Navigator 2020

Now, next and how for business

HSBC

Together we thrive

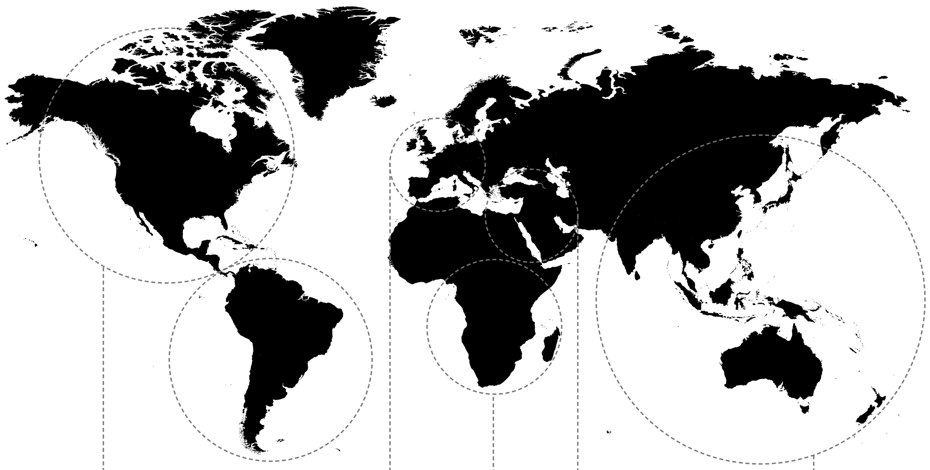
Contents

Context

THIS SURVEY OF OVER
10,000
BUSINESSES SPANS
39 COUNTRIES, MARKETS & TERRITORIES

COVID-19 has challenged all businesses, but not equally so. Some faced falling footfall as streets and airports emptied. Whereas others experienced surging demand, notably technology and e-commerce companies.

This report provides fresh analysis following July's Navigator Resilience survey, covering a period of increasing business activity post-lockdowns, when government support to many businesses and employees continued. Comparisons with July's survey, which covered a narrower range of markets, will track businesses' response to the pandemic. And year-on-year comparisons with the larger annual Navigator survey from November 2019 will show the impact of COVID-19.



North America:
Canada, Mexico, USA

South America:
Argentina, Brazil

Europe:
Belgium, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Russia, Spain, Sweden, Switzerland, UK

Middle East & North Africa:
Egypt, Saudi Arabia, Turkey, UAE

Rest of Africa:
South Africa

Asia Pacific:
Australia, Bangladesh, mainland China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, Vietnam

This survey was conducted between 11 September and 7 October 2020. Signs of a second spike were emerging across Europe, there was no agreement on a UK-EU post-Brexit deal, and businesses were contacted before the US election.

1. Overview

The Navigator survey shows the pandemic to be a **unique crisis** because of the unequal impacts on different sectors

This reflects the nature of COVID-19 spreading through face-to-face contact, meaning that demand and supply shocks have varied widely between different sectors, with economic impacts depending on the make-up of national economies. Almost all businesses surveyed have been adversely affected, with only 8% currently seeing current profitability ahead of pre-pandemic levels. And while the revenue outlook is significantly more pessimistic than last year, most businesses project revenue growth this year.

There are emerging signs of a two-speed recovery. Businesses growing over 5% this year are making a majority of sales online. And a narrower group comprising 15% of companies enjoy revenue growth of over 15%. These leading companies are followed by a large pack of slower-growth firms. Then, the proportion of companies expecting declining sales has doubled since 2019. A few sectors face particular challenges, such as automotive and tourism. And all businesses are conscious of downside risks, with further waves of COVID-19 posing the greatest threat to the business outlook.

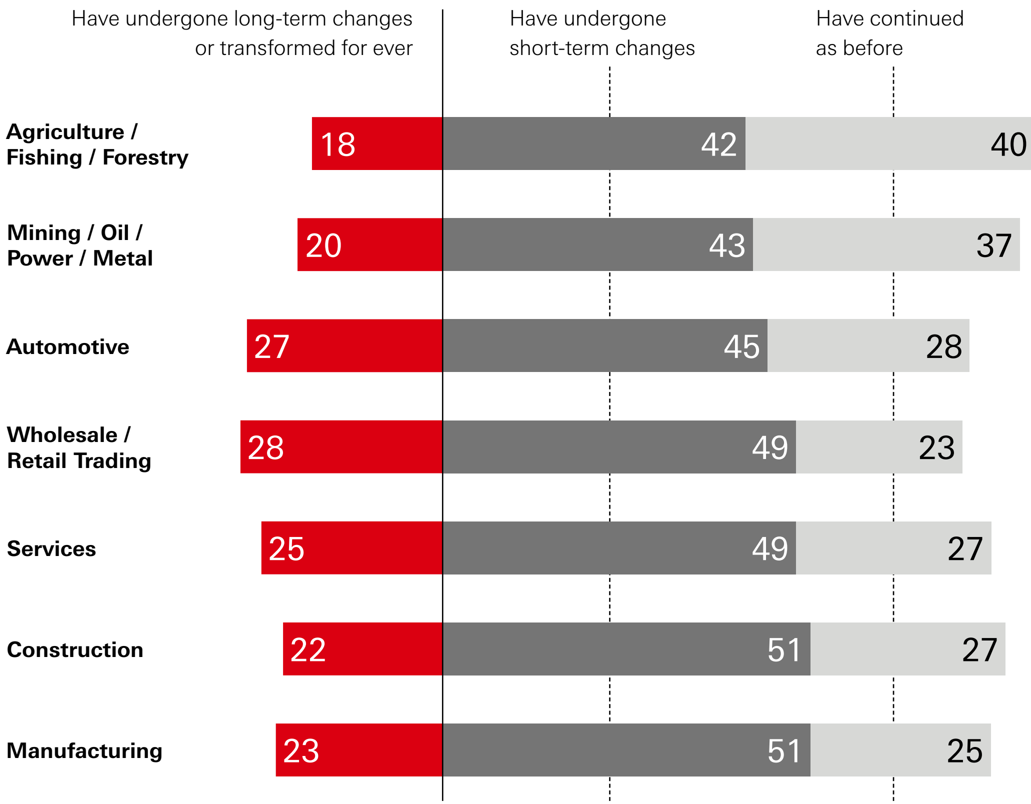
These differences may persist because of the strategies companies are able to adopt. For most, the pandemic has caused an evolution rather than revolution in operations. Around half of companies have made short-term changes, with others evenly split between longer-term and no change.

Companies facing growth challenges are undergoing the greatest scale of change. Through choice or necessity, these challenged companies favour a defensive cost-cutting approach. And in common with higher-growth firms, they're seeking to resuscitate consumer demand through marketing. Higher-growth firms follow a broader approach however – investing for future growth through innovation, product development and new markets.

Business leaders define corporate success as extending far beyond shareholder returns.

Change is short-term for most businesses
Level of change experienced in the last 12 months

