

COVID Turbo Charging Three Digital Trends

Digital Transformation, AI Centric & Mobile First Firms Thriving

By Jim Harris

The COVID crisis has turbo charged three trends: digital transformation, mobile centric businesses and AI centric strategies.

Telecommunications

In December of 2019 Zoom had 10 million daily users and by April that had spiked to 300 million. In Q2 of 2020 Zoom was downloaded 300 million times from the Google Play Store and iTunes App Store, shattering all records.

In 2019, Internet-based international long distance calling reached [1 trillion minutes](#) while all telcos of the world combined did [432 billion minutes](#) of international long distance calling – for a combined total of just under 1.5 Trillion minutes.

Zoom all by itself on is now facilitating 3 Trillion minutes of video based meetings (on an annualized basis). In 2020 Zoom is facilitating twice as many minutes of communication as ALL telcos' international long distance with ALL international VoIP providers in 2019 COMBINED.

In other words phone calls are SOOOO 2019. We've passed peak phone. Today video communication is key. This spells trouble for traditional telcos, because 1) Long distance rates will continue to fall; 2) a Bell business line is \$54 a month while a Zoom Pro account is \$20 a month (and that includes long distance).



Valuations as of November 27, 2020

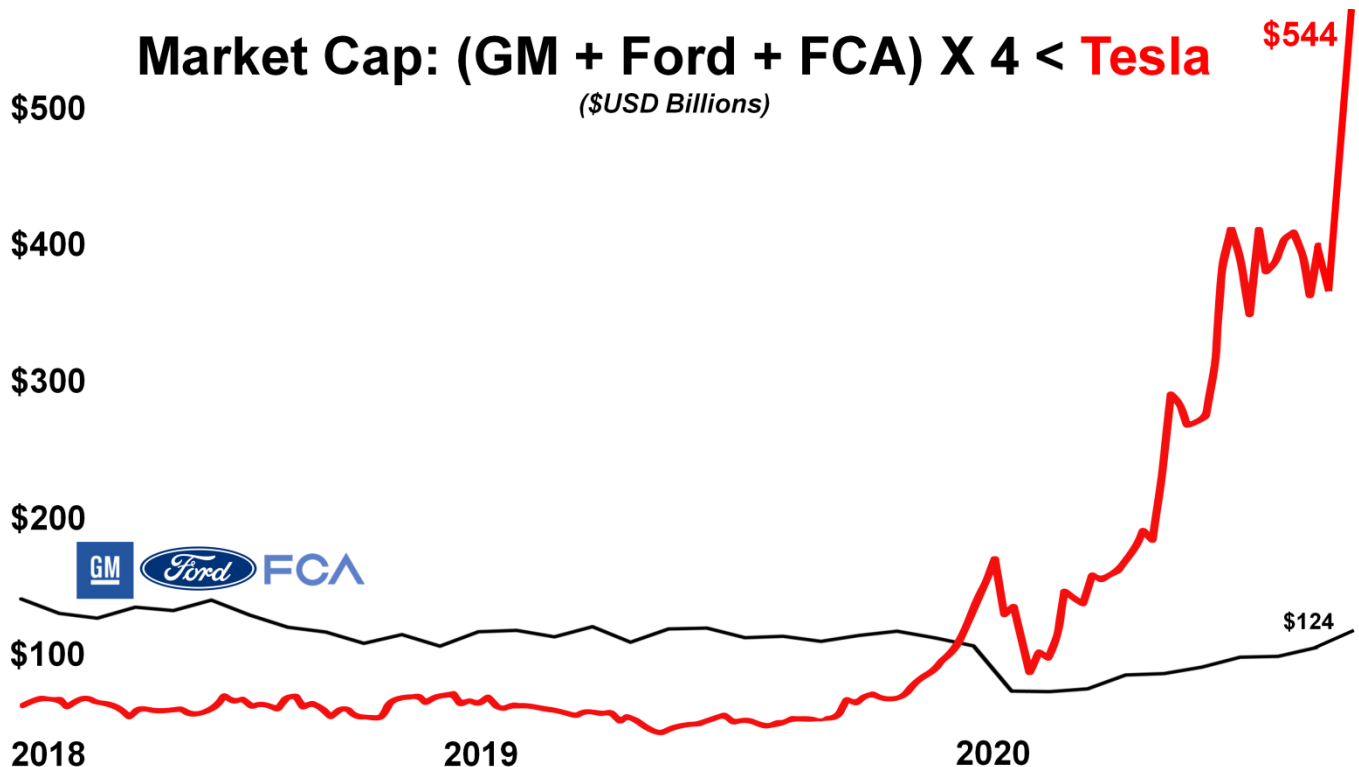
Some financial institutions have banned staff from using Zoom because of security concerns. That's like banning the use of telephones because they can be tapped. When a billion customers are using Zoom will financial institutions then revisit this policy? Sure, perhaps you don't do your strategic planning on Zoom, but if that's what customers are using, why not be customer centric? Additionally if Zoom for Health Care is taking the uber-privacy conscious healthcare industry by storm, financial institutions will not be far behind.

