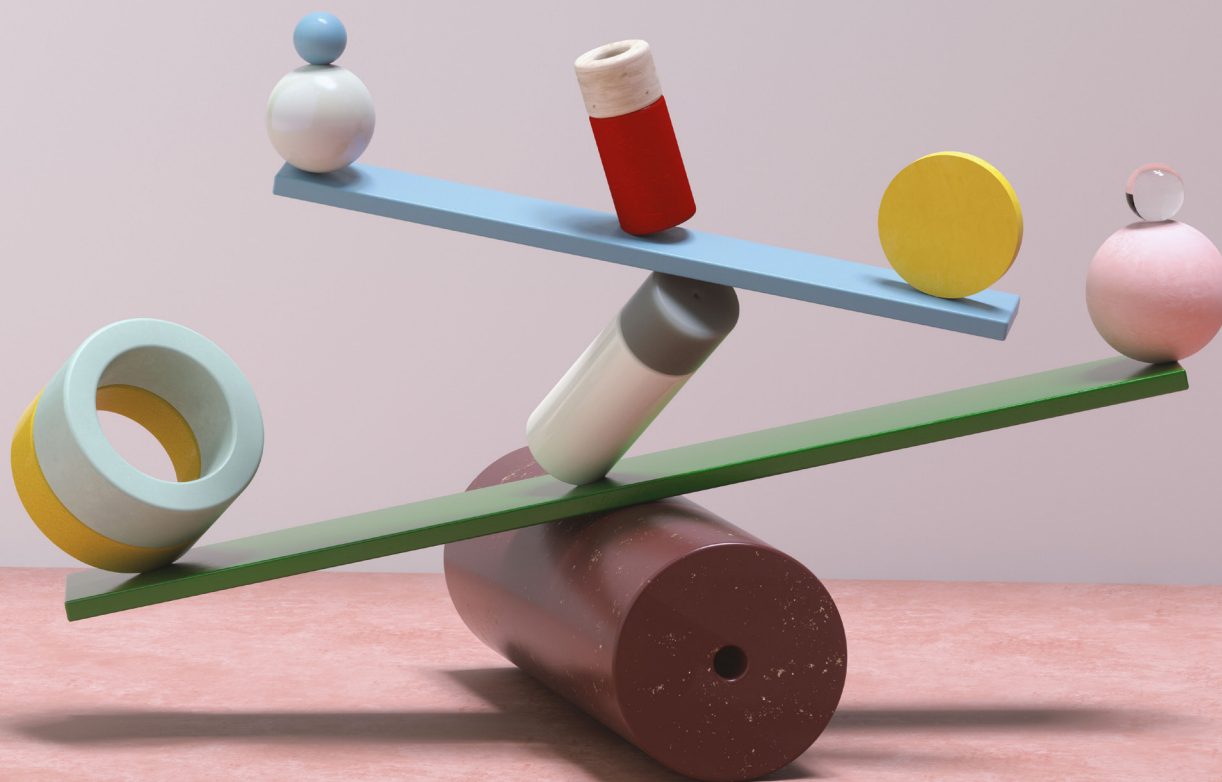


Strategy & Corporate Finance Practice

Building a great digital business

How companies are leveraging technology to address
rapid market changes.



In recent months, many companies have rushed to build digital businesses to overcome pandemic-induced disruptions and address shifts in customer behavior. In this episode of the *Inside the Strategy Room* podcast, we explore how to develop a digital offering quickly and effectively despite ongoing economic uncertainty. Two McKinsey experts—Ari Libarikian, global leader of our business building practice, and Akash Kumar, who focuses on digital, analytics, and business building—are joined by Wendy Barnes, the president of Express Scripts' home-delivery business, to talk about launching digital initiatives with McKinsey's Sean Brown. This is an edited transcript of the discussion. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Play.

Sean Brown: Ari, can you start us off by explaining how the conditions for building new businesses have changed?

Ari Libarikian: Certainly, the degree of focus on generating new ideas and turning them into businesses has gone up by a huge factor. Business building used to be viewed as an experiment, innovation off to the side. Now, it has become a necessity for incumbents—a differentiating capability needed for long-term success. Consumer behaviors are changing and behaviors of business clients in many industries are changing. Business building is almost a requirement to meet these new sets of needs at a pace that may not be possible if a company was trying to transform the core.

There are several new challenges. First, how do you create the right type of interactions and touch points with consumers whom you may never meet? How do you find your next star employee, from an HR and organizational perspective, whether within your business or through recruiting? Then there is resilience. How do you build resilience into your supply chain in a way that does not sacrifice agility? These have become critical questions. Some assumptions that we have long held are also being

turned upside down in terms of how you operate a business, sell products, and serve customers. Take speed: I have had many clients in the past few weeks say some version of, "We had five years to execute a road map, three years to do a digital transformation, two and a half years to build it. Now we have to do it within months or weeks or sometimes days, and it's not a matter of choice—we have to do it because that is where our customer is going."

