

May 2020

The Impact of Covid-19 on Corporate Innovation

Introduction

23 *global companies*

51%

*CIO's, Heads
of Innovation and
Innovation Directors
& Managers*

20%

*CEOs,
Global Heads and
General managers*

29%

Key Stakeholders

As the COVID-19 pandemic spreads around the world, markets have collapsed and uncertainty has reached unprecedented extremes. How will societies and companies react? How long will it take for markets to recover? During the first months of confinement around the world, several studies have already attempted to tackle some of these questions, but we chose to ask a more specific one: How will the COVID-19 crisis affect corporate innovation? The aim of this article is to shed light on this issue.

This report is the result of two companies joining forces: NOBA and Startup Réseau. A total of 23 global companies from 13 different sectors (from pharmaceuticals, banking and IT, to FMCG, utilities and logistics) were interviewed via video conferencing over a 3-week period. 51% of the interviewees are CIO's, Heads of Innovation and Innovation Directors & Managers while 20% are CEOs Global Heads and General managers. The remaining 29% are other key stakeholders such as Strategic Advisors and Investment Analysts.

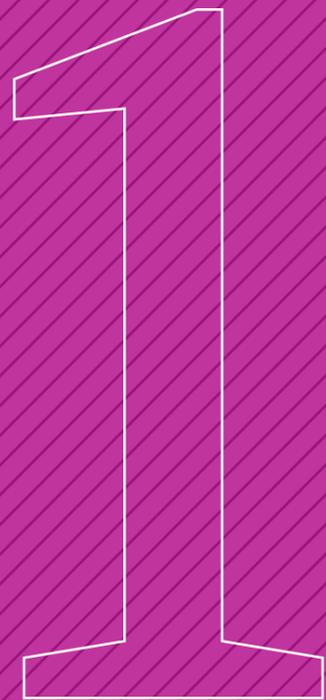
This present version of the report is a preliminary summary with the feedback of

these 23 companies. A revised and final report will be released after including the results of a field survey sent to a larger number of participants.

The interviews were structured in three parts. The first part served as contextualization, to understand how innovation is managed in companies prior to the COVID-19 crisis. The second part focused on the impact of this crisis on the company in general. Unsurprisingly, the responses here varied considerably depending on the sector in which each company operates. In fact, in some non-cyclical industries the crisis has had quite a positive impact, while other sectors have seen their sales come to a screeching halt.

It is not the purpose of the study however to evaluate how the COVID-19 crisis has affected the short-term companies' results. In fact, in the third part, we delve into the subject matter and understand the impact it has had on these companies' innovation strategies.

The findings are presented in the rest of this article, grouped into 6 critical questions.



What is happening to innovation strategies and budgets in light of the coronavirus crisis?

A popular stance in periods of crises is that cash is king as well as a key tenant to survival during turbulent economic times. We are accustomed to dramatic headlines of global workforce layoffs and aggressive cost cutting in order to protect bottom lines and extend runways. However, not all expenses are created equal.

In fact, and when touching on the topic of innovation, both general initiatives as well as R&D, most of our participants view the repercussions of the current epidemic as a unique opportunity to take pause, conduct due diligence of objectives and capabilities, and reprioritise initiatives and corresponding investments.

The companies to whom we have spoken, declare that, on the whole, their budgets will be maintained. Some even appear to be bullish by anticipating aggressive increases. At the same time, it is quite telling that most of the 22 participants foresee little or no cuts to their innovation budgets.

Beyond whether innovation budgets are impacted or not, what is more insightful are the newly relevant criteria against which such decisions are made today.

One such criteria is the idea of business resilience, in other words, the ability to rapidly adapt and respond to business disruptions, safeguard people and assets, while maintaining continuous business operations.

Different parts of businesses, and daily operations, are more flexible than others and have different breaking points. In fact, those that have suffered the most are businesses with higher CAPEX. As projects are prioritised, we expect a surge of business models whose lighter cost structures will lead them to survive in the near term. The implication is reaching breakeven and positive returns more rapidly.

