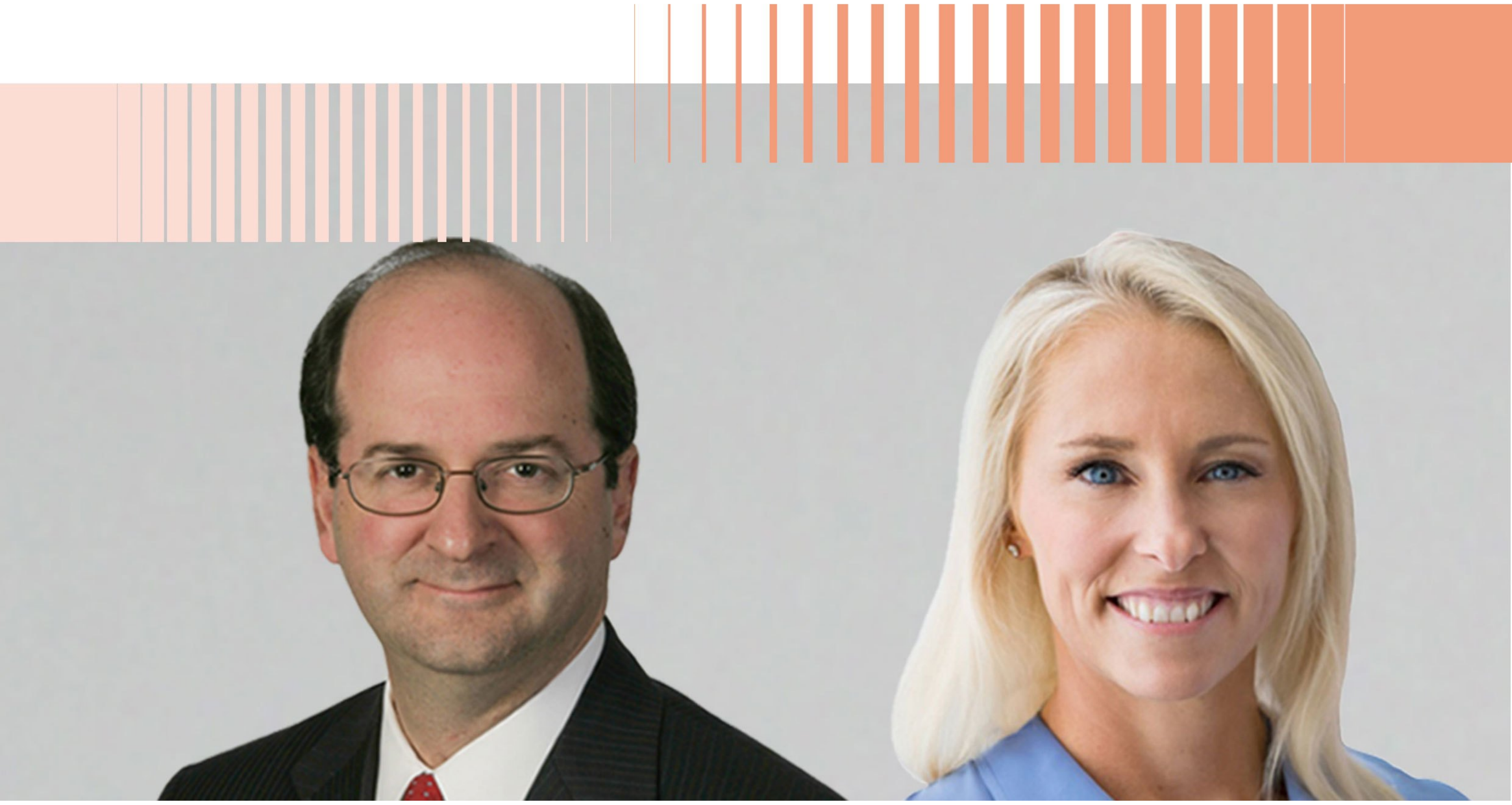

Perspectives on Building a Resilient Company

MAY 18, 2021

By Martin Reeves

The COVID-19 crisis illuminated the value of resilience in business, as some companies were better able than others to absorb the shock and take advantage of lasting changes. As the acute portion of the crisis fades, many leaders articulate a desire to build resilience into their companies. However, there is not yet a well-codified playbook for systematically measuring and managing resilience.

Kristin Peck, chief executive officer of Zoetis, and **Don Allan**, president and CFO of Stanley Black & Decker, recently joined **Martin Reeves**, chairman of the BCG Henderson Institute, for a conversation at Consilium@BCG about what it takes to build a resilient company. The following is a lightly edited excerpt from their discussion, which covered how resilience creates advantage, what it takes to make a company resilient, and the mindset shifts required throughout the organization.

