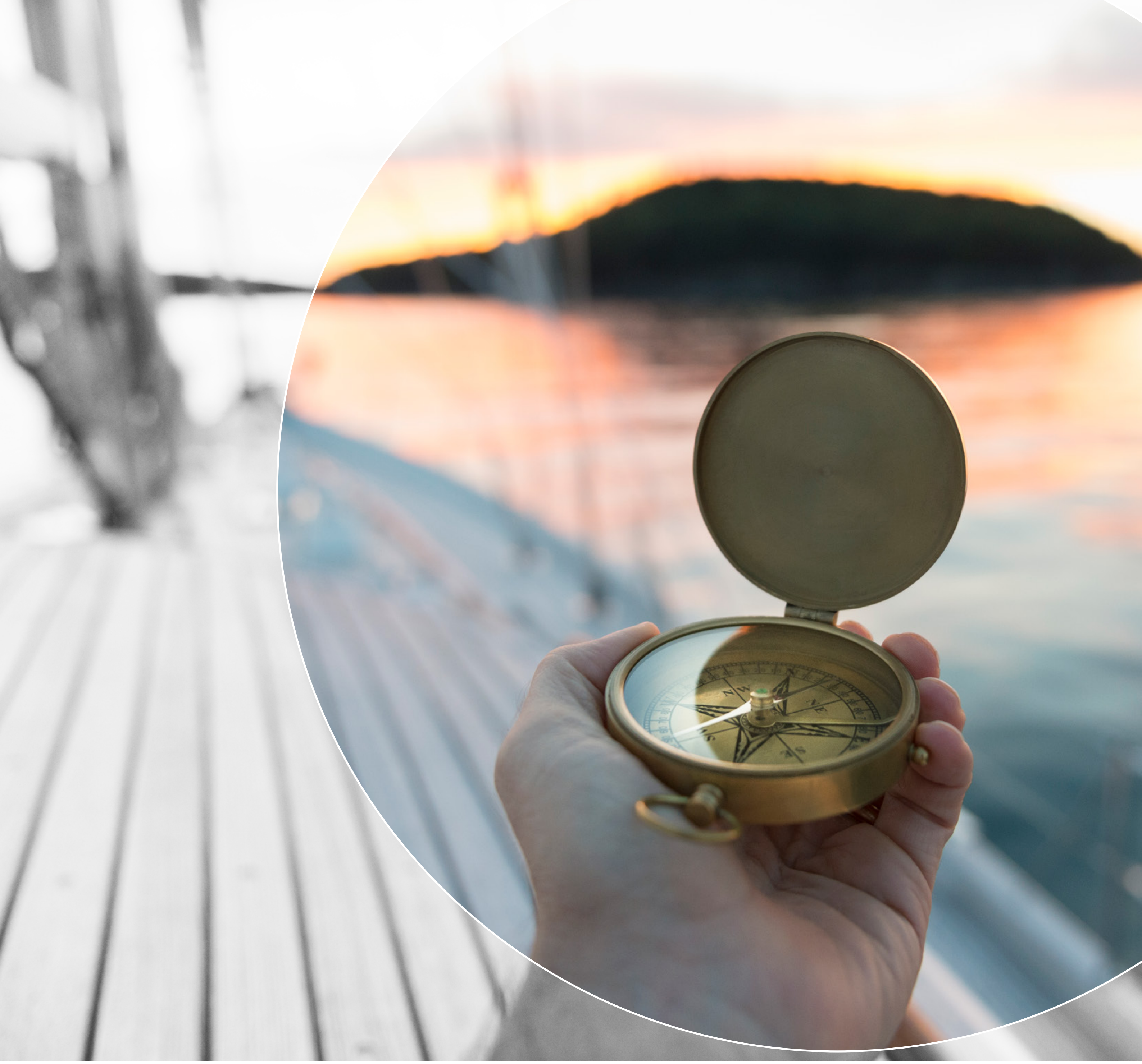

Sailing Against the Wind

How Businesses in Asia are Navigating Covid-19

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Foreword

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Wind can be unpredictable. Business often find themselves sailing against it. That's a good thing because it builds resilience as well as agility. Too much sailing with the wind can breed complacency, and that can erode competitiveness.

