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# Business Strategies Part II – Chapter 9

## Covid-19 Crisis and Business Strategy

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2nd Semester 2021 (online)  
- Global Governance -  
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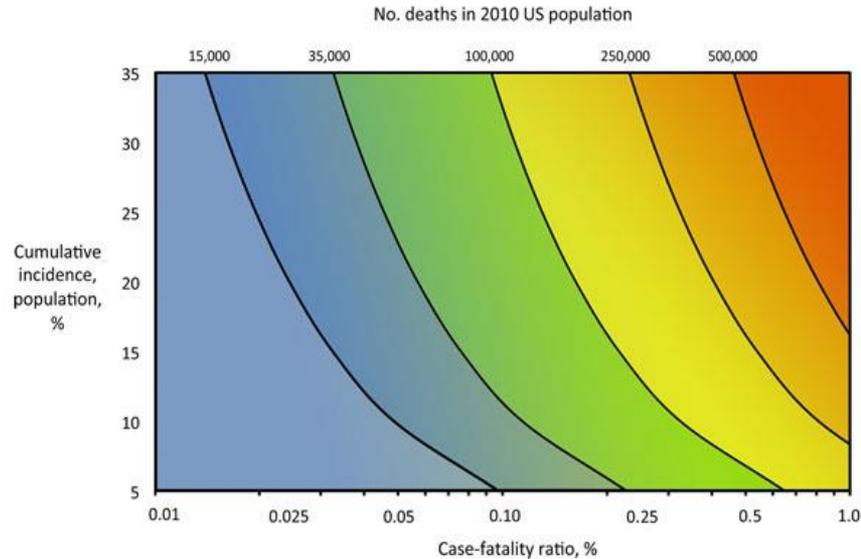


# Business Strategies – Covid-19 Crisis and Business Strategy

## 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.

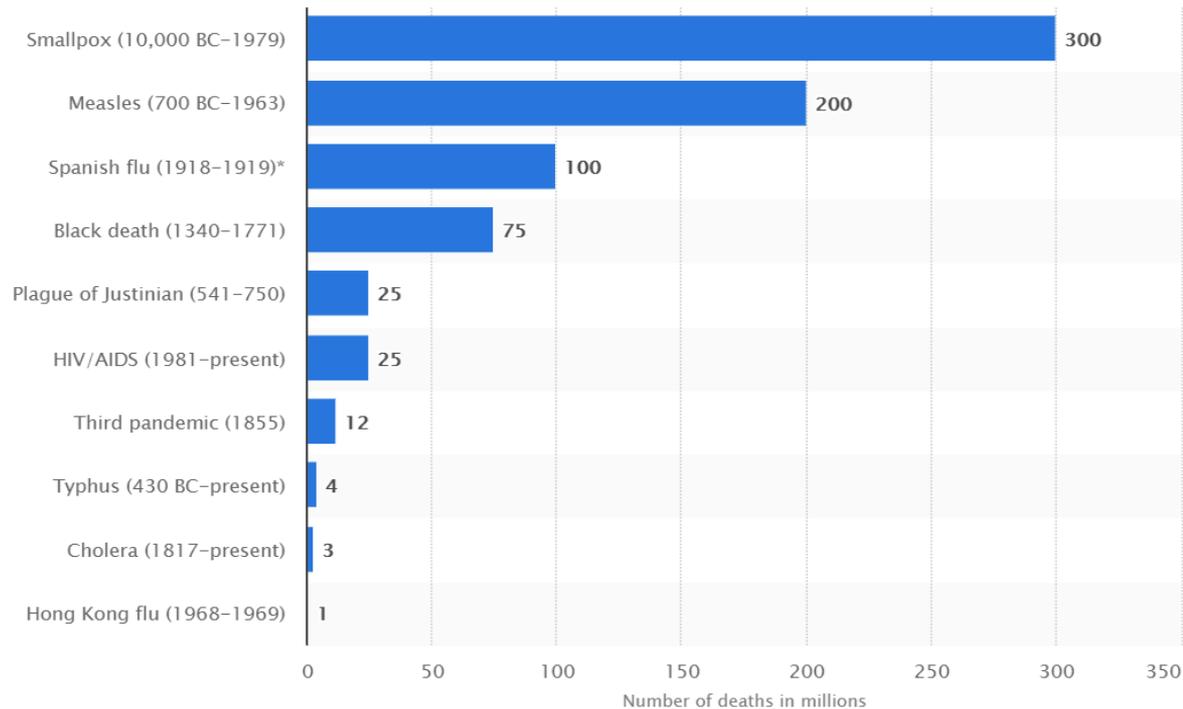
In 2014, the United States [Centers for Disease Control and Prevention](#) adopted the [Pandemic Severity Assessment Framework](#) (PSAF) to assess the severity of pandemics



Source: Wikipedia

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



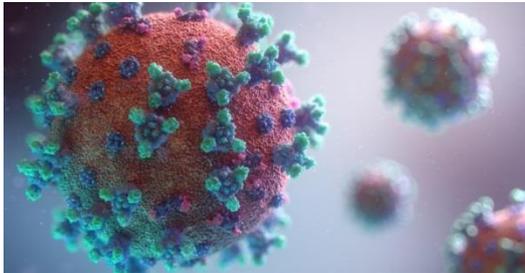
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## 9.1. The CoV2-Pandemic III – Basics about the Virus

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.

