

The new digital edge: Rethinking strategy for the postpandemic era

Our latest survey confirms that the future will belong to companies that put technology at the center of their outlook, capabilities, and leadership mandate.



Introduction

One year into the COVID-19 crisis, our newest McKinsey Global Survey on digital strategy¹ indicates that the pandemic has increased the pace of business and that technology capabilities will be critical to companies' COVID-19 exit strategies as well as to what comes next. After seeing how the pandemic had sped up the adoption of digital technologies by several years, we took a closer look at how companies are rethinking the role of digital technology in their overall business strategy and how to conduct business at the quickening pace that's now needed to operate.

The imperative for a strategic approach to technology is universal, yet some companies are already leading the pack; their responses show that better overall technology capabilities, talent, leadership, and resources (what we call a company's "technology endowment") are linked to better economic outcomes. At the same time, the results confirm that many organizations could be missing opportunities to invest in the areas of their business models that are most at risk of digital disruption.

Companies with better overall technology capabilities, talent, leadership, and resources are seeing better economic outcomes.

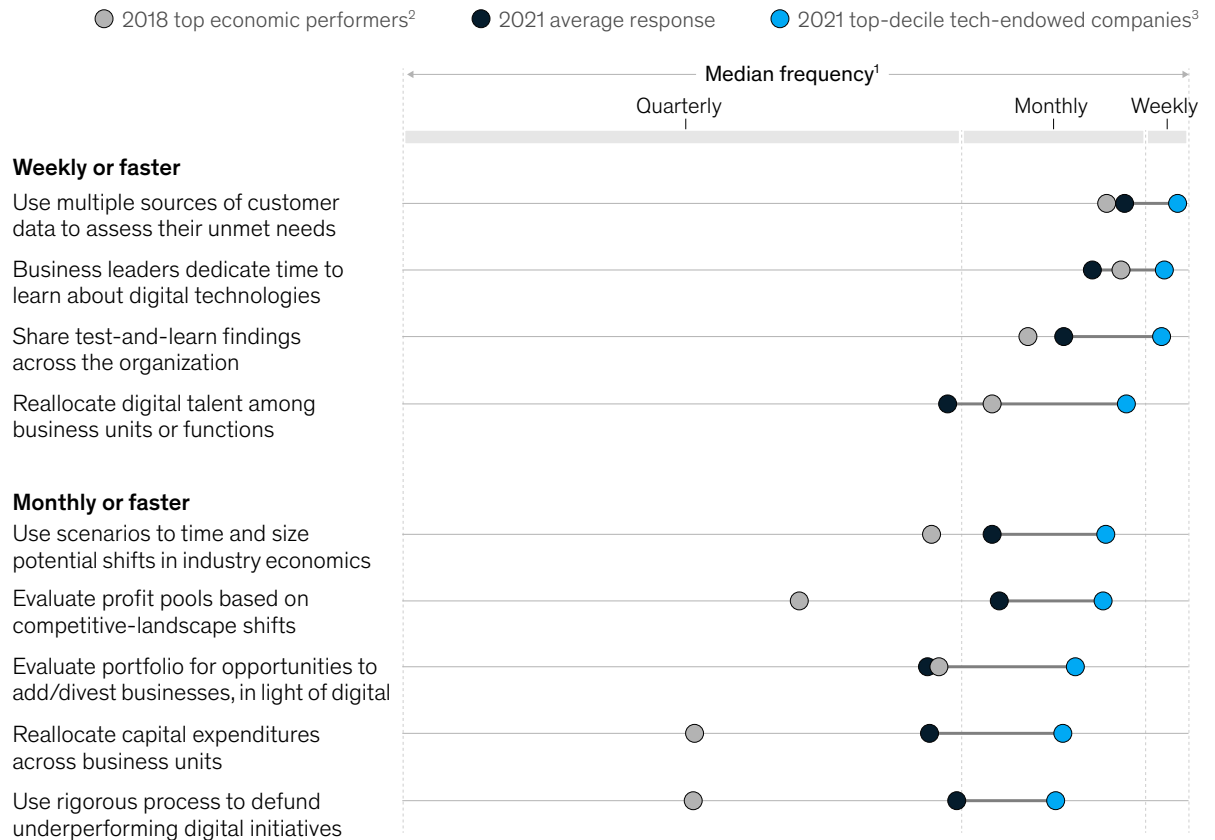
¹ The online survey was in the field from January 19 to January 29, 2021, and garnered responses from 1,140 C-level executives, senior managers, and business-unit, department, or division heads representing the full range of regions, industries, company sizes, and functional specialties.

The pandemic has dramatically increased the speed at which digital is fundamentally changing business

Our previous survey showed that across key areas of the business model, companies' overall adoption of digital technologies had sped up by three to seven years in a span of months. The newest results show that this acceleration is also happening at the level of core business practices: what was considered best-in-class speed for most business practices in 2018 is now slower than average. And at companies with the strongest technology endowments,² respondents say they are operating at an even faster pace.

The COVID-19 pandemic has fundamentally changed the pace of business, and the companies with superior technology capabilities are winning the race.

Median frequency of core business practices¹



¹Frequencies shown are the median values from a histogram, which was constructed by assigning "daily" responses a value of 0; "weekly," 1; "monthly," 2; "quarterly," 3; "annually," 4; "every few years," 5; and "never," 6. The question also asked about the frequency of evaluating M&A opportunities as part of every strategy-setting discussion. These responses are not shown because M&A typically requires a longer time frame than the other operational practices tested, often due to regulatory reasons.

