
Business Strategies Part II – Chapter 9

Covid-19 Crisis and Business Strategy

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2nd Semester 2022 (online)
- Global Governance -
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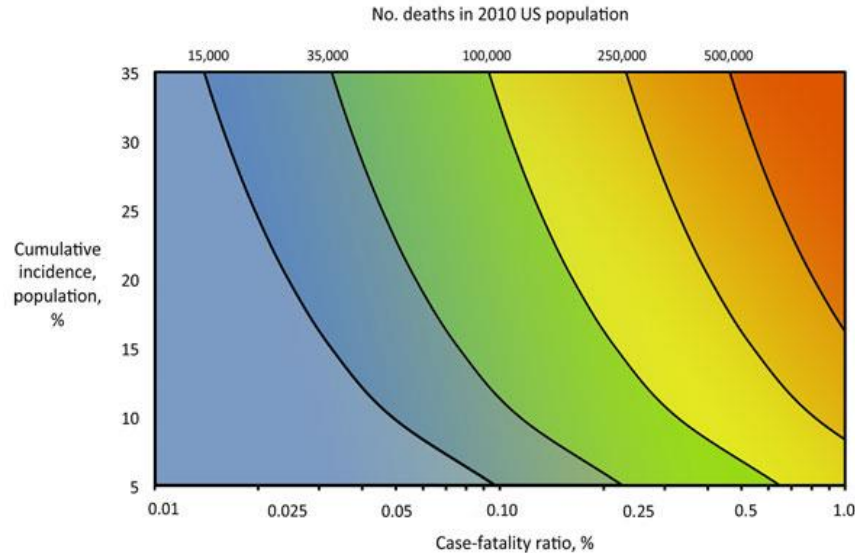


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9.1. The CoV2-Pandemic I - Definition of a Pandemic

A pandemic is an [epidemic](#) occurring on a scale that crosses international boundaries, usually affecting people on a worldwide scale.

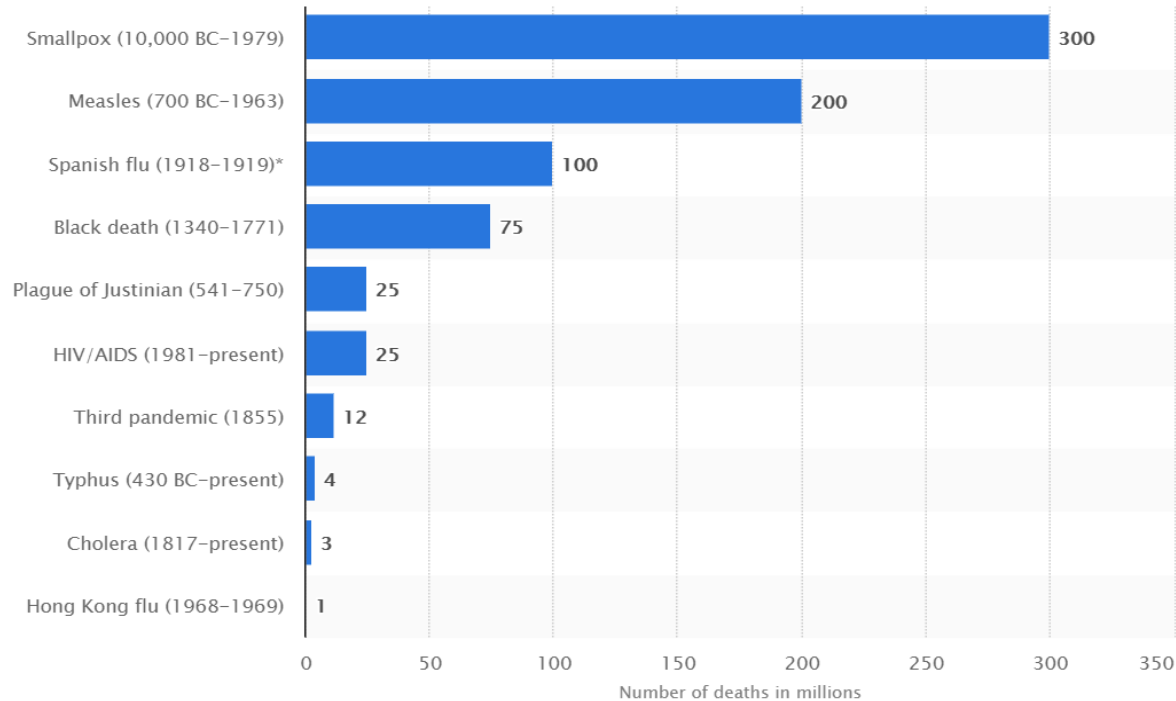
In 2014, the United States [Centers for Disease Control and Prevention](#) adopted the [Pandemic Severity Assessment Framework](#) (PSAF) to assess the severity of pandemics



Source: Wikipedia

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9.1. The CoV2-Pandemic II – Death Toll of Pandemics

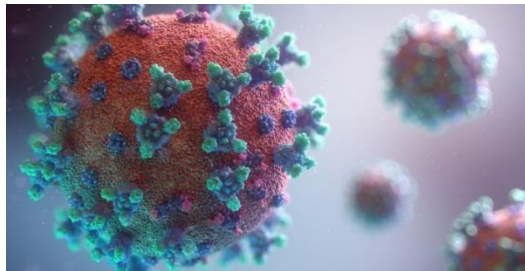


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9.1. The CoV2-Pandemic III – Basics about the Virus

Coronaviruses (CoV) are a **large family** of viruses that cause illness ranging from the common **cold** to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and **Severe Acute Respiratory Syndrome (SARS-CoV-1)**. A new strain of coronavirus (**SARS-CoV-2**) causes **Coronavirus disease 2019, or COVID-19**, which was declared as a pandemic by the WHO on 11 March 2020.

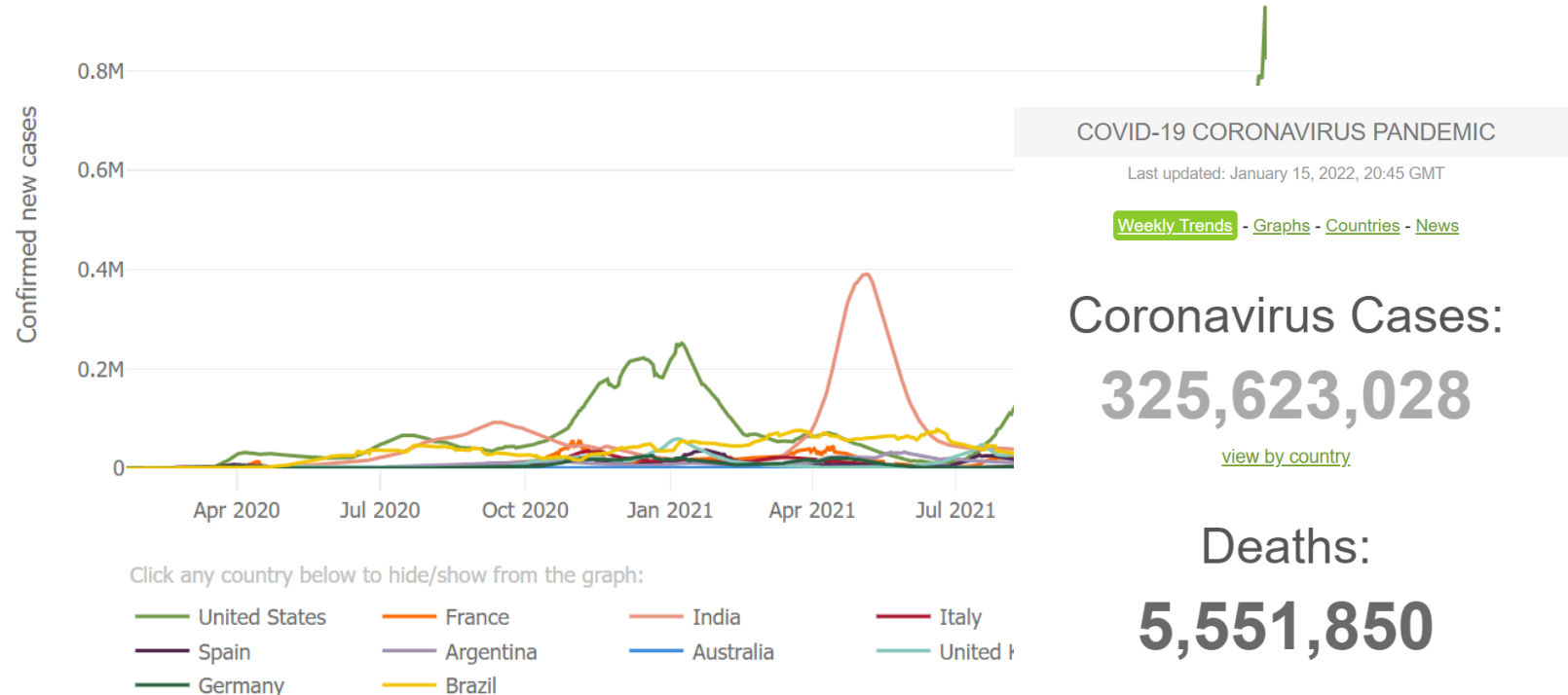
Coronavirus disease 2019 (**COVID-19**) is a **contagious** disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The first case was identified in **Wuhan**, China, in December 2019. The disease has since spread worldwide, leading to an ongoing pandemic.



