



BY JIM HARRIS

THE COVID-19 CRISIS IS ACCELERATING DIGITAL TRANSFORMATION

**Companies Aligned with Mobile & AI-First
Experiences are Experiencing Hyper Growth**

HERE'S A STAGGERING STATISTIC: the average North America employee spends five work weeks a year in traffic jams commuting to work. That's 200 hours a year. Is there nothing better that we can do with all that time?

An insurance broker recently told me that he used to drive for two hours, meet a prospect for 45 minutes, sign a new insurance policy and then drive two hours back to his office. That's five hours out of his day for a single (potential) sale. Now during the pandemic he's meeting eight prospects a day for a Zoom call and he's actually INCREASED his sales.

WHICH BRING ME TO THIS POINT: A crisis is a terrible thing to waste. The

COVID-19 crisis is exposing the horrific inefficiency of many corporate processes, policies and procedures. Pre-pandemic many insurance companies prohibited policies from being put in place without a physical signature. The resistant policy was driven by the legal and compliance departments. When the pandemic hit and insurance sales plummeted to zero, the policy changed overnight. This begs the question: was it really a legal or regulatory barrier, or was it a mindset problem? This is policy innovation which will be highlighted below. "Only a crisis – actual or perceived – produces real change," said Milton Friedman.

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THE

CORONAVIRUS HAS WREAKED HAVOC ON THE GLOBAL ECONOMY. COVID-19 is hyper-charging the growth of companies that have aggressively pursued digital trans-

formation, by putting mobile first philosophy at the core of their business strategy and embedding artificial intelligence (AI) in all their products, services, and business models.

— ZOOM ZOOM ZOOM

Zoom had 10 million daily users in December 2019 and in April 2020 that had exploded to 300 million daily participants. How many companies can boast a 30x growth in customer count during the pandemic?

— COVID-19 CONSEQUENCES

Many companies discouraged people from working from home pre-pandemic. All that has changed. Companies and boomer executives are discovering that people can be productive working from home.

Post-pandemic, not everyone is going to want work in the office. Dell Computer in Austin, Texas expects that half of its 160,000 employees will never work from its offices going forward. About 40% of the average large company's employees could work from home.

I predict that companies will, on average, allow people to work two or three days from home. Firms will realize that they can cut the square footage of their corporate office space by 40% and drive millions of dollars directly to the bottom line. This is bad news for corporate real estate companies and property developers.

— OFFICE TOWERS

An office tower like First Canadian Place at King and Bay Streets in Toronto has 72 stories and 10,000 people who used to work in it every work day pre-COVID-19. With current guidelines of only allowing two people in an elevator at a time, are people really going to wait hours to get up to their office in the elevator? And once you've finally arrived at your desk it'll be time to go back down to the food court for lunch!

Now it's not that all employees will always work from home, but companies will achieve a new balance or equilibrium – and it will involve less office space and less office time.

— ECOMMERCE EXPLODES

It took ten years for ecommerce to grow by 11%. In 2009, eCommerce was 5.6% of all US retail sales and by 2019 it had grown to 16.3%. The COVID pandemic hyper-charged online sales driving the growth by 11% in just eight weeks!

US eCommerce Penetration (% of Retail Sales)



**The COVID pandemic
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While other retailers were closed (with the exception of grocery and pharmacy stores), Amazon had to hire 175,000 people to keep up with order volumes. How many companies during this crisis have hired 175,000 new employees?

The wave of bankruptcies hitting the retail sector is just beginning. In the US JC Penney, Pier 1 Imports, J Crew, and Neiman Marcus have already filed for bankruptcy. In Canada so has retailer Reitmans. Swiss based analyst firm UBS predicts that 100,000 US retail locations will close going forward as a result of COVID. Even Starbucks in Canada has announced that it will close 200 locations. And before the pandemic even hit, Credit Suisse predicted that 25% of US shopping malls would shutter by 2025 as a result of the relentless growth of online shopping. The cascading implications are profound: what has been a key investment strategy of pension funds? Investing in real estate – like Blockbuster locations.

