



# Impact of COVID-19 on the Startups in 2020

June 2020

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## Despite the negative impact of the pandemic on most of the industries around the world, there opportunities for startups to advance and raise required funds in the next 9-12 months



### Marco outlook

- Per IMF forecasts **global GDP to decline by 4.9% in 2020**.
- **The unemployment rate is also expected to increase across all countries.** The countries with the longest COVID 19 related lockdowns will be most severely impacted.
- Based on optimistic expectations, **in 2021 global economy** should show rapid **5.4% GDP growth**.

[Refer to page 4 for more details](#)



### Negatively impacted industries

Among OGS Capital clients the most severely impacted by COVID 19 and nationwide lockdowns were:

- Tourism & Hospitality
- Passengers transportation
- Consumer goods
- Retail

[Refer to page 4 for more details](#)



### Most popular business ideas

During the lockdown and after ease of COVID 19 containment measures OGS Capital observes the highest interest among clients and growth in the following industries:

- Health and wellness
- Beauty
- Delivery (in particular food delivery)
- eCommerce
- Communications
- Cyber Security Solutions, etc.

[Refer to page 5 for more details](#)



### Key trends in business transformation

- The impact of COVID-19 is accelerating pre-existing trends, causing companies to rethink strategic plans, supply chains, operating models and speed up digital transformation.
- Key business transformation trends:
  - Digitalization of business processes, in particular related to sales and purchases.
  - Substitution of face-to-face interaction by online communication platforms.
  - Automation of production processes.

[Refer to page 7 for more details](#)



### Investors sentiment

- Despite the major economic decline and high level of uncertainty investors are still willing to fund start-ups with a strong business model, which showed resilience and positive results during the pandemic.
- Requirements of investors broadened and enhanced due to additional risks.
- Currently, investors are asking for steep discounts, which may reach 10%-25% of pre-pandemic valuation.

[Refer to page 8 for more details](#)



### Government support

- Governments around the world provide numerous financial support measures for business impacted by COVID-19, which includes:
  - Financial aid, grants and loans for impacted businesses.
  - Business Rates Holiday for selected industries.
  - Tax payment deferral.
  - Protection of commercial tenants from eviction, etc.

[Refer to page 9 for more details](#)

# COVID-19 pandemic caused unrepresented nationwide lockdowns that resulted in supply disruptions and a steep drop in demand, which may surpass 3% GDP decline in 2020



## Macroeconomic outlook

- National shutdowns due to COVID-19 have had an unprecedented disruption in supply chains and drop in demand. In fact, more than a third of the world's population were in lockdown from March to May in 2020.
- For the first time since 2009 IMF forecasts that the global GDP would decline, by possibly 4.9% in 2020.
- IMF also forecast significant growth of unemployment, which will have considerable negative impact on consumer spending in 2020.
- US unemployment rate has already reached 11.1% (i.e. 17.8m unemployed) in June 2020.
- It is important to note that forecasts contain significant downside risks due to unknown elements related to the virus' spread, the effectiveness of the government response and availability of the vaccine.

### IMF microeconomic data

	Real GDP growth			Unemployment rate		
	2019	2020	2021	2019	2020	2021
	Actual	Forecast	Forecast	Actual	Forecast	Forecast
United States	2.3%	-8.0%	4.5%	3.7%	10.4%	9.1%
China	6.1%	1.0%	8.2%	3.6%	4.3%	3.8%
United Kingdom	1.4%	-10.2%	6.3%	3.8%	4.8%	4.4%
Canada	1.7%	-8.4%	4.9%	5.7%	7.5%	7.2%
Euro Area	1.3%	-10.2%	6.0%	7.6%	10.4%	8.9%
World	2.9%	-4.9%	5.4%	No data	No data	No data

Source: IMF report (i) from June 2020 for GDP and (ii) from April 2020 for unemployment rate



## OGS Capital clients operating in the following industries experienced the most negative impact of the pandemic



### Tourism & Hospitality

- Global tourism and hospitality industry is under significant risk even after partial lift of lockdown due to fear of clients to visit public places such as bars, restaurants, hotels and travel restrictions.
- During the lockdown, the monthly revenue of OGS Capital clients operating in restaurant business decreased by ca. 55-70%.



