

Is Covid-19 ushering a new digital world ?

Some digitally advanced sectors have fared better during the pandemic than others. But home-working, home-schooling and online shopping are just the tips of the iceberg in the road to digitalisation. What we tend to forget is that digitalisation is often an internal transformation, which means costly investments at a time when budgets have been hit hard



Source: Shutterstock

The road to digitalisation is far from even

When presenting Microsoft's first-quarter results, Satya Nadella, the CEO, said that Microsoft had seen "two years of digital transformation in two months" due to Covid-19.

A boon for Microsoft which reported record results for the first half of 2020, rewarded by a share price rebound since 1 March (+20% at 15/08) - largely due to the rise in home-working and the use of Microsoft's cloud solutions.

CEOs of other big tech companies are also boasting record figures, especially in e-commerce which has benefited from the lockdown of brick and mortar shops. However, these figures hide other realities, as every company isn't an Amazon or Microsoft.

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When it comes to digitalisation, not all sectors are on an equal footing (and even within sectors, the level of preparedness differs greatly between companies). Between sectors that are almost entirely digital (e.g. the media) and those that are just embarking on the process (e.g. construction), the impact of the crisis has varied massively.

Activity surveys show that the hardest hit sectors were the most labour-intensive (events, passenger transport, hospitality, culture, trade and in some places construction, which in total account for between 25% and 35% of employment in OECD countries) with a relatively low degree of digitalisation, especially with regards to customer services and the bulk of their internal procedures, compared to less affected sectors (IT, financial services, heavy industry, logistics).

One way of measuring digital intensity across a set of companies is to measure the extent to which they use certain technologies. The [DESI \(Digital Economy and Society Index\)](#) from Eurostat measures mainly the use of the following services (the list is not fully exhaustive but allows for easy comparisons and measurement):

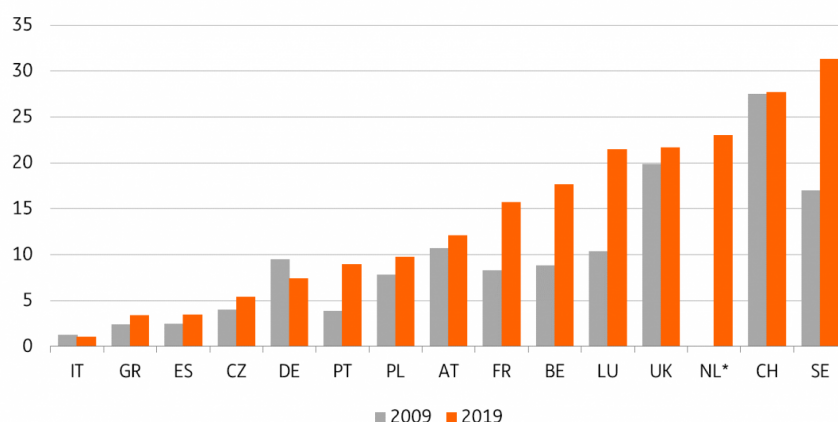
- Digital communication (websites, social networks, email etc.)
- E-commerce
- Digital inventory management
- Digital workplace organisation (electronic diaries etc.)
- Electronic delivery of quotes and invoices

The companies that were already the most advanced in these areas were at an advantage during the crisis. Home-working availability also comes to mind among what makes a company more digital. All countries were not equally prepared in terms of home-working solutions before the pandemic.

In the least prepared countries list, that part of companies' digital transformations obviously had to move quicker during the pandemic, although more by force than by design. This required an access to cash (possibly also to credit) that may not have been available to all.

Access to home-working tech as a percentage of employees

Percentage of employees (15-64 years old) who work from home occasionally (NL: first data is 2015, 21%)



Source: Eurostat

For the most part of digital transformation, Covid-19 gave very little warning and left little to no time for companies to introduce major innovations.

The innovations may still occur but they will take time to develop, but when the CEO of Microsoft spoke about accelerated transformation, he was mainly referring to external solutions, which brought healthy profits to their owners.

Three main examples come to mind: home-working and schooling and e-commerce.

1 Home-working and home-schooling

These two practices already existed but have spread rapidly during the pandemic, with the use of existing solutions.

