Lessons in Resilience from Companies That Were Down but Never Out

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All companies faced extreme disruptions from COVID-19, but a subset faced an even bigger challenge: they had been struggling before the pandemic and were in the middle of a transformation to improve performance. For many of these organizations, the pandemic could have been the death blow, yet we identified some that managed not only to survive but to thrive.

These companies didn't scrap their transformation plans when COVID hit but rather adjusted them. They redoubled their efforts and saw the pandemic as an opportunity to *accelerate* the transformation, building digital capabilities and introducing new ways of working. Now that the crisis is beginning to ease, their efforts are paying off, helping them compete more effectively and boosting their resilience to any future crisis. These companies were all were in major trouble, and all have significantly rebounded.

We believe that transformations can help virtually every company, from market leaders seeking to reinforce their lead to organizations in need of a structural turnaround. The companies we studied put that thesis to the test. Their stories—including a home goods company, a fleet manager, and a jewelry retailer—show that with strong leadership and a solid transformation plan, a company may be down but it will never be out.

PERFORMANCE IS IN THE HANDS OF MANAGEMENT

We looked at the performance of about 8,000 companies representing 17 sectors around the world over the past three years across a variety of KPIs: margin, revenue, cost of goods sold, sales, general and administrative expenses, and capex. The data told an interesting story about how companies responded to COVID-19.

The pandemic hit some industries much harder than others. For example, the automotive and fashion and luxury sectors saw revenue declines of 10% to 15% in 2020 compared with the previous year. Oil and gas companies saw bigger drops of more than 20%, and travel and tourism companies saw their revenue fall by nearly 50%. In contrast, biopharma and technology companies actually experienced an increase of 7% and 6%, respectively.

Similarly, geographic regions experienced varying levels of fallout. Companies based in Spain, Portugal, France, and India were the hardest hit, experiencing average revenue declines of 7% to 8% from 2019 to 2020. Faring slightly better were companies based in the UK, Germany, Austria, and Japan, which saw revenue declines of 3% to 5%. At the same time, some countries, like Brazil and Greater China, saw their overall revenue rise in 2020 by approximately 6%.

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Yet even within the most hard-hit industries and regions, some companies managed to outperform the competition. Even more surprising, some went into the crisis facing their own internal challenges and had launched transformations that were underway in early 2020. Despite that, they still emerged from the pandemic ahead of their peers.

When entire industries are in crisis, some management teams may be tempted to use that as an excuse for subpar performance. But the key takeaway from our research is that even when an entire industry or region is struggling, companies can still take action to improve performance relative to their peers. They can also invest to position themselves for the coming recovery.

FIVE MEASURES TO BOOST RESILIENCE IN A CRISIS

There is no single way for organizations to transform during a crisis. The right approach depends on a company's starting position and specific challenges. But based on BCG's experience supporting hundreds of transformations across industries and geographic markets, we have identified several measures that can help make companies more resilient in the face of a major crisis. When implemented together, these measures reinforce one another to generate stronger results.

Take a holistic approach to performance. Understandably, most companies undergoing a transformation seek to cut costs. Facing a liquidity crunch, they reduce spending on nonessential and employee-related items, R&D, and capex in an effort to conserve cash. However, most successful organizations think beyond cost cutting, simultaneously launching quick-hit measures to boost revenue in areas such as pricing, focusing resources on top-selling products and services, and activating the sales force. In doing so, these companies craft a more promising future, generating buy-in from employees and investors. Costs are important, but they can't be the sole focus. It's critical to pull multiple value creation levers at the same time and to adjust the focus on each one as the situation changes.

Put employees first. The pandemic and its impact on the workforce have reminded management teams that employees are not a cost item that can be optimized during a crisis. Instead, they are a major—if not *the* major—asset of an organization. Companies that prioritized employee well-being and engagement during the pandemic sent a clear message and built loyalty. Not every company took this approach, but it was a clear theme among the winning organizations that we looked at.

Focus relentlessly on digital. Virtually every company has invested in digital to some degree over the past decade, yet many still have further to go. During the pandemic, when many organizations had to close their manufacturing facilities and retail locations, and when travel restrictions altered buying patterns and global supply chains were disrupted, winning companies prioritized the switch to e-commerce, digital platforms, and process automation as a matter of survival. They built the requisite infrastructure and expanded their digital capabilities. We believe that these investments will pay off by giving companies a competitive advantage in both calm and turbulent markets. Organizations that are struggling to make progress can start with smaller, more focused initiatives to build institutional capabilities and momentum.

