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Bullish on digital:

McKinsey Global Survey results

CEOs and other senior executives are increasingly engaged as their companies step up efforts to build digital enterprises.

**Brad Brown,
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and Paul Willmott**

As businesses continue to embrace digital tools and technologies—especially when engaging with customers—C-level executives in a recent McKinsey survey¹ say they are stepping up their own involvement in shaping and driving digital strategies. This is vital to the success of digital programs, as survey respondents most often cite a *lack* of senior-management interest as the reason for an initiative's failure. Respondents also suggest that organizational alignment is critical to seeing real business impact from digital.

In the survey, we asked respondents about five digital-enterprise trends: big data and advanced analytics, digital engagement of customers, digital engagement of employees and external partners, automation, and digital innovation.² Specifically, we inquired about their companies' adoption of and focus on each trend, what impact digital technologies can (and do) have on their businesses, and what obstacles companies face in meeting

their digital goals. We found that despite the organizational and talent challenges, executives remain optimistic about digital business.

They report, for example, that their companies are using digital technology more and more to engage with customers and reach them through new channels. What's more, growing shares report that their companies are making digital marketing and customer engagement a high strategic priority. Nevertheless, there is more work to do: most executives estimate that at best, their companies are one-quarter of the way toward realizing the end-state vision for their digital programs.

Focusing on customers and the top line

Executives say each of the five digital trends we asked about is a strategic priority for their compa-

¹The online survey was in the field from April 2 to April 12, 2013, and garnered responses from 850 C-level executives representing the full range of industries, regions, and company sizes; 8.6 percent of these executives have a specific technology focus. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

²In the 2012 survey, we asked about three digital-business trends: big data and advanced analytics, digital marketing and social-media tools, and flexible delivery platforms. See Brad Brown and Johnson Sikes, "Minding your digital business: McKinsey Global Survey results," May 2012, mckinsey.com.

Takeaways

Executives are optimistic about digital tools, including big data and advanced analytics, and report their companies have more fully embraced these technologies.

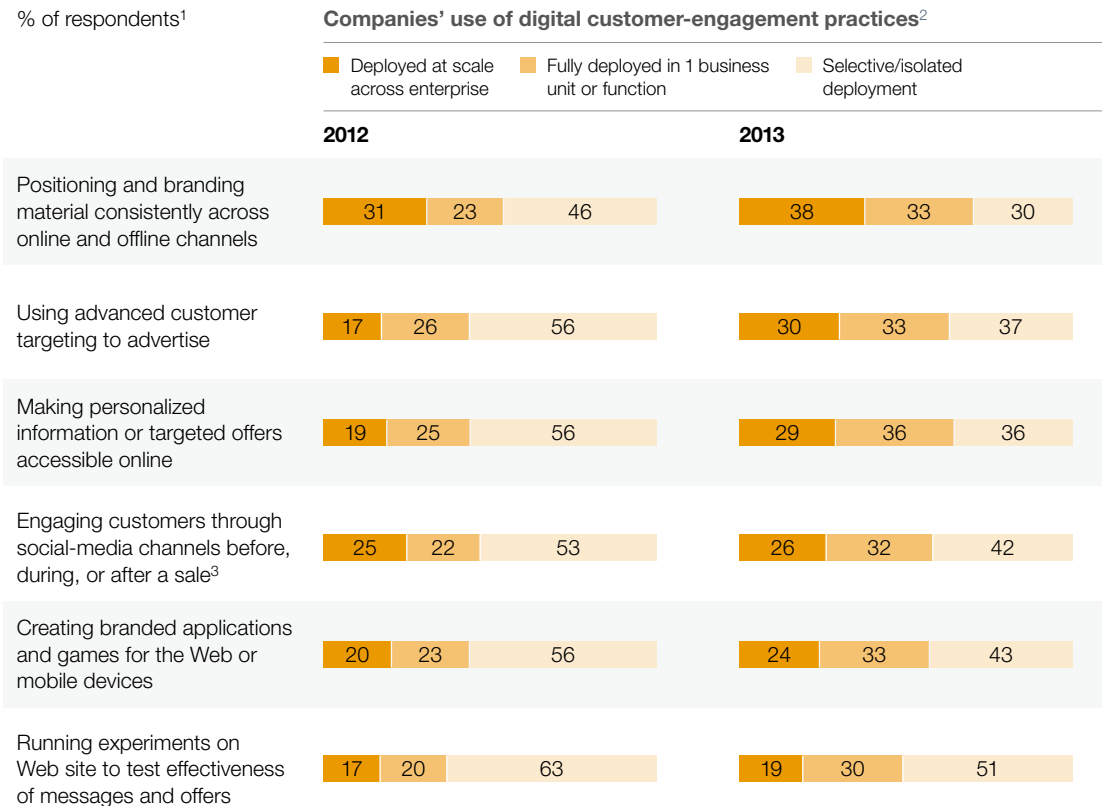
Nonetheless, obstacles remain: to realize the true potential of their digital programs, companies must address a number of organizational challenges.