Microsoft Teams is a prime example, even for education. However, once the crisis is over, a large number of home-workers and home-schooled students are likely to return to their offices and classrooms.

In the figure below, Google mobility data shows that traffic around workplaces, which had fallen in April to between 30% and 40% of their early-2020 levels in most countries (50% to 60% in Germany and the Netherlands), hasn't returned to normal in any country. Traffic levels around workplaces returned to 70 or 80% (depending on the country) at the beginning of the summer, which was quickly undermined by the summer holidays.

The start of the school year, without which many parents could not return to work erased the effect of vacations in September (at least in countries where school lockdowns remain limited), but still not exceeding June levels. Many companies, in order to be able to comply with social distancing rules, are rotating their physically present staff. In other words, a norm of 15% to 25% of workers is being established in most countries.

These figures seem to be confirmed by a recent survey by Morgan Stanley Bank which showed

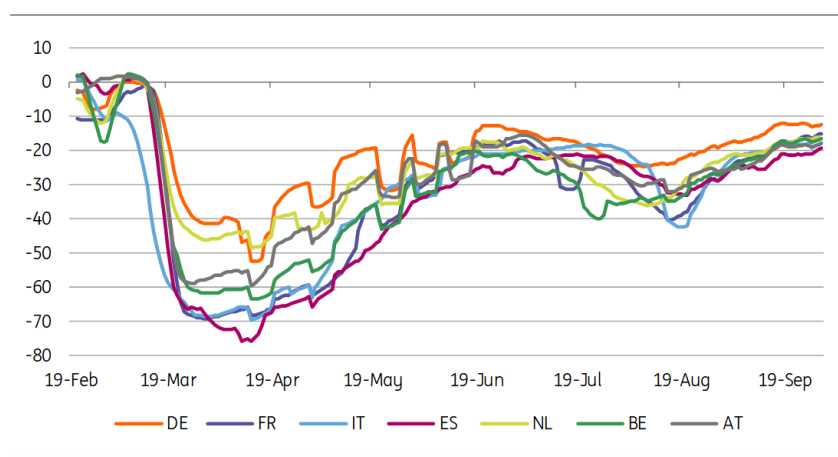
that 70% of German office employees had returned to their offices after lockdowns eased, that number increases to 82% for French employees and 76% for Italian employees (this return is - in many cases - only partial).

The proportion of business that will remain online (incidentally reducing the amount of domestic and international business travel for example) will be greater than before and will create new opportunities, as well as new threats (online competition is fiercer - when it does not lead to monopolies - and the geographical location of a company or a school is still an effective barrier that Covid-19 weakened).

It is too early to say to what extent these structural changes will persist, but the fact remains that if they are based on new habits, which did not require new technologies.

Google mobility data around workplaces

One-week average of percentage point deviation from pre-Covid norm



Source: Google

2 Online shopping

There is little doubt that e-commerce has been the (self-) declared winner of the coronavirus pandemic, with most consumers doing their shopping online, some for the very first time.

In the US, for example, the online sales of the 80 largest (online) stores rocketed by 70% year on year (in May and June). Online transactions around the globe increased by 50% during the pandemic (Figure 3). However, it is important to look past these success stories and note three things:

(a) the e-commerce boom does not come from "internet-only" retailers; (b) the boom was not observed in all sectors; and (c) the increase was - for the most part - temporary.

- Half of the global online trade is shared by just five e-commerce platforms (most of them Chinese). However, these platforms in fact represent millions of vendors of all sizes who merely use them as an outlet. Online-only companies are therefore much rarer than these figures suggest. In fact, most online trade is done by retailers who use a combination of physical shops and online sales, including these platforms (they are known as omnichannel

