

McKinsey Global Survey results

The digital tipping point

Organizations' efforts to go digital—and drive growth through digitization—are picking up steam. But many have more work to do before they can scale their efforts and see material impact.

After years of revving their engines, many companies are gaining momentum with their digital initiatives. Executives say their CEOs are more involved in digital efforts than ever before and that their enterprises are now investing enough to meet their overall digital goals. Yet McKinsey's latest survey on digitization¹ also finds that many respondents say their companies must address key organizational issues before digital can have a truly transformative impact on their business.

This year's survey asked respondents how their companies spend on digital and organize their digital work, as well as the goals, challenges, and best practices they see across these initiatives. Many respondents agree that their companies' digital programs are growth oriented, that future spending on digital will increase, and that a large portion of future company growth will be driven by digital efforts. But organizational challenges and a dearth of talent are common, significant hurdles that prevent companies from scaling up their digital efforts or seeing clear returns on their investments. So are limited accountability and a poor understanding of potential value. Less than 40 percent of executives say their companies have accountability measures in place, either through targets, incentives, or "owners" of digital programs, while only 7 percent say their organizations understand the exact value at stake from digital.

¹The online survey was in the field from April 8 to April 18, 2014, and garnered responses from 850 C-level executives representing the full range of regions, industries, and company sizes; 9.3 percent of these executives have a technology focus. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.



Going digital to grow

It's evident that digitization has become a critical asset in many companies' quest for growth. More than three-quarters of executives say the strategic intent behind their digital programs is either to build competitive advantage in an existing business or to create new business and tap new profit pools.

To further underscore digitization's strategic importance, it is top of mind for many company leaders. CEOs and other C-level executives—chief information officers (CIOs) in particular—are devoting more of their personal attention and are more directly involved in digital initiatives now than ever before (Exhibit 1). Company leaders are also spearheading digital strategy: 41 percent of respondents say their CEOs are responsible for their organizations' overall digital agendas.

Exhibit 1
Both CEOs and CIOs play an important, direct role in digital initiatives.

% of respondents¹

Level of support and involvement in digital-business initiatives, by role²

Supportive and sponsor of initiatives Supportive and directly engaged

	2012, n = 1,469	2013, n = 850	2014, n = 850
Chief information officer	26 33 59	26 37 63	40 29 69
CEO	23 23 46	31 24 55	38 23 61
Chief marketing officer	25 34 59	26 28 54	31 30 61
CFO	12 20 32	13 24 37	17 29 46
Chief digital officer	N/A	12 12 24	17 13 30
Board of directors	11 13 24	14 11 25	14 13 27

¹Respondents who answered "supportive and not directly engaged," "neither unsupportive nor supportive," "not at all supportive or engaged," "don't know," or "not applicable" are not shown.

²In 2012 and 2013, we did not ask about business-unit heads and their support or involvement in digital initiatives, so the 2014 results are not shown. The largest shares say their business-unit heads are either supportive and directly engaged (39 percent) or supportive but not directly engaged (21 percent).



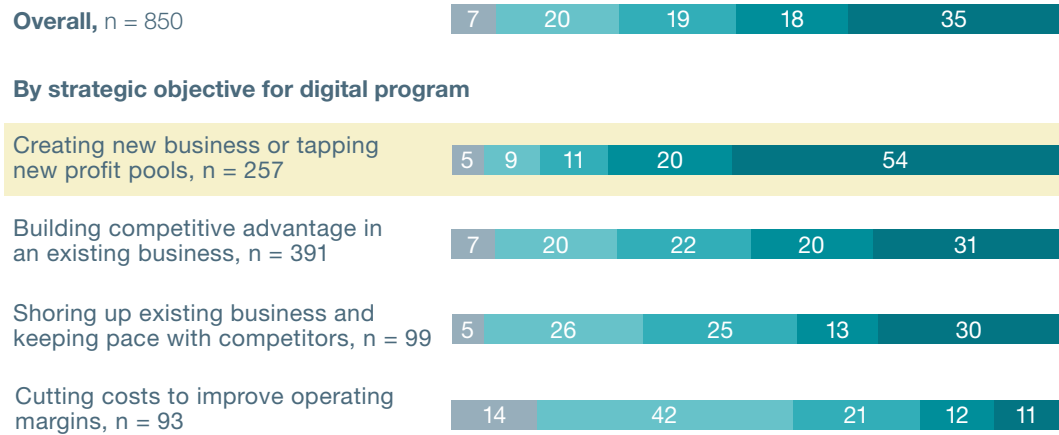
Exhibit 2

Expectations for growth are highest at companies that pursue digital to create new business.

