

Marketing & Sales Practice

The data gambit: How large B2B companies can outmaneuver start-ups

Incumbents often overlook the value of their most significant asset: their own data.

This article was a collaborative effort by Stefan Georgiev, Hashi Ibrahim-Hashi, Dieter Kiewell, Chris Smith, and Tom Youldon, representing views from McKinsey's Marketing & Sales Practice and McKinsey Digital.



What does it take to win with data in B2B?

Traditional suppliers and distributors are trusted partners for industrial companies in sectors such as energy generation and basic materials. But increasingly, they face fierce competition from digital attackers. Some suppliers feel downright paralyzed by digitization, ceding the initiative to attackers and losing ground on the competitive field.

There's no need for that. Established companies have significant structural advantages over new entrants, the biggest of which are data and the resources to take advantage of it. They also have deep, often long-lasting relationships with their customers and access to the data required to optimize propositions to current and new buyers. But most incumbents are not taking advantage of the opportunity. In a survey of B2B companies, only 25 percent of respondents said they use data weekly to understand customer needs, while 9 percent admitted they never use data at all. An overwhelming 86 percent of respondents believed they could do much better with data.¹

Correcting this data deficiency should be a top priority for incumbents, since it can be a massive source of value across many vectors, from speeding

86%

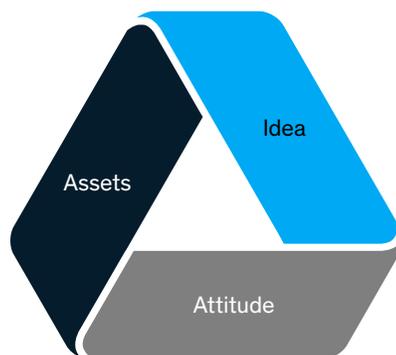
of B2B companies believe they can do much better with data

innovation, launching new businesses, exploiting price opportunities, reducing run costs, and unlocking granular pockets of opportunity, to name just a few. Opportunities to transform the business with data exist all along the value chain. What's more, many B2B incumbents already have structural advantages that put them in a good position to capture these opportunities. So how can they do it? Based on a cross-sector review of case studies, we have identified three success factors: a great idea, relevant assets, and the right attitude (exhibit). By adhering to the proven formula "idea X assets X attitude," suppliers and distributors will be able to create

¹McKinsey 2018 Digital Strategy Banner book (n = 831).

Exhibit

B2B companies can diagnose their readiness to successfully leverage their data.



Do you have the right **idea**?

- Do you have a vision to redefine the industry?
- Does your idea solve a customer problem?
- Do you have the right mix of key performance indicators to track success?

Do you have the right **assets**?

- Can you draw together all relevant data sources?
- Can you use your industry relationships to access privileged information?
- Are you equipped to handle regulation and security?

Do you have the right **attitude**?

- Do you have a senior data advocate, such as a chief data officer?
- Are you prepared to ramp up your IT as needed?
- Have you defined the relevant job profiles?

a competitive edge that even the nimblest of start-ups will struggle to match.

1. Qualify the idea

What data-driven use cases will create the most value? What should the Amazon for building materials, the Uber for agricultural equipment, or the Airbnb for oil rigs look like? Because of their unparalleled industry knowledge, big suppliers and distributors are uniquely positioned to answer these questions. The problem is that these companies often think in terms of incremental improvements to existing programs to improve productivity. While that's important, this kind of thinking tends to close the door on new opportunities. Instead, these businesses need to develop clear paths to future revenue based on a deep understanding of changing market dynamics, technologies, and customer behavior. After identifying these white spaces, the best companies then rethink how to use existing data and access to knowledge of their customers to qualify those opportunities, whether that's rewiring how they interact with customers or creating a completely new business.

