Covid-19:
Business as Un-Usual
And the "L" Shaped (non) Recovery

InnovationLabs White Paper #3 in the Series

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Graphic Icons: Florent Courtaigne

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Prelude: What's Next?

What's going to happen in the next six months?

It's a big and very important question, which we tackle in this white paper. We gather evidence from a wide variety of sources, including Shell Oil, JPMorgan, Commerzbank, Warren Buffet, Forbes, Fannie Mae, Governor Andrew Cuomo of New York, the Bank of England, and a recent survey of 281 CEOs, to come up with a model of what's emerging for all of us.

Based on what we can surmise, it's going to be ... unusual.

The phrase "business as unusual" has been used during the past few decades to depict an idiosyncratic approach to business. Anita Roddick, founder of The Body Shop, used it as the title her book about her iconic and highly unusual company, and others have used it to convey the same meaning.

We're using it here because we believe that now it won't just be the iconoclasts who have to embrace the unusual, it's all of us.

Covid-19 and society's response to it has led to a new and unprecedented situation, which is, we believe, going to lead quickly – possibly immediately – to permanent change in the structure of society and the economy.

So although we want to, we're just not going back to the way things used to be, which means that we all must accept the unusual, embrace it, learn to live with it, and find new ways of living, working, and thriving under a quite different set of conditions.

This white paper examines what may be up next for business leaders on this journey of adaptation, and suggests four specific action items that should probably jump to the top of the to-do list.

White Paper #3

This is the third white paper in our series on Covid-19. The first was a thought experiment published March 26, 2020 which applied the technique of scenario planning to examine the paths that the Covid crisis might take in the coming months and years, and posited the likelihood of a number of (bleak) possibilities for the future.

The second paper was published three weeks later on April 14, 2020, by which point the possibility of bleakness had turned to reality. It thus explored the likely and emerging impacts on society and business, and came away with two key insights:

1. We are heading not for a recession, but a full-on depression.
2. Business leaders must seize this moment to consider how they can transform their businesses to adapt to the new conditions, which will have to be considered permanent.

Both papers have reached far larger audiences than we had expected, and we have received a great deal of very helpful feedback from readers around the world. We greatly appreciate their comments, and we welcome yours as well.

You can access them here.

This paper focuses on the challenges specifically for business leaders, while a fourth paper, which will be published in a couple weeks, will look at the situation from the broader political and macroeconomic perspectives.

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Please note that the stunning graphic icons throughout the report were created by the ever-brilliant Florent Courtaigne, and we are greatly appreciative of his efforts.

Contents

Living Under Uncertainty

At this stage of the crisis we have achieved a clear understanding of what happens when vast stretches of the economy are abruptly shut down: market demand collapses, and an economic crisis immediately ensues.

Once it became clear that social distancing was urgently required, the retail, restaurant, travel, transport, education, entertainment, sports, and tourism industries contracted instantly and massively, and the fossil fuel and manufacturing sectors followed immediately thereafter.

They have stayed down, casting many millions into unemployment, and at this point the only segments of the economy that have not been crushed are health care, the internet-based tech and entertainment sectors, and e-commerce.

But those are not enough to carry the economy, and consequently it's clear that unless the damaged sectors revive, and major rehiring occurs quickly, the recession that we're now in will soon turn into a depression.

But revival of the closeted sectors depends upon the course of the pandemic, and what we do not know is … everything important about what's going to happen:

- We don't know if the current viral hot spots such as New York City will cool down and allow a return to social contact.
- We don't know if infection with the virus confers any long-lasting immunity.
- We don't know if the virus will make a major return visit later in the year and we are forced to return to large scale lockdowns.
- And we don't know if a vaccine can be developed.

All of which means that we don't know when or if the damaged sectors of the economy can resume, and so we don't know how long this ordeal will last.

Or in the words of Warren Buffet, "We do not know exactly what happens when you voluntarily shut down a substantial portion of your society."

We can, however, readily anticipate that the longer it lasts, the more cautious consumers and businesses will be with their spending, and consequently the slower any recovery would be.

Aside from the economic situation, which is unprecedented, the social and psychological situations are equally so. For 75 years we've lived in a certain type of social and market environment, and in the space of a few months that has evaporated.

Since no one knows what's next, we turn again to the scenario planning technique to consider what might happen with respect to what appear as of today to be the two most critical short term factors.

Four New Scenarios

In our first white paper, published 6 weeks ago, we considered the ten key forces that were driving the situation then, some of them specific to the virus and others arising as results of the virus. We mapped these into twenty scenarios, which allowed us to explore key unknowns such as the virus deadliness, the government response, the crisis duration, and its economic and social impacts.

