

FADES FRAMEWORK



FADES framework

Organisations, as a result of COVID-19, need to be reconsidering the future. What do the changes mean for organisations, their supply chains and their customers?

We believe that organisations need to plan for future horizons, along with managing the today.

Organisations should consider their 'new normal' under the FADES framework:

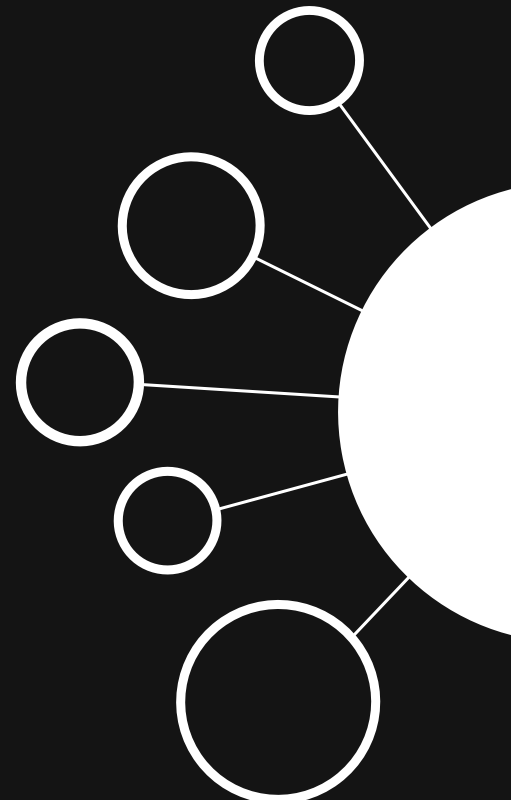
**FINANCIAL
MANAGEMENT**

**AGILE STRATEGY &
OPERATING MODELS**

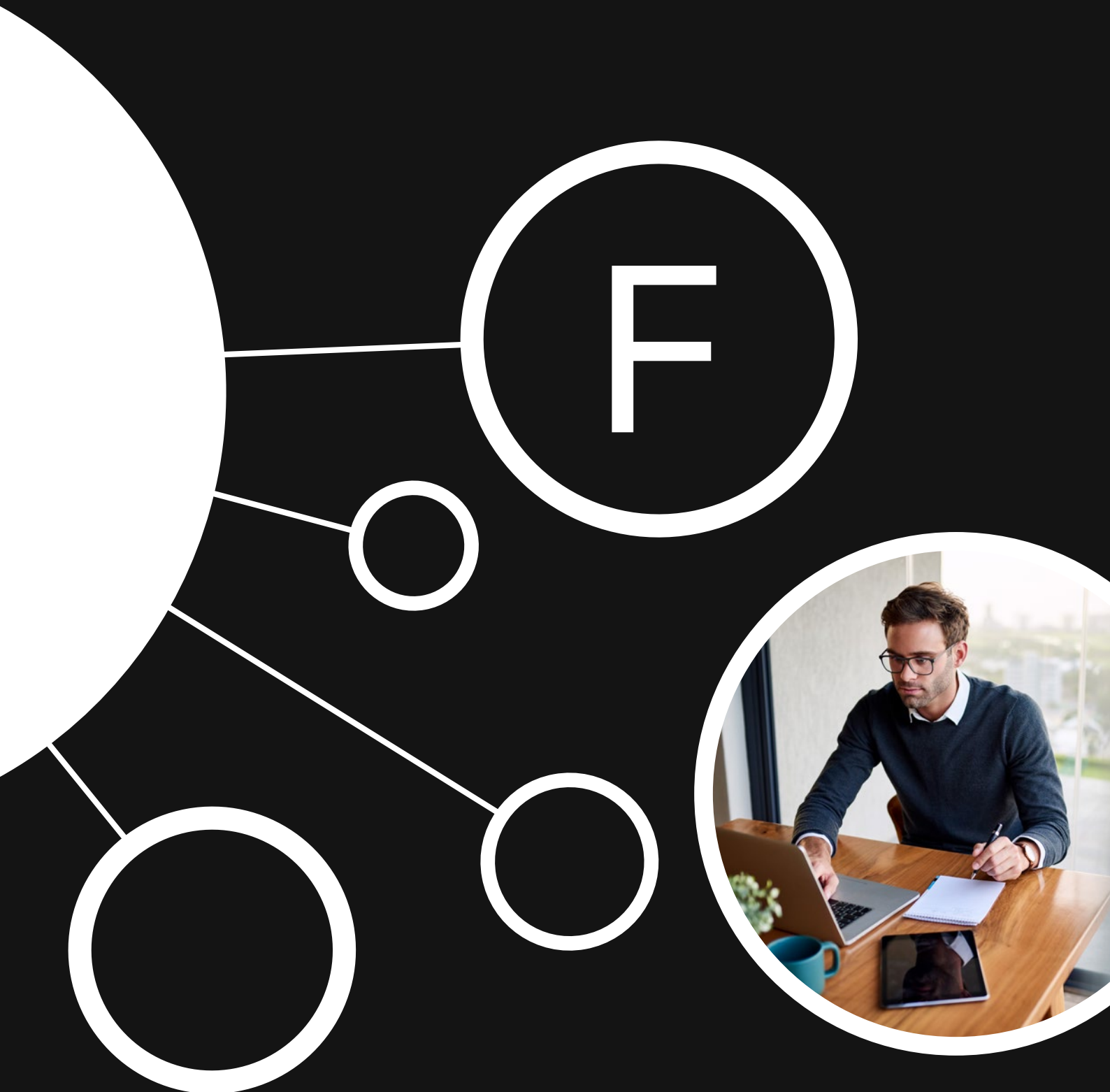
DIGITAL FUTURE

**ELASTIC
WORKFORCE**

SUSTAINABILITY



FINANCIAL MANAGEMENT



Most businesses are facing a combination of reduced demand and higher costs of delivery – an unenviable mix.

However, from crisis comes opportunity. As many competitors will be facing similar headwinds, this creates an opportunity for the best to increase their market share, and ultimately evolve from the COVID-19 recovery phase in a more dominant position.

This will require leaders to re-evaluate their business through a new lens, and may result in outcomes that would not have been imaginable at the start of 2020. Once they have identified the changes that they have to make, they will be required to prioritise and execute them. For many businesses these will be significant and may result in a number of material corporate actions, each one requiring well considered change management. However, while this may be a daunting task, especially given the strain many companies are currently under, the prize for the winners is worth it.

Finance leaders will be responsible for driving much of this agenda, as well as providing the commercially grounded financial insights to help others make quick decisions.

KEY QUESTIONS

Directors: How do I fully understand the details, risks and implications of the significant decisions we are making?

Management: How do we pivot our business, both operationally and financially, post-COVID-19 world?

Managing change

There are several areas in which the finance team will be responsible for driving significant change:

- Creating scenarios to understand cash flow forecasts that may vary to a historic expectation
- Identifying areas that need to be restructured, with a considered long-term view
- Designing and implementing a fit-for-purpose operating model that allows for flexibility in an uncertain environment
- Rebuilding balance sheet strength and funding flexibility.



Operational excellence

Finance leaders need to ask: is our business operationally configured to compete? We expect financial leaders to be helping other senior executives understand the financial and strategic rationale for any change. This is likely to include:

- Working through restructuring for staff or operations that are no longer viable in their current form
- Redirecting resources to parts of the business that have seen their outlooks prosper, and understanding how you are going to fund or support that growth
- Understanding where investment is needed in order to regain a competitive advantage or even to compete (for example, an online or digital offering)
- Potential closure of underperforming business units, or disposal of non-core ones.

Learning to pivot

How can you adapt your business model to thrive and flex to deal with the recession. Key questions include:

- How can you adapt your cost base to provide flexibility to deal with variations in volumes, while maintaining required levels of service?
- What investment do you still need to make to ensure fit-for-purpose growth, and how are you going to deliver this with reduced capital available?
- If your business is exposed, how can you effectively hibernate parts of it, but retain the ability to scale back up again when demand recovers?

Building resilience

Financial resilience and capability to respond to further disruption. As businesses are now able to start planning again for the medium term, they need to consider how resilient their balance sheets are to deal with the impact of further significant COVID-19 related or other disruption. In our opinion, the key questions companies and shareholders should be asking themselves are:

Have they considered their options regarding debt facilities (i.e. options that provide enhanced covenant flexibility and additional funding draw-down flexibility) and discussed capital structure options generally with an independent advisor?

When would additional equity be required and have shareholders discussed their willingness to inject additional capital. If an external raise is desired or required, have they allowed sufficient time for an equity raise to (a) provide greater flexibility to attract an investor who brings more than just money, and (b) maximise value / minimise dilution?

Is ordinary equity the right option given the greater diligence requirements (and potentially greater practical diligence barriers)? Or do convertible notes or preferred equity provide a better solution (having regards to execution certainty and speed) that could be explored in parallel?

Are they 'investor ready'? Should they need to make corporate actions in a compressed timeframe, for example – raising debt or equity, or undertaking accelerated disposals of part of the business?