### Passengers transportation

- International transportation was still halted as of beginning of June in US, Canada, UK and EU.
- The International Air Transport Association (IATA) estimates over 19% loss in worldwide passenger revenues, which equates to \$113 billion.



### Consumer goods

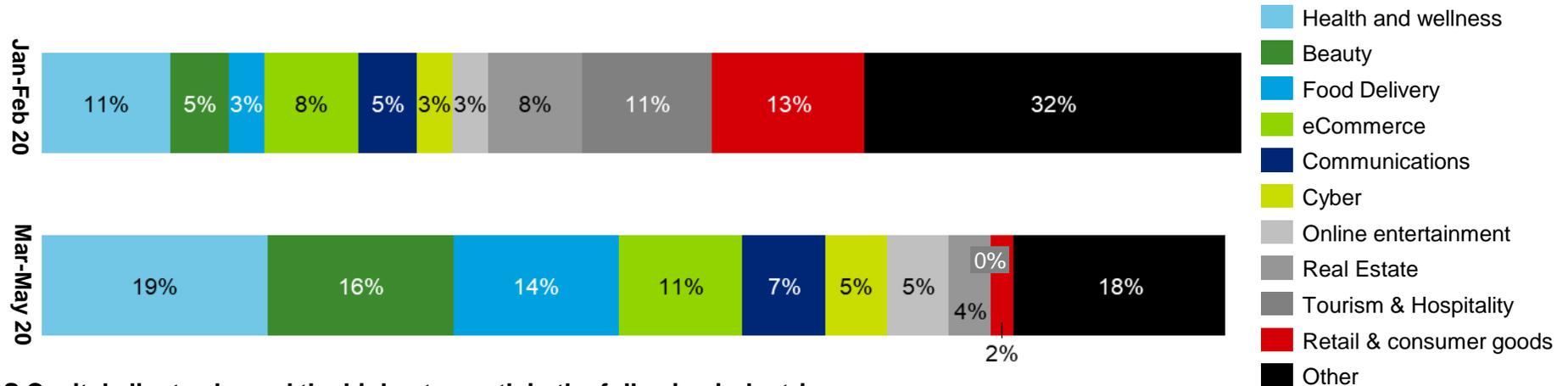
- Non-essential consumer goods and retail were hit hardest by the pandemic as shops were completely closed during the lockdown which lasted approximately 1.5-2 month in different countries.
- As forecasted by Euromonitor, US retail sales could be down 6.5% in 2020.



### Retail

Despite the negative impact of the pandemic on most of the industries around the world, there are also winners who managed to benefit from the lockdown, such as: delivery services, online entertainment, etc.

**Change in OGS Capital clients structure between Jan-Feb 20 (before worldwide virus spread) and Mar-May 20 (during massive virus spread)**



**OGS Capital clients showed the highest growth in the following industries**

**1** **Health and wellness**

- With the closure of gyms and sports facilities people started to workout at home and outdoors, which led to over 80% of sports equipment sales growth in the US.
- Despite gradually opening gyms' demand for home and outdoors sports equipment remains strong.
- For example, sales of bicycles in different shops across the US increased from 30% to 300% in April 2020, compared to same period last year. In June 2020 producers of bicycles were still unable to satisfy surge in demand.

**2** **Beauty industry**

- Due to temporary closure of shops, beauty salons and justifiable fear of customers to visit beauty salons global sales of beauty products has decreased by 25%-35% in March-April 2020.
- Despite overall market decline our clients operating in do-it-yourself (DIY) and self-care beauty products showed remarkable growth from 5% to over 200% across different categories with the highest increase attributable to (1) nail care, (2) hair coloring and (3) body wash, soap, lotion.

