Vietnam Automotive Industry: Impact of COVID-19 and Navigating the Turbulence

May 2020
Agenda

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02 COVID-19: Impact on Economy and Automotive Industry

03 How Can We Navigate Through This Turbulence?

04 How Can PwC Help?

Appx. Learning from China: COVID 19 Experience
Executive Summary
Executive Summary

The impact of COVID-19

• **COVID-19 has the potential to be the most significant event in recent human history**, causing great damage to Vietnam as well as the global economy with over two million cases recorded and counting.

• **The two- and four-wheeler industries are expected to suffer deep decline** due to market saturation and reduced demand.

• Issues in various aspects of the automotive industry such as supply chains, finance, and human resources are putting pressure on businesses to adapt and accommodate the so-called ‘new normal’.

How do we navigate through this turbulence

In order respond to current events and industry pressures, automotive companies have the option to respond with a phased approach in line with demand recovery, covering:

• **Strategic response** – ability to sense the change in demand and respond quickly to adapt.

• **Managing liquidity** – ability to collect, reserve and control cash.

• **Workforce engagement and productivity** – plan for remote working, employee wellness in balance with cost, compliance, and efficiency.

• **Supply chain risk and resilience** – leveraging digital supply chain solutions to build on long term competitive advantages

• **IT readiness** – adapt to new working limitations and strengthen security and governance.

How do we go through it together

• **We need to look at how businesses can protect themselves** in the short term through various quick-win initiatives such as adopting and continuously updating clear policies aiming to protect staff, planning for data flow, communication during crisis to quickly update and share accurate information, or policies given the work from home needs.

• At the same time, businesses need to address how to recover and accelerate in the medium and long term, addressing various opportunities in strategy, front end, supply chain/operations, and workforce. This can be done by implementing a phased approach to identify, evaluate and manage risks along with the pandemic.
COVID-19: Impact on Economy and Automotive Industry
According to Oxford Economics, COVID-19 could cause a world GDP decline of 2.8% (USD 2.5 tn) in 2020

**Human impact of recent health crises**

Human deaths as a result of particular diseases, after the year 2000

- **SARS**
  - Year: 2002-03
  - Deaths: 770
  - Countries: 24

- **Swine Flu**
  - Year: 2009-10
  - Deaths: 18k
  - Countries: 213

- **MERS**
  - Year: 2012
  - Deaths: 850
  - Countries: 27

- **Ebola**
  - Year: 2014-16
  - Deaths: 11.3k
  - Countries: 10

- **COVID-19**
  - Year: 2019-Present
  - Deaths: 350k<
  - Countries: 210

**Significant impact on 2020 GDP growth forecast given lockdown and social isolation**

COVID-19 world GDP Impact is bigger than 2008-09 (-1.7%) recession

<table>
<thead>
<tr>
<th>Country</th>
<th>Pre-COVID-19</th>
<th>Post-COVID-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>5%</td>
<td>137k</td>
</tr>
<tr>
<td>Spain</td>
<td>2%</td>
<td>184k</td>
</tr>
<tr>
<td>Italy</td>
<td>2%</td>
<td>168k</td>
</tr>
<tr>
<td>USA</td>
<td>24%</td>
<td>677k</td>
</tr>
<tr>
<td>China</td>
<td>15%</td>
<td>82k</td>
</tr>
</tbody>
</table>

**Unlikely Quick Recovery**

- **U-scenario**
  - "U" scenario (possible)
  - "U" scenario (likely)

- **V-scenario**
  - "V" scenario (possible)
  - "V" scenario (likely)

- **L-scenario**
  - "L" scenario (possible)
  - "L" scenario (likely)

- **Impact of COVID-19 and Navigating the Turbulence**

1. Assuming world GDP of USD 90 tn
2. As on 16th April 2020; Source: Worldometers, IHS Markit, WHO, ECDC data, Press Releases

Impact of COVID-19 and Navigating the Turbulence

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Vietnam's economy is not spared from the impact of the COVID-19 pandemic

Impacts on the Vietnamese economy:

1. With the recent COVID-19 pandemic, Vietnam is expecting a significant decline in its GDP growth. Preliminary estimates suggest that its GDP growth will go down from 7.02% in 2019 to only 4.8% in 2020, which is the lowest level in the last two decades.
2. Forecasts also include an increase in inflationary pressures, potential trade disruptions and fluctuating prices.
3. The tourism and manufacturing sectors will see the strongest impacts, being highly dependent on the global economy.

Impacts on Vietnamese enterprises:

1. The COVID-19 pandemic negatively impacts 93% of companies, half of which stated they will be significantly affected.
2. Top concerns for business leadership during this time include a reduction in customer orders, revenue loss, supply-chain interruptions, temporary closure, liquidity issues and lack of workers.
3. Possible reasons:
   - Government’s measures against the outbreak, including travel restrictions and quarantine order.
   - Sudden shrinkage in customer demand.

