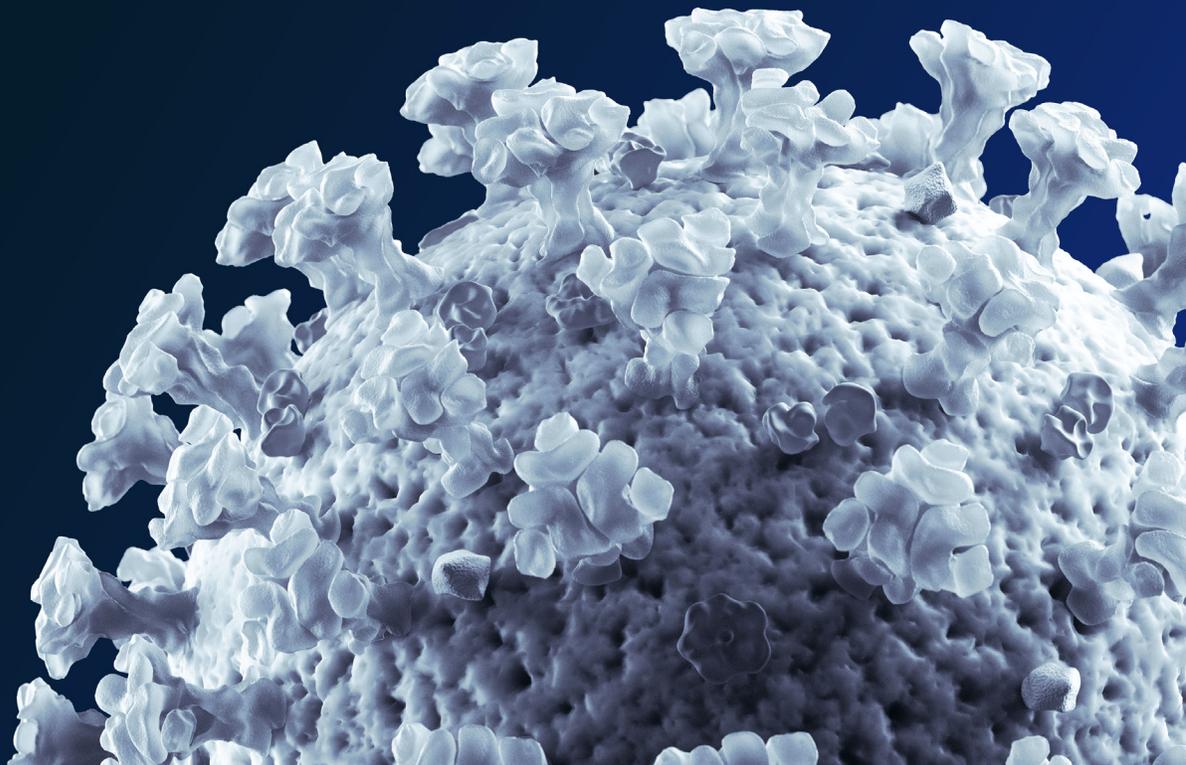


Risk Practice

# COVID-19: Briefing note, March 30, 2020

Our latest perspectives on the coronavirus pandemic.

*by Matt Craven, Mihir Mysore, Shubham Singhal, Sven Smit, and Matt Wilson*



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**The pandemic** continues to expand. More than 175 countries and territories have reported cases of COVID-19, the disease caused by the coronavirus (SARS-CoV-2). Case growth has accelerated to more than 735,000 cases and 35,000 deaths as of March 30. Some geographies have a handful of cases, others with early community transmission have a few hundred, and those with uncontrolled, widespread transmission have tens of thousands. Governments have launched unprecedented public-health and economic responses. The situation evolves by the day.

In this note, we offer some of our latest insights, starting with five likely epidemiologic swing factors that will largely determine the contours of the pandemic in the next year. We then summarize two new articles designed to help senior executives lead through the crisis. In “Beyond coronavirus: The path to the next normal,” we outline five time frames to help leaders organize their thinking and responses. And in “Safeguarding our lives and our livelihoods: The imperative of our time,” we explain how business and society can and must take on both spheres of action, right away. These and many more are available in our collection of coronavirus thinking. We conclude with a short list of the areas in which executives should be concentrating their thought and attention.

