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The digital-led recovery from COVID-19: Five questions for CEOs

A digital future lies ahead. By acting early and being bold and decisive, CEOs can accelerate their digital transformation and reach the next normal sooner.

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April 2020

There's a popular meme going around that neatly captures the tipping point of digital. It's a short questionnaire asking who is driving your digital transformation. The first two options are "CEO" and "chief digital officer." Below that, highlighted with a bright red circle, is "COVID-19."

The coronavirus pandemic is a humanitarian crisis that continues to take a tragic toll on people's lives. There's no denying it is also acting as a catalyst for change—economic, societal, personal, and corporate—on a scale not seen since wartime. The scale of the change and the speed at which it's happening is shining a bright light on the fact that companies are facing a once-in-a-generation shift. And for all the uncertainty about what the future will look like, it's clear already that it will be digital.

The challenging economic outlook and continued uncertainty are forcing CEOs to contemplate some difficult choices. Some are pulling in, making cuts, and focusing on riding out the storm. Others, however, are taking decisive action to make sure that when the crisis ends, they'll be stronger than they are today.

Research and experience show that those acting with a through-cycle mindset will be best positioned to accelerate out of the downturn. In the recessions of 2007–08, the top quintile of companies was ahead of their peers by about 20 percentage points as they moved into the recovery in terms of cumulative total returns to shareholders (TRS). Eight years later, their lead had grown to more than 150 percentage points.[1] One key lesson from that experience is the companies that move early and decisively in a crisis do best.

Accelerating your digital transformation

We believe the COVID-19 crisis is likely to significantly accelerate the shift to digital and fundamentally shake up the business landscape.

[1] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 2019, McKinsey.com.

Sidebar

Core principles

As CEOs consider how to move ahead, certain mindsets and capabilities matter more than others. They were important before COVID-19 hit but are particularly crucial today:

— *Flexibility and speed.* The speed at which the change hit us caught everyone off guard. It's become obvious that entrenched systems that have supported businesses for years—tech stacks, reporting lines, processes—have been no match for the dynamic fluidity of the current crisis. Building in redundancies, modularized systems for quick switch-outs, and devolved decision making (based on clear guidelines) will need to be the norm.

— *Bold actions backed by a solid understanding of risk.* The scale of the crisis needs to be matched by boldness in response. Incremental change and half measures are unlikely to provide businesses with the economic horsepower needed to ride out the storm and come out of the crisis in a strong position. Boldness of action should be tempered with a full appreciation of risk, from the impact of cyberattacks to the loss of crucial talent.

— *Commitment to a holistic approach.* The crisis has highlighted systemic and organizational weaknesses. These flaws highlight the need to ensure that digital initiatives take into account the complete range of dependencies and build in cross-functional mechanisms that integrate systems, people, and processes across the business.

Even before COVID-19 hit, 92 percent of companies thought their business models would need to change given digitization.[2] The companies listed on the S&P 500 Index have an average age of 22 years, down from 61 years in 1958.[3]

Despite herculean efforts and significant accomplishments at many businesses, the pandemic has brought into sharp relief how vulnerable companies really are. One consumer-packaged-goods (CPG) company saw its online orders go through the roof, only to have its operations descend into chaos in an effort to process and fulfill the surge. Tech-enabled businesses, on the other hand, were able to move at speed, such as India food-tech business Zomato, which used its platform to work with grocery start-ups to meet surging online-order demand.[4]

For many companies, the only option is to accelerate their digital transformation. That means moving from active experimentation to active scale-up supported by ongoing testing and continuous improvement. These moves should happen across two dimensions: at the core of the company and through the development of new businesses. Top-performing digital companies take this twin approach.[5]

Despite the immense challenges CEOs are managing today, now is the time to act. In fact, we've seen that the reduction in time spent traveling has given CEOs and their top teams more time to focus on new initiatives. One leader at a large bank, for instance, said recently that it was finally getting around to launching an important customer-relationship-management (CRM) program that it had no time for before. Given how fast change is happening, waiting until you see signs of recovery will be too late.

There is much we don't know. But drawing on our experience and lessons learned from companies that are moving ahead—particularly in China—we believe that CEOs should ask the following questions to help prepare their businesses for the recovery when it finally comes.

1. Do you have a clear view of where the value is going to be and a road map that will get you there?

Despite noteworthy successes in adjusting to COVID-19, many leaders have been frustrated by how slowly necessary changes have moved, from serving a surge of customers migrating to digital channels to scaling back-end operations. We believe that one of the biggest reasons for these difficulties is that, while companies have had many digital pilots and initiatives in place, they didn't add up to a coherent and integrated digital engine to drive the business forward.

