QUARTZ MEMBERSHIP

How businesses are adapting to Covid-19

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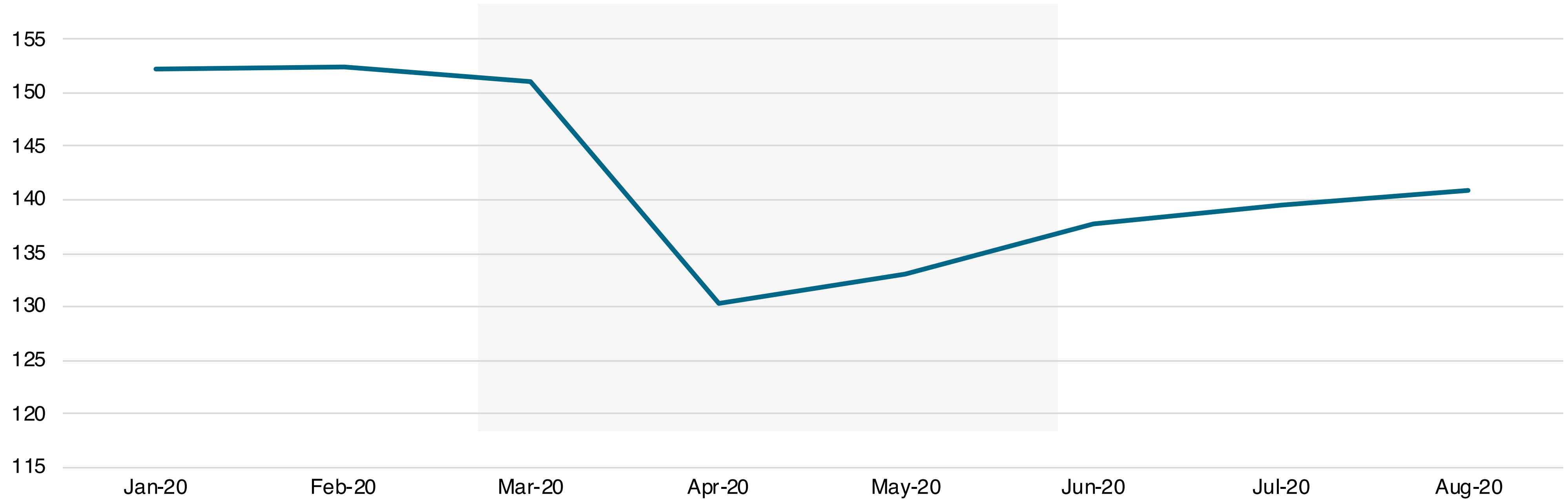
An unexpected disruption

The Covid-19 pandemic and resulting lockdowns hammered countless companies and revealed weaknesses in business models, supply chains, and accelerated the need for strong digital operations. For some industries, the damage just couldn't be avoided–planes are meant to carry people, restaurants are for hungry visitors, and clothes are meant to be purchased and worn. But others thrived, mainly cloud and information technology that service multiple industries, building software designed for a less physical and more remote world. This presentation summarizes the pandemic's effects to date on a number of important industries.

