WHITE PAPER

Finnish Companies Are Rising from COVID-19, but Industrial Goods Companies Lag Behind

December 2021

Eetu Isto, Mikko Tynkkynen, and Paul Catchlove

Finnish Industrial Goods companies' financials have rebounded from the impact of COVID-19; however, their TSR performance still clearly lags behind their peers

BCG

BCG TURN

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

Finnish Companies Are Rising from COVID-19, but Industrial Goods Companies Lag Behind

Finnish Industrial Goods companies' financials have rebounded from the impact of COVID-19; however, their TSR performance still clearly lags behind their peers

In our previous study, Finnish companies were lagging behind in TSR, driven by IG

In November 2020, BCG research highlighted that, based on Total Shareholder Return (TSR), Nordic companies had outperformed their global peers during the pandemic. This was not equal across all Nordic countries, however, with Finland lagging severely behind. Our analysis revealed that Finnish performance was predominantly driven by the Industrial Goods (IG) sector, which fell behind both its Nordic and global peers. This raised the question, Are Finnish industrial companies acting boldly enough to transform themselves in order to win in the future?

Finnish companies have rebounded, but IG is still lagging behind in TSR

Now a year on from that study, a comparison of TSR shows significant improvement across all industries and geographies, with Technology, Media & Telecom and Consumer Products industries in Finland now clearly outperforming their global and Nordic peers, while Finnish Energy companies are at par with their Nordic peers and only slightly behind their global counterparts. However, Industrial Goods and Health Care are still clearly behind both their Nordic and global equivalents and other industries in Finland. (See Exhibit 1.)

Finnish IG financials have rebounded, despite not yet being reflected in TSR

The IG sector deserves further examination, as it accounts for 45 percent of market capitalization in Finland. Its increase in TSR performance in Finland has been low (7.6 percent from January 2020 to November 2021), lagging behind both global and Nordic peers' TSR levels of 37.6 percent and 54.5 percent, respectively.

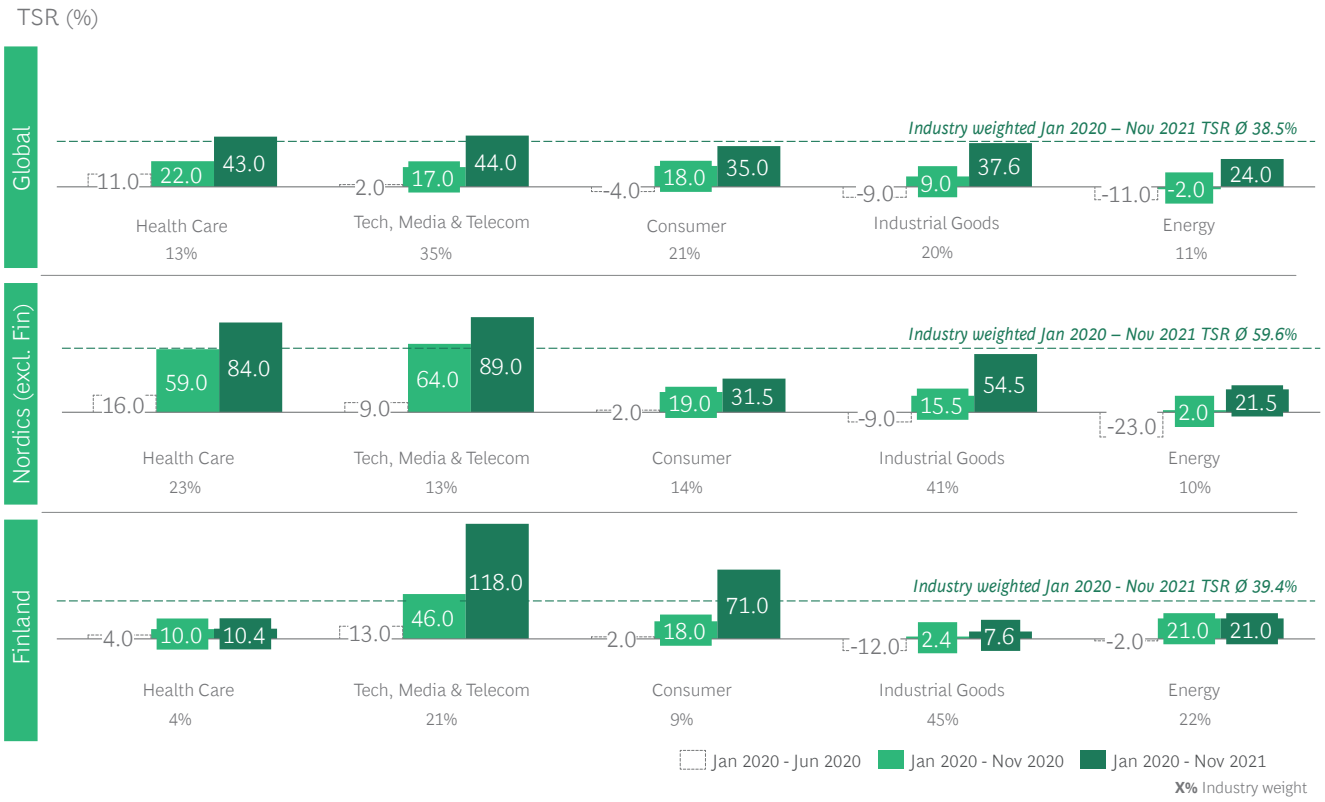
To understand the fundamental drivers behind the TSR performance of Finnish IG companies, we compared the financials of Q1 2020 with those of Q2 2020, Q3 2020, and Q3 2021.