We came away with useful insights about the importance of leadership, governance, the health care sector, and the nature of crisis itself.

In the intervening six weeks many of those questions have been answered, bringing us now to focus on the two critical factors we must understand, "market demand" and "social distancing."

Market Demand: The onset of crisis and the imposition of lockdowns caused the collapse of demand, so the key question is, "What happens if demand recovers nicely, and what happens if it remains collapsed?"

Social Distancing: Social distancing is a proxy indicator for the course of the virus, its spread, its fatality rate, its persistence in society, the presence or absence of treatments or vaccines, and immunity. The question is, "Will social distancing still be required, or are we done with it?"

Putting these together gives us the 2x2 matrix we're familiar with:

The titles of four quadrants guide us to expect one of three outcomes (which Florent has very nicely depicted in these icons):

Scenario 2 shows a **Zippy Quick Recovery**. Wouldn't that be nice. The birds are singing again!

Scenario 3 suggests a **Slow Recovery,** which feels like pushing the giant rock up the endless hill.

Scenario 4 is the **Non Recovery**, where we're drowning in a depression of merely long or utterly and excruciatingly long duration.

And Scenario 1 is **An Entirely New Economic Model**. Government would presumably play an increasing role in boosting demand, but for this to happen it's necessary to forge a new social contract, a Renewed Deal.

If it turns out to be #2, Zippy Quick, then this event that we've been living through for the past few months becomes an historical blip, a strategic bump in the road, but something we've gotten readily past.

If it turns out to be #3 or 4, though, the Slow or Non Recovery, then we're in a deeply serious situation, perhaps as serious as it gets, which we'll discuss at length below under the heading "A Slow or Non Recovery."

And if it turns out to be some variation on #1, then we enter a realm of social and macroeconomic inventions and hypotheticals that makes for fascinating speculation. We'll address that in the next white paper, out in a few weeks.

Having framed four different views of the future, let's now take a quick look what the evidence from the last couple weeks is suggesting.

Indicative Data

As usual, there's a vast ocean of data to tap into, from which we have selected some data points that will perhaps provide useful perspective:

> From January to March 2020, the gross number of hours worked by hourly employees in US small businesses dropped by 70%. Annie Lowrey of *The Atlantic* is now referring to this as "the small business die-off." (May 4)

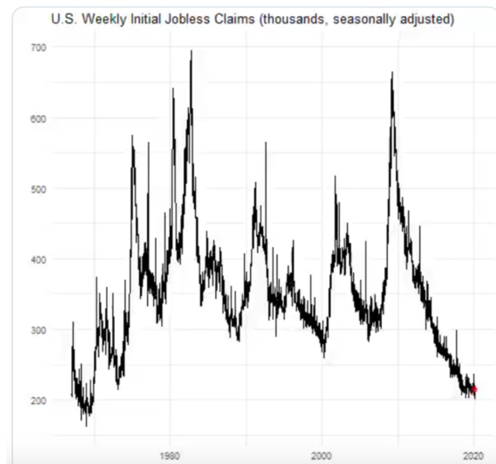
> Harvard Business Review published the results of survey by researchers at U Chicago, U of Illinois, and Harvard which found that a quarter of America's small business do not have enough cash on hand to last a month.
> https://hbr.org/2020/04/a-way-forward-for-small-businesses

> As of mid-April, Goldman Sachs expected the US unemployment rate to reach 15%, higher than any time during the last century. As of May, it seems that the actual rate may be climbing even higher than that.

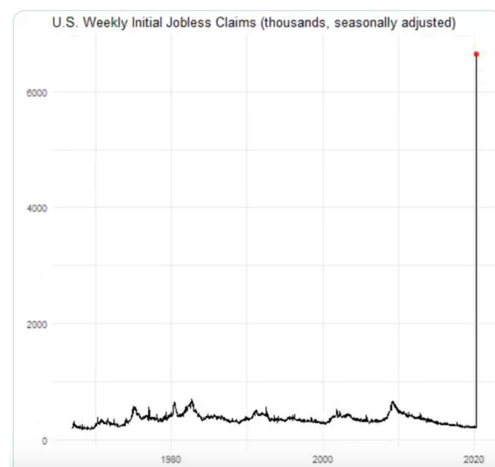
Payroll processor ADP reported on May 6 that US companies dropped 20 million employees during April, the worst job loss in the history of its report.

