McKinsey Global Survey results

# The digital tipping point

*Organizations' efforts to go digital—and drive growth through digitization—are picking up steam. But many have more work to do before they can scale their efforts and see material impact.*

**After years of revving their engines,** many companies are gaining momentum with their digital initiatives. Executives say their CEOs are more involved in digital efforts than ever before and that their enterprises are now investing enough to meet their overall digital goals. Yet McKinsey's latest survey on digitization[1] also finds that many respondents say their companies must address key organizational issues before digital can have a truly transformative impact on their business.

This year's survey asked respondents how their companies spend on digital and organize their digital work, as well as the goals, challenges, and best practices they see across these initiatives. Many respondents agree that their companies' digital programs are growth oriented, that future spending on digital will increase, and that a large portion of future company growth will be driven by digital efforts. But organizational challenges and a dearth of talent are common, significant hurdles that prevent companies from scaling up their digital efforts or seeing clear returns on their investments. So are limited accountability and a poor understanding of potential value. Less than 40 percent of executives say their companies have accountability measures in place, either through targets, incentives, or "owners" of digital programs, while only 7 percent say their organizations understand the exact value at stake from digital.

[1] The online survey was in the field from April 8 to April 18, 2014, and garnered responses from 850 C-level executives representing the full range of regions, industries, and company sizes; 9.3 percent of these executives have a technology focus. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.



Jean-François Martin

**Going digital to grow**

It's evident that digitization has become a critical asset in many companies' quest for growth. More than three-quarters of executives say the strategic intent behind their digital programs is either to build competitive advantage in an existing business or to create new business and tap new profit pools.

To further underscore digitization's strategic importance, it is top of mind for many company leaders. CEOs and other C-level executives—chief information officers (CIOs) in particular—are devoting more of their personal attention and are more directly involved in digital initiatives now than ever before (Exhibit 1). Company leaders are also spearheading digital strategy: 41 percent of respondents say their CEOs are responsible for their organizations' overall digital agendas.

Exhibit 1

**Both CEOs and CIOs play an important, direct role in digital initiatives.**

% of respondents[1]

Level of support and involvement in digital-business initiatives, by role[2]

■ Supportive and sponsor of initiatives    ■ Supportive and directly engaged

| | **2012,** n = 1,469 | | **2013,** n = 850 | | **2014,** n = 850 | |
|---|---|---|---|---|---|---|
| Chief information officer | 26 | 33 | 59 | 26 | 37 | 63 | 40 | 29 | 69 |
| CEO | 23 | 23 | 46 | 31 | 24 | 55 | 38 | 23 | 61 |
| Chief marketing officer | 25 | 34 | 59 | 26 | 28 | 54 | 31 | 30 | 61 |
| CFO | 12 | 20 | 32 | 13 | 24 | 37 | 17 | 29 | 46 |
| Chief digital officer | N/A | | | 12 | 12 | 24 | 17 | 13 | 30 |
| Board of directors | 11 | 13 | 24 | 14 | 11 | 25 | 14 | 13 | 27 |

[1]Respondents who answered "supportive and not directly engaged," "neither unsupportive nor supportive," "not at all supportive or engaged," "don't know," or "not applicable" are not shown.