In human history, it is generally **zoonoses** such as influenza and tuberculosis which constitute most of the widespread outbreaks, resulting from the **domestication of animals**

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9.1. The CoV2-Pandemic IV – Facts and Numbers



Coronavirus Cases:

325,623,028

[view by country](#)

Deaths:

5,551,850

Source: John Hopkins University

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9.1. The CoV2-Pandemic V– Melinda and Bill Gates on Covid-19

It's not too soon to start thinking about the next pandemic



The unfortunate reality is that COVID-19 **might not be the last pandemic**. We don't know when the next one will strike, or whether it will be a flu, a coronavirus, or some new disease we've never seen before. To prevent the hardship of this last year from happening again, **pandemic preparedness** must be taken as seriously as we take the **threat of war**. Stopping the next pandemic will require **spending tens of billions of dollars per year**—a big investment, but remember that the COVID-19 pandemic is **estimated to cost** the world **\$28 trillion**. **The world needs to spend billions**

To start, governments need to **continue investing in the scientific tools of that are getting us through this current pandemic**

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9.1. The CoV2-Pandemic VI – Pandemics a New Megatrend?

European Environmental Agency Study 2014:

Global megatrend 3 **Changing disease burdens and risks of** **pandemics**

Roland Berger Consultancy 12/2020 identifies pandemics as one out of different threats to global health:

Selected global health challenges



The climate crisis
as a health crisis



Anti-microbial
resistance (AMR)



Putting new
technology to use



Providing global
access to medicines



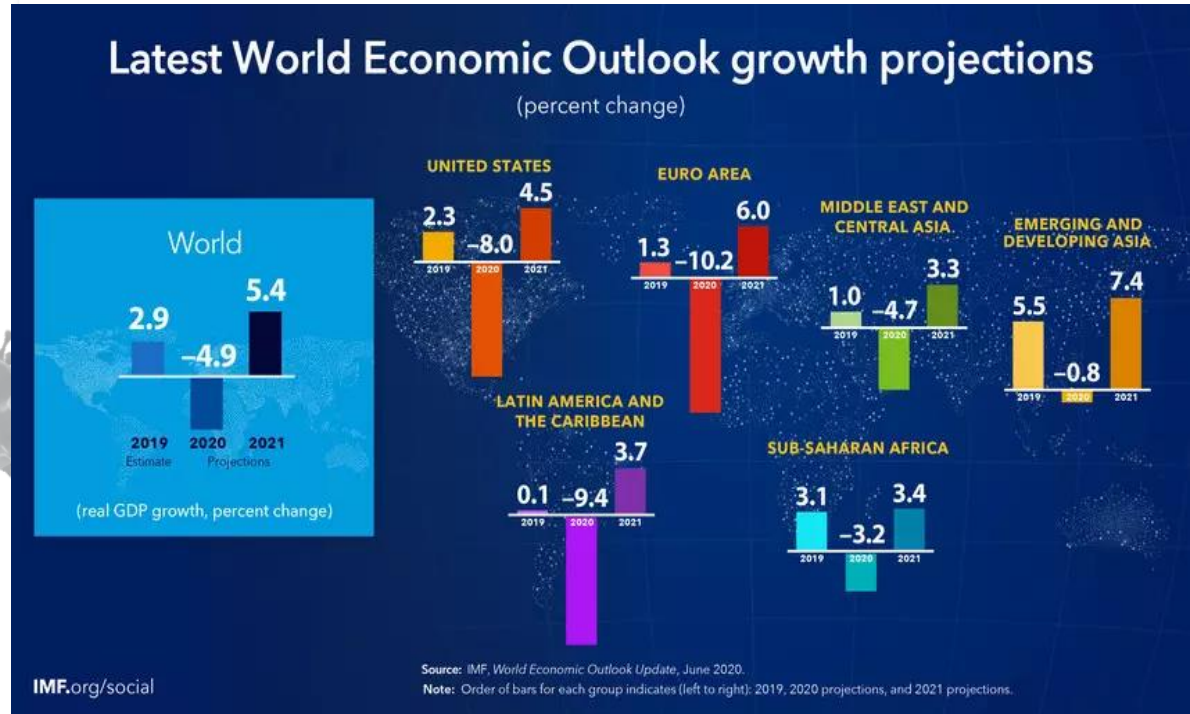
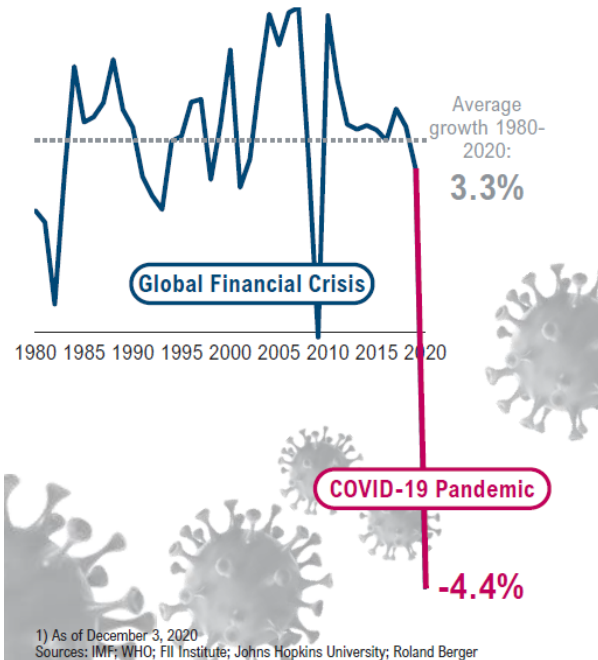
Closing the global
health care gap

Pandemics
work as
accelerator to
some
megatrends

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9.2. Macroeconomic Consequences I – Global GDP and Trade

Annual growth of global GDP [%]

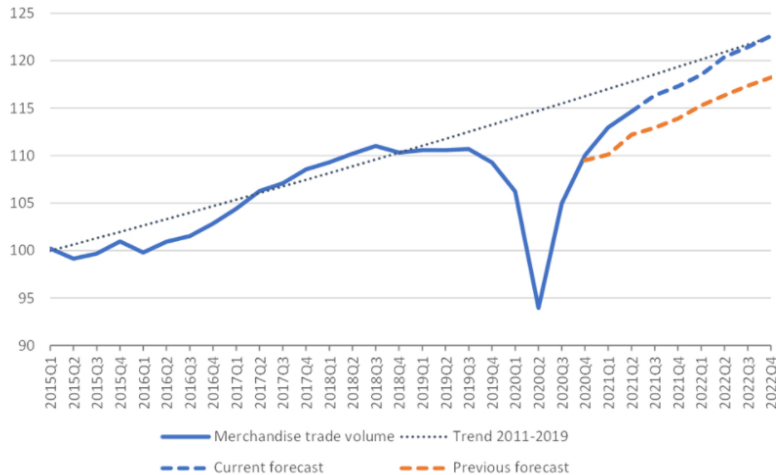


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9.2. Macroeconomic Consequences II – „Slowbalization“?

Chart 1: World merchandise trade volume, 2015Q1-2022Q4

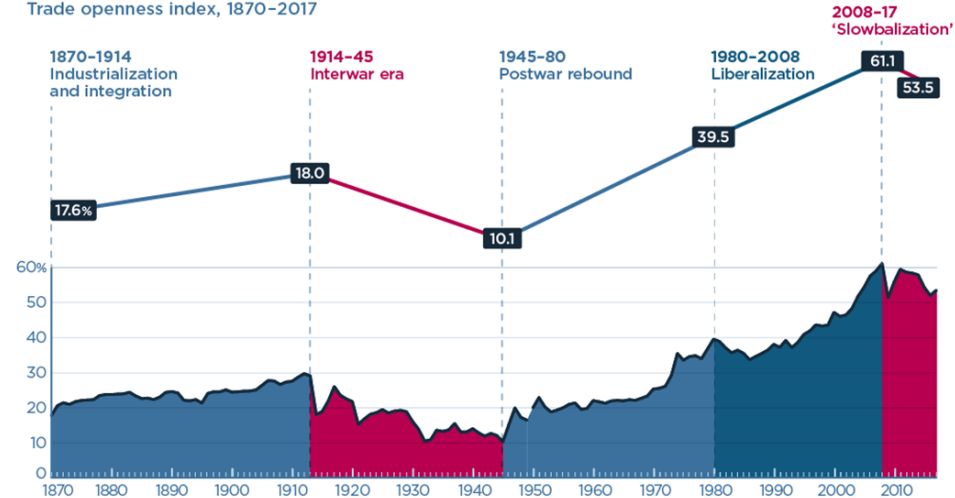
Index, 2015=100



Sources: WTO and UNCTAD for trade volume data; WTO for forecasts.