According to a May 2019 McKinsey article¹, organisations that came up on top during the Great Recession of 2007-9, and who built resilience, did three things:

- They focused primarily on operational effectiveness by reducing COGS while maintaining SG&A roughly in line with sales.
- Those companies in countercyclical sectors focused on growth, even if it meant incurring costs.
- They created flexibility by cleaning up their balance sheet in order to help them be more acquisitive afterward.

Where will companies look for sources of innovation?

It is not surprising that our respondents clearly see eye-to-eye with those that navigated through the financial crisis of the late 2000's.

With swift decision-making being key, organisations appear to steer towards external innovation, and specifically for those transformational needs, as the major source for their planning.

Expectations are that the coronavirus crisis will make cash-strapped startups and smaller companies increasingly attractive to those larger companies that are ready to deploy their capital.

Several of our respondents foresee that they will become more aggressive buying external innovation and they expect a stream of M&A activity, joint venture agreements and the like.

In comparison to looking inwards and making changes to internal structures and processes, which is typically riddled with fair amounts of lobbying and rigidity, buying innovation will allow companies to react much faster and accelerate the incorporation of innovation into their portfolio.

This opens up the opportunity for transformational investments when they are mostly needed in this environment of extremely high uncertainty. Some are prepared to change their business in a very short period of time. Managing innovation will also be a major challenge to tackle, in other words how to find capabilities, suppliers and where (in their home country or outside).



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How do we plan for the future?

Aka The 5-year plan is dead, long live the 5-year plan.

The world is going through the highest periods of volatility it has ever witnessed. Needless to say, as Covid-19 upended the global economy within a timespan of only a few weeks, it simultaneously managed to turn obsolete most objectives and strategic initiatives in most corporate 3-, 5- or 10-year plans without discriminating against any particular industry or geography.

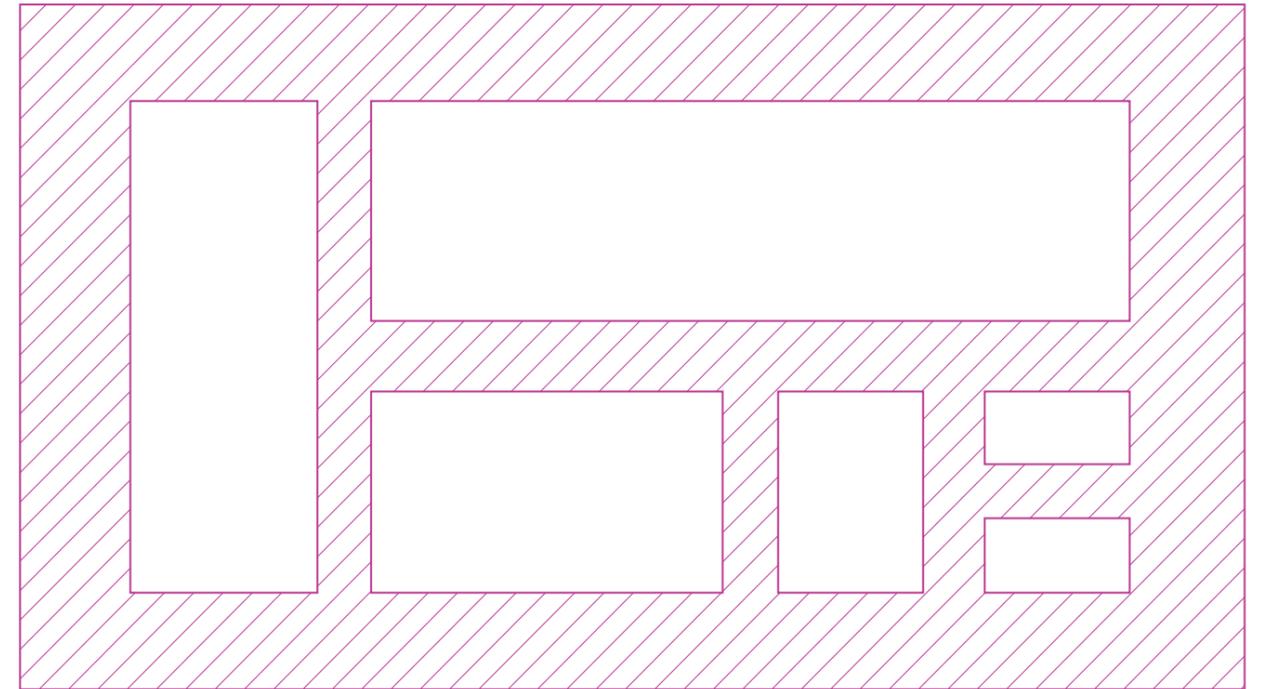
In order to quickly illustrate this volatility let us look at the S&P 500 index. In just 46 trading days, between February 19th 2020, its historic high, and April 24th, the index has seen more than twice the

