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How Australian companies can reinvent themselves in 2021

To prosper in this new era of opportunity, Australian companies need to reinvent themselves. This article lays out a detailed path forward.

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Executives could be forgiven for just wanting to get back to business as usual after one of the most disruptive, unpredictable years on record. The Australian economy has begun to bounce back, and all signs point to a return to the steady growth that was a hallmark of the 2010s. Tempting as it may be, now is not the time ease off the gas.

In our previous article, we discussed why 2021 is a pivotal year for Australian companies.[1] Good long-term performance is far from guaranteed; rather, companies will need to make bold moves to jump-start growth. In particular, they will need to reverse trends of relatively low investment and a slower pace of change. A focus on strategy, digital and analytics, and a more nimble operating model can give organisations the capabilities to excel in the coming decade. We also discussed how to run a multifaceted transformation effort and the leadership qualities required to do so.

Disruption: Going all in

Last year demonstrated that the most successful companies not only catch the early warning signs of disruption but also respond from a mindset of reinvention and bold risk-taking. They are prepared to fundamentally challenge what is possible within their business, market, and industry—and question central assumptions about their current operating model and value proposition.

Many companies talk about transformation, but not all are fully embracing it. We analysed the most recent annual reports of ASX 100 companies and found that while about 80 percent of them mention transformation in their reports, in the past five years only about 50 percent have undertaken a major programme with transformative outcomes.[2] Overall, just 25 percent executed multilever transformations.

> **"COVID-19 has created a unique window to change our trajectory...If we are bold now, we will not only bounce back, but we will move forward and build a kinder, more empathetic, more innovative, more inclusive, and more prosperous world."**
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> —Andrew Penn, Telstra CEO

[1] Jason Inacio, Gareth Jones, Pierre Pont, and Wesley Walden, "Why 2021 will define the next decade for Australian companies," March 18, 2021, McKinsey.com.
[2] We defined a major programme as having clear transformative goals that achieved a fundamental shift in performance in productivity, operating model, digital, strategy, or a combination of these elements. Analysis of annual reports, media releases and investor presentations of ASX 100 listed companies.

When we say multilever transformation, we mean going "all in" with multiple big moves, consisting of a mix of performance and portfolio moves over a ten-year period (Exhibit 1). Companies that undertake both categories of moves are three times more likely to move up the power curve.

If few companies have genuinely undertaken transformations, even fewer have all the ingredients for success in place. For example, only 25 percent of ASX 100 companies have an executive whose role involves a transformation portfolio. This senior-level engagement is critical; a transformation needs visible buy-in from an executive committee, including regular top-level decision making and the ability to remove roadblocks and allocate resources. Ultimately, companies that genuinely transform are more likely to win, but too few Australian companies have undergone this journey.

Over the past decade, many Australian companies have undertaken productivity transformations. The events of 2020 saw many organisations move rapidly to reduce their costs in order to improve their resilience. However, this trend means that a lean cost base is now merely table stakes for survival. Bolder moves will be required to separate successful players from the pack.

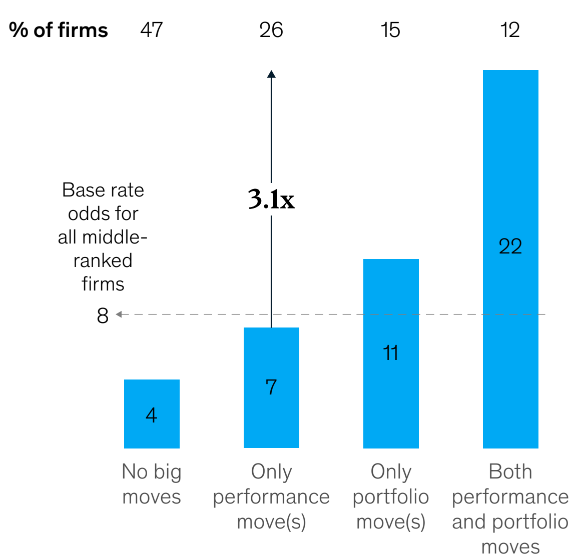
Three dimensions of a successful transformation

We know companies willing to make multiple big moves will have an outsize chance of moving up the power curve.[3] Specifically, companies will need to reimagine their core businesses and define a bold, strategic end state. They would then work "future–back" across three dimensions: strategy, digital

Exhibit 1

Companies need to go all in with multiple big moves to have an outsize chance of doing well.

