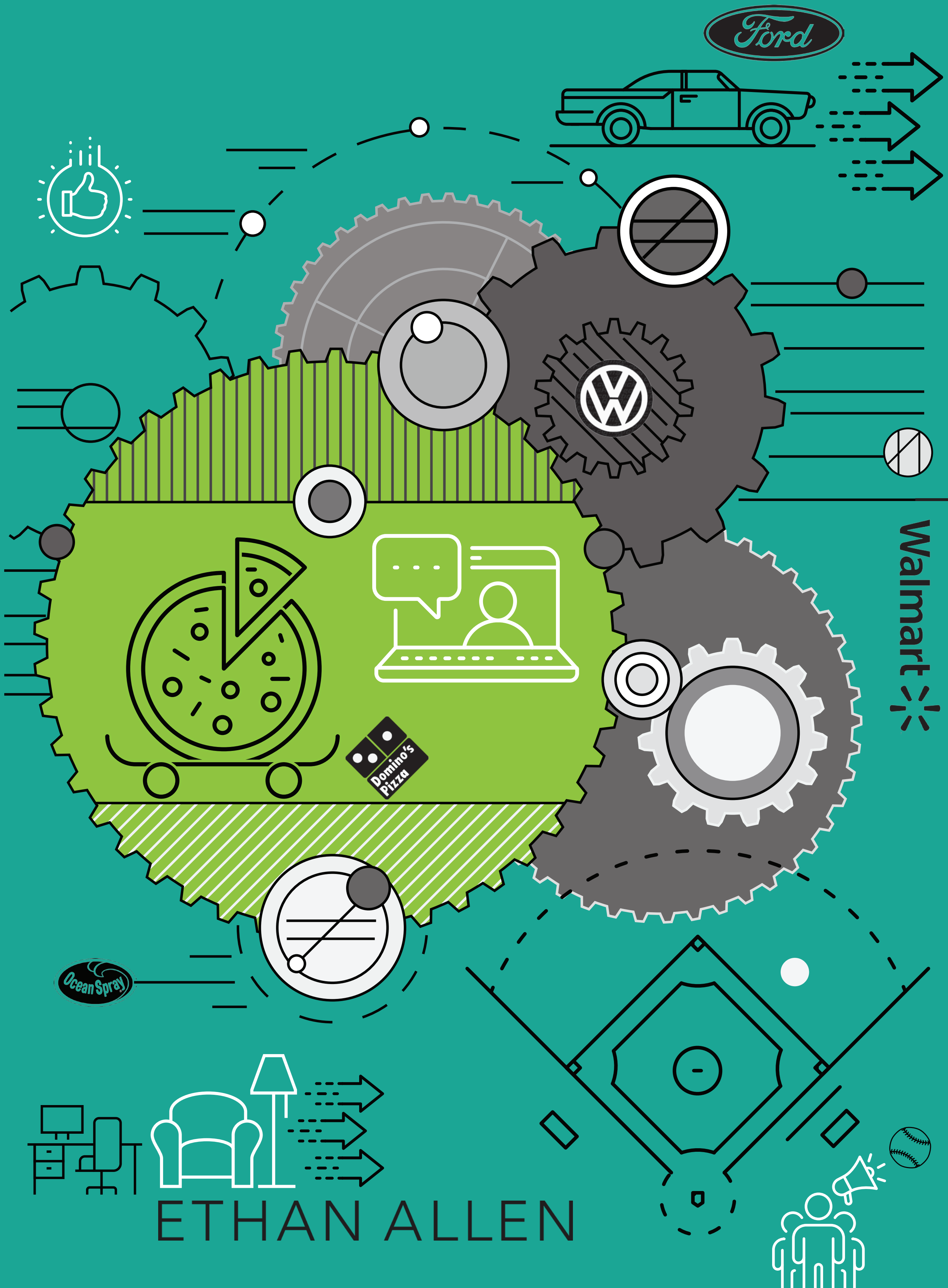
LEADERSHIP



ETHAN ALLEN

THE MOTHER OF REINVENTION

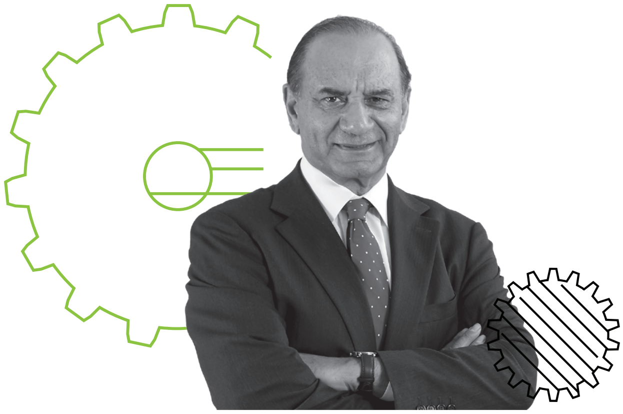
In sector after hard-hit sector, corporate leaders forged paths through the last eight months, with pluck, luck and a whole lot of ingenuity.

