

Digital strategy in a time of crisis

Now is the time for bold learning at scale.

by Simon Blackburn, Laura LaBerge, Clayton O'Toole, and Jeremy Schneider



If the pace of the pre-coronavirus world was already fast, the luxury of time now seems to have disappeared completely. Businesses that once mapped digital strategy in one- to three-year phases must now scale their initiatives in a matter of days or weeks.

In one European survey, about 70 percent of executives from Austria, Germany, and Switzerland said the pandemic is likely to accelerate the pace of their digital transformation. The quickening is evident already across sectors and geographies. Consider how Asian banks have swiftly migrated physical channels online. How healthcare providers have moved rapidly into telehealth, insurers into self-service claims assessment, and retailers into contactless shopping and delivery.

The COVID-19 crisis seemingly provides a sudden glimpse into a future world, one in which digital has become central to every interaction, forcing both organizations and individuals further up the adoption curve almost overnight. A world in which digital channels become the primary (and, in some cases, sole) customer-engagement model, and automated processes become a primary driver of productivity—and the basis of flexible, transparent, and stable supply chains. A world in which agile ways of working are a prerequisite to meeting seemingly daily changes to customer behavior.

If a silver lining can be found, it might be in the falling barriers to improvisation and experimentation that have emerged among customers, markets, regulators, and organizations. In this unique moment, companies can learn and progress more quickly than ever before. The ways they learn from and adjust to today's crisis will deeply influence their performance in tomorrow's changed world, providing the opportunity to retain greater agility as well as closer ties with customers, employees, and

suppliers. Those that are successfully able to make gains “stick” will likely be more successful during recovery and beyond.

Now is the time to reassess digital initiatives—those that provide near-term help to employees, customers, and the broad set of stakeholders to which businesses are increasingly responsible and those that position you for a postcrisis world. In this world, some things will snap back to previous form, while others will be forever changed. Playing it safe now, understandable as it might feel to do so, is often the worst option.

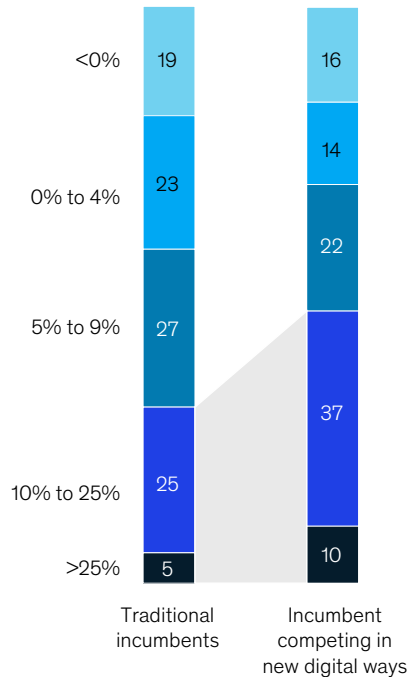
A crisis demands boldness and learning

Every company knows how to pilot new digital initiatives in “normal” times, but very few do so at the scale and speed suddenly required by the COVID-19 crisis. That's because in normal times, the customer and market penalties for widespread “test and learn” can seem too high, and the organizational obstacles too steep. Shareholders of public companies demand immediate returns. Finance departments keep tight hold of the funds needed to move new initiatives forward quickly. Customers are often slow to adjust to new ways of doing things, with traditional adoption curves reflecting this inherent inertia. And organizational culture, with its deeply grooved silos, hinders agility and collaboration. As a result, companies often experiment at a pace that fails to match the rate of change around them, slowing their ability to learn fast enough to keep up. Additionally, they rarely embrace the bold action needed to move quickly from piloting initiatives to scaling the successful ones, even though McKinsey research shows bold moves to adopt digital technologies early and at scale, combined with a heavy allocation of resources against digital initiatives and M&A, correlate highly with value creation (Exhibit 1).