Here's another staggering stat: just 6-8% of airline passengers were frequent flier business travellers in 2019 representing 66% of the average airline profitability. For years I've been suggesting that video conferencing represented a real risk. It just took a pandemic to prove it. With airline passenger volumes down by up to 97%, Zoom is now worth the value of the seven largest global airlines (by 2019 revenue) combined and multiplied by 1.5!

And when we come out of the pandemic, I don't believe that frequent flier business travel will return to pre-pandemic levels. Warren Buffett sold all his shares in airlines for this very reason.

Ten Trillion Transportation Market

Here's another staggering stat: you can add up the market cap of General Motors, Ford and Fiat Chrysler. Take their combined market value, multiply by four and it's still worth less than Tesla. If you don't think that electrification is going to change the \$10 trillion a year global transportation market then think again:

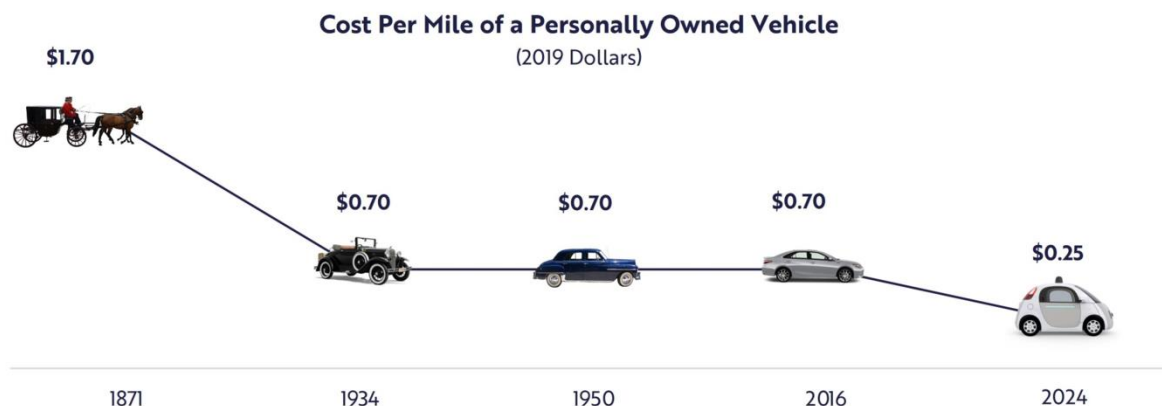


And by the same token, autonomous vehicles and Transportation as a Service (TaaS) or Mobility as a Service (MaaS) will change everything. For 100 years the cost of transportation by car has remained constant when adjusted for inflation at 70 cents per mile. But when we have autonomous fleets of electric vehicles (think of electrified Uber and Lyft fleets but just without the

driver) the cost of transportation per mile will drop by two-thirds. At that point, who's going to buy a traditional gas car? It's only going to be Jay Leno and Jerry Seinfeld:

Autonomous Vehicles & MaaS Will Kill Car Companies

(MaaS = Mobility as a Service)



Mobile Centric 825%

Mobile first firms have an 825% higher value upon IPO than companies with no mobile focus, highlighting how essential mobile is for success, according to the *2020 Mobile Report* by App Annie. This is for four reasons:

First, digital can scale exponentially faster than paper-based corporate procedures.

Secondly, my \$1,000 smartphone has more raw computing power than IBM's \$100 million dollar Deep Blue supercomputer that beat Garry Kasparov in chess in 1997. Companies that are not mobile centric are choosing not to use the \$100 million supercomputer in their customers' hip pocket or purse.

Three: Millennials and GenZs lead a mobile centric life. Not being mobile centric loses the largest demographic group in the workforce.

During COVID mobile use has exploded. Business app downloads jumped 90% and users now spend 4 hours and 20 minutes a day on their mobile!

