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Article (9 pages)

In just a few months' time, the COVID-19 crisis has brought about years of change in the way companies in all sectors and regions do business. According to a new McKinsey Global Survey of executives,[1] their companies have accelerated the digitization of their customer and supply-chain interactions and of their internal operations by three to four years. And the share of digital or digitally enabled products in their portfolios has accelerated by a shocking seven years.[2] Nearly all respondents say that their companies have stood up at least temporary solutions to meet many of the new demands on them, and much more quickly than they had thought possible before the crisis. What's more, respondents expect most of these changes to be long lasting and are already making the kinds of investments that all but ensure they will stick. In fact, when we asked executives about the impact of the crisis on a range of measures, they say that funding for digital initiatives has increased more than anything else—more than increases in costs, the number of people in technology roles, and the number of customers.

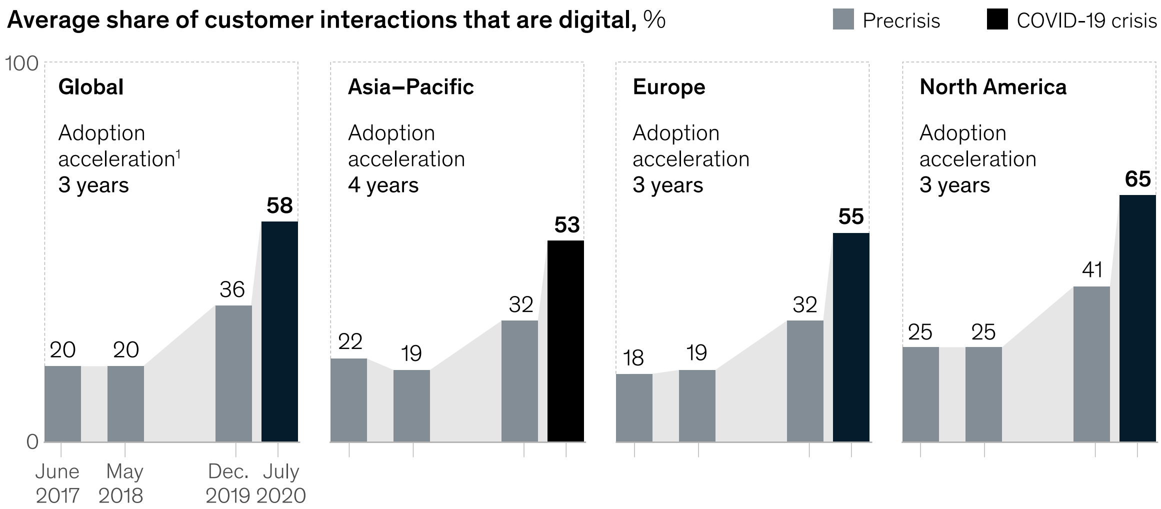
To stay competitive in this new business and economic environment requires new strategies and practices. Our findings suggest that executives are taking note: most respondents recognize technology's strategic importance as a critical component of the business, not just a source of cost efficiencies. Respondents from the companies that have executed successful responses to the crisis report a range of technology capabilities that others don't—most notably, filling gaps for technology talent during the crisis, the use of more advanced technologies, and speed in experimenting and innovating.[3]

Digital adoption has taken a quantum leap at both the organizational and industry levels

During the pandemic, consumers have moved dramatically toward online channels, and companies and industries have responded in turn. The survey results confirm the rapid shift toward interacting with customers through digital channels. They also show that rates of adoption are years ahead of where they were when previous surveys were conducted—and even more in developed Asia than in other regions (Exhibit 1). Respondents are three times likelier now than before the crisis to say that at least 80 percent of their customer interactions are digital in nature.

Exhibit 1

The COVID-19 crisis has accelerated the digitization of customer interactions by several years.



[1]Years ahead of the average rate of adoption from 2017 to 2019.

