Harvard Business Review

WEBINAR SUMMARY

Adapt and Grow Your Business in an Age of Uncertainty

Featuring Michael Jacobides and Martin Reeves

FEBRUARY 23, 2021

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Adapt and Grow Your Business in an Age of Uncertainty

PRESENTER:

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MODERATOR:

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Overview

Contrary to conventional wisdom which emphasizes focusing on surviving a crisis, times of crisis provide valuable opportunities for organizations to change and gain strategic advantage, while other companies struggle. To adapt to the new realities that crises bring, companies must re-view, reconfigure, reallocate, and refocus. This means reviewing the changing landscape and changing customer behaviors, and reconfiguring business modes.

As ecosystems increasingly shape the market, firms must develop a strategy for how to relate to them. Longer-term success will be a result of an aggressive and dynamic strategy of resource allocation, making forward-leaning choices. Getting past the crisis, successful businesses refocus on significant trends that are driving the future.

Context

Michael Jacobides and Martin Reeves shared insights into how firms can thrive during a crisis. They offered practical tips to assess trends and make tough decisions that position organizations for longer-term success.

Key Takeaways

Certain assumptions about crisis strategy are widely held.

During crises, most companies base their strategies on intuition. The following assumptions are prevalent:

- **Prepare for lower performance.** Companies expect a crisis to be a time of mere survival.
- **The sector is single biggest determinant of impact.** Companies treat their sector as if it is fate.
- **A crisis is the worst time to grow or launch a new business.** The prevailing belief is that operational discipline is the key to survival.
- **Eventually things will return back to normal.** The tendency is to see a crisis as temporary.

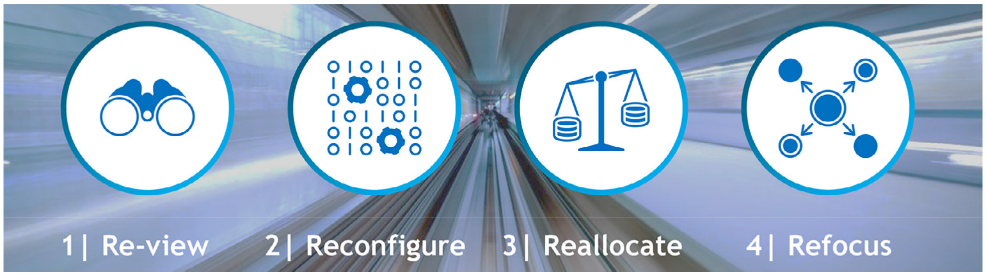
Contrary to these assumptions, a subset of firms across all sectors will thrive during and after a crisis.

The data shows that the prevailing assumptions are wrong. While the average company will indeed see smaller margins and lower growth, a subset of companies (14%) will thrive and increase sales and margins. Moreover, there will be high performers across all industries. One clear conclusion is that companies should not be reconciled to low performance.

While managing costs and cash flow is important to surviving a crisis, the differential performance of those that thrive comes mainly from growth. Counterintuitively, crises are more strategic than operational. This means that a crisis is an optimal time to separate from the competition. Previous crises have proven to change patterns of demand. A crisis represents a turning point, rather than a temporary deviation from what's "normal."

> "Not only do most of the outcomes [from a crisis] come from growth, but the spread of growth and performance increases during a crisis."
>
> —Martin Reeves

Four steps are key to leveraging the crisis and flourishing: re-view, reconfigure, reallocate, and refocus.



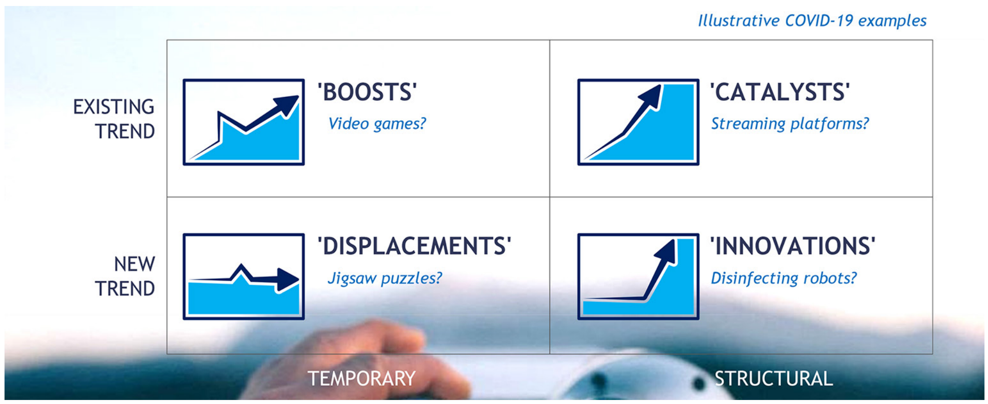
Source: "Adapt Your Business to the New Reality" (HBR, 2020)

FIGURE 1: FOUR STEPS TO ADAPT TO THE NEW REALITY

Step 1: Re-View the environment to detect changes and opportunities.