**3** **Delivery**

- Delivery business experienced substantial growth during the lockdown due to temporary closure of non-essential shops. Thus, shift of online purchases became a standard with corresponding growth in delivery services.
- The highest growth was noted in food delivery business, which OGS Capital forecasts to show approximately 30% year-over-year increase for the next three years.
- China, US, UK, India, and France are the top 5 countries generating maximum revenue in food delivery around the world.

Despite the negative impact of the pandemic on most of the industries around the world, there are also winners who managed to benefit from the lockdown, such as: delivery services, online entertainment, etc.

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### eCommerce

- Due to the COVID-19 lockdown restrictions, customers turn to online purchases, which showed an increase from 16% in 2019 to ca. 27% in April 2020 of overall retail sales in the US.
- In March 2020 alone, around 42% of consumers were shopping more online than previous months.
- Despite the current forecast of economic slowdown in 2020, OGS Capital believes that eCommerce has a strong outlook with ca. 8% CAGR over the next 4 years.

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### Communications

- Face-to-face business meetings and tuitions (both corporate tuitions and tuitions in schools, universities) have moved on online video conferences throughout the lockdown.
- Banks, insurance companies, etc. as well as outpatient clinics are significantly enhancing online capabilities to decrease the need of face-to-face interactions with clients.
- Our clients providing communication platforms and solutions experienced from 10x to 300x growth in demand during the pandemic.

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### Cyber Security Solutions

- The worldwide phishing attacks, malware and ransomware attacks spiked with start of the pandemic and respective lockdowns as more activities were moved to online and people started to work from home with less secured infrastructure.
- The market growth is expected in services related to secure remote infrastructure and IP enterprises.
- The global cybersecurity market is forecasted to grow by more than 10% CAGR for the next three years.

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### Online entertainment

- As hundreds of millions of people were forced to stay at home the entertainment also moved online.
- Streaming, social media platforms and gaming (especially mobile gaming) recorded growth in users and services provided.
- Based on the rapid growth of our clients we expect the online streaming and gaming industry to grow at 15% CAGR till 2024.

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### COVID-19 related health protection products and services

- Face masks, sanitizers and disinfectants are still in high demand as COVID-19 is continuously spreading around the world.
- OGS Capital expects hand sanitizers market to grow at ca. 12% CAGR over the next four years, with major increase coming from Asia Pacific region.
- Except for products mentioned above there are significant growth opportunities in the employees protection market, such as special partitions between workstations on production sites and offices, disinfection tools, etc.

## The impact of COVID-19 is accelerating pre-existing trends, causing companies to rethink strategic plans, supply chains, operating models, and speed up digital transformation

### All businesses

- Digitalization of paper-based processes (i.e., invoices issuance process, approvals, expenses reimbursement, etc.).
- Digitalization of processes in particular related to sales (i.e., improving the online sales process, start or enhance cooperation with price aggregators and e-commerce platforms, etc.) and purchases.
- Use of software to track the activity of employees working remotely.

### Restaurants

- Restaurants are improving food delivery services, developing cooperation with food ordering and delivery platform.
- Developing more flexible business models, decrease fixed costs and fixed remuneration of employees.

### Consulting, accounting, tax and legal advisors

- Advisory businesses are moving into remote service delivery model by substitution of face-to-face interactions with video conferences and document transfers via e-mail, SharePoint and cloud solutions.

### Production

- Standardization and automation of manual production processes to decrease level of human labor.
- Materials and suppliers diversification aimed to decrease effect of potential supply chain disruptions.

### Banks and insurance companies

- Enhancement of online capabilities, which enable clients to obtain extended range of services online without a need to visit brick and mortar branches.

### Outpatient clinics

- The launch or increase usage of telemedicine (i.e., online chats, voice or video calls), adding new features to personal accounts.
- Issuance drug prescriptions and sick leaves via online platforms.

### Learning providers

- Broader use of online lectures, the distribution of learning materials among students via web-based collaborative platform, etc.
- Introduction of online tests and exams.

### Retail

- Focus on online sales by developing sales capabilities in web sites, improving cooperation with price aggregators and e-commerce platforms.
- Increased online marketing costs.

