Reset

A thought-starter for the future of New Zealand after COVID-19.

KPMG

KPMG

Our purpose

Fuelling New Zealand's Prosperity

Tītokona tō tātou tōnuitanga, mō Aotearoa, mō tātou.

We believe that by helping New Zealand's enterprises, the public sector and our communities to succeed, our country will also succeed and prosper.

Reset

Our resounding view is that now is the time for New Zealand to reset.

To rethink our position in the world and to reconsider the stories we tell to the world, to each other and how we see ourselves.

Reset our message to the world

From

We've spent the last two decades telling the world that we're a nice place to visit. It served us well, and made global tourism an enormous export earner and employer for us.

From now on

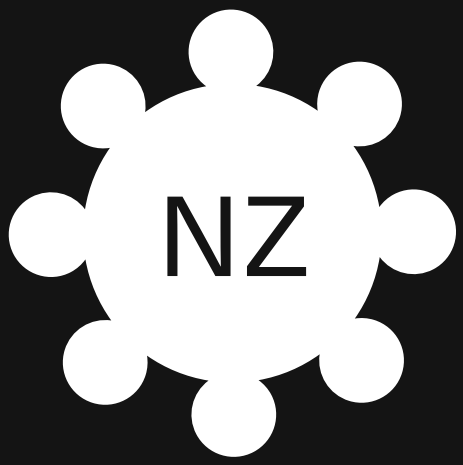
Those tourists aren't coming back in the near future. But suddenly, we're on the world stage for different reasons. We have the world's attention for our leadership and our response to this crisis. We have the opportunity to say:

Move your high-tech business here.

Move your talented people here.

Move your capital here.

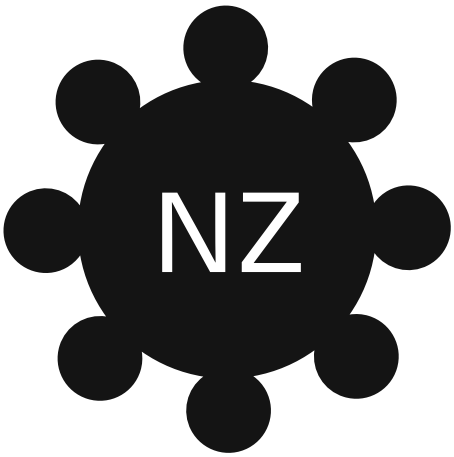
The world is listening.



Reset ourselves as a nation

From

We've had good growth in GDP, low unemployment and have taken some real steps to address our challenges with the environment. But we've struggled to generate high value jobs, struggled to make real gains in productivity, struggled to modernise our health, education and other services to our people, and we've had creeping growth in inequality between different groups within our society.



From now on

COVID-19 has made us think harder about our communities. It's harder to ignore the gaps and the cracks when they're expanding under our feet.

Let's reset our communities – the way we live, work, learn and interact.

Let's reset the way we deliver to our citizens and customers – digital, smart, everywhere, everyone.

Let's reset our relationship with our environment – real change, real action.

Let's choose not to go back.
Stay kind. Move faster. Get smarter.
Mō Aotearoa. Mō tātou.

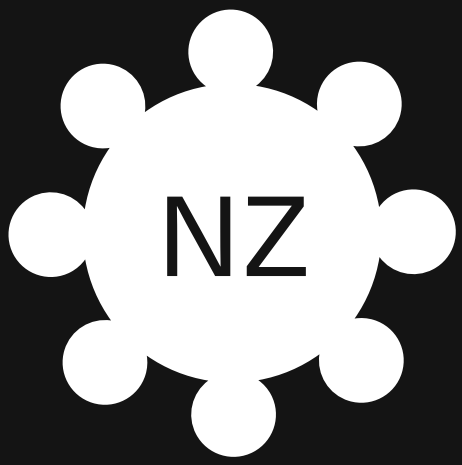
Reset our organisational DNA

From

We've made a good start on moving from volume to value. From low value food commodities to high value food tech and IP.

But it's been at the fringes.

COVID-19 showed up the fragility of two dominant markets. It showed up our lack of control over key supply chains. It showed up the weakness of our fragmentation and lack of collaboration.



From now on

As businesses, iwi, and government organisations, it's time for a tune up: time to collaborate.

Reset our ambition – we're well placed to beat most of the world out of this event and lead by example.

Reset our delivery model – digital everything, from education in Te Tai Tokerau to chilled fish to the door in Seoul.

Reset our skillbase – attract the world's best, and retrain and educate our own.

Reset our attraction of capital – there's plenty of it out there looking for a home.

How to navigate our future thinking

The details and substantiation for our observations and insights are recorded throughout.

Some are the summations and conclusions drawn from our many workshops, interviews, research and discussions. Many are framed within familiar business and strategy tools used to help identify them and some are simply captured as insights.

While not all the information and observations or insights contained within will be relevant for all, we felt it important to keep the data captured in developing this thought leadership, available for all.

We invite you to explore the sections that are relevant to you. The sections that intrigue you, that sit with you and make you think.

Our hope is to help provide you an informed and considered view of what the future may look like – allowing you to draw on the many insights and observations contained within, to help shape your own view and strategies both professionally and personally as we head into a exciting future.

Of course as a business passionate about helping New Zealands business, enterprise and government succeed we welcome further dialogue – we invite the opportunity to help shape the many issues raised for your specific needs.

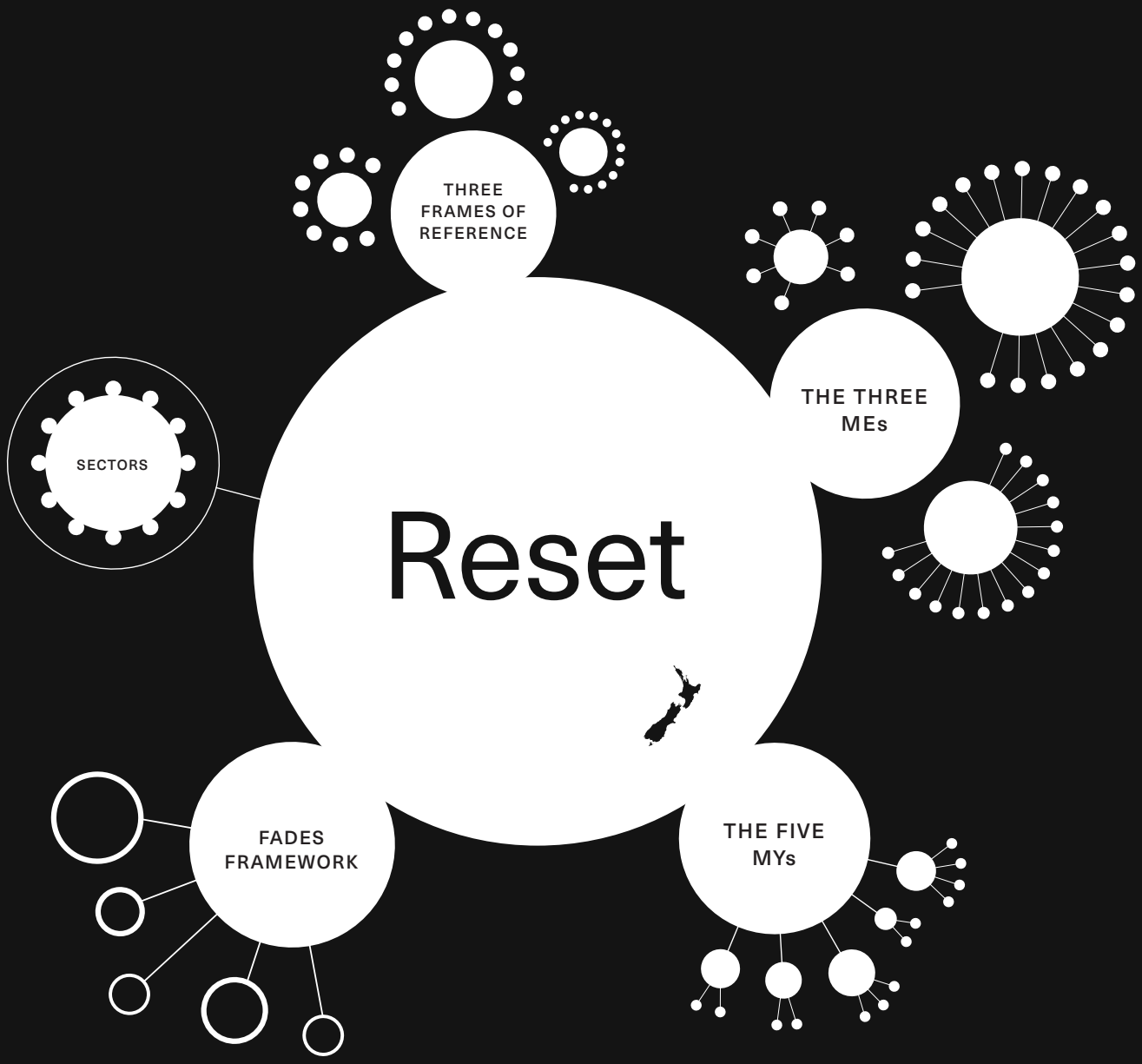
You will note that there are themes that recur throughout the various analysis, this is conscious, and are captured at several stages because they are significant issues and questions that as a country we will need to think about and deal with.

The questions about our future are where we need to spend our time, ensuring that we are asking the right questions to get the right outcomes. As Einstein said "If I had an hour to solve a problem I'd spend 55 minutes thinking about the problem and five minutes thinking about solutions."

This is our 55 minutes.

Future thinking

THREE FRAMES OF REFERENCE	An in depth analysis of some of the key drivers and changes that we may see at Macro and Micro levels within New Zealand as a consequence of COVID-19.
THE THREE MEs	A look at how individuals will potentially change as Consumers, as Citizens and as Employees.
THE FIVE MYs	Changing Consumer behaviour in New Zealand.
FADES FRAMEWORK	A framework to help organisations plan and strategise for a Post-COVID-19 world across five key focus areas.
SECTORS	A closer look at the impacts to date and the future direction of key parts of the New Zealand Economy and Government.


THREE FRAMES OF REFERENCE
THE THREE MEs
SECTORS
Reset
FADES FRAMEWORK
THE FIVE MYs

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THREE FRAMES OF REFERENCE

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Three frames of reference

There has been a great deal of speculation about the change COVID-19 will bring. Some of the changes are obvious and short-lived. However it is almost certain that many will be long-lasting and hard to predict. It's important to note that major change doesn't always require the majority to agree – sometimes significant minority is all that it takes to cause structural shifts.

At KPMG New Zealand we are thinking about the future under three frames of reference: **Societal, Economic** and **Technological**.

1. SOCIETAL

2. ECONOMY, TRADE AND BUSINESS

3. TECHNOLOGY

1. SOCIETAL

History tells us that as a result of previous pandemics and events of global significance, societal changes become some of the most impactful and seismic changes in generations.

- The Black Death in Europe saw sweeping reform around health and hygiene, the implementation and investment in sanitation and waste, and arguably the end of the feudal system in Europe.
- The Spanish Flu in 1918 triggered the creation of social security and universal health-care systems still in operation today. However, the Flu and the economic depression that followed, arguably led to a wave of nationalism, authoritarianism, and a second World War.
- World War II saw the single biggest shift ever in female participation in the workforce.
- 9/11 fundamentally changed the way that we travelled and the way that we think about security and terrorism.
- SARS in Asia has had significant ramifications since 2003. Many individuals continued to wear face masks in public, and it was one of the original catalysts for e-commerce and its uptake in China.

With COVID-19's global reach and impact on every aspect of our lives and livelihoods, it will arguably be the single biggest disruptor to face our generation. So, how will it impact us? How will we respond? And what lessons can we learn?

Purpose, consideration and intent

We will see a significant number of people become more considered in who they socialise with, how they socialise, what they purchase and who they purchase from. We expect to see people making more purposeful decisions, aligned to their values and beliefs. People will seek out organisations with clearly-stated purposes that are aligned with social good.

We saw this increasing pre-COVID-19, with conversations about sustainability, climate change, plastic waste and many other issues but the speed of this shift will increase. Having experienced forms of lockdown and limitations on their lives that they once took for granted, people will have a greater appreciation of interactions and things that they have missed and will therefore be more intentional.

Inequality

COVID-19 has globally demonstrated the widening socioeconomic gaps within our societies, and the impact that crises such as this have on the vulnerable and those in minorities. The next few years will only amplify this further as unemployment rises and the associated knock on implications take hold. More people will be forced into poverty and be unable to afford the basics needed for survival such as food, clothing and shelter.

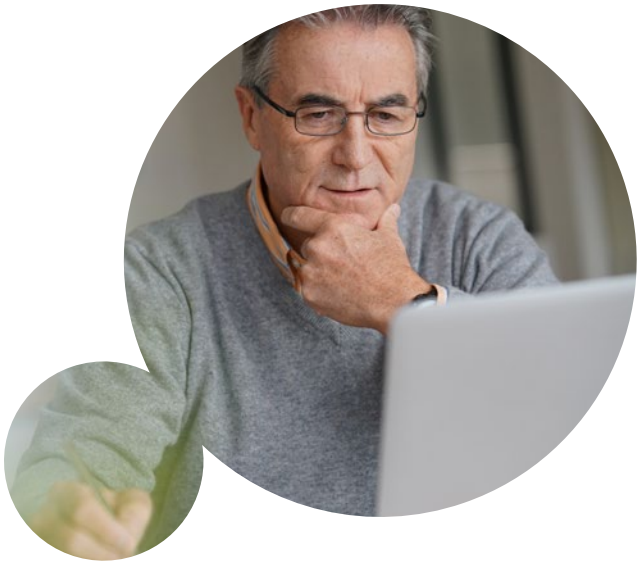
This is amplified by recent, rightful focus on the systemic inequalities people of colour experience, in light of the Black Lives Matter movement. Building a greater understanding of these issues is a responsibility for all of society, and organisations, and will undoubtedly positively impact future decision making and actions.

The culmination of both the Black Lives Matter movement and the COVID-19 'be kind spirit' has shifted societal views, putting a spotlight on the unacceptable inequalities that exist and pressuring governments and corporates to intervene. We will all need to take accountability for the roles that we have to play within our own communities to address these issues.

Health

Societies' and governments' views around health and wellbeing, and healthcare systems in general will be amplified and significantly changed. As a society we will demand more investment into healthcare systems, to ensure resilience in the event of future pandemics. Our approach to essential workers, medical professionals and ways that we train, respect and remunerate them, are likely to become prominent topics for debate in coming years. We are also likely to see further government intervention as we look to disincentivise poor health choices (sugar, tobacco and alcohol) that add significant cost to our health service. Consumers will ultimately make better, more informed decisions about their own personal health in the future.

> The COVID-19 'be kind spirit' is likely to find inequality unacceptable and force governments to intervene.



Nationalistic tendencies

Some societies are likely to continue to pivot towards nationalistic tendencies, such as buying and holidaying locally and relocating supply to local. Globalisation has come under fire and, recently fundamental flaws in the system have been exposed through the pace of the spread of COVID-19. The ongoing trade wars between the US and China are one of the best examples of this. From a New Zealand perspective there are many benefits that come from global trade and collaboration. In particular we need to avoid getting caught in the trap of taking sides in this US/China dispute, and bring the best of New Zealand to both. Governments will need to play bigger roles in regulating and protecting national interests in areas such as food insecurity and future vaccine development programmes.

That said, the global nature of the crisis could see greater global collaboration and connectedness in addressing global solutions. Scientists, doctors, researchers and Big Pharma are researching potential vaccines and learning from one another. Data scientists and engineers are collaborating to use Big Data to make more informed global decisions and point medical professionals in the right directions.

Individuals have connected digitally with one another around the world to cope and get through the period of lockdown and isolation. This global cooperation and connectivity could impact science, medicine, art and education, and may well lay the foundation of post-crisis collaborations.

Data privacy and big government

The amount of government intervention that we have seen around the world is unprecedented and the role of government consequentially will increase as they potentially take stakes in private sector enterprises, regulate further to drive resilience and look to shore up economies. In addition to this intervention, we will demand protection from future economic shocks and future pandemics, and our appetite for privacy will be tested. Fundamental privacy choices will need to be debated and decided on in order to allow governments to legislate and plan for the future.

How much of our privacy we will be willing to give up in exchange for protection and safety, will be a key societal question of our generation.

Consumerism

The pandemic will bring concerns about the sustainability and fragility of our economic system into sharp focus, intensifying critiques of hyper-consumption lifestyles, irresponsible business practices, and unsustainable business models. Will COVID-19 mark the beginning of the end for "extreme consumerism"?

Climate change and sustainability

Climate change, pervasive environmental degradation, chronic social inequalities, the proliferation of acute social injustices, declining trust and confidence in major institutions and – now – the COVID-19 crisis, are 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 govern, and how we view 'facts.'

Our social, political and economic structures are having to move hard and fast to keep up. With disruption, however, comes opportunity to do things differently – to dramatically reshape and improve the trajectory of our world.

> Conversations and focus on sustainability, climate change, plastic waste and pollution will increase.

Urbanisation

Urbanisation has in the recent past been a significant global trend that has seen individuals migrate to urban areas. The lure of jobs, technology, infrastructure and other social benefits has seen this trend increase significantly in recent years. Whilst this trend is unlikely to disappear, the pace of the movement may well decline in a post-COVID-19 world. People's ability to work remotely, affordability of housing, their appetites to commute and spend time on busy public transport may see significant change in the coming years. This will have knock on implications for our cities and certain sectors within the economy. If we see a general decline in office workers in business districts, what structural impacts will be felt by the retail and hospitality sectors in the future?

KEY SOCIETAL QUESTIONS THAT WE NEED TO ASK:

How do we bridge the socio-economic gaps that have been laid bare during the COVID-19 crisis?

What will New Zealand's approach to data privacy and security need to look like?

What are the purposes of our organisations?

How do we ensure that we support local businesses and promote them locally, but also maintain a license to operate in our key export markets?

What does our health service need to look like to be more resilient in the future?

How do we ensure that all of our planning is underpinned by a commitment to reducing emissions and sustainability?

How do we avoid the worst aspects of nationalism that other societies have seen emerge during periods of great economic upheaval?

2 – ECONOMY, TRADE AND BUSINESS

The scale of the economic impact of COVID-19 is unprecedented. Globally, almost without exception, business activity has plummeted. Unlike previous global recessions, including the Global Financial Crisis, countries are experiencing both demand and supply shocks due to lockdowns. Put simply, there is no existing playbook for policy makers to craft their response.

In the fog of COVID-19, governments and central banks have had to scramble to support their economies and ensure financial system stability. Fiscal buffering has become the international norm. As a consequence, national debt – already dangerously high in many countries – has further ramped up while quantitative easing (effectively printing money) has become necessary due to the ineffectiveness of cutting interest rates (with rates already low or negative following the GFC). On the supply side the lifeblood of global trade, international supply chains, has been disrupted, and some nations have retrenched into various degrees of isolationism including, at the extreme, xenophobia.

Fiscally prudent, household spend-thrifts

New Zealand entered the pandemic in a better economic and fiscal position than most. Pre-COVID-19, our government debt was less than 20% of GDP. This was at the very low end of the OECD. The Government's fiscal position was sound, built by prudent economic management by multiple governments over a number of years. Metrics such as unemployment and interest rates were at historic lows. However, that is not the complete picture of New Zealand's pre-COVID-19 economic performance.

It hid some less flattering economic indicators, including high household debt, increasing income inequality and housing unaffordability in many centres, and the long term problem of low labour productivity. In relation to the latter, output per head has lagged behind most other developed counties, including Australia, for decades. For business, the easy solution has been to simply employ more people, rather than looking at whether they are getting the best out of their existing workforce, and at investing in technology.

In effect, the strength of the Government's fiscal position has consistently masked weaknesses in the household and business sectors. The response to COVID-19 has put a spotlight on these issues. It has also blown open any fiscal restraint. COVID-19 at its heart has been a health crisis, which has seen those with pre-existing conditions prior to the outbreak most adversely affected. We are likely to see the recession that follows have the same impact on organisations that were similarly pre-disposed to economic downturns suffer the most.

The scale of the Government's 2020 Rebuilding Together Budget as well as the pre-Budget COVID-19 response are testament to this. For the lockdown and the immediate recovery phase, the Government is leveraging its balance sheet like never before. The 20% debt cap has been well and truly exceeded. A one-in-100 year event has required a one-in-100 year fiscal and economic response. The billion dollar question is when and how the Government will get its books back in order.

Global order

Unfortunately, the speed of New Zealand's economic recovery is not solely within our control. The global economy and the pace of other countries' return to some sense of normality will play a big role. So too will the new international order which emerges post-COVID-19.

The lack of trust between countries has intensified during the pandemic. National governments have acted mostly alone, closing national borders and pursuing differing public health and economic policies to address national circumstances. This is understandable. However, at its worst we have seen examples of nations hoarding supplies of medicine and protective equipment.

If this trend continues post-COVID-19, it will come at a significant cost, potentially impacting multilateral efforts to effectively tackle what are global issues, such as climate change, inequality and cyber crime. New Zealand, as a small world-facing country reliant on international trade and capital flows and a strong rules-based system, could be worse off as a result.

What is clear is that when New Zealand and the rest of the world emerges from the depth of the COVID-19 pandemic, it will be to a new and different global 'normal'.

