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How do businesses adapt to change effectively?

"Everyone thinks of changing the world, but no one thinks of changing himself."
— Leo Tolstoy

While millions of businesses have been disrupted by Covid-19 and the UK faces its first recession since the financial crash, it has become evident that businesses must adapt well to change. The emergence of new technology and increased pressure for corporate responsibility mean a business's ability to cope with change determines its survival.

First let us reflect on one business that epitomises failure to accept change: Kodak. In 1975, a Kodak employee developed the first digital camera prototype. But despite investing billions into digital cameras, the firm mismanaged the transition from their established line of film photography. Kodak could have become the pioneer of social networking, even acquiring a photo-sharing site in 2001. But in a story of what could have been, it was eventually sold for a mere $25 million as part of Kodak's bankruptcy plan in 2012. That same year, Instagram was acquired for over a billion dollars. Kodak failed to realise that its disruptive innovation required new processes and didn't adjust their business model to suit the new technology. To avoid a fate like that of Kodak, modern businesses must learn to embrace and not resist change (Forbes, 2012).

There are several approaches by which an organization can adapt to change, with some trying to combat it through joint-ventures and acquisitions. One such business is Marks and Spencer who have been struggling to cater to the increasing demand for e-commerce. In their last attempt to satisfy the growing number of online orders, the company tried to implement a distribution centre themselves but failed to meet expectations. Now they have chosen to handle their troubles through a 50% stake in online grocery firm, Ocado. The joint venture with Ocado allows M&S to regain lost ground in the race to online grocery dominance by placing their investment into a business whose processes are already suitable for the digital age (Green, 2020). This move also helps put pressure on competitor Waitrose, the previous supplier to Ocado, as its products will no longer be available through the online superstore. While Ocado has seen profits skyrocket during the pandemic, the effects of its alliance with M&S are yet to be proved by time. Nevertheless, the joint venture marks a step in the right direction for Marks and Spencer and demonstrates one way in which businesses can cope with change.

In an era where information is easily available, consumers have become much more aware of the health implications of products, pushing for 'clean labels' with natural ingredients and increasingly choosing veganism or vegetarian lifestyles. Realising this, PepsiCo embarked on a mission to change its image from being just a cola company to one focused on health. The organization addressed the changing consumer demands by building its portfolio. It did so partly by acquiring numerous healthy brands, including probiotic beverages, fruit and vegetable smoothies and sweetener-free sparkling drinks. PepsiCo has also extended its product line to target the snack food category alongside its traditional focus on beverages. As demand for soda continues to decline, PepsiCo's strength in snacks accounted for 54% of the business's revenue in 2019, giving it an advantage over rival Coca-Cola. Moreover, the business's choice to sell complementary products has enhanced its proposition and allowed it to introduce its snacks into markets where their beverage brands were already selling well (Market Realist, 2020). This exemplifies that an organization can adapt to changing consumer demands by expanding their product line and offering complementary products.

While most businesses have seen sales falling in lockdown, a wholesale food supplier, Turner Price, flexed their delivery model to prevent revenue loss. Realising their conventional clients would have low demand they changed their primary target market to the at-home public. While superstores had little stock of long-life goods due to panic buying, Turner Price saw the opportunity of marketing to households via a click-and-collect service. Its agile adoption of a new target market and distribution channel allowed it to keep generating revenue in an otherwise difficult business climate.

Diversification can also prove to be an effective mechanism to cope with change. This is illustrated by Uber who launched Uber Eats in 2015, which they have recently been able to benefit from, while their main taxi business was one of the worst-hit by Covid-19. Though Rides were down 80% in April this year, Eats orders were up 89% (Motley Fool, 2020). This has allowed them to gain an advantage over rising competitor Lyft which focuses solely on ridesharing. Uber's food delivery service attracts more drivers to the business as a whole as there

are increased opportunities. With the success of Eats, it's no surprise that Uber is looking to add grocery delivery to their business as they plan to diversify further.

