McKinsey&Company

MAY 2015

How digital is changing strategy

The strategy leader of McKinsey Digital discusses the strategic implications of digital disruptions.

Digitization is challenging, undermining, and disrupting how businesses operate. Yet while most companies understand the significance of the pace and scale of these changes, few leaders have determined exactly how their organization's strategy needs to change in response. In this interview, McKinsey Digital strategy leader Jay Scanlan discusses what's changing, the choices companies face, and how boards and CEOs should react. An edited transcript of Scanlan's comments follows.

The magnitude of change

The fundamental question about the magnitude of change that digital demands is constantly posed to me. I think it comes down to three different questions. The first is around whether the current business model is viable in the world of digital, or do I need to fundamentally change the nature of how I compete in the marketplace, either in terms of the costs of delivery to my consumers, the way in which I engage them, or around control points in which I operate?

The second question on magnitude is around the organizational demand. Do I need to transform my core business-as-usual organization rapidly, or can I afford to build new businesses and the new capabilities required to compete and win over the next 10 to 15 years? The third question is around functional models. How many new functional capabilities do I need to grow and develop, and how much do I need to change my existing supply chains, my existing operational capabilities, and my existing channel architecture to be more effective?

Once you get into the heart of the matter for each of these questions, the magnitude of the need for change is far greater than executives may have hoped for.

Making strategic choices

The first thing is being grounded in the fundamentals of where opportunity exists and the structural headwinds that you might be facing. The other aspect of strategy that is important is around resource allocation and reallocation of budgets away from things that are structurally disadvantaged to areas where an organization has more advantages. But the main difference is in being able to do so more quickly and with more agility. As companies think about these strategic issues, a lot of the driving issues have to do with the fundamentals of transition costs being much lower, if not zero.

Finally, there's a set of just pure automation and technological advantages that companies can claim in their ways of working. These provide strategic capabilities that never have existed before, such as data insights to understand what consumers really need, what they value, and how to deliver that to them as quickly, seamlessly, and painlessly as possible.

New developments in strategy

We spend a lot of time thinking about the control points around which organizations usually pivot their propositions. For instance, digital identity is a very important topic in the world of digital. It used to be that everyone had different identities with different companies and different organizations. What has happened recently, of course, is that the number of sign-ons and digital identities has actually declined quite a lot. So you have your own e-mail address rather than your telephone number. But there are now a set of five to seven platforms with global scale that provide login services for a great number of consumer-content, connectivity, and other services.

As a consequence, the vulnerability to disruption of your business model increases because you no longer have that unique and wholly owned relationship with a consumer. Instead, you actually have a shared but very important strategic control point with other players within the ecosystem. While this opens up potential vulnerabilities, it also opens up a massive opportunity for growth because you have the ability to access more about your consumers' lives than you ever have before.

Why digital is a core leadership issue

The changes—in terms of the consumer journey and business-model economics—that digital has introduced make it a board of directors issue, because, ultimately, the board is charged with protecting value and equity creation for shareholders. And often, in the world of digital, we see value creation and value destruction at speeds and scales that are relatively unprecedented in human history. At the same time, if the CEO does not have clarity on what he or she needs to deliver to respond to this new world, it's generally going to be less successful because many of the requirements of competition and customer service are so fundamental and cut across the entirety of the organization.

Hoping that the chief digital officer or the COO or the CMO or the chief strategy officer or the head of business development can on their own lead the charge into the digital world is unfortunately mistaken. It actually requires a CEO-level commitment to really change the course of the organization and make it fundamentally more effective and more agile.

Jay Scanlan is a principal in McKinsey's London office.