The outbreak is moving quickly, and some perspectives in this article may soon fall out of date. This article reflects our perspective as of March 30, 2020. We will update it regularly as the crisis evolves.

## **Epidemiological swing factors for COVID-19**

Every country is looking to join the few that have controlled the epidemic for now and are focusing on preventing a resurgence. The next stages in every country are unknowable (Exhibit 1). But in our view, the spread or control of the virus in the next year comes down to five factors:

- ***Growth of new transmission complexes and evidence of seasonality.*** While most countries in the world have at least one case, most counts

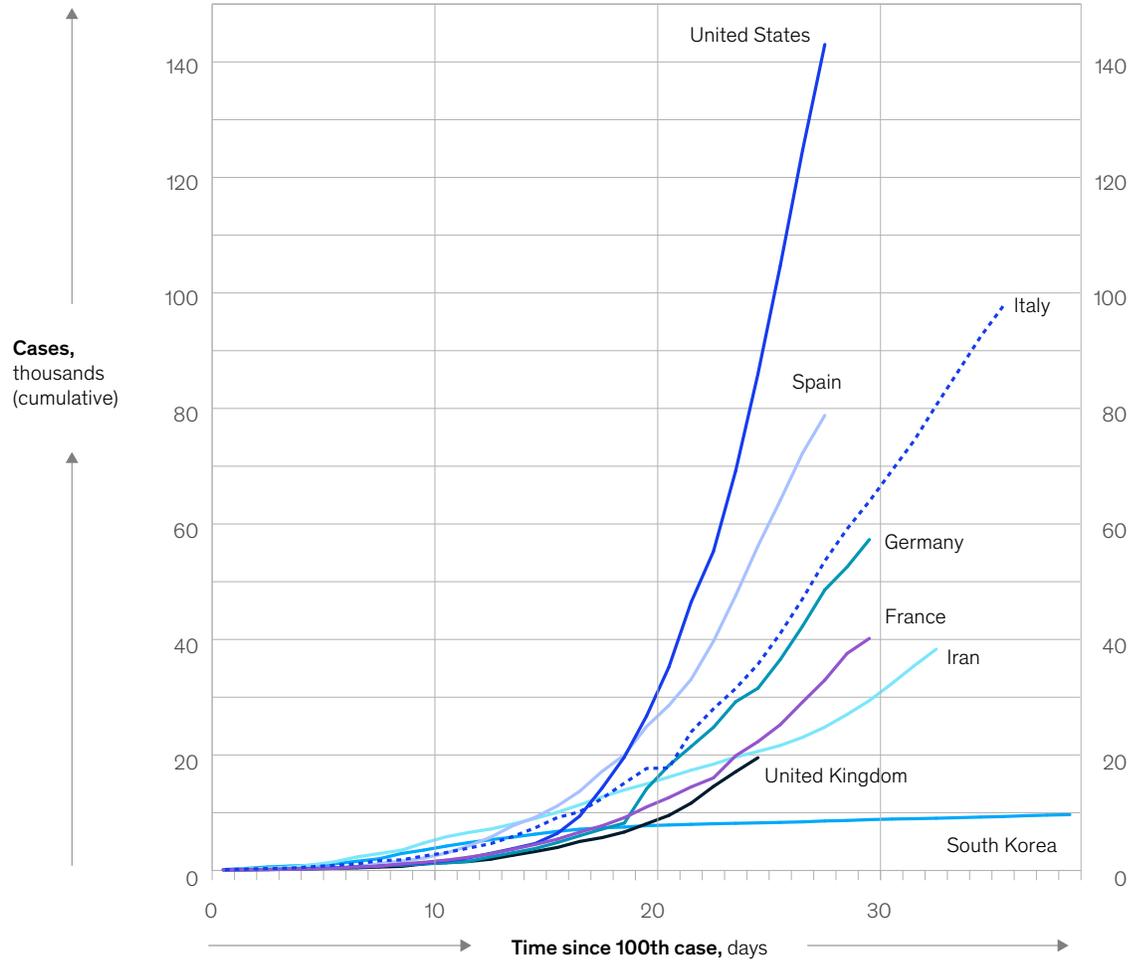
are relatively low. The extent to which these countries follow the path of countries such as Singapore that have achieved rapid control, versus that of western Europe and the United States, will be a major driver of outcomes. Moreover, these geographies also skew to more tropical climates and will provide some evidence on how much of a mitigating effect heat and humidity will have on the coronavirus. If the virus proves to be seasonal, this has the potential to shape both emerging and existing transmission complexes.