[2]In 2012 and 2013, we did not ask about business-unit heads and their support or involvement in digital initiatives, so the 2014 results are not shown. The largest shares say their business-unit heads are either supportive and directly engaged (39 percent) or supportive but not directly engaged (21 percent).
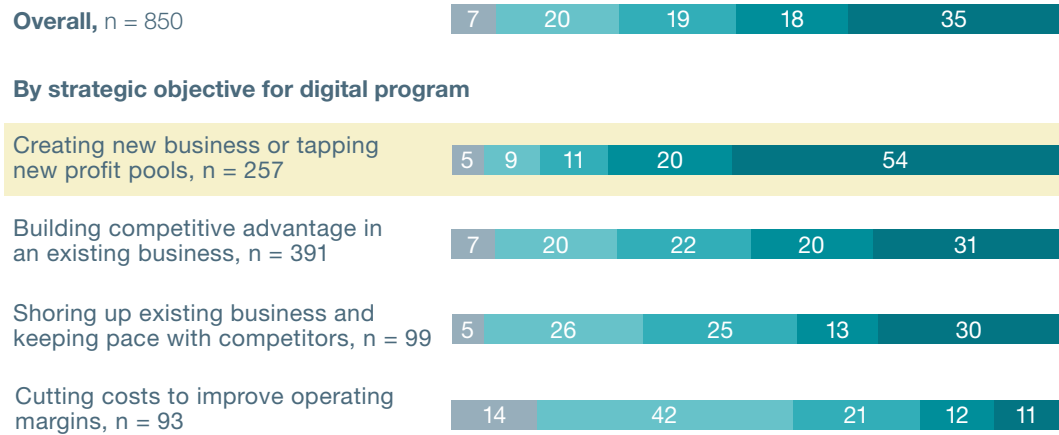
Exhibit 2

## Expectations for growth are highest at companies that pursue digital to create new business.

% of respondents[1]

Expected share of organizations' overall growth that
will result from digital efforts, next 3 years

| ■ Don't know | ■ ≤4% | ■ 5–9% | ■ 10–14% | ■ ≥15% |
|---|---|---|---|---|

**Overall,** n = 850

| 7 | 20 | 19 | 18 | 35 |
|---|---|---|---|---|

**By strategic objective for digital program**

Creating new business or tapping
new profit pools, n = 257

| 5 | 9 | 11 | 20 | 54 |
|---|---|---|---|---|

Building competitive advantage in
an existing business, n = 391

| 7 | 20 | 22 | 20 | 31 |
|---|---|---|---|---|

Shoring up existing business and
keeping pace with competitors, n = 99

| 5 | 26 | 25 | 13 | 30 |
|---|---|---|---|---|

Cutting costs to improve operating
margins, n = 93

| 14 | 42 | 21 | 12 | 11 |
|---|---|---|---|---|

[1]Figures may not sum to 100%, because of rounding

Given the focus on growth and rising C-suite interest, it's no wonder that a sizable share of executives have high expectations for digital. More than one-third of all respondents expect at least 15 percent of their companies' growth in the next three years will be driven by digital (Exhibit 2). Among companies pursuing digital to create new business, more than half of executives expect this level of growth. In the high-tech and telecommunications sectors, and in North America, respondents also report higher-than-average expectations for future, digital-led growth.

**Spending strategically, for now**

To achieve this growth, organizations are maintaining a clear focus on customers—the same emphasis we saw in last year's survey.[2] Of the six digital trends we asked about, executives expect the largest share of their digital growth in the coming years will be from digital customer engagement, followed closely by the digital innovation of products, operating models, or business models.

Respondents most often rank digital customer engagement as a top strategic priority, too, and report that current spending patterns mirror digital priorities (Exhibit 3). Further, respondents believe their companies invest adequately in these digital trends. Of the six trends, automation ranks the lowest. Just 34 percent of executives say it's a top-three priority for their companies, even though automation may significantly help businesses in sectors that are undergoing digital disruption (by lowering customer transaction costs, for example) and improve their bottom lines.[3]

[2] Brad Brown, Johnson Sikes, and Paul Willmott, "Bullish on digital: McKinsey Global Survey results," August 2013, mckinsey.com.

[3] For more on the bottom-line impact of digital, see 'Tunde Olanrewaju and Paul Willmott, "Finding your digital sweet spot," *McKinsey on Business Technology*, November 2013, mckinsey.com.

