

Interview with Darrell Rigby, Partner, Bain & Company

The Crisis in Public Health & Economy – Innovation to Tackle the Challenges

By Japan SPOTLIGHT

Six months after the World Health Organization declared Covid-19 a pandemic, in September 2020 we are seeing many changes in business practices, such as online meetings and conferences having become almost routine, more consumers with a preference for meal delivery services rather than dining at restaurants, and more shopping online than at retail outlets. All kinds of business, in particular services which used to be on a face-to-face basis with customers, seem to be undergoing a revolution.

But it is noteworthy that the lockdowns in many cities all over the world to prevent Covid-19 from spreading have brought about a serious decline in personal consumption which has caused recessions. Can revolutionary changes in business strategies and innovation in the retail business and other services stop this consumption decline?

Darrell Rigby, a partner based at the Boston office of Bain & Company, a global business consulting firm, and an expert on innovation and retail growth strategies, kindly responded to our questions by email as follows. He is a frequent speaker and writer not only on innovation and retail issues but also on “agile enterprise”, an important concept in this age of pandemic. In fact, he just published a book on the topic, *Doing Agile Right*, HBR Press, May 2020 (<https://www.bain.com/insights/books/doing-agile-right/>).

(Interviewed on Sept. 12, 2020 by email in answer to our questionnaire)

Assessing the Impact of the Pandemic on Business

JS: In the light of your more than 40 years of experience as an expert on innovation and retail growth strategies, do you think the current situation with this expanding pandemic is the most challenging and unprecedented one?

Rigby: The Covid-19 pandemic is an extraordinary challenge. It has had a greater impact on more aspects of retail than has any other event during my 42-year consulting career.

Not only is the magnitude and duration of the pandemic impossible to predict, it is having dramatically different effects on various sectors of the retail market. Sectors such as grocery stores, sporting goods, and building materials are booming, while apparel, restaurants, and gasoline stations are facing unprecedented challenges. E-commerce, as everyone knows, is thriving, while many physical stores struggle. Stores are closing, and many prestigious retailers are fighting to stay alive.

This pandemic will eventually pass, but the need to adapt more quickly and effectively will not. The recovery cycle will present new challenges. Businesses must be prepared for whatever the future



Darrell Rigby

may hold: additional pandemics, terrorist events, social unrest, military conflicts, technology disruptions, environmental crises and financial shocks. There are no standardized playbooks for such unpredictable crises. Every retailer in every sector must learn how to build a business that will thrive in a world of unpredictable and accelerating change.

Pandemic & Agile Innovation

JS: Do you think this turbulence will create an opportunity for innovation? If so, how will this work? Can the pandemic also create innovation?

Rigby: This painful turbulence is definitely increasing and accelerating innovation. An old proverb says that necessity is the mother of invention. By necessity, many companies have already improved take-out services, curbside pickup stations, and deliveries to homes and businesses. They have learned to produce masks, face shields, and protective gowns. They have invented low-cost ventilators. They have constructed testing centers and critical care facilities faster than ever before. They are developing vaccines and disease treatments in record time.

Many executives tell me that the Covid-19 crisis has driven them

to adopt more agile ways of working. They are prioritizing work more effectively, making faster decisions, giving employees more autonomy, and removing layers of approval. They are testing, learning, and adapting more successfully, and are focusing more on teamwork and common goals. Of course, many of their agile practices are still rudimentary and rather sporadic. Too often, the demands are exhausting and burning out their people. But they want to make agile ways of working a part of their culture as they recover from this catastrophe. They want to capitalize on this opportunity to learn how to do agile more systematically and sustainably. They want to keep the good things they have learned and fix the mistakes. They want to avoid having to relearn agile principles and practices every time a new crisis strikes.

JS: Could you please briefly explain what “agile enterprise” means? Is this concept now spreading? I think large Japanese companies are starting to be influenced by this idea.

Rigby: Most companies that transition successfully to agile ways of working pass through three stages of evolution.

The first stage is establishing agile teams. The company tests and proves the benefits of agile innovation teams. Executives build confidence in agile values, principles, and practices. They identify opportunities to launch additional agile initiatives, address the potential barriers, and improve their management systems to systematically remove constraint after constraint.

The second stage is doing agile at scale. Once executives know how to make agile teams successful, they expand agile teams to many business units and functions. They may have hundreds or thousands of agile teams throughout the organization. They also increase the scale of agile initiatives to tackle very large challenges, and increase the level of collaboration between people working on innovations and those working in operations.