Thanks, Kristin and Don, for joining me today to share your experiences in leading resilient organizations through the crisis and now the recovery. To start: Many leaders are talking about resilience these days, but it's often ill-defined. How do you define resilience?

Kristin: I would define resilience as the ability to not just deal with and handle unanticipated shocks to your system but to accelerate through them and thrive. The winners in this crisis not only made it through—they used it as an opportunity to evolve their business and set it up for success.

Don: About three years ago, we created a pillar of our operating model called "performance resiliency." Some initially saw it as just another way to drive productivity, cut costs, and become more efficient—but that wasn't the intention. The intention was to really drive resiliency into our culture and make sure people understand how we define it. Like Kristin, we define resilience as the ability to thrive in a volatile world and maximize the opportunities that emerge—which means both cost productivity and revenue share gains!

Our business has seen lots of volatility over the past five years—such as significant commodity inflation, the tariff situation with the US and China, and currency impacts creating cost headwinds—that we had to respond to, building some muscle around resiliency. That involved not only optimizing costs but also maximizing the revenue opportunities that arise, to ensure that we gain as much share as possible. We had volatile swings in revenue during the pandemic—our revenue declined 40% to 70% in March and April of 2020 and now in 2021 our revenue is growing significantly. Our resilient supply chain and cultural shifts over the past few years really allowed us to maximize the opportunities, which were more about revenue and competitive differentiation than cost and productivity.

That's a great point. We've found in our research that a few companies usually do very well during a crisis—the competitive performance spread between companies in each sector usually doubles. As Formula 1 champion Ayrton Senna said, "You cannot overtake 15 cars in sunny weather, but you can when it's raining."

Kristin: The animal health industry is used to shocks—such as weather (especially for livestock) and disease outbreaks—so resilience has to be part of our core operating model. It's also a high-margin business, so the cost of failure is extraordinarily high on an income basis. Investing in resilience in operations pays off dramatically.

We saw early signals of the pandemic because our second-largest market is China, so we started learning early on what was happening there, how to adapt, and what it means for supply chains globally.

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But resiliency isn't just what you do with working capital or supply chains; it's also how you support your people. People need to feel safe, and part of safety is securing their jobs, so we decided in March that we would make securing jobs a priority and invest in additional needed benefits for colleagues. We took that big stress off the table, while many competitors were cutting pay and benefits. This improved our ability to be there for customers, so customers knew we had their backs.

The diversification of our portfolio also helped us to be resilient. We took a hit to our livestock business but made up for it in pet care as we adapted to changing reality. We launched our largest product to date—a triple combination parasiticide for dogs—and ended up beating expectations. Not only were we able to supply the product, but we shifted our spend from in-person promotions to digital campaigns.

Lastly, we empowered local leaders. Different markets recovered at different rates. China was hit hard at the beginning but started recovering early, so we moved capital there and grew 34%. Local leaders had power to move resources around and invest where the opportunities were.

Those stories align with several general themes from our research: the importance of paying attention to early warning indicators, such as seeing early signals from China; the need for ongoing resilience, not just as a lever to pull during a crisis; the value of focusing on the revenue side, not just on costs; and the benefit of agility.

Don: We were already training for the pandemic from a resilience standpoint, so we had lots of the resiliency cultural characteristics in place at our company—the skills and processes that allowed us to be successful. In late February and early March, when the world started shutting down, our revenue declined by as much as 40% to 70%, depending on the business. The first reaction is usually to consider the need to rip out a bunch of costs. But our first thought was, "how do we keep our employees safe?" We had workers in different settings—manufacturing plants, distribution centers, offices, and out in the field—and we were very quick to make sure employees were safe, going through those categories and putting together a detailed framework for what we needed to do for those employees. We flipped to a Zoom world for 20,000 office workers within 24 hours (and we weren't big Zoom users before that); we adapted our plants and distribution centers for social distancing in about two weeks; and the field was the most complex part—we locked down flying and for the most part driving, but it all came together in three to four weeks—a great example of resiliency in our culture.

Then we shifted to survival of the company, how to get through it financially, and preparing to take advantage of markets when the rebound came, which we knew would happen eventually. Fortunately for us, the rebound came in May. We had four to six weeks of dramatic declines in revenue, then massive increases, especially in tools because everyone was home doing projects. Home Depot and Lowe's were filled with people looking to buy our products—a massive surge of demand that we had to respond to. We took big bets on inventory—hundreds of millions of dollars—and even that wasn't enough; we had to keep building our supply chain throughout the year. Our revenue in tools is up 40% to 50% year-over-year right now, and it feels like it's going to continue for some time.

