
Business Strategies Part II – Chapter 9

Covid-19 Crisis and Business Strategy

Tor Vergata University of Rome
2nd Semester 2021 (online)
- Global Governance -
Dr. Josef Fidelis Senn

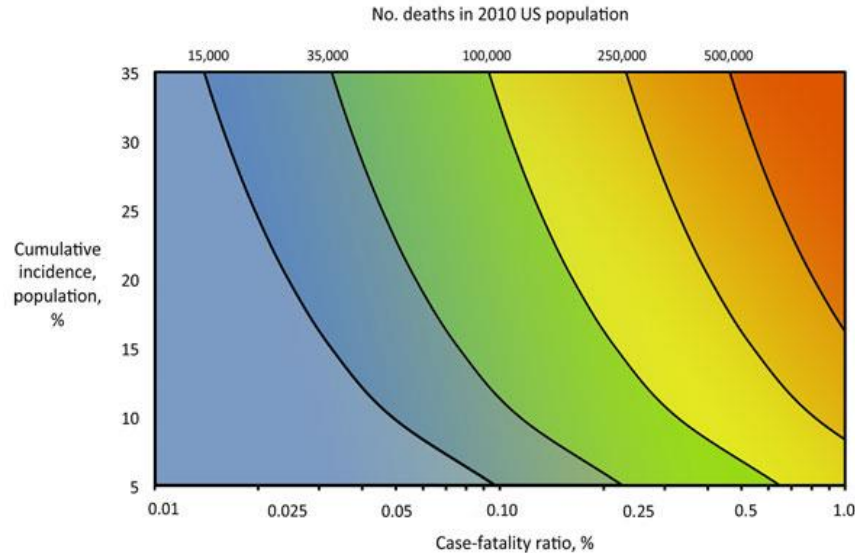


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9.1. The CoV2-Pandemic I - Definition of a Pandemic

A pandemic is an epidemic occurring on a scale that crosses international boundaries, usually affecting people on a worldwide scale.

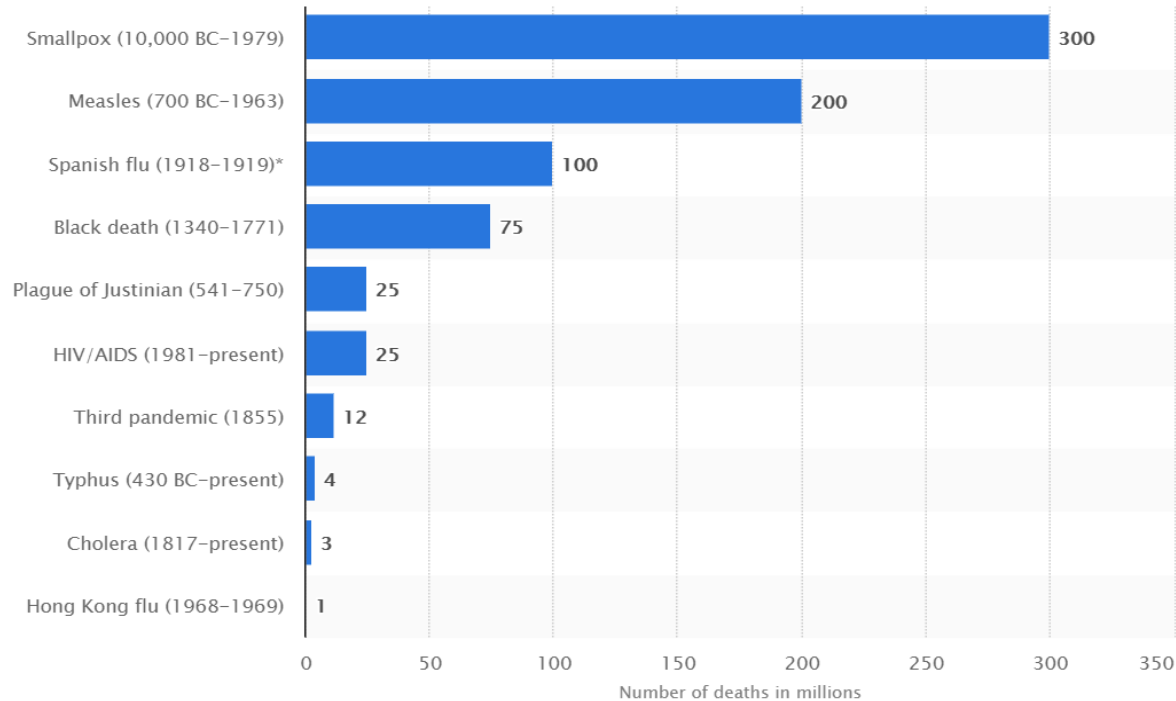
In 2014, the United States Centers for Disease Control and Prevention adopted the Pandemic Severity Assessment Framework (PSAF) to assess the severity of pandemics



Source: Wikipedia

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

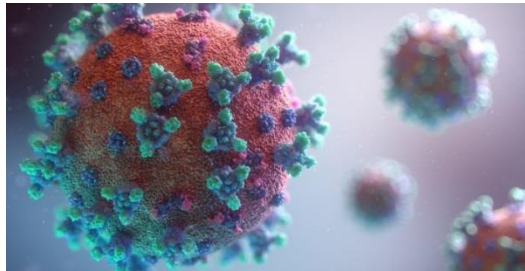


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9.1. The CoV2-Pandemic III – Basics about the Virus

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.

