

NTT DATA

# Agility in the time of COVID

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GUIDING GREATNESS

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## Changing behaviours: what companies can learn from the COVID-19 pandemic

**The COVID-19 pandemic has had a considerable, unexpected impact on how humans, societies, and businesses function across the globe. As companies struggle to respond to the speed and scale of disruption, a key area of focus has been maintaining business continuity and, in particular, supporting distributed working. Rather than take a reactive stance, however, here we look briefly at the frequency of extreme events<sup>1</sup>, their relative impact, and how the COVID-19 pandemic is different from other crises; we then turn to what we can learn from this disruption and how organisations can build resilience to extreme events as they recur.**

1. Our definition for extreme events is derived from that of the OECD: “Extremely disruptive events, such as earthquakes, volcanoes, financial crises and political revolutions destabilise critical systems of supply, producing economic spill overs that reach far beyond their geographical point of origin”. Available: <http://www.oecd.org/governance/48256382.pdf>



# The world is ending, possibly

If we cast our mind back to the last 15 years, the number of extreme events seems incomparable in recent memory. We've seen: swine 'flu, SARS, MERS, ebola, and COVID-19; the global financial crisis and subsequent recessions, the Greek Debt Crisis, and the Venezuelan Crisis; the Arab Spring, the Yemen Crisis, the Syrian Civil War, the rise of ISIS, and the EU Migrant Crisis; the Haitian Earthquake, Hurricane Katrina, the Fukushima Daiichi nuclear disaster, the Icelandic ash cloud, and the Sri Lanka Tsunami.

It is common to believe in the singularity of one's own time and to recall recent events with greater clarity (and emphasis) than in historic periods. Cognitive biases (such as the availability, heuristic or selection bias) and fallacies (such as declinism and apocalypticism) need to be recognised and mitigated to achieve some semblance of objectivity. Though human action has made some extreme events (such as weather events) more likely, there is a lack of academic consensus as to whether we are seeing an unprecedented level of extreme events at the present time.

Where there is growing accord, however, is in the appreciation that these events are having a greater impact than they had done previously. For a number of years, the OECD and other pan-governmental bodies have been analysing how globalisation has created a vulnerable global network that distributes and amplifies the impact of extreme events across borders.

Though the OECD focuses on systemic risk and its management, the conclusions are obvious and clear: as the world has become more financially, technologically, and socially interconnected, events are

more efficiently distributed through the network. Nor is this always negative: advances in medicine and living standards are clear examples of how the amplification and distribution of events in a network economy can benefit society. However, when the events are both negative and extreme, so too will be their consequences.

Given that we may be inducing more extreme events and that these events will expose more businesses to these events with a greater impact, it is imperative to understand how an organisation can best structure itself to mitigate these changes.







## The scale of change: understanding what's different about COVID-19

The key difference between COVID-19 and the other crises mentioned can be traced to nation states' responses to the pandemic, specifically, instituting 'lockdown'. Whereas with local crises these may have occurred on a country-level, no other recent crisis has had such a monumental impact on how societies operate across borders. As of 1st April, it has been estimated that 3.5 billion people were living in lockdown and the scale of this change is a key factor in considering how behaviours might change after the pandemic has passed (or become endemic).

Where these changes are immediately evident from a commercial perspective is in consumer behaviours. By instituting a physical lockdown, consumers and employees have been pushed into their homes (and online) more than ever before. It is worth noting at this point that COVID-19 is one of a handful of truly, globally disruptive events where this has happened in the digital world. Though comparisons with World War 2<sup>2</sup> are unhelpful at best, they do serve to highlight both the scale of the problem and its unfamiliarity to the vast majority of the global population.

For some of our clients, the changes forced upon them have resulted in surprising adaptations. For a national telco, the COVID-19 pandemic forced them to close all call centres and rely on their digital channels, a move that had been deemed 'too difficult' and strategically destructive in 2019. However, business has continued unabated and the company has seen 90+% of their self-care services executed online with a measurable increase to service quality and NPS. The operational cost of their call centres – and the investment opportunity that this cost-cutting would allow – are now areas of their business that they are reviewing in a seismic shift to their previous service strategy.

Equally, for a major insurance provider, one of their core business assumptions has been challenged: that all employees in digital delivery should work onsite. Without the ability to co-locate, the organisation has moved to distributed and remote delivery of their digital platforms. Aside from the benefits that this could bring to their onshore staff (work flexibility, employee retention), this now offers the company data that is likely to suggest, given current quality and throughput metrics, that having

2. <https://www.telegraph.co.uk/news/2020/03/18/coronavirus-germanys-biggest-challenge-since-second-world-war/>

some delivery capability in another location (what's known as mixed-shoring) will provide a comparable level of quality but at much lower cost.

