



MARCH 19, 2020

# The Alpha Edison Perspective on COVID-19, Behavioral Responses, and Business Implications

## PERSPECTIVES

### ISSUE 1

How habits disrupted during this pandemic will accelerate structural change and unlock latent demand

### AN AE SERIES

*As we partner with our investors and portfolio companies to mitigate negative business impacts from the COVID-19 pandemic, and begin to think ahead toward possible silver linings, we at Alpha Edison wanted to share with you our unique perspective, informed by our in-house behavioral research and data science teams.*

*This will be a multi-part series.*

## An unprecedented habit disruption

Social scientists estimate that about **45% of our behavior is habitual**, or repeated on a daily basis. If that number sounds large, think about the hours you spend sleeping, eating, commuting, checking your email, and doing homework with your kids. Habits free up what neuroscientists refer to as the brain's "cognitive load" so that we humans are free to focus on big, time-specific decisions, like which medical procedure to recommend or what company to invest in. *The recent COVID-19 pandemic has created an unprecedented disruption to daily consumer habits. Understanding the immediate and longer-term repercussions of such a large-scale habit disruption helps us more clearly illuminate pockets of silent suffering (many of which existed well before the coronavirus) and opportunities for companies to fill latent demand.*

But first, a quick crash course on the sheer power of *habit*: Social scientists and companies alike know that once consumers find options which satisfy their needs, they repeat ("exploit") those decisions rather than exploring new alternatives. *When something forces consumers to*

*explore, however, old habits are disrupted and, occasionally, more optimal solutions are discovered or created.* Take the case of a London tube strike in 2014, where some Londoners saw their travel routines disrupted for two days. The affected commuters experimented with new routes, some of which turned out to be better (i.e. cheaper, quicker and/or healthier) than a route they had been taking for years prior. An estimated 5% of the affected commuters chose to permanently switch to a new route after a mere two-day public transit disruption.

The COVID-19 crisis has been exponentially more disruptive than a public transit strike, given the setting of a more interconnected economy suddenly throttled by deeply personal fears regarding safety and security. Public markets have generally echoed this sentiment, with VIX activity proving to be even more volatile than the global

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*When something forces consumers to explore, however, old habits are disrupted and, occasionally, more optimal solutions are discovered or created.*

financial crisis in 2008. This will force significant behavior change across a wide range of domains. *With the prospect of several more weeks to months of enforced social distancing and business closures,*

*what will these new consumer behaviors mean for companies? Which businesses will lose (or win) customers in 2020? And what opportunities present themselves for prospective founders to seize?*

## Decreasing Demand

*The disruption of prior habits will result in a permanent switch away from, or a reduced reliance on, these behaviors*

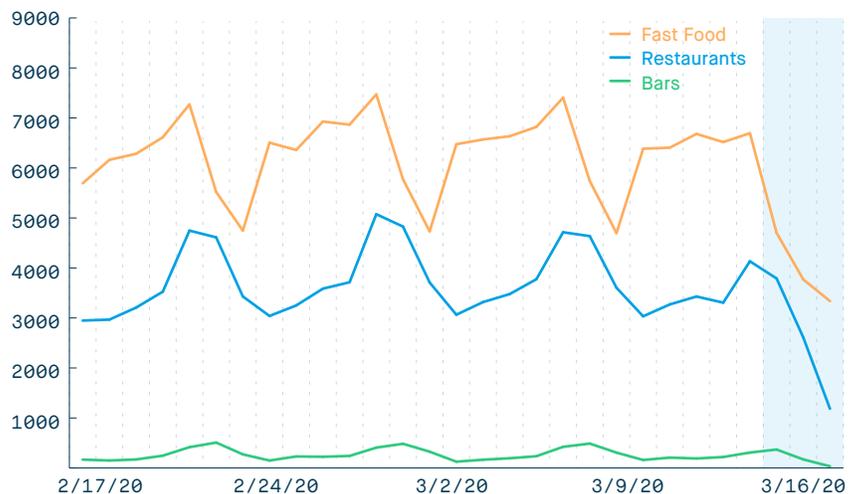
### BUSINESS NEED FOR TRAVEL

Most employers have now banned travel for the foreseeable future (until the end of March at the earliest, with other guidelines lifting in May or June). In-person meetings have historically been viewed as preferred, with the belief that business transactions could not occur unless two parties were in a room together shaking hands. As companies are forced to continue doing business virtually, with meetings shifting online and live conferences turning into webinars, **business leaders will discover that a lot more can be done remotely than previously imagined.** On top of that, these virtual meetings are a significantly cheaper (and needless to mention, safer) modus operandi.