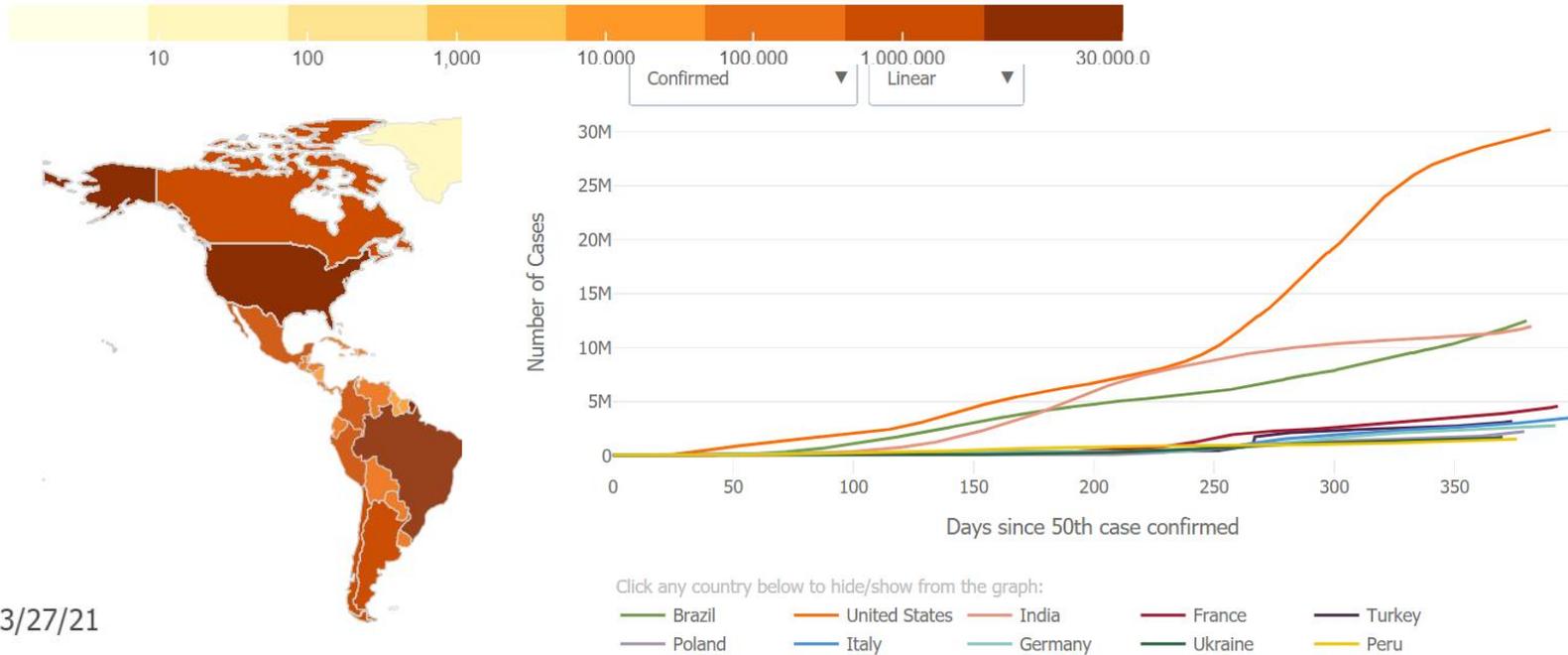
Coronavirus disease 2019 (**COVID-19**) is a **contagious** disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The first case was identified in **Wuhan**, China, in December 2019. The disease has since spread worldwide, leading to an ongoing pandemic.