IG revenue declined in the beginning, but has grown overall during the pandemic. At the beginning of the COVID-19 pandemic, IG revenue declined by 2.3 percent from Q1 2020 to Q3 2020, but rebounded in 2021, gaining 12.4 percent from Q1 2020 to Q3 2021. Despite these initial challenges, IG revenue has grown at par with the Finnish industry average during the pandemic. Maximizing the growth opportunity at hand from inherent cyclical demand and building for long-term growth should be the focus of Finnish IG companies moving forward. (See Exhibit 2.)

IG COGS decreased, but by less than the industry average. In terms of Cost of Goods Sold (COGS), IG companies' COGS decreased by 2.7 percentage points between Q1 2020 and Q3 2021. This reduction was less than in Technology, Media & Telecom and Energy, but higher than in Consumer Products and Health Care. During the pandemic, raw material prices have been volatile, which clearly poses challenges—but also offers opportunities for companies to manage their relative COGS through sourcing and pricing levers. This, too, should remain a focus for Finnish IG companies. (See Exhibit 3.)

IG SG&A decreased more than the industry average, but is supported by growth. Regarding Selling, General, and Administrative (SG&A) expenses, IG companies in Finland were slower to adjust their levels in the beginning of the pandemic, but overall, improved by 4.1 percentage points from Q1 2020 to Q3 2021, which was more than the Finnish industry average. This improvement was in large part due to revenue growth, the fixed nature of SG&A costs, and certain cost-adjustment measures. The hope is that improved efficiency will be sustained and cost creep avoided by leveraging digital opportunities and learnings as the pandemic continues. (See Exhibit 4.)