Vietnam's GDP growth forecast:

- 2010: 6.78%
- 2011: 6.24%
- 2012: 5.25%
- 2013: 5.98%
- 2014: 6.21%
- 2015: 6.81%
- 2016: 7.08%
- 2017: 7.02%
- 2018: 6.8%
- 2019: 4.8%
- 2020f: 4%
- 2021f: 3%

Top concerns of businesses during COVID-19:

- Fewer customers/orders: 67%
- Loss of revenue: 61%
- Interruptions to the supply chain: 40%
- Temporary closure of operations: 33%
- Cash flow shortage: 32%
- Worker absence due to self-isolation or quarantine: 32%
- Difficulties in keeping & getting experts to Vietnam: 27%
- Worker absence due to international travel restrictions: 23%
- None of the above: 4%
- Permanent closure of operations: 3%

Source:
1. Vietnam MOH’s data as of 29 Apr, 2020
3. EuroCham Business Climate Index survey
The potential impacts on consumption-oriented clusters will most likely be different across industries and territories.

**Resilient**: Growth or marginal de-growth\(^1\) in H1 '20

- **Pharma**
- **FMCG** *(Staples)*
- **E-Commerce** *(essentials)*
- **OTT Entertainment**
- **Online Education**
- **Remote Working Tech. Infrastructure**

**Dampener**: 10% – 30% de-growth\(^1\) in H1 '20\(^2\)

- **Cab Aggregators**
- **Financial Services** *(banks, insurance)*
- **FMCG** *(Premium, New, Gourmet)*

**Deep Descent**: > 30% de-growth\(^1\) in H1 '20\(^2\)

- **Airlines**
- **Hotels**
- **Entertainment** *(Multiplexes etc.)*
- **Consumer Durables & Electronics**
- **Dining Restaurants**
- **Gems & Jewellery**
- **Automobiles**
- **Auto-Components**
- **Retail**

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1) De-growth means the need to reduce global consumption and production.
2) Data taken as of 16th March 2020 and comparison period is for a few days before 18th March vis-a-vis 2019.

Sources: Secondary Research, Strategy\& analysis

Impact of COVID-19 and Navigating the Turbulence

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Factors impacting automotive demand in the coming months

<table>
<thead>
<tr>
<th>Factor</th>
<th>Key parameter</th>
<th>Characteristic</th>
<th>Optimistic</th>
<th>Realistic</th>
<th>Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply (availability)</td>
<td>OEM - manufacturing capacity</td>
<td>Reduced production levels</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td></td>
<td>Supply-chain issues</td>
<td>Expected supply-chain disruptions</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Finance availability</td>
<td>Stability of the financial system</td>
<td>Financial system likely to undergo stress</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>New product launches</td>
<td>OEMs to defer product launches later than Q3/Q4</td>
<td></td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>OEM initiatives</td>
<td>Vehicle discounts and incentives</td>
<td>High discounts from OEMs</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Government and regulatory interventions</td>
<td>Tax cuts and other incentives</td>
<td>Government support expected to reduce impact of taxes and duties</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Consumption demand</td>
<td>Consumer income</td>
<td>Job losses and pay cuts expected</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td></td>
<td>Net worth</td>
<td>Asset prices expected to decline</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Sentiment</td>
<td>Consumer and business sentiment to remain low</td>
<td></td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Mobility preferences</td>
<td>Increased preference for personal modes of transport</td>
<td></td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Vehicle finance rate</td>
<td>To be lower than FY20</td>
<td></td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Activity levels in the economy</td>
<td>Manufacturing sector activity level</td>
<td>To remain below normal</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td></td>
<td>Service sector activity level</td>
<td>To remain subdued due to poor sentiment &amp; periodic lockdowns</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td>Investment demand</td>
<td>Private capex</td>
<td>To be deferred to FY21</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
<tr>
<td></td>
<td>Infrastructure spend by Government</td>
<td>Boost in infrastructure spend by the Govt. post Covid-19</td>
<td>☐</td>
<td>◐</td>
<td>◕</td>
</tr>
</tbody>
</table>

Impact of COVID-19 and Navigating the Turbulence
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* Analysis is done based on the situation as on 08 April 2020. Analysis and forecasts could be subject to change during rapidly changing external environment.
How Can We Navigate Through This Turbulence?
The following focus areas have been identified to assist organisations in addressing common issues and challenges encountered as a result of COVID-19:

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Workforce</strong></td>
<td>Protecting the well-being and welfare of employees, especially those living in affected territories.</td>
</tr>
<tr>
<td><strong>Supply chain</strong></td>
<td>Re-routing, delays, disputes and knock-on impact on customers.</td>
</tr>
<tr>
<td><strong>Decline in sales</strong></td>
<td>Decreased sales is resulting in reduced cash flow and covenant issues.</td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td>Reduced resilience in key functions, infrastructure and services or locations becoming unavailable.</td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td>Restricted or prohibited to some locations, impacting business and leisure demand more generally.</td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>Organisations are facing compliance challenges in certain sectors.</td>
</tr>
</tbody>
</table>
# A phased recovery plan for automotive companies

