

McKinsey Global Survey results

Minding your digital business

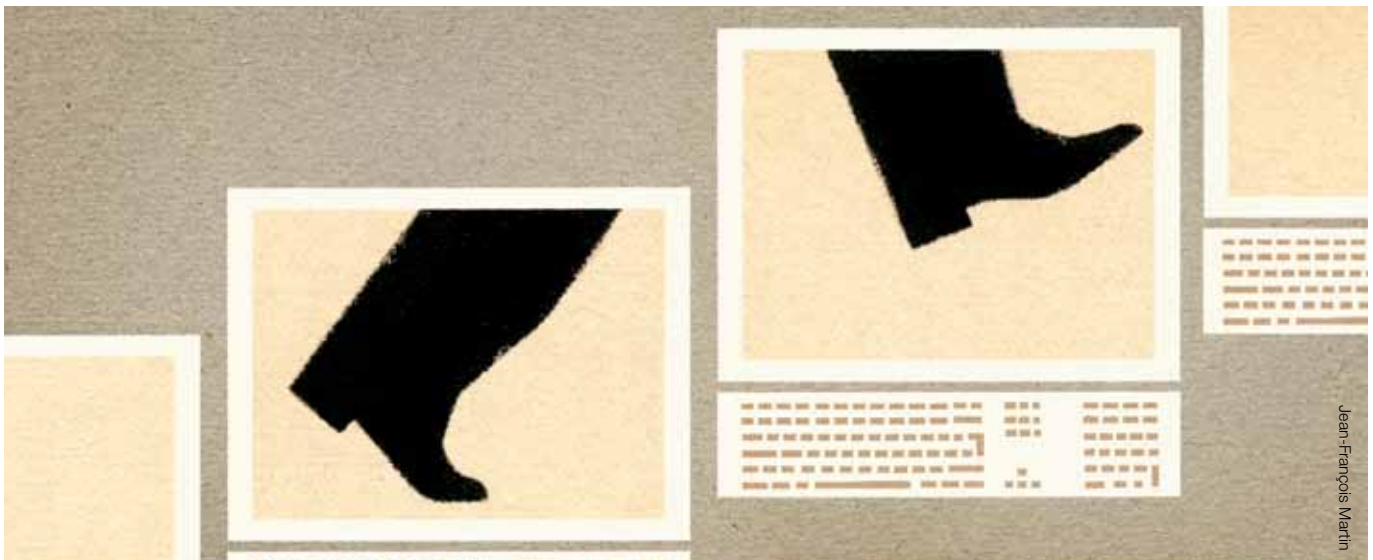
Executives expect that new digital technologies will transform their businesses, but many admit their companies are far from prepared in developing capabilities and meeting challenges.

¹ Sixty-five percent of respondents say big data and analytics is either a top corporate, top-three corporate, top-ten corporate, or top priority for one to two business units on their organizations' strategic agendas; 68 percent say the same about digital marketing and social tools, and 56 percent about flexible delivery platforms.

² The online survey was in the field from April 3 to April 13, 2012, and garnered responses from 1,469 C-level executives representing the full range of industries, regions, and company sizes; 8.5 percent of these executives have a specific technology focus. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

Most C-level executives say the three key trends in digital business—namely, big data and analytics, digital marketing and social-media tools, and the use of new delivery platforms such as cloud computing and mobility—are strategic priorities at their companies,¹ according to McKinsey's first annual survey on the topic.² The survey asked executives in the C-suite about their companies' adoption of these trends; the extent to which their companies are investing in new digital technologies; the value that they expect to reap from these investments; and the role the IT function plays in driving digital business initiatives forward.

These executives have high expectations for the potential value their companies can generate from the three trends, and one-third even expect digital business to increase operating income by more than 10 percent over the next three years. However, they also report some tough challenges. Nearly half of respondents say their companies' investments in digital initiatives are too small to deliver on their goals. Many executives also cite overall organizational shortcomings and a lack of IT capabilities as barriers to meeting their companies' technology priorities.



³For more, see Brad Brown, Michael Chui, and James Manyika, “Are you ready for the era of ‘big data’?”, *mckinseyquarterly.com*, October 2011; “Competing through data: Three experts offer their game plans,” *mckinseyquarterly.com*, October 2011; Jacques Bughin, John Livingston, and Sam Marwaha, “Seizing the potential of ‘big data,’” *mckinseyquarterly.com*, October 2011; and James Manyika et al., *Big data: The next frontier for innovation, competition, and productivity*, *mckinsey.com*, May 2011.

