Strategy in the digital age

It’s a wild, winner-takes-all world

We all know the world is moving faster. The survival rate in the S&P 500 has declined from 33 years in 1964 to 24 in 2016—and we think it will be half that in a decade. As upheaval becomes the norm, vast opportunities will be within the grasp of the extraordinary few. But for many, the punishment for strategic mistakes will be swift and harsh.

“We arm our clients to move faster than the world that surrounds them.”

Obi Ezekoye
Partner, Minneapolis

The McKinsey Difference
You’ve got to move

Strategy is a probability game. And we know the odds.
The Power Curve plots the economic profit earned by thousands of the world’s largest companies. Those in the three middle quintiles eke out barely $50 million a year while companies in the top 20 percent earn 30 times the economic profit of the average firm.

The goal is clear: break through into the top quintile.
It’s not easy to do, but the world is more dynamic than you think. Over a decade, one in 12 companies manages to leap from the middle of the pack to the top ranks of performance, while only about half of those in the top quintile manage to stay there. If you want to scale the Power Curve get on the right side of the trends, and make big moves.

The Power Curve of economic profit
Average annual economic profit generated per firm, 2010–14
$ Millions, N=2,393¹

Firms with EP above $10b and below -$10b (7 firms) not shown for scaling purposes
Source: McKinsey Corporate Performance Analytics™

¹ The McKinsey Difference
The five moves that make the difference

CEOs tend to think that incremental moves are safer than big bets. Not so: research proves that incrementalism raises the risk of decline. To make a major leap in performance, you need to act decisively. A multi-year research effort covering thousands of companies shows that five moves deliver the biggest impact—provided you make them with sufficient boldness. And the more moves you make, the more you raise your chances of joining those who break out of the pack. Making two moves doubles your odds; making three increases your odds six-fold.

1. **Programmatic M&A**
   
   Make a steady stream of deals every year, each no more than 30 percent of your market cap but together adding up to at least 30 percent of your market cap over a decade.

2. **Dynamic resources**

   Reallocate at least 60 percent of your capital expenditure among business units over a decade.

3. **Big investment**

   Be one of the top 20 percent in your industry on capital spending to sales, which means spending 1.7 times the industry median.

4. **Productivity**

   Improve productivity relative to your industry at a rate fast enough to put you in the top 30 percent of firms.

5. **Differentiation**

   Improve your gross margin faster than 70 percent of your industry through your business model, segmentation and value proposition.
“We begin with the end in mind, by sowing the seeds of great execution.”

Michael Birshan
Senior Partner, London

Be bold! CEOs who made four or more strategic moves during their first two years achieved nine times the performance boost of their more timid counterparts

16% more shareholder value produced over 10 years by pursuing a programmatic approach to M&A, versus pure organic approaches…and with less risk too
Like any good story, strategy has a villain that must be vanquished. That villain is the social side of strategy—the human biases and interpersonal dynamics that hold sway in the strategy room. The imperative to build for the rapidly evolving future gets overshadowed by the urgency of delivering for today. Big aspirations are not backed by big moves. This results in the ugliest chart in strategy: the “hairy back,” where high hopes and “hockey stick” plans deliver disappointing flatline results.

A real experience
A real company’s strategy record: ambitious aspirations, mediocre results

Hockey stick dreams, hairy back results
EBITDA, $Billions
“It’s ultimately about leadership. Behind every big move is a leader who put themselves on the line to make it happen.”

Carolyn Dewar
Senior Partner, San Francisco

31% of our clients’ current revenues are at risk over the next 3 years from digital disruption. Read more

52% of a decision’s outcome is determined by the quality of the process versus 8% by the quantity of analysis

Look outside. 30% of company profits depend on regulatory and social factors
Get the McKinsey difference

Courageous approaches to help you unlock big moves

It takes bold people to make big moves
These are the foundations of bold moves.
But where do they come from?