From the outset, a crisis requires looking at the world differently, focusing on new phenomena and new patterns. But the significance of a crisis is not in the obvious trends, but in insights into embryonic trends that can be exploited ahead of the competition. In addition to traditional market research, firms can now utilize analytics, visual and machine learning, and granular high-frequency data. The key is to uncover anomalies in the data and look for parallels.

When observing anomalies, firms should consider which trends are temporary versus which are structural, which are entirely new, and which amplify an existing trend. Factors to consider are whether there are multiple signals reinforcing a shift, or whether a trend is growing and displaying momentum.



Source: "Adapt Your Business to the New Reality" (HBR, 2020)

FIGURE 2: FOCUS ON LASTING TRENDS

Step 2: Reconfigure to increase the value-add in the market, with a focus on digitization.

Once a firm has considered the changing environment, it is crucial to make changes. Among the changes that successful firms are making in the current crisis:

- **Digitize.** The first change in reconfiguring is primarily to digitize. Most CEOs have said that this crisis has accelerated digital transformation from years to months. Doing so has altered relationships with customers and connections with clients.

- **Rethink sales channels.** A cosmetics firm in Wuhan, China, the epicenter of the original COVID-19 outbreak, had a traditional sales operation with in-store beauty consultants. When the pandemic made these sales channels impossible, the firm transformed its team members into online influencers. It then partnered with technology giants like Tencent to create livestreamed sales events. The result is a 200% growth in Wuhan.

> "You can think about radical change that may be able to unlock opportunities that were not visible."
>
> —Michael Jacobides

- **Redefine partners and ecosystems.** During this crisis, the tech giants have become even stronger; firms have to develop a strategy that accounts for the strength of big tech. Don't try to emulate what a big tech firm does; you can't behave like a big tech company and succeed.

  To counter big tech is the emergence and power of ecosystems, which provide a means of organizing markets. Firms must determine how they will play within an ecosystem and set their ecosystem strategy—as an orchestrator, partner, or contributor. Each firm will need to consider how it connects with other ecosystem participants and whether the firm is building or joining a larger bundle.

Source: BCG Analysis (GAP/JADE); Jacobides, Lang, von Szscepanski, 2019.

FIGURE 3: CHOOSE YOUR PLACE, SET YOUR ECOSYSTEM STRATEGY

- **Rethink your playbook.** A crisis allows an organization to rethink how it puts disparate elements together, with the opportunity to redefine its niche and value proposition.

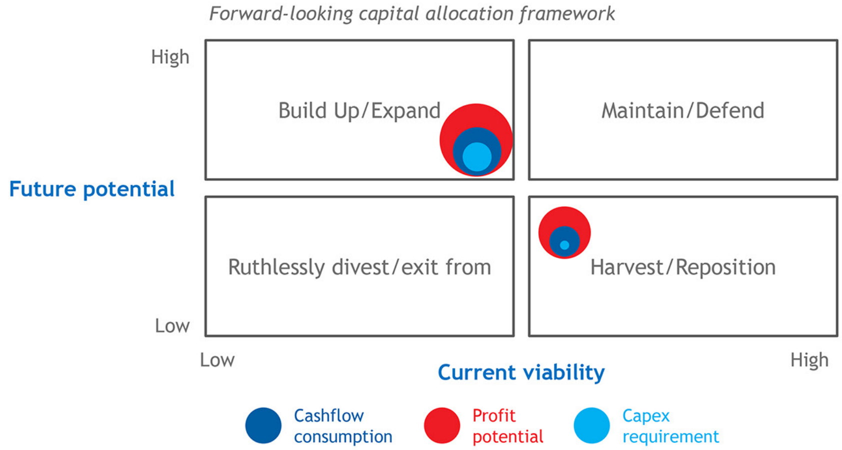
"There's a lot of benefit that you can have by rethinking both your digital structure and your partnership and ecosystem connections."

—Michael Jacobides

Step 3: "Reallocate" capital to focus on future growth, which most companies don't do.

Adapting to the new reality necessitates reallocating capital, which most firms do poorly. Firms tend to systematically allocate capital year after year in largely the same way, rather than shifting from areas of lower returns to areas of higher returns. Even CEOs who recognize the need for transformation concede in surveys that they are not modifying investment plans (only 38% do so) or investing in new business models (only 21%). The failure to reallocate capital is a critical flaw, as studies show a strong correlation between the ability to reallocate capital and returns.