⁴For more, see Roxane Divol, David Edelman, and Hugo Sarrazin, “Demystifying social media,” *mckinseyquarterly.com*, April 2012; David C. Edelman, “Four ways to get more value from digital marketing,” *mckinseyquarterly.com*, March 2010; and Jacques Bughin, Angela Hung Byers, and Michael Chui, “How social technologies are extending the organization,” *mckinseyquarterly.com*, November 2011.

Prioritizing and investing in digital business

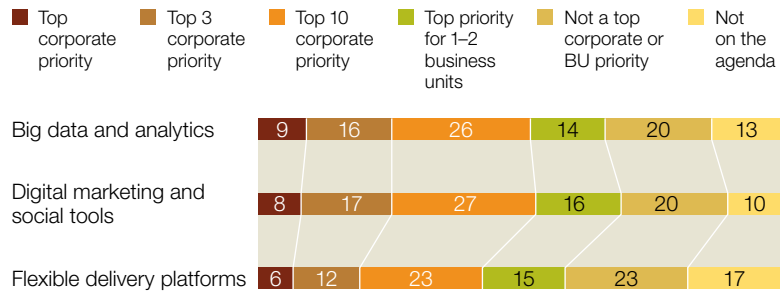
Of the three key business technology trends the survey asked about, just more than half of all respondents say their organizations have made two of them—big data and analytics,³ and digital marketing and social tools⁴—at least a top-ten corporate priority on their strategic agendas (Exhibit 1). In fact, for each of the three trends, between 6 and 9 percent say it is their organizations’ top corporate priority.

Executives also say their companies view these digital business trends more as offensive strategic weapons than as defensive moves. About half of respondents indicate their organizations’ primary objective in addressing big data, digital marketing, or flexible

Exhibit 1
Digital business ranks high on the agenda

% of respondents,¹ n = 1,469

Priority of digital business trends on companies’ strategic agenda



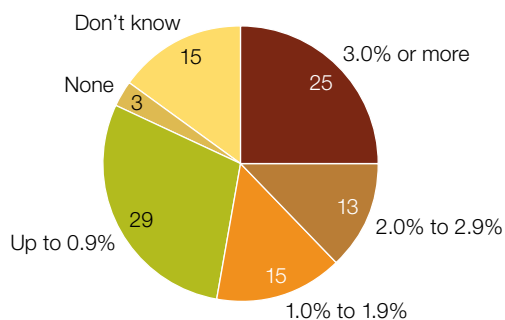
¹Respondents who answered “don’t know” are not shown; figures do not sum to 100%.



Exhibit 2

Financial support for digital initiatives

% of respondents, n = 1,469

Expected share of total cost base dedicated to digital business initiatives in current budget year

platforms⁵ is using the technology to build a competitive advantage in their existing business. Some executives report even higher aspirations: between 27 and 30 percent say their organizations are looking to these trends to build a new business or tap into new profit pools.

The results indicate that companies are indeed supporting these priorities in their budgets: one-quarter of respondents expect their organizations to spend at least 3 percent of their total cost base on digital business initiatives this year (Exhibit 2). Across sectors, professional services, high tech, and health care and pharma companies are investing the most, with more than four out of ten respondents in those industries saying their organizations will spend at least 2 percent on digital business. Some interesting differences also emerge across roles: 40 percent of CEOs expect investments of at least 3 percent, while only 20 percent of CFOs and 12 percent of chief information officers (CIOs) say the same. The discrepancy suggests the management team may lack clarity or a consistent concept about the investments needed to support digital business.

Despite these heavy investments, only about one-third of respondents say they believe their companies are spending enough to build out these capabilities, with almost half saying their companies are underfunding these initiatives by 11 percent or more. Here, responses also diverge by role. Thirty-six percent of CEOs say investments are roughly at the right level, yet only about 30 percent of CFOs and chief operating officers (COOs) say the same; even fewer chief marketing officers (CMOs) and CIOs agree.

