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Using digital transformation to thrive in Japan's new normal: An urgent imperative

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Introduction

The COVID-19 outbreak exposed structural and digital deficiencies in Japan's government and regulatory regime, which seriously handicapped the nation's businesses. For example, a great deal of confusion about the number of people infected with coronavirus occurred because information on the new COVID cases was faxed from healthcare providers to public health centers and then to prefectural governments that aggregated it manually, which led to significant human error. Not only did this process require significant labor, which made it inefficient, but it did not produce the accurate data needed for critical decisions. In Japan, controls by government entities and regulatory are deeply embedded in industries, which delay changes that could adapt to today's digital age and make it difficult to drive digitization in the private sector. Because of this, Japan has unique disadvantages that put it behind digital leaders such as the US and China. Trying to drive digitization without thoroughly understanding these disadvantages and addressing them head-on will only lead to failed digital transformations.

McKinsey estimates that 70% of the value created by digital comes from transforming existing businesses; the remaining 30% is from creating new, disruptive businesses – even though the media and society tend to pay more attention to the "unicorns" (companies less than 10 years old and valued more than USD 1 billion) and launches of new businesses using digital technologies. Japanese companies who are starting digitization late should strategically position themselves to maximize their "late starter advantage" by learning from successful cases in digitally leading countries and then tailoring these techniques to the Japanese context. However, Japanese firms need to act because their window of opportunity is closing, as their late starter advantage will fade as other sectors and players increasingly move to implement digital transformations.

The effects of COVID-19 can present companies with an opportunity to advance their position by steering their companies towards digital transformation. Firms are entering a new normal where new consumer behaviors, ways of working, and values have taken hold. This article outlines what Japanese companies must do to conduct a comprehensive digital transformation to ensure their survival and thrive in this environment.
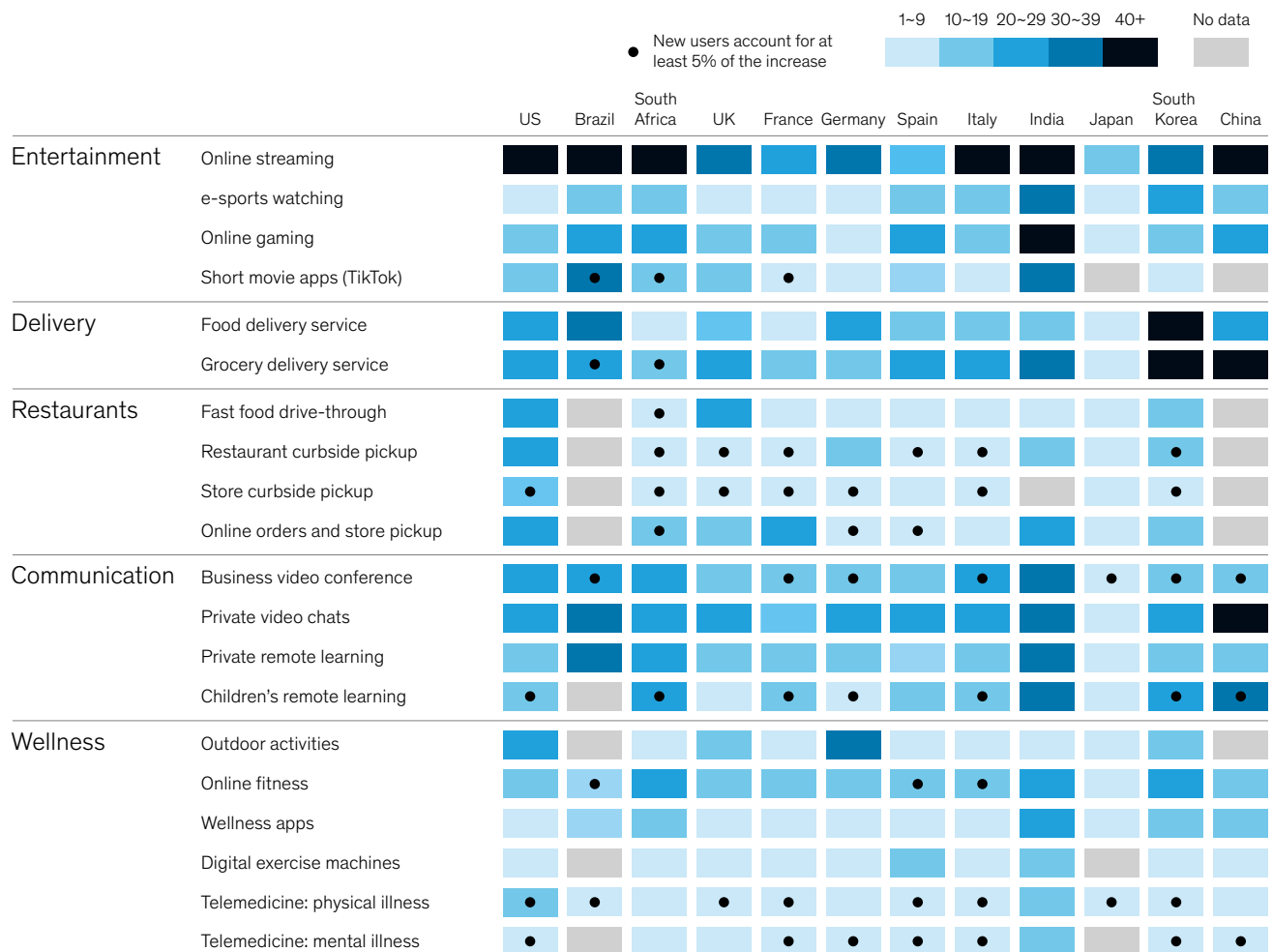
Japan's place in the digital world

The COVID-19 lockdown rapidly increased the demand for digital services as everyone tried to minimize human contact. Exhibit 1 shows the rate of increase in the use of various services in different countries after COVID-19's outbreak. These services include in-home online entertainment, food delivery and drive-through, pickup services, online meetings, remote education, online fitness, and telemedicine.

More than half of these services grew through increased use by existing users or adoption by new ones. These increases were 10% or more in almost all countries except Japan, where it was less than 10%. Peer countries include not only the US and China but the European countries, South Korea, and India. Japan's rate of increase in digital was lower than all of these, which indicates that this result was not due to low consumer-side demand. Instead, it highlights the insufficient scaling and development of digital services by most Japanese companies.

Exhibit 1: Changes in peer countries that use digital services to minimize human contact

The use of digital / contactless services since the outbreak of COVID-19

New users and existing users with increased usage

● New users account for at least 5% of the increase

Legend: 1~9 · 10~19 · 20~29 · 30~39 · 40+ · No data

		US	Brazil	South Africa	UK	France	Germany	Spain	Italy	India	Japan	South Korea	China
Entertainment	Online streaming												
	e-sports watching												
	Online gaming												
	Short movie apps (TikTok)		●	●		●							
Delivery	Food delivery service												
	Grocery delivery service		●	●									
Restaurants	Fast food drive-through			●									
	Restaurant curbside pickup			●	●	●		●	●			●	
	Store curbside pickup	●		●	●	●	●			●		●	
	Online orders and store pickup			●			●	●					
Communication	Business video conference		●			●	●		●		●	●	●
	Private video chats												
	Private remote learning												
	Children's remote learning	●		●		●	●		●			●	●
Wellness	Outdoor activities												
	Online fitness		●					●	●				
	Wellness apps												
	Digital exercise machines												
	Telemedicine: physical illness	●	●		●	●		●	●		●	●	
	Telemedicine: mental illness	●				●	●	●	●			●	●

Why are digital transformations not taking hold in Japan? To begin with, the success rate of digital transformations is lower than that of traditional organizational transformations. The results of McKinsey's transformational change survey show that, while the success rate for all corporate transformations averages 30%, the success rate for digital transformations is approximately half that figure at 16% (Exhibit 2).

It is more difficult to achieve success in digital transformations than traditional ones

Successful cases

only **16%**

of digital transformations are successful

Unsuccessful cases
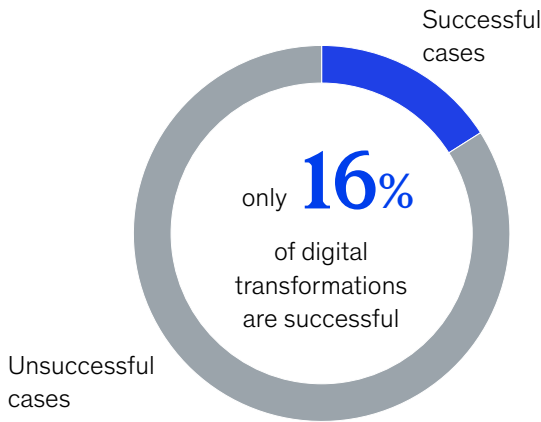
According to the results of corporate transformation surveys conducted regularly by McKinsey, only 16% of digital transformations improve performance and continually build organizational capabilities.

In traditional industries (manufacturing, energy, infrastructure, and pharmaceuticals), the success rate is only 4~11%.
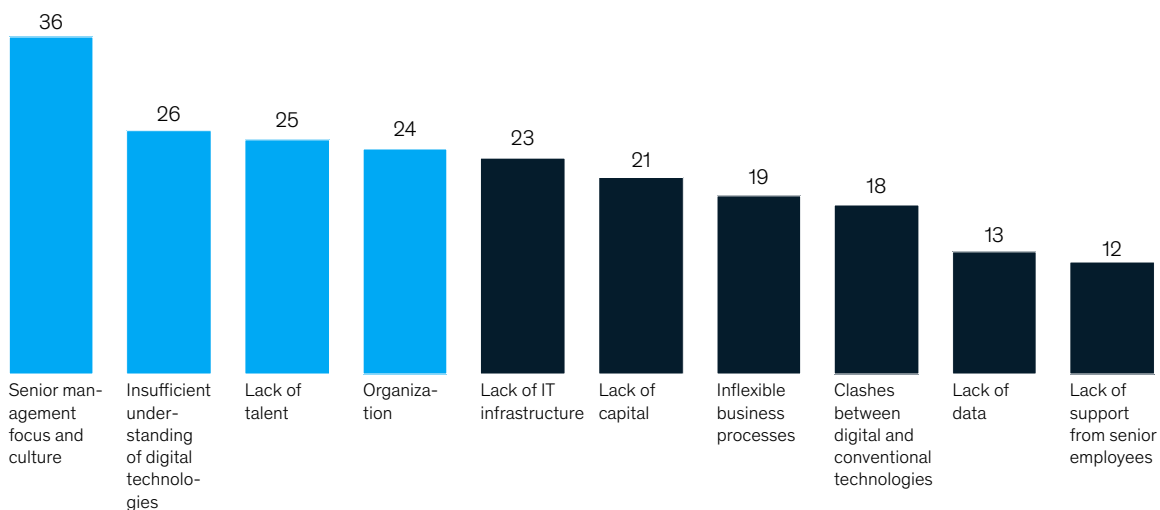
Reference: The success rate for corporate transformations in general (not only digital transformations) is less than 30%
SOURCE: McKinsey Transformational Change Survey 2012, 2014, 2016, 2018

So what barriers stand in the way of digital transformation? According to interviews McKinsey conducted with 2,135 executive managers, the main issues were not technical, but ones associated with people and organizations. Some of the primary ones include poor commitment and understanding among executive managers, an entrenched corporate culture, and a lack of digital talent (Exhibit 3). Senior management must be strongly committed to the transformation. Because these efforts transform the core of the business and business models, and require changes in resource allocation, including people, goods, and capital, they are fundamentally different from traditional IT investments. All of these shifts must occur for companies to build a competitive advantage and enhance their organizational ability to execute.