%



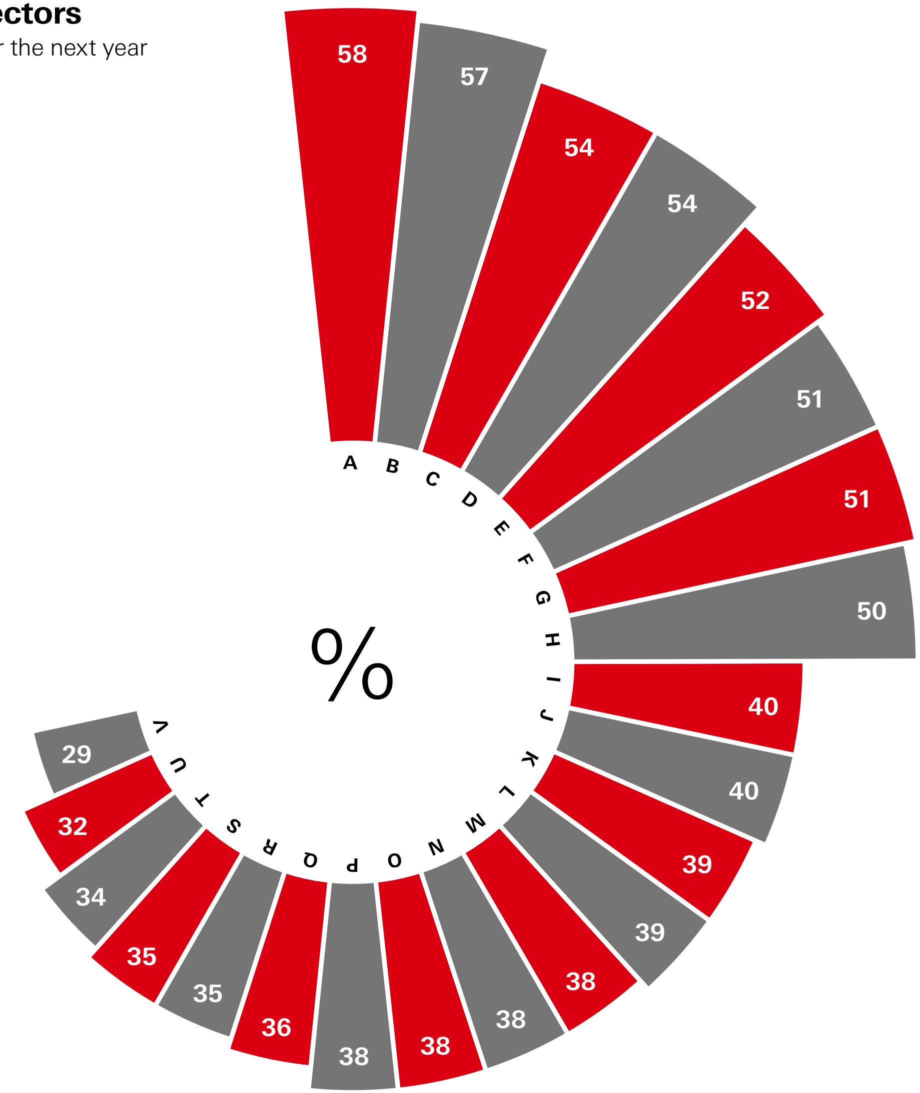
Innovation, responsible business practices and corporate culture are more significant factors. Nine in ten firms (86%) anticipate revenue growth from improved sustainability outcomes. And most firms have adopted targets, generally focused on environmental and social factors, rather than corporate governance.

1. Overview (continued)

Higher-growth vs lower-growth sectors

Sectors expecting sales growth to exceed 5% over the next year

A Advertising & public relations
B Pharmaceutical manufacturing
C Oil & gas
D Metals and mining
E Infrastructure
F Chemicals manufacturing
G Media & publishing
H Technology: IT
I Tourism
J Real estate
K Computer & electronic manufacturing
L Automotive services
M Automotive manufacturing
N Power & utilities
O Healthcare & social services
P Telecommunications services
Q Telecommunications manufacturing
R Fintech
S Other services
T Education
U Wood, paper, rubber, plastic manufacturing
V Other manufacturing



The pandemic has had an unequal impact on different sectors; demand and supply shocks have varied widely

Emerging trends

1 **Recovery**
Most businesses expect to return to pre-COVID profitability this year or next

2 **Evolution not revolution**
COVID-19 spurred short-term change for most businesses

3 **E-business**
High-growth firms now make a majority of sales online

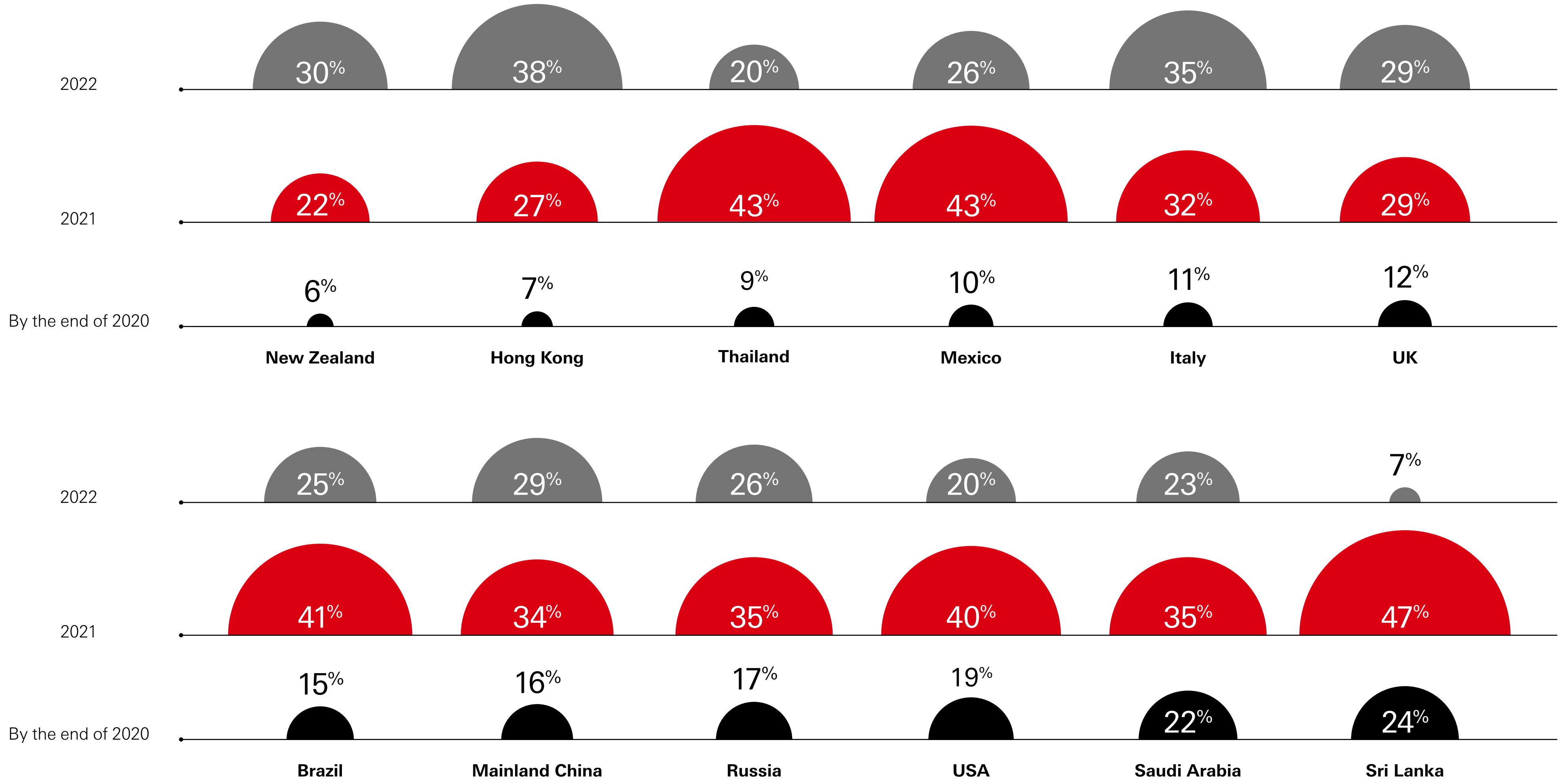
4 **Sustainability pays**
Nine in ten companies expect sustainability performance to boost sales

5 **Regionalisation**
Mainland China surpassed the USA as the main foreign market for firms in Asia Pacific, a shift since 2019

1. Overview (continued)

Most businesses expect to return to pre-COVID profitability this year or next

Year in which businesses expect to return to pre-COVID levels of profitability*



* Selected responses

2. A two-speed recovery

COVID-19 has **challenged** almost all businesses

Signs of a two-speed recovery are emerging: few sectors are benefitting from increased demand, while many more face slow growth, and sectors such as tourism and automotive grapple with challenges. Online sales are a feature of outperformance.

The pandemic has dampened business optimism. A majority (53%) have poorer growth expectations than in the 2019 survey and profits are above pre-pandemic levels in only 8% of firms. Expectations of future revenue growth have dropped by 15 percentage points since 2019, with two-thirds of businesses (64%) projecting revenue growth next year. And a quarter of companies globally (24%) expect declining revenues over the next year. A resurgence in COVID-19 cases is the primary threat to growth and recovery.