So while some salespeople will continue to insist they must get on planes in order to bring in business, and vacation travel is unlikely to be heavily disrupted once we are “back to normal” (particularly with cancelled spring breaks creating pent-up demand for holidays), we do anticipate longer-term structural changes in how firms operate and the expectations they place on their employees. One pocket of silent suffering we identified some time ago is the burden which expectations of office facetime and long work hours place on care-givers and immuno-compromised or disabled individuals. *So while airlines might permanently lose a small percentage of their customer base, a silver lining of the crisis is the potential for alleviated silent suffering as some firms choose to more permanently shift certain meetings or functions to be remote even after this crisis is over.*

### ONSITE CONSUMPTION

While some local governments have gone as far as to close restaurants and stores altogether, increased paranoia regarding close human contact has meant that most eating and commercial establishments have seen huge drops in attendance over the past few weeks. On the other hand, formerly struggling Blue Apron, a company which delivers ingredients and the recipes needed



to make them, has seen a surge in demand over the past week as more people explore different alternatives to frozen dinners. As formerly-unwilling chefs make the best of whatever ingredients they had delivered or were able to salvage before their local supermarket was raided, some fraction will discover that cooking isn't as hard as they imagined, or at the least a lot cheaper and more convenient than eating out. **These new food consumption behaviors can be expected to permanently shift part of the restaurant-going consumer base towards home-delivery alternatives of meals and groceries. Similarly, beauty services typically consumed onsite, like those at hair and nail salons, may experience a retreat back into the home.**

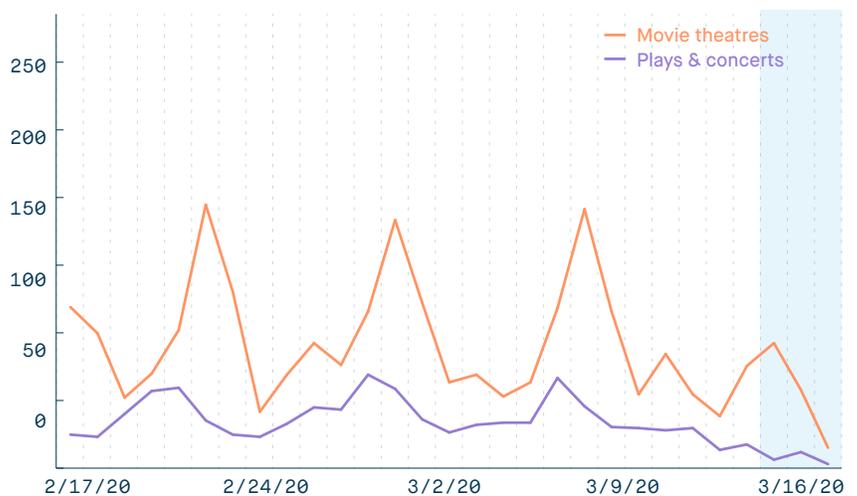
#### ↑ Food and Beverage Consumption Has Dropped Off

*In a countrywide sample of Aspiration customers, the drop in restaurant and bar attendance is becoming visible. The week to week drop through this Wednesday is 19% among restaurants, 22% among bars, and a less stark 15% in fast food chains. Over the last three days, the decline has been even steeper, with a 35% drop in restaurant attendance and 50% drop in bars.*

## Decreasing Demand (cont.)

Increased paranoia around germ-laden common areas combined with anxious movie studios can be expected to structurally impact longer-term theatre attendance. Major movie studios, led by Universal, have decided to offer day-and-date box office releases, making new films available in theatres and online streaming services at the same time. This is a radical move in an industry where production companies are traditionally forced to wait several months from the movie's release date before making it available for home viewings. But following a box office weekend lower than any other over the past twenty years, studios have decided to accelerate change in their own industry, where movie theatre attendance can be expected to predictably decline as consumers prefer the convenience, and cleanliness, of home-viewing.

These structural purchasing shifts away from brick and mortar stores to online retailers will only be expedited as shopping moves almost entirely online during the



crisis. If a small segment of the population was holding out from setting up accounts with Amazon, they would have converted during the past week (in a time of widespread layoffs, Amazon is famously hiring). This crisis will kill some retailers and hurt many others, but one thing is certain: **it only reinforces an already existing shift in behavior away from physical purchasing to online consumption.**

↑  
**Movie and Live Theatre Attendance Plummeted**  
*In the same sample of Aspiration customers, we observe an even sharper drop in theatre attendance. The week to week drop through this Wednesday is 33% among movie theatres and a more severe 52% among live theatres. Over the last three days, the decline is even steeper: 56% drop in movie theatre attendance and 73% drop in live theatre.*

## Increasing Demand

*The creation of new habits will result in some fraction of temporary consumers becoming permanently reliant on these new behaviors*