average volatility that it has experienced during the destructive bear market of 2007-9.

To put it in another way, in those same 46 trading days the S&P 500 saw two of its worst AND best intraday performances ever recorded since the index began in 1933².

So how are companies expected to plan ahead in this type of environment?

Survive today. Coexist with the virus. Embrace the New Normal. It's critical to recognise that any kind of recovery will happen in waves.



Several of our interviewees find that future planning needs to take shape across three distinct phases:

- **Survive Today:** this is the moment to pause, evaluate current initiatives, understand where true value lies and reprioritise and cut costs where needed, all the while ensuring business continuity in core activities.
- **Coexist with the Virus (and general uncertainty):** at the 18-24 months horizon, the priorities are to establish new ways of working as well as to capture value through new opportunities.
- **Embrace the New Normal:** the key

question to pose is what will my industry look like 2 years from now and beyond? and what role will my company play in shaping the industry?

With that said, it is critical to recognise that any kind of recovery will happen in waves. The nature of the impact of this crisis is heterogeneous, occurring at different speeds and geographies, and adding complexity for multinational organisations with multiple business units.

This planning must be a live, ever evolving roadmap, and it is absolutely necessary to set internal procedures and processes that enable quick decision turnaround.



What will this innovation look like?

Innovation can take on multiple forms, and the first initiative that is brought up by our participant is digitalisation, a term that can be unwillingly vague so it is important to be specific.

In our context, digitalisation has a very concrete end result which is the automation of processes and increase of capabilities, be it at the level of the whole business, of a work or sales force, and even on the client side and operations.

One of our interviewee in the pharmaceutical industry predicts that their sales force will considerably shift their time towards conducting their doctor visits online. This will not only open the door for building the digital capability of the internal sales force as well as that of an older generation of doctors (who so far have been resistant in

doing so), but also will allow the pharmaceutical company to aim for a younger segment of practitioners who until now have not been a target.

In fact, companies globally are confronted today with the rare opportunity to engage with their customers in order to address their true needs and address them well.

Another participant, this time a water utilities company, explains that the maintenance of their water supply network relies on a considerably large workforce in the field with no digital capabilities. This new environment has quickly thrust the digitalisation of task planning and control centres upfront and center.

In turn, the objective of this automation and capability creation is to reinforce business resilience, the idea presented

earlier in this article, through which organisations move to safeguard their people, assets and operations.

Furthermore, we note that the speed of innovation is a crucial factor for businesses and consumers alike.

In fact, an innovation manager for one of the major global FMCG groups cites that consumer tolerance for 'imperfect' innovation has dramatically increased. In other words, a minimum viable product (or solution) today creates more value today than a perfected version of the product tomorrow.

We are seeing a similar acceptance in the medical sector, specifically related to regulatory affairs, where governing bodies are adopting a more lenient approach with the objective of making initiatives a reality as quickly as possible.

This was the case of the Oxygen project, an open-source 3D-printed ventilator, led by our partners at Protofy.xyz. Noba Ventures published an article a month ago about the "MacGyver technique" for prototyping, and how the Covid-19 crisis is showing us how to launch businesses and products faster.

Finally, a lot of ink has been spent elsewhere on two very key topics, and which we will quickly mention here.

The first being the topic of e-commerce which is without a doubt the most relevant and urgent innovation, has been

brought forward a couple of years in the priorities list.

And the second is new workspace dynamics and related travel policies. Confinement has officially lifted the stigma off of remote working and the home office. The remote experiment has proven to be successful and companies will increasingly invest in digital tools and design HR policies to allow for more flexibility around remote work and limit unnecessary business travel.