⁵ For more, see Jacques Bughin, Michael Chui, and James Manyika, "Clouds, big data, and smart assets: Ten tech-enabled business trends to watch," *mckinseyquarterly.com*, August 2010; Michael Chui, Markus Löffler, and Roger Roberts, "The Internet of Things," *mckinseyquarterly.com*, March 2010; and Bengi Korkmaz, Richard Lee, and Ickjin Park, "How new Internet standards will finally deliver a mobile revolution," *mckinseyquarterly.com*, April 2011.

Uneven adoption, high expectations

For each of the trends, the pace at which respondents say their organizations are adopting different practices varies greatly. With big data, 49 percent say their companies are focusing their efforts on customer insights, segmentation, and targeting to improve overall performance; an even higher share say their companies *should* focus their efforts on using data and analytics to generate these insights (Exhibit 3). Yet just one-fifth say their organizations have fully deployed data and analytics to generate insights in one business unit or function; only 13 percent use data to generate insights across the company.

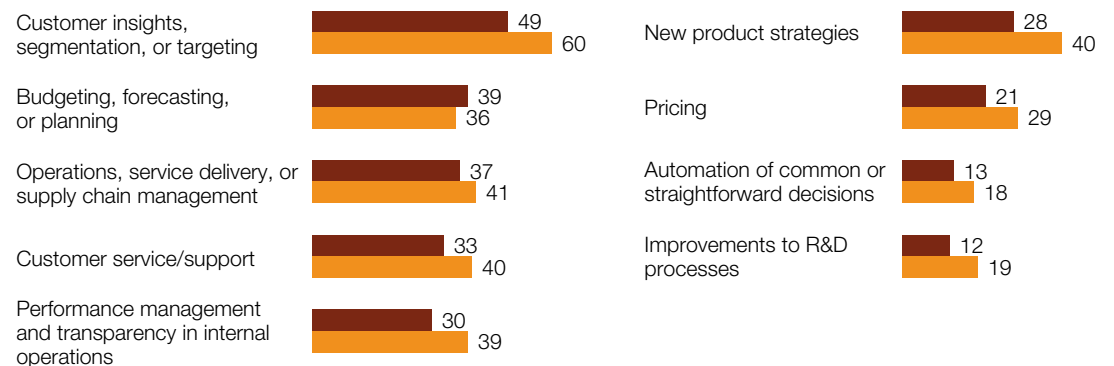
Exhibit 3

Focus on generating customer insights

% of respondents,¹ n = 1,469

■ Currently
■ Ideally

Functional areas where companies do, and should, focus on using big data and analytics to improve overall performance



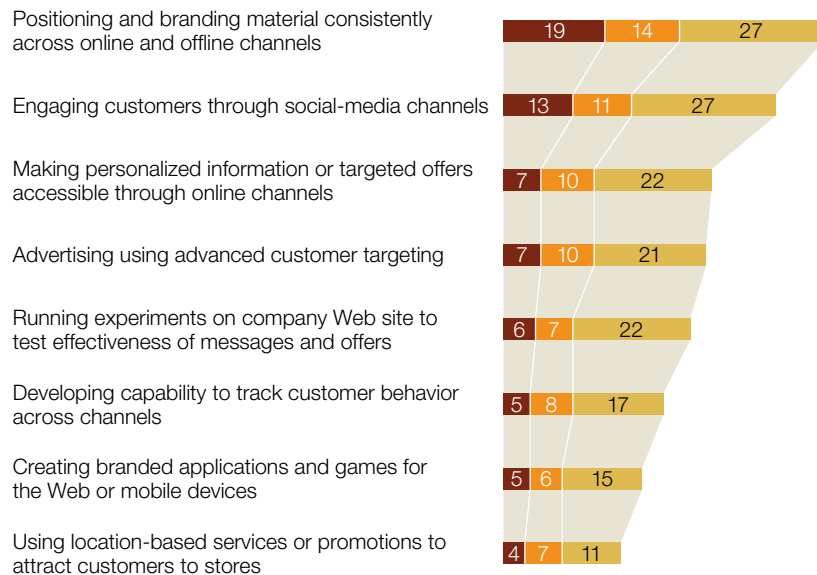
¹ Respondents who answered "other," "don't know," or "we are not focusing efforts on data and analytics in any specific area" are not shown.



