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How B2B digital leaders drive five times more revenue growth than their peers

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By focusing on the right digital practices, B2B companies—currently trailing B2C companies in digital transformation—can create long-term value. Here are six areas where digital leaders excel.

Far from standing on the sidelines, B2B companies have embraced the digital revolution. Most are outpacing consumer companies in digitizing back-office workflows and resource planning and in modernizing their existing IT architectures. But those efforts have tended to focus on internal cost and process efficiencies and less on innovating around sales and the customer experience—and that's where the real growth is.

Digitization has made providing consistent, high-quality customer interactions a competitive differentiator, no matter the channel. B2B companies need to adjust accordingly. Right now, however, selling models remain firmly planted in the offline world. Company websites, though rich in product descriptions, are often little more than digital brochures that fail to provide an easy way for customers to buy. And while sales teams are working harder to navigate deals that stretch longer and involve multiple influencers and buyers, they often lack (or are unable to apply) the analytics needed to manage the sale profitably, understand who the real decision makers are, and what sorts of outreach might prove persuasive.

It's not going to get any easier. B2B players must contend with shrinking product shelf lives, greater price transparency, and a changing cost basis on the one hand while simultaneously growing the capabilities needed to create consumer-like experiences on the other, with personalized service and hassle-free purchasing across platforms and devices. Nontraditional players like Amazon Business and Alibaba are already cashing in on this trend by providing business buyers with simple and convenient digital marketplaces.

So what to do? Our research is clear: by investing in a targeted set of digital capabilities and approaches, B2B companies can improve their financial performance—and not just by a percentage point or two. Rather, the B2B companies that master these areas are generating 8 percent more shareholder returns and a revenue compound annual growth rate (CAGR) that is five times greater than the rest of the field.

The digital practices that drive high performance

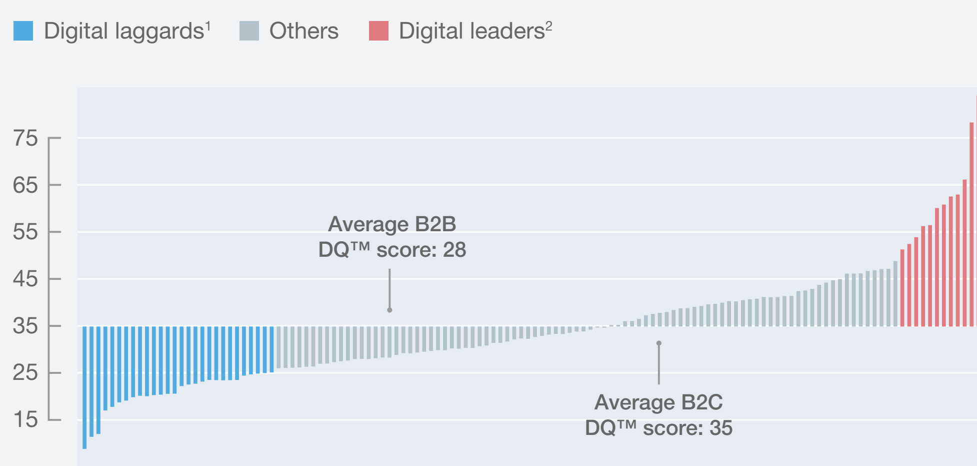
Over the last three years, McKinsey & Company has measured the Digital Quotient® (DQ™) of approximately 200 B2C and B2B companies around the world by evaluating 18 management practices related to digital strategy, capabilities, culture, and organization that correlate most strongly with growth and profitability.

The study shows that B2B companies trail consumer companies in terms of their overall digital maturity: the average DQ score for the 50 B2B companies in our study was 28, compared with 35 for consumer companies (Exhibit 1). While that might not be surprising—B2B

Exhibit 1

B2B companies' overall digital maturity is below B2C.