Notwithstanding the current economic situation, pressure also mounts on businesses to improve sustainability. Just over a decade ago, DONG energy, now known as Orsted, made most of its revenue by selling heat and power. 85% of this came from coal and the business was liable for a third of Denmark's CO_2 emissions. Few would have expected this company to be crowned the 'most sustainable business of 2020'. In 2009, the board of DONG energy strategized flipping the ratio of their fuel generation to 85% renewable resources and only 15% conventional. They aimed to do so by 2040, though they achieved this target within 10 years, changing the business's direction before coming under scrutiny for not being sustainable. To achieve these goals, the business examined areas where they already had assets and could grow into for the future, eventually choosing to pioneer wind power. Despite scepticism from both the Danish government and employees, the business invested in renewable projects, built three major wind farms in the UK and acquired an American company, while phasing out its non-renewable businesses. These measures allowed Orsted to become a leader in offshore wind power, with a 30% global market share as they aim to be carbon neutral by 2025 (Neubert, 2020). This transformation proves that to adapt to change, an organization must be proactive and prepared to make bold adjustments to the existing business.

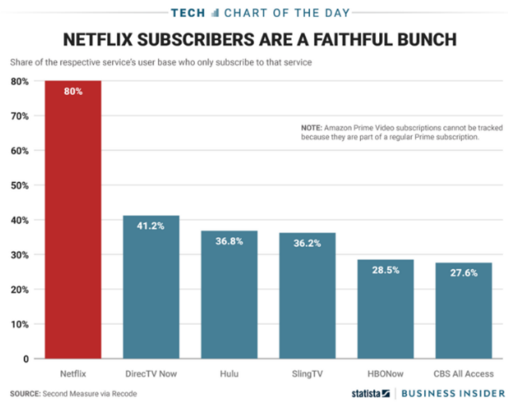

Figure 2 - Source: Statista

Few businesses have been able to harness digital transformation as effectively as Netflix. The streaming company has become renowned for recognising opportunity before others do. The business that started as a rental service was able to oust competitor Blockbuster, by experimenting with new technologies like DVDs and the internet. When Netflix started renting out DVDs by mail, only 2% of American households had a DVD player. But its founders predicted that DVDs would become popular and not long after 95% of all US households had a DVD player. From the start they focused on technology, making users place orders through their website and using a subscription model which prepared them to easily move to their online service. In 2007, Netflix again saw the need to adapt and embracing the rising demand for the internet, it transitioned to digital streaming. The business set customer experience as its priority utilising a detailed recommendation algorithm, tailored thumbnails and closely monitoring customer feedback. Netflix later decided to produce their own premium content based on analysis of customer data to differentiate themselves from competitors and saw their revenue triple in five years (Business Models Inc). Early recognition of changing trends, experimenting with new technology and close connection with customers are all ways for successful business transformation

When asked about predictions for 2030, the CEO of Netflix remarked, "*I'm not sure if we're going to be entertaining you or entertaining AIs*", reflecting on the increased use of artificial intelligence, automation and robots. With most employees off work premises due to the pandemic, businesses have had to accelerate the exploration of robots and automation in workplaces worldwide. For example, Takeda - Asia's largest pharmaceutical company - has been using robotic process automation (RPA) to hasten the clinical trial of a promising Covid-19 treatment. This approach involves using software to perform simple tasks for each

patient's paperwork, completing in days a process that otherwise takes weeks. Though many believe artificial intelligence threatens workers, Takeda insists AI cannot replace humans, instead it boosts productivity. This drive towards automation is only set to increase, especially as historically employers implement more automation during recessions (Wired, 2020).

To conclude, there are numerous ways in which businesses can face changing times, be it through adopting new technology, finding ways to become sustainable or pivoting their business model. Whatever the method, without thorough planning, carefully formulated strategies and clear foresight, a business that fails to adapt to change will certainly risk decline or collapse. On the other hand, businesses which are agile enough to navigate change, will not only survive but thrive in this volatile socio-economic climate.