Probability of moving up from the middle-three quintiles of the power curve to the top over a decade
(n = 1,435), %



What a 'big move' means over 10 years:

Performance moves

Productivity improvement: Relative productivity improvement in the top 30% of your industry

Differentiation improvement: Gross margin improvement in the top 30% of your industry

Portfolio moves

Resource reallocation: More than 60% of annual capital expenditure shifted to different business units

Mergers, acquisitions, divestments: At least one deal per year, with no deal greater than 30% of market capitalisation

Capital expenditure: Annual ratio of capital expenditure to revenue greater than 1.7× the industry median

Source: McKinsey analysis

[3] Chris Bradley, Marc de Jong, and Wesley Walden, "Why your next transformation should be 'all in,'" *McKinsey Quarterly*, October 10, 2019, McKinsey.com.

and analytics, and operating model. Let's take an in-depth look at these three dimensions.

Strategy: Reimagine your core business

Businesses need to take a fresh look at their strategy to understand their underlying sources of value creation and, where necessary, reposition themselves across two axes: their economic model (how they make money) and their asset base (what it costs them to make money).

While it is tempting to double down on historical revenue drivers, companies that are willing to disrupt themselves before they are disrupted can boldly reshape their offerings. Australian pay-TV company Foxtel, for example, recognised that its essential value proposition is unparalleled access to sports programming, but the optimal way to deliver this has shifted from traditional pay-TV to OTT streaming.[4] Rather than simply hold the line, Foxtel introduced two OTT subscription services: as of December 31, 2020, Kayo (for sports) had 624,000 paying subscribers, a significant improvement over its numbers the previous year; and Binge (for entertainment) had 431,000 paying subscribers, despite having launched in May.[5] Successful companies take the time to define a future–back aspiration that is anchored on their capabilities, includes faster-growing value pools, and reflects clearly calibrated financial aspirations.

Once companies understand their competitive differentiators, they may need to look beyond both short-term financial metrics and geographic boundaries to achieve long-term growth. For example, the specialty biotechnology company CSL quickly realised Australia's small population would never enable it to become a world leader in plasma products and influenza vaccines. Its leaders recognised that establishing a global presence was necessary to access broader markets. It supported this aspiration through a programme of acquisitions as well as the divestiture of noncore parts of the business. These bold moves positioned CSL as Australia's fourth-largest company by market cap prior to 2020.[6]

Digital and analytics: Shed the tech debt and enable innovation

The creation, use, and monetisation of data have become critical sources of differentiation as technology enables businesses to compete by unlocking new sources of demand and changing the supply economics.

As 2020 demonstrated, modernising technology in your business goes far beyond the occasionally investing in IT for digital experiments or adding a few data scientists to teams. Leading companies define clear strategies to harness data (from internal and external sources) and tech-enable their business.[7]

[4] OTT, or over-the-top, streaming refers to services that bypass existing broadcast or cable networks to provide content directly to individual subscribers.
[5] Mariam Cheik-Hussein, "Kayo, Binge bring in subscribers for Foxtel," *AdNews*, February 5, 2021, adnews.com.
[6] Capital IQ.
[7] Jacques Bughin, Jonathan Deakin, and Barbara O'Beirne, "Digital transformation: Improving the odds of success," *McKinsey Quarterly*, October 22, 2019, McKinsey.com.

