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

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<td>Appx.</td>
<td>Learning from China: COVID 19 Experience</td>
</tr>
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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

<table>
<thead>
<tr>
<th>Disease</th>
<th>2002-03</th>
<th>2009-10</th>
<th>2012</th>
<th>2014-16</th>
<th>2019-Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>SARS</td>
<td>770</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swine Flu</td>
<td>18k</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MERS</td>
<td>850</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ebola</td>
<td>11.3K</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COVID-19</td>
<td>350k&lt;</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Note: Extent of spread globally, no. of countries

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

<table>
<thead>
<tr>
<th>Region</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>

World GDP share

Unlikely Quick Recovery

- **V**-scenario (likely)
  - Past crises have typically resulted in V-shaped recoveries
  - Given the shape and global nature of this crisis, a V shape is unlikely

- **L**-scenario (unlikely)

- **U**-scenario

Impact of COVID-19 and Navigating the Turbulence

PwC
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 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.78</td>
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<tr>
<td>2011</td>
<td>6.24</td>
</tr>
<tr>
<td>2012</td>
<td>5.25</td>
</tr>
<tr>
<td>2013</td>
<td>5.42</td>
</tr>
<tr>
<td>2014</td>
<td>5.98</td>
</tr>
<tr>
<td>2015</td>
<td>6.68</td>
</tr>
<tr>
<td>2016</td>
<td>6.81</td>
</tr>
<tr>
<td>2017</td>
<td>7.08</td>
</tr>
<tr>
<td>2018</td>
<td>7.02</td>
</tr>
<tr>
<td>2019</td>
<td>6.81</td>
</tr>
<tr>
<td>2020f</td>
<td>4.8</td>
</tr>
<tr>
<td>2021f</td>
<td>5.42</td>
</tr>
</tbody>
</table>

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: 33%
- Worker absense due to self-isolation or quarantine: 32%
- Difficulties in keeping & getting experts to Vietnam: 27%
- Worker absense due to international travel restrictions: 23%
- None of the above: 4%
- Permanent closure of operations: 3%

1. Source: Vietnam MOH’s data as of 29 Apr, 2020
2. Source: Asian Development Bank & The World Bank;
3. Source: 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
## Factors impacting automotive demand in the coming months

*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.

### Supply Side

<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>
</tbody>
</table>

### Demand Side

<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>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></td>
<td>Sentiment</td>
<td>Consumer and business sentiment to remain low</td>
<td>◷</td>
<td>◀</td>
<td>◬</td>
</tr>
<tr>
<td></td>
<td>Mobility preferences</td>
<td>Increased preference for personal modes of transport</td>
<td>◷</td>
<td>◀</td>
<td>◬</td>
</tr>
<tr>
<td></td>
<td>Vehicle finance rate</td>
<td>To be lower than FY20</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>
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>Workforce</td>
<td>Protecting the well-being and welfare of employees, especially those living in affected territories.</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Re-routing, delays, disputes and knock-on impact on customers.</td>
</tr>
<tr>
<td>Decline in sales</td>
<td>Decreased sales is resulting in reduced cash flow and covenant issues.</td>
</tr>
<tr>
<td>Operations</td>
<td>Reduced resilience in key functions, infrastructure and services or locations becoming unavailable.</td>
</tr>
<tr>
<td>Travel</td>
<td>Restricted or prohibited to some locations, impacting business and leisure demand more generally.</td>
</tr>
<tr>
<td>Regulation</td>
<td>Organisations are facing compliance challenges in certain sectors.</td>
</tr>
</tbody>
</table>
## A phased recovery plan for automotive companies

