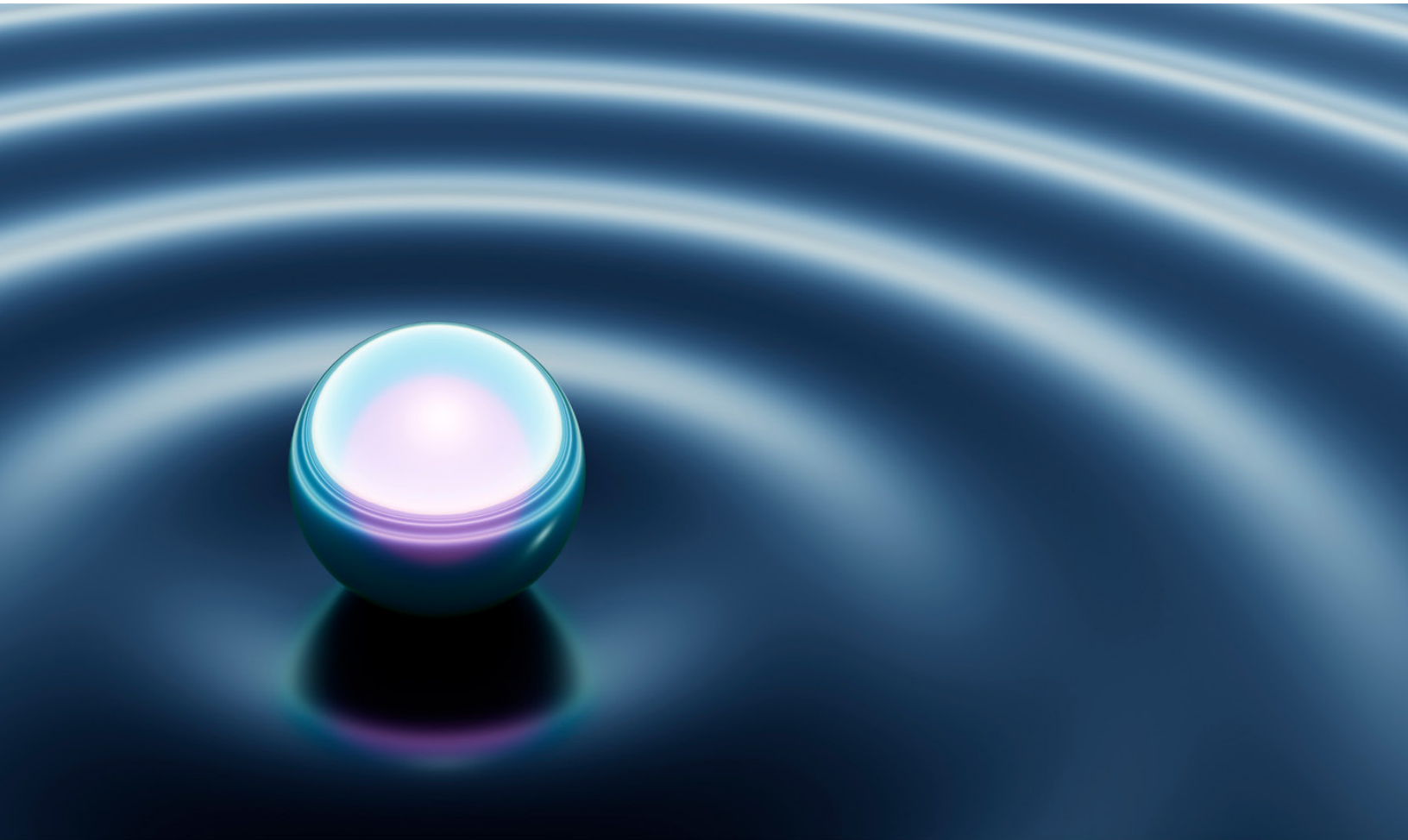


# Mindset to action: Imperatives for Growth

July 2022



# Introduction

Profitable growth is difficult to achieve and sustain even in the best of times. Nevertheless, some companies succeed, and their experience can teach others.

Growth remains a top priority for C-level executives, but for many, achieving and sustaining growth remains elusive. In fact, about a quarter of companies don't grow at all, often because leaders limit their exploration of growth opportunities and neglect to make multiple bets. Knowing where to focus has become especially difficult recently as companies struggle with skyrocketing inflation and heavy competition for talent.

Even under these conditions, however, profitable, sustained growth remains a possibility. The evidence lies in the successes of high-performance companies. In the last decade, one in eight companies in the S&P 500 achieved 10 percent annual growth, and one in ten maintained growth rates above GDP growth for more than 30 years.

Outperforming executives break the powerful force of inertia. They do this by rethinking growth strategy and taking decisive steps to put critical talent and resources behind a well-defined, timeless growth plan while taking into account imperatives for success.

Executives who achieve profitable, sustainable growth are deeply committed to implementation of their growth strategy, from mindset to bold actions. They back up their commitment by investing in well-defined growth bets and ensuring they have invested in a set of critical enablers of that growth, such as an M&A engine and capability building. Above all, these leaders understand that growth is achieved by confidently pursuing the timeless growth imperatives while nimbly cutting through disruptions and steering the business through uncertainty.

This collection of rich insights and articles was assembled to help executives and their companies own the next era of growth. In the following pages, you'll find ways to set the right growth aspirations and mindset, invest in a comprehensive set of timeless growth initiatives, and execute with excellence.

Michael Birshan, Biljana Cvetanovski, Rebecca Doherty, Tjark Freundt, Greg Kelly, Erik Roth, Ishaan Seth, and Jill Zucker

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Strategy & Corporate Finance Practice

# The CEO agenda in 2022: Harnessing the potential of growth jolts

Despite uncertainties, the US economy is robust. The year ahead could jolt further growth.

*by Anu Madgavkar, Asutosh Padhi, and Sven Smit*



**The COVID-19 pandemic** maintains a grip on the world with severe human and economic consequences; and as variants bring new uncertainties, society's efforts to save lives and safeguard livelihoods should continue unabated. But innate to any crisis is the potential to fundamentally reshape a person, an economy, and possibly an entire society.

In the case of the pandemic, businesses have tried to cushion their employees, customers, and operations from the worst blows of the economic shocks and responded to COVID-19's massive productivity accelerants and the disruptions under way.

The resulting innovation and behavioral changes have initiated a three-phase ripple effect in the economy, each with the potential to deliver a jolt of growth and prosperity—if business leaders respond strategically.

### **This may be the moment to commit to growth**

As society stands at the dawn of 2022, business leaders may want to consider a stance of clear-eyed optimism about growth—and reflect it in their business agendas. Despite the vicissitudes of the past two years, could there be a postpandemic boom on the horizon?

This will likely depend on business leaders' ability to respond to the productivity and growth "jolts" born from the pandemic.

The onset of COVID-19 brought a set of discontinuities that drove the first jolt to growth

and productivity. Now, near-term uncertainties pose risks to growth; however, responding effectively could translate to a second jolt.<sup>1</sup> The potential third and final jolt may be the largest as companies reshape their long-term strategies to reflect—and define—the next normal.

While uncertainties prevail, a growth mindset could be a force for good. Growth sets the trajectory for a future in which millions more people could prosper and attain greater economic security, material comfort, and well-being than ever before. Growth is the foundational enabler of progress toward inclusion and sustainability, helping to create well-paid jobs for more people and generate sufficient funding for the climate transition.<sup>2</sup>

### **The pandemic triggered the first jolt of growth**

The upheaval driven by the pandemic, along with enabling government policies, prompted significant productivity accelerants that impacted many aspects of modern life.<sup>3</sup> The collective impact could increase annual productivity growth by about one percentage point in the period to 2024.<sup>4</sup>

E-commerce expanded, compressing ten years of growth into mere months.<sup>5</sup> As a matter of necessity, digitization and automation grew across arenas from employee collaboration to customer channels to supply chains. The rapid shift to remote and hybrid work for some occupations opened the door to long-term workforce optimization, with more than half of executives reporting higher individual and team productivity through remote and hybrid models.<sup>6</sup>

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<sup>1</sup> Susan Lund, Anu Madgavkar, Jan Mischke, and Jaana Remes, "What's next for consumers, workers, and companies in the post-COVID-19 recovery," McKinsey, May 18, 2021.