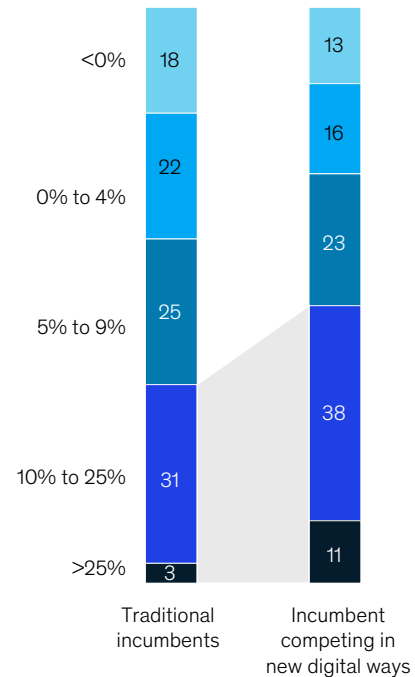
Exhibit 1

Bold, tightly integrated digital strategies are the most effective approach to digital transformations.

Rate of organic revenue growth,
% share of (past 3-year CAGR,¹ actual)



Rate of EBIT² growth,
% share of (past 3-year CAGR, actual)



Note: Numbers may not sum to 100, because of rounding.
¹Compound annual growth rate.
²Earnings before interest and taxes.
 Source: 2017 Digital Strategy Survey

As the COVID-19 crisis forces your customers, employees, and supply chains into digital channels and new ways of working, now is the time to ask yourself: What are the bold digital actions we've hesitated to pursue in the past, even as we've known they would eventually be required? Strange as it may seem, right now, in a moment of crisis, is precisely the time to boldly advance your digital agenda.

A mandate to be bold

What does it mean to act boldly? We suggest four areas of focus, each of which goes beyond applying "digital lipstick" and toward innovating entirely new digital offerings, deploying design thinking and technologies like artificial intelligence (AI) at scale

across your business, and doing all of this "at pace" through acquisitions (Exhibit 2).

New offerings

By now you've likely built the minimally viable nerve center you need to coordinate your crisis response. This nerve center provides a natural gathering point for crucial strategic information, helping you stay close to the quickly evolving needs of core customer segments, and the ways in which competitors and markets are moving to meet them. Mapping these changes helps address immediate risks, to be sure, but it also affords looking forward in time at bigger issues and opportunities—those that could drive significant disruption as the crisis continues. Just as digital platforms have disrupted value pools and

value chains in the past, the COVID-19 crisis will set similar “ecosystem”-level changes in motion, not just changes in economics but new ways of serving customers and working with suppliers across traditional industry boundaries.

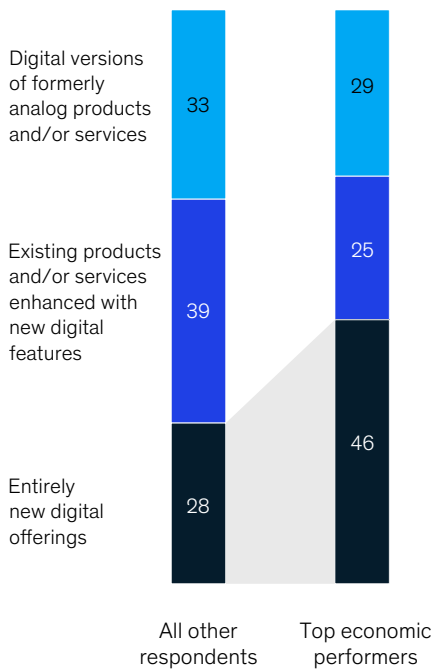
In the immediate term, for example, most organizations are looking for virtual replacements for their previously physical offerings, or at least new ways of making them accessible with minimal physical contact. The new offerings that result can often involve new partnerships or the need to access new platforms and digital marketplaces in which your company has yet to participate. As you

engage with new partners and platforms, look for opportunities to move beyond your organization's comfort zones, while getting visibility into the places you can confidently invest valuable time, people, and funds to their best effect. Design thinking, which involves using systemic reasoning and intuition to address complex problems and explore ideal future states, will be crucial. A design-centric approach focuses first and foremost on end users or customers. But it also helps make real-time sense of how suppliers, channel partners, and competitors are responding to the crisis, and how the ecosystem that includes them all is evolving for the next normal emerging after the immediate crisis fades.

