The time for
BOLD MOVES

5 critical steps to accelerate growth through and beyond the pandemic crisis

Stuart Cross, December 2020

Finally, after months of restrictions to our way of life, there appears to be light at the end of the tunnel. The announcement of new Covid-19 vaccines has raised both stock market values and consumer confidence. There will be a recession and tough economic times ahead, but is this the turning point when businesses can start to go back to their pre-pandemic business as normal?

The simple answer is no. There can be no going back for companies and their leaders. Instead, the next 12 months provides an opportunity for organised, focused and well-prepared businesses and leadership teams to be bold. There are three broad reason for this:

1. **The pandemic has served to accelerate existing shifts in consumer behaviour**. In retail, for example, the Office for National Statistics has reported that UK online retail sales are now over 50% higher than their pre-pandemic levels across a range of sectors, including food, department stores and household goods. No retail business can now thrive without an effective digital proposition that includes click and collect, home delivery and in-store self-checkout.

   The negative impact of online trading on physical stores has forced numerous retail brands into administration and store closures – including famous names such as Monsoon, Top Shop, Jaeger and The Edinburgh Woollen Mill. Overall, The Centre for Retail Research predicts that there will be over 20,000 permanent store closures in the UK in 2020.

   In other words, going back is not an option. Instead, you must now focus on the new reality of your markets and try to better understand and serve your customers' new priorities and needs.

2. **Market leaders have become even more powerful, while weaker players have fallen further behind**. McKinsey has reported that its study of 3,000 leading corporations shows that while the top 20% of companies have grown their economic profits by $335 billion during 2020, the bottom 20% have seen their profits decline by over $300 billion. What's more, McKinsey note that this pattern is repeated across a wide range of industrial sectors. The consultancy's initial assessment is that the most successful businesses in each sector had already invested in new capabilities to operate in online channels. As a result, they've been best positioned to profit from the acceleration of these existing consumer trends brought about by the pandemic.

3. **Previous recessions have shown that a downturn is one of the best times to invest for longer-term success**. As I laid out in my companion paper, *Powering Through the Recession*, there are several studies of corporate performance through and beyond the global financial crisis. Analysis by Bain & Co, for instance, of 4,000 businesses that delivered double-digit growth between 2003-2007, showed a wide range in performance following the crisis[1]. While the losers grew at an average rate of 0% in the period 2007-17, the winners delivered average growth of 14% per annum. Further analysis showed that while the losers focused on cutting investment and reducing sales and marketing spend – basically hunkering down during the economic storm – the winners balanced cost management with selective investment for growth, as well as pursuing a proactive M&A pipeline. These investments not only enabled the winners to grow through the economic downturn of 2008-2009, but also created advantages that drove even more growth in the post-recession recovery.

[1] *Beyond the Downturn: Recession strategies to take the lead* – Holland and Katzin, Bain & Co., 2019

The 5 Critical Steps

The evidence therefore suggests that, far from going back to where you were before the pandemic hit, now is the time to make some big, bold moves and to (re)position your business for future success. Simply looking to manage costs, protect what you have and wait for the recession to end won't help you win. Not only will you have fallen behind those who have invested for growth during the downturn, you will also find it far harder to grow during the recovery.

So, what steps should you take to have the maximum chance of making strategic gains through and beyond the upcoming recession? There are five critical actions that CEOs and senior leaders should now be pursuing:

Step 1: **Commit to making big moves**

This may seem obvious, but without a shared commitment across the leadership team, there is a risk to that you will only make small, incremental moves when bold steps are required. Most CEOs that I work with recognise the need for big, bold strategies to win in their markets. Yet, organisational inertia – driven by internal politics, risk aversion and executive bonus schemes – limits any break-out thinking in too many businesses.

It doesn't have to be that way. At one UK retailer I worked with a few years ago, the CEO began a series of strategy meetings by articulating to his team the need for bigger change. The company's profits had flatlined for several years and the financial crisis was creating further downward pressures on performance. The discussion that followed the CEO's presentation covered a series of logical, business issues, including market prospects, likely competitor moves and changing customer priorities. Critically, however, it also addressed certain behavioural issues, such as the executive team's previous resistance to major change, how well the company supported innovation and how effectively the executive directors communicated with their teams.