<sup>2</sup> Bob Sternfels, Tracy Francis, Anu Madgavkar, and Sven Smit, "Our future lives and livelihoods: Sustainable *and* inclusive *and* growing," McKinsey, October 26, 2021.

<sup>3</sup> "The consumer demand recovery and lasting effects of COVID-19," McKinsey Global Institute, March 17, 2021.

<sup>4</sup> "Will productivity and growth return after the COVID-19 crisis?," McKinsey Global Institute, March 30, 2021.

<sup>5</sup> "Five traps to avoid: The long game of DTC and e-commerce," McKinsey, September 2, 2021.

<sup>6</sup> "What executives are saying about the future of hybrid work," McKinsey, May 17, 2021.

Wide-ranging government interventions spurred new business models, such as virtual healthcare.<sup>7</sup>

Higher savings, home values, and equity prices drove the net worth of US households up more than 25 percent. And, in aggregate, corporate balance sheets grew stronger as assets and equity growth outstripped the rise in debt (Exhibit 1).<sup>8</sup>

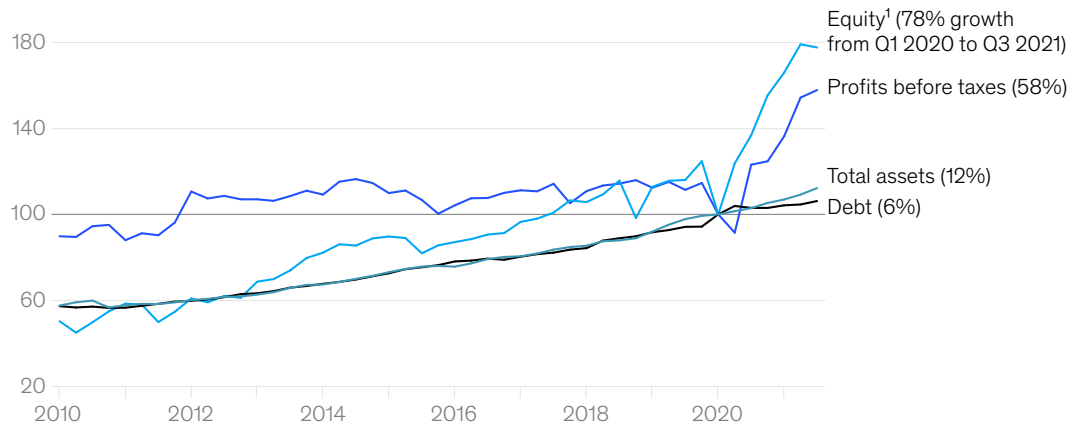
That strength is not universal: the gap in economic profit between the highest performers and the rest of the playing field widened during the pandemic.<sup>9</sup>

Increased innovation also made 2021 the year of entrepreneurship, seeing 400 new unicorns and record-high fundraising levels among venture capitalists.<sup>10</sup>

Exhibit 1

### Corporate equity, assets, and profits since Q1 2020 grew faster than corporate debt.

**Balance sheet items and profits of nonfinancial corporate business in the US, index to Q1 2020 = 100**



<sup>1</sup>By market value.

Source: Federal Reserve Board; US Bureau of Economic Analysis

<sup>7</sup>"The consumer demand recovery," March 17, 2021.

<sup>8</sup>*Financial accounts of the United States: Flow of funds, balance sheets, and integrated macroeconomic accounts, third quarter 2021*, Board of Governors of the Federal Reserve, December 9, 2021.

<sup>9</sup>"The great acceleration," McKinsey, July 14, 2020.

<sup>10</sup>Gené Teare, "Crunchbase Unicorn Board leaps to just under 1,000 companies, reaches \$3.4T in value," Crunchbase, September 30, 2021; Alexander Davis, "These 6 charts show how much VC is awash in capital in 2021," PitchBook, October 17, 2021.

## The second jolt could come from careful navigation of potential COVID-19-exit disruptions

The coming months will likely present risks ranging from the economic to the geopolitical, and these should not be underestimated. However, those who successfully navigate the headwinds could unlock potential for a second boost to growth. (Exhibit 2).

- **Inflation.** The consumer price index is skyrocketing faster than it has in two generations—a trend the Federal Reserve has stated it will work to stabilize.<sup>11</sup> Whether inflation in a given industry is driven by nascent demand or supply constraints, companies that navigate this inflationary back-and-forth—whether by leveraging procurement, pricing, or balance sheet strategies—could gain market share.
- **The labor mismatch.** A record number of employees have or plan to quit. In the United States, voluntary attrition increased by almost 800,000 in the past year, while involuntary attrition decreased by almost 400,000 during the same period.<sup>12</sup> Businesses may want to consider ways to balance investment in both developing talent and finding tools to increase productivity.
- **Supply chain shortages.** The sudden surge in demand has provoked a traffic jam of historic proportions in the global supply chain.<sup>13</sup> While significant blockages are linked in part to the labor shortage, the use of digital tools could help give companies an edge. Research shows that companies successfully solving the supply chain riddle were 2.5 times more likely to have used preexisting advanced analytics tools.<sup>14</sup>

Exhibit 2

## A second jolt could come from careful navigation of potential COVID-19-exit disruptions.

### Areas of disruption



#### Inflation

6.8% year-over-year change in CPI<sup>1</sup> in November 2021, the fastest pace since 1982



#### Labor mismatch

4.3 million+ quit in August 2021, a record 2.9% of workers



#### Supply chain shortages

Just 1 in 3 container ships arrive on time



#### Omicron impacts

21 percentage point decrease in pandemic optimism since October (from 51% to 31%)



#### Geopolitical uncertainties

1 in 7 leaders surveyed see geopolitical instability as a potential risk to growth



#### Energy market volatility

50% increase in US natural gas prices since January 2021

<sup>1</sup>Consumer price index.

Source: Gallup; *New York Times*; *TIME*; US Bureau of Labor Statistics; McKinsey analysis

<sup>11</sup>Jeanna Smialek, "Consumer prices rose at fastest pace since 1982, pressuring Washington," *New York Times*, December 10, 2021; Jeff Cox, "Fed will aggressively dial back its bond buying, sees three rate hikes next year," CNBC, December 15, 2021; "Federal Reserve issues FOMC statement," Board of Governors of the Federal Reserve, December 15, 2021.

<sup>12</sup>*McKinsey Organization Blog*, "The Great Attrition: Wanting the best, keeping the worst," blog entry by Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Nicolette Rainone, October 28, 2021.

<sup>13</sup>"Sea-Intelligence: Two-thirds of all containerships are behind schedule," *Maritime Executive*, October 28, 2021.

<sup>14</sup>Knut Alické, Ed Barriball, and Vera Trautwein, "How COVID-19 is reshaping supply chains," McKinsey, November 23, 2021.

- **Omicron impacts.** As the Omicron variant of COVID-19 spreads, there are more questions than answers about its infectiousness, immune evasion, and severity. This next phase of the pandemic will likely remain a revealing test of leadership. Leaders may want to consider continued action on three imperatives: clarifying purpose, supporting stakeholders, and bolstering emotional and organizational resilience.<sup>15</sup>
- **Geopolitical uncertainties.** Geopolitical tension is escalating in many parts of the world. Businesses may want to anticipate and respond to potential government action in strategic sectors, while also identifying areas for global cooperation on trade, climate, and technology.
- **Energy market volatility.** The past year has seen significant growth in energy prices, with natural gas prices growing by 50 percent in the United States<sup>16</sup> and even greater volatility expected in the year ahead.<sup>17</sup> While managing current market volatility, leaders must also prepare for the energy transition, which brings forth additional risks: growth investments might get crowded out, consumers may not be able to foot the bill, and the grid infrastructure could be vulnerable. Leading businesses will deliver on their net-zero commitments while managing those risks.

These interconnected disruptions are substantial, but disruption creates the potential for change. While navigating them will not be easy, we see leading companies that have already begun to execute savvy strategies in response.

### **The third jolt could come as leaders create long-term, postpandemic strategies**

Even amid some of the biggest disruptions of our lifetime, this could be a moment of immense potential to chart the course for the next decade and beyond. From the advancement of medicines, to the reskilling revolution, to the spread and intensification of digital and analytics—if business leaders respond skillfully, the world could be on the cusp of a new age of prosperity marked by sustainable and inclusive growth.<sup>18</sup>

For CEOs, now may be the time to examine your strategy and consider seven tests that can help gauge whether you are ready for the next growth jolt. (Exhibit 3).