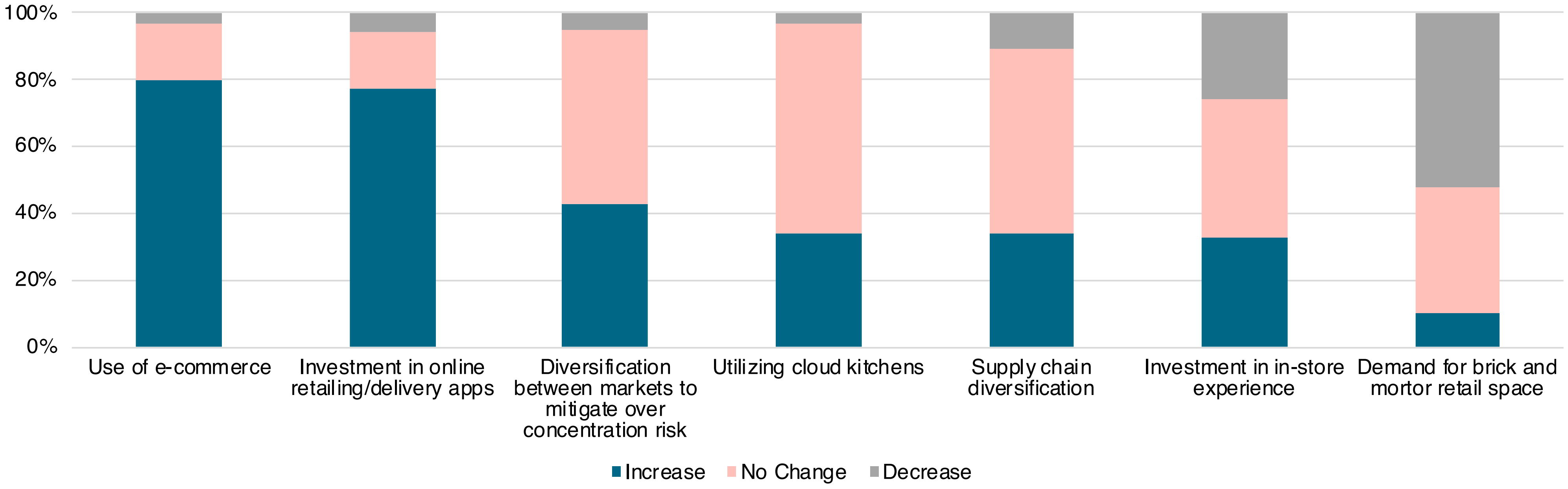
US non farming jobs (in millions)



Growth in direct-to-consumer e-commerce

The pandemic devastated non-essential retailers with weak e-commerce operations. Amazon dominated the market, increasing sales by 40% in Q2 2020 compared to Q2 2019. As distributors falter, some fashion and skin care retailers are seeing an increase in direct-to-consumer spending through their websites and Instagram. Beyond sales, digital experiences, contactless shopping, and reservation services will become the new normal.

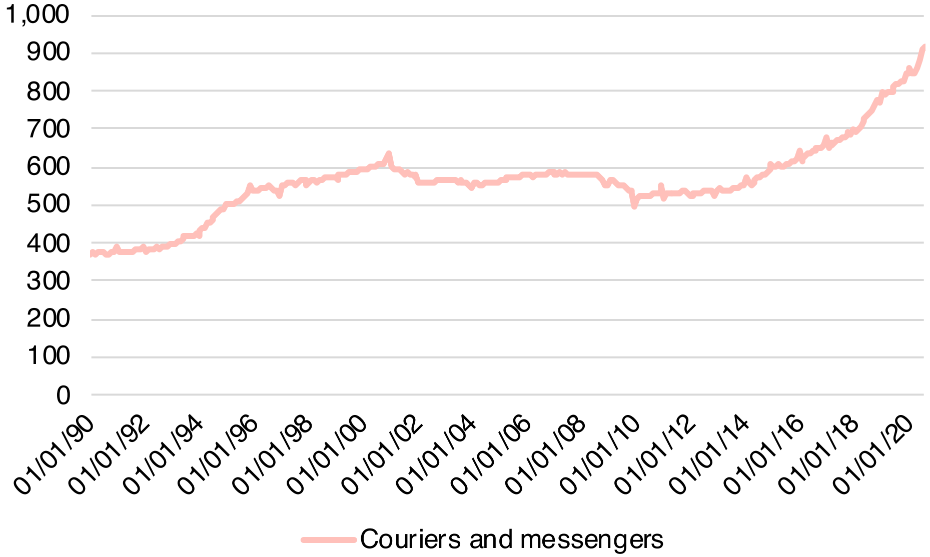
Asia Pacific retailers expected shifts in business strategy



Growth in delivery services and supply chain diversification

Covid-19 sent the already rapidly growing delivery sector into overdrive. This growth is attributed to a boom in logistics operations that support the growing e-commerce sector. Yet, the current manufacturing supply chain that supports delivery is under strain. “China’s role as the ‘world’s factory’ means any major disruption puts the world’s global supply chain at risk,” says a Deloitte report. To mitigate the impact of the next disruption, companies are looking to diversify suppliers to countries like Vietnam, Malaysia, Mexico, and India.

