

## Efficient adaptation in and beyond the crises: A game plan for a 'new normal'

The manifold measures taken in our global fight against COVID-19 represent a turning point in recent history and the extent to which these measures affect the ways we live, work and play will likely have lasting effects on our society. At the same time, many firms are confronted with scarce financial resources after tough economic times. Hence, what is needed is a game change plan for efficient adaptation to a 'new normal'. First, a clear strategic focus resulting in a distinct portfolio of initiatives for new or refined processes, products, services and business models. Second, the right mix of methods to execute initiatives fast and efficiently. Third, a continuously implemented agile innovation system that helps to steer the portfolio and to increase resilience to the next crisis to come.

### Between two poles: Disruptive changes vs. scarce resources

**The new normal: COVID-19 has caused major changes to the world we used to know**

Undeniably, had the measures to fight back the Coronavirus significant impacts on the world we live in. While "staying at home" becomes the norm for weeks and months, the uptake of digital communication has greatly increased across generations. Be it the virtual meeting with business partners or the virtual wine tasting with friends, we have become used to a new level of interaction which will likely continue to be part of our everyday life in the future.

And those are only selected examples. You may also look into our mobility and attitude towards travelling, the relationship between young and old, or how the crisis affects one of our generation's greatest challenge: the fight against climate change. Throughout different dimensions of our life, you will see that our habits, routines, values and norms have shifted.

No one knows which of these changes will stay, evolve, or completely vanish. While some changes will be temporary, others will remain and shape a "new normal" – the question is: Which are these?

#### **Our Hypotheses for the new normal**

As a starting point, we want to put forward nine hypotheses for the mid- to long-term changes caused by this pandemic, which are divided into three areas, namely our everyday life, working life, and leisure time.

#### **A new normal for our everyday life:**

**Hypothesis 1: A new awareness of social cohabitation as a whole will evolve**

**Hypothesis 2: Digital offerings face much greater openness in society**

**Hypothesis 3: Consumption is dominated by sustainability orientation**

The crisis demonstrates vividly the advanced intertwining in our globalized world and triggers a (re)thinking of how we live together responsibly, taking care of each other, not only during the pandemic but beyond. Questioned about the perceived threat when Covid-19 started spreading throughout Europe, fewer people were worried about themselves (37%) than they were about their country (68%) and the whole world (81%).<sup>1</sup> This new **awareness of social cohabitation as a whole** may substantially impact our future decisions.

Secondly, there is a first time for everything – during the lockdown, this was especially true for a lot of digital offerings as the “online world” is immune to the physical world’s virus. In a study from March this year, 11% of respondents stated they used a food delivery app for the first time, even exceeded by 19% first time-users for mobile banking services, to give just two examples. Through this large amount of trials, we may learn which online services work for us leading to a **greater openness for digital offerings** in general.

Thirdly, the pandemic has shown how vulnerable we are to environmental threats that can only be controlled by humans to a very limited extent. Hence, the pandemic is an eye-opener to how helpless we would be in the face of a global environmental catastrophe caused by rapid climate change. Among others, this can lead to **consumption being dominated by sustainability orientation** as for example shown in a recent Kearney study where more than every second respondent indicated a willingness to buy more environmentally friendly products as a result of their COVID-19 experiences.

In sum, people have and may keep a new awareness of global threats leading to more effort in sustainability and a boost for digital solutions that helped us organizing our life these days.

#### A new normal for our working life:

Hypothesis 4: **Trust will be given a new significance**

Hypothesis 5: **Working day flexibility will be maintained**

Hypothesis 6: **Value chains have utmost attention short- to midterm to become even more resilient against external disruption**

Be it the luxury brand producing disinfectants (like LVMH) or the textile company who had masks sewn (like Trigema), besides the numerous negative aspects of the crisis, dealing with it has also revealed great examples of taking responsibility and leadership. A behavior that is valued by the customers as shown in the Edelman Trust Barometer where 65% of respondents said how well a brand responds to this crisis will have a huge impact on their likelihood to buy that brand in the future. Against the backdrop of these challenging times, **trust will be given a new significance** strongly influencing a brand’s perception.

Many professionals were sent to home office leading to an increasingly mixed up professional and family life. Business trips were moved to virtual meeting rooms just like team events. Undeniably, human interaction is an essential part in working life, but balancing the challenges during the last month, we have also learned what is possible with new formats of collaboration and this **flexibility will be maintained in the working day**.