Accelerating their digital transformation requires CEOs to take a step back and reassess their road maps (the coordinated and detailed plans for what needs to be done, by whom and when, from the leadership level down to the front line) as well as the assumptions about value and feasibility underlying them. Those assumptions need to be based on emerging new customer behaviors, supplier dynamics, and regulation. Our consumer-sentiment analysis, for example, has revealed whole new consumer groups trying out digital products and services for the first time. As of this writing, in the United States, some 35 percent of Gen Zers, for example, have used video chat for the first time (versus just 6 percent for boomers), while 54 percent of households with incomes greater than $100,000 have tried online streaming for the first time (versus 35 percent of those households earning less than $50,000).[6]

[2] Jacques Bughin, Tanguy Catlin, Martin Hirt, and Paul Willmott, "Why digital strategies fail," *McKinsey Quarterly,* January 2018, McKinsey.com.
[3] Matt Banholzer, Markus Berger-de Leon, Ralf Dreischmeier, Ari Libarikian, and Erik Roth, "Building new businesses: How incumbents use their advantages to accelerate growth," December 2019, McKinsey.com.
[4] Pramugdha Mamgain, "India's Zomato sees business opportunity in grocery amid COVID-19 crisis," Deal Street Asia, March 23, 2020, dealstreetasia.com.
[5] "How digital reinventors are pulling away from the pack," October 2017, McKinsey.com.
[6] "Survey: US consumer sentiment during the coronavirus crisis," April 2020, McKinsey.com.

On the B2B side, our recent customer-behavior research shows that digital interaction with B2B customers is now two times more important than traditional channels—more than a 30 percent jump since before the COVID-19 crisis hit.[7] In telemedicine, regulation, licensing, and reimbursement questions that had traditionally hampered its adoption have been swept away to help fight the coronavirus, laying open a scenario of reduced—or, at least, different—regulation in the next normal. These developments have to be closely monitored, of course. Some behaviors are likely to stick—early research suggests that more than 55 percent of Chinese consumers are likely to permanently buy more groceries online, for example[8]—while others won't.

Having a road map doesn't mean, of course, that it will be executed. Among the most important tasks in operationalizing the road map is getting alignment with the leadership team—the chief digital officer (CDO) as well as key line and functional leaders—and putting in place the resources needed to deliver on it. Alignment is challenging in normal times but is now that much more difficult with your leadership team all working from home. Through video chat or phone, the CEO needs to be explicit in calling out members of the top team so that everyone understands not only what the road map is but also what their responsibilities are and how they will be resourced.

CEOs should then work with their top team to identify critical roles (roughly 30 to 40 for an enterprise). For these roles, it's important to spell out the job and eliminate tasks that are not essential, and then provide solid teams, enough budget, and clear (usually enhanced) decision rights. Selection is critical—you need absolutely the best talent in these roles.

2. What role should business building have in helping you accelerate your entrance into new markets or access new customers?
Many businesses can only match the pace of both the crisis and the change in customer behavior by building something outside of the core company. This allows them to build something in a modern way—fully agile with microservice architecture and entrepreneurial talent.

The issue, however, is that fewer than 10 percent of business builds succeed. When enterprises take a more structured approach—including a clear strategy, entrepreneurial talent, and the proper balance between corporate support and operational freedom—the success rate jumps to 67 percent. Corporate support is particularly important now. Besides access to cash and

[7] McKinsey B2B Decision Maker Pulse Survey.
[8] Julien Boudet, Jonathan Gordon, Brian Gregg, Jesko Perrey, and Kelsey Robinson, "How marketing leaders can both manage the coronavirus crisis and plan for the future," April 2020, McKinsey.com.

Sidebar

Executive checklist

- ☐ Do you have a business-led technology road map that reflects new assumptions about your industry and the pace of digital adoption by your customers, suppliers, employees, and regulators?
- ☐ Does your resourcing—including where your very best talent is deployed—match your digital aspirations?
- ☐ Does your road map reflect the "last-mile behavior changes" that will be necessary to make your transformation program stick?

relative stability, large enterprises provide a "safe harbor" during the crisis, allowing the entrepreneurial spirit to thrive free from the broader economic concerns. Our recent B2B survey indicates that large B2B companies remain more stable, with approximately 50 percent planning to increase or maintain their spending in the short and long term.[9]

We have already seen and, frankly, been deeply inspired by, what is possible during this current coronavirus crisis. In China, engineers built two hospitals (2,600 beds in total) from scratch in just over a week. In select catchment areas, the National Health Service (NHS) in the United Kingdom was able to execute long-term telehealth plans in 15 days or fewer. What this demonstrates to us—as in the proverbial "necessity being the mother of invention"—is that people can move with astonishing speed to build something new. One European retailer was able to launch a new e-commerce business in just 13 weeks. Overturning assumptions about the way organizations and consumers operate, we see a number of early archetypes for postcrisis business builders. Remote-service providers, for example, can take advantage of the big shift to online access by delivering services and providing support. Data visionaries are finding ways through analytics and automation to use new types and sources of data to generate value.