#### Exhibit 3

### **Are you ready for the next growth jolt? Try these seven tests.**

- 1** Are you adopting a strong growth mindset in your medium-term strategy as the pandemic evolves?
- 2** Are you spending as much time creating new businesses as you are improving your business?
- 3** Is your organization ready for the energy transition—and the immense economic impact it could carry?
- 4** Are you embracing new technology as quickly and holistically as you did new ways of working at the start of the pandemic?
- 5** Are you investing in human capital with the same discipline and intensity as your capital expenditures?
- 6** Are you remapping your global footprint in response to outside stressors?
- 7** Are you jump-starting a strong growth orientation in your leadership team and board?

<sup>15</sup>Liz Hilton Segel, "Positive leadership in uncertain times," McKinsey, April 30, 2020.

<sup>16</sup>Stanley Reed, "European natural gas prices are soaring again," *New York Times*, December 15, 2021.

<sup>17</sup>Sergio Chapa, Gerson Freitas Jr., and Natalia Kniazhevich, "U.S. natural gas faces wild 2022 as foreign crises exert pull," Bloomberg, January 1, 2022.

<sup>18</sup>"Looking beyond the pandemic: Could the world economy gain more than it lost to COVID-19?," McKinsey, June 14, 2021.



1. ***Are you adopting a strong growth mindset in your medium-term strategy as the pandemic evolves?*** This may be the time for CEOs to make bold decisions, reshaping the direction of their organizations and realigning capital and talent accordingly. Companies could remain responsive and flexible in resource allocation, whether that is capital expenditure, operating expenditure, R&D, or employees, to meet changing market opportunities. McKinsey research shows that, across industries, businesses that do reallocate capital earn higher returns: in one study of 1,600 US companies between 1990 and 2005, companies in the top third of the sample shifted an average of 56 percent of capital across business units over a 15-year period and earned 30 percent higher total returns to shareholders than those in the bottom third.<sup>19</sup>
2. ***Are you spending as much time creating new businesses as you are improving your business?*** Building new businesses has emerged as the top priority for organic growth, and the pace of this activity is quickening. In a recent McKinsey study, 74 percent of companies surveyed that chose business building as their main strategy grew at rates above the average of their industries. These companies allocated, on average, one-third of their organic-growth capital to business building—more than twice as much as the laggards.<sup>20</sup>
3. ***Is your organization ready for the energy transition—and the immense economic impact it could carry?*** One of the most crucial aspects of the climate transition is the transformation of energy and land-use systems. These may come with disruptions to energy markets, potentially raising costs and volatility for producers and consumers. Recent McKinsey research found that average annual investment in these systems will need to increase by 60 percent (\$3.5 trillion) to meet a net-zero emissions goal by 2050, requiring innovative forms of financing. In this context, companies may want to consider measures to ramp down their high-carbon businesses and grow new low-carbon ones, while managing changes to their cost structure and supply chains. At the same time, they could build capabilities to regularly assess exposure to risks and potential for opportunity on a granular level, especially as the underlying physical, cost, and policy assumptions continue to change. Finally, leading businesses should learn, adapt, and engage continually with their top teams and boards to set their energy and sustainability agendas.<sup>21</sup>
4. ***Are you embracing new technology as quickly and holistically as you did new ways of working at the start of the pandemic?*** The impact of new technology on the bottom line is growing; AI gives us a powerful example. Twenty-seven percent of business leaders now report that at least 5 percent of earnings before interest and taxes are attributable to AI.<sup>22</sup> This may be especially true of companies following best practices, relying on cloud, and making incisive investments. For example, a consumer goods giant has a centralized control tower that integrates company-wide, real-time data and runs scenarios to identify the best solution when problems arise.
5. ***Are you investing in human capital with the same discipline and intensity as your capital expenditures?*** Leading companies are getting creative to build the workforce they need. This includes hiring based on skills rather than educational degrees<sup>23</sup> and partnering with universities and ed-tech platforms to train their employees in skills that complement automation. Some companies are using remote work as a way to broaden recruiting efforts, while others are using the “return to work” as a cultural reset button.<sup>24</sup>

<sup>19</sup>Stephen Hall, Dan Lovallo, and Reinier Musters, “How to put your money where your strategy is,” *McKinsey Quarterly*, March 1, 2012.

<sup>20</sup>Shaun Collins, Ralf Dreischmeier, Ari Libarikian, and Upasana Unni, “Why business building is the new priority for growth,” *McKinsey Quarterly*, December 10, 2020.

<sup>21</sup>“Solving the net-zero equation: Nine requirements for a more orderly transition,” McKinsey, October 27, 2021.

<sup>22</sup>“The state of AI in 2021: McKinsey Global Survey results,” December 8, 2021.

<sup>23</sup>*Unlocking experience-based job progressions for millions of workers*, McKinsey, June 2, 2021.

<sup>24</sup>Bryan Hancock, Bill Schaninger, and Brooke Weddle, “Culture in the hybrid workplace,” McKinsey, June 11, 2021.

6. *Are you remapping your global footprint in response to outside stressors?* Supply chain resiliency has assumed new prominence in the wake of the pandemic, physical climate risks, and geopolitical shifts. As governments undertake a thorough review of critical supply chains,<sup>25</sup> business leaders could take stock too and consider dual sourcing, holding more inventory, moving operations closer to consumers, diversifying supply chains across countries, and shifting focus from vertical integration to securing control points. In a recent McKinsey survey, just under half of companies surveyed said they understand the location and key risks of their tier-one suppliers; and only 2 percent could make the same claim about suppliers in the third tier and beyond.<sup>26</sup> Many of today's most pressing supply chain shortages—such as semiconductors—happen in those deeper tiers.

7. *Are you jump-starting a strong growth orientation in your leadership team and board?* During the pandemic, the most adaptive boards increased their focus on external risks and corporate purpose.<sup>27</sup> At the same time,

collaboration between boards and management teams increased significantly, with new and improved ways of working that may outlast the health crisis.<sup>28</sup> Now, companies can build on this momentum by aligning leadership teams and boards on their organization's medium-term stance on growth, new-business building, and capital reallocation and investment in talent to deliver holistic impact.

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Over the past two years the world has been through a crucible of change because of the pandemic; but there is reason for optimism. If leaders can drive growth, we may see benefits to society on a broad scale.

There has already been a period of immense profit growth driven by the first economic jolt. Business leaders have the chance to enter the new year with eyes wide open to the risks ahead and manage them closely, while utilizing the bold experimentation undertaken so far and forging it into potentially long-term sustainable and inclusive growth.

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<sup>25</sup>Susan Lund, "Building national supply chain resilience," McKinsey Global Institute, July 11, 2021.

<sup>26</sup>"How COVID-19 is reshaping," November 23, 2021.

<sup>27</sup>Celia Huber, Frithjof Lund, and Nina Spielmann, "The postpandemic board agenda: Redefining corporate resilience," McKinsey, August 3, 2021.

<sup>28</sup>"How boards have risen to the challenge, and what's next," McKinsey Global Survey results, April 29, 2021.