## Despite the major decline in economic activities and high level of uncertainty, investors are still willing to fund start-ups with a strong business model, which showed resilience and positive results during the pandemic

- In 2020 investors are cautious and reluctant to risk due to severe economic downturn, drop in demand and high level of uncertainty caused by global pandemic.
- Venture Capitalists are putting investment on hold in projects, industries, and markets that have had to bear the burden of negative impact by the COVID 19, such as Tourism & Hospitality, Retail, Consumed Goods, etc. OGS Capital does not expect recovery of investments in those industries until the future becomes clearer and more predictable.
- Conversely, there is a number of business, which managed to maintain and even significantly improve performance as a result of the pandemic. Such businesses includes Cyber Security Solutions, Communications, eCommerce, Delivery, etc.
- Even with respect to strong start-ups operating in promising industries investors are asking for steep discounts, which may reach 10%-25% of pre-pandemic valuation.
- It is important to remember that Venture Capitalists and Angel Investors still possess considerable amount of available capital raised before the pandemic. Therefore, start-ups that can meet certain criteria, still have good opportunities to raise funds.
- Based on OGS Capital experience of 2008-2009 Global Financial Crisis, Venture Capitalists were funding business for ca. 12 month since the start of the crisis. However, when the funds raised before Financial Crisis dried up, there was approximately one year of significant lack of available investments.
- Requirements of investors broadened and enhanced due to additional risks caused by the pandemic. Therefore business owners should bear in mind the following key points when raising capital. Please note that part “Now” includes new points, additional to those mentioned in “Before pandemic” part.

### Key focus of Start-up investors

#### Before pandemic

- Clear business plan\*.
- Product differentiation and competitive advantage.
- Strong, passionate and committed team with skin in the game.
- Availability of field experts in the team who can deliver the product / service.
- Significant market size.
- Clear information about required funds, their use and how will it benefit the company.

#### Now

- Sustainable business model\*.
- Robust business continuity and anti-crisis plan\*.
- Proven sales track record during the pandemic and public lockdown.
- Attractive market with positive prospects (e.g., cyber security, food delivery, etc.).
- Fiscally responsible internal operations, internal efficiency and cash-flow forecasting.

Note: \*Services provided by OGS Capital.

# Governments around the world provide numerous financial support measures for business impacted by COVID-19

## Government financial support measures by country

- ▶ On March 27, 2020, US Congress approved **\$2t** Coronavirus Aid, Relief, and Economic Security Act (CARES) aimed to support individuals, businesses and stimulate the economy. It is the largest aid package in the world history. 
- ▶ Out of total aid packed **\$350b** will be provided to small businesses. By mid-April 2020 loans for all available funds were already approved by Small Business Administration (SBA). It is expected that US government will provide more support to small and medium-sized businesses in 2020.
- ▶ SBA is also offering low-interest Economic Injury Disaster Loans and export loans to small businesses

- ▶ Canada has approved federal bailout package valued at more than \$300b, including \$52b in direct spending, \$85b in tax deferrals for individuals and businesses, and \$65b in loans. 
- ▶ Business Credit Availability Program to provide more than **\$10b** of support, mainly to small and medium-sized businesses.
- ▶ Wage Subsidy for Businesses - businesses of all sizes are eligible for a **75%** wage subsidy provided they can prove a decline in their revenue due to COVID 19.

- ▶ There is a number of government support facilities available for individuals and businesses in UK, such as: 
  - ▶ Self-employment Income Support Scheme – self-employed people will be able to apply for a grant worth 80% of their average monthly profit, up to £2,500 a month.
  - ▶ Business support and grant funding for retail, hospitality and leisure business can get 100% business rates holiday for 12 months, etc.
- ▶ UK dedicated £750m in grants and loans to startups through the U.K. innovation agency.