Exhibit 4

Digital marketing used to cross channels% of respondents,¹ n = 1,469**Companies' use of digital marketing practices**

■ Deployed at scale across the enterprise
 ■ Fully deployed in 1 business unit or function
 ■ Selectively deployed



¹ Respondents who answered either "piloting," "not at all," or "don't know" are not shown.

Most respondents say their companies use digital marketing techniques either to position and brand material across channels or to engage customers through social-media channels at least selectively, while the adoption of other practices is more modest (Exhibit 4). When asked about specific uses of social technologies, a slight majority say their companies use them to improve customer engagement, while fewer have deployed these tools internally or with business partners. And our experience suggests that companies are still building the foundations for new delivery platforms such as cloud or mobile; not surprisingly, respondents say their own organizations' efforts are focused on the more basic functions in these areas. Forty-four percent report the deployment of mobile access for internal business applications, and 34 percent say their organizations use cloud computing. Fewer executives report the use of more advanced technologies, such as smart sensors to automate or control internal processes and systems, which only 16 percent say their companies have deployed at least selectively.

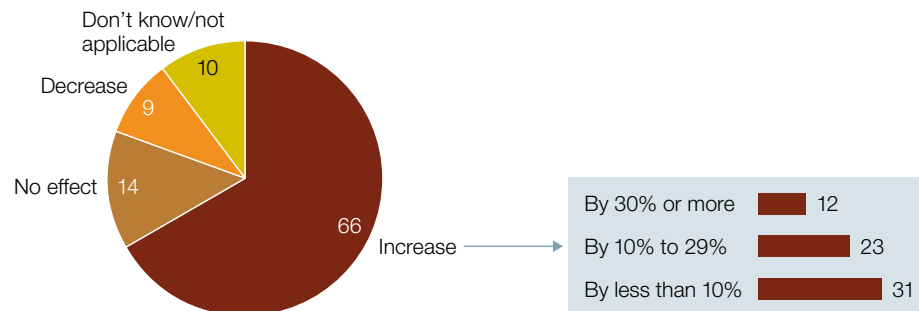
While their companies' current use of digital technologies indicates substantial room for growth, executives are by and large optimistic about the future implications of these trends (Exhibit 5). Executives at privately owned companies report even higher expectations than their public-company counterparts: 39 percent at private companies expect income to increase by at least 10 percent, while only 24 percent at public companies say the same.

Exhibit 5

Income expectations are upbeat

% of respondents,¹ n = 1,469

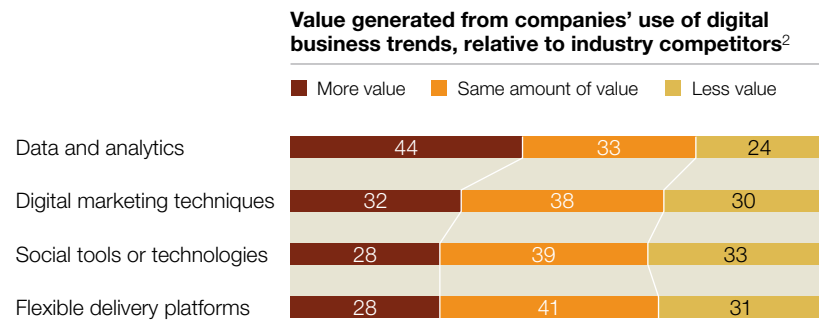
Expected impact of digital business on companies' operating income, next 3 years



¹Figures do not sum to 100%, because of rounding.



Exhibit 6

Data and analytics generate more value% of respondents¹¹Figures may not sum to 100%, because of rounding.²Figures were calculated after removing "don't know/not applicable" responses to the original survey questions.

The survey also asked respondents to compare the value they have generated from digital business at their own companies with that of their competitors (Exhibit 6). More executives say they have outperformed competitors in their use of big data and analytics than in applying any other trend. At the sector level, even larger shares of executives in health care and pharma (56 percent) and at business-to-consumer companies (50 percent) say the same about big data. Compared with their fellow executives, CIOs are more bearish across the board: only 30 percent expect their companies to generate more value than competitors from big data, for example, compared with 46 percent of CEOs.

