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The digital enterprise

The evolution of digital technology presents opportunities and threats for all businesses. In this video, McKinsey director Paul Willmott explains how companies can successfully transition to becoming digital enterprises.

It's safe to assume virtually all companies use digital technology in some form or another. Yet getting beyond obvious and small applications of technology to drive the creation of truly “digital enterprises” is vital—and presents a challenge for executives. In this video interview, McKinsey director Paul Willmott explains the opportunities and threats posed by the evolution of digital technology, why becoming a digital enterprise is critical, and what leaders should do. What follows is an edited transcript of his remarks.

A technology explosion

Companies have always relied on technology to innovate and improve productivity and so on. But over the last few years, we've seen an explosion of technologies such as mobile and social media and big data. And in turn, that's creating huge new opportunities—and threats—for most enterprises. Consumers are increasingly willing to buy goods and services through digital channels. Over 50 percent of air travel is now purchased online, for example.

But in addition to that, we're seeing digital used to automate previously manually intensive activities. Perhaps more fundamentally, new attackers are emerging that are offering very differentiated value propositions for customers, or perhaps a radically lower cost structure. So when you put these different trends together, you can see that digital becomes a top agenda item for most executives.

The digital challenge

I've had the opportunity to talk to many executives across sectors and geographies about digital over the last few years. And I would say some of the concerns are very specific to the sector or geography. However, there are a few common themes which emerge. First of all, who's accountable for digital? Some firms have created a chief digital officer role. Others are driving

the digital agenda from the IT function. But increasingly, we're seeing that the firms that are really making a difference are doing so because the chief executive is getting personally involved.

A second topic that comes up frequently is how to match the speed and agility of organizations that are born digital. Start-ups tend to move at a very different rate and are able to innovate the customer proposition very quickly. And large, incumbent businesses with legacy systems tend to have a problem moving at that rate.

I think the last thing is how to build digital skills across the enterprise. We're seeing that in order to compete effectively, businesses need digital skills not just in marketing and in sales but, increasingly, in operations and across the whole value chain. Finding and attracting those talents can be difficult.

The value of digital


We noticed that many organizations were focusing their digital investments on sales and marketing, reacting to customer preferences, which are shifting toward digital channels. But in our research, we wanted to understand the full value of digital to the enterprise. Digital reduced costs by replacing labor-intensive activity with software-supported activity either through full automation or through improving the productivity of individual workers in their jobs.

One example would be customer service. Historically, if you wanted to change the details on your account or change your address, you would have to ring up and talk to someone or go into a store. Whereas now you can access that function online or through your mobile phone, hence the costs are reduced. If you apply that automation potential throughout the value chain—and this would include functions like HR and finance and operations—you see there are sizable opportunities to reduce costs. In fact, we found on average across ten sectors that companies could cut costs by around 9 percent.

Becoming a digital enterprise

Companies that want to hit their digital sweet spot need to do four things. Firstly, they need to understand, really, where is the value of digital? Is it in marketing? Is it in sales? Is it in automating operations or a combination of all of those? Secondly, they need to prioritize. There are always too many things to do in the digital portfolio, and focusing on the ones that count is important.

Thirdly, they need to take an end-to-end view, ensuring that customers receive a joined-up experience from end to end and that all functions are working together. And then, finally, they need to look at their portfolio of businesses and understand what impact digital may have on valuations, and they should focus on what the needed or required capabilities are going forward and perhaps rebalance the portfolio accordingly.

Perhaps what is most challenging for organizations is to operate in a joined-up, end-to-end way. Many organizations are siloed around different functions or geographies. But digital customers expect a fully consistent and joined-up experience. And that requires companies to think quite differently about the way they organize, their governance structures, and their standards for data and systems. 

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