But, keeping a business on course can seem impossible when the wind is a Covid-19 storm. Businesses in Asia, particularly East and Southeast Asia, know that well. Many of them have been navigating the economic implications of Covid-19 longer than elsewhere. They're not through it yet, and the damage is going to be felt long after the storm. But their success stories so far are instructive for the region and more broadly for the world.

To an extent, the Covid-19 winds have had a powerful leveling effect. No market is immune, and an expectation of an increased economic toll in Asia continues to grow. Almost one-third of people were reporting a negative impact on household finances by the end of April 2020, and almost half were expecting a future financial impact.[1] But that half is a regional average bookended by Taiwan at under one-third and the Philippines at three-quarters. The wind might be trying to level everything, but its impact is unequal, and the economic hit is generally harder on developing markets.

That hit also correlates with a greater impact on small businesses. They account for between one-third and two-thirds of GDP across different Asian countries and have been bearing the brunt of Covid-19.[2] They're often less prepared for the shift to ecommerce and have limited liquidity to tide themselves over. While guidance can be specifically tailored toward small businesses' cashflow problems,[3] all businesses—small or large—are ultimately sailing against the same Covid-19 wind. And, no matter the strength of the wind, they all need to strategically tack against it.

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So, while comparable businesses in markets like Taiwan and the Philippines are navigating Covid-19 differently, their ideal tacks should be broadly similar. It's when the sector is different that the stories start to pull apart from each other. The following case studies cover six different sectors, each addressing a different theme:

- Restaurants—performance clustering
- Finance—phased benchmarking
- Mass retail—consumer segmentation
- Health & beauty—propensity modeling
- Travel—fare parameterization
- Governments—spend analytics

That each case study hails from a different country in Asia allows for some additional regional nuances without affecting their broader applicability. The critical learning is that effective sailing against the wind requires good data. And the best results will come from crews who can apply that data to the challenge at hand by harnessing the power of analytics in practical and insightful ways.

1. Unless otherwise noted, market-specific consumer trend data comes from two Mastercard surveys each of 500 individuals in March and April 2020 across Australia, Mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand.
2. "SME Finance in Asia: Recent Innovations in Fintech Credit, Trade Finance, and Beyond," Asian Development Bank Institute (ADBI) Working Paper Series #1027, October 2019.
3. "A Small Business Triangle in Asia: Instant, Open, Intelligent," Mastercard, 2020.

At a Loss

Performance clustering for restaurants

A quick-service restaurant chain was at a loss figuratively and financially. In just two weeks, sales had dropped 40% across its stores nationwide under the effect of Covid-19. Scrambling to save sales, the gut reaction was to funnel resources into restaurants located in areas with higher infection rates. That turned out to be misled.

Restaurants around the world have been hit particularly hard by Covid-19. Asia is no exception. Despite the growing global popularity of food delivery,[4] the bread and butter for most restaurants was still eat-in or take-out until Covid-19. And going out for dinner is cited globally as the activity most missed by consumers around the world.[5] That sentiment was particularly acute in the Asian country this restaurant chain was serving. Almost 9 in 10 people claimed to be dining out less in March 2020, which represented one of the highest levels in Asia. And in April 2020, only around a quarter of consumers believed they would ever return to the same levels of dining out as they had enjoyed before Covid-19.

The restaurant chain needed a better way to look at their stores. A closer look at the data revealed two key factors:

- proximity to Covid-19 outbreaks had little bearing on store performance
- some stores were reporting higher sales than before Covid-19

The chain sorted the stores into different clusters based on performance during Covid-19. At the two extremes, stores dependent on foot traffic and without delivery options were suffering the most, while 24-hour stores with few competitors nearby were suffering the least. Meanwhile, all stores were showing shifts in peak purchase times as a result of work-from-home schedules.

Adding transaction data to the clusters showed that consumers were buying for others to reduce visits and spending proportionally more each time.

The insights allowed the restaurant chain to change tack in several ways:

- focus resources on stores expected to rebound better based on their existing situations
- adjust menu timing and menu options to accommodate new work-from-home habits
- tailor promotions to larger transaction volumes

The standard tack for restaurants affected by Covid-19 is to rely on curbside pickup and improved delivery options. That approach has allowed the restaurant to stay afloat alongside its competitors. Data analysis is now allowing it to sail ahead.

