



COVID-19 IN CHINA – BUSINESS IMPLICATIONS AND RESULTING NEED FOR ACTION

TIMES OF CHANGE AND RESILIENCE IN CHINA

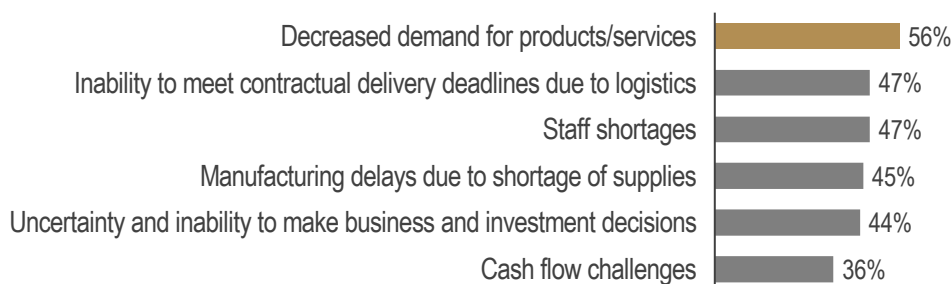
Since its first nationwide cases in early December 2020, the COVID-19 outbreak has reached out to nations around the world. In China more than 80,000 individuals are infected, worldwide over 160,000 (as of 16th March 2020). The outbreak has effectively paralyzed the entire Chinese economy. Though selective businesses have resumed operations by now, the economic aftermaths are severe. In financial terms, the economic consequences of COVID-19 are significantly more than the SARS epidemic in 2003. Simply given China's contribution to the global GDP and cross-industrial importance nowadays, the former IMF deputy managing director Zhu Min estimates an economic loss of around 200 billion USD in the first two months of 2020 already. Economic experts predict a recession for the global economy.

EAC SCENARIO FOR 2020

- We expect China to be on a path to recovery and economic re-start by mid Q2
- Previous GDP forecast of 6% for 2020 expected to decline by >1 percentage points to 4.9%
- China will most likely recover first, but the global impact due to the close economic intertwining with Europe and other regions will be felt much longer
- Consumer's confidence may further erode and be weakened by travel restrictions

SURVEY OF CHAMBERS OF COMMERCE IN CHINA

A recently published joint survey by the German and European Chamber of Commerce in China further reveal the challenges of 574 European corporations in the Chinese market, as a result of COVID-19:





SELECTED INDUSTRY-SPECIFIC IMPLICATIONS

EAC assessment of the preliminary dynamics for supply, demand, people, investments and regulations for relevant industries

AUTOMOTIVE



While demand has been steadily declining in the past years due to a structural crisis caused by e-mobility transformation, the outbreak creates additional short-term pressure:

- Car sales declined >80% in February
- Most dealerships were closed and must deal with large distribution stocks
- Companies resumed production and deal with extreme price declines

Outlook: Compensation of loss in 2nd half 2020 unrealistic, further decline of >5% expected

MICE & HOSPITALITY



The exhibition industry is among the sectors hit the hardest:

- Event business in China being suspended until April/May, exhibition centers closed
- Effective loss of 25% of business in China anticipated
- Global industry suffering with ~700 shows canceled by now, loss of >14bn EUR

Outlook: Given the seasonal character and need for scheduling, the industry is unlikely to compensate the loss in the remainder of 2020

AVIATION & TOURISM



The aviation and travel industry are among the sectors affected immediately:

- Effective loss in Jan-Feb 2020 up to 90% of business in some regions
- Some airlines reduced their schedule up to 50% to minimize costs and losses
- World Tourism Organization (UNWTO) estimates a global loss of 30-50 bln USD

Outlook: Loss recovery in 2nd half 2020 unrealistic, given the global scale of virus spread and lasting caution by tourists and organizations

TRANSPORT & LOGISTICS



Logistic industry highly impacted in short-term but effective measures implemented:

- Delays in production and interrupted supply chains are gradually recovering
- China export fell 17% in Jan and Feb, virus-impacted global demand remains critical
- Rail transport from China as part of 'Belt and Road' to gain positive momentum

