



November 2020

Industrials Practice

# The industrial CEO's plan for the digital recovery

To thrive and grow in the next normal, industrial companies will need to drive transformations enabled by new technologies and sustained by capabilities.

*by Venkat Atluri, Aamer Baig, Rasagya Kabra, and Satya Rao*

**Across industrial sectors**—from automotive and machinery to aerospace and electronics—companies have had to adapt every facet of their operations in response to the COVID-19 crisis, and many of these changes look set to endure long after the pandemic ends. For example, e-commerce and remote selling have become the preferred modes of doing business, with just 30 percent of B2B customers expressing an interest in engaging with sales representatives in person after the pandemic. Similarly, remote self-installations of certain technologies have more than doubled in recent months, and aftermarket services could remain largely contactless.

Supply chains and manufacturing have become top boardroom priorities. While attention has focused on the shock of the pandemic, our analysis shows that every decade companies lose, on average, 40 percent of a year's earnings before interest and taxes (EBIT) due to a variety of shocks, such as cyberattacks, natural disasters, or geopolitical events. Digital technologies, new business models, and automation are already allowing industrials to de-risk their global networks and enhance their level of control.

These conditions have pressured companies to transform, and it's clear that these transformations will be digital.

## How companies should respond

Five approaches will fuel growth during the recovery, and each has a digital component.

**Accelerate new business building**—Incumbents can refresh their business models by launching startups to take advantage of market opportunities. Digital technologies will both underpin and accelerate their development.

***Position the organization for rapid revenue recovery***—Companies that adopt analytics-driven go-to-market strategies will be poised to come back faster post-COVID-19.

***Increase resilience of the supply chain and procurement***—Greater transparency, reshoring, Industry 4.0, and automation are the keys to enhanced control and efficiency.

***Capitalize on aftermarket disruption***—Organizations that can quickly incorporate digital technologies into their sales and operations can better respond to changing customer preferences while increasing operational efficiency.

***Maximize the impact of cloud migration***—The cloud has the potential to help industrial companies reinvent the ways they develop, deliver, sell, and service their products.

## **Laying the foundation for digital transformation**

Six capabilities will help companies gain competitive distance in the aftermath of the COVID-19 crisis.

# 1 Business-led technology road map

Companies have pursued many digital pilots and initiatives, but these efforts rarely translate to a coherent and integrated digital engine. To accelerate digital transformation, companies must reassess their road maps and consider emerging customer behaviors, supplier dynamics, and regulation. Executives must determine how best to execute these plans, which require alignment with the leadership team, identification of needed resources, and clarification of decision rights.

# 2 Talent strategy

Companies must reimagine their talent strategy and think critically about attracting the right talent and building the skills of their existing workforce. Organizations should develop people who have emerged as stars during the crisis as well as those whose skills can be upgraded through training. Professional development will increasingly include shorter, bite-size learning modules tailored to the individual and delivered on demand as part of a thoughtful learning journey.

# 3 Agile delivery

Amid uncertainty, companies are being forced to take action at unprecedented speed, make decisions with limited oversight, and react to fast-changing situations. An agile approach to product and service delivery can accelerate an organization's ability to respond more quickly to changing conditions. Companies should retain some practices that were implemented during the pandemic—for example, preserving iterative ways of working that empower more of the workforce and promote a keen sense of prioritization and focus.

## 4 Technology and tooling

Technology's role as a core driver of value has been amplified by the pandemic. Executives must make tech investments in legacy-system modernization; in some cases, they may need to implement a completely new tech stack altogether—for instance, when building a new business. Data and advanced analytics can help to identify new opportunities, enhance operational efficiency, and fuel the rise of ecosystems.<sup>1</sup>

## 5 Data management

A data-management effort should include data vision and strategy, data architecture and ecosystems, data governance, and data availability. These elements ensure that departments across the enterprise have secure access to real-time data to inform decision making. Companies can assess the maturity of their data-management efforts by determining whether their data-governance efforts are sufficiently robust to enable broad and continuous use of data by the front line.

## 6 Adoption and operating model change

The most successful industrial companies develop a detailed approach to coordinate business integration, launch change-management initiatives, and identify metrics to measure progress and impact. Executives must clearly articulate the steps and resources required to ensure that a digital transformation actually delivers value to the front line. Companies should be prepared to invest at least as much in change-management efforts that encourage adoption of these approaches and build conviction as they do in technology.

---

<sup>1</sup> Kevin Buehler, Holger Harreis, Jorge Machado, Satyajit Parekh, Kayvaun Rowshankish, Asin Tavakoli, and Allen Weinberg, "How chief data officers can navigate the COVID-19 response and beyond," April 13, 2020, McKinsey.com.

**Venkat Atluri** and **Aamer Baig** are senior partners in McKinsey's Chicago office, where **Rasagya Kabra** is a consultant and **Satya Rao** is a partner.

© phoniamaipphoto/Getty Images

Copyright © 2020 McKinsey & Company. All rights reserved.