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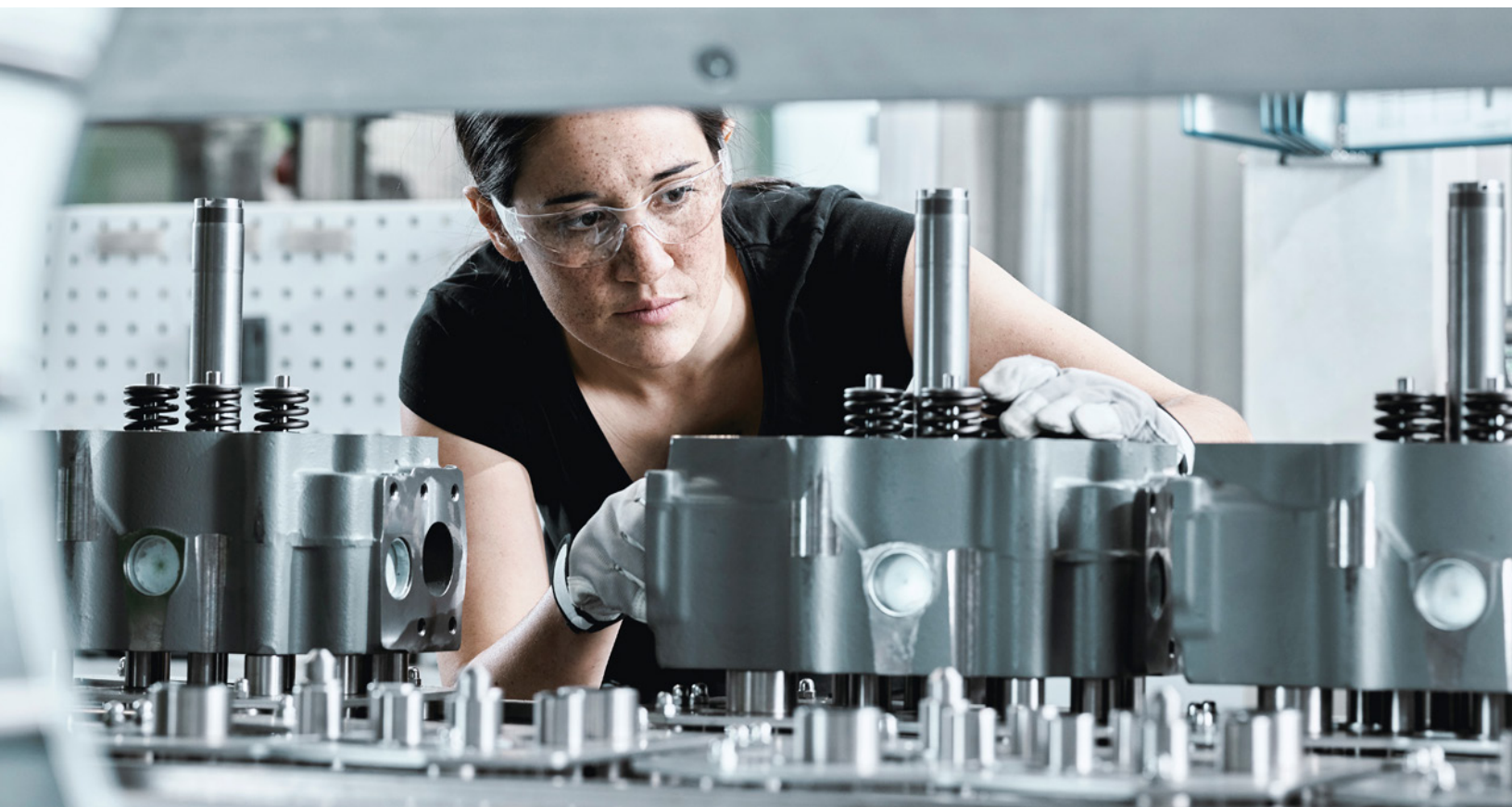
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Strategy & Corporate Finance Practice

# Eight lessons on how to get the growth you planned

Now is not the time to slow down. Growth initiatives are critical for value creation, even survival, throughout an economic cycle.

*by Rebecca Doherty, Zak Gaibi, Freek Kelkensberg, and Anna Koivuniemi*



**During crises and economic downturns,** companies tend to put the brakes on growth efforts and hunker down. As our recent research shows, that is usually an ill-advised strategy. Pursuing growth initiatives throughout an economic cycle is critical for value creation and even survival. We have found that companies whose growth exceeds that of the GDP have a 50 percent higher survival rate than their peers. Additionally, organizations that outperformed both during and after the last economic downturn had three-times higher revenue growth than others.

Maintaining focus on the growth agenda, especially during a downturn, is no easy feat, however. For growth initiatives to deliver lasting gains, they require a clear aspiration, organization-wide alignment, and careful monitoring. When we reviewed 60 recent growth transformations—intense, company-wide programs aimed at enhancing overall corporate performance—we found that more than half failed to meet their targets. So we looked for the biggest pitfalls that tripped up promising projects and the key elements that contributed to others' success. Our analysis reveals eight lessons that companies looking to reignite growth should apply.

**1. Set targets high enough to compensate for declining momentum in the base business and inevitable setbacks**

As we noted in our earlier research, the growth aspiration that leaders set matters a great deal to the shareholder value those efforts generate. Companies whose growth outperformed others throughout the 2007–2017 cycle achieved excess total returns to shareholders (TRS) of 8 percent, while the rest hovered around zero during the period. Yet many companies venture on what they believe to be ambitious programs only to find the results fail to change the growth trajectory of their overall business. Why? The reason often lies in overly optimistic baseline scenarios and a lack of detailed understanding of the business momentum. Over time, competitive activity, shifts in sales channels, product

commoditization, and other market factors can erode revenue in the base business. Without a granular view of that underlying business, bold plans, even if executed well, can be undermined by leakage in the base. To produce incremental growth, the targets and priorities leaders set for the growth program need to accurately reflect the business's momentum and compensate for this natural attrition.

Consider the experience of a technology player looking to turn around declining revenues. About a year into its growth transformation, the program had produced an impressive 8 percent in new revenues—yet the company's total sales continued to decline. The leaders realized that the downward sales trend in other parts of its business exceeded the gains made through the new growth initiatives. The company ended up resetting its targets to take into account the trajectory of its base business based on more accurate market forecasts.

Companies also need to be realistic about their likelihood of success. All growth initiatives face the intrinsic risk of new competitors or changes in customer behavior shifting the market dynamics, and some efforts are bound to underdeliver or fail altogether. In the growth transformations we reviewed, the success rate ranged between 50 to 70 percent. To offset the likely setbacks, companies should create a pipeline of initiatives that adds up to 130 to 150 percent of the growth ambition. Leaders should also foster an entrepreneurial spirit and not punish failure due to factors beyond project managers' control.

**2. Define a few growth themes and ensure the entire organization embraces them**

Before launching growth transformations, many companies extensively review and update their strategic priorities. This typically entails analyses of market trends, category and product performance, and competitive activities. In studying the practices of growth outperformers,

we found these companies go beyond the core and look into potential moves involving geography, market adjacency, and value chain to set their priorities and aspirations.

The result should be a set of four to six clearly defined priority growth themes that cover all potential growth levers. That could mean expanding offerings by entering into new product categories or introducing new services, and expanding segments the company pursues by deepening penetration into existing markets or focusing on micromarkets. Defending the existing customer base (through the acquisition of new accounts, churn reduction, and cross-sell) also needs to be part of the mix, as does innovation in products and business models. Improving sales performance management or customer experience and even M&A or partnerships all could be part of the growth recipe. It's essential that the organization can act on the growth themes within 12 to 18 months, and that their achievement be hardwired into incentives for business leaders.

In our experience, cascading these priority themes down through the organization is as important as the strategic review that produces them. The failure to communicate and ensure organization-wide alignment on the desired

direction hobbled the growth program at one industrial company. The leaders had spent significant time developing what they believed to be clear strategic priorities, yet growth failed to materialize. There were two problems, it turned out: the priorities were too numerous for the organization to address with focus and scale, and regional business leaders found them disconnected from near-term opportunities for their units. A subsequent mapping of the hundreds of regional initiatives against the corporate priorities demonstrated that some units pursued growth projects tailored to their specific markets rather than the company's chosen themes, and those local opportunities were in turn not supported by the corporate programs, diminishing the potential to leverage the company's global scale.

### **3. Protect the margin of your base business while focusing growth on high-margin targets**

A growth aspiration sometimes ends up becoming a push for volume at the expense of margin. Sales teams may present "opportunities" that essentially mean lowering prices or focusing on lower-margin offerings to reach more customers—recipes that rarely deliver profitable growth. This risk is particularly acute in companies that lack strict pricing and margin controls. Perhaps counterintuitively, raising

**Maintaining focus on the growth agenda is no easy feat. For growth initiatives to deliver lasting gains, they require a clear aspiration, organization-wide alignment, and careful monitoring.**

margin targets when setting the aspiration for the growth transformation can help deliver the desired results. This requires leaders to identify initiatives that combine volume growth and pricing levers within sales. More broadly, they should pursue ideas that are both growth- and margin-accretive, such as business-model innovations or expansion into high-margin, high-growth markets.

