

# McKinsey on Finance

Perspectives for CFOs and other finance leaders

## Strategy's biggest blind spot: Competitive advantage

**Inside:** Amplifying competitive advantage and setting strategy amid uncertainty; enhancing M&A with AI; learning from data center builders; pursuing dual-track separations; choosing the right KPIs for transformation; and using the better owner principle offensively.

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# Strategy's biggest blind spot: Competitive advantage

**In periods of major geopolitical tension** and technological change, leaders cannot control volatility. The package of articles that gives this issue of *McKinsey on Finance* its title examines what they *can* control: how clearly they define their competitive advantage and whether their strategic choices derive from that understanding.

The package begins with "Strategy's biggest blind spot: Erosion of competitive advantage," by Andy West, Laura LaBerge, and Matt Banholzer. The authors explain that as the erosion of competitive advantage accelerates for many companies, organizations that identify and extend their advantages enjoy outsize growth and lower risk. The same author team also shares results from a McKinsey survey showing how leading companies measure and validate competitive advantage at a granular level and use those insights to guide investment and growth decisions. "How Strategy Champions win" explores why only a minority of companies consistently translate strategic intent into results. The difference lies in an organization's ability to mobilize around a plan grounded in competitive advantage.

Elsewhere in the issue, we continue our ongoing examination of how finance leaders can enhance the function with technology. In "Gen AI in M&A: From theory to practice to high performance," the authors describe the tools available today and those likely to emerge in the near future. And from experts in McKinsey's Technology, Media & Telecommunications Practice comes "The capex crucible: What finance teams can learn from data center builds."

In "Two can be better than one: Pros and cons in a dual-track separation," Anna Mattsson, Jamie Koenig, and Rahul Wunsch consider when pursuing parallel paths can create flexibility and value. In "Selecting P&L-linked KPIs for industrial transformations," our transformation experts drill into the metrics that genuinely demonstrate economic impact.

We include two pieces in this issue that we hope will inspire contemplation. In "Who should own what? Revisiting the 'natural owner' principle," McKinsey alumni John Stuckey and Rob McLean, in conversation with Tim Koller and Whitney Zimmerman, discuss a concept they developed decades ago and suggest how it applies in today's context. And the latest edition of our *Bias Busters* series unpacks why awareness of cognitive overload is an essential guardrail for strategic thinking.

A consistent thread runs through the issue: Strategy hinges on understanding where advantage truly resides and ensuring that the organization is prepared to act on it. While our cover package focuses directly on competitive advantage, the broader articles explore how leaders can strengthen the foundations of performance in uncertain times.

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# Strategy's biggest blind spot

Erosion of  
competitive  
advantage

Misperceptions about the reach and durability of competitive advantage are hurting many companies' profits. Five rules can help organizations maximize their edge over peers.

*by Andy West, Laura LaBerge, and Matt Banholzer*



**D**o you know what your competitive advantage is? Are you sure?

Competitive advantage is the most critical yet misunderstood facet of strategy. It's more than a company's strengths—it's the reason customers choose its offerings over its peers' or why it is able to deliver higher returns than its peers through capital efficiency, price premiums, or lower costs. Competitive advantage comprises unique operating models and hard-to-replicate assets such as intellectual property and customer access that enable a company to build superior value over time.

That foundation is shaky for many businesses today, our analysis shows. To identify shifts in competitive advantage, we looked for changes in market position using a metric we call the “shuffle rate”—an industry-level marker that measures the speed of change in the positions of market leaders and laggards.<sup>1</sup> We found that the shuffle rate has accelerated for more than 60 percent of industries in the past decade, with an 11 percent increase in median rates (Exhibit 1). This pattern suggests that the defining elements of competitive advantage are in flux, the degree of differentiation between market players is narrowing (causing more frequent positional changes), or both.

The result is an increasing erosion of competitive advantage for some companies and a critical opportunity to capture greater market share for others. Businesses in a sector with a

<sup>1</sup> Shuffle rate uses market cap as a proxy for market leadership.

decelerating shuffle rate may find themselves stuck in lagging positions as the industry's top performers deepen competitive moats around their leadership. Conversely, those in an industry with an accelerating shuffle rate could find opportunities to attract customers previously locked in by their competitors.

Exhibit 1

## The shuffle rate indicates how the stability of companies' competitive advantage varies by industry.

5-year shuffle rate and its rate of change compared with prior 5-year period, by industry



<sup>1</sup>And nonalcoholic beverages.  
<sup>2</sup>Real estate investment trusts.

Yet despite the importance of acting on these shifts, [recent research](#)<sup>2</sup> shows that most companies aren't monitoring how their industry positions and competitive advantages may be changing (Exhibit 2). Despite this, most respondents report being confident that they understand what drives customer and investor choice—a confidence that may be misplaced as change accelerates. The result is a troubling reality: While the majority of respondents recognize that their advantage is not durable, their organizations are not monitoring signals that would alert them to changes in the competitive landscape.

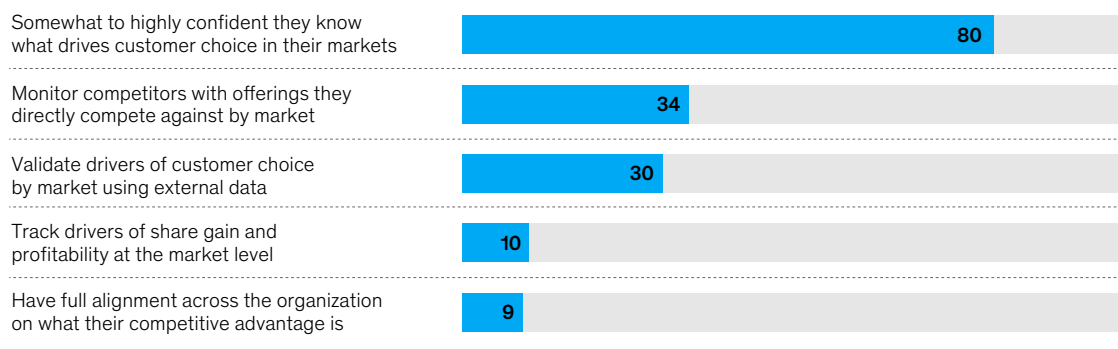
The dynamics eroding incumbents' competitive advantages in some industries illustrate why the shuffle rate is accelerating. For example, in entertainment, streaming services have matured, in-theater viewing has suffered a potentially permanent decline,<sup>3</sup> and creator-driven content on video-streaming platforms is competing with traditional media companies. This realignment has been accompanied by significant M&A activity, including Netflix's intended \$83 billion acquisition of Warner Bros. Discovery and Paramount's merger with Skydance. The footwear industry has likewise seen substantial change. Challenger brands have rapidly gained market share from incumbents, and distribution has shifted from wholesale-dominated to direct-to-consumer models, requiring significant supply chain restructuring and changing the competitive advantage needed to win.

## Exhibit 2

### Companies are not closely tracking their competitive advantage despite evidence that it is eroding.

#### Share of respondents, %

##### Knowledge of current competitive advantage situation



##### Plans to address competitive advantage in the future



Source: McKinsey Global Survey on innovation and competitive advantage, 1,257 participants, Oct 27–Nov 17, 2025

<sup>2</sup>McKinsey Global Survey of 1,257 executives and managers—including 1,002 senior executives—across industries and geographies. The online survey was in the field from October 27–November 17, 2025.

<sup>3</sup>Colin Dixon, "2023 movie theater attendance improves; may never reach pre-COVID levels," nScreenMedia, March 18, 2024.

# Organizations that track their competitive advantage and use it to guide growth and investment outperform their peers.

While understanding the stability of the organization's competitive advantage is critical, so is having a shared view of what that advantage is. When business leaders have different assumptions about their organization's advantage, aligning on what to invest in and in which markets is challenging. And since competitive advantage is context specific, it can be hard to recognize and assess. An additional complication is that an organization's competitive advantage is dependent on the capabilities of its competitors, and those players constantly change—both in who they are and how they choose to compete.

Not surprisingly, organizations that track their competitive advantage in each of their markets and use it to guide their growth strategies and investment choices outperform their peers. In our survey,<sup>4</sup> respondents from companies in the top quintile of annual growth and EBIT in their sectors were more than 2.5 times as likely as others to say that their organizations are fully aligned on what their competitive advantages are and are two-thirds more likely to be tracking that advantage at the market level.

## Five rules of maximizing your competitive advantage

With competitive advantage under pressure, business leaders need to actively protect their edge over peers. They can do so by following five rules:

- Develop a granular view of competitive advantage.
- Tailor the advantage to each market.
- Don't overinvest in areas that won't improve competitive position.
- Boost the return on competitive advantage by embedding it into strategic decision-making.
- Track metrics that can signal changes in the competitive landscape.

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<sup>4</sup>McKinsey Global Survey of 1,257 executives and managers—including 1,002 senior executives—across industries and geographies. The online survey was in the field from October 27–November 17, 2025.

## Develop a granular view of your competitive advantage

Companies with numerous business lines and markets often struggle to pinpoint their competitive advantage because it may differ at the enterprise, product, and market levels. For example, financial resources, corporate brand, and some partnerships are enterprise-level advantages, while R&D and customer relationships can be specific to product categories or even individual markets.

When we analyzed the competitive advantages<sup>5</sup> of the world's 5,000 largest companies by revenue,<sup>6</sup> we found a wide variance in the unique attributes that constituted their advantages, even within the same industries. Those attributes ranged from broad elements, such as a strong global presence, to specific capabilities and assets, such as mineral rights in a particular country. We classified those attributes into seven categories: brand and external reputation, scale or financial strength, intellectual property or innovative offerings, go-to-market capabilities, partnerships or access to scarce resources, operational excellence, and talent or culture. Our analysis found that the source of advantage for most organizations is a complex and highly specific combination of several categories rather than a single element.

To effectively manage its sources of competitive advantage, an organization needs a granular understanding of how the attributes comprising its competitive advantage combine to differentiate it in the market. Consider scale: In and of itself, it isn't always a competitive advantage, as the so-called conglomerate discount demonstrates. Yet scale of data and platform reach has enabled digital platforms such as Tencent to successfully enter multiple industries. Similarly, scale in R&D can be a competitive advantage if it fuels multiple business units, but usually not if the R&D expertise only applies to a single product category. Innovations in cancer treatments, for example, typically don't port to other pharmaceutical lines and thus don't give the overall organization a competitive advantage outside of oncology (a likely reason why many pharmaceutical companies are simplifying their portfolios).

Leading companies know which attributes affect customer choice, invest in strengthening them, embed them in their most important markets, and make them transferable so they can apply them at scale. These assets and capabilities can exist at many levels of the organization and are often combinations of attributes that are hard to replicate. Companies that operate across many markets may need to vary their competitive recipe across those markets.

A lack of a granular view of competitive advantage often leads to disagreements among leadership teams and boards on how and where the company should compete. Creating that shared view provides a common fact base for the organization's decisions and helps it maximize returns on its investments.

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<sup>5</sup>Defined as the ability to use unique attributes to compete in a marketplace for superior, durable returns.

<sup>6</sup>The assessment relied on expert interviews and gen AI analysis of publicly available data, customer comments, and industry analyses.

## Tailor your competitive advantage to each market

Once business leaders have a detailed understanding of their organization's advantage, they need to apply that understanding to how they position their offerings in each market. Competitive advantage occurs at the intersection of offering, geography, and customer—in other words, what you're selling, where you're selling, and to whom you're selling. As sector barriers erode, a company's biggest competitors may come from outside its industry. Those competitors, in turn, may set the bar that any attribute must meet to constitute a competitive advantage. In our survey, more than 40 percent of respondents cite disruptive trends and new entrants coming from outside their industries as the greatest threats to their competitive advantage. Such disruptions have a long history, from smartphones subsuming the traditional markets of camera and film manufacturers to software firms transforming the economics of industries as diverse as hospitality, transportation, and music.

Large companies that operate across numerous geographies face additional complications due to high variance in what matters for winning in a given market. Consider the evolution of quick-service meals. In Canada and the United States, food delivery apps changed the dynamics and shifted value pools in the fast-food and casual-dining industry; premade meals and meal kits have further eroded traditional players' market share. Yet these innovations haven't taken off in Latin America, China, and other markets.

As the variance in what determines customer choice increases, the attributes that create a competitive advantage also change. Consequently, business leaders need to be vigilant in ensuring that a competitive advantage their organization may have enjoyed for decades can be sustained as the market evolves. For example, the location of branches and ATMs used to be a significant competitive advantage for retail banks, often determining customers' choice of institution, but online banking has reduced the value of those physical assets.



### **Don't overinvest in what doesn't matter**

In most scenarios, the ultimate authority on a company's competitive advantage is its customers (and people who *could* be its customers but instead buy from competitors). Yet organizations sometimes fall into the trap of believing that their capabilities or offerings are superior to their competitors' when customers don't see—or don't value—the difference. One home appliance manufacturer, for example, developed a product with sophisticated but complex features, only to discover that what customers valued most was ease of use as long as the product's features were “good enough.” The lesson: Focus on the few factors that determine customers' choices (and on which investors place value) and don't overinvest in elements that won't differentiate offerings in customers' eyes.

A similar concept applies to addressing competition. Organizations sometimes focus too much on replicating a competitor's source of advantage—efforts that rarely succeed. Instead, they should aim to be good enough in the competitor's capability while reinforcing their own sources of advantage. Why? Our research has yielded an important insight about the difference between winning and not losing. When we looked at the actions of pairs of competitors, we found a good-enough threshold—the market's expectations for basic value. Falling below this threshold due to a critical failure (a reputational crisis, for example, or a labor shortage that hampers production) can negate the benefits of investment in expanding competitive advantage. Conversely, investing more in elements that don't differentiate the offerings in customers' eyes will not yield returns. The key is to stay in the middle, except for the few areas that matter.

Talent can illustrate the concept of winning versus not losing on a capability. In industries where expertise is the offering (such as professional services), where critical skills are scarce, or where top-decile companies far outperform the rest (such as niches of high-tech research where having the most-skilled workers disproportionately influences success), talent is an essential competitive advantage for being a market winner.

Not losing on talent is quite different. There's a large middle ground between not recruiting the very best talent (because it won't pay dividends to do so) and investing enough in people and culture to operate at the minimum expected threshold for the industry, then differentiating on other attributes such as ease of doing business, reliability, or cost. The distinction between how to win and how to not lose holds true across many attributes of a company's overall competitive advantage, including innovation, operations, and brand.

**Organizations sometimes focus too much on replicating a competitor's source of advantage—efforts that rarely succeed.**

# Survey data shows how **top economic performers** lean into competitive advantage to guide strategy

Our recent McKinsey Global Survey of more than 1,250 executives and managers<sup>1</sup> revealed a contradiction. Eight in ten respondents were at least somewhat confident that their organizations understand their competitive advantage across the markets in which they operate. However, the majority also report that their organizations don't actively validate or manage their competitive advantage.

Competitive advantage affects profitability (through the ability to command a price premium or reduce costs) as well as share gain, and not having a clear, fact-based view of that advantage can put both at

risk. This is particularly true when tech-driven disruption and erosion of industry barriers are changing what customers care about and expect, a fact reflected in survey responses: One-third of respondents believe the nature of their competitive advantage will significantly or completely change over the next five years, and nearly 80 percent believe they will need to make material changes to their business models to remain economically viable over the next three years.

When companies pursue investments without first closing gaps in their competitive advantage, they

Exhibit 1

## Top economic performers are confident that their companies can use their competitive advantages to grow in new areas.

Confidence in organizations' ability to recognize new growth areas aligned with their competitive advantage, % of respondents<sup>1</sup>



<sup>1</sup>Only asked of respondents who are C-level executives or senior managers. The 2% of respondents who said "don't know" are not shown.

<sup>2</sup>Respondents who say their organizations have an annual rate of organic revenue growth of 15% or more over the past 3 years and have a compound annual growth rate for EBIT of 15% or more over that time period; n = 101. For all others, n = 851.

Source: McKinsey Global Survey on competitive advantage, 1,257 participants, Oct 27–Nov 17, 2025

<sup>1</sup> The online survey was in the field from October 27 to November 17, 2025, and garnered responses from 1,257 participants (which included 1,002 senior executives) in 94 nations, representing the full range of regions, industries, company sizes, functional specialties, and tenures.



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typically have to spend more to achieve the same share gains or cost savings. A verified, granular understanding of competitive advantage leads to more assured decision-making and investment (Exhibit 1).

A clear understanding of what underpins competitive advantage can also help companies break out of incremental, “last year plus or minus a few percent” budgeting. Top economic performers are more than 2.5 times as likely as others to say their organizations have a fully aligned understanding of their competitive advantage across all areas of their organization.