Globalization is in retreat for the first time since World War II

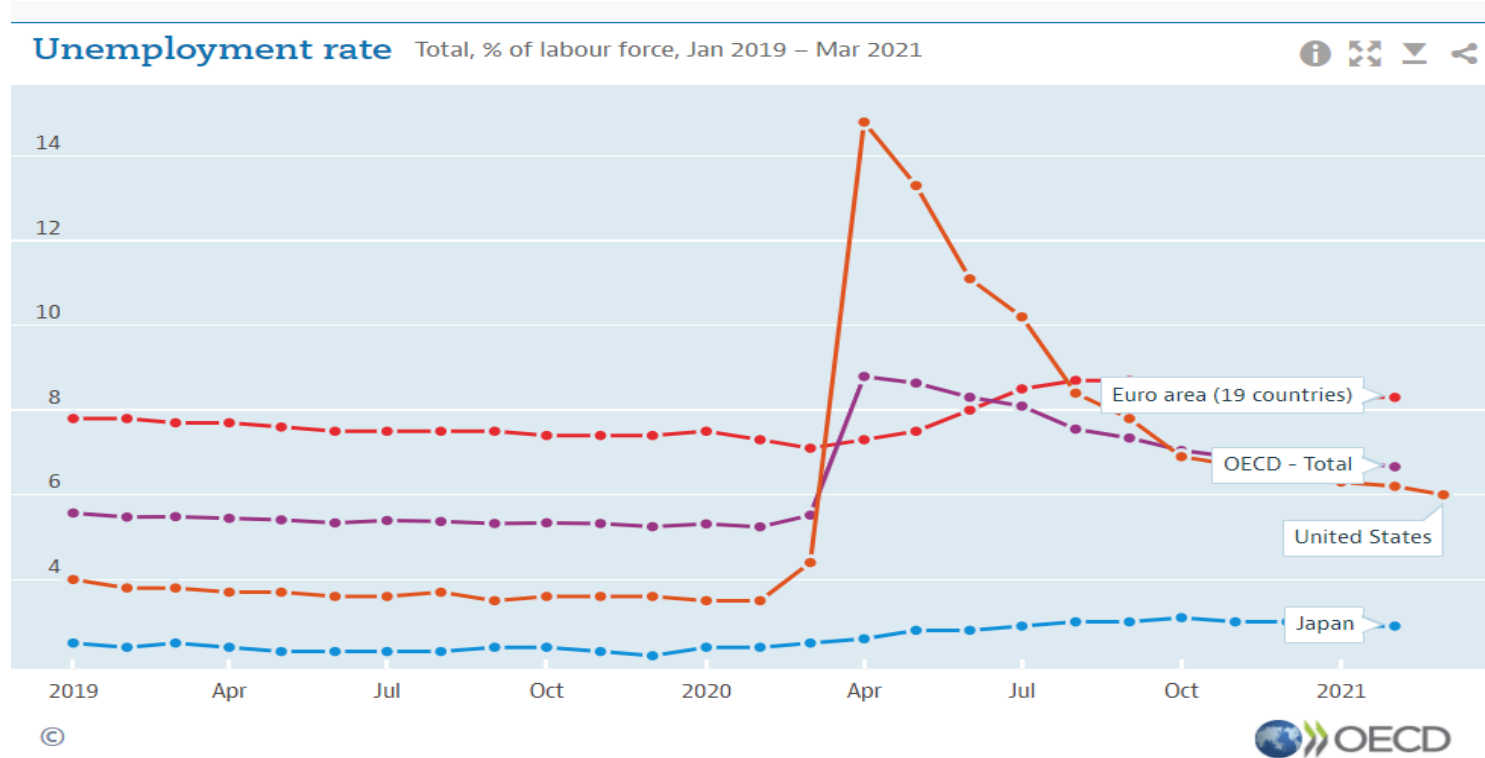
Trade openness index, 1870–2017



Note: The trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klings and Millonis (2014); 1950 to 2017 data are from Penn World Tables (9.0).

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9.2. Macroeconomic Consequences III – Unemployment short term



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9.2. Macroeconomic Consequences IV – State Deficits

THE 2020 BUDGET DEFICIT IS CURRENTLY
PROJECTED TO REACH \$4.2 TRILLION

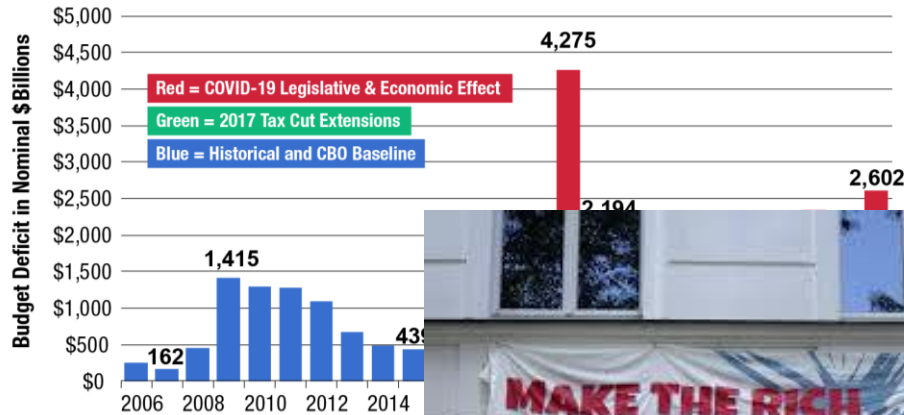


Chart: Manhattan Institute / Source: Es
CBO bill scores, and author
By Brian Riedl, M

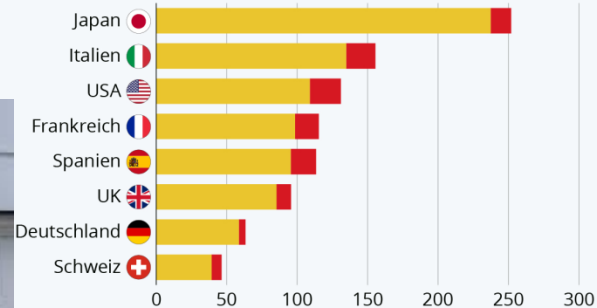


State deficit in % of GDP

Durch Corona steigt die Staatsverschuldung

Schuldenquote in ausgewählten Ländern weltweit
(in % des BIP)

■ Ende 2019 ■ Zunahme durch Corona



Quellen: Credit Suisse, IWF



statista

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9.2. Macroeconomic Consequences V – Inflation

Menu Q Search Bloomberg Opinion Sign In

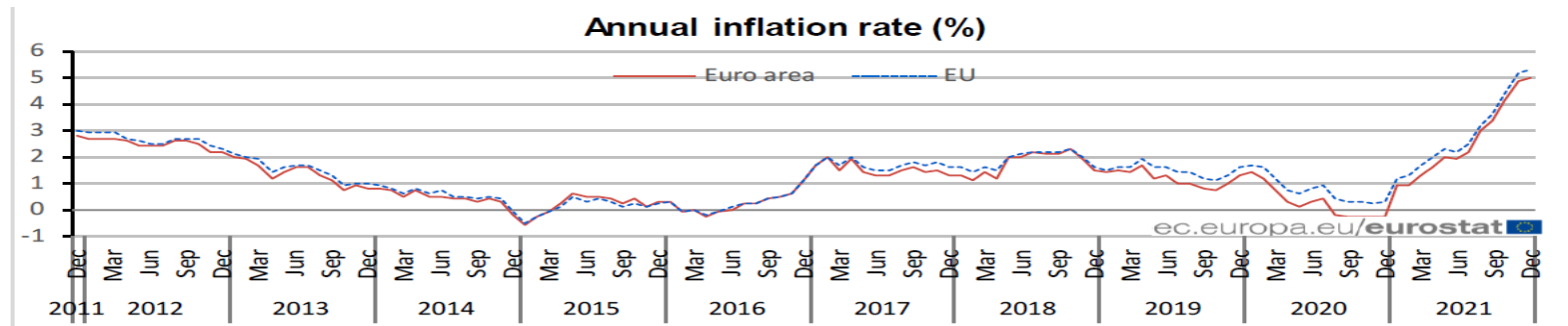
Economics

Worried About Inflation After Covid? Don't Be

???

Peter Bofinger 2021 (German Prof. on Macroeconomics):

- No pressure from the wage side due to a still high unemployment rate.
- Structural changes in mobility behavior (less travels) ease the pressure from the oil price side.
- Higher state deficits will not cause inflation as long there are no restrictions on the supply side.
- The only risk could be a one time effect through higher consumption after lockdowns (due to higher national income savings ratio).