Barclays are a company who have taken a more proactive approach, concentrating on changing their core propositions to accommodate the difficulty their customers are facing. They have waived all interest on consumer overdrafts for a month, created an online form to speed up mortgage-payment holiday applications, and created a £5 million fund for small and medium-sized businesses with the government paying the interest on those agreements. In doing so, Barclays have set themselves up to maintain long-term revenue and to model better their commercial position as and when the pandemic develops.

An institution less able to do this was a major government department. Due to a lack of clear and focused messaging and a lack of available and robust digital tools, the department experienced a queue of more than 100,000 people calling in the days after the Prime Minister's announcement. This meant that they (and the structures around them) were unable to respond to market and societal pressures in a manner and timeframe that would allow them to meet expectations.

**These examples are all immediate, reactive responses, but as lockdown ends, there will be different, more compelling propositions from companies who track and understand the persistent shifts in consumer behaviour caused by the COVID-19 pandemic.**

Some of these are safer to predict than others, such as combined-goods services (e.g. food and pharmaceuticals) for older cohorts of consumers more able and willing to shop online than previously expected – other less obvious examples will come from companies who can synthesise evolving insight from the market to define new products that we can't yet imagine. Nevertheless, as the examples of immediate response bear out, and as we expect medium-term responses to prove, business outcomes (revenue, operating costs, (e) NPS, and so on) are still the metrics by which success will be measured throughout and after the crisis – and, companies who have developed robust digital platforms and agile supply chains (for goods, services, and resources including workers) and those who are able to adapt their business models and respond quickly to (extreme) changes are those most likely to succeed during times of crisis and in their aftermath.







## Crisis as opportunity: the promised land for disrupted businesses

For some industries, crises are caused by forces otherwise seen as positive by wider society. Keeping to the previous 15 years, one event that changed consumer behaviour globally was the launch of the iPhone in 2007. The first 'smartphone' was IBM's Simon, released in 1992. Fast-forward to 2001 and 'phones could connect to the internet via 3G networks, however, it wasn't until 2007 when design met functionality (the ability to access a version of the 'full' internet) that the world was pulled to the Apple empire. Nokia – the most discussed of Steve Jobs' victims – went from owning over 50% of the mobile 'phone market in 2007 to losing 90% of its market value in six years.

There will be many, lower profile companies unable to adapt to how consumer behaviours will change after COVID-19 (or the next extreme event that pushes consumers to a new way of behaving).

**To avoid this fate, businesses need to become comfortable with change and able to capitalise on the push (COVID-19) or pull (iPhone) dynamics that come with extreme events and habits that shift over time.**

This last point is an important one. Consumer (and employee) behaviour is never fixed, it develops, changes course, and blurs previous certainties. However, there is a constant stream of opportunity in these incremental shifts in behaviour. To be able to understand these small shifts (and the opportunities they present), businesses need to establish a mechanism or set of mechanisms by which they can detect signals of consumer intent and also act on them, which in itself requires autonomy at the edges of a business closest to the consumer (e.g. sales and care channels). Research functions can give broad insight at a specific point of time, but if combined with highly centralised decision making removed from the consumer coal-face, detecting and exploiting constantly evolving behaviours will be impaired. Those organisations that can detect these shifts and then, within a short timeframe, change their product or service offering, will capitalise on them at the expense of their competition. This requires two things:

- constant monitoring of the market, consumers, and their drivers; and,
- a 'digital core' that can work at (nearly) the same speed as these feedback mechanisms.





One consumer shift (over time) to which all readers can relate is the move to non-linear broadcast viewing. Though almost all broadcasters made content available (in some form) over the internet, non-linear viewing was seen as a problem (similar to reduced newspaper distribution) that was inevitable but difficult to monetise. Indeed for some major broadcasters, it was seen as a threat that would cannibalise their business. As a result of this hand-wringing, nimble challengers with a digital core were able to capitalise on the way people wanted to watch TV. The best example of this, of course, is Netflix. Not only did they sense and measure the shifts in consumer habits (as they still do), they're a business with a digital core who have been able to scale at great speed to satisfy demand. Nor is this particularly easy: scaling cloud-infrastructure or development capacity is simple enough, but scaling high-quality content development is time consuming, risky, and requires significant investment.