## Government financial support measures by type\*

### Tax Support

- ▶ Business Rates Holiday for selected industries
- ▶ VAT Deferral
- ▶ CIT Deferral
- ▶ Payroll related taxes deferral

### Loans to Business

- ▶ Coronavirus Business Interruption Loan Scheme
- ▶ COVID-19 Corporate Financing Facility
- ▶ Interest free period for commercial loan already possessed by impacted businesses

### People Funding Measures

- ▶ Coronavirus Job Retention Scheme
- ▶ Self-employment Income Support Scheme
- ▶ Statutory Sick Pay Rebate

### Government Grants

- ▶ Cash Grant for Retail, Hospitality and Leisure
- ▶ Small Business Grant Funding

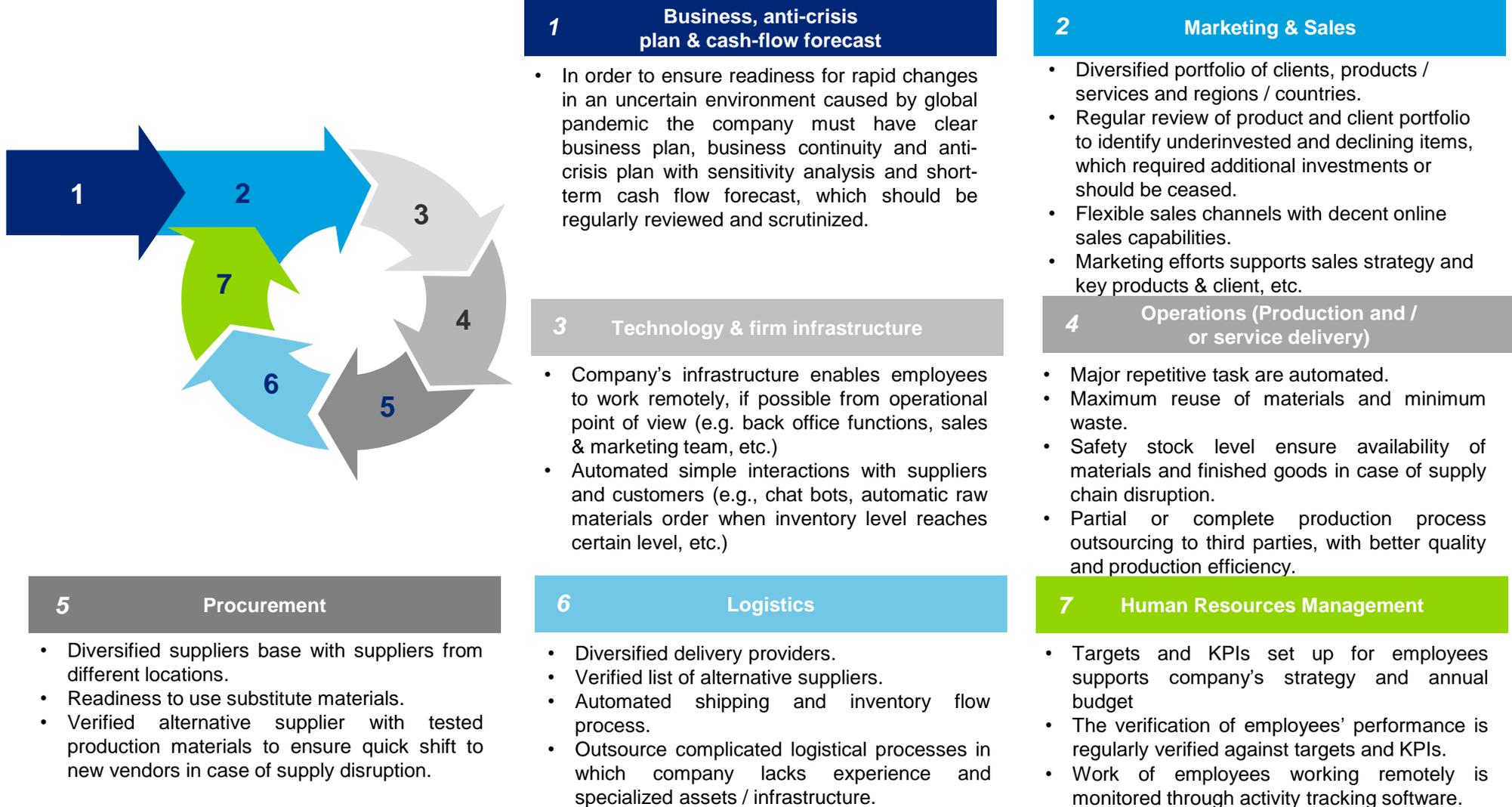
### Other measures

- ▶ Protection of commercial tenants from eviction
- ▶ Relaxation of annual leave regulations
- ▶ Relaxation of some reporting requirements e.g. deferral of statutory reporting deadlines.

