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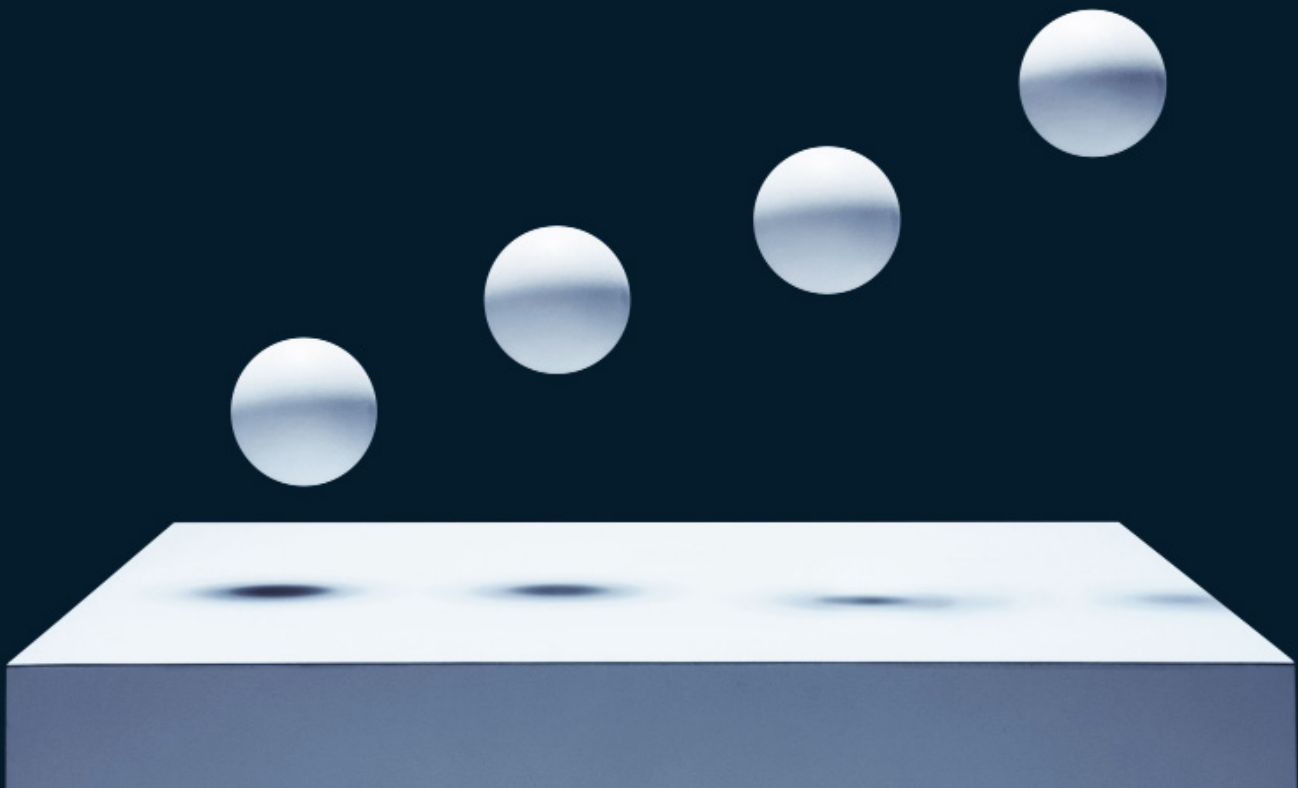
Four pathways to digital growth that work for B2B companies

Here's what it takes for industrial companies to outgrow their peers and create sustainable value from digitization at scale.

by Jochen Böringer, Brett Grehan, Dieter Kiewell, Soenke Lehmitz, and Philipp Moser

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Digital leaders in B2B achieve up to five times the revenue growth and up to eight times the EBIT (earnings before interest and taxes) growth of their peers (Exhibit 1).[1] But so far, only one in three companies has deployed digital solutions at scale. "I realize that with my analytics transformation, I've been tossing around pebbles, but no rock," the CEO of a global corporation admits.[2]