²Respondents of 2018 survey who say their organizations have a top-decile rate of organic revenue growth (ie, of 25% or more in past 3 years) relative to other respondents; n = 138.

³Companies with a top-decile tech endowment are those where respondents strongly agreed with at least 7 statements (out of 13 total) about the role of technology in their organizations' strategies and the overall role of technology in their organizations; n = 158.

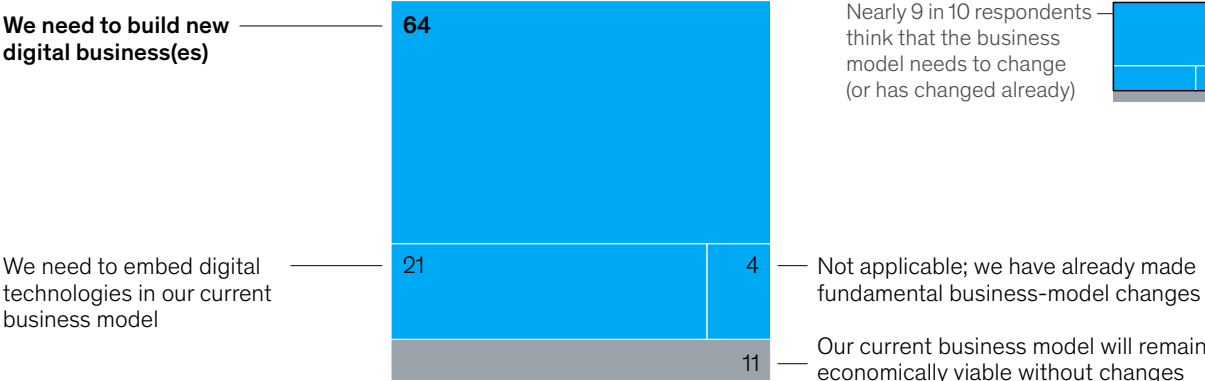
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² Companies with a top technology endowment are those where respondents strongly agreed with at least seven statements (out of 13 total) about the role of technology in their organizations' strategies and the overall role of technology in their organizations; n = 158.

But it's not only the pace of business that the COVID-19 crisis has fundamentally changed. According to the survey, many respondents recognize that their companies' business models are becoming obsolete. Only 11 percent believe their current business models will be economically viable through 2023, while another 64 percent say their companies need to build new digital businesses to help them get there.

Looking toward 2023, most companies will need to build new digital businesses to stay economically viable.

Changes needed to make company's business model economically viable by 2023, % of respondents¹



¹ Respondents who answered "don't know" are not shown; n = 1,140.

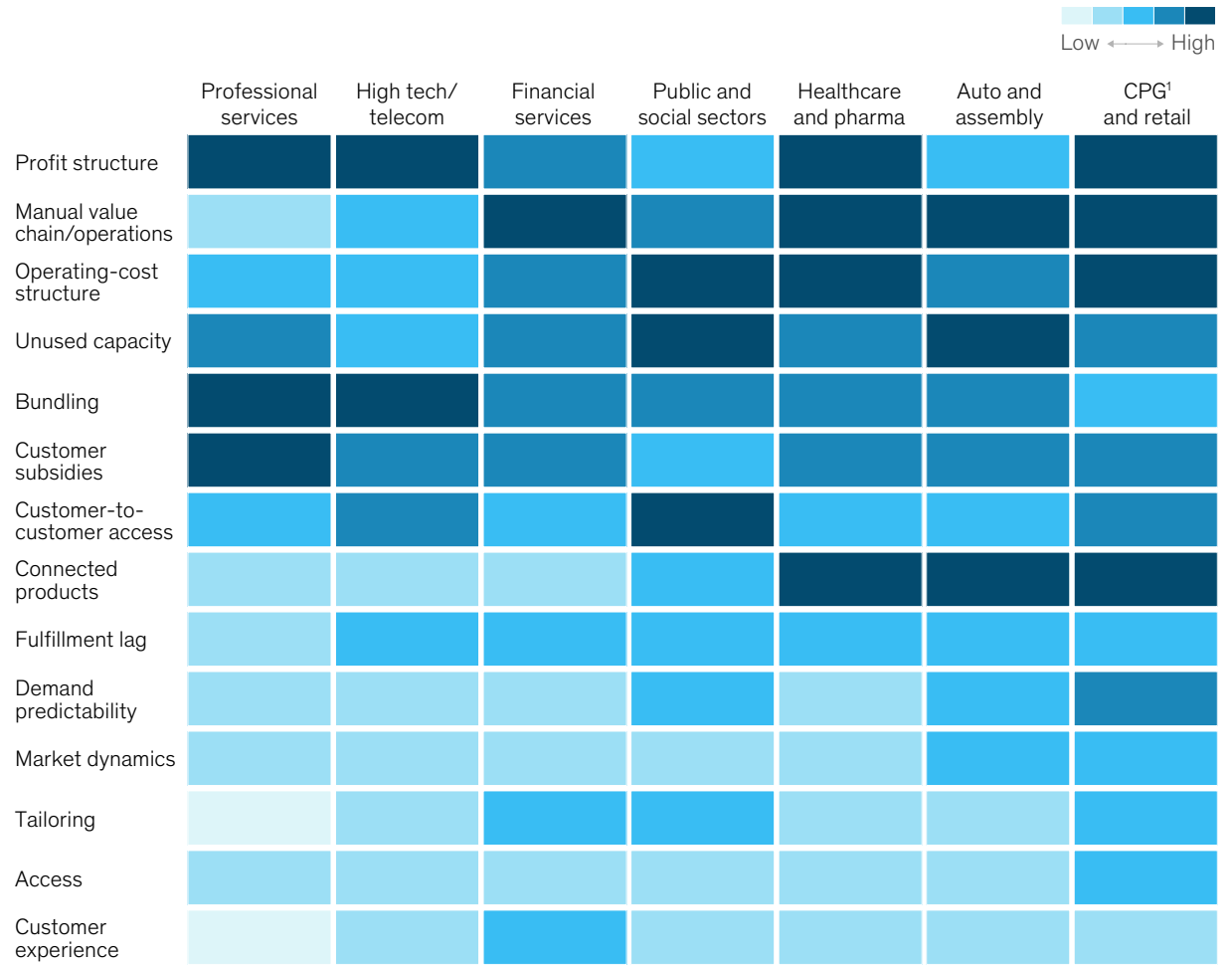
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At the same time, the pandemic has created new vulnerabilities to—along with new opportunities from—future disruptions. We know from experience that customers, employees, and value-chain partners have all increased their use of technology, which has made the barriers to digital disruption even lower than before the crisis and paved the way for more rapid, technology-driven changes going forward. In our survey, respondents in every sector say their companies have significant vulnerabilities, especially to their profit structures, ability to bundle products, and operations.

