

Navigator 2020 Europe



Together we thrive

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Introduction

Fiscal authorities in Europe have really stepped up to the plate to help economies deal with the effects of COVID-19. In July, EU leaders agreed on a €750bn recovery effort. Since our Navigator 2020 survey closed in October, the European Parliament and Council have agreed more funds (the total now reaches more than €2.3bn) and individual governments have ramped up their own support. This punchier policy response, coupled with the potential for widespread vaccination in 2021, will help economies recover as restrictions lift.

1. Overview

Despite COVID-related challenges, European businesses are **adapting** to the new normal

Unsurprisingly, there is greater pessimism now than a year ago among the 3,680 companies interviewed for our survey in 13 European markets. However, many firms are taking advantage of the opportunities for international trade and growth these challenges present.

Two-thirds don't expect to return to pre-COVID profitability until the end of 2022. Yet the majority are adapting (58% in Europe, the same as globally). Indeed, more than a quarter are thriving, with just under a fifth merely surviving. And although struggling companies are cutting costs, almost two-thirds of respondents are planning to increase business investment.

Most have reshaped their supply chains, mainly to become more digital or resilient. Rather than reducing trade, two-thirds (65%) intend to keep trading internationally in the next two years. And thanks to customer demand and other factors, over a third (36%) of all markets globally identify markets in Europe as their top three choices for expansion.



Most and least challenged countries

Most companies are adapting to the changing environment. But there is considerable polarisation between countries with higher proportions of thriving businesses and those with higher proportions that are surviving day to day



2. Business outlook

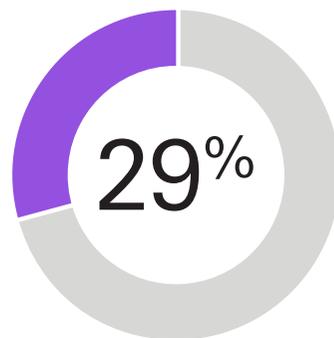


Europe's businesses are responding to challenges by adopting a range of **recovery strategies**

The proportion of businesses that are more optimistic about growth has dropped from 41% (2019) to 22% (2020). This is mirrored in their growth expectations for the coming year, which have fallen from 79% to 62%.

Behind these headline numbers lies a more complex story. Our survey shows that companies fall into three performance categories:

- **High growth:** 38% of Europe's firms (42% globally) continue to project sales growth of more than 5%. This is in contrast with 2019, where 50% of Europe's businesses expected to grow (56% globally).
- **Low growth:** 36% of companies (33% globally) predict that business will either be stable or grow by up to 5% (a small drop on last year), with twice as many expecting to increase sales than to remain stable.
- **No growth:** 25% of companies (24% globally) expect business to decline – 2.5 times greater than in 2019 (10% in Europe, 12% globally).



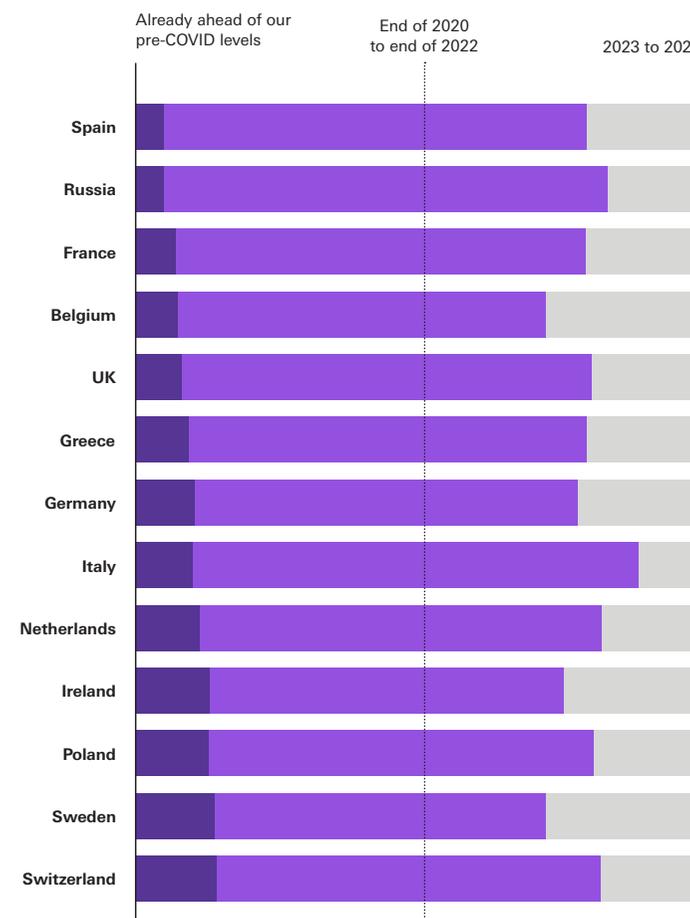
of companies that do more than half of their trade online report feeling more optimistic this year, compared with 18% that trade more offline