Exhibit 3

**Digital customer engagement is paramount in both strategy and spending.**

% of respondents,[1] n = 850

Ranked among top 3 digital trends at respondents' companies

■ Ranked 1st    ■ Ranked 2nd    ■ Ranked 3rd

| | As a strategic priority | | | | As a share of overall digital-budget spending | | | |
|---|---|---|---|---|---|---|---|---|
| Digital engagement of customers | 30 | 21 | 18 | 69 | 29 | 17 | 16 | 62 |
| Digital innovation of products, operating model, or business model | 24 | 21 | 19 | 64 | 25 | 18 | 17 | 60 |
| Big data and advanced analytics | 14 | 16 | 15 | 45 | 11 | 13 | 15 | 39 |
| Digital engagement of employees, suppliers, or business partners | 9 | 16 | 19 | 44 | 15 | 9 | 11 | 35 |
| Digital customer-life-cycle management | 8 | 14 | 18 | 40 | 5 | 15 | 12 | 32 |
| Automation | 14 | 10 | 10 | 34 | 8 | 19 | 17 | 44 |

[1] Respondents who did not rank each of the 6 trends in the top 3 are not shown.

Exhibit 4

**Executives expect a rise in big data's importance, but across digital trends, they are least likely to report adequate investments in it.**

% of respondents,[1] n = 850

| Top-ranked trends as a share of overall digital-budget spending[1] | Currently / In 3 years | Agree that current investments are enough to accomplish overall digital goals |
|---|---|---|
| Digital engagement of customers | 31 / 27 | 68 |
| Digital innovation of products, operating model, or business model | 26 / 28 | 65 |
| Automation | 16 / 9 | 66 |
| Big data and advanced analytics | 12 / 24 | 52 |
| Digital engagement of employees, suppliers, or business partners | 9 / 5 | 68 |
| Digital customer-life-cycle management | 5 / 8 | 58 |

[1]Figures may not sum to 100%, because of rounding.

However, as digital becomes more integrated into businesses, executives acknowledge that some investments must change. Across the trends, respondents are most likely to say their companies are underinvesting in big data and analytics—though they predict that in three years' time, big data will become a higher spending priority (Exhibit 4). More broadly, only one-fifth of executives report that their organizations spend at least 5 percent of their current cost base on digital programs; nearly one-third of respondents expect their spending will reach this level in three years' time. In North America and in information-intensive sectors such as financial services, high tech, and telecommunications, executives report even higher levels of spending, both now and in the future.
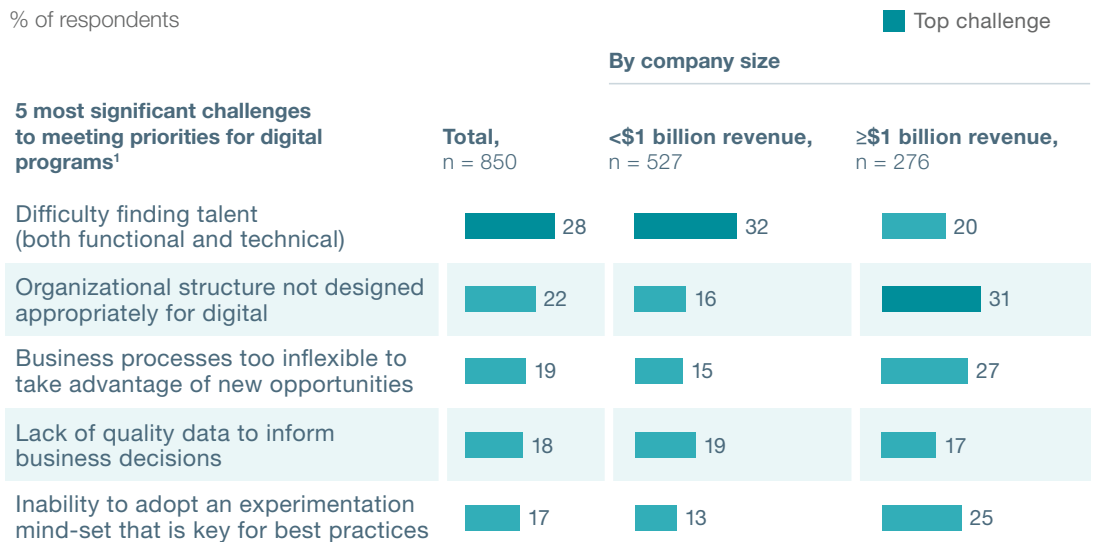
### Challenges of scale

Many companies (and leaders) have recognized the importance of digital and focused their digital strategy and spending. Yet many still have a long way to go in creating an organization that is well positioned to see digital efforts scaled across the company and achieve the large financial impact that respondents expect. One such challenge is the struggle to recognize value from existing digital efforts. When asked about the funding of and impact generated from digital projects, just 7 percent say their organizations understand the exact value at stake from digital, and only 4 percent of respondents report high returns on their companies' current investments.