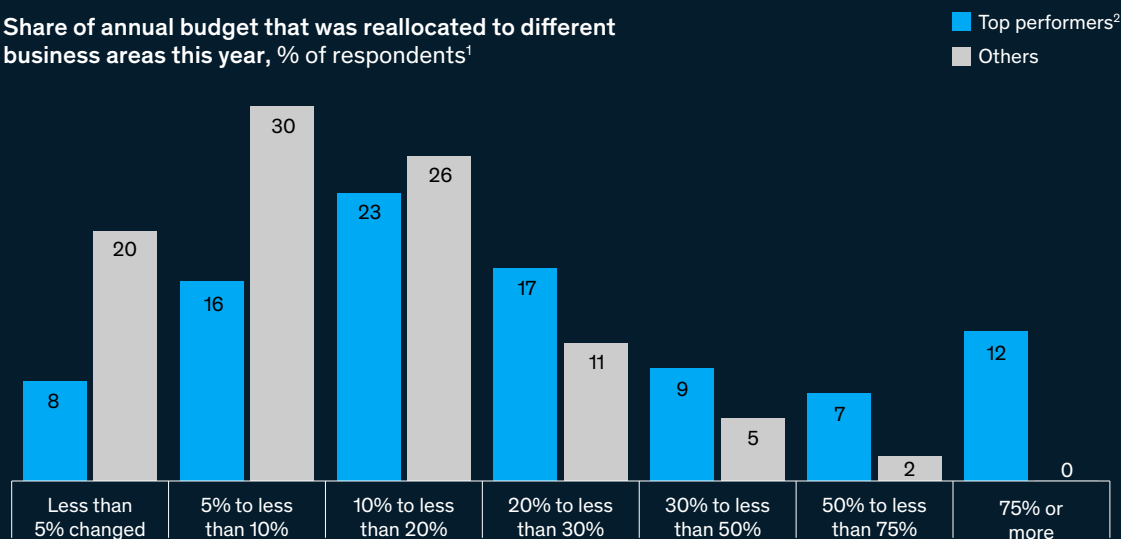
This clarity appears to influence how they allocate capital: Top performers shift significantly more of their budgets year over year to different business units, geographies, or other major projects than do their peers (Exhibit 2).

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Exhibit 2

### Top economic performers are much more likely than their peers to significantly reallocate resources from year to year.

Share of annual budget that was reallocated to different business areas this year, % of respondents<sup>1</sup>



<sup>1</sup>Only asked of respondents who are C-level executives or senior managers. The 8% of respondents who said “don’t know” are not shown.

<sup>2</sup>Respondents who say their organizations have an annual rate of organic revenue growth of 15% or more over the past 3 years and have a compound annual growth rate for EBIT of 15% or more over that time period; n = 101. For all others, n = 851.

Source: McKinsey Global Survey on competitive advantage, 1,257 participants, Oct 27–Nov 17, 2025

## Boost your return on competitive advantage

A genuine competitive advantage is sustainable over time. An event or trend can suddenly create a growth opportunity—as the pandemic did for videoconferencing apps—but a company needs a competitive advantage to maintain a market lead as new entrants emerge and competition evolves. Successful businesses regenerate their advantages over time and apply them broadly, especially to the most attractive market opportunities. For example, investments in customer relationship management (CRM) systems targeted at capturing and feeding customer insights to R&D or a culture of internal collaboration can expand an organization's capabilities as competition evolves.

Sources of advantage that are transferable across markets provide an additional strategic edge. Having a deep technical capability in one type of manufacturing is quite different from having a culture of engineering and operations excellence. The former helps the organization win narrowly, while the latter can enable it to expand into growing markets. Investing in renewable and transferable forms of advantage creates the highest returns and is often what determines long-term value.

## You can't manage what you can't see

Since the risk, complexity, and dynamism around a company's competitive advantage vary by market, business leaders need to monitor their competitive advantage at the market level. It's a complex task, but three markers can signal the potential erosion of advantage or opportunities to expand into new spaces.

- **Track the shuffle rate at the market level.** Significant change in an industry's shuffle rate—either an increase in the rate itself or in the market share separating leaders and laggards—often signals the risk of erosion of a company's competitive advantage. It can also indicate shifts in the factors that determine customers' purchase decisions, which may present opportunities to move into new growth areas.
- **Follow the money.** Shifts in start-up, patent, and [investment flow](#) activity, among other indicators, can signal the arrival of new competitors (often with very different cost structures), capacity (which can hurt industry economics), value propositions, customer needs, or technological breakthroughs. These factors can reshape industry dynamics and potentially undermine an incumbent's advantage.
- **Watch acquisitions by players outside the industry.** Top performers are more than 50 percent more likely than peers to monitor noncompetitors' acquisitions of companies whose offerings they compete with, our survey shows. Such deals can be early signs of a sea change in an industry.

Aside from tracking market-related markers, organizations can monitor internal indicators to assess the strength of their advantage. These include acquisitions that do not pay off as intended, failed entries into new regions or market categories,



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or unexpected losses of market share or major contracts to companies not previously viewed as threats.

While the above markers don't cover all factors that could erode a competitive advantage, tracking them can enable business leaders to objectively recognize change underway. AI tools can help managers rapidly scan for movement in their competitive sets, potential substitutes for their products, growing or declining segments, and market niches that could present new opportunities, as many trends emerge from unstructured data that traditional analyses may not capture.

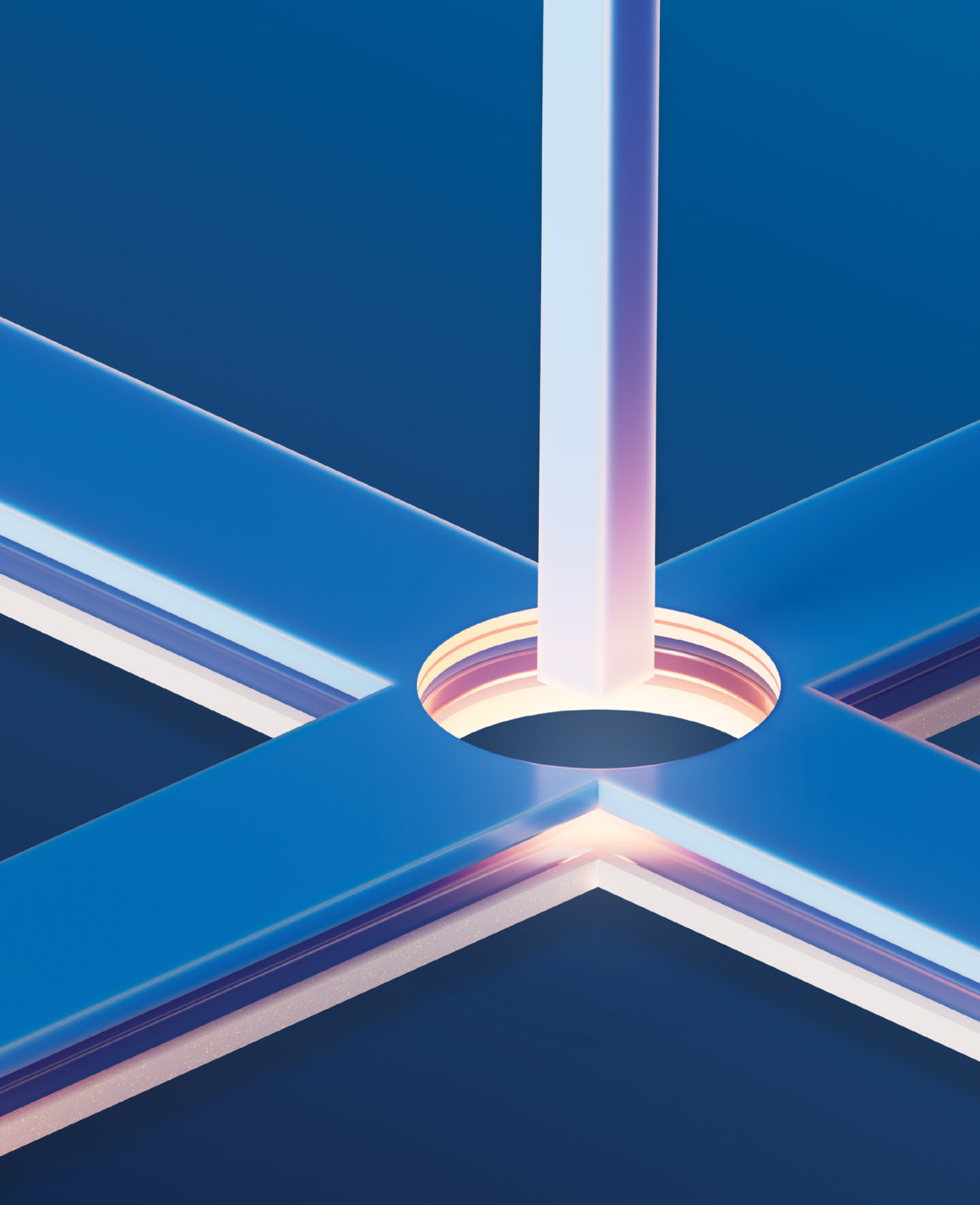
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When you focus on growth in areas where you're already strong, you can capture more customers than your peers, with a lower investment. As the erosion of competitive advantage accelerates in many markets, organizations that identify and extend their advantages enjoy both outsize growth and lower risk. Additionally, when investors can connect a move you're making with a strength you have, they're more likely to believe your growth projections. Even in stable market conditions, a company can miss the gradual decline in its competitive positions until it's too late. The response of character Mike Campbell in Ernest Hemingway's *The Sun Also Rises* to a question about how he went bankrupt is instructive: "Two ways. Gradually, and then suddenly."

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# How Strategy Champions win

*by Alejandro Krell,  
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Whitney Zimmerman*

Only one in five companies believe they have high-quality strategy. What do such Strategy Champions have in common? They excel at designing bold strategies—and are even better at mobilizing their execution.

**Crafting a strategy**—the process of making coherent, hard-to-reverse choices under uncertainty with the aim of building long-term value—has always been demanding. In 2010, only 35 percent of more than 2,000 surveyed executives reported that their strategies passed four or more of McKinsey’s [Ten Tests of Strategy](#).

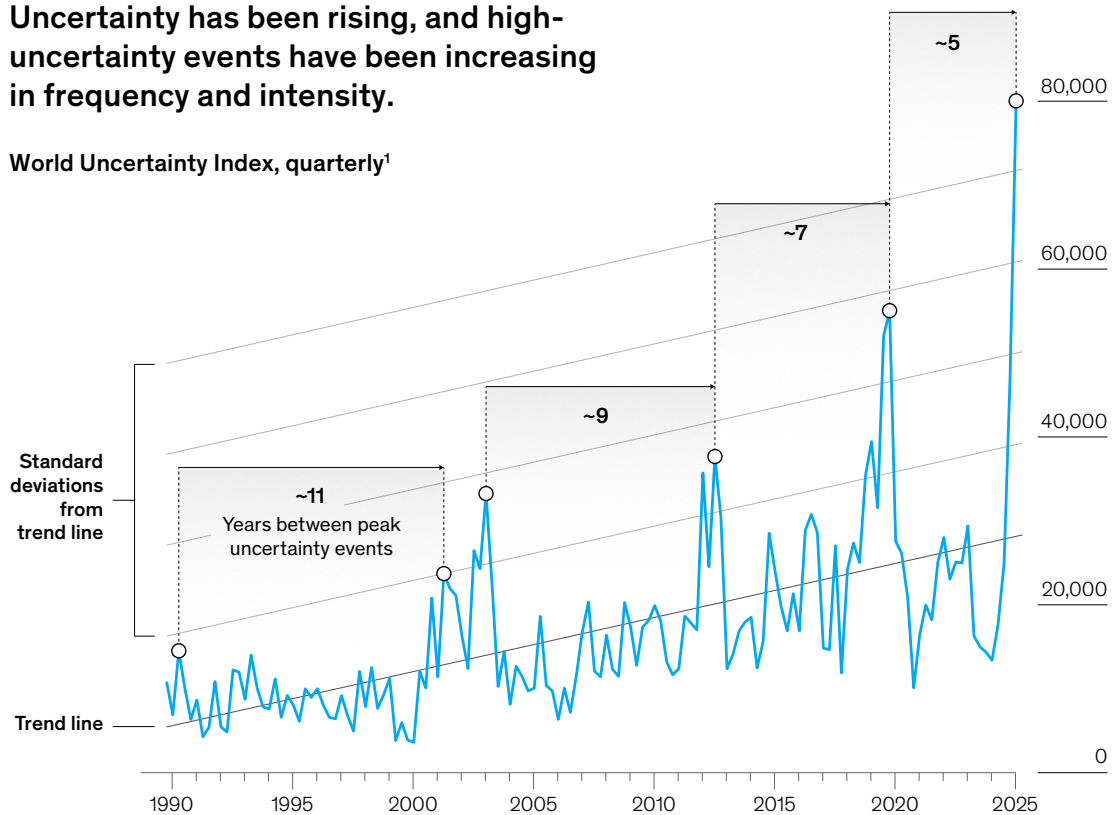
The increasing uncertainty and complexity of the business environment have made that task even harder. The World Uncertainty Index shows baseline uncertainty more than doubling since 1990, high-uncertainty events occurring more often, and each major spike being more severe than its predecessor (Exhibit 1). The challenge of navigating uncertainty is compounded by growing complexity—from the rapid advance of AI to geopolitical tensions to the emergence of new business and operating models—that multiplies the variables that strategists must consider.

These two challenges have taken a toll on the quality of corporate strategies. In a 2024–25 survey, only 21 percent of executives reported that their strategies passed four or more of the Ten Tests of Strategy—a 40 percent drop from a decade and a half earlier. Not surprisingly, strategists are feeling the pressure. In 2022, 42 percent of survey respondents said they were [struggling to achieve the level of impact they desired](#).

Exhibit 1

**Uncertainty has been rising, and high-uncertainty events have been increasing in frequency and intensity.**

World Uncertainty Index, quarterly<sup>1</sup>



<sup>1</sup>Index measures global uncertainty by analyzing country reports from the Economist Intelligence Unit. The chart shows the unbalanced GDP weighted average for 142 countries, as of Q2 2025. Source: World Uncertainty Index, Economist Intelligence Unit; McKinsey analysis

Yet the rewards for delivering breakthrough strategies have never been greater—and neither have the penalties for getting strategy wrong. Plotting the economic profit of thousands of the world's largest companies yields a **power curve**, in which the top quintile captures nearly 90 percent of all economic surplus, the bottom quintile digs a similarly large hole of value destruction, and the companies in the middle generate modest, if any, economic value. Successful strategy moves a company up this power curve, but the curve is growing steeper. The gap between the average gains of top-quintile outperformers and the average losses of bottom-quintile stragglers has doubled over the past two decades. In essence, the returns on great strategies and the costs of bad (or nonexistent) strategies are rising.

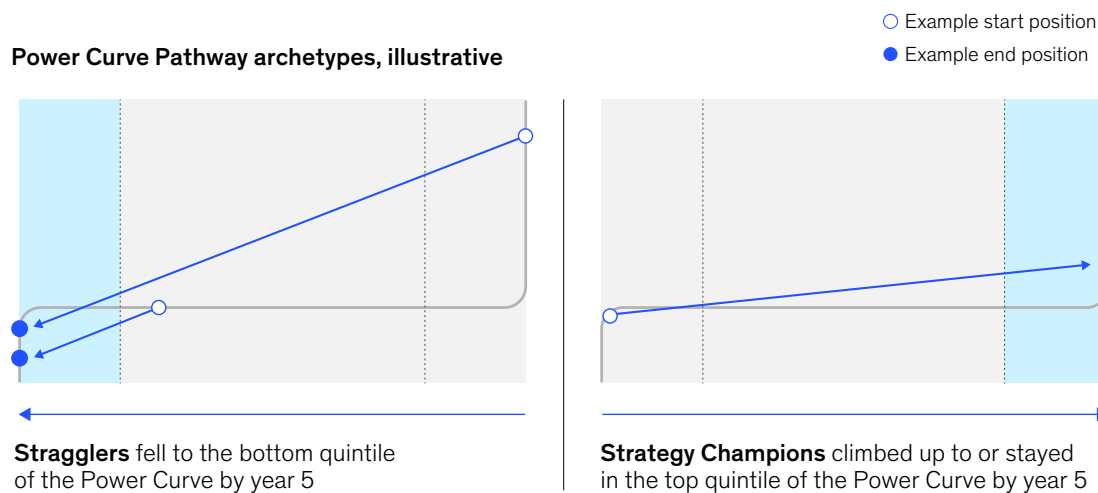
Only one in ten companies manages to climb from the middle to the top of what we call the Economic Profit Power Curve over a decade. In this article, we share what these Strategy Champions do differently: how they design bold moves, mobilize their organizations, and sustain focused execution, even in turbulent times.