Finding the right leaders, managing expectations, and prioritizing talent could help companies move forward and reap greater rewards.

nies.³ Of these, the trend that ranks highest is customer engagement: 56 percent say digital engagement of customers is at least a top-ten company priority, and on the whole respondents report notable progress since 2012 in deploying practices related to this trend (Exhibit 1). Companies have made particularly big gains in their use of digital to position material consistently across channels and to make personalized or targeted offers available online.

By comparison, companies have been slower to adopt digital approaches to engaging their own employees, suppliers, and external partners. Here, executives say their companies most often use online tools for employee evaluations and feedback or knowledge management; smaller shares report more advanced uses, such as collaborative product design or knowledge sharing across the supply chain.

Exhibit 1 The digital engagement of customers accelerates.



³More than 40 percent of respondents cite each of the five trends we asked about as a top-ten corporate priority or higher (top or top-three priority), and at least one in five executives say each trend is a top-three corporate priority.

¹Figures may not sum to 100%, because of rounding. Figures were recalculated after removing "don't know" responses to the question.

²In 2012, the question asked was, "Please indicate the extent to which your organization has adopted each of the following practices related to digital marketing." This year, we also asked about 3 additional practices that are not shown in this exhibit: "using online channels to reach new geographies or markets," "seamlessly engaging customers across channels," and "using online channels to completely replicate offline channels."

³In 2012, the option was "engaging customers through social-media channels."

Responses also indicate growth in the company-wide use of big data and advanced analytics, matching our experience with companies of all stripes, where we are seeing executives consider analytics a critical priority and dedicate increasing attention to the deployment of new analytic tools. Notably, respondents report increased use

of data to improve decision making, R&D processes, and budgeting and forecasting (Exhibit 2). What's more, executives say their companies are using analytics to grow: the largest shares report focusing their analytics efforts on either increasing revenue or improving process quality; reducing costs tends to rank as a lower-level priority.