We also looked at the areas of their business where industries have been investing and, for the most part, those investments don't align with the areas that are most prone to disruption (or that offer the highest returns). For example, many healthcare and pharma companies are investing in tailoring their offerings, enabling on-demand access to products and services, and improving overall customer experience. Yet, according to the survey, these businesses face greater risks of disruption in their value chains, the structure of their operating costs, and the types of products they offer.

In all sectors, respondents report several areas of their businesses that are very vulnerable to digital disruption.

Level of business area's potential vulnerability to disruption, by industry, % net agree



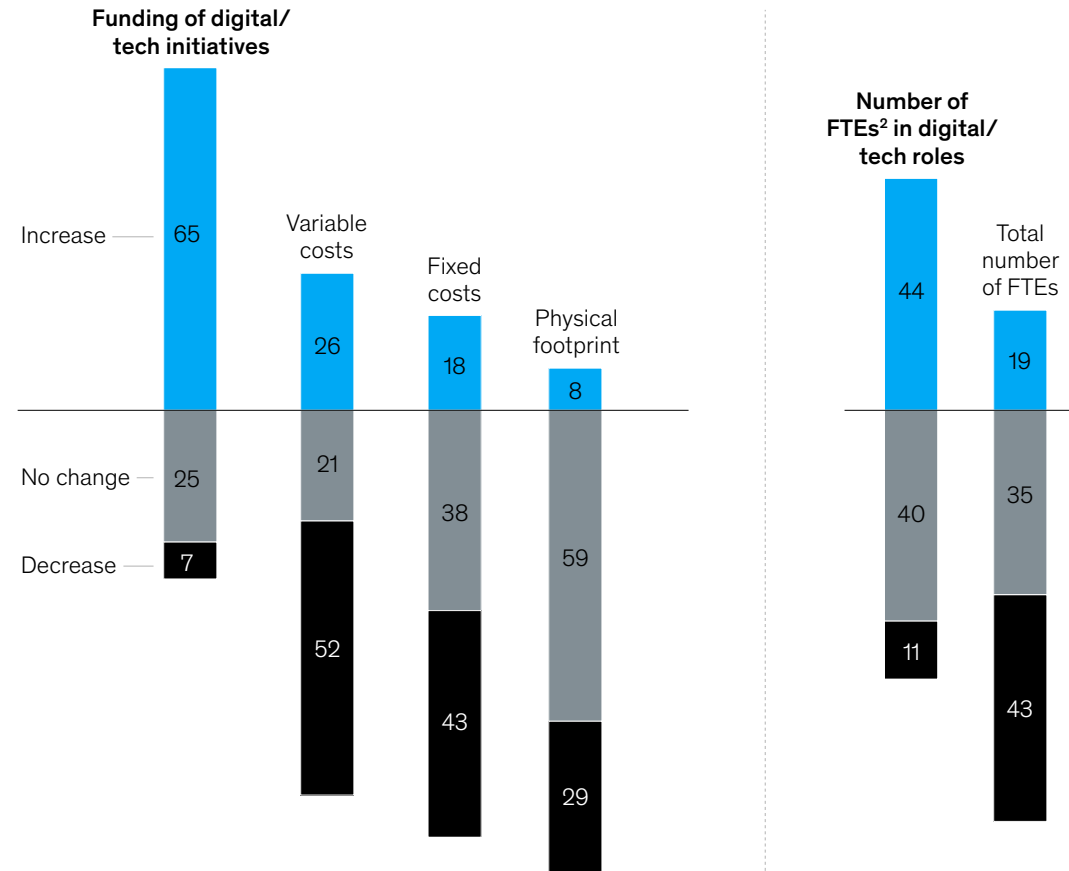
¹Consumer-packaged goods.