Outlook: Industry will partly compensate short-term losses through alternative transport measures and price increases, resulting in higher logistics costs

■ Negative Impact ■ Positive Impact



HEALTHCARE



Investments into medical equipment, staff, and technology surged

- New Alipay health app tracks medical conditions of individuals nationwide by examining travel data
- Medical supply shortages (e.g. test kits and protective gear) can be observed globally, partially due to the 'panic buying' of consumers

Outlook: Chinese government is determined to reform and modernize the national healthcare system to prevent future contingencies

TECHNOLOGY



Virus outbreak pushed digital payment, education, entertainment and working

- China's enterprise software industry, among others, shows a tremendous spike in demand from Jan to Feb (e.g. WeChat Work: +572% YoY growth)
- Other technological advancements include face masks algorithms that allow for the use of face ID in public spaces

Outlook: Supply shortages will be overcompensated by the surge in technology demand

CONSUMER GOODS



Lack of offline access as major source of missing income in the Consumer industry

- Retail chains, incl. Apple & IKEA, have temporarily closed 100% of China outlets
- Online grocery sales surge due to the limited offline access and fear of physical touchpoints

Outlook: Weakening sales in Q1/2020 partly compensated by a delayed demand

EAC PRESUMES THAT BELOW IMPLICATIONS WILL APPLY ACROSS INDUSTRIES

01

HYGIENE STANDARDS

will rise considerably among individuals, companies and institutions to limit future contingencies

02

CORPORATE SOCIAL RESPONSIBILITY

will move further into the center of strategic roadmaps, demanding actions from MNCs as well as SMEs

03

WORKING MODELS

across organizations will shift as result of the danger that crowded office spaces place

04

BIG DATA

demonstrated its usefulness in documenting and analyzing far-reaching economic, business and social impact of unforeseen events

05

E-COMMERCE FOR B2C AND B2B

will flourish under the fear of physical touchpoints, closed outlets and subsequent lack of offline accessibility





WHAT THE CRISIS MEANS FOR YOUR BUSINESS

Despite the varying influence on industries, most companies' acute pain-points from COVID-19 require concrete countermeasures due to the actual development



Operational Bottlenecks (short-term action)

- Elaboration of **business scenarios** with impact on profitability and liquidity
- Short-term stabilization of inventory, pricing strategy, discounts etc.
- **Stabilizing profitability** and revenue



Adaption of Business Model (mid-term action)

- Adaption of current **business plan** (mid-term), stronger and critical review of existing sales channels
- Enforcement of **e-commerce business** and new digitalization platforms
- Review of the local footprint structure – **evaluation of a possible re-location scenario** in SEA/India for example
- **Corporate Foresight:** preparation of well-founded scenarios that drive **strategic planning** and systematically **reduce uncertainties** for business



Organizational Change

- Economic downturn will encourage the **reassessment of regional setup**, human capital and management structures in China
- **Securing the supply chain** will become vital to sustain business operations

Please contact us, if you would like to discuss your China strategy 2020



DIETMAR KUSCH
Partner
Munich Office
Dietmar.Kusch@eac-consulting.de



DANIEL BERGER
Partner
Shanghai Office
Daniel.Berger@eac-consulting.de

EAC MUNICH

EAC - Euro Asia Consulting PartG
Widenmayerstraße 29
80538 München
Phone +49 89 92 29 93-0
eac-muc@eac-consulting.de

EAC MOSCOW

EAC - Euro Asia Consulting OOO
Melniitskiy Per. 1
105120 Moscow / Russia
Phone +7 495 6401 013
eac-mos@eac-consulting.de

EAC MUMBAI

EAC - Euro Asia Consulting Pvt. Ltd.
306-310 Peninsula Plaza A/16,
Veera Industrial Estate
Andheri (West), 400053 Mumbai /India
Phone +91 22 26 74 24 91
eac-mum@eac-consulting.de

EAC SHANGHAI

EAC - Euro Asia Consulting
Sunyoung Centre, Rm. 801
398 Jiangsu Road
200050 Shanghai/ China
Phone +86 21 63 50 81 50
eac-sha@eac-consulting.de