The Corona Disruption: Adaptation is the Key to Survival

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The COVID-19 crisis has changed our lives tremendously overnight. It has impacted the way we live as a society, how we educate our children, and how businesses operate. Even though we experience this disruption in our lives as unique, disruptions of businesses and whole industries are historically not uncommon. We have seen disruptions in the industrial revolution in the early 20th century and in the digital revolution that started with the commercialization of the internet in the early 1990s. Yet, the disruption of a vast amount of industries during this pandemic is something we have not experienced since the Second World War. Some industries such as tourism and hospitality, sports, childcare, and the entire education industry have been hit particularly strong by this pandemic and had to transform from an almost exclusively analog to a digital industry within a few weeks. We see similar disruptions in almost all other industries, which is depicted in the fact that between 39% and 54% of all companies (depending on the federal state) in Germany applied for short-time work in April 2020, without knowing when they could go back to business as usual. Although the state has loosened several lockdown rules in June 2020, we have yet to see how the economic repercussions of this pandemic develop. It is, however, likely that Germany, and the rest of the world, will enter a recession which will force many organizations into survival mode.

Adaptability – the Key to Survival for Any Company

Before this pandemic, strategic questions for many businesses evolved around how to further grow and expand existing business models and profits by winning more customers and by cooperating with other partners. Now during this pandemic, the most important strategic question for most businesses is focused on how to survive. Like all crises and change situations, the most important ability for organizations is their ability to adapt to new circumstances, by adjusting their business models, organizational processes, structures, and leadership skills. We know from past organization research, that adaptability, which is closely connected to organizational resilience (i.e., the ability of organizations to survive and even prosper in challenging, unstable, and uncertain conditions), is the key to organizational longevity, even in times of crises. In this article, we outline some ways leaders and managers of businesses can successfully adapt in times of crises and show some real-world examples from the past and today.
Dynamic Capabilities Enable Company Longevity

In their groundbreaking study from 1997, Teece and colleagues showed that dynamic capabilities (i.e., the capabilities of an organization to adapt quickly and adequately to external changes) are the key to an organization’s ability to adapt. By developing dynamic capabilities, firms can respond to fast-moving, competitive, turbulent, and uncertain environments. While most of the companies, due to digitalization and globalization, have already experienced environments like these, the current pandemic has made environments even more turbulent and uncertain. We do not know what the world and the economy after this pandemic will look like. Yet, we know from past crises like the financial crisis in 2008, that companies that have dynamic capabilities, or that were able to develop these capabilities, have better chances to survive.

Companies Need the Ability to Sense Opportunities and Threats Early

According to Teece and colleagues, dynamic capabilities can be divided into three abilities. First, the ability to sense opportunities and threats. To identify and shape opportunities, companies must constantly scan, search, and explore across technologies and markets. Thereby, companies should identify pain points for the customer, proactively develop hypotheses on how these pain points could be addressed and determine how value could be created for the customer. Identifying pain points for the customers goes deeper than just asking them what they want, because oftentimes customers do not know exactly what they want but can know what they don’t want. Then, companies should abductively develop alternative hypotheses on how these pain points could be diminished and test these hypotheses with customers. If their solutions are supported, organizations will prosper, because they add value for the customer; if they are not supported, organizations can adapt their solutions, develop new hypotheses, and test them again as long as solutions finally work and add enough value for the customer.

An example of “sensing” in the COVID-19 crisis comes from the healthcare sector. Before the crisis, doctors’ offices around the world were typically always crowded. During the crisis, many patients did not go to their doctors due to the fear of becoming infected with COVID-19. Particularly specialized doctors, whose treatments are often not essential for survival lost many patients. At the same time, telemedicine providers sensed an opportunity: by providing healthcare consultation over the phone or via videoconference, telemedicine providers sensed this gap as an opportunity. As a result stock prices, like that of Teladoc, the market leader for telemedicine, skyrocketed. Even though patients started going back to their doctors’ offices since public regulations have been loosened, the crisis gave telemedicine providers a huge
business opportunity: patients saw that it’s not necessary to go to the doctors’ office for every health issue they have, but that they can get consultation oftentimes more convenient by a teledoctor instead.