### IN-HOME ENTERTAINMENT AND CONTENT

With most live entertainment options now canceled or severely limited, consumer attention previously allocated to live sporting and concert venues has been redirected to in-home devices. Video streaming and gaming platforms will receive an increase in usage, and new users, too. And as prime time television slots are suddenly freed up, channels are grasping for ways to fill the dead air, experimenting with new sports and entertainment. *Meanwhile, bored athletes can be leveraged in innovative ways – like connecting virtually with kids who would cherish their coaching (Mojo). Similarly, tech-savvy celebrities will discover*

*new ways to connect with fans more directly (AI Foundation).*

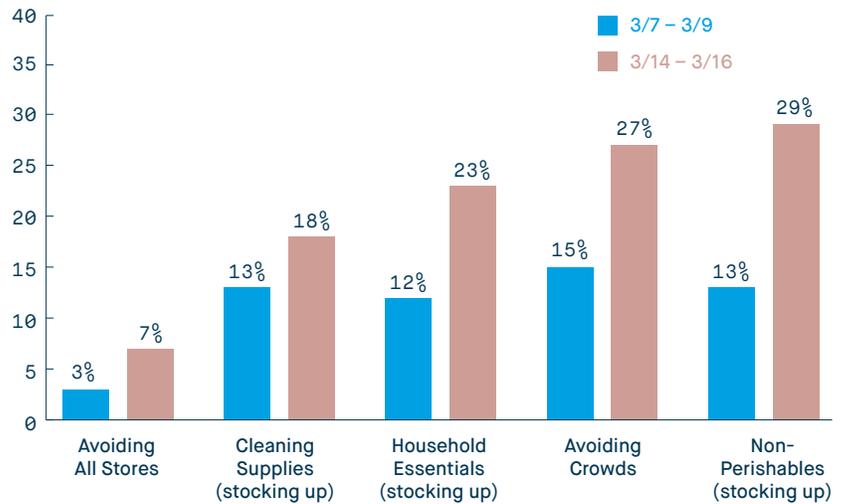
Furthermore, the increased reliance on online information will likely be accompanied by a rise in subscriptions to reliable online publishers (for COVID-19 updates, as well as more uplifting news), many of whom have been struggling to attract customers following their decision to go behind a paywall many years prior. *The desire for trustworthy, unbiased news is a theme we've seen evolve over the past few years, and the alarming spread of false information during this epidemic highlights how vulnerable consumers are when left to rely on social media for accurate real-time information.* Similarly, as schools are forced to rapidly digitize their teaching models, e-Learning platforms will break out of a previously small niche into more mainstream use.

# Increasing Demand (cont.)

## SECURE VIRTUAL COMMUNICATION

Teleconferencing platforms have seen downloads skyrocket in the past few weeks as more meetings were made virtual. App developers know that the greatest friction to habit formation is the initial download and use of a new technology. To that end, as even the most tech-challenged individuals are forced to move online, consumers will begin to create new habits around the use of telecommunications software. At AE, we hope this will have unintended positive externalities, like helping combat the loneliness epidemic facing both young and old in our country. *With many community efforts aimed at emphasizing that social distancing does not have to mean social isolation, the message (and technologies which enable it) may help those who felt isolated long before the current crisis took place.*

Having said that, at least one of the companies now heavily relied on for virtually teaching classes, holding confidential meetings, and chatting with friends was under fire for a suspected trust violation earlier this year when they were found to have been recording individuals in the background when they weren't aware of



it. We think a lot about how trust interacts with business model durability at AE, particularly the trust consumers are asked to place in companies to keep their data private and secure. *So while these platforms are currently benefiting from vulnerable customers who have no other choice, the long-term winners will be companies who prove to have secure and seamless offerings such that users willingly stay with them even when they are no longer necessary.* If an existing player can't meet an acceptable level of privacy, others will rise up to fill latent demand.

↑  
**Consumers are Taking Greater Precautions**  
*The above graph, summarizing consumer responses to the question "How have your shopping habits changed due to the coronavirus?" is reproduced from a study conducted by DISQO. The Market Research company dug into how dramatically shopping habits have changed over the past few days compared to just one week ago.*

## Latent Demand

*Brand new businesses will be created to address silent suffering exposed during this crisis*

## SAFETY AND SECURITY

Toilet paper isn't the only commodity that people are queuing up for – sales of guns and ammunition have risen sharply across the country as people's sense of safety is shaken by the pandemic. *Assuming most of these consumers understand that guns can't kill a virus, this behavior reveals a broader latent demand for products and services which meet one of the most foundational of human needs: **Feeling safe.*** Significantly

more effective at lowering the risk of contracting a virus is hands-free technology however, which we anticipate will become ubiquitous, from faucets to elevators becoming voice or gesture activated in the germophobic years to come.