- ***Impact of physical-distancing measures.*** We know that rigorous, at-scale physical-distancing measures can drive a significant reduction in the number of new COVID-19 cases. However, given the range of approaches in use—and the varying stringency with which they are being applied—there’s much still to learn about what exactly works and how long it takes. In the next one to two weeks, we will learn much more, as we begin to see evidence of the impact of physical distancing in Europe and the United States.
- ***Efficacy of health-system surge.*** As the world has awakened to the potential risks of COVID-19, there has been a massive effort to add capacity to the healthcare system rapidly. This has rightly focused on adding acute-care capacity, providing ventilators, and building stocks of other critical medical supplies, such as personal protective equipment. If this surge (combined with efforts to reduce the demand on the health system) can prevent health systems from being overwhelmed, mortality from COVID-19 will be significantly lower. The development of clinically validated treatments could be a similar boon, but the emerging evidence on that front is mixed, thus far.
- ***Readiness of the health system to navigate recurrence.*** As authorities begin to think about what’s needed to navigate a postpeak environment, the public-health tools deployed will have a different emphasis from today’s focus in Europe and the United States. They will include at-scale testing, sophisticated

Exhibit 1

**Case counts have diverged, based largely on public-health response.**

**COVID-19 cases by country**



Source: European Centre for Disease Prevention and Control

real-time surveillance, rigorous contact tracing, and rapid, targeted quarantine to isolate cases and contacts. This mix of tools is how Korea, Singapore, and Taiwan have rapidly contained COVID-19. An antibody test would be a powerful tool in this arsenal, since it would show which people are at risk and which aren't. Even as public-health authorities negotiate an unprecedented period of demand on the

health system, they will need to design and build systems to prevent resurgence of the disease as we pass the peak.

- **Emergence of herd immunity.** Herd immunity occurs when a sufficient portion of the population isn't susceptible to an infectious disease; at that point, transmission doesn't propagate, for lack of available hosts. It typically

occurs through either widespread exposure or immunization. With a disease as infectious as COVID-19, experts believe that more than two-thirds of the population would need to be immune to create herd immunity.<sup>1</sup> But there's much that we don't know about the possibility of multiple strains of the virus—and about the duration of human immunity. Answering those questions will have important implications for the course of the pandemic.

Our answer is a call to act across five stages, leading from the crisis of today to the next normal that will emerge after the battle against coronavirus has been won: Resolve, Resilience, Return, Reimagination, and Reform (Exhibit 2).

Collectively, these five stages represent the imperative of our time: the battle against COVID-19 is one that leaders today must win if we are to find an economically and socially viable path to the next normal.

## Two new insights

We have recently published several new articles on the pandemic. Two have captured the attention of leaders worldwide. We summarize them here and invite you to take in the full case in our collection on McKinsey.com.

### 'Beyond coronavirus: The path to the next normal'

*By Kevin Sneader and Shubham Singhal*

What will it take to navigate this crisis, now that our traditional metrics and assumptions have been rendered irrelevant? More simply put, it's our turn to answer a question that many of us once asked of our grandparents: What did you do during the war?

### 'Safeguarding our lives and our livelihoods: The imperative of our time'

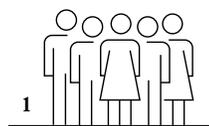
*By Sven Smit, Martin Hirt, Kevin Buehler, Susan Lund, Ezra Greenberg, and Arvind Govindarajan*

We see enormous energy invested in suppressing the coronavirus, while many urge even faster and more rigorous measures. We also see enormous energy expended on stabilizing the economy through public-policy responses. However, to avoid permanent damage to our livelihoods, we need to find ways to "timebox" this event: we must think about how to suppress the virus and shorten the duration of the economic shock.