Key HSBC GDP forecasts*

	2020f	2021f	2022f
World	-4.1%	4.7%	3.1%
Developed	-5.6%	4.0%	2.3%
Emerging	-2.0%	5.6%	4.1%
US	-4.1%	3.1%	2.5%
Mainland China	2.4%	7.5%	5.6%
Eurozone	-7.6%	5.7%	2.5%

53%

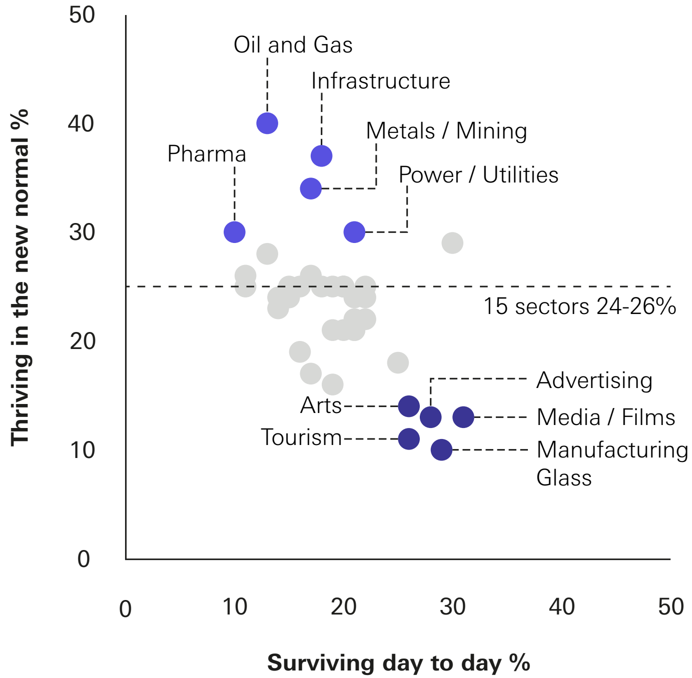
of businesses have poorer growth expectations than in the 2019 survey

The profile of profitability reveals a lengthy recovery for many sectors. Half of firms globally expect to return to pre-COVID levels of profits this year or 2021 (53%). On the other hand, for nine in 20 firms, pre-pandemic profitability is not expected to return until 2022 or later. This is consistent with HSBC's economic forecasts which do not project a sharp 'V-shaped' recovery, at least in terms of levels of activity.

A narrower set of leading companies is emerging, with 15% of firms projecting growth of over 15% this year (a third lower than in 2019). As the pandemic reduced social contact, having an online presence enhanced business performance. Online businesses are more optimistic about future prospects, and this trend extends across the technology, IT

Most and least challenged sectors

Current status of business



"We have been working with a certain mix of service offerings for a long time. This was one of those journeys where we challenged that. We had a certain way of doing business for many years. This was the first year we challenged it…"
Technosoft Corp, India

*Source: HSBC Economics, Bloomberg

2. A two-speed recovery (continued)

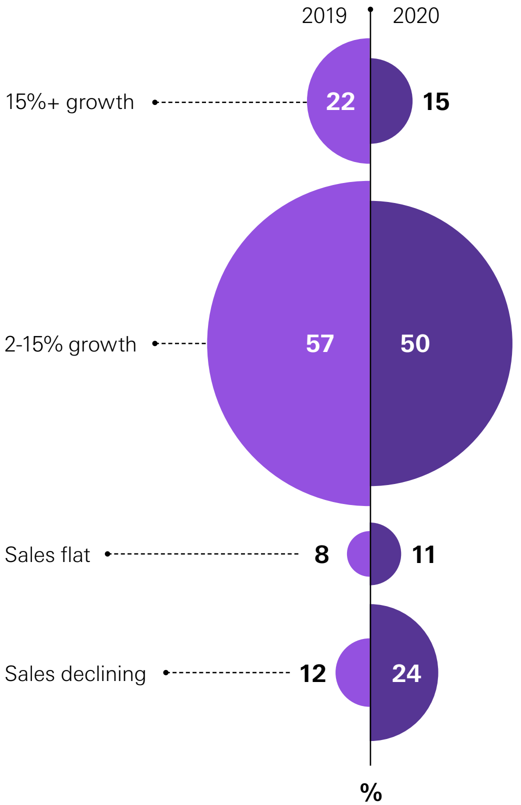
and telecommunication sectors. Businesses in sectors such as advertising and PR, food and pharmaceuticals also reported an increase in demand thanks to the COVID-19 pandemic.

At the other end of the spectrum, the proportion of no-growth companies has doubled in a year. And while a majority of firms expect to grow between 2 and 15%, this grouping has reduced by seven percentage points since 2019, reflecting growing pessimism.

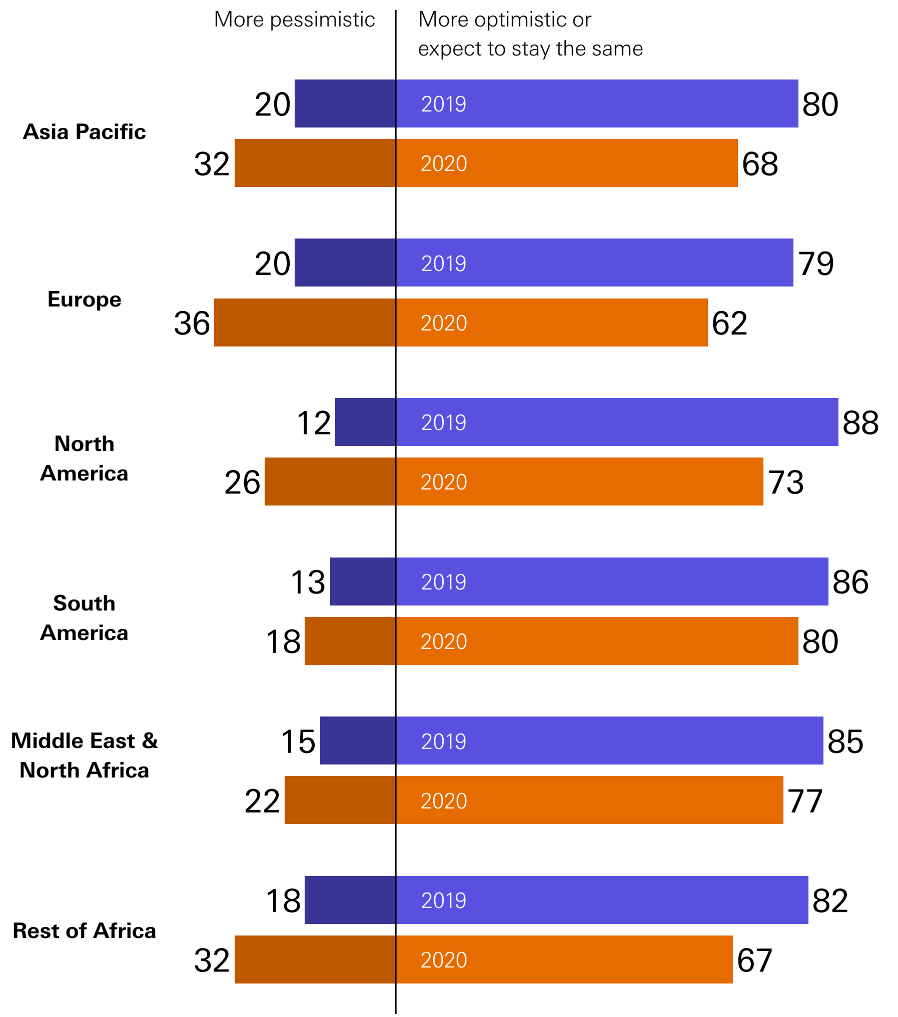
A quarter (24%) identify as thriving, against a fifth (19%) that identify as surviving. Fewer than one in five businesses in tourism (15%) and automotive (17%) expect to return to pre-pandemic profitability this year. Components manufacturers are particularly vulnerable, relying on upstream demand.

Within Asia, open economies such as Hong Kong, Singapore and South Korea reportedly face greater challenges, whereas strong optimism permeates emerging markets such as Bangladesh, Vietnam and India. Businesses in the Americas and the Middle East are most optimistic with European firms most pessimistic about growth.

