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What it takes to build your Digital Quotient

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When it comes to transitioning to digital, what differentiates success from struggle? In this interview, the leader of McKinsey's Digital Quotient initiative provides some answers.

All companies need an effective digital strategy, yet many struggle with determining the best approach. In this interview, the leader of McKinsey's Digital Quotient initiative, Tanguy Catlin, explains to McKinsey's Barr Seitz the outcomes that drive digital performance, as well as how companies build their digital expertise and implement successful strategies. An edited transcript of each of Catlin's videos follows.

The digital challenge

The first challenge that organizations face when it comes to digital is its pervasive nature. It applies to every single function, whether it's HR, finance, marketing, distribution, product development, or technology. Therefore, defining who drives the digital agenda or how you coordinate it is extremely difficult, because it has such broad implications.

Companies used to think about how to protect their core position, their market share, and their customers, but digital is breaking all these barriers. Another challenge is how they prioritize spending. You need long-term road maps. Most organizations have yearlong budgets, whereas digital investments need longer term. Finally, technology is also a huge issue. How do you move at light speed in an area that changes every day when you are held hostage by technology architectures that were coded years ago?

Building your Digital Quotient

Successful companies typically do three things to build up their DQ [for more, see "Raising your Digital Quotient," on mckinsey.com]. First, they create a role for a chief digital officer or appoint a digital czar whose mandate is running a transformation and who is able to make decisions above and beyond the technology architecture and the traditional processes.

Second, they do a diagnostic to understand the sources of value that can be captured from digital, including ways to lower costs and improve employee and customer engagement. At the same time, they'll look at the threat they face from not making those investments. That picture really helps mobilize the organization and prioritize the focus area. And third, companies typically decide to learn by doing, so while they are redefining the overall structure or governance, they pick one or two processes or one or two consumer journeys and try to see whether they can rapidly make progress by applying new management skills to those issues.

How companies with high Digital Quotients are different

Companies with very high digital quotients have a very bold culture. They are trying to have transformative impact for their customers. They are calculated risk takers but are not afraid of failure. They have a culture where the organization collaborates very effectively together, so they can make progress rapidly.

They also have a huge external orientation. They're not afraid to partner with other organizations to develop a great set of solutions for their customers. They're also not afraid, in the short term, of cannibalizing some of their existing products and services to build better and stronger ones for their customers in the long term.

They understand the consumer journey from the moment the customer thinks about purchasing—through purchase, usage, and repurchase—and how digital can enhance all of those experiences. The leaders really focus their digital strategies on enhancing those critical areas. They test, they learn, they fail often. They succeed early. There is no analysis paralysis. They are fast, they are on the ground, and you have the digital folks and the business people working together and bringing solutions to market extremely rapidly and improving them day to day.

Digital pitfalls

One of the main pitfalls for companies is what I call "outsourcing the problem." Very often, the management team agrees that improvement is needed, and then they appoint one person to change everything. That person typically doesn't have the resources or the support and is therefore not able to drive any form of impact.

There's also what I call the "peanut butter approach," where you look at all the capabilities where you have gaps and you decide to assign a limited number of resources to those. Companies that make the most progress would be able to make big bets: there would be two or three areas that would truly differentiate them in the marketplace, and they put significant resources behind that. Even digital leaders do this. Remember that when Facebook went public, it was a website, and then Zuckerberg decided to rebuild the company to be mobile first. A year later, 40 percent of its revenue was from mobile.

Another pitfall for companies is a failure to recognize the need for a digital strategy and a forward-looking vision for where the company is trying to go. This clarity allows the company to align resources and priorities on a day-to-day basis as it learns, fails, and improves. □

Tanguy Catlin is a principal in McKinsey's Boston office and leader of McKinsey's Digital Quotient initiative. This interview was conducted by McKinsey Digital and Marketing & Sales practices' **Barr Seitz.**