

COVID-19 & Digitalization

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Which impact did the
pandemic have on
digitalization in Germany?
A report.



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See the good in the bad

Which impact did the pandemic have on digitalization?

Germany is considered to be at the bottom of the league when it comes to digitalization. Yet here, too, digital solutions were used during the Covid-19 pandemic to facilitate and better coordinate working hours and services. We therefore ask ourselves: did the pandemic have more and above all long-term effects on the German economy and its digitalization besides home office and online booking tools?

Our report highlights the latest research findings on this topic.

It is difficult to extract positive aspects from such negative events as the pandemic. Nevertheless, the history of mankind has shown time and again that drastic events lead to change. The Covid-19 pandemic was no exception. It is therefore important to shed light on what these changes were and what effects they still have.

Was everyone affected equally?

A high degree of digitalization is a decisive competitive advantage. This was demonstrated once again during the pandemic.

Not all companies were equally affected by sales losses. Sectors in which companies naturally have a higher degree of digitalization were able to respond more quickly to the changes. Companies whose services do not represent a physical product, such as software-as-a-service providers, benefited most from this.

Three factors had a positive impact on companies



The possibility of keeping a distance



Visibility online, e.g. social media



Process flexibility

What do the self-employed say?

Depending on the demographic group of the solo self-employed, there are serious differences: those who are highly digitized and offer services in the non-physical area, for example, reported losses, but were able to continue their work for the most part.

Self-employed artists, therapists and hairdressers, however, paint a completely different picture: in some cases, their income slipped below 1,500 euros gross per month. If you subtract from this the numerous taxes that the self-employed have to pay, it becomes clear why so many urgently needed the Corona aid.

Solo self-employed women in particular were affected more than average by the restrictions.

It is well known that so-called care work is still very much the responsibility of women. With the closure of daycare centers and schools, solo self-employed women - even in the highly digitalized sector - were often no longer able to carry out their activities.

The Corona pandemic illuminated the great need for reform of self-employment in Germany even more clearly.

Despite negative aspects for the self-employed:

The introduction of digital solutions has also driven positive developments.



Use of online booking tools, or online appointment scheduling



Testing and use of social media to acquire new customers



Application of video conferencing & expansion of the customer base

After an initial, forced boost, digitalization and innovation activities declined again.

In January 2021, 14% of the companies surveyed had scaled back their digitization activities, and only 23% had expanded them further.

Innovation activities had also been scaled back again by 25% of companies surveyed. Only 10% were continuing to expand.

Corona as a driver and a brake.

Closely linked to digitalization is also the will to innovate in companies. Studies show: **The better innovation processes are anchored in the company, the more flexibly it can respond to crises.** This has a positive impact on the company's overall performance. At the beginning of the Corona pandemic, there was a great surge in digitalization efforts, especially with regard to working from home.

Many companies carried out a kind of "digitalization light".

The sudden compulsion to have a home office encountered technical obstacles at quite a few companies. However, these could be overcome by, for example, commissioning additional software and hardware, purchasing webcams, headsets, laptops or the like. Companies that were already highly digitized were also able to completely upgrade their communications processes relatively simply and quickly completely to online communication.



The comfort of the home office, which many felt despite the overall stressful Corona situation, also led to a fundamental change in the labor market: Around a quarter of all German employees continued to work from home even after the end of the home office obligation in March 2022.

The rate is particularly high in service professions, e.g. IT. Home office remains an important factor in finding new employees.

Home office changes the working world

Corona: Not really a gamechanger.

The pressure on German companies for more digitalization was high even before Corona. However, the big push only came at the beginning. In the long term, it became apparent that no steady process of digitalization set in. Often, companies were already on their way to more digital processes and only achieved their goals more quickly as a result of the Corona pandemic. Unfortunately, these too often consisted only of improving existing processes.

Various studies have shown that managers have a low level of commitment to fundamental changes in the company. For example, a study conducted by the management consultancy eventure found that 46% of all decision-makers believed that their company would at least be able to maintain its current level of revenue without further digitalization measures.

It seems that digitalization and innovation, unless they are acutely relevant to day-to-day business, still do not have a high priority in companies.



Companies in distress.



The economy in Germany has become only slightly more digital in 2022 compared to 2021: The digitization index rises from 107.9 to 108.9 points. Following the sharp rise in 2021, digitalization stagnates in 2022.

The greatest need to catch up still exists in the manufacturing sector, as well as in small companies.

There are several reasons for the lack of a digital breakthrough:

Loss of revenue due to Corona, resulting in lack of funds for change processes.