## Impact of COVID-19 and Navigating the Turbulence

### Phase

<table>
<thead>
<tr>
<th>Phase</th>
<th>1: Protect (3-6 months)</th>
<th>2: Restore (6-12 months)</th>
<th>3: Rebound (&gt; 12 months)</th>
<th>Examples of initiatives</th>
</tr>
</thead>
</table>
| **Strategic response** | - Determine impact of disruption  
- Protect customers and revenue | - Recover operations and resume planned growth trajectory for the period | - Prepare for growth  
- Invest in new opportunities | - VinGroup producing ventilators at its automobile and smartphone factories (Source) |
| **Managing liquidity** | - Preserve cash and create liquidity  
- Identify quick cash generation and saving opportunities | - Improve and sustain cash position through new initiatives | - Strengthen cash position to invest in new growth initiatives | - Golden Gate negotiating with landlords to lower rent in line with lost revenue (Source) |
| **Workforce engagement and productivity** | - Safeguard employee welfare  
- Communicate and engage with employees | - Manage employee productivity and adapt operating model to new ways of working | - Re-organise to align with current business imperatives  
- Create a resilient organisation | - The Coffee House implementing internal shipper program and internal fundraising for employees in need (Source) |
| **Supply chain risk and resilience** | - Assess supply chain disruption and monitor and manage risks  
- Protect supplies, orders & deliveries | - Evaluate supply chain gaps and restore operations to support business objectives | - Strengthen supply chain resilience and visibility  
- Invest in agile supply chain | - Vietnam Airlines conducting supplier re-negotiation (Source)  
- Samsung transporting electronic components to its factories in Vietnam by air (Source) |
| **IT readiness** | - Stress test IT infrastructure  
- Resolve issues impacting business continuity | - Scale up IT resources to meet business requirement | - Strengthen IT infrastructure and security and develop scalability | - Hanwa hosting online furniture fair using virtual reality to boost customer experience (Source) |

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Impact of COVID-19 and Navigating the Turbulence

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3.1 Strategic Response
Historically, there have been three potential recovery scenarios after economic shocks.

1. **Scenario 1: Optimistic**
   - **Impact on Private Spending**
     - Rapid rebound in household spending
     - Immediate expansion of pent-up demand seen
   - **Impact on Automotive Industry**
     - Rebound in auto demand
     - Cost pressures in the short term

2. **Scenario 2: Realistic**
   - **Impact on Private Spending**
     - Two quarter slowdown in the economy
     - Pay cuts and temporary job losses expected in informal sector – recovery by end of Q3-FY21
     - Poor consumer sentiment, and deferred capital expenditures likely to result in a slow recovery
   - **Impact on Automotive Industry**
     - Household and business confidence loss, postponement of high ticket purchases
     - Major cracks seen in financial system
     - Sales remain depressed, significant portion of demand lost
     - Likely shift to used car purchases

3. **Scenario 3: Pessimistic**
   - **Impact on Private Spending**
     - Economy expected to recover by Q4-FY21
     - Job losses expected in both informal sector and formal sector. Re-employment could take more than two quarters
     - Government fiscal policies likely to take time to show results
   - **Impact on Automotive Industry**
     - Large-scale unemployment, repeated waves cause unrest in the labour market
     - Domestic spend on essentials
     - Alternate supply chains, policy changes in procurement practices, trade agreements
     - Continued disruption of production and retail

Source: Harvard Business Review, Investopedia, marketplace.org and PwC research and analysis
Preparing for different scenarios

<table>
<thead>
<tr>
<th>Scenario 1: Optimistic</th>
<th>Scenario 2: Realistic</th>
<th>Scenario 3: Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Segments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Assess impact across core segments – mass vs premium, rural vs urban, private vs fleet</td>
<td>• Sense any significant impact on core segments</td>
<td>• Refocus business areas and segments under stress</td>
</tr>
<tr>
<td>• Protect core segments and prioritise segments that are showing more resilience</td>
<td>• Identify new segments and opportunities that are relatively insulated</td>
<td>• Protect and grow attractive business segments</td>
</tr>
<tr>
<td><strong>Products and Launches</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Evaluate any product delay costs and revise target costs</td>
<td>• Review product launches basis segment trends</td>
<td>• Shelve product launches that do not meet the revised business case</td>
</tr>
<tr>
<td>• Assess launch readiness and identify opportunities to accelerate launches</td>
<td>• Prepare for digital and soft launches</td>
<td>• Evaluate and invest in product solutions that meet the evolving customer needs</td>
</tr>
<tr>
<td><strong>Channels</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enhance promotional activities across digital channels</td>
<td>• Optimise sales channels for revised demand projections</td>
<td>• Restructure sales channels to create more flexibility and resilience</td>
</tr>
<tr>
<td>• Enabling digital sales journey</td>
<td>• Invest in convenient digital sales and marketing channels</td>
<td>• Developed integrated digital channels to enhance visibility of demand &amp; customer needs</td>
</tr>
<tr>
<td>• Evaluate network strength and expansion plans</td>
<td>• Assess launch readiness and ability to scale up new models</td>
<td></td>
</tr>
<tr>
<td><strong>Ecosystem</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Evaluate financial health of suppliers and dealers and develop support initiatives</td>
<td>• Support suppliers and dealers with financial initiatives to ensure sustenance</td>
<td>• Explore opportunities for strategic investment in distressed partners</td>
</tr>
<tr>
<td>• Evaluate opportunities to enhance resilience of ecosystem</td>
<td>• Review and enhance ecosystem continuity plans</td>
<td>• Identify alternative sources and channel partners in line with revised strategy</td>
</tr>
</tbody>
</table>
Factors impacting automotive demand and customers prioritisation

