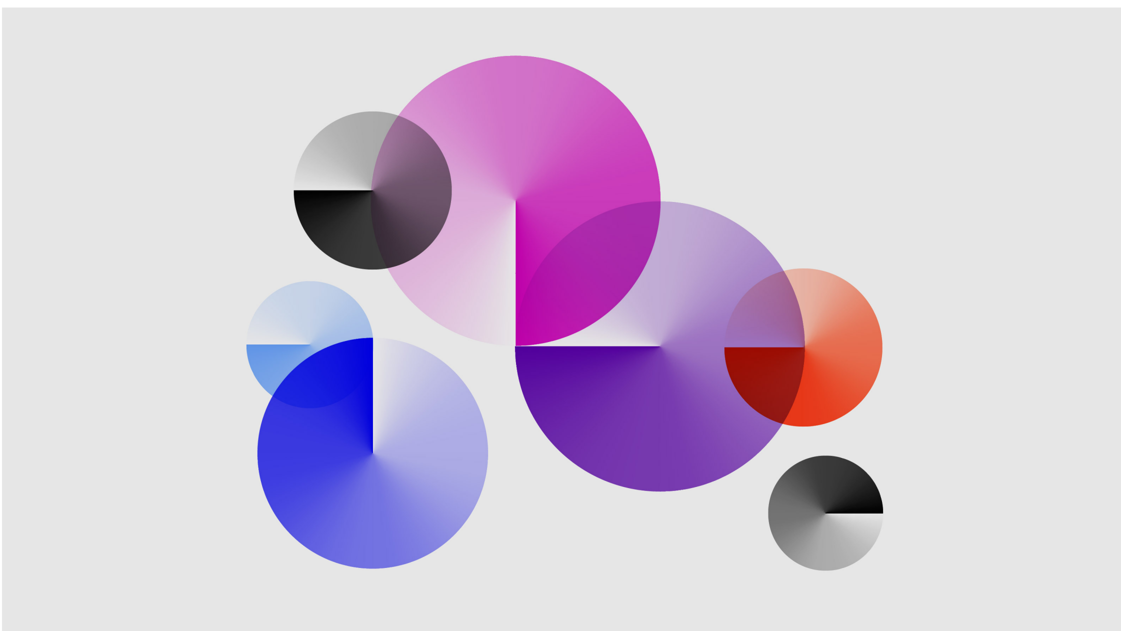
Strategy

How Businesses Have Successfully Pivoted During the Pandemic

by Mauro F. Guillén

July 07, 2020



Summary. From local restaurants to larger companies like Spotify and Unilever, companies that are successfully navigating the Covid-19 pandemic and ensuing recession have often pivoted to a business model that's conducive to short-term survival, and long-term resilience and growth. Not all pivots,... **more**

The nearly instantaneous economic recession triggered by the Covid-19 shutdown has wreaked havoc on businesses large and small. Our very way of life is also said to be threatened. On the basis of sweeping proclamations about “the end of commuting,” “the demise of retail,” and “the collapse of globalization,” many executives have come to assume that *everything* will change. Accordingly, the recipe for survival is supposed to be a thorough transformation of the entire company — or else a bankruptcy filing.

The reality of how companies are dealing with the crisis and preparing for the recovery tells a very different story, one of *pivoting* to business models conducive to short-term survival along with long-term resilience and growth. Pivoting is a lateral move that creates enough value for the customer and the firm to share.

Consider Spotify, the global leader in music streaming. In principle, this type of platform has all the ingredients for success in the lockdown economy: customers trapped in their homes who would like to escape from a depressing reality by listening to songs seamlessly streamed to a playback device without any need for physical distribution.

And yet the Swedish company struggled to find a pivot that would enable it to overcome a basic issue: Unlike Apple Music, Spotify disproportionately relies on free users who must listen to advertisements. Before the pandemic, the company figured that advertising revenue would grow even faster than the free user base, thus making a key contribution to the bottom line. Although the model was already showing some signs of maturity, its limitations did not become readily apparent until the pandemic hit and advertisers cut their budgets.

One pivot Spotify made in response was to offer original content, in the form of podcasts. The platform saw artists and users upload more than 150,000 podcasts in just one month, and it has signed exclusive podcast deals with celebrities and started to curate playlists. The shift in strategy means that Spotify could become more of a tastemaker. At long last, the company is doubling down on Netflix's not-so-secret recipe for success in a business in which copyright owners enjoy healthy margins while pure-play streamers struggle to become profitable.

