

Strategic Responses in a Market Crisis: A Cross-Industry Comparative Analysis During the Subprime Crisis and Epidemic of 2008

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Abstract: This thesis examines two different types of market challenges, the financial crisis, and the pandemic crisis, and seeks similarities and draws conclusions by summarising and analyzing the coping strategies of industries under the 2008 financial crisis and comparing them with those of related industries under the current pandemic crisis. It is found that cost control and enhancement of corporate image are two commonly used strategies during the crisis, with the former helping to maintain competitiveness during the crisis and the latter facilitating the enhancement of brand value. In addition, new market development and the development of new business models are also effective strategies to cope with crisis. The study cases include Tesla, China Southern Airlines, and McDonald's, and by analyzing the coping strategies of these companies during the crisis, some strategies that can cope with both the financial crisis and the pandemic crisis have been derived. However, given the limitations of the number of cases, the coverage of the findings of this study could be improved. Future research could further explore coping strategies in public relations crises and political crises.

Keywords: Crisis Management, Coping Strategies, Financial Crisis, Pandemic Response

1. Introduction

In 2020, COVID-19 broke out globally, which triggered a sharp upheaval in the financial markets and had a huge impact on the real economy, including the catering and tourism industries. Similar financial crises have always occurred in the history of international markets, such as the Russia-Ukraine war and the US-China trade war. The most typical one is the subprime mortgage crisis that happened in the US in 2008, which triggered a serious economic recession and led to soaring unemployment, housing market collapse, bank failures, and fiscal tightening. The financial and epidemiological crises are two typical challenges that the world has faced in recent years. They have both had far-reaching effects on the market as a whole, resulting in businesses and organizations having to adopt coping strategies to adapt to the changing environment. This paper

will list and analyze the responses of various industries during the 2008 financial crisis and compare them with the responses of the corresponding industries during the epidemic crisis, analyze their similarities to a certain extent, and draw final conclusions. At the same time, constructive suggestions will be made for the future response strategies of the corresponding industries in the face of the crisis.

2. Literature Review

In the early 2000s, the United States Federal Reserve implemented a prolonged policy of low-interest rates, which led to the large-scale issuance of subprime mortgages by many financial institutions, coupled with a lack of adequate regulation by the United States Government. Over time, a housing bubble formed. When the housing market began to show signs of weakness, default rates on subprime mortgages rose sharply, triggering the global financial crisis of 2007-2008. The subprime crisis caused severe shocks and turmoil in global industries, triggering a global recession that led to losses in several industries and caused unemployment to climb. Businesses are employing a variety of measures to deal with the market crisis. We have reviewed a large number of literature on corporate coping strategies during the Subprime mortgage crisis and summarized the following strategies.

2.1. Use well-thought-out cost-saving strategies

According to Werner, the companies should use cost-saving strategies. Grunig believes that public relations programs are the key to cost-effective marketing [1]. For example, McDonald's reduced costs by optimizing supply chain management, such as reducing waste and reducing raw material costs. At the same time, it also introduced many lower-priced products and meals to appeal to small-budget consumers, such as small-size French fries, or a combination of burgers, French fries, and drinks. According to John and Philip, the first thing a company should do when times are tough is to reduce their costs and conserve capital. In their paper, they discuss ways in which can reduce their marketing budgets substantially [2]. For example, consider how P&G decided to cut marketing costs from 25% to 20% of sales to remain competitive in a down market.

2.2. Don't cut the advertising budget indiscriminately

According to Lamey et al., additional evidence suggests that reducing advertising during a recession can erode brand loyalty, making a shift in investment dollars from advertising risky. Lamey et al. reported that national brands that lose sales to less expensive private labels during recessions may not win them back. Some brands that have retained their advertising budget during the economic crisis achieved great success after the crisis such as Audi.