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

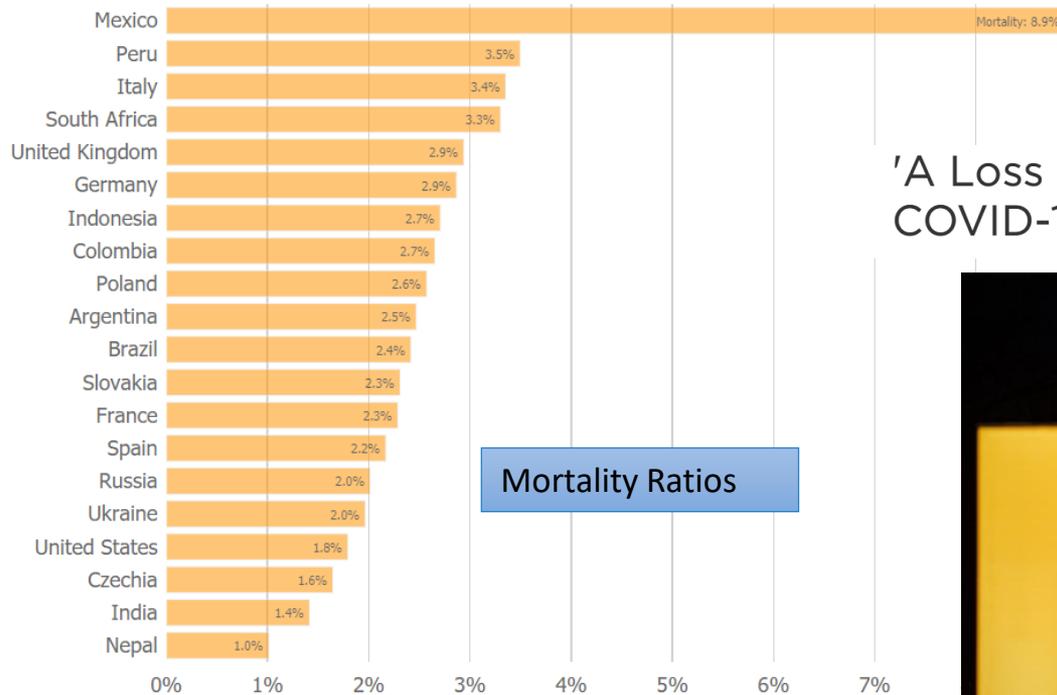


3/27/21

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



1  
The climate crisis as a health crisis



2  
Anti-microbial resistance (AMR)



3  
Putting new technology to use



4  
Providing global access to medicines

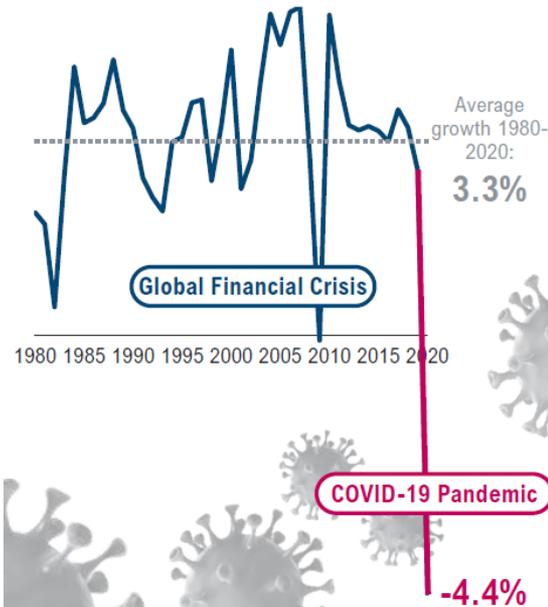


5  
Closing the global health care gap

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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; IFL Institute; Johns Hopkins University; Roland Berger

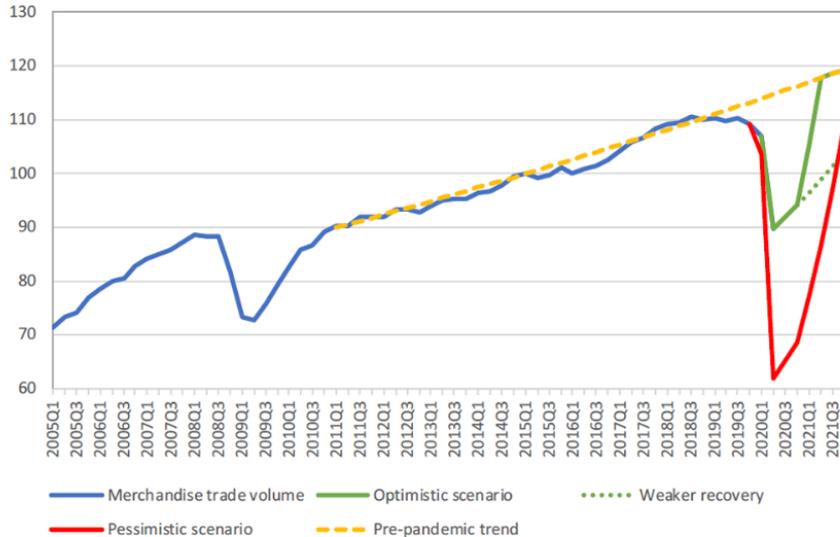


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## 9.2. Macroeconomic Consequences II – „Slowbalization“?