Covid-19 has put global value chains under pressure with local lockdowns and protectionism posing a risk to companies’ production systems globally. To increase resilience, **companies will give value chains utmost**

<sup>1</sup> See Ipsos COVID-19 report in May.

**attention to rethinking how they organize their value chains and making them more resilient against external disruption.** Advancements in advanced manufacturing could play a decisive role here as demonstrated in a quote by the Vice President of Manufacturing at Siemens: “The degree of automation and digitization is a big advantage in such a crisis. In one of our factories that is around 80% automated we only faced minor capacity losses.” With production being decoupled from human labor, value chains will be protected against external shocks and on-top it is likely that with marginalization of labor cost advantages production will be de-globalized and move closer to the place of consumption.

May it be changed values and norms from the customers, new requirements and routines of the employees or new priorities in value chain design; the pandemic will force companies to rethink their relationship with key stakeholders and new approaches are demanded for the near future.

#### A new normal for our leisure time:

**Hypothesis 7: Leisure activities will become even more flexible and customized**

**Hypothesis 8: New and innovative event formats will be established**

**Hypothesis 9: Local offerings receive a new appreciation**

Being forced to adjust daily life to the new circumstances under COVID-19 was very challenging and also after the pandemic, our daily lives will be busy and full of challenges. Conditions can change rapidly which can make it difficult to attend time- and site-bound leisure activities. **Increased flexibility and customization of leisure activities** will therefore mean a competitive advantage. The fact that the share price of companies like Netflix, Lieferando and Peloton today exceed the pre-crisis level significantly is a clear indication.

Nothing can replace the feeling when the first notes sound at a big concert. Yet, the shutdown in many culture and entertainment areas has released creativity for **new and innovative events formats that will be established**. Allowing stars of the music industry like Celine Dion, Andrea Bocelli, Lady Gaga, Lang Lang, John Legend to perform a song together not leaving their living room and collecting >32 million Euros of donations together with other stars in the “One world together at home” streaming event is an enrichment for the industry that will not disappear. Beyond the music industry, one can find great examples of new cultural possibilities.

The crisis has hit small local companies hard. People have realised that they do not want to give up their local offers and there were dozens of initiatives and even new platforms to support your local businesses. In addition, travel bans have led to more people travelling in their own country. Both are part of **local offerings receiving a new appreciation** that is likely to remain.

It seems that when our everyday and working life change our leisure time has to adapt, too. Like the rest of our life, offerings will likely become more digital and flexible. These changes open up opportunities for businesses and combined with the new appreciation of local offerings can lead to a new era of high-quality local offerings.

#### Companies are shaken by one of the deepest economic crises in history

The described changes hit companies in one of the most challenging economic times. The deep interventions into our society have let the global health crisis developing into a global economic crisis. In many companies, resources – especially cash – are short as disruptions in global supply chains have paralysed production systems for weeks and the lockdown that has been imposed in large parts of the world let to a sales drop for many sectors. The scope of the crisis becomes visible when comparing the world's largest companies' financial performance in this year's first quarter with last year's:

**The entire world economy is affected by COVID-19. Revenue and EBIT are taking huge hits.**  
**Analysis of companies with >\$1bn annual revenue in 2019**

Industry	#Companies	Revenue development HY1 2019 vs. 2020	EBIT development HY1 2019 vs. 2020
 Energy	326	-29,84%	-85,56%
 Consumer Discretionary	954	-10,56%	-50,12
 Consumer Staples	573	2,23%	4,40%
 Healthcare	328	4,68%	6,69%
 Financial services	688	-15,08%	-43,53%
 Industrials	1343	-8,38%	-38,19%
 Information Technology	544	1,94%	2,05%
 Communication services	312	-0,32%	-9,17%
 Utilities	310	-6,27%	-1,04%
 Real Estate	178	1,75%	-10,01%
 Materials	711	-9,24%	-26,12%
<b>Total</b>	<b>6267</b>	<b>-8,80%</b>	<b>-29,11%</b>

In most industries, EBIT and revenue have dropped significantly in Q1 2020 compared to Q1 2019.<sup>2</sup> The vast majority reports double-digit decline with partly significant drops. Especially in asset-heavy industries like Energy, Consumer Discretionary or Real Estate, the crisis has already left its mark in its very early global phase.