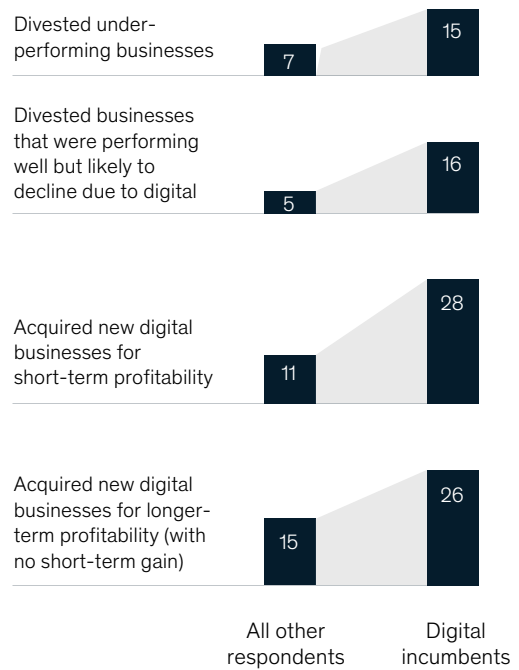
Exhibit 2

Organizations that are able to leverage things like design thinking into their new offerings during the crisis will see significant first-mover advantage.

Organizations' digital offerings,
% share, by degree of newness



Business portfolio makeup,
% of respondents

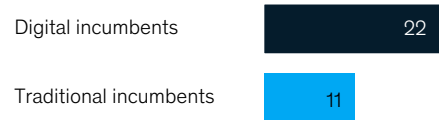


Technology adoption being used at scale,¹ by business type, % of respondents

Design thinking



Artificial-intelligence tools²



¹For example virtual assistants, computer vision, voice recognition.
²At scale in 1 business unit or function, or organization-wide.

Source: 2017 Digital Strategy Survey

Organizations that make minor changes to the edges of their business model nearly always fall short of their goals. Tinkering leads to returns on investment below the cost of capital.

Reinvent your business model at its core

Going beyond comfort zones requires taking an end-to-end view of your business and operating models. Even though your resources are necessarily limited, the experience of leading companies suggests that focusing on areas that touch more of the core of your business will give you the best chance of success, in both the near and the longer term, than will making minor improvements to noncore areas. Organizations that make minor changes to the edges of their business model nearly always fall short of their goals. Tinkering leads to returns on investment below the cost of capital and to changes (and learning) that are too small to match the external pace of disruption. In particular, organizations rapidly adopting AI tools and algorithms, as well as design thinking, and using those to redefine their business at scale have been outperforming their peers. This will be increasingly true as companies deal with large amounts of data in a rapidly evolving landscape and look to make rapid, accurate course corrections compared with their peers.

While the outcomes will vary significantly by industry, a few common themes are emerging across sectors that suggest “next normal” changes to cost structures and operating models going forward.

- **Supply-chain transparency and flexibility.** Near-daily news stories relate how retailers around the globe are experiencing stock-outs during the crisis, such as toilet-paper shortages in the United States. It’s also clear that retailers with

full supply-chain transparency prior to the crisis—as well as algorithms to detect purchase-pattern changes—have done a better job navigating during the crisis. Other sectors, many of which are experiencing their own supply-chain difficulties during the crisis, can learn from their retail counterparts to build the transparency and flexibility needed to avoid (or at least mitigate) supply-chain disruption in the future.

- **Data security.** Security has also been in the news, whether it’s the security of people themselves or that of goods and data. Zoom managed to successfully navigate the rapid scaling of its usage volume, but it also ran into security gaps that needed immediate address. Many organizations are experiencing similar, painful lessons during this time of crisis.
- **Remote workforces and automation.** Another common theme emerging is the widely held desire to build on the flexibility and diversity brought through remote working. Learning how to maintain productivity—even as we return to office buildings after the lockdown ends, and even as companies continue to automate activities—will be critical to capturing the most value from this real-world experiment that is occurring. In retail, for example, there has been widespread use of in-store robots to take over more transactional tasks like checking inventory in store aisles and remote order fulfillment. These investments won’t be undone postcrisis, and those that have done so will find themselves in advantaged cost structure during the recovery.