2.3. Develop new business models

According to Simon, another effective approach is to develop new business models [3]. For example, Kofler Energies, a new company founded in 2008, has introduced the following business model: the company bears all the investment costs associated with energy efficiency measures and guarantees its customers sustained energy savings of 10 percent. Another new business model called cloud computing or SaaS (Software as a Service) is becoming more and more common in the IT sector. Customers benefit immediately because they no longer need some kind of hardware, on-site installation, and long and expensive implementation projects.

2.4. Forge strategic alliance

According to Shannon Alter, the companies should forge strategic alliances, which allows each party to combine resources in a way that benefits both [4]. With an alliance the companies can promote their services and talents to their strategic partner’s market, thus expanding their customer base. For example, Netflix, during the subprime crisis, Netflix insisted on working with Xbox and others in order to allow people to stream video through these devices.

2.5. Boost their profile

According to Shannon Alter, companies should enhance their image [4]. For example, Citigroup started supporting certain community services to enrich its brand story and promote its brand. Lawrence R. Werner says that companies should increase consumer awareness of their products or services [1]. For example, Kellogg's invested heavily in advertising to help the cereal brand gain more consumer attention and quickly established its product as a breakfast staple that continues to this day.

2.6. Market Entry Strategy

According to Mattsson, the first thing a company should do when times are tough is to enter a new market [5,6]. For example, Amacon Ltd., a company specializing in household appliances, conducted market research to identify key consumer trends and preferences. As a result, they discovered a growing demand for environmentally friendly and sustainable products. Using this information, they entered the market and took advantage of this opportunity. The above strategies can be summarized in the following table 1.

Table 1: Strategies.

| Order | Strategies | Example |
|-------|---|-----------------|
| 1 | Use well thought-out cost-saving strategies | P&G McDonald |
| 2 | Don't cut the advertising budget indiscriminately | Audi |
| 3 | Develop new business models | Kofler Energies |
| 4 | Forge strategic alliance | Netflix |
| 5 | Boost their profile | Citigroup |
| 6 | Market Entry Strategy | Amacon Ltd. |

3. Methodology

After summarizing the strategies during the financial crisis, we used the method of case study to select three major industries that were severely damaged during the epidemic and selected typical examples of companies to discuss which strategies they applied during the epidemic to deal with the crisis that were also used during the financial crisis. The three major industries are manufacturing, aviation, and catering. The corresponding examples are Tesla, China Southern Airlines, and McDonald's. For the manufacturing industry, there is a shortage of production chains during the

epidemic crisis, the supply chain is interrupted, the downstream market demand is reduced, the mobility of personnel is limited, and the supply capacity of the manufacturing industry is declining. Second, the outbreak has severely restricted travel, especially for international flights, while leading to a decline in confidence in air travel, and many consumers will not be willing to take the risk of infection to travel. Finally, restaurant sales declined, people had to avoid eating out, and many catering enterprises could not operate normally, resulting in a decline in performance, operating cash flow is tight, and financing difficulties.

4. Findings

4.1. Tesla (Manufacturing Industry)

From a manufacturing perspective, the epidemic has reduced market demand, increased raw material costs, reduced labor supply, and affected the manufacturing industry. We chose Tesla to investigate and analyze the strategies Tesla used during the pandemic and found that some of these strategies were also used by companies during the 2008 subprime crisis.

The first strategy employed by Tesla was to enter new markets. It used fast digital sales and delivery services to accommodate social isolation and restrictions during a pandemic. According to consumer surveys, potential buyers are mostly reluctant to visit dealerships to buy a car during a pandemic. People prefer to stay at home and avoid going out to reduce the possibility of COVID-19. Therefore, Tesla introduced a new form of marketing—online sales. This allows users to purchase a car directly through a mobile phone app within five minutes. Consideration was given to the customer's need for a car and the health of the customer. Because of this, while the global economy has been hit hard by the new coronavirus, Tesla's total annual revenue has been climbing since 2019. From 2020 to 2022, the increase is significant. It will increase from \$30.5 billion in 2020 to \$81.5 billion in 2022. And deliveries and car production are increasing dramatically year after year. Its operating profit has also gone from negative profit in 2018 and 2019 to \$2 billion in revenue in 2020 [3].