Companies Need the Ability to Seize Business Opportunities Even If It Means Cannibalizing Their Core Business

Second, the ability to seize means developing products, services, or business models in a way that satisfies customers’ needs fast. This also means experimenting by including customers' opinions and learning from failure. There are several model examples where solutions were found from continuous experimentation through trial and error, like the development of penicillin, but also like the start of AirBnB. AirBnB was founded by Brian Chesky and Joe Gebbia, who could not afford their apartments’ rent in San Francisco and therefore rented it out to travelers during a conference in the city. From these experiences, they gained valuable insights into what customers want and need. Eric Ries formed the concept of “the most viable product” in his book “Lean Startup” by referring to a product or service that doesn’t have to be perfect when delivered to customers but should be delivered to customers early in order to further develop it in tandem with customer feedback. Although this is a promising concept, we have to acknowledge that this approach should not be applied by companies that are in industries where safety is a key factor, like aviation, pharma, or airbag software. Yet, these companies can find other solutions, like opening their innovation streams and sharing their data with the public to speed up development processes and to increase the awareness for experimentation inside the company. Especially in times of crises, like this pandemic, where the need for different products or product delivery becomes evident, systematic experimentation can help companies to find new value-creating product-market combinations. For instance, amid the COVID-19 crisis in Canada, the pharma company Roche opened up by initiating an open innovation challenge to work with the Canadian community and to develop original and customer-appreciated solutions that address the challenges of the pandemic.

Companies Need the Ability to Transform to Remain Relevant

The capability of transforming is a third ability of companies. This refers to renewing company processes and maintaining their relevance to customers. This capability requires managers to constantly streamline, improve, and alter organizational practices (almost) in real-time. Transforming is key to creating sustainable, innovative growth and often means entering unknown territories. For instance, Apple entered the previously unknown telephone market with
the launch of the first iPhone in 2007 and thus transformed its business successfully, despite the financial crisis of 2008, which started a year after the launch.

**What We Can Learn From History: There Is Economic Opportunity in Economic Crises**

By looking at companies that survived, and even thrived, throughout crises of the past, we can see that a common similarity between them was their ability to adapt by making use of dynamic capabilities. For instance, in the late nineteen-twenties, the two companies Kellogg and Post were the market leaders for packaged cereal. When the Great Depression started to hit the economy in 1929, both companies faced strong declines in customer demand. To respond to this crisis, Post did what most companies would do when facing such a situation: the company cut expenses and advertising budgets trying to compete on process and efficiency excellence. In contrast, Kellogg sensed that they could win market share from their competitor that cut costs in the crisis by offering greater value through new and original product-market combinations. They seized this opportunity by aggressively marketing their new products and they transformed from a pure manufacturer to a company with strong competencies in branding, advertising, and marketing. As a result, by 1933, even as the economy crashed, Kellogg’s profits had risen almost thirty percent and it became the industry’s dominant market leader.

Similarly, during World War II, many consumer goods companies were suffering due to the strong focus on the defense industry. Yet, Nestlé sensed an opportunity by understanding that soldiers need different food and drinks than people back home. They needed rations that could be prepared quickly and have long durability. They seized this opportunity and approached the US army to provide them with their recently developed instant coffee: Nescafé. In fact, during the war, Nescafé became one of the most sold products of Nestlé and remained so for a long time after the war. The product was not only an accelerator for Nestlé to thrive during the crisis but it was also a trigger for the company to transform from a rather mid-sized milk powder and chocolate producer to one of the largest food producers of the world.

More recently, in the financial crisis of 2008 and 2009, Lego was one of the few companies that thrived. They sensed an opportunity: parents were spending less money on toys for their children but looked for high quality, longer-lasting toys. Before the crisis, Lego had expanded into various non-core areas (e.g. watches, theme parks) and almost went bankrupt. During the crisis, however, Lego seized on the opportunity they saw in the crisis by refocusing on their core competence of building high-quality Lego bricks. They transformed their business accordingly and have now become a global player selling Lego bricks all around the world.
How Some Organizations Are Already Adapting in the COVID-19 Crisis