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AGILE STRATEGIC PLANNING

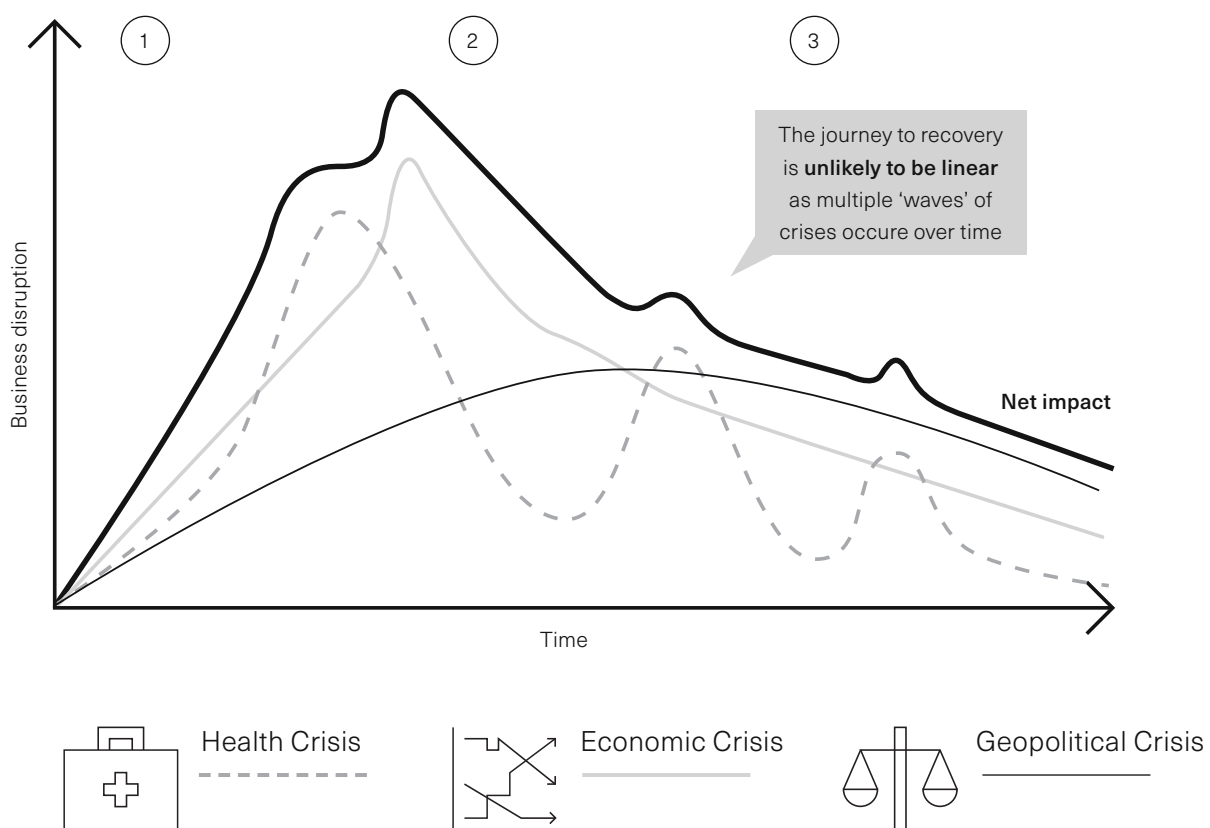


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COVID-19 has initiated a series of interacting waves of disruption, which will force businesses to confront challenges of viability, cost-reduction and prioritisation – in parallel with critical obligations to stakeholders' health.

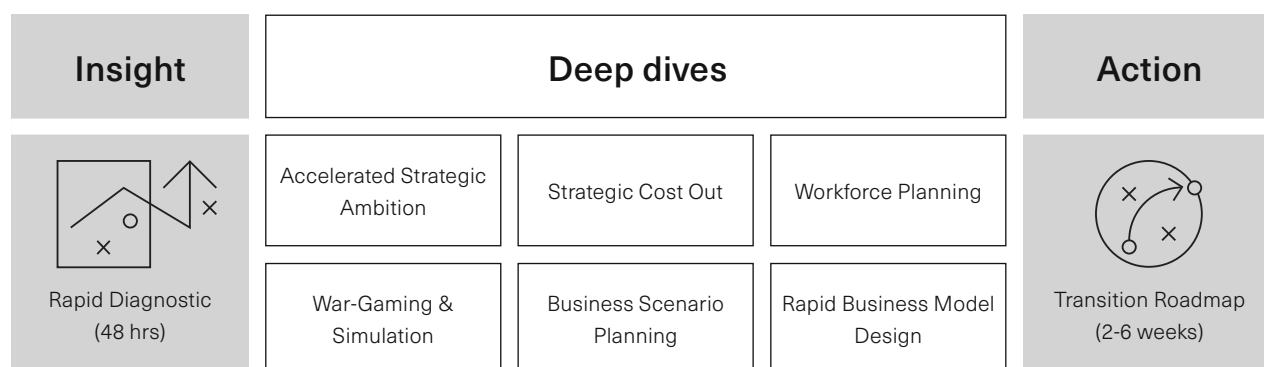
Unprecedented market and societal disruption has accelerated the need to move away from traditional strategic planning processes. Businesses can no longer rely on three year, or even annual, planning cycles that analyse large information sets, draw conclusions and follow rigid execution plans. In the complex environment we find ourselves in, a far more responsive approach is required. Agile strategic planning allows for real time decision making, promotes employee engagement and keeps customer needs central.

Illustrative impact of the COVID-19 crisis



The process begins with Insight. A rapid diagnostic of your current strategy and operating performance will prioritise areas of executive focus and ensure all value levers are identified and tracked. From there an iterative cycle of actions, identified through structured problem solving, is used to address point challenges (such as cost out or a competitive response). The keys to success with this approach are identifying and managing unintended consequences, aligning stakeholder expectations and hard evaluations of team capability early in the process.

Our approach is mapped and summarised below. A rapid diagnostic can determine if your current strategy is still viable. Depending on the outcome of the diagnostic, we can create a bespoke set of deep dives to address the issues that are critical to your continued viability, competitiveness and customer value proposition. The vital next step is moving from Insight to Action where by we create a transition roadmap to get from current to future state.