Two examples in the evolution of Netflix show how they drew on customer signals and exploited their digital core to become the predominant force in video consumption. The first is from the good old days when they were still posting DVDs to their customers. The consumer pain-point they detected, recognised, and removed was late-return fees. Instead of charging consumers for late

returns (causing greater churn and lower revenue per user over time), Netflix instituted a simple rule: you can't get a new DVD until you've returned the old one. This 'nudge' model ensured customers remained loyal, gave them more data on customer behaviour, and allowed them to better manage supply and demand of available content. Moving to an exceptionally strong digital offering (with a very attractive price-point), enabled them to build on their market traction, but then they did what so many companies still seek to do: they drew on big data to define their product strategy. Whilst focusing analysis on their highest value cohort, Netflix realised these consumers had found and were watching an old British show free from the bells and whistles of American drama. They zeroed in on this consumer set to work out which big names they responded to most positively. It turns out, this audience – a sub-set of their most affluent cohort – loved the films of David Fincher and were more likely to switch on if Kevin Spacey had a lead role. Armed with this data, Netflix went about spending \$100m to re-make an old classic and *House of Cards* was (re)born. By being able to respond to consumer shifts and by having a digital core, Netflix now accounts for more than 15% of the world's internet traffic. This is the opportunity available to businesses who are bold and business leaders who appreciate the underlying structures that drive consumption.

# Learning from leaders: how to build an organisation that thrives in the 'new normal'

The major differences between extreme events and incremental shifts in consumer behaviour are the ability to detect signs in the market and the impact – or force – of the changes brought about. It is incredibly difficult to detect signs of extreme events for a number of reasons: the characteristics that make events extreme include complexity, immediacy, and a magnitude that grows exponentially, but over time. As there are so many potential outcomes, the reality that materialises, such as during the 07/08 financial crash, is harder to predict. Secondly, in a vulnerable, over-connected, tightly coupled global network the 'noise' that surrounds extreme events (e.g. signals from markets) grows exponentially, whereas the rational signals of consumer behaviour still emit a low hum (as they do in normal operating conditions) but are drowned out. However, having the structure and mechanisms in place to detect smaller shifts will allow organisations both to ensure that they are as closely aligned to consumer behaviour before the event as possible, and to detect the signals from the noise when these events occur.

The second – more fundamental – difference is the impact that these events have. For the national telco mentioned earlier, an inability to allow staff to work onsite forced them to close their call centres. Competition from nimble competitors (even Netflix) who capitalised on market signals would not have made – indeed did not make – the argument to close this touchpoint sufficiently compelling, but they had no choice. Despite maintaining business continuity and seeing commercial success

from this move in the immediate term, there were clearly significant inefficiencies in the organisation that, if rectified, would have improved their commercial and market health before the COVID-19 pandemic.

Though it is almost impossible to reduce the incidence of extreme events, mitigating their impact is possible, and, indeed, necessary when the average lifespan of companies is decreasing rapidly. The way to do this is to build in agility to all parts of the organisation (including procurement, legal, and all other functional areas not yet exposed to the trend of agility in software delivery). This is what is meant by a digital core and this is the 'bend not break' philosophy that allows companies to survive and thrive.

The characteristics of this core are easy to explain: resilience in structures, adaptability and versatility in processes and operating conditions, focus and clarity in messaging, and innovativeness in the way that a company sees their products, services, and customers. What is more difficult is effecting this change.

First, stakeholders need to recognise the potential impact that extreme events and shifts in behaviour can have on their business. We show these to business leaders by having them join our Futurescape workshops. The next part is trying to work out which parts of the business need to change and to what degree. Here we have a well-worn (and iterated) framework that helps leaders to identify which teams, structures, processes,







messaging channels, products and services need to change. Finally, there is the delivery. Too much change (like an extreme event) can cause serious damage to employee morale and commercial results. However, driving incremental change, building champions, and using mistakes to course correct and successes to drive uptake, will all ensure that organisations that need to change can do so at the right pace. This is what we help our partners do.

At the very core of agility – be it business agility or agility in software development – are the processes and mechanisms by which to learn. Increasing speed-to-market is great, if what you are putting out is what consumers want. Vastly more important – and a well kept secret of the most successful companies across the globe – is the speed-to-learn. If you can learn quickly, you can change quickly, and if you can change quickly, you can capitalise on crises, extreme events, and the ever-shifting inclinations of consumers.





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