communication panel with suppliers & project partners & exchange on forecasts and action plans for the situation
3. Identify critical suppliers & default risk and support in measure definition for survival where possible
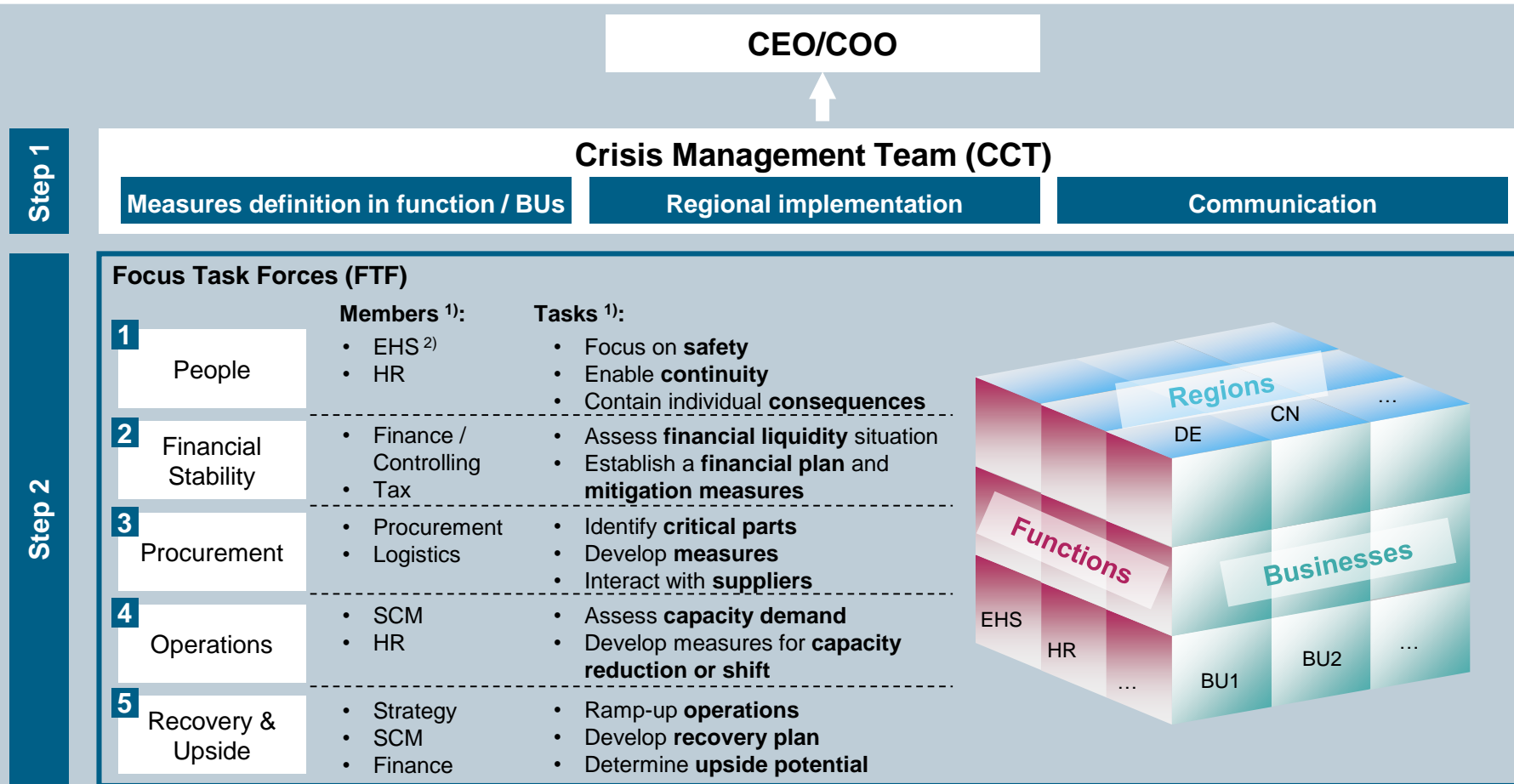
Recovery

1. Compile economic scenarios to use for stress testing liquidity situation
2. Reassess valuation of assets due to crisis
3. Review contracts for force majeure, MAC clauses etc.

Source: Siemens Management Consulting

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Crisis management to be built around a central instance coordinating Regions, Functions and Businesses

Org setup: Crisis Management

CEO/COO

Step 1

Crisis Management Team (CCT)

Measures definition in function / BUs	Regional implementation	Communication

Step 2

Focus Task Forces (FTF)

		Members [1]:	Tasks [1]:
1	People	• EHS [2] • HR	• Focus on **safety** • Enable **continuity** • Contain individual **consequences**
2	Financial Stability	• Finance / Controlling • Tax	• Assess **financial liquidity** situation • Establish a **financial plan** and **mitigation measures**
3	Procurement	• Procurement • Logistics	• Identify **critical parts** • Develop **measures** • Interact with **suppliers**
4	Operations	• SCM • HR	• Assess **capacity demand** • Develop measures for **capacity reduction or shift**
5	Recovery & Upside	• Strategy • SCM • Finance	• Ramp-up **operations** • Develop **recovery plan** • Determine **upside potential**

Regions · DE · CN · …

Functions · EHS · HR · …

Businesses · BU1 · BU2 · …

1) Not exhaustive   2) EHS: Environment, Health and Safety

Source: Siemens Management Consulting

Rationale

- **Crisis Coordination Team supports Executive board** with crisis management and creates overall transparency

- **Focus task forces create transparency** on **5 dimensions** across regions function and businesses

- **Regions responsible for implementation** according to central crisis guidelines

- CCT as **lean as possible!**

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KUDOS
TO ALL DOCTORS, NURSES AND HELPING PEOPLE

Disclaimer

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Source: Siemens Management Consulting