Some people were asking if we were crazy to build so much inventory. We said that we might be, but we're going to do it and see what happens, because the demand was unprecedented.

Both of your stories demonstrate the hard and soft sides of resilience—the needed operational moves and mindset. Let's double-click on tactics, starting with the hard side: What do you do to your business to make it more resilient?

Kristin: The first question for us was what we were going to do with the supply chain. We make life-saving medicines, so running out of stock has serious implications beyond revenue for us. We added additional inventory during 2020, continuing to source it as quickly as we could, because we knew that all components could become problematic.

We had a strong balance sheet to start, but we borrowed a little bit of money because it seemed like the prudent thing to do, although we didn't ultimately need it. We also made decisions we thought were important for customers, such as giving them additional days to pay, changing terms, and making a temporary move to telemedicine. Most customers didn't need it, but they knew we had their backs and really saw us invest in them.

Those points sound like different ways of adding buffers, whether in inventories or in better terms for customers. This sounds logical in a crisis, but it's also in a narrow sense "inefficient"—how did you think about that tradeoff?

Kristin: We knew that animals were out there and going to need care. So we didn't have the same demand swings, but we knew things were going to get tough in the supply chain, even though we didn't know exactly where. The bottlenecks early on were in getting things out of China, then they came in Europe and impacted getting products and materials across borders, so we knew we would need resiliency.

When we IPO'd, we did not have a global ERP system and our inventory levels were high. Zoetis and its investors focused on reducing our inventory levels by about 20 percent once we implemented our ERP system. So it was ironic that we began to increase inventories again in 2020, but it ended up being the right decision.

Don, for traditional CFOs, increasing inventories and extending terms to customers might not sound like the right thing to do. Do you have to reinvent the traditional mindset of finance to be resilient?

Don: The traditional finance person responds in times of pressure by taking out costs, because the top line is shrinking and you don't know how long it will last. And there are times when you have to do some of those things; we did a bit through the pandemic, but not a lot. Today's CFO needs to be thinking more about growth: How do you grow the top line, how do you gain market share, and what can you do to make this happen?

That doesn't mean you aren't focused on productivity—that happens on an ongoing basis through lean and process-oriented tools and resources—but the CFO should really be spending more time on where we need to invest to accelerate share gains and growth. That's not a typical mindset for finance folks, but in today's volatile world, if you aren't thinking that way you won't survive.

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If you look at our tools business, a significant gap emerged; both we and the number two player have gained tremendous share in the past several months, and the other players have dropped down dramatically. You have to have that mindset in volatile times: How do you make the gap bigger? That is the main measure of how you know your resilience efforts are working.

Kristin, how do you measure if you've done the right things on resilience?

Kristin: I agree with Don; you measure your growth against market growth. We go down to the specific product and market—there wasn't a significant market in which we didn't gain share last year.

Let me now ask about the soft side. We often think about the resilience of a company, but resilience is a property of systems—if my partners aren't resilient, I can't be either. What are some of the moves you need to make your organization's mindset resilient?

Don: You have to empower employees locally to feel like they can respond to what's happening. If you try to micromanage from the top, that's something you can usually only do for a very short period of time. And you have to empower teams and leaders on an ongoing basis, so when a crisis comes you can respond much more quickly. Educating employees on resilience—understanding why they are empowered to make certain decisions—is also important. We created a training program on resilience that middle and senior management have gone through in the past few years.

We also created ecosystems within our company that really allow us to respond better to volatile environments. But we don't try to own everything when it comes to innovation, supply chains, Industry 4.0, and so on. There are some key core things that you want to own, and then some things you want to partner on, so that you can flex when the environment changes. Ecosystems allow our organization to respond more nimbly when massive shifts occur.

Kristin: I would build on two things. First, we're a very values-based organization—we have core beliefs, one of which is to run it like you own it. This was very much about empowerment from the start—culture matters, and you invest in that ahead of the moment when it's needed.

Second, it's important to listen to colleagues and understand where they are. When I became CEO in January 2020, I expected a very different first year. When COVID hit, colleagues wanted to know what we were thinking, so I started communicating more frequently—once a week for the first couple of months—and opened up a two-way dialogue in which colleagues wrote back about what was on their mind. We also did pulse surveys three or four times a year, where the input was sometimes about them and sometimes about customers. You really need the two-way dialogue—not just what we're telling them but also what we're hearing from them—and to change course based on feedback.

Don and Kristin, thanks so much for spending time with us discussing your learnings on how you made your companies more resilient. There is big difference between being resilient once and being able to systematize this as a repeatable capability, and today your insights have really helped clarify that codification imperative. Thank you.

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