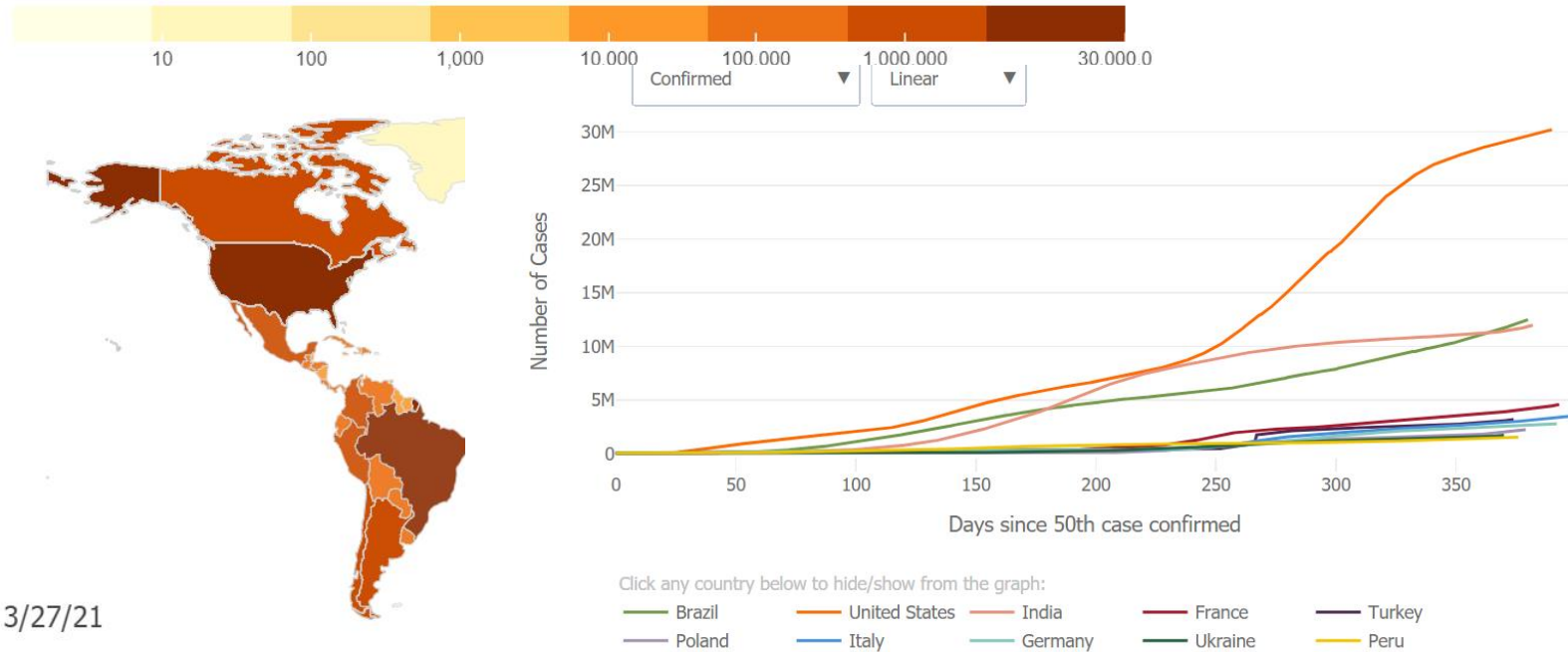
Coronavirus disease 2019 (**COVID-19**) is a **contagious** disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The first case was identified in **Wuhan**, China, in December 2019. The disease has since spread worldwide, leading to an ongoing pandemic.