Sean Brown: Large companies are not used to moving this fast. How are they adapting?

Ari Libarikian: Building businesses is hard, especially for large companies. Their leadership teams are good at managing large organizations but building a new business requires an entrepreneurial mindset and a different way of working. How do you get away from the bureaucracy that often exists in large companies and build a new culture that has a higher metabolic rate? How do you hire different types of people who will be needed to form at least part of the new organization? How do you figure out the assets you need to borrow from the mother ship and pull that into the new business but not pull in so much as to slow it down? The nirvana here is leveraging the strength of the incumbent but with the flexibility and speed of a start-up. If you can get those two things together, your business can leverage its advantages and start to scale.

Sean Brown: How do you achieve that balance of bringing in new talent alongside existing employees who may be experienced but wedded to the status quo?

Ari Libarikian: This is one of the biggest challenges that new builds face. It is also one of the most important levers, because with the right team and the right operating model, you will solve problems as they come. There are a couple of rules of thumb. Generally, bringing a large group of people from the core business and having them essentially form the new management team is not a good idea. You do not want the culture of a large, mature company in

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–Ari Libarikian

this start-up that needs to operate very differently. Having said that, the other end of the spectrum, which is a 100 percent brand-new team, is also not a good place to be, because the reality is that this is not a stand-alone venture. You are attached to an incumbent that presumably has a strong brand, customers, a distribution network, data, and industry know-how and you want to leverage those elements strategically in the new business. Oftentimes, successful builds have a small number of executives who know the industry and those executives build around them a team with a healthy mix of older and newer faces with fresh thinking and new skills. We did some research on this and the successful new businesses have a majority of externally hired people but also 20 to 40 percent of staff from the incumbent organization.

How you measure these people is almost as important as the individual themselves, because people tend to change their behavior based on how they are evaluated. An individual has a certain way of behaving in the core company because of specific metrics and expectations. So what performance management system have you put in place around the new organization? How do you make sure you are not measuring financial results too early, because that will clip the venture’s wings? How do you track milestones? Those are all important considerations.

Sean Brown: You did an executive survey that found roughly two-thirds of companies were involved in venture building over the past five years. Have those numbers gone up during the crisis?

Ari Libarikian: Anecdotally, yes. More companies are realizing that transforming their core, whether it is legacy architectures or human capital organizations, will take too long. It will be interesting to watch the success rate. My instinct is that it will go up because we are in a sink-or-swim environment. When something seems to be a luxury, it may not get the same attention as when it is a necessity. More of these builds now are necessities.

Sean Brown: Akash, let me turn to you. What types of businesses are you seeing emerge out of this crisis?

Akash Kumar: If you look back over the last century, we saw some of the world’s most successful businesses form during moments of crisis. For example, during the financial crisis, some fundamental assumptions were questioned. Do we need to own houses? Do we need to own cars? Out of that came the gig economy, Uber, Airbnb. The question now is, how do incumbents use this crisis as a catalyst to drive forward some innovations and redefine what the new normal is before it defines them?

We see six archetypes of businesses likely to emerge in the post-COVID-19 era (Exhibit). The first one is the remote services provider, such as companies offering medical consultations and online education. It may be the easiest step forward from a business-building standpoint because it accelerates some trends that were already taking place. Before, when real estate agents offered virtual tours, they probably did not see much uptake. Now they are taking the same capability and expanding it. We could see other new services such as equipment maintenance: being able to repair a washing machine without having someone physically come to your home.

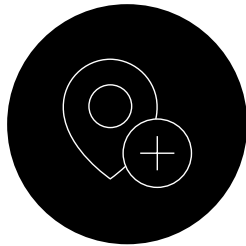
Another archetype is the collaboration platform. Everyone has heard of Zoom and Webex, but we can see extensions such as training platforms. The third piece is the dynamic talent deployer, which takes

the gig economy to a new level. We already see creative moves like the grocery business offering short-term work to employees laid off from the airline industry.

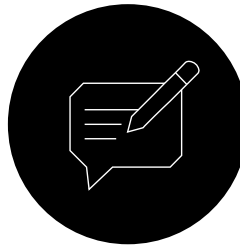
The fourth one is the resilient and flexible operator. This has to do with building in new data sets and capabilities into supply chains to not only make them more resilient to shocks but enable them to flex with demand rapidly. The fifth type of business is the idle data utilizer. Companies have looked at ways to leverage their data, particularly in the business-to-consumer context. Now, even in the B2B context, companies are being forced to find ways to turbocharge their operations using data. The final archetype is the high-touch digital retailer. How do we create curated experiences in retail without the physical element? This could be related to food kits or the real estate tours I mentioned, for example.