When an international agricultural company asked its various units to develop growth plans, for example, it found the country organizations were reluctant to launch pricing-related initiatives alongside revenue-growth efforts for fear this would limit their sales opportunities. Management also realized the organization lacked the pricing systems, processes, and governance needed to avoid margin erosion as business units strove to deliver top-line growth. To address these shortcomings, the company developed a pricing tool through which it could challenge each national organization on its (net) prices at the product level and intervene when it found them offtrack. The new tool not only delivered a 1 percent improvement in earnings before interest and tax, but ensured the revenue growth achieved by the business units did not erode margins.

#### **4. Make line managers accountable for designing and implementing growth programs**

Our analysis of successful growth transformations suggests that having a critical mass of employees involved in their design and execution makes a big difference. Companies that score in the top quartile of growth performance mobilized at least 8 percent of their workforce to drive the initiatives. Some top performers deployed 20 percent of staff or more.

Additionally, for growth gains to be sustainable, local leaders need to be accountable for their targets—they should “own” their parts of the program. As such, management should empower them to develop portfolios of initiatives

(within the corporate growth themes) that are customized for their businesses or regional contexts and are projected to deliver 130 to 150 percent of their ultimate growth target (in line with our point in the first lesson). Line managers—the individuals who know the offerings and the customers best—should then lead the initiatives, not external project managers who lack a long-term stake in the business. Which function these internal leaders come from would depend on whether the initiatives are related to go-to-market strategy, innovation, product development, or inorganic moves.

Some growth opportunities require establishing or improving cross-functional collaboration. As the chief growth officer of one leading consumer packaged-goods company put it, “Product, engineering, and sales [should] take decisions jointly, so you don’t have fingers pointing at each other.” For example, a food ingredient player noticed the lack of short-term alignment between operations and sales which, as at many organizations, were separate functions. A shortage of customer orders at specific moments led to sizable productivity losses due to production stops and slowdowns. Unlocking growth required making sales and operations jointly accountable for the objectives, key performance indicators (KPIs), and milestones set for different team members.

#### **5. Fund growth by reallocating resources and reinvesting gains**

Asking business unit leaders to come up with growth ideas will inevitably lead to requests for additional resources for sales, marketing, and technology. An ambitious growth transformation does require proper funding, but it should be guided by a structured process of resource reallocation. Often, existing allocations are due more to past performance than future growth potential. Consider instead asking each unit leader to free up 20 to 30 percent of resources from their existing budgets and separate the savings and the gains from earlier initiatives

# An ambitious growth transformation does require proper funding, but it should be guided by a structured process of resource reallocation.

when reallocating these resources to growth programs. Making resource reallocation a mandatory exercise before committing any additional funding forces everyone to invest in their own success.

Wherever the resources come from, top leadership needs to communicate early how much funding will be provided to support growth initiatives and how the decisions about its allocation will be made. Setting expectations for new funds and then failing to deliver them can be a major blow to the transformation effort's credibility and the organization's commitment to its execution.

## 6. Create implementation plans with clear milestones

McKinsey's research on organizational transformations suggests that shorter initiatives tend to produce better results. In that study, we found that successful transformations delivered close to a third of the transformation value within the first three months and approximately 75 percent in the first year. Our research into growth transformations found a similar trend: shorter initiatives have higher success rates. Moreover, early successes are important accelerators of the entire transformation.

Yet many growth programs are designed to last multiple years. What's more, they often rely on high-level plans short on detailed proximate goals and expectations. Designing a growth program with specific, measurable, achievable, realistic, and timebound milestones can enable

leaders to address execution bottlenecks in a timely manner. This requires setting milestones based on weeks rather than months or years.

It can be useful to test the larger program with a limited-time pilot. One electronics player that was working on a new direct-to-consumer proposition it expected to become a sizable business first spent six months running a small-scale study with select users to develop and test the proposition. The lessons at each step of the project helped the company fine-tune the expectations for subsequent milestones while the multiyear road map kept the project firmly on its path.

## 7. Continuously prune and replenish the pipeline of initiatives

Ideate, refine, renew, and repeat is a cycle that never stops, when done well. Our earlier research on organizational transformations shows that companies in the top quartile restocked their initiative pipeline by 70 percent after the first year, often compensating for initiatives that had been canceled. Maintaining such a healthy pipeline of growth projects, however, requires that companies adopt a rapid-learning approach.

Continuously monitoring progress and pruning underperforming initiatives allows scarce sales and marketing resources to be redistributed to more promising efforts—and the faster that is done, the better. As for generating new growth ideas, networks of champions for each of the priority themes can be great sources for

pipeline renewal: they can share lessons and success stories across regions and business units, often without the involvement of senior management.

## 8. Measure and incentivize performance at multiple levels to focus interventions where they are needed most

Managing a growth transformation requires tracking numerous performance dimensions, from market demand to the competitive landscape to the progress of the initiatives themselves—factors that are both within and outside the management's control. Performance management should include financial metrics as well as operational and leading KPIs. Many of these will be interrelated, and leaders should determine which are best managed at which level of the organization to create the right incentives and enable timely intervention. At a minimum, growth performance management should cover three levels:

- **Overall corporate goals.** The top leadership team needs to understand how the growth transformation is driving the company's top line. Connecting the growth project's impact to the actual (or forecasted) revenues can reveal influences outside the initiatives' parameters, such as foreign-exchange effects or sales declines in parts of the business not targeted by the growth transformation.
- **Growth transformation targets.** Leaders of the transformation should track execution progress, operational KPIs, and financial impact for each initiative within the program. Creating a performance-management dashboard to monitor these metrics can enable them to

address execution problems and redesign or even terminate initiatives quickly.

- **Functional performance.** Take sales as an example. Companies whose sales organizations outperform their peers consistently excel in two capabilities: frontline execution through standardized performance management and analytics-driven opportunity identification and prioritization. These sales leaders are three times as effective and twice as efficient (based on gross margin to sales cost) as the median. Sales management should provide a single source of truth on forward- and backward-looking sales performance as compared to targets (such as order book and funnel) and incorporate this into frequent sales-performance dialogues so the insights the metrics reveal are translated into frontline action. The performance of other functions critical to reaching the growth aspiration, such as marketing, innovation, or corporate development, should have similar growth targets and analytics integrated into their performance measurement.

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Delivering the growth your strategy calls for is a complex and challenging endeavor for most organizations, particularly during a downturn. To ensure the results meet the aspirations, companies can lean on the experiences of others to guide their targets and approaches to execution. While the temptation to wait for the current crisis to pass may be strong, it entails the risk of falling behind competitors who adopt a through-cycle approach to growth and emerge far ahead in the recovery.

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Marketing & Sales Practice

# Are you a growth leader? The seven beliefs and behaviors that growth leaders share

A new survey highlights what separates growth leaders from the pack.

*by Biljana Cvetanovski, Eric Hazan, Jesko Perrey, and Dennis Spillecke*



**What makes someone a growth leader?** In conversations we've had with business leaders, the answer tends to boil down to a variation of "I know it when I see it." But it turns out that there is a specific set of attributes that growth leaders share.

After carrying out a survey of 165 C-suite executives and senior vice presidents with growth responsibilities and conducting in-depth interviews with 20 executives, we found that growth leaders<sup>1</sup> have seven specific beliefs and behaviors.

Furthermore, our research shows that executives who adopt more than 70 percent of these mind-sets manage to grow their top line twice as fast as their peers. We've boiled down these beliefs and behaviors to seven statements that reflect the convictions of today's growth leaders.

### **1. I am all in.**

*Always put growth first.* Growth leaders put growth at the top of every agenda, from board meetings to performance reviews. As the president of a global consumer goods company put it, "Growth is priority number one, two, and three." This disciplined focus on growth is reflected in a profound belief that "growth is everywhere" and opportunities to outgrow peers can be found in every industry.

That mind-set is supported by our research. From other McKinsey analysis, our findings show that there is a growth-capability gap of 20 to 46 percentage points between top and bottom performers.<sup>2</sup> This indicates that growth is possible in any industry when growth leaders back up their faith with committed action.

Growth leaders also demonstrate this kind of commitment by constantly scouring for funds to invest in growth. They have a clear vision of where

every incremental dollar they find should be invested, and they actively manage that allocation by helping those affected (shareholders, owners) understand why.

*Keep raising the bar.* No matter how ambitious growth targets are, the legacy business will revert to business as usual unless constantly challenged to be more aspirational. Growth leaders do this by setting targets that seem *almost* impossible to reach, forcing teams to strive for greater impact. The CMO at one tech company told us that the CEO set growth targets at three times the market rate, adding, "We exceeded two-and-a-half times market growth. We were rewarded for pushing hard and not hurt if we failed."