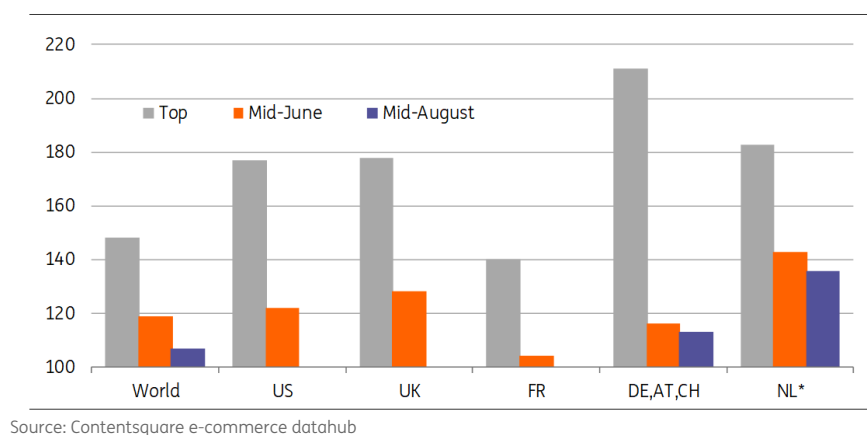
retailers). Nevertheless, although online shopping as a percentage of total trade has risen across the board (in the USA for example, by 3.5 percentage points or \$100bn, to 15% of US retail sales excluding auto in the first 7 months of 2020) due to its rapid growth during the pandemic, this has not offset the loss of sales via other channels, nor prevented the collapse of total retail sales in Western countries.

- Online shopping itself, although less affected than other channels (as it registered an increase in total sales in some sectors), has not necessarily grown in absolute value across all sectors (online food shopping has increased but not online travel). In addition, in many cases, the rise in online trade has not been enough to curb the plunge in total sales. This could not be clearer than for travel and fashion - two sectors left to flounder during the lockdown and permanently blighted by the rise in home-working.
- Online transactions boomed, but the vast majority of this was temporary, and just a few weeks post-lockdown (Figure 3), the number of transactions had already fallen to only 7% higher than pre-crisis levels. Not an insignificant figure, but nevertheless lower than the two-figure growth seen yearly by online shopping in recent years. Although online shopping experienced several years' worth of growth in just two months, the result at the end of 2020 is likely to be much less remarkable in the longer run.

Online purchases* during the Covid pandemic (6 Jan-16 Feb = 100)

*Change in number of online transactions by individual consumers. Admittedly, countries have different starting positions when it comes to online shopping habits.

For NL: ING estimate based on electronic payments by ING retail customers (into about 60 identified bank accounts of web shops and payment service providers)



Put another way, apart from a few internet giants, online shopping has merely helped retailers to stay afloat. For many, it may even have stopped them from drowning altogether. The survivors can rest assured that online shopping has fallen sharply since the easing of restrictions, illustrating the fact that there is no guarantee that these new shopping habits are here to stay.

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In the service sector, where customer requests have been addressed through a screen over the past few months, the same doubts remain, namely to what extent will these interactions still be conducted virtually once the crisis is over?

Like our two previous examples, online shopping (goods and services) has therefore experienced a structural change (the share of online sales will certainly remain higher than before, despite a recovery of in-store sales), but once again this was due to evolving habits, not new technologies.

The submerged part of the digitalisation iceberg

The three activities of home-working, home-schooling and online shopping are the most visible changes and, despite seeing massive growth during the crisis, are most likely set to diminish in the future, settling down at a “new normal”. If they are part of most companies’ digitalisation process, it remains to be seen whether they have helped companies become more effective at generating value, which is by no means guaranteed.

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In fact, there are many other facets of digital transformation, which although have had a lower media profile, nevertheless represent the large underwater part of the digitalisation iceberg. For most companies, these include back-end processes (as opposed to client-facing processes), such as automatic invoicing and purchasing, inventory and supplier management. For the most digitally advanced, this means exploring the benefits of artificial intelligence.

Automation on this scale involves costly transformations, not easy at a time when budgets are tight due to the pandemic and most companies are in fact freezing all non-essential investments. The digital transformation of other parts of a company’s business (other than sales and home working) could therefore be hampered due to the necessary IT investments required during the crisis to increase these two elements.

The pandemic - and the drastic choices that it forces companies to make - raises once again the question of digitalisation as a strategic priority: the advances that were being driven by the emergency must now give way to a time of consolidation.

Has the crisis hastened or slowed down digital transformation for companies?

The sectors and companies that benefit from digitalisation given the rise in online shopping,

trade and home-working, during this pandemic, will thrive. But for those, who use a broader definition, things will appear more uncertain.

Since it will require no fewer resources than before the crisis and given that a lot of resources have been diverted, we conclude that digital transformation will take longer to create new solutions.