## Understanding the Strategy Champions

We started with two simple questions: What do the companies that rise to the top of the Economic Profit Power Curve do differently? And how do they approach the design and delivery of their strategies? To find the answers, we studied the strategy practices and capabilities of more than 400 companies. First, we defined two groups based on their movement along the curve over five years: Strategy Champions, which moved up to or maintained top-quintile economic profit performance, and stragglers, which fell to the bottom quintile, reflecting significant strategic setbacks (Exhibit 2).

Exhibit 2

### Strategy capabilities produce dramatically different performance between those at the top and the bottom of the Power Curve.



Next, we compared how the champions and the stragglers approached strategy and how strong they were at strategy-related activities. Key to this was our Building Blocks of Strategy, which consist of 12 fundamental activities across three phases: design, mobilization, and execution (see sidebar, “The Building Blocks of Strategy”). These building blocks represent a common language for strategy activities that enabled us to systematically compare companies. We then assessed each company based on a set of capabilities that underpin the building blocks.

The results highlight a reality often missing from strategy discussions. While the data support the common refrains that strategy is about making clear choices and about execution, the biggest gap between Strategy Champions and stragglers is actually in mobilization—the crucial phase of translating strategic choices into organizational readiness.

## Where Strategy Champions build their advantage

As we dug deeper, we found that Strategy Champions are, on average, stronger than stragglers at every one of the 12 building blocks (Exhibit 3). However, their strengths are particularly distinctive in several areas critical to strategy success.

### Strategy design: Setting the foundation

Two building blocks in which Strategy Champions particularly outperform stragglers are in the design phase. First, they excel at aligning leadership teams on strategic imperatives by building a shared understanding of the core challenges that the company needs to address. When business leaders enter the strategy room, too often their goal is to get approval for their plans rather than to find the objectively best strategic course for the enterprise as a whole. This [social side of strategy](#) is why building a factual foundation is so critical: It ensures that everyone understands the core challenges and can debate how best to act on them.

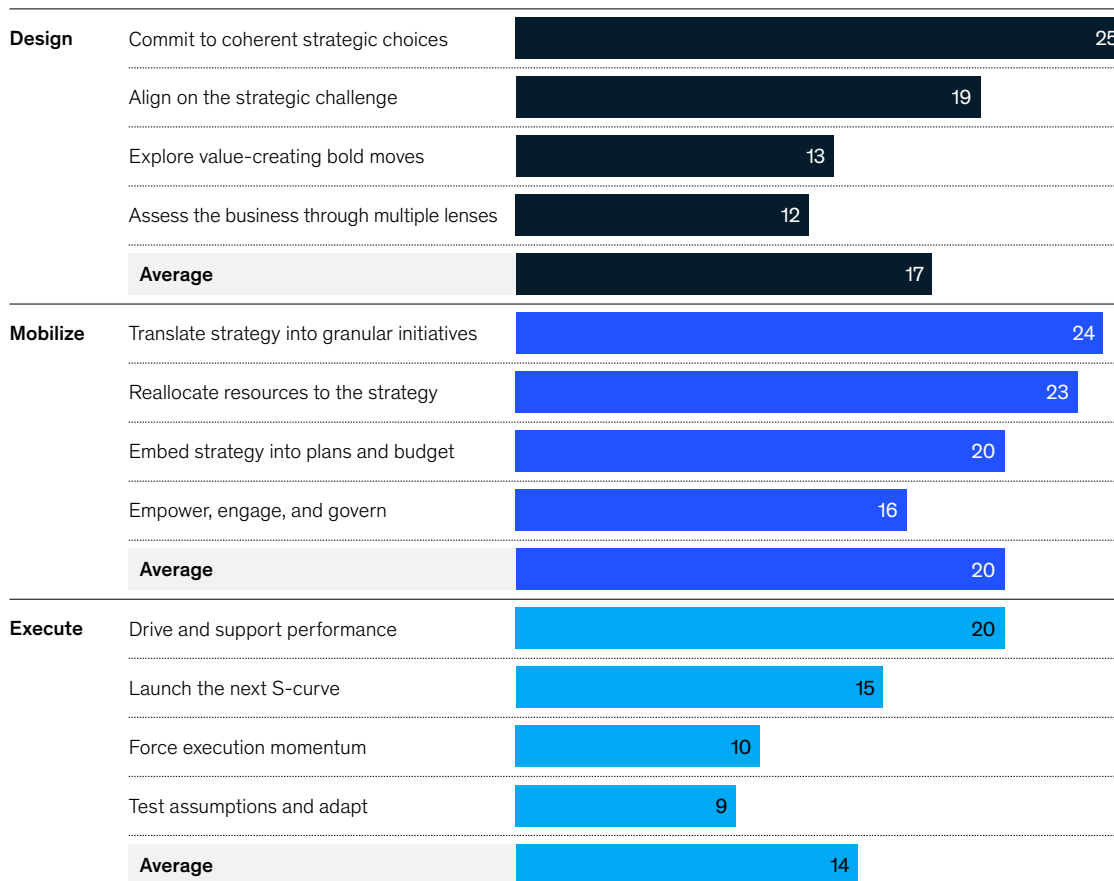
Part of establishing that foundation is identifying the trends with the biggest impact on the business—the strength that we found most differentiates Strategy Champions from stragglers. In Jeff Bezos’s 2016 letter to shareholders, the Amazon founder called “the eager adoption of external trends” one of four essential ways to avoid disruption or complacency. He went on to explain, “If you fight [trends], you’re probably fighting the future. Embrace them and you have a tailwind.”

**The rewards for delivering  
breakthrough strategies—and  
penalties for getting strategy  
wrong—have never been greater.**

Exhibit 3

## Strategy Champions are stronger than stragglers at capabilities in all phases of strategy, but they particularly stand out at mobilization.

Net difference in strengths between Strategy Champions and stragglers, percentage points



Another building block of design at which Strategy Champions are particularly effective is committing to a bold strategy: making coherent choices about clear strategic moves in the face of an unpredictable future. This demands [strategic courage](#) on the part of the CEO, the management team, and the board. For example, [Aliko Dangote](#), CEO and president of Dangote Industries, West Africa's largest company, built his success on the view that leaders need "to be the boldest people around." His personal philosophy is "think big, dream big, and do big things."

A high-quality strategy ultimately represents a value creation agenda that guides the allocation of resources. Unsurprisingly, Strategy Champions tend to excel at crafting compelling strategic narratives that capture their agendas (in part through their [equity stories](#)). This lays a foundation for mobilization.

# The Building Blocks of Strategy

## Bridge aspiration to action

The late strategy theorist Colin S. Gray described the function of strategy as a bridge from purpose to action. Effective strategies do more than just chart a course; they ensure that a company reaches its destination by aligning on the most important goals. Our 12 Building Blocks of Strategy outline the activities fundamental to strategy design, mobilization, and execution. These building blocks—which we consistently find in successful strategy efforts, from transformations to new-business launches—represent not a linear path but rather a language that helps business leaders ensure that their strategies don't end up as superficial exercises.

The Building Blocks of Strategy are particularly useful in three respects. First, they enable you to understand where and why your strategy is succeeding or failing, which helps you prioritize investments to improve the strategy's design and delivery. Second, by mapping your activities to the building blocks, you can ensure that you're focusing on the most meaningful parts of strategy work. Finally, by making mobilization central to the strategy's success, the Building Blocks of Strategy help you connect ambitious intentions to tangible results, ensuring that your strategy not only survives contact with reality but actually shapes it.



## Design

The design phase is about committing to a coherent set of bold, value-creating moves in the face of an uncertain future.

- **Aligning on the strategic challenge.** Define the core challenges, aspirations, and critical trends.
- **Assessing the business through multiple lenses.** Understand the organization and its environment from the perspective of financial-performance drivers, capabilities, competitive advantages, market dynamics, and beyond-market forces.
- **Exploring value-creating bold moves.** Systematically consider strategic options to shape the portfolio and its performance.
- **Committing to coherent strategic choices.** Secure leadership agreement on a clear path ahead, backed by a compelling value-creation narrative.



## Mobilization

The mobilization phase translates strategic choices into organizational readiness, with an operating model and approach tailored to the strategy.

- **Empowering, engaging, and governing.** Assign ownership of strategic choices to key leaders and ensure fit-for-purpose governance.
- **Translating strategy into granular initiatives.** Break down the strategic plan into concrete initiatives.
- **Reallocating resources to the strategy.** Shift funding, talent, and attention to strategy-aligned initiatives, and stop work on nonstrategic projects.
- **Embedding strategy into plans and budgets.** Ensure that organizational structures, processes, and financial plans support the strategy.



## Execution

The execution phase puts the plan into action, helping the company reach and sustain higher levels of performance and competitiveness.

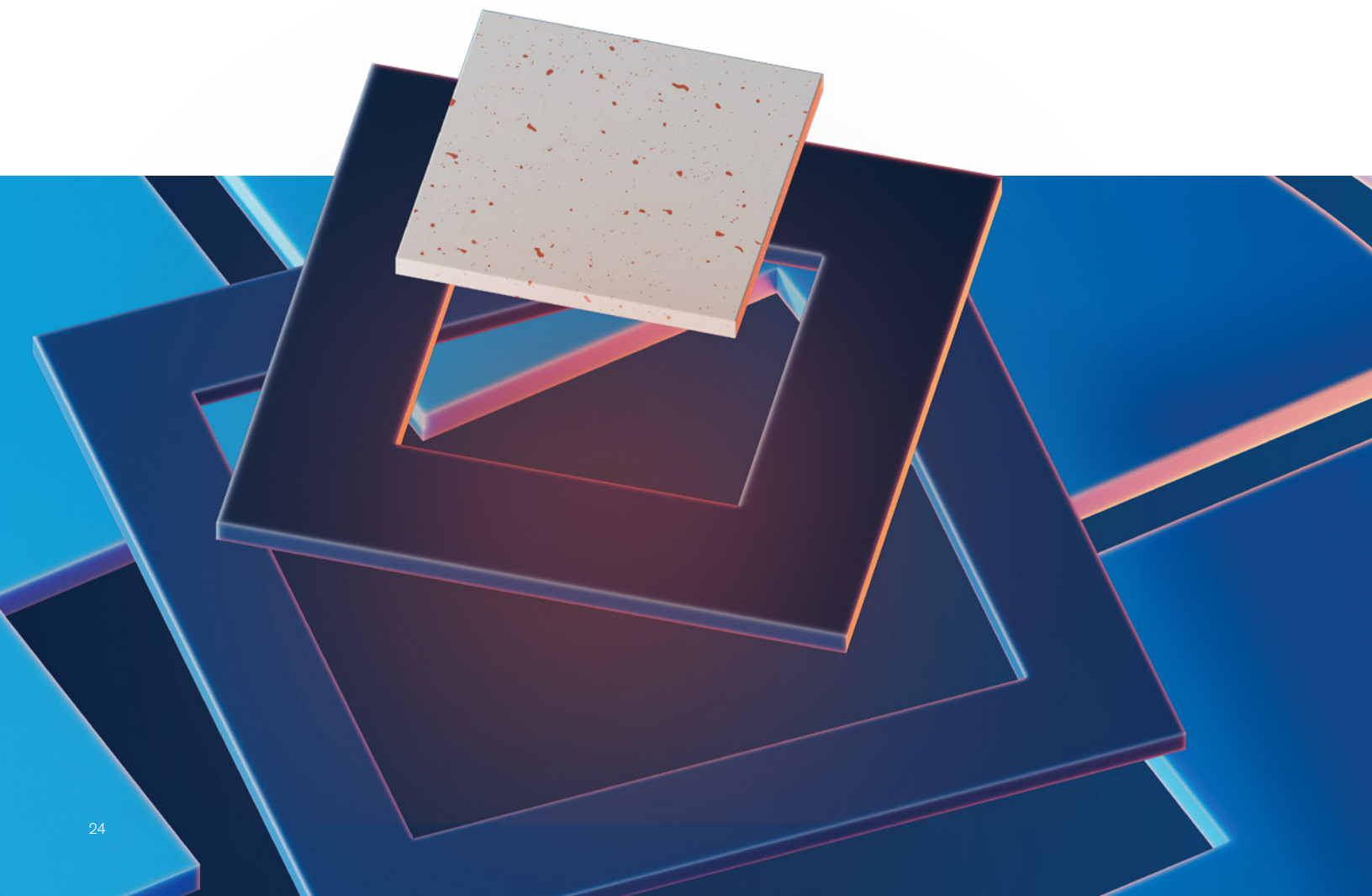
- **Forcing execution momentum.** Catalyze early progress on priority initiatives to build traction.
- **Driving and supporting performance.** Actively manage performance, remove barriers, and enable delivery.
- **Testing assumptions and adapting.** Continually monitor the environment and strategic assumptions, and adapt as needed.
- **Launching the next S-curve.** Identify and pursue new opportunities to fuel the next wave of growth.

### **Strategy mobilization: Building the bridge**

Mobilization, the critical connection between design and execution, is where Strategy Champions build their most noteworthy advantage. Getting mobilization right starts with that phase's first building block: ensuring that the right talent is fully empowered and engaged on each strategic decision. Strategy Champions are considerably better than others at making individual leaders accountable through clear targets and incentives, for ensuring that each strategic choice is mobilized and executed.

Effective mobilization further benefits from ensuring that top talent holds the [roles that deliver the most strategic value](#), wherever these roles are in the organization, and empowering those leaders to own and drive strategy. Indeed, a study of more than 1,600 senior managers by Siemens and the University of Göttingen found that business units whose leaders felt highly empowered to implement their strategies outperformed those that didn't.

Strategy Champions particularly stand out in the second building block of the mobilization phase: translating strategy into granular initiatives. They also excel at reallocating resources to the strategy and ensuring that the strategy is embedded into plans and budgets. In doing so, they bridge what Stanford University business professor Jeffrey Pfeffer calls "the knowing–doing gap"—[systematically ensuring that short-term decisions match long-term strategy](#) rather than





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letting managers revert over time to established patterns. Ultimately, Strategy Champions' ability to effectively orchestrate the building blocks of mobilization hinges on having a [fit-for-purpose operating model](#), which is why it's essential to factor in future mobilization when designing strategy.

The prominence of mobilization in our research reinforces a crucial reality: Before a strategy can shape the competitive landscape, it must successfully embed itself into the DNA of the organization. As the late military and foreign policy strategist Andrew Marshall noted, "Before any strategy can influence a competitor, it first has to survive your system."

### Strategy execution: Sustaining progress

Well-designed and mobilized strategies create potential; execution captures it. Within this phase, Strategy Champions particularly distinguish themselves in their ability to drive and support performance. Rather than passively tracking progress, they actively [manage performance](#) to identify and break down barriers holding back delivery and continually support the teams responsible for execution. Singapore's DBS Bank, for example, redefined its performance management approach to enable its ambitious digital transformation strategy by tightly aligning its balanced scorecard with the strategy and defining a new digital-value-capture metric.

During execution, Strategy Champions are also stronger than other companies at testing, learning, and adapting their strategy as needed, such as by increasing the resources allocated to a strategic move or launching a new strategy design effort [in pursuit of the next S-curve](#). These activities require having clearly documented strategic assumptions and rationales for each choice made during strategy design. One CEO instilled the practice of the leadership team articulating to the board the assumptions underlying their strategic commitments. This forced business leaders to acknowledge and reconcile different beliefs, laying the foundation for efficient testing and learning every six months during execution.

While Strategy Champions are, on average, stronger than peers across all the building blocks and the underlying capabilities in the Strategy Method, their deepest strengths vary in important ways based on the context they face. This is a significant advantage in today's extremely uncertain environment.

### Different contexts, different strengths

Aside from analyzing 400 companies' strategy capabilities, we assessed how they factored in a powerful external element: the level of uncertainty. The results demonstrate that strategy capabilities work together as a system: Strategy Champions aren't just stronger than others at strategy overall; they have the right strengths for the level of uncertainty that they face.

When uncertainty is low, Strategy Champions prioritize exploring value-creating bold moves, seeking or forging discontinuities that can present opportunities with an exceptional ability to find the right level of boldness. They often rely on their scale, scope, or innovation capabilities to change competitive dynamics. To move up the Economic Profit Power Curve in highly stable environments, these moves need to be forceful enough to dislodge leading incumbents.

The combination of finding or creating discontinuity and capitalizing on it with bold action can give companies a lasting advantage. Walmart's massive investment in supply chain automation to

# Organizations unaccustomed to sudden disruption often need to develop new strategy muscles.

generate a cost advantage and Disney's systematic acquisition of content franchises to become a leading player in family entertainment were strategies aimed at building an edge over competitors during stable times.