*Note: \*Support measures differs significantly country by country, therefore in order to identify available measures for each country available options should be analyzed separately. List of measures presented above reflects most commonly used in US, Canada, UK and EU.*

# In order to build a sustainable business model company must have a clear, achievable business plan and ensure resilience and flexibility across the whole value creation chain

The following elements of the value creation chain help to ensure sustainable business model



## 1 Business, anti-crisis plan & cash-flow forecast

- In order to ensure readiness for rapid changes in an uncertain environment caused by global pandemic the company must have clear business plan, business continuity and anti-crisis plan with sensitivity analysis and short-term cash flow forecast, which should be regularly reviewed and scrutinized.

## 2 Marketing & Sales

- Diversified portfolio of clients, products / services and regions / countries.
- Regular review of product and client portfolio to identify underinvested and declining items, which required additional investments or should be ceased.
- Flexible sales channels with decent online sales capabilities.
- Marketing efforts supports sales strategy and key products & client, etc.

## 3 Technology & firm infrastructure

- Company's infrastructure enables employees to work remotely, if possible from operational point of view (e.g. back office functions, sales & marketing team, etc.)
- Automated simple interactions with suppliers and customers (e.g., chat bots, automatic raw materials order when inventory level reaches certain level, etc.)

## 4 Operations (Production and / or service delivery)

- Major repetitive task are automated.
- Maximum reuse of materials and minimum waste.
- Safety stock level ensure availability of materials and finished goods in case of supply chain disruption.
- Partial or complete production process outsourcing to third parties, with better quality and production efficiency.

## 5 Procurement

- Diversified suppliers base with suppliers from different locations.
- Readiness to use substitute materials.
- Verified alternative supplier with tested production materials to ensure quick shift to new vendors in case of supply disruption.

## 6 Logistics

- Diversified delivery providers.
- Verified list of alternative suppliers.
- Automated shipping and inventory flow process.
- Outsource complicated logistical processes in which company lacks experience and specialized assets / infrastructure.

## 7 Human Resources Management

- Targets and KPIs set up for employees supports company's strategy and annual budget
- The verification of employees' performance is regularly verified against targets and KPIs.
- Work of employees working remotely is monitored through activity tracking software.

Information presented in this publication is based on data of 95 OGS Capital clients received in January – May 2020, OGS Capital professional knowledge and publicly available information

**Methodological approach**

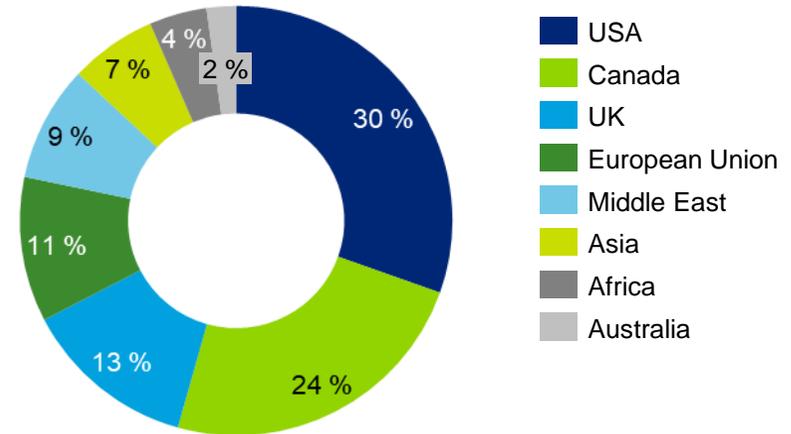
- Information presented in this publication is based on quantitative and qualitative data received from 95 OGS Capital clients in the period from January to May 2020, OGS Capital professional knowledge and publicly available information collected by 12<sup>th</sup> of June 2020.
- Data received from OGS Capital clients:
  - Quantitative data includes financial information, forecasts and budgets obtained in the course of service delivery by OGS Capital.
  - Qualitative data is based on questionnaires filled by our clients and comments regarding the performance of their businesses, key market trends as well as expectations concerning industry development.
  - Industry and geographical split of OGS Capital clients whose data were used in the publication is presented in charts to the right.
- Publicly available information includes data published by International Monetary Fund (IMF), The International Air Transport Association (IATA), Euromonitor, Government on official web-sites, etc.