Funneling resources into branches located in areas with higher infection rates seemed appropriate for a restaurant chain. That turned out to be misled.

4. "No Rest for Restaurants: As Business Slows, Trends Quicken," Mastercard, 2020.
5. "Mastercard Recovery Insights: The Shift to Digital," Mastercard, 2020.

Bending the Curve

Phased benchmarking for finance

A bank's consumer credit revenue was down almost one-third based on what it should have been outside of Covid-19. The declines resulted from reduced cross-border and discretionary spend, lower revolving balances due to reduced spend, and a temporary hold on credit card bills.

The bank's experience wasn't unique in Asia or the world. But the consumer situation in its specific country was particularly challenging. In April 2020, almost half of consumers were experiencing a negative impact on their finances, three-quarters were expecting a negative future financial impact, and four-fifths were postponing any major purchases. Those amounts were the highest in Asia.

The situation was admittedly stacked against the bank, but the bank still held a couple of cards. Firstly, although only 22% of consumers had positive feelings associated with banks supporting their personal financial situations, that percentage was third in Asia against a regional average of 13%. More significantly, some countries in Asia and Europe had felt the impact of Covid-19 sooner, and their banks were now ahead of the curve. The bank decided to use those countries as benchmarks across different strategic areas:[6]

- ecommerce
- operational effectiveness
- cybersecurity and credit risk
- contactless payments
- digital capabilities
- corporate acquisitions

It applied them across three timescales:

- short-term immediate reactions to the current Covid-19 situation
- medium-term strategic adjustments based on the evolution of Covid-19
- long-term growth plans catering to predicted consumer behavior after Covid-19

The short-term focus was on stimulating and supporting the shift to ecommerce. The bank concentrated its campaigns on burgeoning industries, such as personal care and online groceries, and introduced cross-border promotions to appeal to the country's many overseas workers. Operational support came from improved card authorization rates, temporary extensions of card expiration dates, and greater online acceptance of debit cards. Meanwhile, updated cybersecurity policies handled the surge in cybercrime accompanying the online shift. For cardholders risking delinquency for the first time, the bank replaced reduced credit lines with short-term loans, opportunities to pay in installments and guidance on finding affordable staple goods.

6. "Coronavirus – Future Focused Actions," Mastercard, May 2020.

Across the medium term, the bank prepared for two scenarios. Fast containment of Covid-19 would likely lead to "revenge shopping" as consumers rush back to old habits. This scenario would require campaigns around discretionary purchases, reviews of credit limits, and multicurrency debit cards for travel. Meanwhile, a prolonged crisis would call for artificial intelligence to better predict credit risk and for low-risk cashback programs instead of high-risk balance transfer offers. The approach is the same for consumers as for businesses: fewer purchases, more refunds and issues with supply chains may represent short-term or fundamental weaknesses.

Fast or prolonged, the bank's growth plan needed to accommodate long-term changes in consumer behavior. Offline, that meant introducing contactless payments, which were rapidly becoming *de rigueur* to appeal to a growing reluctancy to touch anything at the point of sale, and providing insurance to cover job losses or canceled events. Online, it meant tailoring loyalty programs to ecommerce and subscription services, and, most significantly, improving digital offerings to make up for reduced branch visits.

Adjusting branch times from "bankers' hours" to "convenience hours" can complement digital offerings. Reducing hours at strategic times avoids losing business while still appealing to offline preferences. Ultimately, though, it's the digital offerings where the winds of the Covid-19 change will be most felt. Incumbent banks abroad are the benchmarks for the bank's current trajectory, but it's the financial technology companies (fintechs) that will plot the bank's digital course ahead through open banking.

Although that change was already occurring before Covid-19, some venture capitalists are now reluctant to throw caution to the Covid-19 winds. Where fintech funding is drying up, incumbent banks will be turning to ownerships instead of partnerships to navigate the seas.[7]

Reduced credit card use meant a bank's revenue was plummeting. That was challenging in a country with some of the most reduced spending in Asia.

7. "Coronavirus – Future Focused Actions," Mastercard, May 2020.

A Whole New World

Consumer segmentation for mass retail

A meagre online presence wasn't helping a retailer fend off Covid-19. Only around 1% of its customers were active online, and 96% had never shopped online with them. Hoping for a mass online migration seemed forlorn.