Exhibit 2

## Companies need to think and act across five horizons.

### The five horizons



#### 1 Resolve

Address the immediate challenges that COVID-19 represents to institution's workforce, customers, technology, and business partners



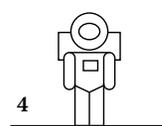
#### 2 Resilience

Address near-term cash-management challenges and broader resiliency issues during virus-related shut-downs and economic knock-on effects



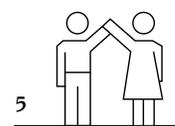
#### 3 Return

Create detailed plan to return business to scale quickly as COVID-19 situation evolves and knock-on effects become clearer



#### 4 Reimagination

Reimagine the next normal: what a discontinuous shift looks like and implications for how institutions should reinvent



#### 5 Reform

Be clear about how regulatory and competitive environments in industry may shift

To aid decision makers, we have developed scenarios, based on three likely paths for the spread of the virus and the public health response, and three potential levels of effectiveness for governmental economic response (Exhibit 3).

Many leaders currently expect one of the scenarios shaded in Exhibit 3 (A1–A4) to materialize. In each of these, the COVID-19 spread is eventually controlled, and catastrophic structural economic damage is

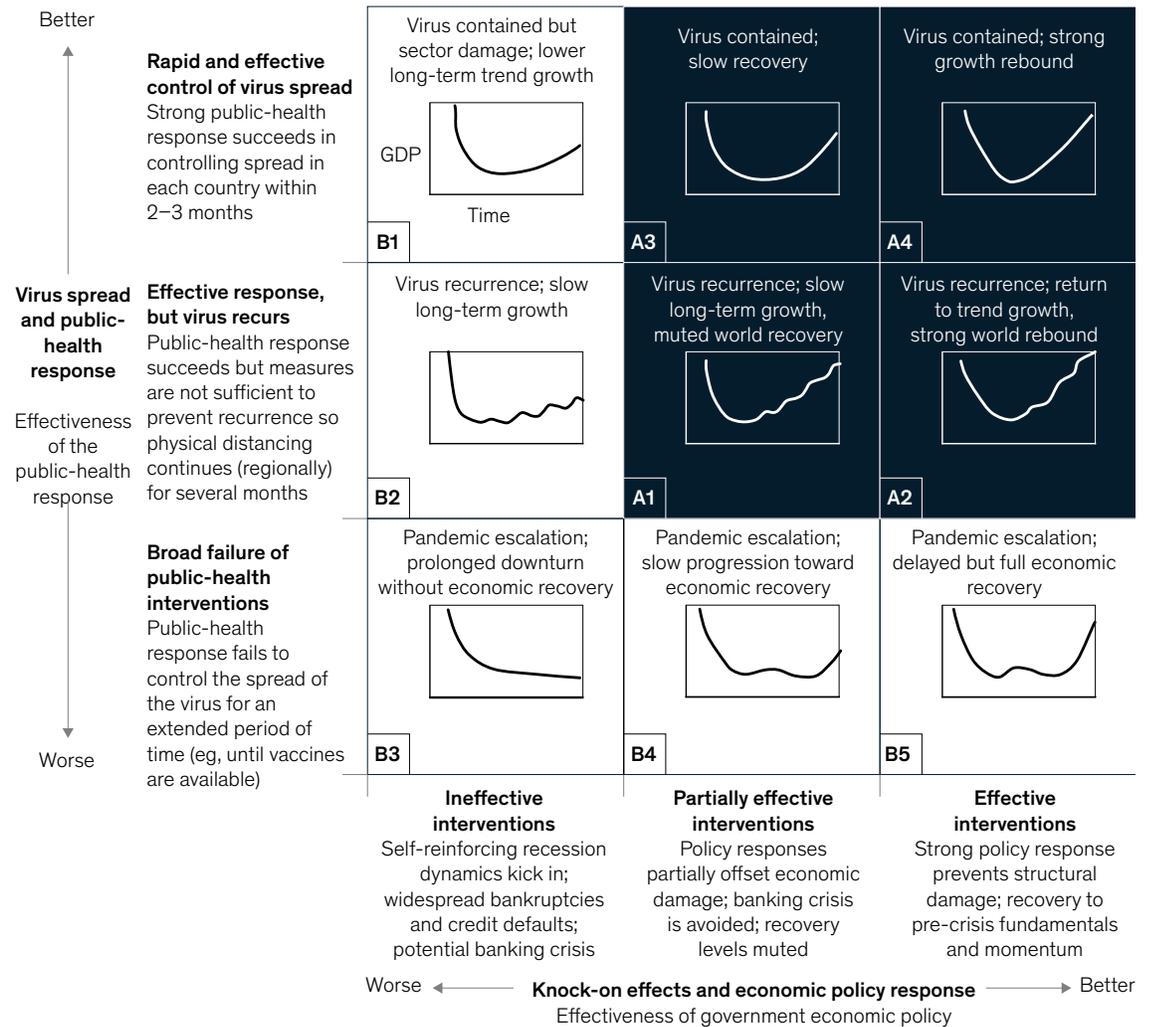
avoided. These scenarios describe a global average, while situations will inevitably vary by country and region. But all four of these scenarios lead to V- or U-shaped recoveries.

