

Beyond coronavirus: The path to the next normal

The coronavirus is not only a health crisis of immense proportion—it's also an imminent restructuring of the global economic order. Here's how leaders can begin navigating to what's next.

by Kevin Sneader and Shubham Singhal



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"For some organizations, near-term survival is the only agenda item. Others are peering through the fog of uncertainty, thinking about how to position themselves once the crisis has passed and things return to normal. The question is, 'What will normal look like?' While no one can say how long the crisis will last, what we find on the other side will not look like the normal of recent years."

These words were written 11 years ago, amid the last global financial crisis, by one of our former managing partners, Ian Davis. They ring true today but if anything, underestimate the reality the world is currently facing.

It is increasingly clear our era will be defined by a fundamental schism: the period before COVID-19 and the new normal that will emerge in the post-viral era: the “next normal.” In this unprecedented new reality, we will witness a dramatic restructuring of the economic and social order in which business and society have traditionally operated. And in the near future, we will see the beginning of discussion and debate about what the next normal could entail and how sharply its contours will diverge from those that previously shaped our lives.

Here, we attempt to answer the question being posed by leaders across the public, private, and social sectors: 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?

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.

The duration of each stage will vary based on geographic and industry context, and institutions may find themselves operating in more than one stage simultaneously. Today, on McKinsey.com, a group of colleagues published “Safeguarding our lives and our livelihoods: The imperative of our time,” which emphasizes the urgency of solving now for the virus and the economy, and thereby precedes our focus here on reimagining the future, post-pandemic.

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.

Resolve

In almost all countries, crisis-response efforts are in full motion. A large array of public-health interventions has been deployed. Healthcare systems are—explicitly—on a war footing to increase their capacity of beds, supplies, and trained workers. Efforts are under way to alleviate shortages of much-needed medical supplies. Business-continuity and employee-safety plans have been escalated, with remote work established as the default operating mode. Many are dealing with acute slowdowns in their

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operations, while some seek to accelerate to meet demand in critical areas spanning food, household supplies, and paper goods. Educational institutions are moving online to provide ongoing learning opportunities as physical classrooms shut down. This is the stage on which leaders are currently focused. For more, please see “Coronavirus: Leading through the crisis” on McKinsey.com.

And yet, a toxic combination of inaction and paralysis remains, stymying choices that must be made: lockdown or not; isolation or quarantine; shut down the factory now or wait for an order from above. That is why we have called this first stage Resolve: the need to determine the scale, pace, and depth of action required at the state and business levels. As one CEO told us: “I know what to do. I just need to decide whether those who need to act share my resolve to do so.”

Resilience

The pandemic has metastasized into a burgeoning crisis for the economy and financial system. The acute pullback in economic activity, necessary to protect public health, is simultaneously jeopardizing the economic well-being of citizens and institutions. The rapid succession of liquidity and solvency challenges hitting multiple industries is proving resistant to the efforts of central banks and governments to keep the financial system functioning. A health crisis is turning into a financial crisis as uncertainty about the size, duration, and shape of the decline in GDP and employment undermines what remains of business confidence.

A McKinsey Global Institute analysis, based on multiple sources, indicates that the shock to our livelihoods from the economic impact of virus-suppression efforts could be the biggest in nearly a century. In Europe and the United States, this is likely to lead to a decline in economic activity in a single quarter that proves far greater than the loss of income experienced during the Great Depression.

In the face of these challenges, resilience is a vital necessity. Near-term issues of cash management

for liquidity and solvency are clearly paramount. But soon afterward, businesses will need to act on broader resilience plans as the shock begins to upturn established industry structures, resetting competitive positions forever. Much of the population will experience uncertainty and personal financial stress. Public-, private-, and social-sector leaders will need to make difficult “through cycle” decisions that balance economic and social sustainability, given that social cohesion is already under severe pressure from populism and other challenges that existed pre-coronavirus.

