Shifts in the Low Touch Economy

updated reports and insights on boardofinnovation.com/low-touch-economy
The Low Touch Economy is here to stay.

The post-Covid19 era will have an economy shaped by new habits & regulations based on reduced close-contact interaction and tighter travel & hygiene restrictions.

The current disruption will change how we eat, work, shop, exercise, manage our health, socialize, and spend our free time - at an unprecedented rate of change.

In this report we look at:
1. Why our world will be very different
2. 10 Examples of expected shifts in consumer behavior, and opportunities for businesses
3. How different Industries are impacted
4. What to do now
Disclaimer

While managing the current health crisis is the first priority, this report focusses on preparing for the mid and long term ripple effects.

Until there is a vaccine or herd immunity, the base case scenario is a continuous up and down of disruptions in how we work and live for the coming 2 years, resulting in new habits long after.

*Imperial College estimate: period impacted 12-18 months (Summary report @ ft.com)
Adapt your strategic response

Covid-19 Strategy Matrix
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<table>
<thead>
<tr>
<th>SEVERITY AND DURATION OF ECONOMIC IMPACT</th>
<th>IMPACT ON YOUR ORGANISATION</th>
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<tr>
<td>GDP forecast / Pandemic evolution / Economic policy</td>
<td>Direct impact of Covid-19 / Indirect impact of economic recession / Ability to adapt fast</td>
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<td>0.5 year impact</td>
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<td>Severe Sustained revenue loss of 15-50% in Q2-4 2020 e.g. Oil and gas</td>
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<td>Catastrophic Sustained revenue loss of +50% in Q2-4 2020 e.g. Tourism</td>
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Note: strategic response also depends on cash position, competitive position and industry attractivity.
Part 1: Why our world will be very different.
In search of positive change.
Rules/policies will swing up & down.

- Limited gatherings
- Travel restrictions
- Hygiene requirements
- Protecting vulnerable groups
- ...

New habits & behaviors will stick.

- Remote working
- Mixed work/life balance
- Access to e-commerce & logistics
- E-health
- ...

Top Down Enforced
Hundreds of ongoing A/B experiments globally. Best practices will be copied to other regions and industries.

Bottom Up Embraced
Both people and organizations will discover the benefits of a new way of living and working, challenging traditional business and lifestyle norms.
Expect many after-shocks.

The second order effects of many unprecedented shocks are still unfolding.

- 1/3rd of the global population in some form of (temporary) lockdown.
- Mass unemployment rates will be followed by mass bankruptcies, bail-outs,…
- Geopolitics: Closed borders and new laws fuelled by existing xenophobia & populism.
  - …
Going back to a (new) normal will not be easy.

China Room Nights Booked Index
Volume of Room Nights booked across Shiji Distribution Solutions customers in China during COVID-19 epidemic

China / Society
Coronavirus: Chinese cinemas told to close just a week after reopening

- China Film Administration issues notice on Thursday as government seeks to prevent a new wave of Covid-19 cases, after locally transmitted infection is reported in Zhejiang
- Cinemas in some parts of the country did reopen on March 20, but film-goers’ joy was short-lived

Jun Mai
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We share regular updates to help you navigate the unknown.

Download all reports & materials here: boardofinnovation.com/low-touch-economy
Part 2:

**Expected shifts in consumer behavior**

early signs and open questions
Gradual shifts that were happening over time will now accelerate to become more immediate behavior change.

Police helmets with Infrared vision (China)

F1 switched to esports, with real drivers.

Indoor delivery robots (Aloft hotel Detroit)
This report zooms in on 10 shifts driven by changes in human behavior. Shifts will happen on many fronts.

- **Geopolitics**
  - e.g. Protectionism

- **Macro-economics**
  - e.g. Limited access to capital

- **Regulation**
  - e.g. New privacy laws

- **Human behavior**
  - e.g. Immune certification

- **Industry dynamics**
  - e.g. Supply chain disruptions

- **Technology**
  - e.g. Contactless everything
<table>
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<th>10 shifts in this report</th>
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<td>Optimized work from home setups, beyond typical office jobs</td>
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<td>Rising tension &amp; conflicts at all levels</td>
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<td>Unprecedented levels of global unemployment</td>
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<td>Take out/home delivery everything</td>
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<td>Limited contact with older generations</td>
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<td>Our identity is more than our job</td>
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<tr>
<td>The value of certified immune consumers</td>
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</table>
Even more anxiousness/loneliness and depression

Unfortunately, many people will feel more isolated, will lose their job, get confronted with sickness, face relationship issues,… if not all at once.