Cultural, talent, and organizational issues are significant barriers to digital transformations

Ratio of failure factors in digital transformations
%; McKinsey interviews with 2,135 managers at global companies

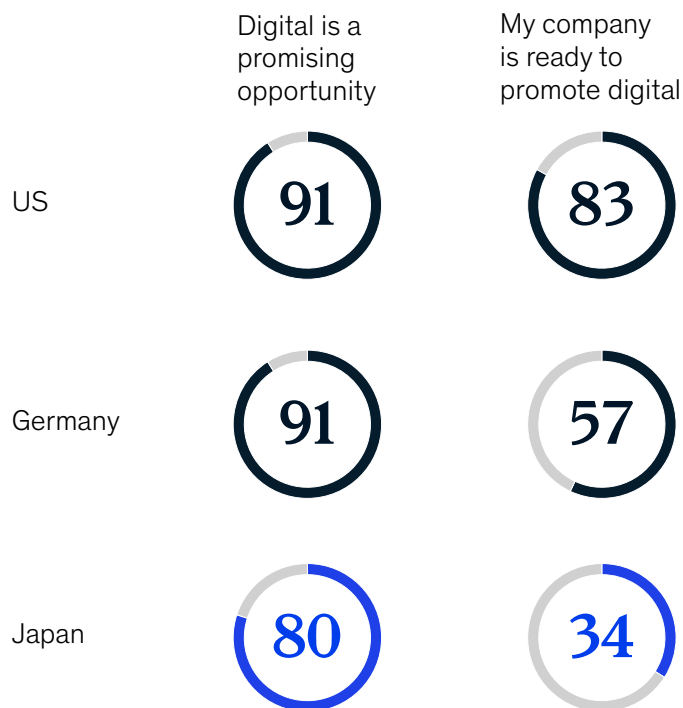| Senior management focus and culture	Insufficient understanding of digital technologies	Lack of talent	Organization	Lack of IT infrastructure	Lack of capital	Inflexible business processes	Clashes between digital and conventional technologies	Lack of data	Lack of support from senior employees
36	26	25	24	23	21	19	18	13	12

Given the importance of digital transformations for Japan, the question becomes whether Japan's corporate managers are willing to make this commitment. According to McKinsey's digital industry 4.0 survey that targeted 300 executives, Japanese respondents are highly aware that digital is "a promising opportunity," a sentiment shared by respondents in the US and Germany. However, two out of three Japanese managers feel that they are not entirely ready to promote it, a sentiment not shared by their US and German counterparts (Exhibit 4). Transformation efforts in Japan reflect this reticence. Although McKinsey rarely comes across a Japanese company that is not pursuing digital when it meets with Japanese management, their scale and the level of commitment vary greatly. Most players are not ready to implement digital transformations that require the strong backing of corporate managers.

Exhibit 4

Business leaders' approach to digital

McKinsey digital industry 4.0 survey of 300 executives
%

|	Digital is a promising opportunity	My company is ready to promote digital
US	91	83
Germany	91	57
Japan	80	34

Japanese business leaders understand that digital is the next promising opportunity. However, they do not feel that they are sufficiently prepared for digital transformations. Their reluctance keeps them from undertaking bold transformations that would provide competitive advantages.

When we examined Japan's investments in digital over the past century, we found they had not grown. The OECD statistics comparing the US, UK, France, and Japan also showed that Japan's digital investments (ICT investments) fell far below those in the other three countries (Exhibit 5). This is at least partially because few Japanese companies have been bold enough to shift their investments to digital and committed enough to then use this to transform their businesses. This inaction is thought to be due to Japan-specific hurdles to achieving organizational transformation.

Exhibit 5: Shift in digital investments (ICT investments) by country

Challenges in Japan: ICT is positioned as a cost rather than an enabler in transformations

ICT investments, nominal; 1995 = 100
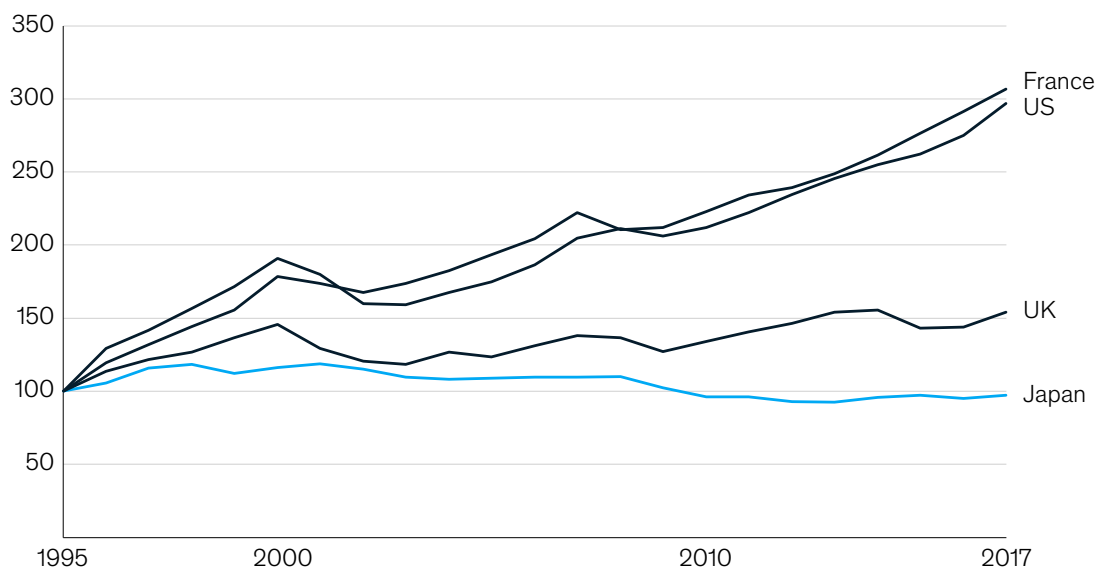
SOURCE: OECD statistics

The case of a traditional Japanese company helps illustrate this phenomenon. The company's president was in his 60s, and he and other executives, who were members of his generation and had similar backgrounds, rose through the ranks and had led the company's growth to date. The president recognized that they needed to allocate significant resources to digital if the company was going to reach its next growth stage. However, because they didn't have any internal talent to lead their digital efforts, he hired a young leader in his 40s with experience in leading digital transformations abroad. The president believed that this hire would be able to change the company, but in the end nothing happened. This was because the new digital leader could not obtain buy-in from the heads of business units. Many of them spoke about the importance of digital but were not willing to change their approach or pay much attention to what the young leader, an outsider, had to say. In addition, the young leader did not understand the dynamics required to mobilize a Japanese organization. To create what impact he could, he first started to work within a scope outside of any business unit's responsibility, where he had greater control. The lack of appropriate internal digital resources prompted him to outsource and implement multiple solutions from an external IT vendor. He was able to implement these solutions, but did not achieve any business impact. The president was at a loss about how next to proceed with the digital transformation.

As seen above, three organizational obstacles often hinder Japanese companies that are trying to implement digital transformations.

1. **Lack of in-house digital talent:** Japanese companies typically lack digital talent because they have traditionally outsourced their IT operations. Digital transformations require multiple types of digital talent, including:
   - "Product owners," who act as mini-CEOs responsible for business impact, services, and products to be developed
   - "Agile engineers," who develop services and products
   - "Data scientists" with advanced analytics skills that optimize data use
   - "Data engineers," who streamline data and create the required data environment
   - "Translators," who identify ways to leverage data and analytics based on the business context

Internal talent should lead this group and all of them need to work on a team with the business units. Because these roles differ from existing or traditional IT talent, companies will need to recruit externally or develop and reskill in-house talent. Many Japanese companies face significant challenges in doing this. Many of them rely heavily on external resources, such as system integrators (Slers) for in-house IT engineering, in some cases completely outsourcing or depending on IT vendors with no involvement of internal resources. Almost no companies have any in-house engineers. To make matters even more challenging, some companies also outsource the work of defining operational requirements for IT systems and merely manage the vendors. It is difficult for external engineers to understand the client's business well enough to implement digital transformations. Because such firms also possess very limited talent that has experience in using data, their ability to conduct digital transformations through vendor management is quite limited.

According to statistics from the Information Processing Association, where IT engineers work in Japan is quite different from where they tend to work in other countries. In the US, for example, user companies employ nearly 65% of IT engineers, while about 35% are employed by IT service providers such as Slers. Japan's situation is the exact opposite, with only 28% of IT engineers employed by user companies. This lack of in-house talent for digitization is a significant disadvantage (Exhibit 6).

Exhibit 6: Employment of IT engineers by country

Where are IT engineers employed?

IPA survey
%; 2015

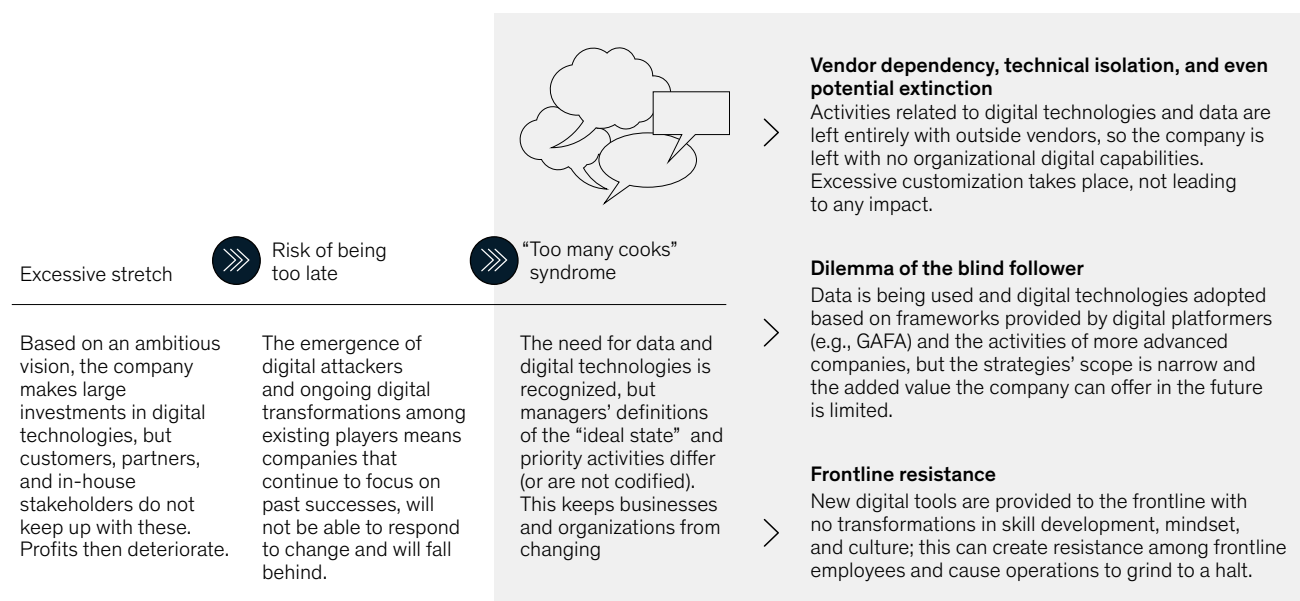|	IT engineers employed by users	IT engineers employed by IT providers
US	65	35
Germany	61	39
Japan	28	72
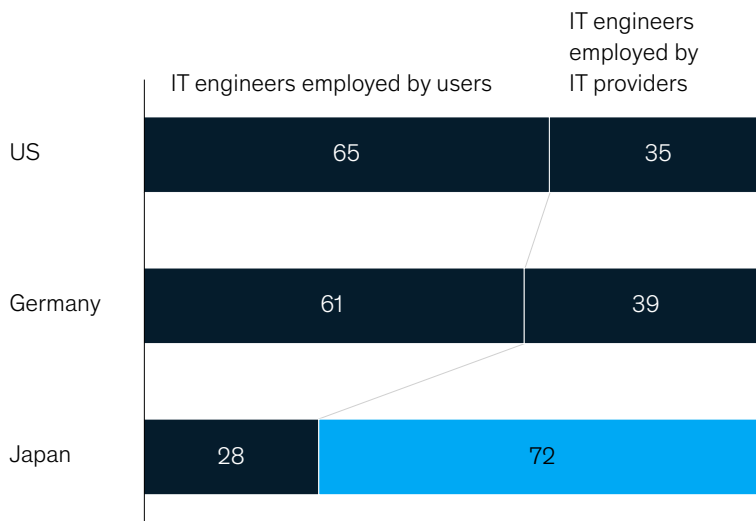
Most IT engineers are employed by IT providers in Japan. This is the largest obstacle to making digital transformations in Japan succeed.