A summary of elements of our approach is provided below. Pathways from Insight to Action are flexible with one or a mix of up to six deep dives chosen depending on the nature of the problem.

Rapid diagnostic (48 hrs)

Purpose: Test the continued effectiveness of your pre-COVID-19 strategy.

Value add: Rapidly (within 48 hrs) support and inform the leadership team to assess your current strategy in the context of COVID-19, and guide prioritised choices where to invest further effort.

Deliverables:

- Strategy stress test conclusions
- Identification of key COVID-19 driven risks and negative market impacts
- Specific prioritised recommendations for more detailed work to adapt and amend the strategy in light of findings.

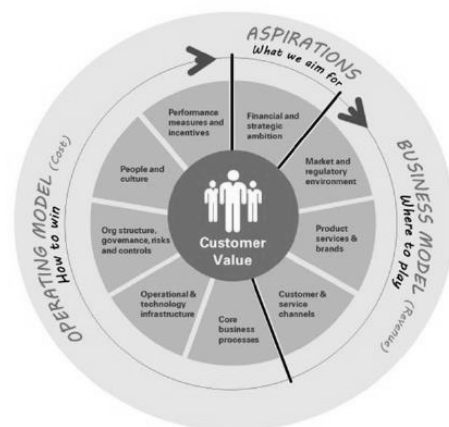
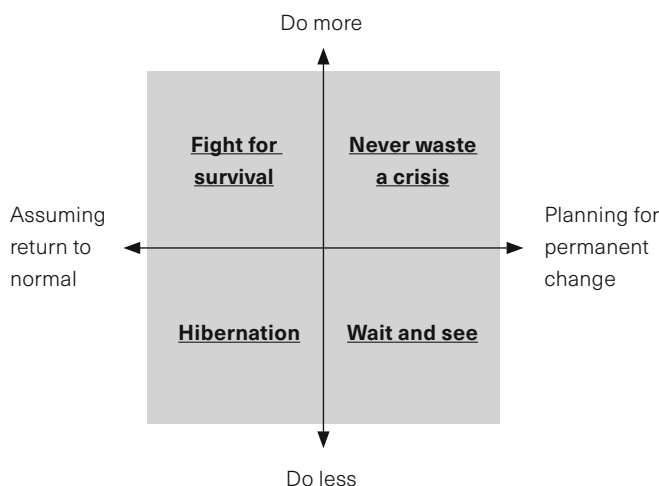
Accelerated strategic ambition

Purpose: Rearticulate your strategic priorities to address the opportunities and realities of the post-COVID-19 world.

Value add: Bring the leadership team together to decide how you will prosper in a post-COVID-19 world including 'what to aim for', 'where to play' 'how to win'.

Deliverables:

- Refreshed strategic ambition to guide future strategic opportunities
- Suite of strategic initiatives across business and operating models.



Strategic cost out

Purpose: Right size your cost base and generate adequate cash reserves to sustain and prosper.

Value add: Provide confidence to Management, Board and Shareholders that you have identified all COVID-19 cost implication:

- Cost levers are understood
- Spending is right sized
- Earning potential is maximised
- Cash reserves are generated.

Deliverables:

- Cost baselines, benchmarks and savings targets
- Cost reduction options
- Cost saving program designed and executed (including quick wins and ongoing cost control measures).



Workforce planning

Purpose: Anticipate the capabilities needed to deliver the strategy of tomorrow.

Value add: Go beyond mitigating the impact of COVID-19 on your people to also learning from the crisis to reinvent and transform your future workforce.

Deliverables:

- Rapid right sizing of workforce to deal with the crisis (aligned to cost reset)
- Workforce mobilisation and productivity maximisation across the COVID-19 lifecycle
- Future workforce requirements that meet new structural and industry norms (aligned to strategy refresh).



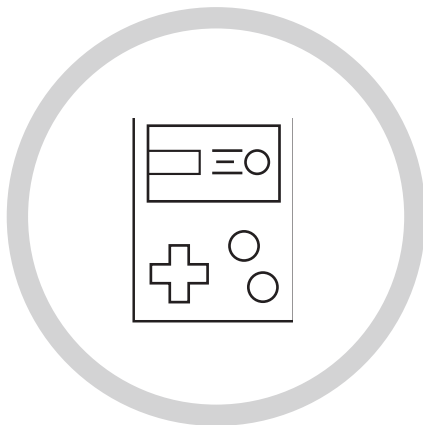
War-gaming and simulation

Purpose: Provide well informed, innovative and immediately applicable actions to prepare for a dynamic and uncertain future.

Value add: Fast and cost efficient tool to develop COVID-19 disruption scenarios, test resilience and competitiveness in responding to these scenarios.

Deliverables:

- Formulation of scenarios
- War game workshops (constituency, guidance, debrief)
- Identified No regret moves / Hedges / Big bets and project portfolio decisions.