Following this discussion, the team committed to creating a more ambitious, growth-oriented strategy. The directors also agreed to working more closely as a team and signing-up to a set of common behaviours. Not everyone was equally committed and, over the subsequent six months, the CEO removed some of the directors who "didn't get it" and created a smaller, more tightly-nit leadership team to lead the strategy.

Speaking to the CEO a couple of years later, I asked him what he thought had been the most important factor in driving the company's success. His immediate response was that the difficult process of building executive alignment around the need for big change was absolutely fundamental to the company's ability to make bolder strategic moves and accelerate its growth. The first job of the CEO, therefore, is to set the scene and create an environment where everyone involved recognises the need to eschew small thinking and commit to far bigger strategic actions.

Step 2: **Identify and agree the big idea for your market**

Back in the early noughties, as the company transitioned from a book, CD and DVD business into a multi-category retailer, Jeff Bezos focused on the critical importance of convenience for consumers. You may view this as a no-brainer, but no-brainers, when properly pursued can be hugely valuable.

As Bezos said in a 2007 interview in the Harvard Business Review[2], "*It helps to base your strategy on things that won't change….. [Our customers] want selection, low prices and fast delivery. I can't imagine that ten years from now they are going to say, 'I love Amazon, but if only they delivery my products a little more slowly.' We know that if we keep putting energy into that flywheel, ten years from now it'll be spinning faster and faster.*"

Identifying and profoundly understanding the 'big idea' in your market may lead to even more radical change than Amazon have delivered. In 2001, for example, the Board of Whitbread, the UK brewer, decided that the 'big idea' in brewing was global scale. Unfortunately, that was something that Whitbread didn't have. As a result, the company sold its breweries and beer brands to Interbrew (now InBev).

This massive change led to the company focusing on its hospitality activities, allowing it to create and grow two of the UK's most successful and valuable hospitality brands of the 21st century, *Costa* and *Premier Inn*. Without first realising that the company couldn't effectively win in brewing and selling the brewing business, it is unlikely that Whitbread's managers would have developed these brands in such a single-minded way.

Step 3: Align your business behind your big idea and build your growth flywheel

Amazon's incredible success is, in large part, due to the company's ability to focus on delivering its strategic priorities. Bezos's prioritisation of more choice, lower prices and delivery speed has led to innovations such as Amazon Prime, Amazon Marketplace, its move into more product categories, including Amazon Fresh, and the Kindle. Each initiative was a bold strategic move; together they have been transformational.

Success requires discipline on three dimensions. First, you need the discipline to remain focused on your priorities and to avoid spending time and effort on non-strategic initiatives. Second, you need the discipline to create and embed a consistent, cross-business approach to managing innovation and change. At Amazon, Bezos created the S Team (S meaning 'senior') which met every Tuesday to review and fund the company's big initiatives. That way, the opportunity for pet projects and non-strategic functional initiatives is reduced. And third, you need the discipline to follow through, and remain focused on your strategic objectives, even if some of the specific projects fail. As Bezos put it in the same HBR article, "*It's important to be stubborn on the vision but flexible on the details.*"

In 2013, I worked with the leadership team of Topps Tiles, the UK's leading tile retailer. Despite having entered a few adjacent categories in previous years as a way to stimulate growth, the team that decided to focus its strategy on more single-mindedly growing its UK tiles sales. As a result, the company exited its wooden flooring business and other associated decorating categories. The organisational focus on tiles led to a step-change growth in the company's share of the UK retail tile market from 25% to 33% in just four years, and also prompted a move into the UK commercial tile market. In other words, strategic focus and alignment created the platform for management to make bolder strategic moves, accelerating growth.

[2] *The Institutional Yes; An Interview with Jeff Bezos* – Harvard Business Review, October 2007

Step 4: **Support these moves with selective M&A activity**

You will only drive the flywheel if organic growth is supported with complementary acquisitions. Downturns are perfect time to accelerate M&A investments. Companies that significantly increased M&A spend during the 2008 financial crisis, for instance, delivered the biggest increases in shareholder return in the following period[3]. At this time, as other companies struggle to deliver meaningful returns, the opportunities for value-adding acquisitions will increase. Average deal values fell from 10.8x earnings in the three years before the global financial crisis to just 6.5x in 2009 before climbing again[4].