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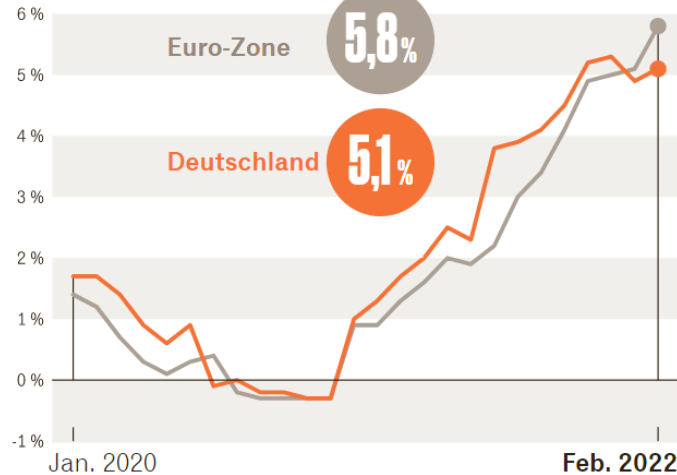
9.2. Excursus: Inflation Impact after Febr. 24, 2022

Energiekrise

Steigende Inflation

Increasing
Inflation

Inflationsrate zum Vorjahr
in Prozent



HANDELSBLATT

Quellen: Destatis, Eurostat



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9.2. Excursus: Inflation Impact after Febr. 24, 2022

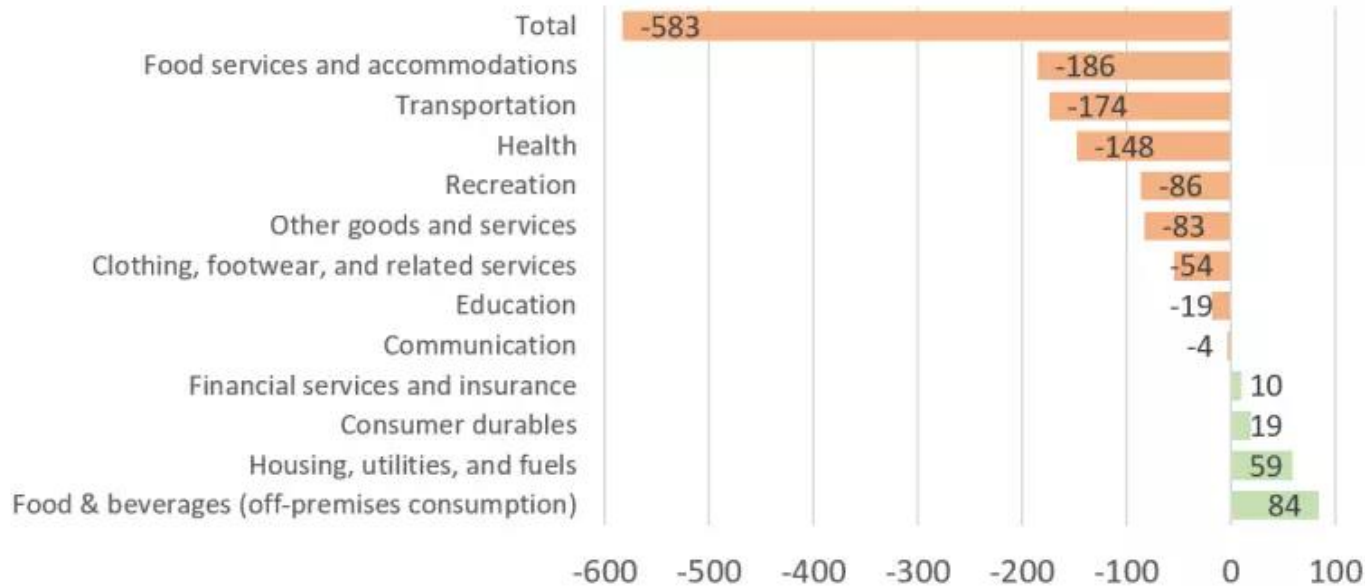
- ➔ Inflation rates were **already alarming before the war** broke out: In February, inflation in the euro zone was 5.8 percent. This is the highest value since the euro was founded in 1999. Clemens Fuest, head of the Munich Ifo Institute:
- ➔ “The Ukraine war is not just a military and geopolitical **turning point**. It is also changing the **economic situation**.”
- ➔ “This affects both the short-term economic development and the medium-term prospects for growth and prosperity. There is a risk of **stagflation**. (HB, 3/13/22)
- ➔ Joseph Stiglitz declared yesterday that “we are **not facing an inflation crisis**.” At a panel discussion he argued that the economy is “not likely to have the type of **wage-price inflation** that we had in the 1970s.” (NYT 3/4/22)



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9.3. Covid Impacts on Business Models I – Sector Impacts

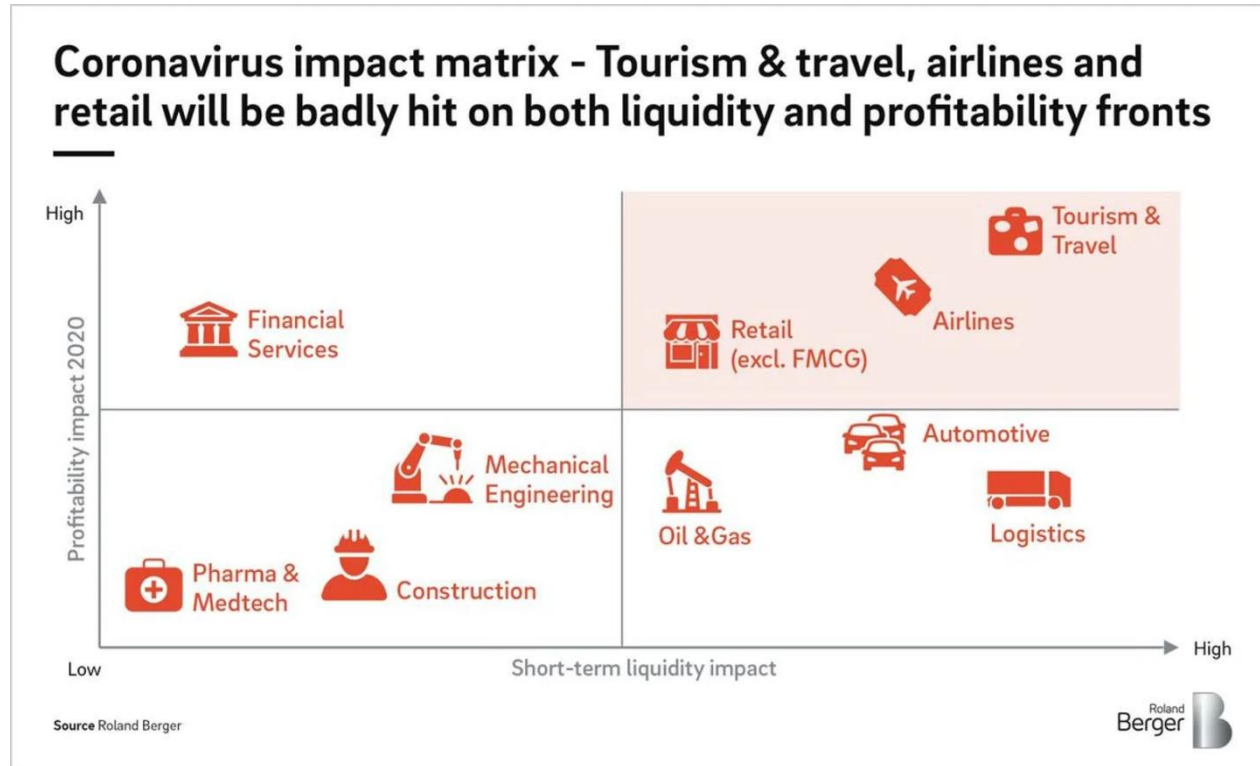
Spendings during Covid Crisis in the USA



Source: WEFForum Feb 2021

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9.3. Covid Impacts on Business Models II – Profitability Impacts