% of respondents¹

Expected share of organizations' overall growth that will result from digital efforts, next 3 years

■ Don't know ■ ≤4% ■ 5–9% ■ 10–14% ■ ≥15%



¹Figures may not sum to 100%, because of rounding

Given the focus on growth and rising C-suite interest, it's no wonder that a sizable share of executives have high expectations for digital. More than one-third of all respondents expect at least 15 percent of their companies' growth in the next three years will be driven by digital (Exhibit 2). Among companies pursuing digital to create new business, more than half of executives expect this level of growth. In the high-tech and telecommunications sectors, and in North America, respondents also report higher-than-average expectations for future, digital-led growth.



Spending strategically, for now

To achieve this growth, organizations are maintaining a clear focus on customers—the same emphasis we saw in last year’s survey.² Of the six digital trends we asked about, executives expect the largest share of their digital growth in the coming years will be from digital customer engagement, followed closely by the digital innovation of products, operating models, or business models.

Respondents most often rank digital customer engagement as a top strategic priority, too, and report that current spending patterns mirror digital priorities (Exhibit 3). Further, respondents believe their companies invest adequately in these digital trends. Of the six trends, automation ranks the lowest. Just 34 percent of executives say it’s a top-three priority for their companies, even though automation may significantly help businesses in sectors that are undergoing digital disruption (by lowering customer transaction costs, for example) and improve their bottom lines.³

²Brad Brown, Johnson Sikes, and Paul Willmott, “Bullish on digital: McKinsey Global Survey results,” August 2013, mckinsey.com.

³For more on the bottom-line impact of digital, see “Tunde Olanrewaju and Paul Willmott, “Finding your digital sweet spot,” *McKinsey on Business Technology*, November 2013, mckinsey.com.

Exhibit 3

Digital customer engagement is paramount in both strategy and spending.

% of respondents,¹ n = 850

	Ranked among top 3 digital trends at respondents' companies					
	As a strategic priority			As a share of overall digital-budget spending		
	Ranked 1st	Ranked 2nd	Ranked 3rd	Ranked 1st	Ranked 2nd	Ranked 3rd
Digital engagement of customers	30	21	18	29	17	16
Digital innovation of products, operating model, or business model	24	21	19	25	18	17
Big data and advanced analytics	14	16	15	11	13	15
Digital engagement of employees, suppliers, or business partners	9	16	19	15	9	11
Digital customer-life-cycle management	8	14	18	5	15	12
Automation	14	10	10	8	19	17

¹Respondents who did not rank each of the 6 trends in the top 3 are not shown.

Exhibit 4

Executives expect a rise in big data's importance, but across digital trends, they are least likely to report adequate investments in it.

% of respondents,¹ n = 850

Top-ranked trends as a share of overall digital-budget spending ¹	Currently In 3 years	Agree that current investments are enough to accomplish overall digital goals
Digital engagement of customers	31 27	68
Digital innovation of products, operating model, or business model	26 28	65
Automation	16 9	66
Big data and advanced analytics	12 24	52
Digital engagement of employees, suppliers, or business partners	9 5	68
Digital customer-life-cycle management	5 8	58

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

However, as digital becomes more integrated into businesses, executives acknowledge that some investments must change. Across the trends, respondents are most likely to say their companies are underinvesting in big data and analytics—though they predict that in three years' time, big data will become a higher spending priority (Exhibit 4). More broadly, only one-fifth of executives report that their organizations spend at least 5 percent of their current cost base on digital programs; nearly one-third of respondents expect their spending will reach this level in three years' time. In North America and in information-intensive sectors such as financial services, high tech, and telecommunications, executives report even higher levels of spending, both now and in the future.