In other words, the window for high-value acquisitions may be relatively short and favour those willing to take the prudent risks necessary. Discipline, due diligence and effective post-acquisition integration are still necessary, of course, but the evidence suggests that annual acquisition spend that amounts to c.10-25% of your market cap and that is aligned with your underlying strategy can accelerate your ability to reach new markets, add new organisational capabilities and step-change returns.

Step 5: **Underpin your strategic moves with a step-change in productivity**

Reducing costs and protecting both profit margins and balance sheet pressures, is an essential pre-requisite of recession-proof growth. Yet, shifting into crisis mode and focusing on lowering head counts and reducing the cost of every budget item does little to help you win.

A McKinsey study of the 2008 recession found that the best-performing and most resilient companies focused primarily on operational effectiveness and reducing the costs of goods sold[5]. Other research has shown that that improving operational efficiency, rather than aggressively reducing costs, was the most productive way to succeed through and beyond a downturn[6].

The key is that productivity improvements not only help companies deliver better returns during the crisis, but also turbo-charge profits in the recovery. Fundamentally reviewing operations from every angle and making the necessary investments to improve productivity create permanent gains. As demand grows, costs stay low and margins grow. Cutting costs, on the other hand, can help short-term results, but when better times return costs will simply increase again, inhibiting profit growth.

Seizing the opportunity

Recessions and crises unfreeze the competitive environment. The resulting shifts in customer needs and priorities enable those companies that are sufficiently prepare to radically improve their strategic position. The window of opportunity is not endless, however; perhaps just a year or so. Consequently, CEO's and their leadership teams must also move away from any past inhibitions and realise that, done well, the returns available from bold moves can significantly outweigh the downside risks.

If your business leads its market, for instance, this is the perfect time to build further distance from your competition. While your rivals focus on surviving the downturn, you have the scale and returns to invest for the next phase of growth.

[3] *Advantage Beyond The Crisis* – King, Wald and Manly, Boston Consulting Group, 2020
[4] *The Case for M&A in a Downturn* – Salsberg, Harvard Business Review, May 2020
[5] Bubbles Pop, Downturns Stop – Hirt, Laczkowski and Mysore, McKinsey Quarterly, May 2019
[6] *Roaring Out of Recession* – Gulati, Nohria and Wholgezogen, Harvard Business Review, March 2010

Alternatively, if you're currently in the pack, delivering 'average' market performance, it is likely that while you are winning in some areas, you are falling behind in others. Reallocating resources to where you are both currently advantaged and where you believe that you can profitably win in the future, and away from your less productive activities, is the key to your future success. This may mean divesting loss-making businesses, to help you to focus where you can win.

Finally, for those companies at the back of the competitive pack, it is unlikely that you will have the resources necessary to fundamentally change your position. However, you can still identify and focus on an area of your business or market where you can build sales growth momentum, creating a springboard for further growth during the economic recovery. Again, divestment of underperforming assets may be necessary to give you the funds for investment.

Whatever your current market position, there are two clear truths. First, given the economic and social changes, it is possible for you to significantly improve your position. Second, the transitory nature of this window of opportunity means that you must move quickly. This is a time to act decisively, to learn rapidly and to execute brilliantly.

In short, it's the time for bold moves.

About Stuart Cross

Stuart Cross is a consultant and coach who helps market-leading companies accelerate growth. Since its launch in 2006 his firm, Morgan Cross Consulting, has attracted clients including Walgreens Boots Alliance, Green King, Dunelm, GSK, DFS, Morrisons and TD Ameritrade.

"I have worked with Stuart Cross for over a decade. Stuart has always helped me to think and act differently, and that is the key to innovation in any leadership role." **Alex Gourlay, Chief Operating Officer, Walgreens Boots Alliance**

To find out more, please contact Stuart at:

Morgan Cross Consulting Limited
PO Box 9210
Newark-on-Trent
NG24 9EG
☎ +44 (0)1636 526111
✉ stuart@morgancross.co.uk