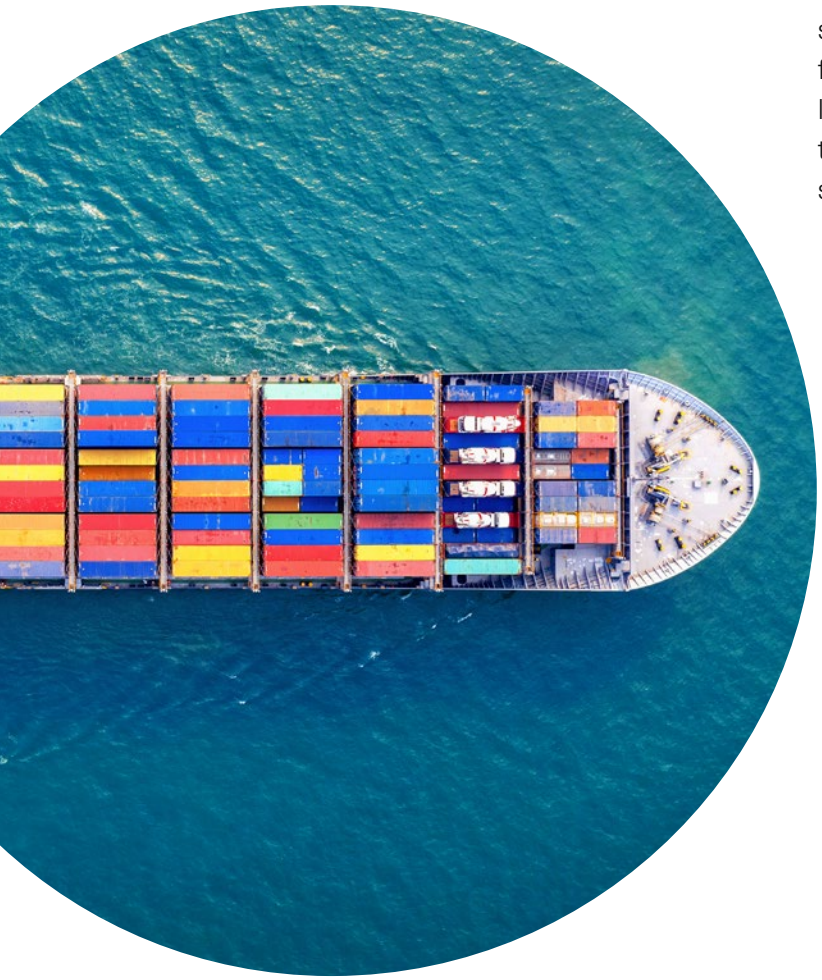
Globalisation and trade

Prior to COVID-19 there was increasing evidence of a globalisation backlash. There is no doubt that a globalised economy has been key to delivering millions out of poverty into economic prosperity. However, there have also been losers as traditional jobs in more developed economies have moved to cheaper locations offshore or have been automated. Put simply, the tide of globalisation has not uniformly lifted all boats, some have sunk. The response has been varied, including trade protectionism, both directly (through tariffs and trade wars) and indirectly (through challenges to the global trade order and the WTO). COVID-19 related trade disruptions have exacerbated some reactions.

Since COVID-19, Japan is looking at ways to onshore production of goods intended for domestic consumers, while East and South Asian economies may be the beneficiaries as multinationals look to diversify their existing supply chains. The Sino-US trade war and 'America First' policies have already signaled a more isolationist outlook. While a change of US administration later this year could reverse some of the developments, it is unlikely to be a wholesale change of approach.

COVID-19 will expediate these shifts, with globalisation and the global economy precariously placed.

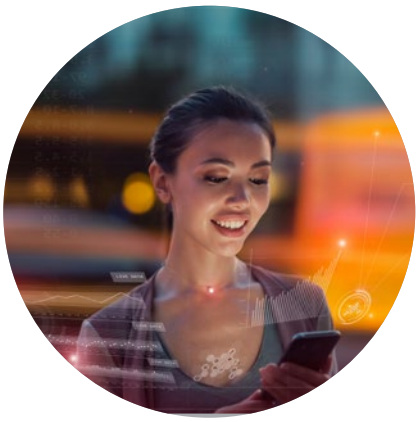
The pandemic is an opportunity for New Zealand business to take stock of existing trade and supply chains and evaluate whether they remain fit-for-purpose. It also provides an opportunity to look for opportunities to innovate and navigate the new world, and position New Zealand as a supplier to the world.



The government's strong fiscal position has masked weaknesses in the household and business sectors. COVID-19 has put a spotlight on these issues. It has also blown open any fiscal restraint.

New Zealand's two biggest trading partners by far are Australia and China. This is unlikely to change in the short to medium term at least: Australia due to Closer Economic Relations which facilitates free movement of goods, capital and people; and China due to the size of its industrial and consumer markets.

However, as the devastating impact of COVID-19 on international tourism and education services (two key export earners for New Zealand) demonstrates, there are risks to having too many eggs in the same basket. We must be open for trade and address the need to diversify. However, New Zealand business should be prepared to operate in an environment which may see the increase of trade barriers and tariffs, and should look to simplify and de-risk supply chains, where possible.



Productivity

Living in Aotearoa we are envied for our work-life balance. It is why so many people relocate here, and why they will continue to do so in the future. As a consequence of this, and some other influences such as geographic location, passive business culture and infrastructure constraints, New Zealand has been a laggard in labour productivity, which has contributed to us moving down the OECD rankings, (that measure income per capita), and the increasing wage gap with Australia. The longer term rebuild presents an opportunity to reset the dial by:

- Harnessing technology: the lockdown has demonstrated that technological advances (e.g. video telephony and high-speed broadband) mean that working remotely is now a feasible and productive option for many. It allows people to work smarter. This has both societal benefits, such as less air pollution and congestion on our roads, and private benefits, such as freeing up time spent commuting for non-work (leisure) activities. The productivity gains from use of technology in our roles need to be locked-in by government and business.
- New skills development and retraining for New Zealanders with a focus on building a more technologically literate workforce: the economic displacement caused by COVID-19 presents an opportunity to develop programmes that will give displaced New Zealanders the skills to operate in an increasingly technologically-oriented world.

Immigration and talent

GDP is driven by productivity per person and participation rate. We will be seen as a desirable destination in the future. Perhaps one that people are prepared to trade traditional benefits for. If we can attract better talent, more productive talent, even whole businesses, this must improve productivity. R&D and innovation will also be helped by imported talent with special skillsets, but we must ensure that this talent is focused on the economy of the future that we are trying to build.

Many of our essential workers have been migrants (eg: electricity and telephone linesmen, healthcare/aged care professionals, primary produce pickers). Inward migration is an essential part of our labour mix.

We need to be very careful that these essential workers don't leave before we then consider who's coming in. There's also a need to balance local unemployment with the need to address local skills deficits – based on the understanding that these roles are not roles that Kiwis have wanted to fill in recent years.

Supply-chain shifts

Large multi-nationals have realised the need to diversify and de-risk their global supply chains. Their reliance has been tested and they will need fundamental shifts to protect against further global crisis. This could present an opportunity for Aotearoa with our safe, clean and resilient brand and reputation.

Foreign direct investment

If New Zealand is successful at managing COVID-19, we will be seen as an attractive place for FDI. Microsoft's announcement about building a local data centre is a great example of this. Similarly, we are seeing an upswing in interest from foreign Private Equity funds looking at New Zealand as a safe haven for their capital. Our remoteness will be seen as a positive.

Our attractiveness as an English-speaking nation, with good levels of literacy and education, and strong connectivity, could position us well as an appealing destination for shared service models that have struggled under the COVID-19 crisis, along with other similar business models.

Education and training

Education will need to be transformed to adapt to shifts in the workplace. More focus will need to be given to vocational training, and not just in the traditional trades or qualifications. Skillsets will need to be built to meet the structure of the future economy. We need to reimagine, to open up technology qualifications to apprentices, place less reliance on traditional higher education systems and look to diversify through mechanisms such as professional apprenticeships that have been deployed in the UK.

Governments and educators will need to work with business to address skills gaps and shortages, while a connected ecosystem will need to be created to ensure the evolution of training is meeting the demands of employers and employees.

Technology must be front and centre of education at all levels in the future, economies will need more trained data scientists, IT technicians, technology specialists and engineers, amongst others.

Workforces of the future will demand more on-the-job training and development from their employers. The traditional learning and development frameworks will not be sufficient to keep up with the pace of change, or to allow organisations to continually adapt in a more agile world.

Job creation and talent reallocation

We need to understand more deeply the global trends around the future of work, high growth sectors of the future and well paid, high employment industries that leave us less exposed to the service sectors going forward. Hospitality and tourism globally will fundamentally change. We need to think hard about the reallocation of workers from these sectors, noting that tourism has the potential to come back stronger if we capitalise on New Zealand's safe, clean and green global positioning.

Entrepreneurialism and Innovation

Key to future economic success and future resilience will be how we incentivise risk and how we support budding entrepreneurs. New Zealand is full of them, but we have not been great in the past at incentivising them in the most effective ways. We need to look at areas such as Silicon Valley, London, New York and others to understand what incentives through tax, grants, infrastructure and other investments we need to make to drive future supercharged growth. Just as many other countries did post-GFC.

Assuming we are successful in our goal of eliminating COVID-19, we will be seen as a desirable and safe destination. This will put an additional premium on migrating to New Zealand, which should be used to ensure that we attract the best talent in the world.

Government and business

The global crisis response has been an unusual time for the relationship between government and business. We have already seen governments rightly interject directly into business with essential support packages and other stimulus that affects decision making inside businesses. Sooner or later, that short term stimulus has to run out, and businesses are already making medium and long term decisions based on their own assessment of the size and shape of their market and cost base post-stimulus.

When considering the longer term Reset of the New Zealand economy more collaboration and dialogue between government and business will be key. Both will need to work together in unison to design and influence what we want the future to look like, taking into account some of the big drivers that will underpin any future economy. Drivers such as climate change, sustainability, enhanced productivity, increased technology investment and stimulus of innovation, research and development and entrepreneurialism will be pivotal.

Both will need to understand the individual roles that they play in enabling and resetting the economic environment.

The opportunities to adapt our economy will mostly occur inside businesses. Government can provide the infrastructure and policies that enable change, but it is businesses themselves that must take responsibility to drive the change that is needed. Businesses must digitise to increase productivity, or lift their sights to higher value outputs, or attract new investment capital.

KEY ECONOMIC QUESTIONS WE NEED TO ASK:

What does the economy of the future need to look like?

What role does government and business play in building the Future economy? How do we encourage greater collaboration and planning between the two?

What incentives are available to us to drive innovation and entrepreneurialism?

The productivity gap: how do we harness technology to drive improvements in productivity?

What infrastructure investments best drive productivity improvements?

How do we diversify our export markets to de-risk our reliance on China.

What are the skills gaps we need to build for the future?

How do we de-risk our outbound supply chains by having more direct involvement in shipping and air freight capacity?

How do we match the labour gap between the under-resourced and over-resourced?

What government incentives do we need to drive entrepreneurialism and risk taking?

What sectors do we see as high growth and high employers of people?

What talent do we need to attract and train to drive future growth and productivity, and what do our associated immigration policies need to be?

What appetite do we have for FDI, at a time when our attractiveness has never been so high?

3 – TECHNOLOGY

COVID-19 has turbo-charged the adoption of technology across the globe. Industries that were traditionally slow to adapt have been thrust into having to move at pace, create agility within their organisations, reduce red tape, become less risk averse, and experiment with new technologies to innovate out of situations that they have found themselves in.

Remote service delivery is now a reality in many industries. The introduction of telemedicine has moved the health sector forward potentially up to ten years. Education systems similarly have had to adapt and demonstrate that the traditional learning models can be evolved. We have had to adopt digital ways of working as people have been forced to work from home, and we have had to find new ways and new channels to engage and interact with customers.

Technology has, and will, fundamentally transform the world as we know it, and the pace of that change will be the fastest we have ever seen. There is no playbook, but one thing is certain: organisations that underestimate the value of digital will ultimately die out.

Consumer technology adoption in New Zealand has been relatively high. As a nation, we are on the whole tech savvy, which is evidenced by the sheer volume of online retail sales placed with overseas retailers. Unfortunately, that can't be said for Kiwi organisations. We have been slow to invest and slow to meet consumer demands. Our productivity has suffered and is poor in comparison to our international peers.

To date, we have operated in a conservative environment, where risk taking has been something that we have been unwilling to do. We have had a herd mentality; with a few exceptions, we allow others to do it first and we follow. We have been able to accept this, partially because of our geographic location and the barriers to entry that creates such as lack of competition, and partially because of our population size and the challenge of scale.

We now have the opportunity to shift the digital agenda. Technology has to be part of the answer for the biggest questions we face today, such as population health, food insecurity, the welfare system, productivity and workforce allocation.

We need to become early adopters, innovators, entrepreneurs and intrapreneurs.

Digital talent

To do this we first need the right talent. We have the opportunity to reach out to the international markets and attract the world's best talent. Talent from technology hubs such as San Francisco, Silicon Valley, London, Frankfurt to name a few.

Fundamentally we also need to think about who we train and educate locally, all the way from schools through to continuing education in the existing workforce.

Traditional multi-year, linear education paths will fail the test of agility in our new environment. A model built on nimble micro-qualifications and continuous learning will prove more relevant and productive.

As organisations look to build more resilient operating models, and we generally look to limit human contact, the use of automation and robotics will dramatically increase, and consequently so will productivity.

Ecosystems and collaboration

The Technology sector has exploded in recent years, driven by entrepreneurial stimulus, enhanced collaboration between tech companies from large to small, and the reinventing of business models, side-stepping the need for capital intensive investment models. Ecosystems have developed allowing organisations to tap into technologies that would have historically been cost prohibitive, allowing IT developers to create scale and distribution. In South Korea during lockdown, 22,000 pharmacies created a collaboration site to monitor and share information about mask stocks. Platforms such as Amazon have used ecosystems to drive growth and increase range. Microsoft has developed its partner ecosystem that has created exponential growth across its business. Apple's App Store generated US$50bn in sales in 2019.

Going forward organisations will need to find new ways of operating. Joint ventures, collaborations and ecosystems will become the norm as organisations look to reduce capital expenditure and move to highly elastic variable cost models. We would expect XaaS ("Anything" as a Service) and other subscription model providers to benefit hugely from this going forward.

Automation and robotics

As organisations look to build more resilient operating models, and we generally look to limit human contact, the use of automation and robotics will dramatically increase, and consequently so will productivity. Automated shopping experiences such as Amazon Go, automated dark stores, automated warehouses, inventory management robots, automated bacteria detecting and cleaning robots, and automated vehicles, will become the future norms.

Automation will also come to our paddocks, fields and orchards with robotic platforms providing increasing alternatives to manual labour while simultaneously gathering crop and herd data to populate digital agriculture models.

This will have significant impacts for traditional workforces, especially in more manual focused employment. Human roles will always remain but they are likely to look very different and will require different skillsets in the future.

Artificial intelligence and big data

AI has played a vital role in the COVID-19 outbreak since day 1. AI startup Bluedot detected a cluster of unusual pneumonia cases in Wuhan in late December and accurately predicted where the virus might spread. AI tools have been developed to help front line health workers diagnose the virus. Alibaba created an AI diagnosis system they claim is 96% accurate and can diagnose in seconds. Google's DeepMind used its AI algorithms to understand the proteins that might make up the virus and has used its ecosystem to share the knowledge in the hope of advancing a cure.

From an organisational perspective the use of Big Data and AI will enable us to better understand our customers, our citizens and our employees, to allow us to create more personalised experiences, allow us to make more informed, predictive decisions and drive better outcomes for all, but we must maintain a focus on the elephant in the room, privacy.

Digital twins are accurate virtual models that will allow us to faithfully model a huge variety of real world artefacts from buildings to paddocks to roads. A digital twin provides a reference model to rapidly identify any anomalies in the real world, for example an unidentified infection in a herd or an individual animal. Equally a digital twin provides the ability to predict future behaviour, for instance the thermal performance of a building in the event of future climate change impacts.

Cloud adoption

Traditional on-premises technology solutions were already under threat of extinction before COVID-19, now we expect to see a significant ramp up of organisations looking to shift to cloud. Cloud offers more flexibility to a future agile, work-from-anywhere workforce.

It allows organisations to shift cost from longer term CAPEX to agile OPEX operating models, and allows for more collaboration and easier tailoring of solutions. In New Zealand we have been relatively slow in adopting new cloud technologies, due in part to challenges accessing overseas services but, as we have seen with Microsoft's recent announcement, to invest in permanent infrastructure locally, we are likely to see rapid growth here, as issues such as performance (latency) and data sovereignty are addressed.

Cashless money systems

Historically, in times of crisis, consumers hoarded cash. This time, however, the pandemic has accelerated the trend away from cash and towards digital transactions as we look to reduce physical interactions and infection vectors. It is already generating increased interest in digital currencies, with China said to be close to releasing a digital version of its currency. It sees a digitised currency as a way of increasing its global influence and reducing the dominance of the US dollar in global commerce and finance, a dominance that enables the US to exert geopolitical influence through the global financial system. The Bank of England Governor, Mark Carney, shocked many last year when he advocated development of a "multi-polar"digital currency to displace the US dollar as the world's reserve currency, arguing that there was growing asymmetry between the dominance of the dollar in the global financial system and the diminished US share of global economic activity.

In common with all fiat monetary systems, digital cashless currencies will rely on confidence and real-time performance. In a digital world with huge scale, platforms such as blockchain will support these requirements by providing non-repudiation assurance using techniques such as distributed ledgers.

Augmented reality

We have seen augmented and virtual reality technology allow consumers to interact and participate in a variety of arts and entertainment during lockdowns. Museums have created bespoke interactive, at home experiences, people have attended virtual concerts, 2.3 million participants joined an "online rave" night in Beijing. Job fairs and career expos have been created to meet the new surge in unemployment and employers have created innovative new ways of using VR to conduct job interviews and meet candidates "face to face".

Drones

We have seen drones deliver medical supplies, perform aerial surveillance during lockdowns and be used to perform remote maintenance checks on grounded aircraft. As drones become more powerful, longer ranged and better regulated, we are likely to see them perform more day to day tasks.

In combination with virtual reality, drones and other remote sensing platforms will enable remote service delivery across a wide range of industries, replacing or supplementing the need for onsite inspections, for example for adherence to building standards or condition reports for asset management purposes.

Blockchain

With the rise of digital currencies and increasing consumer focus on food, security, health and provenance, tracing solutions such as blockchain will grow rapidly. To date the business case to justify the investment has been weak, but as we see multiple organisations and countries look to adopt blockchain technologies, the cost structures will change, will become less prohibitive and there will be significant demand to scale.

It has been claimed that during the pandemic blockchain could be used to track the spread of the virus, standardise product requirements across geographies, facilitate financial payments, rapidly validate customs certifications to ensure that personal protective equipment was deployed quickly, and used to speed up claims processing in the US healthcare system to reduce the amount of physical interaction.

As economies recover, blockchain could provide consumers with the ultimate confidence in the provenance of their primary produce. The emphasis here will be less on the technology and more on the reliability and veracity of the data held in the produce's blockchain history.

3D printing

We have seen the use of 3D printing rapidly scale in recent months, particularly to meet the needs of healthcare systems, which had traditionally been slow to adopt the technology due to red tape and regulation. In New Zealand we have seen it used to create PPE shields and masks, while globally it has been used to create parts for ventilators at speed. We will see it used more widely in the future as retailers begin to harness the opportunity to produce in store and personalise and customise goods, as manufacturers look for ways to improve supply chain resilience and as health systems innovate.

Additive manufacturing has the potential to accelerate the pace of global supply chains with the transport of real physical components being replaced with the simple transmission of digital files. Intellectual property management will increasingly come to the fore in a world where anyone can print anything, assuming the design is available.

Ethics and privacy

The fundamental question that will come up time and again, is how will we regulate data in the future. How much is too much? What levels of privacy will citizens be willing to give up for safety or enhanced personalisation. These are fundamental questions that will need to be asked, debated and revisited as we continually move into a more technology, and data driven world.

As we increasingly come to rely on algorithms and machine learning approaches to make key decisions in our society, we must have confidence in the accuracy and equitability of those outcomes. Without the natural empathy of a person involved directly in a decision, how will we assure the appropriateness of the decisions taken on our behalf by algorithms, which may not even be able to articulate their reasoning in terms we are capable of understanding. New skills and roles will be required, AI psychologists may be a valid career path in the future.

Cyber security

The total volume of phishing emails and other security threats relating to COVID-19 now represents the largest coalescing of cyber attack types around a single theme ever. As we move into the future this risk will only increase as workforces become more fragmented, as we invest in new technologies and rely on robots to carry out tasks previously carried out by humans. Organisations, governments and individuals will need to plan, invest and educate themselves in order to limit the financial and physical disruption that can be caused by cyber crime. Smart cyber weapons such as AI generated deep fake videos and machine learning algorithms used to impersonate victims of fraud, will require tech-equivalent defences to fight back.

IOT

Smart homes, smart offices and voice assistants have all become popular in recent years as we have become time poor and look for convenience in our lives. COVID-19 has only amplified these trends as they remove the need for the physical. We can voice control lighting, so we don't touch the same light switches, we can use voice to change tv channels, we can use smartphone apps in hotel rooms to control curtains, television, air conditioning, order room service and limit human interactions. Adoptions and demand for these technologies will greatly increase as a result of the pandemic.

Equally our limited abilities to travel will require increased reliance on remote sensing platforms for everything from air quality to moisture content in soil. The move to real time sensing capabilities will need to be matched by real time decision-making capabilities akin to the automated trading we see across world financial markets.

The volumes of data acquired through these capabilities will increase exponentially and will outpace our ability to relocate the datasets in bulk. Rather we will see datasets be created and reside in single unmoving repositories and analytics tools brought close to them via tools hosted within the cloud.

Autonomous vehicles and smart transport systems

A technology driven future will lead to systemic changes in how we view and design future transport systems. Autonomous vehicles will play a significant part in that transformation and will potentially lead to fundamental shifts in traditional models such as car ownership, vehicle insurance and mobility as a service pricing structures. Public transport systems have the opportunity to optimise routes, reduce congestion and pivot to be more customer centric in the future. A step further into the future could see the growth in non-road autonomous vehicles such as autonomous, vertical take off vehicles designed to make short range journeys with multiple passengers.