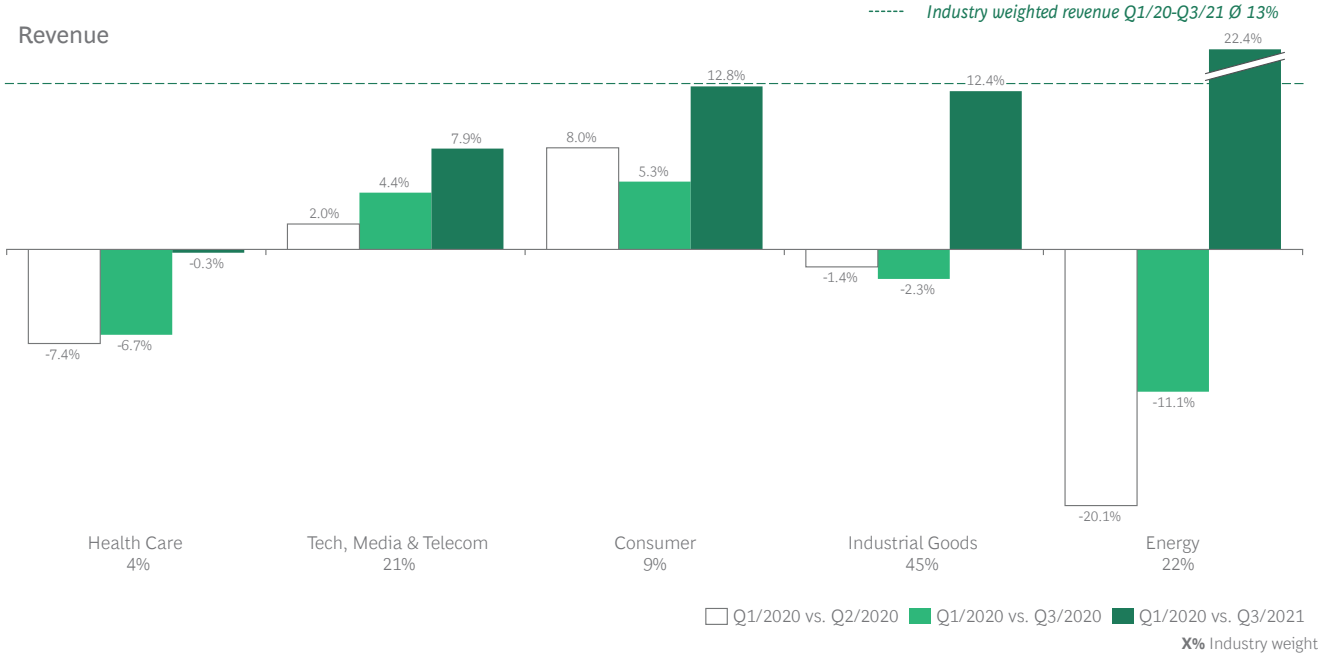
EXHIBIT 1 - Rebound from COVID-19 continues, as industry and geographical disparities prevail



Sources: S&P Capital IQ; BCG analysis

Note: TSR = Total Shareholder Return. Industry weight calculated by market capitalization. Compared companies' TSR from January 1 with November 23 2020, and November 30 2021. Global sample consists of global companies with threshold for size adjusted per country. Nordic and Finnish sample includes companies with above 100 M€ market capitalization. Both samples exclude financial institutions and insurance companies. Figures are rounded.