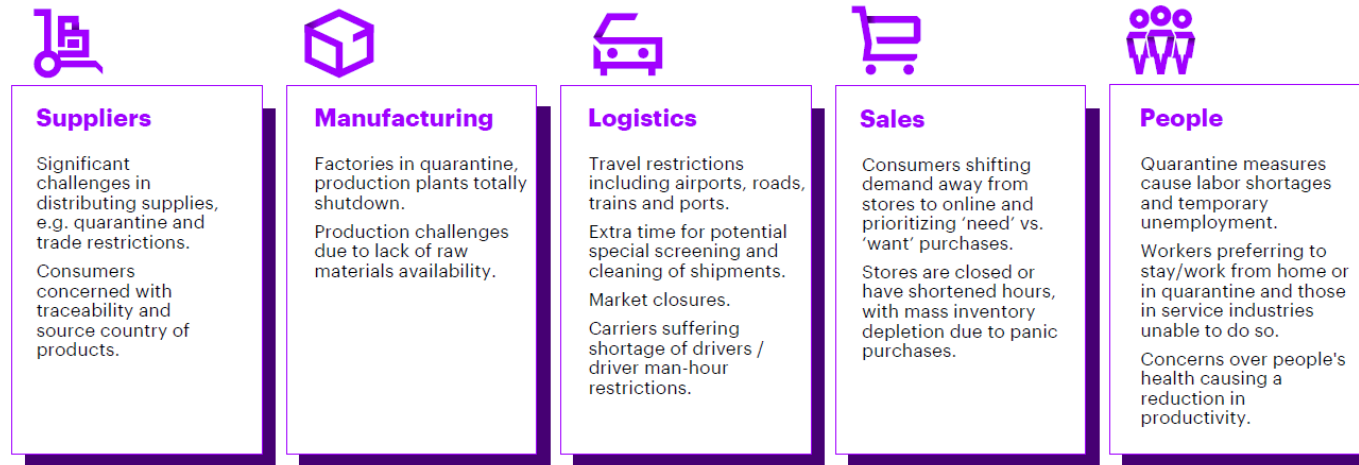


9.3. Covid Impacts on Business Models III – Value Chain Impacts

The impact on the value chain is significant

Global **value chains** are being severely impacted along all dimensions. Built for efficiency, today's supply chains cannot be easily switched to a state of effectiveness and responsiveness, especially in a time of stress where customer and product segmentations are changing so rapidly. And the biggest challenges may be yet to come.

Examples of challenges across the value chain:

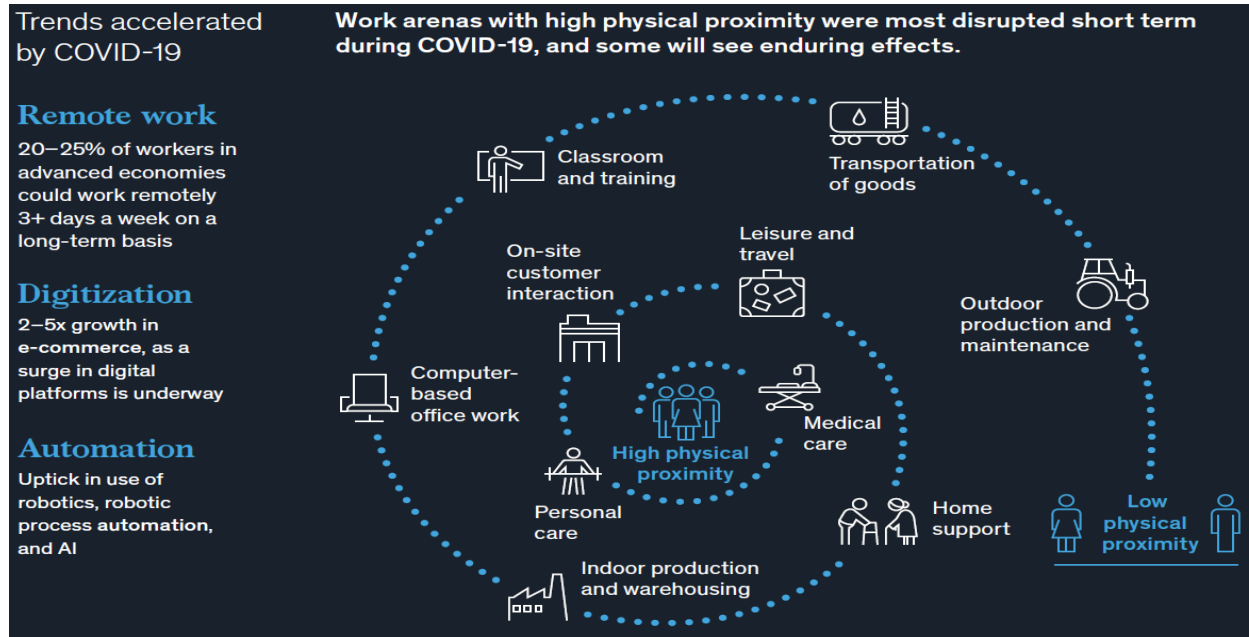


RAPID RESPONSE: A pragmatic approach to maintaining supply chain resilience in times of uncertainty

Source: Accenture 2020

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9.3. Covid Impacts on Business Models IV - Future of Work



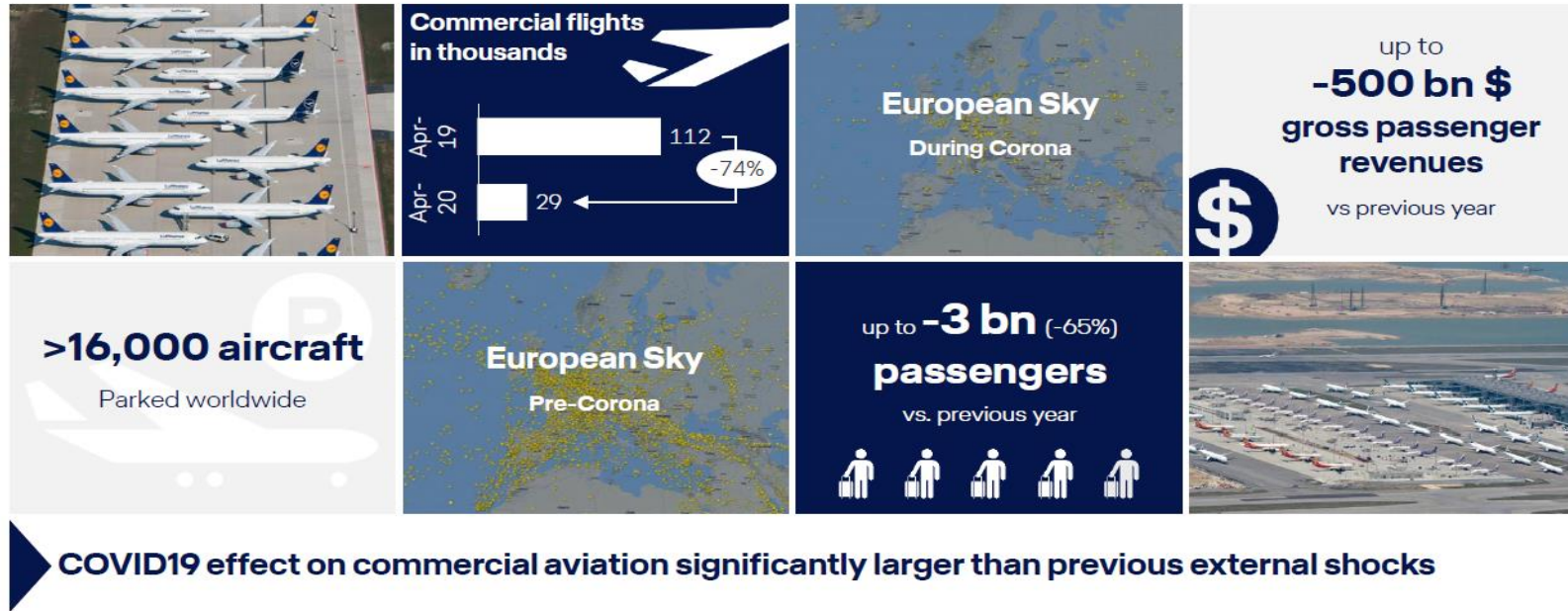
Source: McK Global Institute, Feb.21

<https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19>

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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

Aviation industry grounded – 2020 world passenger traffic collapses



Source: Lufthansa, Investor Relations, Jan.2021

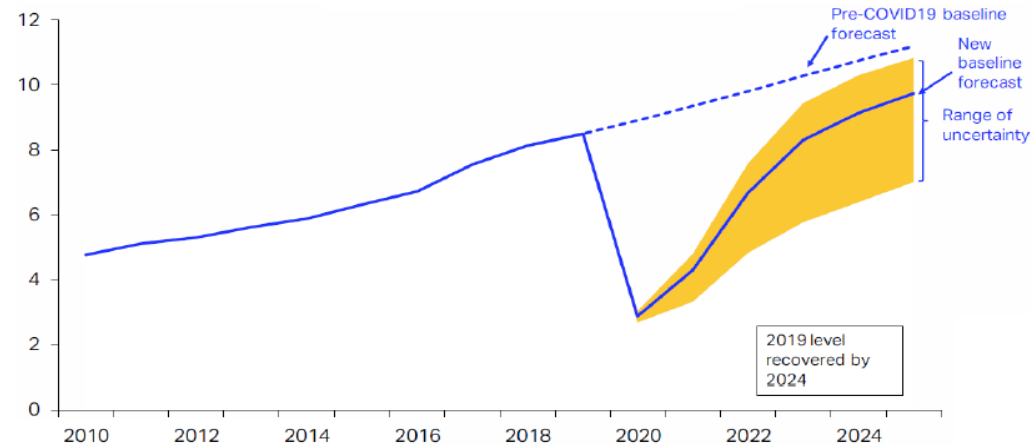
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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

Recovery of air traffic expected to be slow - return forecast by mid of the decade