CEOs will have a key role in making sure that the enterprise develops a business-building capability rather than simply launching a new business. That's because it will be necessary to launch multiple businesses over time to sustain new sources of growth and as a hedge against future uncertainties.

3. How can you lock in the benefits of a more agile operating model to increase the metabolic rate of your business?

Once an almost exclusive domain of IT, agile has now permeated almost every part of the business. Companies are being forced to move and take action at unprecedented speed—and almost exclusively remotely. A large bank, for example was faced with a 20-fold rise in origination volumes as part of a loan program to support small businesses. It "stood up" a cross-functional executive team to tackle the issue, from customer communication to underwriting to product development and training for 500-plus employees. The bank did this via twice-daily agile huddles, rapid backlog management, and issue resolution, all in a fully virtual setting.

[9] McKinsey B2B Decision Maker Pulse Survey.

Sidebar

Executive checklist

- ☐ How are you balancing the advantages the large enterprise can provide with the freedom that the new business needs to thrive?
- ☐ How will the management team measure success—including incorporating the high volumes of customer feedback—of the new business at the three-, six-, and 12-month mark from launch?
- ☐ What external partnerships are you exploring to build and scale the new business?

The nature of the crisis has required teams to act quickly amidst uncertainty, make decisions with limited oversight, and react to fast-changing situations. There are typically 50 people that make 80 percent of the decisions, but, as the crisis has shown, moving to agile allows you to take advantage of thousands of brains.

Some new ways of working are an “all hands on deck” response to the pandemic that are not likely to be sustainable. But as CEOs look to accelerate the metabolic rate of their business in preparation for the recovery, they will need to be deliberate in protecting what has worked well and guard against the legacy ways of working creeping back when the crisis abates. Centralization can be good for managing a crisis, but it should not be mistaken for a model for growth, and CEOs will need to keep any overly centralized action from being the status quo. Protecting the benefits of new ways of working also doesn’t mean just cutting costs on travel. It’s about harnessing the vitality and effectiveness of extended agile teams working on objectives, not simply tasks.

For one thing, we suspect that executives are realizing something that we ourselves are also seeing: videoconferencing can be much more productive, especially for quick check-ins. While in-person meetings will be needed—previous research has shown that productivity among teams drops as the number of locations they work from increases—some hybrid models will likely emerge to take advantage of the benefits of remote and in-person connection. Video meetings have exposed what agile gurus have been saying for years: that the ideal effective team size is five to nine people. A 20-person Zoom meeting, where you can see only nine people on an iPad screen, has shown itself to often be an exercise in frustration. Many CEOs should be able to see how much a skeleton crew can get done when given the right tools, support, and mission.

Other benefits are emerging as well, ones that CEOs need to make sure stick. For one, it will be crucial to preserve the empowered and iterative ways of working. Another is that clarity of purpose and a tight focus on just a few things can do wonders for animating an organization and driving results.

The necessity to figure out things on the fly has underscored another crucial capability: being able to learn and adapt. Even before the crisis, we found that the top 10 percent of companies in terms of revenue growth are more than 50 percent more effective than peers in testing, measuring, and executing based on what they’ve learned. Building up this corporate muscle isn’t about improving training (although that is important, more on that later); it’s about embedding a culture of experimentation, learning, and iterating.

Sidebar

Executive checklist

- ☐ Are your business leaders, technologists, and control functions working together to continuously deliver incremental improvements (every two weeks) grounded in customer value?
- ☐ What does “test and learn” look like week to week for each of your strategic initiatives, so that you can capture learning from failure and build on it?
- ☐ Have you identified which elements of your current way of working you want to preserve and created a plan for doing so?

The words of Beth Galetti, the senior vice president of HR at Amazon, are instructive: "We are frequently doing things that have never been done before. For this reason, there is often no playbook to teach nor experts to follow, so we empower people to try new things and learn along the way."[10]

The CEO can start building support for agile now by calling attention to the ways in which work has improved as well as by identifying processes and incentives that can hardwire the benefits.

4. How should you rethink your talent strategy so that you have the people you need when the recovery starts?

As the full economic impact of the crisis hits, pressure will continue to build to cut costs. CEOs will be faced with difficult people decisions. However, given the importance of talent in accelerating progress, it's critical to adopt a through-cycle mindset on people—not just in keeping the right talent but also in building the skills of the people you already have. For CEOs, this means developing a talent road map that's as detailed as a technology one.