Regulation is still in its infancy around the world, but the pace of change and innovation is fast in this space. Early adopters could potentially reap the benefits of reduced implementation costs to prove concepts as well as benefit from the productivity gains that such technology will bring with it. The question for New Zealand is whether we want to lead or follow.

KEY TECHNOLOGY QUESTIONS TO ASK:

What technologies are proven to drive productivity up, at pace?

What are the talent gaps that we need to fill, both immediate and future, that can be delivered through the education system?

What incentives are available to us to encourage technology innovation, R&D and entrepreneurialism?

How do we improve skills gaps at governance levels to better understand Technology decisions and requirements going forward?

How will we approach data privacy as a nation and as organisations?

How can we use technology to reallocate our workforce in the short term?

How can we use Big Data to drive better decision making in our organisation and in our societies?

How do we ensure that our organisations and government are protected from cyber crime in the future?

THE THREE MEs

KPMG

The three MEs

Just as it is important to understand some of the macro changes and horizon shifts, it is also important to think about how some of these changes will impact and change individuals' behaviors, their propensities to spend and how they will likely interact with organisations in the future.

Here we think about 'the three personas of me' – me the citizen, me the consumer and me the employee.

ME THE CITIZEN

ME THE CONSUMER

ME THE EMPLOYEE

ME THE CITIZEN

The digital divide has been accelerated: With 4.1 billion people or 53.6% of the world's population currently using the internet, the future citizen will be more connected than ever before. Some commentators argue that access to WIFI should be considered a basic human right. But post-COVID-19, the digital divide may become a chasm, a real challenge that governments across the world will have to confront and effectively deal with if its citizens are not to fall behind.

More generally, enabling technologies provide governments with a range of opportunities, such as integrating technology and data strategy to help all parts of the public sector. These include the ability to better serve citizens and agencies. This may include services through data sharing between organisations and allowing big data techniques to help improve decision-making.

Where markets fail to bridge the digital divide, governments need to continue to intervene by delivering broadband connectivity, governance, security and related tools and infrastructure

Government services will be integrated and data shared between departments: COVID-19 will force governments to review their delivery models and transform towards citizen-centric architectures. 'Citizen-centricity' is not a new concept. In the future however, a government's services may be highly (read near-perfectly) integrated. Data will be shared between agencies and systems while still upholding high standards of data privacy, with service to the citizen as its primary focus.

Paperless documentation and touchless processing will be the norm: For the citizen, the future will be more paperless and virtually 'touch free'. More than ever before, governments the world over will have to carefully consider the risk profile of each of its interactions with its citizens. Interfaces such as service desks and touch screen kiosks may soon be a thing of the past. And, for example, legal process and other administrative processes that require individuals to be present at a specified location will have to be de-risked.

Expect new approaches such as virtual courtrooms to become the norm. This creates the opportunity to reinvent (optimise) operating models and business rules.

The risk of future pandemics will expedite the move to near cashless societies.

Teleconferencing is here to stay: The bombing of Pan Am flight 103 over Lockerbie in Scotland in 1988 can be classified as a typical black swan event. In its aftermath the event led to the proliferation of video conferencing facilities across the USA and Europe. That was pre the internet era. COVID-19, another black swan, will be credited as the next big wave in the adoption of office productivity technology. In the future teleconferencing will be the norm rather than gathering around the board table.

Travellers will need to accept a higher level of scrutiny and tracking: Soon, people's experience with their own government when travelling may be very different. Building on existing systems and processes, governments may require its citizens to maintain an active register (e.g. through an app or website) of their whereabouts while travelling overseas. This may in some cases be a condition for travel (i.e. visas) or for travel insurance cover. People may have to trade off their personal safety against privacy considerations.

Remote education has received a massive boost in investment and acceptance: Expect remote learning models to become the norm, rather than the exception. Tertiary education is currently the fourth largest contributor to New Zealand's GDP, but this position is under threat unless the industry can move with agility to remote learning models.

The rise of digital and continuous democracy: In a post-COVID-19 world with its social distancing requirements, governments may want to rethink how they engage with their citizens when it conducting a census, or how they facilitate general or local elections. This creates an exciting opportunity for governments to innovate its machinery of government. Electronic voting holds the added promise of facilitating the concept of 'continuous democracy'. In the future, instead of voting for Councillors once in a three-year cycle, a local or regional council may ask its constituents to 'vote' on proposals and motions in real time.

ME THE CONSUMER

Reduced household income will force changes in spending: A reduction in real wages, household incomes due to recession and/or changes to taxation will affect personal balance sheets. Consumers will consume less but grocery will increase as people stay home.

Slow return to group events: There will be a long-term reluctance to go to busy places such as sporting events, concerts, nightclubs, restaurants and fairs. Sports bodies and concert venues will need to transform business models to take into account consumers shying away from large scale, densely populated events.

Brands built on integrity and trust will flourish: Consumer loyalty will be driven by brands that demonstrate the ability to help, do good and support. Consumer interactions and purchases will be far more considered. There will be more consumer scrutiny for businesses, more demand to see businesses supporting employees, communities, and dealing ethically with suppliers in addition to shareholder value, especially those that take government bailouts.

The great indoors: Consumers will shift from consumables to experiences and activities, hobbies and spending time with families and friends. Being in lockdown has created a mindset of needing to be more self-reliant and an increase of a 'grow your own at home'.

Acceleration of e-commerce: New methods of purchasing, in particular the short-term interest in online shopping and delivery to home may continue post-COVID, putting more pressure put on bricks-and-mortar operations.

Countryside experiences will be sought out: With a corresponding drop in urban activities.

Content is even more the king: Real time content and streaming will be the new norm. Consumers will want to consume content on demand leading to challenges for traditional media business models.

Increase in social media and personalisation of experiences: A convergence of physical and online to offer virtual experiences will be combined with a rise in blogging and influencers. This has had a profound consumer impact in China during the current crisis.

More births and more divorces: An extended period of lockdown has seen many consider their personal positions. Post-COVID, in a struggling economy, further soul searching may see additional consideration of people's personal circumstances.

Business travel will not return: Cost will no longer be the major question in relation to business travel. Health and safety concerns whilst travelling for business, and the increased use of technology is likely to see a marked reduction in business travel.

Rise in 'New Zealand Made': Less purchasing of imported goods and clear sentiment shift towards buying locally will drive up local support – but may reduce exports.

Staycations are cool again: Domestic tourism uptake requires a shift in product and service offering to a domestic-only customer base.

Data sharing and privacy: Consumers will be happier to share data as a trade-off for improved safety and health.

Increased demand for health services: Huge sentiment uptick to health and wellbeing will also drive expectations of government to improve and invest in healthcare.

Electric vehicle increase: Consumers will shift to electric vehicles at a faster pace. Ride sharing and mobility solutions will need to innovate to prove safety is a key focus.

Shifts to sustainable values: Rise in veganism and alternative diets, less international travel, increase in electric cars, walking and cycling.

Winners: Anything to do with home-based activities, convenience and health, grocery, sportswear, payments, broadband, 5G, utilities, software firms, IT hardware and home delivery.

Losers: Airlines, travel, luxury goods, fashion and beauty, foodservice, restaurants and hospitality, sports codes and non-digital entertainment.

Price and convenience: Will drive consumer behaviours. The ease of doing business and purchasing will be a key driver of customer loyalty in the future. Consumers will be more price sensitive and use multiple channels to source the best prices in the market.

ME THE EMPLOYEE

In the pages that follow we will discuss what these could look like in a post-COVID-19 world.

Health and safety: Employees will demand safety, they will demand that employers go above and beyond to demonstrate that employee's welfare comes first. We have seen loyalty tested through COVID-19 by organisations who have not had a focus on their people's health and wellbeing. With a more agile workforce working from a variety of locations employees will also look to employers to ensure that their occupational health is looked after.

Mental health and wellbeing: The legacy of COVID-19 is likely to leave significant mental health issues across our societies and the globe. As employees take a more flexible approach to work, mental health and wellbeing will be of paramount importance. Employers will have an obligation to support, identify and intervene where necessary to ensure employees mental wellbeing is considered and supported. This needs to be paramount across our organisations and at all levels within them. Kiwi organisations have been particularly poor at dealing with these issues in the past and we must address this as a matter of urgency.

Purpose and employees: Employees will be attracted to organisations that are aligned to their personal values and aspirations, or aligned to general social good. Employees who feel aligned to the purpose of an organisation will likely be more satisfied in their roles, less likely to demand the highest salaries and will remain fiercely loyal.

Sustainability and climate change: Organisations with clear strategies around carbon emissions reduction and sustainability will have a competitive advantage when they are looking for talent. This will be especially prevalent in younger generations from millennials down.

Agile working: Employees will demand that the flexible working that has been proven to work during the pandemic will continue where appropriate and become the norm. The ability to 'work from anywhere' will be high on individuals agendas and will have material impacts across societies and economies. Demand for office space could change significantly as a consequence.

Physical working environments: Employees in office environments will still want some form of physical interactions, whether to reconnect with colleagues, to socialise, to collaborate or because they fundamentally cannot work from home. Offices spaces will need to be redesigned to and reimagined to maximise the productivity of these interactions, to drive creativity and to allow for more intense social interaction.

Work-life balance: Employees who have spent time at home, with families and in their communities will look to improve the work/life balances of their employment. Employers will need to be more flexible around working hours where individuals may look to diversify away from the traditional 9-5 and look to build their days around times that fit into their lifestyles and commitments.

Benefits and perks: Above and beyond the traditional salary will become more prevalent. As employees become more cost conscious and more focused on health and wellbeing employment perks such as health insurance, gym memberships, lifestyle discounts, bicycle loans and general insurance discounts will be a way of employers differentiating themselves in the market to attract talent. Employers who do not offer incentive around these, especially health, will struggle to compete for top talent.

Skills and training: Workforces will change as we see the increase of automation. Employees will look to employers and governments to improve the range and focus of on the job training to diversify their skillsets and allow them to pivot into new roles that compliment new technologies and automation.

Elastic workforces: With shifts in power from employee to employer due to the oversupply of labor, and a continued focus on costs, employers are likely to look for more variable cost models in the workforce. We saw the rise of the Gig Economy post GFC and this is likely to be a trend going forward. Societal and legal implications will need to be considered as a result.

Diversity: Employees will continue to demand more diversity in the workforce and employers should actively encourage it. We will need to think more broadly about how we define diversity, but a modern workforce will need diversity of sex, ethnicity, cultures, ages, experiences and societal backgrounds. Traditional entry routes to certain professions will need to be examined and potentially changed to allow for more social mobility through the workforce. The UK has advocated the route of professional apprenticeships, which has seen less privileged employees gain degree level qualifications in the workplace in traditional white-collar careers such as accounting, law and engineering. The diversity of thought that these individuals have brought has been game changing for innovation and culture.

New income models: The traditional models will need to change to recognise workforce demands for greater flexibility, and to compliment the enhanced use of automation in the workforce.

Propensity to travel: We could see a shift in employees' preference to work from central business districts to working from more out of town locations. A reluctance to use public transport and pressures on income in the near term could see a reduction in employee's willingness to commute and travel. Employee's attitudes to business travel, especially overseas travel may be tested and may change. Employers will need to think through the health and safety implications of any overseas travel.

Demand for best in breed technology: Connectivity and technologies that enable seamless collaboration, increased productivity and speed will be seen as a requirement by employees. Employers who are able to provide it will be viewed as more desirable places to work, as well as organisations that enable remote working.

Leadership/culture and management: The traditional organisational structure, performance management frameworks and general managerial styles will all need to be reconsidered. Employees who are more agile and flexible may not be able to be measured in the same ways as they were previously. New managerial styles and organisational structures will emerge that will be less hierarchical and more agile to facilitate collaborative working. OrganIsational leaders will need to rethink how they engage with employees and how they create and communicate a sense of culture, purpose and vision within their organisation.

Seek new paths

THE FIVE MYs

KPMG

The five MYs

Consumers in a post-COVID-19 world will act with more purpose and be more considered about the things that they do, the things they buy and the experiences they engage in.

COVID-19 is forcing us to reassess how we interact with the world around us. In January, we attended sports events and walked into crowded retail stores without thinking twice. Now, interactions with others outside our 'bubble' are undertaken with increased caution and anxiety. We are advised to stand two metres apart and even wear masks in certain situations. Coughing or sneezing in public is enough to start a small panic for those nearby.

Fortunately, many of these new norms are likely to be behind us soon – after all, humans are innately social beings who struggle from prolonged periods of isolation. However, consumer values, behaviour and spending habits will not go back to how they were before COVID-19. They will continue to evolve as the world changes over the next 12-18 months and eventually settle into a state of 'new normal'.

Most businesses have seen significant supply and demand volatility and are in search of ways to sustainably recover revenue. In order to survive and thrive, businesses must re-examine their understanding of their customers demand to rediscover their organisation's sense of purpose and rapidly innovate. KPMG's Five Mys framework provides an evidence-based approach for organisations to assess customers.

MY WALLET

MY MOTIVATION

MY ATTENTION

MY CONNECTION

MY WATCH

The current and future adjustments people make to their share of wallet.

My wallet

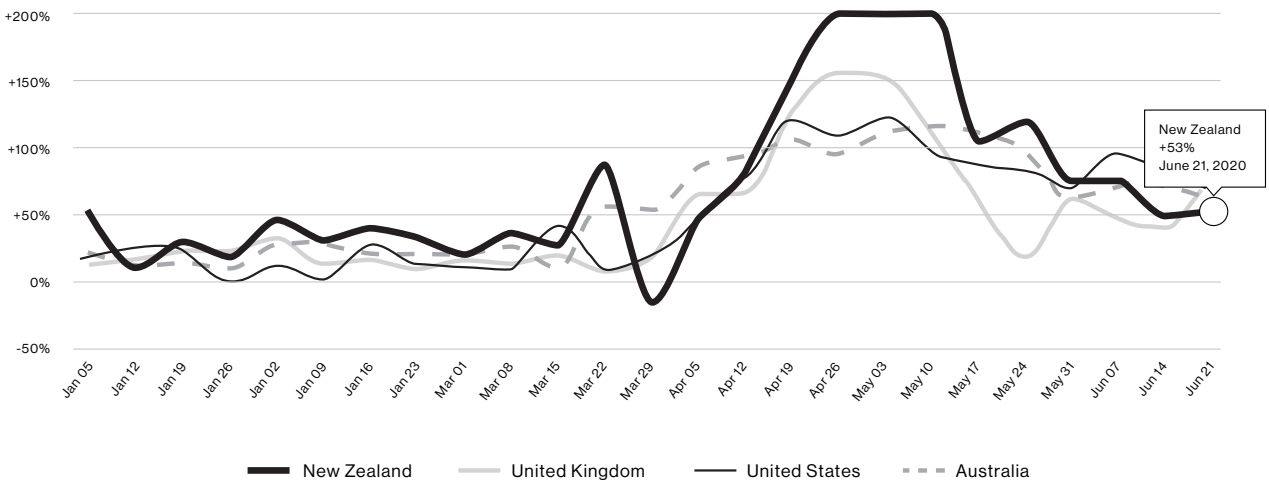
Essentials remain robust: As household budgets become tighter, following a decrease in income or continued uncertainty around job security, consumer spending will be pulled back and concentrated onto items, such as groceries, health products and other essential services. However, essential service spending is not free of competition as organisations such as local food suppliers quickly innovate and adapt their propositions and go-to-market strategies to meet new consumer needs.

Safety first: Spending will increase on safety and convenience. Some historical barriers to purchase, such as shipping costs, will be less of a concern as consumers prioritise safety and convenience. Similarly, those who have critical travel are likely to be open to paying more for security, comfort and peace of mind – not just for themselves, but also for those they are travelling to connect with (such as older family members).

Buying local: Around the world, COVID-19 has resulted in consumer preferences moving toward products and services that are locally produced. New Zealand is no exception, customers are already voting with their wallets in support of local products. In March 2020, we saw New Zealanders spend 24% more on online retail while international sites were down 18%[1]. April showed an even larger shift toward domestic products.

Dropping the discretionary: Conversely, discretionary budgets for items like travel and event-based entertainment will be redirected to new hobbies, such as home improvement, 'nesting' products (e.g. cooking) and 'staycation' or regional travel experiences.

[1]https://www.bnz.co.nz/assets/business-banking-help-support/online-retail-sales-index/pdfs/NZ-Online-Retail-Sales-in-March-2020-20200428.pdf? 24d522315cd686d3ccac4b22996a585bee4b554e



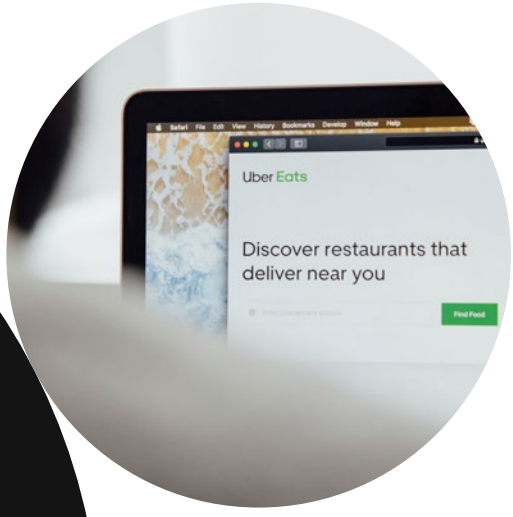
This chart illustrates the year-over-year trend of selected KPIs since January 2020 across key geographies and categories. Trends are calculated as follows: orders in the last 14 days divided by the orders in the same period last year. Source: https://ccinsight.org/trends-by-location/#countries-trends

The drivers of consumer motivations and expectation.

My motivation

Integrity and transparency: Trust, authenticity and social values remain critical motivators of the choices tomorrow's consumers make. There is likely to be more consumer scrutiny on businesses – more demand and interest in how they are supporting their employees, communities, and dealing ethically with suppliers – especially those that are forced to take government bailouts.

Look beyond your industry: It's important for businesses to remember that consumers no longer just compare a company to its closest competitors, but to whomever sets the standard. Information to prove authenticity and social values are aligned can't just be accessible – it must at our finger tips and personalised. We value peer reviews and social reference, and many people place more confidence in individual influencers than in companies and institutions.



CASE STUDY

Uber Eats

Celebrities and influencers actively shared images of themselves deleting the Uber Eats App off their phones as it become known the Uber Eats' commission model was taking a 30-35% cut from each order and taking revenue away from New Zealand businesses who are trying hard to recover. (In response, Uber Eats announced no service fees for restaurants on Pickup orders – until 30 June 2020.)

The Golden Rule for Integrity: Doing the right thing, preventing panic, ensuring the needs of the many are met, prioritising safety, protecting the vulnerable, being seen to act fairly and in all customers' best interests.

The competition for consumers' attention and focus.

My attention

The fight for consumer attention has never been more intense, exacerbated by unprecedented volumes of content at our fingertips. As our social media feeds are flooded with new online and direct-to-consumer players, businesses need to find a way to stand out.

Personalise your message: While patience and attention thresholds are falling, individuals continue to make time for the things that matter. Now is the time to personally engage your customers – either using data science or an old-fashioned human touch – to show that you value you them as a customer and understand their changing circumstances and resultant needs.

Empathise with customers to show that you care: At a time when all of us are worried for the safety of our loved ones and livelihoods, organisations that demonstrate empathy, put themselves in their customers' shoes and then adapt the way they do business are likely to ensure customer loyalty. Now is a time for all firms to show they care and reflect back to customers that they are changing their activities because of that understanding

Promote local: As noted in the My Wallet section, New Zealand consumers want to band together and support a sustainable New Zealand economy. Consumers are more likely to focus their attention on local brands which help fuels a local economic recovery (consumers also want to be seen helping, sharing their local purchases via social media).

CASE STUDY

Applying evidence-based biases from behavioural economics

Previous downturns have favoured low-cost offers. But the value equation may be more nuanced this time as people consider longevity and reliability requirements to be more important than price. Loss aversion may also be behind the current social media trends of people considering the value of 'buy [New Zealand]' not just as a matter of patriotism but of survival.

Source: https://www.bandt.com.au/why-this-downturn-is-different-and-how-behavioural-science-can-help-us-understand-how/

Collin Jowell, KPMG
Brand & Marketing Director

CASE STUDY

Hilton hotels

With workers staying at home and businesses forced to close, tens of millions of jobs around the world have already been lost. During this time, as well as focusing on their customers, companies must also show they understand the needs and concerns of their colleagues. The Hilton hotel group, for example, is partnering with companies such as Walgreens and Lidl to connect employees from temporarily closed hotels with hundreds of thousands of short-term jobs created by the pandemic.

Our global research shows that investing in personalised customer relationships in times of difficulty will be repaid by enduring customer loyalty. Firms that maintain their ethics during periods of catastrophe grow and prosper.

— KPMG Global

The (rapidly accelerating) adoption of technology to connect with the world around us.