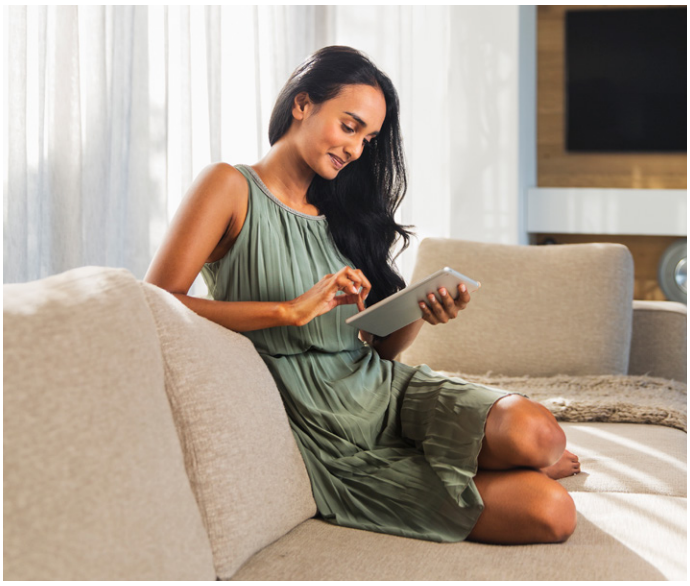
Although Covid-related spikes in ecommerce are now coming down in many areas of the world, they haven't returned to earlier levels. Perhaps they never will. In April 2020, roughly three-quarters of consumers in the country of this Asian retailer believed they would continue or increase their online shopping habits after Covid-19. That was higher than in any other country in Asia.

The scale of the problem, which amounted to almost the entire consumer base, made a blanket approach tempting. But that was only going to be wasted on unreceptive consumers and fall short of attracting potentially receptive ones. Instead, the retailer looked for pockets of opportunity through consumer spend data. It divided higher spenders three ways:

- spenders currently active online and representing 1% of all sales in the past six months
- spenders once active online and representing 3% of all sales in the past six months
- spenders never active online and representing 72% of all sales in the past six months

The three categories represented around three-quarters of the sales opportunity from only around a quarter of all consumers. The main benefit was going to come from the third category without any prior online experience, but the other two categories were easier propositions. The retailer then assigned the consumers across eleven product categories, ranging from luxury to kids, based on transaction size and share of spend. This segmentation of consumers according to spend type and product preferences allowed the retailer to customize marketing outreach for different consumers and ensure an efficient return on marketing investment at a time when resources were scarce. Once consumers were logged in, the retailer could further personalize offers and website content to maintain engagement and stimulate purchases.

Far from the reopening of physical stores neutralizing all these online initiatives, retailers around the world are realizing the need to remove the line between offline and online for more integrated shopping experiences.[8] No more so than this retailer. After briefly knocking the wind out of the retailer, Covid-19 is ironically now putting the wind back in its sales with gusto.



As consumption shifted online, a retailer's limited digital presence was a problem. Hoping for a mass online migration seemed forlorn.

8. "Trending the Rules: Top Retail Trends are Trending at an Unprecedented Rate," Mastercard, 2020.

Balancing the Equation

Propensity modeling for health & beauty

A health & beauty retailer found itself in a peculiar situation. In the latter part of January 2020, its sales suddenly dropped by around 10%. By Covid-19 standards that wasn't particularly untoward; the retailer was fortunate to be in one of the least economically affected regions in Asia by Covid-19. More extreme was the specific contribution of a 29% drop in cosmetics sales, which came largely from cosmetic-loyal shoppers who cut their spend by around 40%.

It turns out that the drop in cosmetics sales was being offset by an increased propensity toward personal care products. By Asian or broader global standards, that was normal. Over three-quarters of consumers worldwide expect to focus more on hygiene after Covid-19 has passed.[9] What was unique was that most countries in Asia reported fairly similar shortages of daily household necessities as of basic food items in April 2020, but the difference in this region was almost double and starker than anywhere else.