Meanwhile, alternatives to guns – particularly when the current latent demand is more around psychological rather than physical safety – are desperately needed. Facebook made a small attempt when they introduced their "mark me as safe" feature, launched in response to demand from users searching for a quick way to tell their friends and family that they were doing

## Latent Demand (cont.)

okay during a crisis. However, out of liability concerns, they did not extend the feature to allow marking oneself as “unsafe.” As people scramble to keep tabs on family and friends during a pandemic, there is an emerging latent demand for a technology which allows consumers to immediately communicate their physical location and psychological state to their close network, a more advanced version of which might be interactive, responding to a consumer’s needs in real-time during moments of vulnerability. *More broadly, we anticipate seeing a significant rise in insurance purchases, and other products which provide risk mitigation, in the years to come.*

### TELEMEDICINE

With the key motivation for Flatten-the-Curve practices being that our healthcare system cannot handle an exponential spike in cases, this pandemic has perhaps most clearly revealed silent suffering around healthcare and how medical diagnoses and treatments are delivered. *As doctors currently advise patients to cancel their routine appointments in light of social distancing precautions, this illuminates an opportunity for the adoption of telemedicine and devices which allow for remote patient monitoring.* Mental health has also been in the news, as individuals cope with varying levels of anxiety, stress and irritation induced by the virus and associated restrictions on their time.

It may be a particularly opportune time for healthcare start-ups who would have otherwise faced high barriers to entry. As regulators are forced to loosen guidelines like waiving licensing regulations for out-of-state physicians and requirements for reimbursement, innovations that may have otherwise been viewed with skepticism are now more likely to be welcomed with open arms. Given that many patients actually prefer the convenience of remote care and monitoring, we don’t anticipate friction in the adoption of such new telemedicine services ([Parsley Health](#), [IDx](#)).

### SUSTAINABILITY-ORIENTED BUSINESSES

*The widespread and dramatic reduction in airplane travel and other energy-intensive activities has been one of the most striking initial impacts of this economic downturn. Individuals are learning that they can make do with less and re-use more. Companies now have an opportunity to capture and provide direct feedback on how carbon footprints have been reduced as a function of these accidentally-environmentally-conscious behaviors.*

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*For companies that put sustainability at the heart of their message, this is an opening to help consumers make at least a subset of these new behaviors more permanent. The economic costs of continuing to pile on environmental debt are incredibly high and yet often feel removed from individual behavior. Creating explicit links between how consumer choices impact the environment, even for seemingly abstract services like investment products and financial services, will help educate consumers while making the world a better place ([Aspiration](#)).*

## Looking forward

*While AE had already developed internal theses regarding many of the themes discussed above, we anticipate that the COVID-19 epidemic will accelerate forecasted structural changes through the market cycle. To that end, while we brace ourselves for a turbulent few months of public market activity to come, we remain laser-focused on helping accelerate the growth of our existing portfolio companies, as well as finding new opportunities in private markets through this time.*

*Our research team will be doing more in-depth work on the opportunity areas detailed above, as well as others, in the coming months. If you’re interested in finding out more or continuing the conversation (virtually), don’t hesitate to reach out.*



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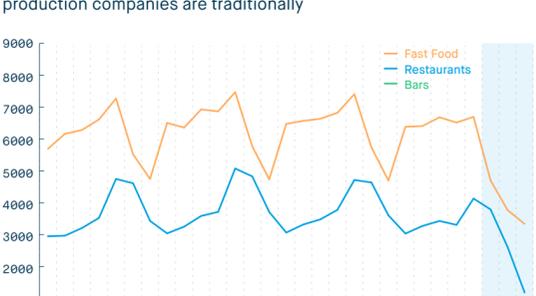
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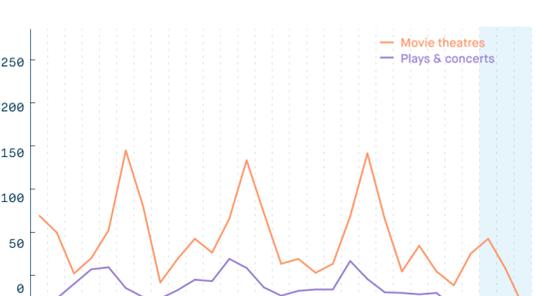
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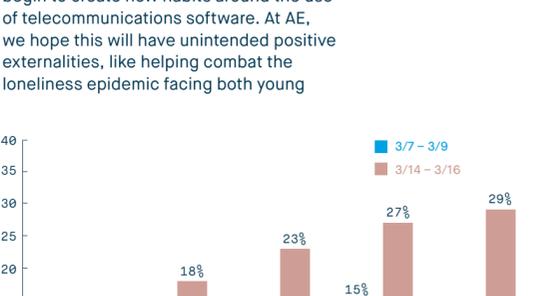
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