To meet new demands, companies are making digital and technology investments across the business model

One marker of technology's increasing importance to both strategy and operations is that companies devoted more resources to their digital and technology capabilities during the pandemic, even as they cut resources from other parts of the business. According to the survey results, the funding of digital and technology initiatives increased, as did the numbers of full-time equivalents in digital and technology roles.

Spending on digital and technology increased during the pandemic, despite belt-tightening elsewhere in the business.

Changes in business metrics, past year, % of respondents¹



¹Respondents who answered "don't know/not applicable" are not shown; n = 1,140.

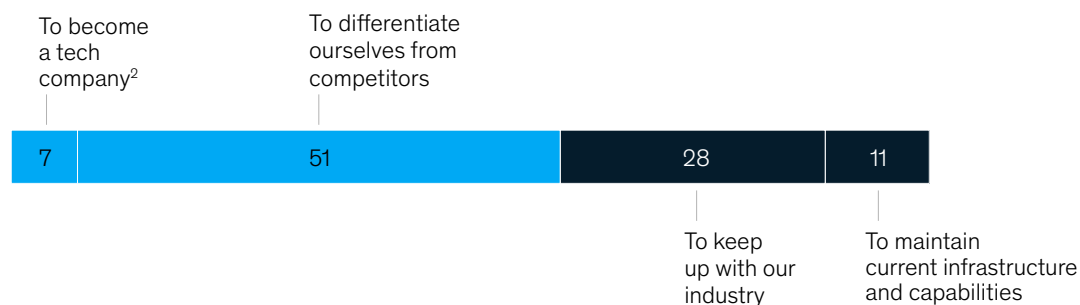
²Full-time equivalents.

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Consistent with last year's findings that executives have started to take a more strategic view of technology,³ thinking of it as more than a mere cost driver, more than half of this year's respondents say their companies are looking to technology as a way to strategically differentiate themselves from competitors.

After the acceleration of digital adoption during the pandemic, a majority of companies view technology capabilities as a strategic differentiator.

Level of ambition for organizations' planned investments in digital and technology, % of respondents¹



¹Respondents who answered "don't know/not applicable" are not shown; n = 1,140.

²That is, the organization's core value proposition is based on the technology and data it produces.

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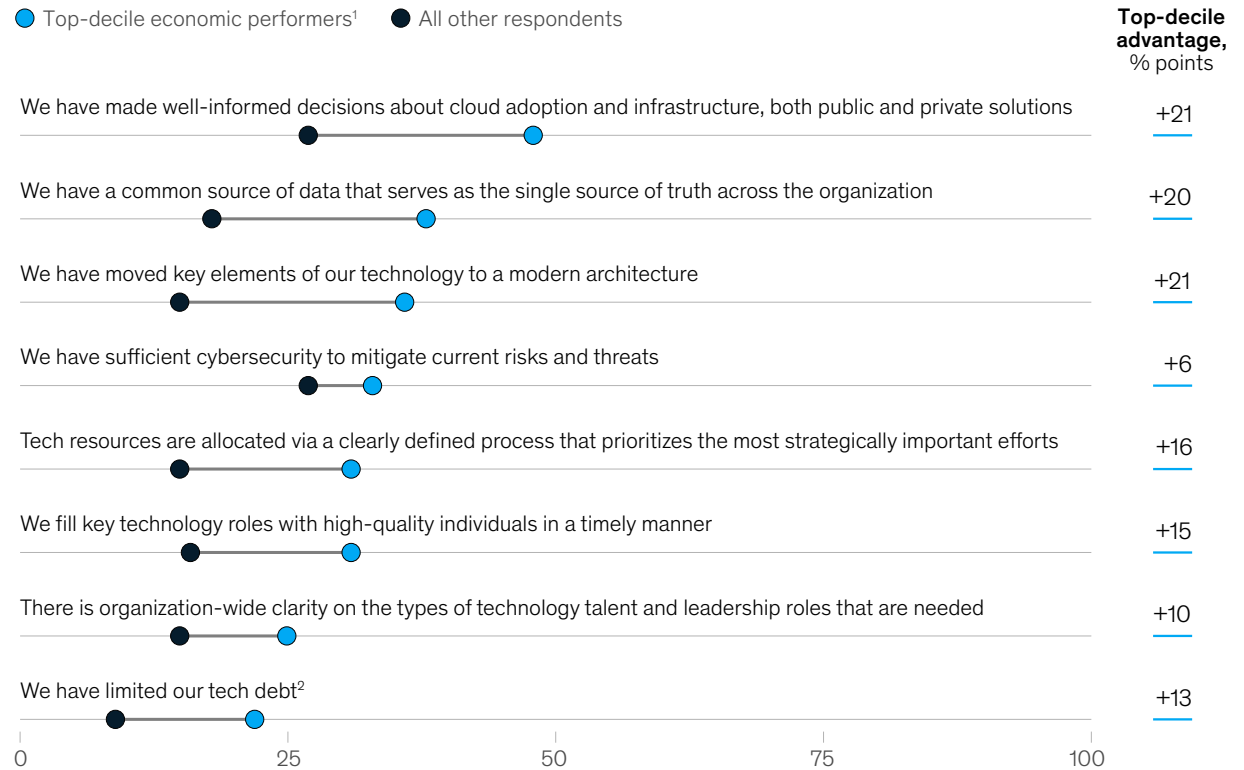
³ "How COVID-19 has pushed companies over the technology tipping point—and transformed business forever," October 5, 2020, McKinsey.com.

