CEO advisory

Leadership and strategy in the news

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Of strategies and strategists

Agile management and the new normal

The coronavirus crisis has vast biological, economic, leadership, political, social, and moral implications that will be felt for years, if not decades. New ways of working. New ways of playing. New ways of learning. New ways of leading. New ways of living. Everything will be different. This is the mother of all disruptions. It is ushering in a new age.

The crisis is thus proving to be a Great Accelerator. The crisis is speeding up some negative trends. Aspiring authoritarians are using the emergency to test the limits of civil rights and to consolidate power at the expense of democracy. Yet the crisis is also accelerating positive changes that were already underway, including the shift to digital and virtual work and learning, enhanced international collaboration, emergent leadership at the periphery, public service contributions in a spirit of solidarity, and above all, an acceleration of organizational adaptation. . ..

Just as the coronavirus crisis is forcing businesses to reinvent themselves, so it is also forcing the reinvention of business agility itself. Thus, many of the practices of business agility were articulated for software development and were dependent on face-to-face meetings. Now that face-to-face meetings are often no longer possible, Agile practices need to be reformulated in more general terms so that they can be implemented virtually as well as face-to-face and more broadly so that they enable the whole organization to be agile.

In this context, strategic agility (creating new businesses) is emerging to be much more important than operational agility (making the existing business better). This implies a shift for the Agile movement which has mainly been focused on training software developers in operational agility. It will thus be important for trainers and coaches to become familiar with the principles of strategic agility, including the four keys to achieving strategic agility and the centrality of metrics to achieving strategic agility.

While there is much talk of “returning to normal,” we need to consider whether “normal” is good enough.

Steve Denning, “Why Only The Agile Will Survive,” *Forbes* 19 April 2020 www.forbes.com/sites/stevedenning/2020/04/19/why-only-the-agile-will-survive/?

What it takes to manage supply chains in a crisis

Despite numerous supply-chain upheavals inflicted by disasters in the last decade . . . most companies still found themselves unprepared for the Covid-19 pandemic. Seventy percent of 300 respondents to a survey conducted by Resilinc in late January and early February, immediately following the Covid-19 outbreak in China, said they were still in data

Craig Henry, *Strategy & Leadership’s* intrepid media explorer, collected these examples of novel strategic management concepts and leadership practices and impending environmental discontinuity from various news media. A marketing and strategy consultant based in Carlisle, Pennsylvania, he welcomes your contributions and suggestions (craig_henry@centurylink.net).

collection and assessment mode, manually trying to identify which of their suppliers had a site in the specific locked-down regions of China. There are a number of reasons for this problem and potential solutions. . ..

Many companies and leaders talk about the need to do supply network mapping as a risk-mitigation strategy, but they have not done so because of the perceived large amount of labor and time required. Executives of a Japanese semiconductor manufacturer told us that it took a team of 100 people more than a year to map the company's supply networks deep into the sub-tiers following the earthquake and tsunami in 2011. . ..

Yes, supply network mapping can be resource intensive and difficult. However, there is no way around it. Companies will discover the value of the map is greater than the cost and time to develop it. . ..

When selecting a supplier and writing the initial contract, many leading companies include language that requires the supplier to participate annually in its supply-chain mapping efforts. When force majeure events like the current pandemic strike, those supply maps can be used as a roadmap to solutions to the crisis. Contracts should also spell out expected recovery times and methods during such events.

Thomas Y. Choi, Dale Rogers and Bindiya Vakil, "Coronavirus Is a Wake-Up Call for Supply Chain Management", *Harvard Business Review* 27 March 2020 https://hbr.org/2020/03/coronavirus-is-a-wake-up-call-for-supply-chain-management

Relearning the lessons of lean production-facility

What the current situation exposes is that the risks associated with supply chain fragmentation and globalization have been unpriced and largely ignored. For many companies, the combination of lean production and global multistage supply networks is leading to crises. This should be a wake-up call for managers who need to understand their supply chain's strategic vulnerabilities. A number of potential actions come to mind:

Consider regionalization. The U.S.-China trade war has already put regionalization of manufacturing back on the table. While production moves have begun in many cases, localizing the supplier base is also worth considering. When Toyota pioneered lean production in Japan back in the 1970s, its suppliers facilitated this by being co-located nearby . . . . Yet many companies, lulled by efficient and relatively inexpensive logistics and transport, have been applying lean and just-in-time production methods that span global networks. The current crisis exposes the vulnerability of this approach.

