

Building new businesses in industrials

More than 90 percent of executives we surveyed expect the COVID-19 crisis to fundamentally change their business.¹





During this time of uncertainty, respondents across industries are deprioritizing innovation—except in pharmaceuticals, where frontline response is encouraging advances.

% of executives who list innovation as their first or second priority, precrisis vs today

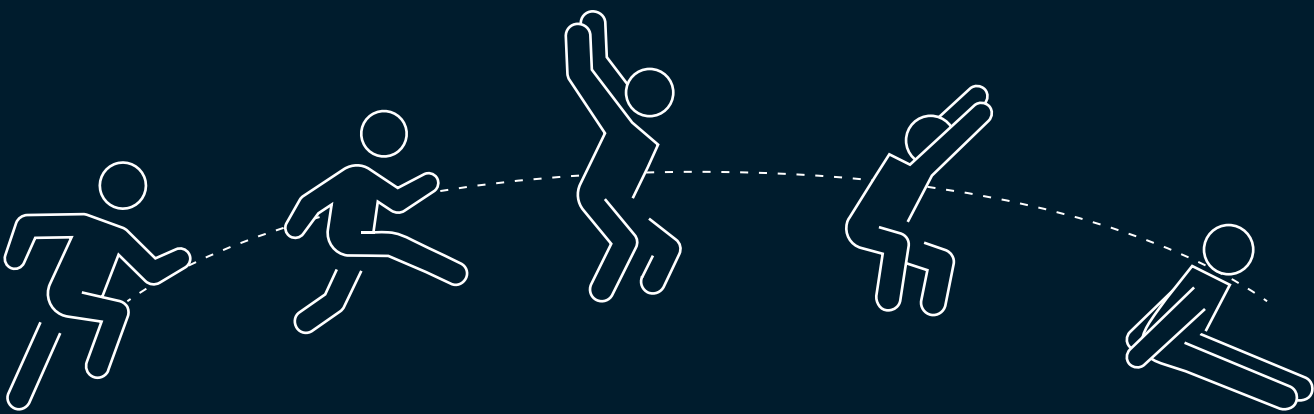
Industry	Precrisis	Today	Difference in prioritizing precrisis vs today, percentage points
Materials	<div></div> 70	<div></div> 30	−40
Technology, media, and telecommunications	<div></div> 69	<div></div> 20	−49
Healthcare services	<div></div> 61	<div></div> 29	−32
Consumer packaged goods	<div></div> 57	<div></div> 21	−36
Financial services	<div></div> 52	<div></div> 9	−43
Industrials	<div></div> 50	<div></div> 6	−44
Pharmaceuticals and medical supply	<div></div> 47	<div></div> 60	+13
Retail	<div></div> 40	<div></div> 5	−35

Industrials reported the second-highest drop in innovation as a priority, even though companies across sectors that invest in innovation throughout economic cycles consistently outperform their counterparts that do not. In fact, ambitious industrial companies could use this time to build new businesses and even reinvent themselves—if they take a thoughtful approach.

New digital offerings hold the key for industrial companies to counteract the effects of disruption and serve their customers more effectively.

1	Digital workflows and services		Redesign traditional analog and physical workflows, services, and channels, including in distribution and the aftermarket.
2	Smart connected products		Grow new services and transform business models with the IoT and connected products.
3	Enhanced data offerings		Expand offerings, including data-enabled services, and monetize data.
4	New digital platforms		Establish and maintain market leadership by creating and expanding digital platforms.

To identify and nurture the most promising new businesses, industrial companies should follow a tested five-step method.

					
Break out	Blueprint	Build	Boost	Branch	
Generate and prioritize new business concepts to manage risks.	Rapidly articulate business plan and build a team.	Launch a new business with paying clients and a full-time operating team.	Scale the new business and increase return on investment.	Connect the new business to other entities and groups within or outside the parent company.	
Result	Short list of new business ideas with specific resource requests	A specific plan and a leadership team to help deploy capital	A digital offering with demonstrated product-market fit and a steep growth trajectory	A collection of tools and methods to create a self-sustaining entity that will continue to grow	A defined strategy for the new company that fits with that of the parent company
Timing	2- to 3-week sprints	8–12 weeks	6–12 months	Variable	4–6 weeks

Executives should keep six best practices at the forefront when launching and building new businesses.

Avoid pursuing too many initiatives.	Finance a small number of promising new businesses and give them leadership attention without dictating what these new—and distinct—businesses should do.
Test and learn with speed.	Time is of the essence in new businesses. Work should be completed in short sprints. Ideas should be experimental, at least at first. This approach means that failures are expected and not necessarily damaging because most decisions are reversible.
Overcome the urge to respond to the squeakiest wheel.	Companies must maintain their focus on promising businesses.
Build a tech stack that can scale.	Architecture matters more than individual components.
Kill ideas that don’t hit critical milestones.	Many organizations are not used to abandoning ideas, so being decisive can be difficult. Imposing proper metrics on new businesses is critical.
Find the next big idea by focusing on prioritization—not volume.	Rather than letting 1,000 flowers bloom, companies should carefully cultivate new businesses that align with their overarching strategies.

The current crisis may make scaled-back innovation tempting, but new businesses—supported by digital solutions—are crucial to helping industrial companies recover. The companies that persist in building new businesses can emerge stronger.

¹ McKinsey Innovation Through Crisis Survey, April 2020.