*Unite the business around growth.* Growth leaders make growth the central focus of everyone in the business by creating a common belief and language. For example, they cocreate growth goals and metrics with their leadership teams and then help translate them into metrics for every individual at every level. Establishing this kind of shared and cocreated language binds employees together to think about how they can contribute to top-line growth. One technology-company leader created a single set of growth targets that tied directly to the incentives of 250 managers across the business: "Whether you're in legal, marketing, sales, or service, you're bound by the same aspirations."

**Growth leaders are:**

**50%** more likely to treat growth as the *first or second item on the agenda* when speaking to the board

<sup>1</sup> For the purposes of our research, we defined growth leaders as executives of companies that achieved a compound annual growth rate more than 4 percent higher than their peers, coupled with higher profit margins. Respondents came from both North America and the European Union, and occasionally there were regional variations in their methodology.

<sup>2</sup> Kabir Ahuja, Abhinav Goel, and Kate Siegel, "Debunking four myths of organic growth," May 2019, McKinsey.com.

## 2. I am willing to fail.

*Make plenty of bets.* Growth leaders make more growth bets than their peers. They create a portfolio of initiatives, protecting the necessary resources and funding. In fact, growth leaders in Europe are 70 percent more likely to make multiple growth bets rather than just a couple. By managing a scaled portfolio of growth bets, they improve their probabilities of success while diversifying risk. A former tech-company board member explained, “Winning big has such huge rewards that it’s more important than how often you lose.”

*Back the risk takers.* Effective leaders have always been good at delegating, but growth leaders go a step further by instilling a culture that empowers people to make decisions. Some 40 percent of growth leaders in North America, for example, are more likely to be comfortable with middle managers and frontline employees making important decisions.

Growth leaders set clear and ambitious goals (#1) and communicate progress effectively to the business (#6), but then they step out of the way so that people in the business can iterate on solutions to deliver on the growth aspirations. That starts by encouraging risk taking even at the smallest level and celebrating rather than punishing people for trying. As a former CMO of a technology company put it, “If you want people to lead your business into growth, things *will* go wrong. Having support helps people become risk takers.” EU growth leaders are 40 percent more likely to have explicit incentives to reward risk taking in their teams.

Growth leaders are:

**70%**

more likely to make multiple long-term growth bets rather than just a few (in the European Union)

**70%**

more likely to protect or set aside money in the budget to fund growth initiatives, teams, and capabilities (in North America)

## 3. I know my customer as a person, not as a data point.

*Take the customer’s side.* Most business leaders believe they put the customer first. But the truth is that the pressures of leading a large business—shareholder relations, risk management, and so on—mean that the customer too often becomes an afterthought. Growth leaders are resolute, however, in putting the customer at the center of all their decisions. An executive at a global apparel brand admitted, “Whenever I’m in meetings and being presented with options to decide on, my first question is, ‘What’s in it for the customer?’ ”

*Make it personal.* Many of the best companies have strong customer-insights organizations. Customer insights and analytics are crucial to supporting growth. But growth leaders go the extra mile by embracing design thinking and taking the time to build empathy with the customer. As the executive at a manufacturing company, who spent a whole day shadowing one customer, put it: “I followed this customer from 6:30 in the morning until he went home at the end of the day. That gave me so much insight into what he needed, what his fears were, and what we could do as a company.”

Growth leaders are:

**70%**

more likely to build an understanding of customers’ needs through formal and informal methods (ethnography, surveys, in-store visits, etc)

**50%**

more likely to build an organization that puts the customer first (in North America)

#### 4. I favor action over perfection.

*Put yourself on the line.* Growth decisions can make or break a career. Growth leaders aren't afraid to take that risk. That can mean trading short-term gains for long-term benefit or making large resource-reallocation decisions. But they understand that that's what's needed for growth, and they role-model the behavior they want others to adopt.

When the managing director of a transport company lowered prices to increase its number of passengers by 20 percent in a declining market, this director accepted the need for bold moves: "Growth is worth the risk." Whenever a new-customer offer was planned, the pricing team would work out how much value was at risk and put it in a document. The director would then sign it, making a public declaration to take on this risk personally.

*Act on "good enough" insights.* Good data are crucial for good decisions, but growth leaders value speed over perfect insights. They don't wait for perfect data. Instead, they use the data they have to make a thoughtful decision, pursue it vigorously, and then reevaluate based on results. As one growth leader from a tech company explained, "Always look for opportunities around you, and be willing to jump."

*Face the facts.* When the facts are clear that a business or product is underperforming, growth leaders are decisive in killing them off. Continually allocating resources to proven growth options or new initiatives that promise a better return on investment is a crucial leadership discipline, even if it means saying goodbye to beloved brands or products. The leader at one fast-moving consumer-goods (FMCG) company instituted a process that labeled any service or product that wasn't yielding growth a "zombie." Leadership sent business units a quarterly hit list that helped the company eliminate 700 zombies within a year.

Growth leaders are:

**70%**

more likely to prioritize speed over perfection (in North America)

#### 5. I fight for growth.

*Avoid short-termism.* Leaders face huge pressures to deliver results in the short term. While growth leaders understand that reality, they don't sacrifice long-term growth. To help guard against those pressures, they make deliberate resource-allocation decisions that position the business for future growth. As the CMO of a telecom company put it, "I assign 50 percent of resources to the first year, 30 percent to the second year, and 20 percent to year three. That means you don't keep falling off a cliff at the end of every year, and you build sustainable growth."

Growth leaders are also vigilant in keeping the organization from clawing back those resources, as so often happens. Among leaders in North America, 70 percent are more likely than their peers to protect or set aside money in the budget to fund growth initiatives, teams, and capabilities.

*Break down internal barriers.* Growth is a team sport, but functional leaders often jealously guard their turf, which undermines many promising initiatives. Growth leaders actively seek out the conflicts and eliminate them. They break down silos, diffuse turf battles, and provide support for strained resources to clear the path for their teams to deliver.

The leader at a global beverages company, for example, created a central growth office to merge marketing, customer insights, and commercial groups into one unit with a clear mandate—and shared accountability—for growth. This move helped eliminate the functional silos that were impeding progress.

Growth leaders are:

**60%**

more likely to have a clear *multiyear mandate* to pursue growth initiatives, coupled with the *autonomy* to do so without having to show short-term results

## 6. I have a growth story I tell all the time.

*Infuse the business with purpose.* Growth leaders know that purpose is power and that communication is about more than the *what* of growth; it's the *why*. Articulating a purpose that goes beyond brands, categories, and businesses is an effective way that growth leaders rally the whole organization. Growth leaders in the European Union are, for example, 70 percent more likely to ensure that every employee understands the growth strategy and what it means for them. Says the CMO of a major consumer company: "Everybody needs purpose. Employees thrive on it, society expects it, and it delivers growth."

*Communicate, communicate, communicate.* While business leaders understand the need to communicate, they tend to underestimate its importance. Not so, growth leaders. They communicate clearly, creatively, and consistently. Growth leaders in the European Union, for example, are 80 percent more likely than their peers to communicate growth successes often.

They also go beyond the usual channels (progress updates, newsletters, town halls, and the like) and develop a comprehensive communications plan targeting all stakeholders. They often, for example, tell their story to the outside world in order to motivate employees, shape investor perceptions, and convey their aspirations to customers. The managing director of one consumer-facing company told us, "Use the media to communicate wins, results, and innovation. Make it real for all your stakeholders as often as possible."

Growth leaders are:

**80%** more likely to communicate growth successes often (in the European Union)

**70%** more likely to ensure that every employee understands the growth strategy and what it means for them (in the European Union)

## 7. I give control to others.

*Build up people's growth muscles.* Growth leaders invest more time in formal and informal training for growth, covering not just functional and leadership capabilities but also mind-sets. At one global beverages company, training for marketing and sales associates includes elements on exponential thinking (working toward *tenfold* improvements rather than 10 percent) and using network effects to boost growth (engaging stakeholders and ecosystems to boost a product launch or a marketing campaign).

*Give power to the front line.* Encouraging people to make decisions and take risks without providing them with a structure for doing so is only half the battle. Growth leaders are explicit in giving people decision rights. The owner of a European digital company ensures that key decisions are made not by senior management but by the business-unit leaders who know the customers and products best. But those leaders have to work together across functions. As the chief growth officer of a leading consumer-packaged-goods company put it: "Product, engineering, and sales take decisions jointly, so you don't have fingers pointing at each other."