IATA forecast of passenger development

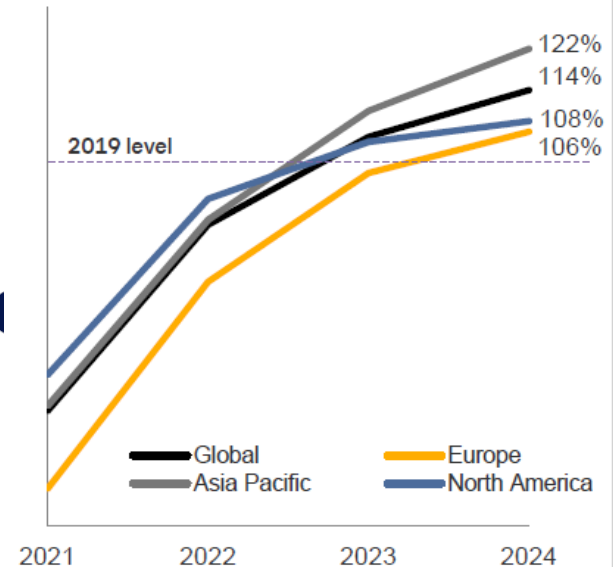
Global RPK, trillions per year



Source: Lufthansa, Investor Relations, Jan.2021 and 2022

Passenger Recovery by Region

Expected Passenger Recovery by Region (IATA)
PAX (% of 2019)



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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

Key figures 2020

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Capturing Market Opportunities

Enhancing our offering to secure share in strategic markets and capitalize on the shape of the recovery



Enhancing Customer Centricity

Delivering an individual and seamless customer experience to stimulate demand and loyalty



Accelerating Digitalization

Digitalizing the Group to drive superior customer experience, revenue quality and efficiency



Underlining Commitment to Sustainability

Driving technological innovation to make aviation sustainable



Optimizing our Ways of Working

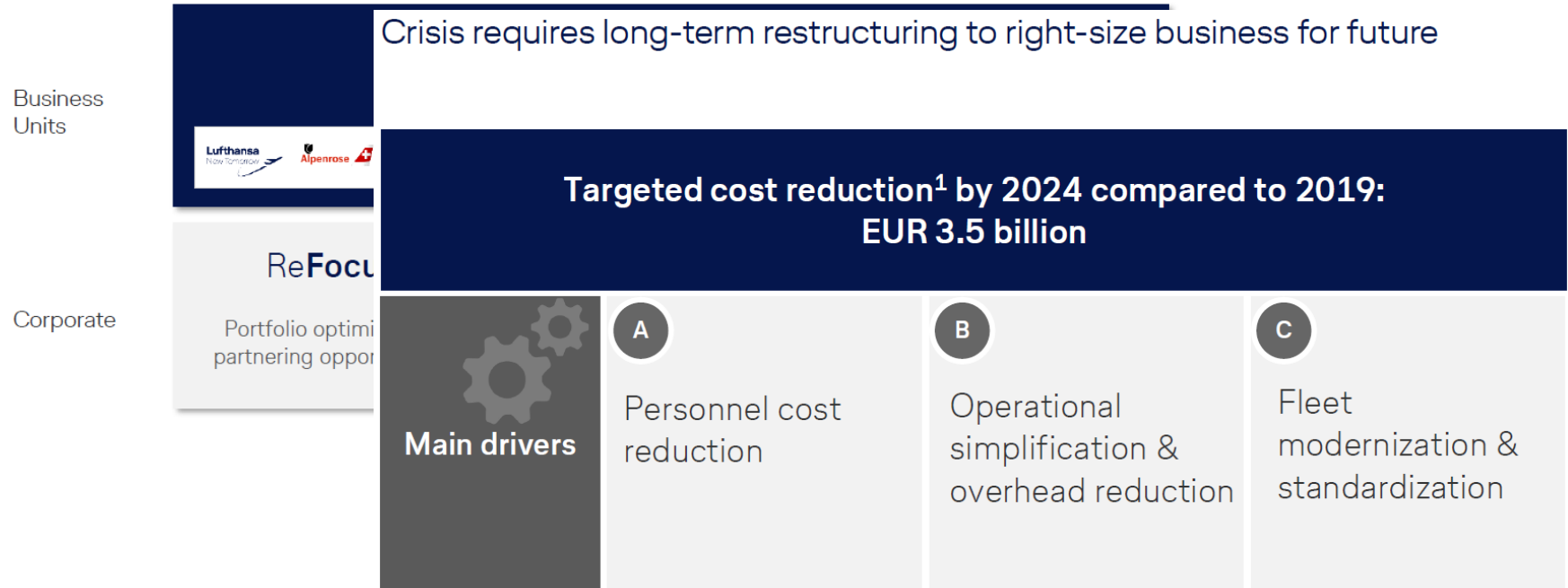
Streamlining our processes and portfolio



Source: Lufthansa, Investor Relations, March 2021

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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

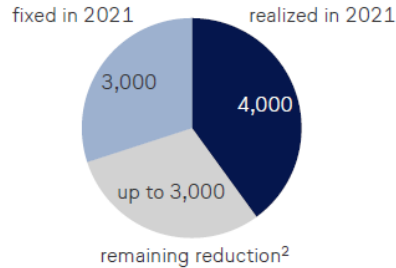


Source: Lufthansa, Investor Relations, Jan.2021 and 22

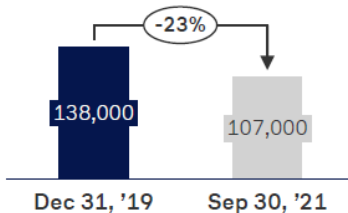
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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

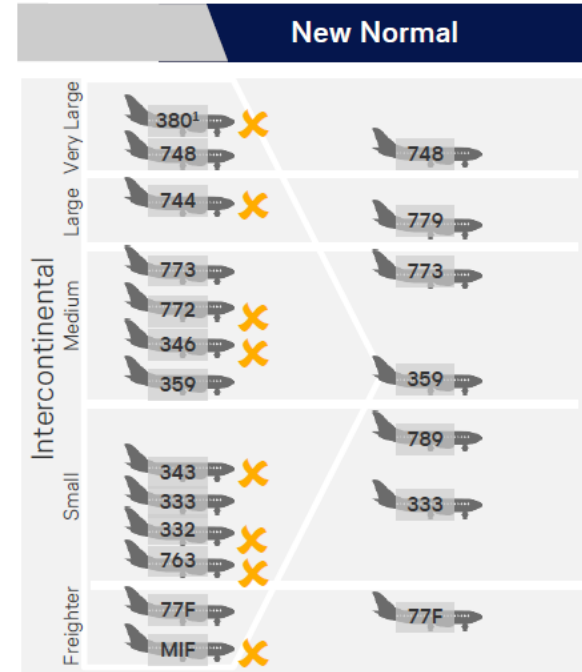
Workforce reduction in GER¹ (as of Sep 30, '21)



Workforce overview



¹ Excl. ca. 1,000 new positions at Eurowings & Eurowings Discover ² or equivalent cost



Source: Lufthansa, Investor Relations, Jan.2022

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9.3. Covid Impacts on Business Models IV – Example: Lufthansa



Pilot customer for the first industrially produced **power-to-liquid fuel** in **Germany**

SBTi
Commitment
for 2030



Leasing agreement concluded for an additional four fuel-efficient **Airbus A350-900** aircraft

Largest buyer of **sustainable aviation fuels (SAFs)** in Europe

Commitment to invest
USD 250m
until 2024



Absolute CO₂ Reduction Target 2030 (vs. 2019)

-25%

Key drivers –

- Fleet modernization
- Increase of operational efficiency
- Increased use of SAFs