Before reimagining digital experiences and creating advanced-analytics capabilities, many Australian companies can do something far simpler: move away from old and outdated systems by paying down their tech debt, or accumulating all future technology needs off the balance sheet. In a recent McKinsey survey,[8] CIOs reported that 10 to 20 percent of the technology budget dedicated to new products is diverted to resolving issues related to tech debt. More troubling still, two-thirds of companies are seeing their tech debt rise despite efforts to curb it. A number of factors are exacerbating this pattern in Australia: a benign price environment has muted any burning platform for transformation; IT is aging, since many Australian companies built their IT systems before companies in other countries did; and high levels of customisation mean many applications are saddled with high costs.An ambitious technology transformation simply isn't possible under high levels of tech debt, so organisations that address it first are better off. In 2020, for example, Commonwealth Bank of Australia embarked on an effort to move its public cloud base from 25 percent to 95 percent and radically reduce its operating costs in the process. It will also rationalise its portfolio of applications by about 25 percent.[9] These actions follow a ten-year effort to build a new real-time technology stack. CEO Matt Comyn was clear that the top priority for the CBA stack is "continuing the modernisation,"[10] which will lower costs and improve resilience. Such efforts can then form the foundation of more ambitious technology and data transformations.

For companies with low levels of technology debt, a more ambitious transformation will allow them to better harness the power of their systems and data. The Australian retail giant Wesfarmers has invested heavily in establishing an advanced-analytics centre that serves its retail and industrials portfolio as well as in building the analytics and data capabilities within each of its divisions. With the support of the centre, divisions are using customer insights to improve the personalisation and experience across the various digital touch points and support decisions by marketing, merchandising, and store network planning. Wesfarmers General Manager of Advanced Analytics Alan Lowthorpe has said that while data and analytics have historically served to complement an organisation's business strategy, a shift has occurred wherein it has become the business strategy itself.[11]

"Digital is an incredibly important part of technology-driven business focus; but actually, our ambitions are really making sure that we have a modernised, real-time, and very resilient top-to-bottom technology stack."

—Matt Comyn, Commonweath Bank CEO

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[8] Vishal Dalal, Krish Krishnakanthan, Björn Münstermann, and Rob Patenge, "Tech debt: Reclaiming tech equity," October 6, 2020, McKinsey.com.
[9] "Digital transformation key part of CBA strategy," *ITVibes*, February 12, 2020, itvibes.com.
[10] Julian Bajkowski, "CBA vows 95 percent public cloud as it culls 25 percent of apps," *IT News*, February 12, 2020, itnews.com.
[11] Campbell Kwan, "Wesfarmers treating data and analytics as a new business strategy," SDNet, February 19, 2019, zdnet.com.

Modern operating model: Harness the need for speed and customer centricity

The events of 2020 forced many companies to rapidly modernise their operating models—for example, supermarkets scrambled to maintain supply chains, telecommunications providers repurposed retail employees, and banks worked with thousands of personal-finance and business customers to chart a course through hardship. These companies adapted rapidly by using many of the elements we see as accelerators: small, empowered teams that remove organisational layers to make quick decisions. The challenge for 2021 is to lock in the benefits of these new ways of working, scale them across the organisation, and forge a fit-for-purpose organisation.

Success will require a number of ingredients. An emphasis on customers and their needs will allow organisations to identify sources of value creation. The ability for teams with the right skills to work across traditional silos will be crucial given the extent to which all parts of the business will need to collaborate more closely with technology teams. Making and executing decisions quickly, sometimes with limited information, and embracing a learning mindset will allow companies to respond to changes around them. And increased accountability throughout the organisation will allow senior leadership to set a direction and have confidence that the workforce can deliver.

This approach will be different for each company. Some may choose to undertake a small number of targeted interventions to improve ways of working. Others may reduce spans and layers, develop the needed skills, and embed new mindsets. Still others may undertake a full-scale organisational operating model, pivoting from a hierarchical structure to a new model built around empowered teams focused on value pools. Spark, a New Zealand telecommunications provider, is an example of how powerful such a shift can be. In 2018, Spark left behind divisional and functional structures, flattening its hierarchy to just three levels to accelerate internal change and respond to market change rapidly. Spark has since experienced increased customer and employee satisfaction in key areas, ten-times-faster speed to market through a rapid product-development cycle, and increased productivity.[12]

[12]See "All in: From recovery to agility at Spark New Zealand," *McKinsey Quarterly*, June 11, 2019, McKinsey.com.