Changing the status quo during stable times requires steely conviction, however. Companies that fail to honestly assess their competitive advantages can find themselves doubly disadvantaged: They may lack both the solid foundations to make bold moves and the leadership resolve to push through when things go wrong.

In times of change or volatility, opportunities and risks abound. In such periods, Strategy Champions' most distinctive capabilities shift from exploring bold moves to aligning on the strategic challenges. Boldness still prevails, but when multiple futures seem plausible, Strategy Champions focus less on finding or creating opportunities than on aligning with conviction on selected opportunities and the approaches to managing attendant risks—and doing so [more quickly and capably than competitors](#) do. Microsoft CEO Satya Nadella has [repeatedly exemplified this mindset](#), as when he unified the board and the organization around the goal of becoming a cloud-first company rather than protecting Windows revenues.

To navigate high uncertainty, leaders often have to adapt the strategy, which in turn benefits from disciplined documentation of the assumptions that underpinned the original strategic decisions. Best Buy's turnaround under CEO Hubert Joly embodied this adaptive approach in [what he calls the "bicycle theory"](#): "If you have tried to direct a bicycle from a standstill, it's very hard; you fall. If the bicycle is moving, it may not be moving in the right direction, but it doesn't matter; you can course correct." Companies that fail to document their assumptions and continually test their hypotheses end up being unable to distinguish between execution problems and strategic-hypothesis failures, leading to continued investment in flawed approaches rather than intelligent adaptation.

These findings reinforce the fact that different contexts require different playbooks. Yet in our experience, few companies consciously make such adaptations. Many continue with their established approaches rather than identifying strategy capabilities to strengthen or build. Organizations accustomed to stable markets that suddenly face disruption often need to develop new strategy muscles.

## Mastering the craft of strategy

How can an organization that aspires to become a Strategy Champion improve its strategy capabilities? It should start with setting clear, shared standards for strategy. Our survey shows that stragglers are nearly twice as likely as Strategy Champions to have little or no agreement

about what constitutes high-quality strategy. This matches our experience: Strategy is an often-misunderstood concept, and the lack of understanding results in unproductive debates and flawed decision-making.

Some leading companies have established bespoke approaches to promoting the strategic thinking that they seek. Amazon, for example, distinguishes between “Type 1” decisions (those that are irreversible or nearly so) and “Type 2” decisions (those with relatively short-term consequences) when allocating management attention, and its practice of the six-page memo stresses clear thinking. Mercado Libre, meanwhile, uses a 90–10 system that fully empowers leaders to make most decisions, with the expectation that the 10 percent of decisions that involve high stakes and are irreversible are managed collaboratively. Such shared understanding fosters speed: Strategy Champions are 1.7 times more likely than stragglers to consistently make strategic decisions at the right speed.

Commitment to strategy excellence also has a financial dimension. Strategy Champions are twice as likely as stragglers to have budgets that are dedicated to improving their strategy capabilities and one-third more likely to have full executive-team support for investing in those capabilities. The growing frequency of external shocks and [the increasing importance of AI in strategy development](#) make such capabilities critical.

As an organization's chief strategist, the CEO is essential to focusing attention on strategy. The experience of Rolls-Royce under CEO Tufan Erginbilgiç illustrates [the cultural reset that this may require](#). Facing significant performance challenges, Erginbilgiç launched a strategic review framed around making clear choices. He involved about 500 leaders in what he described as a necessarily “chaotic” process. “Because you’re making choices in the room, by the time you’re done with strategy, the whole organization is aligned,” he told us. The process didn’t just change Rolls-Royce’s strategic direction but aligned minds on what high-quality strategy means and requires.

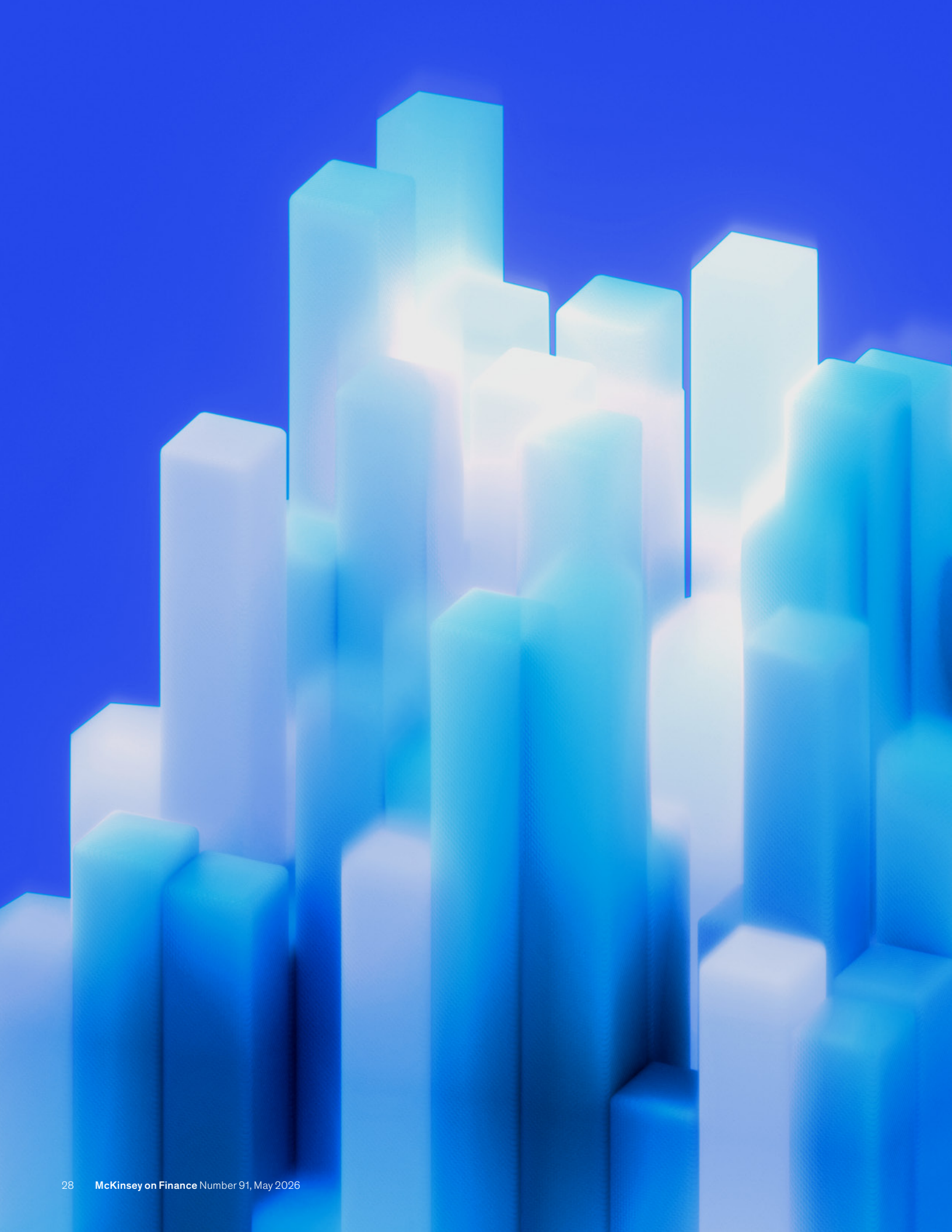
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The aim of strategy has always been to make hard choices under uncertainty to unlock exceptional results. But our research and experience have revealed something that many companies miss: Strategy Champions have both brilliant visions and the right set of strengths to bring them to life. They embrace all 12 Building Blocks of Strategy, from design to mobilization to execution. In today’s tough game with high stakes, mastering the craft of strategy is the bridge to becoming a Strategy Champion.

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# Gen AI in M&A

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From theory to practice  
to **high performance**

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Gen AI helps companies cut costs and close M&A deals faster, positioning them for the next wave of innovation.

*by Kameron Kordestani and Rui Silva,  
with Julia Berbel*

**T**

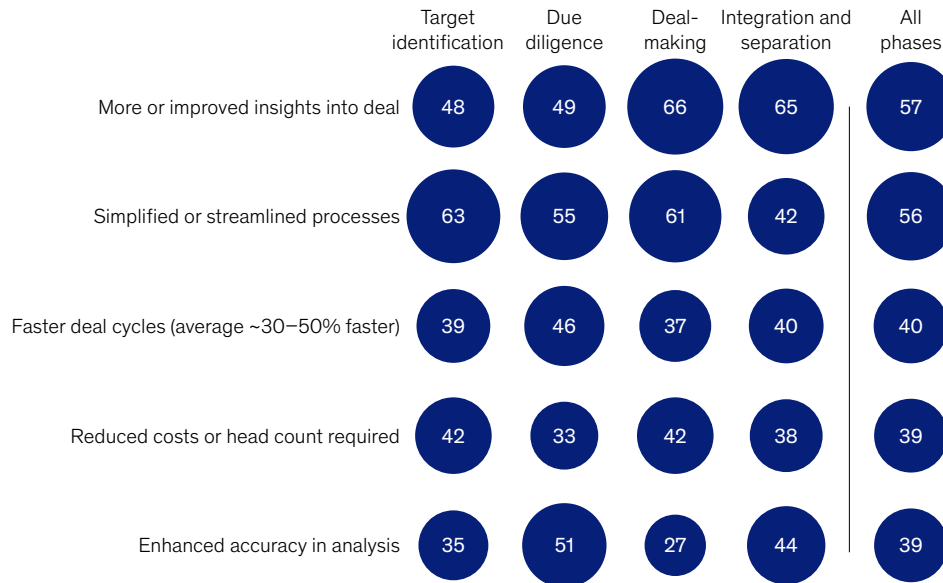
**hat didn't take long.** In 2024, the [opportunities to apply gen AI to M&A deals](#) were just emerging, and dealmakers were focused on learning about potential use cases. But since then, the number of gen-AI-enabled tools and capabilities on the market has exploded.<sup>1</sup> In a survey we conducted last year, the respondents who say they are using gen AI in their M&A activities report an average cost reduction of roughly 20 percent. Forty percent of respondents report that gen AI enabled 30 to 50 percent faster deal cycles (Exhibit 1). Of all respondents, 42 percent say they believe gen AI has the potential to transform or to bring highly differentiating capabilities to the deal process (Exhibit 2).

Although excitement about gen AI is high and users report compelling results, our survey also finds that only 30 percent of respondents engage with gen AI at moderate to high levels. Even among avid users, the large majority of respondents currently rely on commercially available gen AI chatbots, not customized, proprietary tools. Respondents across industries and company sizes identify a lack of expertise as their main challenge to AI adoption.

Exhibit 1

**M&A practitioners using gen AI are most excited about unlocking insights and streamlining processes.**

**Top benefits observed from using gen AI tools in M&A, by phase, % of respondents (top 3 factors)<sup>1</sup>**



<sup>1</sup>Question: What are the primary benefits you have observed from using gen AI? Respondents were asked to select 3 benefits for each of 4 categories. This question was not asked of respondents who indicated that they did not use gen AI. Source: McKinsey survey on adoption of gen-AI-enabled tools in M&A processes, 200 participants, 2025

<sup>1</sup> "Gartner forecasts worldwide gen AI spending to reach \$644 billion in 2025," Gartner, March 31, 2025.

Exhibit 2

## More than 40 percent of respondents observe significant impact from and plan robust adoption of gen AI in M&A.

**Predicted impact of gen AI tools on M&A differentiation, % of respondents<sup>1</sup>**



**Aspirations for adopting gen AI in M&A, % of respondents<sup>2</sup>**



<sup>1</sup>Question: To what extent do you believe that gen AI will be a differentiator in M&A? Respondents were asked to select from 4 categories (each with a description).

<sup>2</sup>Question: What would you say is your company's aspiration for the use of gen AI? Respondents were asked to select from 4 categories (each with a description).

Source: McKinsey survey on adoption of gen-AI-enabled tools in M&A processes, 200 participants, 2025

Given the rapid pace at which [gen AI is advancing](#), it may be tempting for some M&A teams to take a “wait and see” attitude toward tools and capabilities. However, we suggest the opposite approach. As this article describes, teams can benefit by recognizing what tools are already on the market and how companies are currently using them to identify M&A targets, accelerate diligence, and augment integration planning and execution. By engaging with the current tools and understanding how they are evolving, M&A teams can develop the necessary documentation, inputs, and systems they will need when the next wave of innovation arrives.

Gen AI is moving fast, and forward-thinking M&A practitioners are already embracing it. The next era of M&A will be defined by teams that don't wait on the sidelines but learn to surf the gen AI wave as it gains speed.

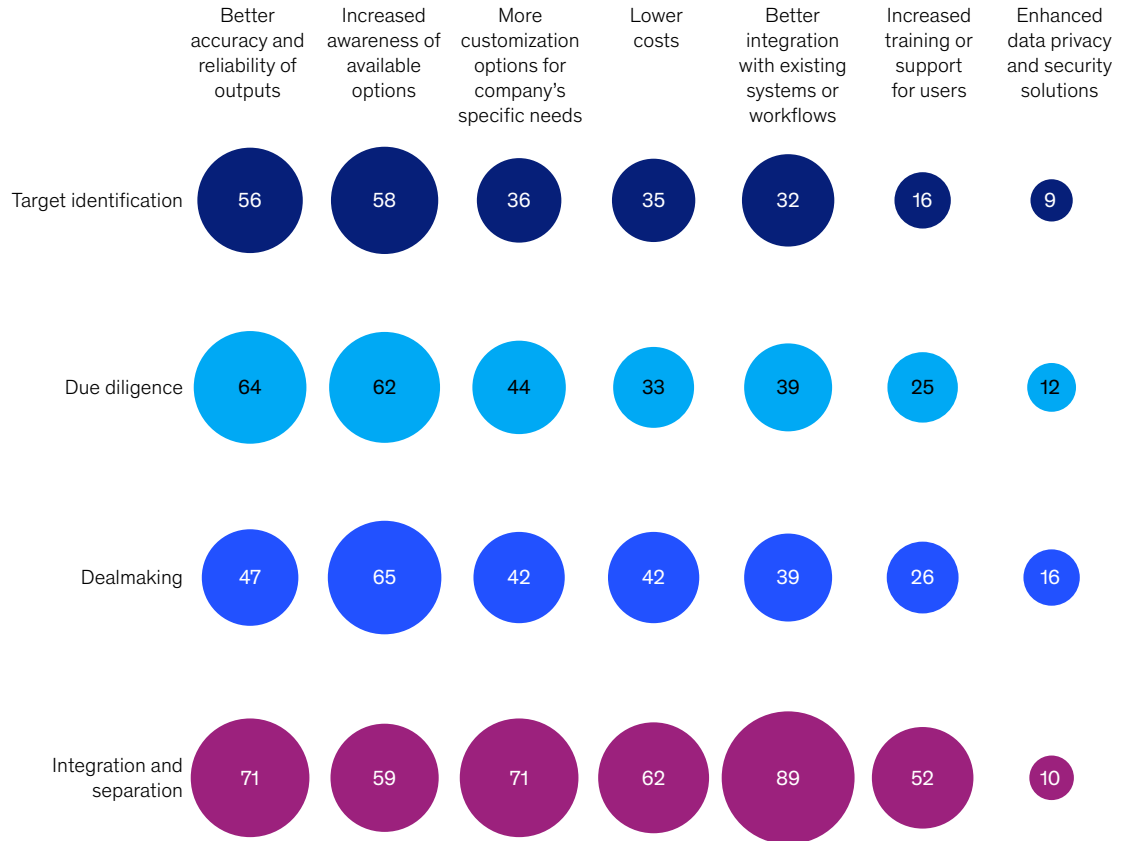
## Target identification tools, present and future

Of respondents reporting moderate to high gen AI adoption, the majority use it for target identification and due diligence (Exhibit 3). Gen-AI-enabled tools customized for M&A combine large language models (LLMs) trained on a company's deal history and strategy materials with machine learning algorithms that cluster thousands of potential targets by attributes such as business model, growth profile, and market adjacency. Specialized AI agents can read and summarize diligence files, extract insights from internal data, and draft search criteria automatically. Over the past roughly 12 months, many of these tools have improved as the underlying LLMs have developed stronger reasoning and analytical capabilities.

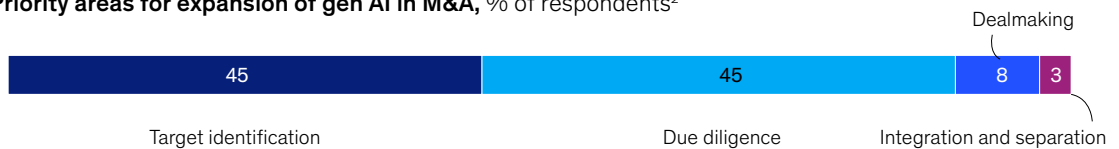
Exhibit 3

## Respondents primarily use gen AI for M&A target identification and due diligence, and better accuracy and reliability would encourage its adoption.