Distribution of Digital Quotient® (DQ)™ scores,
score out of 100



DQ™ score is calculated on a scale of 0 to 100 as the average score of four equally weighted dimensions: Culture, Strategy, Capabilities, and Organization

[1]Digital laggards are defined as companies with a DQ score below 25.
[2]Digital leaders are defined as companies with a DQ score equal to or above 50.

Source: McKinsey Digital Quotient®

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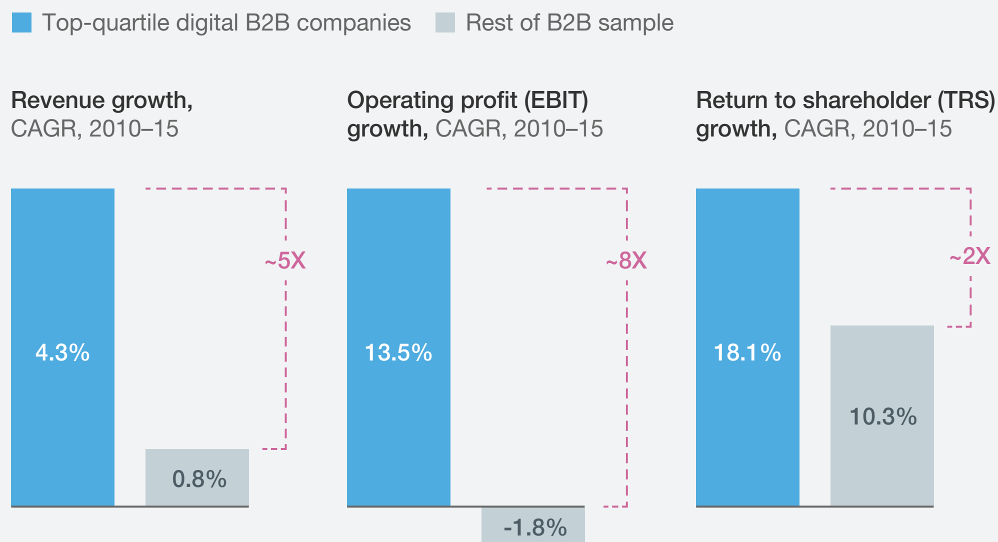
companies, after all, generally contend with a more complex environment, longer deal cycles, lengthy RFP processes, the involvement of many vendors, decision makers, and influencers—comparing the scores of B2B and B2C companies was helpful in order to reveal and better understand those areas where B2B companies could most profitably improve.

Moving up the digital curve matters because B2B digital leaders turn in stronger financial performance. Top-quartile B2B players generate 3.5 percent more revenue and are 15 percent more profitable than the rest of the B2B field (Exhibit 2).

Exhibit 2

B2B companies' overall digital maturity is below B2C.



McKinsey&Company | Source: McKinsey Digital Quotient®, Capital IQ

Our research shows that six digital practices have an outsize impact on performance. These are the areas in which digital leaders excel and where B2B companies can do better.

1. Commitment to digital at a strategic level

Outperforming companies create digital strategies that are designed to make and shape markets, and they back those efforts with the necessary resources. At most B2B companies, however, digital strategy is a sideshow. Initiatives are less likely to be anchored in customer needs and often falter from insufficient investment. Only 10 percent of the B2B companies in our survey, for instance, said that digital was a top investment priority. When held off to the side, digital strategies often splinter into smaller initiatives that are too diffuse to gain momentum and too limited in scope to make a material difference. As a result, top-quartile B2Bs across sectors have an average DQ of 44, compared with 50 for consumer companies.