The motorbike market struggles due to new options (electric vehicles) and saturation

• The market for motorbikes has been shrinking with 2019 motorbike sales in Vietnam reduced nearly 4% compared to 2018. 2020 Q1 sales were 3% lower than the same period last year due to saturation in addition to the effect of COVID-19

• Amidst saturation, there is also a rise in competition from other two wheeler manufacturers
  o Vin Group started their new two-wheeler lines with excessive promotions and events to promote the new products
  o Many users are switching toward electric vehicles (EVs), which are often less costly and considered lower speed and safer for young students and elders

Temporary decline of four-wheeler market due to COVID -19 and increase in uptake of used automobiles

• The impact of COVID 19 is likely to dampen the demand for new vehicles, with a serious decrease in new vehicle sales, with Q1 recording 33% lower sales than last year

• Overall, market for four-wheelers are on the rise with an increasing number of buyers might choose to defer their new car purchase or shift towards pre-owned vehicles, for the following reasons:
  o Recently Vietnam's government announced that it is planning to issue a revision to Decree 116/2017 on the conditions for production, assembly, import and business of automobile warranty and maintenance services, removing a number of regulations relevant to auto imports. This will allow for more efficient vehicle imports, which will further increase the supply of used vehicles and reduce the demand for new vehicles
  o Vietnamese wage growth may be beneficial to passenger vehicle (PVs) demand, especially when coupled with decreasing vehicle prices. A strong increase in real wages, in part driven by skills shortage, would support a continued rise of Vietnam's middle class. This will see the portion of the country's population who are able to afford vehicle increase, but this growth will likely feed into the used vehicle market over the new vehicle market. This will limit growth in new vehicle sales over our 2020-2029 forecast period, especially if the Vietnamese government continues to ease the import barriers for vehicles

Source: FitchSolutions Autos Report Q2 2020, PwC Research and Analysis

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..while leveraging **digital sales and promotion channels** to enhance engagement with customers

**Traditional model:** lead generation primarily driven by dealers

- **OEM**
  - Mass Media / Online Channels
  - Lead generation
  - Customers

**Increased focus on OEM led lead generation**

- **Digital platforms**
  - YouTube
  - FB
  - Twitter
  - Instagram
  - TikTok

- **Brand Story**
- **Brand Platforms**
- **Key opinion leaders (KOLs)**

**Key considerations**

- Offline lead generation and sales promotion activities have been deeply impacted by COVID-19

- OEMs can take the lead to engage with the prospective buyers through digital channels and share the leads with their dealer partners

- For the digital natives, the trend towards online sales may be accelerated in the post-COVID-19 environment
3.2 Managing Liquidity
While navigating turbulence, cash is king!

Global uncertainty may require robust cash forecast

Why is it important to manage liquidity?

1. Cash visibility
2. Foundation for cash generation initiatives
3. Process improvement
4. Rapid decision-making
Certain working capital levers to conserve cash

**Debtors**
- Proactive customer dispute management process
- Collection focused KPIs
- Increase invoice frequency
- Negotiate advance payment terms

**Payables**
- Prioritise payments
- Ensure process compliance
- Realise discounts and rebates
- Renegotiate credit terms
- Consolidate supplier base

**Inventory**
- Align target stock levels with supply chain
- Identify alternate sources
Getting liquidity management off to a great start

**Understanding the situation**
- Obtain historical financial data
- Understand the key cash drivers and current cash position

**Visibility of cash outflows**
- Understand quantum, ageing and periodicity of payments
- Prepare supplier wise weekly payment plan
- Classify into: statutory payments; critical or contractual payments; discretionary spent
- Review pipeline expenditure
- Obtain weekly detailed collection plan
- Monetise non-core and surplus assets

**Improved cash conversion**
- Seek product margins and product cash conversion time
- Consider changing sales and production plan
- Identify vendors offering longer credit terms or discounts.
- Seek key vendor contracts and payment terms