Willy Shih, "Is It Time to Rethink Globalized Supply Chains?," *Sloan Management Review* 19 March 2020 https://sloanreview.mit.edu/article/is-it-time-to-rethink-globalized-supply-chains/

How Amazon succeeds during a crisis

During the second week of March, as the stock market and many U.S. businesses slumped, Peter Spenuzza's company, Rise Bar, enjoyed an unexpected boost. Amazon, where the protein bars are sold, suggested Spenuzza keep 18,000 packages in its warehouses, up from the usual 4,000.

Demand on Amazon poses a dilemma for Spenuzza. Rise Bars are also sold in grocery chains nationally. Although his Irvine, California, plant has been running at full production capacity, he didn't have enough bars to send both to Amazon and to all the brick-and-mortar retailers. . .. One week in March, when he ran out of stock on Amazon, its algorithm demoted his product listings in Amazon's search results and removed his sponsored ads. Rise Bar plummeted from 2,000 to 8,000 in Amazon's "best seller" ranking in the grocery category, allowing competitors to leapfrog him. The brand's weekly Amazon sales dipped by 25%. Dismayed, Spenuzza decided to regularly send the e-commerce giant the "lion's share" of his inventory and ship whatever is left to everyone else, he said. . ..

He's not alone. At a time when much of the retail sector is collapsing, Amazon is strengthening its competitive position in ways that could outlast the pandemic. . ..

> "Amazon has the power to bury sellers and suppliers if they don't comply," said Sally Hubbard, director of enforcement strategy at Open Markets Institute, a think tank that has been critical of Amazon and other big tech companies. "It might be automated through an algorithm, but it's still the wrath of the monopolist that they are afraid of. . . . Amazon is able to cut o its competitors' access to inventory by leveraging its monopoly power."

As locked-down shoppers have flocked to buy food, medicine, cleaning supplies and personal care products on Amazon, the retailer has in turn upped its suggested inventory levels for many manufacturers that sell their products on its platform. . .. But if they run out on Amazon, where "best seller" status and a listing's position in search results are linked to availability, the impact on sales could be devastating.

Renee Dudley, "The Amazon Lockdown: How an Unforgiving Algorithm Drives Suppliers to Favor the E-commerce Giant over Other Retailers," *ProPublica* 26 April 2020 www.propublica.org/article/the-amazon-lockdown-how-an-unforgiving-algorithm-drives-suppliers-to-favor-the-e-commerce-giant-over-other-retailers

Amazon and the benefits of confusion

What are Amazon's greatest innovations? Drones? Cloud computing? Echo and Alexa? These are impressive; some are even revolutionary. However, I believe Amazon's greatest innovations are the ones that have changed the basics of competing to the point where they now sound mundane.

My top list of greatest Amazon innovations includes Free Everyday Shipping, Prime Loyalty, and Item Authority. Deceptively simple, Item Authority signed up multiple sellers of the same item to increase item selection, availability, and price competition. It was the killer feature that led to Amazon overtaking eBay in the mid-2000s as the destination site for third-party sellers.

What are the common traits each of these innovations share? For one, they are all customer experience and business model innovations. What they also have in common is the fact that incumbents and industry pundits woefully underestimated their impact on the industry and the bottom line. . . .

The most impactful and underappreciated aspect of innovation is challenging common and long-held assumptions about how things work. When you create an alternative to these assumptions, expect many doubters. . . .

To many of its competitors, Amazon makes no sense. It's the most befuddling, illogically sprawling, and to a growing sea of competitors flat-out terrifying company in the world. If you aren't upsetting someone, you likely are not disrupting much of anything.

John Rossman, "How Amazon Thrives on Being Misunderstood," *Branding Strategy Insider* 23 March 2020 www.brandingstrategyinsider.com/how-amazon-thrives-on-being-misunderstood/#.Xqkl_WhKiM8

Markets and disruption

The world after coronovirus

The question for now is: what will that economy look like? A few things, I think, are clear. The economy will not grow back up to its trend line prior to the pandemic. This, for example, from the Center on Budget and Policy Priorities, is what happened after the financial crisis and Great Recession:

Not only did actual GDP fall, but the trend line of potential GDP fell as well, costing the economy trillions of dollars of output. Behind that loss of potential GDP is an enormous human cost. Recessions cause permanent damage to people who lose their jobs and to recent graduates who can't find jobs. . . .

Amazon will be a big winner, of course. A large proportion of the population, particularly among the affluent, already reflexively shopped for everything at Amazon. The pandemic is pushing more people to try to fulfill all of their consumer needs online, and they aren't going to stop when the coast clears.