For example, during the COVID-19 pandemic, businesses have been forced to go remote, something that previous analysis revealed many customers want. According to a recent study, B2B companies now see digital interactions as two to three times more important to their customers than traditional sales interactions, and almost 90 percent of sales have

Almost

90%

of sales have moved to a remote model (videoconference/phone/web)

moved to a videoconferencing/phone/web sales model.² This shift has opened opportunities to develop new data-driven services and interaction models. In some instances, the most promising way forward may be a departure from traditional ways of doing business. One construction company, for example, has established a new transaction platform where all industry stakeholders, such as architects and builders, can connect and collaborate seamlessly on projects. The effort resulted in 50 percent month-over-month revenue growth. The key success factor? The integration of data from multiple sources, including not only product specifications but information about safety and relevant regulation as well.

Well-defined and well-balanced key performance indicators (KPIs) will help to track success and refine new services, products, and ventures as they evolve. Good ones focus on areas of crucial strategic value, such as customer satisfaction, loyalty, purchase frequency, average order size, gross margin, and revenue per customer for transaction platforms. In other stages of the value chain, other indicators will be more relevant, such as throughput or equipment utilization.

2. Think of data as assets

Many incumbents have more data than they realize. However, it is often untapped because companies don't think of them as real assets that can generate new value. In our experience, there are three areas where incumbents have specific advantages:

Your own data

Incumbents have advantages in terms of data at their fingertips that attackers can't replicate easily: years of historical data about their customers, the operations of their plants, and the financial performance of a given product or channel; records of all products sold over the past 20 years, from their sourcing and manufacturing to delivery and service; and experienced IT

²Arnaud Bages-Amat, Liz Harrison, Dennis Spillecke, and Jennifer Stanley, "These eight charts show how COVID-19 has changed B2B sales forever," October 2020, McKinsey.com.

professionals and proprietary software licenses that are the standard in their industry.

In our interactions with top executives, we find they are often surprised by the transformative power of the data they have. For example, copper mining giant Freeport-McMoRan used three years' worth of operating data (some of them gathered by sensors on the company's trucks, power shovels, and stationary machines) and a custom-built artificial intelligence (AI) model to boost operational efficiency. The AI model was programmed to look for operational tweaks that would increase output at the company's ore mill in Bagdad, Arizona. The model's prediction: copper production would rise if the mill were fed more ore per minute. Veterans of the trade had initially resisted the idea of running the mill faster. They wanted to keep the stockpile of ore from dropping below an established minimum, fearing that if the stockpile were too small, the mill's performance would suffer.

But as weeks went by, the copper-ore concentrating mill sustained a faster pace with no loss of efficiency. The data model had been right: the mill could handle more ore than its operators thought. The mill's throughput increased by 10 percent. "We learned things we'd have never predicted. That project taught us to be more receptive to what the data was telling us, and it gave us the confidence to try more complicated analyses," says Bert Odinet, Freeport-McMoRan's chief information officer.³

Unfortunately, for a variety of reasons, such as poor quality or conflicting standards, incumbents may find it difficult to maximize the value of their data and experience. The ones that succeed standardize their product information, removing duplicates and resolving inconsistencies. They also leverage their experience to define best practices for data governance to keep their data assets consistent.

Buyer and supplier data

Thanks to existing relationships with buyers and suppliers, incumbents have access to real-time flows of accurate purchase and interaction data. Most attackers will not have access to this data, since they don't have relationships with these businesses, and building credibility takes time and trust. Incumbents will want to leverage their privileged relations with partners to augment their own data—for example, to create 360-degree profiles of customers and their needs. These data will also need to be standardized and adhere to data-governance protocols highlighted in the previous section so that incumbents can use them effectively.

Risk-management expertise

Data-driven growth brings many risks, such as unwanted disclosure of sensitive information and cybercrime. While incumbents have more at stake generally when it comes to managing risk, they also have well-developed risk-management and mitigation capabilities. When combined with a DevSecOps operating model that builds risk management into development, incumbents can present themselves as the "safe choice" option for customers while simultaneously reducing their risk profile through adherence to relevant regulation, such as Europe's General Data Protection Regulation (GDPR).