But some B2B companies are breaking that mold and embracing an "all in" digital strategy. Knowing it needed to make significant changes to compete as a modern digital business, for example, GE made an audacious move, investing more than $1 billion to create a new market around the Industrial Internet. To make its digital strategy the de facto way of operating, GE consolidated each business unit under a chief digital officer. CDOs report to the CEO of the business unit (who in turn reports to the CEO of GE Digital) and have final say on platform investments. GE also went on an ambitious hiring spree, bringing in thousands of new software engineers, user-experience experts, and data scientists to acquire needed skillsets and embed the right innovation mind-set.[1]

Strategic shifts like that are hard. They require gaining management consensus around a shared vision, challenging time-honored institutional truths, and learning new skills and practices on the fly, but it can make a huge difference. GE's ambitious technology platform now generates $5 billion in revenue and the company estimates that business will triple to $15 billion by 2020.[2]

2. Creation of consistent experiences online and off

B2B buyers who interact with multiple channels, such as field sales, online web stores, and so on, spend more than those who only purchase from a single channel. Taking advantage of that fact takes strong cross-channel integration. But even though the average B2B customer now uses six different channels over the course of their decision-making journey, many B2B companies struggle with disjointed selling models that make it hard for customers to move smoothly from face-to-face interactions to the online environment (see "Do you really understand how your business customers buy?" on McKinsey.com). Mobile especially has changed the way B2B decision-makers interact. More than 90 percent of B2B buyers use a mobile device at least once during the decision process,[3] yet fewer than 10 percent of the B2B companies in our survey indicate that they have a compelling mobile strategy—a figure that's three times lower than top-performing consumer organizations.

B2B leaders are doing things differently. At the Netherlands-based bank ING, for instance, corporate clients have a single point of access to real-time account overviews, customized reporting, and the ability to execute payment and hedging transactions

[1] *The Wall Street Journal CIO Journal*, "GE Digital CEO Bill Ruh says corporate structures must evolve with technology," posted by Steve Rosenbush, January 13, 2016, wsj.com.

[2] TechCrunch, "GE predicts Predix platform will generate $6B in revenue this year," posted by Ron Miller, September 29, 2015, techcrunch.com.

[3] Pashmeena Hilal and Kelsey Snyder, "The changing face of B2B marketing," March 2015, thinkwithgoogle.com.

wherever they are in the world.[4] To make that happen, the bank had to overhaul its customer-data processes and make it possible for information to be updated across all channels automatically. Now customer-service personnel, marketers, and account managers can track where a customer is in his or her decision-making journey and respond with tailored offers and advice. In the first year after launching its omnichannel strategy for retail and corporate clients, ING grew profit by 23 percent, increased its share price by 15 percent, and won *EuroMoney*'s "Best Bank" award.[5]

3. Use of data to enable and empower the sales force

Most B2B companies have not yet mastered the digital capabilities needed to operationalize customer-centricity—and that's making them vulnerable. Our benchmark shows that only 15 percent of B2B companies feel they have a complete view of their customers (versus 20 percent of consumer companies), and only 19 percent say they understand the customer journeys that matter most to core segments (versus 31 percent of consumer companies).

By contrast, top-performing B2B companies are using advanced analytics to improve their insights-generation capabilities and deploying tools that help marketing and sales understand what offers, content, and services will hit the right notes with key segments. At an electronics manufacturer, for instance, marketers could tell when a prospect opened an email, but their customer-relationship management systems had no way of tracking how long a customer spent reading that email or what action they took next. To gain more predictive muscle, the company invested in next-product-to-buy (NPTB) analytics that presented a list of recommended actions, scored by relevance. More effective targeting insights helped the company increase sales by 8 percent.

Advanced analytics can also help sales reps navigate a more crowded purchasing environment. After an industrial company lost a major deal, for example, postmortem discussions revealed that the buyer's procurement function wielded far more influence than the company realized. To improve its success rate, the company invested in predictive analytics capable of isolating buying patterns to help sales reps anticipate what deals were likely to trigger procurement's involvement. Those insights were funneled into a specialized iPad app that reps could use in the field. If the app flagged that procurement was likely to be engaged, reps could press a button and generate tailored punch lists and other add-ons designed to meet procurement specifications and simplify the RFP process for internal buyers. In tests, the iPad tool shortened the selling process by about 30 percent and increased conversion by 8 to 10 percent.