Check out the fascinating 27 second gif history of unemployment in the U.S. created by Len Kiefer, Deputy Chief Economist at Freddie Mac:
https://twitter.com/i/status/1245702858449784832

Here are two screen shots:



1970 – February 2020



1970 – March 2020

Notice how the scale on the y axis shifts from hundreds of thousands of unemployment claims (above) to millions of them (below) over the course of a single month. The giant craggy line in the top image peaks at around

700,000 claims in 1980 and again in 2009, but in the bottom image those giant peaks look like tiny hills, because the last bit of the line streaks skyward to more than 6 million, a 10x burst of economic disaster.

Meanwhile, oil prices plummeted, regarding which renowned oil expert Daniel Yergin, author of the definitive history of the oil industry, *The Commanding Heights,* noted, "Nothing like this has ever happened before." Oil prices are now in the low twenties, having even gone weirdly negative for a very brief period (i.e., sellers had to pay buyers to take oil). This price is far below the $30 to $50 per barrel level that most of the industry needs to remain solvent. The low price has already forced some debt-heavy oil producers into bankruptcy, and if it remains low then others will surely follow.

An initial wave of Covid bankruptcies has begun, and thus Forbes has initiated a "Coronavirus Bankruptcy Tracker," with J.Crew, Gold's Gym, Virgin Australia Airlines plus three smaller airlines, Modell's Sporting Goods on the list so far, along with 42 other companies (the threshold to make the list is you have to have more than 500 employees).

> https://www.forbes.com/sites/hanktucker/2020/05/03/coronavirus-bankruptcy-tracker-these-major-companies-are-failing-amid-the-shutdown/#5c1785853425

Neiman Marcus declared bankruptcy today, and J.C. Penney is reportedly nearing bankruptcy as well, and we can thus expect further waves or cycles of bankruptcies in the months ahead. As the retailers drop, their landlords will begin to feel their pain, and major real estate holders will tumble as well.

The Economist refers to this as "the insidious means by which weak sectors of the economy will infect otherwise moderately healthy ones." It's a nasty chain reaction that spreads the pain.

And in the event that Covid makes a return appearance later in the year, which health care professionals are now warning of, we'll experience yet another episode of economic contraction when we're forced to revert to lockdowns.

For the airlines, meanwhile, which have been badly hammered, the International Air Transport Association (IATA) estimates that they'll lose at least $300 billion this year.

And finally, a forecast issued by the Bank of England on May 7 observes that the UK economy is headed for its worst crash in more than 300 years. The report from CNN states the following:

> The Bank of England said that GDP contracted by 3% in the first quarter of this year and would fall by as much as 25% in the second quarter, leaving the economy about 30% smaller than it was at the end of 2019. Unemployment is expected to increase to 9%.
>
> The central bank expects a swift economic recovery in 2021, but it cautioned that its forecast, which assumes a gradual easing of social distancing measures and "very significant" monetary and fiscal stimulus, depends on the "evolution of the pandemic, and how governments, households and businesses respond." And the bank warned that it's more likely to have underestimated the scale of the economic crash than to have overstated it.
>
> Economists at Commerzbank said that they expect more economic scarring and a slower recovery. Historic examples suggest there will be a more permanent loss of output, they said, and more persistent unemployment.
>
> Charles Riley, *CNN Business.* "The UK economy is heading for its worst crash in 300 years." May 7, 2020. https://www.cnn.com/2020/05/07/economy/uk-economy-bank-of-england/index.html

Some key points to reiterate here are, first, the Bank's forecast is actually optimistic, in that it assumes social distancing can be eased. If the virus perseveres and social distancing remains necessary, then things become even worse, which the bank actually does admit in noting that they may well have underestimated the scale of the crash anyway.

And the note from the German Commerzbank affirms the notion that the crisis will likely result in permanent structural change to the economy even under the most optimistic of scenarios.

On top of all that, a new forecast from the US government projects that the daily death rate in the US will continue to rise, doubling from the current rate to reach 3,000 fatalities per day by June, largely occurring as a result of the easing of social distancing. In an ominous sign, eight states that have begun to reopen are already seeing increases in the number of Covid cases (Alaska, Indiana, Iowa, Kansas, Minnesota, Nebraska, Tennessee, Texas).