However, sitting and waiting is not an option. Those who fail to take a shaping posture risk being left behind by the competition or cut out of the value chain entirely. Our analysis of the practices of top performers indicates that the principal challenge is to identify the transformation path (or combination of paths) that suits a given company. Digital leaders in B2B consistently have a clear sense of which pathway holds the biggest potential for their business, and once their mind is made up, they pull out all the stops. They free up cash for investments in data, technology, and talent; they think big, they

act fast, and they are prepared to adapt their stance as the market evolves.
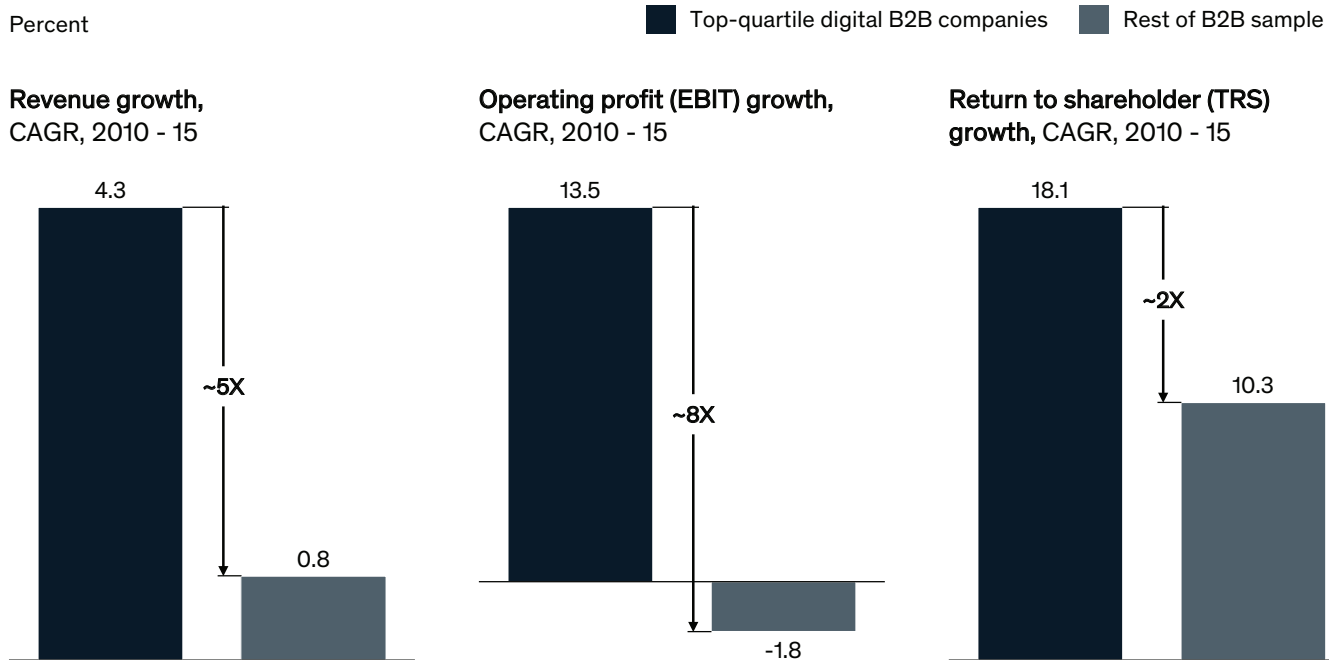
Cracking the digital growth code

What does it take to create value from digitization in B2B? To crack the digital growth code, we have examined the practices of top performers. In our 2019 benchmarking study, we have identified four promising transformation pathways, or archetypes, that allow B2B companies to unlock digital growth potential (Exhibit 2):

— *Modernize core commercial processes,* such as sales and pricing, with data and analytics to improve performance

— *Redesign the customer journey,* to make the procurement of industrial supplies, for example, as convenient as shopping on Amazon

Exhibit 1

B2B digital leaders significantly outperform their peers.

Percent   ■ Top-quartile digital B2B companies   ■ Rest of B2B sample

Revenue growth, CAGR, 2010 - 15

4.3 ~5X 0.8

Operating profit (EBIT) growth, CAGR, 2010 - 15

13.5 ~8X -1.8

Return to shareholder (TRS) growth, CAGR, 2010 - 15

18.1 ~2X 10.3

Source: McKinsey Digital Quotient®, Capital IQ

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[1] Tanguy Catlin, Liz Harrison, Candace Lun Plotkin, and Jennifer Stanley, "How B2B digital leaders drive five times more revenue growth than their peers," October 2016, McKinsey.com.
[2] 2019 McKinsey EMEA Data Summit in Barcelona.

Exhibit 2

An overview of the four transformation archetypes highlights their differences.