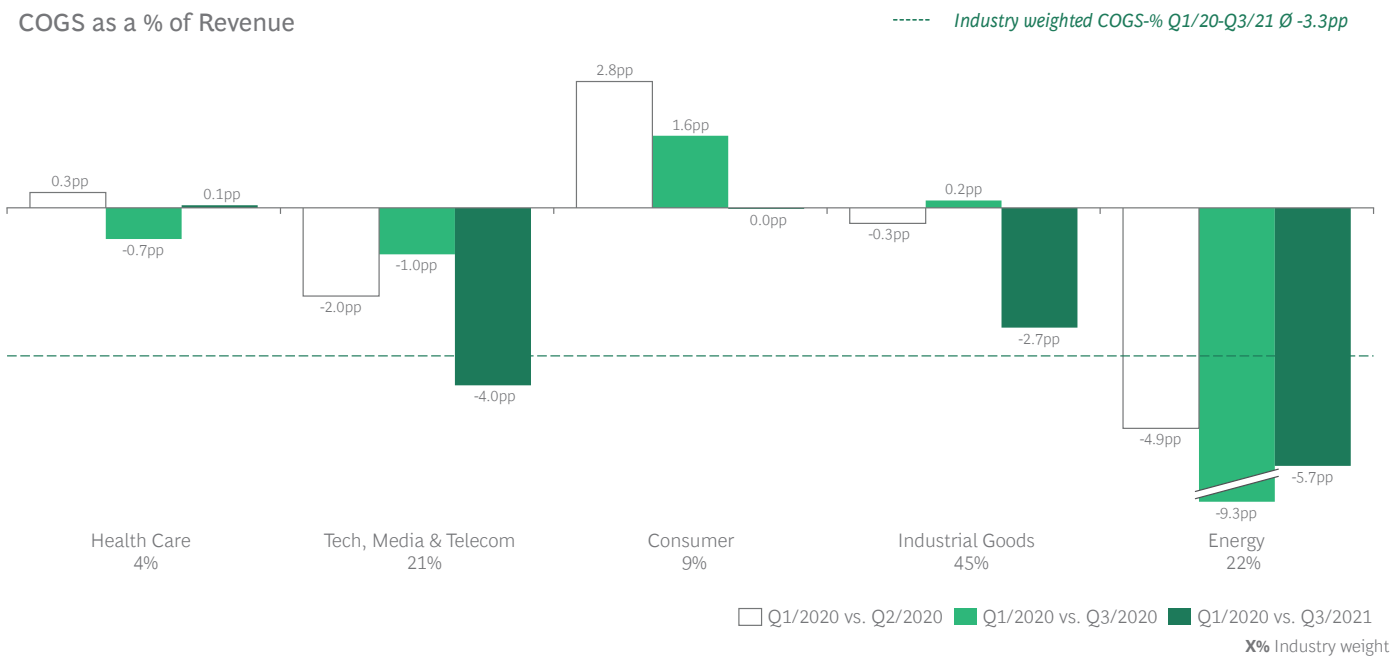
EXHIBIT 2 - Finland: All industries returned to growth, except Health Care



Source: BCG analysis, latest data update: 30th November 2021.

Note: Average, n=52, public listed companies in Finland. Health Care sector (BIO= Biopharma; HCT/P= Healthcare Tech/Provider), Tech., Media, Telecom (TECH= Technology; MED= Media; TELCO= Telecommunications), Consumer (CP= Consumer Products; RET= Retail; F&L= Fashion & Luxury; T&T= Travel & Tourism), Industrial Goods (A&M= Automotive & Mobility; M&PI= Materials & Process Industries; ICT= Infrastructure, Cities & Transport; EP= Engineering Products), Energy (G/P&G= Green Energy, Power & Gas Utilities; O&G= Oil & Gas). Quarters follow calendar year, not fiscal year.

EXHIBIT 3 - Finland: All industries have reduced their COGS except Health Care and Consumer



Source: BCG analysis, latest data update: 30th November 2021.

Note: Average, n=52, public listed companies in Finland. Health Care sector (BIO= Biopharma; HCT/P= Healthcare Tech/Provider), Tech., Media, Telecom (TECH= Technology; MED= Media; TELCO= Telecommunications), Consumer (CP= Consumer Products; RET= Retail; F&L= Fashion & Luxury; T&T= Travel & Tourism), Industrial Goods (A&M= Automotive & Mobility; M&PI= Materials & Process Industries; ICT= Infrastructure, Cities & Transport; EP= Engineering Products), Energy (G/P&G= Green Energy, Power & Gas Utilities; O&G= Oil & Gas). Quarters follow calendar year, not fiscal year.

IG EBIT increased just below the industry average as a result of cost adjustments and growth. The impact of revenue growth, fixed-cost leveraging, and cost adjustments can be seen in Finnish IG companies' Earnings Before Interest and Taxes (EBIT) margin, which improved 6.7 percentage points from Q1 2020 to Q3 2021, just below the Finnish industry average gain of 7.0 percentage points. Technology, Media & Telecom and Energy managed to improve their EBIT margins even more, while Consumer Products and Health Care EBIT improved less than that of IG. (See Exhibit 5.)