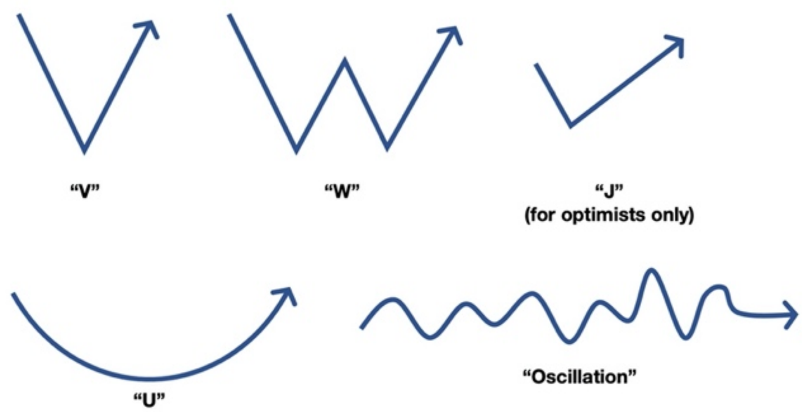
https://www.forbes.com/sites/lisettevoytko/2020/05/04/report-internal-trump-administration-coronavirus-model-predicts-3000-daily-deaths-by-june/#4cac8309ad4a

This is apparently providing a vivid picture of the experiment embedded in the trade-off between 'a return to economic activity' and 'a greater risk of getting sick and dying.' How this will play out in public opinion over the next couple months will be fascinating to observe, and certainly central to the upcoming election: will Americans choose to risk their lives to restore their economy?

And indeed, all of this gives us a great deal to think about as we consider what's next for the economy.

A Slow or Non Recovery: Downward Spiral

In the previous white paper we discussed the possible shapes of the recession/depression curve, and we presented these five possibilities:



Possible Shapes of the Recession / Depression Curve

"V" indicates a sharp decline and a quick ascent.
"W" is a double dip, a false recovery followed by another decline, and then a real recovery.
"J," the optimist's curve, says quick descent is a prelude to even greater heights.
"U" is a slow decline and slow recovery.
"Oscillation" is a prolonged period of ups and downs.

Now that we're a couple months into this, though, none of those are looking quite right. Instead, there are two shapes that seem most plausible, a "Lazy J" and an "L."

The "Lazy J" describes a precipitous decline, which is indeed what we have just experienced, followed by an agonizingly slow recovery.

Between the "J" and the "L," this would unfortunately have to be considered as the "optimistic" scenario, because the "L," on the other hand describes not only a depression, but also a significant restructuring of the economy that involves massive uncertainty, and a lot of social and economic pain. It's the Non-Recovery scenario.

"Lazy J"

"L"

Is it a Depression?

This is what was implied in the observation by the Commerzbank., whose economist Peter Dixon said this: "Current conditions are unprecedented in our lifetime and all forecasters are struggling to make out where the economy stands now, never mind what happens in future. But it is clear that the next few months are going to produce some of the biggest output falls on record."

This is also in line with the expectation of Shell Oil, as expressed by its CFO Jesscia Uhl. She told investors on April 30, 2020 that she sees, "major demand destruction that we don't even know will come back," and that Shell expects an "L-shaped recovery" in the wake of the pandemic. She warned that the "relatively disorderly way in which all systems start to shut down is also going to affect us in ways that are very hard to predict."

https://earther.gizmodo.com/shell-ok-we-may-actually-be-fucked-this-time-1843200534
https://www.naturalgasintel.com/articles/121841-shell-ceo-says-covid-19-may-capitalize-society-to-reduce-long-term-oil-natural-gas-demand

The "L" shape isn't exactly a recovery though. It describes a significant decline in economic activity followed by a prolonged period in stasis, which is effectively a non-recovery.

The underlying economic process, which no one in government really wants to talk about publicly, is the cascading impacts of a decline in demand.

The sequence unfolds something like this: Demand collapse leads to massive layoffs (seen that), which then exacerbate the decline in demand because fear sets in (seeing that now). Entire industries contract, and so do government tax and fee revenues, and unfortunately this is exactly when governments must spend massively more to prop up the health care sector, public transit (because fare revenues plummet), as well as unprecedented unemployment benefits.

What happens next in this situation is that many business and family borrowers have lost so much income that they cannot cover their debt payments, so many are forced to sell the underlying assets. But they are selling into a depressed market, so they don't get full value. Alternatively, borrowers just default on their loans, and hand devalued assets back to the banks, who assuredly don't want them.