<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>
<tbody>
<tr>
<td><strong>Strategic response</strong></td>
<td>• Determine impact of disruption</td>
<td>• Recover operations and resume planned growth trajectory for the period</td>
<td>• Prepare for growth</td>
<td>• VinGroup producing ventilators at its automobile and smartphone factories (<a href="#">Source</a>)</td>
</tr>
<tr>
<td><strong>Managing liquidity</strong></td>
<td>• Preserve cash and create liquidity</td>
<td>• Improve and sustain cash position through new initiatives</td>
<td>• Strengthen cash position to invest in new growth initiatives</td>
<td>• Golden Gate negotiating with landlords to lower rent in line with lost revenue (<a href="#">Source</a>)</td>
</tr>
<tr>
<td><strong>Workforce engagement and productivity</strong></td>
<td>• Safeguard employee welfare</td>
<td>• Manage employee productivity and adapt operating model to new ways of working</td>
<td>• Re-organise to align with current business imperatives</td>
<td>• The Coffee House implementing internal shipper program and internal fundraising for employees in need (<a href="#">Source</a>)</td>
</tr>
<tr>
<td><strong>Supply chain risk and resilience</strong></td>
<td>• Assess supply chain disruption and monitor and manage risks</td>
<td>• Evaluate supply chain gaps and restore operations to support business objectives</td>
<td>• Strengthen supply chain resilience and visibility</td>
<td>• Vietnam Airlines conducting supplier re-negotiation (<a href="#">Source</a>)</td>
</tr>
<tr>
<td><strong>IT readiness</strong></td>
<td>• Stress test IT infrastructure</td>
<td>• Scale up IT resources to meet business requirement</td>
<td>• Strengthen IT infrastructure and security and develop scalability</td>
<td>• Samsung transporting electronic components to its factories in Vietnam by air (<a href="#">Source</a>)</td>
</tr>
<tr>
<td></td>
<td>• Resolve issues impacting business continuity</td>
<td></td>
<td></td>
<td>• Hanwa hosting online furniture fair using virtual reality to boost customer experience (<a href="#">Source</a>)</td>
</tr>
</tbody>
</table>

Impact of COVID-19 and Navigating the Turbulence

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

**Impact on Private Spending**
- **Scenario 1: Optimistic**
  - Rapid rebound in household spending
  - Immediate expansion of pent-up demand seen

- **Scenario 2: Realistic**
  - 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.

- **Scenario 3: Pessimistic**
  - 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**
- Rebound in auto demand
- Cost pressures in the short term
- 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
- 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><strong>Products and Launches</strong></td>
<td><strong>Channels</strong></td>
</tr>
<tr>
<td>• Assess impact across core segments – mass vs premium, rural vs urban, private vs fleet</td>
<td>• Evaluate any product delay costs and revise target costs</td>
<td>• Enhance promotional activities across digital channels</td>
</tr>
<tr>
<td>• Protect core segments and prioritise segments that are showing more resilience</td>
<td>• Assess launch readiness and identify opportunities to accelerate launches</td>
<td>• Enabling digital sales journey</td>
</tr>
<tr>
<td><strong>Ecosystem</strong></td>
<td><strong>Channels</strong></td>
<td><strong>Ecosystem</strong></td>
</tr>
<tr>
<td>• Evaluate financial health of suppliers and dealers and develop support initiatives</td>
<td>• Optimise sales channels for revised demand projections</td>
<td>• Support suppliers and dealers with financial initiatives to ensure sustenance</td>
</tr>
<tr>
<td>• Evaluate opportunities to enhance resilience of ecosystem</td>
<td>• Invest in convenient digital sales and marketing channels</td>
<td>• Review and enhance ecosystem continuity plans</td>
</tr>
<tr>
<td><strong>Scenario 2: Realistic</strong></td>
<td><strong>Scenario 3: Pessimistic</strong></td>
<td></td>
</tr>
<tr>
<td>• Sense any significant impact on core segments</td>
<td>• Refocus business areas and segments under stress</td>
<td></td>
</tr>
<tr>
<td>• Identify new segments and opportunities that are relatively insulated</td>
<td>• Protect and grow attractive business segments</td>
<td></td>
</tr>
<tr>
<td>• Sense any significant impact on core segments</td>
<td>• Shelve product launches that do not meet the revised business case</td>
<td></td>
</tr>
<tr>
<td>• Identify new segments and opportunities that are relatively insulated</td>
<td>• Evaluate and invest in product solutions that meet the evolving customer needs</td>
<td></td>
</tr>
<tr>
<td>• Refocus business areas and segments under stress</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Protect and grow attractive business segments</td>
<td></td>
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</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:
  - Vin Group started their new two-wheeler lines with excessive promotions and events to promote the new products.
  - 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:
  - 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.
  - 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

Impact of COVID-19 and Navigating the Turbulence

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

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

**Increased focus on OEM led lead generation**

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

**Brand Story**

**Brand Platforms**

**Key option leaders (KOLs)**

**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
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

Impact of COVID-19 and Navigating the Turbulence

Week 1

Week 2 onward
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
Impact of COVID-19 and Navigating the Turbulence