Expected sales growth over the next year



How business outlook has changed over the past 12 months*



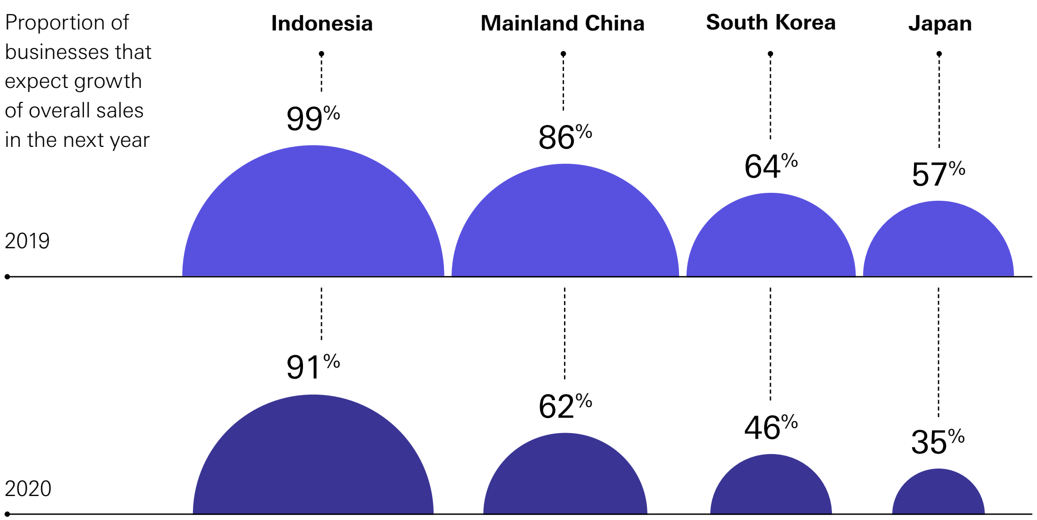
"I think the hardest thing is that I probably had to focus on the latest Quarter more than I felt I should, when I really wanted to look after 2020, 2021 and 2022."
Nielsen, Market Information Provider, UK

*Excludes businesses answering 'Don't know'

Asia: divergent outlooks

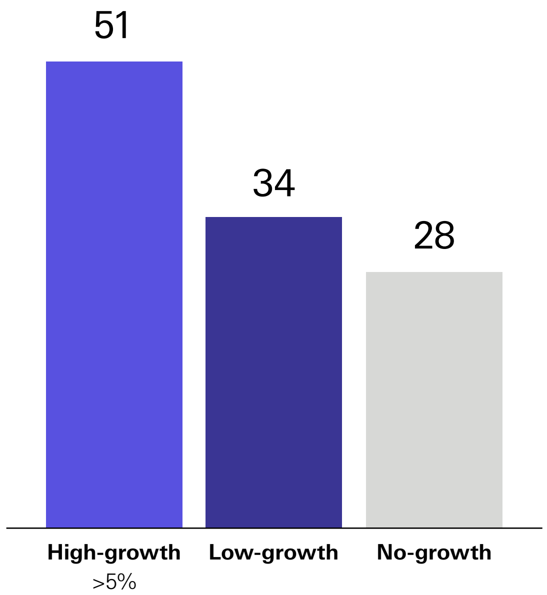
Expectations of sales growth in the next year have declined in Asia Pacific, going from just under four out of five (77%) in 2019 to three out of five (60%) businesses in 2020 expecting sales growth.

However, there is wide variability of sales expectations within the region – featuring the most positive (Indonesia) growth – as well as the most negative (Japan) markets across all 39 markets surveyed.



E-commerce has driven growth

Proportion of business sales coming from online



"The movement to online has been dramatic… every retailer, every market with online commerce has gone up."
NielsenIQ, a consumer intelligence business based in Singapore

Winning strategies

The 2003 SARS epidemic catalysed mainland China's development as the world's leading e-commerce market, now larger than the next ten markets combined.[1]

This pandemic is accelerating that trend globally, as digitally enabled businesses serve customers online. High-growth firms now make a majority of sales online.[2]

The proportion of consumers that are digital natives will double this decade, creating compelling opportunities.[3]

HSBC

1 McKinsey: China digital consumer trends 2019 2 51% high-growth firms (annual revenue growth >5%) are >50% online.
3 HSBC Global Research, The booming digital economy, September 2020

3. Business investment

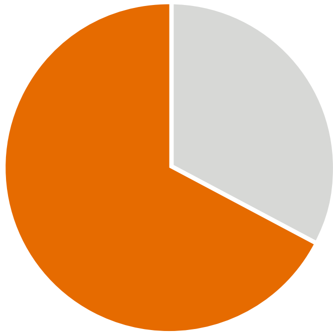
Companies are **investing for growth**

Despite an uncertain external environment, heightened by COVID-19, two-thirds (67%) are increasing investment in their business. And one in three (34%) will significantly increase investment by more than 10% in the next year.

Higher-growth businesses may steal a march with significant anticipated investment to spur growth. Nine in ten fast growth companies, those which anticipate revenues to rise by over 5% this year, are increasing investment. Yet even for businesses which expect declining sales in the next year, two in five (38%) plan to increase overall financial investment.

Investment is geared towards boosting demand and enhancing customer experience. Immediate priorities include marketing (47%) and sales channels (45%).

Investment decisions appear broadly consistent across sector and company size. Yet digitally enabled companies selling online are investing more, with three-quarters of these firms increasing investment (76%), against 61% of offline business.



67%

of businesses globally intend to increase financial investment

The outperformance of digitally enabled businesses may intensify if this investment gap continues.

Long-term investment priorities include process innovation (46%), supply chain transformation (44%) and sustainability (45%). Notably, the oil and gas sector places greater emphasis on sustainability, with around half increasing investment. And product innovation was highest amongst the innovative electronics (54%) and IT sectors (50%).

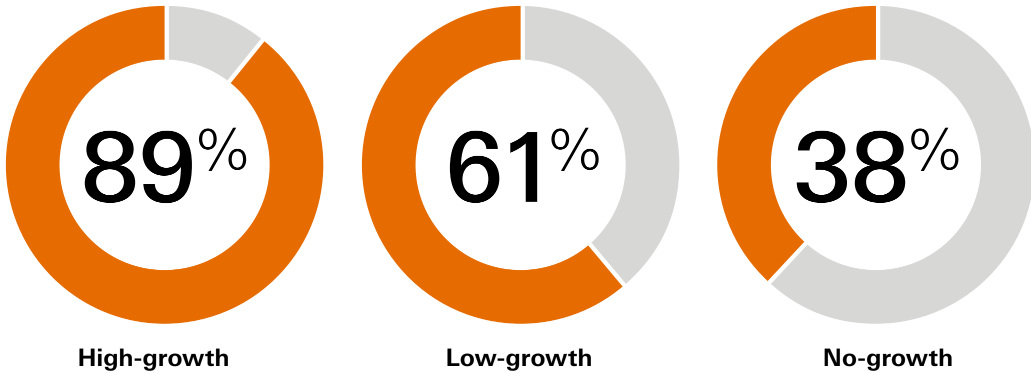
A drive to enable collaboration, identified in the Navigator Resilience report, continues.

More than a third of businesses are increasing investment in technologies that promote skills development and transfer (36%), agile management (35%) and employee communications (33%). Only one in ten businesses plan to decrease investment in these technologies.

Consistent with wider findings, there is little sign of firms foregoing investment to boost short-term shareholder returns. Rather the prioritisation of post-COVID recovery, digitisation, and sustainability are clear; firms are prepared to invest now to deliver value in the long-term.

Most high-growth companies plan to increase investment

Businesses intending to increase overall investment in the next year



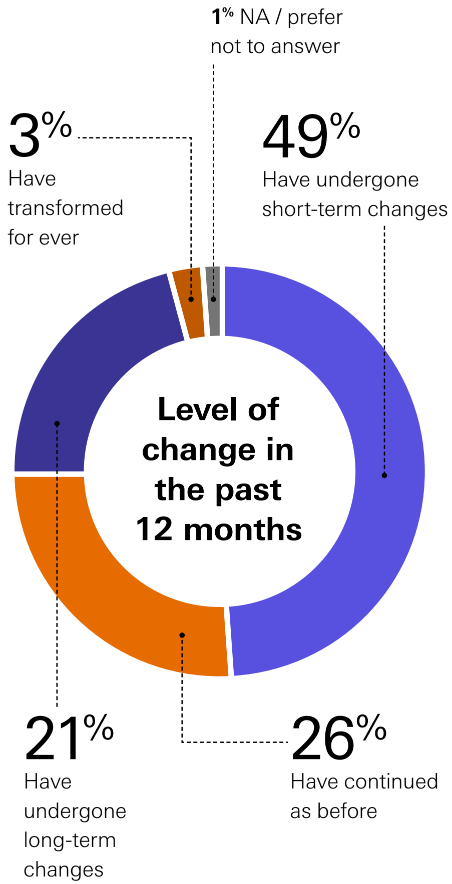
4. Future strategy

Despite the challenge of COVID-19, the **scale of change** businesses are undertaking appears modest

Most companies have not fundamentally changed strategy. Yet approaches differ between growth companies investing for the future, and challenged business models focusing on resuscitating consumer demand.