Supply chain difficulties due to production stops, e.g. in China

Entry and import restrictions

Start of the war in Ukraine and the associated (predicted) energy crisis

The Digital Divide: Hardly any skilled workers & too high expectations.

One of the few large, representative studies with 502 companies surveyed, was conducted by bitkom in spring 2021. According to this...

...only 56% of the companies surveyed have the employees needed to drive digitalization forward
(2020: still 72 %)

...only 64% invested in the digital skills of their employees of employees
(2020: still 70%)

...only just under 54% of executives have the necessary themselves have the necessary digital skills



All in all, there is a shortage of skilled workers in many areas. As a result, digitalization can only be pushed forward where no changes affecting corporate culture can be made and/or the direct benefits are obvious.

Digital companies are also winning in the "War for talent"

Skilled workers are driving the digital transformation. However, many young employees would prefer to work in companies that are already digitized, as these often offer advantages such as remote work, their own work equipment and the latest technologies.

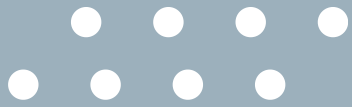
A low level of digitalization also means that outdated hierarchical structures and lengthy recruiting processes are often in place.

Lessons from the Corona pandemic

Positive forecasts show that after the biggest trouble spots have been eliminated, more will be invested in digitalization again.



Digitalization stays important



Studies conducted during the Corona crisis can, of course, only depict how companies acted during the crisis.

Here, the picture was rather negative: on the one hand, the strong digitalization push at the beginning of the pandemic, and on the other hand, the lack of funds to continue investing in digitalization and innovation.

Nevertheless, there also appear to be many companies that are emerging from the crisis with ambition. Studies from 2022, for example, show that **up to 77% of SMEs and large companies want to invest more in the digitalization of business processes.**

In addition, **around 63% of SMEs and 49% of large companies see investment potential in the development of new business models.**

2023 brings ...



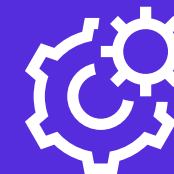
Continued rise in demand for cloud solutions



Increased use of Big Data & Data Analytics for decision making



Investments in IT resilience in the face of increasing cyber attacks



Automation; especially for the optimization of business processes

Strengthen the economy's resilience



Supply chains in particular proved to be a bottleneck: insufficient knowledge of one's own supply chain, non-existent analysis tools and data, and the reduction of storage capacities weaken a company's resilience.

Measures for 2023:

- Investing in sustainable supply chains and optimizing already existing supply chains.
- The development of concrete milestones to establish a digital mindset and a culture of innovation
- Using digital tools for better liquidity and risk management

In a survey of German trade associations in 2021, 45% of respondents were severely affected by international supply bottlenecks in the short term. 25% also anticipated being severely affected in the medium term.

As a result, there is pressure to make the German economy as a whole more resilient to crises.

What is the outlook for the resilience of the German economy in 2023?

▶ Companies will refer to local producers as far as possible and rethink their production processes

▶ According to the German Chamber of Industry and Commerce, 35% of over 3,100 companies surveyed have already adapted their supply chains and found new suppliers, for example. Another 30% are currently in the process of implementation.

▶ 62% of companies say they are more resilient to failures with supply chain diversification



Strengthening the transformation capability



The Corona crisis clearly showed that German companies are not sufficiently capable of transformation. They have a barely integrated innovation culture and rigid internal structures.

Nevertheless, it must be said that it is also external circumstances that prevent transformation and innovation. Rules are basically good, but they can also be a hindrance, for example if there are no regulations for new developments and companies therefore do not know how to implement them with legal certainty.

A first fundamental measure would be to introduce a culture of innovation at the public agencies concerned as well, in order to strengthen foresight with regard to new trends.

Die deutsche Transformationsfähigkeit 2023:

In general, the economic situation is assumed to be better than expected.

If this forecast proves to be true, many companies would nevertheless continue to struggle with the consequences of the Corona pandemic.

However, many companies are not yet able to make a clear statement of intent as to which transformation processes will be initiated and to what extent.

Accordingly, transformation processes initiated as a result of the Corona pandemic are at least being continued.

However, the majority of companies do not seem to regard new transformation processes as a priority for 2023.



Our conclusion:

[CONTACT US]

- The Corona pandemic has paved the way for many small and quick-to-implement measures
- SMEs, large corporations and the self-employed continue to benefit from online tools and software as a service applications
- The world of work changed permanently through home office and remote work
- It is becoming clear that digitized companies are also more attractive to applicants.
- However, the big push with long-term changes and new drivers of profound innovation and transformation processes failed to materialize, which is also due to the subsequent crisis situations

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info@iotiq.de

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