WHAT TO EXPECT:

There will be a tremendous need for (remote) therapy and coaching. Certain regions already see a rise in demand for pets and animal companions. Also, online social games/tools are booming. (e.g. Houseparty, Discord,…). Do note that many tools were not designed for new use cases. e.g. Online Dating via Zoom anyone?
Damaged trust in hygiene of people and products

With the viral nature of Covid-19, consumers and organizations are becoming much more careful about the people and products they interact with. Both people and organizations will expect formal proof of hygiene and current health status.

WHAT TO EXPECT:

This can result in packaging redesigns, sharing of personal health records and temperature, retail/hospitality formats with free service add-ons focused on cleanliness, Preference of science-forward products over ‘natural’, Contact-free deliveries and drop-offs.
Extended travel restrictions, even within a country

Travel and tourism may have seen the biggest impact as an industry. Travel feels like a risk for consumers who may not be able to get back to their home, or are unsure if they’ll be covered in a foreign land should another outbreak occur.

WHAT TO EXPECT:

Local tourism will flourish of course. Traveling abroad might be only worth the effort for longer extensive holidays, taking a period of quarantine into account. Potentially combining travel with remote work. The rural and remote will become luxury escapes.
Optimized work from home setups, beyond typical office jobs

Home takes on a whole new meaning as individuals and families figure out new ways to balance their work-life needs within the confines of their space.

WHAT TO EXPECT:

Companies tight on cash will reduce office space and infrastructure. Expect setups at home that go far beyond a second screen. People will bring in special equipment, machines, and advanced video/audio setups to accommodate this change in lifestyle. Policies and new insurances will need to follow.
SHIFT 5/10

Rising tension & conflicts at all levels

Many organizations and people are operating in survival mode. While doing so, many might breach contracts or regulations along the way.

WHAT TO EXPECT:

Google search trends already showed a spike for “Force Majeure” (superior force). Legal battles will pop-up everywhere. At the same time, lawyers are shifting to a digital way of working. This will trigger more tools to automate legal work to operate at scale.
Unprecedented levels of global unemployment

Many will be forced to rethink their career, as switching to another struggling competitor in the same industry is not even an option.

WHAT TO EXPECT:

Remote reskilling and training will see a peak. At the same, many might switch to an entrepreneurial side business to boost their family budget. Both options will bring valuable experience once the economy catches on at a later moment in time.
Take out/home delivery everything

Many retail businesses and product distributors will need to switch to delivery and/or remote-first. Regular retail will not vaporise, but evolve.

WHAT TO EXPECT:

Expect more specialized delivery solutions (e.g., drop off points for frozen/cooled food). More advanced supply chain optimizations. (e.g. multiple shops bundling deliveries to the same household or street). VR shopping and mass drone deliveries will not be a thing yet, sorry. :)
Limited contact with older generations

Until a vaccine is available, interaction with +65-year-old people will be severely restricted. People will need to rethink social gatherings.

WHAT TO EXPECT:

While digital adoption will be accelerated quite soon, it will be the normal day-to-day activities that will need to be redesigned. Special retail options? Tweaked ceremonies/rituals (e.g. large weddings). Rise of communities for those with special needs or of a certain age.
Our identity is more than our job

For many, your profession and role is a significant part of who they are. Mixing work and private life debunks this superficial layer. Only now many are getting to know their colleagues at a deeper level, live stream from their bedroom at a time.

WHAT TO EXPECT:

In normal times, fashion is one element to shape and communicate your preferred identity. When there is less physical interaction, digital altering of your video interaction can partially replace this. (Notice how Twitch streamers are customizing their ‘live stream room’). More experiments with digital alter egos will pop up.
The value of certified immune consumers

If your business model relies on packing many **people in tight spaces**, there is no light at the end of the tunnel (cruises, theaters, events/festivals, …)

**WHAT TO EXPECT:**

Rise of solo dining booths or human-free interactions (e.g. robot waiters). One way out could be the rise of a new consumer segment with an official health record to prove an immune status. Would you market only to these people? This would be **uncharted territory** for most industries; although it might be a good alibi to keep your eye on the **adult entertainment** industry. For decades they have managed the spread of HIV & STDs in their industry.
Part 3: How different Industries are impacted
A sharp and unprecedented drop in demand will have ripple effects deep in the value chain.