CHANGING BUSINESS

MODELS AND TYPES OF INNOVATION

Survey people about what is innovative, and they will typically answer something like the iPhone. (The iPhone was innovative in 2007 but it isn't so much now, but that's not the point). Likely 75% of the answers will be about a product. Similarly, within organizations, 75% of the innovation effort is around product innovation. But product innovation only yields 10% of the value that innovation can bring to an organization. A staggering 90% of the value is in four other areas—business model innovation, process innovation, service innovation (also known as user experience (UX) or customer experience (CX)), and policy innovation. Let's briefly look at each of these in the context of COVID-19.

BUSINESS MODEL INNOVATION

Let's take an example of Uber vs. the taxi cab industry. From a product perspective an Uber and a taxi are exactly the same in that both involve a driver and a car that take a passenger from point A to point B.

Now let's look at innovation from a business model perspective. If Uber has perfected delivering people from point A to point B with an app and charging my credit card, could Uber deliver a burger?

The answer of course is yes. That's Uber Eats. In April, Uber Eats revenue surged 89% over April 2020 as families in lockdown throughout North America got food delivered from their favourite restaurants.

If Uber can deliver people and burgers, could it deliver manila envelopes and bankers boxes? Let's call that Uber Courier (it doesn't exist yet).

How about this: Your dog Fido is sick. If your city is a hotspot for COVID-19, do you really want to drive to the vet, sit in the waiting room for three hours with other pet owners? No. So who you gonna call? *Insert the Ghostbuster's refrain*. Answer: Uber Pet. (It's actually operating in US test markets.)

What about Uber Alcohol or in Canada, since marijuana is legal, Uber Weed? Delivering your favourite bottle or blend right to your door. These are business model innovations.

Currently Uber is worth more than every taxi cab company in North America combined! This is in part because it's more focused on business model innovation rather than product innovation.

CAB COMPANY RESPONSE

What are cab companies doing in response? Well in Toronto Diamond Taxi is spending \$250,000 to develop its own app. Beck Taxi is doing the same thing. So are many other Toronto Taxi Cab Companies.



Types of Innovation

Source: Lee-Anne McAlear, Program Director, Centre of Excellence in Innovation at Schulich Executive Education Centre at York University's Schulich School of Business

NYC Daily Trips: Taxi, Uber, Lyft

Based on TLC summary data



BUSINESS PROCESS INNOVATION: SUPPLY CHAIN

The global supply chain will be forever changed as a result of the coronavirus. Most corporate supply chains are stretched across many countries and thousands of miles. The COVID crisis highlighted how fragile these are.

The average gas car has 2,000 moving parts. If a single part is missing, the car can't be produced. By contrast a Tesla has only 20 moving parts, and Tesla manufactures most of its own components. The company is vertically integrated.

When supply chains experience profound disruption, companies need to think about the design of their products, redesigning for simplicity to create resilience in the face of uncertainty. But this again requires thinking implicatively at a meta level.

SERVICE INNOVATION

Lemonade insurance out of New York City offers tenant insurance for as little as \$5 a month. People can only apply by smartphone. It's aimed at millennials and Gen Zs. Lemonade has the world record for a claim settlement: three seconds. Compare that to the eight weeks you used to wait on average to get your insurance check in the mail in the 1990s if you had a car accident. Once you've answered all the questions from the claims bot on your smartphone, taken a photo of the police report, and hit the submit button, your claim data is run against

I don't know about you, but the reason I got my smartphone wasn't to download 19 different Toronto taxi apps and key in my data into each app separately on my smartphone with my fat thumbs into each one. I haven't downloaded a single one of these apps.

But pre-COVID-19 I didn't just work in Toronto. I was in Stockholm, London, Rome, Milan, Davos, Shenzhen, Los Angeles, San Diego. Am I about to download 19,000 different taxi apps from cab companies? No way!

Cab company executives don't realize that the *Lord of the Rings* principle applies: I want one ring to rule them all. If all 19,000 global taxi cab companies cooperated and developed a single app – call it the Global Taxi App – I'd download it just as I have with Uber and Lyft. The benefit to cab companies would be profound, because rather than wasting a quarter million developing an app that I'll never download, these companies would only share in 1/19,000th of the cost!