**Top factors that would help gen-AI-tool adoption in M&A,**  
% of respondents (top 3 factors)<sup>1</sup>



**Priority areas for expansion of gen AI in M&A, % of respondents<sup>2</sup>**



<sup>1</sup>Question: What could help increase gen-AI-tool adoption in target identification, due diligence, dealmaking, and integration and separation? Respondents were asked to select and rank ≤3 factors.

<sup>2</sup>Question: If you could expand your use of gen AI in M&A, what would be your priority areas to do so? Respondents were asked to select their top 3 of 7 choices: target identification, due diligence, valuation modeling, contract drafting and negotiation, integration and separation planning, integration and separation execution, and other.

Source: McKinsey survey on adoption of gen-AI-enabled tools in M&A processes, 200 participants, 2025

For example, a fast-growing business software company used a third party’s advanced AI-powered scouting platform to rapidly accelerate the target identification process. The tool combines gen AI with a proprietary database of more than 40 million public and private companies and uses semantic search (which understands meaning, not just keywords) to find businesses that align with a buyer’s strategy. Among the tool’s outputs is a table that awards scores across the categories that matter most to an acquirer, as well as comparative overall target company scores (Exhibit 4). In less than a day, the tool helped the team identify and score more than 500 potential targets that fit a long set of requirements (including CAGR, customer segment targets, employee culture, market size, and region). After a few rapid iterations, the corporate development team prioritized 15 deal leads, a process that culminated in three completed acquisitions only a few months later.

Gen AI tools are evolving toward performing as strategic partners. Envision a tool that can analyze a company’s strategy; identify its top M&A opportunities by assessing factors such as earnings calls, stock price changes, and patent activity; and then identify potential targets. We estimate that within the next two to five years, accurate and dependable end-to-end gen-AI-powered M&A tools will be available.

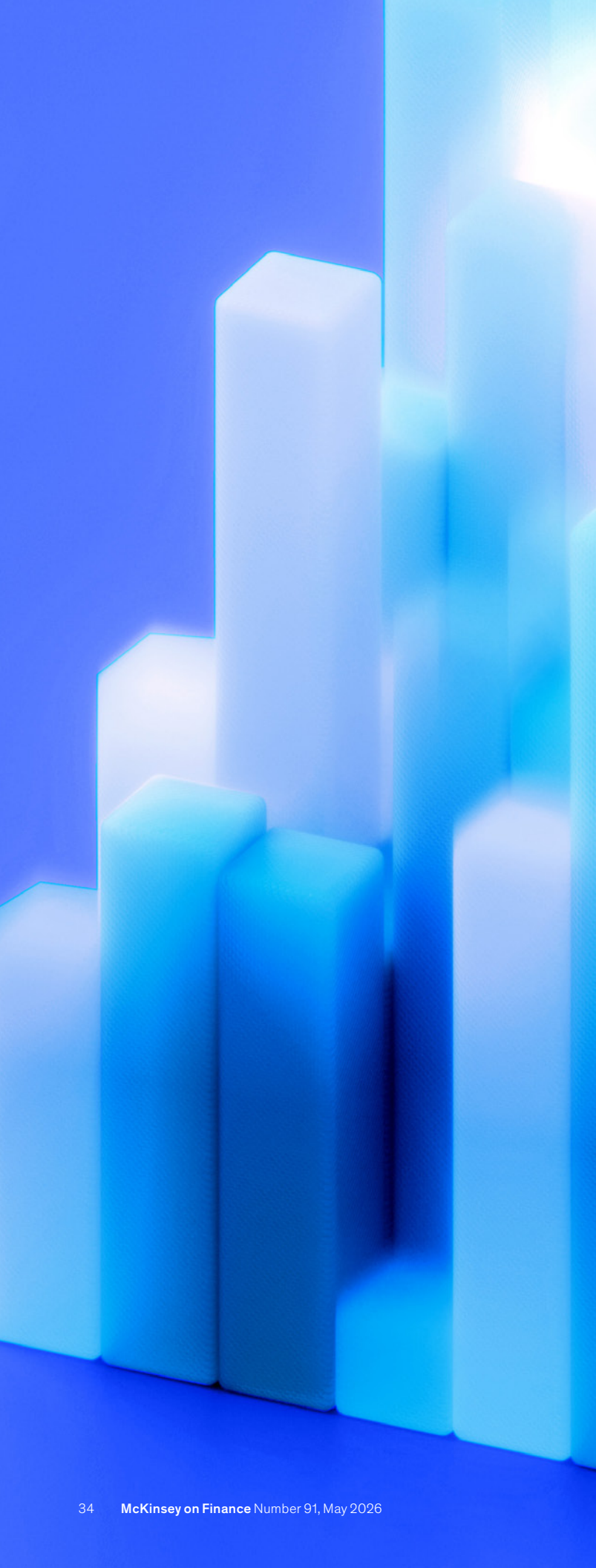
Exhibit 4

### An advanced AI-powered scouting platform can award scores across the categories that matter most to an acquirer, helping identify targets.

Illustrative dashboard of an advanced AI-powered scouting platform

Potential targets	Inventory											Score	
	Visual search	Style tagging	AR/VR <sup>1</sup>	Structured data	Trend spotting	Geography	Primary industry	Revenue	Customer scale	Patents and awards	Full-time employees		Ownership
Company A	●	●	○	●	●	■	■	■	■	■	■	■	2.85
Company B	●	○	●	○	○	■	■	■	■	■	■	■	2.85
Company C	●	●	●	●	○	■	■	■	■	■	■	■	2.85
Company D	●	●	○	○	○	■	■	■	■	■	■	■	2.77
Company E	●	○	○	●	○	■	■	■	■	■	■	■	2.77
Company F	○	○	●	○	○	■	■	■	■	■	■	■	2.69
Company G	●	●	●	●	○	■	■	■	■	■	■	■	2.69
Company H	○	○	○	●	●	■	■	■	■	■	■	■	2.62
Company I	○	●	●	○	○	■	■	■	■	■	■	■	2.54
Company J	●	●	○	●	●	■	■	■	■	■	■	■	2.54
Company K	●	●	○	○	○	■	■	■	■	■	■	■	2.48
Company L	●	●	○	○	○	■	■	■	■	■	■	■	2.38
Company M	○	●	●	○	○	■	■	■	■	■	■	■	2.38
Company N	○	○	●	●	○	■	■	■	■	■	■	■	2.33
Company O	●	○	○	○	●	■	■	■	■	■	■	■	2.31
Company P	○	●	○	○	○	■	■	■	■	■	■	■	2.31
Company Q	○	○	●	○	○	■	■	■	■	■	■	■	2.31
Company R	○	○	○	○	●	■	■	■	■	■	■	■	2.31
Company S	○	○	○	○	●	■	■	■	■	■	■	■	2.31
Company T	○	○	○	○	●	■	■	■	■	■	■	■	2.31

<sup>1</sup>Augmented reality/virtual reality.  
Source: PitchBook; S&P Capital IQ; McKinsey analysis



To prepare, companies can document their corporate and M&A strategies and the specific criteria that make deals attractive. They can identify which public and private sources are most relevant for scanning potential targets so that they can eventually train AI tools to gather data from them. These moves will help position M&A teams to capture full value as soon as more advanced tools arrive.

## **Diligence assistance, today and tomorrow**

Once an organization has a list of potential targets, an M&A team typically scrutinizes them to ensure they fit the strategic rationale for the potential deal. For example, the target may open new growth channels or geographies, create synergies, or bring new capabilities. This time- and resource-intensive process requires that practitioners acquire a detailed understanding of the targets. During this phase, acquirers and targets can spend hundreds or even thousands of hours conducting meetings, exchanging emails, and creating and reviewing process documents and data.

A suite of gen AI tools available today can accelerate this process while ensuring nothing is missed. For example, one tool enables M&A teams to search a large library of expert interview transcripts (recorded conversations with thousands of industry and functional specialists) using natural-language questions to uncover insights into companies, industries, and products. Another tool can access virtual data rooms, using gen AI to search, summarize, and organize thousands of diligence files. It can analyze financials, respond to common diligence questions, and enrich findings with public and proprietary data on factors such as customer and employee sentiment.

Our survey revealed a strong appetite for tools that aid in the diligence process. We estimate that within the next two years, gen AI tools will improve enough to make diligence a continuous and connected part of the deal cycle. They may be able to automatically

feed insights from diligence into target screening and postclose integration planning, as well as learn from each deal to inform the next. To prepare, companies can start structuring their deal data and linking gen AI capabilities to their existing M&A systems.

## The future of integration planning and execution

Integration planning and execution are critical to realizing an acquisition's objectives. Poorly managed, these phases can quickly drain value due to irritated customers, frustrated employees, or regulatory penalties. In deals involving large companies, integrations typically require dozens of teams and hundreds of employees and take two to five years to complete. The large investment in time and resources can often distract from a company's organic growth prospects.

Today, tools exist that can help automate some integration tasks. A well-trained gen AI agent (including off-the-shelf products and products companies develop in-house) can analyze a deal's context and produce a day one readiness and postclose integration plan (admittedly, of varying levels of accuracy and excellence) in a matter of minutes. Gen AI agents can be trained to produce communication materials, such as day one letters for customers or suppliers, deal close press releases, employee change management manuals, and integration update newsletters. At present, these tools eliminate some of the intellectual and manual labor of organizing and executing an integration plan. However, they require abundant human judgment and oversight.

Based on the current trajectory, we estimate that in two to three years, there will be gen-AI-enabled tools that automate more than half of all integration-related tasks. To prepare, companies can focus on refining their integration playbooks and documenting their approaches to a variety of integration decisions and tasks. When the next generation of tools arrives, prepared companies will be well positioned to upload their approaches into them and immediately benefit from their automation capabilities.

**We estimate that in two to three years, there will be gen-AI-enabled tools that automate more than half of all integration-related tasks.**

# How M&A teams can adapt to gen AI and prepare for the future

Our survey revealed that a large majority of respondents identified a lack of expertise as their company’s top challenge in adopting gen AI (Exhibit 5).

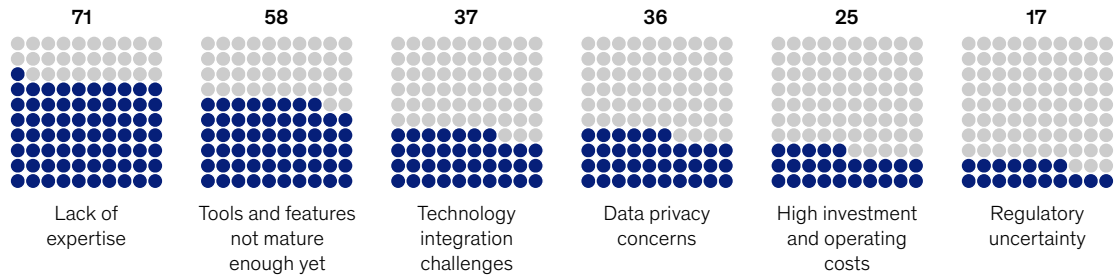
Companies can choose from the following steps to integrate gen AI into their current M&A processes and develop more expertise. The more actions they take, the better positioned they will be to benefit from future technologies:

- *Assess current M&A processes, capabilities, and tools* to identify the workflows (such as deal speed, insights, and integration) where automation could be most helpful. For example, if the company is in a market with players of many sizes scattered across geographies, gen AI might have the greatest impact on deal scanning; however, for companies that belong to a narrow sector where talent or intellectual property is crucial, executing a successful people or operational integration may be more important.
- *Build AI fluency across M&A teams.* Encourage teams to explore existing tools and request live demonstrations where possible. Organizations can also evaluate which capabilities can be developed internally by leveraging existing LLMs.
- *Secure executive sponsorship.* Establish clear ownership and a senior champion to guide the gen AI agenda.

Exhibit 5

## Respondents identify their own lack of expertise and the immaturity of tools as top obstacles to the adoption of gen AI in M&A.

Top challenges to adopting gen AI in M&A, % of respondents (top 3 factors)<sup>1</sup>



<sup>1</sup>Question: When thinking about the next step in adopting gen AI in M&A, what are the primary challenges for your company? Respondents were asked to select and rank ≤3 answers.  
Source: McKinsey survey on adoption of gen-AI-enabled tools in M&A processes, 200 participants, 2025



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- *Formalize M&A playbooks.* Analyze and document the company's M&A philosophy. For example, what percentage of value capture does the company typically seek within the first six months of an acquisition? Do the same for the company's methodology. For example, does the talent selection process in an integration differ from the usual process for identifying talent?
- *Develop a one- to two-year road map* for making gen AI part of the company's M&A operations. A wait-and-see approach risks falling behind in the process; realizing the benefits of gen AI requires deliberate planning, change management, and sustained commitment.

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Gen AI is no longer just theoretical in M&A. Leading teams are already using it to identify targets, accelerate diligence, and enhance integration planning and execution. The next generation of tools will be even more capable, linking internal and external data, automating larger parts of a variety of processes, and learning from each deal. Companies that begin building AI fluency, formalizing their M&A playbooks, and creating a one- to two-year road map for gen AI adoption will be best positioned to capture the value of the innovation wave still to come.

**Kameron Kordestani** is a senior partner in McKinsey's New York office, where **Rui Silva** is a partner and **Julia Berbel** is a consultant.

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# The capex crucible

What finance teams can learn  
from data center builds



## The data center industry's growth rate is pushing teams to innovate. Its tool kit offers lessons for others.

by Erikhans Kok, Marc Sorel, Pankaj Sachdeva, and Piotr Pikul, with Dave Sutton, Judith Kahler, and Riya Garg



**B**y 2030, we estimate that global data centers will need roughly \$7 trillion in capital. This estimate includes \$1.7 trillion to \$1.9 trillion in construction costs, which is the second-largest cost segment after servers. Finance teams at hyperscalers, colocation operators, energy providers, private-capital sponsors, and other players in the data center value chain must make complex decisions under intense time pressure. This article explores how data center leaders have responded to these pressures by adopting approaches to enhance speed, efficiency, and cost control that can be instructive for leaders of other large capital projects.

Of approaches that accelerate time to market, one of the most compelling is [generative scheduling](#). Generative scheduling is an AI-enabled optimization approach to automatically generate and evaluate millions of feasible project schedules based on the project scope, logic rules, constraints, and resource availability. It then identifies the schedules that best meet a chosen objective (including shortest duration, lowest cost, or most efficient resource use) and supports rapid what-if scenario testing to mitigate the impact of disruptions or explore acceleration options. The result is a fully resource-loaded schedule that planners can review and refine.

Another important approach, which helps drive down costs, is [should-cost modeling](#). This is a bottom-up cost estimation model that defines what a project should cost based on its underlying components, inputs, and design assumptions. Unlike traditional budgeting approaches, which often rely on historical spend, supplier quotes, or what similar projects have cost at peer companies, it starts from first principles to build costs up from the ground.

Used together, these approaches—along with other strategies that reduce time to market—help finance teams manage capital more efficiently. According to our analysis, in the data center industry alone, trimming capital spending by even 10 percent could yield roughly \$170 billion to \$190 billion in potential savings by 2030, while speeding up the process could reduce time from breaking ground to ready for service by 10 to 15 percent.

The intensity of the current data center build-out is new, but the underlying challenges are familiar to any organization delivering large capital projects. This article explores how CFOs, finance teams, and other executives can improve ROI and capital productivity by using generative scheduling and other methods to accelerate delivery, and by applying should-cost modeling to strengthen financial oversight. While the examples focus on data center builds, the lessons apply to any finance leader guiding a large-scale capital project.

## **Five ways to accelerate time to market**

Generative scheduling is a critical capability for accelerating time to market because it replaces fixed plans with continuously optimized execution paths. Beyond generative scheduling, data center leaders rely on complementary strategies to shorten delivery timelines and improve predictability. When applied in coordination with generative scheduling, these approaches enable finance teams to speed project delivery, anticipate schedule risks, evaluate different execution choices, protect cash flow, and make faster, more informed decisions.

### **Generative scheduling for comprehensive and optimal planning**

Traditionally, capital project planning relies on static schedules built around assumed task sequences, durations, and resource availability, which makes it difficult to adapt quickly when conditions change and delays begin to cascade. Generative scheduling provides an alternative planning system that considers all resource and sequence options and continuously updates as conditions change. Given the scale and pace of current data center development, we expect generative scheduling to become standard practice across the data center industry over the next several years.