Even though it is too early to make statements about organizations that might thrive, we can observe how companies try to adapt to survive the COVID-19 crisis. For instance, the already huge tech-giant Amazon could be one of the biggest winners of the COVID-19 crisis. Even before the crisis, Amazon sensed an opportunity in the US healthcare market. The US hospital and health insurance markets are two of the biggest industries in the US with over 2 trillion USD market volume and a huge potential for digital disruption and transformation. Amazon entered these two markets: Telemedicine with its new business “Amazon.Care” and health insurance by entering a joint venture with Berkshire Hathaway and J.P. Morgan. By doing so, Amazon might not only increase its revenues significantly but could also collect more data on its customers to better tailor their products to specific customer needs. Hence, Amazon will likely continue to transform from a retail disruptor in its early beginnings to the data giant of the Western world.

While Amazon has the advantage of huge operating profits, which help the company to navigate through crises, other companies with fewer resources are forced to get creative and adapt to the crisis. For example, the fitness tracking gadget manufacturer Huami has sensed the opportunity of people becoming more health aware and health anxious during the COVID-19 crisis. People want to get more information about their health and to be able to detect some symptoms of the COVID-19 virus early. Hence, Huami seized on this opportunity by shifting their focus on developing an early-warning signal to flag respective anomalies as they occur. Similarly, the American discount retailer Target saw that the pandemic might be a good opportunity to increase its online offerings and to regain market share from Amazon. They recognized that Amazon has problems in addressing the booming demand, which has led to shipping delays and shortages for customers. Therefore, customers are looking for other online channels to get their products. Target was a big beneficiary of this development, as its online business has almost tripled in April 2020. This makes the company one of the big winners in the retail market, a market that overall has suffered significantly during the COVID-19 crisis. Finally, with tourism hitting rock bottom and people being locked in their homes, the Kenyan wildlife safari provider Ol Pejeta Conservancy also sensed an opportunity: people from all around the world are stuck at home and miss the pleasures of lives that they used to enjoy. To address this desire, Ol Pejeta Conservancy thought they can bring wildlife to people’s homes by providing them with some kind of entertainment and also a virtual escape. Ol Pejeta Conservancy started to provide virtual safaris and by doing so, the organization won a lot of attention from potential customers all around the world. This new business model might help them...
to increase their customer base when borders will open again in the aftermath of the global lockdown.

**How to Prepare for the Next (Pandemic) Crisis? - Know How Your Industry Is Being Disrupted and Be the First to Do It!**

What we know from the past for sure is that crises will come and go continuously. Hence, organizations are well-advised to prepare for the next crisis, even when the current COVID-19 crisis ends. One ability that helped companies from the past to stay successful for the next decades, despite crises and recessions, is the ability for rapid adaptation and business model innovation.

The big four tech companies master this skill by generating knowledge themselves and acquiring knowledge from others that they cannot generate themselves, both with the purpose to meet ever-changing customer demands. Even though Google, Facebook, Amazon, and Apple are right now the top players in the world and also have vast amounts of operating profits to play with, we can learn from them because they all have already experienced times of crises and they all have survived, even thrived, during these crises.

While the big four tech players build new business models by themselves, they also actively invest in start-ups, enabling them to adapt faster and more quickly develop their businesses. **Google, for example, bought the mobile phone producer Motorola in 2012 to access the mobile phone and communications market.** Even though they sold the company in 2014 again, the acquisition helped them to transform their business from a search engine provider to a company that covers almost all information exchange channels. Similarly, **Facebook spent large amounts of money on the acquisition of WhatsApp** to become the number one social media company, at least in the Western World. This secured their survival for several more years, even when facing declining growth rates of their main product Facebook. Moreover, **Amazon extended its reach in the retail sector by acquiring Zappos and WholeFoods; and Apple extended its reach in the multimedia sector by acquiring companies like Beats and Shazam.**

All these strategic acquisitions did not only to help the companies to grow, but were also crisis-proof. Digital business models seem to be the true winners of the past and crisis. Organizations from all sectors and industries should start thinking about digital solutions, if they have not done so already. Investing in the digitalization will most likely pay out. One easy way to do so is to learn from start-ups as they are at the edge of current developments. By investing in or partnering with new digital ventures, established players can not only transform their
businesses to better meet changing customer needs but they can also buffer risks from future crises. The only question that remains is when the next crisis will come.