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

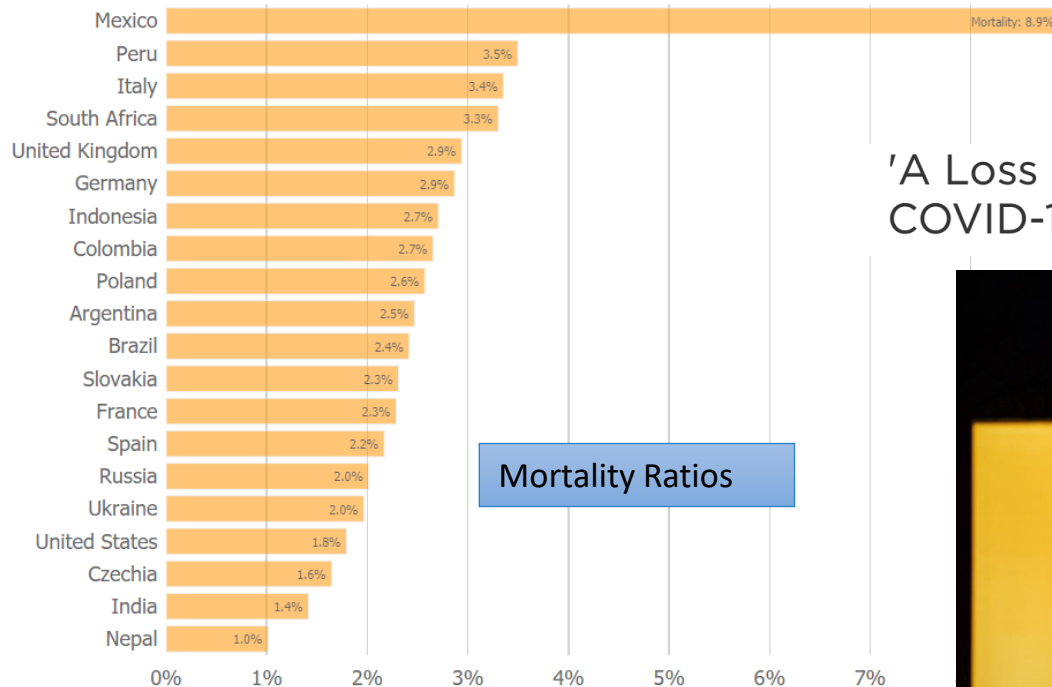


3/27/21

Source: John Hopkins University

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9.1. The CoV2-Pandemic IV – Facts and Numbers



'A Loss To The Whole Society': U.S. COVID-19 Death Toll Reaches 500,000



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 save trillions** (and prevent millions of deaths).

To start, governments need to **continue investing in the scientific tools 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:

Pandemics work as accelerator to some megatrends

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

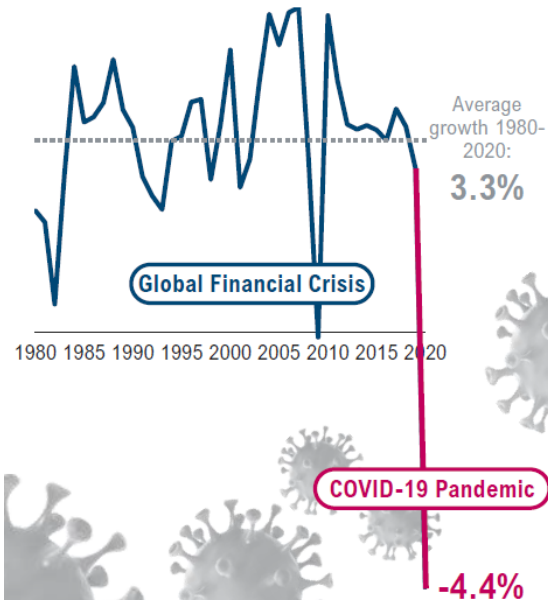


Closing the global
health care gap

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9.2. Macroeconomic Consequences I – Global GDP and Trade

Annual growth of global GDP [%]

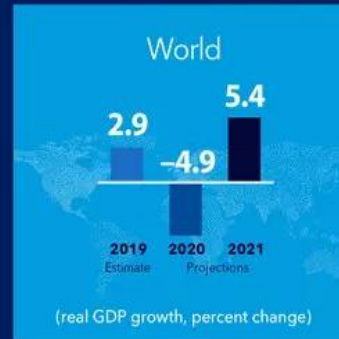


1) As of December 3, 2020

Sources: IMF; WHO; ILO Institute; Johns Hopkins University; Roland Berger

Latest World Economic Outlook growth projections

(percent change)



IMF.org/social

UNITED STATES



EURO AREA



MIDDLE EAST AND CENTRAL ASIA



EMERGING AND DEVELOPING ASIA



LATIN AMERICA AND THE CARIBBEAN



SUB-SAHARAN AFRICA



Source: IMF, World Economic Outlook Update, June 2020.

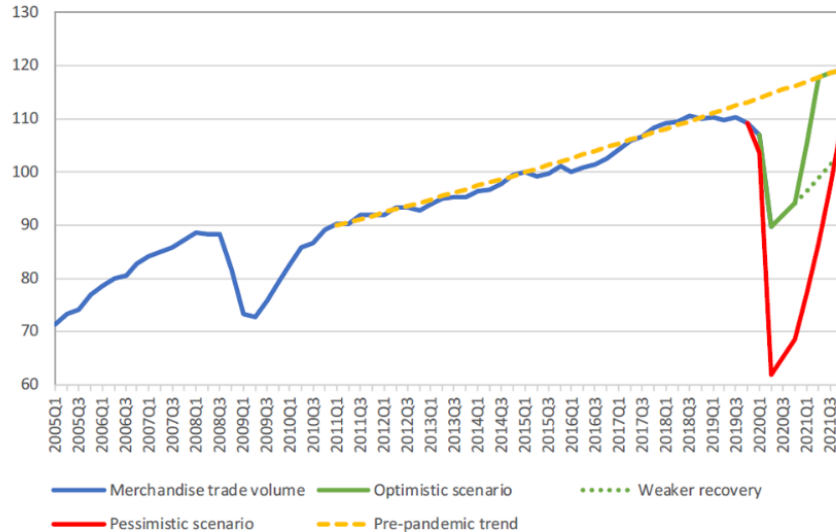
Note: Order of bars for each group indicates (left to right): 2019, 2020 projections, and 2021 projections.

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9.2. Macroeconomic Consequences II – „Slowbalization“?