Restaurant visits drop close to zero ➔ Less alcohol consumption ➔ Beer breweries under pressure ➔ … ➔ Farmers lose revenue as well

*some of these companies might even go bankrupt, leading to more unemployment, leading to even less demand in the market. That is the vicious circle of a recession, and could be broken by a massive fiscal and/or monetary stimulus.
## Industry impact analysis

<table>
<thead>
<tr>
<th>Covid-19 Industry Impact</th>
<th>Large gatherings are essential</th>
<th>Close human interaction is essential</th>
<th>Hygiene, or perception thereof, is critical</th>
<th>Dependant on travel (business and leisure)</th>
<th>Service or product is postponable or expendable</th>
<th>Impact analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism and hospitality</td>
<td>Very high</td>
<td>Very high</td>
<td>High</td>
<td>Very high</td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td>Sports</td>
<td>Very high</td>
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<td>Medium</td>
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<td>Music</td>
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<td>Automotive</td>
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<td>Pharmaceuticals</td>
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Note: Detailed impact analysis per industry in dedicated reports.

If characteristic is present in your or your clients’ business, impact is negative (unless you successfully pivot).

Industry characteristics

- **Tourism and hospitality**: Very high impact due to the essential nature of large gatherings and close human interaction.
- **Sports**: Very high impact due to close human interaction, but medium impact due to hygiene concerns.
- **Music**: High impact due to close human interaction, but medium due to hygiene concerns.
- **Automotive**: Low impact due to the absence of close human interaction, but high due to hygiene concerns.
- **Beverages (Alcohol)**: High impact due to hygiene concerns.
- **Retail (non-food)**: High impact due to hygiene concerns.
- **Pharmaceuticals**: Low impact due to hygiene concerns.

Industry impact analysis (Covid-19):

- **Tourism and hospitality**: Very high impact
- **Sports**: High impact
- **Music**: High impact
- **Automotive**: High impact
- **Beverages (Alcohol)**: High impact
- **Retail (non-food)**: High impact
- **Pharmaceuticals**: Low impact
Impact on industries:

Over the past 12 months, I reduced my expenditure in this category
(Percentage of respondents who agreed or strongly agreed)

- Household products: 21%
- Health care (drugs, supplies): 22%
- Food at home: 23%
- Health and beauty products: 25%
- Mobile/cellular phone service: 26%
- Utility bills and services: 28%
- Nonalcoholic beverages: 31%
- Tobacco: 31%
- Financial products and services: 33%
- Pets, toys, and hobbies: 37%
- Alcoholic beverages: 42%
- Home improvement: 44%
- Media and entertainment: 51%
- Apparel and clothing: 53%
- Consumer electronics: 53%
- Food away from home: 58%

Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

How did consumer spending drop after the 2008 crisis?
Impact on industries:

What is currently happening in China?

Normal online penetration (including O2O)

Year-over-year sales growth during first 13 days of 2020 Lunar New Year

Notes: Size of circles represents GMV for first 13 days of 2020 Lunar New Year. Luxury beauty includes cosmetics and skin care products (this definition is based on price segmentation instead of product type).

Tmall ecosystem includes Tmall, Tmall Int'l and 淘宝直播 (1-hour O2O delivery).

Sources: Alibaba Tmall; Bain analysis; Bain and Kantar Shopper Report
Part 4: What to do now?
## Define your strategy

### Covid-19 Strategy Matrix

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Note: strategic response also depends on cash position, competitive position and industry attractivity.

### Impact on your organisation

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| **1.5 year impact** |
| **U-curve** recovery; Social distance measurements prolonged, economic stimulus eases damage |
| **Push for growth and market share** |
| **Defend, improve competitive position, and find new growth** |
| **Pivot through organic innovation and inorganic growth, or divest** |
| **Prepare for aggressive new entrants. Reinvent and create totally new position, or abandon** |

| **3 year impact** |
| **L-curve** recovery; Failed pandemic control, and wide-spread bankruptcies and credit defaults |
| **Aggressive push for growth and market share** |
| **Defend, improve competitive position, and find new growth** |
| **Prepare for aggressive new entrants. Reinvent and create totally new position, or abandon** |
| **Abandon market** |

### Severity and duration of economic impact

- **GDP forecast**
- **Pandemic evolution**
- **Economic policy**

### Note:
Define your strategy
Switching from defense

Mitigating the biggest risks is crucial, from a health & safety, operational as well as a P/L point of view. This is an ongoing effort.

to offense

But it’s time to prepare for the next phase. Industries that were stable for a decade are now wide open to turn around.