Return

Returning businesses to operational health after a severe shutdown is extremely challenging, as China is finding even as it slowly returns to work. Most industries will need to reactivate their entire supply chain, even as the differential scale and timing of the impact of coronavirus mean that global supply chains face disruption in multiple geographies. The weakest point in the chain will determine the success or otherwise of a return to rehiring, training, and attaining previous levels of workforce productivity. Leaders must therefore reassess their entire business system and plan for contingent actions in order to return their business to effective production at pace and at scale.

Compounding the challenge, winter will bring renewed crisis for many countries. Without a vaccine or effective prophylactic treatment, a rapid return to a rising spread of the virus is a genuine threat. In such a situation, government leaders may face an acutely painful “Sophie’s choice”: mitigating the resurgent risk to lives versus the risk to the population’s health that could follow another sharp economic pullback. Return may therefore require using the hoped-for—but by no means certain—temporary virus “cease-fire” over the Northern Hemisphere’s summer months to expand testing and surveillance capabilities, health-system capacity, and vaccine and treatment development to deal with a second surge. For more, see “Bubbles pop, downturns stop” on McKinsey.com.

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Reimagination

A shock of this scale will create a discontinuous shift in the preferences and expectations of individuals as citizens, as employees, and as consumers. These shifts and their impact on how we live, how we work, and how we use technology will emerge more clearly over the coming weeks and months. Institutions that reinvent themselves to make the most of better insight and foresight, as preferences evolve, will disproportionately succeed. Clearly, the online world of contactless commerce could be bolstered in ways that reshape consumer behavior forever. But other effects could prove even more significant as the pursuit of efficiency gives way to the requirement of resilience—the end of supply-chain globalization, for example, if production and sourcing move closer to the end user.

The crisis will reveal not just vulnerabilities but opportunities to improve the performance of businesses. Leaders will need to reconsider which costs are truly fixed versus variable, as the shutting down of huge swaths of production sheds light on what is ultimately required versus nice to have. Decisions about how far to flex operations without loss of efficiency will likewise be informed by the experience of closing down much of global production. Opportunities to push the envelope of technology adoption will be accelerated by rapid learning about what it takes to drive productivity when labor is unavailable. The result: a stronger sense of what makes business more resilient to

shocks, more productive, and better able to deliver to customers.

Reform

The world now has a much sharper definition of what constitutes a black-swan event. This shock will likely give way to a desire to restrict some factors that helped make the coronavirus a global challenge, rather than a local issue to be managed. Governments are likely to feel emboldened and supported by their citizens to take a more active role in shaping economic activity. Business leaders need to anticipate popularly supported changes to policies and regulations as society seeks to avoid, mitigate, and preempt a future health crisis of the kind we are experiencing today.

In most economies, a healthcare system little changed since its creation post–World War II will need to determine how to meet such a rapid surge in patient volume, managing seamlessly across in-person and virtual care. Public-health approaches, in an interconnected and highly mobile world, must rethink the speed and global coordination with which they need to react. Policies on critical healthcare infrastructure, strategic reserves of key supplies, and contingency production facilities for critical medical equipment will all need to be addressed. Managers of the financial system and the economy, having learned from the economically

induced failures of the last global financial crisis, must now contend with strengthening the system to withstand acute and global exogenous shocks, such as this pandemic's impact. Educational institutions will need to consider modernizing to integrate classroom and distance learning. The list goes on.

The aftermath of the pandemic will also provide an opportunity to learn from a plethora of social innovations and experiments, ranging from working from home to large-scale surveillance. With this will come an understanding of which innovations, if adopted permanently, might provide substantial uplift to economic and social welfare—and which would ultimately inhibit the broader

betterment of society, even if helpful in halting or limiting the spread of the virus.

As we consider the scale of change that the coronavirus has engendered—and will continue to engender in the weeks and months ahead—we feel compelled to reflect not just on a health crisis of immense proportion but also on an imminent restructuring of the global economic order. How exactly this crisis evolves remains to be seen. But the five stages described here offer leaders a clear path to begin navigating to the next normal—a normal that looks unlike any in the years preceding the coronavirus, the pandemic that changed everything.

Kevin Sneader is the global managing partner of McKinsey & Company and is based in Hong Kong. **Shubham Singhal** is a senior partner in McKinsey's Detroit office and the global leader of the Healthcare Systems & Services Practice.

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