My connection

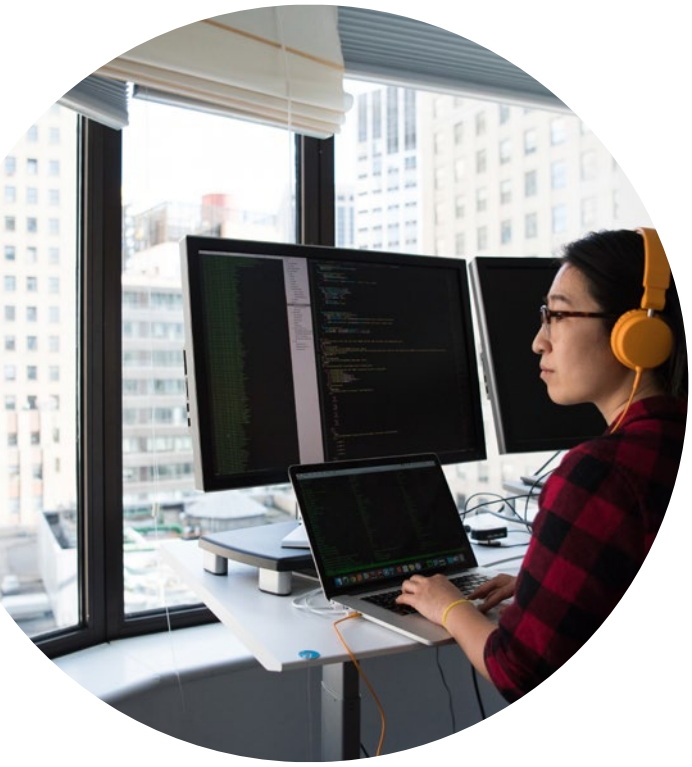
Digital adoption is accelerating faster than ever before: As the COVID-19 crisis restricted us to our homes, New Zealanders across all demographic types rapidly became more likely to use, and be comfortable using, digital channels. More and more businesses are finding unique ways to respond by connecting with us online, with new digital solutions and innovative direct-to-consumer offers.

Though we overlooked complexities of online browsing for essential services in Alert Level Four, and the clumsiness of new retailers going online in Alert Level Three, businesses then needed to step up the quality of their online storefronts, purchasing, delivery and return processes if they wanted customers to keep returning.

Personalise and predict with customer data and insights: Businesses also need to work even harder to extract customer data from a multitude of mediums and meaningfully apply insights to personalise experiences, provide winning service and distinctive experiences. In difficult times, organisations falling short of delivering winning and personalised experiences typically see margin erosion five times greater than that of their top-performing peers*.

Source: KPMG NZ 2019 Customer Experience Excellence Report

*Source: Analysis from KPMG New Zealand's multi-year customer experience excellence research.



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The constraints of time and how that shifts in a COVID-19 world.

My watch

Too much time and too little: Over lockdown, many consumers felt they have less time than before as they juggled the demands of childcare and full-time jobs. However, many consumers also had a surplus of time, due to no longer having a commute or not being able to work at all. For some, the change was for the better and working from home has become the new normal.

The companies that identify which consumer segments have time surpluses and deficits – and when these periods occur throughout their day – are best placed to meet their needs head on.

Where possible, make it easy and reduce time commitments for customers: With a reduced desire for consumers to head to crowed shopping destinations, online retail options and delivery expectations increase dramatically. In response, we're already seeing leading companies prioritise triage and rapid responsiveness to both meet customer needs and to manage the firm's reputation. Online providers, for example, have focused their warehouses on priority items only.

CASE STUDY

Saving consumers time and effort

New Zealand: Supermarkets were forced to bring in new measures not only to help keep shoppers and staff safe, but also to minimise time and effort on the part of the customer. For example, New World created 'New World Essential Boxes' where customers can go online and choose from five pre-packaged boxes to get essential food and household items delivered directly to their door. This express shopping experience saves customers time and hassle.

China: In China, Keenon Robotics is using meal-delivery robots to reach people in hospitals and quarantine zones in more than 40 cities, minimising the effort for people in difficult circumstances.

US: With people spending more time working from home, firms in the US are responding by removing paywalls and increasing access to communication products. Providers of collaboration tools and video conferencing have announced enhanced services and free access for a period of time.

FADES FRAMEWORK

KPMG

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:

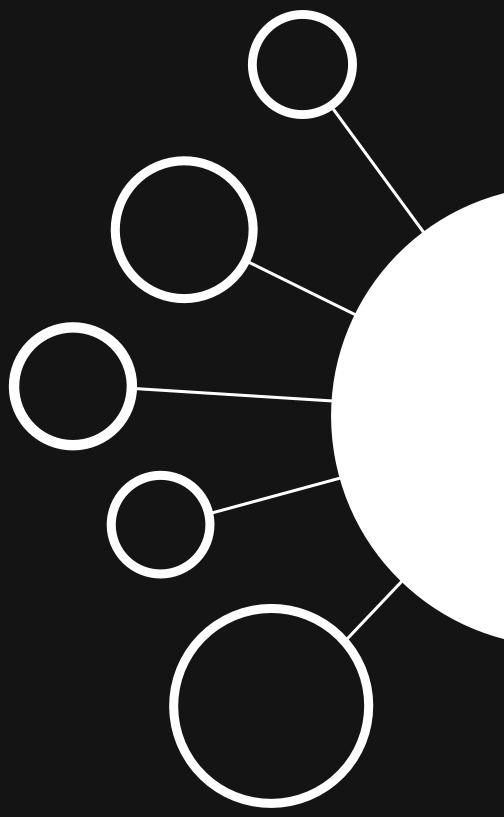
FINANCIAL MANAGEMENT

AGILE STRATEGY & OPERATING MODELS

DIGITAL FUTURE

ELASTIC WORKFORCE

SUSTAINABILITY



FINANCIAL MANAGEMENT

F

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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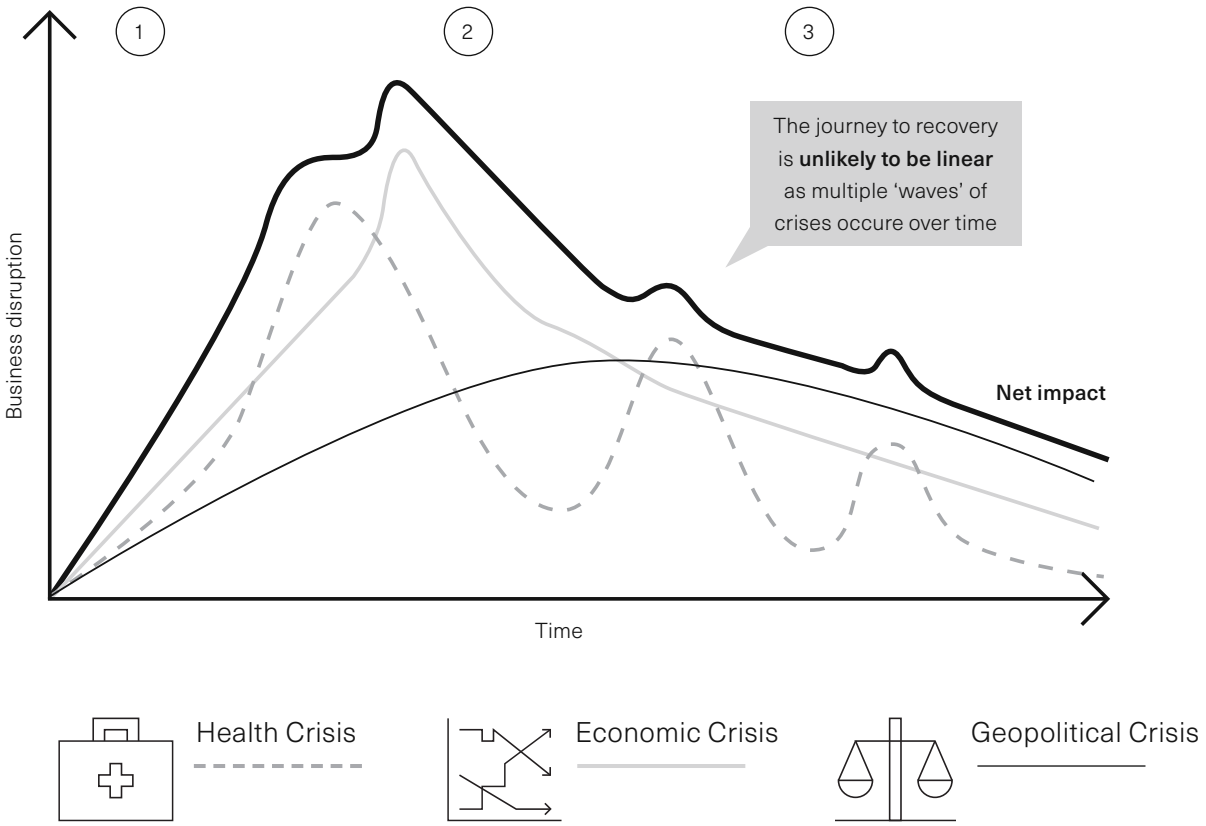
AGILE STRATEGIC PLANNING

A

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.

Insight	Deep dives			Action
Rapid Diagnostic (48 hrs)	Accelerated Strategic Ambition	Strategic Cost Out	Workforce Planning	Transition Roadmap (2-6 weeks)
	War-Gaming & Simulation	Business Scenario Planning	Rapid Business Model Design	

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.

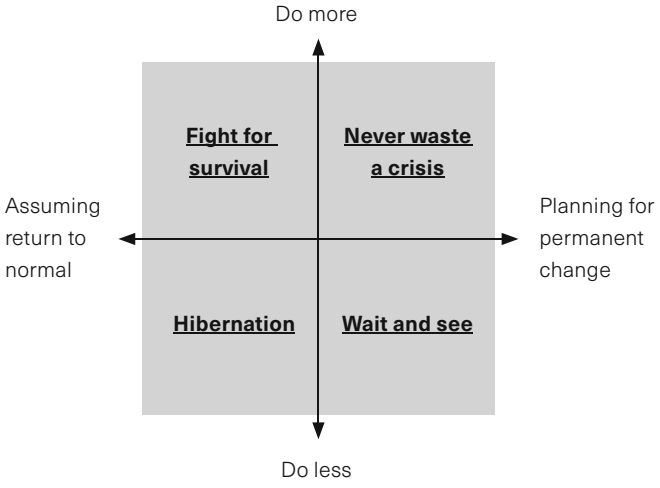
Accelerated strategic ambition

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).

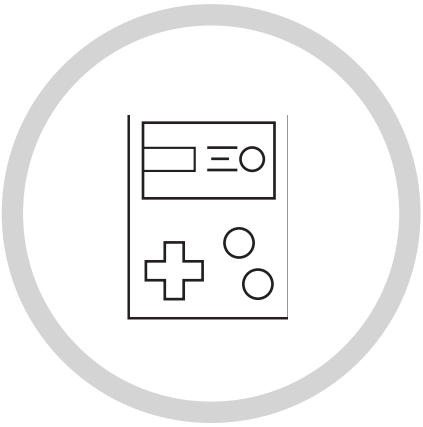
War-gaming and simulation

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.



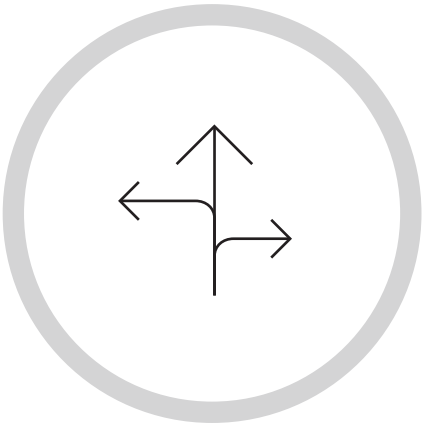
Business scenario planning

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.



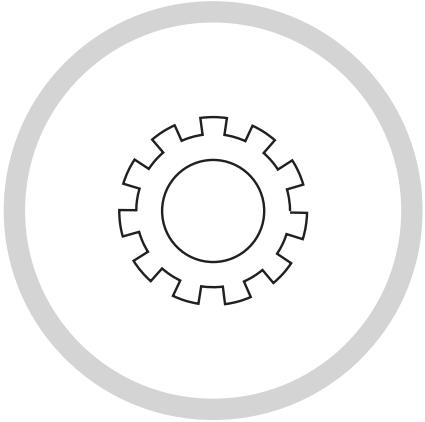
Rapid business model design

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.



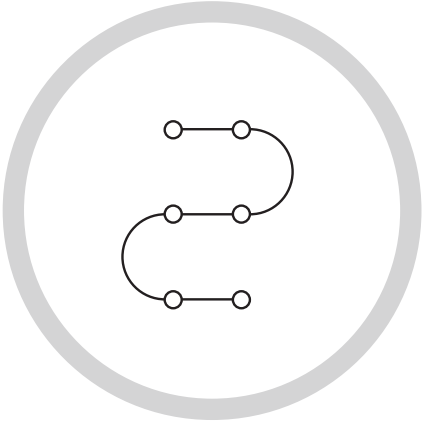
Transition roadmap (2-6 weeks)

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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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 he 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?

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."

[1]The 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'. [2]World 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.

[3] www.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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SECTORS

- Education
- Financial services
- Food and agriculture
- Health
- Human services
- Infrastructure and construction
- Local government
- Logistics
- Māori
- Retail and consumer
- Small to medium enterprises
- Utilities

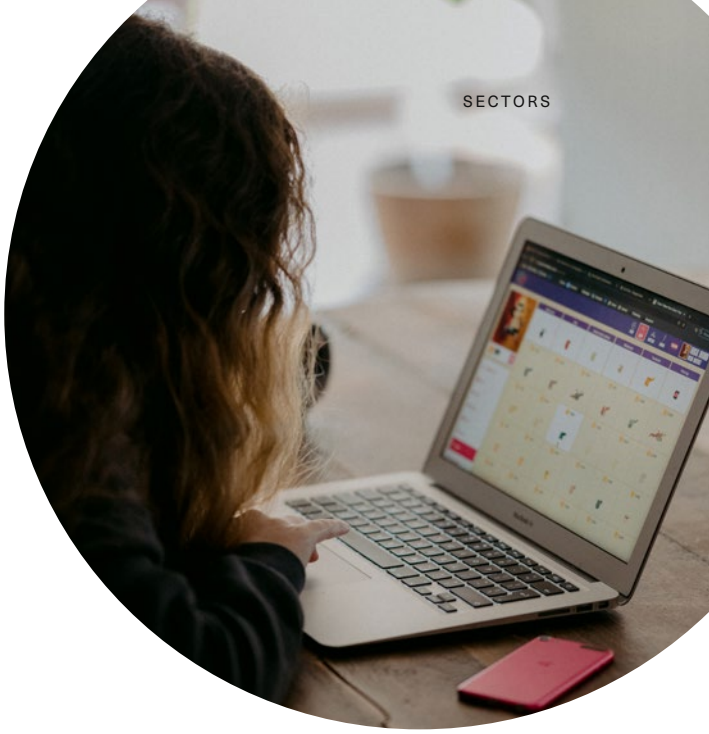
Sectors

Education

KPMG

International students

Current COVID-19 policy prevents the arrival of international students, representing significant loss of revenue for the universities and general flow on effects of international students to the economy. As border restrictions ease and we move out of the COVID-19 crisis, universities need to ensure they are still attractive relative to their domestic and international (Australia, Canada, USA and UK) competitors. Universities need to leverage New Zealand's sound management of COVID-19 in differentiating themselves from their competitors.



Some of the key issues are:

Delivery model: Social distancing protocols have accelerated a pivot to online learning models. It remains to be seen if this delivery mode aligns with students' expectations and meets future workforce requirements.

Funding uncertainty: Uncertain future funding due to reduced revenue from international students, shifts to servicing local student populations, the upcoming election and potential changes in fiscal policy.

Primary and Secondary schools' reform: Tomorrow's Schools' Review is the largest overhaul of the education system in a generation and aims to review the governance, administration and management to ensure it meets the needs for all learners.

Changing student needs: Education providers need to better understand the student journey and improve the experience from application through to alumni, in a rapidly changing environment. Additional support may need to be given to on-the job learners due to financial impacts of COVID-19 and adjustment of training content and delivery to reflect changing needs of industry.

Market consolidation: Consolidation of Polytechnics and Industry Training Organisations under the Reform of Vocational Education and potential for reduced number of operators in the market. Smaller, private institutions, with a high reliance on revenue from international students are at the greatest risk of insolvency despite recent positive student projections. In the case of insolvency, plans need to be in place for students to cross-credit to other institutions.

Future thinking

The opportunities, ideas and discussions we need to have about the education sector include:

Connected education: Use of an insight driven approach to a student-centric university-wide digital transformation, across front, back and middle-offices

Future role of providers: Stabilising and redefining the future role of universities in the post-COVID-19 world. Universities will need to determine their future role as education providers or business ventures, and the role of international students in their vision.

Policy refocus: The education system is on the brink of a significant overhaul, with several reform projects underway. The Tomorrow's Schools' Review, Reform of Vocational Education and the future of NCEA are a once in a generation opportunity to future proof the education system.

Retraining: An immediate and major priority for government will be the retraining of those made unemployed as a result of the COVID-19 crisis.

Asset and Portfolio Management: Optimising and repurposing the use of existing infrastructure and assessment of future need. How can universities leverage extensive property portfolios in the post-COVID-19 world?

Operating model: With rising costs, funding uncertainty and increased competition, universities need to simplify and improve the efficiency of their operating model, through staged roll out of automation and deployment of technological solutions. These can assist with consolidation of back office staff and shift to an increasingly digital operating model.

Customer: Students perceive themselves as consumers, which requires universities to adopt a more customer-centric focus. Education providers need to ensure they are delivering programmes that meet the demands of the customers and industry in the new world.

Opportunity to embrace digital: Once in a generation opportunity to transform attitudes on online learning, particularly in the university sector. The education delivery model needs to be reassessed to determine whether large lecture halls are needed in the future. If the future is online, universities need to identify the necessary IT infrastructure and security measures.

FADES analysis

Financial management:

- Reduce cost
- Maintain liquidity
- Financial stress testing
- Optimise revenue streams and cutting less profitable services
- Portfolio management and project reprioritisation.

Agile:

- Rapid assessment of productivity levers
- Review of portfolio and organisational priorities
- Education providers will need to build resilience into their domestic student base.

Digital future:

- Digital delivery of education provides an opportunity to transform institutions to make them more transparent – digital delivery would allow for increased oversight, improving measurability and accountability across the sector
- Pivot to digital delivery
- Build efficiency and resilience into operating model with technology solutions
- Embrace technology as cost out lever
- Robust cyber security and risk management.

Elastic workforce:

- Shift in workforce composition towards shorter term contracts and gig economy
- Increased emphasis on diversity, especially across academic staff as problems become more complex to solve
- More flexible contract arrangements.

Sustainability:

- Aligning with student needs
- Investing in a sustainable future
- Applying a sustainability lens to future decision making.

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Sectors

Financial services

KPMG

New Zealand banks entered the crisis in a strong position both financially and socially. Lessons learnt and changes following the Global Financial Crisis meant that banks are well-capitalised and prepared to weather this storm. The Government has encouraged banks to use their capital buffers for lending to businesses and households to help them manage through this crisis, and the banks have given repeated public assurances that they are prepared to do this.

It is clear that banks, and the financial services sector generally, are going be key to New Zealand's economic recovery and will be relied upon heavily by businesses, the public and Government in ensuring confidence is maintained in the New Zealand banking system.

Banks are finding themselves at the forefront of supporting customers through COVID-19 by delivering government initiatives of financial relief for consumers and SMEs, including payment holidays and interest-only mortgages and the business finance guarantee scheme.

By the first week in April, one million people were being supported by the government wage subsidy. At the beginning of May, over 100,000 people had requested a deferral or reduction of their mortgage rate.

This brings some key practical challenges for the banks as they balance supporting their customers with a sustainable business model. Front line staff need to show empathy and compassion for customers while also dealing with some seismic shifts to their BAU operating model. This emerging trend is something the industry will be facing for years to come.

People

Financial services were largely deemed to be essential so were able to continue operating even during full lockdown. However, there were fundamental changes to how business was done. Branches were shut and the vast majority of staff were required to work from home. This caused initial challenges due to available bandwidth and hardware, as well as working through compliance requirements and data privacy aspects.

Then came the influx of customer queries about mortgage deferrals and potential financial hardship. While the initial flood of enquiries has passed, we expect the number of customers dealing with financial hardship and insurance claims as a result of the crisis to continue so organisations may need additional resource for these frontline roles. There may be opportunity to collaborate with industries with high levels of customer service agents who have been negatively impacted by the crisis and forced to reduce their headcount to transition people from one to the other, travel to banking for example.

Digital is not optional

The shifts required to operate in a lockdown situation saw the speeding up of digital adoption both internally and externally. In one institution an internal instant messaging platform that had been debated for 18 months was rapidly rolled out. Online collaboration tools with virtual whiteboards were used to design product and process enhancements. Customers have been encouraged towards self-service online apps.

As people become more comfortable conducting their basic banking digitally, this will increase the willingness to consider more complex transactions such as mortgages or investment planning online. Branch networks have been redesigned over the years as visitors decline, this will continue to evolve as organisations consider the role of branches in servicing their customers and the communities they are part of.

Banks have been trying to move customers away from traditional channels and on to digital platforms for a while now and the economic crisis caused by COVID-19 has been a catalyst for rapid digitisation. This was also seen in China as a consequence of the SARS outbreak in 2003 when many were reluctant to leave their houses and preferred to interact and purchase online.

Regulation

One of the first things the financial services regulators did was remove pressure on the banks and insurance companies by granting additional time to meet regulatory milestones. This was certainly not intended as a demonstration that regulation was any less important, simply an understanding that the internal resources were needed elsewhere as the sector struggled to adapt to the constantly evolving situation.

The regulatory requirements that were put in place following the GFC have certainly enabled banks to be in a much stronger position to cope with an economic crisis, and demonstrates the need for similar measures around capital requirements and stress testing to continue for the entire sector.

Political

The Government sees the financial services organisations as pivotal to New Zealand's economic response and recovery at this time of crisis. The banks have been working closely and collaboratively with the Government, regulators and each other to take a unified position.

The Reserve Bank and the Financial Markets Authority granted the banks additional time to meet milestones within the ongoing regulatory programmes of work to reduce some of the pressure put on the workforce dealing with increased customer demand at a time they were also dealing with a significant shift to their working environment and norms.

We expect to see increased regulation and political oversight given higher debt levels held by businesses and consumers. There are high expectations of how distressed customers are treated. Financial services organisations are going to need to have clear strategies to manage their interaction with Government and be ready to defend their positions and decisions taken.

While the banking sector is currently familiar with this level of regulation and oversight, it will increasingly apply across the sector.