The combination of changing market requirements described above, and the economic consequences of the crisis poses a major challenge for companies. Nevertheless, it is clear that the course is now being set for the future. So, while still suffering, companies are challenged to adapt to new conditions when they want to leave the crisis behind quickly and prepare for a new future!

## What matters now: rapid adaptation to the new normal

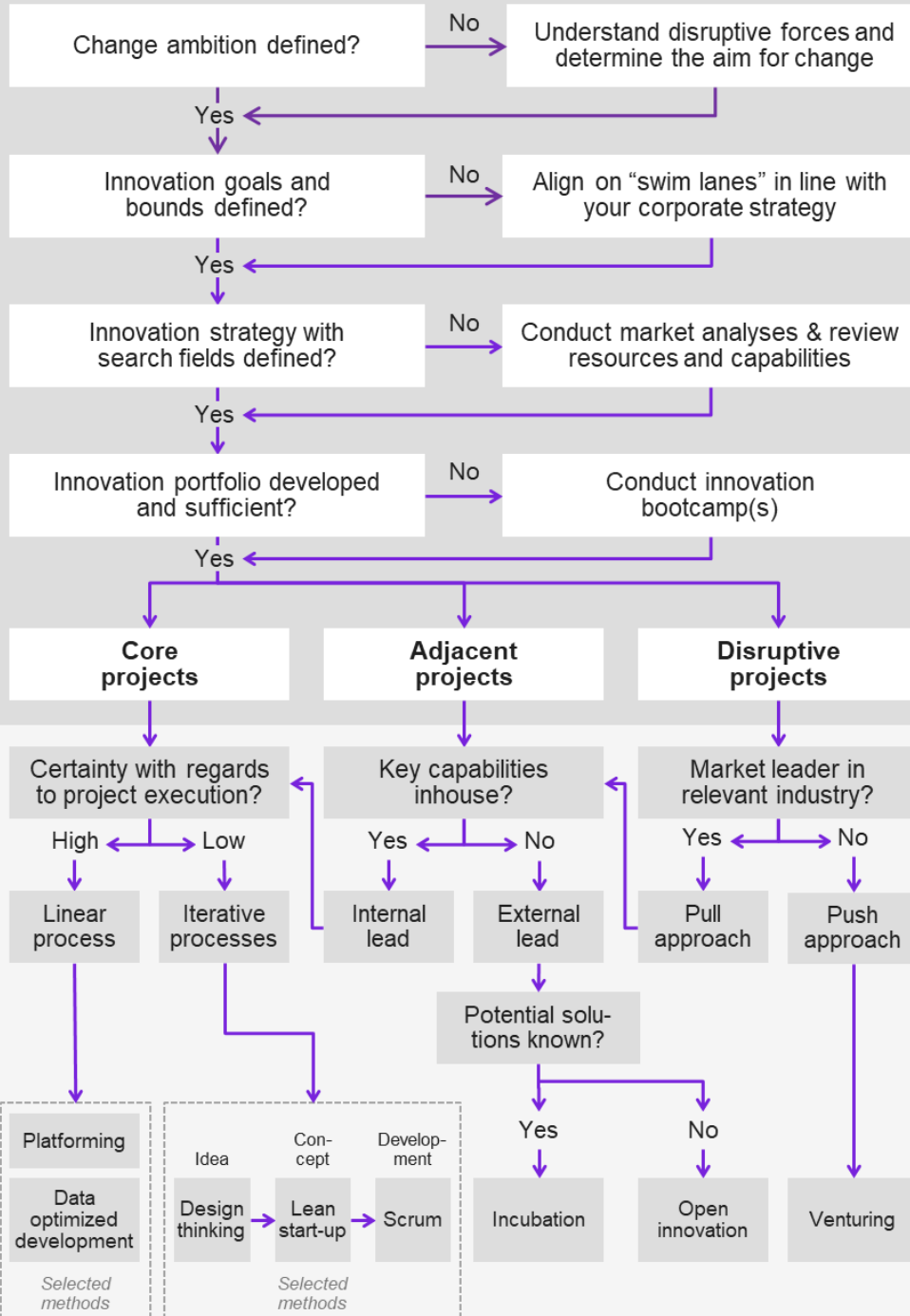
Under the given circumstances' it is likely not the largest nor the most powerful companies that will suffer least and gain most from the crisis in the mid-term, but those that are most adaptive to change. Hence, companies must excel with lean and agile approaches when reinventing themselves as an efficiently managed transformation process is needed. It is necessary that senior management mobilizes the teams by providing clarity on the company's strategic focus and by translating the change ambition into actionable initiatives. To accelerate the execution of the initiatives, companies must ensure to leverage the full bandwidth of agility levers within and beyond their own firm's boundaries. Finally, the company-wide innovation system must be adjusted to facilitate the rapid changes ensuring high transparency and unconditional organisational support where needed.