By Jennifer Pellet and Dale Buss

When Covid struck in March, Farooq Kathwari, the longtime CEO of Ethan Allen, a leader in home furnishings and design, was given what seemed like the corporate equivalent of a death sentence. Asked by local governments across the U.S. to shutter 200 design and distribution centers, Kathwari was forced to furlough 3,000 associates within 10 days of the news.

"The whole world came to a stop," says Kathwari, who chose to forego his salary through June 30, 2020, setting a tone for senior managers, whose compensation was reduced by up to 40 percent, and other salaried employees, whose compensation was reduced by as much as 20 percent. The company hunkered down to wait out the closures.

But then something remarkable happened. The remaining team rallied, leveraging long-run bets they'd made on technology and their supply chain. In the seven months since the Covid crash, Ethan Allen found itself not only surviving the hit to its cash flow after the pandemic's onslaught, but able to rebound and grow its business in the aftermath.



"I think about the fact that I want to, as much as possible, control our destiny."
–Farooq Kathwari, Ethan Allen

"While our design centers were closed, our business held up because in the last few years our 1,000 designers have worked with new technology to connect with clients online, using 3D and virtual reality," says Kathwari. "All the innovations we worked on in the last few years turned out to be really important for this crisis because our designers already had the capability to use it at a time when our customer base at all levels was suddenly much more interested in, knowledgeable about and accepting of these tools."

They're hardly alone. In sector after hard-hit sector, thousands of corporate leaders have found a way through the last few months, through pluck, luck and a whole lot of ingenuity. Even in hard-hit sectors such as food, automotive and entertainment, companies we talked to had inspiring stories of how the past year—as difficult as it has been in so many ways—has also been a catalyst for reinvention.

"We've drafted a new vision of where to move the company," says Daniele Schillaci, CEO of Brembo, a brake manufacturer based in Italy with U.S. operations in Michigan. "We need to be even stronger, trusted partners to OEMs. And we need to challenge ourselves to find new solutions and new initiatives to anticipate customer needs and give new support to all partners."

At pizza titan Dominos, Kelly Garcia, chief technology officer, found herself forced to somehow deliver dinner without human contact. Rather than shrink from the challenge, she says they used Covid-19 to extend their lead on rivals by, for instance, introducing a new contactless delivery method. Drivers place pizza boxes on top of a 'pedestal' outside a customer's home, notify them and then move six feet away. At stores, drive-up customers describe their vehicles and indicate where they want Dominos workers to place their orders. "We think it's likely customers will want these kinds of options going forward," she says. "So we have been making operational changes like these and rolling them out to a system of 6,000 stores in the U.S."

Even minor-league baseball is undergoing a major-league rethink. "We were actually able to create a social-distancing bubble so that the players could play and we could have a few fans in the stadium," said Andy Appleby, CEO and owner, United Shore Professional Baseball League, which now operates four entry-level, minor-league squads in one stadium in suburban Detroit and played 60 games this summer. "We made adjustments by going to seven-inning games instead of nine innings, to help out the families that maybe wanted only a two-hour outing. And Major League Baseball also did that for some games this summer; so we might do that in the future."

Inspired by efforts like these, *Chief Executive* reached out to top executives across a number of hard-hit sectors, looking for reinvention hiding in plain sight. What we discovered was company after company making the most of the challenges they're facing—rather than letting themselves be destroyed by them.

NEAR BECAME DEARER

For Ethan Allen, the big surprise was how operational decisions made long ago suddenly kicked into gear. It wasn't just technology. Kathwari's decades-long commitment to manufacturing in North America—made at a time when most of his competitors were slashing costs by moving operations to Southeast Asia—

"We learned a lot and are applying it. Things like agility: how you design an agile team, from the senior leader to an individual who's working on the line, and how you keep that team moving as fast as you need to move."

–Jim Baumbick, Ford Motor

proved prescient in the wake of Covid-19 supply chain disruptions. He has long championed the quality control and shipping time advantages of maintaining facilities in North America (North Carolina, Vermont and Mexico) and Honduras, while acknowledging that they come at cost. "If our focus was three to five years, like most companies, we would do like everyone else and go after higher margins by buying products made in East Asia," he says. "But I think long term. I think about the fact that I want to, as much as possible, control our destiny."

Manufacturing closer to home provides more control, and also allows Ethan Allen to differentiate by making 70 percent of its items to order, delivering custom-made furniture within four to five weeks. When the product shipments of peers manufacturing overseas came to an abrupt halt, that advantage was amplified. While Ethan Allen's delivery timeframe crept up to six to eight weeks during the pandemic, the company's design team was able to largely carry on as usual, consulting with customers and taking custom orders even during the height of the pandemic.

"Thinking long-term, treating people fairly, using technology effectively—those are all key steps that helped us through this time," says Kathwari.

