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How nordic companies are navigating the Covid-19 crisis

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How nordic companies are navigating the Covid-19 crisis

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How Nordic Companies are Navigating the COVID-19 Crisis

THE SPREAD OF COVID-19 HAS TRIGGERED the biggest global economic upheaval since the Second World War. In contrast to recent recessions, the present economic crisis is primarily caused by exogenous factors, and from the perspective of individual companies, its impact has been largely dependent on industry and government responses. The immediate goals and broader aspirations of companies during this critical period will have a significant impact on their future success: those that limit their focus to crisis management will lose out to those that actively seek out ways to come out stronger.

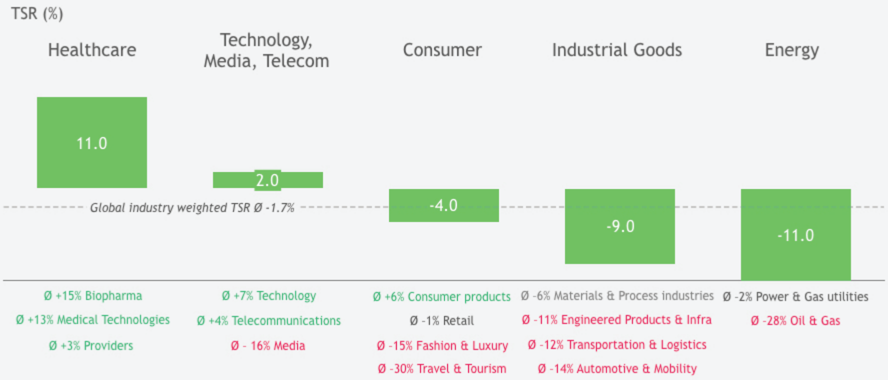
In our ongoing discussions with leaders of Nordic companies, we have already seen significant differences in how the largest firms are approaching the crisis at hand. Thus, the purpose of this article is to assess the efficacy of these approaches, relying upon an in-depth analysis of the impact of the COVID-19 crisis on Total Shareholder Returns (TSR) from January to mid-June 2020. Based on these TSRs, we identify global industry patterns and evaluate how Nordic companies perform compared to their global and regional industry peers. Finally, using what we have learned from the highest-performing companies during previous crises, we share our views on a number of steps that are necessary for companies to come out stronger.

The performance in the first phase of the COVID-19 crisis has been industry-driven

SINCE ITS INITIAL CRASH, stock market performance has nearly returned to pre-crisis levels, at least temporarily. Even so, extreme volatility will likely continue given unknowns in disease progression, the likelihood of a vaccine, and governments' commitment to launching subsequent social and economic measures.

While at the aggregate level, we see stock prices returning to pre-crisis levels, a more granular view reveals vastly divergent trajectories among industries (see Exhibit 1). At the positive end of the spectrum, *Healthcare* is thriving, with companies on average delivering 11% returns globally since early January. *Technology, Media and Telecom (TMT)* has also offered (marginally) positive returns, but there have been significant disparities among its sub-sectors. Technology, for instance, has experienced a surging demand and maintained a positive outlook, whereas media companies have had to cope with both lower advertisement revenues and a rapid shift to in-home media consumption.

Exhibit 1 | Healthcare is thriving, Energy and Industrial Goods hardest hit



Sources: S&P Capital IQ, BCG analysis.
Note: TSR = total shareholder return. We compared companies' TSR from January 1 to June 19, 2020. Sample consists of global companies with threshold for size adjusted per country, and excludes financial institutions and insurance companies. Figures are rounded.

Aside from Healthcare and TMT, the remaining industries under analysis have all shown negative returns since the onset of the COVID-19 crisis. *Consumer* companies have already seen a 4% decrease in value creation, driven by a predictably declining demand for travel and luxury products. More surprisingly, we see a 9% decrease in value creation in *Industrial Goods* (IG) companies, even though the full extent of COVID's financial impact has thus far been limited to certain sub-sectors, mainly automotive, transportation, and logistics. This apparent discrepancy between TSR performance and financial performance has likely been driven by an underlying and common expectation of a longer-term economic slowdown, which would inevitably impact IG companies across the board.