Economic

While the banks are in a strong financial position compared to most other industries, there are serious challenges they will have to face into in the future.

Although banks are required to undergo regular and extensive stress-testing, this is not the case across the whole financial services sector. The insurance sector is under increased pressure to demonstrate levels of capitalisation and the ability to deal with the impact of adverse events.

However, this economic crisis is like nothing seen before and the Expected Credit Loss (ECL) impacts are expected to be significant, particularly across some of the worst affected industries like tourism, hospitality and retail. The existing models are inappropriate and unreliable in dealing with this situation as they draw on pre-COVID-19 data and assumptions that are not as relevant in the current reality and therefore need to be continually reviewed and adjusted.

The Official Cash Rate (OCR) is currently at 0.25% and will remain there until at least March 2021. This is expected to cause immense pressure on banks' margins and ability to remain profitable.

Economic downturns usually increase bank deposits as customers shy away from investments that are perceived as more risky. Banks have not cut their retail term deposit rates as hard as the Reserve Bank has cut the OCR as they protect their stable retail funding base. We expect to continue to see good levels of bank deposits, however the current low interest rate environment means there is strong pressure on margins and banks may need to look for alternative sources of revenue.

Social

The New Zealand banks are in an enviable position with regard to the trust and respect that Kiwis place in them. The Colmar Brunton Corporate Reputation Index 2020 places two of the major banks in the top 20 most reputable New Zealand corporates. Banks do not appear in equivalent indices in Australia, the US or UK.

This position demonstrates the need to balance power with responsibility. The financial services sector is expected by Government and citizens to 'do the right thing'. The focus on conduct and culture across the financial services sector is even more important when businesses are being judged on their response to the COVID-19 crisis.

In times of financial stress it is imperative that customers understand the financial options available to them and the implications. Early enquiries to the banks following the Government's announcement of a package to include a mortgage holiday for personal and SME customers whose incomes had been affected by the crisis showed a lack of understanding with many customers thinking the Government was going to pay their mortgage for them.

While the deadlines to comply with CCCFA and FSLAA requirements have been extended, the focus on conduct and good customer outcomes has not diminished.

Does the financial services sector need to collectively tackle the low levels of savings, high levels of household debt and lack of retirement planning that are common in New Zealand? While many organisations have education programmes as part of their CSR programme, the enquiries fielded when KiwiSaver balances started to fluctuate demonstrates that many customers are potentially in the wrong fund for their risk appetite.

Research published last year forecast that New Zealanders would save -1.23% of their disposal income. New Zealanders are among the world's worst savers, ranking 26th out of 29 countries based on data from the OECD, and this was before the impact of an economic crisis hit. How do we encourage more New Zealanders to have the traditional three months' worth of salary saved as a financial cushion? This crisis has demonstrated the need for people to invest time and energy in financial planning for their future.

Technology

There has naturally been an increase in the uptake of digital technology following this period of lockdown. With much less opportunity and desirability to conduct business face to face there has been an emphasis on contactless transactions. When bank branches were only open for short periods of time, customers were being strongly encouraged to use online or phone channels. Organisations that have invested in their automated and self-service digital capability have been reaping the benefits of being able to handle customer queries.

Internally, staff working remotely has highlighted where inefficiencies or gaps exist in processes and rely on manual steps thereby slowing down response times. Requests that normally involve the customer completing and signing a hard copy of a document were reimagined to reflect the impracticalities of this process during higher alert levels. Teams have been working on creating forms that can be completed and submitted online, but there is also work needed to ensure the completed form is then available to the right team in a way that can be processed.

Business continuity plans in most financial services organisations did not anticipate the whole workforce working remotely at the same time. Some organisations initially struggled with having enough bandwidth available and needed to prioritise access to frontline staff during the normal working day, leaving other employees needing to work outside of their normal hours.

As customers become more comfortable with transacting online, there is an opportunity to utilise technology in more complex transactions such as mortgages, investments and insurance planning. Simple shifts include using video-conferencing to replace face to face meetings. Dealing with 'robo-advice' models which replace advisors' judgment with automated low-fee investment platforms offering asset allocation and portfolio rebalancing could be more attractive to customers as their digital maturity increases.

Relying on technology rather than face to face transactions will mean adapting processes for identity verification and signature confirmation that will not jeopardise Anti-Money Laundering or Countering Financing of Terrorism legislative requirements. Online only banks in the UK for example, ask for a video of the person next to their photo ID to confirm identity. Any changes to normal practices of what and how verification is accepted, and within what timeframes are needed, will have to meet the regulatory requirements. Appropriate controls need to be put in place to ensure this.

Legal

As in the rest of the world, financial services regulation is only going to increase.

Despite the additional time granted by the Reserve Bank and Financial Markets Authority to financial services organisations to comply with existing regulatory programmes, this is not an indication that it is less important. In fact, the reporting required by the regulators demonstrates that it is more critical when dealing with financially distressed customers to maintain high standards of conduct.

Organisations need to consider how to maintain compliance and controls while people are working remotely. Monitoring and oversight activities may have been suspended whilst in crisis mode, but it is critical to ensure that impact of this is understood and mitigated. A review of how these activities are completed may be necessary to accommodate the different working environment that embraces a hybrid model of remote and office-based working.

While banks are currently working towards complying with regulation to ensure certainty of being able to operate without reliance on off-shore systems or resources, all financial services organisations have seen the challenges involved in off-shoring critical functions and the impacts of this during a crisis situation.

Environmental

The economic crisis caused by COVID-19 has reinforced the need for financial services organisations to be good corporate citizens. The importance of 'doing the right thing' is critical to the role that these organisations are playing both in the current situation and being part of the economic recovery. Organisations are being judged by stakeholders on how they are behaving through this crisis.

The banks in particular are being relied on by the Government to take a lead, and with great power comes great responsibility.

All this leads to increased scrutiny by stakeholders. There will be increased pressure to respond to the shift in stakeholder values, concerns and expectations by demonstrating social purpose, not just talking about it.

As large employers, the banks in particular are aware of their responsibility to their workforce and connected eco-systems. This crisis has created vulnerable staff as well as vulnerable customers, and there are plenty of opportunities for financial services organisations to have a positive social impact. While inclusion and diversity initiatives may seem like a 'nice to have', at the moment actually having empathy for and understanding of other people's circumstances is more important than ever.

The lockdowns around the world due to COVID-19 have clearly demonstrated the impact we are having on our environment and how quickly it can recover when there are less cars on the road, factories working and aircraft flying.

Financial services organisations are not alone in needing to take responsibility for investigating where changes can be made to continue with some of these positive changes. More remote working means less people needing to commute to and from work as well as potentially a smaller property footprint. The broader use of video-conferencing will result in less travel. These are all potential cost savings, as well as having a positive impact on the environment.

FADES analysis

Financial: banks in New Zealand have strong balance sheets and significant liquidity buffers as a result of changes made following the GFC. This has been repeatedly stated by the Reserve Bank as well as the individual banks.

However, the impact of increased credit impairments and margin pressure will mean that banks and other financial service organisations will need to consider how they can save costs and generate revenue in this current low interest rate environment.

Financial services organisations should seek to understand where there are potential cost savings to be made. The changes brought about from the COVID-19 crisis will have shown up where expenditure is not as necessary as previously thought. Travel costs will have been greatly reduced as people become more competent and comfortable attending business meeting via video-conferencing, rather than insisting being physically present. The size of physical real estate could be reduced now the ability to work remotely has been thoroughly tested.

One major bank CEO trimmed the number of ongoing projects from 467 to 20 following a review. By focusing the right resources on a reduced number of projects the likelihood of positive outcomes is greatly enhanced.

Increasing or adding fees to financial services products would need to be easily justifiable in relation to the cost of actually providing the product or service, as there is increasing scrutiny on fair charges from both regulators and customers.

Therefore, other opportunities to introduce new revenue streams such as data monetisation and partnerships to provide with customers with services they would be prepared to pay for could be an attractive proposition.

In the UK, some banks offer current accounts which have a monthly fee that entitles the customer to 'perks' such as travel insurance, vouchers for retail and hospitality outlets or cashback.

Strategy and operational models: there has been a seismic shift in the way that financial services workforces are currently working. Remote working has been possible in most organisations for some people, some of the time but recent events have demonstrated that more roles can be done remotely than previously thought and accelerated the time needed to adapt.

There were initial challenges with connectivity, hardware and people adjusting to the new situation and organisations have been responding and evolving as the situation unfolds. Banks established HR teams specifically to understand the challenges and help their people adjust to working remotely, conscious that it is easier for some than others both practically and psychologically.

As the number of customer queries flowed, there was an 'all hands-on deck' mentality as people were drafted from one part of the organisation to another. As the demand is becoming more manageable, thoughts are turning to how to best use the skills and capacity within the organisation.

Some are creating workforce registers of skills and capabilities to enable quick transfer of people between roles, moving to where the demand is. Banking advisors have been answering customer queries on the phone rather than in person and tellers have been drafted in to help with enquiries through social media.

This is possible during the crisis mode but in the long-term, people may not be as willing to be redeployed.

It has become clear that people would like to retain the ability to work remotely more frequently, even now we are able to return to the offices and branches, leading one global banking CEO to reflect that big offices may be a thing of the past. Any reduction of real estate will necessitate a level of 'hot-desking' and activity-based working to maximise the space available. Hygiene and sanitation will become paramount as staff seek reassurance against potential cross-contamination, ideal in normal times but critical in a pandemic. Buildings will require more cleaning staff and clear, thorough processes, possibly with a visible sign or 'seal' on desks to confirm that the cleaning has been completed.

Digital: the current economic crisis has quickly brought a change in customer behaviour and requirements, particularly with regard to uptake of digital transactions and solutions.

Financial services organisations need to remain vigilant as COVID-19 related scams have already been targeting customers through phishing and fraudulent investment offers that relate to COVID-19 products or offer 'safe-haven investments' during turbulent times.

During times of hardship, credit and loan applications will increase where fraudsters will use false information to take advantage of increases volumes. Remote working also opens up more opportunities for circumventing usual procedures and potential internal fraud. Banks need to review their procedures and controls to ensure that they have adequate resourcing of these areas to prevent the unprecedented environment being taken advantage of.

The control models also need to account for the changes in consumer behaviour during lockdown. The strong preference for contactless payment methods has seen a huge decrease in cash usage. People who previously rarely used their credit card may have significantly increased their transactions as they shop online. Businesses that continue to transact in cash may indicate money laundering or tax fraud.

The accepted wisdom pre-COVID-19 was that use of cash is reducing, but figures from the Reserve Bank shows that actually the amount of cash in circulation was up by $1b at the end of March 2020 compared to March 2019. A large portion of this was a result of demand in the days leading up to the COVID-19 lockdown and the Reserve Bank expects this to return to normal levels as the pandemic eases. With the strong preference for contactless payments at this time and the demonstration of a strong banking system, this 'run on the banks' seems to be over.

Contactless payments have fast become essential for businesses to operate in an environment considered to be safe. In person, this relies on PayWave which previously has a limit of $80 per transaction. This has been increased to $200 to enable a larger proportion of sales to be accepted without the need for customers to touch a keypad.

PayWave has previously been seen as prohibitive by many small businesses such as dairies and cafes, however all the major banks have supported these businesses by reducing or waving these fees during the crisis. This pricing model may need to be viewed as part of a wider business support package going forward.

Elastic workforce: the rapid adoption of remote working has shifted both the mindset and logistical considerations that has prevented many organisations who were reluctant to embrace flexible ways of working.

This is not unique to the financial services sector, although there are obviously specific considerations to be made concerning compliance requirements.

Financial services organisations have prioritised looking after the health, safety and wellbeing of their workforce. With the boundaries between work and life blurring, the need for empathy and understanding is crucial. While physically more distant from each other during the lockdown period, colleagues found themselves closer together as they were invited in on video calls to each other's homes, meeting children, partners and pets. Bank bosses were doing internal and external video messaging and interviews from sofas and kitchen tables.

This willingness to show vulnerability is reflected in the strong leadership being shown at this time. However, there needs to be a recognition that not everyone is comfortable or in a position to share. The blurring of backgrounds or not turning cameras on in video calls needs to be seen as a valid option.

Productivity is also not a challenge faced only by the financial service sector and they have seen demand spike in some areas while fall away in others. The banks have not needed to adjust remuneration for staff and have continued to pay normal level salaries regardless of whether someone is able to continue their role as productively as they were pre-COVID-19, whether this is connected with childcare challenges or other factors.

Many financial services organisations had technical vacancies that they struggled to fill pre-COVID-19 but now have no access to skilled migrants as the borders are likely to remain closed for some time. Looking at ways to upskill current employees to develop required capabilities is now even more critical, although does not solve the short-term problem.

Sustainability: Sustainable lending and investing are critical to the performance of financial services organisations.

With numbers of distressed customers rising, it is important to ensure lending criteria has been reviewed to accommodate the evolving situation. Customer survival and the need to drive the economy have to be balanced with the need to consider responsible lending, and a standard approach may not be appropriate in the current environment. Models and lending algorithms will need to be adjusted to reflect the impact of the new reality while maintaining a long-term horizon view.

With the market volatility impacting returns, members of KiwiSaver have become more aware of their investment. For many, this is their only exposure to the stock market, and they are unused to seeing their investment reduce. Providers should take the opportunity of greater customer engagement to assess their customers financial goals and risk profiles to correctly align their customers with their products.

There has been a move toward more ethical and socially responsible investing in recent times with fund managers such as Blackrock warning companies they will need to demonstrate sustainability through commitments to diversity, inclusion and climate change in order to retain investment funds from them. Several large fund managers provide ethical or sustainability focused portfolios and there is evidence that these funds have outperformed the general market through the volatility caused by COVID-19.

Retail investors are also becoming increasingly aware of the ability to make a difference through their choices and there will continue to be pressure for organisations to be more transparent and phase out investments in companies that are not aligned to these values, or at least offering the option of a fund based on ethical investing.

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Sectors

Food and agriculture

KPMG

New Zealand is being recognised internationally for the way the virus has been managed and the outcomes that have been achieved, which is reinforcing the global perception that we are a safe country. We have always been a high integrity producer and the response to the virus has seen organisations focus on doing the right thing, recognising that you can survive a drop in productivity but tend not to survive a drop in integrity.

New Zealand can position itself as the trusted supplier of safe, sustainable food, however this requires rapid investment in the technology solutions that provide consumers with necessary visibility over the provenance and traceability of the product.

In a world where change at historically unprecedented rates had become a way of life and organisations have built capability to handle continuous change, the last few months has seen businesses making major, and at times existential, decisions on a daily basis.

Decision making has had to be instinctive, reactionary; and there has been little hard data to rely on. However, as conditions stabilise the time to move forward and start thinking more about how to navigate the 'now normal' is here.

The sector has been privileged to trade through the lockdown as an essential industry. Food and fibre is the only sector positioned to lead our national economic recovery, meaning the need to step into this next phase of the crisis and the commitment needed in responding to the 'now normal' will not just determine organisations' futures and that of the sector but will play a big part in shaping the length and depth of the recession that New Zealand experiences.

History will record that this crisis came from a food safety failing

Conspiracy theories offer a variety of explanations for the pandemic. In its simplest form, most are likely to consider that the pandemic came from a food safety failing which will undoubtedly result in consumers placing greater focus on trusted, traceable and safe food when making purchasing decisions.

The pandemic has highlighted the risks of globalisation

Governments around the world initially responded to the pandemic by imposing controls at their borders to limit the flow of citizens, visitors and the virus entering the country. These restrictions impacted cross-border activity and clearly highlighted countries who rely on global sourcing for essential products including food, medical supplies and, most notably, personal protective equipment. The limitations of globalisation have been brought into focus and we are now observing incentives being offered by governments to accelerate onshoring of critical industries.

Industries that depend on migrant labour will need alternatives

There had been a stigma attached to a career in food production and processing; jobs were seen as being low skilled, low paid and done by those who have less employment options. While such perceptions are far from the truth, it had made it difficult for organisations to recruit the labour force they need. If borders are to remain closed for the foreseeable future and travel is less free and significantly more expensive it will mean transitory labour will not be available to organisations, requiring them to rethink resourcing strategies. It is an opportunity to accelerate robotic and mechanised solutions to off-set the 5-50% drop in productivity industries experienced with social distancing measures being put in place, and the labour challenges which now exist.

The awareness of food and its importance in our lives is greater today than it has been in decades

The last few months have seen hundreds of millions of people forced to make radical changes to their daily lives in response to the invisible threat of COVID-19. Governments around the world have taken away individual freedoms by closing borders and restricting travel, banning events, requiring business closures and locking people down in their homes to break the transmission of the virus.

By taking away work, travel, friends, sport, social lives, school and everything else that keeps our day to day lives full has left us to focus on the few things that remain available to us; our closest family, our homes, our health and the food we eat.

Food that had always been available on demand was suddenly not, and the threat of going hungry became real for many people for the first time in their lives. It emphasised the role food plays in maintaining and enhancing our health. The complexity of food chains has been revealed as it became difficult, and in some cases impossible, to move products globally in ways that we are used to.

It means we are now required to ask what attributes are important and of value to consumers having experienced what they have experienced? Is it trusted and assured production systems, is it surety of supply, is it a more primary format of a product than what was considered 'premium' prior to COVID-19, or an emphasis of the nutritional value or health benefits?

Recovery will come from putting the consumer at the centre of the 'now normal' future

By putting your consumer at the centre of planning and making the effort to understand how they are interpreting what has happened and what their 'now normal' looks like accelerates the rate of recovery. It is essential that the consumer is at the centre of planning, making the effort to understand how they are interpreting what has happened around them over the last few weeks and what their 'now normal' looks like. Understanding what has happened to their jobs and income, how they feel about safety of the community they live and operate in gives guidance to new needs and the creation of new products and services. While much has changed, the necessity to put their needs at the centre of your business is one thing that remains absolutely consistent with years gone by.

One of the challenges in this situation is that we can't tie our current circumstances back to any relevant historical data points. It is critical we look at the environment around us with eyes that challenge what they are seeing rather than taking things at face value and tying them to pre-existing conventional wisdom. While experience is a strength, this is also a significant drawback as it conditions how we see the world around us us. Given the disruption and the fact no one has worked through a similar period in history, there is no better time to draw on diverse opinions and break our educated incapacity. It is time to engage with young people in your business and use their talents, and ensure you engage with people that bring diverse opinions to the table due to their backgrounds, training and experience so that you are exposing yourself to a range of perspectives on what the future could look like.

Food security becomes a high priority for all governments

Outside of OECD countries, food has always been a priority for governments as their ability to secure enough affordable food is often the difference between maintaining order and ultimately power. It is apparent there has been a lack of access to adequate nutrition for some social groups, predominately due to cost, reality is that in recent decades food supply has been secure and resilient for the majority of the population. This reduced the priority governments placed on developing national food strategies to ensure a secure food supply for the population. In recent weeks, challenges associated with maintaining a secure food supply have come into focus. People across the world have been unable to access affordable food, faced significant nutritional insecurity for the first time in their lives, and at minimum, doubled demands on social agencies and foodbanks. The limiting of social interaction highlighted the many ways people access food, specifically the significant volumes of food that are accessed outside of the mainstream supermarkets.

It is unlikely governments will be willing to be as laissez-faire in respect of food security as countries emerge from the pandemic leaving the door open to re-evaluate our value-proposition as a net exporter. It is important to understand how this has affected our export markets, to be able to decide what new operating models we would like to negotiate and execute on.

Social isolation has accelerated the uptake of digital solutions

The imposition of social isolation has seen an explosion in consumers using digital channels to source food. Many consumers chose to use these services for the first time, to avoid queueing or for their personal safety. Many retailers lacked the capacity to meet the demand for click and collect and delivery services, with waits of three weeks or more not being uncommon, resulting in rapid moves to expand these services. It has created an opportunity for food producers to connect directly with consumers for the first time, many introduced new digital B2C channels or scaled up an existing service in response to this unprecedented demand. The many food businesses supplying food through minimum viable digital services that enabled them to continue to operate through lockdown, now need to refine this if the shift to digital becomes permanent for many consumers.

Food availability will no longer be taken for granted

The availability of food in developed countries has largely been taken for granted since World War II. The need to queue to get into a supermarket, only to face empty shelves and shortages of staples has undermined this belief. Add to this the inability during lockdown to go out for dinner at a restaurant or grab something quickly from a takeaway has meant that people are appreciating food more than they have done in decades. The lockdown contributed to a dramatic rebalancing of food spending, as families self-cater three meals a day, seven days a week. In 2015, for the first time in history, more food was consumed outside the home than prepared at home however this has reversed spectacularly in the first quarter of 2020. It's is unlikely that food consumed outside the home will recover to pre-crisis volumes soon, suggesting there are likely to be changes in how food is designed into our lifestyles in the coming months.

Consumers seek products that build immunity and support health

The importance of our health has never been in such sharp focus and consequently it is not surprising that consumers are thinking more about the foods they eat and the impact these have on their long-term health and wellness. Product attributes guiding consumer decisions has been highlighted regularly in recent years. It is apparent consumers are prioritising diet and lifestyle choices that will boost immunity and minimise the risk of them and their families being infected by the virus. Consumers, particularly in Asian countries, recognise the connection between the food they eat and their health outcomes for millennia and have long been discerning consumers when it comes to the health attributes of a product. Connecting a food product to a health benefit in a scientifically valid way, particularly one that enhances immunity to viruses, we expect will become a significant value driver in the coming months.

Activist campaigns and the global food system in recent years, opportunity for a reset

Today, people recognise the fundamental role food plays in society, however recent years global food systems have been the target of more activist campaigns than any sector except petrochemicals. Challenges have covered everything from animal welfare to the use of genetic technologies, the impact of agriculture on developing communities through to its impact on the climate, land and water. While the world has consistently demanded more food, the expectation has been that this will be produced in ways that are more ethical, sustainable and safe.