Building this capability requires more than deploying new software. Organizations must invest in skills and training and develop the ability to work with large, complex data sets. They must also translate engineering and construction inputs into simplified, decision-ready outputs that leaders can act on quickly. When embedded effectively, generative scheduling becomes a repeatable and scalable planning approach. It delivers value across projects of very different sizes, from small, few-megawatt facilities to multi-gigawatt campus developments.

**Generative scheduling is a critical capability for accelerating time to market because it replaces fixed plans with continuously optimized execution paths.**



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One data center operator used generative scheduling while developing a 20-megawatt facility. The team set out to identify the steps on the critical construction path, test what-if scenarios to see how different choices would affect delivery, and design a construction sequence that could be repeated on future projects. Generative scheduling helped the operator reorganize the order of construction tasks. By resequencing how the core and shell were built and how the data halls were fitted out, the team shifted work out of the set of tasks that determined the project's finish date. The change meant delays in those activities would no longer slow down the overall project, allowing the build to move about 10 percent faster than originally planned.

Generative scheduling provides high-quality, scenario-ready project data that CFOs and other finance professionals can translate into financial insights. Finance teams do not manipulate schedules directly but rather use generative scheduling outputs, including critical paths, task sequences, and alternative scenarios, to inform budgeting, capital allocation, and risk planning. For example, if a schedule change accelerates a particular task, the finance team can quantify the resulting impact on cash flow, material costs, or milestone payments. Conversely, if there's a delay, finance leaders can determine additional financing needs, potential penalties, or lost revenue. Dashboards, scenario analyses, and reporting that highlight the cost and ROI implications of scheduling decisions make it easier to align project execution with financial objectives and overall capital efficiency.

By helping project managers and other stakeholders understand the trade-offs between speed, cost, and resource allocation, finance leaders can demonstrate the value of generative scheduling. This gives stakeholders a clear reason to use the capability consistently. Similar approaches have already been adopted in advanced manufacturing sectors such as semiconductor fabrication.

## Four additional approaches for speed and efficiency

1

**Early site selection and preparation:** [Early site selection, feasibility studies, and land banking](#) ensure that schedules rest on realistic assumptions about economics, location, and [power availability](#) (crucial for data centers but also for other large capital projects).

Early investment in site readiness matters to finance teams because it can prevent costly delays later and reduce the risk of extended financing or missed revenue milestones. By evaluating the capital implications of early site actions, prioritizing funding for the highest-value locations, and tracking how early preparation mitigates project risk, finance teams help ensure that these initial investments deliver measurable financial benefit.

2

**Standardizing designs and modular construction:** Design standardization has become a core enabler of speed and capital efficiency in large-scale data center development. Leading owners deploy repeatable designs across portfolios that span core and shell, mechanical and electrical systems, process systems, and execution sequences. High levels of standardization reduce variation, shorten critical-path timelines, improve predictability, enable bulk equipment sourcing, and support consistent execution and commissioning. For finance teams, these benefits translate into more stable costs per megawatt, faster realization of scale economies, and greater confidence in schedule-driven cash flow forecasts.

[Modular and prefabricated construction](#) extends these advantages by shifting work off-site and compressing on-site fit-out timelines, particularly for mechanical, electrical, and plumbing systems. Today, most projects rely on skidded and micromodular approaches rather than fully modular data halls, improving quality and reducing labor risk while accelerating delivery.

While standardization is critical to capital discipline, it is increasingly challenged by evolving requirements, such as higher densities and AI-driven workloads. Finance teams play a critical role in managing this tension by quantifying the cost and ROI impact of design changes, setting guardrails around deviations from standards, and ensuring that flexibility is applied selectively (namely, where it creates value and doesn't erode capital discipline).

3

***Forward buying and strategic procurement:*** Critical equipment such as generators, transformers, and switchgear can have lead times of 12 to 24 months or longer.

Preordering and inventorying these supply-constrained components requires earlier deployment of capital, which may be warranted to offset bottlenecks and prevent cascading delays during construction.

Finance teams can evaluate the trade-offs between early capital deployment and risk mitigation, ensuring budgets reflect the timing of strategic purchases.

4

***Innovating contracting models:*** Leading data center developers are rethinking how they contract with general contractors and key partners to reduce time to market.

Rather than treating each project as a stand-alone transaction, they form long-term partnerships with a small set of preferred contractors, engage them early in the design process, and align incentives around schedule acceleration and execution reliability, sharing both risk and reward across the delivery team. These models often include multiproject agreements, early contractor involvement, and incentive structures tied to milestone completion or early delivery.

For finance teams, contracting innovation improves delivery speed by increasing predictability across portfolios and shifting behavior on-site. Clear incentives and shared accountability encourage faster decision-making, better sequencing, and earlier identification of execution risks. By structuring contracts that reward timely delivery and coordinated execution across multiple projects, finance leaders help ensure that capital translates into capacity on the ground as quickly as possible.



## Optimizing spending with should-cost modeling

Controlling capital spending is as critical to CFOs and their teams as accelerating delivery. One of the most important metrics of financial discipline in the data center industry is cost per megawatt. Reducing this metric requires designing facilities that meet essential requirements without unnecessary complexity, managing equipment spend, and improving project execution.

Should-cost modeling is a structured method used to estimate what a project, product, or component will cost. It breaks down total costs (such as for mechanical, electrical, and plumbing; core and shell; and utilities) into their fundamental elements, including materials, labor, equipment, and overhead. This method can help CFOs and their teams identify opportunities to self-manage contracts, renegotiate supplier terms, and make informed trade-offs, ultimately reducing costs while maintaining quality and performance.

Finance professionals need to understand where costs originate, how assumptions affect budgets, and what levers they can influence. Their responsibilities include validating project inputs; integrating market intelligence such as labor rates, material prices, and inflation projections; and interpreting model outputs to inform decision-making. They monitor key cost drivers, identify potential overruns, and prioritize areas where savings are most achievable. Their engagement ensures not only accurate budgeting and predictable ROI but also stronger negotiating positions with suppliers.

Based on McKinsey's work with data center operators, should-cost modeling shows savings potential of up to 20 percent in the best cases, though most projects can realistically expect to capture between 5 and 10 percent. For example, an international data center operator recently used should-cost modeling to develop a large-scale facility. By refining design specifications, renegotiating supplier terms, and validating spending through external benchmarks, the company identified a 7 to 12 percent reduction in total costs. Beyond the financial upside, the CFO gained a clearer understanding of the factors contributing to project costs. That insight improved the operator's budgeting accuracy and strengthened its negotiating position with suppliers.

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Data center finance teams are tasked with managing complexity with speed and precision. The approaches data center finance teams are utilizing to accelerate timelines and control costs can help executives across sectors run large capital programs more efficiently. Leaders who master these approaches will set the next standard for capital expenditure excellence.

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# Two can be better than one

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Pros and cons in a dual-track separation

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Pursuing a public listing and a trade sale in tandem expands options. But the dual track isn't an easy road to travel.

*by Anna Mattsson and Jamie Koenig, with Rahul Wunsch*



**F**or companies considering [a strategic separation](#), a dual-track process—pursuing both a public listing and a trade sale in parallel—can be a powerful way to gauge market value, enhance deal certainty, and preserve exit flexibility.<sup>1</sup> By preparing for both paths, companies can test buyer appetite without prematurely committing to a sale, encourage better offers, and adapt as market conditions evolve.

These benefits come at a cost, however. Dual-track approaches are complex, resource intensive, and require careful orchestration. In our experience, companies that succeed with a dual-track approach treat both tracks as a fully committed, parallel effort supported by strategic clarity, disciplined execution, flexible planning, and strong governance. They invest deliberately, manage internal pressure, and exit the dual process at the earliest opportunity.

In this article, we explore when and why dual tracks can be advisable, unpack the trade-offs, and share practical lessons from real-world transactions.

## When a dual-track approach makes sense

When [preparing for a divestiture](#), leaders must assess two primary transaction paths: a sale to a strategic or financial buyer and a public listing, typically via an IPO or a spin-off. A sale represents a direct transfer of ownership, while a listing establishes the business as an independent, publicly traded company.

Company leaders, including board members and executive teams, have a fiduciary responsibility to evaluate [the relative advantages and risks of each path](#). The right choice often depends on the specific context of the deal, and making it requires a clear-sighted assessment of valuation potential, execution risk, timing, and strategic alignment (table).

**By preparing for both paths,  
companies can test buyer appetite  
without prematurely committing  
to a sale.**

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<sup>1</sup> In practice, nearly every company exploring an IPO also considers the possibility of a trade sale. This early-stage optionality could itself be viewed as a form of a dual track, since leaders and boards naturally weigh both avenues before committing resources. For clarity, this article focuses on situations in which companies deliberately sustain the dual-track process over time, as a strategic choice, rather than following the more common, short-lived exploration of alternatives that precedes most IPO preparations.

Table

## Under certain separation conditions, a dual-track approach may be preferable to a sale or public listing.

### Factors that influence transaction path selection

Key attribute	Sale	Public listing	Dual track
Asset profile and size: Is the business large enough to stand alone and attract public-market attention?	Manageable for likely buyers	Large enough to stand alone publicly	Large enough to list; potentially suitable for right buyer
Valuation potential: How does expected valuation compare across a sale and a listing?	Likely to meet value goals	Public markets are expected to value higher	Valuation gap possible; benchmark or competitive tension is needed
Deal certainty and speed: How quickly must transaction close, and what's level of execution risk?	Faster, clearer exit	Slower, more complex exit	Material execution risk in one or both tracks; sale certainty is critical
Market receptivity: Is there strong interest from potential buyers or capital markets?	Strong buyer interest	Favorable IPO or spin-off window	Mixed signals across markets
Regulatory and tax considerations: Are there favorable or prohibitive implications?	No major hurdles	Constraints limit sale	Potential complexity of either track warrants optionality

But there are cases when the right choice is to delay making a choice and to pursue both options in tandem. This dual-track approach allows leaders to preserve flexibility and maximize value up to the point when it's most advantageous to select one of the two tracks. A dual track is often pursued in the following cases:

- **Optionality and competitive tension are important.** There may be no clear buyer, particularly for large or complex assets, or public-market receptivity may be uncertain. A dual track allows leaders to test both paths, create competitive tension between bidders and investors, and pivot based on early traction in either path.
- **Valuation is difficult to assess up front.** Valuation is particularly difficult when there's a mismatch between public- and private-market valuations. Running both paths in parallel helps benchmark valuation expectations, test market appetite, and validate where the best outcome can be achieved.
- **Execution risks are high.** Such risks include regulatory hurdles that could delay or block a sale, potential gaps in IPO readiness due to public-market requirements, and the time needed to build required stand-alone capabilities.

## Navigating the challenges of dual-track execution

While the strategic upside of a dual-track approach can be considerable, executing it successfully is far from straightforward. Deal and separation teams must be clear eyed about the trade-offs to manage them effectively.

### **Conflicting priorities, schedules, and opinions**

Coordinating two distinct deal paths, each with its own requirements, timeline, and audience, is complicated. Strategic buyers tend to emphasize synergies, integration potential, and cost takeout, while public-market investors are focused on stand-alone growth prospects and long-term margin trajectory. Reconciling these differing narratives, which are often built on distinct investment theses, is a complex and resource-intensive effort.

Timing misalignment is another common challenge. IPOs follow regulatory calendars and market windows, while M&A timelines depend on buyer readiness and negotiation cycles. As a result, teams often face pressure to deliver critical milestones on both tracks simultaneously, despite the fact that the two paths may not align. This can create bottlenecks or force premature commitments.

Layered on top are conflicting stakeholder preferences. Advisers, boards, and executives may diverge in their preferred outcomes, shaped by incentives or past experiences. These differences in opinion can create friction, particularly when it comes to prioritizing resources and making irreversible decisions, such as hiring, system investments, and customer announcements.



### **Stressed talent and sunk costs**

The dual-track approach can create intense internal pressure. Senior leaders are expected to lead business performance, run two transaction paths, and prepare for different degrees of separation all at once. IT teams may need to plan for both system carve-outs and data migration. Finance teams must build both IPO-grade financial statements and buyer-oriented diligence materials. Fatigue, burnout, and talent attrition are real risks.

These aren't just financial costs; they can create organizational dissonance and inefficiencies after deal close. For instance, companies may need to move quickly to recruit public-company talent, such as a CFO with public-company experience, an investor relations lead, and an independent board with governance credentials. Similarly, they may have to launch stand-alone functions in finance, HR, or legal groups, despite the fact that a strategic buyer could absorb them through shared services or transitional agreements.

## **Six ways that successful companies overcome dual-track challenges**

A global agriculture company committed to planning for a public listing of a major segment while simultaneously running an auction process for the asset. Executives held monthly go/no-go checkpoints, assessing progress and evaluating the continued viability of both paths regularly. By advancing both IPO and sale tracks in parallel, the company preserved flexibility and created deal tension. The credible IPO alternative strengthened its negotiating position, while the rigor of public-listing preparation signaled execution readiness with a well-defined separation perimeter and plan. As a result, the company was well informed and well positioned when it entered negotiations. Only after signing the sale agreement did the company pause IPO efforts and move fully into separation execution.

The company's approach was a good example of following six best practices that we've observed across successful dual-track initiatives in multiple sectors: Begin with strategic clarity, focus on excellent process execution, be thoughtful about spending and speed, take care of the people, align internal and external messaging, and exit the dual track as soon as possible.

### **Begin with strategic clarity**

Following a dual-track approach isn't a default. It's a choice made after aligning leadership around the goal (whether value maximization, speed, or strategic control) and accepting the trade-offs.

Sometimes the choice to pursue a dual track is made early. Other times, companies receive inbound inquiries from interested buyers after announcing a strategic review or an intent to separate, which sets them on a dual track. In many cases in which a company pursues a dual track, one path serves as the primary objective and the other as a credible fallback. In these situations, the deal is structured to be executable through either path, typically within a defined window. The seller often prepares the asset to meet the more demanding standards of the public market (typically through an IPO or spin-off) while maintaining readiness for a potential sale.

# Following a dual-track approach is a choice made after aligning leadership around the goal and accepting the trade-offs.

## **Focus on excellent process execution**

Early-stage governance is critical for a dual-track approach. The most effective leaders align on key decision criteria (such as valuation, certainty, and stakeholder priorities) and build structured forums to revisit the path as conditions evolve. A shared project management office (PMO) then coordinates both tracks, aligning workstreams, owners, and milestones to avoid duplication and ensure disciplined execution. Such companies develop early materials with both investors and buyers in mind.

Successful companies also make strategic use of nondeal road shows (NDRs)—early investor meetings that test market interest and messaging ahead of a formal IPO. These efforts follow a public disclosure of a company's strategic intent, which enables transparent dialogue with investors and helps safeguard compliance with securities regulations. Insights from NDRs, combined with due diligence insights and early M&A offers, help refine companies' positioning to both audiences. This integrated approach gives companies the flexibility to adapt as conditions evolve and strengthens their negotiating position on both tracks.

## **Be thoughtful about spending and speed**

The best teams assess their investments in the dual-track approach pragmatically. They defer nonessential IPO spending until confidence is higher. They actively plan scenarios, building fast-track and pause options to keep both types of deals alive without overcommitting too early. At the same time, they're willing to invest boldly when the upside justifies it, recognizing that the right preparation can enhance deal value.

In an example of a company that invested heavily, a global pharmaceutical company spent over \$1 billion on a dual-track approach. It favored a spin-off as the preferred path, believing that the option would unlock greater long-term value than the other. But recognizing a spin-off's execution risks, the company also maintained a credible sale option as a backstop.

The billion-plus dollars, spent over several years, enabled full public and stand-alone readiness. The path was longer and more costly than a sale, but it created considerable incremental value by improving margins, increasing growth, and delivering a substantially separated business before the spin-off. Ultimately, investment in the more complex path was worth it to deliver a substantial return to the company's shareholders through the spin-off.



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## Take care of the people

Running two processes while maintaining business performance and preparing for separation puts **enormous pressure on teams**. Successful companies assign dedicated leads for each path, use integrated PMOs to coordinate work, reduce duplication, and actively monitor morale. Burnout and attrition are real risks that, if unaddressed, can delay execution or degrade deal quality. To mitigate these risks, leading companies design a transaction structure with realistic workloads and prioritize recognizing individual and team contributions (which is especially important when considerable time and effort is spent on a path that's ultimately not pursued).

## Align internal and external messaging

When navigating the ambiguity of a dual-track process, winning companies ensure that their internal and external messages are aligned.

Internally, it's essential to be clear about what's happening and, to the extent possible, about how future decisions will be made and communicated. Leaders don't need to promise certainty, but they do need to reduce confusion by being transparent about what's known, what's being evaluated, and what employees can expect in the months ahead.