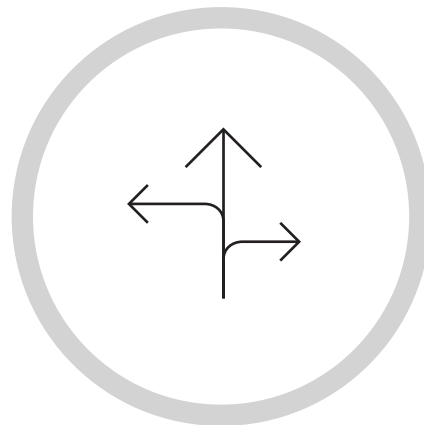
Business scenario planning

Purpose: Enhance your strategy and remain competitive in the face of uncertainty.

Value add: Mitigate the potential impact of uncontrollable environmental risks and enable investment decision to be made in the context of multiple potential futures.

Deliverables:

- Definition of credible potential scenarios
- Identification and articulation of the organisations viability and competitiveness within the context of each scenario
- Prioritised strategic weaknesses in light of identified vulnerabilities.



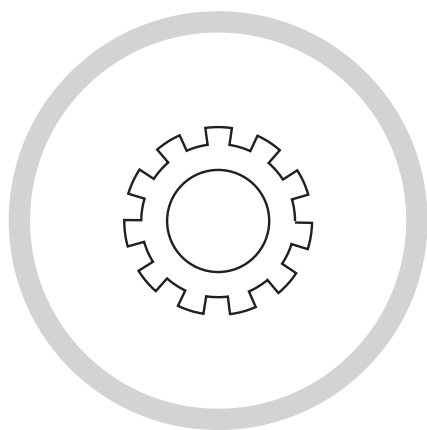
Rapid business model design

Purpose: Develop a responsive digital-first business model that puts customers at the heart of your future organisation.

Value add: Improve your ability to respond as demand and supply conditions continue to evolve. Make investment decisions that realise revenue and productivity gains.

Deliverables:

- Clear understanding of customer needs now and in 6 months time
- Required business model adaptations
- (including new/adapted offerings)
- Resilient end to end service model design
- Successfully tested prototype where digital scaling is required
- Go-to-market plan including investment requirement.



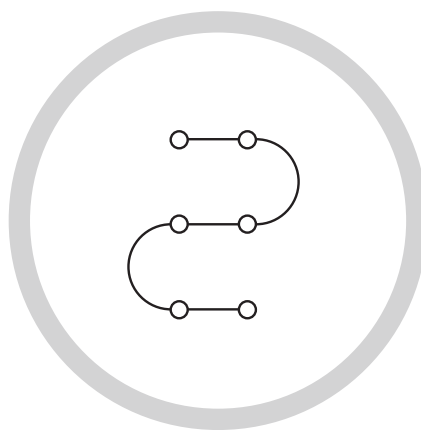
Transition roadmap (2-6 weeks)

Purpose: Provide a roadmap with tangible actions to move from current to future state.

Value add: Cost and time bound activities that are all aligned to achieve the future state.

Deliverables:

- Transition roadmap with key milestones and outcomes
- Execution plan with identified resources, budgets and governance requirements
- Stakeholder communications plan.



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DIGITAL FUTURE



D



To respond to COVID-19 business conditions, most organisations have introduced digital technology to support working from home. Many have established one or more online channels. These digital initiatives have been invaluable in maintaining operations and provide a look at the future, as these initiatives could be the first step to becoming a digital business.

Most organisations will have digital processes and tools which are performing well. We would characterise that as 'having digital', which is different to being a digital business. We suggest that becoming a digital business is the basis for success post-COVID. We will explain the difference.

Let's start by defining digital. First, for the important users of digital technology – customers, employees, citizens, students – it is a service model. To be effective it needs to be a frictionless experience, end-to-end, across channels, across devices and always open.

It may be valuable to use digital technology to improve a part of the process, yet digital businesses have a comprehensive digital offering. End to end? Best-in-class digital organisations do not offer part of the process on a digital platform and then ask for a paper-based conclusion. When you reach their contact centre, the agent can access what you have been doing online and can offer contextual help. They incorporate social media into the channel mix. For digital businesses, the user experience is key and is the same on a phone as it is on a PC. The employee digital experience is as good as the customer's.

Continuing the definition, we should look at what digital means for providers of digital services including businesses, governments, utilities, not for profits, and education providers. True digital organisations have embraced a new and different operating model. To add an example, an online learning business is very different to a classroom-based one. The move to a digital business is a change across people, process and technology.

In a digital business, processes are likely to be highly automated and intelligent taking advantage of tools such as Big Data, Machine Learning, and IoT devices. It will be end-to-end, such as linking the customer request (eCommerce) through to courier for immediate drop ship or through the supply chain for 3D printing. Depending on the business model, it will be global and multi-lingual. The processes will digitally include partners such as third-party installers or repairers.

We agree that there are benefits of taking a process or even part of a process to a digital platform. Examples are around the business value in digitally onboarding customers, taking orders, onboarding employees, managing complaints and collaborating with clients. These may be important early steps in your digital journey.



For consumers of digital services, the digital nature enables them to work and transact when, where and how it is most convenient. The service may be supported with more information, be simplified based on prior use or have enhanced experiences with augmented or virtual reality, for example in training or retail.