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Implementation of a cash conservation and liquidity management office (CCLMO) gives better control of the organisation’s cash position

Members – Representative of CFO, Treasury, Payables, Receivables team

**Role and Agenda of the CCLMO**

**Daily meetings with various departments**
- Prepare daily payment requests
- Cost-benefit of delaying capex, R&D, on-boarding
- Accelerate refund and recovery processes, identify opportunities for bill discounting
- Capture cost reduction ideas

**Weekly meetings**
- Actual vs forecast variance
- Update of forecasts

Regulate the activities each day and at each stage
Direct 13-week cash flow forecast - Example format

<table>
<thead>
<tr>
<th>13 week cash flow forecast - indicative format</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weeks</strong></td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td><strong>Cash inflow</strong></td>
</tr>
<tr>
<td>Collections from outstanding AR</td>
</tr>
<tr>
<td>Customer 1</td>
</tr>
<tr>
<td>Customer 2</td>
</tr>
<tr>
<td>Customer 3</td>
</tr>
<tr>
<td>Customer x</td>
</tr>
<tr>
<td>Customer xx</td>
</tr>
<tr>
<td>Collections from fresh invoices</td>
</tr>
<tr>
<td>Product/Project/Service 1</td>
</tr>
<tr>
<td>Product/Project/Service 2</td>
</tr>
<tr>
<td>Product/Project/Service 3</td>
</tr>
<tr>
<td>Product/Project/Service xx</td>
</tr>
<tr>
<td>Product/Project/Service xxx</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td><strong>Total cash inflow</strong></td>
</tr>
<tr>
<td><strong>Cash outflow</strong></td>
</tr>
<tr>
<td>- Statutory payments</td>
</tr>
<tr>
<td>- Expense 1</td>
</tr>
<tr>
<td>- Expense 2</td>
</tr>
<tr>
<td>- Contractual Critical payments</td>
</tr>
<tr>
<td>- Vendor 1</td>
</tr>
<tr>
<td>- Vendor 2</td>
</tr>
<tr>
<td>- Discretionary payments</td>
</tr>
<tr>
<td>- Expense 1</td>
</tr>
<tr>
<td>- Expense 2</td>
</tr>
<tr>
<td>General costs - total</td>
</tr>
<tr>
<td><strong>Tax payments</strong></td>
</tr>
<tr>
<td><strong>Total cash outflow</strong></td>
</tr>
<tr>
<td><strong>Total cash from operations</strong></td>
</tr>
<tr>
<td>Cash flow from financing and investing</td>
</tr>
<tr>
<td>- Capital expenditure</td>
</tr>
<tr>
<td>- Investment</td>
</tr>
<tr>
<td>- Inflow from monetisation of surplus/idle assets</td>
</tr>
<tr>
<td>- Loan repayment</td>
</tr>
<tr>
<td>- Interest payment</td>
</tr>
<tr>
<td>- Other inflows</td>
</tr>
<tr>
<td>- Other outflows</td>
</tr>
<tr>
<td><strong>Net inflow/outflow from financing and investing</strong></td>
</tr>
<tr>
<td><strong>Net cash forecast</strong></td>
</tr>
</tbody>
</table>

This is illustrative format and may change depending on your needs
3.3 Managing People and Organisations in the ‘New Normal’
What we were least prepared for, has become our new reality and our “new normal”...
The roadmap: key workforce focus areas to consider for the future

A 2 phase approach can be considered to shift resources and evolve focus

**Phase 1 : Immediate / Short Term**
- Timeframe: 2 weeks to 2 months
- Focus: Keeping the lights on through cost, compliance, care and commitment

**Phase 2 : Mid Term**
- Timeframe: 2 months to 6 months
- Focus: Building the momentum and nurturing the eco-system to adapt to new ways of working

There will also be clear focus areas, where continued focus will be imperative in both phases

**Immediate focus areas for Organisations**

- **Employee health and wellness**
- **Continuous communication and connect**
- **Virtual capability building**
- **Remote working enablement and compliance**
- **Transition management**
- **Cost and productivity**
- **Business continuity planning**
- **Urgently rewire HR policies**

**Impact of COVID-19 and Navigating the Turbulence**

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Phase 1

Phase 2

Ongoing
Tactics implemented by other companies in response to the crisis

Key focus areas

### Remote working enablement and compliance
- Test and enable technologies to support collaboration and communication
- Remote working policy and data security compliance

### Business continuity planning
- Global mobility and business continuity with customers
- Leadership alignment for business continuity
- Workforce augmentation for key activities and tasks that need support
- Scenario based crisis-preparedness audits

### Continuous communication and connect
- Constant communication to employees notifying about measures taken amid COVID-19
- Share knowledge from credible sources e.g. WHO
- Creating a digital workplace of the future

### Cost and productivity
- Workforce planning and management
- Refine performance expectations
- Plan for increase in absenteeism and work refusal
- Senior executives, white collar and blue collar productivity plans