Organizationally, companies are struggling as well. When asked about targets and incentives, less than 40 percent of executives say their companies have accountability measures in place for their digital objectives, either through measurable targets, performance incentives for relevant employees, or an executive "owner" of their digital programs.[4] Larger companies (those with annual revenues of $1 billion or more) in particular are struggling with unsuitable organizational structures and inflexible business processes (Exhibit 5). These structures and processes function effectively with legacy channels, but, according to respondents, are hindering their companies' efforts to take advantage of new digital opportunities.

[4] For more on related best practices, see 'Tunde Olanrewaju, Kate Smaje, and Paul Willmott, "The seven habits of highly effective digital enterprises," May 2014, mckinsey.com.
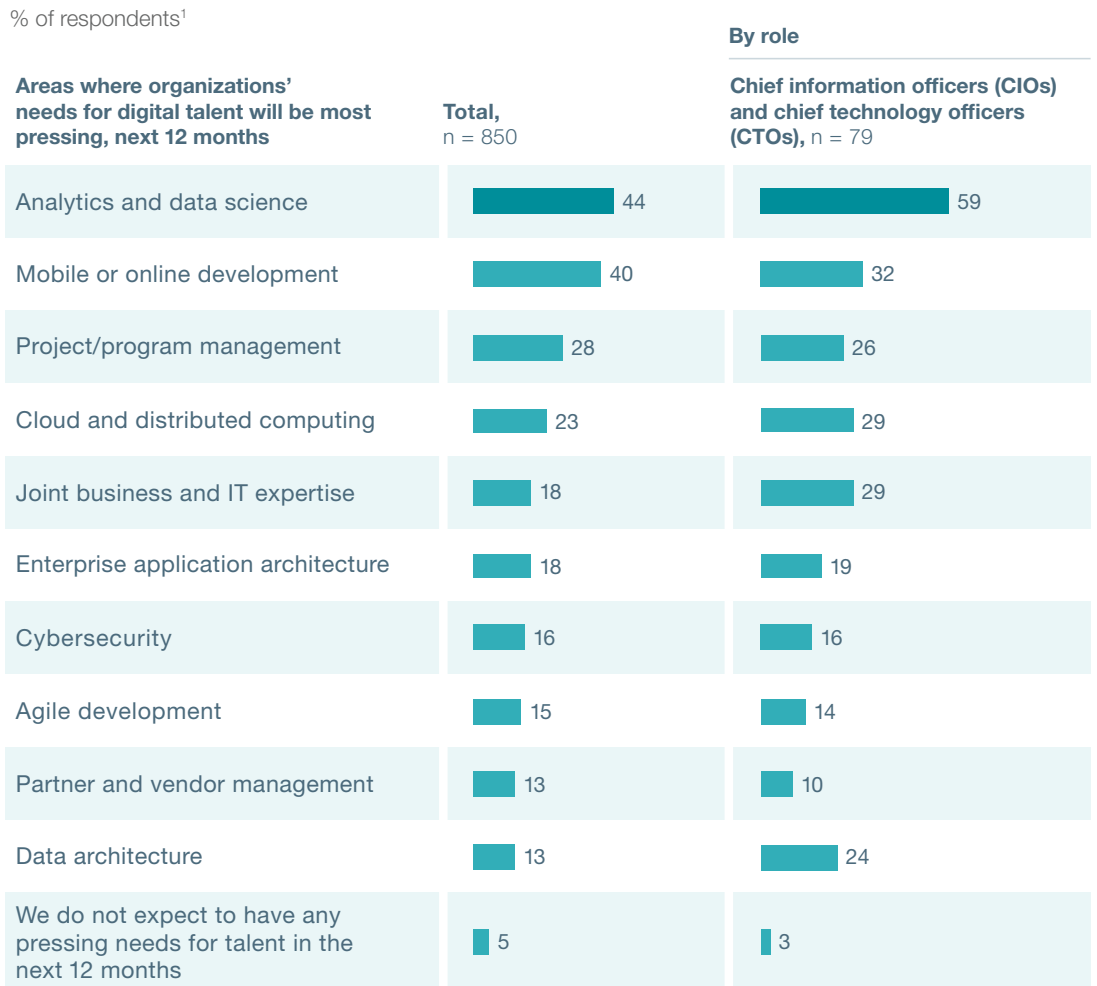
Exhibit 5