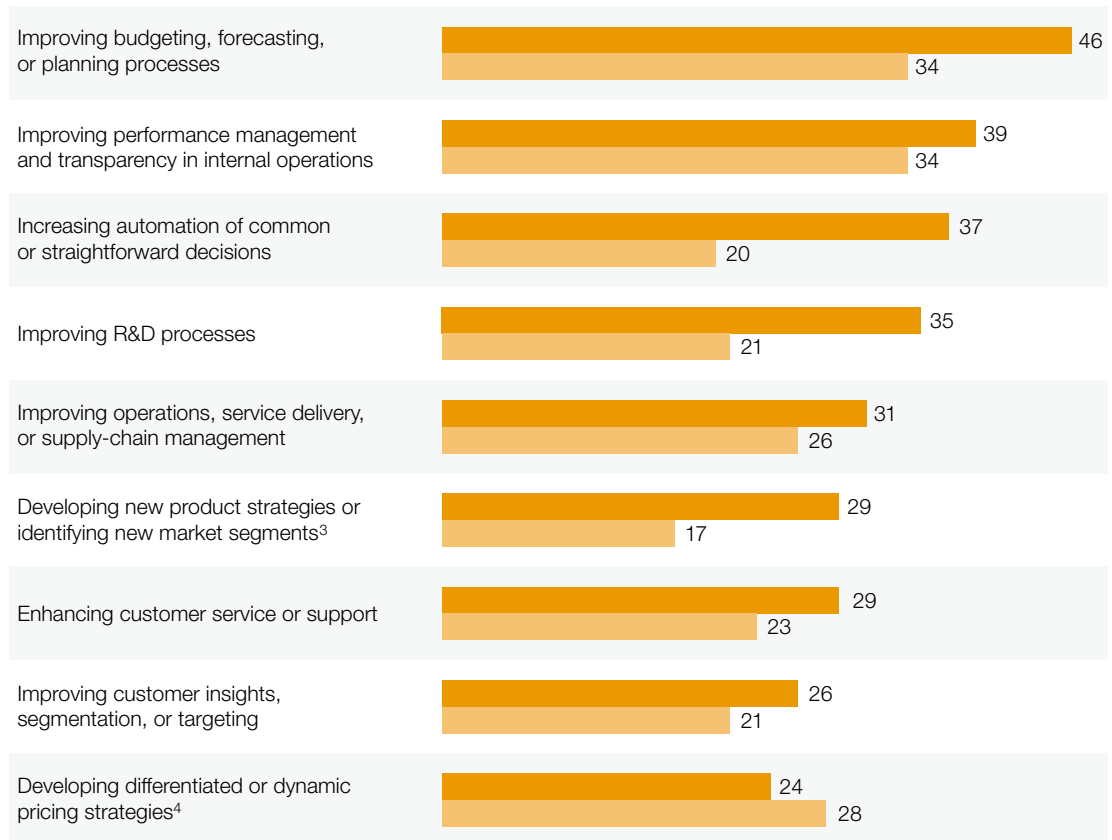
Exhibit 2

The use of big-data applications has also grown.

% of respondents¹

■ 2013
■ 2012

Big-data/analytics tools or processes that companies have deployed at scale across the enterprise²



¹ Figures were recalculated after removing "don't know" responses to the question.

² In 2013, we asked about 3 additional practices that are not shown in this exhibit: "using online channels to reach new geographies or markets," "seamlessly engaging customers across channels," and "using online channels to completely replicate offline channels."

³ In 2012, the option was "new product strategies."

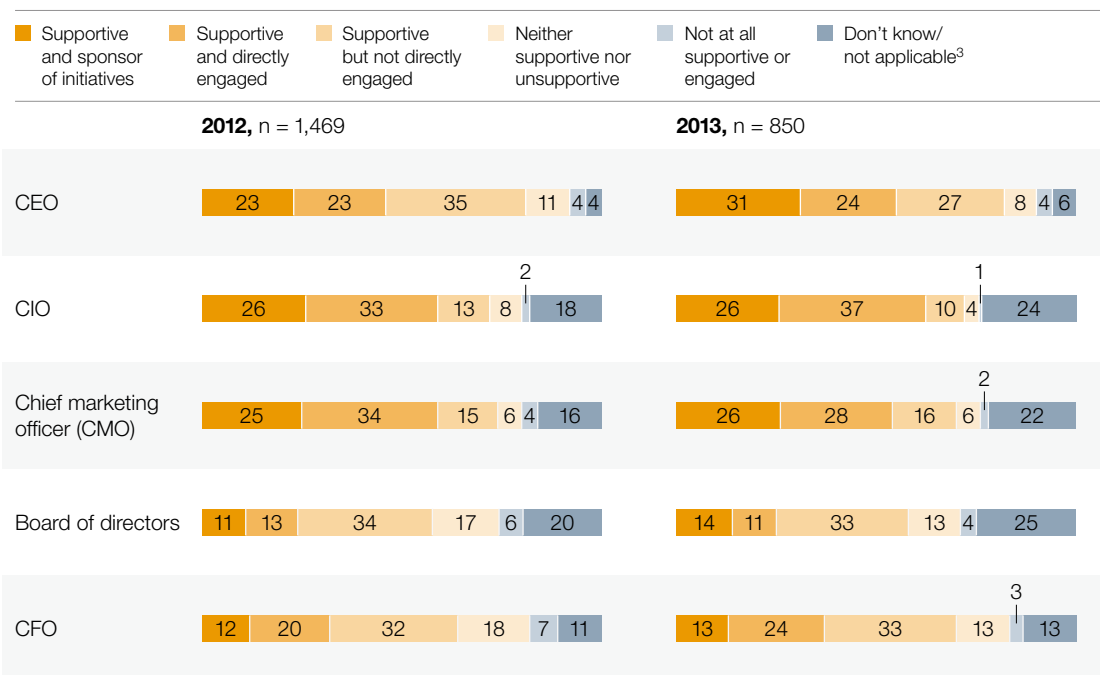
⁴ In 2012, the option was "pricing."