The third stage is an agile enterprise. Agile enterprises are more than aggregations of teams. They are carefully balanced operating models that use agile methods to (1) run the business reliably and efficiently, (2) change the business to capitalize on unpredictable opportunities, and (3) harmonize the two activities. So executives aiming to create such an enterprise approach the scaling process with a different mindset. They do not try to separate agile teams from the rest of the organization as if the two groups were enemies. Nor do they try to put every employee into an agile team. Although agile innovation teams are an essential element of an agile

enterprise, they usually involve only 10-50% of employees. Most of the work and most of the people in agile systems focus on running the business – operations, support, and control functions.

In an agile enterprise, moreover, leaders view the scaling process itself as an agile initiative – in fact, as the most vital of all agile initiatives. Senior executives manage the transition as an agile team. They understand that such transitions are continuous improvement products, not projects with predictable endpoints or fixed completion dates. They do not view employees as subordinates and change resisters, but as customers whose engagement and feedback will be critical to success. The executive team sets priorities and sequences opportunities to improve those customers’ experiences and increase their satisfaction. Leaders plunge in to solve problems and remove constraints rather than delegate that work to subordinates.

JS: Large companies are generally bureaucratic and reluctant to start innovation. How do you think such companies’ management could work to mitigate the inertia of the bureaucracy and promote entrepreneurship?

Rigby: Most leaders aren’t fighting agile innovation. They simply haven’t understood what it is, how it works, and how they should lead it.

For more than 100 years, executives have been trained to manage by predicting, commanding and controlling. Predict precisely what the company must do to succeed. Command each business unit and function to execute detailed plans that will add up to the desired total. Then rigorously control the activities of every individual to make sure people conform to plans and deliver required results.

Unfortunately, the predict-command-control model is ill-suited for innovation – especially innovation in unpredictable conditions and constant crises. In these circumstances, agile innovation teams excel. Here’s how they work.

To tackle an opportunity, leaders form and empower a small team, usually three to nine people, most of whom are assigned full-time. The team is multidisciplinary and includes all the skills necessary to complete its tasks. It manages itself and is strictly accountable for every aspect of the work. Senior leaders tell team members where to innovate but not how. Confronted with a large, complex problem, the team breaks it into modules, develops solutions to each component through rapid prototyping and tight feedback loops, and integrates the solutions into a coherent whole. Members place more value on adapting to change than on sticking to a plan. They hold themselves

accountable for outcomes (such as growth, profitability, and customer loyalty), not just outputs (such as lines of code or number of new products). The teams work closely with customers, both external and internal. Ideally, this puts responsibility for innovation in the hands of the people who are closest to those customers. It reduces layers of control and approval, thereby speeding up work and increasing the teams' motivation.

Research from tens of thousands of teams shows that the success rates of agile innovation teams are 60-100% higher than those of traditional innovation teams. Furthermore, teams are happier and more productive, and innovation cycle times are far faster. These are results that any leader could embrace.

To do so, leaders should take three steps. First, learn and practice agile principles themselves. Exemplify the attitudes and behaviors they hope to see in others. Second, launch agile innovation teams to address major opportunities using correct principles and practices. Trust the process. Do it right. Give the teams the autonomy and coaching they need to succeed. Create beacons of inspiration for other innovation teams to emulate. And, finally, scale the successes. When innovations work, ensure that they are adopted by the organization and rolled out as quickly and extensively as possible.

JS: Innovation can be achieved more easily in a company where the employees enjoy more freedom to be creative in their job. In this light, would large companies provide less freedom than small venture companies?

Rigby: It is true that small companies do a lot of impressive innovation. However, it is important to remember that many of their innovations also fail. In fact, their failure rates on individual innovation projects seem similar to those of larger companies, and 65% of new businesses fail so frequently and seriously that they go out of business within their first 10 years.

Large companies have significant advantages, including access to capital, economies of scale, brand reputations, and customer relationships. Sadly, they often get so focused on running the business (operations) that they overlook the need to change the business (innovation). This doesn't have to happen. Large companies can use agile teams to give their people the freedom to innovate just like a startup with the powerful advantages of scale. Companies such as Apple, Google, Microsoft, Amazon, Alibaba, and Bosch are simultaneously large and innovative. They have learned to combine scale with agility.

Digital Technology as a Key to Innovation

JS: Digitalization is under rapid progress due to the expansion in remote working under the pandemic. Do you think that how businesses take advantage of digital technology will be a key to surviving the pandemic?