Top 3 drivers of business growth



When businesses expect to return to pre-COVID levels of profitability

%



2. Business outlook (continued)



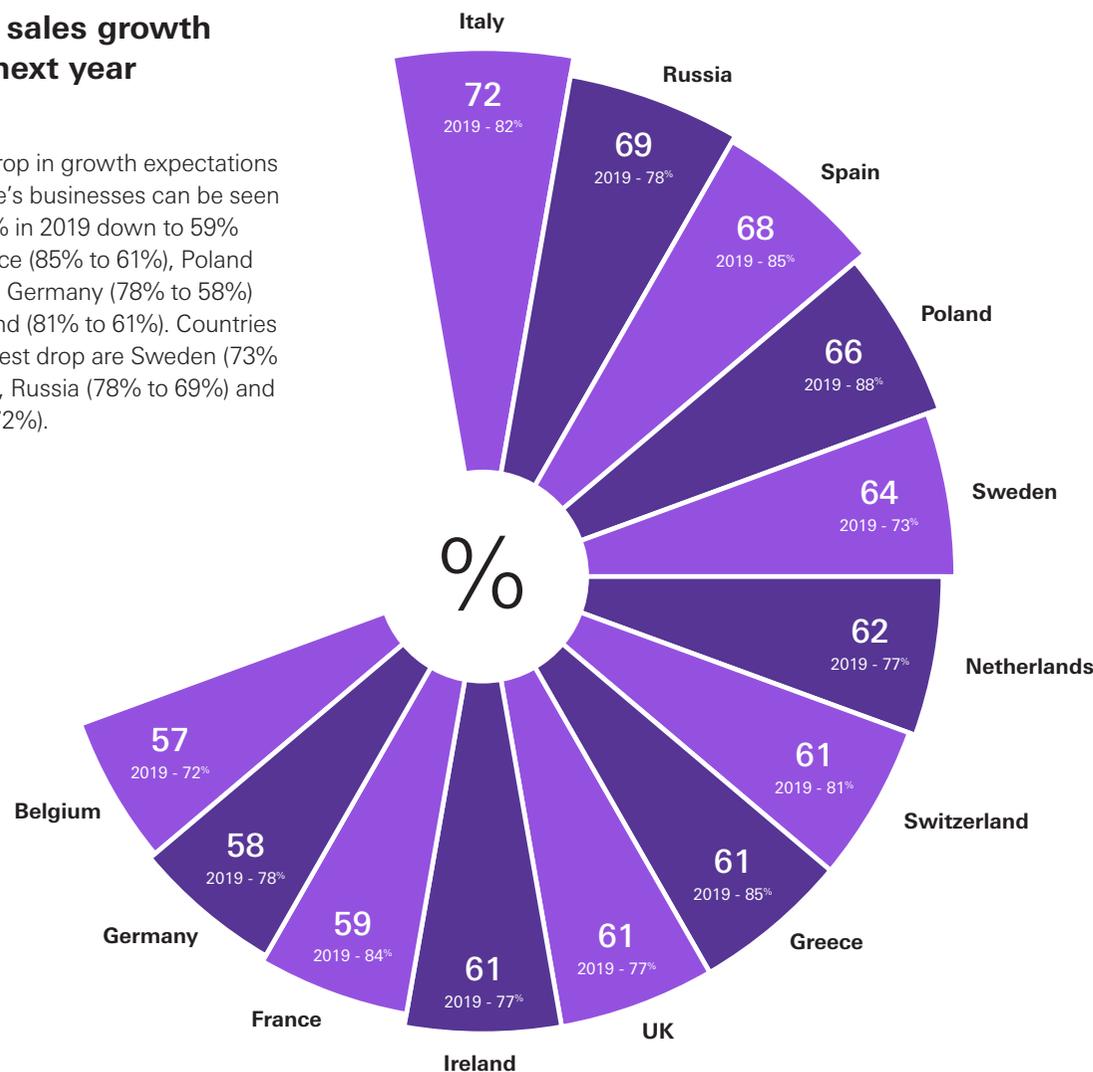
Countries with higher proportions of high-growth businesses inevitably have a more positive outlook. For example, 69% of companies in Europe expect to return to pre-COVID profitability by the end of 2022. But the proportion is 78% in Italy and 77% in Russia – just above the global average of 73%. And while 9% of businesses in Europe say they are already ahead of pre-COVID levels, it is 14% in Sweden and Switzerland.