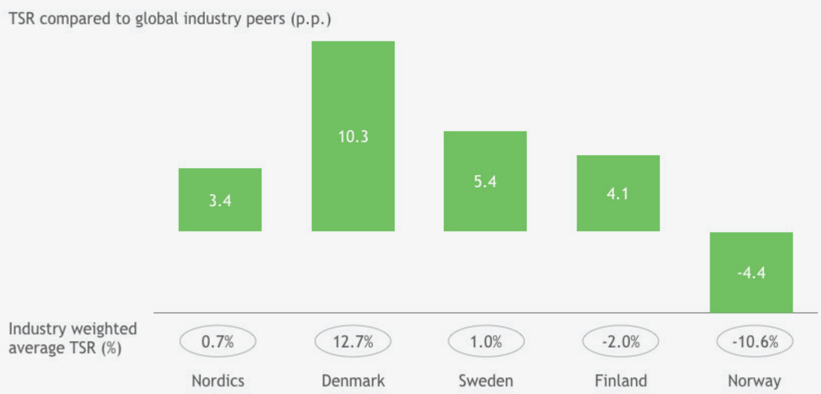
Finally, at the most heavily impacted end of the spectrum, *Energy* has experienced an 11% reduction in returns, the result of COVID-19's exacerbation of an already unsteady and volatile pre-crisis global oil market.

Mixed performance among Nordic companies

The above-outlined industry patterns raise two critical questions at the Nordic level: how resilient have Nordic companies been, and how has the effectiveness of their responses compared to global industry peers? To account for global industry patterns and differences in industry mix, we calculated the relative TSR performance of each industry within each Nordic nation and compared it to the average of their global peers. We then weighted these results according to each industry's market capitalization (see Exhibit 2). The results show that Nordic companies have fared well, on average demonstrating 3.4pp greater returns than their global peers. There are some commonalities among the Nordic nations' performances, in spite of their markedly different approaches to combatting the crisis: the consumer segment, for instance, has maintained a positive TSR in all four countries, and TMT has thrived in Denmark, Finland, and Sweden.

Nevertheless, there are stark discrepancies between the nations. Most notably, Denmark has drastically outperformed its peers, both in the Nordic countries and globally. Finland and Sweden have also been more resilient than the global average, though at more moderate levels. Norwegian companies, by contrast, have suffered the most, with a significantly higher loss of value than their global peers.

EXHIBIT 2 | Mixed performance in Nordics comparing to global industry peers

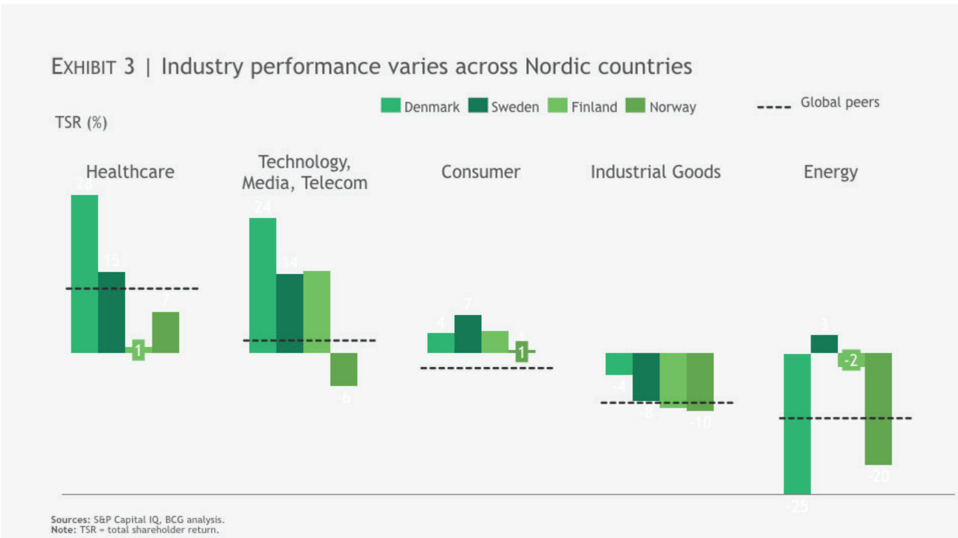


Sources: S&P Capital IQ, BCG analysis.
Note: p.p. = percentage points; TSR = total shareholder return. Nordic country TSRs compared to global peers are calculated as difference between the country and global TSR for each industry. Country totals are derived as weighted average using industry market capitalization as weights. Nordic sample includes companies with above 200M EUR market capitalization.

