

Indonesia CEO Discussion

Lessons Learned from China and Opportunities for the Future

On 6th April, 2020, Egon Zehnder, together with Boston Consulting Group, held a virtual gathering of 20+ CEOs in Indonesia to share their experiences in facing the COVID-19 crisis and the potential of the crisis to push for lasting changes. BCG also shared some of their clients' responses in China and elsewhere. In China, the situation got under control very quickly through very aggressive yet flexible approaches. Companies are adapting to online communication and tweaking their value chain quickly to adhere to government lockdowns while continuing to serve customers' needs.

The COVID-19 pandemic is unprecedented; it has shown the vulnerability of our society but also its most committed, supportive, and responsible side. No one is indifferent to the effects of this pandemic, and neither are we in Indonesia. Over the last few weeks, practically every country in the world has first established recommendations, then restrictions, and finally prohibition.

Indonesia has yet to reach its peak epidemic curve. Companies are taking precautionary measures by preserving cash flow, delaying CapEx, and freezing non-essential spending. As an emerging market with a large population, it is important for Indonesia to keep the economy running. The government has been putting in place fiscal stimulus packages to prop up the economy through tax incentives, relaxation of loan disbursements, and the acceleration of export and import processing. Large-scale social distancing policy was introduced as of April 10th. The market is cautious but still hopeful. Care and empathy are key qualities expected from leaders during this difficult time. They should try as much as possible to keep positive and open communications with their employees, customers, and suppliers.

We have seen major crises before – the Asian Crisis (1997), the Dotcom bubble (1999), September 11 (2001-2002), and the Great Recession (2008-2009.) Every time we are in the midst of it, we are anxious, as we are yet to see any light at the end of the tunnel. On average, it took about 4-6 months before we started to emerge and become more hopeful. We would like to encourage keeping our hopes up, building resilience, and making sure that we are agile and ready to capture opportunities in the new reality.

In China, the situation got under control relatively quickly. The country was able to pull together its force and sent support into the area of Wuhan – Hubei as one unit.

Chinese companies have been very flexible and very aggressive in reacting to the crisis. Headcounts were reduced or repurposed to other jobs in the matter of a day. New business models and digital ecosystems emerged very quickly. Only a few weeks after the epicenter lockdown, companies started to come back quickly. However, people remain cautious and still avoid big gatherings or taking public transportation, as evidenced by traffic jams during the past 1-2 weeks.

Sectors that have experienced significant decline in transactions are hospitality, transportation, F&B, electricity, and other discretionary spending. Meanwhile, some businesses are experiencing surges, especially online deliveries, groceries and food supply chain, and obviously the health care services sector at the forefront of this crisis. However, in the longer run, all businesses including a number of FMCG players are nervous and expect market demand to be down while recovery is still highly uncertain.

Indonesia has much younger demographics compared to that of Europe. This represents a possibility for the country to respond to the crisis without a full lockdown. It is important for Indonesia, as an emerging market, to not close down and to keep parts of the economy running as much as possible. Furthermore, it is essential to continue providing a livelihood to those low-income daily-wage workers, many of whom have lost their income. Returning day laborers to rural areas has been highly discouraged, though not entirely banned.

Lessons learned from China

It is widely acknowledged that China's situation got under control quickly. The country was able to send supports to the area of Wuhan – Hubei. That epicenter experienced a very tough shutdown, while most places in China were kept running. Only five-to-six weeks since the lockdown in Wuhan, businesses started to come back quickly. Here are some key takeaways from the discussion:

- a. China began to respond to this crisis with an **inward-looking approach**
 - During the first stage of crisis response, people were focused on their homes, their families, and their health. They tried to fulfil basic needs by stocking up on food.
 - Chinese companies tried to keep their employees safe by first sending them home, supplying medical survival kits such as masks, sanitizers, and then promoting work-from-home (WFH) schemes.
 - Companies have been very flexible yet aggressive to react to this. Employees were laid off or repurposed to other jobs. Hotels and restaurants move their people to companies that are doing grocery shops or distribution of foods, for instance.

- b. The second phase is to think about **how to run a business** in a crisis. Strong **emphasis on customers has influenced decision-making**:
- Companies are communicating closely with their customers.
 - Critical production service remain running.
 - Dynamic production planning to meet the demand shock coming for export business.
- c. **Opportunities** are driven by observed customer behavior as follows:
- People spend more on preventative healthcare: vitamins, organic food, childcare, fresh food. Some of the **winners in China have been software, IT services, healthcare equipment, and healthcare services, and grocery retailing**.
 - People spend less on transportation, fashion, accessories, luxury, tobacco, vacation, eating out. Transactions are low on consumer durables, and non-food retailing. Everything that has to do with travel, tourism, and socializing will take a longer time to recover.
- d. The third stage is to think about the longer term. It is critical to have a **forward-looking approach**, as we are likely to go into recession. We anticipate **changes and shifts in the business models** for most companies. Take the example of how a B2B truck player with 1,500 salespeople has moved all communications to WeChat and created an ecosystem where the company coordinates with its distributors and dealers, takes orders, and performs post-sales engagement with the customers all using WeChat. The company also does customer surveys to understand where they are, when they think business will bounce back, and what kind of products they will need. Numerous new business models will emerge quickly and creatively.
- e. **Government supports** and incentives to the businesses have helped them weather the crisis. State-owned banks provide different types of payment reliefs to their corporate and retail customers, especially on SME. A lot of activities and lockdowns have been focused on the big cities. The rural areas have been more left to themselves on how to deal with this.