64%
Be dynamic. Dynamic resource reallocators outperform sluggish peers by 64%
**Bring in the outside view**

Our unique data assets, based on the performance and experiences of thousands of companies, help you understand your competitive position, calibrate your aspirations, and give you the courage of your convictions. They also can help you identify granular opportunities for where to compete. Moreover, the depth and breadth of McKinsey’s sector knowledge allows this insight to be applied in your situation.

**Get the human side right**

We put people at the center of our process, helping to inoculate your strategy against biases and social dynamics that lead to flawed decisions. Through tested interventions, we enable you to debate real alternatives, reallocate resources, holistically measure performance, and follow through on the strategy.

**Apply proven approaches**

Our goal is to unite your team around a shared commitment to a plan and build the will and skill to make the necessary big moves. Our methods rely on extensive client experience built on more than 2,000 strategy engagements conducted worldwide each year. We have more than 8,000 consultants working on strategy across 20 sectors, allowing deep customization in different industry contexts.
Deep capabilities

- **Enterprise strategy:** formulate an overall vision and roadmap to maximize the value of your enterprise
- **Strategic planning:** make faster and better ongoing strategic decisions and close the loop to execution
- **Activist response:** react optimally, or even proactively prepare to respond, to an activist shareholder campaign

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- **Strategy design:** develop the best plan for where, when and how to compete and win in a chosen market
- **Digital strategy:** understand the impact of digitization on the company and industry and prepare an aggressive response
- **Strategic transformation:** mount a decisive campaign to fundamentally pivot a business

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Maximize the value of the enterprise

- **Adapt the core**
- **Curate the portfolio**
- **Build new businesses**

Build supporting capabilities

- **CXO excellence:** help CEOs, CFOs and CSOs prepare for and succeed in the role
- **Board services:** help boards maximize their effectiveness
- **Regulatory support:** shape and connect with the external stakeholder environment
- **Finance functions:** build excellence in financial management

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- **Innovation:** unlock new growth from a purposeful innovation strategy and approach
- **New growth:** identify and capture the best “horizon 2 and 3” growth opportunities
- **Growth enablement:** build a growth-enabling culture and operating model

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- **Portfolio strategy:** determine the optimal size and shape of the business portfolio, and the moves to get there
- **Transactions strategy:** develop M&A strategies and build capabilities to sustain programmatic deal volume
- **M&A support:** get independent expertise to support deals before, during and after execution
- **Divestitures:** effectively execute business separations, spin-offs and disposals
- **JVs/Alliances:** form partnerships that work
53%
We supported 53% of the top deals worldwide in the past 12 months

“We now have empirical evidence on what it takes to craft a winning strategy. So we can get bigger, bolder, and more purposeful in our thinking.”

Ishaan Seth
Senior Partner, New York
A wide range of digital platforms and analytical assets

**Large scale databases**
- **Corporate Performance Analytics**
  Provides financial data and value creation insights on more than 1 million companies
- **Cityscope database**
  Compiles economic and demographic data and projections on 3,000+ cities worldwide
- **Global growth model**
  Compiles 100 economic indicators from 100 countries
- **Global trade database**
  Brings together trade data and analyses on dozens of countries, regions, and commodities
- **Transaction multiples**
  Offers valuations of past deals in 17 industries around the globe
- **Joint ventures**
  Covers data on more than 145,000 joint ventures and alliances
- **Insights China**
  Provides economic measures and survey data for predicting growth
- **Global impact model**
  Provides data for quantifying the impact of economic shocks.