Stay agile. The ever-changing conditions of a crisis challenge leadership teams to quickly identify emerging trends, make rapid decisions amid uncertainty, and—crucially—determine when to stick to a decision and when to adapt. Strong leaders make bold bets and do what is needed to bring their organization along.

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Create dedicated response teams. Because the situation can change rapidly, few plans developed in advance of a crisis will remain 100% applicable. Successful companies put teams in place that can react quickly to evolving conditions and challenges. In response to COVID-19, such companies introduced new infrastructure, tools, processes, strategies, and behaviors and then gauged the results and adjusted on the fly. Response teams are not meant to be permanent—the crisis called for a sense of urgency and focus not likely to be sustainable over the long term. But organizations should maintain the ability to mobilize a large response team with the right mix of business and functional capabilities and with appropriate governance and accountability.

CASE STUDIES OF TRANSFORMATION IN A CRISIS

Following are three case studies of companies that faced steep challenges before the pandemic but turned their fortunes around by applying the principles described above.

Retail: Bed Bath & Beyond

A leading home retailer in North America, Bed Bath & Beyond has over 1,000 stores and a strong market position across several segments in the home category. But the company experienced a precipitous decline in momentum starting in 2015, with a stock price decline from $78 early that year to $8 in late 2019. Moreover, gross margins deteriorated more than 4.8 percentage points, and in 2019, the company faced an operating margin and net income loss, with revenue and market share declining rapidly.

In late 2019, a new CEO, Mark Tritton, took over. He came with previous experience leading brand- and product-driven growth and omnichannel turnarounds. In his first few weeks, he removed most of the senior leadership team, and within 100 days launched a three-year growth transformation addressing both revenue and costs.

The pandemic altered those plans. Most of the company's products (outside of infant health and personal-care products) were deemed nonessential, stores had to be temporarily closed, and the new leadership team was not yet in place. Despite the uncertainty, Tritton saw the pandemic as a chance to accelerate and adapt some elements of the transformation. He managed to build a world-class executive team that focused on a number of specific goals:

- Preserving liquidity and fortifying financial flexibility by strengthening the balance sheet and reducing debt
- Selling off five underperforming businesses and investing that capital in the business and in critical capabilities, while also returning significant capital to shareholders
- Shrinking the company's physical footprint by permanently closing 200 stores
- Accelerating the move from multichannel to omnichannel distribution
- Preparing to launch a series of differentiated private-label brands as part of the most significant transformation of the company's product assortment in a generation
- Unveiling the value creation plan as part of an investor day for the first time in the company's 50-year history (within a year after the new CEO took over)

As a result of the transformation, the company has established a healthier and growing revenue base, and as of June 2021, its streak of several consecutive quarters of comparable revenue growth was continuing. (See Exhibit 1.) Adjusted gross margins and higher EBITDA have increased, and earnings per share have grown threefold.

Exhibit 1 - Bed Bath & Beyond's Transformation Led to Improved Performance

Sources: Company quarterly releases; SEC filings, Bloomberg.

The digital and omnichannel business now earns more than $3 billion in revenue, and in 2020, the company brought in 10.6 million new digital customers (nearly double the number in 2019), of whom 5 million were new to the brand. As of mid-2021, the stock price was hovering around $30, up from $10 immediately prior to the announcement of Tritton's hiring.

Bed Bath & Beyond is building on this momentum and recently announced ambitious environmental, social, and governance commitments to support people, community, and planet. By boldly and proactively addressing longstanding structural challenges, the leadership team was able to respond to the pandemic effectively and position the company for future growth.

Business Services: Element Fleet

Element Fleet is a midsized public company and market leader in B2B vehicle fleet leasing and management, with $17 billion in assets under management and operations in four global markets (the US, Canada, Mexico, and Australia/New Zealand). In early 2018, the company found itself in a challenging position. It had conducted six sizeable M&A transactions over the previous six years, with limited integration of people, processes, policies, and systems. The integration issues led to various customer service problems along the entire service value chain, eventually resulting in client attrition. Additionally, a risky noncore business had distracted management and destroyed capital, and the organization was lacking in strategic clarity, focus, and a culture of accountability. Investors lost confidence, and Element's stock price declined by 75% over a one-year period. There was a clear case for change.