The highest-performing companies made bolder investments in technology and possess stronger overall capabilities

We know from past research that bolder, at-scale investments in technology are significantly more likely to support a successful transformation than those that are smaller in scope. To achieve their ambitions, it's critical that organizations understand what it really means to differentiate from others on their technology—especially since “technology” and “digital” are such broad terms and mean different things at different organizations. So we asked respondents about specific elements of technology that, based on our experience and prior research, underpin successful digital transformations and make up a company’s technology endowment.⁴ The results suggest a clear link between the technology endowment and economic outperformance. When looking at the technology endowment’s individual capabilities (the survey asked about 13 in total), the top-decile economic performers are already significantly ahead of their peers on nearly every one.⁵ For example, these respondents are nearly twice as likely as others to say they fill key technology roles with high-quality talent in a timely manner. At the same time, the results confirm that even the top performers have room to improve and strengthen their tech endowments.

Top performers are already significantly ahead of their peers on almost all elements of their technology endowment, making catching up a challenge.

Share of respondents who strongly agree with each statement, %



¹ Respondents who report increases of at least 15% in their companies' revenue and in earnings before interest and taxes (EBIT) over the past 3 years; n = 118.

² That is, the number of digital and technology projects, products, or services that were underengineered due to tight deadlines.

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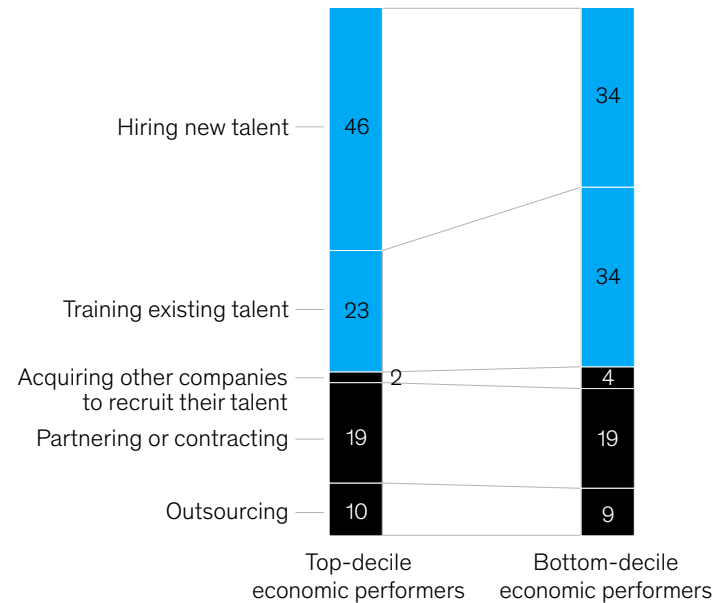
⁴ For more on McKinsey's thinking on *strategic* endowments, see "How to make the bold strategy moves that matter," December 6, 2019, McKinsey.com.

⁵ Respondents who report increases of at least 15 percent in their companies' revenue and in earnings before interest and taxes (EBIT) over the past three years.

Talent poses a perennial challenge to companies that are transforming their business through digital and technology—as many of our respondents say their companies aim to do. As organizations make their plans for filling critical talent gaps in technology, from the board to the front line, the results suggest that there is no silver bullet to filling skill gaps. Top economic performers report a greater reliance in hiring new employees. At other companies, respondents report an equal focus on hiring and retraining their current people, and the two groups rely equally on partnering or contracting.

Top performers are more likely than their peers to fill talent gaps through hiring.