### Virtual capability building
- Managing virtuality as a capability
- Building leadership capability for a virtual world
- Coaching of leaders and staff for morale and resilience
- Future focused capability building and digital fitness

### Transitions management
- Compliance and brand management around workforce transitions
- Coaching and career transition support for impacted staff
- Creation of scenario-based workforce transition plans

### Urgently ‘rewire’ HR policies for relevance
- Realign Hiring, Onboarding, Exits, C&B, PMS and L&D policies to support the organisational strategy and the current scenario

### Employee health and wellness
- Conduct health and wellness training
- Revise leave, travel and hospitalization, and insurance
- Manage employee morale through care and communication
- Establishing employee support services e.g. dedicated hotline number
## Tactics implemented by other companies in response to the crisis

### Key focus areas

#### Accepting the ‘new normal’
- An otherwise ‘brick and mortar’ sector, the automotive industry has shown tremendous resilience to transition to ‘working from home’
- Slow returning to normal and hence managing plans around that

#### Newer norms and capability for the future
- Managing virtuality as a capability and a way of life
- Building leadership capability for a virtual world
- Coaching of leaders and staff for morale and resilience
- Future focused capability building and digital fitness

#### Value stream management
- Planning for ramping up will be different depending on whether the supplier is direct or indirect
- With regard to employee productivity, use the down time to build newer partnerships and avenues

#### Contributing to the ecosystem
- Produce an inclusive cash flow and productivity management plan, that takes into consideration the success of the entire value chain will be key
- Planning with ancillaries, suppliers and dealers and distributors for ‘newer ways’ and ‘newer propositions’ could be key

#### Preparing for the new customer and employee expectations
- Will the definition of ‘mobility’, and social distancing change human preferences?
- Could workforce models across the entire value chain be shifted to ‘core’ and non-core and build service providers for non-core segments across all players?

#### Workforce morale
- Employee costs should not exceed 10% of total costs for the sector; yet the success dependence on employee inclusivity is high
- Working with executives, white collar, blue collar, contractual staff and unions to manage scenarios for sustenance

#### Productivity
- Productivity is going to be hugely governed by how productivity is defined in current circumstances
- Value to be delivered as a productivity norm by each function and level will be critical to be defined and focused upon
- Capture learnings from COVID

#### The long-term bets
- Ring-fence your critical talent
- Upskill your talent for the future: people will have to run at double the speed as normalcy comes in
- Focus on talent pipeline and engaging new talent
- Finally, work on new processes for enablement and decision making
And once the storm is over, you won’t remember how you made it through, how you managed to survive. You won’t even be sure, whether the storm is really over. But one thing is certain. When you come out of the storm, you won’t be the same person who walked in.

That’s what this storm’s all about.”

Haruki Murakami
Japanese writer
3.4 Supply Chain Risk and Resilience
The crisis will continue to be very disruptive for supply chains...

Impact of COVID-19 and Navigating the Turbulence

Suppliers
- Supply delays or cancellations
- Multiple and quick order changes, cancellations
- Decreasing demands and unpredictable buying behavior
- Supplier businesses in distress
- Delayed deliveries

Internal
- Limited workforce or shut downs
- Increasing inventory levels
- Delayed imports and deliver restrictions

External
- Automotive
- Electronics
- Healthcare
- Construction
- Packaging
- Household
- Toys, sports and leisure

Production sites
Central distribution center (DC)
Local distribution center (DC)
...and raise fundamental questions on how to enhance supply chain resilience that need to be urgently answered...

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
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<tbody>
<tr>
<td>1</td>
<td>Have you performed an operational and financial risk assessment across the supply chain and supporting business functions and updated your contingency plans?</td>
</tr>
<tr>
<td>2</td>
<td>Have you established a short-, mid- and long-term mitigation plan for demand, supply and workforce?</td>
</tr>
<tr>
<td>3</td>
<td>Have you conducted scenario planning exercises to understand the operational implications, both financial and non-financial, of various scenarios?</td>
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<tr>
<td>4</td>
<td>Have you set up a temporary inventory recovery and evaluation process?</td>
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<tr>
<td>5</td>
<td>Have you leveraged the latest tools, technologies and data analytics to create ongoing transparency as rapidly as possible?</td>
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<tr>
<td>6</td>
<td>Do you have track and trace solutions in place at your manufacturing sites or delivery centres?</td>
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<tr>
<td>7</td>
<td>Have you evaluated strategies for alternative sourcing, including the impact of tariffs to cost?</td>
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<tr>
<td>8</td>
<td>Have you accessed governmental support and cross industry synergies and partnerships?</td>
</tr>
</tbody>
</table>

Are you preparing for the up-swing? – “History shows that SC struggle most with the up-swing”
...while building the capability to propel future growth and competitive advantage for many years to come...