For firms expecting growth, the main drivers are almost equally split between internal and external factors: internally, efficiencies gained from leveraging technology and a motivated workforce; externally, customer demand, and satisfying it with new products and services. Meanwhile, external factors are the biggest threat for companies expecting to shrink. More than four in ten (44%) cite a resurgence of COVID-19, and lower proportions mention decreasing demand, an uncertain political environment, difficulty in entering new markets, workforce morale and disruption to supply chains.

When it comes to benefiting from growth drivers and addressing threats, companies put more emphasis on cutting costs (41% in Europe, 38% globally) than improving the quality of products and services (29% versus 34%) and expanding into new markets (29% versus 33%).

Expected sales growth over the next year

The biggest drop in growth expectations among Europe's businesses can be seen in France (84% in 2019 down to 59% in 2020), Greece (85% to 61%), Poland (88% to 66%), Germany (78% to 58%) and Switzerland (81% to 61%). Countries with the smallest drop are Sweden (73% down to 64%), Russia (78% to 69%) and Italy (82% to 72%).



3. Business investment



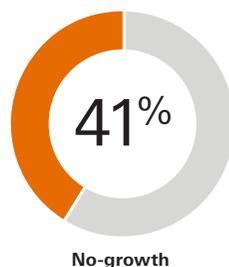
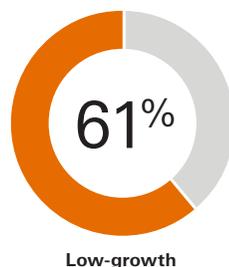
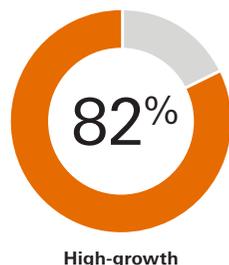
A majority of Europe's firms **plan to increase** financial investment in their businesses in 2021

Most companies in Europe are undeterred by last year's events. Over the coming year, 64% plan to invest more money in their businesses, compared with 67% globally. Indeed, among the companies projecting growth, the figure rises to 78%.