How organizations are planning to fill talent gaps, % of respondents¹



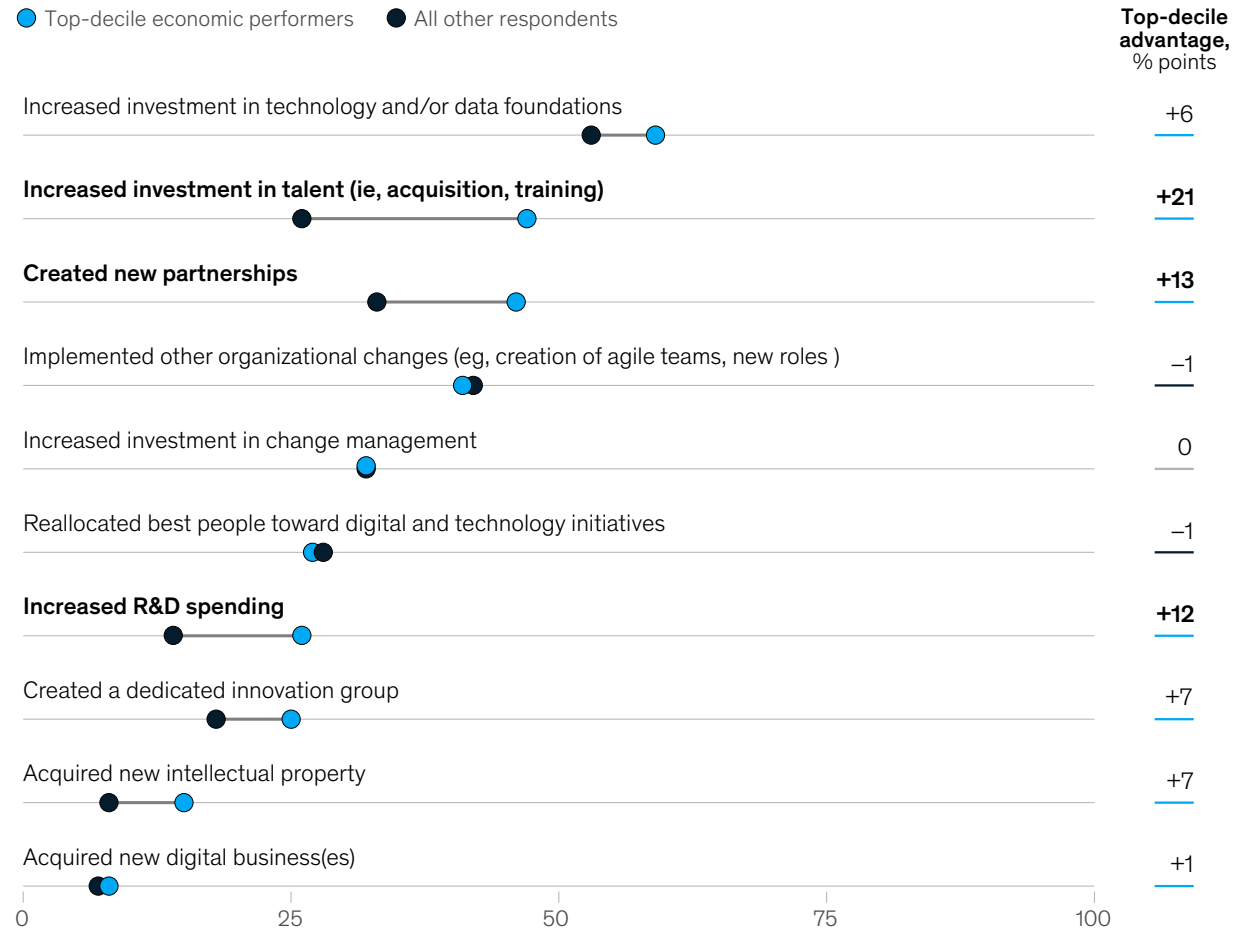
¹Respondents who answered "don't know/not applicable" are not included in the analysis. For top-decile economic performers, n = 115; for bottom-decile economic performers, n = 165.

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Catching up with the leaders (much less surpassing them) will be increasingly difficult, for the top economic performers have already taken more actions than peers to achieve their technology objectives. Their responses show that these organizations are more likely to invest in talent, create new partnerships (including with competitors), and increase their R&D spending.

Compared with their peers, the top economic performers have been more likely to invest in new partnerships, talent, and R&D.

How organizations have increased their digital and technology capabilities, past year, % of respondents



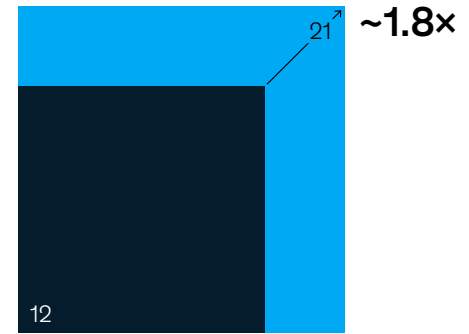
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Top-decile performers have also taken a bolder approach to innovation and now obtain a much larger share of their sales from products or services that didn't exist one year ago.

Top economic performers were more innovative than their peers during the COVID-19 crisis.

Share of sales from products or services that did not exist one year ago, %

- Top-decile economic performers¹
- All other respondents²



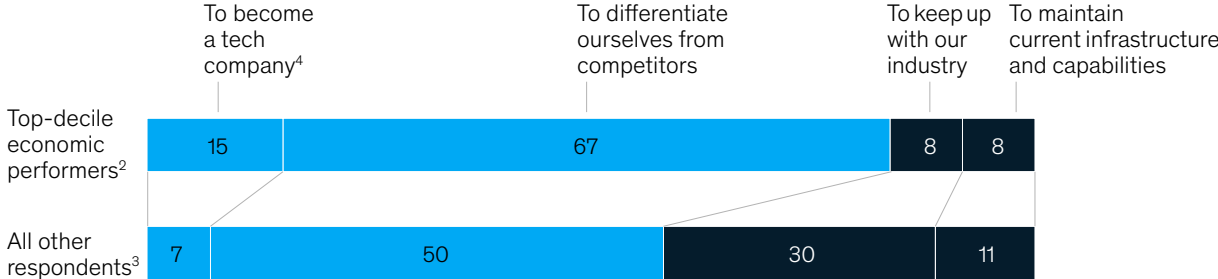
¹n = 91.
²n = 636.

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What's more, the top-decile performers are making more aggressive plans to differentiate themselves with technology, with some preparing to reinvent their value proposition altogether.

Looking ahead, top economic performers are planning to double down on tech as a differentiator.

Level of ambition for organizations' planned investments in digital and technology, % of respondents¹



¹ Respondents who answered "don't know/not applicable" are not shown.
² n = 118.
³ n = 1,022.
⁴ That is, the organization's core value proposition is based on the technology and data it produces.