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

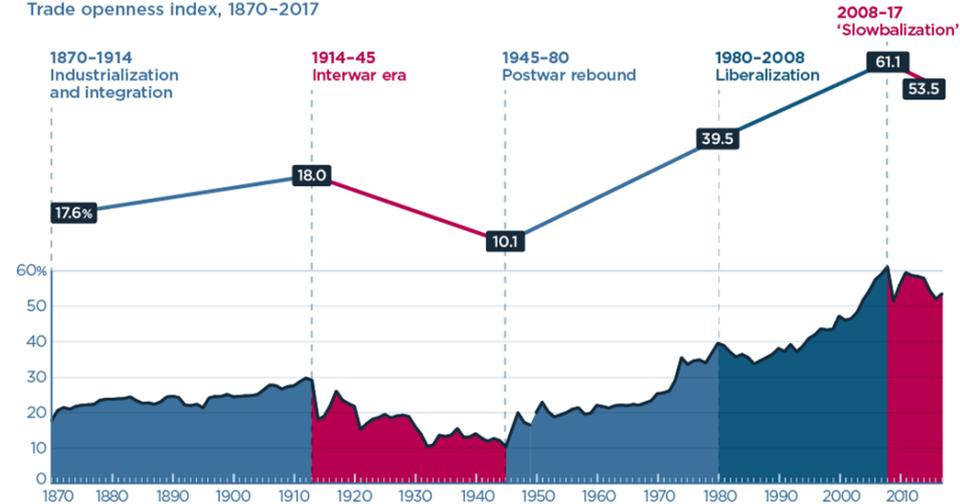
(Index, 2015=100)



Source: WTO/UNCTAD and WTO Secretariat estimates.

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

Trade openness index, 1870-2017



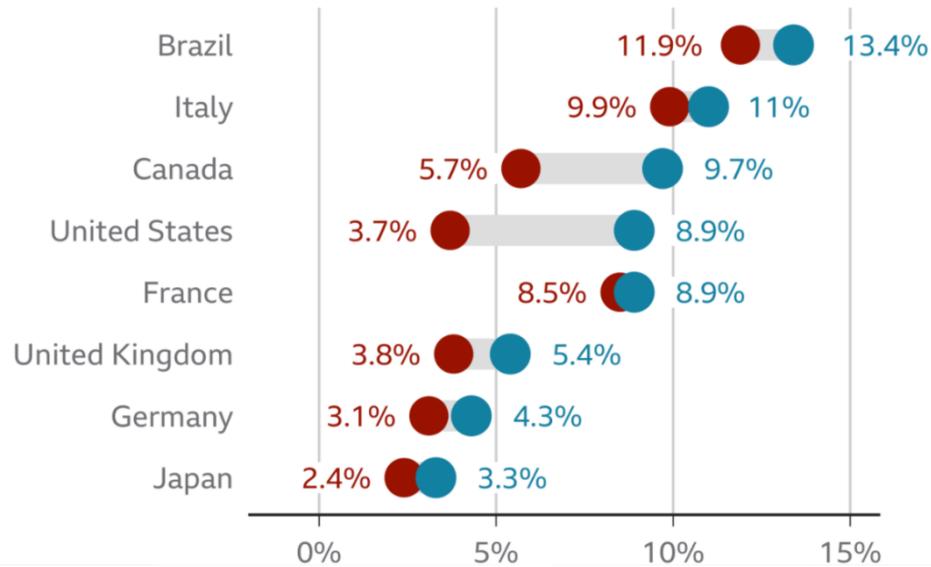
Note: The trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klasing and Millionis (2014); 1950 to 2017 data are from Penn World Tables (9.0).

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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

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

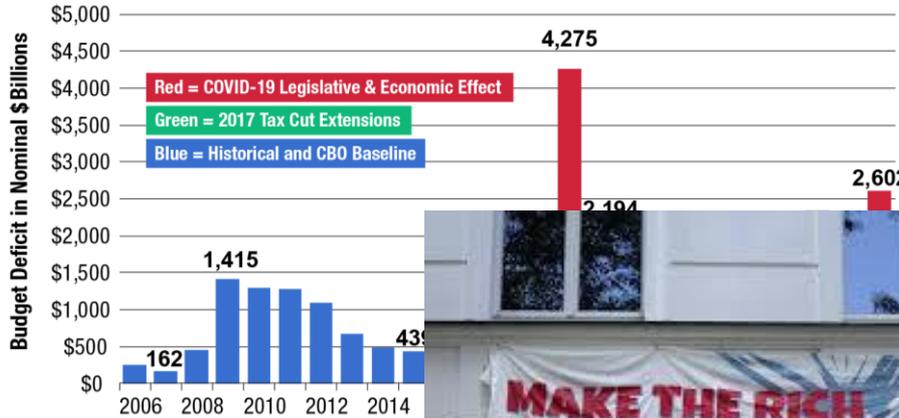


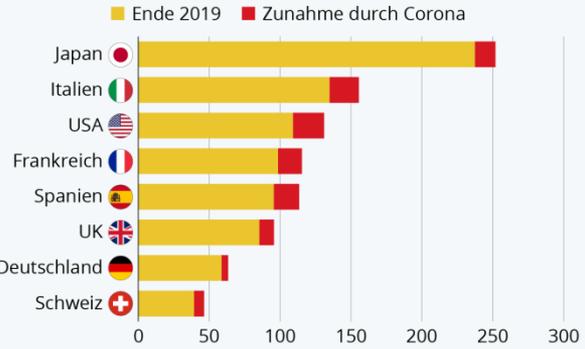
Chart: Manhattan Institute / Source: ES and CBO bill scores, and author's calculations. By Brian Riedel, M...