## At larger companies, structural issues are the top hurdle to meeting digital goals.

% of respondents                                                                 ■ Top challenge

|  | | **By company size** | |
| --- | --- | --- | --- |
| **5 most significant challenges to meeting priorities for digital programs[1]** | **Total,** n = 850 | **<$1 billion revenue,** n = 527 | **≥$1 billion revenue,** n = 276 |
| Difficulty finding talent (both functional and technical) | 28 | 32 | 20 |
| Organizational structure not designed appropriately for digital | 22 | 16 | 31 |
| Business processes too inflexible to take advantage of new opportunities | 19 | 15 | 27 |
| Lack of quality data to inform business decisions | 18 | 19 | 17 |
| Inability to adopt an experimentation mind-set that is key for best practices | 17 | 13 | 25 |

[1]Out of 12 challenges that were presented as answer choices.

Many executives also agree that digital talent remains a trouble area for their organizations. Only one-third of respondents say at least one in ten of their employees spends any time working on digital projects. Of the challenges companies face in meeting their digital priorities, difficulty finding talent often tops the list. Roughly nine out of ten executives say their companies have some pressing need for digital talent in the next year—especially in analytics, which CIOs and chief technology officers cite even more frequently than average (Exhibit 6).

Exhibit 6

**The need for data and analytics talent is acute, especially for CIOs and CTOs.**

% of respondents[1]

|  | | By role |
|---|---|---|
| **Areas where organizations' needs for digital talent will be most pressing, next 12 months** | **Total,** n = 850 | **Chief information officers (CIOs) and chief technology officers (CTOs),** n = 79 |
| Analytics and data science | 44 | 59 |
| Mobile or online development | 40 | 32 |
| Project/program management | 28 | 26 |
| Cloud and distributed computing | 23 | 29 |
| Joint business and IT expertise | 18 | 29 |
| Enterprise application architecture | 18 | 19 |
| Cybersecurity | 16 | 16 |
| Agile development | 15 | 14 |
| Partner and vendor management | 13 | 10 |
| Data architecture | 13 | 24 |
| We do not expect to have any pressing needs for talent in the next 12 months | 5 | 3 |

[1]Respondents who answered "don't know" are not shown.

### Looking ahead

- *Understand the value.* Most organizations have only a basic grasp on the value that digital can create. To reap the rewards from digitization at scale, CEOs need to push their teams to understand better what they can gain from digital initiatives and to match priorities and investments with the areas of highest value.

- *Focus on organization-wide impact.* Companies expect much of their near-term growth to be driven by digital, but impact remains elusive. What's more, effective organizational structures, accountability, and meaningful metrics and incentives are largely lacking. As executives become more involved in digital efforts, they must work to ensure that their structures and business processes are set up to take full advantage of the opportunities that digital efforts offer.

- *Prioritize talent.* Respondents continue to express concerns about finding the talent their companies need to realize their digital goals. Building and acquiring technical and functional skills, as well as creating an environment that encourages development and retention, will be key to maintaining competitive parity and driving growth in the near term. ☐

The contributors to the development and analysis of this survey include **Josh Gottlieb**, a specialist in McKinsey's New Jersey office, and **Paul Willmott**, a director in the London office.