2. **Age of CEOs and their tenures:** According to a "shift in average CEO ages" by Teikoku Databank, the average age of Japanese CEOs in 2020 is 59.9 and has consistently risen since 1990. In addition, Nissay Research Institute published a comparison between Japan and the US in 2019 that examined the age and expected years as CEO for those who have been promoted internally. In the US the average age was 46.8 and the expected time in the position was 13.4 years, compared to Japan's average age of 57.5 and average time of 5.1 years. Initiating a digital transformation in your late 50s can be very difficult, and a CEO would have to be extremely committed, willing to learn new tools, and have enormous drive to initiate a digital transformation. In many instances, the management supporting the CEO is close in age, which can make age and tenure a disadvantage.

3. **Organizational culture as an obstacle for external hires to shine:** While traditional Japanese companies are gradually diversifying, it is still relatively rare for external talent to join a company; seniority tends to persist. Many employees have never switched jobs and are homogeneous in their thinking, creating a culture in which the company's past successes are shared as a common language. Further, they tend to have low digital literacy because of limited in-house digital talent. Such an environment makes it very difficult for externally-hired digital experts to shine. Without a strong commitment from the top of the organization, it is almost impossible for externally-hired experts to mobilize the organization and transform the core of the business. They cannot do it on their own. As a result, such experts often end up promoting digitization within the very limited scope that they can affect.

Exhibit 7: Typical risks and challenges faced by Japanese corporate managers

Typical risks Japanese companies face in digital transformations

Excessive stretch

Based on an ambitious vision, the company makes large investments in digital technologies, but customers, partners, and in-house stakeholders do not keep up with these. Profits then deteriorate.

Risk of being too late

The emergence of digital attackers and ongoing digital transformations among existing players means companies that continue to focus on past successes, will not be able to respond to change and will fall behind.

"Too many cooks" syndrome

The need for data and digital technologies is recognized, but managers' definitions of the "ideal state" and priority activities differ (or are not codified). This keeps businesses and organizations from changing

Vendor dependency, technical isolation, and even potential extinction
Activities related to digital technologies and data are left entirely with outside vendors, so the company is left with no organizational digital capabilities. Excessive customization takes place, not leading to any impact.

Dilemma of the blind follower
Data is being used and digital technologies adopted based on frameworks provided by digital platformers (e.g., GAFA) and the activities of more advanced companies, but the strategies' scope is narrow and the added value the company can offer in the future is limited.

Frontline resistance
New digital tools are provided to the frontline with no transformations in skill development, mindset, and culture; this can create resistance among frontline employees and cause operations to grind to a halt.

Typical cases of companies unable to implement digital transformations

Because of the above disadvantages, companies trying to implement digital transformations in Japan tend to face typical risks and stall after the first step. We outline the risks in Exhibit 7 and below.

"Too many cooks" syndrome: No consensus exists on how to use digital and where to grow as a forward-looking company. This is often the case when companies are starting to implement small-scale digital efforts across business units. Companywide digital transformations face opposition such as "The organization can't keep up with such a rapid change," "We need further discussions on the objectives of digitization," and "We are already working on it." Often, they are not able or willing to make bold allocations of people, resources, and capital that would drive the company beyond existing efforts.

Vendor dependency, technical isolation, and even potential extinction: Digitization, data utilization, and data analytics are entirely outsourced given the lack of in-house talent, knowledge, or ideas on how to implement digital transformations. This IT vendor dependency, where even defining requirements is outsourced, is likely to persist; it also puts the company at risk. It prevents the company from embedding organizational capabilities and can lead to a continued dependency on vendors and increasing costs from excessive customization. In addition, the systems the company purchases may be underused and not lead to business impact.

Dilemma of the blind follower: Using frameworks and platforms offered by leading platformers (e.g., GAFA) presents its own risks and challenges. Collaborating and partnering with a platformer can be an important strategic lever in quickly complementing capabilities that are not found in-house. On the other hand, instead of blindly following such platformers, companies need to first identify and separate areas where the company can leverage the platformers' services and areas where it will take its own initiatives. If this does not happen, its strategic scope could narrow and the added value from a digital transformation would be limited.

Frontline resistance: Digital technologies must be embedded in frontline operations to be useful. Yet the frontline often resists these changes. The type of resistance can stem from their lack of understanding on how digital technologies could reduce their workload or from their refusal to change operational procedures. These issues often arise when management doesn't fully understand the frontline's operations, provides insufficient communication, tries to implement digitization without sufficient training, or lacks the preparation needed to implement a transformation that will radically change its corporate culture.

Driving companywide changes using digital is difficult unless these risks and issues are addressed early and continuously, and management needs to steer the company to address them.

Digital transformation's impact on Japanese firms

Back to basics: what is digital transformation?

Professor Eric Stolterman of Umeå University in Sweden described digital transformation in 2004 when he said that "IT penetration will make changes for the better in every aspect of people's lives." Using this statement, Japan's Ministry of Economy, Trade and Industry published a digital transformation promotional guideline in December 2018. This defined digital transformation as "companies addressing drastic changes in the business environment by using data and digital technologies and transforming products, services, and business models based on customer and social needs and establishing competitive advantage by transforming operations, organizations, processes, and corporate culture." In other words, it includes business, business model, and business process transformations (Exhibit 8).

Exhibit 8

The difference between digital improvements and digital transformations

		Digital Improvements	**Digital Transformations**
Target state		Channels and parts of operations are automated and digitized with existing business models and operational processes. Planning and execution of digital initiatives depend on external capabilities, and digitization is limited to the minimum required.	Products, services, and business models are transformed to meet customer and societal needs through data and digital technologies. Competitive advantage is established by transforming the operation, organization, processes, and organizational culture. Top management, led by the CEO, leads the transformation.
	Talent	In-house digital talent is limited and implementing digital improvements is outsourced to external vendors.	All employees gain a deep understanding of digital, and more than 50% of digital talent (e.g., engineers) is in-house.
	Organization	Departments are siloed when they select and execute digital initiatives.	Cross-functional agile teams implement the transformation companywide.
	System	Systems and applications are patched up as needed for the existing IT infrastructure.	A new system architecture enables dynamic development and API and cloud are in place.
Illustrative impact		Impact on profitability: ~a few percent Investment required: several billion yen Time required: 1 to 2 years	Impact on profitability: ~several tens of percent Investment required: several billion yen ~ several tens of billions of yen Time required: minimum 2 to 3 years

Such a digital transformation should not to be led by an IT department or optimize individual business units. The CEO must lead it and treat it as a pillar of corporate strategy. Across the US and Europe, technologies provided by service providers to meet rapidly increasing customer demand (e.g., the demand for personalization and immediate deliveries) has rapidly increased the prevalence of digital transformations among large competitors. Some prominent examples include technology companies such as Amazon, Uber, Airbnb, Netflix, and Alibaba, all of which have captured the hearts of consumers. Such transformations have helped established companies attract and retain customers and maintain their stock price. Recognizing the speed with which such transformations were occurring globally, Japan's Ministry of Economy, Trade and Industry proposed the

'2025 Digital Cliff' in 2018. This predicts potential economic losses upwards of JPY 12 trillion annually after 2025 unless Japanese companies' systems are revamped. However, because of the disadvantages Japan faces (highlighted in Chapter 1), digital transformations among Japanese companies do not appear to be unfolding rapidly enough.

Using its experience and research into successful digital transformations, McKinsey identified seven categories that can help companies focus their transformations. If a company is going to undertake a digital transformation, it needs to determine which categories it needs to pursue in both the near- and longer-terms before it launches the effort. The categories include:

1. **Holistic digital transformation:** Uses digital and organizational restructuring and promotes strategies based on digital and drastic organizational transformations

2. **Digitization of the customer experience:** Rebuilds customer journeys with digital marketing and personalization that use digital, customer capture, and education

3. **Operational elasticity:** Employs analytics in operations (e.g., preventive maintenance, productivity improvement) to enhance elasticity and optimize and automate back-office processes

4. **New business building:** Launches new businesses and develops new customer segments with digital technologies, which expands the growth portfolio

The next three categories provide mechanisms that support and underpin the transformation.

5. **Reskilling and organizational capability building:** Develops organizational capabilities and reskills internal talent to meet digital needs, and builds the systems and mechanisms needed to support digital talent

6. **Agility of the entire organization:** Adopts agile operating models and required mechanisms

7. **Core technology modernization:** Uses cloud / API technologies, optimizes IT costs, and implements data architecture and data transformations

Exhibit 9

Penetration of Digital Transformations

Impact creation			
Holistic digital transformation	**Digitization of customer experience**	**Operational elasticity**	**New business building**
Uses digital to transform organization Includes digital strategies and organizational transformations	Rebuilds customer journeys Includes digital marketing and maximizes customer value	Uses analytics in operations (e.g., preventive maintenance, productivity improvements) Rebuilds and automates back-office processes	Builds new business Expands business portfolio for growth