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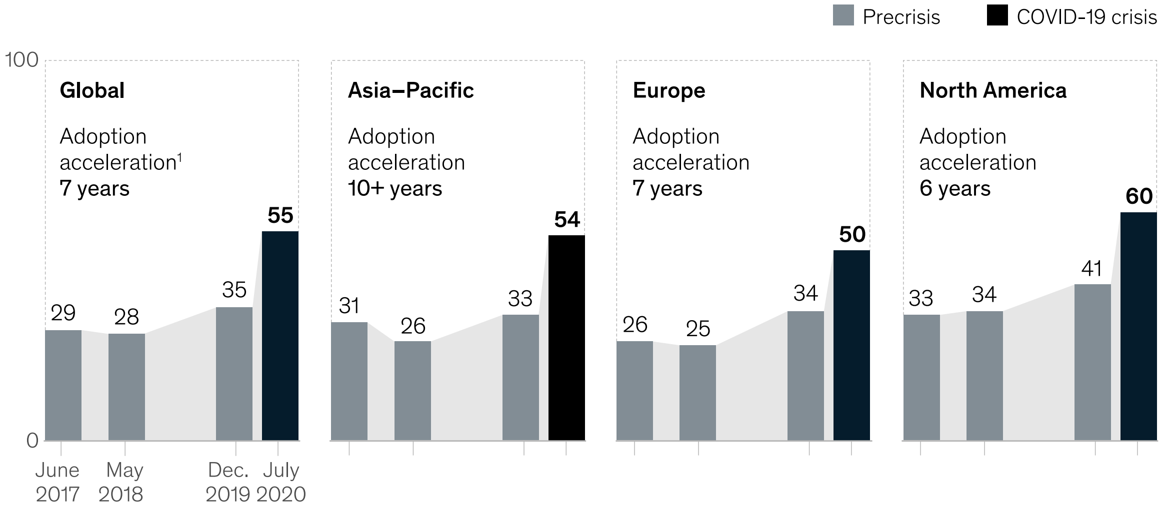
Perhaps more surprising is the speedup in creating digital or digitally enhanced offerings. Across regions, the results suggest a seven-year increase, on average, in the rate at which companies are developing these products and services. Once again, the leap is even greater—ten years—in developed Asia (Exhibit 2). Respondents also report a similar mix of *types* of digital products in their portfolios before and during the pandemic. This finding suggests that during the crisis, companies have probably refocused their offerings rather than made huge leaps in product development in the span of a few months.

Exhibit 2

Across business areas, the largest leap in digitization is the share of offerings that are digital in nature.

Average share of products and/or services that are partially or fully digitized, %



[1]Years ahead of the average rate of adoption from 2017 to 2019.

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Across sectors, the results suggest that rates for developing digital products during the pandemic differ. Given the time frames for making manufacturing changes, the differences, not surprisingly, are more apparent between sectors with and without physical products than between B2B and B2C companies. Respondents in consumer packaged goods (CPG) and automotive and assembly, for example, report relatively low levels of change in their digital-product portfolios. By contrast, the reported increases are much more significant in healthcare and pharma, financial services, and professional services, where executives report a jump nearly twice as large as those reported in CPG companies.

The customer-facing elements of organizational operating models are not the only ones that have been affected. Respondents report similar accelerations in the digitization of their core internal operations (such as back-office, production, and R&D processes) and of interactions in their supply chains. Unlike customer-facing changes, the rate of adoption is consistent across regions.

Yet the speed with which respondents say their companies have responded to a range of COVID-19-related changes is, remarkably, even greater than their digitization across the business (Exhibit 3). We asked about 12 potential changes in respondents' organizations and industries. For those that respondents have seen, we asked how long it took to execute them and how long that would have taken before the crisis. For many of these changes, respondents say, their companies acted 20 to 25 times faster than expected. In the case of remote working, respondents actually say their companies moved 40 times more quickly than they thought possible before the pandemic. Before then, respondents say it would have taken more than a year to implement the level of remote working that took place during the crisis. In actuality, it took an average of 11 days to implement a workable solution, and nearly all of the companies have stood up workable solutions within a few months.

Exhibit 3

Executives say their companies responded to a range of COVID-19-related changes much more quickly than they thought possible before the crisis.