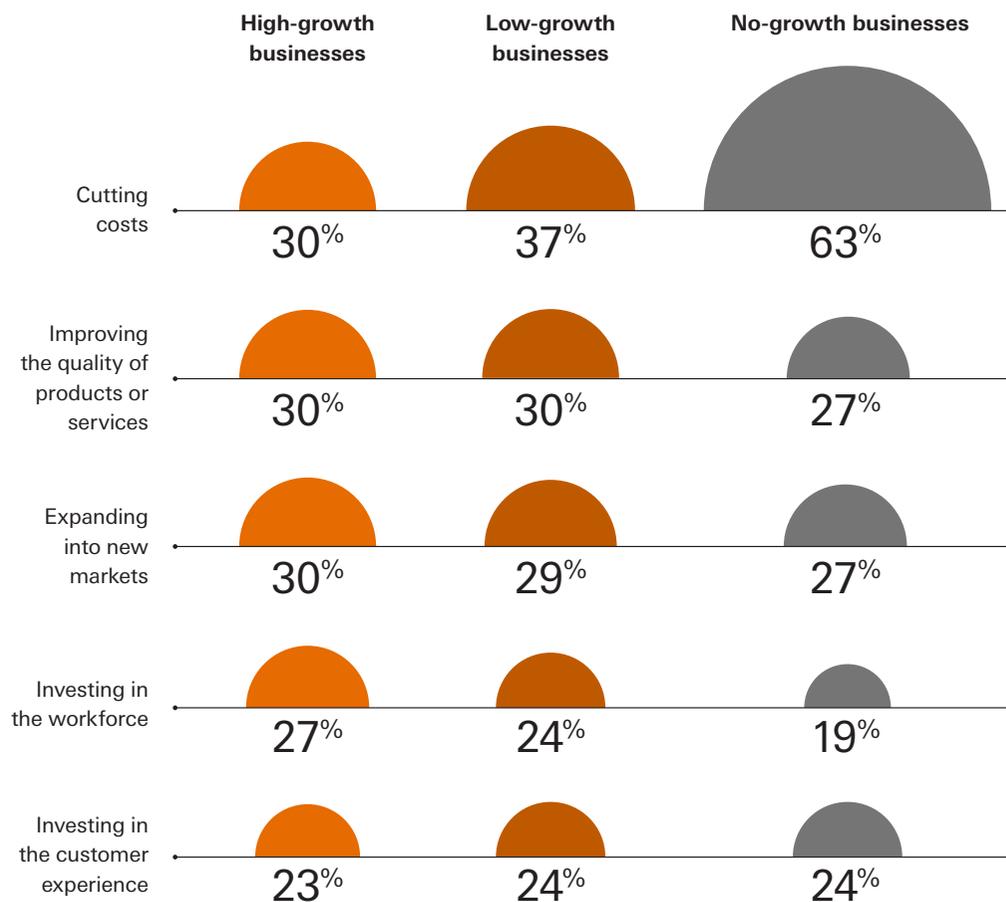
Stimulating demand by investing in the customer experience is seen by almost half of businesses as the immediate priority for 2021. Future priorities are process innovation, workforce upskilling, sales channels, new markets, cashflow and capital management, digital-only platforms and sustainability.

As regards investing in technology to drive success next year, the priorities are targeting new customers (38% versus 41% globally) and enabling product and service innovation (37% versus 41% globally). Beyond these, for a third of those increasing investment, the priority is tech that promotes skills development, agile management and employee communication, followed by collaboration.

Most high-growth companies will increase investment



When taking advantage of growth drivers and addressing threats, businesses favour strategies that reflect their level of growth



4. Future strategy



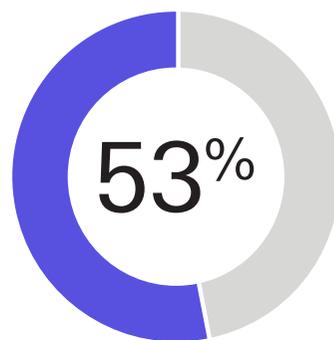
Although buffeted by the year's events, Europe's businesses are **adapting**

Three-quarters of the firms surveyed (77% versus 74% globally) have made changes over the past year. Nearly half have undergone short-term changes but expect to return to pre-COVID operations soon. A quarter (23% compared with 26% globally) say business continues as before. But for 25% (21% globally) the changes will last for the long term.

The key factors prompting businesses to change are uncertainty, the need to cut costs and changes in ways of working.

Future successful businesses will above all be innovative, say 40% of companies (44% globally). Additionally, reputation, resilience to market shocks and a sense of social and environmental responsibility were each mentioned by about 30% (Europe and global).