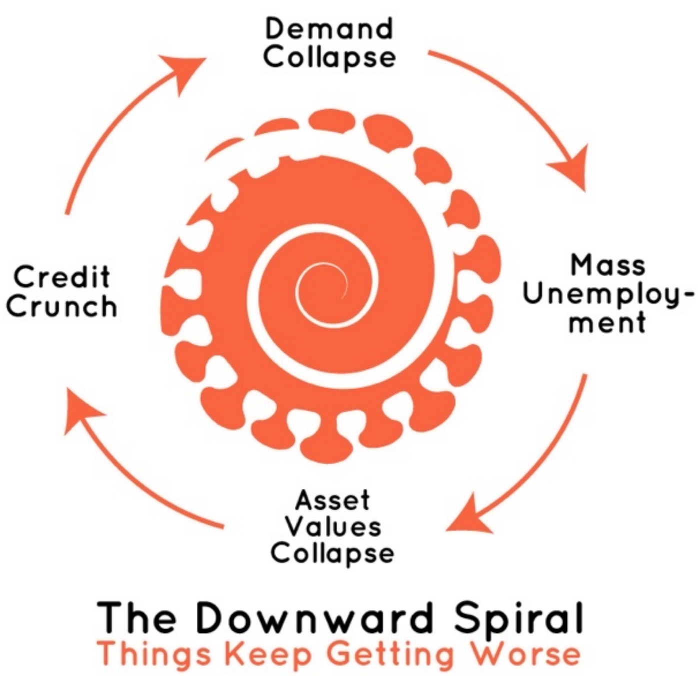
In both scenarios this of course has major impact on the banks, because they have to write down the value of the assets against which they have lent, which means that they then have to hold more reserves to meet regulatory safety requirements. Because they can lend less, and anyway they're skittish about the macroeconomic situation – the depression – they slow or even stop lending altogether, so there is a credit crunch. (This was a key factor in the collapse in 2008.)

If loan losses now were equivalent in proportion to the 2008 crisis, JPMorgan estimates that it would be facing loan losses of $45 billion, and would have to set aside about $7 billion in additional reserves. However, its CEO Jamie Dimon agrees with Commerzbank and the massive uncertainties that all banks are facing: "There are no models that have dealt with GDP down 40% and unemployment growing this rapidly," so no one really knows if 2008 is a valid point of comparison.

The Economist, April 18, 2020.

You can be sure, however, that the economists at JPMorgan and every bank are furiously working on elaborate models right this minute and plugging in new data every day to try to get a handle on what's going on, and what's coming next, and Dimon and the other senior managers are then pouring over those models each evening, desperate for insights.

The whole mess becomes a self-feeding cycle of decline, a downward spiral, because what happens when there's a credit crunch? There's less money available, and demand collapses further. We get caught in a loop, bad outcomes lead to worse outcomes for just about everyone, and it can take years to recover.



A small data point in this regard: The April 18 edition of *The Economist* reports that analysts now anticipate a drop of 30% or more in dividend payments to equity shareholders in 2020, which would itself contribute to a significant decline in liquidity, and possibly put considerable stress on those who require such dividend payments to meet their own cash flow needs. In 2019 these payments totaled about $2.2 trillion worldwide, so a drop of 30% would mean $660 billion less cash provided to lubricate the consumption engine.

Economists from 1930 to today have studied this phenomenon, which they call "debt deflation," and it terrifies them. It terrifies government leaders, too, and for good reason. (A more detailed description is presented in Appendix 1.)

Most significantly, what is not known as of today is if that's actually what happens, how we get out of that cycle. Governments can release their lockdown orders, as many are now doing, but neither consumer confidence nor consumer spending will necessarily rebound quickly, even if the government continues to dole out massive amounts of cash to prop up the system.

> And have you noticed that we get daily briefings on the number of Covid cases and fatalities, but that government economists are staying suspiciously quiet? We've heard nothing, for example, from the President's Council of Economic Advisers. (Do you even know who they are? In case you've forgotten, they're Tomas J. Philipson and Tyler Beck Goodspeed; the third chair on the council is vacant. Strangely, as of May 6 their web site is still going on about how many jobs the Trump administration had created up to February 2020, prior to the 20 million layoffs of March and April.)
>
> https://www.whitehouse.gov/cea/
>
> We are speculating here, but it's quite plausible that they're keeping quiet because they know we're already in a depression,

and they also realize that neither they nor anyone else knows how to steer us out of it. Since the psychology of fear is such a major factor in an economic crisis, they really can't say what they think because they're afraid it will only make things worse

Business leaders, however, have been more forthcoming in sharing their views. The results of a very interesting survey just conducted by the Silicon Valley firm Blue Dots Partners have been released, and they reveal a lot about the leadership mindset of CEOs these days. From April 10 to 27, 2020 they surveyed 281 CEOs and senior leaders, and learned that most have taken a defensive posture with their businesses. Prudently, most of their actions have been focused around preserving cash and stabilizing their operations.

Collectively, the 281 concur that we're already in a recession (the survey did not ask about a depression), and 77% of them expect it to take at least 18 months for us to get back to the economy of February 2020.