Time required to respond to or implement changes,[1] expected vs actual, number of days

■ Organizational changes ■ Industry-wide changes

	Expected	Actual	Acceleration factor, multiple
Increase in remote working and/or collaboration	454	10.5	43
Increasing customer demand for online purchasing/services	585	21.9	27
Increasing use of advanced technologies in operations	672	26.5	25
Increasing use of advanced technologies in business decision making	635	25.4	25
Changing customer needs/expectations[2]	511	21.3	24
Increasing migration of assets to the cloud	547	23.2	24
Changing ownership of last-mile delivery	573	24.4	23
Increase in nearshoring and/or insourcing practices	547	26.6	21
Increased spending on data security	449	23.6	19
Build redundancies into supply chain	537	29.6	18

[1]Respondents who answered "entry of new competitors in company's market/value chain" or "exit of major competitors from company's market/value chain" are not shown; compared with the other 10 changes, respondents are much more likely to say their companies have not been able to respond.
[2]For instance, increased focus on health/hygiene.

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When respondents were asked why their organizations didn't implement these changes *before* the crisis, just over half say that they weren't a top business priority. The crisis removed this barrier: only 14 percent of all respondents say a lack of leadership alignment hindered the actual implementation of these changes. Respondents at both B2B and consumer-facing companies most often cite a failure to prioritize as a barrier, but the responses to other challenges differ. Nearly one-third of B2B respondents say that fear of customer resistance to changes was a barrier, but only 24 percent of those in consumer-facing industries say this. After these two challenges, B2B executives most often cite organizational and technology issues: the required changes represented too big a shock to established ways of working, IT infrastructure was insufficient, or organizational silos impeded commitment to and execution of the required changes.

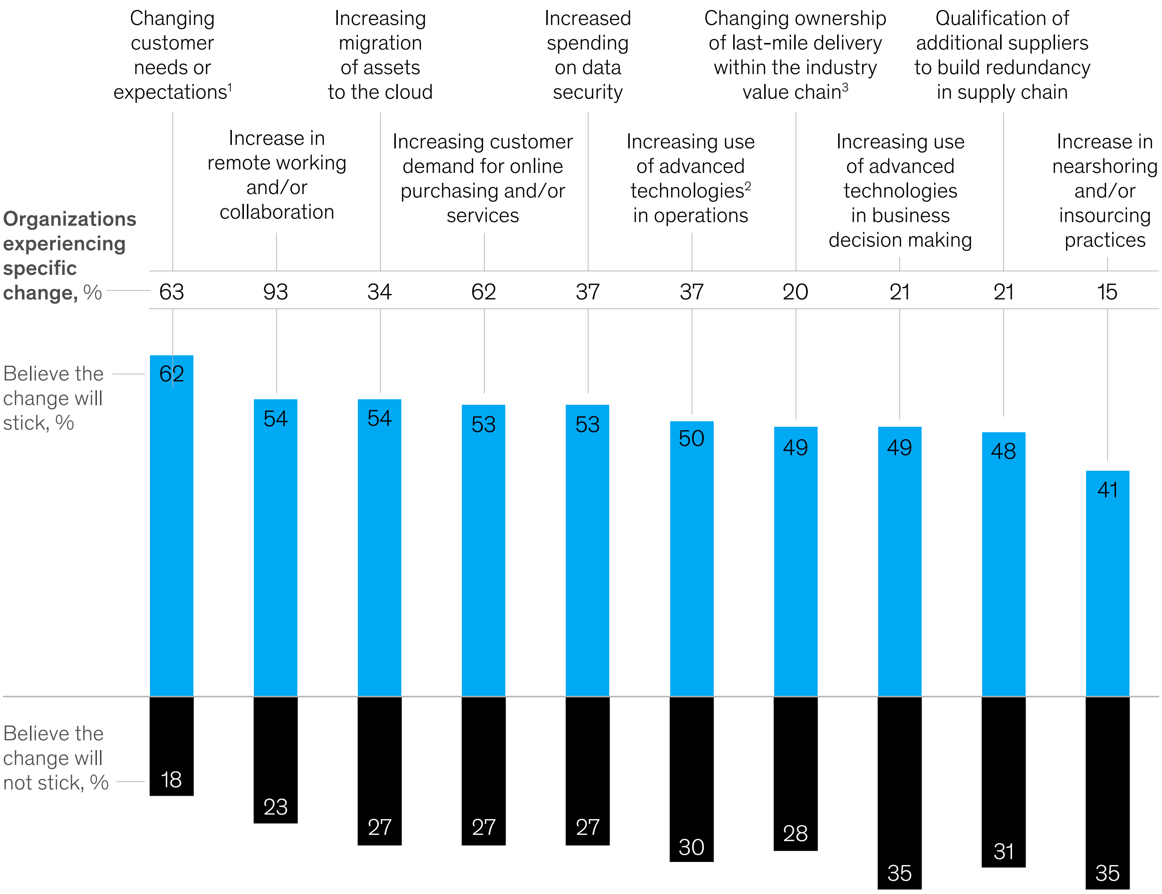
The largest changes are also the most likely to stick in the long term