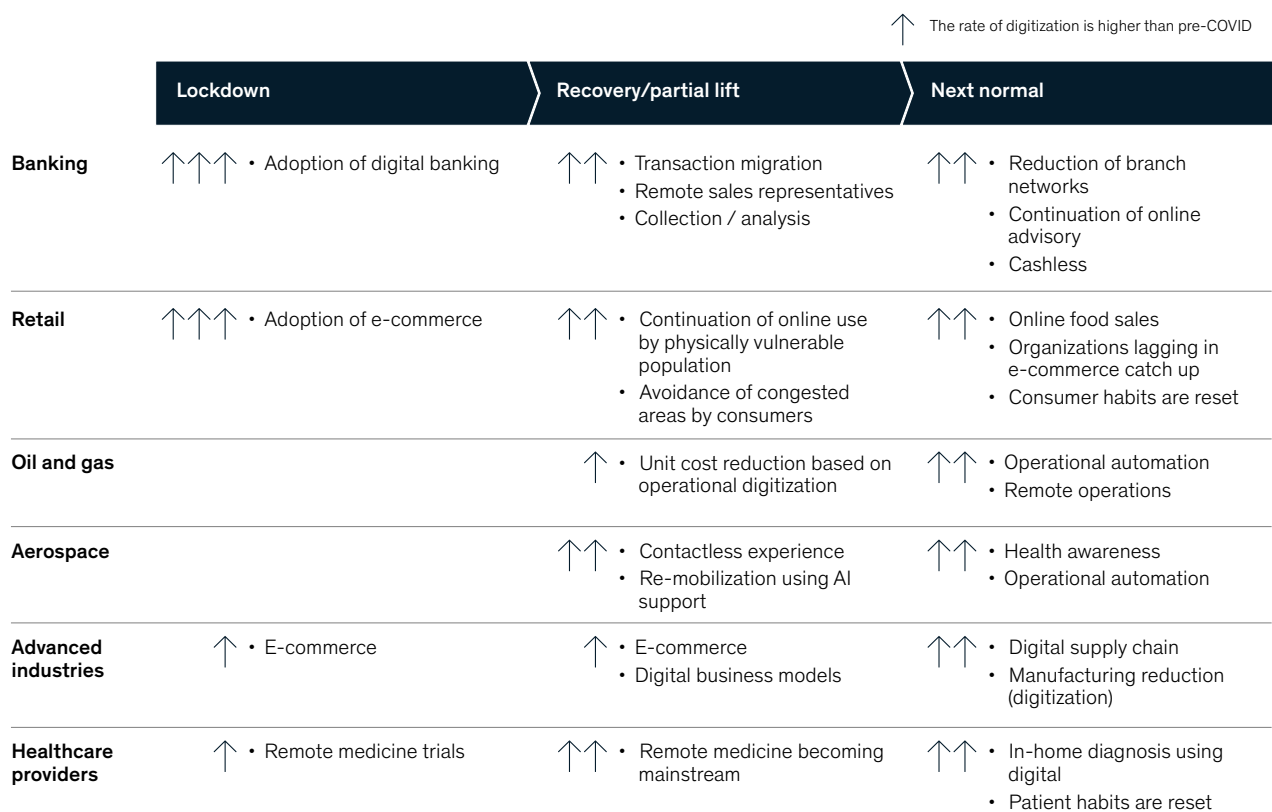| A mechanism to support transformations		
Re-skilling and organizational capability building	**Organizational agility** (Agile operating model)	**Core technology modernization** (Cloud technology, IT cost optimization, data architecture, data transformations)
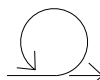
Why do we need to start now?

COVID-19 is forcing drastic, rapid changes on consumers and customers and has exposed multiple issues that companies need to address if they are going to succeed in the new normal. Such issues stem from the practices of creating and mailing paper-based invoices, placing seals on contracts, inputting sales reports in a proprietary system only accessible to those physically in the office, and using limited options (e.g., phone calls and in-person visits) to communicate with customers. At the same time, this crisis has demonstrated the potential for completing most processes digitally without spending time commuting to the office, which has accelerated digitization (Exhibit 10). Examples include creating validating supervisors who only provide approvals, ordering meals online and having them delivered, and using remote work for sales calls and internal meetings.

Exhibit 10 The shift to digital in various industries

Digitization is accelerating in all industries
Illustrative

↑ The rate of digitization is higher than pre-COVID

	Lockdown	Recovery/partial lift	Next normal
Banking	• Adoption of digital banking	• Transaction migration • Remote sales representatives • Collection / analysis	• Reduction of branch networks • Continuation of online advisory • Cashless
Retail	• Adoption of e-commerce	• Continuation of online use by physically vulnerable population • Avoidance of congested areas by consumers	• Online food sales • Organizations lagging in e-commerce catch up • Consumer habits are reset
Oil and gas		• Unit cost reduction based on operational digitization	• Operational automation • Remote operations
Aerospace		• Contactless experience • Re-mobilization using AI support	• Health awareness • Operational automation
Advanced industries	• E-commerce	• E-commerce • Digital business models	• Digital supply chain • Manufacturing reduction (digitization)
Healthcare providers	• Remote medicine trials	• Remote medicine becoming mainstream	• In-home diagnosis using digital • Patient habits are reset

Source: McKinsey

These trends are already becoming the "new normal," and companies' survival will depend on whether they can adapt to them faster than their competitors. To accomplish this, they must use digital. Consumer and customer behaviors are already digitized; expertise will follow. Rapidly promoting digital transformation will be critical as we step into the recovery phase. Such promotion includes replacing experienced employee knowledge, which is traditionally based on experience, intuition, and momentum, with AI. This also enhances resilience. Rapid expansion of the electronic commerce and omnichannel, where all business processes can be completed digitally, is also crucial.

What changes do Japanese companies need to make?

Multiple interviews with corporate managers who led successful large-scale digital transformations at their companies helped McKinsey identify what Japanese companies need to do to recover quickly post COVID-19 (Exhibit 11). Such transformations clearly define four elements: strategy, target impact, acquisition of organizational capabilities, and promotional structure. To succeed in these efforts, management must recognize the need for a business transformation using digital, commit to the implementation, and allocate more than 50% of companywide investments to digital (e.g., time, resources, and technology).

Exhibit 11

Elements that led to successful digital transformation

Elements that lead digital transformations to success

What companies look like after digital transformation

Digital strategies

Digital strategies

- Strategies: Digital transformation is incorporated in BU and company-wide mid-term plans
- Investments: More than 50% of new investments are allocated to and executed on digital
- Initiatives: Five to eight major initiatives are implemented annually

Achieving impact

Increased revenue   Cost reduction   Customer satisfaction   Management precision

- Existing business: Operational processes are transformed with increased sales, reduced costs, and improved customer satisfaction
- New business: New business models are created to provide new services to new customers

Organizational capabilities

Talent   Technology   Data   Ways of working

- Talent: More than 80% of the workforce is trained on digital; in-house capability building is promoted and star players hired externally
- Technology: in-house architects evaluate the latest technologies to decide on the blueprint and migrate to a cloud-based architecture
- Data: Reliable data are in place with governance that carefully manages data and protects personal information
- Ways of working: Organization operates in an agile manner based on customer centricity; a culture of learning from failure and internal knowledge sharing takes hold

Promotional structure

Transformation management and operating model changes

- Top management allocates more than 20% of their time as role models
- CDO is empowered and ensures implementation; reports directly to CEO
- Digital Transformation Office (DTO) monitors impact

The following example describes a Japanese company that successfully implemented a digital transformation (Exhibit 12). The company launched its first digital transformation in 2017. Previously, a traditional council system decided on IT budgets that employed a three-year plan that allocated almost all of their investments to operations and maintenance. Then, three years ago, the company hired an external CDO to launch a digital transformation; they double-hatted as a CIO.

Exhibit 12

Successful digital transformation case by a Japanese company

Element	Pre-transformation	Description		Post-transformation
Strategy / governance	Strange bedfellows	• Closely communicated with management that digital transformations differ from traditional IT and are led by the business • Aligned on priority initiatives for the year based on one-on-one robust dialogues between CIO / CDO and ten business unit heads • Structured governance so CIOs and CDOs are the decision-makers for all investment decisions concerning digital	≫	Unification of senior management and investment governance
IT modernization	Spaghetti / legacy systems	• Terminated legacy applications and integrated ERP to build a mechanism that accumulates accurate data • Created a separate data lake to establish an environment that enables analytics on all data (including external) • Accurately assessed the applicability of new technologies for the company, including AI, blockchain, and quantum computers	≫	System integration Cloud, data/API, ERP
Mindset change	Inefficient ways of working	• To change employees' mindsets, abolished meetings, emails, and paper documents and required them to complete all operations in digital applications • Required employees to set targets such as ten apps per month, and build mobile apps for automating inefficient operations • Terminated assigned seating and facilitated collaboration by implementing free addresses	≫	Productivity improvement from changing ways of working
Skill building and in-house capability building	IT vendor dependency	• Collaborated with universities and external training vendors to develop and build capabilities in-house by developing data scientists, technology architects, customer experience designers, etc. • Reduced heavy reliance on IT vendors and eliminated black boxes	≫	Developing star talent

Companywide impact	Cost reduction / productivity improvement:	**10~15%**	Revenue improvement:	**5~10%**

The text below describes what this company did in terms of each element:

Strategy/governance: The company started by raising awareness about the difference between traditional IT and digital transformations. Many companies experience the "too many cooks" syndrome because they don't understand this. Digital transformations cannot be implemented unless companies realize that the things being transformed are business processes, business models, and organizational culture, and the businesses must lead this effort. CDOs and CIOs do not examine what should be done in a digital transformation — rather, business units identify the strategies for operations, customer experience, and the differentiating factors. They then identify the digital technologies and solutions required. The company's 10 most senior executives then came together and align on a three-year transformation plan.

IT modernization: The IT department, which formerly responded to requests it received, evolved into a proposal-based department that streamlined the data the business required for analysis and the over-complicated legacy systems. The department also explored new technologies that could help differentiate the company.

Mindset change: The company implemented a symbolic initiative that shook up employees who were unused to questioning inefficient ways of working (e.g., paper-based operations, emails, and meetings). It prohibited in-person meetings, paper-based documents, emails, and assigned seating, and required employees to execute all communication, requests, and approval workflows through digital applications.

Skill building and enhancing in-house resources: As it changed employees' mindsets, the company began to develop star digital talent and build in-house capabilities. It hired data scientists who could create the insights required by the business units, architects who could evaluate new technologies and create promising solutions, and designers who came up with an interface for new customers. By mitigating the company's reliance on IT vendors and eliminating black box systems, these actions helped it succeed and thrive in the new normal.

What is the impact of a successful digital transformation?

McKinsey receives many questions on the difference in corporate performance between companies that implement digital transformations and those that do not. Exhibit 13 shows a three-year trajectory of corporate performance for several thousand companies where McKinsey conducted digital maturity diagnostics. Based on their TRS and EBITDA growth rates, 20% of the companies that are considered digital transformation leaders perform three to four times better than those that have not implemented digital transformations.

