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Discussions on digital: How strategy is evolving—and staying the same—in the hypergrowth digital age

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Strategy is evolving in unexpected ways, as Silicon Valley thought leaders discuss in McKinsey's latest *Discussions on Digital* podcast.

Is a three-year strategy horizon a relic of a previous era? The short answer is "no." But strategy is evolving quickly in some unexpected ways. Brian Gregg, a partner in McKinsey's San Francisco office who leads our consumer digital-excellence initiative, spoke with Silicon Valley leaders about this topic in McKinsey's latest *Discussions on Digital* podcast. Joining him were Jacques Pommeraud, SVP and general manager of cloud services at Salesforce and a former strategist; Jon Weinberg, head of strategy at Sephora; and Dianne Esber, associate partner and brand leader in McKinsey's Digital Marketing Practice in the San Francisco office. The following is an edited transcript of their conversation.

Brian Gregg, partner in McKinsey's San Francisco office and head of McKinsey's consumer digital-excellence initiative: Jon, is there still a role for a three-year vision? Or are we in a place where things are changing every six months or twelve months?

Jon Weinberg, head of strategy at Sephora: I think there's a role for a three-year vision in any company at any phase, because you still need to have the north star that you're shooting for. But the old system, when strategy was an annual executive get-together, just doesn't work anymore because things are changing so rapidly in the digital space over the course of that cycle. It has to be embedded throughout the year, offsite and otherwise, or through executive-team meetings on a periodic basis. You have to make sure you're bringing strategic dialogue into those interactions on a monthly basis—at a minimum, quarterly—given how rapidly things can change.

Two-speed strategy

Dianne Esber, associate partner and brand leader at Digital McKinsey in San Francisco: Smaller, more agile companies don't always see the need for a three-year vision. But how do we get larger companies to move from annual planning twice a year to moving a little more quickly? Part of the struggle is communicating the vision to the rest of the organization as you get bigger and broader, whether by geographic expansion or store openings. If it's changing too rapidly, it's harder to get everyone aligned with the way the ship's moving, and it becomes harder and harder the larger you get. So can you really have a two-speed strategy when you're a large company?

Jacques Pommeraud, former SVP and general manager of cloud services at Salesforce: My view is that the role of strategist, first and foremost, is the mobilizer. People need to understand where the company is going and take autonomous decisions. The main value of a strategist is to understand the vision for three years and mobilize the organization around the vision and what people have to do to get there. Then management has to empower flexibility and reactivity to adapt to current events, essentially.

Jon Weinberg: If you have a two-speed strategy at the highest vision level and you make it too broad, it's not going to resonate with anyone. I think it has to be crisp enough to resonate with the organization and give guidance while still giving the ability to pivot over the course of time.

Jacques Pommeraud: Yes, but at the same time the way to manage a company has changed a lot in the last couple of decades, from "top down, the leader knows it all, let's execute," to a model that's more like a federation, where you expect empowered teams to make the right choices and follow in the general direction. So it's even more important to have a strategy that allows that federation of little teams to do what they have to do and not refer up the chain every time.

Jon Weinberg: The analogy I would use, coming from retail, is that there are two real philosophies to the customer-service model. One is principles based, the other is rules based. The migration has been from rules based to principles. Once you know the framework, you can make decisions to reprioritize allocations at the lowest level, because you can't have the C-Suite constantly reprioritizing every dollar.

Jacques Pommeraud: At Salesforce what matters first and foremost is what we call "customer trust." Then it's "customer success." Once that's clear, everybody can make the smart choices at their levels without having to go all the way to management. One of the exercises we use—actually a great management tool—is called V2MOM. It's vision, values, methods, and metrics—that summarizes the management method. Twice a year, there's a memo explaining the vision for the company. What are the values that matter, and what are the methods? For example, trust, customer success—how do we measure them? And that cascades all the way to every single employee. It's in the system, so you can measure it in real time.

Managing talent—humans and machines

Brian Gregg: A lot of organizations are planting a flag in Silicon Valley and saying, "I've got to be here in order to attract the right talent, whether it's digital or analytics talent." Should strategy play a role in helping to shape the external value proposition for talent? Or is that still the domain of human resources and recruiting?

Jacques Pommeraud: I think it's the role of the company leadership to shape the culture in a way that attracts talent. You don't have to be a high-tech company to at some point need data scientists. You don't need to be a tech company to need people who understand the impact of VR [virtual reality] or 3-D printing. Even a classic manufacturing company will benefit from that. It's a strategist's role to bring to the attention of management the kinds of talent they'll need in the future.

Recently I was with a really awesome company that is automating the way code is developed. Think about Uber putting together drivers and passengers, and apply it to code. A company needs some app developed, some code. Instead of going to their traditional players, it would figure out which coder is available right now and work with him or her right away.

