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Closing France's €100 billion digital gap

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Accelerating the country's rate of digital adoption could unlock billions of euros in economic value. The key is in executing a comprehensive digital transformation.

French businesses have an opportunity to capture billions of euros in additional revenue by expanding the country's digital economy to its full potential. A recent McKinsey study, *Accelerating the digital transformation of French businesses: A source of growth and competitiveness for France*, finds French companies that have undergone thorough digital transformations may unlock revenue gains of up to 40 percent, while companies that do not quickly become digitally integrated could lose up to 20 percent of revenue to competitors.

The report finds that consumer demand is driving the digital opportunity in France, and companies need to catch up. Some 80 percent of the French population is online and have made France one of Europe's online sales leaders. The country scores high in smartphone and tablet sales, and its "digital GDP"—the sum of digitally driven economic activity—has grown in the past three years from 3.2 percent to 5.5 percent of total GDP, or by more than €110 billion.

Yet among digital peer countries reviewed in the study, France ranks only in the middle of the pack in its digital evolution. While France shows advantages in some areas, such as fixed broadband penetration, it underperforms in others, including Internet speed.[1] Of greater concern is that a significant gap exists in business usage. Only 14 percent of French companies took online orders in 2013, compared with 26 percent of German companies, while only 65 percent of French companies have a website, compared with 89 percent in Sweden. Digital progress in France is essentially in a middle gear, with digital GDP likely to grow steadily to 6 percent of overall GDP in 2016 (worth €135 billion) and 7 percent by 2020 (€180 billion) unless changes are made.

Accelerating the digital shift

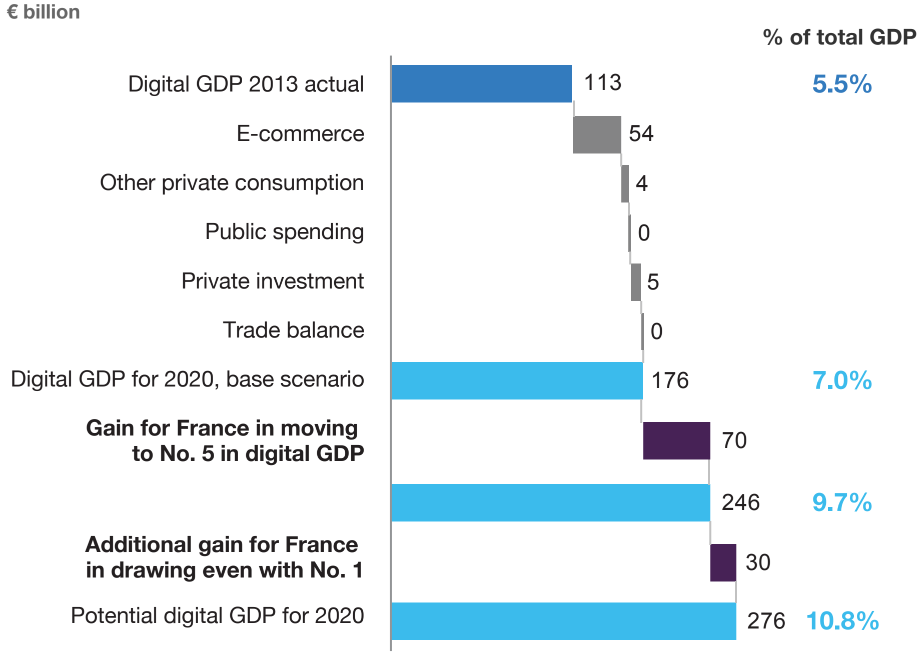
While digital transformations require businesses to commit intellectual and material resources, the bottom line is that growth opportunities will move on unless French companies are prepared

[1] The countries reviewed, with digital GDP as a percentage of total GDP in parentheses, were South Korea (10.1), United Kingdom (10.0), China (9.2), United States (8.0), Japan (7.6), India (7.1), Sweden (7.0), France (5.5), Germany (5.3), Canada (5.0), Brazil (4.3), Italy (4.0), and Russia (3.4).

to meet the digital demands of consumers and business partners. Our survey of 500 French firms highlighted four main reasons for this relatively slow pace of digital adoption: organizational inflexibility, a lack of digital talent, tight margins that hamper investments, and the absence of top-management leadership. Addressing these could enable a speedier digital transformation that would unlock billions of euros. If France shifts into a higher gear equal to the rate of the top five in its peer group, the country could reap an additional €70 billion by 2020 (exhibit). If it equaled the United Kingdom, Europe's digital leader, the total digital gain could be €100 billion.

Exhibit By matching levels attained by Japan (No. 5) or South Korea (No.1), France (No. 8) could gain €70 billion or €100 billion in digital GDP.

Digital GDP in France 2013 vs. 2020 potential,
€ billion



Note: scope is the GB countries + Brazil, China, South Korea, India, and Sweden.
Source: McKinsey analysis

What would be needed to accomplish such a shift? The main ingredient is closer collaboration between stakeholders—the government, institutions of higher learning, private companies, and civil society:

- The French state can help raise the level of ambition among French businesses for a digital transformation through measures such as reducing the tax burden for digital investment, offering public contracts to stimulate digital innovation, securing development for very-high-speed fixed and mobile broadband, and introducing creative digital curricula in middle and high schools.

- The *grandes écoles* and universities can deepen their investment in tomorrow's digital talent by furthering research in the cognitive sciences and semantics for data mining, as well as in artificial intelligence, robotics, and ergonomics, while discussing with private companies how best to anticipate future job needs.

- Large corporations can set an example with their own digital transformations and by investing in digital partnerships with small- to medium-sized enterprises; their financial know-how could allow them to act as venture capitalists, backing the start-up-driven digital ecosystem.

- Civil society, including employer and employee organizations, have dense, well-structured networks, which could be very effective in spreading digital knowledge, deploying digital coaches and mentors to companies throughout the country, and organizing conferences to raise awareness about the possibilities opened up by digital transformations.

These efforts could be usefully supported at the European level, within the framework of the European Union's growth policies. Investments made by EU member states in digital infrastructure and technology, for example, could be excluded from the public-spending calculation used in the Growth and Stability Pact. Ultimately, the risks generated by digitization (such as personal-data protection issues or loss of data sovereignty) must be addressed to avoid jeopardizing the potential gains.

Consumers are increasingly expecting a rich customer experience. At the same time, digitization is boosting consumer purchasing power with new free services while greatly improving the availability of quality products and services. Stakes are high. The disruption caused by digitization can create or destroy significant value for companies, depending on their starting positions and how well they respond to shifting consumer behavior and other trends. Observed bottom-line impact has ranged between 20 percent revenue loss and 40 percent gain. Business experience across diverse industries demonstrates, however, that the opportunities outweigh the risks. French companies that deliberately and effectively implement comprehensive digital transformations will be able to capture most of the benefits linked to this historic economic pivot while avoiding the pitfalls.

For more information about *Accelerating the digital shift in business: A source of growth and competitiveness for France*, from which this article is excerpted, or to download the full French-language report, visit the McKinsey France website at mckinsey.com/global_locations/europe_and_middleeast/france/en.

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