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MEASURING B2B'S DIGITAL GAP

B2B companies fall short of their B2C counterparts in key areas of our Digital Quotient assessment.

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The need to invest operations and processes with digital capabilities touches every company and industry. B2B companies, however, face added challenges. Their customers increasingly gravitate toward digital tools to research and buy products—after all, they use Amazon at home just like everyone else does. Yet B2B buying and selling is often more complex. There are more decision makers and influencers involved in final purchasing decisions, often higher price points, an array of products and specifications, and many competing sales channels, both traditional and digital. B2B customers can also have different needs at different stages of the customer decision journey, requiring a balanced approach across channels that includes, at times, digital-only interactions.

To get a better portrait of the digital readiness of B2B companies to respond to this changing landscape, we mined our database of Digital Quotient (DQ) assessments. Over the past three years, we have built a perspective on the most important digital characteristics needed to improve financial performance.[1] We have found that strong scores across management dimensions of strategy, culture, organization, and capabilities correlate strongly with higher margins and shareholder returns. For the first time, we compared the DQ of B2B companies with those of B2C players to get a benchmark of B2B's digital strength. As the exhibit shows, B2B companies significantly trail B2C, and that's true across all but one of the four dimensions we measure. This gap is important, since B2B companies (like their B2C counterparts) are in a digital footrace. They face shrinking shelf lives for products, more acute customer demands for price transparency, and better experiences. Getting digital tools into the hands of legacy-minded sales reps is also a must. There's plenty of upside for adopting best practices. The top quartile of B2B companies we studied had demonstrably higher revenue growth, operating profits, and returns to shareholders.

Breaking it down

We looked at B2B versus B2C Digital Quotient scores across the four dimensions and also peered into the survey data for details on underlying practices for each dimension.

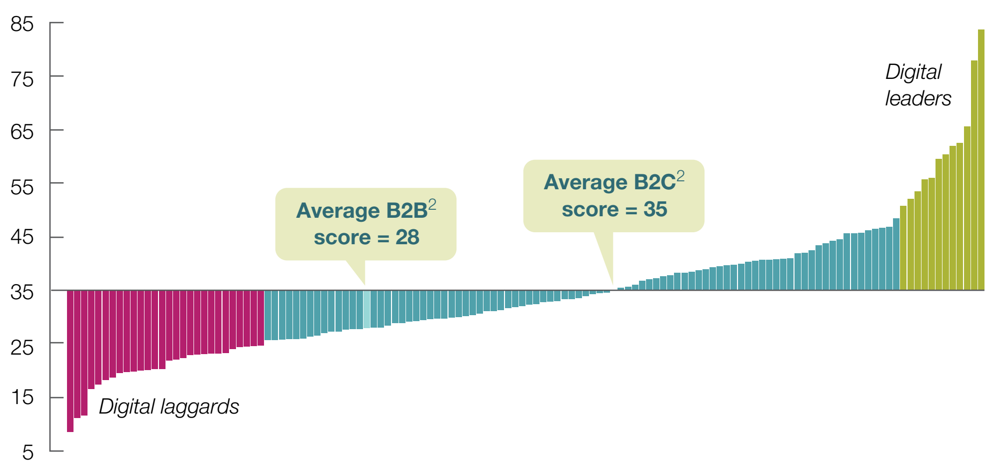
Strategy—attention deficit. B2B companies are behind B2C companies in how they use digital tools and data to set strategy. They often treat overall strategy and digital strategy differently. Only 10 percent see digital as one of their top three investment priorities, about half the average for B2C companies. As a result, digital strategies are often fragmented rather than adopted coherently and fluidly across the enterprise. Revealingly, fewer than 24 percent of executives understand how their industries are being disrupted by digital. And in the critical customer-facing area of mobile, only 6 percent of B2B companies have a mobile strategy, compared with 30 percent of B2C companies.

Organization—beyond legacy structures. Most B2B players haven't taken concrete steps to mobilize the organization around digital tools and data. The average DQ score for organizational maturity was 27 (versus 35 for B2C companies), in the range of laggard companies across our global sample, signaling a struggle to push digital initiatives. Only one in four companies said their leadership communicates digital strategy clearly, and most said there is confusion about digital roles as well as ownership of digital initiatives. One reason for the fuzziness: we found efforts to define metrics associated with the effectiveness of digital initiatives were below the levels of B2C companies.

Exhibit

B2B companies trail their B2C counterparts in progress toward digitization.

Digital Quotient (DQ) score[1]
on a scale of 0 to 100



[1] DQ score is an average across 4 equally weighted dimensions: culture, strategy, capabilities, and organization.
[2] 2016 sample includes 47 B2B and 128 B2C companies and reflects an update from previously published versions.

Capabilities—skills deficit. With lower levels of strategic focus and organizational discipline, it's not surprising that B2B companies are behind those in the B2C sector in digital capabilities. They aren't using social media or digital-content creation as effectively in their outreach to customers. They are also behind in their use of data and advanced analytics. That shows up in their inability to offer satisfying experiences to customers across channels. This failure is especially acute when customers voice a preference for digital interactions. The data-analytics gap also shows up in B2B companies' ability to automate decisions. B2C companies were able to automate, and thus better optimize, customer interactions across purchasing journeys, as well as automate their marketing decisions. B2B companies have applied digital automation largely to internal processes rather than to those that are customer facing.

Culture—a firm base. On average, across cultural DQ measures, B2B companies aren't far behind their average B2C counterparts in core areas such as trust and internal and external agility. Deep-seated cultural barriers, in other words, shouldn't hold back B2B digitization. There's a big gap between leaders and laggards, though, and some pain points that stand out. We found that fewer than 15 percent of companies had adopted test-and-learn approaches to new digital business initiatives, and for a third of B2B companies, it takes more than a year to bring a new digital idea to implementation. Many fewer B2C companies require that much delivery time.

As the "consumerization" of B2B proceeds, pressure will grow on leaders to accelerate their digitization efforts. Doing so should help boost effectiveness across the board, and it holds particular promise for companies seeking to raise their omnichannel game by putting better tools in the hands of sales teams and striking the right balance between new and traditional channels. Our research suggests that as senior leaders elevate digital as a strategic priority, they can look to B2C companies and industries for inspiration. Q

[1] Over the past three years, McKinsey has measured the Digital Quotient of approximately 200 B2C and B2B companies around the world by evaluating the 18 management practices related to digital strategy, capabilities, culture, and organization that correlate most strongly with growth and profitability.

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