Of the 12 changes the survey asked about, respondents across sectors and geographies are most likely to report a significant increase in remote working, changing customer needs (a switch to offerings that reflect new health and hygiene sensitivities), and customer preferences for remote interactions (Exhibit 4). Respondents reporting significant changes in these areas and increasing migration to the cloud are more than twice as likely to believe that these shifts will remain after the crisis than to expect a return to precrisis norms.

Exhibit 4

The largest shifts during the crisis are also among the most likely to stick through the recovery.

Share of respondents, %



Note: Respondents who answered "don't know," "not applicable," or "some of the change will stick" are not shown.
[1]For instance, increased hygiene awareness.
[2]For instance, automation, artificial intelligence, and advanced analytics.
[3]Ie, a different final point of contact with end users.

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Respondents report that the crisis spurred shifts in their supply chains as well. The nature of these shifts varies significantly by sector, and they have taken place less quickly than other changes because of contracts that were already in place before the pandemic. Respondents in consumer-facing industries, such as CPG and retailing, often cite disruptions to last-mile delivery (that is, who interfaces directly with customers). Other shifts, such as building redundancy in the supply chain, are reported more often in sectors that create physical products.

The results also suggest that companies are making these crisis-related changes with the long term in mind. For most, the need to work and interact with customers remotely required investments in data security and an accelerated migration to the cloud. Now that the investments have been made, these companies have permanently removed some of the precrisis bottlenecks to virtual interactions. Majorities of respondents expect that such technology-related changes, along with remote work and customer interactions, will continue in the future. Nearly one-quarter of respondents also report a decrease in their physical footprints. This signifies a longer-term shift than would likely occur among the 21 percent reporting a drop in their number of full-time equivalents—at some companies, that could represent a temporary move in the earlier days of the crisis. What's more, when we asked about the effects of the crisis on a range of company measures (including head counts), respondents say that funding of digital initiatives has increased more than anything else—more than costs, the number of people in digital or other technology roles, and the number of customers.[4]

We also looked at the underlying reasons some changes would or would not stick: their cost-effectiveness, ability to meet customers' needs, and advantages for the business. In addition, we examined the relationship between the length of the crisis and the permanence of the changes as "new" becomes "normal" over time.

Of the 12 changes, remote working and cloud migration are the two that respondents say have been more cost effective than precrisis norms and practices. Remote working is much less likely to meet customer expectations better than it did before the crisis; the changes that have done so best are, unsurprisingly, responses to the increasing demand for online interactions and to changing customer needs. Investments in data security and artificial intelligence are the changes respondents most often identify as helping to position organizations better than they were before the crisis. Across these changes, remote working is the likeliest to remain the longer the crisis lasts, according to 70 percent of the respondents.