For providers of digital services, the benefits are broad and wide-ranging and change based on industry sector. Typically, the service will be 'always on' and offer new revenue streams. Those revenue streams could be a much wider range of products available for sale – endless aisle – by linking an eCommerce site to a supplier's full product catalogue through APIs. Other revenue streams include monetising your data or offering services such as your training linked to a customer's learning management system, or making technology such as SMS available to other systems, all through published APIs.

Digital businesses are expanding current revenue streams with digital tools such as recommender engines and predictive analytics to make the 'next best offer' or to make timely offers to lapsed or lapsing customers. Having no restriction on capacity and no wait time can be big advantages in many sectors.

While these businesses are using digital capabilities to improve customer experience, they are also taking the opportunity to reduce cost-to-serve. The cost saving from customer self-service is evident, but this can be expanded by using a range of digital technologies such as automation – both intelligent and robotic – in both customer-facing roles and mid/back office. Digital businesses are offering new supply chains to improve delivery cadence, which can include 3D printing options.

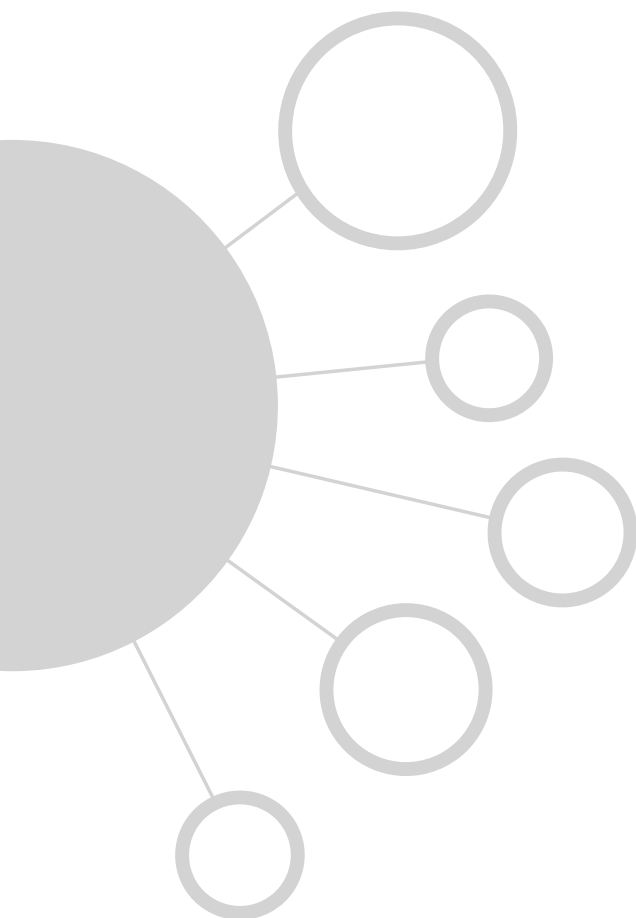
Overall, a quality digital experience, constantly improving through the use of analytics, is and will be a differentiator in the post-COVID-19 economy.



So, what is the approach to get there?

The journey will begin with a Digital Readiness Assessment. Many organisations offer these and several are online. The output will help explain the capabilities you need to introduce and/or mature to be ready to undertake a digital transformation. That does not mean that all digital initiatives need to wait, but it will give you a perspective of the change required within your organisation.

Your digital transformation will be based on a business strategy and Digital Operating Model. For example, a digital business is driven by data so most organisations will need access to more data and analytics professionals.



Three other areas focus on the journey to becoming a digital business:

- **Organise for success** – many digital businesses are organised in a cross-functional teams, often following an agile framework. This needs to be supported or wrapped in a start-up mentality. A digital business is always improving and iterating so the philosophy of launching minimal viable products (MVPs) and failing fast should be embraced. This is a cultural shift. Second, the governance and funding approval models need to support the cadence you want from your digital business. This is a governance shift.
- **Architect for success** – the technical architecture is important. As data will be central, there is typically work to be done in data architecture, governance and management. From designing APIs, to presenting data, processing to systems of experience from systems of record, and understanding how to seamlessly connect to suppliers, partners and providers
- **Leverage Cloud** – technology tools are more available than ever. Cloud provides instant access to sophisticated and extensible software and capacity to drive digital business growth.

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RESET

We need
to rethink
tomorrow



ELASTIC WORKFORCE



E

The COVID-19 crisis has sped up the adoption of the concept of the 'workforce of the future'. Organisations are having to grapple with what the future workforce will look like for their industry and how to operate effectively and efficiently within a revised workforce model.

The adoption of artificial intelligence and automation to replace or augment the human labour force has happened across some industries almost overnight, for example telemedicine. This trend will continue as organisations attempt to reduce their cost base and are forced to compete with organisations in other markets who have more readily adopted new technology solutions.





A continual process of 'workforce shaping' will be required to stay abreast of the changes in customer and capability demand. Radical redeployment, large scale upskilling and reskilling programmes are needed to increase the following organisational capabilities: data analysis, digital literacy, problem solving, creativity, time management and flexibility. Companies will continue to use predictive intelligence technology to stay ahead of labour skill requirements and utilise online training platforms to keep their workforce up to date with revised core competencies.