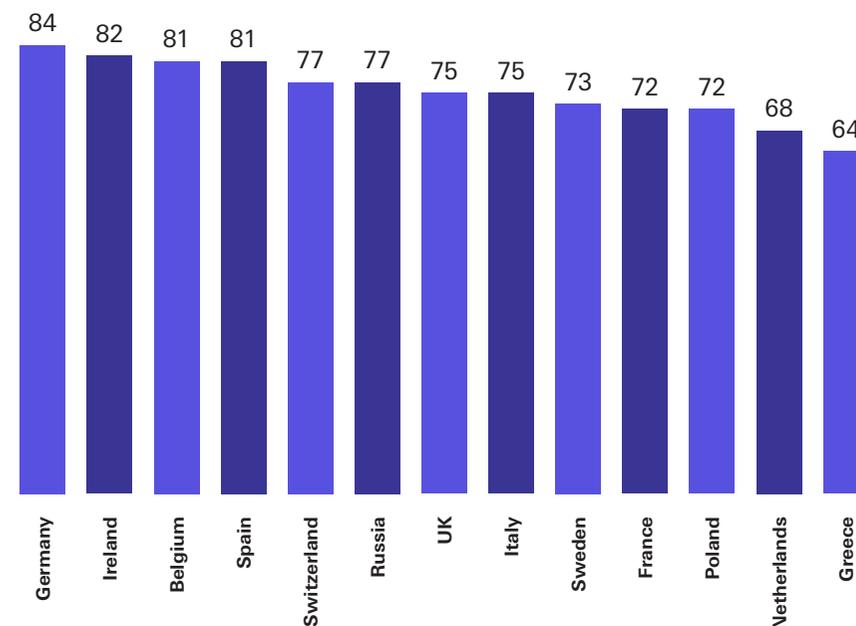
Around half of companies believe that becoming more entrepreneurial will lead to increased customer focus, greater competitiveness and enhanced employee wellbeing/attracting the best people.



of companies in Europe view a preparedness to take risks as a marker of a successful entrepreneurial business, compared with 49% globally

Most companies have undergone changes or transformed in the last 12 months

%



The top 5 characteristics that will become more important to entrepreneurial businesses





5. International trade

Despite difficulties in trading internationally, European businesses are **confident** about the future

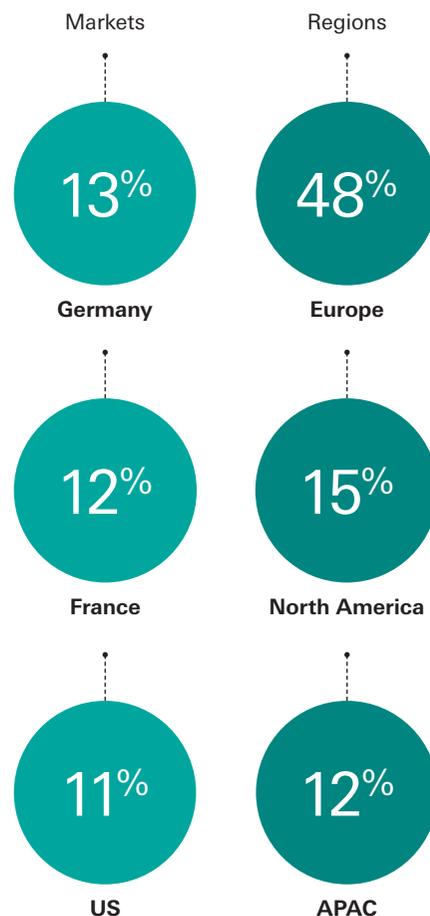
Three-fifths of companies in Europe believe international trade has become trickier over the past year. This is particularly felt by those in Greece, Russia, Ireland and Spain.

Nonetheless, around two-thirds of Europe's companies have a positive outlook on the next 1-2 years. Indeed, 65% intend to continue trading internationally compared with 60% in 2019 – a higher proportion than globally (60%).

Intra-regional trade is crucial for Europe's companies – 73% place European markets in their top three partners. This is projected to strengthen, with 48% of businesses identifying markets within the region as their top three choices for expansion in the next 3-5 years.

In line with recent years, Europe's firms feel protectionism less than their global counterparts (55% versus 64%). But 80% of companies in Ireland and 73% in Spain feel it's increasing. Uniquely, the UK sees a downward trend (73% in 2019 versus 61% in 2020).