Direct 13-week cash flow forecast- Example format

<table>
<thead>
<tr>
<th>Weeks</th>
<th>Week 1</th>
<th>Week 2</th>
<th>Week 3</th>
<th>Week 4</th>
<th>Week 5</th>
<th>Week 6</th>
<th>Week 7</th>
<th>Week 8</th>
<th>Week 9</th>
<th>Week 10</th>
<th>Week 11</th>
<th>Week 12</th>
<th>Week 13</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash inflow</td>
<td></td>
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<td>Collections from outstanding AR</td>
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<tr>
<td>Customer 1</td>
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<tr>
<td>Customer 2</td>
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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
- Virtual capability building
- Transition management
- Business continuity planning
- Continuous communication and connect
- Remote working enablement and compliance
- Cost and productivity
- Urgently rewire HR policies

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

**Phase 1: Immediate / Short Term**
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## Tactics implemented by other companies in response to the crisis

### Key focus areas

<table>
<thead>
<tr>
<th>Remote working enablement and compliance</th>
<th>Business continuity planning</th>
<th>Continuous communication and connect</th>
<th>Cost and productivity</th>
<th>Virtual capability building</th>
<th>Transitions management</th>
<th>Urgently ‘rewire’ HR policies for relevance</th>
<th>Employee health and wellness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Test and enable technologies to support collaboration and communication</td>
<td>• Global mobility and business continuity with customers</td>
<td>• Constant communication to employees notifying about measures taken amid COVID-19</td>
<td>• Workforce planning and management</td>
<td>• Managing virtuality as a capability</td>
<td>• Compliance and brand management around workforce transitions</td>
<td>• Realign hiring, onboarding, exits, C&amp;B, PMS and L&amp;D policies to support the organisational strategy and the current scenario</td>
<td>• Conduct health and wellness training</td>
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<tr>
<td>• Remote working policy and data security compliance</td>
<td>• Leadership alignment for business continuity</td>
<td>• Share knowledge from credible sources e.g. WHO</td>
<td>• Refine performance expectations</td>
<td>• Building leadership capability for a virtual world</td>
<td>• Workforce augmentation for key activities and tasks that need support</td>
<td>• Creating a digital workplace of the future</td>
<td>• Revise leave, travel and hospitalization, and insurance</td>
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<td>• Workforce augmentation for key activities and tasks that need support</td>
<td>• Creating a digital workplace of the future</td>
<td>• Plan for increase in absenteeism and work refusal</td>
<td>• Coaching of leaders and staff for morale and resilience</td>
<td>• Scenario based crisis-preparedness audits</td>
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<td>• Manage employee morale through care and communication</td>
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<td></td>
<td>• Scenario based crisis-preparedness audits</td>
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<td>• Senior executives, white collar and blue collar productivity plans</td>
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<td>• Establishing employee support services e.g. dedicated hotline number</td>
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</tbody>
</table>

Impact of COVID-19 and Navigating the Turbulence

PwC
### 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

- **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

- **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

- **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**

- **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?

- **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

---

Impact of COVID-19 and Navigating the Turbulence

PwC
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

- Multiple and quick order changes, cancellations
- Decreasing demands and unpredictable buying behavior
- Increasing inventory levels
- Limited workforce or shut downs
- Delayed imports and deliver restrictions
- Delayed deliveries
- Supplier businesses in distress
- Supplier

Internal

- Order
- Plan
- Order
- Order

- Production sites
- Central distribution center (DC)
- Local distribution center (DC)

External

- Source
- Make
- Deliver
- Deliver

Customers

- Automotive
- Electronics
- Healthcare
- Construction
- Packaging
- Household
- Toys, sports and leisure
...and raise fundamental questions on how to enhance supply chain resilience that need to be urgently answered...

<table>
<thead>
<tr>
<th></th>
<th>Have you established a cross functional task force?</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>
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<tr>
<td>2</td>
<td>Have you established a short-, mid- and long-term mitigation plan for demand, supply and workforce?</td>
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<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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<td>4</td>
<td>Have you set up a temporary inventory recovery and evaluation process?</td>
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<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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<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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<td>7</td>
<td>Have you evaluated strategies for alternative sourcing, including the impact of tariffs to cost?</td>
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<td>8</td>
<td>Have you accessed governmental support and cross industry synergies and partnerships?</td>
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</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...