State deficit in % of GDP

### Durch Corona steigt die Staatsverschuldung

Schuldenquote in ausgewählten Ländern weltweit (in % des BIP)



Quellen: Credit Suisse, IWF

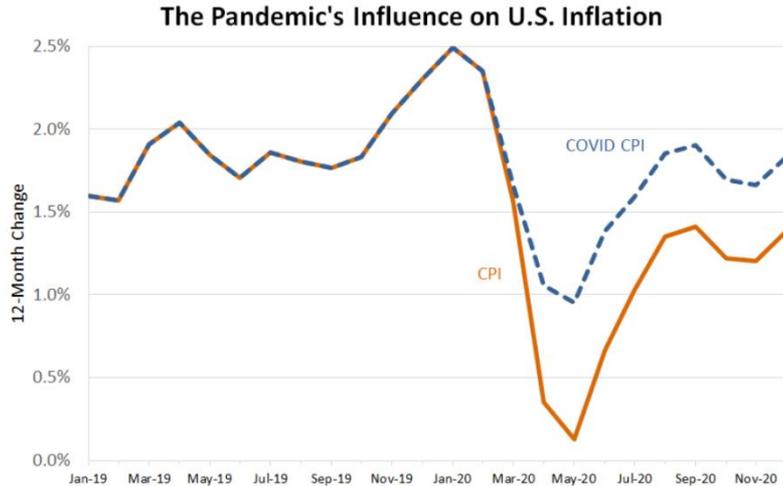


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## 9.2. Macroeconomic Consequences V – Inflation

Economics

### Worried About Inflation After Covid? Don't Be



NOTES: CPI is the official consumer price index for all items. COVID CPI is a similar index, but its expenditure weights are adjusted to reflect monthly changes in estimated consumer spending patterns.  
SOURCE: Alberto Cavallo (projects.iq.harvard.edu/covid-cpi).

Federal Reserve Bank of St. Louis

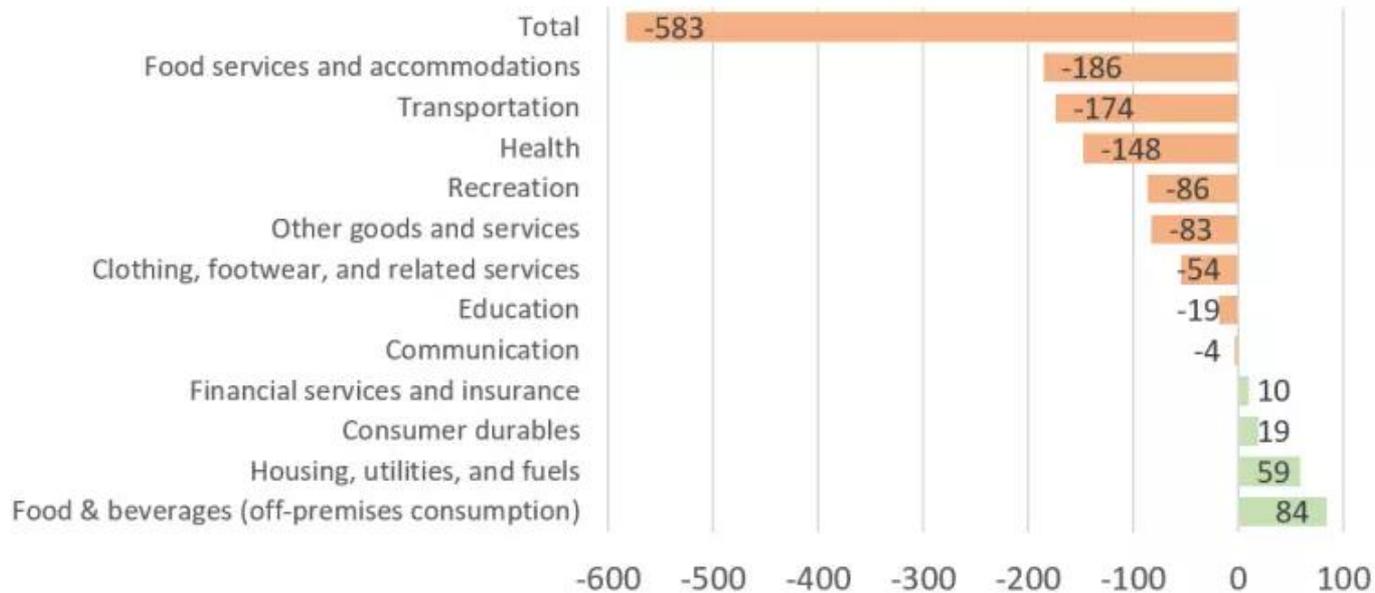
NYT, Feb.24: “Other projections aren’t showing high inflation either. The **consensus** of the Survey of Professional Forecasters is **for inflation** to just hit the **2 percent** mark over the next five years”.