We suggest following a clear innovation game plan in order to switch from crisis mode back to action mode:

<sup>2</sup> Notably, the impact is expected to be even more evident with the numbers in Q2.

# INNOVATION GAME PLAN

## 1 Fill the innovation portfolio!



## 2 Execute the innovation portfolio!

## 3 Monitor & manage the innovation system!

Design and implement an appropriate operating model for innovation

Develop the right innovation capabilities

Foster a culture that embraces innovation

Measure the success of your innovation activities

## Part 1 – Embracing the changes by refocusing the innovation portfolio

The starting point for the refocusing should be a determination of the individual position under the changed circumstances. Hypotheses about the lasting impact of COVID-19 – like those stated above – should be drawn from existing knowledge and mirrored against their likelihood of confirmation as well as the expected impact. Against this backdrop, it is especially important to understand which influences have disruptive potential on the company's current positioning and to focus on those changes that matter. A disruption potential can be positive in the form of an opportunity to change market conditions in their own favour, as well as negative, posing a potential threat to the current position.

Secondly, clear goals and bounds should be determined as simple decision guidelines – What is desirable? What is discussable? What is unthinkable? – for those executing the transformation process. This will not only trigger the necessary creativity; it will also ensure alignment with the company's overall strategy. In addition, clear guidelines help to avoid time wasted on fruitless paths, but also the passing on of good ideas. Based on market analyses and bearing in mind the own capabilities (those already existing and those intend to be developed) the resulting solution space should be translated into clearly defined search fields that mark the 'north stars' throughout the change process.

To operationalise the new strategic directions, the as-is portfolio of innovation initiatives must be reviewed. Identifying those initiatives that are obsolete and eliminating them is equally important as the identification of white spots that emerge from the refined strategy. For the latter, we suggest following a 'boot camp' format to rapidly design, refine and pre-validate potential solutions that can fill the portfolio and close the gap within a reasonable time horizon.

## Part 2 – Accelerating the execution of the portfolio by using the entire bandwidth of agility levers

Agility describes a company's ability to adapt rapidly to changing framework conditions – a capability that is crucial for fast renewal in turbulent times. A number of different approaches have proved useful when aiming at increased corporate innovation agility. However, as no approach should be a means in itself, clear decision rules are needed to select the most efficient one given initiatives' specific requirements. We suggest basing this decision on a few central parameters: the degree of novelty of a project and subsequently the level of uncertainty, key capabilities and a company's competitive positioning. Following simple but clear decision rules can ease the process of choosing the approaches that are likely to accelerate the time-to-market and to drive efficiency when adapting optimally to changing framework conditions in unstable times.

It has often proven recommendable to orchestrate innovation activities also beyond the own firms' boundaries. Especially when conquering completely new territory, open innovation approaches, partnerships and acquisitions can increase the speed of innovation significantly. However, in core markets where a company has the 'right to win' competing agilely by adopting new ways of working, such as quickly iterating, rapid pre- and prototyping and a test and a learning mentality can increase efficiency in managing innovation and help accelerate the renewal.

## Part 3 – Seize the opportunity to transform the innovation system

As for the organizational level, we suggest a twofold perspective: On the one hand, it is important to create a positive momentum for change that ensures the right seeding ground for the renewing process. Leveraging the full potential requires the cultural openness for change as well as the organizational support to do things differently. This includes ensuring that your operating model supports the innovation activities, development of the necessary capabilities to execute the change and a transparent system to monitor the process on the corporate level.

Finally, when adapting to the new circumstances companies will be able to gain invaluable insights into the strength and weaknesses of their innovation management system. Leveraging the learnings and making them part of the company's DNA is a great opportunity to become more agile and resilient against ever-increasing volatility of markets, also in the long run.

Of course, there is no 'one size fits all' approach to cope with the challenging situation. However, we think that some guiding principles, rooted in common innovation management principles can support a transition that is in many cases unavoidable. We are happy to discuss this further and keen on helping you with any questions regarding your individual way towards a 'new normal'.