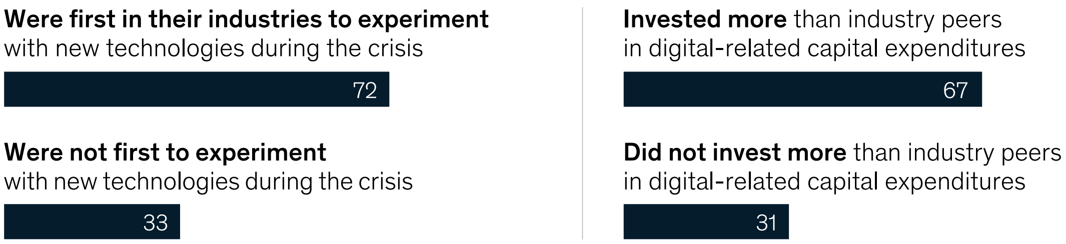
Technology-driven strategy for the win

We've written before about the need for digital strategies to be true *corporate strategies* that take digital into account. And from earlier research, we know that at leading companies, digital and corporate strategies are one and the same. The COVID-19 crisis has made this imperative more urgent than ever. While the alignment on overall strategy and strong leadership have long been markers of success during disruptions or transformations, the extent of technology's differentiating role in this crisis is stark (Exhibit 5). At the organizations that experimented with new digital technologies during the crisis, and among those that invested more capital expenditures in digital technology than their peers did, executives are twice as likely to report outsize revenue growth than executives at other companies.

Exhibit 5

Experimentation with and investment in digital technologies have both played a key role in helping companies navigate successfully through the crisis.

Respondents reporting very effective responses to COVID-19, %



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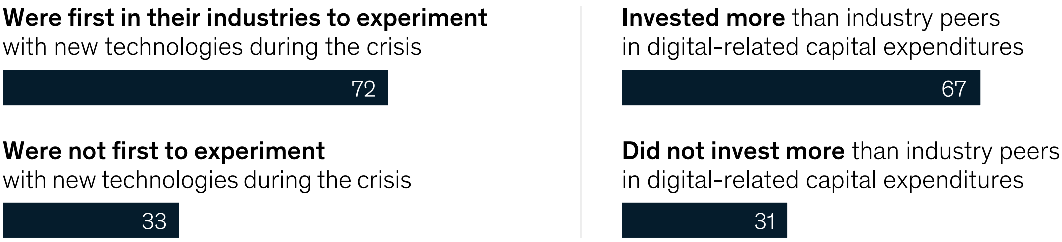
The results also indicate that along with the multiyear acceleration of digital, the crisis has brought about a sea change in executive mindsets on the role of technology in business. In our 2017 survey, nearly half of executives ranked cost savings as one of the most important priorities for their digital strategies. Now, only 10 percent view technology in the same way; in fact, more than half say they are investing in technology for competitive advantage or refocusing their entire business around digital technologies (Exhibit 6).

Exhibit 6

Experimentation with and investment in digital technologies have both played a key role in helping companies navigate successfully through the crisis.

Respondents reporting very effective responses to COVID-19, %



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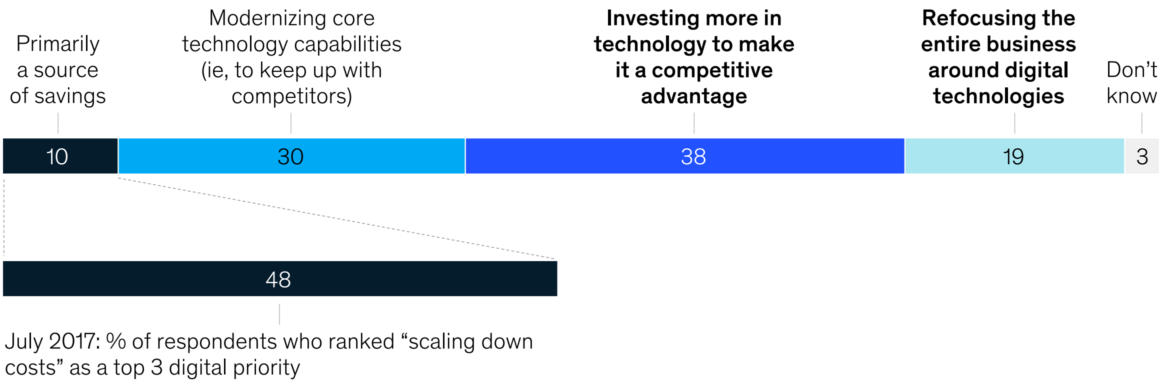
This mindset shift is most common among executives whose organizations were losing revenue before the crisis began (Exhibit 7). Those reporting the biggest revenue hits in recent years acknowledge that they were behind their peers in their use of digital technologies—40 percent say so, compared with 24 percent at companies with the biggest revenue increases—and also say that, during the crisis, they have made much more significant changes to their strategies than other executives report.