<table>
<thead>
<tr>
<th>Working Capital Management</th>
<th>Enhanced Planning Capabilities</th>
<th>End-to-end Supply Chain Visibility</th>
<th>Agile Sourcing and Supplier Management</th>
<th>Stronger eCommerce Enablement</th>
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<tbody>
<tr>
<td>• Analysis tools to model how changes in supply chain activities affect inventory and working capital</td>
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<td>• Robust inventory planning processes</td>
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<td>• KPIs should focus on working capital, not increasing capacity usage or avoidance of lost sales</td>
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<td>• Advanced modelling and analytics including demand sensing</td>
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<td>• Real-time scenario analysis during planning sessions to allow rapid evaluation of options</td>
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<td>• Deploy control towers that aid in understanding raw material, inventory or sales positions etc.</td>
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<tr>
<td>• E2E supply chain orchestration using the internal data and external data (e.g. goods in transit, supplier data etc.)</td>
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<tr>
<td>• Streamline and simplify the sourcing processes to reduce complexity</td>
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<td>• Reducing product complexity to reduce the supplier the base where possible</td>
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<td>• Digitization of the entire process will aid increased agility and responsiveness</td>
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<tr>
<td>• Anticipate the increased volume of eCommerce fulfilment and scale up the supply chain capacity</td>
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<tr>
<td>• Build unified middle-tier platforms to connect their online channels with their offline operations</td>
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...such as leveraging digital supply chain solutions to enable self-orchestrating ecosystems, massively improving responsiveness.

**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)

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

**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

**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

**Target WFH Workforce and Functions**

- 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

**IT and Security Tools**

- Ensure ISP and VPN solutions have both upstream and downstream sufficient bandwidth
- Plan for peak-load scenarios

**IT and Cyber Security Governance**

- Training workers with remote working nuances
- Disseminate guidance templates to make remote working self-explanatory

**Hardware and Data Centres**

- Software and Licensing

- Bandwidth Sizing and Data Backup

- Cyber security Considerations

- Remote Working Ways

Impact of COVID-19 and Navigating the Turbulence

PwC
A potential game plan in response to the crisis
Start by considering how the business can protect itself in the short term...

<table>
<thead>
<tr>
<th>Review your workforce and travel</th>
<th>Revisit your crisis and continuity plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify staff in affected or vulnerable territories and their (potential) problems.</td>
<td></td>
</tr>
<tr>
<td>• Review upcoming travel plans.</td>
<td></td>
</tr>
<tr>
<td>• Adapt and continuously update clear policies aiming to protect staff (reasons for absence, visitor protocol, tax issue for staff in foreign countries, etc.).</td>
<td></td>
</tr>
<tr>
<td>• Adapt and tailor generic plans to the specific challenges of a pandemic.</td>
<td></td>
</tr>
<tr>
<td>• Plan for data flow, communication during crisis to quickly update and share accurate information and policies.</td>
<td></td>
</tr>
<tr>
<td>• Assess operations, feasible and remote working technologies to ensure business continuity.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Identify potential points of failure</th>
<th>Use scenario analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify key workers processing critical roles.</td>
<td></td>
</tr>
<tr>
<td>• Identify steps can be taken to effectively protect key people, who will keep businesses running.</td>
<td></td>
</tr>
<tr>
<td>• Prepare best-to-worst-scenario plans for every part of a business (from finance to organisations).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Evaluate the supply chain</th>
<th>Get communication right</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Perform a supply chain risk assessment, beginning with the most critical product.</td>
<td></td>
</tr>
<tr>
<td>• Consider alternative plans for products’ suppliers, prioritising plans for first and second-tier suppliers.</td>
<td></td>
</tr>
<tr>
<td>• Maintain consistent and accurate messaging, which is the key to avoid the internal chaos.</td>
<td></td>
</tr>
<tr>
<td>• Assure the workforce that they are protected and their welfare is paramount.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do not lose sight of other risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 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.</td>
</tr>
</tbody>
</table>

Impact of COVID-19 and Navigating the Turbulence

PwC
...and the consequences on different options to accelerate the organisation in the medium to long term