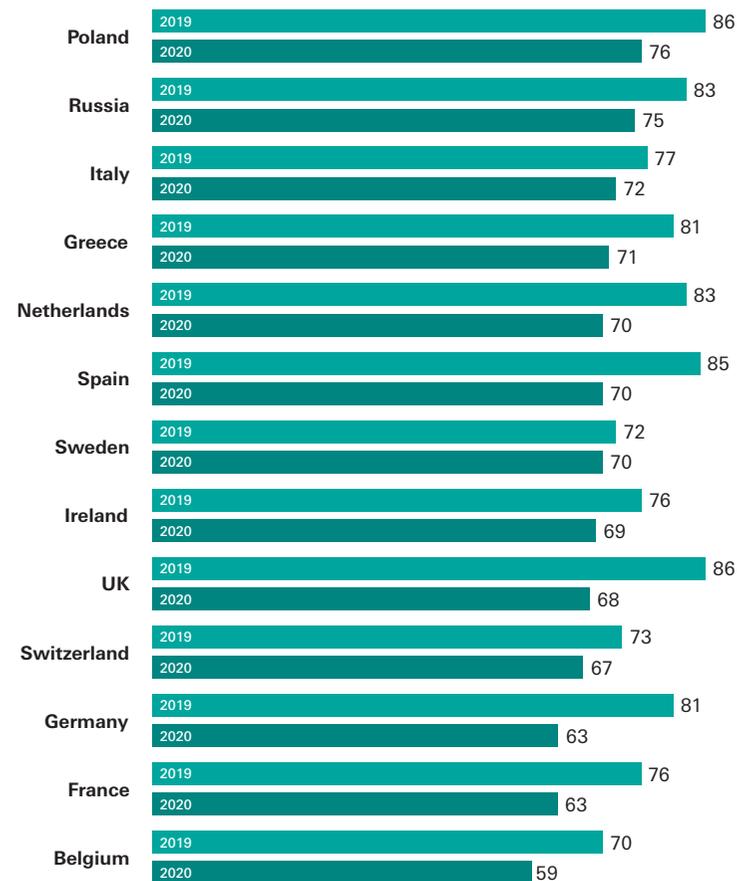
Top 3 markets and regions for expansion in the next 3-5 years



Overall, the trade outlook remains positive



Percentage of companies that expect their international trade prospects over the next 1-2 years to be positive, compared with 2019





6. Reshaping supply chains

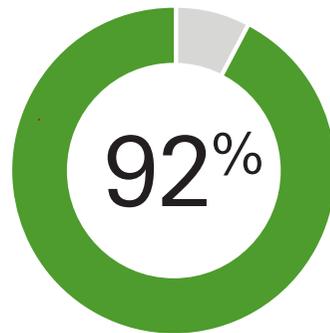
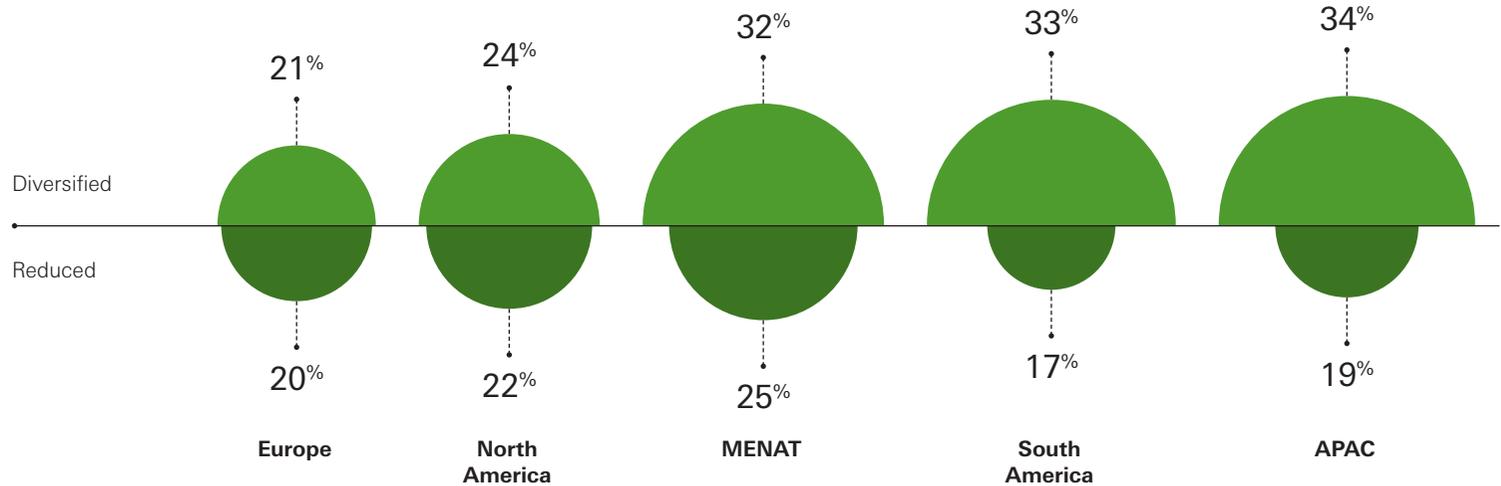
Most businesses in Europe have made **strategic** changes to their supply chains to alleviate concerns