	A Modernize core commercial processes	**B** Digitize to differentiate experience	**C** Disrupt the channel	**D** Create unicorns
What The focus	Embed analytics into core commercial processes (eg, pricing, sales)	Redesign and digitize customer journeys (eg, online ordering)	Go directly to customers (eg, new platform)	Build and grow new business models of scale
Why The purpose	To upgrade commercial capabilities and drive expansion of margin & sales	To drive strategic differentiation based on experience	To control end-customer relationship and drive growth/margin	To create attractive, new, organic growth
How The approach	Establish commercial analytics center of excellence Deploy use cases to the front line with training	Set up studio/digital factory Create up to 4 cross-functional squads operating sprints (with releases)	"Build on the side" and integrate later Articulate channel strategy and wargame channel conflicts	Introduce in-house incubator Cross-functional squads with business development leadership
Outcomes	+1 to 2% sales +1 to 3% margin	20 → 80% digital interactions +1 to 5 percentage points market share	Ownership of end customer +1 to 3% margin	Business creation at scale Business-model reinvention

— *Disrupt the channel* to expand the margin pool, for example, by establishing a direct web presence and route-to-market to access new customer segments

— *Build tomorrow's unicorns* to secure growth beyond the core business or defend against digital attackers.[3]

To prioritize pathways and identify the capabilities they need to invest in, companies should develop a clear understanding of the current and future economics of the business, asking questions such as:

— Where does the money come from today?

— Where will (or could) it come from in the future?

— What is the degree of digital maturity of core commercial domains, from sales management to pricing and marketing?
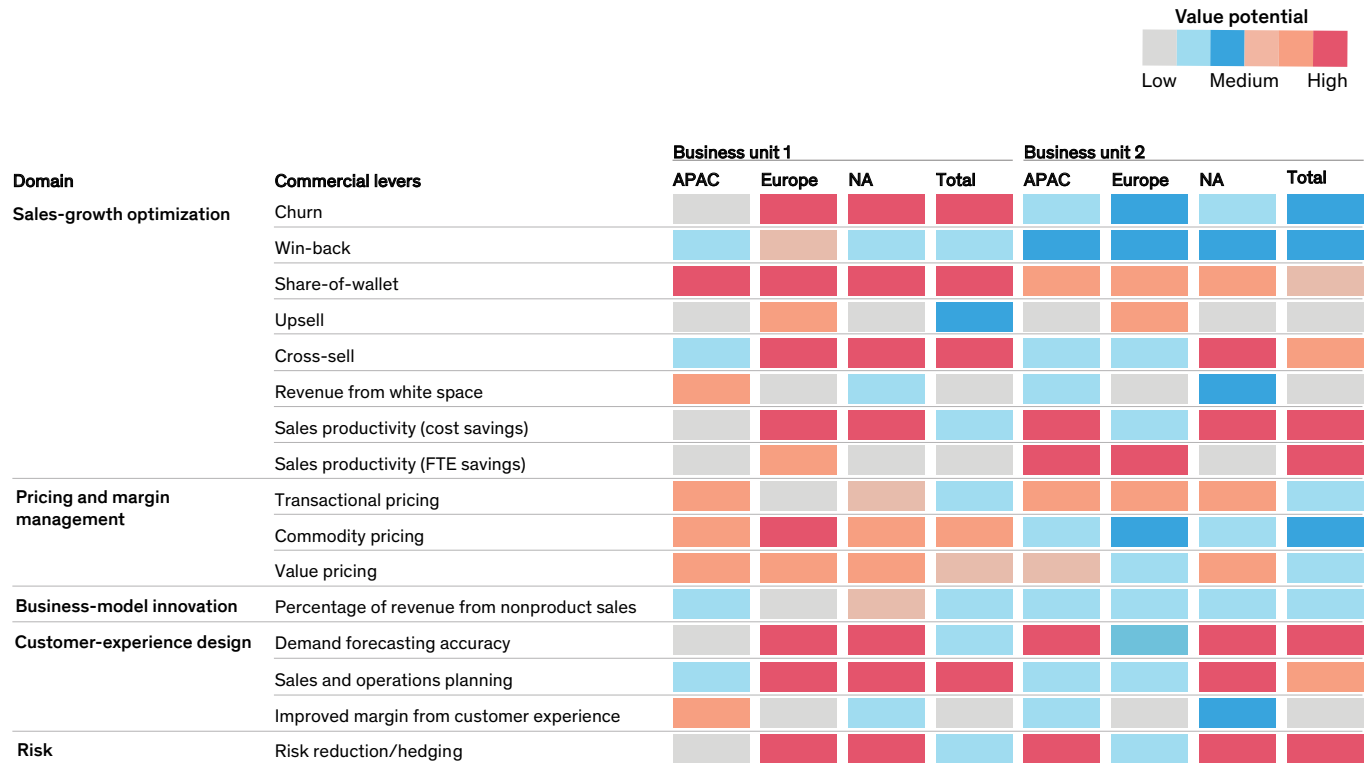
Based on the outcome of this exercise, companies can create what is sometimes referred to as the "value map" (Exhibit 3). This will help them focus their resources and their funds on the most promising digital opportunities, instead of rushing down one pathway prematurely. In this context, clarity and consensus about what a company should not do is just as important as the determination to pursue the most promising pathway to digital growth with full force.