Having said that, the jury remains out over what the physical office will look like. There is a genuine question mark in the mid- and long-term, especially from the large matrix corporations, on the critical role of office spaces where relationships are formed and informal information is shared.

In fact, a recent Randstad study from April 2020 found that 1 out of 3 workers that will keep their job in Spain will adapt their way of working.³

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Who is the owner of innovation within the company?



Regardless of industry or company size, our respondents tend to point to company leadership and the C-suite when it comes to culture of innovation.

Culture manifests itself strongly during tough times and it is the leadership's responsibility to inspire a culture to mobilise, to believe that we can get through this together, to instigate trust in them and provide the sensation that the organisation can look up to someone with experience and that communicates calm and rationality during the storm.

Conversely, this same leadership should be capable of opening up communication channels and provide hope to all levels of their organisation by actively involving them across the 3 phases of planning that we presented earlier: how do we survive? How do we protect our core business? Are the actions we are taking being effective? If not, what should we do instead? what should we do next?

This crisis has generally brought forward the true values of companies, and it made tangible the principles that are behind the words of often generic-sounding vision and mission statements.

A renewed sense of pride and belonging

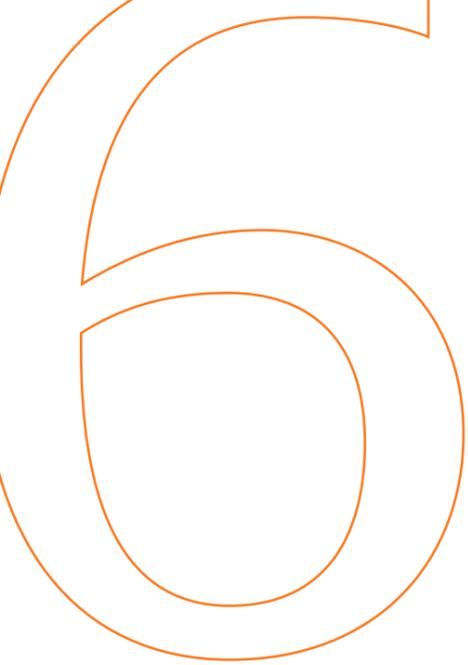
Covid-19 is turning into an opportunity that only innovation can grab by forcing organisations to get out of their usual modus operandi and comfort zones, and by thinking differently.

driven by how companies have managed the crisis, by placing office employees, field personnel, clients, suppliers and partners beyond shareholder's interest.

Employees have gathered together to initiate grassroots programs showing solidarity towards their local and regional communities

Beyond the pandemic itself, Covid-19 is turning into an opportunity that only innovation can grab by forcing organisations to get out of their usual modus operandi and comfort zones, and by thinking differently. As a result, and as we discuss in the following section of this article, innovation teams are expected to gain more weight inside the corporate structure.

A crisis that is handled well is filled with opportunity, by being able to instigate change quickly, prioritise according to levels of urgency and importance.



How do we prepare for future global crises?

The novelty that this crisis brings is a major challenge to those scientific researchers, economists or business leaders that try to build models without the availability of historic data.

A Global Head of Innovation at one of the world's largest insurance companies explains that, in 2017 they collaborated with a California-based startup that specialises in risk analytics that helps improve the world's resilience to epidemics, in order to develop models that predict epidemics and to introduce 'pandemic bonds'.

These bonds offer investors high interest payments in return for taking on the risk of losing a certain amount or all of their money if pandemics occur. One of the

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targets that the insurer had identified are hotel chains and our participant ascertains this initiative was quite a success, as they were innovative at an early stage, followed a clear process and anticipated a need.

He concludes by asking "how do we model the unknown? There is no data nor even the imagination of coming up with the data, so can we rely on analytical models to predict the unknown? We are

currently looking at this, with the collaboration of an Artificial Intelligence startup because there will be more pandemics".

In a May 4 2020 New Yorker article⁴, Ali Khan formerly of the Center for Disease Control (CDC) is asked "Why were most countries—and especially the U.S.—so unready? Was it a lack of scientific information, or a lack of money?" He clearly assigns it to a "lack of imagination".