Almost all of the companies surveyed are worried about their supply chains. Increasing costs, as well as suppliers in territories that are unstable or at risk of tariffs or sanctions, or are too distant from the companies and their target customers, are all causes for concern.

Virtually all firms have responded by making changes. These include selecting suppliers based on the COVID-19 controls in their markets, along with their operational resilience and ability to deliver quickly (25% versus 29% globally). Increased usage of digital/technology (26% versus 32% globally) has also been an important factor. Businesses intending to make changes to their supply chains expect to benefit from reduced costs, enhanced security, and a decrease in unforeseen risks to their supply chain partners.

Companies are fairly evenly split over diversifying versus reducing their suppliers. In addition, a slightly higher proportion (24%) are focusing on suppliers in their home region.

In the past year, the balance of companies diversifying and reducing suppliers has been more evenly split in Europe than elsewhere



of businesses in Europe have concerns about their supply chain

Top 3 priorities for the supply chain immediately in 2021



7. Sustainability



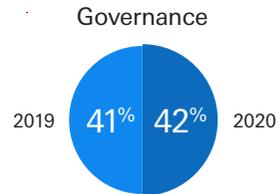
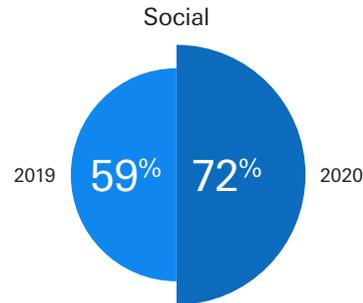
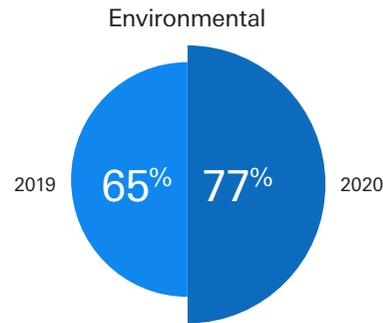
Opportunities, as well as social, regulatory and business pressures, drive companies to be sustainable

Nine in ten businesses in Europe see the opportunities that improving environmental and ethical sustainability offers. And more than two-thirds have made plans or set targets for a range of environmental, social and governance (ESG) issues.

Most companies have ESG metrics in place to measure sustainability, although these are slightly slower than globally. Pressure is coming from various sources, among them industry regulations, consumers, employees, supply chains, governments, shareholders, owners and investors. Looking ahead, this is likely to increase from governments (27% versus 30% globally), consumers (26% versus 31%), industry regulations (23% versus 27%) and employees (23% versus 26%).

Government incentives (35% versus 37% globally), workforce initiatives (31% versus 36%) and collaboration with suppliers and adjacent businesses (29% versus 35%) will all help firms become more sustainable.

More companies have been measuring all 3 aspects compared with 2019



81%

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

About HSBC Navigator Europe

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, future strategy, international trade, supply chains and sustainability. It is compiled from responses by decision-makers at 10,368 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 39 markets.

Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 3,680 businesses surveyed in 13 countries across Europe. Global results are based on an average of the 39 markets (using weights based on each market's share of world trade). The survey was conducted between 11th September and 7th October 2020. Interviewees were polled on a range of questions including how COVID-19 has affected their business and potential for growth. The survey represents a timely source of information on the fast-evolving international business environment.

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www.business.hsbc.com/navigator/europe

Note

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