Delivery jobs grew by 8% from February to July



Why supply chain leaders are moving out of China

Online education goes from niche to essential

Students are increasingly open to online education. Schools of all sizes are looking at online program management companies (OPMs) to assist them in transitioning to virtual and hybrid models. OPMs manage technology, marketing, and enrollment for universities, while taking as much as 60% of revenue. If schools move online in large numbers, the business opportunity for OPMs will be massive. Online programs also present an additional revenue stream for less prestigious colleges that bring in less revenue and have smaller endowments.

$649 billion
The total revenue of degree granting post-secondary institutions in the US.

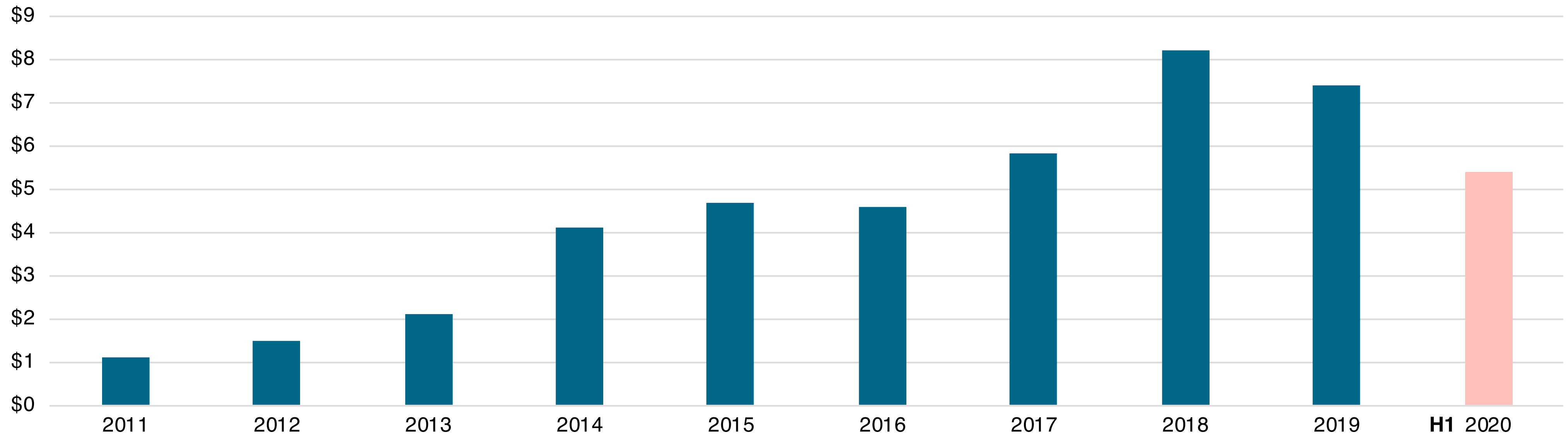
14%
The growth rate of the global OPM industry.

73%
The percentage of students in a 2U survey that indicated they would consider an online program.

A surge of investment in health tech

Healthcare systems experienced decreased revenues and supply chain disruptions resulting in equipment shortages during the crucial period of the pandemic. However, the pandemic presents an opportunity to evaluate how healthcare is provided. Digital health funding set a record for funding in the first half of 2020, already raising $5.4 billion dollars.