More generally, big chains will expand their domination over the economy. Tens of thousands of small businesses will vanish, never to return, wiped out by weeks or months of zero revenues. Large corporations will have the capital to swoop in and steal their customer base.

The other winners will be private equity funds with the nerve to buy assets on the cheap. This time, the bargains will be found in small businesses desperate for capital and commercial real estate hammered by defaulting tenants.

The business sector will become more concentrated. Inequality will increase.

James Kwak, "COVID-19: Winners and Losers", *Baselines Scenario* 29 March 2020 https://baselinescenario.com/2020/03/29/covid-19-our-future-economy/#more-16937

Start-ups after the crash

Coronavirus . . . strikes at a time when many of the world's 450-odd unicorns were looking ropy. Their perpetually loss-making business models—only a small proportion are in the black—were increasingly being questioned. So were their exuberant valuations, which added up to perhaps $1.3trn globally. A reckoning was afoot; some unicorns would "go under", Dara Khosrowshahi, boss of Uber, a ride-hailing giant which relinquished its unicorn status by going public last year, told *The Economist* on March 2nd.

Among investors, "fear of missing out" has been giving way to "fear of looking stupid", says Alfred Lin, a partner at Sequoia Capital, a venerable Silicon Valley venture-capital (VC) firm. Plenty have given up trying to do new deals; instead they are trying to save old ones. One firm is telling its companies to expect 30% less revenue in the next two quarters and to cut costs accordingly. On March 5th Sequoia put out a memo entitled "Coronavirus: The Black Swan of 2020" warning that the outbreak will depress startups' growth and calling on its portfolio firms (one of which is DoorDash) to rein in costs, conserve cash and brace for capital scarcity.

Most telling, the gospel of growth at all cost has gone out of the window. After years of initial public offerings (IPOs) being done without much focus on profits, "path to profitability" is the new watchword, says Ryan Dzierniejko of Skadden, Arps, Slate, Meagher & Flom, a law firm. "The law of economic gravity has returned as it does every decade or so," says Michael Moritz, another Sequoia partner.

"Technology startups are headed for a fall," *The Economist* 4 April 2020.

Culture and innovations

Leadership traps to avoid in a crisis

Crises, replete with both complexity and change, require executives to both lead and manage effectively. Addressing the urgent needs of the present is the work of management. You need to make immediate choices and allocate resources. The pace is fast, and actions are decisive.

Leading, by contrast, involves guiding people to the best possible eventual outcome over this arc of time. Your focus needs to be on what is likely to come next and readying to meet it. That means seeing beyond the immediate to anticipate the next three, four, or five obstacles.

Crises are most often over-managed and under-led. The best leaders navigate rough waters deftly, saving lives, energizing organizations, and inspiring communities. However, we've found that many leaders fall into one or more of the following leadership traps:

1. Taking a Narrow View. The human brain is programmed to narrow its focus in the face of a threat. It's an evolutionary survival mechanism designed for self-protection. The trap is that your field of vision becomes restricted to the immediate foreground. . ..
2. Getting Seduced by Managing. For leaders who have risen up through an organization or in a single industry, managing a crisis can feel thrilling. The trap is that you're often returning to your operational comfort zone. Your adrenaline spikes as decisions are made and actions are taken. You experience a feeling of adding tangible value. However, it is like a sugar high that is quickly followed by a crash. . .
3. Over-centralizing the Response. Risk and ambiguity increase during a crisis because so much is uncertain and volatile. The trap for leaders is trying to control everything. Suddenly, you've created new layers of approval for minor decisions. The organization becomes less responsive and frustration grows with each new constraint. The solution is to seek order rather than control. Order means that people know what is expected of them and what they can expect of others. Leaders must acknowledge that you can't control everything. . . .
4. Forgetting the Human Factors. While it may seem obvious, crises are crises because they affect people. However, leaders can instead become trapped by focusing on the daily metrics of share price, revenue, and costs. These are . . . the outcome of the coordinated efforts of people. Organizations exist in order to accomplish together things that individuals cannot do alone.

Eric J. McNulty and Leonard Marcus, "You Leading Through the Crisis. . . or Managing the Response?" HBS *Working Knowledge* 25 March 2020 https://hbswk.hbs.edu/item/what-are-the-lessons-of-this-black-swan-crisis-for-leaders

Putting humans first to get the most from Big Data

Business analytics should offer a structured, systematic way for leaders and teams to approach business problems. There should be systems that allow us to leverage the underlying data to support the intuition of individuals, and certainly not replace the decision-making capabilities and experience of domain experts who should be guiding the process.