Chart 1: World merchandise trade volume, 2005Q1-2021Q4

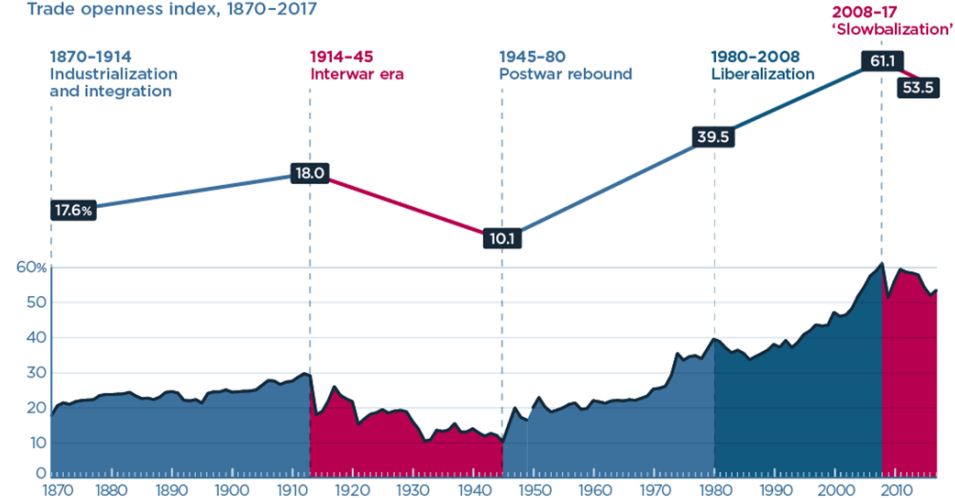
(Index, 2015=100)



Source: WTO/UNCTAD and WTO Secretariat estimates.

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

Trade openness index, 1870-2017



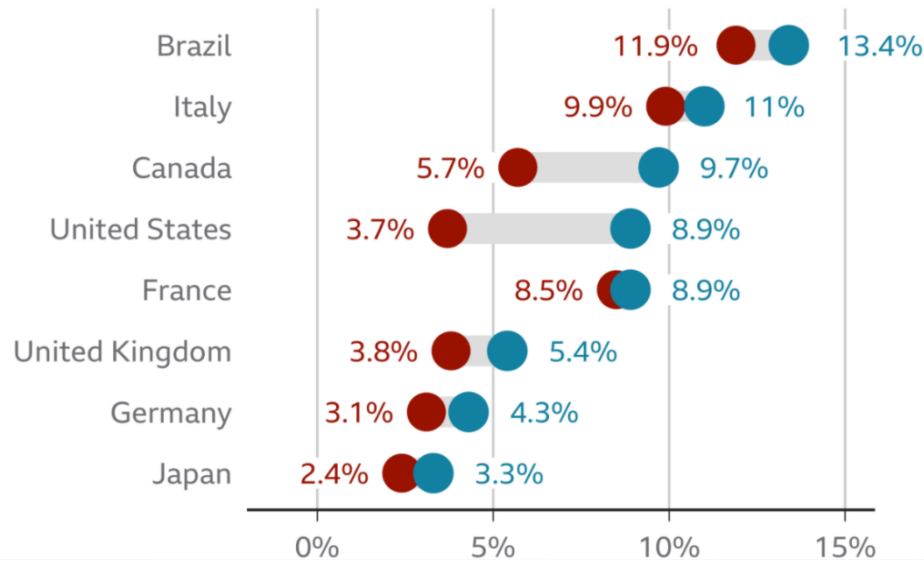
Note: The trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klings and Millonis (2014); 1950 to 2017 data are from Penn World Tables (9.0).

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9.2. Macroeconomic Consequences III – Unemployment

World economies struggling with rising unemployment

Yearly unemployment rate change, **2019** and **2020** compared



Source: BBC , Jan. 24, 2021

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9.2. Macroeconomic Consequences IV – State Deficits

