To spend or not to spend: how COVID-19 has stunted innovation for many businesses

Few have understood how the reverberations from COVID-19 have left markets wide open for major disruption by new entrants. By accelerating digitisation and innovation, this turbulent period dramatically lowered barriers to entry for new players while simultaneously stifling innovation spending among industry incumbents.

Temps de lecture : minute

---

14 December 2021

Our *Innovation Barometer* found that almost a third of firms stopped innovating during the pandemic. Yet despite this, the majority believe they can keep up with the pace of market change, indicating they are at risk of being blindsided by coming innovations in their space. This perfect storm of circumstances has combined to leave market incumbents at unprecedented risk of being overtaken by new competitors.

The signs of coming disruption

Research indicates that industries are ripe for disruption when they have a range of simple products with accessible components that form low-hanging fruit for new market entrants. When complexity is lower, barriers to entry are lower.

For example, electric vehicles dramatically reduced the complexity of cars from 2,000 to just 20 moving parts and thus opened the auto industry to new entrants from Tesla to Foxconn. Fewer and simpler automotive parts meant that complex traditional car production plants, processes and patent portfolios were no longer needed.

Similarly, COVID-19 has accelerated digital transformation and thus streamlined and simplified industries with previously high barriers to entry. For example, the *videoconferencing market* once involved complex physical installation of specialised systems in offices. However, work-from-home policies allowed Zoom to disrupt the market with its simpler setup. Similar transformations have occurred across other industries, with COVID restrictions spurring the simplification of traditional technologies and making markets accessible to disruptors.

The accelerated digitalisation of legacy industries has also exposed them to competition from digital-native companies, just as vehicle automation allowed software companies to enter the transport market. Our Innovation Barometer found that legacy industries such as automotive have stopped innovating more than any other during lockdown, leaving them doubly exposed to disruption.

Regulatory barriers to new market entrants have also been weakened. COVID-19 led to a rapid relaxation of regulations governing everything from patent fees to drug and medical device approval. This opened traditional markets up to new entrants as exemplified by General Motors and Dyson successfully disrupting the medical device market.

COVID-19 has already accelerated market transformation, producing the biggest surge in tech investment in history and leading to *82% of companies noting* increased innovation in their markets. Fluctuating fast-moving markets in a state of transition are also more open to disruption from new entrants.

Shedding weight instead of building muscle

This all comes at a time when market incumbents have been slashing R&D spending during the pandemic, leaving them further exposed to disruptive innovations from outside. A risk-averse, safety-first approach has seen 31% of firms respond by *stopping innovation altogether.* Our report found businesses cited the prioritisation of business survival during lockdown as the main reason for shelving innovation.

> *Yet attempting to weather disruption by cutting innovation spending is the equivalent of attempting to grow stronger for new challenges by cutting weight instead of building muscle.*

This leaves companies sluggish and stagnant at the very moment when they need to be agile and adaptable in the face of a changing business environment. With COVID leaving traditional markets wide open to new entrants, investment in long-term innovation rather than short-term cost-cutting is more vital than ever to help incumbents stay ahead of new trends. Research shows that R&D is particularly essential in a crisis to stay ahead of new trends, exploit emerging opportunities, adapt to shifting customer demands and lay the ground for long-term post-crisis recovery.

Scientific research has also found that companies in mature industries must switch from minimum viable products built around speed to market towards a ‘patient strategy’ of long-term R&D to capitalise on new trends. This is exemplified by Uber pivoting from ride-sharing app to long-term investment in self-driving technology to capitalise on future trends in autonomous transport.

With COVID-19 accelerating new social and economic trends such as remote working, it is vital that businesses invest in long-term innovation to stay ahead of the curve. With post-pandemic industries in a state of flux, those that fail to think long-term will be left behind.

Crucially, innovation is also key to curbing costs during an economic downturn; we helped companies achieve 15% savings through innovations in operations alone. Innovation is also critical achieve ongoing objectives such as increasing productivity, boosting sales revenue, reducing operations costs or improving the customer experience. One study found that executives at companies that experimented with new digital technologies during the pandemic were twice as likely to report outsize revenue growth than executives at other companies.

Just as species adapt to survive new environments, the market incumbents that emerge stronger from the recent turbulence will be those that change to embrace post-COVID market shifts. With markets undergoing transition to a ‘new normal’, if you are standing still then you are going backwards. With COVID-19 spurring new trends, shaking up traditional markets and opening industries to new entrants, innovation is now a matter of survival for many industry incumbents.

Mark Smith is partner of innovation incentives at *Ayming UK*.

Article écrit par Mark Smith