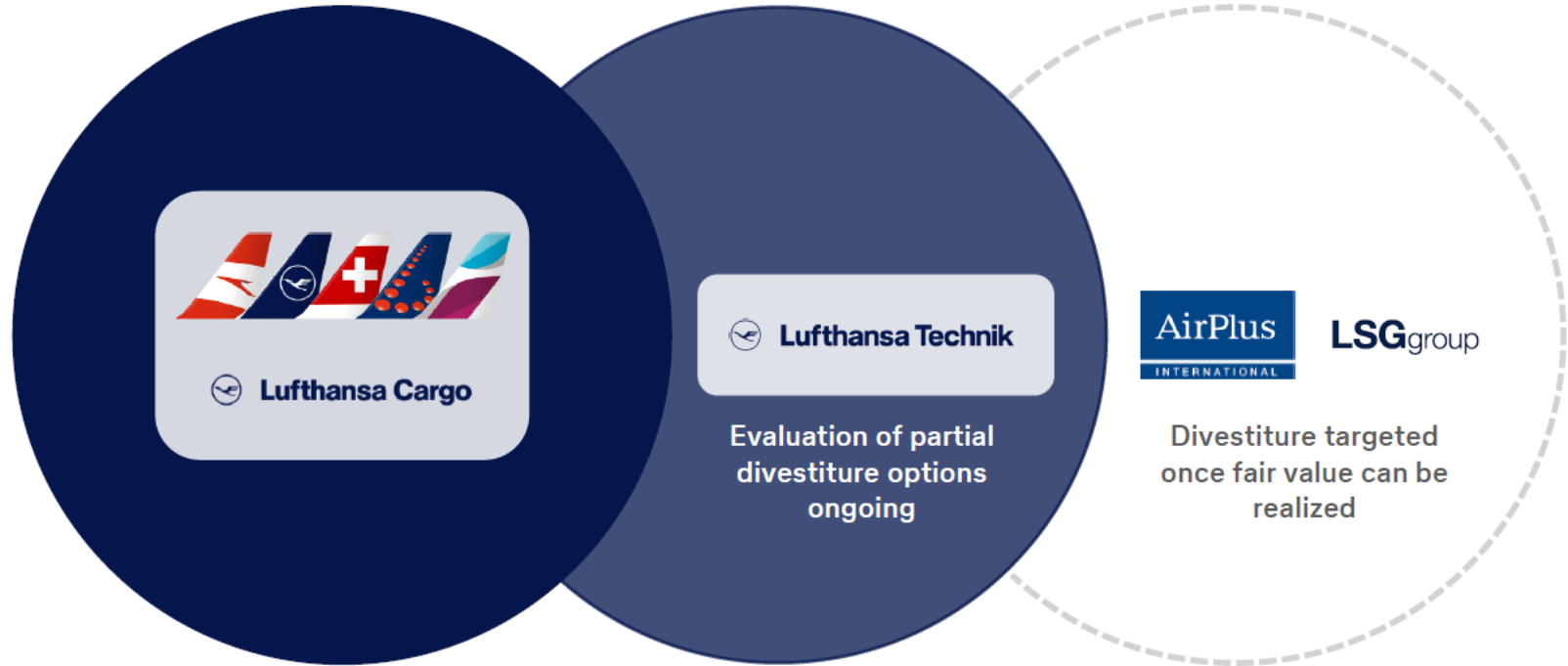
Gram CO₂ per Revenue Tonne-Kilometer ("emission per production unit")

Source: Lufthansa, Investor Relations, Jan.2022

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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

Core business



Source: Lufthansa, Investor Relations, Jan.2022

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9.3. Covid Impacts

Worldwide luxury market, 2020



283

55

Year-over-year
(YoY) growth,
at current
exchange rates

YoY 2020–21E

+29%

+7%

YoY 2019–21E

+1%

+0%

Top 10 luxury goods companies by sales, FY2020

	FY2020 Luxury goods sales ranking	Change in ranking from FY2019	Name of company	Country of origin	FY2020 Luxury goods sales (US\$M)
1	↔		LVMH Moët Hennessy-Louis Vuitton SE	France	33,976
2	↔		Kering SA	France	14,930
3	↔		The Estée Lauder Companies Inc.	United States	14,294
4	↔		Compagnie Financière Richemont SA	Switzerland	13,183
5	↔		L'Oréal Luxe	France	11,602
6	↔		Chanel Limited	United Kingdom	10,108
7	↔		EssilorLuxottica SA	Italy	8,793
8	↑ 1		PVH Corp.	United States	8,380
9	↑ 2		Hermès International SCA	France	7,282
10	↓ -2		Chow Tai Fook Jewelry Group Limited 周大福珠宝集团有限公司	China/ Hong Kong SAR	7,196
Top 10					129,744
Top 100					252,270
Top 10 share of Top 100					51.4%

Luxury Goods Markets

0

1140

Luxury
cruises

Total
2021E

–40%/42% +13%/15%
vs. 2020

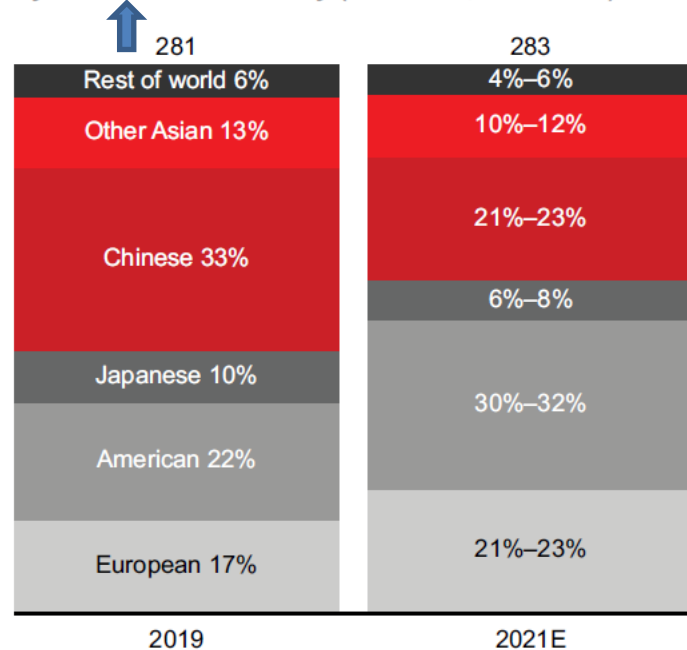
–80%/–85% –9%/–11%
vs. 2019

Source: Bain&Company 2022

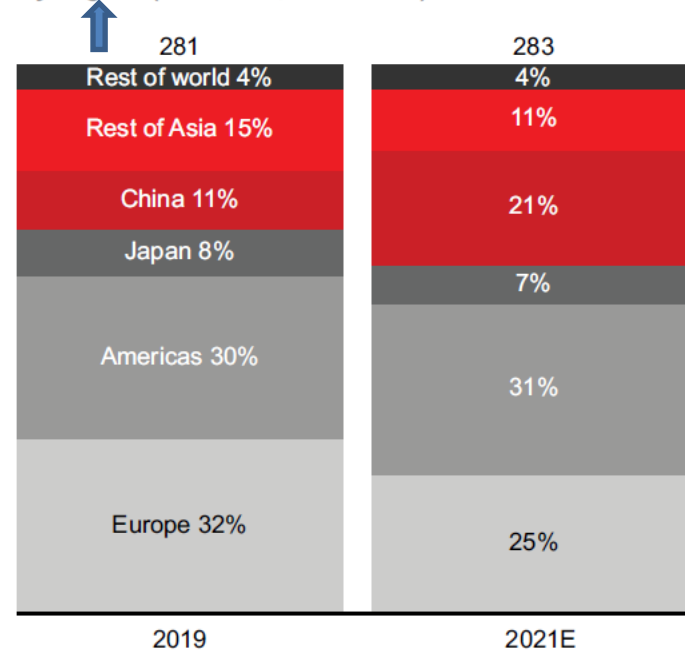
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9.3. Covid Impacts on Business Models V – Example: Luxury Goods Markets

Share of global personal luxury goods market, by consumer nationality (€ billions, 2019–21E)



Share of global personal luxury goods market, by region (€ billions, 2019–21E)

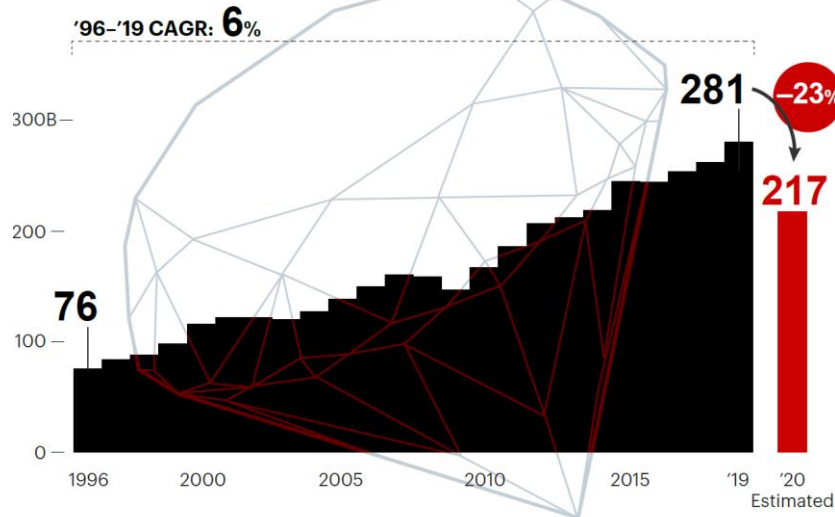


Source: Bain&Company 2022

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9.3. Covid Impacts on Business Models V – Example: Luxury Goods Markets

The core personal luxury goods market fell by **23% in 2020**, to **€217B** worldwide.



That's the **first drop since 2009** and the **largest recorded** since we have been tracking the industry.