**Working Capital Management**
- Analysis tools to model how changes in supply chain activities affect inventory and working capital
- Robust inventory planning processes
- KPIs should focus on working capital, not increasing capacity usage or avoidance of lost sales

**Enhanced Planning Capabilities**
- Advanced modelling and analytics including demand sensing
- Real-time scenario analysis during planning sessions to allow rapid evaluation of options

**End-to-end Supply Chain Visibility**
- Deploy control towers that aid in understanding raw material, inventory or sales positions etc.
- E2E supply chain orchestration using the internal data and external data (e.g. goods in transit, supplier data etc.)

**Agile Sourcing and Supplier Management**
- Streamline and simplify the sourcing processes to reduce complexity
- Reducing product complexity to reduce the supplier the base where possible
- Digitization of the entire process will aid increased agility and responsiveness

**Stronger eCommerce Enablement**
- Anticipate the increased volume of eCommerce fulfilment and scale up the supply chain capacity
- Build unified middle-tier platforms to connect their online channels with their offline operations
...such as leveraging digital supply chain solutions to enable self-orchestrating ecosystems, massively improving responsiveness

**Integrated Planning and Execution**

**Supply**
- Integrated material requirements planning (VMI/consignment stock, visibility on inventory)
- Vertical integrated real-time planning in production incl. MES introduction
- E2E logistics visibility (E2E tracking, alert based analytics)

**Customer**
- Integration into B2B and B2C ecosystem (PoS data & public data, online market places, own apps, customer ERP integration)
- Proactive demand sensing
  - Utilization of digital customer and configuration data, sales data, service needs and external data
- Dynamic real-time inventory and order management for a multistage SC and warehouse network

**Horizontal integration**
- Integrated planning and execution across the end-to-end value chain

**Enabler**
- E2E data availability, utilization and analysis and efficient IT and data architecture as supply chain support
3.5 IT Readiness and Security
Information technology readiness and security

- Identify functions, and number of employees and infrastructure
- Ensure secure practice awareness
- Contact details of IT and IS teams
- Availability of a Central repository of Critical process documentation
- Access management processes and policies for different time zones and shifts
- Stringent security policies for internet
- Optimum mix of traditional and cloud-based solutions
- Prioritise critical daily usage softwares
- Prioritise softwares with easy remote access and installation
- Awareness on possible modus operandi of cyber attacks
- Authorisation to resources based on relevance
- Multifactor, adaptive and risk-based authentication
- Identity management solutions should be updated
- Sufficient internet connectivity and bandwidth
- 24/7 availability of crisis management team
- VPN coverage in the complete network
- Laptops/mobiles/desktops A/V enabled VOIP
- Policy clarity on personal device usage and special attention
- Issue laptops and handheld devices to the extent possible
- All data centres to be equipped with a live or hot network
- Robust and scalable security infrastructure
- Adequate staffing of managed IT services partner
- Ensure ISP and VPN solutions have both upstream and downstream sufficient bandwidth
- Plan for peak-load scenarios
- Training workers with remote working nuances
- Disseminate guidance templates to make remote working self-explanatory
A potential game plan in response to the crisis
Start by considering how the business can protect itself in the short term...

**Review your workforce and travel**
- Identify staff in affected or vulnerable territories and their (potential) problems.
- Review upcoming travel plans.
- Adopt and continuously update clear policies aiming to protect staff (reasons for absence, visitor protocol, tax issue for staff in foreign countries, etc.).

**Identify potential points of failure**
- Identify key workers processing critical roles.
- Identify steps can be taken to effectively protect key people, who will keep businesses running.

**Evaluate the supply chain**
- Perform a supply chain risk assessment, beginning with the most critical product.
- Consider alternative plans for products’ suppliers, prioritising plans for first and second-tier suppliers.

**Do not lose sight of other risks**
- Pay attention to all of the risks, not only COVID-19 threats: focus on the virus alone could lead to neglect of other serious problems.

**Revisit your crisis and continuity plans**
- Adapt and tailor generic plans to the specific challenges of a pandemic.
- Plan for data flow, communication during crisis to quickly update and share accurate information and policies.
- Assess operations, feasible and remote working technologies to ensure business continuity.

**Use scenario analysis**
- Prepare best- to worst-scenario plans for every part of a business (from finance to organisations).

**Get communication right**
- Maintain consistent and accurate messaging, which is the key to avoid the internal chaos.
- Assure the workforce that they are protected and their welfare is paramount.
...and the consequences on different options to accelerate the organisation in the medium to long term

**Strategy**
- **Business restructuring**
  Create independent scalable business units with resiliency for future

- **Differentiated capabilities**
  Leverage low valuation to acquire capabilities for future through M&A

- **Unlock value**
  Identify low performing business and assets to sell for improved liquidity

- **Product portfolio**
  Develop new products considering new customers (tier-II & III), health, hygiene and connectivity needs

**Front End**
- **New business opportunity**
  Shared mobility concerns can open up increased 2W, PV & used vehicle sales and pay-per-use model