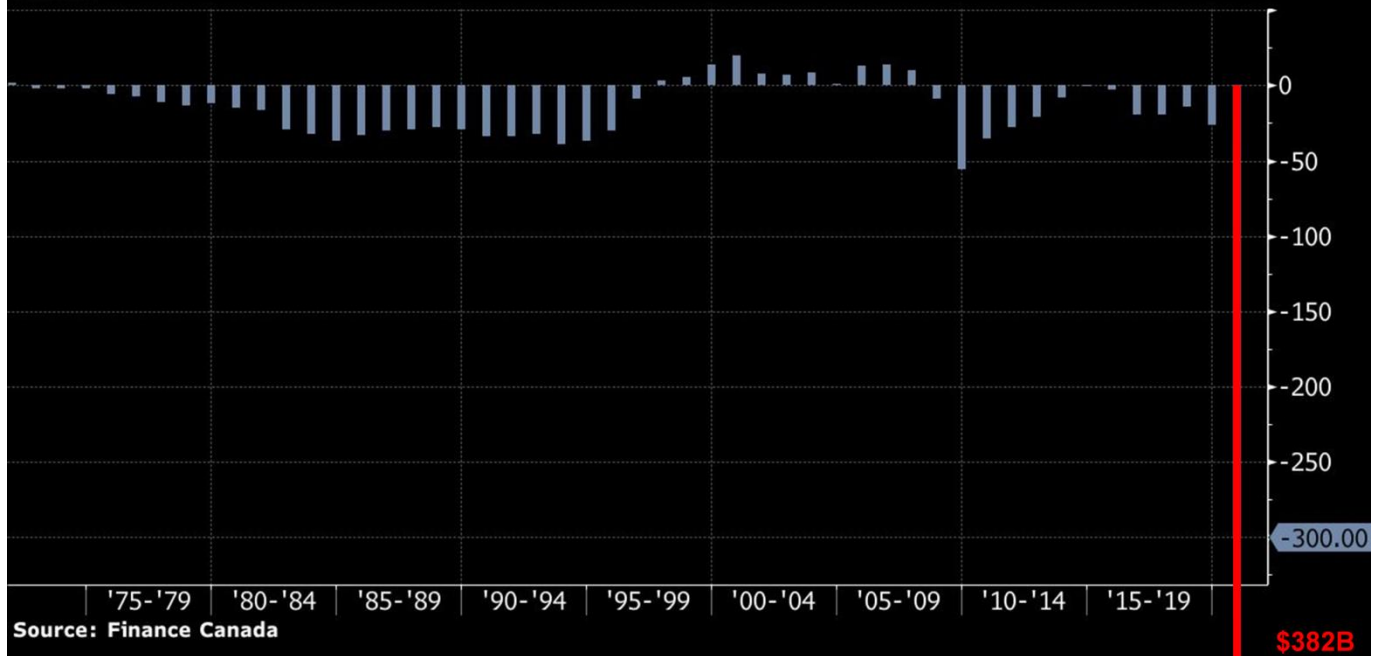
Artificial Intelligence (AI)

AI is being embedded in business processes, marketing, call centers, medicine, and business models. We are just at the early stages of the AI revolution. Companies that embrace AI will outperform those that don't over time.

Who's Paying the Piper?

The chart below is of the Canadian government's annual deficits stretching back to 1970. The red bar on the far right is Canada's 2020 deficit at \$342 billion, equal to 16% of the country's GDP – and we're not even finished the year yet.

Canada's COVID Spending Drives Deficit to 18% of GDP



I predict that it will take years to return to a balanced budget federally.

What are the implications? Taxes will inevitably go up. Capital gains on stock sales are at risk over the long term. Capital gains on principal residences will be at risk over the long term. These exemptions may not be eliminated completely

While currently only 50% of capital gains are taxable, in the future might increase to 75%. Similarly 100% of your principal residence is currently capital gains exempt but that may change to 50%. How might these changes affect the behaviour of actors in the MNA and LBO mid market? How will the threat of these potential changes motivate founders to sell their firm?

Ultimately markets are all about understanding and mitigating risk. These profound trends are impacting markets and risk is showing up in entirely new and unexpected ways.

Jim Harris was the virtual keynote speaker at ACG Toronto's Capital Connection 2020, the organization's first ever virtual conference and the 18th annual Capital Connection. He is the author of the Blindsided which focuses on disruptive innovation. It is published in 80 countries worldwide and is a #1 international bestseller. You can follow him on Twitter [@JimHarris](https://twitter.com/JimHarris) or email him at jim@jimharris.com