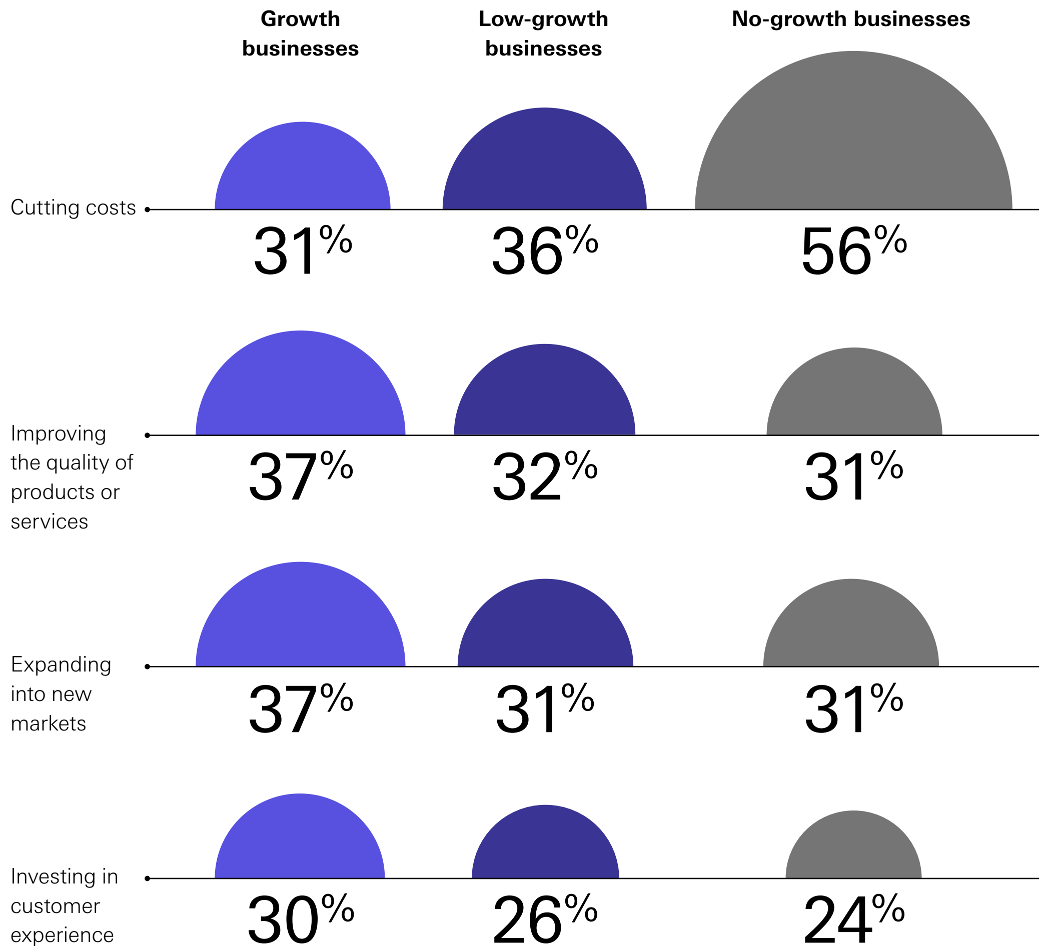
Three distinct groups emerge. The largest, comprising around half of businesses, have undergone short-term change but expect to return to previous operations. The remaining half of businesses split almost equally. A quarter (26%) expect to continue as before, with a quarter (21%) experiencing long-term change. Only 3% have transformed permanently.

Growth expectations are highest among the first two groups. Therefore, greater change appears to have been forced on vulnerable companies by the pandemic. Future uncertainty is the most important factor in driving change.



High-growth firms are investing, low-growth firms are cutting costs

Strategies companies are using to benefit from growth drivers and address threats



4. Future strategy (continued)

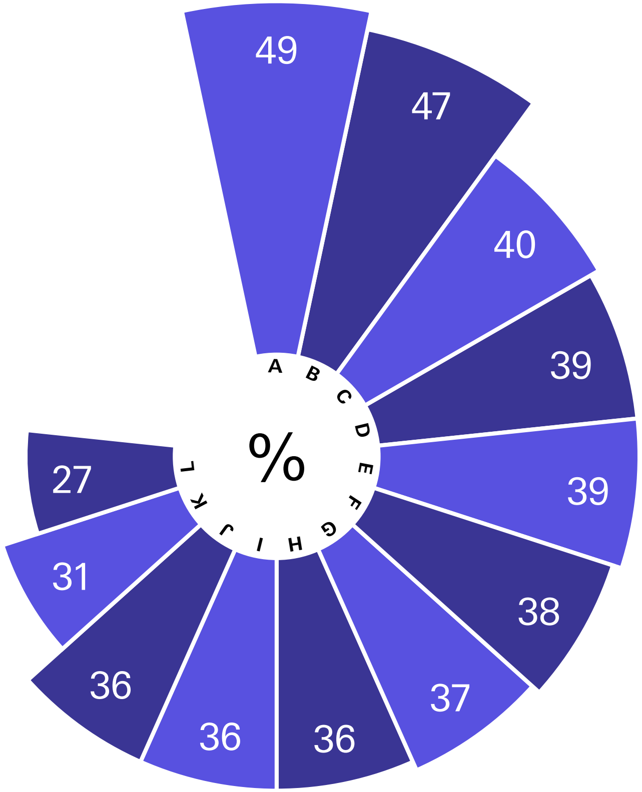
Revenue growth informs strategy. Companies projecting declining sales are adopting a defensive approach, with more than half (56%) cutting costs. This compares with fewer than a third of high-growth businesses (31%). Defensive measures seek to revive consumer demand through marketing and sales channels. And while all firms are turning to marketing to boost demand, the differences emerge among higher-growth firms that are taking a broader approach to target future growth.

Higher-growth businesses are more likely to invest in improved product or service quality, customer experience, and expansion into new markets. The effect may therefore be long-lasting as companies emerging strongest from the pandemic invest for long-term growth.

There are signs of an evolution in thinking among business leaders. Responsibility, resilience and reputation are viewed as more important to long-term success than returns to shareholders. Only 17% of firms view shareholder returns as defining future success. Innovation is the defining characteristic identified by almost half of businesses (49%). This broader conception of the drivers of corporate performance appears consistent with rising expectations for companies to act in accordance with consumer values.

Drivers of entrepreneurial success in the future

A Technical innovation
B Agility/capacity for change
C Speed to market
D Open-mindedness/inclusivity
E Collaborative (rather than competitive)
F Preparedness to take risks
G Invests in people / puts people before process
H Human-centric leadership
I Diversified workforce at all levels
J Great place to work
K Recognises value of failure
L Meritocratic



"The one thing that has become evident is that digital transformation is not a choice. It is not something that you should leave to the junior engineer with a bit of a budget to play with."
Hitachi Solutions, Germany

Winning strategies

July's Navigator Resilience report showed that companies were pulling through the crisis by pulling together. Despite physical distance, four in five businesses felt closer to their customers, employees and suppliers.

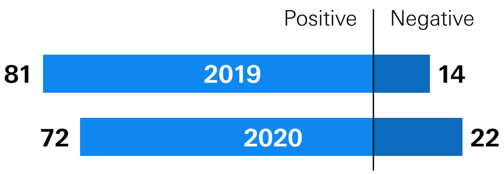
Collaboration looks set to continue. Two in five businesses (39%) believe collaboration, rather than competition, will characterise successful entrepreneurial businesses. Collaboration is rated above shareholder returns as defining future success.

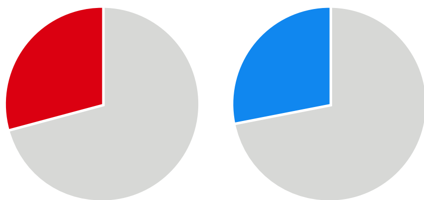
5. International trade

COVID-19 hit global trade volumes **less severely than feared** given the depth of recessions around the world

The World Trade Organization forecasts a fall in goods trade by 9% in 2020, rebounding by 7% in 2021.[4] This relative resilience is evident in businesses remaining confident about future growth, while expecting international trade to become harder.

Two-thirds (63%) of businesses believe trade has become more difficult as a result of events over the last year, but their commitment to pursuing international opportunities appears undiminished. Seven in ten firms (72%) expect their international trade prospects to be positive over the next few years, down from 81% in 2019. Only one-fifth (22%) hold a negative outlook.