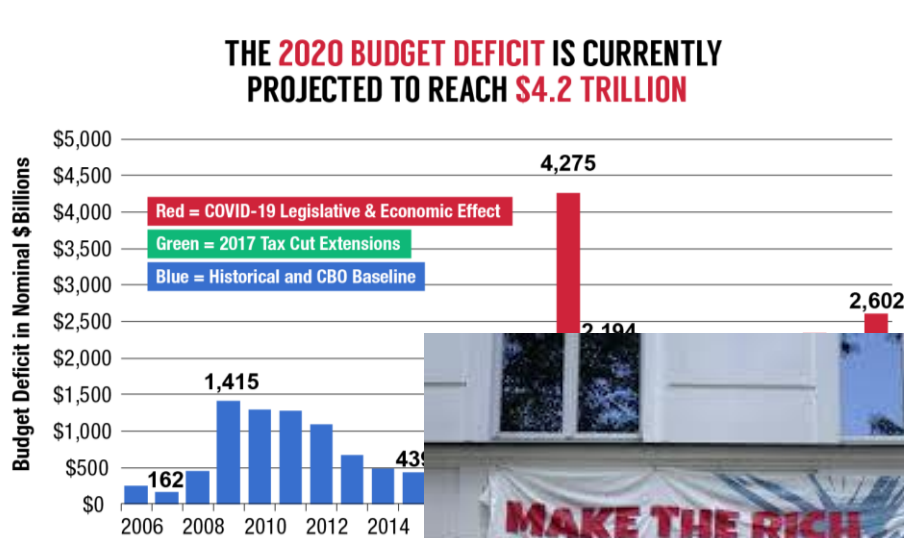
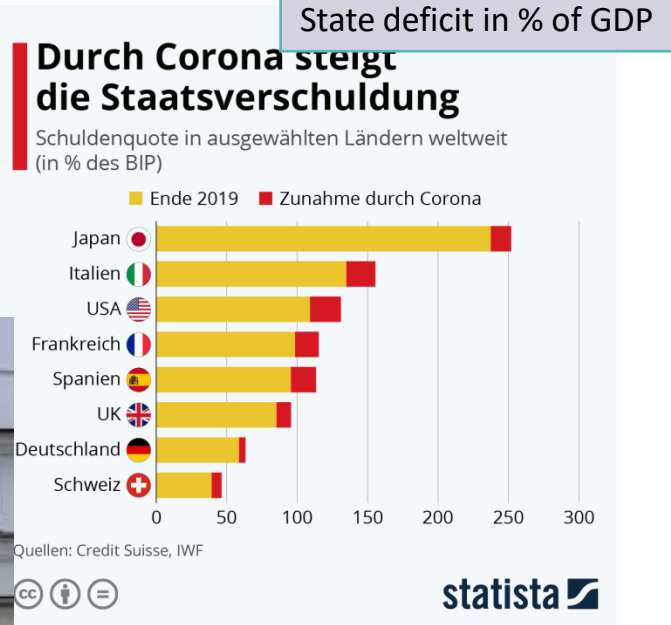
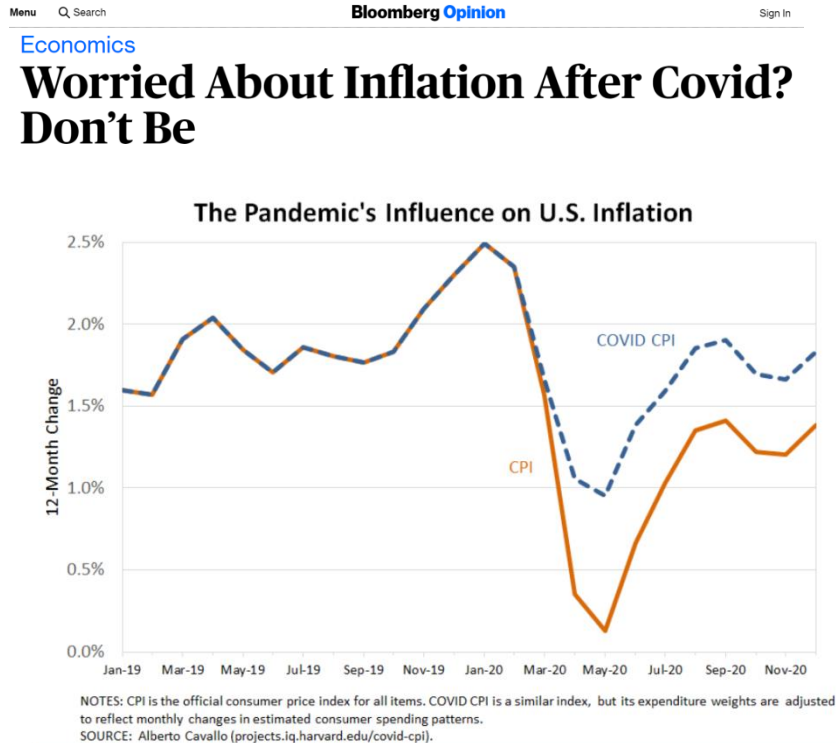


Chart: Manhattan Institute / Source: Es
CBO bill scores, and author
By Brian Riedl, M



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9.2. Macroeconomic Consequences V – Inflation



NYT, Feb.24: “Other projections aren’t showing high inflation either. The **consensus** of the Survey of Professional Forecasters is **for inflation** to just hit the **2 percent** mark over the next five years”.