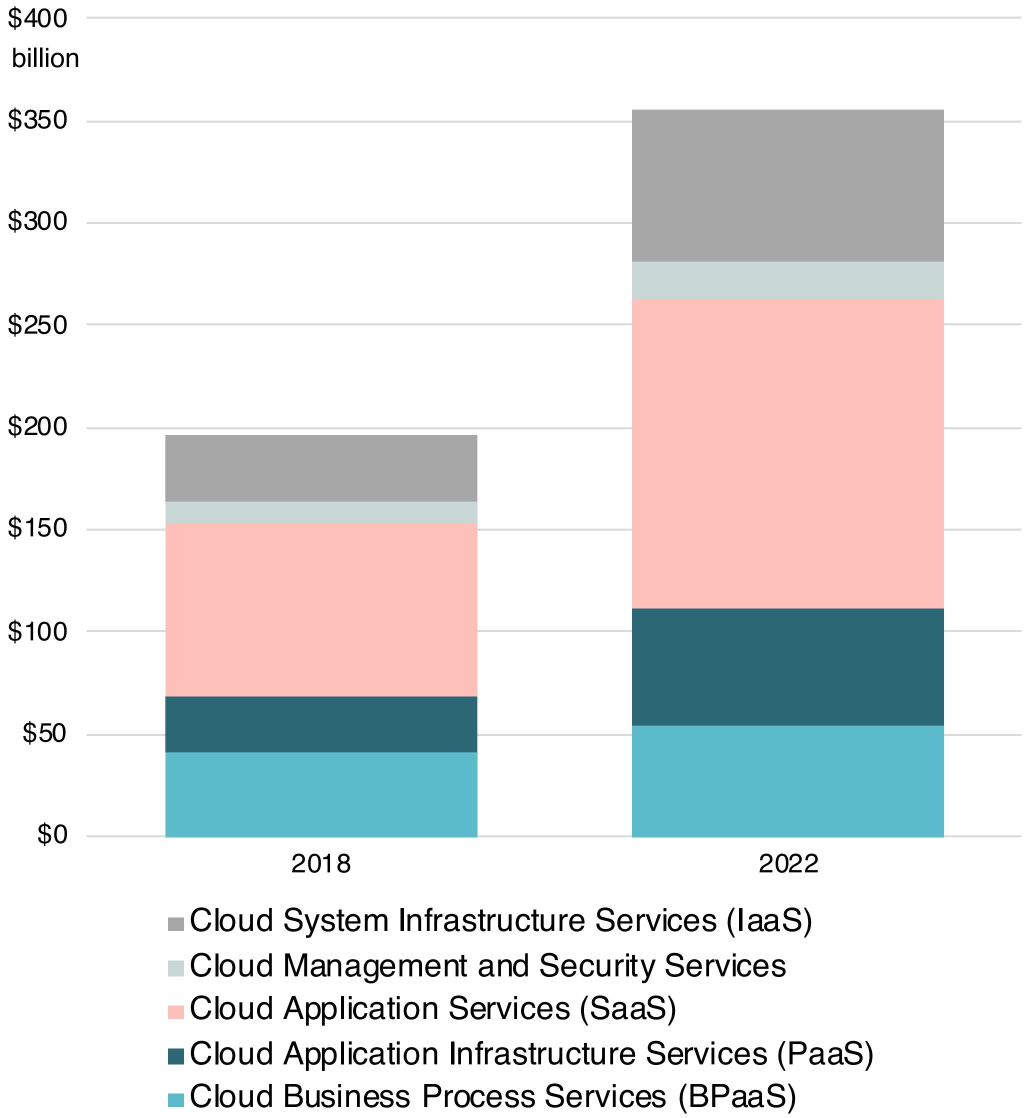
Digital health funding ($B) and deal size from 2011 to first half of 2020



Cloud and information technology

The pandemic has accelerated enterprise cloud adoption. As businesses shift to online platforms, the demand for cloud-based technology is stronger than ever. In China alone, public spending for cloud technology will grow by as much as 58% in 2020, reaching $19 billion according to a report by Korean investment bank, Mirae Asset. Cloud technologies run the gamut–helping companies adapt business models to digital channels, managing surges in online demand capacity, and managing remote workforces.