What decisions are we trying to improve? What are we trying to understand about our customers? What data do we need to achieve this? What data do we currently have? Can we gain a better understanding of that data? What additional data would we like to have? Can we innovate around the type of data we might want to collect in order to be able to answer the questions we really care about?

It is in this symbiosis of creating a team of data experts and domain experts that the real value in data analysis is created. For while machines are masters at creating solutions from data, they still lag some way behind humans in identifying the right problems to solve, and so too in the relevant questions we should be asking of that data.

'Surge pricing' on Uber is an obvious example, where short-term increases in demand provoked by a rainstorm or the end of a large football match, for instance, result in instant but temporary hikes in journey prices. This approach is also seen in booking hotel rooms and on the likes of Airbnb. Retailers can update pricing decisions frequently, especially in the context of e-commerce, where the price of updating decisions is very low, and we are seeing it trialled in the grocery market too, where electronic price signage allows prices to change during the day depending on demand.

It is in these more nuanced decisions that an understanding beyond the pure numbers, becomes so valuable. Artificial Intelligence will learn patterns of human behavior over time, given sufficient quantities of data, but an expertise in understanding consumer psychology and biases is also needed to ensure incorrect solutions are not generated and implemented.

Omar Besbes, "The Intersection of Data & Human Experience", Columbia GSB *Ideas at Work* 7 April 2020 www8.gsb.columbia.edu/articles/ideas-work/intersection-data-human-experience

Industry focus

Retail after the shutdown

American department stores, once all-powerful shopping meccas that anchored malls and Main Streets across the country, have been dealt blow after blow in the past decade. J.C. Penney and Sears were upended by hedge funds. Macy's has been closing stores and cutting corporate staff.

But nothing compares to the shock the weakened industry has taken from the coronavirus pandemic. The sales of clothing and accessories fell by more than half in March, a trend that is expected to only get worse in April. The entire executive team at Lord & Taylor was let go this month. Nordstrom has canceled orders and put off paying its vendors. The Neiman Marcus Group, the most glittering of the American department store chains, is expected to declare bankruptcy in the coming days, the first major retailer felled during the current crisis.

> "The department stores, which have been failing slowly for a very long time, really don't get over this," said Mark A. Cohen, the director of retail studies at Columbia University's Business School. "The genre is toast, and looking at the other side of this, there are very few who are likely to survive."

At a time when retailers should be putting in orders for the all-important holiday shopping season, stores are furloughing tens of thousands of corporate and store employees, hoarding cash and desperately planning how to survive this crisis. The specter of mass default is being discussed not just behind closed doors but in analysts' future models. Whether or not that happens, no one doubts that the upheaval caused by the pandemic will permanently alter both the retail landscape and the relationships of brands with the stores that sell them. . ..

Even as they have worked to transform themselves for e-commerce with apps, websites and in-store exchanges, the outbreak has laid bare how dependent the department stores have remained on their physical outposts.

Sapna Maheshwari and Vanessa Friedman, "The Death of the Department Store: Very Few Are Likely to Survive," *New York Times, 21 April 2020*.

A wider view

Lessons for the next Black Swan

As [the author of *The Black Swan: The Impact of the Highly Improbable*, Nassim] Taleb told me, "The great danger has always been too much connectivity." Proliferating global networks, both physical and virtual, inevitably incorporate more fat-tail risks into a more interdependent and fragile" system: not only risks such as pathogens but also computer viruses, or the hacking of information networks, or reckless budgetary management by financial institutions or state governments, or spectacular acts of terror. Any negative event along these lines can create a rolling, widening collapse—a true black swan—in the same way that the failure of a single transformer can collapse an electricity grid.

Covid-19 has initiated ordinary citizens into the esoteric "mayhem" that Taleb's writings portend. Who knows what will change for countries when the pandemic ends? What we do know, Taleb says, is what cannot remain the same. He does want the institutional equivalent of "circuit breakers, fail-safe protocols, and backup systems . . . ."

For Taleb, an antifragile country would encourage the distribution of power among smaller, more local, experimental, and self-sufficient entities—in short, build a system that could survive random stresses, rather than break under any particular one.

Bernard Avishai, "The Pandemic Isn't a Black Swan but a Portent of a More Fragile Global System," *New Yorker* 21 April 2020.