29%
Mainland China

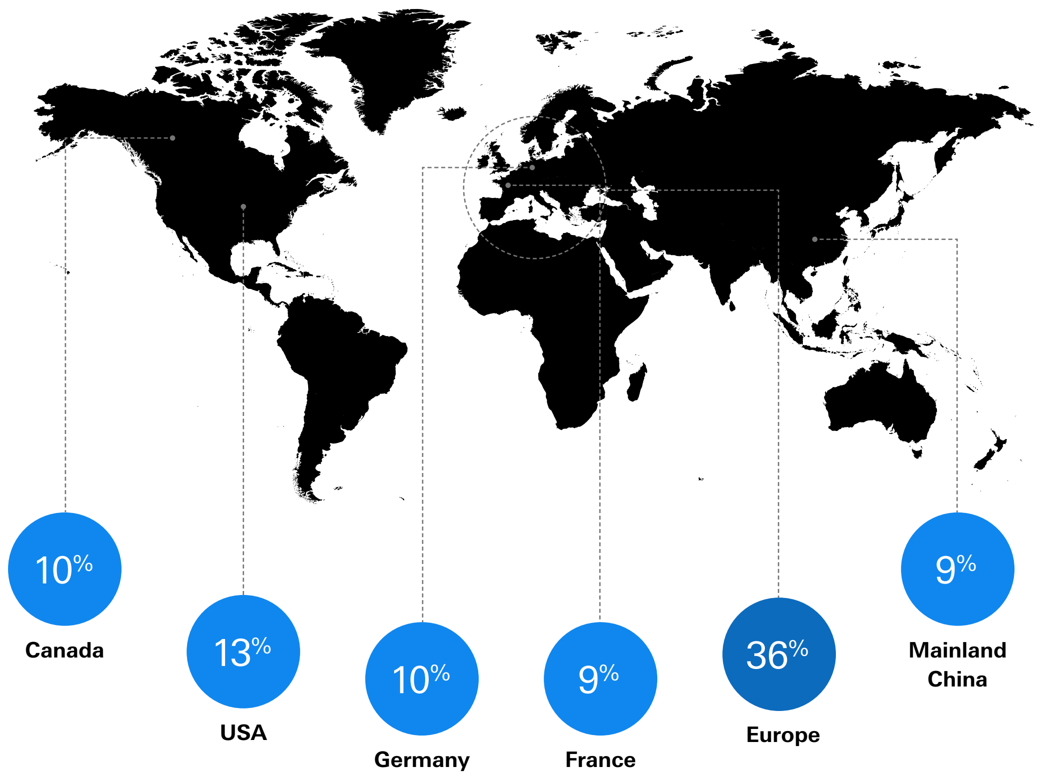
28%
USA

Mainland China is now the largest trading partner for Asia Pacific companies, overtaking the USA

Looking to the future: expansion markets

Europe is the most attractive region looking ahead 3-5 years (36%). USA is the single most attractive market (13%), followed by Canada, Germany (both 10%) and mainland China / France (both 9%).

Markets & territories
Regions



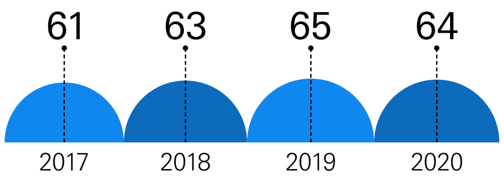
4 WTO: Trade shows signs of rebound from COVID-19, recovery still uncertain, October 2020

5. International trade (continued)

The global trade map is not being radically redrawn by COVID-19 or protectionism. Most companies do not plan to withdraw from an international market within the next two years. Rather, they are looking within their region for expansion.

The growth in regional trade is strongest in South America, where more than three in five (63%) are currently trading with Central/South America, up six percentage points on 2019. This pattern is replicated in Asia Pacific, with regional trade up by four percentage points in a year, amid a marked shift with mainland China surpassing the USA as the main foreign market for regional firms.

Percentage of businesses that think protectionism is on the increase



Around two-thirds of companies (64%) believe protectionism is growing, broadly consistent with recent years. Almost all companies fear negative consequences, including firms that operate only domestically. And these concerns run deeper than difficulties sourcing raw materials, supplier partnerships, or reaching customers overseas.

Trade fosters innovation and the exchange of ideas. Two in five firms see broader horizons and new sources of insight (37%) as a benefit, helping them enhance products and services (35%), which ultimately benefits consumer choice (34%). Businesses believe international trade promotes positive social outcomes through boosting local economies (30%) and supporting the development of local infrastructure (24%).

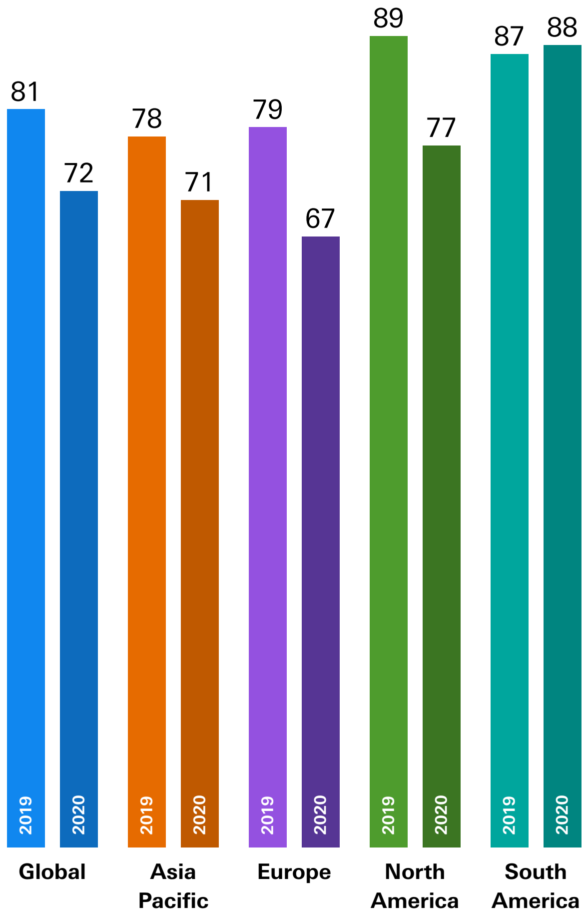
"If you want to grow [internationally] you have to bring new ideas and new products and new innovation… We now have a joint venture with a Chinese customer in robotics and digitalisation… this company has been able to grow very fast… to be highly price competitive… to take back some market share."

Danieli Group, steel production, an Italian company operating in mainland China

Trade outlook remains positive

Percentage of companies with a positive view of trade prospects over the next 1-2 years

%



Winning strategies

Businesses fear negative impacts from growing protectionism. This perception is strongest among US and Mexican companies, rising around 10 percentage points over four years. This may reflect the domestic political environment and the desire to end trade reliance of critical goods on single foreign suppliers in the wake of COVID-19.

In response, companies are seeking to boost competitiveness (35%), partner with local firms (32%), and utilise online e-commerce platforms (29%).

6. Reshaping supply chains

With supply chain disruption becoming more commonplace, businesses are **reviewing and reshaping** their supply chains to build resilience

Research suggests supply chains will face disruptions lasting a month or longer every four years.[5]

Firms view these disruptions as the biggest internal factor hindering growth (19%). More than nine in ten (93%) have concerns relating to their supply chain. These concerns are consistent across industries. In response, businesses are making changes to how they select suppliers and manage their supply chain.