You can access the survey here.

As of now the "L" model is one possibility among a few plausible short term outcomes, but you would be unwise to pretend that it's not going to happen. Anyway, 18 months is a verrry long dry spell to survive, and as we saw above, this will mean certain death for a huge proportion of America's small businesses, the "die-off," in the words of The Atlantic.

But very soon, and long before we reach the bottom of the "L" (if it is an "L", and wherever that turns out to be), most of these leaders should also turn some of their attention toward the opportunity space, as a crisis such as this provides the ideal time to engage in strategic repositioning and strengthening their brands.

Consequently, they, and you, will need an action plan.

Your Covid Action Plan

In addition to running your business from day to day just to get through the crisis, here are four areas where you could (should) focus as you begin to prepare for whatever's next:

1. **Find the Future**
2. **Collaborative Inquiry**
3. **Business Model Innovation**
4. **Learn from the Data**

Find the Future

If you believe just about anything of what's written above, then you know that it's simply not prudent to expect that things will return to whatever used to be your normal in the pre-Covid world. This means that you have a choice: you can either wait for a new future to arrive at your doorstep, or you can go out and find it now.

Finding it is clearly the vastly preferable option, the proactive path that may even lead to greater success.

History reveals many examples of great businesses that were born out of crisis periods, or which leveraged crises to achieve much greater success. In our 2014 book *Agile Innovation* we advocated strongly for the importance of innovation during crisis, and we mentioned many success stories:

> Despite the grumbling that accompanies a capital crunch or economic austerity, lean years are often very good for young companies. Many of today's highly respected brands, including General Motors, IBM, HP, Microsoft, and Apple started during the lean times of recession. GM was founded during the Panic of 1907, IBM was founded during the Panic of 1910-1911, HP was born during the Great Depression, and both Microsoft and Apple were founded during the depths of the Oil Shock era when the US gross

> domestic product plunged a daunting –3.1 percent.
>
> One of the reasons that great companies emerge during bad times can actually be explained by the way learning occurs in the human brain. Neurophysiologists use the term "plasticity" to describe the brain's capacity to modify its own organization, essentially the acquisition of new skills and learning. The concept of being "plastic" refers to something that can be easily shaped, or molded, meaning that it is not fixed. Hence, the "plasticity" of your brain refers to its capacity to learn, to be reshaped by experiences.
>
> Interestingly, as recently as several decades ago most neurologists believed that the brain's neocortical areas were fixed after a certain stage of development, non-plastic in other words. But recent studies have found that changing environmental conditions can alter behavior and cognition in adults as well as in children.

Yes, our environmental conditions are certainly rushing full-tilt into change mode, which means that it's a time of great opportunities for all those who can seize the initiative.

In the book we went on to discuss more examples of innovation in crisis, including Southwest Airlines and The New York Times, and we also cited a McGraw-Hill study showing that firms that increased their advertising investments during a recession attained a major benefits once the crisis passes, improvements of 135 to 275 percent (assuming, that is, that they survived).

We concluded that portion of the book with the observation that the three critical factors critical to success during times like these are:

Courage
Confidence, and
A clear view of the future.

If you can leverage all three, innovation may indeed become your very best friend.

The essence of this advice, then, is "don't wait!"

Go find a better future before a worse one finds you; prepare for a fundamentally different set of circumstances locally and globally, in society and the economy, in your business operations and the lives of your staff and customers.

A very effective and important way to do that is to engage in a learning process with your entire organization, and also with your broader business ecosystem to collectively make sense of what's going on.

Engage in Sense-Making

Where are we now?
Do we know?
And where will we be tomorrow?

The sooner you figure out what's happening, the more quickly you can respond effectively to its mitigate the risks and exploit the opportunities. So despite the temptation to keep your head down and focus only on the internal dynamics of your business, as the Blue Dots survey respondents suggested they're presently doing, this is actually a time when you must also put a major effort into studying the flow of events so you can pick up on the patterns early on and be positioned to act. That is, you need to invest significantly in making sense out of the chaos or near-chaos surrounding you.

Indeed, you probably need to invest in more sense-making than you might have under "normal" circumstances.

A good and simple way to start is to set aside some time each day to scan for new information. Look outside and beyond your normal sources for different perspectives and new viewpoints, and in particular look at industries other than your own. It's also helpful to keep a journal of the major ideas and data points you discover so that you can begin to connect them and deduce the underlying patterns.

But you probably shouldn't do this just by yourself. Instead, great benefits can come when you engage your entire organization, and even your broader ecosystem of customers and partners, in an open sense-making inquiry, a learning process about what's next for society, the economy, and for your business.