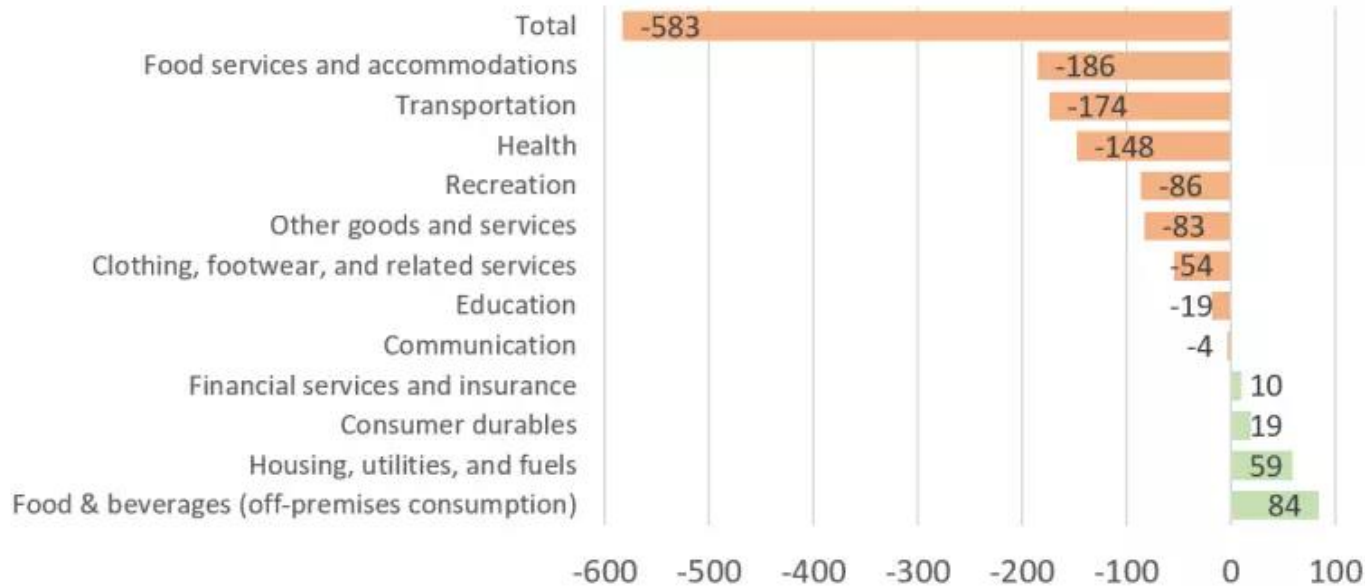
Peter Bofinger (German Prof. on Macroeconomics):

- 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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9.3. Covid Impacts on Business Models I – Sector Impacts

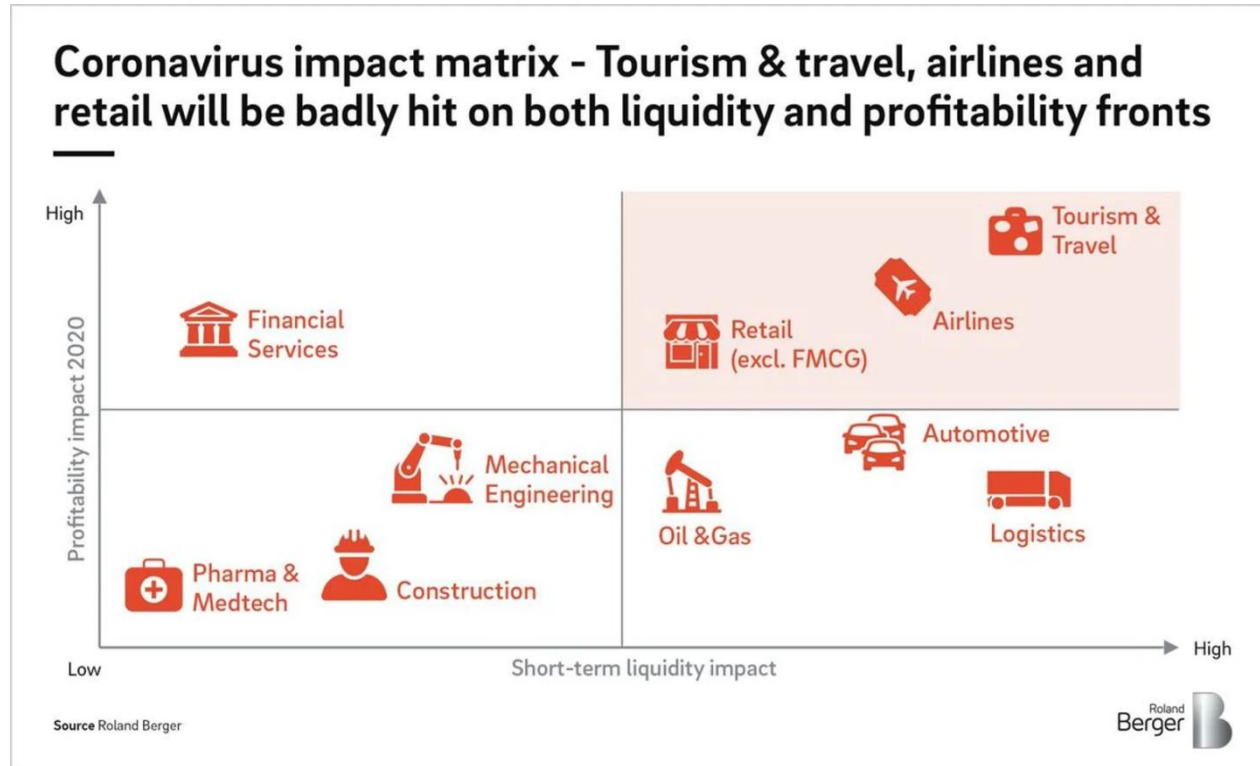
Spendings during Covid Crisis in the USA



Source: WEFForum Feb 2021

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9.3. Covid Impacts on Business Models II – Profitability Impacts