Denmark has outperformed its global peers by more than 10pp. Across industries, it has seen a consistent over- or on par performance, with the only exception being Energy (negative 25% returns compared to global peers at negative 11%) (see Exhibit 3). The positive delta to other Nordic countries is primarily explained by above-average returns from Healthcare and Industrial Goods, which in the other Nordics are largely aligned with their global industry peers.

Swedish and **Finnish** companies have also outperformed their global peers on the whole, though by a more moderate 5.4pp and 4.1pp, respectively. Notably, between the two, Finland trails behind Sweden in all segments except TMT. Compared to global averages within both TMT and Energy, Sweden and Finland have experienced returns well in excess of their peers, whereas within Industrial Goods, both nations have performed close to peer level. Sweden's consumer companies represent a notable outlier, outperforming the global average by about 11pp. This seems to be driven by Sweden's online industries, particularly online retail services and entertainment.

Finally, **Norway** has been the hardest hit Nordic nation, with companies on average losing 10.6% of shareholder value and, compared to global peers, underperforming by 4.4pp since the start of 2020. This is at least partially caused by Norway's susceptibility to certain secondary effects of the crisis, notably the extreme fluctuations in oil prices and the weakening of the Norwegian krone, both of which have raised investor concerns. In fact, only within the consumer segment has Norway outperformed global peers, though even here it remains below the other Nordics, likely as a result of the challenges to Norway's significant seafood industry.



Five steps for companies to come out of the crisis stronger

WINNING THE FIGHT STARTS NOW. The approaches adopted by Nordic companies due to the crisis will likely have a major impact on their future performance and, in some cases, even determine their short-term survival.

Thus, in order to understand and pinpoint the strategies necessary for companies to protect themselves and further mature in the present crisis, we have looked backwards, towards those companies that not only survived the most recent crisis—the global financial meltdown of 2008—but emerged stronger. By analyzing the actions of the top 25 performing companies globally, we have identified five key steps that enabled these companies to strongly rebound.

These steps form the foundation of a modern playbook for how today's leadership teams should manage the ongoing crisis in order to position their companies for future success.

ACT PROACTIVELY.
During the 2008 financial crisis, 80% of the S&P Global 1200 companies tended to act reactively rather than proactively; they waited until their businesses were directly affected by the downturn before implementing mitigating actions. By comparison, the top 25 performers not only increased their liquidity, but also proactive-

ly invested in strategic acquisitions. In essence, they applied the preemptive philosophy of “fix it before it breaks”.

INCREASE VITALITY.
In addition to being proactive, the top performers avoided the temptation to rest on their laurels. They knew that not even the best approach lasts very long, let alone during a crisis. As a result, these companies increased their vitality, which we define as the ability to innovate, explore new ideas, and reinvent the corporate strategy in order to achieve sustainable, long-term growth. They actively sought out promising markets and concepts, and they redesigned their development processes to quickly get new ideas to market. This vitality mindset helped these companies stay nimble and find growth, irrespectively of how the market conditions had changed.

STICK TO A CLEAR VISION.
Even as they looked for new sources of growth, the top performers maintained the same clear vision that they had had before the global financial crisis—a vision that was based on long-term themes. For example, most planned to invest heavily to expand into new countries and to digitize their processes and customer interactions. Naturally, the projects to support those objectives changed because of the crisis, but the vision itself remained fixed, so the organizations continued with the same clear focus points.

BUILD RESILIENCE.
The top performers knew that they could not avoid future disruptions, so they built organizations to not only withstand future shocks, but to anticipate them. For example, most top performers developed a scenario-planning function that was tasked with identifying and observing trends and potential disruptions. These companies also maintained cash reserves that, on average, were two times higher than the average reserves maintained by the companies in the S&P Global 1200. This helped the top 25 companies keep their options open. In addition, they hired talent with a wide variety of expertise. Due to this focus on building resilience, these companies are still reaping the benefits of having a diverse staff with a variety of skills and ideas and talent development programs.

STREAMLINE THE ORGANIZATION.
Finally, top performers prepared their organizations by streamlining core operations, redesigning processes to capitalize on digitalization, and generating efficiencies so that they would be as lean as possible when the next crisis hit. This is a far more forward-looking approach than taken by many other organizations that are simply relying on budget cuts and headcount reductions in the event of a shock to the system.

For a more in-depth analysis of top performers during the previous crisis, including case studies and a five-step approach to success, please refer to the BCG paper *Crisis Can Spark Transformation and Renewal.*

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