**Forecasts and industry trends**

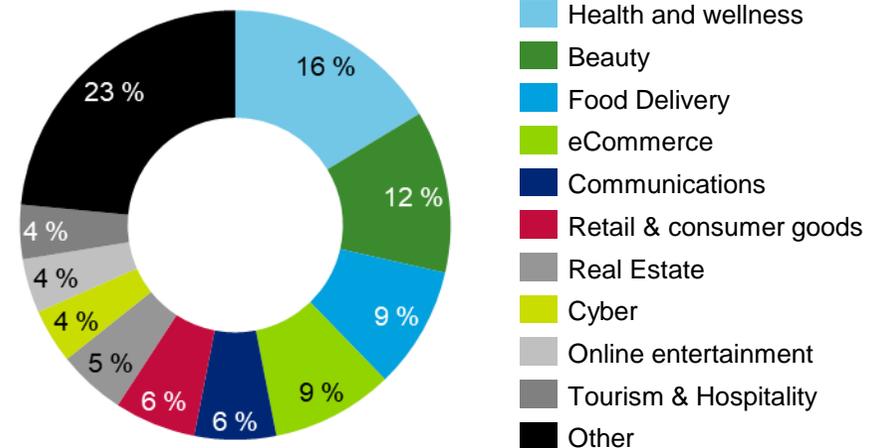
- Forecasts are based on industry historical information, expectations of OGS Capital and our clients as well as forecasts published by IMF, IATA and Euromonitor.

**Split of OGS Capital clients, whose responses and data were included in the publication, by industry and geographical location**

**Geographical location split**



**Industry split**



# OGS Capital is a team of experienced experts helping entrepreneurs build successful businesses



## Who we are

OGS Capital was founded by a team of 8 senior business experts in 2006. From the start, our main goal as professional business plan writers has been to support startups and medium-sized enterprises as they move to the next level. We help businesses to achieve their objectives and become market leaders. Our expert business plan writers have helped business owners raise debt and equity financing critical to operational startup and growth.



## What we offer

Business plans:

- Business plan for investors
- Strategic / Operational Business Plan
- Franchise Business Plan
- Immigration Business Plan
- Business continuity plan
- Buy Side Due Diligence
- Pitch Deck
- ICO consulting services
- ICO whitepaper



## Our team

Each senior OGS team member has more than 15 years of industry experience. They have long and successful track records in business plan development, investment banking, business consulting, financial modeling, due diligence, and market analysis.

### Key links

[OGS Capital web-site](#)

[Reviews on Trustpilot](#) (4.9 rating)

[Reviews on TrustLink](#) (5 rating)

[Facebook page](#)

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## OGS Capital possess broad industry experience across the world

OGS Capital has successfully completed projects in 42 industries, including e-commerce, social media, real estate, telecommunications, cannabis, restaurant/bar, IT, entertainment, manufacturing, retail & wholesale, finance, energy & resources, consumer and industrial products, transportation, agriculture, etc.

Online Business, Ecommerce	Telecom Industries	Energy and Resources	Real Estate Industry	Entertainment and Gambling	Finance	Manufacturing	Retail and Wholesale
440 Projects	190 Projects	149 Projects	125 Projects	95 Projects	63 Projects	63 Projects	46 Projects



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