Exhibit 13: Performance of companies with high digital maturity

Successful digital transformation leaders perform three to four times better than other companies

Digital maturity

		3-year TRS CAGR	3-year EBITDA CAGR
DX leaders[1]	20%	18%	6%
Other companies	80%	7%	1.5%
		3x	**4x**
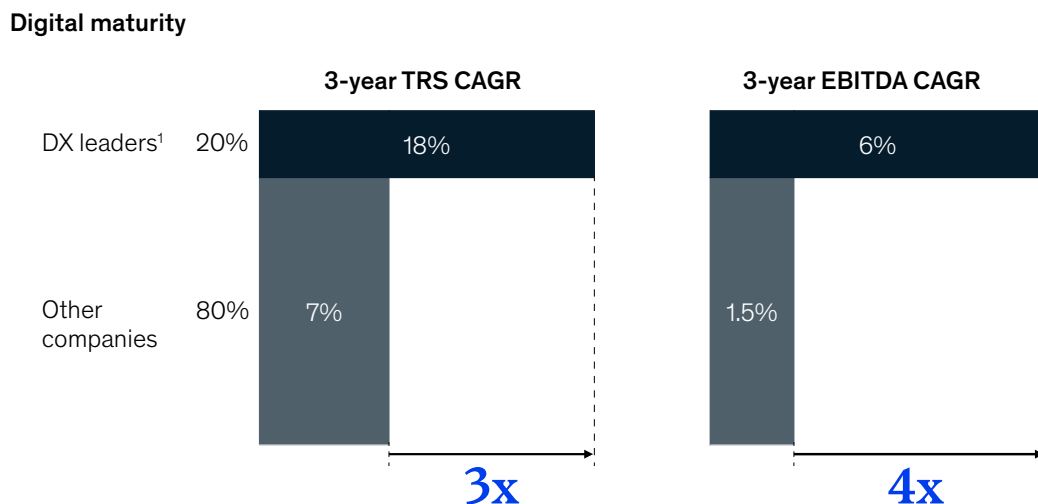
1 DX leaders are defined as companies evaluated for McKinsey's Digital Quotient survey and ranked in the top 20%

A survey revealed that this variation is due to the widespread impact digital transformation can have on the value chain (Exhibit 14). In its initial stages, a digital transformation reduces costs in individual business units such as production, procurement, and back-office, and improves productivity in the back-office and sales staff. Many companies create significant impact there and only then start to review the entire customer journey cross-functionally. Multiple other functions, including R&D, production, marketing, sales, and services, then collaborate closely to investigate and resolve customer pain points in the process. Such issues include "The products and services I want are not available," "The call center and sales are giving me different explanations," "I can't order from my smartphone," and "The product I want is out of stock and I don't know where I can get it." Reviewing and addressing the customer journey cross-functionally improves customer satisfaction and reduces customer churn. By further optimizing price, assortment, and campaigns using AI, the company can increase sales, which further increases the performance disparity with companies that are not conducting digital transformations.

Exhibit 14 Digital impact on individual value chains

The impact of digital transformations goes beyond cost reduction and productivity improvements; cross-functional efforts by R&D, production, marketing, sales, and service can increase sales

25~50%	Cost reduction and productivity improvement	• Procurement • Production • Back-office
2.5x	Employee productivity improvement	• Back-office • Sales
40x	Number of innovations	• R&D • Product planning
5~10%	Speed to product or service launch	• Product planning • Marketing • Sales
10+pp	Customer satisfaction improvement	• Marketing • Sales • Service
10%	Customer churn improvement	• Marketing • Sales • Service
5~10%	Sales increase	• Marketing • Sales • Service

Such performance improvements are not the only benefits of digital transformation. These transformations also position companies to play a vital role in the "ecosystem of companies" that is likely to emerge as a preeminent model for meeting consumers' needs (Exhibit 15). COVID-19 has ended the previous era, where companies increased efficiency and productivity through economies of scale, earlier than expected. It has also accelerated the paradigm shifts that will be required to succeed in the new environment. Consumers will continue to transition from physical stores and in-person services to digital and contact-less services, social norms will evolve from owning to sharing, recycling, and renewing, and shareholders from chasing corporate profits to requiring Sustainable Development Goals (SDG) / Environmental, Social, and Governance (ESG)-based management. This shift will make it more difficult for individual companies to help solve social issues like health and poverty because no one firm will be able to address all the increasing consumer demands. However, an "ecosystem of companies" working together can do so — and those companies that cannot participate will be eliminated through natural selection. Completing a digital transformation early will position Japanese companies well in such ecosystems.

In the new normal, companies that cannot collaborate with various stakeholders to address diversifying and complex customer needs may face extinction

New normal based on COVID-19

Companies which do not become part of an ecosystem may face extinction

Consumers

Increasingly demanding consumers	• From mass production to personalization and customization • From real to digital • From goods and experiences to services	
Expanding gap between winners and losers	• Profit decline for traditional companies • Improved profitability for digitized companies • Emergence of ecosystems and platforms	
Increased corporate responsibility for sustainability	• From owning to sharing • From consumption to recycling and renewing • From pursuing profits to managing based on SDGs and ESG	

Front end (B2C / B2B services)
Public services
Finance
Healthcare
Real estate
Retail
Mobility

Middle-end (enablers required to provide services)
Customer data
Digital talent
Physical stores
Call Centers
Delivery
Warehouses

Back-end (foundational technologies)
Personal authentication
5G
Advanced medicine
Drones
AI/autonomous driving

Keys to leading successful digital transformations

How do you implement a digital transformation?

Prior to the pandemic, few Japanese companies believed that any urgency existed around digital transformations. Most had not experienced quick sales declines, multiple new competitors, or threats from competitors who were undergoing digital transformations.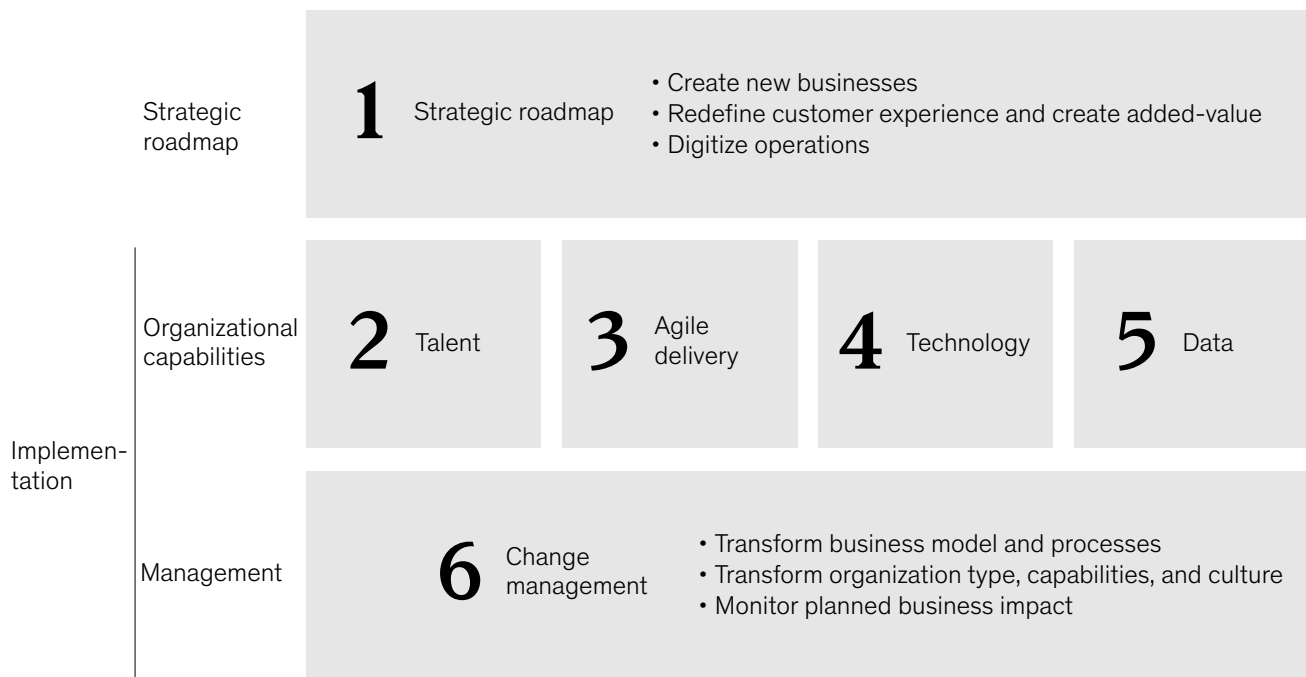 As a result, some believed their business would be stable for the next 20 to 30 years. Then the pandemic triggered rapid changes that overthrew conventional thinking and is creating a sense of crisis about the future of these businesses. To help companies address this situation, we identified several crucial steps based on our experience with successful digital transformations. We also identified the actions taken by thousands of companies that have successfully led digital transformations. Exhibit 16 is an excerpt of the first page of a several hundred-page playbook that summarizes the approaches of those companies that achieved the greatest impact and whose digital transformations McKinsey supported.

Exhibit 16 Six elements that drive successful company-wide digital transformations

Six elements that drive successful company-wide digital transformations

Strategic roadmap	**1** Strategic roadmap	• Create new businesses • Redefine customer experience and create added-value • Digitize operations

Implementation

Organizational capabilities	**2** Talent	**3** Agile delivery	**4** Technology	**5** Data

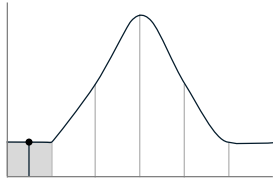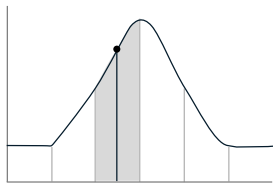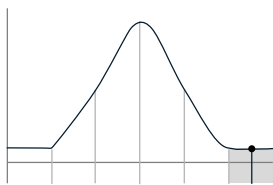| Management	**6** Change management	• Transform business model and processes • Transform organization type, capabilities, and culture • Monitor planned business impact

First, top management, or the CEO, CFO, CSO, and business heads, need to develop a digital transformation vision together. Our experience has shown that they can use this vision and what they learn from available technologies and competitor case studies to build a digital business model that allows the company to leverage its strengths and differentiate itself from competitors.

In any strategy, it is crucial to clarify the reason for implementation (Why), the actions and their sequencing (What and When), and the approach the company will take to focus its resources in each fiscal year (How). Examining the penetration level of digital transformations in other companies can help develop the strategy (Exhibit 17). For example, operational digitizations that other companies have successfully carried out before should be implemented immediately so the company doesn't fall behind. However, there is no one formula for success when the firm is building new businesses. Here it will be crucial for the company to balance a potentially low success rate with how it draws on its surplus funds and resources.

Exhibit 17

The level of penetration by digital transformation theme

DX themes		Degree of penetration		
New business building	Launching new businesses and developing new customer segments using digital technologies	Early stage (innovative or early stage)		Recommend implementing with surplus funds as new business building presents risk
Customer experience digitization	Rebuilding customer journeys using digital, and capturing customers' attention and raising their awareness with digital marketing and personalization	Early majority (initial penetration stage)		Recommend implementing while learning from initial success cases of predecessors
Elasticity of operations	Enhancing elasticity and optimizing/automating back-office processes with operational analytics (e.g., preventive maintenance, production volume optimization)	Late majority (late penetration stage)		Transformation can be achieved by applying one of the proven recipes for success

Companies should combine their vision with four digital transformation topics in the near-term to help them recover from the pandemic's impact:

Customers: Build a non-face-to-face business model based on consumers' purchasing behaviors, which are changing significantly, and social distancing

Operations: Establish resilient operations that can endure fluctuations in unpredictable supply and demand and allow for immediate decision-making

IT modernization: Create a mechanism that semi-automates the development of digital applications and services through dynamic technologies, including cloud and API

Agility: Use the agile method across functions to deliver new products and services quickly and at scale to consumers

Exhibit 18 lists these topics and their goals along with potential initiatives. Corporate managers can reference them as examples for how to catalyze digital transformations within their organizations.