Such a dialog will probably enable you to reach clarity much more quickly than just staring at the news feed on your own screen, as it will help you identify new opportunities through the eyes of many people, and also help you get clear on what you may have to let go of.

Given the continuing necessity of social distancing, this will likely need to be done remotely. This means that you'll have to expand your use of the remote collaboration tool set beyond just the day-to-day coordination that you've become familiar with during the last couple months.

Now you'll start using these tools for creative exploration, ideation and idea development, sharing and refining new possibilities, all of which means innovation. These are quite different roles and activities, and to make them effective they require new ways of working.

(At InnovationLabs we're now quite confident that this is entirely possible. We've been in lockdown like everyone else, and consequently we've been expanding our expertise in remote facilitation techniques, to enable our clients to attain the high performance teamwork they're accustomed in face to face settings. We've made considerable progress with techniques and approaches that are working quite well.)

Business Model Innovation

Where will your sense-making efforts lead you?

Certainly one of the immediate objectives is to promote innovation. But innovation is often difficult even under the best of circumstances, so what's it like now?

It's quite likely that your sense-making journey will lead you to discover that your current business model is at risk, but it may also expose opportunities to create new business models.

This painful discovery has already become fully evident for everyone in the retail, food, travel, tourism, and entertainment industries, which counts millions of enterprises and hundreds of millions of workers worldwide, many of whom are suddenly, frighteningly, out of work.

As noted above, the bankruptcies have begun, and it's going to be a long and painful journey. But even firms that are not so vulnerable should consider new ways of working to adapt to new customer needs, expectations, and requirements, and to provide better experiences to customers who surely have developed new expectations and needs based on the current situation.

At the risk of self-promotion, we would be remiss if we did not mention our 2018 book *Business Model Warfare,* which is focused entirely on this particularly promising aspect of innovation. It offers detailed guidance to help you think through your own business model opportunities and perhaps discover how it can be improved. The book includes more than 100 specific examples of business model innovations covering nearly every.

It also has some detailed definitions, as for instance, the term "business model" is widely used, but also widely misunderstood. What "business model" means to us is, at one level, simply how you make money. What do people pay you for?

But at a deeper and more important level it refers to the *experiences* you provide that go beyond the products and services people buy, to the deeper and more resonant qualities that make them choose you instead of choosing your competitors.

Business model innovation is all about experiences, but they're enabled by how you organize internally, and often perceived according to how well you communicate.

These are important topics, and also complex ones that benefit from serious thought and careful design. To that end, the book provides seven specific tools that you can use to evaluate your market space and to help organize your thinking about where the best opportunities may lie.

Indeed, of all the various types of innovation – among which are new products, new services, new channels, new geographies, and new technologies – business model innovation is often preferred because it's generally one of the fastest to bring to fruition, and one of the most powerful in terms of both short and long term benefit.

Perhaps most appealing is that it doesn't need to be hugely expensive to provide tremendous improvements. After all, when you consider the successes of the companies that have innovated their business models in the past, you join some pretty excellent company.

What it does require is that you see differently, think differently, and then act differently. Given that the entire market and economic situation is changing so fast, though, the overwhelming sense of urgency you're likely to feel, and the opportunity to leverage your own mental "plasticity" makes this the perfect time to go for it.

Learn from the Data

The pattern of business transactions is abruptly changing, and in many cases it's doing so quite radically. What people buy, how they buy, and why they buy are suddenly different, and they will continue to be different for a long time (if not permanently).

But no one is going to announce the changes in the press, because they'll just emerge, quietly, on their own.

The sooner you figure out what's going on the better off you'll be, so the optimal approach is to enhance your sense-making and business model innovation efforts with data analytics that could substantiate key elements of your survival / transformation plan.

Hence, we believe that all medium and large businesses should engage in a disciplined process of abundant data collection, structuring, analysis, and value extraction. Given that purchasing patterns are likely to significantly different than they were even just a few months ago, a good set of data should tell you who's buying what now, as well as when and how, and it may even give important clues as to why. It may also tell you who's not buying, which is equally important to know.

There's of course a lot more to do than we've mentioned here, and through it all your leadership will be a critical factor in the capacity of your organization to adapt and make sound choice amid the tumult.

Conclusion: Carpe Crisis

The gist of these action recommendations is that the Covid crisis may be a once-in-a-generation, or even a once-in-a-lifetime situation, and with that comes great risk, but just as great are the opportunities.

Hence, our advice is "carpe crisis," seize the crisis to preserve and protect, to innovate and expand.