These challenges gain momentum when there are no concerns about food availability. Wider recognition that food supplies are not as secure as they have appeared and that food choices and production systems that impact health outcomes, has seen farmers, growers and fishers repositioned from exploiters of natural resources to essential workers.

This presents an opportunity for the food industry to reshape the narrative surrounding the food supply, whether people still recognise this next year or in a decade depends on how the industry globally explains itself to the world in the coming weeks and months.

Regaining confidence in the safety of the environment will take time

The spread of the pandemic has been accompanied by governments informing citizens about the risks inherent in everyday environments and the comparative safety of home. Food courts, street markets, bars and restaurants have been closed because they are vectors for the transmission of the virus. Having been confined to our homes for everything but essential activities, it will take many people significant time to rediscover the confidence to move freely within and interact comfortably with wider society as the risk associated with the virus dissipates.

COVID-19 is in some respect an unusually virulent disease, however it is by no means the only transmittable disease that exists within our environment, raising questions as to whether some of our day to day practices will ever be socially acceptable again in a world that it is more aware of its health than ever.

The economic impacts of the COVID-19 downturn will be long lasting

While the (very) early economic indicators suggest the economic fallout from locking down the world are unlikely to rival the great depression in terms of damage there are few other positives to draw from a sea of red indicators. It is clear that many countries are facing significant increases in unemployment, large reductions in GDP, higher government debt, a return to quantitative easing and reduced export receipts. The extent of the economic damage will depend on how quickly society controls the virus, the longer a treatment protocol takes, the greater the risk of second and third disease peaks. If a vaccine or antiviral treatment is identified quickly the likelihood is the world will experience a deep 'V' recession but return to growth within the year.

We know this will be a bigger shock to the economy that the global financial crisis, so having spent much of the last decade recovering from the GFC it is important we take the learnings from that experience on board and action them.

It is critical at a time like this, countries, be it their governments or businesses consider all levers they have at their disposal to counter the effects on their economies. It means using levers that are not often thought of or considered, such as subtle national currency strategies to support exports, or repurposing existing agencies to fill expected contraction in services such as credit insurance. Could the NZECO be streamlined to ensure exports are unconstrained?

It could be shadowing between industries such as digital and primary exports to transfer of knowledge and experience, or co-opetition models, even in fiercely competitive industries to solve critical challenges that are impossible to solve independently but critical to survival. It has the potential enhance New Zealand's perceptions globally, demonstrating consistency and integrity as a country.

When looking back, it was those that were bold in refocusing their business and prepared to continue to invest in income creation that recovered fastest and took advantage of the opportunities major disruption inevitably creates.

The agenda for immediate action

Having moved past the initial shock of the lockdown and the significant changes that have reshaped daily lives, strategy needs to be reviewed considering the 'now normal' to grasp the opportunities that disruption offers. Organisations that got ahead of change rather than being led by it came out of the GFC faster and stronger. Now is the time to radically accelerate plans that enhance your position while being prepared to cancel projects that have become irrelevant.

It is important to recognise that the change we have experienced is so extensive that plans that had been discarded as impractical or impossible may now be achievable.

Now is the time for organisations to be bold in the investment decisions they choose to make.

This initial analysis of change across the agri-food system and what it may signal for the future suggests an agenda for immediate action:

1. Rethink how international trade is executed to ensure that it is inclusive and focused on providing food resilience and security so that communities do not believe that protectionism is the only appropriate course of action.
2. Explore opportunities to work collaboratively with other organisations to present new product options to consumers around the world.
3. Review product innovation strategies to meet the needs of consumers that are likely to have less money available to spend, spending less time on the go and more time working from home.

4. Participate in partnerships of government, community and commercial organisations in an attempt to minimise the percentage of the population that become long term food insecure as a result of the pandemic, as the first step towards the development of a national food strategy that provides all New Zealanders with a secure supply of nutritious food.

5. Assess the approach used to analyse risk facing an organisation considering the pandemic, with a view to utilising more advanced dynamic risk assessment models that identify the interconnectedness of individual risks rather than considering each in isolation.

6. Recognise the digital channel has become a primary front door to a business as a result of the pandemic and ensure that processes are designed, and resources allocated to present a digital consumer experience that delivers on an existing brand promise.

7. Analyse every step of a customer's experience with a business through a COVID-19 health and safety lens and where necessary implement new processes, products and services to ensure every customer feels confident and safe engaging with the business into the future.

8. Implement or enhance systems that connect with consumers and provide them with the trusted information that they want to know is available on the provenance and safety of the products they are considering buying.

9. Plan labour requirements for next season now, assessing what can be automated in the short to medium term while building alliances with other organisations across the sector or government agencies to implement schemes to attract and train the people required.

10. Provide exporters with the equipment and insurance to sell and export with confidence, by introducing schemes to secure container availability and provision of government backed export credit arrangements.

11. Accelerate work to verify the health claims associated with the food products that we produce with a particular focus on claims connected with enhancing an individual's immunity system.

12. Prioritise recovery initiatives that are able to be delivered in a way that improves an organisation's GHG emissions profile, so progress is made in an affordable way, towards zero carbon aspirations.

13. Support the deployment of government economic stimulus into infrastructure and projects that strengthen the food and fibre sector's long term economic and environmental resilience.

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Sectors

Health

KPMG

The success of New Zealand's COVID-19 response has been the envy of many globally. This crisis has repositioned the role of the health sector as vital to the economic rebuild of New Zealand. With very few deaths and a go hard and go early strategy that resulted in the meeting the goals of the lockdown period to 'stamp it out and keep it out'. This has not come without substantial economic impact which will be continue for some time, with the risk of further waves once the borders are open. But through our collective actions, and a sustained COVID-19 response, we have saved lives in New Zealand and we can back to rebuilding the economy ahead of many other countries.

Current position

Despite the successes in our health response in New Zealand, COVID-19 has highlighted areas where there were pre-existing challenges that will not go away. Interim solutions have been found to overcome the immediate issues.

Multifactorial issues combined to hamper the ability of the Ministry of Health to be agile in what was already a very challenging time. This involved mobilising at pace an overly complex and fragmented health sector with an under resourced public health infrastructure, disparate systems and a complex stewardship and system leader role with the sector.

The Health and Disability Review published recently raised a number of these issues with recommendations for action. A lot will depend upon the appetite for change and the pace at which the Government will want to move. Whatever is decided, a longer term focus is required to plan and build our future health system in NZ to better meet our future needs.

Significant COVID-19 health impacts as electives and other services had to be paused

A significant COVID-19 impact is that whilst the response had been a priority, other health services have been paused, elective surgeries have been deferred, people may have deferred going to their GP, the Ministry of Health and other government agencies have paused projects and business as usual had largely stopped during lockdown. This has impacted on wait times, undiagnosed health problems and there's a pile of already pressing work waiting to be done.

Budget 2020 provided catch-up funding for an extra 153,000 procedures. This is a huge challenge to catch up in an already stretched system. A lot of creativity is required to manage this capacity and potential unmet need.

Future health sector reform

The long-awaited Heather Simpson report on the Health and Disability Sector has been published following a delay whilst the COVID-19 response was dealt with as a priority, but the challenges don't go away. There is an overly fragmented and complex system that isn't set up to optimally meet the needs of New Zealand with a population of five million.

A structural change won't happen overnight and will be very disruptive to the system. Key to the success of the system change with be putting the patient at the centre of change. Simply changing the structure again won't lead to the improvements in health outcomes needed for citizens. Key recommendations include consolidation of DHBs, a new Māori Health entity, a new national health entity to oversee national operational delivery and a streamlined Ministry of Health focused on Health Strategy, policy and population health. Additional pathways to primary and community health care are recommended to help increase the scope and access to primary health services so that services are provider closer to home and not in a hospital setting, where possible.

The Health and Disability Review provided recommendations and opportunities for change but was not overly ambitious or visionary and did not consider the whole system holistically by excluding key components such as the private sector which has a large part to play and partners at all levels from telehealth, primary and hospital care levels.

What we will hopefully see will be an accelerated move to a single electronic health record system, a shared financial and procurement system and a closely defined leadership role for the Ministry of Health. Value for money opportunities to help alleviate cost pressures, consistency of health care quality to address the postcode lottery and greater collaboration across the DHBs will be key benefits to achieve better and more equitable health outcomes as the end game, regardless of the structure put in place.

Future opportunities

Budget 2020 was sympathetic to the healthcare investment needs including those highlighted by the COVID-19 response. The key areas are:

Health Infrastructure: To kick start the economy, there is investment in Health and Hospital infrastructure and upgrade with a redesign to meet future needs. The new Health Infrastructure Unit is leading this supported by local consultation and DHB involvement to meet their population needs. Collaboration across agencies, the private sector and with other jurisdictions will be key to optimising design considerations and to consider designing the hospitals of the future, not for now.

Mental health and addiction: There's still a lot of work to do to address the recommendations of the Mental Health Inquiry. The set-up of the Mental Health Commission will help to hold the Ministry to account. A lot of funding has been allocated and needs to spent to deliver defined outcomes which is a huge delivery challenge.

FADES analysis

This is a great opportunity to start on the journey of refusal to return and to reset the health sector for the future.

Digital enablement of the future models of care: Gains has been made in weeks that would under normal circumstances have taken years. There has been excellent progress made along the journey to digital enablement of future models of care, especially in primary care consults and expansion of telehealth to name but two. Let's not lose that momentum gained. More private sector collaboration maybe needed to fill the gap with new and emerging players in the market.

A major overhaul of the existing contracting models for health providers will also be needed to encourage continuance of digital enablement and recent innovations to uplift performance and better meet the needs of the New Zealand population with equitable outcomes to reach those in greatest need.

Cancer screening and care: Keeping up with the increasing cancer care needs of New Zealand is a challenge for the health sector. The newly formed Cancer Control Agency to develop the cancer care plan and the recently completed bowel cancer screening programme roll out is evidence that New Zealand is working hard on this challenge. This is a step in the right direction, as screening participation rates and health outcomes vary greatly amongst ethnic groups and performance against the cancer care plan will need greater transparency to compete for the many demands of the health dollar.

Preventative health care: At the heart of the health sector strategy is enabling good self-care of our health, to keep us well and for early intervention to avoid the need for expensive hospital treatment for long term and preventable health conditions such as type 2 diabetes and obesity, which are still increasing. There are exponential uses of wearables and technology within our reach. Access to your vital health information, connected to your health practitioner using a single electronic health record for diagnosis, accessible by all our health providers is utopia. Connectivity, privacy and access to medical records are roadblocks to be overcome, but are surmountable with collaboration and investment.

Workforce of the future: The aging population is of significant concern to the health sector. Healthy aging continues to be a significant focus and good self-care is key to that. The health workforce is aging too and we need young people to train to succeed the aging health workforce. This was a pre-COVID-19 challenge and is only exacerbated by the closed border situation and the lack of international students. Better self-care to reduce hospital level care needed, the use of technology and different models of care to create efficiencies may be part of the answer as will extending the scope of what can be performed in the primary sector will part of the ongoing work programme.

Heightened focus on immunisation: National immunisation programmes will have greater focus such that once available, the COVID-19 vaccine can be administered to those in greatest need as quickly as possible so we keep safe and our borders can open. The sector will need to be geared up for that to be prioritised and to happen at pace. Elasticity of the workforce to perform this will be a key factor to meet the surge in demand. Key risks are the vulnerability of the supply chain and reliance New Zealand has on the cooperation of other countries to be able to source adequate vaccines at a palatable price.

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Sectors

Human services

KPMG

There has been a significant financial stimulus (~$10B) administered by the sector in the form of the wage subsidy scheme, which is supporting 1.6 million New Zealanders to remain in work over a 12 week period. There are outstanding questions around whether the wage subsidy scheme is the most effective method to help New Zealanders through the COVID-19 crisis, including the auditability of the scheme, if it targeted the correct areas, businesses, and employees, and how fraud is/will be managed.

Unemployment is rising, with New Zealanders on the job seekers' benefit rising by around 30,000 people since March, and is forecast by Treasury to continue to rise. There is a lack of data around what industries and people this is affecting (age, gender, industry, ethnicity, type of work etc.) resulting in an inability to make informed decisions on effective initiatives to support the affected people. The Ministry of Social Development have set up some programmes, including Keep New Zealand Working.

There is increasing pressure on areas of the sector already under stress, including social housing (reductions in average income of housing tenants), food grants (increased by 45,000 after a week of lockdown), and the mental health line (calls to Need to Talk 1737 up 40%).

The impacts of COVID-19 will be felt disproportionately across the country with some regions/areas being significantly adversely affected (e.g. Queenstown). This will result in increased demand for services in these areas.

The impacts of COVID-19 may affect those who have previously not needed to access the social services for support (e.g. pilots), meaning the demographic the sector is serving may be quite different to the historic demographics and may have different needs.

There is a currently unknown effect on family violence in New Zealand. The UK is showing a sharp rise, and while there is no data available, New Zealand may predict a similar increase.

FADES analysis

- Financial – where do you invest to best support the economy, and the New Zealanders who need support?
- Digital – changing the ways of working for the Ministry of Social Development. Call centres are overloaded, there is an opportunity to support case workers to be effective when working from home. With an estimated 300,000 additional benefit applications, the Ministry will be looking at how they could cope with the demand by using automated decision making (which would require new legislation).
- Workforce – how do you upskill the workforce to adapt to the new 'normal'? How do you scale organisations to support the demand from the sector over the next few years?
- Audit, Assurance, Fraud – how do you audit all of it to be able to target investment in the right areas.
- Integrated Services – how do you have clear pathways for vulnerable citizens to receive the support they need post-COVID-19, e.g: health, housing, financial and basis needs of food and shelter.
- Increased demand – how does an already struggling system deal with the increased demand due to increased unemployment and vulnerability?
- The engagement, contracting and commissioning strategies and practices for receiving support from NGOs are not fit for purpose with increased demand and the financial burden on those organisations.

Key questions for social services

- How can we ensure financial support is targeted at those who need it most, and where it will make the biggest impact? How should we be targeting specific regions and sectors?
- How will we fund the programmes/schemes that have been implemented and the future demand for social services?
- How can the sector link with the health sector to provide support around mental health and wellbeing?
- How do we re-open the borders in a safe way, but that stimulates the economy?
- What are the sector's options to help to support New Zealanders – work portals to connect employers with those who need it the most, student loan support (i.e. increasing repayment threshold)?

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Sectors

Infrastructure and construction

KPMG

With over $18bn of identified investment in the May 2020 budget, infrastructure is a key part of the Government's response to support New Zealand's economic recovery from COVID-19. A key success factor in the recovery will be the ability to mobilise a range of projects quickly and effectively throughout New Zealand. It is crucial that the sector identifies, prioritises and delivers this infrastructure to enable the services to be provided such as transport, health, education, water, housing and provides wider social and economic outcomes. This can be achieved by adopting a strategic master planning approach to built infrastructure, integrated service design, employment opportunities and providing strong communication to the market of the project pipeline to build sector resilience and confidence.

Through the different COVID-19 response levels we have seen the huge impact on the economy, social and behavioral norms. The infrastructure and construction sector faces a new reality of:

- Changing public transport patterns.
- Heightened health and safety protocols on site.
- Rapid mobilisation of capital projects.
- Focus on the financial sustainability of the construction companies.
- Significant impacts on the private project pipeline.

The impact is amplified across these interconnected systems of critical infrastructure services and has needed a systems-based approach across sectors to identify the interconnected risks/ impacts and to collaborate on where to prioritise efforts to keep the system moving.

The Government is continuing to drive the investment in new infrastructure to stimulate the economy as typically $1 spent in infrastructure is a $4 multiplier in the economy. The Crown Infrastructure Partners 'Shovel Ready' Programme is targeted to help the sector recover and the overwhelming response for funding has opened the floodgates. The challenge will be in managing the expectations of organisations whose projects do no make the final list and how will they navigate alternative funding.

The pipeline for private projects has already seen a significant decline, particularly for significantly impacted sectors such as retail, hospitality, tourism (hotels), airports/ airlines and commercial property. The impact of this is not likely to be seen in Q3 and Q4 of 2020; activity will continue in the short-term as existing projects are completed following the lifting of lockdown levels. The industrial market has historically been a safer and lower risk investment for assets mangers and therefore investment might retreat into this class, and could result in a steady pipeline, particularly in the agricultural/ food sector.

New Zealand's Construction Sector Accord has played a critical role in the sector response. The cross-sector Steering Group and transformation planning allowed the sector to respond effectively to the issues arising from the lockdown. The measures included:

- The release of procurement guidance for government agencies.
- Interpretation of contract clauses.
- Construction standards for health & safety in different lockdown levels.
- Guidance on new delivery models.
- Early release of retentions on government contracts; and
- Consideration of mechanisms to mitigate the risks and associated additional costs of delayed remobilisation to assist with contractor cash flow.

Imagine what would have happened if the Accord had not been developed in the last two years? Even with the considerable benefits brought by the Accord, the COVID-19 disruption means the construction sector may now be facing mounting pressures in terms of financial sustainability due to temporary project hibernation, alternative health and safety working practices, delayed cash flow for COVID-19-related variation claims, and potentially closed international boarders that will impact the supply chain and the workforce.

For standard construction contracts, contractors should be entitled for variations for time and time-related costs, but the timing of negotiation and payment of these claim is uncertain and may impact contractor and subcontractor cashflow. In some cases, sub-contractors may not have terms in place which protect them; this is an even greater risk for those businesses that are less mature in terms of financial stability as they face significant strain on cash flow and a very real threat to their continued existence.

Contractors with either a balanced portfolio of government and private work or largely government work (particularly in the sectors above) will have less exposure to risk in the pipeline. They will also benefit from some of the initiatives taken by the Construction Sector Accord below.

What does this mean in practical terms once we move past the immediate crisis and financial resilience response? We expect to see a change in market dynamics, resulting in a shifting risk profile and the cost of delivery through factors including:

a. Overall capacity and resources in the construction and consultancy sectors will be constrained, Demand is likely to exceed supply.

b. Resources and capacity to undertake extensive pre-bid work at risk and incur associated bid costs further constrained/ no longer acceptable.

c. Decreased market appetite for risk transfer on construction projects.

d. Increased health and safety measures, and site performance risk management.

e. Likely insurance issues on the back of insurers reassessing their ability to insure for pandemic related risks e.g. the impact of a second wave of infection in New Zealand.

f. Extended claims negotiation and dispute with the potential to impact contractor cash flow.

g. Restructuring of contractor businesses for the new normal.

h. Potential cost escalation priced into contract costs due to:

    i. Heightened risk profile if not shared.

    ii. Inflated cost of materials given global market disturbance.

Fundamentally, project owners need to revisit the original assumption for new infrastructure needs to be revisited because assumptions of population shift, changing social norms e.g. increased working from home and economic growth predictions have significantly changed.

Future thinking – what could it look like?

The impact of COVID-19 could see the following situations happening:

- An increased requirement for Central Government and Local Government to fund the infrastructure portfolio and improve the visibility of the long-term project pipeline to support recovery.
- Consenting models could evolve to increase the use of offsite reviews through the use of technology and have more involvement in upfront planning processes (particularly for major projects).
- Alternative procurement and delivery models could be utilised to address project risk profiles, accelerate the project lifecycle, and increase confidence in the ability to deliver projects, as we saw after the Global Financial Crisis, and the Christchurch and Kaikoura earthquakes.
- The construction sector could look to de-risk their projects by increasing their supply chain resilience through potential partnerships, vertical integration or roll up.
- An increased focus on the environmental outcomes of projects e.g. carbon reduction and social procurement initiatives to strengthen the economy.

Infrastructure providers need to keep early stage projects moving; a lack of major projects ready to progress in 12-18 months could seriously hamstring the economic recovery. Contractors will need to retain key resources, look for long term productivity gains learned from a new working environment, explore partnerships to manage risk, and maintain strong cash flow management. It is also important the Government maintains capacity in the project planning, design and development stage of the infrastructure lifecycle to support the capacity and capability in the New Zealand workforce.

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Sectors

Local government

KPMG

Just like every other organisation, local government will experience severe economic shock with deep and lasting consequences. Whilst rapidly adjusting to the realities of a severely disrupted operating environment, council organisations must also show leadership, agility, compassion, and clear and confident decision making as they help communities navigate the challenges ahead. One thing this crisis has taught us is the speed with which we can change when required; we have overcome barriers previous considered impossible, found new ways of working, and created an opportunity to emerge from these turbulent times stronger and fitter for the future.

There are big decisions ahead and how our communities fare will depend on the choices we make on matters such as:

Rates and revenue: The approach to funding and financing was an area already under the microscope. While the Productivity Commission concluded largely in favour of the status quo the status quo is no-longer tenable. Councils must find new ways of funding service delivery and fast because the demand for services has never been higher and doing nothing is not an option.

Capital projects: In large part, councils exist to meet the continuous requirement for infrastructure renewal, modernisation, and growth. Capital project delivery has been an area beleaguered by challenge and tragedy as projects large and small have suffered from questionable justification, protracted planning, transactional procurement, weak controls, low margins, poor quality and large contract over-runs. The trust placed in traditional capital projects to deliver better service outcomes is being questioned by many sectors. Councils too must consider how to achieve outcomes in an uncertain environment that no-longer supports or favours big capital schemes. Which projects should remain? How do we ensure they are delivered quicker and more successfully in this new far more risky landscape?

Redefining services and purpose: The range of services provided by councils has been remarkably stable over recent times, however the types of services and the service level needs for communities have changed dramatically and will likely continue to change for years to come. The demand for public transport, community services, parking, housing, welfare, arts and entertainment, and economic development will need careful consideration and new tests of prudence. Councils may need to establish new services as the interpretation of 'current and future interests of communities' is redefined. Traditional forms of planning and budgeting will struggle to adjust, and tough calls will be required.