A company may choose to combine multiple pathways or pursue multiple objectives consecutively. For example, the introduction of a direct channel may be followed by the deployment of advanced analytics to drive commercial excellence across all channels. In the majority of successful cases we have seen, companies start digitizing core processes before they experiment with new business models.

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[3] A unicorn is defined as a privately held start-up company valued at $1 billion or more. The term was coined in 2013 by venture capitalist Aileen Lee. The mythical creature is an allusion to the rarity of such successful ventures. In this article, we use the term to refer to new ventures that have the potential to become unicorns.

Exhibit 3

The effect of value levers can be mapped by domains and business units.

Value potential

Low   Medium   High

Domain	Commercial levers	Business unit 1				Business unit 2			
		APAC	Europe	NA	Total	APAC	Europe	NA	Total
Sales-growth optimization	Churn								
	Win-back								
	Share-of-wallet								
	Upsell								
	Cross-sell								
	Revenue from white space								
	Sales productivity (cost savings)								
	Sales productivity (FTE savings)								
Pricing and margin management	Transactional pricing								
	Commodity pricing								
	Value pricing								
Business-model innovation	Percentage of revenue from nonproduct sales								
Customer-experience design	Demand forecasting accuracy								
	Sales and operations planning								
	Improved margin from customer experience								
Risk	Risk reduction/hedging								

What follows is an overview of the pathways, case examples of how a company pursued each approach, and key success factors.

Modernize core commercial processes
Companies pursuing this archetype deploy state-of-the-art analytics to optimize commercial functions and achieve sustainable sales growth or margin improvements. Data-driven pricing is among the most common applications in this area.

Take the example of a global distributor with operations in over 30 countries and annual revenues in the magnitude of $10 billion. At first, the company's pricing group made little use of the wealth of data that was available, much of it stored in the cloud. During the transformation, the group created a new end-to-end tech stack, established a center of pricing excellence, and developed a new commercial playbook. The project team identified a total opportunity exceeding $100 million annually. In a pilot, a

margin increase of up to 50 percent was observed, while no volume was lost.

In another case, a maker of high-tech hardware implemented a partly automated solution to compare prices and derive recommendations for thousands of product configurations. Key features included configuration-based price benchmarking, price-trend analysis, prescriptive analytics to generate competitive pricing recommendations across B2B2C channels and B2C channels, and automatic weekly updates of up to 200,000 price points for up to 20,000 products. The new, data-driven approach allowed the company to reallocate significant resources from manual pricing management to growth initiatives.

Key success factor: Invest in training and ongoing support once the new approach is rolled out to the front line. This is because data-driven pricing is often met with skepticism or resistance from veteran sales teams, who are used to relying on

experience and gut feeling rather than data and analytics.

Redesign the customer journey

Increasingly, B2B customers across industries demand a different kind of service from their suppliers. In a recent McKinsey survey, B2B purchasing officers said that they want less in-person support than many sales teams assume. For simple or repeat purchases of products and services, the vast majority of buyers (85 percent) do not require in-person support.

Many B2B customers now expect the same kind of convenience, speed, flexibility, and transparency they are used to from shopping on popular consumer platforms. More than anything, customers want faster service. According to our survey, "slow response time" is the issue that frustrates them most in their interactions with suppliers (named by 40 percent of all participants, ahead of "pricing issues," named by 19 percent).[4]

For suppliers, this evolution of interaction preferences is an opportunity to transform the customer experience, improve satisfaction, prevent churn, and reduce the cost to serve (Exhibit 4).[5] Take the example of a leading manufacturer of agricultural products with annual revenues in the magnitude of $20 billion. The company was struggling with poor customer satisfaction and an erosion of the customer base. To identify the root causes of dissatisfaction and transform the customer experience, the company set up an agile studio. The cross-functional team comprised customer experts, user-experience designers, supply-chain experts, data scientists, developers, and IT architects.