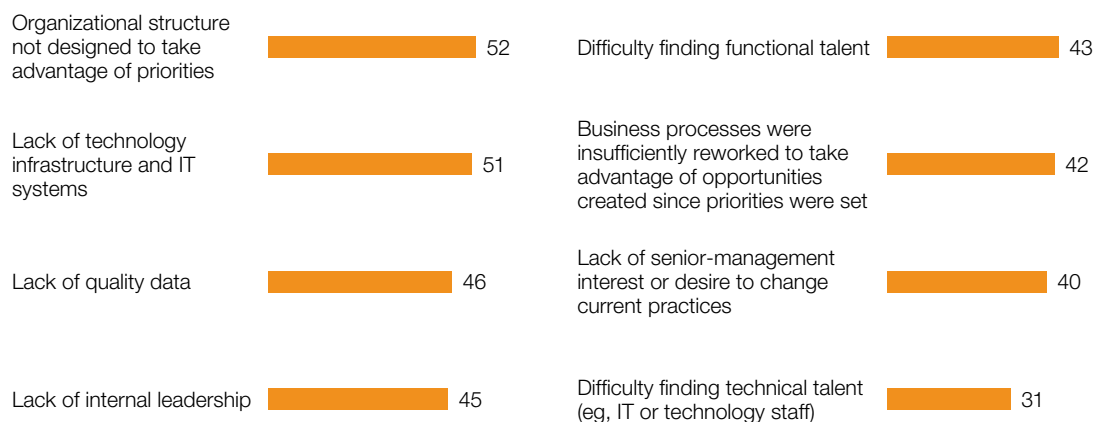


Exhibit 7

Organizational and technological challenges

% of respondents,¹ n = 1,469

Most significant challenges faced in meeting digital business priorities²



¹ Respondents who answered “other,” “don’t know,” or “the use of digital business technologies are not priorities at my organization” are not shown.

² The survey originally asked about challenges to meeting priorities for each of the three digital business trends; here, the figures were averaged across the trends.

Tough challenges ahead

Despite their optimism, executives consistently cite two challenges in fulfilling the promise of digital technologies: organizational structures and shortcomings in their infrastructure and IT systems, which can be too inflexible or ill equipped to take advantage of a data-rich world (Exhibit 7). In part, the technology infrastructure challenge explains why the CIOs are much likelier than all other executives to believe more investment will be required to deliver on their organizations’ priorities.

The results also reveal some interesting findings about the role the CIO and the IT function play in moving digital initiatives forward. More than half of executives say their CIOs are supportive and directly engaged in these initiatives, though one-quarter say these executives are not engaged at all. Responses about the broader IT organization reveal even less involvement at the functional level: only 14 percent say their companies’ IT functions are spearheading new digital-business efforts. While 39 percent say their IT functions actively engage with or support these efforts, nearly one-third say the function is supportive but lacks the capabilities to deliver on goals.



Looking ahead

- The broader organizational issues identified in the question about challenges indicate that executives must think carefully about *how* to carry out digital business initiatives in their organizations. This challenge may be the most revealing, as it speaks to the potential need for a different operating paradigm—and the fact that traditionally siloed functions (for example, marketing, product development, or IT) could obstruct a dynamic approach to digital business that requires speed and flexibility to create the most value. Also required is a new approach to managing talent by utilizing flexible team structures, engaging outside collaborators, and increasing corporate tolerance for failure.
- Executives and companies also need to focus on building and acquiring the skills necessary to carry out a digital business agenda. In our experience, good people are scarce in each of these three technology areas, as companies compete for talent not only within their industries but also with high-tech firms and start-ups. Companies should be resourceful in developing homegrown skills wherever possible, as well as creative in finding or contracting for the talent to implement their strategies most effectively.
- At companies where the IT leadership is actively engaged and sponsors digital business activities, respondents are far likelier to say their organizations capture more value than competitors: 44 percent say so, compared with 24 percent at companies where the CIO plays a more passive role. This difference suggests that active participation by the CIO contributes significantly to achieving digital business leadership and further highlights companies' need for an active CIO who is engaged and credible across the business. □

Contributors to the development and analysis of this survey include **Brad Brown** (brad_brown@mckinsey.com) and **Johnson Sikes** (johnson_sikes@mckinsey.com), a director and consultant, respectively, in McKinsey's New York office.

Copyright © 2012 McKinsey & Company. All rights reserved.