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Front End</th>
<th>Supply Chain and Operations</th>
<th>Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business restructuring</td>
<td>New business opportunity</td>
<td>Be decisive</td>
<td>Policy restructuring</td>
</tr>
<tr>
<td>Create independent scalable business units with resiliency for future</td>
<td>Shared mobility concerns can open up increased 2W, PV &amp; used vehicle sales and pay-per-use model</td>
<td>Consider financial viability for future</td>
<td>Restructure HR policies (e.g. health, remote working, travel, visitors, immigration, leaves, pay) through crisis learning</td>
</tr>
<tr>
<td>Differentiated capabilities</td>
<td>Increased online sales</td>
<td>Focus on data: Build digital thread across Ops. for faster decisions, lower human intervention, financial loss preemption, remote support</td>
<td>Contract restructuring</td>
</tr>
<tr>
<td>Leverage low valuation to acquire capabilities for future through M&amp;A</td>
<td>Concerns to visit showroom will lead to online digital sales and marketing processes (manpower &amp; OH savings)</td>
<td>Build digital thread across Ops. for faster decisions, lower human intervention, financial loss preemption, remote support</td>
<td>Revisit labor union contracts (e.g. pay, leaves, benefits) for shared risk impact ownership for collaborative crisis mgmt.</td>
</tr>
<tr>
<td>Unlock value</td>
<td>Re-evaluate retail format and network</td>
<td>Build future ready SC*</td>
<td>Shared services &amp; IT</td>
</tr>
<tr>
<td>Identify low performing business and assets to sell for improved liquidity</td>
<td>Network footprint and showroom sizes revaluated considering dealer viability</td>
<td>Redesign supply base (on/off-shore, critical parts, alternative matl.) with real-time risk profiling (e.g. integrate blockchain)</td>
<td>Savings through shared services (legal, tax, finance, admin) Build scalable IT backbone for online and remote needs</td>
</tr>
<tr>
<td>Product portfolio</td>
<td>Door step service</td>
<td>Mfg &amp; Office space redesign</td>
<td>Multi-skilled workforce</td>
</tr>
<tr>
<td>Develop new products considering new customers (tier-II &amp; III), health, hygiene and connectivity needs</td>
<td>Vehicles serviced and sanitised at door step to bring in hygiene transparency; reduced service center footprint</td>
<td>Reduced opex (e.g. lease, energy, supplies) considering optimised mfg. (lower prodn.) / office space (remote work)</td>
<td>Convince need for multi-skilling and conduct relevant training programs (e.g. coding)</td>
</tr>
</tbody>
</table>

Impact of COVID-19 and Navigating the Turbulence

PwC
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

### 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

### Identify higher value-added priorities for investments

### 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
..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>
<th>Evaluate risks “Assess”</th>
<th>Manage risk, monitor and change “Act and Adopt”</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Model the complete supply chain, including Tier 1 and Tier 2 suppliers and service providers</td>
<td>• Identify risk areas basis PwC’s checklist, disruption event and assess the severity of risk</td>
<td>• Prioritise and define response actions aligned to organisation’s risk appetite</td>
</tr>
<tr>
<td>• Identify all potential risk elements, in the context of supply chain objectives and identify underlying drivers and indicators</td>
<td>• Prioritise areas, define inputs of quantitative and qualitative data</td>
<td>– Strategic</td>
</tr>
<tr>
<td>• Conduct workshop to align on supply chain risks and their early warning indicators</td>
<td>• Model the Supply chain on PwC’s SCRM tool and simulate risk types and scenarios</td>
<td>– Operational</td>
</tr>
<tr>
<td>• Identify and specify the early warning indicators</td>
<td>• Assess the impact at each node of the supply chain through predictive analysis on product availability, revenue, cost and inventory</td>
<td>– Organisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– War room management</td>
</tr>
</tbody>
</table>

How do we address the COVID-19 disruption?

• Implement and monitor response actions leveraging war room dashboards
• Explore potential business opportunities for client in the medium term
• Design a ‘resilient future supply chain’
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.

POINT OF DISRUPTION

Scheduled component delivery in predefined order size

Delivery Time: ~5 days

Foreign Production Plants

Scheduled part delivery in predefined order size

Lead Time: ~45 days

Production Plant – Northern Vietnam

Production capacity: ~2.8 mil units/year

average delivery note: 8 units

FG supply request from dealers (when dealer inventory < reorder point)

Lead time: ~35 days

Customer Demand

Dealers - Vietnam

Motorbike LT: 1 day

Ford Motor

Automobile LT: ~15 weeks

Foreign Suppliers

Foreign Production Plants

Dealers - Foreign

Production Plant – Foreign

Ship, rail

Production

Transport

Supplier

Triggers for material flow

Dealer

End-user

Vietnamese Suppliers

Scheduled component delivery in predefined order size

Delivery Time: ~5 days

Production Plant – Foreign

Ship, rail

KEY:

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