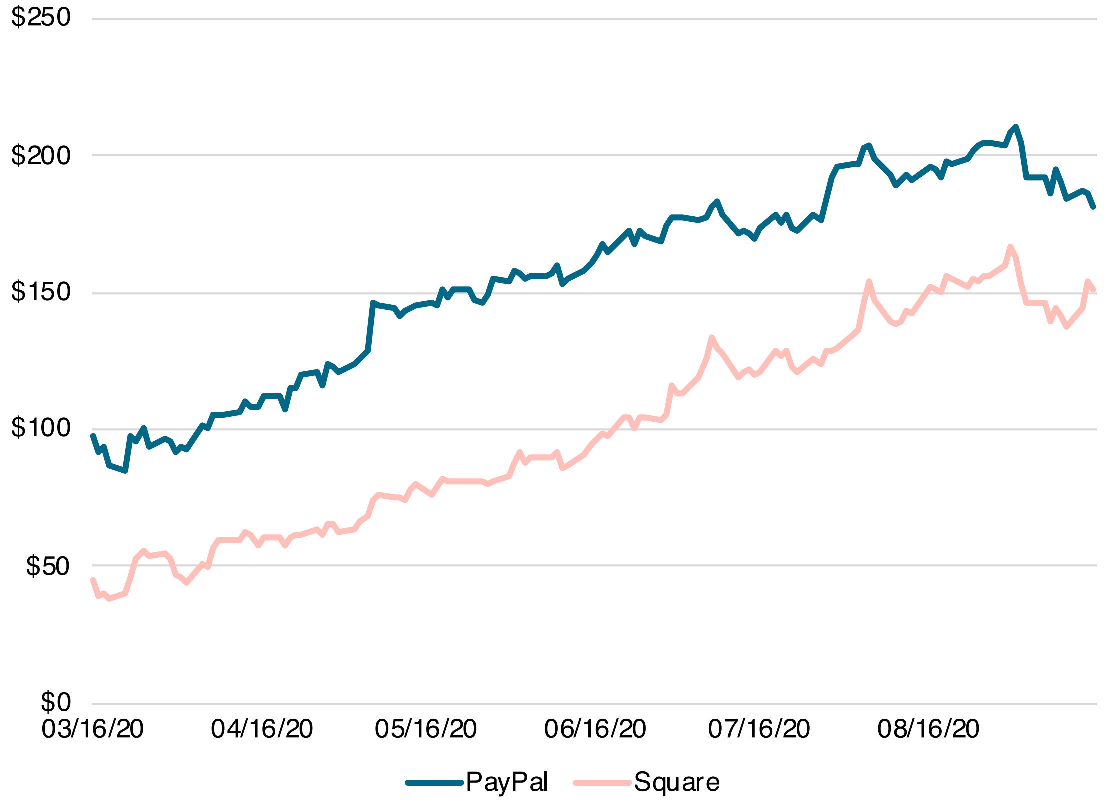
Worldwide public cloud revenue by service type
Projections for 2018 versus 2022



Accelerating digital banking and payments

Wary of physical contact, consumers have turned to mobile banking and payment apps to facilitate transactions–accelerating the move to a cashless society. Citigroup experienced an 84% increase in daily mobile check deposits in the US, and in Mexico a 166% increase in downloads of its mobile app in the second quarter, and a 78% increase in digital payments. Despite the increase in use, revenue for digital payments has plummeted as consumers spend less. Covid-19 has also pushed banks to reach underbanked populations through digital methods. Accenture predicts that contactless payment solutions (i.e., Alipay, Google Pay, Apple Wallet) will become the norm and expand beyond food delivery and retail to include logistics and medical payments.

PayPal and Square share prices



Venture capital is still investing

The pandemic threatened to put the decade-long venture capital boom on hold and in May it looked like it could hurt a significant share of startups. Venture deals in the US did drop 30% in Q2, year-over-year, but total funding decreased by less than 5%. African startups are raising more money in 2020 than they did in 2019. And VCs say most of their startups were unaffected or positively affected by the pandemic.