Finnish IG companies' financials have now exceeded pre-pandemic levels, but TSR does not yet reflect that. Given that the positive development of Finnish IG companies' financials is not yet reflected in TSR, it appears that the market remains skeptical about the future. Finnish IG companies have employed proven measures to tackle the challenges that have arisen from the crisis; however, still more could be done to ensure winning in the future and secure performance when the next crisis hits. Finnish IG companies would benefit from the knowledge BCG has gathered researching the companies that have been most successful at tackling the crisis. These learnings have been summarized as the "Five Measures to Boost Resilience in a Crisis."

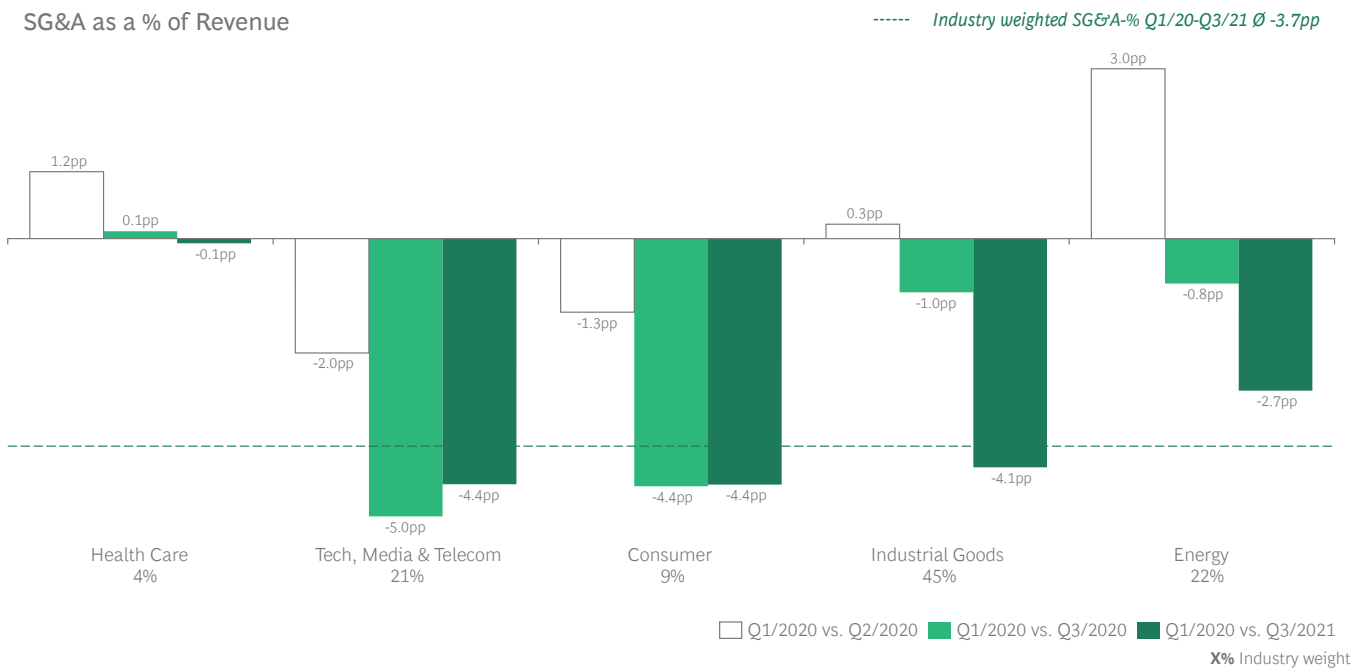
Five Measures to Boost Resilience in a Crisis

There is no single way for organizations to transform during a crisis. The right approach depends on a company's starting position and specific challenges. But based on BCG's experience supporting hundreds of transformations across industries and geographic markets, we have identified several measures that can help make companies more resilient in the face of a major crisis. When implemented together, these measures reinforce each other to generate stronger results.