Other, more extreme scenarios can also be conceived, and some of them are already being discussed (B1–B5 in Exhibit 3). One can't exclude the possibility of a "black swan of black swans": structural damage to the economy, caused by a

Exhibit 3

### Scenarios for the economic impact of the COVID-19 crisis.

#### GDP impact of COVID-19 spread, public-health response, and economic policies



# Companies need to increase communication, balancing the needs of the business with expectation setting and morale building.

yearlong spread of the virus until a vaccine is widely available, combined with the lack of policy response to prevent widescale bankruptcies, unemployment, and a financial crisis.

## Steps to take now

Amid the chaos and all the incoming advice, it's hard to know exactly what leaders should do today. We suggest they focus their time on four areas:

- *Support and protect employees in this brave new world.* Many institutions have put basic protections in place for their employees and customers. Companies have activated no-travel and work-from-home policies for some workers and physical-distancing-at-work measures for others. The challenge is evolving. For remote workers, interruptions are more frequent than in the office. Making a mental separation from a sometimes-chaotic home life is tough. Workers are finding that they don't have the skills to be successful in an extended remote environment, from networking to creating routines that drive productivity. They worry that staying remote could make them less valuable, especially in a recessionary environment.

As our colleagues recently explained, three goals are essential. Companies need to increase communication, balancing the needs of the business with expectation setting and morale building, so employees know that their well-

being is top of mind. They also need to change working norms, making remote work practical and simple whenever possible. And of course, they must protect people's health, with whatever measures are appropriate to the workplace: positive hygiene habits, personal protective equipment, amended sick-leave policies—whatever it takes to ensure health and safety.

- *Monitor leading indicators of how and where the pandemic is evolving and conduct scenario planning using both epidemiological and economic inputs.* Earlier, we sketched out the swing factors to watch to understand how the coronavirus pandemic might develop. As companies develop scenarios, they might want to consider the article “Safeguarding our lives and our livelihoods: The imperative of our time,” available on McKinsey.com, which details McKinsey's nine epidemiologic and economic scenarios.
- *Think about the next horizons of COVID-19.* In the urgency of the moment, it's easy to lose sight of the actions that might be needed tomorrow—and the day after that. The article “Beyond coronavirus: The path to the next normal,” available on McKinsey.com, explains the five horizons that every executive should use to ensure an organization's rapid response, adaptation to change, and reemergence in a position of strength.

— *Evolve the nerve center to plan for the next phase.* Every assumption underpinning a business is open to question. To take one example, we might be in the midst of the largest drawdown in demand since the Second World War. The pendulum might not swing back fully once the outbreak has relented. Having experienced a new way of living, consumers are recalibrating their spending, increasing the likelihood that spending may permanently shift between categories and that online services could get adopted far faster. Decoding this new normal—and ensuring that the company has a strategy to navigate it—is an important part of

the work of a nerve center. Approaches such as using a portfolio of initiatives and planning for decision making under uncertainty can go a long way toward creating a compass for business leaders to follow.

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The next normal will look unlike any in the years preceding the coronavirus, the pandemic that changed everything. In these briefing notes, we aim to provide leaders with an integrated perspective on the unfolding crisis and insight into the coming weeks and months.

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