The casual/flexible gig economy, as we saw after the GFC, will continue to rise in popularity due to the flexibility that it offers employers and the need for employees to gain income from different sources. There will likely be increased regulation/unionisation to protect workers' rights and an increase in the need for security to protect against data privacy and fraud with employees having access to data across different organisations.

Diversity and flexibility will be key to success as organisations need different ways of thinking about old and new problems. Diversity will need to include diversity in genders, ethnicities, age, backgrounds and cultures. Employees will value and be more loyal to employers who can provide flexibility and different ways of working.



Enduring increase in volume of remote working

Working remotely during the coronavirus crisis has quickly become the new norm, and one that won't dissipate quickly – rather, remote working (both part-time and full-time) will rise across all industries. This will include industries such as financial services and the public sector, which have typically been office-bound and challenged by remote working at scale.

The 9-to-5 workday will be challenged

Work will be regarded as a thing you do, rather than a place you go. Measurement of 'work' will increasingly become about outcome rather than the input, regardless of when and where it is done. Time for collaboration will still be important, but it will demand more effective use of time together. The natural collaboration that happens in an office environment will need to be factored in and more formally acknowledged. Leaders will step-up and adopt a far more flexible approach to understand and work with the personal circumstances of their employees.

Emerging technology improves remote working

The 5G rollout will boost internet speed and reliability across the country, further expanding the possibilities of a remote workforce. The mass adoption of video conferencing apps means we are close to truly feeling like we are in the same room as our colleagues. This increase in usage will see the need for virtual reality and augmented reality technologies to expand. This should accelerate the experimentation and adoption of these technologies – particularly as costs continue to come down. We will also see a reduced need for national and international travel, which may have significant impacts on the business travel industry, including airlines, hotels, rental cars and insurance.

Real estate needs are going to change

With more work being done outside the office, corporate real estate can be repurposed or reduced. Individuals will adapt to make better home office spaces. Larger properties with space for work (and play) will become more appealing, challenging the current preference for smaller inner-city dwellings.

Leaders will play an active role in managing mental health and connection

Remote working has further blurred the line between work and personal lives. The pre-coronavirus crisis focus on supporting mental health among employees will adapt, establishing new avenues of support as employees are managing large changes in their work and personal lives (health, financial, changed caring arrangements for children and parents) at the same time. Successful leaders will develop innovative ways to manage team members' mental health and connection to purpose – which are critical to sustain performance and retention. Given the size of the change – leaders will need to embed new healthy behaviours in their own and employees' lives.



Remote work will break traditional management structures

As we shift from managing inputs to managing by outcomes, current organisational hierarchies won't make sense. A shift to flatter and more fluid task-based structures will follow and require new management skills and changes to performance measurement and reward programs. Company culture will also need to be re-examined.

Occupational health and safety extends into the home office

Employers will have a role in supporting employees to ensure their home working environment meets health and safety requirements. This will raise issues around the extent of the support, and ultimately who is liable, should anything happen in the new workplace, which will also impact insurance policies.

People will adapt faster than we think

The sudden shift to remote working has been jarring for many, compounded by other impacts of the coronavirus crisis, e.g. looking after families. It takes time to adapt to large changes, but the remote workforce will as we improve home office set-ups, start managing by output versus input, adapt leadership and management styles and improve technology.



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What we need to consider

Is it time for Seachange (or Treechange) 2.0?

- Where will the new affordable areas that provide people with the right balance of space and local services/amenities be?
- Will a preference for inner city and suburban living remain?
- Do people even need to live in cities at all?
- How will cities adapt to this new world and meet the increased demand for connection and experience post-crisis?
- Will our views on large infrastructure shift?
- With more people working from home, we could expect there to be changes in the pre-coronavirus peak hour demands on our road, rail and bus networks in major cities. This will bring increased focus for governments to balance new infrastructure with managing existing capacity more effectively.
- How will commercial real estate used for office space be repurposed to serve new needs for companies or the community?
- Could there be a surge in demand for outdoor spaces?
- Will the shift towards remote working be a catalyst to reduce emissions – balanced with increased energy demand in residential settings?
- Will remote work create new types of inequality?
- How will society cope with the mental health implications of long term remote working?
- Will this trigger new inequalities, this time between those who have a better workspace and technology at home?

RESET



SUSTAINABILITY



S



The 1918 pandemic. The Great Depression. World War II. September 11, 2001. COVID-19. Paradigm shifts come along maybe once in a generation. COVID-19 is undoubtedly having a significant economic, as well as human impact. However, this 21st century pandemic is also forcing us to reconsider what kind of world we want to live in, what and who we value, whose opinions we listen to, how we view 'facts', how we govern, and the fundamental relationship between science and decision-making.

While it is reasonable to wonder if the economic turbulence triggered by COVID-19 will drive social and environmental issues down the global agenda, early evidence suggests this isn't happening. Indeed, there seems to be widespread (and growing) recognition that we shouldn't let this crisis go to waste. Supranational organisations, national and sub-national governments, powerful business alliances, influential investor groups, and consumers are urging us to find the silver lining in this pandemic by 'building back better'.