Developing and implementing a company-wide digital transformation vision early can accelerate companies' COVID-19 recovery

	Topics	Example Initiatives	Goals for the next year
	Improving customer experience based on digital initiatives aligned with changes in customer behavior	• Seamless customer experience between channels • Increased contactless customer journey • New distribution models, including delivery • A shift to remote sales models • Real-time management dashboard	Improve customer satisfaction and increase the number of overall customers by acquiring new customers from a new digital channel that prevents churn
Digital accelerating the recovery from COVID-19	Upgrading business operations to respond to unpredictable changes in demand	• New demand pattern prediction by AI • Automation of lead generation for sales agencies • Creation of request management apps (e.g., asset management)	Establish operations that help management quickly understand and make decisions about frontline operational issues and that are resilient in the face of new demand patterns
	Selectively modernizing technology to improve productivity	• Changing IT costs to variable costs (e.g., Cloud) • Automation of digital-service provision process • Data coordination based on hybrid architecture • Development of engineers	Reduce lead time to launch a new digital service by making full use of cloud and automating the execution process
	Creating an agile organization that embeds ways of working that allow rapid responses to changes	• Creation of cross-functional teams based on business priorities and agile operations • Ensuring rapid development of new business services to capture new opportunities	Improve the white-collar workforce's productivity and speed by more than 20% by building a cross-functional, agile organization and ways of working

SOURCE: McKinsey

To succeed with digital transformations, Japanese companies must do more than applying best practices from successful overseas examples. As stated in Chapter 1, they must address Japan-specific implementation challenges and disadvantages. However, these companies also need to act now – they cannot afford to wait and see how things unfold. Based on our observations of the numerous efforts Japanese companies have undertaken to date on digital transformation, McKinsey identified four important actions that will help them overcome challenges and succeed with digital transformations:

1. Engage top management and ignite the digital transformation

2. Focus on business impact when designing transformations

3. Build digital organizational capabilities in-house to sustain the transformation

4. Use change management to help foster a digital transformation culture that creates momentum and ensures immediate and long-term success

We explore each of these in more detail below.

1. Engage top management and ignite the digital transformation

Driving a digital transformation and significantly changing the company demands bold investments in people, resources, and capital. It is crucial that top management be deeply engaged if the firm is going to overcome any obstacles (e.g., "too many cooks, as described in Chapter 1) and achieve impact. They must launch and ignite the transformation as well as sustain it. They are also key to addressing the multiple internal and external stakeholders.

However, we have found that top management's response varies a great deal in different companies. Some demonstrate strong leadership and commit to the transformation at the beginning, while others have trouble taking the first step even though they recognize the importance of moving forward. Thorough preparation is critical in either case.

1) **Appoint the CEO as the owner and sponsor of the digital transformation and shaping the vision**

    Even if a senior owner, such as a CDO, is put in charge of the digital transformation, the company will not necessarily change. Top management must take the lead, reinforce the transformation's importance in their words and actions, and support the CDO. They cannot afford to wait for the CDO or CIO to start acting. By the same token, the CDO and CIO should not have to wait for top management to present the company's direction to employees; this type of disconnect will keep the effort from moving forward.

    The following actions will help top management understand and drive the transformation and ensure that other senior managers (e.g., business unit heads, the CDO, and the CIO) share the same vision. They also avoid the "too many cooks" challenge:

    - **Go & See:** Visits to leading companies in Japan and abroad and discussions with their managers can help the firm learn how to drive a digital transformation, overcome challenges and understand the impact they can achieve. These visits allow companies to see tangible results from other transformations – a valuable lesson. Seeing how other companies innovated, organized, and structured themselves during implementation will also make it easier to envision the company's transformation. Executives and senior management can also create and share their own language as they apply case examples to their company.

    - **Put vision into words (workshops):** Workshops are an excellent way for management to envision the digital transformation; they also lay a firm foundation for its implementation. They generate significant impact as they draw out senior management's ideas, strengthen their ownership of the digital transformation, and ensure discussions reflect diverse perspectives (e.g., customers, the industry, and competitors). They also pose questions that will shape the transformation and its implementation: What is the desired output / what is the company trying to achieve with this transformation? What will it change / improve (e.g., maximize existing businesses' efficiency, redefine interactions with customers, or create new business domains)? In addition, offsite bootcamps that explore the output from the workshops can help others think outside the box and remove current restrictions. Even companies that are already implementing a digital transformation can benefit from these steps.

2) Break down silos, delegate real authority, and assign budgets to digital transformation owners

As stated earlier, promoting an employee or hiring external talent as the CDO will not have much impact without extensive, visible support. In addition, digital transformation owners can only change the status quo if they have visible authority and adequate budgets. In one Japanese company, the person responsible for driving digital, the Chairperson, and the CEO maintained a close relationship that helped them communicate frequently and drive impact through timely decisions about people, resources, and capital.

3) Continuously praise success and ensure top management oversees the companywide rollout

Top management needs to be role models so they can build and sustain the transformation's momentum. Continuously praising even small successes will communicate and reinforce the importance of digital transformation for the entire company. However, they also need to be careful to not punish failures when employees try new ways of working; instead, they should encourage them to keep trying. Digital transformation is about taking on new challenges, which often has risks and can create issues. It is important to prepare employees for this, to adopt a "test and learn" approach, and to recognize their attempts to use the new ways of working. In "test and learn," employees try new ways, may fail quickly, but learn from these failures and improve; it is one of the keys to a successful digital transformation. One company energized its efforts by having top management award MVPs to employees who made progress, achieved impact, or just challenged themselves to try something new.
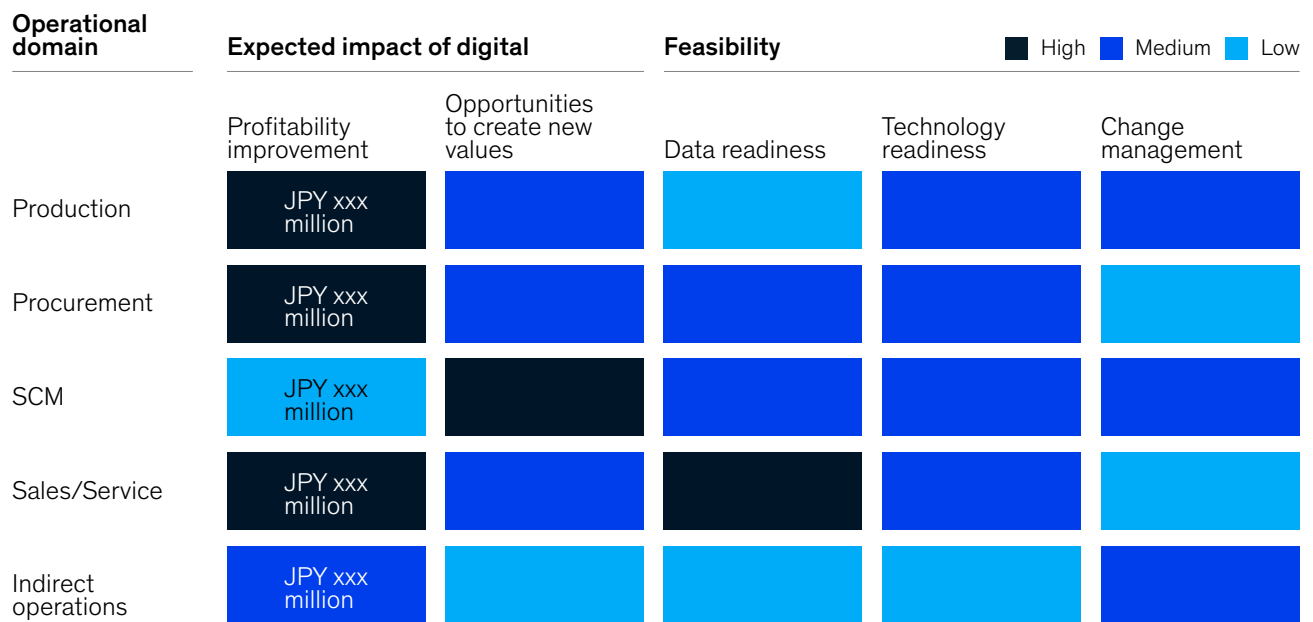
2. Focus on business impact when designing transformations

Because the word "digital" can refer to different things, simply implementing a solution is sometimes positioned as digital transformation. McKinsey, however, defines digital transformation as an enabler that drastically changes the business and uses three overarching factors to create impact. It maximizes efficiency across business operations, redefines the customer experience, and creates a new digital business. To succeed, companies must clearly define the business impact they want to achieve through the digital transformation and / or the specific area where it will focus.

Because these factors will change the nature of the businesses, key personnel from business units need to help drive the transformation and create its initiatives. Significant change will not occur unless leaders who can shift the nature of the business and operations are closely involved. If business units take the lead in creating initiatives and are passionate about them, they can accelerate impact. Visualizing how digital initiatives are expected to affect each area (e.g., profitability improvements) can help drive their engagement and effort's progress.

Follower companies (which many Japanese companies will be in digital transformations) should leverage and apply proven initiatives already tested and implemented at other companies. They should also tailor these initiatives in ways that will differentiate themselves.

Digital opportunity map

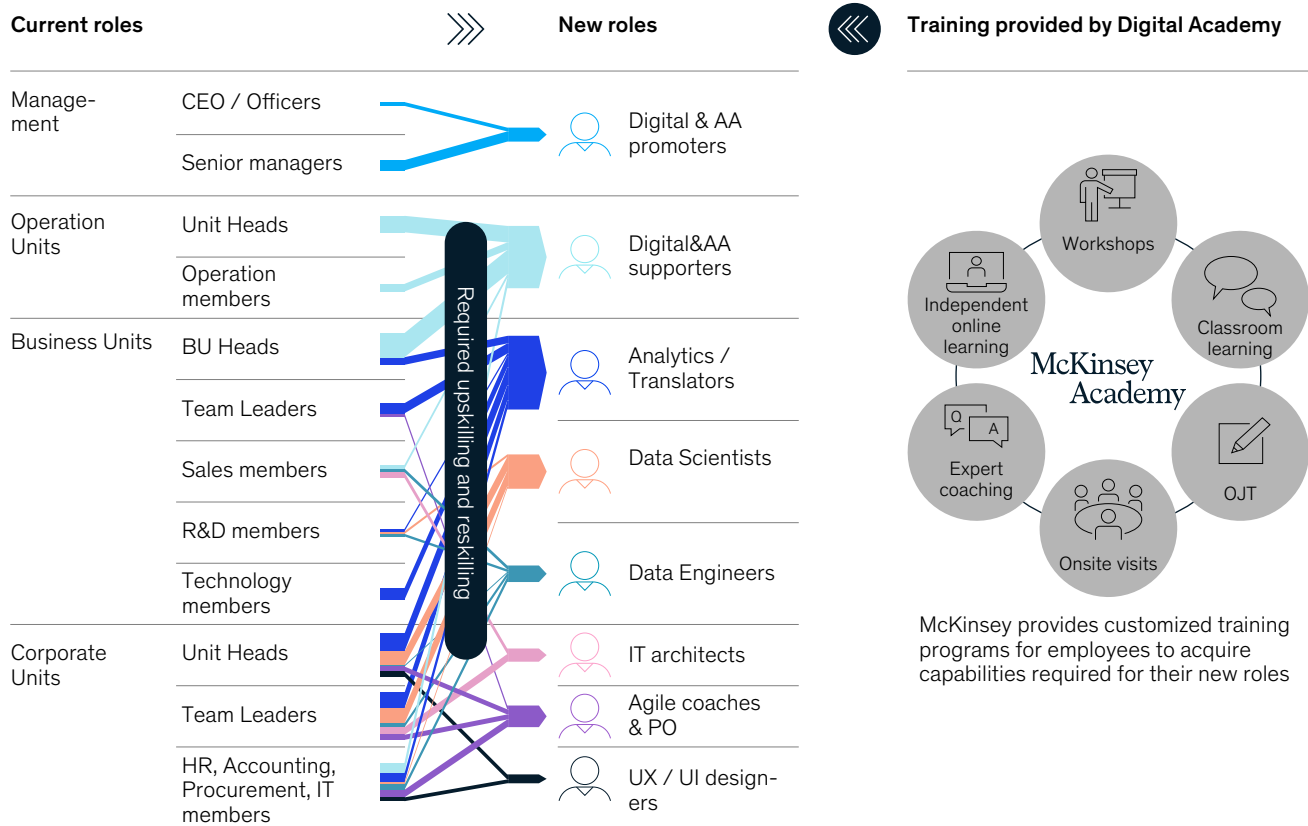| Operational domain	Expected impact of digital		Feasibility			Legend
	Profitability improvement	Opportunities to create new values	Data readiness	Technology readiness	Change management	High (black) · Medium (blue) · Low (light blue)
Production	JPY xxx million (High)	Medium	Low	Medium	Medium	
Procurement	JPY xxx million (High)	Medium	Medium	Medium	Low	
SCM	JPY xxx million (Low)	High	Medium	Medium	Medium	
Sales/Service	JPY xxx million (High)	Medium	High	Medium	Low	
Indirect operations	JPY xxx million (Medium)	Low	Low	Low	Medium	

3. Build digital organizational capabilities in-house to sustain the transformation

To succeed with and sustain a digital transformation that impacts the nature of their business, companies must create the talent and capabilities in-house, rather than completely depend on IT vendors.