Exhibit 4

Develop a clear view of what matters to the customer.
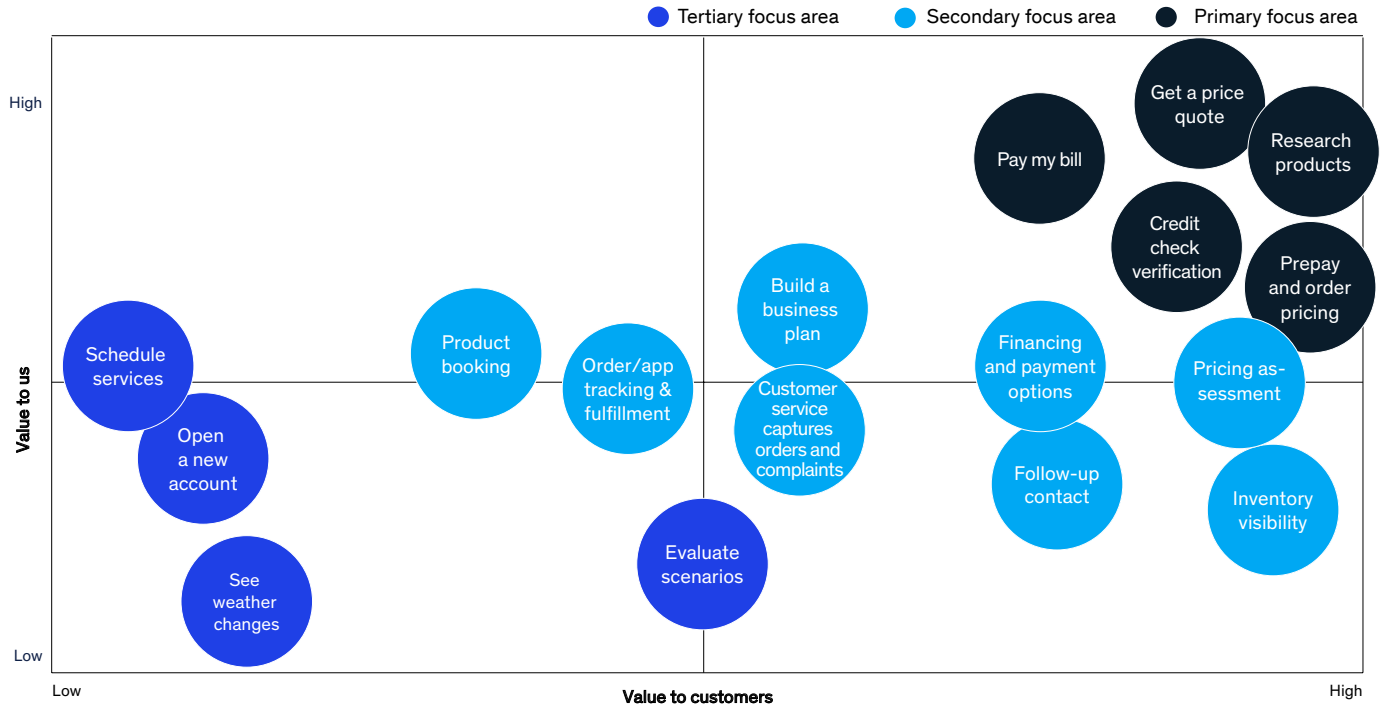
4 See Christopher Angevine, Candace Lun Plotkin, and Jennifer Stanley, "When B2B buyers want to go digital—and when they don't," *McKinsey Quarterly*, August 2017, McKinsey.com; and Jorchen Boringer and Dr. Tjark Freundt, "Kundenführung 4.0: Von Menschen und Maschinen," perspectives Magazin, January 18, 2018, perspectives.infraserv.com.
5 Christopher Angevine, Candace Lun Plotkin, and Jennifer Stanley, "The secret to making it in the digital world: The human touch," May 2018, McKinsey.com.

Using agile methodology and design thinking, the team reinvented the customer journey and created a seamless online process for ordering, tracking, and query management. As a result of this effort, the company's customer satisfaction score increased by 24 percentage points, while throughput improved by 20 percent. A minimum-viable-product (MVP)[6] version of the new process went live after 16 weeks.

Key success factors:

1. Use both internal and external data sources to create a 360-degree view of customers, and let unmet needs guide the digitization of the customer journey (customer-back approach):

   • What do customers care about the most?

   • In which areas are they open to digitally enabled process streamlining?

   • How can new technology be used to create additional value and pleasant surprises for customers?

2. Use different channels to serve different types of customers, from a portal for registered high-value customers to target offers or flagship e-stores on established B2B portals to reach bargain hunters and generate new leads.