Take a holistic approach to performance. Understandably, most companies undergoing a transformation seek to cut costs. Facing a liquidity crunch, they reduce spending on nonessential and employee-related items, R&D, and capex in an effort to conserve cash. However, most successful organizations think beyond cost cutting, simultaneously launching quick-hit measures to boost revenue in areas such as pricing, focusing resources on top-selling products and services, and activating their sales force. In doing so, these companies craft a more promising future, generating buy-in from employees and investors. Costs are important, but they cannot be the sole focus. It's critical to pull multiple value-creation levers at the same time and adjust the focus on each one as the situation changes.

“Industrial Goods companies that now start leveraging the learnings from other industries will be better equipped to outperform their peers when next crisis comes.”

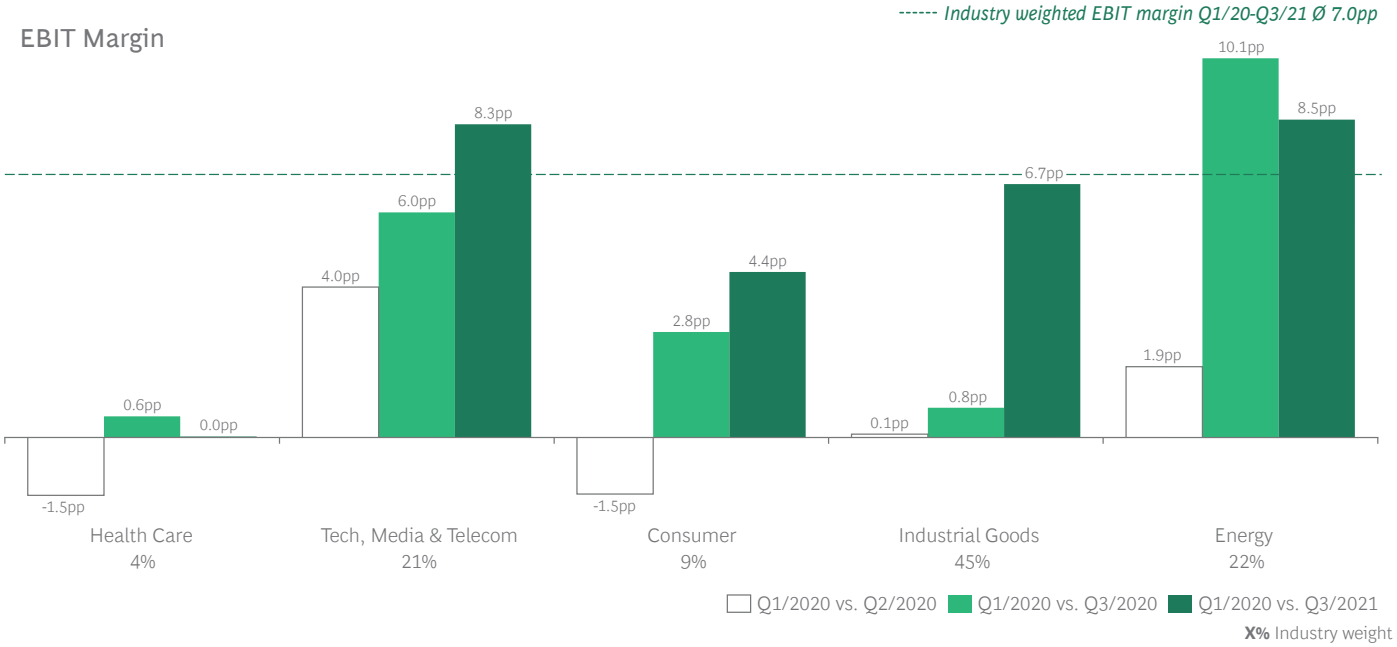
EXHIBIT 4 - Finland: All industries adjusted down their SG&A, except Health Care



Source: BCG analysis, latest data update: 30th November 2021.