- 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

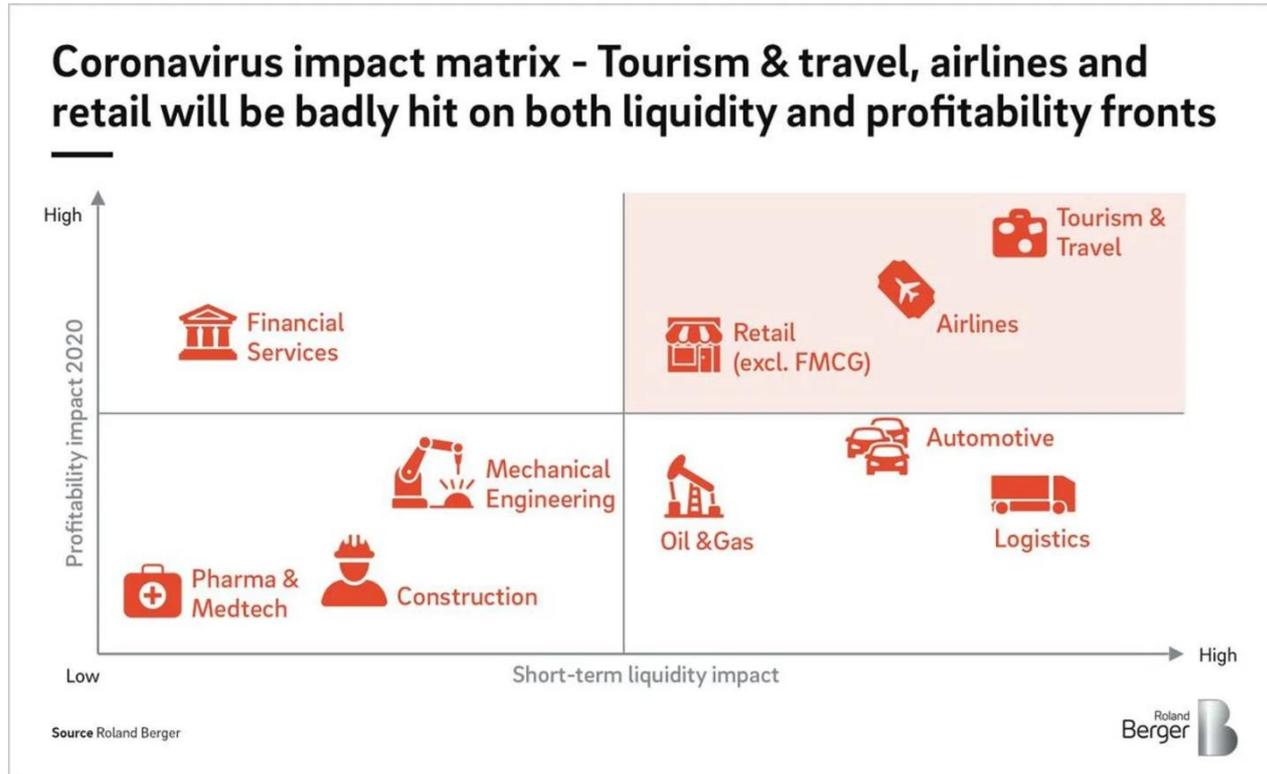
### Spendings during Covid Crisis in the USA



Source: WEFForum Feb 2021

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## 9.3. Covid Impacts on Business Models II – Profitability Impacts



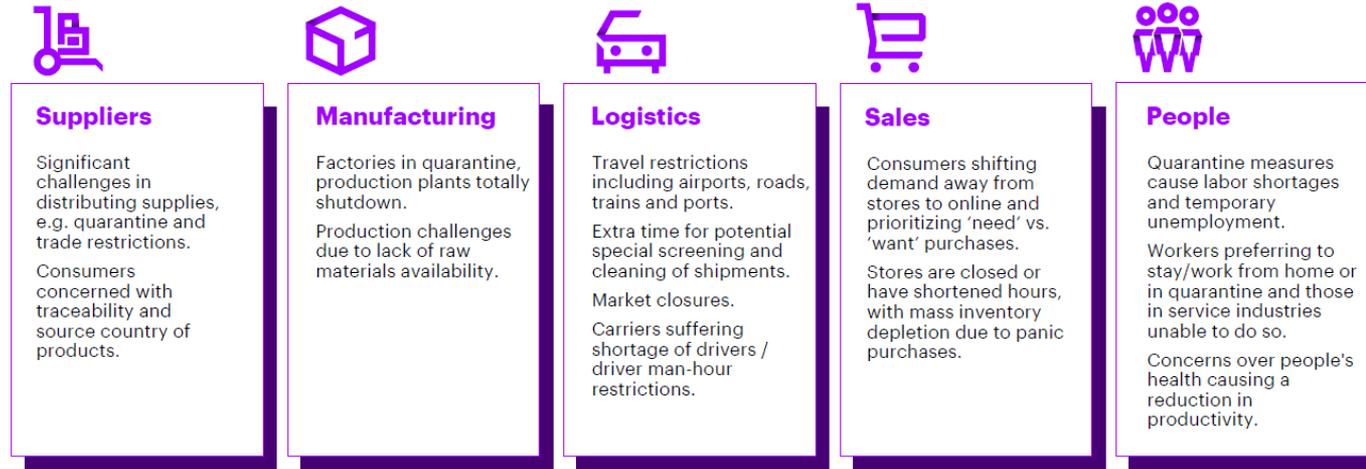
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## 9.3. Covid Impacts on Business Models III – Value Chain Impacts