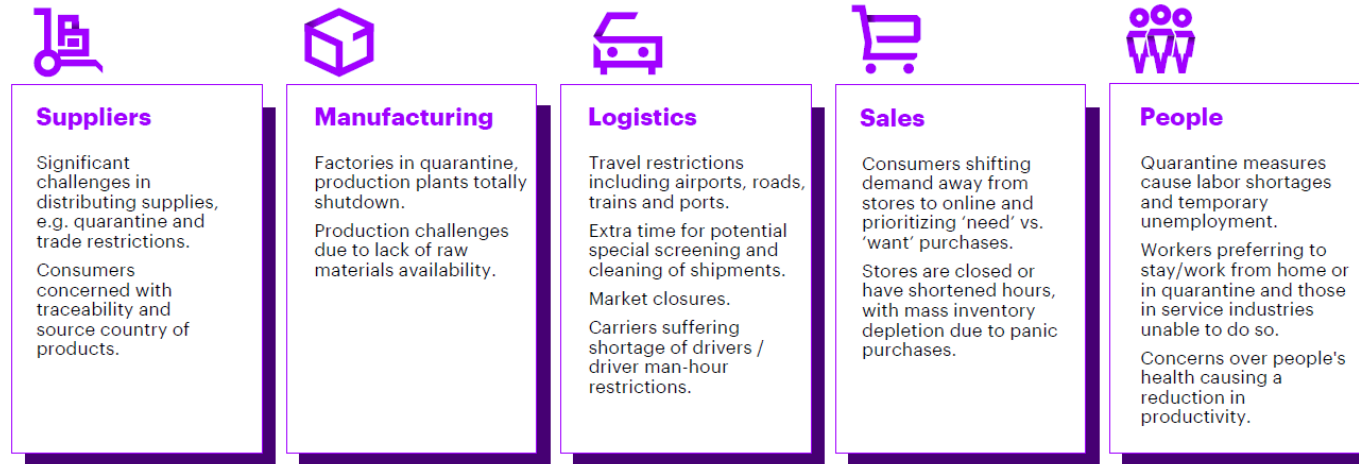
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9.3. Covid Impacts on Business Models III – Value Chain Impacts

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:

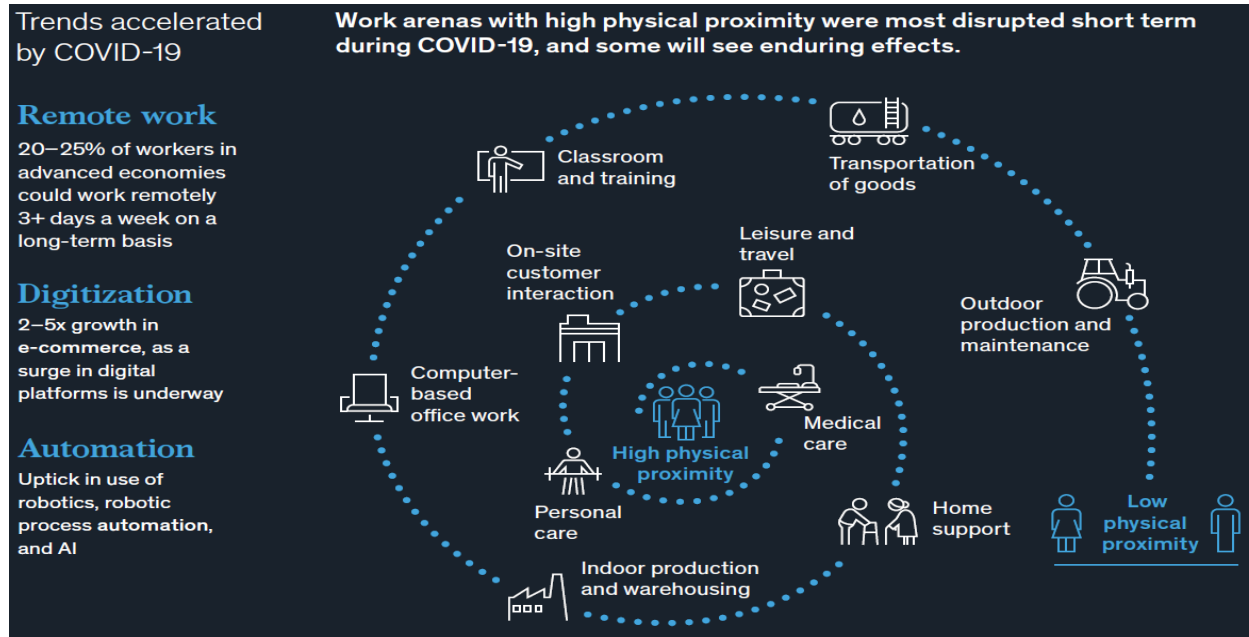


RAPID RESPONSE: A pragmatic approach to maintaining supply chain resilience in times of uncertainty

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>

Bild runterscrollen.....