In mid-2018, the board hired a new CEO, who designed and launched a comprehensive 2.5-year transformation plan, with the bold ambition to deliver 50% EBIT improvement by the end of 2020 (an improvement of $150 million). The transformation program followed a three-pronged strategy:

- Quick wins to unlock gains in the first few months, build momentum, and regain investor confidence through initiatives such as redesigning the organization, reducing indirect costs, and more effectively managing suppliers
- Back-to-basics moves through 2019, with longer-term measures to solidify the operating platform and ensure scalability, improve pricing and customer service, and automate processes wherever possible
- Building for the future by optimizing the sales force and actively pursuing strategic growth opportunities

By the time COVID-19 hit, Element was already 18 months into its transformation journey. As a result, the company was in a much stronger position than it had been in 2018. The transformation had built trust both externally (with investors and clients) and internally (with employees). Management had resolved the service pain points and improved the client experience, increased operational stability and efficiency, and strengthened the balance sheet. Acquisition of an investment-grade credit rating further enhanced the company's access to capital and reduced its cost of funds.

Still, COVID-19 required Element to deal with unprecedented uncertainty and contend with a new set of risks. In response, management not only stayed true to its transformation course but also introduced a structure outside of normal business routines to counteract the pandemic, leveraging the pragmatic and agile ways of working that had been established as part of the transformation to quickly resolve problems as they arose.

Specifically, the company established governance mechanisms in areas such as scenario and financial planning, employee health and safety, operational continuity, and commercial and client response. Management also set up a situation room to monitor the pandemic's implications for the company in terms of macroeconomic, industry, and regulatory factors. And it launched a dedicated cash office, building a dynamic liquidity model to monitor the company's real-time cash position and improving its credit and collections processes.

Element completed its transformation journey in December 2020, increasing profitability by $208 million—far exceeding the original goal of $150 million. Customer satisfaction ratings have increased by 18 percentage points, along with an increase in employee engagement scores of 10 percentage points. Financial markets have noticed. Since the beginning of 2020, Element's stock has outperformed an industry benchmark by 16 percentage points. (See Exhibit 2.) And since the start of the transformation, the company's valuation has increased by $4 billion, a threefold increase.

Exhibit 2 - Thanks to Element's Transformation, Its Stock Has Outperformed a Key Industry Benchmark

Sources: S&P Capital IQ; BCG analysis.

Retail: Pandora

Through much of the 2010s, Danish jewelry retailer Pandora grew extremely rapidly, becoming one of the largest global brands in the category. With 2,700 stores (of which about 1,400 were company-owned), the company generated approximately $3 billion in annual sales by 2016. That growth stalled, however, and sales began to decline, falling 4% in 2019. The company responded in 2018 by launching a two-year transformation, whose goals were to reduce costs by about $200 million, digitize the brand experience, and build omnichannel capabilities.

COVID-19 complicated those plans. The retail segment was among the hardest hit, and Pandora saw its sales fall by nearly half. Management closed about 90% of Pandora stores, yet costs remained high, in part because the company continued to pay the full salaries of its roughly 11,000 employees. During the crisis, Pandora monitored cash flow daily and implemented some cost-saving measures. The company also modeled future scenarios based on country-specific infection rates to ensure that it was considering all contingencies.

Critically, management stayed true to its transformation plan during the pandemic. In fact, it even intensified its efforts in some areas, particularly digital. The company opened a digital unit in its headquarters city of Copenhagen and staffed it with about 100 software engineers, who were tasked with boosting Pandora's digital presence and accelerating the shift to e-commerce. The digital hub rolled out new features like a virtual try-on simulation, a remote shopping assistant, and new distribution channels enabling customers to buy products online and collect (or return) them at physical stores. In marketing, the company increased its media spend and launched personalized email campaigns.

The e-commerce initiatives generated results fast. Online sales in 2020 surpassed in-store sales for the first time in the company's history. And Pandora is continuing to invest in new capabilities in areas such as data science and advanced analytics.

Overall, the transformation has delivered. Like-for-like sales have rebounded to a 2% increase, and the cost management measures are on track to generate more than $200 million in annual savings. Pandora's stock price has more than doubled since January 2020. (See Exhibit 3.) As CEO Alexander Lacik noted in a quarterly earnings statement in 2020, "Pandora's business model has proven its resilience during the crisis, and our consumers have continued to engage actively with the brand despite closed stores."

Exhibit 3 - Since the Beginning of the Pandemic, Pandora's Stock Has More Than Doubled in Value

Sources: S&P Capital IQ; BCG analysis.

All leadership teams faced challenges in navigating COVID-19, but for companies that had transformations underway, the difficulty was that much greater. Yet the three organizations described above did not treat the pandemic as a reason to stop implementing change. For them, the crisis was more than just another obstacle to overcome; it was an opportunity to regroup and make ambitious changes that may not have been possible in ordinary circumstances. By sticking to the objectives of their transformation—while adapting as needed to developments such as remote work—these companies continued to make progress and ultimately set themselves up to capitalize on the recovery. They provide an object lesson in what is possible through transformation.

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