Exhibit

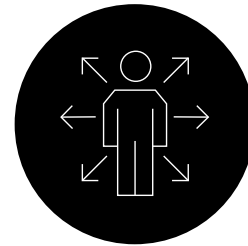
Six archetypes for new businesses



The remote services provider



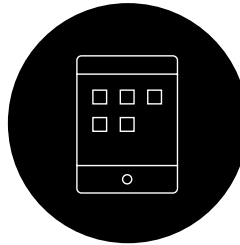
The collaboration platform



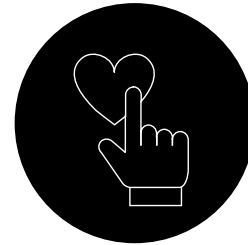
The dynamic talent deployer



The resilient and flexible operator



The idle data utilizer



The high-touch digital retailer

Sean Brown: Do you see companies pursuing more than one of these archetypes at once?

Akash Kumar: That is very common. Among healthcare providers, for example, some are exploring remote service-provider businesses around telehealth and, in parallel, they may be thinking about how to rapidly deploy talent from one division of the hospital to the COVID-19 ICU. They are also partnering with many entities to figure out ways to make the medication supply chain more resilient. So, in healthcare, you can see three or more archetypes becoming important.

Sean Brown: How should they go about building these types of new businesses?

Akash Kumar: First, top team sponsorship is critical. You also need dedicated teams not distracted by activities happening in the incumbent organization, whose members are thinking about how to take what makes the incumbent successful and infuse that competitive advantage into the new business. Given that many of us are working remotely, processes become critically important. Some people think of processes as not compatible with agile start-ups, but they are in fact complementary. I have seen business builds with ten different teams, each of which has its own stand-up meetings. It is vital for them to stay well connected, both within their work streams and cross-functionally, if they are to deliver on rapid time frames. Linked to that is culture: how do you perpetuate a culture not just in your incumbent business but also within the business you are building?

We have a simple, five-part approach to building new businesses: breakout, blueprint, build, boost, branch. How do you rapidly identify the idea that would drive a lot of value? How do you flesh it out in a blueprint so you can assemble the plan and the team? How do you quickly work cross-functionally to build the actual business—not just the product but the commercial and operational elements? The last two parts are taking the kernel of a business and boosting and scaling it quickly and then thinking through how to potentially spin it off.

Sean Brown: Wendy, at Express Scripts you went through the journey of rapidly launching a new digital business. Could you give us some context on what you were trying to accomplish?

Wendy Barnes: Express Scripts is now part of Cigna. The journey to launch Inside Rx was rooted in three simple principles: that prescription coverage should be affordable, predictable, and simple. The focus in that vertical is around pharmacy and our ancillary services and we wanted to link the two businesses together and go beyond the core customers we serve. We serve a big portion of the American public who are insured, meaning you have to have coverage through us in order to access our pharmacy. We thought other patients could take advantage of our pharmacy but as an insured pharmacy we were not positioned to do that. It became abundantly clear that digital is where we needed to focus. We knew we had a right to win patients outside of our insured book, but we had to figure out a mechanism to compete outside of our normal network.

‘How do you perpetuate a culture not just in your incumbent business but also within the business you are building?’

—Akash Kumar

Sean Brown: So you started the digital Inside RX business. How quickly did that happen?

Wendy Barnes: Inside Rx was launched inside of 45 days with a focus on both underinsured and uninsured customers. As a large payer, we knew that a substantial portion of our patients did not have broad prescription coverage and another sector of the market had no coverage at all. We knew what the market was demanding. We knew how many customers had to pay cash for their prescriptions. We saw our competitors actively engaged in this space. You marry that with the pharmacy asset we were sitting on, and we said, “This is pretty compelling.”

The old paradigm was, “I shouldn’t question the price of my prescription. It is what it is.” The new paradigm is, “I deserve to have the best price on a prescription. I should ask why the price is what it is and see whether there is another option for me.” Enter Inside Rx. Despite our lack of experience in building a B2C business, as an incumbent we had some things in our favor. We had deep retail pharmacy relationships. We had access to roughly a third of Americans with coverage, which then ties to households where some people may not be covered. In less than six months, we were able to take the new platform and connect it to our home-delivery pharmacy through both the web and then Android and iOS apps so that we could fill those prescriptions.

Sean Brown: How did you develop the business model for Inside Rx, and how important was it that it be a digital venture?

Wendy Barnes: You start with market insights and who the competitors are in that space. Every large retailer has a cash club program. We then delved into where the Express Scripts pharmacy had a right to play. Then we had to think through customer insights: what was their experience with competitors? How would our business be positioned? Next, we spent time on understanding the customer journeys and we leaned into those

that were most important. It was imperative that we had an end goal in mind, not just throw a product into the market. Ultimately, what we wanted to get out of this were prescriptions and claims through the Express Scripts pharmacy, to drive volume in order to prove the value of the investment. The technology journey itself was less important than the work beforehand and the agile teams we created to develop the processes.