Similar data-enabled marketing practices allow B2B companies to create highly targeted campaigns that can break through the noise and forge meaningful relationships—a critical capability in a competitive or fragmented market. Vestas, a wind-turbine manufacturer, knew from customer research that turbines could play a major role in driving down business costs,

[4] ing.world, "ING's multichannel approach: anytime, anywhere," interview with Nick Jue, Quarter 3, 2014, ingworld.ing.com.

[5] ING, "Inside business: The digital future of banking," Steven van Rijswijk, ingwb.com.

but most companies still saw them strictly as an energy-solutions provider, which was narrowing their market. To change perceptions, they used customer analytics to create a campaign focused on gaining the attention of *Fortune* 500 C-level executives—the lead decision makers for their product. Customer-decision-journey analysis revealed that busy CEOs were more likely to engage if presented with targeted data that addressed company-specific issues. So Vestas partnered with *Bloomberg BusinessWeek* to hand deliver a series of custom 16-page inserts filled with company-specific data that spelled out tangible wind-energy benefits. Using internal benchmarks and outside economic research, account executives developed concrete business cases that described the specific returns CEOs could expect from increasing their companies' wind-energy usage, right down to illustrating which geographies and properties offered the optimal locales for turbine placement. That targeted, data-driven campaign helped Vestas achieve a ten-times improvement in conversion rates.

4. End-to-end connection of processes to improve insight and decision making

Effective presales activities—the steps that lead to qualifying, bidding on, winning, and renewing a deal—can help B2B companies achieve consistent win rates of 40 to 50 percent in new business and 80 to 90 percent in renewals.[6] But that level of success requires close coordination from front office to back, and while many B2B companies have done a good job automating the back office, they fall short when it comes to connecting those processes to the front end. That lack of integration can lead to multiple customer handoffs between functions, long turnaround times for quotes, missed delivery dates, and a proliferation of unnecessary technologies, applications, and data.

DQ leaders do it differently. They use automated decision-support processes and other tools to link finance, accounting and ERP systems with customer, sales, and order data to generate a 360-degree view of the customer across the business. That interconnected network lets sales teams access all the client service, support, and financial information they need prior to their customer interactions, and it gives operations teams greater transparency into the sales pipeline to assist with resource and delivery planning.

A building-materials supplier improved its qualification rate, for instance, by using order histories of existing customers and analyses of prospective markets. That data helped the company identify which prospects were most likely to buy its products, which resulted in a 3 to 5 percent improvement in win rates. A global high-tech company used automated territory-management tools to pull in operational data on transportation routes, traffic densities, and other factors to redraw its sales regions. Those steps increased the time sellers were in the field by 25 percent.[7]

[6] Homayoun Hatami, Candace Lun Plotkin, and Saurab Mishra, "To improve sales, pay more attention to presales," *Harvard Business Review*, February 17, 2015, hbr.org.

[7] McKinsey Sales & Channel Management, "How we help clients," McKinsey.com.

5. Creation of a culture anchored on innovation and execution

One-third of B2B companies take more than a year to move a digital initiative from concept to implementation, and fewer than 15 percent use the types of test-and-learn and rapid prototyping processes that have been shown to accelerate innovation and customer satisfaction.

Leading B2B companies, by contrast, are at the forefront when it comes to deploying agile development practices and rapid experimentation. They collaborate actively with external partners and use events like digital hackathons to shorten the learning curve. One Asian insurance company, for example, hosted an intensive jam session over a 48-hour period. It divided 120 participants into ten cross-functional teams and tasked them with redesigning how customers processed their healthcare claims. Staged as a friendly competition, it ended with teams delivering a model that went far beyond the original scope of the hackathon and effectively eliminated the need for processing claims.

