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Rethinking Businesses

Digital transformation as the key to revival after the pandemic

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Abstract

The pace of digital transformation in companies is set to accelerate as a result of the pandemic. Past data has shown that companies can very often do better by adopting technologies. This impact paper argues that digital transformation is a key pathway for companies to recover and rebound from the pandemic. It highlights where businesses can deploy digital solutions to make quick wins. Considerations on how digital technologies can be applied are also discussed.

Keywords: Digital transformation, AI, Operational improvement, Automation, Processes

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“There are decades in which nothing happens, and there are weeks in which decades happen,” Lenin once said. While he was probably not thinking of a pandemic when saying this, the description is not far removed from what we have been experiencing since the beginning of March. Throughout the lockdown, companies have been busy handling urgent matters, such as protecting and furloughing jobs, as well as managing costs and cash.

Yet, now is also the time for businesses to prepare for the rebound and rebuild, if not completely rethink how they could charge into the unknown future. This could be a well-rewarded pursuit. A recent study finds that in the previous four economic downturns, some 14 percent of companies managed to increase both their sales growth rate and EBIT margin despite the challenging circumstances (Reeves et al., 2019). So, clearly, it is possible to thrive in tough times. For certain, there are always winners and losers in every economic crisis – video streaming, e-commerce and online collaborative tools have been doing brisk trade during the lockdown while airlines, brick and mortar retailers and conference organisers have suffered deeply, if not irrecoverably. Yet, making and breaking in the future is neither pre-destined nor pre-determined: with the right mindset and strategy, companies can gain advantages in adversity.

Digital transformation likely represents a crucial means to recovery and revival. Evidence of companies stepping up their efforts in such activity is accumulating. A new survey reveals that 38 percent and 31 percent of managers answered “we need to re-evaluate” and “we are taking steps to change”, respectively, when responding to how the coronavirus event is affecting their decisions on digital transformation (EY, 2020). In another study, 70 percent of executives surveyed in Austria, Germany and Switzerland claimed the pandemic had pushed them to accelerate the pace of digital transformation within their firms (Malev, 2020). These findings are not surprising: companies that are more aggressive in digitalising their activities are more likely to end up achieving superior economic performance (Bughin *et al.*, 2017). Thus, in the post-pandemic marketplace, any businesses intending to operate in the “business-as-usual” fashion will have a higher chance of slipping behind, watching their technology-driven rivals pushing ahead and thriving.

Areas for digital transformation after the pandemic

The pandemic has mercilessly and forcefully altered the entire competitive landscape and rewritten many business rules. To excel in the new normal, companies must consider redoubling their efforts to embrace digital solutions. Companies can differentiate themselves through three broad categories of digital capability: customer experience, the business model and operational processes. In practice, however, the first two areas may not confer competitive advantage in the short run. In contrast, putting technologies into improving processing activities can often lead to quicker results. The pandemic and imposed lockdown have unveiled at least three operational dimensions that are ripe for improvements with digital technologies:

Cash (management) is always king. The instant economic crisis has laid bare just how critical cash preservation and management is in the fight for economic survival. The ability to get hold of cash provides a better guarantee for companies to weather future downturns. Technologies can, for example, be used to assess customer credit risk. Re-ordering algorithms, on the other hand, can help optimise inventories, thereby releasing cash for other purposes. At the same time, companies can automate payments and billings to stretch accounts receivable and payable terms to the fullest.

Company-wide remote working is (actually) possible. According to a survey conducted in the US, only one third of people were working from home before the pandemic (McKeever, 2020). The global lockdown has sent millions of employees to work from home. Surely, there are no shortage of challenges raised by this new mode of working, but the experience has made it clear that remote working is a viable, if not desirable, alternative and some companies are now questioning the need for office space (Thomas *et al.*, 2020). At the same time, employees may come to realise the benefits of home-based working and demand to keep on doing so. Mobile and collaboration technologies can free workers from desks, paper reports and status meetings and help them act together like a well-rehearsed orchestra.

Resilience is more important than efficiency. Companies in past decades have been obsessed with the pursuit of efficiency, building systems that seek to maximise it. Yet, this has also made the systems fragile. It is now clear to many that there is always an optimal level of slack for any business system – and that level is not zero. As it turns out, slack in the right amount contributes to greater resilience. In other words, the opposite of efficiency is not inefficiency; it is robustness. Current technologies offer businesses in all industries plenty of opportunities to make their operations more robust. They can range from something as small as a very “dumb” Internet of Things device (that requires no batteries) to track and manage assets¹ to establishing a full-scale blockchain to simplify the running of supply chain (Orcutt, 2020).

Considerations for digital transformation

Just as the pandemic has highlighted *where* digital improvements can be made, it has also lent insight into *how* to best prepare for the new normal.

Start with automating repetitive processes. Companies that are introducing a novel technology for the first time should concentrate on using it for operational improvements. For example, one of the best spots to deploy artificial intelligence (AI) is to use it to replace tasks that are costly, routine and labour-intensive (Tse *et al.*, 2019). This is because it is far easier to establish – and achieve – the expected return on investment through cost savings. Indeed, as the UK CEO of a global insurance giant once pointed out to me, such savings are subjected to increase as operation scales up.

Understanding operationalisation is more important than the technologies themselves. It is easy to forget that technologies do not work in a vacuum. Take, for instance, deploying AI. All too often, managers subscribe to the mistaken view that having the most sophisticated AI models is the way to gain the most benefits from this technology. Yet,

¹ An example is Meshtrack, which draws power from the surrounding lighting. It is a chip that is so cheap and small, making it possible to be placed in small items such as hand tools and personal equipment (<https://www.ximplar.com/products/meshtrack/>).

such a model, no matter how powerful it is, is worthless if it cannot be properly integrated into the larger business system. As an analogy, an AI model is like a performance car engine. But what any business is ultimately after is the ability to get from point A to point B, not an exquisite piece of engineering. To do so, the rest of the vehicle is necessary to make the journey and maximise what the engine can offer. Therefore, AI operations (AIOps for short) – the rest of the car – is of paramount importance to capture the value that the AI models can provide.

Think how the business portfolio can be enhanced. Many companies see crises as things to be coped with. But this should not be the case. Naturally, with so many immediate issues to resolve, it may be difficult to hold a long-term view and come up with a strategy for such a horizon. In a similar fashion, technological solutions should not merely be used for quick (cost-cutting) wins. Companies should rethink how digital transformation can take place at the corporate strategy level. By creating new priorities and technology-driven strategies for different parts of the business, companies have a much better chance of identifying and supporting new growth pillars, as a direct result of the world's heightened acceptance and usage of technologies due to the pandemic.

Conclusion

In April 1815, the eruption of Mount Tambora in today's Indonesia was the largest ever recorded. It also created a significant amount of ash and dust. In 1816, Europe suffered from an unseasonably cold summer (partially due to the eruption), following the end of the Napoleonic War. The aftermath: as food prices soared, millions of people – and horses – died from disease and starvation. Yet, it took this calamity for a new technology to emerge: the *Laufmaschine* was invented to replace horses. This, in turn, ended up as the bicycle we know today. The current pandemic should be no difference. It could lead to novel technologies, opening up new possibilities and crafting surprising propositions. How – indeed, whether – this can happen depends on how willing firms are to experiment with new technologies and to quicken the pace of digital transformation. While it is hard to tell what lies ahead of us, it is clear and certain that companies should seize this moment and step up their efforts in digital transformation.

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