- **Increased online sales**
  Concerns to visit showroom will lead to online digital sales and marketing processes (manpower & OH savings)

- **Re-evaluate retail format and network**
  Network footprint and showroom sizes revaluated considering dealer viability

- **Door step service**
  Vehicles serviced and sanitised at door step to bring in hygiene transparency; reduced service center footprint

**Supply Chain and Operations**
- **Be decisive**
  Consider financial viability for future decision on ops restructuring, leadership and investments on hold

- **Focus on data: Build digital thread across Ops. for faster decisions, lower human intervention, financial loss preemption, remote support**

- **Build future ready SC**
  Redesign supply base (on/off-shore, critical parts, alternative matl.) with real-time risk profiling (e.g. integrate blockchain)

- **Mfg & Office space redesign**
  Reduced opex (e.g. lease, energy, supplies) considering optimised mfg. (lower prodn.) / office space (remote work)

**Workforce**
- **Policy restructuring**
  Restructure HR policies (e.g. health, remote working, travel, visitors, immigration, leaves, pay) through crisis learning

- **Contract restructuring**
  Revisit labor union contracts (e.g. pay, leaves, benefits) for shared risk impact ownership for collaborative crisis mgmt.

- **Shared services & IT**
  Savings through shared services (legal, tax, finance, admin) Build scalable IT backbone for online and remote needs

- **Multi-skilled workforce**
  Convince need for multi-skilling and conduct relevant training programs (e.g. coding)
This can be done by looking at all components in the business, including the strategy, capabilities, cost and organisational structure...

PwC’s Fit for Growth framework

**Build industry leading capabilities**
- Invest to build 3-6 differentiating capabilities (e.g. technology, service levels, agile SC, low cost)
- Invest in startups to acquire futuristic capabilities (e.g. digital tools, blockchain, EV, ADAS)
- Co-create with peers for shared investment in new technologies

**Identify higher value-added priorities for investments**

**Transform cost structure**
- Rationalise SKUs and programs
- Drive production and logistics efficiencies
- Amend vendor contracts for payment and pricing terms (e.g. large size ERP projects)
- Reduce supporting infrastructure and tools cost (e.g. mfg. assets)
- Eliminate low value-add work

**Reorganise for growth**
- Define right portfolio mix of products and services for future
- Ensure finance continuity
- Enhance innovation pipeline
- Invest in special projects (e.g. brand positioning, process streamline and automation, lean)
- Rationalise roles and resources
- Define PMO for execution

**Enable change and cultural evolution**
- Minimise management through spans and layers
- Improve talent effectiveness through re-skilling and defined programs
- Improve consistency through standardisation
- Optimise workload by redefining service levels and process change

**Company’s strategy**

Reprioritise strategic initiatives and investments making organisation fitter and stronger for future

Impact of COVID-19 and Navigating the Turbulence
PwC
..and leveraging a standardised approach to support you in your journey to adapt to and thrive in the ‘new normal’

Example of PwC’s standardised approach to enable companies to design a ‘resilient supply chain’

<table>
<thead>
<tr>
<th>Identify risks  “Anticipate”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model the complete supply chain, including Tier 1 and Tier 2 suppliers and service providers</td>
</tr>
<tr>
<td>Identify all potential risk elements, in the context of supply chain objectives and identify underlying drivers and indicators</td>
</tr>
<tr>
<td>Conduct workshop to align on supply chain risks and their early warning indicators</td>
</tr>
<tr>
<td>Identify and specify the early warning Indicators</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Evaluate risks  “Assess”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify risk areas basis PwC’s checklist, disruption event and assess the severity of risk</td>
</tr>
<tr>
<td>Prioritise areas, define inputs of quantitative and qualitative data</td>
</tr>
<tr>
<td>Model the Supply chain on PwC’s SCRM tool and simulate risk types and scenarios</td>
</tr>
<tr>
<td>Assess the impact at each node of the supply chain through predictive analysis on product availability, revenue, cost and inventory</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Manage risk, monitor and change  “Act and Adopt”</th>
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<tbody>
<tr>
<td>Prioritise and define response actions aligned to organisation’s risk appetite</td>
</tr>
<tr>
<td>– Strategic</td>
</tr>
<tr>
<td>– Operational</td>
</tr>
<tr>
<td>– Organisation</td>
</tr>
<tr>
<td>– War room management</td>
</tr>
<tr>
<td>Implement and monitor response actions leveraging war room dashboards</td>
</tr>
<tr>
<td>Explore potential business opportunities for client in the medium term</td>
</tr>
<tr>
<td>Design a ‘resilient future supply chain’</td>
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</tbody>
</table>
Objective
Develop a solution for managing supply chain disruption that enables clients for accurate assessment and quantification of the value at risk during the course of disruptions occurring in the supply chain.

Impact of COVID-19 and Navigating the Turbulence

PwC
Contact us

For further information and insights, please feel free to get in touch with

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Thank you