The second strategy used by Tesla was to develop a new business model, i.e. in terms of products Tesla, like Apple during the financial crisis in the USA in 2008, started to develop new products such as the new Model S/X, the Cybertruck, the Semi, and the Solar Roof. This was the first strategy that Tesla used to develop a new business model. Therefore, Tesla can increase its market share during the epidemic. In 2021, Tesla became the largest manufacturer in the world in terms of share of car production. With a market share of 14 percent, it is also the only company in the world with a market share of more than 10 percent [4].

The third strategy Tesla used is cost-saving. Like most companies, It also suffered at first due to the outbreak. Tesla took cost control measures and cut non-essential spending in order to remain financially sound. It has been known to close several factories, such as one in Shanghai. At the same time, in terms of supply chain management, because Tesla can independently develop core technologies such as chips, batteries, and software algorithms, it also saves costs.

The fourth strategy used by Tesla is a strategic alliance, in order to ensure that Tesla's electric cars built in China will have a stable supply of batteries during the outbreak, Tesla has signed a battery sourcing agreement with Chinese battery maker Zhuhai Yinlong New Energy Science and Technology Co. in 2020. And, Tesla also announced a partnership with chipmaker Qualcomm in 2020 to introduce a next-generation in-vehicle infotainment system for Tesla's vehicles. The partnership is expected to enhance the intelligence and connectivity of Tesla's vehicles.

4.2. China Southern Airlines (Traveling Industry)

According to the statistics released by the International Air Transport Association, the COVID-19 epidemic has hit the global travel industry far beyond people's expectations. In 2020, global passenger demand directly halved a year-on-year decrease of 65.9%, with international passenger demand reaching almost a quarter of the same period last year, a year-on-year decrease of 75.6%. The overall passenger revenue of the global aviation industry is less than one-third of that of 2019, with an aircraft load rate of 62.8%, a decrease of 192 percentage points compared to 2019. The epidemic has caused serious economic losses to the entire industry, further exacerbating the debt levels of global airlines and weakening their crisis response capabilities. According to the prediction of the International Air Transport Association, it will be difficult for the global air transport industry to return to normal level in 2021, which may last until 2022. The duration of this crisis was unexpected, and during this long period, the normal operation of the entire aviation industry requires support from all aspects.

Moreover, from a tourism perspective, the epidemic has made people reluctant to gather in large groups, and people have reduced their outdoor activities as much as possible to avoid infection. Adding in the policies of each region, it would take nearly two weeks to quarantine almost every place. As a result, the airline industry has been hit hard. In China, which attaches great importance to epidemic prevention, strict epidemic prevention and control is required wherever you go. We will discuss and analyze China Southern Airlines's response policy to the epidemic.

The first strategy China Southern Airlines uses is to control its costs. Like other airlines, China Southern Airlines has taken cost control measures to reduce unnecessary expenses, reduce operating costs, and seek to improve efficiency and save resources. China Southern Airlines also established a comprehensive market-based Accounting software in 2020[7,8]. By strictly controlling the cost of jet fuel, takeoff and landing, and other projects, it realized green fish flight, route optimization, and accurate loading. In 2020, China Southern Airlines' usable fuel consumption per ton kilometer decreased by 6.6% year on year. China Southern Airlines tried to minimize the impact of the COVID- 19 through a series of management and control measures, and the revenue per toll passenger kilometer also decreased from 0.49 yuan to 0.46 yuan, a decrease of 0.03, to a certain extent acceptable. The revenue per ton kilometer of freight charged by Southern Airlines has increased significantly, from 127 yuan to 2.27 yuan, almost doubling. The main business cost per available ton kilometer has also decreased from 2.88 yuan to 2.75 yuan, indicating that China Southern Airlines is still successful in cost management.