30%
The year-over-year increase in capital going to African startups in the first quarter of 2020.

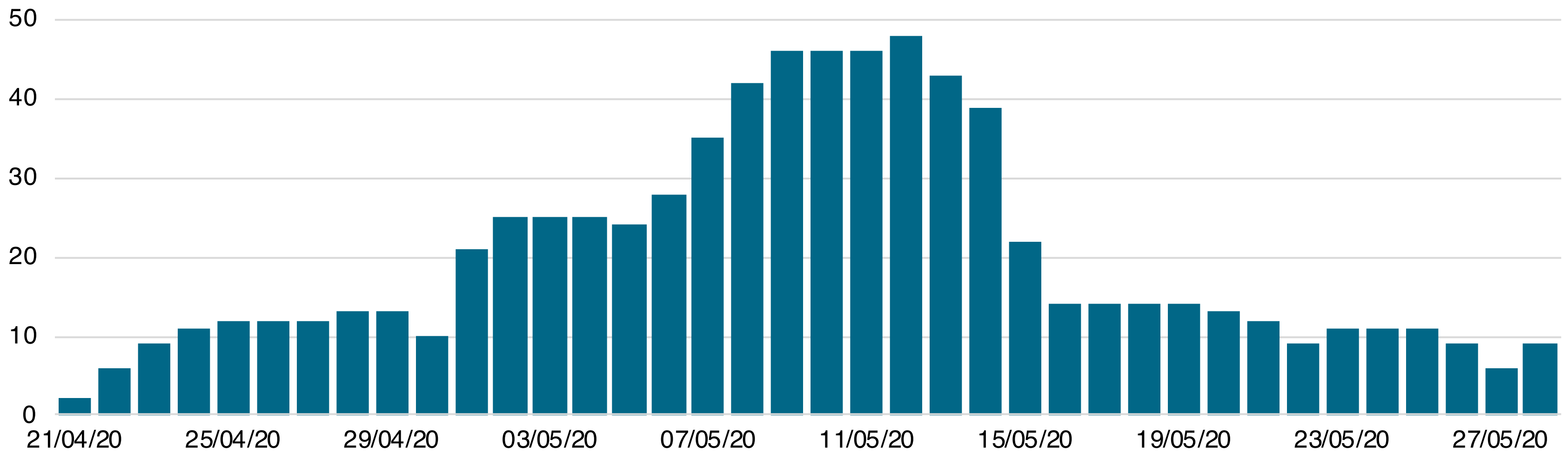
41%
The share of startups reporting in April that they'd run out of cash within three months without additional funding.

52%
The share of portfolio startups VCs say were unaffected or positively affected by the pandemic.

Protecting workers through increased PPE spending

It's expensive to run a business in a pandemic. During its Q1 2020 earnings call, Amazon said that it plans to spend $4 billion on Covid-19 related expenses. Another retail giant, Walmart, spends $3.3 million a day on cleaning its 5,000 stores and keeping employees safe. This trend is likely to extend into 2021 as businesses and offices continue to reopen.

Companies mentioning enhanced cleaning in transcriptions from mid April to end of May



How is net absorption calculated?

Net absorption = the total amount of space that tenants physically moved into **minus** the total amount of space that tenants physically moved out of.

Rethinking the office

The shift to permanent and part-time remote work across industries is forcing companies to rethink space and how they use it. 80% of respondents enjoyed working from home according to a survey by McKinsey of 319 organizations with at least 2,000 full time employees. Employers will have to think creatively about office space–its size, use, and location. McKinsey predicts some organizations could decrease real estate costs by 30%. For the first time since 2009, US companies are expected to occupy less space in the second half of 2020; In Europe by 40% and in Asia by 40% - 50% according to a CBRE report. In shaping the next normal, commercial real estate companies will have to consider three time frames according to a Deloitte report:

Respond–how a company deals with the present situation. In real estate these are factors pertaining to liquidity management, operations and tenant support, and remote working and technology usage.