   For example, a Fortune 500 industrial-supply company wanted to target small and medium businesses (SMBs), so it set up an online-only business alongside its cross-channel main offering under a new, separate brand. The e-store offers only products that are relevant to SMBs. As a result, the assortment is smaller, simpler, and easier to navigate. The purchasing process itself is hassle free, and orders can be tracked through a mobile app. The company generated significant additional sales to SMBs that had previously shied away from the complexity of the supplier's main offering.

Disrupt the channel
Increasingly, suppliers see digitization as an opportunity to restructure the value chain, especially when it comes to distribution (Exhibit 5). Companies that have previously relied on intermediaries take advantage of digital channels to build direct relations with end customers. That way, they capture additional profit and grow sales.

One medium-size manufacturer of electrical products was suffering from declining margins because wholesalers and distributors were capturing an increasing share of end-customer revenues. In response, the company created a direct-to-electrician channel and started selling its products directly through an e-commerce channel. The company now controls almost the entire value chain (except for on-site installation), from product design to distribution to licensed electricians. In 2018, the company won six industry awards, including most popular supplier. Electricians rate the supplier 4.9 out of 5 on Trustpilot.
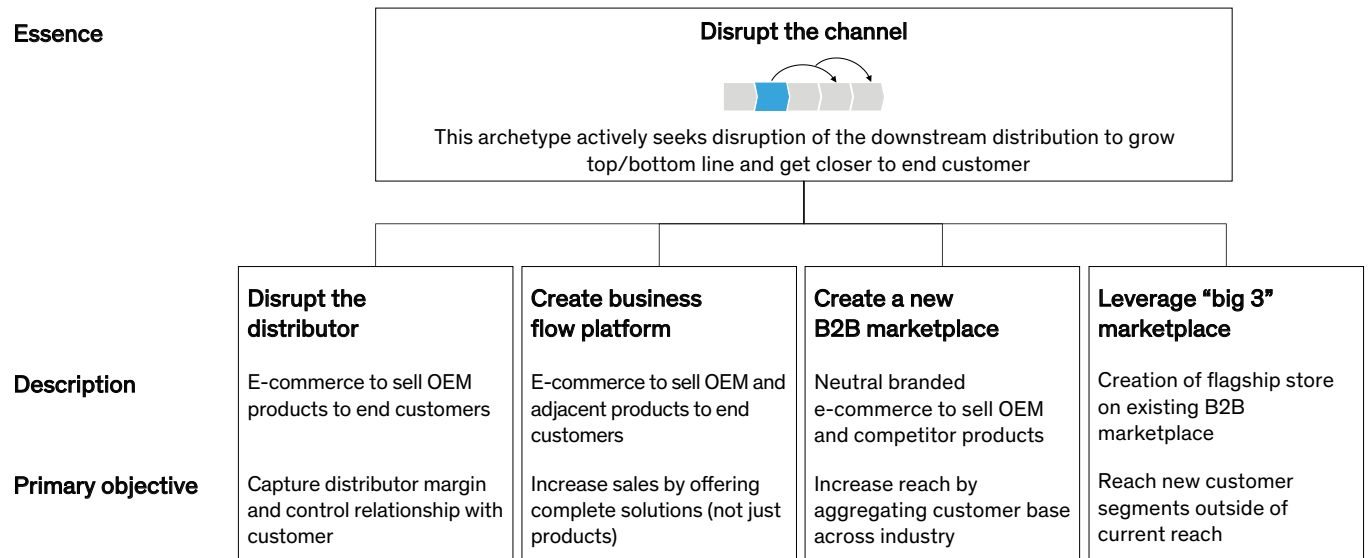
Key success factor: Manage potential conflicts between old and new channels before they arise. Manufacturers should carefully weigh the pros and cons of using an existing B2B platform for distribution. While such platforms bring substantial relevant reach, they can also cannibalize sales that come through other, potentially more profitable channels. If the operator of a platform charges high commission fees or insists on exclusive distribution rights, manufacturers should consider launching their own platform or creating an e-commerce channel for direct distribution to end customers.

Build tomorrow's unicorns
In this archetype, companies use their understanding of the industry to develop new ventures, disrupt their own existing business models, and unlock new revenue streams, typically using a stage-gate financing approach. Of all archetypes, this one is most removed from a company's existing operations. This is also why it can be pursued in parallel with other pathways, provided sufficient resources and funds are available.

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[6] MVP is a version of a new product (or service or process) that allows a company to collect the maximum amount of validated learning about customers with the least effort.