Challenges of scale

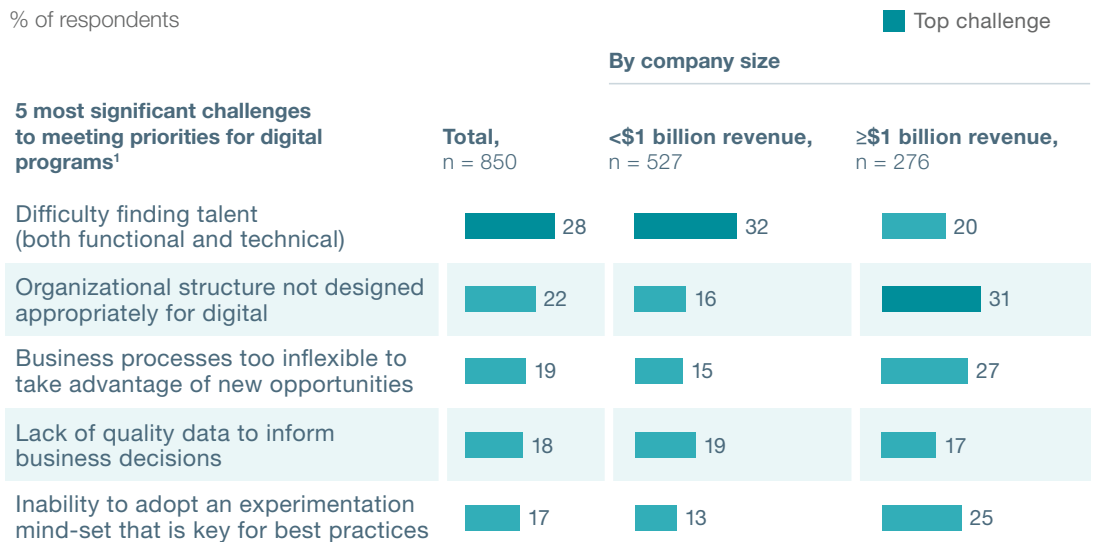
Many companies (and leaders) have recognized the importance of digital and focused their digital strategy and spending. Yet many still have a long way to go in creating an organization that is well positioned to see digital efforts scaled across the company and achieve the large financial impact that respondents expect. One such challenge is the struggle to recognize value from existing digital efforts. When asked about the funding of and impact generated from digital projects, just 7 percent say their organizations understand the exact value at stake from digital, and only 4 percent of respondents report high returns on their companies’ current investments.

Organizationally, companies are struggling as well. When asked about targets and incentives, less than 40 percent of executives say their companies have accountability measures in place for their digital objectives, either through measurable targets, performance incentives for relevant employees, or an executive “owner” of their digital programs.⁴ Larger companies (those with annual revenues of \$1 billion or more) in particular are struggling with unsuitable organizational structures and inflexible business processes (Exhibit 5). These structures and processes function effectively with legacy channels, but, according to respondents, are hindering their companies’ efforts to take advantage of new digital opportunities.

⁴For more on related best practices, see “Tunde Olanrewaju, Kate Smaje, and Paul Willmott, “The seven habits of highly effective digital enterprises,” May 2014, mckinsey.com.

Exhibit 5

At larger companies, structural issues are the top hurdle to meeting digital goals.