Dianne Esber: I think machine learning will play a huge role in the future. But there are small human tweaks that make an enormous difference. Google, for example, uses machine learning to figure out which ads to serve at the top. Choosing "explore" or "exploit" will completely change your experience. "Exploit" will show you ads that were served in the past and certainly work. It will get guaranteed results, but you'll never see the next big thing. "Explore" will insert new ads that they've never tested before to see how they work. It will potentially find you the next big thing, or it will fail. How you change those selections and how quickly and aggressively you do it has a huge effect. So the machine itself cannot tell you where to go. It just gives you helpful information along the way.

Is ‘execution’ the new strategy?

Brian Gregg: I was listening to a digital leader at a large healthcare business not too long ago. She said that execution is the new strategy, that long-term strategy has essentially lost its purpose in a world where we need to act now.

Jacques Pommeraud: I think that’s too simple. That’s how you can make mistakes. Every organization nowadays has a propensity to focus on the short term because it feels good, it feels like execution, it feels like getting things done. But you also get overtaken by competitors, you miss disruptions. I like a framework by Jeffrey Moore that we use at Salesforce. It’s a very simple, two-by-two matrix in which you have four zones: the efficiency zone, where you put all your noncore activities that you need to be really efficient; your performance zone, which is your core business—that’s 80 percent of what you do, and it’s all about execution. But you need to never forget the two other quadrants: the innovation zone—that’s your lab. It should never have more than one or two things you want to try. Then you have the transformation zone, where you put one or two things that in two years will become the performance zone. Every company needs to nurture those four quadrants at the same time, not focus on just one.

Leaders in digital growth and innovation strategy

Brian Gregg: Jacques, take us to the world of tech. Who do you look to as a strategist consistently navigating choppy waters?

Jacques Pommeraud: I can give you two examples. The one that’s almost obvious is Amazon. They completely disrupted the retail industry, not only with their vision of the supply chain that led to their massive success, but also with the ability to innovate. That’s the birth of AWS, Amazon Web Services.

The one that may surprise you is the one that surprises me—institutions like Siemens. Siemens is more than a century old. It used to be machines, telephones, and manufacturing. Nowadays, it’s really high-tech medical instruments with big data providing preventive maintenance, with data lakes that analyze real-time data from the wind turbines to provide a flow of information and drastically reduce costs. It’s a business that has evolved as a massive conglomerate through wars and crises, and it’s still standing and strong.

Jon Weinberg: But I think very few pivot enough to actually work their way out of a dying industry into an entirely different category, using a specific capability that they’ve built up. Siemens is a great example of that because it’s a portfolio business. When it’s a single-category company and the category shifts, I think it’s unusual for companies to figure that out. Sometimes, companies just make the right decision at the right time, like Amazon Web Services. Honestly, is your perspective that AWS was a strategic decision by Amazon well before it became Amazon Web Services? Or did it evolve and then someone finally figured out, "You know, this is something we could actually make money on?"

Jacques Pommeraud: I don't work there, so I only have an outside-in perspective. But my understanding is that the strategy is "Let's be superefficient with our use of capital. Let's not have a cap-ex standing there not utilized. So what can we do?" That was the macrostrategy—and then empowerment. So some people said, "Hey, why don't we monetize a data center while we don't need it for the core business?" And that was a strategy. "Let's start a cloud business."

Brian Gregg: I think what Jacques is saying is that as long as you architect the scaffolding that enables those bottom-up things to happen, it's a mobilizer.

The next wave of value creation

Brian Gregg: Dianne, what is the ultimate investment for value creation in the next three years?

Dianne Esber: I think it's finding the balance we were talking about earlier for the human curation of data. Who are the right people with the skills to mine this, given the right tools? Very few companies find that balance. Either they overinvest in tools that don't work with each other or don't give them what they need, or they have an army of people who in ten years' time won't be as valuable. Finding the right balance between those will be pretty important.

Jon Weinberg: I don't think there's anything different between a retailer and a technology company. It's the same thing on data—personalizing your marketing, personalizing your messaging, personalizing the experience consumers have in your stores—but getting closer to that microsegmentation so you can get that value. That's true in B2B, whether you're Salesforce, or whether you're a B2C retailer. Retailing gets harder and harder as digital and dotcom penetrate the market. So customer experience matters a lot more. But that's longer than a three-year timeframe.

Jacques Pommeraud: Data science and understanding your individual customer are in opposition to a sense of privacy and anonymity. Every company has to really manage that balance and not go faster than they should. Just be ready, because mentalities evolve. But right now, if you go too far, you actually can lose.

Jon Weinberg: I call it the thin, creepy line. But that line moves every year. One of the tricks is having the pulse of the client, which is one of the true roles of strategy going forward, not just as technologies evolve, but as client segments evolve. Because the workforce at the senior level is very different from the consumer base in cutting-edge retailers.

Jon Weinberg is the head of strategy at Sephora. **Jacques Pommeraud** is former SVP and GM of Cloud Services at Salesforce. **Dianne Esber** is an associate partner at Digital Mckinsey in San Francisco, where **Brian Gregg** is a partner.