**Digital applications**
- **Koru**
  Accelerates and helps remove risk form business building
- **StrategyX**
  An integrated strategic planning tool

**Analytical services**
- **Recursive Growth**
  Identifies growth opportunities using advanced analytics
- **Synergy Lab**
  Estimates synergies at any stage in a transaction
- **Scenario planning**
  Systematically explores future business environments
- **Corporate performance diagnostic**
  Connects a company’s capital market performance to operational performance
- **Growth MRI**
  Analyzes revenue growth across three different levers, by business unit and geography
- **Beating the Odds**
  Maps a company’s position on the Power Curve of economic profit and likelihood of mobility
- **Economic Growth Analytics**
  Generates “where to grow” ideas in a systematic way at the country and city level
- **Global Flows Analytics**
  Quantifies and predicts the flows of goods, services, capital, people and data between regions
- **Economic Impact Analytics**
  Measures the impact of investments, policies, or technology on the local economy
- **Labor & Automation Analytics**
  Supports the analysis of issues related to labor and talent markets

**Diagnostic tools**
- **Innovation quotient**
  Survey ways to improve innovation performance
- **Resource reallocation**
  Tracks movement of resources across the company
- **Ten tests survey**
  Stress-tests your strategy
- **Board effectiveness**
  Surveys directors to improve board setup, composition, and activities
- **Finance 360**
  Benchmarks the efficiency and effectiveness of the finance function
- **REAC**
  Assesses regulatory issues and eternal-affairs capabilities
- **Digital quotient**
  Assesses a company’s digital maturity
- **Excellence in M&A**
  Analyzes M&A readiness from strategy to integration

**Executive experiences**
- **Collision workshops**
  Helps executives generate new business ideas that address anticipated market disruptions
- **Activist teardowns**
  Provides the outside-in view of a company through an activist investor’s eyes
- **Strategy walkthroughs**
  Previews the end-to-end strategy process in a workshop setting
- **Wargaming**
  Stress tests strategies under different scenarios
- **Global trends workshops**
  Builds consensus on forces likely to create opportunities

**Capability building modules**
- **McKinsey Academy**
  Combines digital interactions with applied learning in an eight-week immersive course on business strategy
- **Webcasts**
  Presents the latest insights from our experts in an interactive format

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The McKinsey Difference
StrategyX—our integrated strategic planning tool
Join the 5 million+ people who have read our blockbuster articles

1. Why digital strategies fail
Most digital strategies don’t reflect how digital is changing economic fundamentals, industry dynamics, or what it means to compete. Companies should watch out for five pitfalls.

2. The eight essentials of innovation
Strategic and organizational factors that separate successful big-company innovators from the rest of the field.

3. The economic essentials of digital strategy
A supply-and-demand guide to digital disruption.

4. What makes a CEO exceptional
We assessed the early moves of CEOs with outstanding track records; some valuable lessons for leadership transitions emerged.

5. The six types of successful acquisitions
Companies advance myriad strategies for creating value with acquisitions—but only a handful are likely to do so.

6. Strategy to beat the odds
If you internalize the real odds of strategy, you can tame its social side and make big moves.

7. The global forces inspiring a new narrative of progress
Growth is shifting, disruption is accelerating, and societal tensions are rising. Confronting these dynamics will help you craft a better strategy.

8. Have you tested your strategy lately?
Ten timeless tests that can help you kick the tires on your strategy, and kick up the level of strategic dialogue throughout your company.

9. Eight shifts that will take your strategy into high gear
Developing a great strategy starts with changing the dynamics in your strategy room. Here’s how.

10. The case for behavioral strategy
Left unchecked, subconscious biases will undermine strategic decisions. Here’s how to counter them and improve corporate performance.
Cutting edge knowledge

Strategy beyond the hockey stick
An irreverent, fact-driven, and humorous take on the real world of strategic decision making. It’s about unlocking big moves—because that is what it takes to beat the odds in business.

Valuation
Provides up-to-date insights and practical advice on how to create, manage, and measure the value of an organization. It has sold more than 700,000 copies since it was first published in 1990.

Connect
Why being radically connected with society is not just the right thing to do, it is an imperative for a company’s bottom line.

Engage with us
If you’d like to get in touch with us, please email hello_SCF@mckinsey.com
We’re online at mckinsey.com/scf and on LinkedIn, and you can listen to our Inside the Strategy Room podcast.
Download our CEO app or CFO app to benchmark your company’s performance, monitor market conditions, and access the McKinsey ecosystem.

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