Exhibit 5

Use digitization to disrupt the channel.

Essence

Disrupt the channel

This archetype actively seeks disruption of the downstream distribution to grow top/bottom line and get closer to end customer

	Disrupt the distributor	**Create business flow platform**	**Create a new B2B marketplace**	**Leverage "big 3" marketplace**
Description	E-commerce to sell OEM products to end customers	E-commerce to sell OEM and adjacent products to end customers	Neutral branded e-commerce to sell OEM and competitor products	Creation of flagship store on existing B2B marketplace
Primary objective	Capture distributor margin and control relationship with customer	Increase sales by offering complete solutions (not just products)	Increase reach by aggregating customer base across industry	Reach new customer segments outside of current reach

BP's Launchpad

BP describes Launchpad as a "scale-up factory," charged with a "mission to take disruptive technologies and business models and help grow them fast to become BP's future business units, generating a significant portion of BP Group's gross margin by 2025."[1]

To date, the most prominent BP Launchpad venture is Lytt, a technology start-up specializing in fiber optics to detect sand inter-ference in offshore wells. BP describes the technology as similar to the Shazam mobile phone application that identifies songs. Lytt analyzes sounds in wells to paint a picture of the well conditions.[2] The technology is already in use in the North Sea and in Azerbaijan. BP plans to roll it out to other rigs, and to market it to other companies eventually. According to Ian Kavanagh, BP's head of upstream modernization and transformation, BP is already saving billions of dollars thanks to the innovation.[3] (For details on new business building, see "Traditional company, new businesses: The pairing that can ensure an incumbent's survival," June 2019, McKinsey.com.)

[1] "BP Launchpad," bp.com.
[2] Jordan Blum, "BP gets into the startup biz with its new Lytt company," *Houston Chronicle*, May 8, 2019, houstonchronicle.com.
[3] "BP recently created BP Launchpad as a business incubator," AZERNEWS, May 10, 2019, azernews.az.

To build new ventures that have the potential to grow into unicorns, successful players often adopt a venture capitalist's approach. They prioritize opportunities according to their potential value and develop a venture portfolio. The challenge is to keep new businesses sufficiently close to the parent company for them to benefit from its critical mass, yet separate from the corporate hierarchy, in order to foster the entrepreneurial spirit of a start-up company. (See sidebars, "BP's Launchpad" and "Ping An case study: Digitally enabled growth," for two companies successfully using this approach.)

Key success factors: In our experience, corporate start-ups increase their odds of success when they have the following freedoms:

— *Freedom from financial pressure.* Start-up founders often prioritize market share and scale over profit. Research by the McKinsey Global Institute shows that founder-controlled

Ping An case study: Digitally enabled growth

Ping An is a leading financial conglomerate with a growing global fintech footprint. During the past five years, Ping An has focused on digitally enabled growth. Instead of trying to "do everything," the company made a conscious choice to select a narrow set of sectors, following a rigorous four-step process:

— Create a long list of opportunities, based on consumer needs and technological change

— Rank opportunities according to current and future market size

— Filter out opportunities dominated by competitors

— Select opportunities that match the group's strategic objectives and stand to benefit from Ping An's core strengths

Using this approach, Ping An selected finance, real estate, healthcare, and automotive as its focus areas.

Most recently, Ping An has decided to set aside 1 percent of group revenue to finance start-up ventures that operate as autonomous entities. This group acts as venture capitalist and adheres to a staged funding approach. The start-ups are given the independence they need to pursue promising opportunities in an agile, flexible fashion and to enlist top talent. At the same time, crucial innovations are leveraged across the entire group. One example is Ping An's proprietary face-recognition technology. It is used both to identify Ping An health-insurance policy holders at hospitals and to speed up online applications for loans ("iLoans").

Says Ping An Group Co-CEO Jessica Tan: "We are both in financial services and a tech company. In the past 11 years, we've invested significantly in technology. When I joined, we had 3,000 developers. We now have 30,000 developers. We now have the largest online wealth management and lending platform in China. We have the largest health portal, Good Doctor, in China. These B2Cs create an ecosystem. We now have 546 million users who have at least one app with us."[1] As of September 2018, Ping An's top start-ups were collectively valued at more than a quarter of a trillion dollars.[2]

[1] CNBC news release, transcript of interview with Jessica Tan, Co-CEO, Ping An Group, September 20, 2019, cnbc.com.
[2] Ping An annual reports and investor resources; McKinsey research.

companies have 60 percent faster revenue growth and 40 percent lower returns on invested capital than widely held companies.[7] But if the parent company pressures its new businesses to deliver short-term return on investment (ROI), founders will be more likely to make decisions that limit long-term growth prospects.