However, as mentioned earlier, many Japanese companies lack such in-house digital talent. Employee reskilling and retraining will be crucial as they undertake their transformations. In one overseas example, AT&T, a US telecom operator, implemented a companywide reskilling program that affected ~16,000 employees (including managers). In just three years, it was able to reassign employees on a large scale.

In Japan, some companies that do not have engineers in-house have them in their IT subsidiaries. Although they can reskill this talent and reposition the IT subsidiary, their most important move will be to build new capabilities in every frontline employee so they can operate in the transformed company. This process will help ideas on what the company can do for consumers flow naturally. Completely depending on consultants and vendors, on the other hand, will not transform any company.

Develop organizational capabilities through Digital Academy

Current roles / **New roles** / **Training provided by Digital Academy**

Management
- CEO / Officers
- Senior managers

Operation Units
- Unit Heads
- Operation members

Business Units
- BU Heads
- Team Leaders
- Sales members
- R&D members
- Technology members

Corporate Units
- Unit Heads
- Team Leaders
- HR, Accounting, Procurement, IT members

Required upskilling and reskilling

- Digital & AA promoters
- Digital&AA supporters
- Analytics / Translators
- Data Scientists
- Data Engineers
- IT architects
- Agile coaches & PO
- UX / UI designers

Workshops · Classroom learning · OJT · Onsite visits · Expert coaching · Independent online learning — McKinsey Academy

McKinsey provides customized training programs for employees to acquire capabilities required for their new roles

Source: McKinsey Academy

To enhance in-house digital organizational capabilities, the firm also needs to recruit, develop, and retain digital talent. One place to start is by asking whether the level of digital talent required, the level of existing capabilities, and the gap between the two are clear. If they are not, start there:

- **Visualize the current state and identify the gap with the target state:** First consider the volume of digital initiatives that need to be implemented in the next three years and the roles and digital resources / talent they will require. Then assess the gap in supply and demand by considering the number of potential hires. This will help clarify potential reskilling targets

- **Design and implement a reskilling program for each layer:** The reskilling program needs to be tailored to each layer, including leaders and experts such as product owners and agile engineers. Successful reskilling combines the following two elements:

  — **Digital Academy:** Offers a systematic program for acquiring knowledge which combines online training, classroom learning, and hands-on learning such as workshops. Many programs offer a combination of two to three-month intensive learning and ongoing learning opportunities. Some companies develop such programs as "digital academies"

  — **OJT:** Practice is just as important as structured knowledge. This is a process in which employees work alongside experienced digital experts to acquire knowledge about implementing digital initiatives. They develop agile talent as they acquire knowledge and experience while creating impact through their actions

The true value of reskilling lies in the impact reskilled talent can have in the future. They can have faster impact because they already understand how the business works. Most companies can reskill their in-house talent over a one- or two-year period.

4. Use change management to help foster a digital transformation culture that creates momentum and ensures immediate and long-term success

While digital transformation enables a company to compete even more fiercely in the market, it can also create resistance and denial among employees, some of whom will claim to have nothing to do with the transformation. This resistance is why more than 80% of digital transformations fail. To overcome this, companies must create a cooperative environment and achieve meaningful, credible success within the first year.
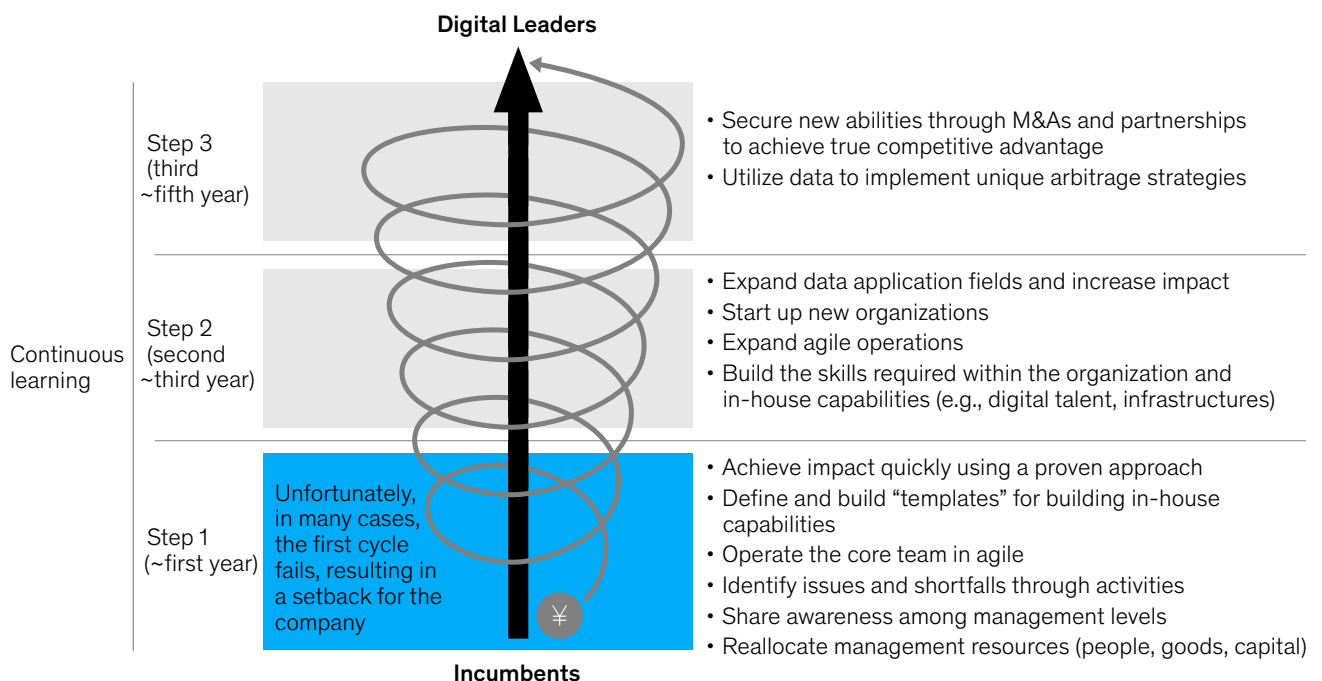
"Success" must be carefully defined and the first initiatives and people selected before the effort is launched. Only then can the company construct the portfolio of initiatives. Senior management needs to be aligned on the initiative objectives, such as business impact and capability building. If business impact is the objective, next generation leaders and high performers will expect to see quick profit generation, which will then create momentum. However, if the objective is to experience and learn from failures or to develop new organizational capabilities, the definition of success will be different and needs to be clearly defined. Employees also need to understand that small failures with digital as they learn often help build organizational capabilities and should be expected. However, it is also important that initiatives that fail are in the minority; otherwise a firm can fall into the "proof of concept" trap.

It is also essential to set the stage for employees so they can see and feel the change, and see how the company's actions move toward its ultimate goals. Only then will they help keep the company from falling back due to inertia.

Exhibit 21 highlights an approach and timeline for companies to use so they can quickly launch and carry out their initiatives and change management.

Exhibit 21

How to implement a successful digital transformation

Digital Leaders

Step 3 (third ~fifth year)
- Secure new abilities through M&As and partnerships to achieve true competitive advantage
- Utilize data to implement unique arbitrage strategies

Continuous learning

Step 2 (second ~third year)
- Expand data application fields and increase impact
- Start up new organizations
- Expand agile operations
- Build the skills required within the organization and in-house capabilities (e.g., digital talent, infrastructures)

Step 1 (~first year)

Unfortunately, in many cases, the first cycle fails, resulting in a setback for the company

- Achieve impact quickly using a proven approach
- Define and build "templates" for building in-house capabilities
- Operate the core team in agile
- Identify issues and shortfalls through activities
- Share awareness among management levels
- Reallocate management resources (people, goods, capital)

Incumbents

McKinsey's Digital value proposition

1. What sets McKinsey Digital apart from others

Significant impact delivered through digital transformations

Currently at McKinsey, digital projects account for over 60% of total projects. Business transformations and new business creation using digital are provided to over 1,200 client companies annually with a total annual client impact in excess of USD 20 billion, which includes top-line growth and profitability improvements.