Exhibit 3

CEOs are now more likely to sponsor digital initiatives than they were in 2012.

% of respondents¹

Level of support and involvement in digital-business initiatives, by role²



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

²In 2012, we did not ask about the chief digital officers (CDOs) and their support or involvement in digital-business initiatives, so the 2013 results are not shown. Sixty-two percent of respondents report not having a CDO at their organizations; among others, the largest shares say their CDOs are either supportive and directly engaged (12 percent) or a sponsor of initiatives (12 percent).

³In 2013, "don't know" and "not applicable" were presented as separate answer choices.

Likewise, when asked about the next wave of business-process automation, respondents say their companies are automating a wide range of functions to improve the overall quality of processes (by removing breaks or errors, for example) or to build new digital capabilities (for example, remote monitoring) into the processes; few say their companies have automated processes primarily to replace labor. When asked about innovation practices, more than 40 percent of respondents say their companies are either incorporating digital technology into

existing products or improving their technology operating models (for instance, using cloud computing). Just 23 percent say they are creating digital-only products.

More-involved CEOs

Across most of the C-suite, larger shares of respondents report that their companies' senior executives are now supporting and getting involved in digital initiatives (Exhibit 3). This

year, 31 percent say their CEOs personally sponsor these initiatives, up from 23 percent who said so in 2012. This growth illustrates the importance of these new digital programs to corporate performance, as well as the conundrum that many organizations face: often, the CEO is the only executive who has the mandate and ability to drive such a cross-cutting program.

Thirty percent of respondents also report a chief digital officer (CDO) on their companies' executive teams, a sign of the widespread awareness that these initiatives are important. This result also squares with our experience that some organizations have created the CDO role as an executive-level position with cross-cutting responsibilities for all digital initiatives. In a sign that this new role is already creating value, respondents whose organizations have a CDO also indicate significantly more progress toward their digital vision than those without one.

Organizational challenges continue

Despite the host of technical challenges in implementing digital, respondents say the success (or failure) of these programs ultimately relies on organization and leadership, rather than technology considerations. We asked executives to think of past initiatives at their companies (one initiative that worked and one that didn't) and then identify the most decisive factors behind each outcome. Executives most often attribute the success of digital programs to managerial factors—senior management's interest and attention, internal leadership, good program management, and alignment between organizational structure and goals—and are less likely to cite any technical considerations (Exhibit 4). Interestingly, the absence

of senior-management interest is the factor respondents most often identify as contributing to an initiative's failure.

Organizational issues can also hinder companies' efforts to meet goals and see real impact from digital. As in 2012, executives most often say misaligned organizational structures are the biggest challenge their companies face in meeting digital goals. This is followed by insufficiently reworked business processes (to take advantage of the digital opportunities) and difficulty finding functional talent (such as data scientists or digital marketers). In contrast, a lack of infrastructure and absence of good data are less pressing than they were last year.