Exhibit 7

Executive mindsets on technology's strategic importance have changed radically during the crisis.

Organization's current strategic posture toward technology, % of respondents



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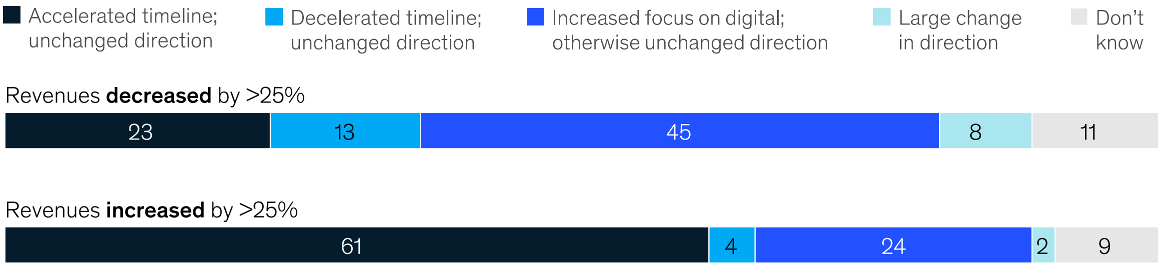
What’s more, respondents say that technology capabilities stand out as key factors of success during the crisis. Among the biggest differences between the successful companies and all others is talent, the use of cutting-edge technologies, and a range of other capabilities (Exhibit 8). A related imperative for success is having a culture that encourages experimentation and acting early. Nearly half of respondents at successful companies say they were first to market with innovations during the crisis and that they were the first companies in their industries to experiment with new digital technologies. They are also more likely than others to report speeding up the time it takes for leaders to receive critical business information and reallocating resources to fund new initiatives. Both are key aspects of a culture of experimentation.

Exhibit 8

The mindset shifts on digital are even more apparent at companies with declining revenues.

How organization’s overall strategy changed in response to COVID-19, by rate of organic revenue growth over the the past 3 years, %



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The notion of a tipping point for technology adoption or digital disruption isn’t new, but the survey data suggest that the COVID-19 crisis is a tipping point of historic proportions—and that more changes will be required as the economic and human situation evolves. The results also show that some significant lessons can be drawn from the steps organizations have already taken. One is the importance of learning, both tactically, in the process of making specific changes to businesses (which technologies to execute, and how), and organizationally (how to manage change at a pace that far exceeds that of prior experiences). Both types of learning will be critical going forward, since the pace of change is not likely to slow down.

1. The online survey was in the field from July 7 to July 31, 2020, and garnered responses from 899 C-level executives and senior managers representing the full range of regions, industries, company sizes, and functional specialties.
2. We looked at the past results for the degree of digital adoption reported in each of these areas of business operations. Based on the average percentage of adoption in each survey, we calculated a trendline to represent the average rate of adoption in 2017, 2018, and just before the crisis, which respondents were asked about in the 2020 survey. The acceleration time frame was calculated from the amount of time it would have taken to reach the current level of digital adoption respondents report if the precrisis pace of change had continued.
3. We define a successful organization as one that, according to respondents, has very effectively implemented their initial responses to COVID-19-related changes.
4. The other measures tested in the survey were revenues, the total number of full-time equivalents, physical footprints, the number of channel partners, earnings before interest and taxes (EBIT), enterprise-wide capital budgets for 2020, and digital M&A budgets for the next 12 months.

ABOUT THE AUTHOR(S)

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