Pivoting definitely works for digital platforms, but does it help traditional businesses? Let's examine the world of restaurants. They have been battered by the lockdown, with many owners pondering whether to close for good. The usual way to think about restaurants includes envisioning a seating area next to a kitchen. However, restaurants are kitchens whose output can be delivered to customers in a number of ways and using various kinds of business models. Eat-in, take-out, delivery, and catering are just the tip of the iceberg.

One pivot would be to offer a flat rate for a set number of meals per week or per month, with limited menu choices. Restaurants could increase their margins as they learned how to manage captive demand. Another pivot would be to offer a combination of precooked dishes with sides or additions that could be prepared at home using ingredients supplied by the restaurant. The restaurant could send a link to a video that walks the customer through preparation, thus incorporating an experiential and learning element. Deliveries could be in amounts large enough for several meals in a given week. Both pivots would lead to a greater variety of business models, which could become a permanent feature of the restaurant landscape, especially if the trend toward remote work from home consolidates over the long run.

The crisis has also led to broken supply chains, as reflected in the ominous images of empty supermarket shelves — a void that presented small farmers with a unique opening. After seeing their sales to restaurants and specialty stores plummet during the lockdown, many small-scale farms have set their sights on the needs of the homebound consumer. This pivot requires investments in information technology, marketing, and logistics that could prove profitable over the long run if the trend toward shorter supply chains gains momentum. Alternatively, some farmers and local stores are flocking to Shopify, the Canadian e-commerce platform, which has seen a boom in e-commerce activity at distances of less than 15 miles between sellers and buyers — a segment of the online market that behemoths like Amazon have traditionally neglected. Shopify's key pivot has been to offer a comprehensive cloud-based bundle of services that help vendors manage expenses, pay bills, anticipate cash-flow problems, and optimize deliveries.

We've also seen large incumbent companies pivot during the crisis. As demand has soared for essential products, consumer-goods powerhouse Unilever has pivoted to prioritize its packaged food, surface cleaners, and personal hygiene product brands over other products, such as skin care, where demand has fallen. The company does not yet know which changes might become permanent. If the upswing in remote work endures, Unilever might find that some of its pivots will remain in place. In fact, the move toward in-home consumption might require a repositioning of not only food brands but also personal care offerings.

An even bigger threat to established brands is consumers' increased willingness to experiment with different offerings during the crisis. Consumers are holding brands and companies to a higher standard than previously, favoring those perceived as doing more for society. Companies like Unilever and Procter & Gamble, whose portfolios include hundreds of brands, have no choice but to pivot in response. Brand loyalty can no longer be taken for granted, and brand repositioning may be necessary in many cases. But brand purpose and messaging will need to be laterally tweaked, not overhauled, because consumers are becoming more interested in safety, experience, and comfort as a result of the pandemic.

Not all pivots result in good business performance. Three conditions are necessary for such lateral moves to work. First, a pivot must align the firm with one or more of the long-term trends created or intensified by the pandemic, including remote work, shorter supply chains, social distancing, consumer introspection, and enhanced use of technology. For instance, if social distancing remains the rule for the near future, the casual dating platform Tinder will need to follow competitors Bumble and Facebook Dating in offering video dating.

Second, a pivot must be a lateral extension of the firm's existing capabilities, cementing — not undermining — its strategic intent. Faced by the sudden collapse in travel, Airbnb moved swiftly to help hosts financially and connect them with potential guests. Hosts can now offer online events focused on cooking, meditation, art therapy, magic, songwriting, virtual tours, and many other activities, with users joining for a modest fee. This pivot represents one more step in Airbnb's evolving approach from its traditional business model of facilitating matches between hosts and guests to its move to become a full-range lifestyle platform. In the future, online experiences could help travelers discover new destinations and on-site activities and help hosts offer better service. Airbnb could become a platform that people use not just to arrange their next vacation but to develop a cosmopolitan mindset throughout the year, learning about other cultures from a distance and celebrating the diversity of the world on a daily basis.

Third, pivots must offer a sustainable path to profitability, one that preserves and enhances brand value in the minds of consumers. The economic crisis triggered by the pandemic does not necessarily spell the end of entire industries or companies. It does weed out business models that fail to pivot toward the new reality characterized by shorter value chains, remote work, social distancing, consumer introspection, and enhanced technology use.

If our content helps you to contend with coronavirus and other challenges, please consider subscribing to HBR. A subscription purchase is the best way to support the creation of these resources.

Mauro F. Guillén is a professor at the Wharton School and the author of the forthcoming book, *2030: How Today's Biggest Trends Will Collide and Reshape the Future of Everything*.