Others are using rapid prototype development and minimally viable products (MVPs) to transform speed-to-market. One telecom company, for example, wanted to shave its traditional product-development time—more than six months from start to trial—to include additional weeks of training and internal pilots. Following MVP design principles, a mixed team of product managers, IT developers, and user-experience experts tore apart the company's old onboarding process and laid out a simpler, automated approach that allowed customers of its fiber, mobile, and TV services to access service in three quick steps. They conceived, tested, and built the new model in less than 12 weeks. Such fast-paced test-and-learn development not only helps teach the right innovation behaviors; it can persuade skeptical executives that a company has the ability to deliver on ambitious and high-profile customer initiatives.

6. Willingness to shake up the organizational structure and metrics to support digital aspirations

At the majority of the B2B companies we studied, organizational challenges can blunt the reach and effectiveness of digital initiatives. Inward-facing processes, limited transparency, confusion about roles, and a lack of prioritization from executive leadership are common. Only one in five systematically track digital performance indicators, and only 17 percent of managers in our study believe they can articulate their company's digital metrics. The DQ scores for organizational maturity reflected these challenges. The average organizational maturity for B2B companies averaged just 27, putting them near the "laggard" range. (The average organizational maturity for the consumer sector, by contrast, is 35.)

DQ leaders, on the other hand, strive to create an organizational structure that supports their digital transformation. Some, like Merck, have invested in innovation hubs centered near research and entrepreneurial hotspots to unearth promising research and to forge licensing or partnership arrangements. Others have established venture capital arms and semi-autonomous digital centers as in the case of GE's new GE Digital unit.

Top-performing digital companies are also willing to dust off their metrics and think strategically about what types of measures and incentives will engender the outcomes they want. That doesn't mean creating more complex and numerous performance indicators, but rather revisiting how the company measures progress and carving out a handful of metrics that can really move the needle. When Dan Levin joined Box as COO, for example, he realized that most of the company's customers paid on a month-to-month basis, which was hurting the company's capital efficiency. To fix that, Box needed to get its prepay rate up to around 70 to 80 percent. To force the shift, Levin revamped the sales compensation structure, making bonuses and commissions contingent on hitting certain prepay targets. In the quarter following the change, Box's sales department hit its stretch targets without slowing growth.

How to raise your DQ

Rather than biting off a slew of digital improvements at once, B2B companies often get faster results by starting with small wins to build conviction and momentum—concentrating on areas where they have existing capabilities, clear objectives and strong leadership backing.

The B2B organizations that we work with generally see the swiftest DQ bump by first picking one or two high-value customer segments and mapping their decision journeys in full to understand how these customers buy, what channels they use, what influences their decision making, and what turns them off. Then they employ agile development techniques and digitization to redesign one or two supporting, customer-facing processes from scratch.

This approach breaks the digital-transformation process into bite-size chunks that are easier to isolate. It allows the company to test and learn to find success—in tangible increments that moderate the overall risk. It also forces product development, marketing, sales, and IT to come together and understand how to use leading digital design practices, such as MVP, in a disciplined, customer-focused way. That can ramp up the cultural changes needed and lay the groundwork for broader, deeper improvement.

In parallel, B2B players then need to be thoughtful about identifying and augmenting those capabilities that are critical to achieving scale. Any process change creates a ripple effect across the wider organization, and particularly the commercial organization. Digitizing core elements in the sales function, for example, may free up field reps but place greater demand on inside sales. To support their evolving customer and sales model, B2B companies need to anticipate the reverberations and reconfigure where and how they invest financial and human resources across sales channels and customer journey stages. That involves identifying which skills need to be reallocated, what data and analytics resources are needed, and which customer opportunities require capabilities that need to be built, hired, or acquired.

B2B companies have the ability to take a more structured approach to digitization that can give them more control over their spend and greater assurance that resources and investments are being directed toward the highest-value opportunities. By focusing on the digital practices that our research shows to be most tied to customer and financial success, B2B players will be able to create and sustain significant long-term value. □

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