Despite the downturn online shopping soared from 12% to 23%

Covid-19 has sped five key trends in the industry

The shift toward local purchases

With the large drop in tourism, more purchases are being made locally, a trend we expect to remain postpandemic

The dominance of digital

In 2020, online sales skyrocketed at a pace equivalent to five years of growth. By 2025, it will consist of 1/3 of total market value

The changing role of brands

Brands will exert more control over wholesale channels and shift from being "producers" to "broadcasters" amid increased appetite for accessibility

The rise of Gen Z

Younger consumers in 2020 were more resilient than older generations and are poised to spark the rebound

The evolving nature of the store

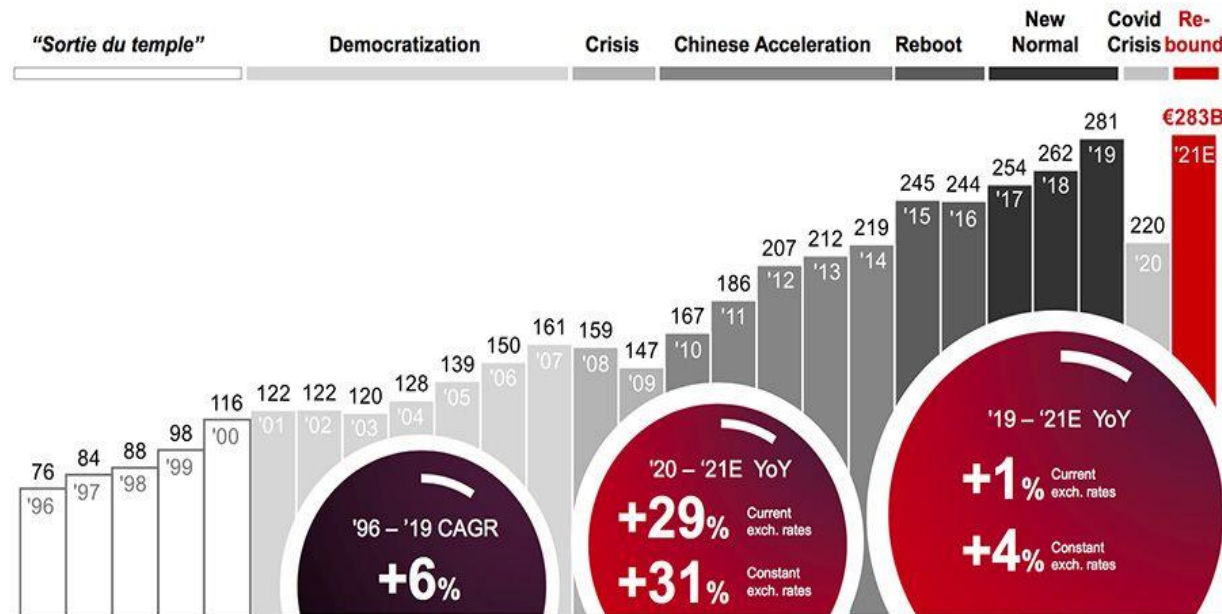
Retail networks will need to be redesigned around the customer—especially the ergonomics, location and purpose of stores

Source: Bain&Company 2021

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9.3. Covid Impacts on Business Models V – Example: Luxury Goods Markets

After its worst dip in history, the **personal luxury goods market** experienced a **V-shaped rebound in 2021**



- Recovery mainly driven by US and China
- Online Channel nearly doubled, secondhand market thrived
- Online and monobrand stores are the key channels
- Increasing market concentration but room for „rising stars“
- Luxury goods industry came out of the crisis with more strength, resilience and agility

Source: Bain&Company 2022

9.3. Covid Impacts on Business Models V – Example: LVMH

2020 ANNUAL RESULTS 30



Louis Vuitton

GETTING READY FOR THE RECOVERY IN 2021

- | Maintain **vigilance** in an economic environment disrupted by major global health crisis
- | Remain focused on **preserving value of our brands, quality of our products** and their **distribution**
- | Ensure rapid integration of **Tiffany** within the Group
- | Pursue **digitalization** of our Maisons to enrich customers' experience both online and in stores
- | Accentuate Group's **commitment** to **preserve the environment** and **corporate responsibility**
- | Build upon **entrepreneurship** and **agility** of our organization

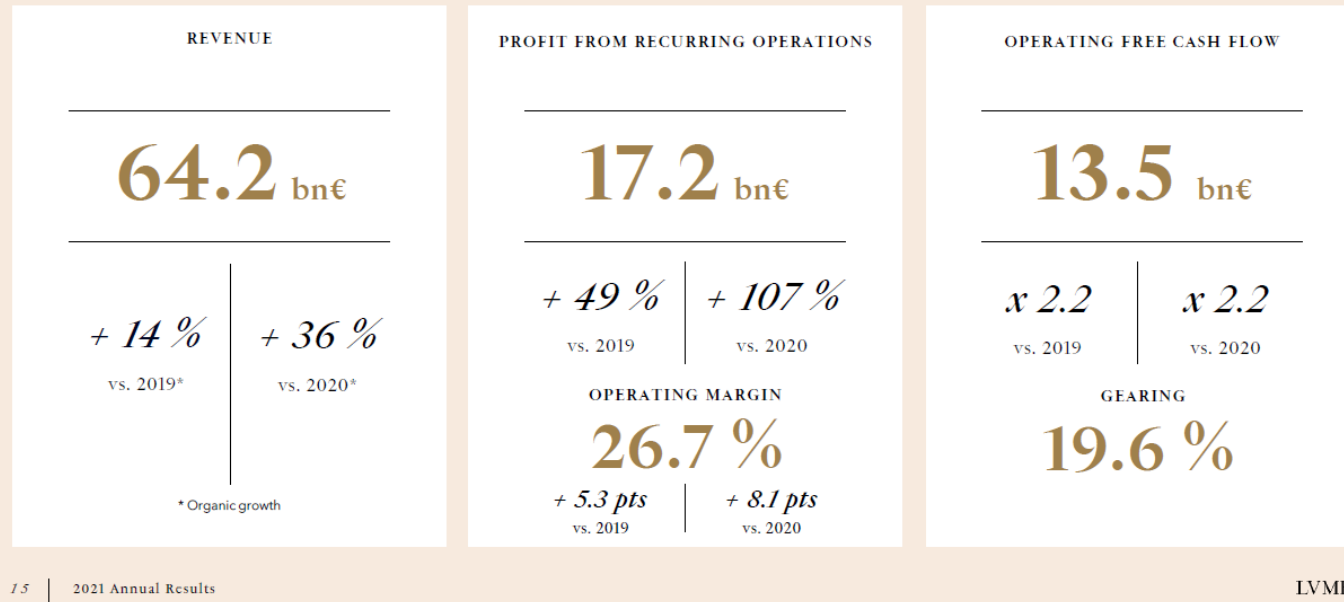
REINFORCE LVMH'S GLOBAL LEADERSHIP POSITION IN LUXURY GOODS IN 2021

LVMH

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9.3. Covid Impacts on Business Models V – Example: LVMH

2021: a record year particularly for Fashion & Leather Goods division



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9.3. Covid Impacts on Business Models V – Example: LVMH

Wines & Spirits – Sustained demand in the US and strong rebound in China in a context of tight supply constraints

Fashion & Leather Goods – Remarkable performance of Louis Vuitton, Christian Dior, Fendi, Celine, Loewe and Marc Jacobs

Watches & Jewelry – Strong rebound of activity in own stores and successful integration of Tiffany

Perfumes & Cosmetics – Strong growth of perfume and skincare and continued selective distribution



Parfums Christian Dior



Guerlain



Other brands



Other brands

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9.3. Covid Impacts on Business Models V – Example: LVMH

Strong organic growth particularly driven by outstanding performance of Fashion & Profit from recurring operations over 17 billion euros

2021 revenue by bu

Profit from recurring operations by business group (in million of euros)

		2019	2020	2021	Change vs 2020	Change vs 2019
Wines & Spirits	Wines & Spirits	1 729	1 388	1 863	+ 34%	+ 8%
	Champagne & Wines	690	488	762	+ 56%	+ 10%
Fashion & Leather Goods	Cognac & Spirits	1 039	900	1 101	+ 22%	+ 6%
	Fashion & Leather Goods	7 344	7 188	12 842	+ 79%	+ 75%
Perfumes & Cosmetics	Perfumes & Cosmetics	683	80	684	> 200%	0%
Watches & Jewelry	Watches & Jewelry	736	302	1 679*	> 200%	+ 128%
Selective Retailing	Selective Retailing	1 395	(203)	534	ns	- 62%
Other activities and elimi	Other activities and eliminations	(383)	(450)	(451)	ns	ns
Total LVMH	Total LVMH	11 504	8 305	17 151	+ 107%	+ 49%
	Operating margin (%)	21.4%	18.6%	26.7%	+8.1 pts	+ 5.3 pts

* with comparable structure and ex
The structural impact for the Group

* Non-comparable structure.

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9.3. Covid Impacts on Business Models VI – Conclusion: Next Normal

McK 2021: The next Normal arrives:

The COVID-19 crisis has created an imperative for companies to reconfigure their operations—and an opportunity to transform them. To the extent that they do so, greater productivity will follow.

***Why Sustainability
is the new digital -
and Green is the
new colour.....***