Company-wide transformations backed by strategies

McKinsey's digital transformations start with strategy development. Business models are changed to ensure competitive advantage for the next 10 years, and business domains are reevaluated to develop a clear vision. Next, a hypothetical strategy and roadmap are developed to ensure impact before implementing the transformation companywide. McKinsey never approaches transformations in a way that only partially optimizes organizations by adopting solutions with unclear potential impact to clients.
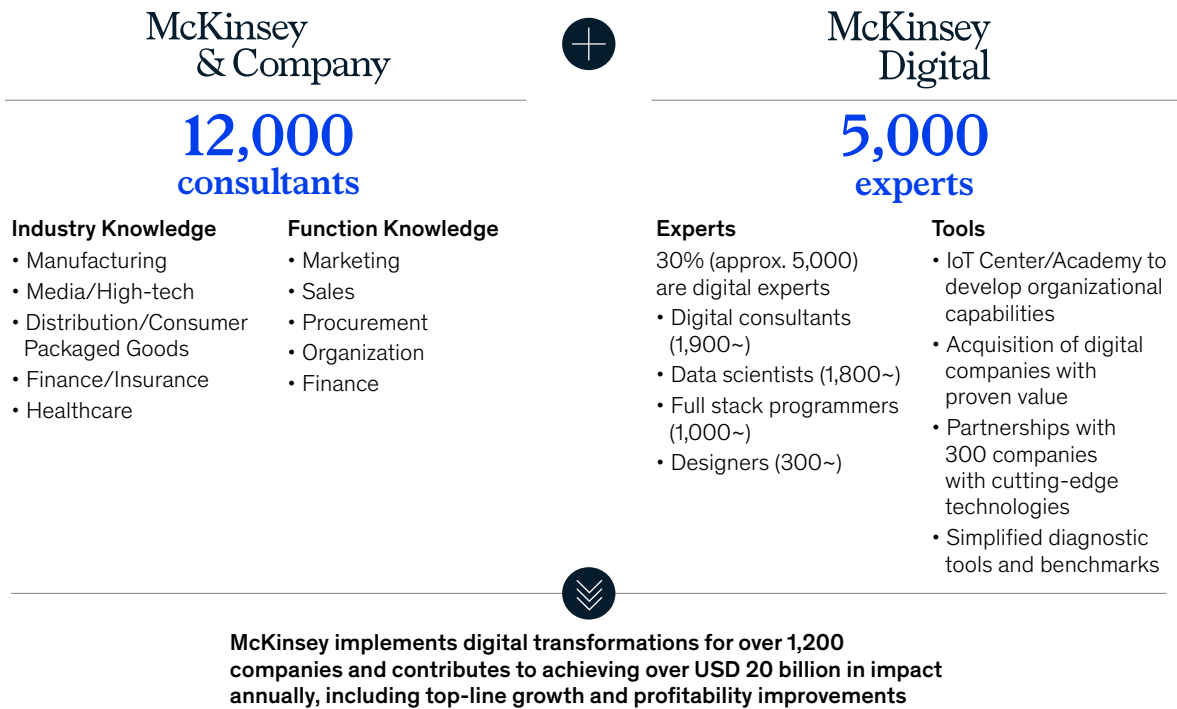
- **A focus on highly complex issues**
  McKinsey's sole goal is to create management impact and develop organizational capabilities within clients. We pave the way for digital transformation in the first two years while developing clients' ability to operate without us; we then monitor clients' independent actions instead of implementing subsequent phases, including large-scale system development and operational outsourcing.
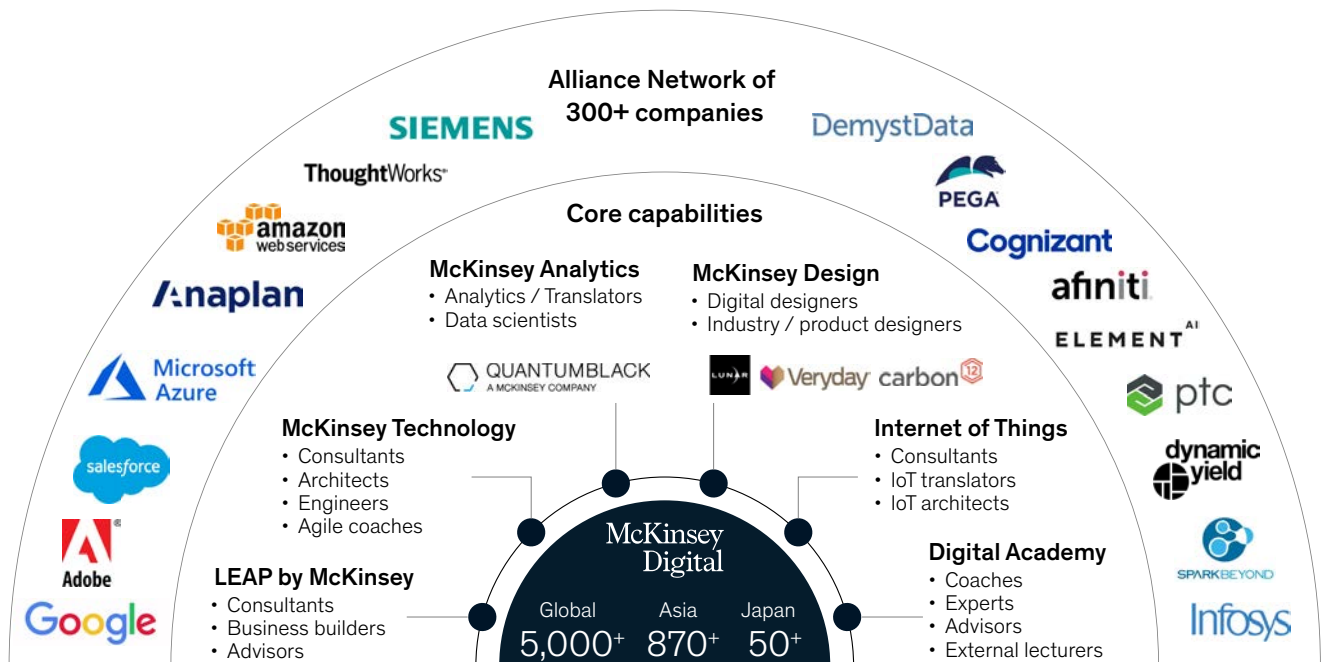
- **World-class experts at work**
  Over 5,000 experts, of whom over 50 are based in Japan, include data scientists, engineers, architects, developers, technology leads, agile coaches, award-winning designers, and cybersecurity experts (Exhibit 22). They work closely together to co-create solutions for Japanese clients.

McKinsey has accelerated the shift to digital in the past few years to meet the rapidly increasing demand for support for digital transformations

McKinsey & Company

12,000
consultants

Industry Knowledge
- Manufacturing
- Media/High-tech
- Distribution/Consumer Packaged Goods
- Finance/Insurance
- Healthcare

Function Knowledge
- Marketing
- Sales
- Procurement
- Organization
- Finance

＋

McKinsey Digital

5,000
experts

Experts
30% (approx. 5,000) are digital experts
- Digital consultants (1,900~)
- Data scientists (1,800~)
- Full stack programmers (1,000~)
- Designers (300~)

Tools
- IoT Center/Academy to develop organizational capabilities
- Acquisition of digital companies with proven value
- Partnerships with 300 companies with cutting-edge technologies
- Simplified diagnostic tools and benchmarks

McKinsey implements digital transformations for over 1,200 companies and contributes to achieving over USD 20 billion in impact annually, including top-line growth and profitability improvements
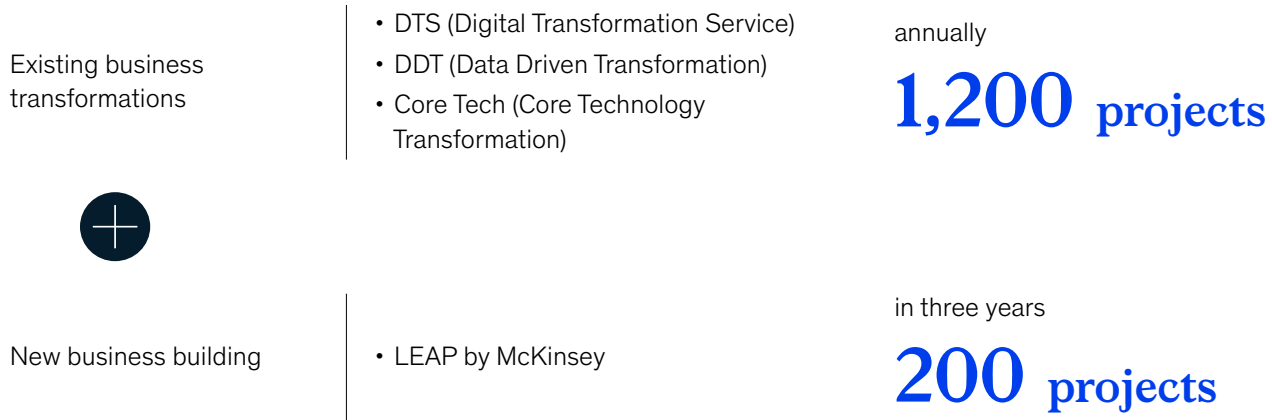
To further ensure a successful transformation, we offer multiple proprietary solutions, a dedicated capability building academy, and an ecosystem of partners and alliances with the world's leading technology companies (Exhibit 23).

Exhibit 23: McKinsey Digital Partnerships

McKinsey Digital collaborates with over 300 external partners to deliver best-of-breed solutions for implementing digitally-enabled corporate transformations

Alliance Network of 300+ companies

SIEMENS
DemystData
ThoughtWorks
PEGA
amazon web services
Cognizant
Anaplan
afiniti
ELEMENT AI
Microsoft Azure
ptc
salesforce
dynamic yield
Adobe
SPARKBEYOND
Google
Infosys

Core capabilities

McKinsey Analytics
- Analytics / Translators
- Data scientists

McKinsey Design
- Digital designers
- Industry / product designers

QUANTUMBLACK
A MCKINSEY COMPANY

LUNAR Veryday carbon

McKinsey Technology
- Consultants
- Architects
- Engineers
- Agile coaches

Internet of Things
- Consultants
- IoT translators
- IoT architects

LEAP by McKinsey
- Consultants
- Business builders
- Advisors

Digital Academy
- Coaches
- Experts
- Advisors
- External lecturers

McKinsey Digital

Global	Asia	Japan
5,000+	870+	50+

Exhibit 24

McKinsey Digital supports both digital transformations of existing businesses and new business building beyond digital transformations

Existing business
transformations

- DTS (Digital Transformation Service)
- DDT (Data Driven Transformation)
- Core Tech (Core Technology Transformation)

annually

1,200 projects

＋

New business building

- LEAP by McKinsey

in three years

200 projects

Source: McKinsey Digital

2. Digital transformation support provided by McKinsey Digital

Digital Transformation Service (DTS)

A company-wide, performance fee-based transformation program that spans strategic planning and digital transformation over roughly two years. In the program, McKinsey commits to achieving management impact in top-line growth, profitability improvement, and other factors while supporting a management-led transformation of all organizational capabilities, including strategy, processes, organizations, technologies, data, agility, analytics, and design. We provide training through our Digital Academy as well as OJT to build organizational capabilities at the frontline and drive digital use.

Data Driven Transformation (DDT)

An analytics-focused program that operates within DTS. We established Quantum Black's Japan office in 2019 to drive management impact by achieving analytics use cases, building organizational capabilities through our Analytics Academy, and developing ecosystems through data transformation. It provides advanced AI services and leverages AI for highly complex areas that offer substantial business impact.

Core Technology Transformation (Core Tech)

This program operates in DTS and focuses on modernizing and upgrading technologies to address the "2025 Digital Cliff." We build the clients' organizational capabilities through our Digital Academy and conduct value-assurance activities to ensure impact from digital and IT projects while designing and implementing a five- to 10-year technology modernization program (e.g., cloud migration, DevSecOps, and open source usage).

Leap by McKinsey (new business building)

Very few organizations anticipate changes and respond quickly. In general, they tend to spend a long time deliberating appropriate responses, then wind up falling behind because they don't know where to begin. We develop and launch innovative new businesses in a breathtakingly short timeframe by collaborating with business leaders across industry sectors. We create new ecosystems based on clients' core strengths while building their organizational capabilities and infrastructure to drive sustainable growth. Our approach can create a mechanism to continuously transform the entire organization and generate innovative ideas in the long-term.

Looking ahead

COVID-19 has exposed the fatal consequences of unsuccessful digital transformations. A stark contrast has emerged between companies like Wal-Mart and Nitori, which focused on digital transformation and are experiencing steady sales growth, and others such as JC Penney and Lord & Taylor, major US department stores that were lagging behind and who have now filed for Chapter 11. As the "new normal" created by COVID-19 – new consumer behaviors, ways of working, and values – takes hold, we urge Japanese companies to make a bold, decisive shift towards digital transformation and thus advance their positions in their respective industries while maximizing their follower advantage. We hope this white paper will aid companies in pursuing this path.

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