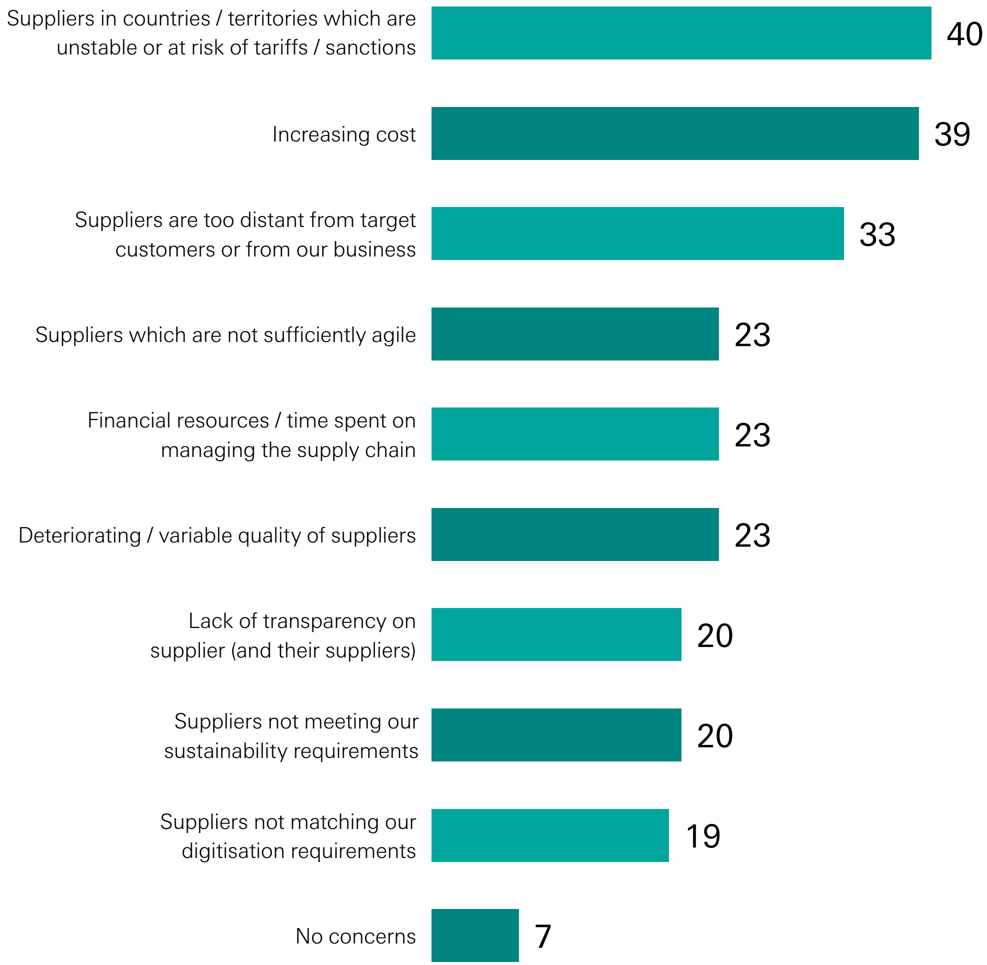
In terms of suppliers, July's Navigator Resilience showed more businesses were diversifying rather than restricting suppliers. This trend continues with more firms diversifying (28%) than reducing (20%). This gap widens for higher-growth businesses and companies that perceive protectionism rising. Automotive and manufacturing firms, particularly in the computer and electronics sector, are diversifying most through adding new suppliers.

93%

have concerns relating to their supply chain

Factors threatening supply chain resilience

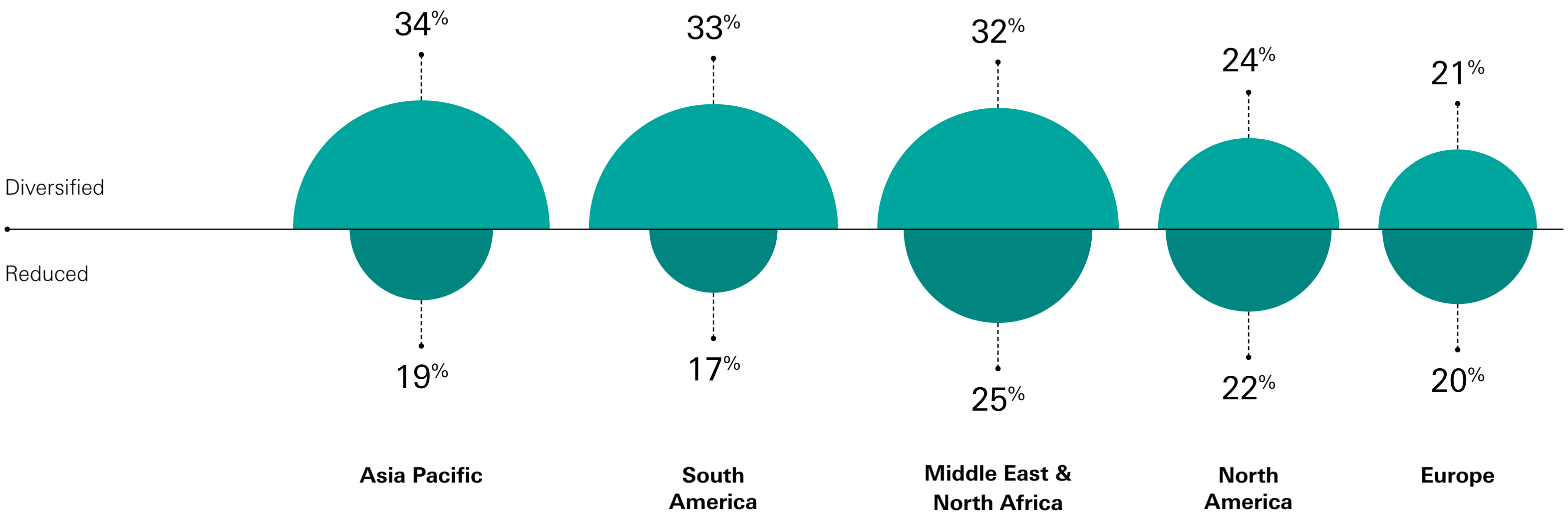
%



5 McKinsey Global Institute: Risk, resilience, and rebalancing in global value chains, August 2020

6. Reshaping supply chains (continued)

Diversifying vs reducing the number of suppliers: the regional picture



This diversification is a strategy to deal with external uncertainty, enhancing control and reducing risk. And consistent with increasing trade flows within regions (Section 5), for two-fifths of firms, focusing on suppliers in their home region will be their immediate priority for 2021 (40%). The most significant short-term change is choosing suppliers based on their country's control of COVID-19 (32%).

On supply chain management, half of businesses see digital and technology as the immediate priority (48%). Companies that identify as thriving are making greater changes to their supply chain, particularly in digital adoption.

Supply chains shape sustainability outcomes. Large corporates place considerably greater emphasis on this. One in five firms hold concerns around suppliers' lack of transparency and ability to meet sustainability requirements. Over the past year, around a quarter of firms have selected suppliers based on sustainability practices (24%) and increased transparency deep into the next tier of suppliers' supply chain (26%).

Businesses are prioritising resilience across their supply chain. To achieve this firms are enhancing control, reducing cost and increasing speed.

Winning strategies

COVID-19 highlighted the risks of concentrated and opaque supply chains.

Mapping supply chains right down to component level can ensure no single point of failure. Supply chains can maintain efficiency while adding geographic diversification that can be flexibly deployed. Transparency, digitisation, resilience and incorporating ESG factors will set companies apart.

And as volatility increases, trade finance can bridge spikes in the need for working capital.