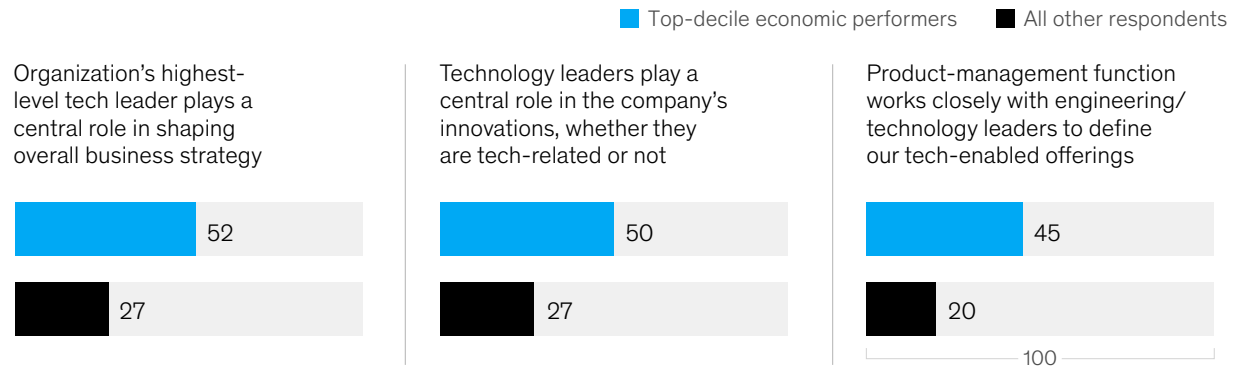
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Tech-savvy leadership helped set top performers apart—and will be even more valuable in the future

Given technology's growing importance to business success, it's perhaps not surprising that top performers are nearly twice as likely to have technology leaders who actively shape overall strategy. They're also more likely to give tech leaders a major role in innovation and product development.

Effective digital- and technology-driven strategies require deep involvement from technology leaders.

Share of respondents who strongly agree with each statement, %

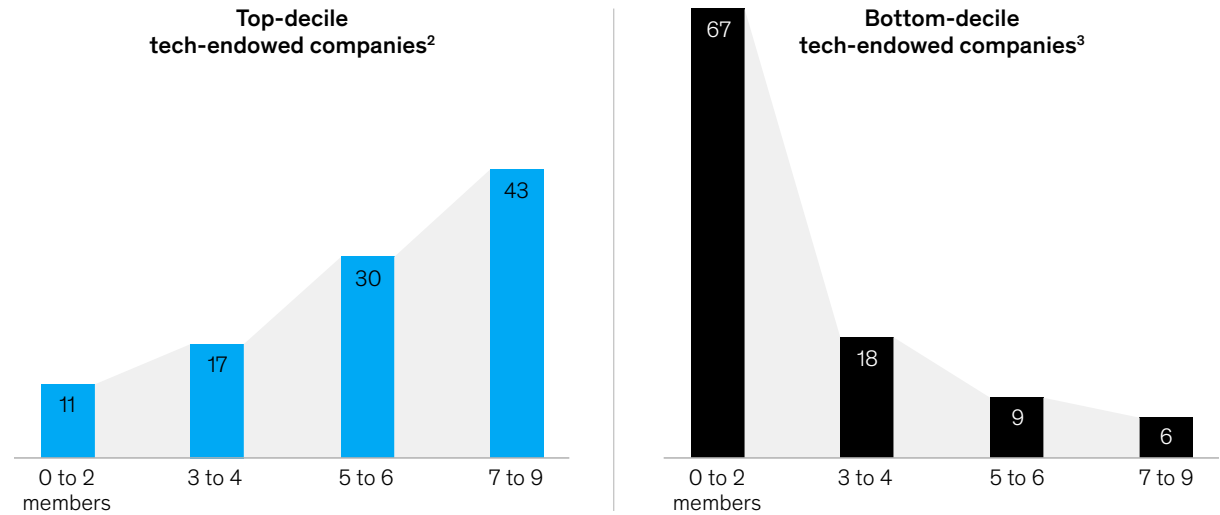


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Despite the importance of involving technology leaders in business decisions, it isn't sufficient for companies to have a single technology leader responsible for driving a top-performing and digitally enabled business strategy. We asked how boards of directors, C-suite leaders, and business-unit heads are engaging in technology. Respondents at the top economic performers are nearly 2.5 times likelier than bottom-decile companies to say seven or more of these roles are leading the technology-related thinking for their organizations. There are even bigger differences at organizations with a top-decile technology endowment: those respondents are more than seven times likelier than the bottom decile to report at least seven tech-savvy leaders.

Organizations with tech-savvy leadership teams significantly outperformed their peers in their ability to build top-performing tech endowments.

Number of tech-savvy company leaders,¹ % of respondents



Note: Figures may not sum to 100%, because of rounding.

¹That is, company leaders who are industry leaders in finding ways to apply new technologies or who consistently identify how new technologies could change or transform the business and lead the implementation of these technologies.

²Companies with a top-decile technology endowment are those where respondents strongly agreed with at least 7 statements (out of 13 total) about the role of technology in their organizations' strategies and the overall role of technology in their organizations; n = 157.