Resilience, the environment, and the economy: Which is it to be? What does our new value creation framework look like now? What will our citizen priorities be? Who are our new demographic groups? Councils will need to re-appraise the ambition for their towns and cities, they will need to show leadership and engage citizens far more directly. The imperatives for the resilience, the environment and the economy have only increased. New local economic models that promise more than binary choices deserve attention as it becomes clear that a return to our old industries and patterns of consumerism makes less and less sense.

Investing in organisational agility: A new pace of service delivery is required, one that rapidly turns plans in to action whilst maintaining strong governance, increasing capacity for coordination, enabling new partnerships, and empowering teams to make fast and reliable decisions. Councils will need to be better at managing risk, integrating functional teams, communicating with stakeholders, responding to changed circumstances. Underpinning this new agility will be a far more pervasive and powerful technology layer. Designing the organisational operating model, leveraging technology, and creating the culture to support these new requirements should be a priority mission for councils intent on successful adaptation to the new normal.

Future analysis

Far from being a negative the change opportunity that is now confronting local government is a rare and immensely exciting one. The level of innovation and acceptance of change among individuals and organisations is at an all time high in every corner of the world. New Zealand is poised to be a model of what good can be, not only in terms of our handing of the response to COVID-19, but also in terms of the recovery and our transition to a greener, fairer, and more prosperous society. Local government has an enormous role to play in this recovery, we must, for the good of all, make the very best of this moment in time.

FADES analysis

The potential roadblocks are many and for change to occur a clear strategy to properly address these roadblocks is required. Common roadblocks include:

The machinery of council: the political framework, systems of governance, and disconnected work groups are not well suited to agile ways of working. Councils will need to balance the need for change against the demands of statutory and regulatory functions. However, the opportunity to reform must not be squandered.

Funding shortfall: Councils must operate within their means. Finding ways of reducing cost, realising new revenue streams and accessing new forms of finance will be critical. Change, even to a lower cost or more efficient operating model, often requires upfront investment; the benefits of change must be compelling, and the realisation of those benefits assured.

Digital and technology roadmap: The rapid transition to remote ways of working and the remarkably effective nature of virtual teams has, for many, been one of the welcome positives of the lockdown. Yet there have been areas of technology weakness and heightened risk in terms of system reliability, data privacy, and cyber security. The importance of investment in technology for Councils is clear, but in many cases the roadmap is not.

Capacity and capability: Council organisations are lean by design; the ability to manage transformation whilst maintaining essential services and meeting service level expectations is a regular area of challenge. There is no option, change is coming. Councils must get into a change ready state, establish a realistic and risk managed roadmap, and clearly communicate the opportunity of change ahead.

Community engagement: When faced with a crisis, communities look to Councils to provide guidance and reassurance. In times of uncertainty this guidance and reassurance is hard to provide with high degree of clarity and confidence; often leading to frustration and conflict. Councils will need to extend their engagement programmes to work with communities, overcome challenging situations, and act as a catalyst for positive action to counteract decline and decay and forge new sustainable futures for communities and their neighbourhoods.

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Sectors

Logistics

KPMG

The lockdown in New Zealand had an immediate impact resulting in significant disruption to transport and logistic providers. The closure of non-essential businesses and restrictions on the transport of non-essential goods resulted in a significant reduction in consumption and blockages in supply chains. Freight continued to arrive and be processed through ports, but with businesses closed and inventory stocks exceeding capacity in logistic warehouses, there was nowhere for the goods to go.

Retail organisations were faced with trying to find locations to unpack containers, and in some cases were using their retail premises while their businesses were closed. Where containers could not be unloaded within specified time limits, customers were hit with additional container charges.

As growing numbers of containers were taken out of circulation, a new threat to our economy emerged with a reduced availability of containers to meet export demand. Even as volumes slowly return to normal levels, there is a real risk that New Zealand exports may be constrained by this container availability issue.

The easing of lockdown restrictions has not alleviated the problem; logistic warehouses are struggling to supply small on-line orders of one or two SKUs, with logistics operators and their pricing structures geared to supplying larger volumes to the retail stores.

There is has been congestion at courier depots due to the massive increase in the volume of online deliveries. This was exaggerated by businesses being closed and unable to receive packages. We understand that airlines have now increased capacity to alleviate significant delays in the air freight of documents and packages.

With pressures on general freight rates and margins prior to COVID-19, transport and logistic companies are now bracing themselves for the impact of the pandemic on the economy, and the subsequent effect on freight volumes – a widely accepted measure of economic activity.

Freight and logistic companies are already seeing a significant reduction in companies placing orders with overseas suppliers, addressing overstocking issues and the expected reduction in consumption of goods as New Zealand goes into recession.

With changing international trade flows and decreasing volumes of freight bound for New Zealand, large freightliners may reassess the importance of committing to trade routes with New Zealand. The balance of imports to exports may change, at least in the short to medium term, which may result in export constraints due to the availability of containers and equipment. Only as we move post-COVID-19 will we truly understand its impact on the economy, but most agree that a prolonged economic downturn is likely.

In order to survive and prosper in the post-COVID-19 economy, freight and logistics companies will have to be agile and make strategic, commercially pragmatic decisions about their business. Those that make fast decisions around cutting costs, downsizing operations, reducing excess debt, exiting poor performing customer contracts, and focusing on quality service and strengthening key customer relationships will survive best. Putting in place strong discipline around cashflow management and banking relationships will be critical. Those that are reluctant to make immediate changes to their business and have significant debt on the balance sheet will be at a disadvantage with less financial flexibility and will be vulnerable to losing their share of the market.

While there is a strong possibility that investment in automation and technology will be put on hold in the short term, as we emerge from the immediate crisis of lockdown those companies that are resilient will be able to take advantage of opportunities to acquire assets and invest in automation, technology and sustainability.

What are the long-term impacts of COVID-19? What if it proves difficult to rid the planet of COVID-19, or due to climate change similar pandemics or other physical shocks become more frequent? We have already seen shifting international trade flows as countries increase protectionism of their local economies. Emerging markets are also becoming more complex and significant consumers of their own goods. Labour arbitrage is becoming less important and COVID-19 may be an additional catalyst to bringing manufacturing and production home to provide security of supply in domestic markets.

With the virus highlighting serious food supply risks for some countries, we may find countries investing more into their own farming and agricultural sectors in order to reduce reliance on countries like ours. COVID-19 will likely emphasise the need for complete traceability of goods throughout the entire supply chain and reduce the handling of goods with investment in the automation of warehousing and the processing of goods through ports. It is likely that COVID-19 will expediate the process of implementing a blockchain solution to automate the processing and settlement of freight transactions, insurance claims, customs clearance, and ultimately, removing the need to courier and handle shipping documentation multiple times.

In a post-COVID-19 environment there is likely to be increased public awareness of sustainability and increased governmental support for investment in green infrastructure. Organisations that provide efficient transport solutions that minimise greenhouse gas emissions, reduce congestion and travel times, and improve the general health of society are likely to be the beneficiaries of loyal customers, motivated employees and access to funds for investment. None of this will come cheap as the investment required will favour the major players which will likely result in consolidation and rebalancing of the market.

Opportunities or discussions for the future

Increased investment in automation reducing handling of goods

- For logistics providers this will mean investment in automated warehousing solutions which are able to efficiently pick orders for both online sales and for higher volume sales to retailers/producers. Traditional large logistic warehouse providers will struggle to survive as on-line ordering increasingly becomes the norm.
- For ports automation means use of data, autonomous machinery and equipment to efficiently process goods seamlessly. This requires substantial investment and may not be feasible in the short-term due to the likely impact of the COVID-19 recession.

- Questions around New Zealand's port strategy also remain and add to the potential for a halt in investment. Ultimately, New Zealand needs this investment, but it's likely that we will be a follower as technologies are perfected in larger markets, and the cost and risks associated with implementation reduced.

Increased focus on sustainability post-COVID-19

- Trucks are unlikely to disappear in the near future and therefore research and investment in electric or hydrogen fuelled trucks is likely to be required. Electric and Hydrogen vehicles require massive batteries and the weight of an electric vehicle cannot be handled by New Zealand roads. While electric trucks may be viable in Europe, the US and China, New Zealand would need to make a significant investment in roading infrastructure to be able to handle the loads. With New Zealand's commitment to the Paris Accord, we will still need to address emissions and therefore there may be future governmental support for investment in road infrastructure.
- Use of large electric drones to transport parcels or certain types of equipment between regions particularly where roads are poor, reducing congestion and greenhouse gases.
- Green bonds and other instruments to finance necessary infrastructure and investment in technology supporting sustainability.

Blockchain and digitisation

- Seamless digitisation of export transactions and electronic timely settlement without the need of couriering documents around the country.
- Automatic insurance settlement, customs clearance, settlement of taxes, collections of statistics information through sharing of data in blockchain.
- Provenance built into trusted blockchain.
- Data analytics and providing value to your customers.

Consolidation and improved profitability

- Reduced number of small independents enabling consolidation and establishment of alliances improving overall profitability in the sector.
- Increased demand for control of products through entire supply chain with track and trace capabilities favouring major players.

Challenges facing the sector are significant and will require large investment. Organisations will need to be thinking about the following:

Financial

- Cash flow management
- Focus on resizing business, liquidating or selling non performing assets
- Raising funding for necessary investment in automation, digitisation and sustainability.

Strategy and operating models

- Understand customer & contract profitability, renegotiating or exiting poor performing contracts
- Long term strategy to ensure they remain relevant and invest in necessary technology – e.g. automated warehouses, electric drones and vehicles, digitisation and freight optimisation.

Digital and technology

- Investment in automation and blockchain technologies removing handling of documents from the process and speeding up processing times
- Increased emphasis on blockchain technologies, with automatic transaction settlement, insurance resolution and providing provenance solutions
- Increases in data analytics and proving value to customers.

Elastic workforce

- Full automaton of the supply chain with autonomous vehicles and warehousing removing the need for labour
- Transportation becomes transactional.

Sustainability

- Government investment in infrastructure – roads that can carry heavy electric trucks
- Accelerate transition to low-emissions (Zero Carbon Act compliance)
- Government support for R&D activities to find sustainable ways of transporting product
- Transport companies with scale to make necessary investment in electric or hydrogen technology
- Regional light rail.

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Sectors

Māori

KPMG

As with so many other emergencies and crises, Māori have again showed how responsive and agile they can be in service of their people. Many iwi had little or no permanent logistics or food storage, yet were able to stand up distribution centres almost overnight, procure food and hygiene packs by leveraging relationships rather than process, and then get those supplies to where they were needed.

Māori know exactly what they are capable of – it wasn't a surprise to them – yet many others have marvelled at what they were able to do at extremely short notice. For some their efforts were hampered or slowed by the machine of bureaucracy and we can only imagine what might have been possible if that handbrake had been released. Hopefully COVID-19 signals the time at which the model of trust is flipped and Māori can now be seen by decision-makers as both valuable and logical partners in Aotearoa's quest toward prosperity for all.

While the impacts of COVID-19 pose a significant set of challenges for the economy and many of the people within it, it is not without its silver lining. It has thrust upon us the opportunity to reflect and question how we see the world. We have been shown that the supposed foundations of our economic system are incredibly fragile and based on assumptions that have weakened the social, environmental and cultural fabric of the planet. There is now a chance to flex our thinking and see old problems through a new lens. We now have the fertile soil within which to plant the seeds of our economic evolution.

The inequities that Māori faced before COVID-19 have now been amplified as many others join these groups with high and complex needs. Anecdotally, the state of the planet was much improved during the lockdown, so we must ask ourselves how we hold on to those gains while we figure out a new economic model – one that recognises that economic, environmental, social and cultural dimensions are in fact interdependent.

Business impact

The impacts of the pandemic varies depending on whether a particular business is a whānau business (SME), a shareholder collective such as a Māori trust or incorporation, or a beneficiary collective such as an iwi commercial entity. SMEs will be experiencing many of the same issues that non-Māori SMEs in similar industries are facing. With revenues dropping significantly, these businesses will be looking to the strength of their balance sheets to get them through. Obtaining lending for working capital can be difficult where they don't fit the bank criteria and don't qualify for the COVID-19 specific support programmes.

What can they do?

Crisis and constraint can be both a blocker or enabler of the creativity needed to look at business issues from another angle. Under these conditions it is worth looking at the different ways in which skills, capabilities and assets of the business might be applied. A rental car company becoming a supermarket delivery partner is one such example. These types of 'pivot' may be the difference between qualifying for bank funding (or securing investment) and failure. During tough times it can be difficult to see the wood from the trees, and seeking out independent input can help bring clarity and perspective to a problem or opportunity.

For the collectives, many have significant investments in industries that have been severely affected such as tourism, hospitality, forestry and commercial property; and a good proportion of these have managed funds. Many will also have food production within their portfolios which has fared better than most, but is not without climate related production issues in some sub-sectors. In tourism, hospitality and forestry, we have seen layoffs and in same cases, redeployment. It is too early to tell what the longer-term impact will be, but what will be worthwhile monitoring is consumer and tenant behaviour. As people consider the possibility of working from home more often, or think of whether digital channels could replace their physical stores, commercial property will be an area to watch. Is it possible that commercial property conversions might help our housing crisis?

Fortunately, despite these very real challenges, there are factors that will help insulate the long term impact and help Māori emerge stronger. These characteristics include Māori having:

- a long investment horizon
- a diversified portfolio
- a conservative outlook
- relatively low debt
- relative high levels of cash

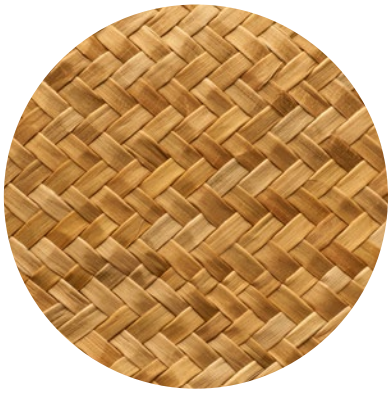
While the final two bullet points may have previously characterised a balance sheet as 'lazy', this crisis has shown just how much this has helped to insulate Māori business at a macro level—acknowledging that there are examples of individual businesses that have been severely affected.

Those entities with a strong balance sheet, a clear investment strategy and focus, and the capability to manage and govern investments are now in a position to take advantage of the opportunities that will arise over the next few months. The key question is which mix of industries will provide the outcomes Māori seek beyond the required economic return.

Employment

From an employment perspective, some estimates forecast that Māori are likely to suffer 40,000 job losses between 2020 and 2022, with Māori losing their jobs at a higher rate than non-Māori across various sectors. Almost 60% of those losses are expected to occur in the urban areas of Auckland, Canterbury and Wellington.

Will we see the opposite of the urban drift of the 70's and start to see the regional drift from the cities back to their tribal areas? What impact will this have at home in the regions? How can the skills and experience of our people be put to use for the prosperity of the region? What retraining and upskilling provision might be required? The newly established New Zealand Institute of Skills and Technology (NZIST) is a rare chance for Māori to get in early and influence the skill development provision needed within their regions.



Tribal entities

Tribal entities focused on the wellbeing of their people, environment and culture are also likely to find themselves in the unenviable position where:

- The dividends they depend on from their commercial entities are reduced given the business impact
- There are lower levels of resource available from philanthropic entities and Government to partner with iwi
- The pre-COVID-19 challenges have been compounded by increased pressure in whānau households resulting from job losses, food insecurity and social distancing.

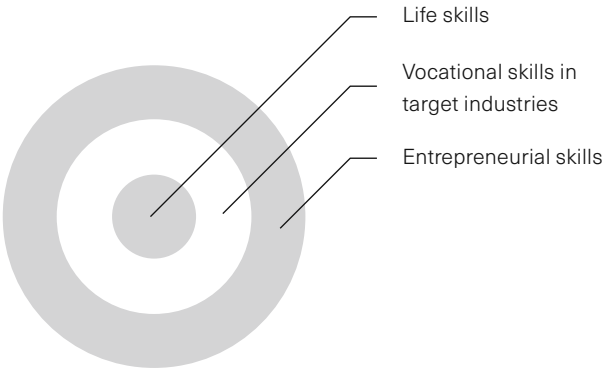
In short, there is less resource from which to address increased need requiring different approaches. It's the opportune time to consider how new thinking and perspectives can be injected to encourage self-reflection, but more importantly to come up with ways to achieve much more with much less.

Future thinking

The Māori economic evolution should be underpinned by government investment in human capital and developing the skills that are relevant for the future of any particular region. The types of skills will differ depending on the starting point for different sub-groups within the population but could loosely be divided into life, vocational and entrepreneurial skills. While vocational and entrepreneurial skills are self-explanatory, investment in life skills is a critical pre-requisite to ensuring those most in need are well equipped to:

- Enter into and succeed in vocational/ entrepreneurial endeavours.
- Be self-sufficient, food secure and able to insulate themselves from future shocks.

Learning, development and training formats would need to evolve to meet the needs of learners and employers by integrating training and application in industry more closely.



If we can build the skills that are required, it is important that those people have meaningful and high value opportunities where they can put their talents to work. Talk of localisation is increasing as businesses weigh up supply chain security, in light of COVID-19 disruptions, and concern of geopolitical instability rises. If this is to materialise we could see a return to manufacturing and processing facilities which may be best located in the regions closest to the primary production. This raises a question of scale and viability and the extent to which localisation means government subsidies.

Beyond primary production and related industries (including the associated science, research and commercialisation) are opportunities to retool people with skills for fast growing industries such as technology. As the rate of digitisation increases there will be business and employment opportunities that have higher levels of remuneration that can easily be based in the regions. In another area, the social inequities around the world are a pandemic in themselves and Māori could lead the world in developing the responses drawing on indigenous knowledge and practice. A Māori led government enabled research, intellectual property development and commercialisation approach may mean that the export of intellectual property aimed at reducing social inequity could become one of the country's leading exports with positive social, economic and environmental impact.

It is sensible for the Government and Māori to deepen the nature of their relationship as they work together to uplift the prospects of Aotearoa. At a regional level there are councils taking care of transport and environment, territorial authorities with responsibility for infrastructure and Māori caring for people and the environment. A relationship where Māori and the Government can co-determine the shape of the evolution before us will mean that the partnership intended under Te Tiriti o Waitangi can be realised for the benefit of the whole country. A tangible example that might signal a shift in this relationship includes the sharing of data with iwi to help them be even more responsive to the needs of their membership.

To that end, it may be helpful to consider that the role for Maori is helping build the 'fence at the top of the cliff' with a prevention, care and development agenda while the Government focus on treatment of the issues that have accumulated across successive governments. This is not to say these are exclusive zones – more that there is clarity on who takes the lead.

The challenge for Maori will be how to optimise the way in which we organise our people, resources and technology across iwi and organisational boundaries to get the best collective social, economic and environmental outcomes. Without the luxury of unlimited capability, capacity and resource, combined with the need to front on so many political, economic, social and environmental kaupapa with external parties, minimising duplication of effort will be necessary, although not easy.

We are seeing more and more collective undertakings and over time the lessons from these will inform future practice. Balancing individual constituent interests with those of the broader collective will be an ongoing, yet not unsurmountable challenge.

For some kaupapa, a decentralised iwi-centric approach might be required and for others a centralised infrastructure may serve particular kaupapa more effectively.

What is clear is that successive government interventions have failed to halt the growth of social inequity. Millions, maybe billions of dollars have been spent over the decades yet the problem continues to grow. Perhaps it's time to allow alternative perspectives to drive the solutions enabled by government supported with certain and sustained resourcing.

New partnerships

COVID-19 has highlighted the extent to which technology, and your information and data infrastructure, can help or hinder your organisation's ability to react, respond and transition in times of crisis. Any decisions that draw from an entity's information base needs to be as real-time and accurate as possible.

Organisations everywhere will no doubt have completed, or are in the middle of reviewing their strategies before making any decisions that impact their long-term outlook. With so much uncertainty, it is now even more important to consider how differing scenarios would impact the ability of the organisation to achieve its goals. Traditional strategy exercises can be quite involved and time intensive, but time is not a luxury we currently have. Therefore, focusing attention on changes in assumptions and their impact is the best use of limited time.

Where the operating model was already well aligned to the strategy and there are not any significant shifts or changes to the strategy, there is still room to look at opportunities to improve efficiency by examining where there is waste and unnecessary process in the system. In some cases, the concentration of decision-making rights can lead to delays caused by bottlenecks. Further distributing these rights with appropriate controls can help maintain momentum and responsiveness.

Such review and examination of the operating model also provides space to consider the nature and characteristics of the workforce needed to deliver on the portfolio of expectations. The default is often a permanent workforce supplemented by contractors but there is a growing international trend toward lower proportions of permanent workers and higher use of freelancers and contractors. This enables a circulation of personnel along with different experiences, tips and tricks to be shared. It has to be acknowledged that this won't suit every, entity but could be a useful example for cross entity collaboration provided that the technology, data and information platforms are set up well.

Pre-COVID-19 many Māori entities were finding shortages in the talent market to fill positions and so different ways of working will likely be needed to secure the skills required. One option where an individual may work for multiple entities might be worth pondering.

In dynamic times such as these, there are many possibilities including one where the iwi/Māori led, government enabled approaches are genuinely considered. If that were to be true, how should operating models be set up to flex between partnership efforts with government, collective efforts with other partners (including with philanthropics and other iwi) and within and individual iwi's eco-system with hapu, marae, whānau businesses and other providers.

COVID-19 has provided an opportunity to think about the importance of Māori in shaping the evolution to a new economic model – one that promotes balance between humans and planet along with equity among citizens. This calls for everyone to play their part:

- For the Government to trust that iwi are the logical partner to improve outcomes for their own people and to seal that trust with commitment to resourcing and sharing of information
- For Māori to optimise the way in which they collectively use their people and resource across and beyond tribal boundaries to affect the desired outcomes while minimising duplication and waste
- For iwi to evolve from some of the current bureaucratic operating models and transition to agile and flexible models that are tribal member centric, digitally driven, data enabled and automation focused so they can do more with potentially less.