DRIVEN BY DISCIPLINE

And while few U.S. industries got through the pandemic as relatively unscathed for the short term as the auto business, that success was hardly an accident. Carmakers played a big role in keeping themselves going with agility—and discipline. Big auto plants were among the leaders in reopening with anti-virus protocols in the spring. By fall, dealers were reporting that the year-on-year sales loss amounted to only about 20 percent—though prices kept climbing.

"We were able to shift our production quickly and made 100 million pieces of personal protective equipment, ranging from ventilators to face masks, during the pandemic, in an initiative we called "Project Apollo."" Says Jim Baumbick, vice president of enterprise product line at Ford Motor. "We learned a lot and are applying it. Things like agility: how you design an agile team, from the senior leader to an individual who's working on the line, and how you keep that team moving as fast as you need to move."

They've begun applying those lessons to reinvent product development, getting agile teams to move at speed and not be encumbered by the traditional organizational criteria in a large company. As a result, Ford plans to launch a vehicle 20 months faster than they would have been able to traditionally.

"This is an opportunity to look at our structural costs and adjust," says Reinhard Fischer, vice president of strategy, Volkswagen North America. "We are learning from not having operated our plant in Tennessee and our many other U.S. locations for three months. We really need all of our locations to condense their footprints, and we're discussing it. The crisis also showed us very clearly that we focused on cost efficiency and neglected resilience. Because of redundancy we need to build, it's going to reduce our costs—but it will reduce our dependence on specific suppliers."

This kind of radical disruption has led some automakers to rethink other parts of the company as well. Giuseppe Barile, CEO, Webasto Roof Systems, a sunroof manufacturer in Germany with an America headquarters, has found himself in need of talent as the pandemic recedes. "So, we've gotten more proactive to open up more opportunities for the many job seekers, especially in the hard-hit U.S. talent pool," he says. "It's not acceptable any more to bleed talent. We're investing in our people's skills and happiness, and their performance will be in more alignment with our vision and mission."

AN AMAZON ALTERNATIVE

Covid has shifted consumer behavior faster than any other event in business history—

and that's been an opportunity for some. Perhaps no company in the world has made as much headway as Walmart during the crisis. The company just launched its online membership service, Walmart+, for $98 a year, to compete with Amazon Prime. The benefits include same-day delivery of groceries and general merchandise and discounts at Walmart gas stations. "People have gotten more used to using memberships, whether it's movies or streaming or other things that they enjoy doing," Brett Biggs, chief financial officer and executive vice president, recently told investors. "We felt like this was the right time to give customers that option."

"We were able to give our sponsors tremendous value for their partnerships at a time when we needed to give them value back because we had limited attendance."

–Andy Appleby, United Shore Professional Baseball League

E-commerce wins aren't just for juggernauts. Beverage co-op Ocean Spray was just about to launch a new brand of herbal tonics called Atoka into stores when the pandemic hit. They switched gears and launched the product through a new web site and promoted it through social media—and only social media—with great results. "We realized that consumers were changing quickly and were more open to doing things differently, online," says Rizal Hamdallah, Ocean Spray's chief global growth officer. "Even demographic groups that before weren't comfortable with e-commerce—seniors, grandparents—are now kind of adapting and adjusting and can operate with it."

For Appleby, the CEO and owner of United Shore Professional Baseball League, Covid prompted a scramble to make up for the lack of physical attendance at games. He quadrupled expenditures on TV-broadcast production, adding lots of cameras and other equipment and also a commentator who does on-field interviews. Much to his surprise, they ended up having 10,000 people viewing the average game—far more than he'd ever considered possible. "With that," says Appleby, "we were able to give our sponsors tremendous value for their partnerships at a time when we needed to give them value back because we had limited attendance. The silver lining is that we now have a full-fledged USBL Network that presumably we'll be able to grow in the future."

KEEPING THE BETTER

Reflecting on the past few months and the company's post-pandemic future, Ethan Allen's Kathwari again and again returns to the issue of adaptability, pointing out noteworthy changes wrought by the crisis, such as the need to provide associates with flexible work hours they need when schools are closed and children are underfoot. "When someone has a young child they need to care for, we have to let them do that," he says. "You must have the confidence in your people that they have the responsibility of working hard and will do it. And you cannot base your policies on the few who will not do it right; you have to base them on the 97 percent who will."

Placing that level of trust in employees working remotely worked out well for the company. While Ethan Allen's sales initially dipped by 60 percent during the early days of the lockdown, they began to climb in April and, once design centers began reopening in May, actually came in higher than the year prior. By September, the company had been able to restore 90 percent of its manufacturing employee base and between 70 percent and 85 percent of its retail workforce.

Along the way, the company also gained valuable insights that Kathwari plans to continue long after things normalize. Practices like communications with team members and reviews of real estate holdings have all shifted to more technology-centric approaches—methods that the company hopes to continue to leverage in the future. Kathwari, who regularly visited potential design center locations in person, now conducts those meetings via Zoom, viewing videos of communities, roads and design centers. "It's far more efficient," he says. "Certainly, personal visit and involvement are important, and when things ease up we will be able to do that as well, but this has been tremendously productive." CE