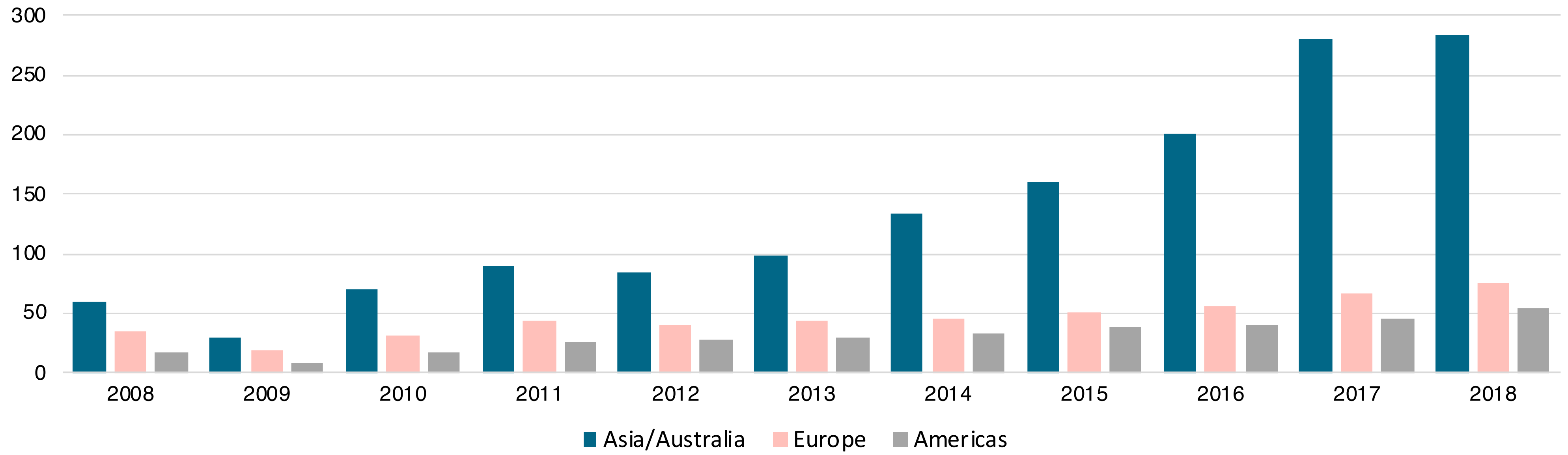
Recover–how a company learns and emerges stronger. This may be adapting to tenant preferences as workers re-enter physical spaces.

Thrive–how a company shapes the new normal by reassessing business expectations. This may be identifying threats, new business opportunities, and investing in capabilities needed for the new world.

Robots can't get sick

The service sector was already being disrupted before Covid-19. The pandemic exposed the service sector's vulnerability–people. The worry of human workers carrying the virus could accelerate the use of robots replacing humans for certain tasks. Essential workers are at a disproportionate risk as artificial intelligence has advanced in some cases performing skills such as cleaning, checking out groceries, and checking inventory. Jobs requiring management of robots will grow, but they will require technical skills.

Annual installations of industrial robots by region



Want to know more? Read Quartz coverage of how Covid-19 is transforming industries.

- Quartz Presents: How Covid-19 is transforming the retail industry – Learn how old players are trying to survive while new ones take advantage of digital capacities.
- The jobs of the future require an entirely new vocabulary – A new set of skills are needed to thrive in a changing rapidly workforce.
- Covid-19 has more Americans working in delivery than gas stations – Ecommerce is driving the growth of delivery jobs.
- American universities are reckoning with online education – Learn how a traditional industry is adapting to the needs of students during a pandemic.
- Emmalyn Shaw says banking will look a lot different in 5 years thanks to Covid-19 – An expert's take on the future of banking.

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