*Go outside to get what's needed.* Growth leaders aren't afraid to close gaps in their own business models or capabilities through partnerships or joint ventures with other businesses. A travel company wanted to expand its low-cost bus business but realized it was too small to compete at scale with larger companies. To acquire sufficient scale at speed, it partnered with a ride-sharing platform to offer a door-to-door long-distance service that combined rail, bus, and car transport in one convenient package.

Growth leaders are:

**40%** more likely to have explicit incentives to reward risk taking in their teams (in the European Union)

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Growth is a journey that requires the entire business to constantly adjust, optimize, and

execute, but it starts at the top. Only when the CEO, C-suite, and business-unit leaders have the right mind-set can leaders hope to drive growth across the business.

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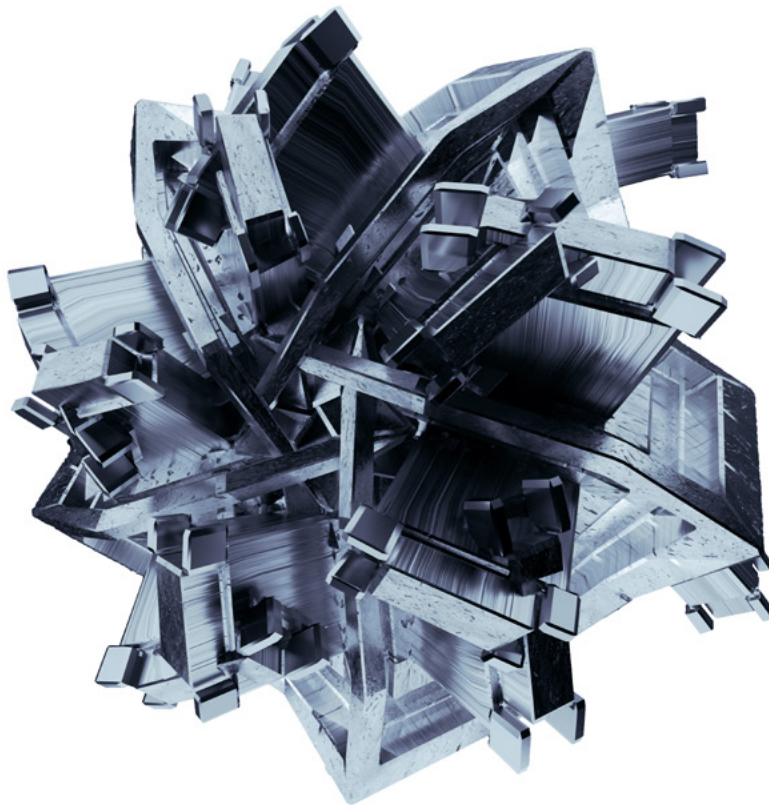
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Marketing & Sales Practice

# Seven principles for achieving transformational growth

Dogged persistence and nimble execution underscore a set of proven ground rules for growth.

*by Michael Betz, Joy Chen, Rock Khanna, and Duncan Miller*



**Growth creates value:** companies that outperform their peers on growth post 30 percent higher total returns to shareholders.<sup>1</sup> Growth also benefits organizations and their customers, opening up new opportunities for employees and creating additional resources for innovation. It's hardly surprising, then, that growth is at the top of the agenda for almost every business. In the wake of COVID-19, many companies are looking to growth to help them quickly recover revenues and steady their business. For others, growth is a way to gain market share, capitalize on disruptions in consumer behavior, or lay the foundation for sustained success in the post-pandemic era.

As any executive will tell you, however, achieving and sustaining growth is hard—and it's not for lack of will or effort. Many companies have pushed well-developed and well-executed programs on a range of initiatives, from customer experience to sales effectiveness, that have shown clear success in delivering revenue. The issue, however, is that these promising results often stall out or deliver only a small portion of the company's full growth potential.

Delivering transformative growth requires the whole enterprise to act in concert—from the marketing-and-sales teams that drive customer acquisition, to the product and service leaders who deliver the customer experience, to the customer-service staff who help ensure customer satisfaction and loyalty. Because market conditions, competitive threats, and customer sentiments change often, such

growth requires a mixture of doggedly persistent and nimble execution.

Over the past few years, we've worked with a wide range of organizations on comprehensive transformation programs to drive meaningful and sustainable revenue growth. Based on these experiences, we've identified seven principles that help leaders break historical patterns and achieve their growth objectives.

### **1. Look past the myths**

Though growth transformations present significant challenges, executives can sometimes be deterred from attempting them by a few persistent myths.

One such myth is that pursuing growth during a crisis is a distraction from the issues at hand. On the contrary: McKinsey analysis shows that investing in growth during a downturn delivers the best results for organizations with healthy cash positions and balance sheets.<sup>2</sup> While it's important for businesses to focus on short-term issues related to a downturn, waiting for the economy to recover could mean missing chances to gain a competitive edge. There's no perfect time to embark on transformational growth, so waiting serves no purpose. The companies we work with tell us they wish they had started sooner, not waited longer.

Another myth we often hear is that a growth transformation will take too long and cost too much. To be sure, growth transformations do require

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<sup>1</sup>Yuval Atsmon and Sven Smit, "Why it's still a world of 'grow or go,'" McKinsey Quarterly, October 2015, McKinsey.com.

<sup>2</sup>Rebecca Doherty and Anna Koivuniemi, "Rev up your growth engine: Lessons from through-cycle outperformers," May 2020, McKinsey.com.

**Because market conditions, competitive threats, and customer sentiments change often, such growth requires a mixture of doggedly persistent and nimble execution.**



investment, and the full payoff may not come until year two. However, disciplined organizations are able to quickly unlock significant efficiencies (for example, by improving efficiency of direct response channels such as paid search) and capture short-term revenue wins (for example, by adjusting prices).

Yet another myth is that growth isn't something leaders can control; it's the result of market forces, competitive dynamics, customer preferences, or sheer luck. True, external factors and good fortune play their part, but it's equally true that almost every business can improve its growth position. In fact, McKinsey analysis has identified a significant spread in growth performance among companies in almost every sector, indicating there is ample room for growth.<sup>3</sup>

## 2. Cleansheet a bold growth goal

The all-too-familiar approach to setting growth targets—taking last year's figures and adding or subtracting a few percentage points based on experience or gut feeling—has always been counterproductive. Now, when the pandemic has rendered year-on-year comparisons meaningless, it is sheer folly. The acceleration of the mass migration to digital triggered by COVID-19 requires leaders to cast a skeptical eye on trend lines and historical precedents and set goals that reflect the new landscape's potential. That means starting from scratch with a zero-based approach to growth planning. Time and again, we've seen leaders using this approach set and meet goals 40 percent higher than they achieved with their traditional strategies.

A zero-based approach to cost planning is well understood, but how does it work for growth? Top-performing companies start by breaking down the business into its components: customer journeys, brands, product lines, commercial activities. They then set a peak-performance goal for each revenue driver along each journey: generating demand, converting demand to sales, retaining customers, and expanding customer relationships over time.

When setting these goals, they look for examples from top-performing units inside the organization and gather external benchmarks from market leaders, experts, and innovators in other sectors. They are guided by curiosity and an open mind, examining how new technologies can support more ambitious goals, challenging institutional norms, and refusing to blame external factors for past performance problems.

For one large retailer, adopting a zero-based approach to growth overturned long-held assumptions that its core brick-and-mortar business could not grow. While its stores had endured years of dwindling revenues, its much smaller online business had been growing at a double-digit pace. Prior forecasts predicted continuing decline for in-store business and a gradual slowing of growth in e-commerce. But leaders set aside these trend lines and their gut feelings about the company's likely trajectory and looked afresh at marketing strategy, sales-team performance, customer loyalty programs, and potential synergies between the physical and virtual sides of the business. Armed with this wider perspective, leaders reset their ambition: a double-digit improvement in the company's overall growth rate. Twelve months later, they had achieved it. *For more, see "How absolute zero (-based budgeting) can heat up growth."*<sup>4</sup>

## 3. Drive big impact from multiple moves

Rarely does growth come in one big bang; in our experience, targeting a comprehensive set of seemingly modest increments is a better strategy. We regularly see companies drive double-digit impact by identifying a few key revenue drivers, applying best practices to each one, and stacking up a series of small wins.