Rigby: Few skills are more vital than technology to success in a world of accelerating change. It is difficult, if not impossible, to find any large, successful company that is not investing heavily to bolster its digital capabilities. The need for improved technology was obvious long before the Covid-19 crisis, and the reasons go far beyond the advantages of remote working conditions. Technology can improve the cost, quality, and speed of both innovation and operations.

The trick is to apply technology to the right opportunities in the right ways. I have seen many companies waste billions of dollars building the wrong technology systems before they truly understood the needs of the "customers" (both internal and external) that would be using them. The best companies focus their technology investments on solving genuine business needs, not just to do what other companies seem to be doing.

Best Strategy for Retail Business

JS: The retail industry is now facing a particular challenge during the pandemic due to limited face-to-face communication. Digital shops could help overcome this difficulty. Do you think digital shops will replace physical shops completely in the future, as the pandemic goes on?

Rigby: I do not believe that digital commerce will completely replace retail stores. Retailers will need to deliver the best of both digital and physical worlds to succeed. Humans are not happy in solitary confinement. Many customers can't wait to get back to their favorite restaurant or bar.

Technology may very well improve many elements of the customer experience – from ordering, to paying, to receiving, to service and returns. Necessity will drive people to try digital options that they would not have otherwise tested, and that will accelerate change. Still, physical, sensory experiences will remain vital to satisfying customer experiences in many sectors of retail.

JS: What do you think will be the best business strategy for the retail industry in a time of pandemics? For example, do you think digital shops and physical shops should be combined?

Rigby: Almost all winning retailers (including so-called digital competitors such as Amazon and Alibaba) skillfully combine digital and physical retailing. It's important to find the right balance, and to adjust that balance as circumstances change. Retail analysts tend to predict the future by extrapolating straight-line trends, but retail always moves in cycles.

Retailers must develop their strategies from the customer back. Who are my most important customers? What are they trying to accomplish these days? What frustrates them? How do they cope with those frustrations? What would satisfy those frustrations? What functional and emotional benefits are they seeking? What are their alternatives to using my products or services? What do they like about those alternatives? What worries them about doing business with me?

Every retailer in every sector is likely to get different answers to these questions. It's unwise to offer one recommendation to everyone. Still, there are capabilities that will likely be essential to nearly every retailer. These include customer listening and personalization tools; agile innovation skills; rapid decision making; employee engagement practices; and modern technologies – especially those supporting mobile and e-commerce capabilities.

JS: Due to the serious business decline caused by the pandemic crisis, personal consumption may continue to fall. This is another challenge facing the retail business. How do you think it can deal with it?

Rigby: Retailers need to prepare for more dramatic revenue swings – both increases and decreases. Retailers have responsibilities for more than maximizing profits. Not having sufficient food or medications can literally kill customers.

For several years, retailers have focused heavily on reducing costs and improving efficiencies – assuming that the future would look very much like the recent past. This led many of them to sacrifice flexibility to gain economies and to source as much as possible from the lowest-cost geographies. That worked well until borders closed and trade policies changed. Now many retailers are seeking to increase diversity in their sourcing, supply chains, technology providers, and more.

As a result of the financial crisis of 2007-2008, financial services companies began running more extreme scenarios and stress tests to understand how they would perform during economic crises. Retailers would be wise to run similar scenarios and determine how quickly and effectively they could scale up or down in the face of previously unimaginable crises. Think ahead. Consider contingency plans. Prepare to adapt.

JS: Overall, how do you think the pandemic will change the retail business in general, assuming that it will continue for a while and the industrial structure will be changed accordingly, with more digital services and less face-to-face services?

Rigby: Retailers should think of the Covid-19 pandemic as a wake-up call. The retailers with whom I work are already exploring ways to improve their operating models to cope with constant crises. For example:

- Ways to adapt their strategy – where to play, and how to win
- Ways to change their leadership behaviors and their cultures
- Ways to adopt and scale agile innovation capabilities
- Ways to change their planning and budgeting processes from annual to quarterly (or even monthly) cycles
- Ways to change their organization structures to reduce bureaucracy
- Ways to broaden their talent pool to attract experts that might work remotely
- Ways to increase the flexibility of their supply chains and other business processes
- Ways to modernize their technology architectures to be less monolithic and more modular

Now is the time to build a business that will thrive in a world of unpredictable and accelerating change, to gain strength and market share as changes cull sluggish competitors from the market, and to improve results for customers, employees, communities, and investors.

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