— *Freedom from red tape.* A parent company's bureaucracy can diminish one of the most powerful qualities that typical start-ups possess: the ability to make quick decisions. Every hour that a start-up's employees spend filling out forms or awaiting permission from a corporate functionary is an hour they aren't spending on product development or other value-creating activities.

— *Freedom to source talent.* No corporate start-up should be required to fill its ranks with staff from the parent company. A start-up's hiring

decisions should rest with the leadership team. That way, the start-up can draw from pools of workers who are disinclined to seek jobs at traditional companies and unfamiliar to corporate recruiters.

Enablers to deliver impact at scale

In addition to the strategies and skill sets that are specific to the different archetypes, our analysis of top digital performers in B2B has revealed four enablers that help create strategic advantages, de-bottleneck digital transformations, and deliver impact at scale (Exhibit 6):

— *Talent: build bench of technologists and translators.* Successful enterprises excel at attracting and developing best-in-class digital talent, including translators who help bridge the gap between experts and executives. New talent is especially important to overcome

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[7] For the full McKinsey Global Institute report, see "The new global competition for corporate profits," September 2015, on McKinsey.com.

Exhibit 6

Each archetype relies on four enablers to unlock digital growth and impact at scale.

	Archetype	Approach	Critical talent	New ways of working	Data capabilities	Technology needs
A	Modernize core commercial processes	Studio logic	Data engineers Data architects Data engineers	Set up a digital and analytics center of excellence Upgrade commercial playbooks Train workforce through "field-and-forum" approach and Digital and Analytics Academy	Extend sources to external, unstructured, and proprietary data	Start fast with current tech stack and add extraction layer
B	Digitize to differentiate experience	Studio logic	User experience designer Agile coaches Tech-stack architects	Envision digital customer journey through design-thinking approach	Integrate customer interaction and satisfaction data	Upgrade tech stack and add extraction layer for seamless customer interactions
C	Disrupt the channel	Build, operate, transfer	Go-to-market/channel-management experts Tech-stack architects	Build and operate channels before transfer to business Manage conflicts of new and old channels	Define value proposition based on 360-degree customer-view data Create common marketplace	Integrate tech stack of procurement, supply chain, and commercial
D	Create unicorns	Business-building methodology	Experienced entrepreneurs Business-building specialists	Define venture portfolio Ring-fence venture into business-building incubator	Identify growth opportunities Define data requirements from scratch	Build best-of-breed tech setting based on assembly of standard solutions/tools

organizational inertia and foster innovation that goes beyond the established route to market or beyond the existing business. (For more, read Nicolaus Henke, Jordan Levine, and Paul McInerney, "Analytics translator: The new must-have role," February 2018, McKinsey.com.)

— *Agility: use agile teams for technology delivery.* Traditionally, many B2B companies rely on fixed, sequential processes and ways of working. To accelerate digital transformations, companies should take advantage of more flexible, adaptive models in which resources are deployed based on value-creation opportunities, rather than on protocol. (For more, read Deepak Mahadevan, Christopher Paquette, Naveed Rashid, and Evgeny Ustinov, "Building agile capabilities: The fuel to power your agile 'body'," August 2019, McKinsey.com.)

— *Technology: decouple the legacy technology stack.* The most successful players in our sample pursue an approach where the platforms for new digital solutions are decoupled from slower legacy systems. This allows companies to develop MVPs more quickly and add new use cases as opportunities arise. (For more, read Oliver

Bossert and Jürgen Laartz, "Perpetual evolution—the management approach required for digital transformation," August 2019, McKinsey.com.)

— *Data: extend to external, unstructured, proprietary data.* Digital pioneers extend the database beyond the most common sources, such as customer and transaction data. They also leverage product-related data, sales-force performance indicators, communication metadata, and data from external sources, such as social media, market reports, weather forecasts, and competitor offerings. (For more, read "Five fifty: The data disconnect," *McKinsey Quarterly*, July 2018, McKinsey.com.)

Outlook: Do it like you mean it

For manufacturers and providers of services, digitization is at least as much an opportunity as it is a threat. To fortify their position, they should shape the change and think big. They should be prepared to reinvent the way they serve their customers, either by redesigning the customer experience or establishing a direct channel. They should also be willing to go against the grain of existing organizational structures to create the optimal setup for the digitization archetype they choose to pursue.

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