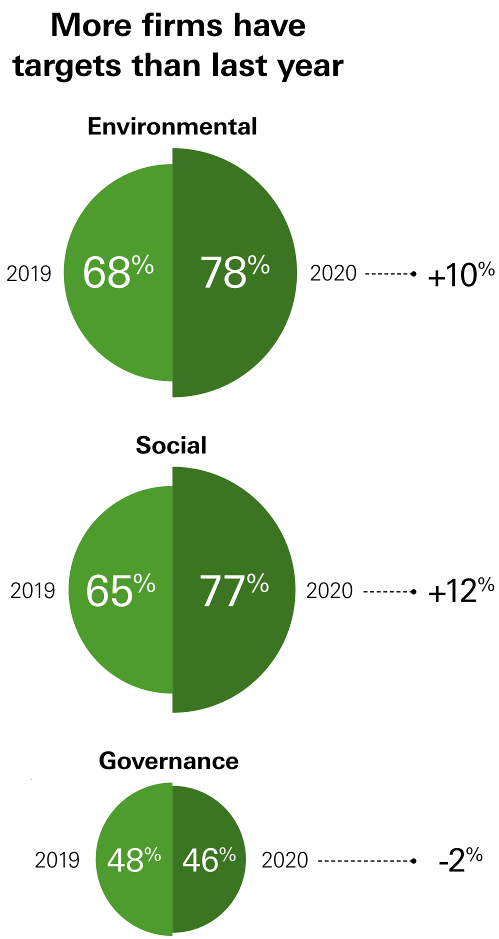
7. Sustainability

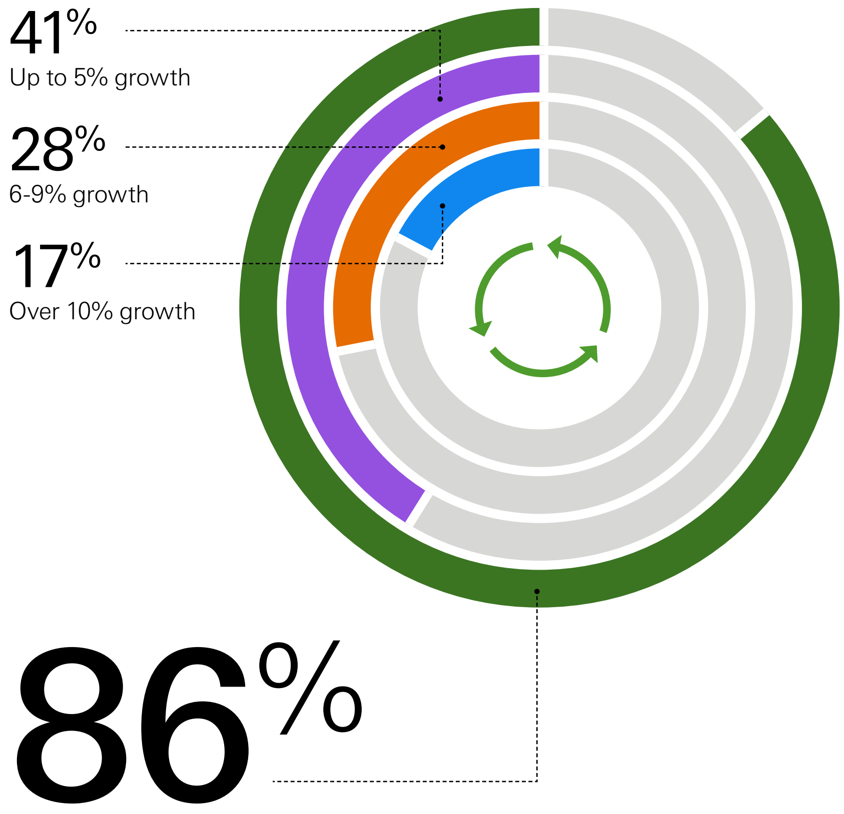
Companies anticipate direct **commercial benefits** from embracing sustainability

Environmental, Social and Governance (ESG) targets are increasing. And external pressures to do so are broad based, but firms feel it most from consumers, government, and supply chain partners.

The vast majority of companies expect sustainability performance to boost sales (86%). While a plurality of businesses (41%) expect increased growth of up to 5% over the next year, for a sizeable minority the opportunity is far greater. More than a quarter (28%) expect sustainability to boost growth by between 5% and 10%; and one in six (17%) expect increased growth in excess of 10%.

Larger companies expect the greatest increases, as do companies in South America, the Middle East and North Africa. Firms in these regions also anticipate sustainability will help attract investment. In terms of sectors, natural resource-intensive industries such as agriculture and mining companies see the highest growth benefits. Whereas the automotive sector has the lowest expectations.

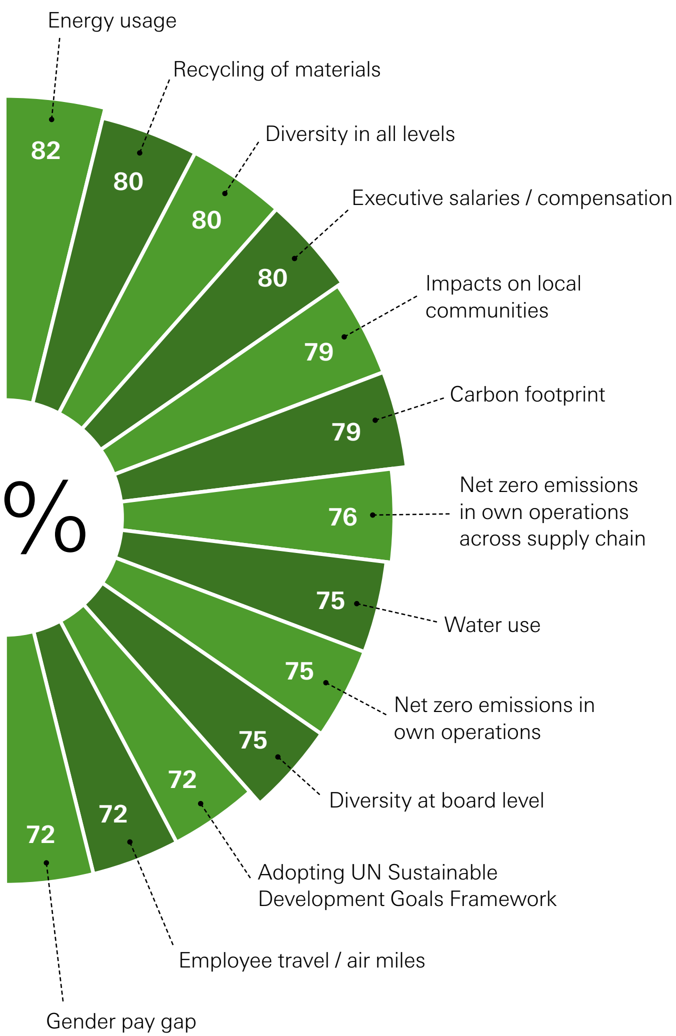




of companies expect their sales to grow over the next year, from a greater focus on sustainability

7. Sustainability (continued)

Priorities for environmental targets

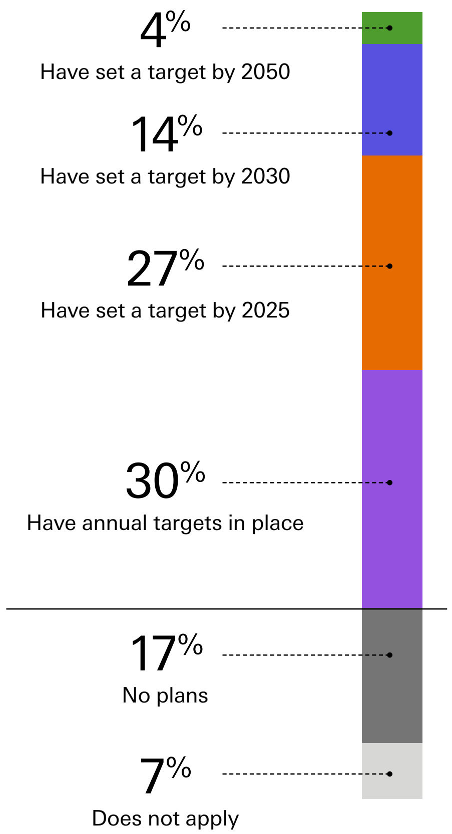


External pressures are growing. Consumers are the strongest driver for automotive and construction firms to enhance sustainability, whereas government action influences natural resource-intensive businesses in the agricultural, oil and mining sectors. But while governments may exert pressure, companies are also looking to the state for support. Around two in five firms (37%) report that government incentives would support their sustainability efforts.

Three in four companies have set sustainability targets. One-third favour annual targets (35%), 27% are setting a target for 2025, and 12% for 2030.[6] There is a marked increase in the use of targets relating to environmental and social outcomes since 2019, but targets for governance issues are unchanged and far less prevalent.

Companies expect the benefits of improved sustainability performance to extend beyond the bottom line. Expected benefits include employee wellbeing (37%) and recruiting talent (28%), with attracting investment (30%) another sign of the financial benefits that accrue alongside enhancing corporate reputation (32%).

Target timings and focus*



"Consumers are digging deeper and spending more time analysing whether a product's claims are actually truthful, and if not they are harder on brands than in the past."
NielsenIQ, a consumer intelligence business based in Singapore

Winning strategies

Companies that identify as thriving see the greatest opportunities from improving sustainability performance. A majority of businesses recognise it will create short-term commercial opportunities, boosting growth.

Today's lower borrowing costs create an opportunity for ESG investments which will pay off tomorrow. And sustainable financing solutions, cited by 30% of firms as an enabler, can help unlock these opportunities.

6 The proportions mentioned here are indicative averages across a pre-defined set of commonly accepted ESG targets. * Selected responses

Survey methodology
The Navigator survey is conducted on behalf of HSBC by Kantar. It is compiled from responses by decision-makers at 10,368 businesses, ranging from small and mid-market firms to large corporations, across a broad range of sectors.

The respondents hold influence over their company's strategic direction and represent a broad range of roles: including c-suite, finance, procurement, sales and marketing.

A total of 39 markets were surveyed between 11 September and 7 October 2020.
Europe: Belgium, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Russia, Spain, Sweden, Switzerland, UK
Asia Pacific: Australia, Bangladesh, mainland China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, Vietnam
Middle East & North Africa:
Egypt, Saudi Arabia, Turkey, UAE
North America: Canada, Mexico, USA
South America: Argentina, Brazil
Rest of Africa: South Africa

Results have been weighted to be representative of markets' international trade volume (World Trade Organization data for 2017-2018).

Issued by HSBC Bank plc
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Note: There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.