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Sectors

Retail and consumer

KPMG

The retail sector has seen a steep sales decline in all sub-sectors (save grocery), as the lives of consumers change – first during lockdown, and now during the gradual return to normal. The biggest challenge for the sector however, is addressing the expectation that once the dust settles, what constitutes normal will be different than it was pre-pandemic.

For that reason, retailers first need to consider how their sector will change, before deciding what actions will best position them for success:

How long will it take for demand to build back up to normal?

This will naturally be different in each sub-sector, with hardware and grocery already largely back to normal, but most others – apparel, department stores, food and beverage – will likely take much longer. Most retailers will be considering their usual market demand drivers (seasonality, weather, economic conditions), overlaid with more variable factors like competition, tourism, and social restrictions – to create the best forecasts they can with the information available.

Will consumer demand (level or preferences) for retail be different in a post-COVID-19 world?

From the beginning of the pandemic, New Zealand saw some significant changes in consumer demand. Luxury and discretionary retail decreased and 'nesting' increased, increasing demand for homewares, DIY and activities that could be carried out in the home. Apparel demand shifted in line with people dressing to work from home. Household spending normally allocated to international travel, restaurants and entertainment is also likely to be reallocated to other retail sectors for a significant period post-COVID-19.

Will the way I engage with the consumer also be different?

Perhaps the largest consumer driven shift in retail has been the surge of e-commerce, within a short timeframe. Given lockdown restrictions, organisations have been forced to shift demand from physical to digital channels – in most cases, far beyond existing capacity. While post-COVID-19 is bringing with it a gradual return to physical stores, this digital shift will remain to some degree. Already in New Zealand, between March and May, the e-commerce consumer demographics have shifted significantly, with the historically lowest adopters now becoming some of the largest adoption groups.

After assessing each of these questions in the context of an individual retailer, there are five major ways an organisation can set themselves up to succeed in a post-COVID-19 New Zealand – particularly over the next 18-24 months. These focus areas are in line with industry trends in New Zealand prior to the pandemic, but have been dramatically accelerated, in many cases becoming critical to maintaining competitive advantage, given changes in consumer demand.

Omni-channel experience

Prior to the lockdown period, e-commerce was growing at a rate many times that of physical stores. More and more people are researching retailers online prior to purchasing (up to 90% in some sub-sectors), the average basket size of online orders is increasing, and there is more and more competition between local and foreign online retailers (about 30% of New Zealanders' ecommerce orders are with foreign businesses). As a result, most retailers were already in the midst of growing their web and mobile offerings, streamlining their click and collect service, and differentiate themselves online. Perhaps the biggest change during COVID-19 therefore, is the marked rise in customer expectations for their online experience, adding to these pressures.

The lockdown has exposed a lot of frustrations consumers have with site navigation, customer service, information availability, and product availability – areas that many retailers have considered a lower priority given the historical size of the online channel. No longer able to rely on their bricks and mortar brand strength as much as they could pre-COVID-19, it has raised the level of competition between omni-channel and online-only retailers, both at home and abroad. Retailers with the greatest investment in their online channel – especially when it comes to customer experience, omni-channel consistency, real-time inventory levels, and range extensions like an endless isle – are the ones most likely to succeed over the next 18-24 months.

Distribution optimisation

With omni-channel taking up much of the demand-side focus for retailers, a large part of the supply-side challenge is driven by a retailer's physical logistics network configuration. This is in part due to its having to meet the needs of a demand shift – e.g. a jump in volume for online consumer deliveries and click and collect orders. For most local retailers, online typically represents 5% to 20% of total sales, meaning that fulfilment is managed from either individual stores, selected stores, a central DC, or a hybrid of these options. Coping with the immediate rise in online delivery and click and collect during lockdown saw many retailers dedicate some stores to fulfilment only, others simply did anything they could to scale up existing operations to levels needed. Ultimately, as online fulfilment is expected to settle at levels higher than pre-COVID-19, most retailers will be considering shifting these short-term changes to a more sustainable, optimised operating model.

The second distribution challenge is in the location of distribution centres, and transport modes used. Similar to the Kaikoura earthquake, retailers with both a North Island and South Island DC experience less out-of-stocks and are better able to weather demand variability than those with only one Auckland based central storage location.

Store rationalisation

Reduced revenue has seen most retailers consider each of their levers of cost reduction and profitability – a major one being physical store footprint. Given decreased demand overall, now is a good time to evaluate store performance, and look to either close or right-size underperforming stores - or those in regions with high costs to serve, high competition, or low growth potential. These are typically stores that were already underperforming prior to the COVID-19 pandemic, but have essentially had their remediating action brought forward given market pressures.

Agile operations planning

Most retailers run some variation of a classic sales and operations (S&OP) process whereby demand is forecasted, inventory requirements are calculated, and (depending on the value chain) either replenishment orders, manufacturing orders, or overseas allocated buys are made. This system is largely based on accounting for seasonality and trend (i.e. repeating changes to demand, or gradual increases or decreases), and often struggles to adjust to events like a pandemic that need wholesale changes. A major reason for this is that retailers typically possess a large number of SKUs that can't be managed individually, and they operate supply chains with long lead times (especially for overseas buys). This can either be directly (dealing with overseas suppliers) or through a supply chain using local distributors. As a result, most replenishment systems are geared to historical performance (either through reorder point, min/max or similar logic). Managing more than short term demand changes required significant updates to system parameters, or involves using less data science, and more 'gut feeling' in the planning process.

To address this challenge, and to create a process whereby retailers are able to quickly react to a changing market – organisations need to update their planning process. 'Agile operations planning' is a S&OP evolution with a focus on the next 18-24 months, whereby:

- Demand signals from multiple sources are gathered on an ongoing basis to form the best forecast of the future as possible, at a SKU level
- Stockouts and excess stock levels are monitored weekly to identify waste
- Supply constraints, escalation and deferral means are decided upon weekly to maximise on shelf availability, working capital, and overall operational costs each month.

This process is similar to 'classic' S&OP in structure, but focuses on a different time horizon, is more encompassing within the business (i.e. does not just involve sales and supply chain), and most importantly it makes particular use of data-driven and perpetual scenario planning supported by an executive decision making cadence.

Marketing spend shifts

Marketing spend is currently in the middle of a significant shift from traditional media and promotional channels, to digital and social marketing. With up to 90% of consumers researching products online prior to purchasing, and with individuals in all demographic bands spending more and more time on social media and their mobile phones – spend on digital marketing is growing six times faster than traditional.

This means more than just a reallocation of spend. In the context of a general cost crunch, it has led to a large number of retailers using data analysis and causal modelling to understand in detail the return of their marketing investment. Beyond surveys and net promoter score data, this statistical method attempts to isolate each element that influences demand (pricing, promotions, competition, weather, economic factors etc.) so that a clearer ROI can be established for each above or below the line investment. This kind of modelling is enabled by the large number of easily accessible internal and external market data sources, and tracking technology that cheaply compiles competition pricing and promotional activity.

Finally, disruption caused by COVID-19 has increased the value of making marketing more targeted, either in seeking out a particular consumer type, providing consumer-specific offers, or in many cases, trying to influence specific consumer actions. In a post-COVID-19 world where competition is higher – there is a significant value in using marketing activity to increase cold and warm customer acquisition, and in-store conversion for example.

FADES analysis

Digital technology in retail

Retailers in New Zealand have typically been strong adopters of customer facing, demand-side digital investment, all be it at levels behind most other developed countries. Online, mobile and digital marketing are all well established for example, but there is less historical adoption when it comes to digital technology within the business. Most major retailers in New Zealand are either finishing, in the middle of, or starting core systems replacement programs, but less invested in merchandise financial planning technology, in-store digital technology (beyond the basics), collaborative planning software, or digital workforce management solutions. All these areas are expected to grow over the short to medium term, especially those where digital investment can be tangibly linked to either customer acquisition, working capital optimisation, or reducing cost to serve.

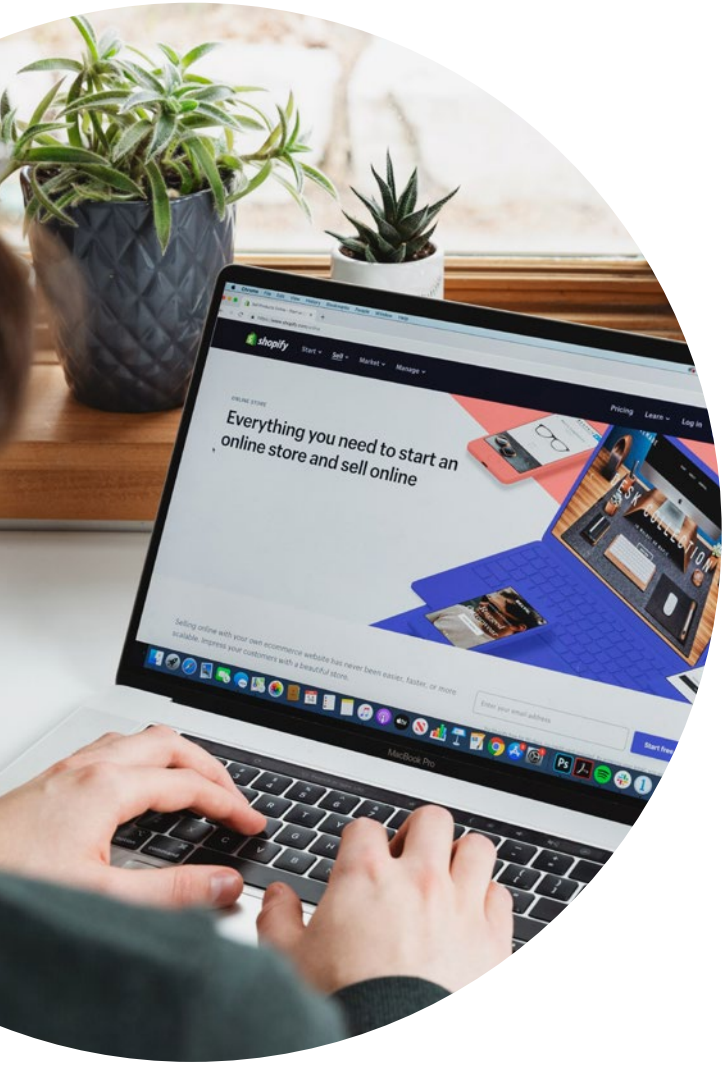
Elastic workforce

Many of the initiatives discussed in this retail overview are centred around easing financial pressure – either through operating model change, digital automation, and optimisation etc. Generally, they end up addressing major value drivers - reducing logistics spend, reducing wasted working capital, reducing out of stocks, improving margin, or lastly, reducing labour costs. For most retailers, labour savings sound appealing in general when creating a business case, but are more difficult when it comes to implementation – especially in-store. Retail labour models need flexibility, and given the nature of the retail sector, with a pool of labour spread across full-time, part-time and casual contracts – reducing overall labour costs permanently often poses challenges during seasonal peaks. For this reason, creating an elastic workforce, where head office and store staff can work more flexibly – either through digital collaboration, between multiple locations, or remotely – can provide an solution. This requires an investment in continuity planning, security, and cultural fit.

Strategy and operating model

Coming up with a retail strategy for your business in a developed market is often difficult. Markets like New Zealand are generally mature, customer loyalty is low, and competition (both locally, from new foreign entrants, and from overseas e-commerce retailers) is very high. In other sectors with these same challenges there has been a rise in disruptive strategies, and agile-focused operating models – but somewhat less so in retail. Agile is typically perceived as being a software development toolkit, now finding its way into telecommunications and financial services within New Zealand – but there is no reason to think it can't work for retail as well. And it has overseas.

At the end of the day, agile is about capitalising on scale, acting quickly, becoming customer centric, employee centric, and innovative – exactly what successful retail businesses need. For a retailer this would mean a shift to cross-functional teams, full time alignment to workgroups, rather than functions, and a focus on action rather than process. It also changes the way leadership engages with the business – which is perhaps why retailers, with more traditional career growth models, are more resistant than other sectors. Agile retail operating models can be a great way to align to a post-COVID-19 world.



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Sectors

Small to medium enterprises

KPMG

Current position and challenges

SME businesses in New Zealand have borne the brunt of the economic challenges brought on by COVID-19 19. Not only do they dominate key sectors which have been hit the hardest - tourism, hospitality and retail - but SME businesses also play an important role in the economic supply chain that underpins prosperity in New Zealand. The "business bubble" of most SME owners includes the staff they employ, the suppliers they use, and the flow on to their families whose economic prosperity depends on all players in that chain surviving and adapting. This is a big responsibility and burden for SME owners.

The challenges faced by SME owners fall into four distinct phases:

- **Reaction:** the first four weeks, where shock and uncertainty reigned over decision-making, and the short-term focus was survival
- **Resilience:** happening now, where priorities are shifting to truly understanding the new economic dynamics and how to play in the new world. The focus is now on understanding customer behaviours and how to adapt, looking at the core finances and doing the basics right to manage cashflow, understanding a world that has suddenly become very digital, and acting boldly to redesign business strategy and processes
- **Recovery** – the next 6 to 12 months, where businesses will need to be executing strongly in the new environment. This may include reviewing the 'old playbook' to determine what worked well in the past and how to bring it back. Or, it may involve a complete reset, a new direction borne out of necessity
- **New Reality** – the next 12-24 months, where SME businesses will need to adapt to new markets, respond to future financial shocks, manage risks to ensure the long term sustainability of their business.

Recovery to new reality

As SME business owners start to think about the recovery and new reality, there is an opportunity for all to build the type of business they really want. We've been thinking about the key issues to address, and here's a quick summary to get you started.

A new view of your customers: what this crisis has taught many businesses is how important it is to have deep knowledge of what your customers want, how they buy, where they look. In this period of rapid change, a business owner who does not know the answer to these questions can quickly find themselves selling a good or service that no one wants to buy. Understanding consumer behaviour has become much harder as predicting demand is impacted by unprecedented economic constraints. The new reality is that there is a range of services that used to be popular that will no longer be popular going forward. So, businesses that adapt to this change and reach a new level of understanding of their customers will be much better placed to succeed.

Strong financial management: another new reality is that SME business owners that have good financial housekeeping will survive and prosper much easier than those that don't. This requires hands on financial management to ensure there is strong cashflow. Banks want to see business owners with a good understanding of business data to support their ongoing funding. Away from daily management, capital and debt structures will need to be reviewed as businesses emerge into the new reality. SME business owners will need to take a realistic view of their ability to run businesses with more debt on the balance sheet, or consider alternative sources of capital such as new investors or business partners.

Responding to new export market dynamics: SME business owners that can grow the market for their products and services overseas have bigger and more profitable businesses. How do these businesses respond to border restrictions/closures, increased government protectionism, potentially faster recovery in Asia and the trend towards digital exports? Those SME businesses that get to grips with these issues early in the new reality phase will prosper.

Accelerated trend towards digital: many SME business owners have had to rapidly embrace digital under a lockdown environment. This rapid evolution was already under way before COVID-19, but it is clear that this will continue at pace to serve a changing market. This will require many businesses to unfreeze their current strategies, and realign and communicate their purpose to consumers.

Commitment to innovation: SME businesses that have the ability to innovate and redesign their business from time to time will prosper in the new reality. This will favour businesses that have a culture underpinned by a strong sense of the purpose, a high degree of trust in their teams, and thrive on challenging their status quo.

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Sectors

Utilities

KPMG

Like all parts of the global economy, the energy and utilities sector has been impacted to varying degrees by the COVID-19 pandemic. Oil demand has reduced significantly which has negatively impacted prices and production, and accelerated the continued drop of gas prices globally. Europe has also seen record collapses in electricity prices due to falling demand.

New Zealand's experience has been more positive. Our utilities have proven themselves to be remarkably resilient, and services have been uninterrupted throughout the lockdown period. Robust business continuity plans were implemented prior to lockdown, and teams have been working effectively on site and remotely. Strong balance sheets have provided financial resilience.

With New Zealand facing into the post-COVID-19 recession, we're seeing utilities take a more cautious approach to their capital expenditure programmes. Major investment is likely to be deferred by anywhere from 6 months to 2 years. The ability to bring in specialised offshore resources necessary to deliver major capital projects will likely be curtailed for an extended period.

The increased focus on health and safety brings increased costs as utilities implement additional measures to ensure the health, safety and well-being of field staff. This will result in additional staff, maintenance and supplies costs which cannot easily be passed onto consumers and businesses. Cashflow management will be critical to minimise the impact.

Regular maintenance activities may be restricted or re-prioritised which could in the long term increase the risk of security of supply. While the current supplies of tools, essential spare parts and equipment may be sufficient for urgent repairs and remedial maintenance, the ability to ensure network reliability and staff safety will become less certain as the global crisis continues.

The lockdown and associated restriction of movements around the country may also have highlighted key person risks and the lack of qualified and trained key staff in some areas or regions.

Consolidation of small to mid-size players within the sector.

New Zealand has a large number of electricity line distribution (ELDs) businesses and one could argue the case for consolidation in a country of our size.

Whilst the Electricity Price Review concluded no restructure was required to the electricity distribution structure, the profitability of many ELDs will likely be marginal post-COVID-19.

Population growth varies across the regions, but remains strong in Auckland as does the demand for electricity. This will highlight the significant disparity in profitability between the smaller ELDs and those in the larger centres, and will be further emphasised by the post-COVID-19 recession.

From an operational standpoint, each ELD duplicates the management effort required for a stand-alone business; this is inefficient from a NZ-Inc perspective and ultimately, the consumer pays for this. There will be an increasing need for more efficient spend, and our view is this will drive consolidation of ELDs.

Equity consolidation won't be possible, but there could be significant value in consolidating operational activities such as IT systems, Control Room, maintenance and capital spend programmes) for neighbouring ELDs in the regions.

The energy, utility service and technology poverty gap widens.

In the climate of economic uncertainty created by the COVID-19 pandemic, providers of energy, utility and technology services will need to ensure that these essential services remain reliable, affordable and accessible by businesses and consumers. Pricing strategies will be critical to this.

The government initiative to deploy 17,000 devices and access for low decile school students/households may become an increasingly common approach for other utility services. To avoid significant volumes of disconnections, payment defaults (delaying payment has also been encouraged by governments/regulators in some countries) and an increasing debt financing issue or at worst regulatory intervention, proactive pricing schemes and tariffs that demonstrate a social conscience will need to be considered.

This must also be an integral part of infrastructure planning to avoid situations where higher infrastructure costs cannot be passed onto businesses and consumers. Coordination of infrastructure capital projects will reduce costs i.e. integrated civil works

A large number of construction projects have been delayed due to the national lockdown, and others that were in the pipeline might not go ahead as utilities face resourcing and capital challenges. We see a real opportunity for collaboration between services providers to effectively deliver capital projects.

This will be more evident in those regions that have greater needs and have scale, and in particular Auckland. This could be achieved by these businesses pooling certain engineering expertise (a Servco model) or acquisition. While this brings back memories of the old Ministry of Works department, this could be of significant benefit. For example, entities such as Watercare (AKL water utility) and Vector (AKL electricity distribution and telecommunications) could pool resources to deliver programmes more effectively and with less disruption in the community. It would also provide opportunities for training and redeployment of people, which would help build additional organisational resilience and social wellbeing in terms of skills development and job security.

Providers will also need to ensure efficient service delivery models such as leveraging shared services models (technology and staff) for aspects of the service so that baseline costs are optimised.

Our view is that a more collaborative industry and government approach is fundamental for New Zealand's prosperity. The short-term focus on individual organisational outcomes should shift to one where the long-term benefits for the country guide strategic decision making.

FADES analysis

Short term horizon Infrastructure planning: Asset Management Plans are typically based on five year horizon but the enormous disruption created by COVID-19 means the demand forecasts may no longer be relevant or accurate.

Capital planning may become more focused on the short-term given the level of uncertainty. We see two potential outcomes: major capital projects could be ceased or suspended, or the lolly scramble for funding as part of the Governments initiative to fast track shovel ready projects may result in projects being progressed that may not have necessarily been priorities in the near term.

It is critical that the requirements and business case for these projects are thoroughly reviewed and confirmed to still be valid in a post-COVID-19 environment rather than being used simply as an alternate funding mechanism; money needs to be spent on the projects that will most benefit the future of New Zealand.

Cities, businesses and consumers may operate in completely different ways in the future and it is important to avoid projects that may become white elephants. Energy sector renewables initiatives may also be directly impacted by supply chain issues related to COVID-19. With China being a primary producer of clean energy technologies and components for solar panels, wind turbines and batteries, delivery delays and subsequently increased demand due to the coronavirus lockdown could impact planned project deadlines. Regardless, New Zealand remains committed to meeting our emissions reductions targets under the Paris Accord and our own Zero Carbon Act; as lifeline utilities, our service providers need to keep this front of mind and ensure this is taken into account for all infrastructure planning.

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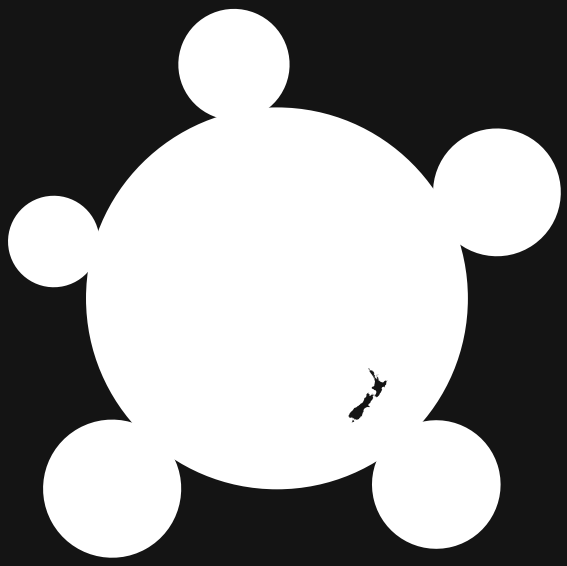

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