At companies where organizational structures do pose a challenge, fewer report a corporate-wide financial impact from digital business: 31 percent of these executives say their digital efforts have yielded a measurable impact on top- or bottom-line results, compared with 43 percent of executives who aren't facing this issue. At the same time, many respondents are unsure of how best to measure their efforts: only 36 percent say their companies have a top-line metric for monitoring their digital programs' overall progress.

High expectations and continued investment

Challenges aside, executives remain bullish on digital business: 65 percent say they expect these trends will increase their companies' operating income over the next three years, similar to last year's results.⁴ CEOs are more positive than executives in any other role, with more than one in five saying they expect income from digital to increase by more than 30 percent in three years' time.

⁴In the 2012 survey, 67 percent of all respondents said that, given the competitive dynamics in their industries and their own organizations' priorities, they expected digital business would increase their companies' operating income. Only 9 percent (compared with 10 percent this year) said digital business would lead to a decrease in company income.

When asked about their expectations for digital's top line, executives at business-to-business companies are actually more optimistic than their business-to-consumer peers, perhaps due to the increased consumer expectations, price

transparency, and competitive pressures that business-to-consumer companies face. While respondents see value from all five trends, they are hoping for more value from customer engagement than other trends: executives who

Exhibit 4

Digital outcomes rely on management and oversight.

% of respondents,¹ n = 850

Factors that contribute most to success, or the absence of which contributes most to failure, of companies' past digital initiatives

Top 3 factors	Factors of success	Factors of failure
Senior-management interest or desire to change practices related to initiative	32	23
Internal leadership	30	19
Alignment between organizational structure and initiative's goals	21	17
Good management of and sufficient organizational support for initiative	21	11
Ability to adopt experimentation mind-set that allows for certain practices (eg, rapid test-and-learn cycles to quickly refine approaches used in initiative)	18	15
Available technical talent (eg, IT or technology staff)	18	17
Quality data	16	21
Business processes reworked to take advantage of initiative's potential value opportunity	16	20
Available functional talent (eg, data scientists, digital-marketing experts)	15	18
Technology infrastructure and IT systems	14	22
Ability to influence or follow shifting customer expectations related to initiative	11	11
Ability to keep pace with rapid changes in activities required to meet initiative's goals	10	14

¹ Respondents who answered "other," "don't know," or "not applicable" are not shown.

expect an income boost from digital business attribute the largest part of that increase to digital customer engagement (Exhibit 5). Among those expecting a negative impact on company income, the largest share of respondents say it's due to their inability to adequately respond to changing customer behavior and expectations.

Executives say their companies continue to invest heavily in their digital programs—and, on average, expect to spend more relative to last year's results. There are some notable differences across regions: respondents in North America, for example, say their companies are investing at levels well ahead of those in other regions, including Europe, where companies traditionally keep pace with North America (Exhibit 6). But currently, only about one-third of executives say their companies are spending the right amount on digital, and many worry about underinvesting in these programs.

Still, the responses indicate that companies have a long way to go in accomplishing their digital-business agendas. Fifty-seven percent say their companies are up to one-quarter of the way toward realizing their end-state visions for their digital programs, and just 40 percent say their organizations' digital efforts have yielded a measurable business impact thus far. Executives who say their companies spend the right amount on digital are much likelier than average to report real business impact (60 percent), as are those who say their companies are at least halfway toward their end-state visions (56 percent), but overall, there is room for improvement.