Boldly evolve your business portfolio

No company can accelerate the delivery of all its strategic imperatives without looking to mergers and acquisitions (M&A) to speed them along. This is particularly true with digital strategy, where M&A can help companies gain talent and build capabilities, even as it offers access to new products, services, and solutions, and to new market and customer segments.

More broadly, we know from research into economic downturns that companies that invest when valuations are low outperform those that do not. These companies divested underperforming businesses 10 percent faster than their peers early on in a crisis (or sometimes in anticipation of a crisis) and then shifted gears into M&A at the first sign of recovery.

In more normal times, one of the main challenges companies face in their digital transformations is the need to acquire digital talent and capabilities through acquisitions of tech companies that are typically valued at multiples that capital markets might view as dilutive to the acquirer. The current downturn could remove this critical roadblock, especially with companies temporarily free from the tyranny of quarterly earnings expectations. Because valuations are down, the crisis and its immediate aftermath may prove an opportune time to pick up assets that were previously out of reach. We are already seeing many private-equity firms actively looking to deploy large swaths of capital.

Learning at the pace of crisis

Moving boldly doesn't mean moving thoughtlessly, however. Bold action and the ability to learn are highly interrelated. The real-time ability to learn during a crisis is in fact the one ingredient that can turbocharge your ability to scale quickly.

Find a new cadence

In situations of extreme uncertainty, leadership teams need to learn quickly what is and is not working and why. This requires identifying and learning about unknown elements as quickly as they appear. Prior to the crisis, leading companies had already been increasing the cadence of their learning as part of a quickened organizational metabolism (Exhibit 3). Companies can look to their example as they work to adapt to change more rapidly during crisis times—and beyond.

Four areas of intervention can help companies learn more quickly during the crisis and the next normal that follows.

Quicken your data reviews

Start by evaluating the frequency with which you review the available data. You should be reviewing multiple sources of data on a weekly (or more frequent) basis to evaluate the shifting needs of your customers and business partners—as well as your own performance. Look to your crisis nerve center as a single source of truth for newly emerging data about your employees, your customers, your

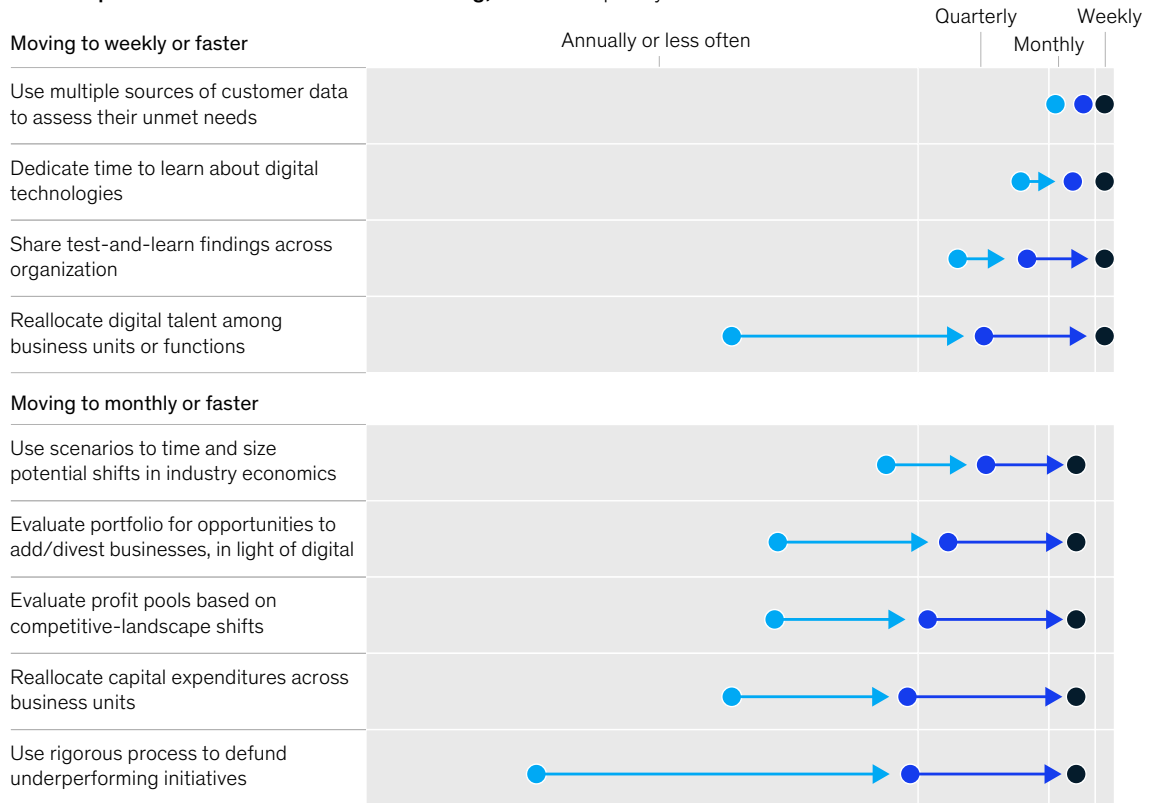
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Exhibit 3