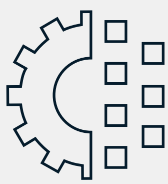
Juggling chainsaws: Leading a multifaceted transformation

Transforming one aspect of a business is difficult enough, but transforming many within a short time frame can seem like an overwhelming task. We have written extensively about the ingredients of a successful transformation generally,[13] so we will focus this discussion on what it takes to pull multiple levers in parallel. In our experience, successful transformations follow five imperatives (Exhibit 2).

A leading Asia-Pacific (APAC) company forecasted that more than one-third of its EBITDA would disappear over the upcoming three years due to increased competition and changing customer behaviour, among other drivers. Its leadership team embarked on a transformation that drew on these five imperatives to rise to the challenge.

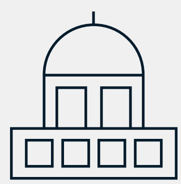
Exhibit 2

There are five imperatives for continuous transformation in a new era.



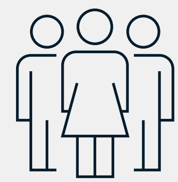
Transformation

Deliver continuous waves of transformation, in parallel, working back from end-state vision



Governance

Blueprint to manage interdependencies and sequencing, then manage to reallocate resources regularly



Talent

Attract and develop new talent to the organization and redefine expectations about "transformation roles"

Culture

Empower employees to collaborate seamlessly across the company

Sustainability

Bake in sustainability throughout, use the opportunity to renew the social license to operate

[13] Kevin Laczkowski, Tao Tan, and Matthias Winter, "The numbers behind successful transformations," *McKinsey Quarterly*, October 17, 2019, McKinsey.com.

1 Strategy–back transformation model

Companies can benefit most by taking a future–back view of strategy, using the desired end state to set the transformation's direction and aspiration. As we discussed earlier, this exercise can mean a fundamental rethinking of how the business serves its customers. It also means pulling levers in parallel, rather than sequentially, an approach that can significantly improve the odds of success. Executives will have to embrace the notion that the business will need to continually transform across multiple waves, which will constantly challenge the future state.

Example

The APAC company was no stranger to change; it had previously led an ambitious four-year digital transformation while reducing operating expenses by more than 20 percent. However, the competitive landscape had shifted, with most opportunities requiring a full reset of the business and its underlying economic model as well as speedier innovation.

The leadership team seized on the opportunity for reinvention. Over two months, a small group defined the future state and then worked backward to sketch out a vision. They faced difficult truths head-on, questioning long-held beliefs about differentiation, customer loyalty, and brand.

2 Strong transformation governance

Achieving change at scale across multiple levers requires a company to effectively manage not just their interdependencies but also multiple programmes. Some will be cross-functional in nature, requiring strong sequencing management and executive-level trade-offs; others will occur primarily within a given function; and still others will be dependent on outside stakeholders, such as M&A. As a result, companies will need to develop a clear blueprint at the outset to coordinate multiple streams and levers in parallel. For example, what are the interdependencies between streams? How should they be balanced to operate within the bounds of finite resources? What is the required sequencing to accelerate business impact?

As the transformation matures, this blueprint must be continually refreshed, with resources actively reallocated between streams. And governance is to be supported by a robust transformation office that has the ability to resolve issues as they arise and an executive with a transformation mandate. Ultimately, the line business needs to own and deliver the change, but the transformation office can ensure pace and orchestration and remove bottlenecks for critical issues. This team needs to have the execution muscle and agility to support ongoing waves of transformation.

Example

The company's strategy–back approach led it to embark on a three-year transformation across multiple streams. Each programme worked in close collaboration with the others, ensuring that parallel changes were self-reinforcing. Moreover, each element was planned centrally in line with the end-state blueprint and associated guardrails, then designed and delivered with a mix of local and central orchestration. Critically, the blueprint was continually refined as the market evolved and plans took root.