CEOs at several large businesses are acting on this through-cycle mentality by articulating what critical skill pools are needed for recovery. In the technology realm, for example, the focus should be on building your base of top engineers, who are ten times more productive than less accomplished developers. These are the people who will be rapidly deployed and redeployed to do the most important work. This exercise includes determining how many of them will be needed so that there is sufficient resiliency, developing an approach to building their skills, and identifying both the people who have emerged as stars during the crisis and those whose skills can be upgraded through training.

Training itself is likely to see profound change. Before COVID-19 hit, most companies struggled to get online learning to work. The new world of remote working, however, is acclimatizing people to the tools and processes that are core to distance education. This represents an opportunity for training to scale the programs built for how people actually learn best: shorter, "bite size" learning modules tailored to the individual and delivered when they're needed as part of a thoughtful learning journey. CEOs should prioritize remote boot camps, self-serve modules, simulations, and collaborative learning environments supplemented by a rigorous certification program and in-field trials to accelerate how teams learn.

5. What investments are the most necessary to create the technology environment that will allow your company to thrive in the next normal?

The disruptions of the coronavirus have underscored the crucial role of technology, from supporting remote working to scaling

[10] "How Amazon is built to try and learn," February 2020, McKinsey.com.

Sidebar

Executive checklist

- ☐ Can you articulate why a recent engineering graduate would join you rather than a digital competitor?
- ☐ Do you have a skill road map that is as detailed as your tech road map?
- ☐ How are you tracking value at the individual level, and linking the learning to talent and performance management?

digital channels for surging customers. Despite the outstanding accomplishments in managing the technology response to the crisis, the many setbacks have highlighted systemic weaknesses. That shouldn't be a huge surprise, since of the organizations that have pursued digitization, 79 percent are still in the early stages of their technology transformation.[11] More important, they've highlighted a point that's been made before but can no longer be ignored: technology is a core driver of value, not merely a support function.

This insight is crucial because too often the overriding factor when it comes to technology has been cost. CEOs have a leading role to play now in expanding that definition to include value creation as well as flexibility, cybersecurity, and resiliency. To make that happen, CEOs will need to work much more directly with their chief information officers (CIOs) or chief technology officers (CTOs) to make tech investments in legacy-system modernization and in microservice-architecture development, or in building a new tech stack altogether (for instance, for developing a new business). To enable this kind of effective decision making, some CEOs have added CIOs to the leadership team and have asked them to report directly. Having CIOs closely involved with shaping the business strategy and agenda is shown to enable faster progress in achieving a company's digital goals.[12]

That focus on value extends to data and advanced analytics as well. Never before has the need for accurate and timely data been greater. The government of South Korea proved that point when it worked with private companies to launch a COVID-19 data platform that reduced contact-tracing time from 24 hours in early February to less than ten minutes on March 26. To do so, they developed a digital surveillance system that consolidates information from 27 public and private organizations.[13] This example highlights the importance of tapping new data sources going forward. Additional initiatives could include developing 360-degree views of the customer, adopting consistent tool sets and processes, or modernizing data architecture and moving to the cloud. To get the full value from data in the future, it will be important to retrain algorithms based on new realities. At the same time, CEOs will need to work with their risk leaders to ensure that the scramble to harness data follows strict privacy rules and cyber best practice.

Increased digitalization has also highlighted the increasing importance of ecosystems.

[11] "Can IT rise to the digital challenge?," October 2018, McKinsey.com.
[12] Ibid.
[13] Park Han-na, "Seoul to launch 10-minute contact-tracing program, *The Korea Herald*, March 26, 2020, koreaherald.com.

Sidebar

Executive checklist

- ☐ Is your digital transformation powered by modern software-development methods and delivery capabilities like a tech company?
- ☐ Do you have robust and federated data governance to enable broad and continuous use of data by the front line and to enrich the data over time?
- ☐ Are you investing at least as much to build conviction and the ability to act as you are in technology?

Responding to customer needs during the crisis, for example, we've seen how some banks integrated medical-care advice, doctor-appointment services, and automotive services for their customers. As protocols and standards increasingly normalize these connections, the CEO will need to help guide which ecosystems can drive the greatest value for the business and how to navigate the implications for customer relationships, data sharing, and intellectual property—key sources of advantage in the digital age.

We have not seen the end of the crisis. Nor do we know exactly when the recovery will come. But it will come, and the CEOs who can best prepare their businesses effectively for a more digital future will give their companies the best chance for a brighter future.

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The authors wish to thank Santiago Comella-Dorda, Lang Davison, Eric Lamarre, Bill Schaninger, and Kevin Wei Wang for their contributions to this article.