### 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:

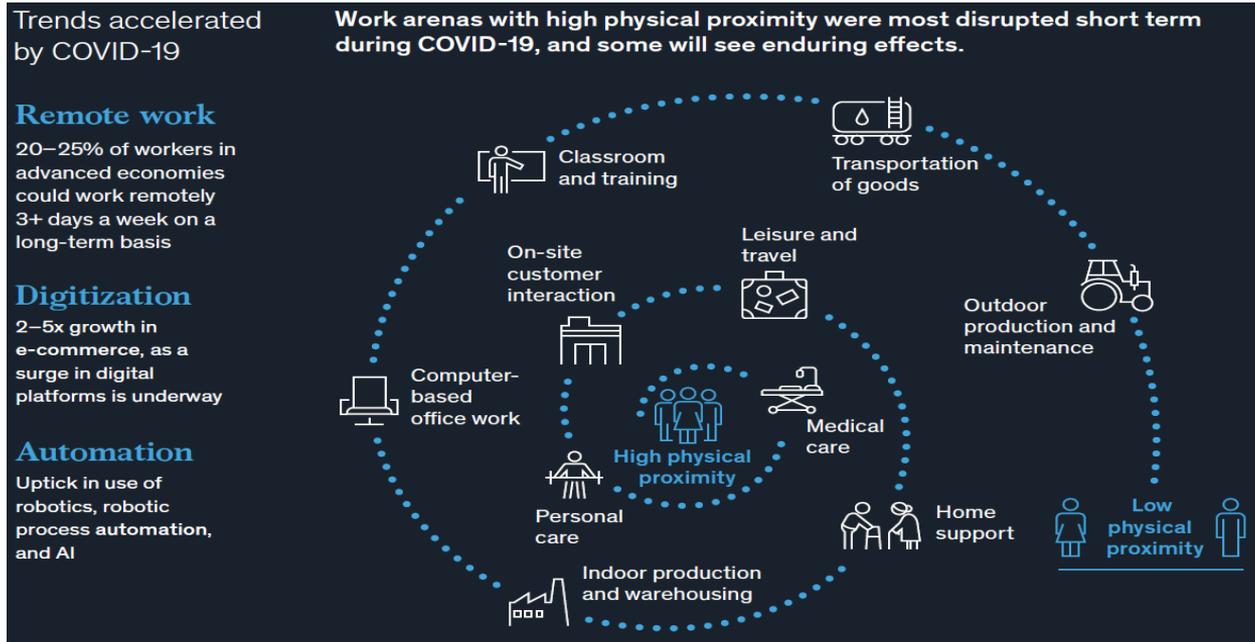


RAPID RESPONSE: A pragmatic approach to maintaining supply chain resilience in times of uncertainty

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>

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

### Aviation industry grounded – 2020 world passenger traffic collapses



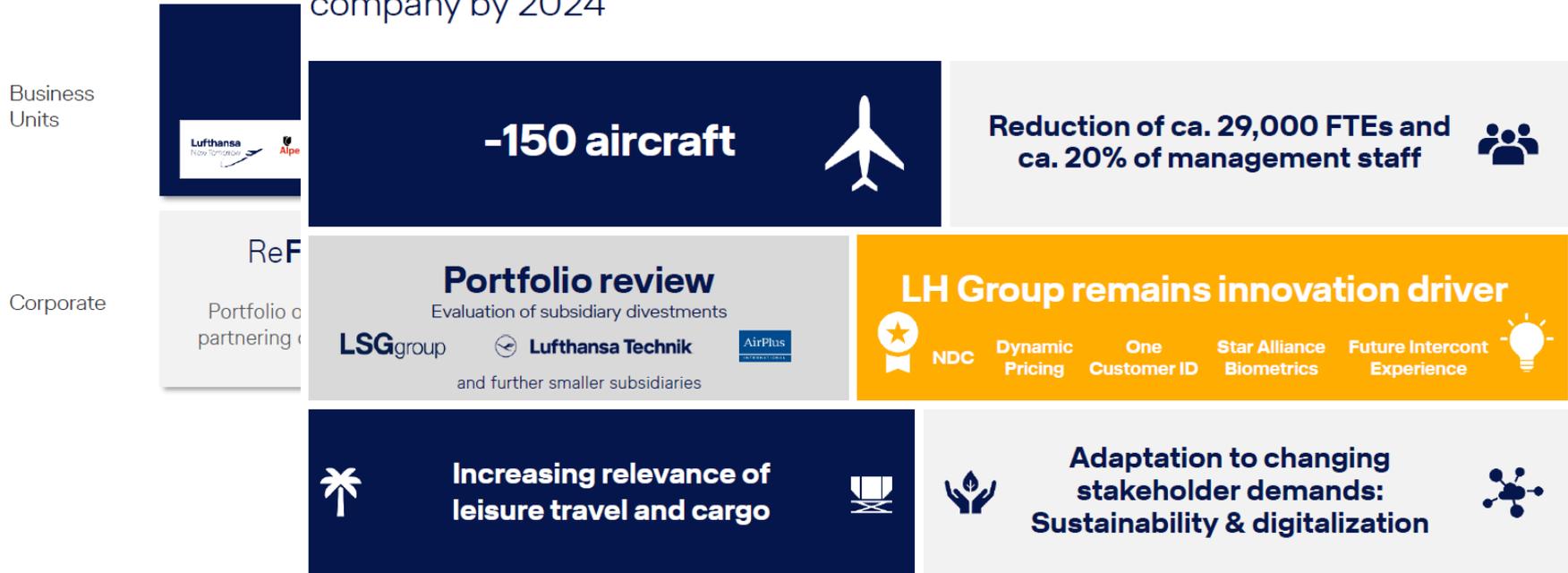
► **COVID19 effect on commercial aviation significantly larger than previous external shocks**