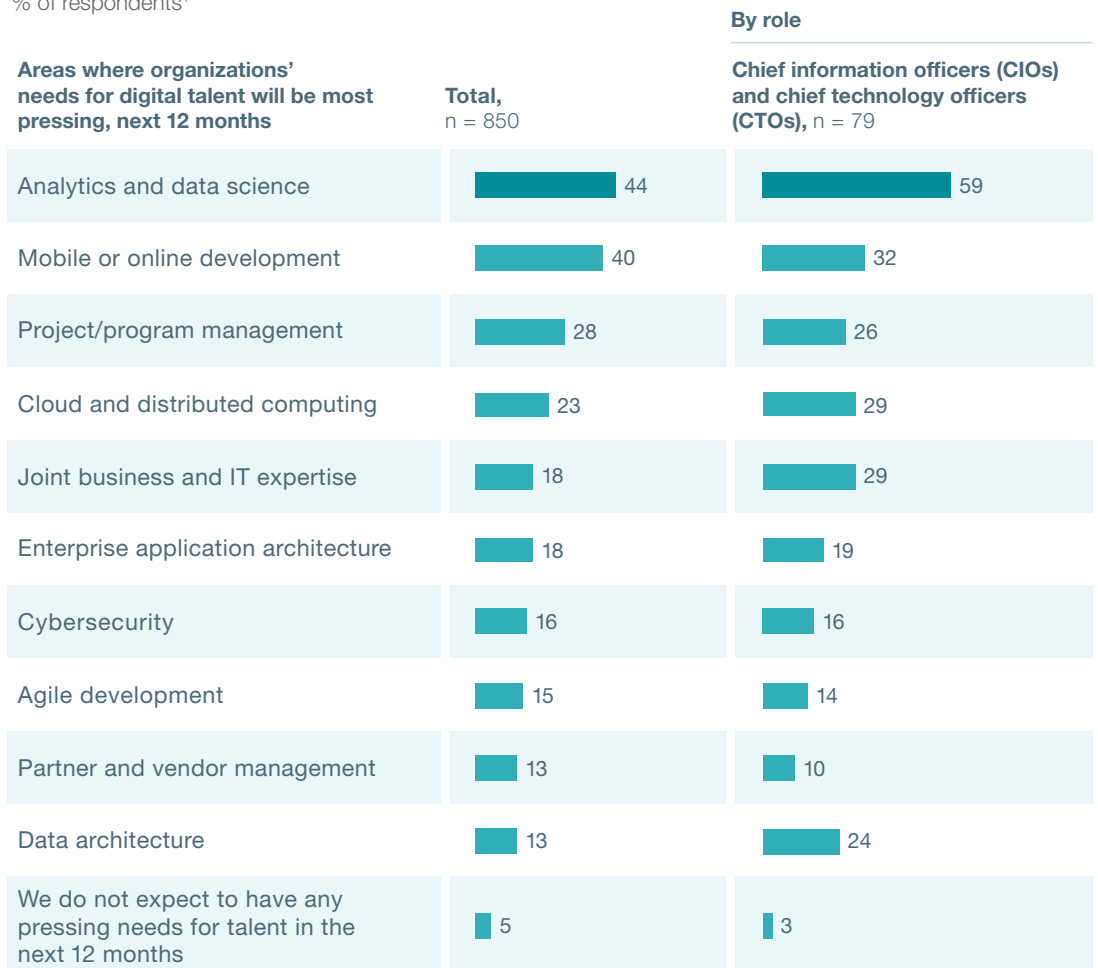
¹Out of 12 challenges that were presented as answer choices.

Many executives also agree that digital talent remains a trouble area for their organizations. Only one-third of respondents say at least one in ten of their employees spends any time working on digital projects. Of the challenges companies face in meeting their digital priorities, difficulty finding talent often tops the list. Roughly nine out of ten executives say their companies have some pressing need for digital talent in the next year—especially in analytics, which CIOs and chief technology officers cite even more frequently than average (Exhibit 6).

Exhibit 6

The need for data and analytics talent is acute, especially for CIOs and CTOs.

% of respondents¹



¹Respondents who answered "don't know" are not shown.

Looking ahead

- *Understand the value.* Most organizations have only a basic grasp on the value that digital can create. To reap the rewards from digitization at scale, CEOs need to push their teams to understand better what they can gain from digital initiatives and to match priorities and investments with the areas of highest value.
- *Focus on organization-wide impact.* Companies expect much of their near-term growth to be driven by digital, but impact remains elusive. What's more, effective organizational structures, accountability, and meaningful metrics and incentives are largely lacking. As executives become more involved in digital efforts, they must work to ensure that their structures and business processes are set up to take full advantage of the opportunities that digital efforts offer.
- *Prioritize talent.* Respondents continue to express concerns about finding the talent their companies need to realize their digital goals. Building and acquiring technical and functional skills, as well as creating an environment that encourages development and retention, will be key to maintaining competitive parity and driving growth in the near term. □

The contributors to the development and analysis of this survey include **Josh Gottlieb**, a specialist in McKinsey's New Jersey office, and **Paul Willmott**, a director in the London office.

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