Situation in Indonesia

Indonesian CEOs from various sectors shared how the crisis has affected their business differently. Key observations are as follows.

- a. **Financial Services:** There is a high possibility of rising NPL due to the domino effect of decreased economic activity. While European governments have been providing 80%, 90%, even 100% of guarantees for loans to small and big size enterprises, and they are giving full coverage to some of the larger companies, the Indonesia government can't do that; therefore it is essential to keep the economy running. Banks need to be in close communication with the central bank to ensure that they are mitigating all of their risks appropriately and promptly.

- b. **Private Equity:** Their focus now is to stop any unnecessary investments, review capital expenditure, and rationalize the cost base. For their portfolio companies, any business with a door-to-door delivery approach is doing well. Online health care services are surging. Other areas, such as transportation and hospitality, are significantly dropping.
- c. **Airlines, Restaurants, and Hospitality:** Business activities have decreased massively. Unpaid leave and in some instances, job cuts are happening. Unpaid leave could be one of the ways for companies to effectively preserve their viability in the short term without really sacrificing the long-term. Surprisingly, employees' willingness to accept this policy is quite high. It may root from Indonesia's "gotong-royong" culture, where people help each other in difficult times.
- d. **Food Supply Chain:** B2B has not been affected too much yet. Some market channels are distracted. The market demand from the wet markets has somewhat declined. Nevertheless, FMCG companies are implementing cautionary actions by holding advertising spending, preserving cash flow, stopping any CapEx, and freezing non-essential hiring.
- e. **Oil Price Decline:** The decline in the price of oil has been an advantage for most Indonesian companies. Yet, the overall decline of activity is hurting major parts of the economy, including coal mining and electricity generation. Despite increasing electricity consumption by individuals as people are staying at home, the demand from commercial consumption has precipitously declined, netting significant **decline for overall electricity consumption.**

Building resilience and future steps

Business leaders are aware of the potential for the second wave of the virus. They are thinking about how to sustain the business today and what is likely to emerge in the longer run. Factories, distribution channels, production, transportation lines are being kept open. There is an opportunity that Indonesia can be the large-scale producer of masks and healthcare products, aimed for local consumption as well as for export. New business models may emerge. This could also trigger an array of new digital businesses.

In responding to the crisis, we identify some critical questions for business leaders to reflect upon

- How do we keep operations running and people safe?
- How do we stabilize and strengthen the operations once everything is in place?
- How do we plan for the new reliability post-crisis?

Keeping the lights on

The number one priority for many business leaders is to ensure that people are safe. Leaders should put in place policies, such as setting up working-from-home

arrangements, implementing social distancing policies in factories through shift schedules, and providing health safety gear.

Another crucial point is to manage liquidity and to establish visibility into the entire operations and supply chain, especially in manufacturing. Critical decisions are to be made quickly; these will be key for the long-term sustainability of the business.

Companies are encouraged to create and mobilize dedicated response teams that cut across multiple functions and production centers to make sure that they can respond to their customers with agility. One idea is to set up an official war room so that all business stakeholders have good visibility on different economic parameters and various key performance indicators, ideally in real-time.

Prepare for the rebound

Only after an emergency measure is in place can companies can try to stabilize, strengthen operations and prepare for the rebound.

Companies should start planning for a few economic scenarios. Companies should formulate their action plans should demand drop by 10%, 20%, or 30%. Some necessary precaution moves include:

1. Preserve profitability through systematic cost reduction.
2. Look into the CapEx plan and cost base; think through what the real essentials are and trim out the rest.
3. Reinforce the supply chain by optimizing demand and logistics.
4. Redefine the commercial model and ways of working. As many of the sales force cannot meet clients, how do we redefine models? How do we rethink pricing strategies?

Plan for post-crisis

Longer term, companies should start planning for the new reality post-crisis. There may be new customer behaviors, new client segments, and new products that offer new business opportunities.

We suggest that it may be prudent to:

1. Start thinking about a new reality where digital capabilities may be one of the winning factors in the new environment. Digitalization around supply chains and sales & marketing is expected to accelerate post-crisis. We all need to be agile in anticipating the market shifts and in capturing new white spaces.
2. Consider repurposing employees to other businesses or other functions. There may be possibilities to collaborate with other companies who require additional employees to serve their demand surges.

3. Take advantage of the market crash for inorganic growth through mergers and acquisitions. Some companies with a strong balance sheet may take advantage by screening potential M&A targets for buying opportunities.
4. Ultimately, every leader should embrace resilience and the fight for survival. The next few months will be tough but one should regard the crisis as a chance to uncover new potential opportunities, and grow more sustainably in the future.

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Covid-19 Micro-Website

We have launched a micro website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

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