The second strategy China Southern Airlines uses is to enter a new market by providing better transportation services [9]. China Southern Airlines may seek to expand its service areas during the epidemic, such as freight transportation, providing charter services to meet global logistics needs, or converting passenger aircraft into cargo aircraft. During the epidemic prevention and control period, Chinese airlines have taken advantage of new trends in the digital economy such as live streaming and cargo delivery. Through three forms of sales, including corporate executives, image representatives, and celebrity celebrities, we have achieved direct benefits, brand stickiness, and digital promotion by selling four products: traditional air tickets, virtual tickets, aviation specialty derivatives, and international products. Practice has proven that these methods are effective. Firstly, Spring and Autumn Airlines, which conducts live streaming with goods, will turn losses into profits in 2021, with an expected net profit of over 35 million yuan; China Southern Airlines, which conducts in-depth live streaming and cargo delivery, ranks among the top three in terms of business recovery. In 2020, in the face of the civil aviation business hit hard by the COVID- 19, China Southern Airlines issued a medium and long-term strategic plan (2020~2035). In this medium and long-term plan, China Southern Airlines proposed to build a "smart logistics system platform" to

coordinate and unify the four major businesses of air cargo, modern warehousing, supply chain management, and e-commerce trade through this platform, and establish a modern logistics integrated service provider.

The third strategy Chinese Southern Airlines uses is to boost its profile by making sure that passengers and employees are safe. China Southern Airlines may have taken a series of measures to ensure the safety of passengers and employees, including strengthening hygiene and cleaning measures, promoting social isolation, and personnel protection measures. In 2020, the Civil Aviation Administration of China has determined a total of 639 tasks for 22 deepening civil aviation reform plans. The completion rate of phased reform tasks in 2021 exceeds 90%, covering various aspects such as civil aviation safety development, hub construction, resource allocation, service improvement, emergency response, and scientific and educational support.

4.3. McDonald's (Catering Industry)

While the entire business community has been affected by the pandemic, the restaurant industry has been particularly hard hit by rapidly changing consumer behavior amid the pandemic. From a restaurant perspective, restaurants have closed in every country due to the restrictions imposed by the pandemic. In order to ensure that people do not get infected by the virus, the distance between the seats in the restaurant needs to be greater, and the number of people eating in the restaurant is greatly reduced. According to Crunch Time, US fast-casual same-store sales dropped to 56% of pandemic levels by April 2020, with social distancing and restrictions on indoor capacity especially hurting fast-casual restaurants whose business models relied more heavily on larger dine-in crowds than its quick service restaurants (QSR) counterparts.

Compared with other restaurants, in this predicament, McDonald's not only adapted to the short-term challenges brought by the epidemic but was also called the winner after the epidemic. Although customers are mostly unable to eat in restaurants throughout the year, McDonald's still managed to deliver its strongest financial results of the year in the quarter of 420—announcing that it had recovered 99% of Q419 global same-store sales, a tremendous feat. So we studied the business strategy of the company.

The first strategy McDonald's used was to enter a new market. In the course of the pandemic, McDonald's began to digitally innovate its brand. Due to the restrictions of the epidemic, the user experience will be greatly affected, and McDonald's digital innovation has relatively improved the user experience during the epidemic. McDonald's recent technology innovations — including the development of the McDonald's mobile application, acquisition of personalization technology provider Dynamic Yield, Mobile Order and Pay, and self-order kiosks — together have transformed customer experiences in and around their restaurants, giving customers more ways to securely pay and personalize their orders to meet their needs. Digital sales exceeded \$10B, or nearly 20% of system-wide sales, in 2020 across the top six markets [10].