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

Aviation industry grounded – 2020 world passenger traffic collapses



COVID19 effect on commercial aviation significantly larger than previous external shocks

Source: Lufthansa, Investor Relations, Jan.2021

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

Transformation will turn Lufthansa Group into a significantly different company by 2024

Business
Units



-150 aircraft



**Reduction of ca. 29,000 FTEs and
ca. 20% of management staff**



Corporate

ReF

Portfolio of
partnering

Portfolio review

Evaluation of subsidiary divestments

LSGgroup



Lufthansa Technik



and further smaller subsidiaries

LH Group remains innovation driver



NDC

**Dynamic
Pricing**

**One
Customer ID**

**Star Alliance
Biometrics**

**Future Intercont
Experience**



**Increasing relevance of
leisure travel and cargo**



**Adaptation to changing
stakeholder demands:
Sustainability & digitalization**



Source: Lufthansa, Investor Relations, Jan.2021

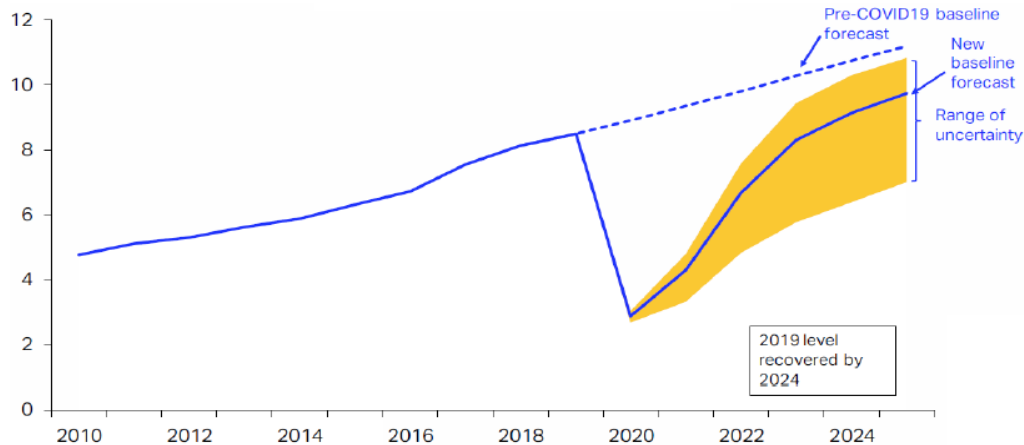
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9.3. Covid Impacts on Business Models IV – Example: Lufthansa

Recovery of air traffic expected to be slow - return to pre-crisis levels only forecast by mid of the decade

IATA forecast of passenger development

Global RPK, trillions per year



Faster recovery of

- **Short-haul traffic** vs. long-haul traffic
- **Private travel demand** (general tourism, visit 'Family and Friends') vs. business travel demand

Source: Lufthansa, Investor Relations, Jan.2021

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

Key figures 2020

110,065

Employees

-5,451


Adjusted EBIT €m

13,589

Total revenue €m

1,273

Capital expenditure €m



Carsten Spohr said: "The unique crisis is **accelerating the transformation** process in our company. 2021 will be a year of **redimensioning and modernization** for us. The focus will remain on **sustainability**: We are examining whether all aircraft older than 25 years will remain on the ground permanently, (...)

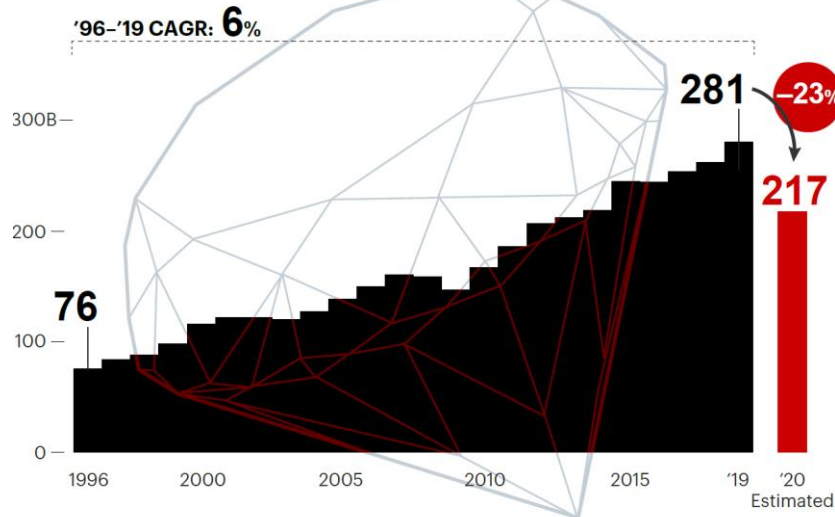
With a **smaller, more agile and more sustainable** Lufthansa Group, we want to maintain our leading position worldwide

Source: Lufthansa, Investor Relations, March 2021

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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 rise of Gen Z

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

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 evolving nature of the store

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

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

Source: Bain&Company 2021

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

2020 ANNUAL RESULTS

18

REVENUE CHANGE

BY REGION

Organic change
versus same period of 2019

H1 2020

UNITED STATES	- 24%
JAPAN	- 32%
ASIA (EXCL. JAPAN)	- 24%
EUROPE	- 33%

2020 ANNUAL RESULTS

23

PROFIT FROM RECURRING OPERATIONS

BY BUSINESS GROUP

In millions of euros

	2019	2020	% Change
WINES & SPIRITS	1 729	1 388	- 20%
Champagne & Wines	690	488	- 29%
Cognac & Spirits	1 039	900	- 13%
FASHION & LEATHER GOODS	7 344	7 188	- 2%
PERFUMES & COSMETICS	683	80	- 88%
WATCHES & JEWELRY	736	302	- 59%
SELECTIVE RETAILING	1 395	(203)	ns
OTHERS AND ELIMINATIONS	(383)	(450)	ns
TOTAL LVMH	11 504	8 305	- 28%

LVMH

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 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.....***