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



Source: Lufthansa, Investor Relations, Jan.2021

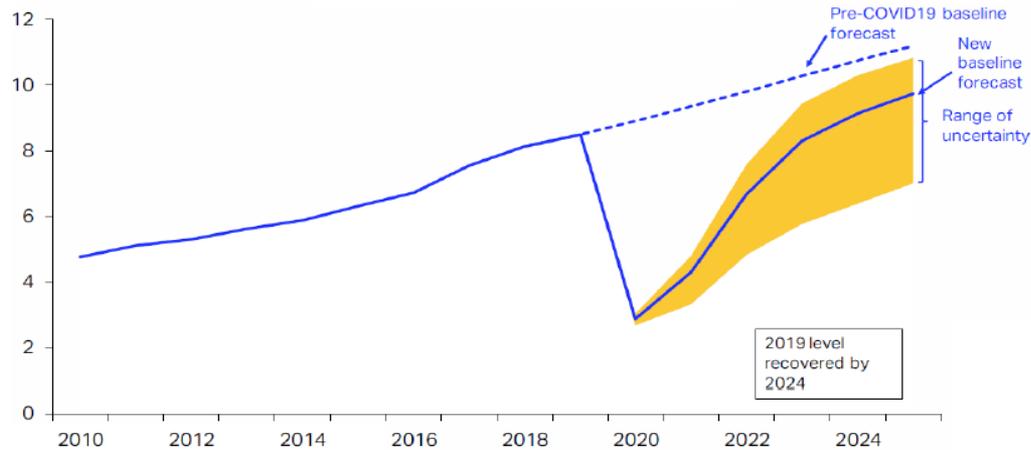
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## 9.3. Covid Impacts on Business Models IV – Example: Lufthansa

**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

# Business Strategies – Covid-19 Crisis and Business Strategy

## 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, (...)

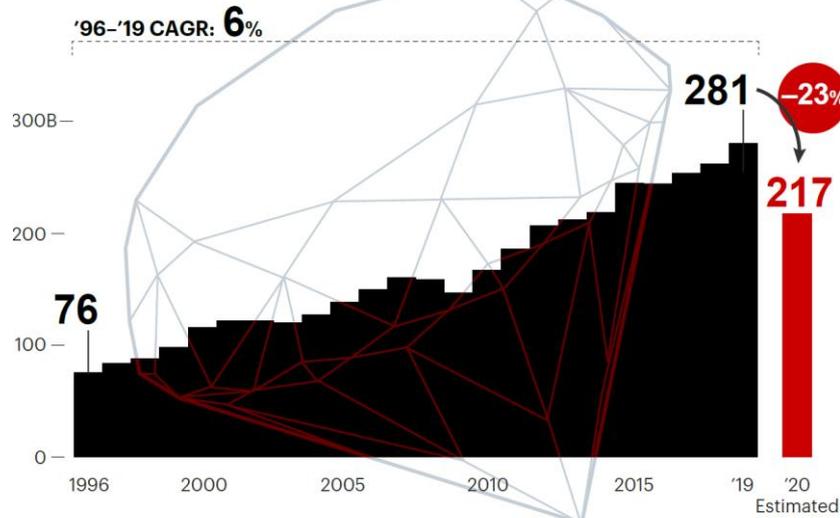
With a **smaller, more agile and more sustainable** Lufthansa Group, we want to maintain our leading position worldwide

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

LVMH

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

2020 ANNUAL RESULTS 30



**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**

Louis Vuitton 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.....***