3 New skill sets

Companies can benefit from preparing to both acquire and build capabilities in areas where bottlenecks arise. Addressing these bottlenecks will probably require newer capabilities given the increasing interface between technology and other parts of the business. Roles such as data-and-analytics translators are likely to become more crucial. Career paths need to be reshaped such that top performers flow to high-value opportunities. The allocation of high-potential employees to transformation roles can enable companies to further build the transformation muscle necessary to undertake multiple waves.

Example

The company knew that it must reset its approach to talent and ways of working to compete in emerging value pools. This objective meant both hiring new capabilities and building an operating model that could be successfully deployed within. It created a people-first model that ensured that there was a specific skill- and capability-development journey for each employee regardless of their role within the company.

4 Culture to support the desired change

A transformation is, at its core, a cultural intervention. Multilever waves of transformation are simply too big to be delivered purely from the centre, which creates a need to genuinely empower teams. Facing this degree of change without a sufficient change-management effort can lead organisations to experience a profound sense of dislocation. Successful companies possess a coherent vision that brings together all transformation streams and lays out the journey through the end state. This vision should translate to a clear narrative for employees, investors, and other stakeholders. The magnitude of change requires cross-company collaboration that goes beyond lip service. Teams will need to work across what were previously silos, with traditionally back-office functions such as legal or risk embedded in frontline teams and digital builds spanning business units.

Example

The core of the company's cultural change was creating a radically flatter structure and implementing agile at scale. Previously, entrenched silos between "thinking work" and "doing work" led to slow decision making and time to market. The company embedded cross-organisation processes into its quarterly cycle. These interventions were successful in improving business outcomes and actually delivered exceptional improvement on organisational health over two years, moving from the bottom quartile to the second quartile.

5 Sustainability at the core

In any transformation, sustainability is best placed front and centre. In the current era, this goes beyond economic performance to embrace a broader view of societal and environmental impact. The importance of sustainability continues to grow as customer-buying behaviours shift and purpose becomes a key differentiator in the war for talent. Transformations offer a "moment in time" opportunity to renew and refresh the social license to operate.

Example

The company understood the importance of embedding sustainability into its strategy. Throughout the transformation, it led its industry in transitioning to become carbon neutral. When COVID-19 struck, it was proactive in shifting the trajectory of the transformation to help renew its social license to operate.

In 18 months, the company's share price climbed 40 percent. Midway through a radical simplification, the organisation was more efficient and faster to market. Employees were happier, and its sustainability activities were lauded.

The CXO's role in transformation

Excelling across these five imperatives will require CXOs to embrace a different style of leadership, one that is more active, visible, and engaged. The C-suite should not only set priorities and tones but also be the catalyst for change on a continued basis. To that end, they will need to embody courage in the interactions and decisions required for a successful transformation.

When dealing with uncertainty, the entire organisation will take cues from the top. Therefore, the CXO will be responsible for modeling mindsets, helping the organisation learn from failures quickly, and defining and clearly communicating a compelling vision for the future of the business. Top executives should be prepared to bridge the priorities of different stakeholders. A transformation also requires addressing immediate needs, adjusting forecasts and expectations, and managing risk—all on a consistent basis.

Last, transformations typically proceed in fits and starts. If the momentum begins to flag, CXOs have the responsibility of unfreezing the organisation, inspiring the workforce to embrace change once again, and setting ambitious goals.

Defining the starting point of a transformation journey and setting priorities across strategy, digital and analytics, and the operating model will be critical. Executives can begin by asking themselves some simple questions:

— Have I clearly articulated the strategic endpoint and what it will take to get there?

— Have I defined the big moves along the way?

— Does the transformation strategy reflect my organisation's current reality?

— To what extent is technology holding the organisation back?

— Do I have a clear vision for how digital and analytics will support my strategic goals?

— To what extent can I set the direction and trust the organisation to adapt at the required pace?

Australia currently enjoys strategic advantages in the global context of the COVID-19 pandemic, but that advantage will fade. The year 2021 presents a once-in-a-generation opportunity for Australian companies to undertake radical, strategy–back reinvention—and to thrive from it. For CXOs, their work lies in assessing where they, and their organisations, stand. The answers will set the tone for what needs to be done now to succeed in the decade ahead.

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