Note: Average, n=52, public listed companies in Finland. Health Care sector (BIO= Biopharma; HCT/P= Healthcare Tech/Provider), Tech., Media, Telecom (TECH= Technology; MED= Media; TELCO= Telecommunications), Consumer (CP= Consumer Products; RET= Retail; F&L= Fashion & Luxury; T&T= Travel & Tourism), Industrial Goods (A&M= Automotive & Mobility; M&PI= Materials & Process Industries; ICT= Infrastructure, Cities & Transport; EP= Engineering Products), Energy (G/P&G= Green Energy, Power & Gas Utilities; O&G= Oil & Gas). Quarters follow calendar year, not fiscal year.

EXHIBIT 5 - Finland: All industries except Health Care were able to increase their EBIT margins from pre-COVID-19 levels



Source: BCG analysis, latest data update: 30th November 2021.

Note: Average, n=52, public listed companies in Finland. Health Care sector (BIO= Biopharma; HCT/P= Healthcare Tech/Provider), Tech., Media, Telecom (TECH= Technology; MED= Media; TELCO= Telecommunications), Consumer (CP= Consumer Products; RET= Retail; F&L= Fashion & Luxury; T&T= Travel & Tourism), Industrial Goods (A&M= Automotive & Mobility; M&PI= Materials & Process Industries; ICT= Infrastructure, Cities & Transport; EP= Engineering Products), Energy (G/P&G= Green Energy, Power & Gas Utilities; O&G= Oil & Gas). Quarters follow calendar year, not fiscal year.

“Strong leaders make bold bets and do what is needed to bring their organization along.”

Put employees first. The pandemic and its impact on the workforce have reminded management teams that employees are not a cost item that can be optimized during a crisis. Instead, they are a major—if not the major—asset of an organization. Companies have sent a clear message and built loyalty by having prioritized employee well-being and engagement during the pandemic. Not every company has taken this approach, but it remains a clear theme among the winning organizations that we looked at.

Focus relentlessly on digital. Virtually every company has invested in digital to some degree over the past decade, but many still have further to go. During the pandemic, when many organizations have had to close their manufacturing facilities and retail locations, and when travel restrictions have altered buying patterns and global supply chains have been disrupted, winning companies have prioritized switching to e-commerce, digital platforms, and process automation as a matter of survival. They are building the requisite infrastructure and expanding their digital capabilities. We believe that these investments will pay off by giving companies a competitive advantage in both calm and turbulent markets. Organizations that are struggling to make progress can start with smaller, more focused initiatives to build institutional capabilities and momentum.

Stay agile. The ever-changing conditions of a crisis challenge leadership teams to quickly identify emerging trends, make rapid decisions amid uncertainty, and—crucially—determine when to stick to a decision and when to adapt. Strong leaders make bold bets and do what is needed to bring their organization along.

Create dedicated response teams. Because the situation can change rapidly, few plans developed in advance of a crisis will remain 100 percent applicable. Successful companies put teams in place that can react quickly to evolving conditions and challenges. In response to COVID-19, such companies have introduced new infrastructure, tools, processes, strategies, and behaviors and then gauged the results and adjusted on the fly. Response teams are not meant to be permanent—the crisis has called for a sense of urgency and focus not likely to be sustainable over the long term. But organizations should maintain the ability to mobilize a large response team with the right mix of business and functional capabilities and with appropriate governance and accountability.

From *"Lessons in Resilience from Companies That Were Down but Never Out"* (https://www.bcg.com/publications/2021/lessons-in-resilience-for-companies-facing-extreme-distruptions)

About the Authors

Eetu Isto is Principal in the Helsinki office of the Boston Consulting Group. You may contact him at Isto.Eetu@bcg.com.

Mikko Tynkkynen is Managing Director and Partner in the Helsinki office of the Boston Consulting Group. You may contact him at Tynkkynen.Mikko@bcg.com.

Paul Catchlove is Project Leader in the Helsinki office of the Boston Consulting Group. You may contact him at Catchlove.Paul@bcg.com.

For Further Contact

If you would like to discuss this report, please contact the author.

BCG

BCG TURN