For example:

17 of 27 EU member states have already endorsed putting climate change and sustainability at the heart of the EU's COVID-19 response, with South Korea also committing to adopt an EU-style Green New Deal as part of its COVID-19 response.

The World Bank, International Monetary Fund, Organisation for Economic Cooperation and Development, and International Energy Agency, amongst others, have issued advisory material urging governments to 'green' their COVID-19 policy responses.²

Cities around the world are rolling out environmental initiatives that are intended to enhance public health while bolstering the fight against climate breakdown.¹

In December 2019, the Government of New Zealand identified the just transition to a low-emissions economy as one of its top five budget priorities for 2020. As such, many expected the Government to pursue a bold Green New Deal as part of its COVID-19 response. Whether as a result of coalition politics, concerns about the forthcoming general election, or a combination of both, New Zealand's recently announced budget focuses only on the immediate crisis.

Global investor groups are urging the world's richest nations to ensure that their COVID-19 recovery plans are sustainable and contribute to targets under the Paris climate accord. According to 'Investor Agenda' (which includes the Institutional Investor Group on Climate Change, BlackRock, the United Nations-backed Principles for Responsible Investment, Ceres, CDP, Investor Group on Climate Change, Asia Investor Group on Climate Change and UNEP Finance Initiative), "recovery plans that exacerbate climate change would expose investors and national economies to escalating financial, health and social risks in the coming years."

The European Corporate Leaders Group, which represents a host of major corporates, has urged EU member states to implement green and equitable COVID-19 recovery plans. In a letter to EU President von der Leyen, the Group argues that, "if the response to the COVID-19 pandemic undermines efforts to address the challenge of climate action, we accelerate one major systemic threat to the economy as we deal with another and this clearly makes no business sense."



¹The Guardian 'City leaders aim to shape green recovery from coronavirus crisis' (1 May 2020); C40 'Global Mayors Launch COVID-19 Economic Recovery Task Force' (15 April 2020); C40 'Cities and Coronavirus (COVID-19) Knowledge Hub'; Polis 'COVID-19: Keeping Things Moving' (3 May 2020); Climate Interactive 'COVID-19 Integrated Recovery Plans That Multisolve For Economic Recovery, Equity, and Climate'. ²World Bank 'Planning for the economic recovery from COVID-19: A sustainability checklist for policymakers' (14 April 2020); IMF 'Special Series on Fiscal Policies to Respond to COVID-19: Greening the Recovery' (20 April 2020); OECD 'From containment to recovery: Environmental responses to the COVID-19 pandemic' (20 April 2020); IEA 'Energy efficiency and economic stimulus' (8 April 2020).



Based on KPMG's analysis, we believe that:

- The pandemic has exposed systemic vulnerabilities that many governments, businesses, and investors are interpreting as a wake-up call to address far greater threats posed by climate change, chronic environmental degradation, and acute inequalities.
- The speed at which the pandemic spread has required organisations to innovate or perish. Many have learnt to do more with less. Many have been forced to reconsider the balance between short-term profit versus long-term resilience. Confidence in forecasting future states has significantly diminished, with many businesses beginning to plan for multiple alternative futures. Such lessons are likely to be enduring and accelerate the transition to more sustainable business models.
- The New Zealand Government's COVID-19 stabilisation efforts have prioritised job protection and worker welfare. However, its emphasis on long-term and environmental objectives, including climate change, will soon return. A recent working paper by Oxford University economist Cameron Hepburn argues that climate-aligned fiscal recovery packages could offer the best economic returns for government spending.³ Those returns are precisely what government needs to service the debt it has incurred.

³www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf

What's next?

The nature of the COVID-19 crisis requires leaders to make rapid decisions under highly volatile, uncertain, complex and ambiguous conditions. Under such circumstances, it is crucial to establish and consistently operate on the basis of 'guiding principles.' To build resilient prosperity, KPMG believes these principles should include:

1. Investing in sustainability

The costs of the current crisis will vastly exceed what it would have cost to prevent. Leaders should take this lesson to heart and ensure that their recovery strategies place a premium on reducing exposure and sensitivity to social, environmental, and economic risks (e.g. pandemics, climate change, and recessions) while building resilience. This will require investing in physical, human, social, and natural capital. Many solutions – such as shorter supply chains, flexible work from home arrangements, and resource efficient manufacturing processes – blur the line between risk management, resilience, and sustainability. As such, investing in sustainability often offers a practical path to achieving greater resilience.

2. Investing for tomorrow

The COVID-19 crisis enforced significant changes in consumer behaviour, including less car use, less air travel, buying less, buying local, buying on-line, and buying direct. Many of these changes are characteristic of a more sustainable economy and, driven by a range of market and regulatory forces, are likely to be enduring. Organisations seeking to rebuild after COVID-19 should base their products and services on how things will be, not on how they were. This includes aligning with macro-level movement towards sustainability and valuing resilience to climate-related financial risks.

The COVID-19 crisis demonstrates the important of 'and', where public health and sustainability and economic wellbeing are inextricably linked.

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