A simple approach employing a forward-looking growth matrix can help drive capital allocation decisions.



Source: BCG Henderson Institute

FIGURE 4: ALLOCATE CAPITAL BY USING A FORWARD-LOOKING CAPITAL ALLOCATION FRAMEWORK

The above framework is a simple tool to reassess one business at a time.

Consider each business line's **current viability** and **future potential** based on cash flow consumption, capital requirements, and profit potential.

Sometimes it is clear what is currently viable and has strong future potential—which should be maintained and defended. But most interesting is assessing what may have low current viability but strong future potential, warranting investment and expansion. Other businesses that are currently viable but possess low future potential are ripe for harvesting and repositioning. The most difficult calls involve identifying businesses with low current viability and low future potential—which must be ruthlessly divested and exited from.

Following this simple tool—and separating this strategic discussion from annual budgeting rituals—can be useful to overcome organizations' tendencies to avoid these difficult choices.

Step 4: Refocus on important longer-term trends.

Winning during a crisis is important, but longer-term trends affecting competition remain. The key to long-term growth is the ability to focus on the major trends shaping business and society.

Key trends poised to drive the longer term include AI, ecosystems, lower growth rates, climate change, decoupling, new ways of working, and increased uncertainty. These trends are part of a pattern of technology change driving new business models, new patterns of demand, and a shift from a static to a dynamic model of competition. The result is that firms no longer compete on scale or position but on the rate of learning.

> "There's a race to embrace the long term, these factors that shape competitiveness."
>
> —Martin Reeves

Michael G. Jacobides is professor of Strategy, Entrepreneurship, and Innovation at the London Business School. He looks at how firms should navigate the increasingly complex and digitized environment: where and why value migrates, how firms can best capture it, and how they should respond to the dramatic growth of business ecosystems. His main areas of interest are digital platforms and ecosystems, financial services, and turnarounds. Jacobides is co-editor of *Industrial and Corporate Change* and publishes in top strategy and innovation journals.

Jacobides has recently been recognized by Thinkers50 as one of the world's top 50 management thinkers, and a finalist for their Strategy Award. He is a regular speaker at events and meetings, is the lead advisor of Evolution Ltd, a consulting pop-up, and is academic advisor to Boston Consulting Group, working with the leadership of the Global Advantage Practice and the BCG Henderson Institute on their thought leadership.

Martin Reeves is the chairman of the BCG Henderson Institute in San Francisco and a coauthor of *The Imagination Machine* (Harvard Business Review Press, forthcoming). He leads the BCG Henderson Institute worldwide, BCG's think tank on new approaches to strategy and management. Reeves is also a member of the BCG Henderson Institute's Innovation Sounding Board, which is dedicated to supporting, inspiring, and guiding upstream innovation at BCG.

Reeves is a regular contributor to management journals on business strategy and management. A regular public speaker and a repeat TED@BCG presenter, he is also coauthor of *Your Strategy Needs a Strategy*. Since joining BCG in 1989, Reeves has led a broad range of strategy assignments in the Financial Institutions, Consumer Goods, Industrial Goods and Health Care sectors. He has particular expertise in the areas of adaptive strategy, strategy for multi-business systems, sustainability strategies, ecosystem strategies, collective learning and innovation, corporate vitality, and trust.

Julie Devoll is Editor for Harvard Business Review Webinars and Director of Marketing and Communications for Harvard Business Review Press. In her 20 years at HBR, Devoll has led the marketing strategy—events, media relations, social media, and more—for HBR's bestselling books, articles, and authors. She has partnered with many high-profile experts on promoting their ideas to a broad audience of business professionals, including AG Lafley, former CEO of Procter & Gamble; Reid Hoffman, Co-Founder and Executive Chairman of LinkedIn; Sallie Krawcheck, CEO and Co-Founder of Ellevest; and Daniel Goleman, author of the *New York Times* bestseller, *Emotional Intelligence*.

Devoll also led the foundational team that launched HBR's presence on social media platforms, notably Facebook, Twitter, and LinkedIn. In her editorial role for Webinars, Devoll works to identify thought-leaders and content that creates value for clients, HBR subscribers, and webinar participants.

Prior to her time at *Harvard Business Review*, Devoll was a Product Manager for MediaMap, Inc. (now Cision) where she managed the research and development for Cision's high-tech media product. Devoll graduated cum laude from Stonehill College with a Bachelor of Arts in English and a minor in Mass Communications and Journalism.