Externally, inconsistent messaging can erode trust, raise questions about strategic direction, and even affect valuation. This is particularly true if investors sense dissonance between what's said publicly and what seems to be happening behind the scenes. Trusted advisers can play a role in this phase by pressure testing valuation expectations, preparing investor-ready materials, and helping leaders craft a coherent, flexible narrative that supports both tracks.

## Exit the dual track as soon as possible

Cross-functional teams meet regularly and use inflection points (such as nonbinding offer reviews and pre-filing milestones) to decide whether they have the valuation tension, execution certainty, and strategic alignment to proceed down a single path. They have a clear go/no-go decision point and make a deliberate choice as soon as they can determine which is the best choice.

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Preserving optionality during a strategic separation isn't about keeping doors open indefinitely; it's about earning the right to choose by doing the hard work to make both public-listing and sale paths viable. Leaders who succeed in using the dual-track approach know that this isn't a passive strategy. It requires early alignment on what "good" looks like, deliberate investment in both narratives, and the stamina to navigate complexity without losing sight of the goal.

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A person wearing a light blue long-sleeved shirt has their right hand raised, palm facing forward, in a gesture of emphasis or presentation. The background is a blurred industrial warehouse with blue metal shelving units and overhead lighting.

KPI overload makes it difficult for leaders to assess a transformation's effectiveness. Focusing on a few key KPIs can provide a clearer view of a program's health.

# Selecting P&L-linked KPIs for industrial transformations

*by Christoph Schmitz and Philipp Espel, with Moritz Wehking*



**Amid stagnating global demand**, rising protectionism, labor constraints, and regionally disadvantaged energy costs, corporate transformation has become a strategic necessity. European industrial firms in particular face margin and cash flow pressure and stressed operating models. Although these transformers consistently track extensive sets of KPIs, many struggle to determine which metrics truly matter for effective control and critical decision-making during their transformations.

In a proprietary analysis of 18 companies conducted in 2023, McKinsey found that companies use only 29 percent of their defined and tracked KPIs in decision-making. This disconnect reflects a fundamental challenge: Leaders are often overloaded with data. As a result, they lack a clear view as to whether—and to what extent—their transformations are actually creating value. Furthermore, many transformations focus on KPI improvements without considering cost and market pressures, leaving leaders without a clear view of the net balance sheet impact.

A dedicated finance team within the transformation office can fix this problem by implementing a measurement system that links strategic value drivers to a focused, P&L-relevant set of steering KPIs. This article describes components of a solid process for selecting these KPIs, starting with an explanation of why an ROIC driver tree provides the optimal architecture for selecting the KPIs with the greatest P&L impact. It then proposes a set of specific KPIs for value-based steering that have proven relevant and effective across a broad range of transformation programs. It concludes by recommending that transformers use an integrated revenue driver tree to identify the KPIs most critical to managing top-line growth, and that teams conduct monthly assessments of headwinds and tailwinds so they can dynamically adjust transformation targets.<sup>1</sup>

## Tools to build the value architecture for transformations

Effective transformation steering requires KPIs that link directly to value creation and P&L outcomes rather than to broad sets of functionally oriented metrics. An ROIC driver tree is a crucial tool for drilling down to the KPIs that really matter. Gen AI can help with many parts of a transformation, but in its current incarnation, it has some steep limitations.

### How an ROIC driver tree defines the value guardrails

ROIC captures how efficiently a firm converts invested capital into operating profit and reflects core economic performance largely independent of capital structure, financial engineering, and accounting effects. Relative to EPS, P/E, and ROE, ROIC offers a purer measure of operational effectiveness and is the main driver of enterprise value. Comparing ROIC with the weighted average cost of capital (WACC) further sharpens its usefulness as a steering metric, as value is created only when ROIC exceeds WACC.

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<sup>1</sup> Cash flow and balance-sheet-related KPIs are excluded from this article because they are influenced by operational performance and financial-policy decisions, making them unsuitable for isolating the operational mechanisms of interest. Also worth noting, though outside of the scope of this article, are the dedicated finance team's additional responsibilities: It can oversee target setting, define reporting (at minimum, monthly) and review processes, and manage escalation protocols, enabling disciplined and effective financial steering of the transformation.

While ROIC is too high level and complicated to guide day-to-day decisions on its own, it provides a clear top-line objective that can be translated into actionable operational levers through an ROIC driver tree. The driver tree decomposes ROIC into its fundamental components: operating profitability and capital efficiency. Operating profitability is driven by cash generation, operational costs, and revenues, while capital efficiency is driven by the level and productivity of invested capital. These dimensions can be further disaggregated into concrete revenue, cost, and capital intensity drivers (exhibit).

KPIs need not be selected arbitrarily; instead, they can be systematically derived from value drivers. By anchoring KPIs to the ROIC driver tree, transformation leaders can address the common problem of KPI proliferation with weak P&L and balance sheet linkage. Each KPI can thus provide a traceable connection to enterprise value, transforming the KPI system into a value-based steering instrument rather than a collection of functionally optimized measures.

**How gen AI helps—and how it doesn’t**

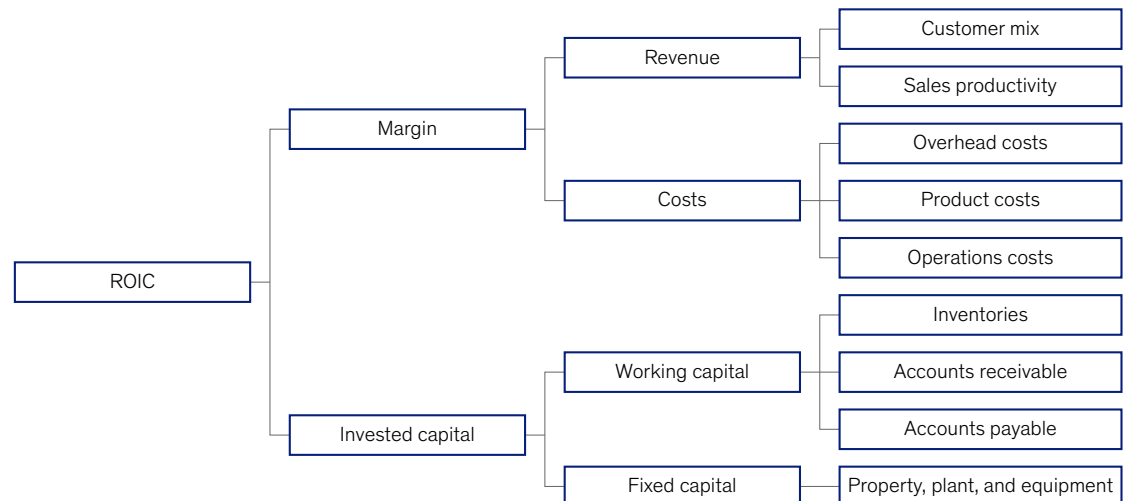
Gen AI represents a significant productivity leap and can meaningfully support transformation analytics. Our experience has demonstrated that gen AI is effective at producing initial hypotheses, structuring first-level driver trees, and serving as an ideation and reality check tool. It provides useful early views on value drivers and can reliably construct single-dimension structures.

However, gen AI reaches clear limits when designing comprehensive ROIC driver trees. Decomposing complex business models, resolving cross-dimensional interdependencies, and translating strategy into a coherent value architecture require economic judgment and business intuition that current models cannot replicate. The construction of a robust ROIC driver tree,

Exhibit

**Breaking ROIC into its underlying drivers helps identify the operational levers with the greatest P&L impact.**

**Key operational and financial drivers of ROIC, illustrative**



therefore, remains a human-led task, supported by enterprise resource planning data and systems. Gen AI can work as an accelerator and support tool, but the value logic and KPI architecture must remain with finance and business leadership.

## Selecting and managing KPIs in three important areas

While every company's transformation priorities differ, some areas tend to have a greater effect on financial performance. Industrial transformations often focus on optimizing operating costs, improving personnel efficiency and overhead structures, and increasing operational and production performance. Below are some KPIs that can be helpful in these areas and illustrate a connection to P&L impact.

### Optimizing product costs

Companies can track how specific initiatives, including supplier negotiations, product redesigns, and manufacturing or logistics improvements, translate into measurable cost savings. Three metrics illustrate how these improvements can be captured:

- *Purchase price variance (PPV)* indicates whether procurement efforts are actually lowering material prices. The formula is straightforward: PPV is the actual price minus the standard price. For example, a packaging and container producer may typically pay 12 cents for a bolt. After the producer renegotiates with the supplier during the transformation, the supplier's invoice shows ten cents per bolt. The resulting PPV is negative two cents, indicating a cost reduction of two cents per bolt, indicating improved cost control.
- *The value analysis and value engineering (VAVE)* methodology captures cost reductions achieved through smarter product design while maintaining the same function and quality. It compares the cost of a product's bill of materials (BOM) before and after design changes are made to improve efficiency. For example, a truck company's original seat frame may have a BOM cost of \$120. After a redesign and supplier optimization, the cost falls to \$105. The \$15 per unit reduction, or 12.5 percent improvement, reflects the financial benefit.

**KPIs need not be selected arbitrarily; instead, they can be systematically derived from value drivers.**



- *A change in logistics cost intensity* provides insight into supply chain efficiency and cost competitiveness by indicating whether less logistics expenditure is required to support a given level of output or revenue. It is calculated as total logistics cost divided by output, which may be measured per vehicle, per part, or per dollar of revenue. For example, an automotive company with annual logistics costs of \$50 million and annual vehicle output of 500,000 units would have a logistics cost intensity of \$100 per vehicle. A reduction in total logistics spending or an increase in output would lower this figure, signaling improved supply chain efficiency or cost competitiveness.

### **Improving overhead costs and personnel efficiency**

Personnel and overhead expenses often make up a large share of an industrial company's cost base and serve as direct indicators of whether the organization is becoming more agile, focused, and aligned with its strategic goals. Leaders often track how workforce-related initiatives and organizational adjustments translate into measurable efficiency gains. Four metrics illustrate how these effects can be captured:

- *A change in the overtime ratio* provides insight into workload balance, staffing adequacy, and labor cost pressures by showing the share of total labor hours attributable to overtime. It is calculated as overtime hours divided by total hours worked, often expressed as a percentage. For example, on a bus assembly line, employees may log 1,200 total hours in a week, of which 180 are overtime. The overtime ratio is 180 divided by 1,200, or 15 percent. A consistently high ratio indicates understaffing or inefficient scheduling or execution.
- *A change in the contractor ratio* provides insight into staffing efficiency by showing the proportion of the workforce made up of contractors and the organization's reliance on external, temporary labor. It is calculated as the number of contractor workers divided by the total workforce (employees plus contractors). For instance, if a defense supplier employs

850 permanent workers and 150 contractors (comprising a workforce of 1,000), the contractor ratio is 150 divided by 1,000, or 15 percent. A high ratio can provide flexibility but may also create cost or knowledge risks.

- ***Freed-up capacity from waste reduction*** captures how much labor capacity is released by eliminating non-value-adding activities through process improvements that don't reduce output. The time saved by removing inefficient steps is converted into a full-time equivalent (FTE) measure (essentially, the number of FTE positions' worth of capacity gained). For example, if process improvements in a plastic container assembly line eliminate 1,800 labor hours per year, and one FTE represents 1,800 annual hours, the freed-up capacity equals one FTE.
- ***A change in the share of indirect labor*** provides insight into the organization's overhead structure and efficiency by showing how the proportion of the workforce not directly involved in production is evolving. It is calculated as the number of indirect employees divided by the total labor head count. For instance, if a machinery-equipment-manufacturing plant has 200 indirect workers (such as maintenance, logistics, quality, and administrative employees) and 800 direct production workers, the share of indirect labor is 200 divided by 1,000, or 20 percent.

### **Increasing operational and production efficiency**

Operational and production efficiency metrics reveal how well a company's factories and equipment convert resources into high-quality output. Leaders can connect improvements in yield, uptime, and throughput to financial results. Five metrics illustrate how progress in these areas can be measured:

- ***A change in on-time production volume (OPV2)*** reflects increased scheduling accuracy and supply chain reliability. It shows the percentage of required parts or production volume delivered within a defined delivery window and is calculated as the on-time delivered quantity divided by the total required quantity. For example, if an assembly line requires 10,000 door modules in a week and 9,500 arrive within the OPV2 delivery window, OPV2 equals 9,500 divided by 10,000, or 95 percent.
- ***A change in overall equipment effectiveness (OEE)*** reflects shifts in how efficiently machinery is utilized. OEE combines equipment availability, performance speed, and output quality, and is calculated as OEE equals availability multiplied by performance multiplied by quality. For example, in an automotive welding cell, a robot may be scheduled for eight hours but can run for seven (in which case, availability is about 88 percent); operate slightly below optimal speed (meaning performance is about 90 percent); and produce 95 percent of parts within quality standards (indicating quality is about 95 percent). Multiplying these factors yields an OEE of roughly 75 percent. Lower OEE values highlight downtime, slow running speeds, or quality issues.
- ***A change in yield*** shows what portion of total production meets quality standards. It is calculated as goods units divided by total units produced. For example, in an automotive stamping plant, a press may produce 1,000 body panels per shift, of which 950 pass quality inspection. The resulting yield is 950 divided by 1,000, or 95 percent. A lower yield indicates losses from scrap or rework.

## A revenue driver tree is often the most effective way to identify relevant KPIs.

- *A change in profit per hour* captures how much more profit the company generates for every hour of productive labor or machine time. It is calculated as total operating profit divided by total productive hours. For instance, if an automotive assembly plant earns €500,000 in profit during a week and logs 25,000 productive hours, profit per hour equals €500,000 divided by 25,000, or €20 per hour. Tracking this measure helps assess how efficiently resources are being converted into financial results.
- *A change in “on time, in full, quality” (OTIFQ)* measures how much more reliably orders are delivered by the promised date, in the correct quantity and configuration, and without quality issues. It is calculated as the number of orders delivered on time, in full, and at the required quality standard, divided by total orders. For example, if 168 out of 200 orders in a quarter meet all three criteria, OTIFQ is 84 percent. This KPI reflects delivery reliability, customer satisfaction, and operational-execution quality.

### Managing top-line growth and systematically coping with volatility

Many industrial companies report revenue primarily as a single, consolidated figure. But because top-line performance varies widely across industrial sectors, a revenue driver tree is often the most effective way to identify relevant KPIs. Another important component of effective transformation management—even where the optimal set of KPIs has been identified—is a dynamic steering approach that continuously adapts to changes in external and internal conditions. This can be achieved through a systematic assessment of headwinds and tailwinds that affect financial performance over time.

#### Building a revenue driver tree and putting it into action

An effective revenue driver tree breaks the business down into the factors that shape financial results, showing how much performance depends on selling more, charging more, or improving the product and customer mix (see sidebar, “An illustrative revenue driver tree for the automotive sector”). By linking these revenue components to specific transformation initiatives, the tree reveals how operational changes and external forces translate into financial outcomes. The following are four key principles:

- *Trace impact to the most specific measurable factor.* Each transformation initiative should link to a concrete revenue element, one whose assumptions can be tracked and tested over time.

- **Separate volume from mix effects.** Distinguish between selling more and earning more per unit to avoid double counting. Volume reflects changes in units sold, service throughput, or asset utilization, while value captures shifts in price, product and customer mix, and margin structure.
- **Use consistent definitions for each specific factor that influences revenue.** This allows results to be compared directly and prevents overlap when estimating total financial effects.
- **Define clear KPIs at both the revenue driver and operational levels.** Examples include conversion rates, share-of-wallet indexes, and product-mix profitability measures. These metrics should be tracked regularly as part of the transformation review.

### Coping with volatile market environments

At the outset of a transformation, companies set targets based on expected revenues, an anticipated cost base, and defined profit objectives. However, as the year unfolds, deviations inevitably emerge. Revenue shortfalls may arise from customer order reductions, delayed contract wins, or weaker market demand, while additional cost pressures may result from

## An illustrative revenue driver tree for the automotive sector

**To see how an integrated revenue driver tree** helps leaders understand what's driving business performance, consider an automotive company undergoing a strategic transformation. Its revenue driver tree might analyze revenue by vehicle type, sales channel, and geographical region, revealing how different segments and markets contribute to overall performance. Here's how that could look:

- configuration:
  - *by product:* sedans, SUVs, and electric vehicles (EVs)
  - *by channel:* dealer network and direct online sales
  - *by region:* Asia, Europe, and North America
- linked transformation initiatives:
  - enhancement of dealership sales training
  - strengthening of the online sales platform
  - launch of a new EV model
- primary impact:
  - increased sales productivity and conversion rates
  - growth of direct digital sales; reduced customer-acquisition costs
  - entry into expanding EV market; incremental volume
- sample KPIs:
  - conversion rate per dealership and sales per outlet
  - online conversion rate and cost per acquisition
  - sales of new model and EV segment market share
- tracking and governance of selected KPIs during transformation:
  - dealership conversion rate
  - growth in online-channel sales
  - sales volume and market share for the new EV model

Once the revenue driver tree is in place, leaders can use it to see which revenue-related parts of the transformation are contributing to results and which areas may need adjustment.