The COVID-19 crisis is causing a need for acceleration beyond what we had seen before, going from three tiers of speed down to two.

● Respondents at top economic performers¹ ● All other respondents² ● New COVID-19 requirements

The new pace that the COVID-19 crisis is driving, median frequency³



¹ Respondents who say their organizations have a top-decile rate of organic revenue growth (ie, of 25% or more in past 3 years), relative to other respondents; n = 138.

² n = 1,304.

³ Frequencies shown are the median values from a histogram, which was constructed by assigning "weekly" responses a value of 1, "monthly" responses 2, "quarterly" responses 3, "annually" responses 4, "every few years" 5, and "never" 6. The question also asked about the frequency of evaluating M&A opportunities as part of strategy-setting discussions. These responses are not shown, because M&A typically requires a longer time frame than the other 10 operational practices tested, often due to regulatory reasons.

channel partners, your supply chains, and the ecosystems in which your company participates. Then turn to secure file-sharing technologies like Box and Zoom to remotely share and discuss insights from this faster pace of data review.

Focus on technology

The abrupt shift to virtual operations and interactions, both inside and outside your organization, also provides an opportunity to accelerate your pace of

learning about, and adoption of, technologies with which your organization might have only begun to experiment. As experimentation scales, so does learning. The rapid shift to digital can also reveal potential trouble spots with your organization's current technology stack, giving you a sneak preview of how well your technology "endowment" is likely to perform going forward. Here are some factors to keep an eye on as you more quickly learn about and adopt new technologies:

- **Data security.** Are you experiencing breaches as you move to remote working and data sharing?
- **Scalability.** Where are the breaks and crashes happening as 100 percent of your interactions with customers, employees, and business partners go virtual?
- **Usability.** Right now customers and business partners often have little choice but to access your products or services through your new digital offerings. Their options will expand as we move beyond the crisis. How well will your new offerings stand up? If your current usability is low, experiment to improve it now, while you still have a captive audience to partner with and learn from.

Test and learn

In normal times, experimentation might sometimes seem a risky game. Changing the working models to which employees, customers, or business partners are accustomed can seem to risk pushing them away, even when those experiments take aim at longer-term gains for all concerned. The COVID-19 crisis, however, has made experimentation both a necessity and an expectation.

Start with the customer-facing initiatives that, while more complex, offer a larger upside. Use automation and predictive analytics to quickly and effectively isolate difficulties. Look for opportunities to standardize what you're learning to support scaling digital solutions across core business processes. Standardization can help accelerate projects by reducing confusion and creating common tools that broad groups of people can use.

Learning while scaling

As companies increase their rate of metabolic learning, they need to quickly translate what

they're learning into at-scale responses. Scaling what you learn is always an obstacle in a digital transformation. We've had plenty to say regarding scaling up analytics, scaling up quality, or innovating at speed and scale. Here we'll simply highlight the role learning plays in your ability to scale your digital initiatives.