Put your business in a more powerful position by anticipating change and getting there first. Or if you're a government leader, put your citizens in position to survive, learn, and thrive again.

New York Governor Andrew Cuomo has been providing a daily press briefing in recent weeks, which is streamed live and subsequently available on YouTube as well. He ended his briefing on May 1 with the following comments, which demonstrate very well how strong leaders communicate important messages.

> The portion copied below begins at minute 17:00. You can access it here (sorry about the ad): https://www.youtube.com/watch?v=toOIJjt5MIk

What he shares is not just for New Yorkers, but for all of us:

> This has been a very difficult situation for everyone. But when life knocks you on your rear, you learn and grow, and we will collectively learn and grow.
>
> We're going to learn many difficult lessons from this situation. We're going to learn about public health threats that we never saw before, we never heard of. We're learning how hospital system works in an emergency, how education works, how telemedicine works, how you keep society functioning during an emergency, and how you communicate the dangers of a situation without panicking people.
>
> You need to communicate the facts so people act responsibly. How do you do that in a short period of time? What do you do about public transportation? There'll be a lot to learn from this, which we will learn, and we will be the better for it.
>
> In the meantime, we have to go on, day to day, and try to make the best of a bad situation, try to find that silver lining through the dark clouds. Everybody is struggling with it in their own way.
>
> This is a great equalizer, it doesn't matter who you are, where you are. This impacts your life dramatically.
>
> We stay socially distanced, but we stay spiritually connected. New Yorkers have been so supportive of each other. You can feel it. There's a spirit of community and mutuality. People are there to help one another, people understand that everybody's going through this, everybody's in stress. You look at the way people have complied with these rules as annoying as they are, masks, six feet distancing. That's out of respect one for the other.
>
> I love the metaphor of the mask. The mask does not protect me, I wear the mask to protect *you.* What a beautiful sign of caring and mutuality, "I wear a mask to protect you."
>
> That's the spirit, even in this terrible time of difficulty. So yes, you can be socially distanced, but you can be spiritually connected, and closer in ways you've never been before. And I believe that's where we are.
>
> Because we are New York tough, which means tough, smart, united, disciplined, and loving.
>
> Thank you.

...

As always, we welcome your comments and feedback.
Please contact us at LMorris@innovationlabs.com

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Appendix 1: Debt deflation

Economist Irving Fisher was the first to articulate a theory of debt deflation, which he did in 1933. He wrote (presented here in a slightly edited form):

Assuming that at some point in time, a state of over-indebtedness exists, this will tend to lead to liquidation, through the alarm either of debtors or creditors or both. Then we may deduce the following chain of consequences in nine links:

- Debt liquidation leads to distress selling and to
- Contraction of deposit currency, as bank loans are paid off, and to a slowing down of velocity of circulation. This contraction of deposits and of their velocity, precipitated by distress selling, causes
- A fall in the level of prices, so there must be
- A still greater fall in the net worths of business, precipitating bankruptcies, and
- A fall in profits, which leads the businesses which are running at a loss to make
- A reduction in output, in trade and in employment of labor. These losses, bankruptcies and unemployment, lead to
- Pessimism and loss of confidence, which in turn lead to
- Hoarding and slowing down still more the velocity of circulation.

Fisher, Irving (1933), "The Debt-Deflation Theory of Great Depressions", *Econometrica*, 1 (4): 337–357, doi:10.2307/1907327, JSTOR 1907327

Appendix 2: Resources

Immediate Reading

- We recommend *The Economist* as an essential weekly resource for serious strategists and leaders.

Background Reading

- Langdon Morris. *Business Model Warfare.* FutureLab Press, 2019.
- Langdon Morris, Moses Ma, and P Chi Wu. *Agile Innovation*. John Wiley & Sons, 2014.
- Langdon Morris. *Foresight and Extreme Creativity: Strategy for the 21st Century*. FutureLab Press, 2016.
- Langdon Morris. *The Big Shift: The 83 Most Important Changes that Everyone Should Know About, and the Big Shift that Changes Everything.* FutureLab Press, 2018.
- Langdon Morris. *The Agile Innovation Master Plan*. FutureLab Press, 2017.

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As noted, we're now able to deliver very high levels of service using remote technologies, including scenario planning, innovation planning, and collaborative problem solving support to address complex business problems.

We're now preparing a set of do-it-yourself toolkits for organizations to help them restart after the Covid crisis eases, and also through the larger process of transformation, so they can thrive in the next economy. We're looking for a few client organizations to test these kits with us, so please let us know if you may be interested.

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