Our participants offer a few hints of how they would tackle this dilemma.

The first step is to look outwards, and specifically towards those countries or structures that have experience dealing with such crises (for example SARS or MERS) and that operate in very volatile environments, geopolitical or economical. The danger is to become complacent and apathetic once this pandemic is in the rearview mirror.

In the words of Mr. Khan from the same New Yorker article: "A disease anywhere is a disease everywhere".

Second, is to look at innovation teams during times when there is a need to act fast and think differently. In fact, the innovation function is geared towards taking a more central and essential responsibility in the organisational chart of companies, and resources will

gradually be allocated to developing and finding talent, increasing the sophistication of innovation departments.

In parallel, finding new ways and dynamics of working are accelerated, relationships are to be reevaluated, and work spaces redefined.

Finally, these innovation teams' goals beyond protection of the core business is to drive diversification into business categories whose performances are independent of each other.

The first step is to look outwards, and specifically towards those countries or structures that have experience dealing with such crises. Second, is to look at innovation teams during times when there is a need to act fast and think differently. Finally, these innovation teams' goals beyond protection of the core business is to drive diversification into business categories whose performances are independent of each other.

Positive Impacts and Conclusions

At the time of writing this article in May 2020, the European Central Bank has updated its GDP forecast for 2020 expecting a minimum contraction of 5% in the 27-member zone, the US has just surpassed 1 million coronavirus cases with no slowdown yet in sight, and record unemployment claims have surged all over the globe, while a war of words has erupted between the Trump administration and China over the origins of the virus.

It is challenging in this kind of environment to see the silver lining. However, and on the whole, our participants are optimistic and excited about the opportunities that lie ahead with the help of innovation, reinvention and imagination.

On the one hand, the current situation has accelerated a process of digital transformation that would have otherwise taken years.

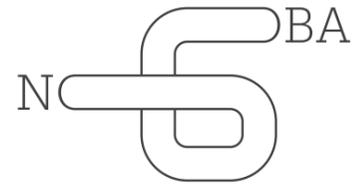
The current situation has accelerated a process of digital transformation that would have otherwise taken years. A sense of urgency has proven that both customers and companies are happy with “imperfect-but-now” solutions, which strengthens a culture of agile development. Most of the participants have agreed to the need of creating a corporate culture to embrace these changes.

The digitalisation of distribution channels, a culture of remote working and online networking are just some examples of developments that were long overdue for the majority of our interviewee's organisations. This could translate into a jump in worker productivity, which has long suffered meagre growth.

Secondly, the very methodologies of innovation are being transformed. A sense of urgency has proven that both customers and companies are happy with “imperfect-but-now” solutions, which strengthens a culture of agile development. We can expect some corporations to continue to embrace this process. Allowing for a fail-fast approach will certainly ensure more customer-driven businesses.

Lastly, most of the participants have agreed to the need of creating a corporate culture to embrace these changes. A culture that embraces uncertainty and new ways of working will certainly prove to be more resilient.

Companies will need to ask themselves: what is our overall culture? Are we empowering our teams to embrace innovation? Do we have the capabilities and processes to train talent? Preparing to innovate is innovation in itself.



At NOBA, we create and launch new businesses. We have developed our own business prototyping methodology by combining lean startup, fast prototyping, and agile processes. We apply it for corporates, for our own business factory and with our partners.



Built on the founding pillar of #StartupsFirst, "Startup Réseau" is a network of Startups, Enterprises, Capital, Markets, and Services - bringing in a structured interface for enabling unique linkages. Startup Réseau is the entrepreneurial venture of 2 professionals from the startup ecosystem, who have earlier successfully built India's top meta-accelerator. The founding team boasts of rich and diverse experience, and a global network of startup ecosystem enablers, founders, investors, corporations, universities and governments.

A special thanks to



Author

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Sources

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² Prof. Javier Estrada - IESE webinar - April 28th 2020

³ *La tecnología modificará el 30% de los empleos tras el confinamiento Flexib* - Randstad.es

⁴ *Why Weren't We Ready for the Coronavirus?* - NewYorker.com