Fast and decisive movers will win.

During the recession, Sanofi, the French pharmaceutical company, increased its absolute R&D expenditure from €950 million in 2000 to €1.3 billion in 2003, to keep its product pipeline robust. The company gained market share and outperformed peers in the stock market. Afterwards the company was well positioned to acquire Aventis, a much larger Franco-German pharmaceutical company, after a takeover battle, in the economic upswing of 2004. (HBR)

The outbreak of SARS was a pivotal moment that put Alibaba on its path to becoming a $470 billion e-commerce behemoth. (CNBC)

Cosmetics company Lin Qingxuan was forced to close 40% of its stores due to Covid-19. The company redeployed its 100+ beauty advisors from the stores to become online influencers who leveraged digital tools, such as WeChat, to engage customers virtually & drive online sales. As a result, its sales in Wuhan achieved 200% growth compared to the prior year’s sales. (HBR)
## What to do now?

<table>
<thead>
<tr>
<th>Already ongoing</th>
<th>What to do now</th>
<th>What to do in 3 weeks</th>
</tr>
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<tr>
<td>Short term defence</td>
<td>Mid term mitigation</td>
<td>Long term growth</td>
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<tr>
<td>Weeks 0-3</td>
<td>Weeks 3-6</td>
<td>Weeks 6-…</td>
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### DEFENSE
- Align senior leadership & set up PMO
- Protect health & safety of your employees and customers
- Run macro-economic and micro-economic scenarios on your P/L
- Keep your operations afloat
- Understand mid to long term impact
- Protect your revenues
- Define re-budgetting, and implement cash preservation measurements
- Stabilize your operations (e.g. supply chain, manufacturing)
- Monitor actuals vs. scenarios, and adjust accordingly
- Roll-out re-budgetting and divestments
- Bring your operations to a new normal for the coming 18 months

### OFFENSE
- Understand the new economy, and the growth opportunities it brings
- Develop a strategy on how to outperform competitors
- Plan to pivot or develop products/services/markets/business models
- Invest in growth areas
- Develop M&A plan
- Pivot your existing portfolio
- Develop new products/services/markets/business models
Now is the time to invest in innovation & R&D

The 100 most innovative companies spend even more on R&D during a recession, while others were stalling. In the long run, these investments are paying off in profitability & growth.

Gartner looked at 30 F1000 companies that accelerated during the crisis of 2008. All of them invested in new growth options instead of just cutting costs.

Also, Bain & Company came to a similar conclusion after analyzing 5000 companies over 10 years. Growing outside of the core business was named as one of the strategies to win.
# Set up your new economy growth initiative

<table>
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<tr>
<th>Asses the impact</th>
<th>Develop the strategy</th>
<th>Go on offense</th>
<th>Make it happen</th>
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<tbody>
<tr>
<td><strong>2-hour Impact session</strong></td>
<td><strong>Growth strategy</strong></td>
<td><strong>Develop opportunity pipeline</strong></td>
<td><strong>Run new business sprints</strong></td>
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<tr>
<td>What is the Low Touch economy, and how will it impact industries?</td>
<td>How can I grow in the Low Touch economy, and outperform competitors?</td>
<td>Develop a short-term pipeline of new business opportunities, driven by new customer behaviors</td>
<td>Run weekly sprints</td>
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<td><strong>Impact monitoring</strong></td>
<td><strong>Pivot your portfolio</strong></td>
<td><strong>Develop M&amp;A roadmap</strong></td>
<td><strong>Launch new proposition or business model</strong></td>
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<tr>
<td>How will my customers, market, categories, and business overall be impacted in the mid to long term?</td>
<td>How should I repurpose my investments to the right growth initiatives?</td>
<td>Scan for inorganic growth opportunities</td>
<td>Design, develop, and launch a new proposition to market</td>
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<td><strong>Hire a growth team</strong></td>
<td><strong>Hire on-demand reinforcements for your teams</strong></td>
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All feedback is welcome!
Authors: Nick De Mey, Philippe De Ridder

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