The second strategy used by McDonald's was boosting their profile. At the beginning of the outbreak, holding, McDonald's provided 12 million free meals to paramedics and first responders. Following this, 400,000 KF94 masks were donated to the Illinois Emergency Operations Centre for use by those on the front lines of the community helping to combat the COVID-19 outbreak, including police and first responders [11].

The third strategy used by McDonald's was not cutting the advertising budget indiscriminately. McDonald's conveys brand information through advertising and publicity adapted to the epidemic period, emphasizing the advantages of safety, convenience, and service, and attracting consumers' trust and purchase. As it shifts to brand-building, McDonald's was the No. 1 spender at \$69.5 million in out-of-home advertising in 2021, according to data from the Out of Home Advertising Association of America and Kantar Media. It also ranked No. 9 in the top 20 for aired radio ad spots

in the US during the first half of 2022, according to Media Monitors. McDonald's was the No. 1 restaurant brand in the top 20 [12].

The fourth strategy used by McDonald's was forging strategic alliances. During the pandemic, McDonald's chose to partner with other companies to reap the benefits. Following the opening of McDonald's guaranteed restaurants in Pudong on March 28, with the improvement of the epidemic prevention situation, nearly 120 guaranteed restaurants have resumed work and production, distributed in 16 districts of Shanghai. The restaurants are mainly connected with the meal ordering of frontline anti-epidemic personnel, community group purchasing, and ordinary consumers' scattered orders through McDonald's APP, Ele. me, Meituan, and other ordering channels. At present, consumers can choose their surrounding restaurants that have resumed work through the McDonald's APP to place an order, with a minimum of 3 deliveries. Since May, Shanghai McDonald's has also gradually cooperated with Meituan and Ele. Me [13].

5. Discussion

In the three typical cases we selected, we found that the most adopted strategies were controlling costs and improving corporate image. Controlling costs can help an enterprise to maintain its vitality and competitiveness in a crisis. When a market crisis comes, enterprises can also optimise resource allocation and focus more resources on their core business, making their operations more efficient and better able to escape from danger in the short term. In the long run, enhancing corporate image will bring positive returns to the enterprise, it can enhance market confidence, improve brand value, and attract more investors in financing. In short, a strong brand image can help a company maintain stability and growth in difficult times, laying the foundation for long-term success. At the same time, crisis can also bring opportunities. Therefore, when an enterprise encounters a crisis, it is not a bad strategy to try to enter new markets and develop new fields. Developing new areas can improve the industrial chain, provide more employment opportunities, change the mode of production, and alleviate urgent needs.

Although China Southern did not use strategic alliances in the case study, large multinationals and innovative companies tend to adopt strategic alliances in times of market crises to share risks and goods for mutual benefit, while China Southern is a state-owned enterprise, so a full evaluation is not possible. In addition, during the epidemic, we found that most companies in the hospitality, tourism, manufacturing, and other real sectors reduced their marketing and advertising budgets in response to supply chain disruptions, government restrictions, and security concerns, but whether they did so depended on the specific circumstances of the company, its financial situation and its marketing strategy.

6. Conclusion

In the process of market development, crises are everywhere, including financial crisis, public relations crisis, external epidemic crisis, etc. In order to find out which coping strategies can solve the Subprime mortgage crisis and epidemic crisis at the same time, through this study, we read a lot of literature and came up with six corporate coping strategies in the face of the Subprime mortgage crisis. Then three industries that were severely damaged during the epidemic crisis were selected, and typical companies were selected for strategic analysis. They were Tesla in the manufacturing industry, China Southern Airlines in the tourism industry, and McDonald's in the catering industry. Finally, by comparing the coping strategies of two crisis periods, we have summarized strategies that can simultaneously solve the two crises studied in this article. The most commonly used strategy in the short term is to control corporate costs, but in the long run, improving corporate image can make the company more profitable and survive better. However, at the same time, due to

the limitation of the number of case studies in this article, the conclusion coverage is not perfect. In the future, research can also be conducted on response strategies for public relations crises, political crises, and other aspects.

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