Sean Brown: What was the competitive response?

Wendy Barnes: Given there was not much new business to grab, we were largely pulling demand from competitors. The interesting thing about the cash space is that because you do not have a contractual relationship you are upending, a consumer can make a choice at any time. So instead of trying to sell against us, a number of the large cash offerings reached out and asked, “Could we partner with Inside Rx?” and “Could we add Express Scripts pharmacy to our network? Would you be willing to participate in our cash offering?”

Sean Brown: That brings up an interesting point about the role of partnerships. Given that launching quickly is so important, are joint ventures and alliances a good option for companies to pursue?

Ari Libarikian: Many companies find, when they build these new businesses, that they do not have all the capabilities they need in-house, so many decide to establish ecosystems of joint ventures or partnerships to access talent and capabilities that may not be their core competencies. Sometimes they acquire start-ups to keep them on the cutting edge. Having said that, it does make things harder from an execution perspective because now you have multiple parties involved. We find that in certain opportunities, especially ones that go across industries—such as telecom with retail, with consumer banking or healthcare with pharmaceutical—subsectors need to work together to meet a holistic customer need. The only way to

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–Wendy Barnes

tackle that is by establishing an ecosystem. Then the question is, how do you de-risk it? Which players do you partner with? How do you set up the incentives in such a way that everyone is rowing in the same direction? There are some exciting success stories, but it can be complicated.

Sean Brown: Wendy, what were the main lessons you learned from the Inside Rx experience that might benefit others launching digital businesses?

Wendy Barnes: One of my concerns was getting the right talent in to connect Inside RX to the home delivery pharmacy. It hearkens back to how you both pull from the core and bring in external people. You have to balance that. We were methodical about taking a few key individuals who performed well in the core but displayed characteristics of being comfortable with innovation. We then put around them experts in marketing and other areas where we did not have enough resident talent.

The question became, how do we retain that talent in an environment where the mother ship has tried-and-true scorecards and bonus plans? People might want to go back to the mother ship because either they do not feel the right incentives are in place in the new business or that the core business is a safer environment. We can all appreciate the anxiety today around keeping one’s position. We focused on ensuring incentives were in a place that made sense for an innovative start-up as opposed to what makes sense for the core.

Lastly, I would say leveraging the competitive advantage you have in your core business could not be more important. It gives you the opportunity to quickly boost the business, as Akash had said. We recognized the platform we had built could be used by the Americans losing their jobs during this pandemic, and while we were largely focusing on the underinsured, the uninsured are a big piece of that. But how do you proactively figure out who is losing employment? We pivoted the entire platform and launched a new offering called Parachute Rx, which is specifically aimed at funded patients who have lost coverage. We have been able to transition those patients to another program with access to cash prescriptions without their having to do anything. We would not have been able to do that without the agile manner in which we built this digital platform and connected it to the pharmacy. And we were able to pull that together in three and a half weeks.

Sean Brown: How do you feed what you learn from building the digital business back into the core business? What are the key mechanisms?

Wendy Barnes: It’s a timely question. We are going through a journey to reinvent all our digital assets, both web and mobile, for the Express Scripts pharmacy. Because we demonstrated success with Inside Rx, we gained credibility with my fellow senior leaders, which made obtaining the funding easier. Having said that, the bar is now a little higher for returns, so I would caution that if you have past success, the expectations do grow.

Ari Libarikian: A lot of the focus in the early days is on making the new business successful, which is exactly where it should be. Once the business has enough scale, you start asking the reverse questions. What assets do I have in this business that I can apply to the core? Could the people we hired into the new business serve a bigger role in the core? The branch part of the journey that Akash talked about very much focuses on those questions. Ultimately, you are running a single company and you need to maximize value for that integrated company.

Sean Brown: Last question. How do you ensure the new business operates independently but stays in sync with the parent company on things like funding and strategy?

Wendy Barnes: For us, the key was ensuring that some leaders had a foot in both, that the entire staff of the digital company was not off on an island. I led both Inside Rx and several companies inside the core, which allowed me to make sure that they did not become too disconnected from each other.

Akash Kumar: What I have seen work well is having the head of the new business provide quick updates to the executive team every week. That ensures that not only is the new business aligned with corporate strategy but is tapping into the expertise and leadership of the core business. It's two-way dialogue.

Wendy Barnes is president of home delivery at Express Scripts. **Akash Kumar** is an associate partner in McKinsey's New York office, where **Ari Libarikian** is a senior partner. **Sean Brown**, global director of communications for McKinsey's Strategy and Corporate Finance practice, is based in Boston.

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