But this requires different thinking at a higher level. I call it a *meta level*. Diamond Taxi has to work collaboratively with Beck Taxi and every other cab company in the world.

The consequence of not thinking at a business model level has been profound. In 2013, taxi medallions in New York were worth \$1.1 million (in 2020 dollars). Most recently they have traded for \$110,000. That's a 90% reduction in asset value. The experience has been the same in Toronto. In 2012 taxi plates sold for \$405,000 (adjusted for inflation) and now you can buy one on Kijiji for \$20,000. That's a 95% decline in asset value. The consequence of not thinking at a business model level can be disastrous.

**Mobile first firms
have an 825%
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companies with no
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Jim Harris is the author of *Blindsided* which focuses on disruptive innovation. It is published in 80 countries worldwide and is a #1 international bestseller. You can follow him on Twitter @JimHarris or email him at jim@jimharris.com

18 different fraud algorithms in the cloud and three seconds later tells you if you're instantly approved. Lemonade's goal is to settle 80% of all claims instantly this way. This is both service innovation – offering a vastly better customer experience and process innovation. Similarly, with Uber you know the price of your ride before you get into the car. Not so with a taxi. It's like playing Russian roulette with your wallet. With Uber you can see the car coming. Not so with a cab. There are dozens of points of differentiation between Uber and taxis. Here's one: New York's yellow cabs used to have the daily shift change right at 4-5pm when everyone wanted to get home. Meaning that you couldn't easily get a cab in rush hour. The exact opposite of customer centric focus.

MOBILE FIRST AND AI FIRST

Mobile first firms have an 825% higher value upon IPO than companies with no mobile focus, highlighting how essential mobile is for success today. This staggering finding is from the 2020 Mobile Report by App Annie. Mobile is at the heart of Lemonade's strategy, Tesla's, Uber's, Amazon's, Google's, and Facebook's.

IT'S NOT ABOUT TECH

Having read to this point, many people might assume that this is a story about technology. It's not. It's really about people, culture, mindset, and transformation. If I have a computer on my desk, but don't know how to turn it on, it doesn't offer any strategic advantage. Yes, innovation is enabled by technology but deriving benefit from it is really about cultural transformation.

It starts with mindset – as exemplified by the insurance company shift of not allowing digital signature to put policies in place. Stephen Covey, who I used to represent teaching *The 7 Habits of Highly Effective People*, would urge clients to train every single person in the 7 Habits. Why? because it created a common language, it began the process of cultural and organizational change. The same is true today for innovation.

According to a Leger Marketing Research report in The Globe and Mail, 88% of CEOs

say that innovation is essential to their top line and bottom line, but only 22% of companies have a formal innovation process!

Could you imagine if the survey had focused on sales and got the same results? In other words, 88% of CEOs say that sales are essential for driving revenue and profitability, but only 22% of companies have sales people. Only 22% have sales systems or a CRM like Salesforce, only 22% conduct sales training. Only 22% tie compensation on a quarterly or annual basis to performance for sales people. The other roughly 80% of companies hope that sales will just organically, magically happen. That would be an insane position to take, and yet that's

the approach that companies are taking to innovation. In times of rapid change – like the COVID crisis – investing in innovation in training and development for everyone in the organization is all the more important. From a separate study, the biggest source of new innovative ideas is from employees.

HOW LONG WILL THIS GO ON?

It's important for corporate leaders to get a level set for expectations on how long it will take for this to be "over." First off let's remember that we had SARS in 2002-2004 and MERS in 2012. Both of those were coronaviruses just like COVID-19, and yet we still don't have any vaccine for ANY coronavirus. Vaccines typically take at least two years to develop. Bill Gates has predicted that it will be at least another 18 months before we see a vaccine. And once we do have one there's the small detail of how long it will take to vaccinate the majority of the world's eight billion people.

CONCLUSION

To survive and thrive executives and companies can't wait for things to go back to normal. That's a strategy for market share loss, irrelevance, and ultimately bankruptcy. Instead leaders must aggressively pursue innovation at all levels – business model, process, UX or CX, policy as well as product and involve every single employee in innovation efforts.