While companies frequently pilot new digital initiatives with the intention of learning from them before they roll out broadly, these experiments and pilots, in normal times, only test one dimension at a time, like the conversion/engagement/satisfaction rates of individual customers, the unit economics of a single transaction, or the user experience of a given digital solution. Whether they want to or not, companies in crisis mode find themselves in a different type of pilot: one of digital programs at massive scale. The rapid transition to full scale in many types of digital operations and interfaces has brought with it many challenges (for example, building and delivering laptops in under two weeks to all employees to enable 100 percent of them for remote working versus the 10 percent that were previously remote). But it also brings opportunities. At the broadest level, these include the prospect for real-time learning about where value is going in your markets and industry, the chance to learn and feed back quickly what's working in your operations and your agile organizational approach, and the opportunity to learn where it is you're more or less able to move quickly—which can help inform where you might need to buy a business rather than build one.

Observing interaction effects

Since scaling quickly requires changing multiple parts of a business model or customer journey simultaneously, now is a valuable time to observe the interaction effects among multiple variables.¹ For example, healthcare providers are facing an increased demand for services (including mental

¹ Interaction effects occur when two or more independent variables interact with at least one dependent variable. The effect of all the interactions together is often either substantially greater (or lesser) than the sum of the parts.

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health and other non-COVID-19 presentations) at the same time that their traditional channels are restricted, all in the context of strict privacy laws. This has caused many providers to rapidly test and adopt telehealth protocols that were often nonexistent in many medical offices before, and to navigate privacy compliance as well as patient receptivity to engaging in these new channels. Providers are learning which types of conditions and patient segments they can treat remotely, at the same time that they're widely deploying new apps (such as Yale Medicine's MyChart) to accelerate the digital medical treatment of their patients.

Similarly, when a retailer rolls out, within a week, a new app for country-wide, same-day delivery, it's testing far more than one variability at a time, such as the customer take-up of that new channel. Because of the scale, it can learn about differences in adoption and profitability by region and store format. It can test whether its technology partners can scale across 1,000 stores. It can test whether its supplier base can adapt distribution to handle the new model. Shifting multiple variables simultaneously, however, also increases the degree of difficulty when it comes to interpreting the results—because you're no longer isolating one variable at a time. Companies who

have already invested in AI capabilities will find themselves significantly advantaged. Making further investments now—even if you've yet to get going—with continue to pay out postcrisis as well.

Simplify and focus

Given the degree of complexity created by scaled experimentation, organizations need to find ways to simplify and focus to avoid being overwhelmed. Some of that is done for them as the crisis closes many physical channels of distribution and makes others impossible to access. But further streamlining is required along the lines of what is working, what isn't, and why. This is perhaps the first global crisis in which companies are in the position to collect and evaluate real-time data about their customers and what they are doing (or trying to do) during this time of forced virtualization. Pruning activities and offerings that are no longer viable while aggressively fixing issues that arise with your offerings will help increase the chance of keeping a higher share of customers in your lower-cost, digital channels once the crisis passes

Don't go it alone

Research indicates that people and organizations learn more quickly as a result of network effects. The more people or organizations that you add to a

common solution space, in other words, the more quickly learning occurs—and the faster performance improves. Some argue that these network effects occur in a so-called collaboration curve.

At a time of crisis, changing needs drive rapid shifts in employee mindsets and behaviors that play out as a greater willingness to try new things. Consider how you can best support the ways your talented employees learn. One option is to build or tap into platform-based talent markets that help organizations reallocate their labor resources quickly when priorities and directions shift—and help talented employees increase their rate of learning. Be sure to look not just within the boundaries of your own company but across

enterprises to include your channel partners, your vendors, and your suppliers. Chances are they will be more willing than ever to collaborate and share data and learnings to better ensure everyone's collective survival.

It's often the case in human affairs that the greatest lessons emerge from the most devastating times of crises. We believe that companies that can simultaneously attend to and rise above the critical and day-to-day demands of their crisis response can gain unique insights to both inform their response and help ensure that their digital future is more robust coming out of COVID-19 than it was coming in.

Simon Blackburn is a senior partner in McKinsey's Sydney office; **Laura LaBerge**, director of capabilities for McKinsey Digital, is based in the Stamford office; **Clayton O'Toole** is a partner in the Minneapolis office; and **Jeremy Schneider** is a senior partner in the New York office.

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