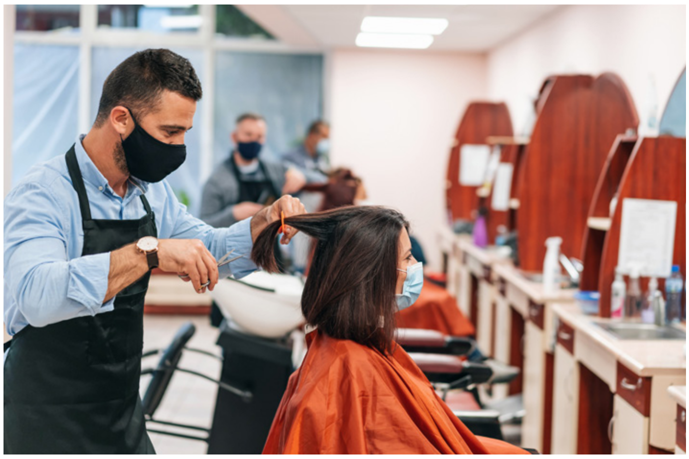
A superficial analysis might suggest simply doubling down on personal care to meet the high demand—providing enough product is even available. But that would be tantamount to surrendering to the prevailing Covid-19 winds. Instead, the retailer adopted a more tactical approach through three distinct consumer groups:

- crisis-active consumers representing 58% of total estimated spend
- crisis-dormant consumers representing 37% of total estimated spend
- newly active consumers representing 5% of total estimated spend

The three groups each warranted different approaches:

- bundled offers with personal products likely to be purchased with cosmetics, such as hand soap, for crisis-active consumers
- offers on personal products for crisis-dormant consumers to rekindle basic spending
- bonus offers of loyalty points for newly active consumers

The crisis-active and crisis-dormant consumers represent the biggest short-term potential gains with 95% of estimated spend. Navigating Covid-19 will rely on retaining those consumers. But it's the 5% of spend from newly active consumers that represents the real windfall. Those consumers didn't exist before Covid-19. And keeping them loyal represents an opportunity for growth despite the reductive impacts of the storm.



A health & beauty retailer faced a peculiar predicament. Its lost sales were overwhelmingly a result of a specific drop in cosmetics sales rather than drops across the board.

9. "Mastercard Recovery Insights: The Shift to Digital," Mastercard, 2020.

Silver Linings

Fare parameterization for travel

After wavering a little as news of Covid-19 started to spread, an international airline's bookings suddenly dropped 60%. That percentage continued to fall precipitously toward an overall drop of 90% across the entire travel & hospitality sector in the airline's country of origin.[10] With people simply not flying internationally, options seemed limited.

Where small businesses were disproportionately affected by Covid-19, international airlines were all but stopped in their tracks. The story was familiar across the globe. While "travel bubbles"—agreements easing travel restrictions between specific countries—are a start,[11] progress is slow and unlikely to meet short-term liquidity needs. The one silver lining on the plane-free clouds is that travel consistently ranks as one of the most missed activities during Covid-19.[12] And no more than in the country of this airline. Half of consumers in April 2020 were expecting to plan an international trip once restrictions were lifted—a value 11% higher than the next highest country and against an Asian regional average of 30%.

The standard approach when something isn't selling is to lower the price. But simply discounting all tickets, even just to destinations without visa requirements, wasn't going to fly. Although returning residents and visitors with special permits were flying, many people were reluctant to fly even once restrictions had loosened up. The airline decided to test the effects of discounted routes against "control" routes along the following parameters over a period of two weeks:

- price reduction
- trip duration
- immediacy of departure
- fare type

This revealed the following insights:

- price reductions should be capped at 20%
- length of stay should be a minimum of seven days
- departure dates should be between one week and three months out
- promotions should focus on economy fares

Those actions indicated a potential 30% increase in international bookings resulting in a 25% increase in revenue on economy routes over control routes. With a better understanding of how fare conditions influence uptake, the airline is now setting up further tests as more travel routes open.

Ironically, as the bookings—and the planes themselves—take off, it's the online travel agents (OTAs) that risk being left behind. Before Covid-19, the OTAs were struggling to effectively compare prices in a marketplace awash with variable fare options allowing consumers to bundle or unbundle options, such as extra baggage allowances or in-flight meals. Now, cautious consumers are opting to deal directly with the airline itself during uncertain times. However, it remains to be seen whether the airline will temporarily funnel all loyalty promotions through its proprietary channels. After all, OTAs are an important outlet—all the more so when sales are sluggish.