Looking ahead

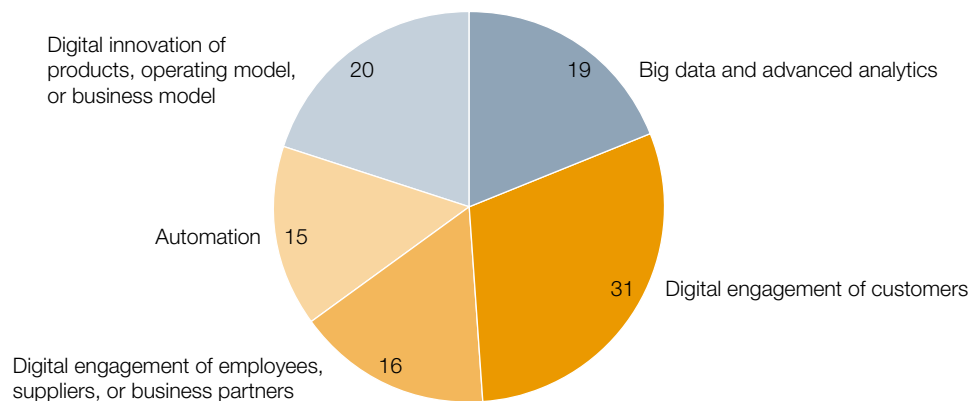
- **Find the right digital leaders.** Leadership is the most decisive factor for a digital program's success or failure. Increasing C-level involve-

Exhibit 5

Of the ways that companies can use digital, customer engagement promises the most potential value.

n = 568

% of expected increase in income, related to digital business, that is attributable to 5 digital trends¹

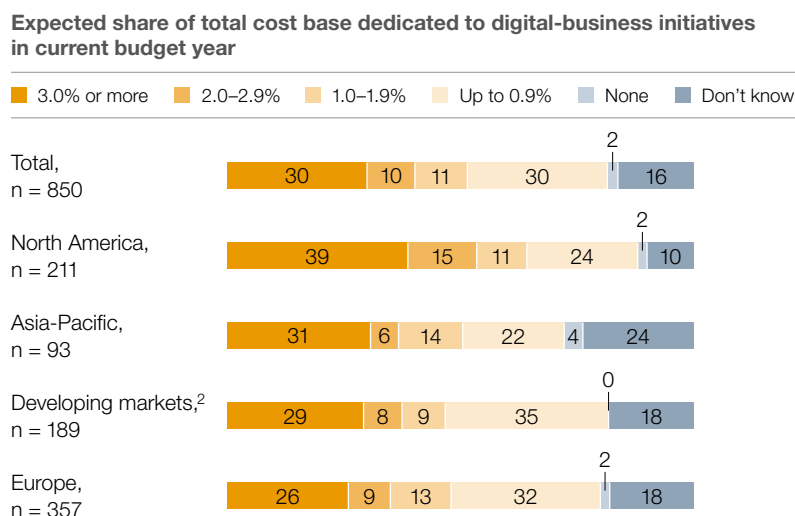


¹Figures do not sum to 100%, because of rounding.

Exhibit 6

Across regions, companies' investments in digital business vary.

% of respondents,¹ by region



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

²Includes China, India, and Latin America.

ment is a positive sign, and the creation of a CDO role seems to be a leading indicator for increasing the speed of advancement. These developments must continue if companies are to meet their high aspirations for digital.

- **Manage expectations.** Just as important as finding the right leader is setting the right agenda and maintaining an aspirational vision without straying into overexuberance for digital. Leaders will have to walk this line carefully, given executives' reports of organizational, technical, and cultural challenges.

- **Prioritize talent.** Not surprisingly, survey respondents indicate concerns about finding the talent their companies need to realize their digital goals. Technical, functional, and business skills are all critical for digital programs. We have seen some companies begin emulating the high-tech practice of “acqui-hiring” (that is, acquiring small companies largely for their employees rather than their products). But finding and hiring talent is only part of the solution; no matter where the talent comes from, development and retention are equally important in a sellers' market. ○

The contributors to the development and analysis of this survey include **Brad Brown**, a director in McKinsey's New York office; **Johnson Sikes**, a consultant in the New York office; and **Paul Willmott**, a director in the London office. Copyright © 2013 McKinsey & Company. All rights reserved.