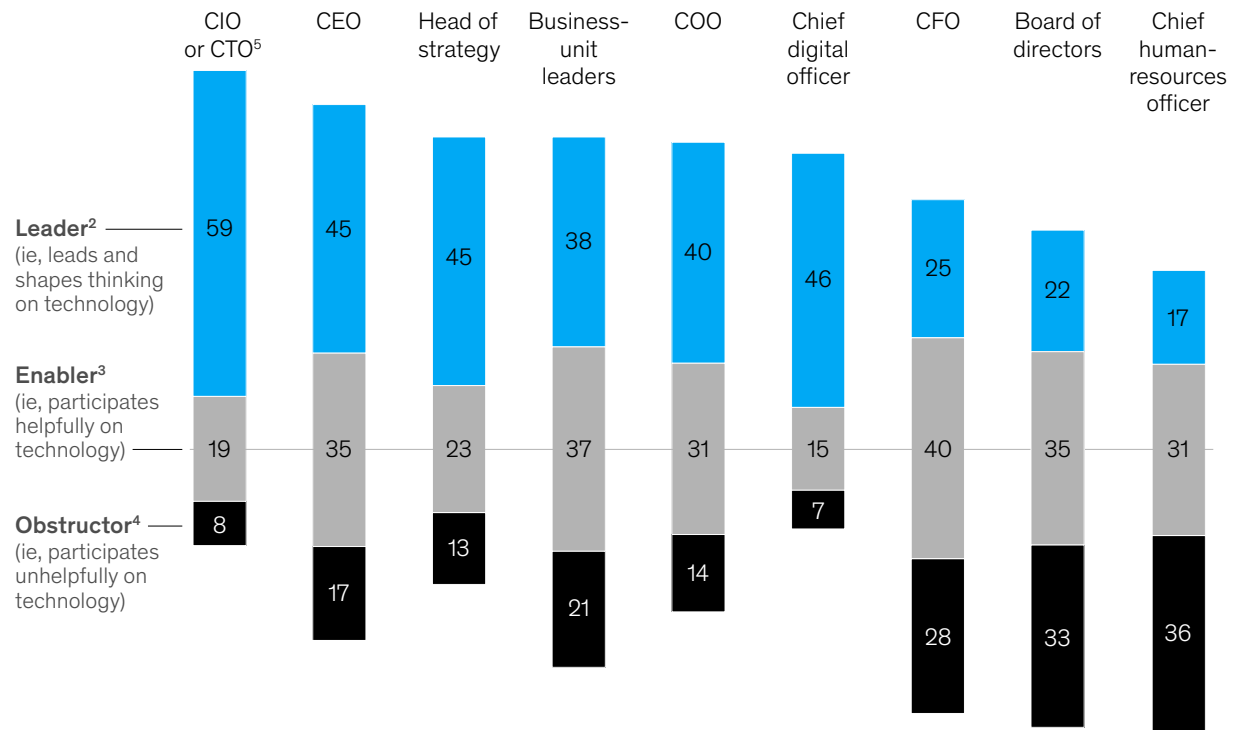
³Companies with a bottom-decile technology endowment are those where respondents did not strongly agree with any statements (out of 13 total) about the role of technology in their organizations' strategies and the overall role of technology in their organizations; n = 377.

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The importance of digital poses a challenge for company leaders: few are used to engaging with technology, even as it is transforming the requirements of nearly every role and becoming part of everyone's job. Boards are being asked to communicate to the market about their organization's investments in digital technologies and how that will enable them to keep pace with competitors. Chief human-resources officers need to not only hire new types of talent but also address questions about artificial intelligence's role in changing the types and numbers of people their business requires.⁶ CFOs need to make larger and faster decisions on investments in digital technologies and, in many cases, spearhead the acquisition of digital companies. Yet according to the survey, the majority of current leaders lack the knowledge or experience to pioneer ways to apply new technologies or consistently identify how new technologies can transform their business. They need to become technology "leaders"—rather than "enablers"⁷ or "obstructors"⁸—at their respective organizations.

Across the leadership team, the call to become more tech savvy is urgent—even for roles that have typically engaged very little with technology.

Level of engagement by role, % of respondents¹



¹ Respondents who answered "don't know" are not shown; n = 1,140.

² That is, company leaders who are industry leaders in finding ways to apply new technologies or consistently identify how new technologies could change or transform the business and lead the implementation of these technologies.

³ That is, company leaders who respond in a well-informed manner when others raise technology-related decisions.

⁴ That is, company leaders who respond sporadically and not always in a well-informed manner in technology-related discussions or are not engaged at all in technology-related discussions.

⁵ Chief information officer or chief technology officer.

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⁶ For more information, see "The future of work after COVID-19," McKinsey Global Institute, February 18, 2021, on McKinsey.com.

⁷ That is, company leaders who respond in a well-informed manner when others raise decisions related to technology.

⁸ That is, company leaders who respond sporadically and not always in a well-informed manner in technology-related discussions or who are not engaged at all in technology-related discussions.

Looking ahead

The corporate recovery from the COVID-19 crisis will involve permanent changes to many dimensions of an organization: the pace at which it conducts its business, the very nature of that business's value proposition, and the talent, capabilities, and leadership that are necessary for success. With digital and technology-driven disruptions creating winner-takes-all dynamics in more and more industries, only a small subset of organizations is likely to thrive—and even these companies have much more room to strengthen their technology endowments. Our survey results confirm not only that a strong technology foundation is critical but also that leading companies are far ahead of competitors in building theirs. For everyone else, the time is now to make bold investments in technology and capabilities that will equip their businesses to outperform others in a rapidly evolving landscape.⁹

The time is now for companies to make bold investments in technology and capabilities that will equip their businesses to outperform others.

⁹ Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds," *McKinsey Quarterly*, February 13, 2018, McKinsey.com.

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