An international airline's bookings had suddenly plummeted. With people simply not flying, options seemed limited.

10. Mastercard transaction data between November 2019 and April 2020.
11. "Asian Countries Try to Build Travel 'Bubbles'," The Economist, May 28, 2020.
12. "Mastercard Recovery Insights: The Shift to Digital," Mastercard, 2020.

Taking It All In

Spend analytics for governments

Covid-19 had flipped total consumer spending in a country from double-digit year-on-year growth to –15% within a month. The government was expected to pump cash into the economy through stimulus payments and injections of liquidity. But an arbitrary approach risked short-term wastage at a time when long-term planning was needed.

The scenario of a government struggling to keep its Covid-afflicted economy afloat was familiar. But this Asian economy had some peculiarities. In April 2020, consumers were reporting the second highest shortages of daily household necessities in Asia, the second highest shortage of basic food items at regular grocery stores and the third highest perceived rise in prices. That wouldn't be untoward for a country in the throes of Covid-19. But the same consumers were also the least concerned in Asia about contracting Covid-19 and appeared to be the third best-off in terms of household finances.

Instead of viewing total spend as a simple decline, the government took a more detailed approach. It broke up total spend data along the following variables:

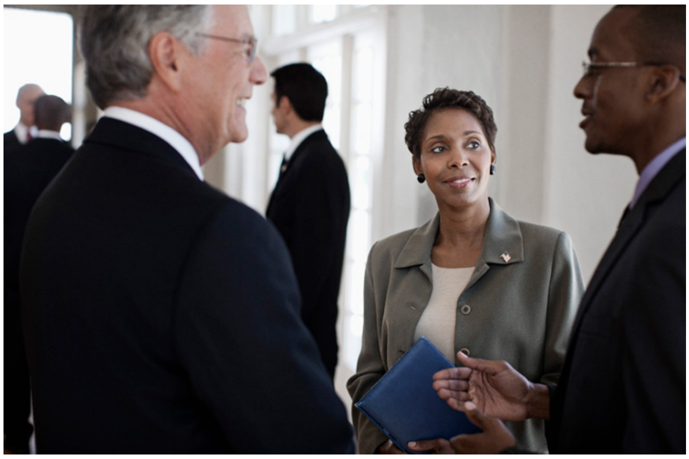
- offline spend versus online spend
- discretionary versus non-discretionary spend
- spend across different retail, restaurant, travel and entertainment sectors, including the impact of refunds and chargebacks

It then added the impact of two government-induced variables:

- economic stimulus packages
- mandated lockdowns

The insights allowed the government to understand changing consumption habits and which sectors were most afflicted, or aided, by Covid-19. Comparisons with previous years and other Asian economies highlighted the speed at which card-present transactions regained their supremacy and the degree to which grocery stores were flourishing even once lockdowns had eased and restaurants were slowly reopening. Asian countries might share a continued reluctancy to travel, but the popularity of online shopping—particularly for groceries—is more varied.

Such insights are useful for businesses. For governments, they're invaluable. Assessing how much, how long and where to keep government intervention going requires a knowledge of which way the wind's blowing—especially when it's as unpredictable as Covid-19.



A government needed to pump cash into its country's economy. But a blanket approach risked short-term waste when long-term planning was needed.

Conclusion

These case studies demonstrate the power of an agile, disciplined approach to data and analytics. Businesses and governments who proactively leverage the right data, tools and expertise can better understand the impact of a crisis on their stakeholders and harness the power of data insights to drive response strategies.

Covid-19 has fundamentally shifted consumer preferences and dramatically accelerated the adoption of digital services. These changes have significantly affected the way consumers live, work and play. The six organizations here—each differing by country, sector and solution—are navigating the Covid-19 storm by applying thoughtful analytics to inform their strategies and are adjusting their tacks in response to how the winds change.

While it may take some time until they can enjoy plain sailing again, all six businesses are navigating the new normal with greater confidence thanks to the power of carefully constructed advanced and predictive analytics.

For more information on how Mastercard can help your organization navigate Covid-19, contact one of our experts through mastercardservices.com or send an email to D&SMarketing_AP@mastercard.com.