3. Develop an entrepreneurial attitude

Companies often have plenty of ideas and data. But without an entrepreneurial culture, those assets add very little. That takes leadership, a more imaginative approach to IT, and talent.

Leadership

Time and again, we have seen senior leaders dismiss data-related opportunities without giving them a chance to develop. Only 23 percent of the

³Red Conger, Harry Robinson, and Richard Sellschop, "Inside a mining company's AI transformation," February 2020, McKinsey.com.

companies surveyed in our study said their leaders make time every week to learn about digital trends and technologies. This attitude can filter down to the entire organization; only 8 percent of companies strongly agree with the statement that everyone in the organization has a clear understanding of its digital strategy. As Jay Walker, founding CEO of Priceline.com, said, "Building a culture of innovation is about changing the culture of the organizational environment to be more receptive to change."⁴

The leaders of British Petroleum (BP), for example, embraced such a culture of innovation when they set up BP Launchpad, a scale-up factory charged with a "mission to take disruptive technologies and business models and help grow them fast to become BP's future business units, generating a significant portion of BP Group's gross margin by 2025."⁵ To date, the most prominent BP Launchpad venture is Lytt, a technology start-up specializing in fiber optics and advanced data processing to detect sand interference in offshore wells. BP describes the technology as similar to the Shazam mobile-phone application that identifies songs. Lytt analyzes sounds in wells to paint a picture of well conditions.⁶ The technology is already in use in the North Sea and in Azerbaijan. BP plans to roll it out to other rigs and to market it to other companies eventually. According to Ian Kavanagh, BP's head of upstream modernization and transformation, BP is already saving billions of dollars thanks to the innovation.⁷

Readiness to reimagine IT

Some 72 percent of B2B incumbents say that managing data is one of their top challenges.⁸ One of the root causes of this is that their IT is usually not sufficiently sophisticated to unlock the full potential of their structural data advantages. With this in mind, it's important to challenge IT orthodoxy in order to "free the data" that are often locked in existing systems. Through developing application

72%

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programming interfaces (APIs), building out modular capabilities, and migrating applications to the cloud to take advantage of existing cloud-service-provider (CSP) data capabilities, companies can access their data without resorting to time-consuming and expensive system rebuilds. The success of data-driven ventures hinges on developing new technologies in an adaptive, modular way, based on a test-and-learn mindset.

Talent development

People with the right skills to deliver against an incumbent's data-driven ambitions are indispensable. Data scientists and engineers are an obvious priority, but it also takes translators who can bridge the gap between engrained processes and new technology. It can be particularly challenging to recruit and retain these people, since their skill set is unique: an ability to understand, challenge, and shape the technical work as well as the ability to translate business guidelines into technical requirements. Contrary to the perception at many incumbents, they can succeed at attracting top talent if they offer the chance to work with the latest technologies, training programs to help build capabilities, and flexible working benefits. Reskilling existing employees is equally important. A leading steel manufacturer, for

⁴Robert Reiss, "Ten top CEOs share quotes about our digital future," *Forbes*, June 22, 2018, forbes.com.

⁵"BP Launchpad," bp.com.

⁶Jordan Blum, "BP gets into the start-up biz with its new Lytt company," *Houston Chronicle*, May 8, 2019, houstonchronicle.com.

⁷"BP recently created BP Launchpad as a business incubator," AZERNEWS, May 10, 2019, azernews.az.

⁸"These eight charts," October 2020.

example, set up an in-house advanced analytics academy, a training program to build data-related capabilities, which was attended by more than 300 employees.

With the continued acceleration to digital channels, data will become even more abundant and more valuable. Those B2B companies that are willing to make the changes to exploit their existing data advantages are well positioned to beat attackers at their own game.

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