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supplier price increases, higher-than-expected wage inflation, or delays in the realization of value-creation initiatives. To preserve the overall profit target, these adverse effects must be identified early and translated into incremental improvement requirements for the transformation program.

A monthly assessment of headwinds and tailwinds allows companies to dynamically adjust transformation targets. Any negative deviations must be added to the original ambition level, resulting in more demanding work stream objectives. KPI-based steering systems play a critical role in this process by translating updated financial targets into concrete, operational performance requirements across functions.

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Transformations are complex, as is the task of measuring them. That's why the smartest course of action for many industrial transformers is to begin by building an ROIC driver tree that helps identify the KPIs with the strongest links to P&L impact. For some companies, the KPIs this article describes will be the most useful, but no one list of KPIs fits every company; the right metrics depend on an organization's strategy and operating model. To find the KPIs for managing top-line growth, a revenue driver tree is a crucial tool.

Once a dedicated finance team within the transformation office has helped identify the correct KPIs to track, it can also ensure the larger team has the right processes, including for assessing headwinds and tailwinds that allow companies to adjust transformation targets. After all of these elements are in place, industrial transformations have the best chance of success.

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# Who should own what?

## Revisiting the ‘natural owner’ principle

The creators of the “natural owner” concept discuss its origins and how it can be used for both offense and defense today.

**I**n July 1989, McKinsey published, internally, a staff paper coauthored by John Stuckey, with contributions from Rob McLean, when both were at the firm. The paper challenged a core assumption of corporate strategy at the time: that diversification itself created value. Instead, it proposed a more demanding test for ownership. Companies, the authors argued, should own only those businesses for which they are uniquely positioned to maximize the net present value (NPV) of future cash flows. This framework came to be known as the “natural owner” principle.

Nearly four decades later, this logic is embedded in how many strategists intuitively think about portfolio strategy, capital allocation, and value creation. In this conversation with McKinsey Partner Tim Koller and Distinguished Expert Whitney Zimmerman, McKinsey alumni Stuckey and McLean revisit the origins of the idea. Although the framework was initially conceived to help companies decide which assets to divest, its creators now see it as useful to companies’ offensive strategies. In this conversation, Stuckey and McLean reflect on why understanding who the natural owner of a business is matters more than ever in an era of activist investors, ongoing portfolio shifts, and rapid technological change.

This interview was edited for length and clarity.

**Tim Koller:** In 1989, you coauthored what McKinsey at the time called a “staff paper” titled “[The market-activated corporate strategy framework](#),” which proposed the concept we later came to call “the natural owner.”<sup>1</sup> How did you come up with this framework?

**John Stuckey:** We developed it toward the end of the conglomerate era, when many companies still believed internal diversification created value. In Australia, where I was working at the time, conglomerates were particularly common due to the concentrated industrial structure of the economy. One client, an industrial conglomerate with roughly a dozen largely unrelated businesses, engaged us because the portfolio simply didn’t add up. The CEO sensed something was wrong. The only supposed synergy was capital allocation, which we believed markets already did better. The businesses that made sense were a set of maritime assets, including shipping and stevedoring, that were historically connected and capability linked. The rest were unrelated.

**‘Own only businesses where you are the natural owner and can uniquely maximize future value.’**

—Rob McLean

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<sup>1</sup> In recent years, McKinsey publications have referred to this principle as “the better owner.” This phrasing captures the concept’s relativity and mutability over time.

The framework emerged directly from working through this with the board and executive team. Rob coined the term “natural owner,” which immediately resonated and became a good discussion tool with clients.



Rob McLean

**Rob McLean:** In the late 1980s, corporate raiders like Carl Icahn were scaring the life out of companies in the US, while in Australia, figures like Alan Bond and John Elliott were shaking up the conglomerates. We felt we needed a clear point of view on how to structure a portfolio. Traditional ROE analysis highlighted weak businesses, but the real insight came from setting a high hurdle: Own only businesses where you are the natural owner and can uniquely maximize future value.

One example was a New Zealand forestry and building materials company that also had a fishing business. They considered acquiring a global tuna business, but after a close look, we collectively concluded that they weren't the natural owner.

That thinking ultimately helped rationalize diversified portfolios.

**Tim Koller:** Could you describe the framework itself for the audience?

**John Stuckey:** The framework is a two-by-two matrix. One axis measures a business's inherent potential to create value going forward. This is not current earnings, but future value through growth or performance improvement. The other axis measures the degree of natural ownership, which is whether a company is uniquely positioned to maximize the present value of future cash flows from that business. At one extreme, you are clearly the natural owner; at the other, you are simply one of many possible owners.

When we plotted portfolios, many businesses clustered near the middle—those with moderate value potential and weak ownership advantage. Those were the units that prompted the hardest questions. The framework wasn't meant to dictate decisions mechanically but to facilitate high-quality discussion with boards and management teams.

**Tim Koller:** How did the natural-owner idea spread?

**John Stuckey:** It spread internally through staff papers, practice meetings, and informal networks. Several senior leaders, who strongly supported knowledge development, were enthusiastic about new ideas, particularly those that were practical. This was before email or the internet, so ideas spread through meetings, phone calls, and printed papers. We talked about it with clients. And then we started hearing from others working on studies that they were picking it up as well. Ultimately, the framework became one of the first codified corporate strategy tools [widely used across the firm](#).

**Whitney Zimmerman:** How has the framework evolved from a defensive concept to an offensive one?

**Rob McLean:** What we were largely talking about back then was defensive. There were companies earning maybe 10 percent ROE, but with 30 or 40 percent of their businesses earning maybe 5 percent. And so, you can do the math: You end up with two or three or four points of ROE accretion by eliminating those low-ROE businesses. That triggered the conversation about who should own these businesses.

More recently, we've seen enormous value creation when companies offensively acquire assets where they are the natural owner. Facebook acquiring Instagram and eBay acquiring PayPal are classic examples.

**John Stuckey:** It's not enough to just be the natural owner; you have to do something differently [once you own it](#). What are you bringing to the party? What will you do and how will you do it? You've got to be rigorous about that.



John Stuckey

Going back to the question of defensive versus offensive, it is true that this began as a defensive concept—helping companies think through [what they should divest](#). But, of course, if someone is the *unnatural* owner of a business and they divest it, they look for the *natural* owner to sell it to, because they're likely to be willing to pay the most. So, there was always an element of thinking about both sides of this, even for companies that were divesting.

It's important to remember: Being the natural owner of something doesn't necessarily mean it's a glamorous business that everyone loves. Sometimes it just means realizing that remaining the owner is the best option. Many companies own businesses that don't have a very positive NPV. Now, if it's negative and no one else can do better, you've got to close it or at least get out of it as best you can. But if you've got a business that's got a small positive NPV going into the future, even if you pull all the levers you can, you might still be the natural owner of that business. Even though it's not a glamorous business, if it's got a positive NPV, then you hang onto it. In fact, you might even buy a couple more to go with it, to get some scale, if there are advantages accruing to that. Now, you might argue that if you throw executive bandwidth into the equation, and this thing chews up more than its fair share, that could be a reason not to continue.

**Tim Koller:** Let me play devil's advocate for a moment, using an argument that I've heard. Over the past 20 years, enough unexpected combinations have created tremendous value, challenging the validity of the natural-owner concept. In light of that, is the framework as it was originally devised still applicable today?

**Rob McLean:** I think the natural-owner concept is still valid and pertinent in new ways. The world we see today is one in which analysts and shareholders have very strong views about [what your portfolio should look like](#). Companies don't have the luxury anymore of just sitting there and doing what they want. They're under pressure to be owners of businesses they're actually good at running. You can see that in companies like BHP and Rio Tinto. They had businesses they didn't like or didn't see a future in, and they moved out of them. BHP got out of steel, for example.

**John Stuckey:** Yes, I do think it still holds. A good example is Disney's acquisition of 21st Century Fox in 2019. Rupert Murdoch concluded that Fox was no longer the natural owner of those assets, given the way the television and streaming industries were evolving. The story, at least as it's been told, is that Murdoch effectively approached Disney and said something along the lines of, "You guys are at least one of the potential natural owners of this business. Would you like to buy it?" And they did.



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**Whitney Zimmerman:** The advent of generative AI adds an interesting evolution to the use of the natural-owner concept. [AI's growing potential to rapidly change companies' capabilities](#) means many are or should be rethinking who they are and what they could become. This means the definition of a natural owner is less fixed than it used to be. At the same time, [AI is lowering the cost of creating new businesses](#), which will increase the number of potential assets companies could find themselves owning. These two dynamics make it more valuable than ever to regularly ask the question, "Am I or could I be the natural owner of this asset?"

**John Stuckey:** Yes, AI introduces [enormous uncertainty](#). No one knows exactly how it will settle. For most companies, the right response is not to bet the company, but to create options cheaply, experiment, and learn. Ultimately, AI only matters if it either increases revenue or lowers cost. If it doesn't do one of those two things or reduce capital intensity, it doesn't create value.

Although AI is new, the companies we've worked with on the natural-owner concept have always had to grapple with these ideas in some way. There have always been different versions of what this company could be in the future, and hard choices for the leaders. They've always had to ask, "[What are our unique capabilities?](#)" And, "Why are we the natural owner?" And it has to be a better reason than something like, "We've owned it for 100 years" or the "It's in our DNA" cliché.

**Tim Koller:** Any final thoughts on what companies should be doing to create more value?

**John Stuckey:** They shouldn't lose sight of the eternal truth that being in growth businesses is the most reliable way to make superior returns—if, that is, you are the natural owner, of course.

**Rob McLean:** As we have seen, there are huge value-creating opportunities in making acquisitions where you are the natural owner, especially, though not exclusively, in tech. Orienting strategic planning around whether or not you are the natural owner brings a sharp edge to a process that is too often limited to incremental change.

**John Stuckey** and **Rob McLean** are alumni of McKinsey's Sydney office. Since retiring, they have both fulfilled various board and advisory roles across a range of sectors and continue to have an informal association with the firm. **Tim Koller** is a partner in McKinsey's Denver office, and **Whitney Zimmerman** is a distinguished expert in strategy in the London office.

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# How cognitive overload multiplies every bias

Stressed brains often default to cognitive heuristics.  
Here's how to avoid the trap.

*by Aaron De Smet*



Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision-making. In our *Bias Busters* series, we highlight some of them and offer a few effective ways to address them. In this edition, we examine status quo bias.

## The dilemma

A midsize industrial company had scheduled a meeting to decide whether to fund a major innovation initiative. The proposal, which had been circulating for months, was for an investment that could help secure the company's long-term competitiveness. For a business known for its conservative approach, this was unfamiliar territory.

On Friday evening, after a week packed with client meetings and urgent deadlines, the leadership team finally gathered to make a decision. The group was tired. Laptops stayed open, messages kept pinging, and one executive carried on a text exchange about an unrelated issue. As they began reviewing the proposal, they revisited the company's long-term goals and the original rationale for pursuing this initiative.

Under the weight of fatigue and distraction, hesitation crept in. Several leaders voiced concern about risking capital on a technology they hadn't used before. One argued that the company had already made many changes, which led to debate about [what standard to use to measure innovation](#). Another [pointed out all the past successes](#) the company had as evidence that change was unnecessary. As uncertainty spread, energy drained from the room and [consensus hardened](#) around [taking a "wait and see" approach](#). What began as a conversation about building the company's future ended with a quiet decision to maintain the status quo.

What they missed was that [playing it safe was not safe at all](#). By deferring the investment, the company risked falling behind competitors who were already moving forward. Under the cognitive load of a long week and an unfamiliar decision, the team unwittingly chose the comfort of existing biases over foresight.

## The research

The phenomenon the team experienced isn't a single bias but rather the condition that makes every bias more likely: high cognitive load.

When working memory is overburdened by fatigue, multitasking, or stress, the mind takes mental shortcuts, relying on what feels familiar instead of what's objectively best. Under heavy load, people rely more on intuitive judgments such as [anchoring](#), [status quo bias](#), or the host of biases evoked in the industrial company's meeting. From an evolutionary standpoint, cognitive heuristics have likely endured because they enabled survival in situations when quick reactions made the difference between life and death. But at work, they can open the door to biases that a more reasoned approach would reject.

A study titled “Heart and mind in conflict,” published in 1999 by Baba Shiv and Alexander Fedorikhin,<sup>1</sup> illustrates this in a simple way. Participants were asked to memorize either a short or long string of numbers and then choose whether to snack on a serving of fruit salad or a slice of chocolate cake. Those faced with the harder memory task were more likely to pick the less healthy but immediately satisfying piece of cake than the nutritionally wiser fruit. Numerous experiments have found the same: When cognitively loaded, stressed, busy, or distracted people are more likely to take simplistic cognitive shortcuts and default to habitual approaches.<sup>2</sup>

Unfortunately, modern workplaces, with their “always on” culture, constant distractions and interruptions, and high pressure, almost seem designed to induce knee-jerk decisions.

## The remedy

The antidote to cognitive overload is [deliberate calm](#)—the discipline of slowing down enough to think clearly when the pressure is high. Teams can build it into their routines with a few simple practices. When a group faces a decision, leaders can use a three-question triage:

1

Is this a high-stakes decision?

2

Are we in familiar territory?

3

Can we change course later?

If the answers are yes, no, and no, the decision indeed carries high cognitive load and is highly susceptible to biases, requiring intentional strategies to minimize them. Meetings about these types of topics can begin with the words, “This is an important discussion; let’s remind ourselves to be fully present.” This should be a signal to close laptops, put phones away, and, if virtual, stay on camera and not multitask, because research has shown that even brief interruptions like checking a phone can interfere with the ability to focus.<sup>3</sup> Some teams may bring in a facilitator

**Stressed, busy, or distracted people are more likely to take simplistic cognitive shortcuts.**

<sup>1</sup> Baba Shiv and Alexander Fedorikhin, “Heart and mind in conflict: The interplay of affect and cognition in consumer decision making,” *Journal of Consumer Research*, December 1999, Volume 26, Number 3.

<sup>2</sup> Jim Holt, “Two brains running,” *New York Times*, November 25, 2011.

<sup>3</sup> Cara Capuano, “Can’t pay attention? You’re not alone,” University of California, Irvine, May 11, 2023.



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to observe the group's dynamics and signal when tension rises or attention wanes, prompting a brief pause. During these breaks, individuals can use whatever method helps them reset, including reviewing the data, taking a short walk, or practicing breathing or meditation.

Organizations can also lay the groundwork for more focused decision-making, such as by monitoring—with the goal of reducing—weekend and after-hours work. They can also aim to limit the amount of “task switching” executives are asked to do, to give them more focused time on individual projects.

When the industrial company adopted some of these measures, the leadership team made its next high-stakes choice in a way that better reflected its long-term goals and aspirations.

[Deliberate calm](#) means protecting the brain from overload so that reasoning has the space to do its job. Leaders can learn to make sure they and their teams are not attempting to make decisions under conditions of high cognitive load. By reducing it, taking time, and allowing room to think, they can create an important defense mechanism against a host of biases.

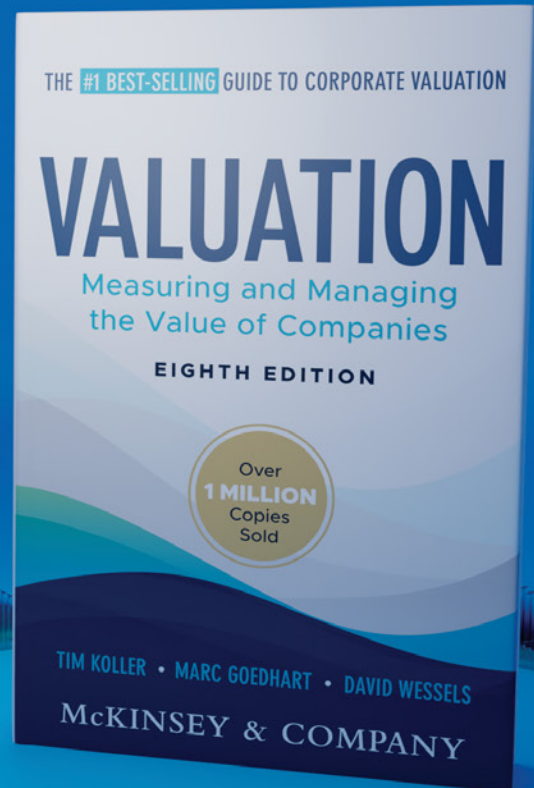
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*Tim Koller, with Andy West and Dago Diedrich*

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