Although "breaking down the opportunity" into smaller wins is more manageable, many executives are still unsure how to proceed. There is, however, a body of empirical evidence on how businesses

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<sup>3</sup>Kabir Ahuja, Abhinav Goel, and Kate Siegel, "Debunking four myths of organic growth," May 2019, McKinsey.com.

<sup>4</sup>Ronald Falcon, Kyle Hawke, Matthew Maloney, and Mita Sen, "How absolute zero (-based budgeting) can heat up growth," January 2018, McKinsey.com.

# Leaders using this zero-based approach set and meet goals 40 percent higher than they achieved with their traditional strategies.

can drive commercial excellence, from boosting marketing effectiveness, to motivating sales teams, or testing and scaling pricing innovations. The challenge is not to invent new ways to improve performance, but to take the time to look outside your organization for proven methods and emerging solutions and apply them with discipline and rigor to the drivers that genuinely push the needle on growth.

When one educational-services company reviewed its marketing effectiveness, it found it had neglected brand awareness and overemphasized performance-marketing tactics. Drawing on empirical evidence and bottom-up analysis, the company reset its marketing budget and reallocated investments, boosting high-conversion inquiries by 24 percent. Working along the customer journey, the team then enhanced the website's user experience to increase inquiry flow; intensified coaching and adopted performance-management "nudges" to improve frontline sales; and introduced multichannel communications and peer-mentorship programs to support student success. Together, these efforts reversed five years of sales decline, propelling the company to double-digit growth in new sales in less than a year. *For more, see "Commercial excellence: Your path to growth."*<sup>5</sup>

#### **4. Deliver a constant flow of growth**

As one executive wryly observed, "Focus is overrated." What he meant was that sustained growth comes from creating and replenishing a pipeline of promising initiatives that deliver a

constant flow of growth over time. Successful growth transformations strike a balance between quick wins (within three months), midterm operational improvements (three to nine months), and long-term strategic advantage (up to three years). They identify a comprehensive set of growth opportunities using the zero-based approach described above and then constantly review, reprioritize, and renew the mix of initiatives as the transformation progresses and its impact becomes apparent.

Quick wins are particularly important because they can generate savings or revenue to fund the growth program. For example, cutting spend on nonworking media or low-ROI trade shows could release funding for effective new digital-marketing campaigns. In addition, quick wins provide visible proof that the transformation is working, which can boost confidence, motivation, and momentum for longer-term efforts.

One multinational payments company kickstarted its growth transformation by analyzing price points across multiple products and services. Where it found room for growth, such as in high principal payments, it quickly lowered prices to gain share. In the medium term, it used granular geographic analytics to improve yield, reducing prices at locations with competitors nearby and raising them where competitors were more distant. The new pricing model delivered \$100 million in incremental revenue as measured against comparable locations using the old model. To capture long-term growth, the company is now exploring more

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<sup>5</sup>Russell Groves, Kun Lueck, and Stefano Redaelli, "Commercial excellence: Your path to growth," October 2018, McKinsey.com.

radical changes, such as moving from transaction fees to subscription-based pricing. *For more, see “Building an engine for growth that funds itself.”*<sup>6</sup>

### 5. Execute with rigor

Even with the most promising ideas, strategies, and market conditions, a growth transformation won't deliver the goods unless it is implemented effectively. Given the need to develop and orchestrate a broad set of initiatives over time, impact depends on having a powerful execution engine. Yet excellence seems to be the exception, not the rule: only 37 percent of executives taking part in a recent McKinsey survey reported that their company's transformation had been implemented successfully.<sup>7</sup>

We find that companies that are successful at large-scale performance improvements apply the same rigor to growth transformations as they would to operational or cost-efficiency programs. Leaders translate ideas and goals into plans with detailed forecasts, KPIs, and milestones, and establish a weekly cadence for making cross-functional decisions and fine-tuning initiatives in real time. They communicate compellingly about the need for growth in order to motivate employees and foster accountability, and they involve middle management and frontline staff in driving change so as to go faster, do more, and build organization-wide support.

The leaders of a private-equity-owned business, for example, sought to reverse years of declining sales. Aware that the company's culture often led to paralysis by analysis, leaders appointed a chief growth officer to lead major initiatives in marketing strategy, sales-team performance, and customer experience. Within a year, the company had achieved double-digit growth in new sales. Looking back, the head of marketing credited this success to rigorous execution: “By adopting a weekly cadence of tracking progress, making decisions, and driving accountability, we were able to implement far more than we thought and at a much more rapid pace. It

was the quality of our execution as much as the quality of our ideas that allowed us to meet and exceed our growth goals.” *For more, see “Executive quick take: A guide to implementing marketing-and-sales transformations that unlock sustainable growth.”*<sup>8</sup>

### 6. Turn measurement into a competitive advantage

As a military strategist once observed, “No plan survives contact with the enemy.” Similarly, no growth transformation unfolds precisely as intended. Because changes in customer sentiment, competitor behavior, or market conditions will inevitably threaten to throw plans off course, having the means to measure progress systematically—and the stomach to act decisively—is a major asset. Such measurement yields insights that help leaders double down on successes, ditch failures, and adjust implementation for maximum impact.

Measuring growth is no easy task, however. Multiple variables are in play, and quantifying the impact of critical growth drivers such as brand building and sales force effectiveness are notoriously difficult. To tackle this challenge, companies can apply new digital metrics, such as share of branded search, to assess the impact of marketing campaigns, and apply advanced analytics to compile operational and survey data to link customer-experience improvements to hard-dollar revenue gains.

*Tracking what matters.* Having mapped customer decision journeys, identified revenue drivers, and developed initiatives, leaders then determine which metric to track—lead volume, win rate, deal size—to assess the progress of each initiative. One industrial company used account penetration, new product growth, and new-market entry as its key metrics and linked them to Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) systems to provide real-time visibility and performance updates for each driver and set of initiatives. Transformation leaders evaluated data from these systems in monthly progress reviews to

<sup>6</sup>Kabir Ahuja, Biljana Cvetanovski, Liz Hilton Segel, and Jesko Perrey, “Building an engine for growth that funds itself,” May 2018, McKinsey.com.

<sup>7</sup>“How the implementation of organizational change is evolving,” February 2018, McKinsey.com.

<sup>8</sup>Ralph Breuer, Kedar Naik, Bogdan Toma, and Martina Yanni, “Executive quick take: A guide to implementing marketing-and-sales transformations that unlock sustainable growth,” September 2019, McKinsey.com.

# Only 37 percent of executives taking part in a recent McKinsey survey reported that their company's transformation had been implemented successfully.

decide when and where to reallocate resources. The effort paid off with incremental revenue growth of 4.5 percent in a declining market.

*Applying innovative metrics and predictive analytics.* With growth drivers that are difficult to pin down or slow to change, like brand awareness or customer experience, companies can use new concepts, such as share of branded search, to measure progress. They can also take advantage of the increasing power of advanced analytics to build predictive models that highlight the relationships between customer behaviors and sales. One wellness company calculated how customer lifetime value correlated with satisfaction scores, number of guest services, and interaction with personalized nudges. Armed with insights from this analysis, it made changes in its stores and CRM tactics that increased average customer lifetime value by more than 8 percent.

*Running multivariate experiments to assess impact and reduce risk.* One of the thorniest challenges in measuring growth comes in weighing multiple metrics for multiple initiatives. Brand building can drive more web traffic that yields more sales, for instance, but it can also increase sales conversion rates on performance-marketing channels, such as paid search. An accurate way of tracking impact is to compare the results from an integrated package of changes in a given country or customer segment

with the results from a control group. One online job-search company ran a matched-market experiment to assess the effectiveness of a new marketing campaign that combined investments in brand media with efforts to optimize performance-marketing channels. After the test showed a strong ROI, the company launched the campaign nationally.

Advanced measurement techniques help leaders not only to quantify impact but also to nurture a collaborative, data-driven culture focused on metrics and test results, not on anecdotes and finger-pointing. Because these methods capture the impact of factors that take longer to play out, such as improvements in product or service experience, they also help leaders balance their set of initiatives to drive sustained growth. *For more, see "Performance branding and how it is reinventing marketing ROI" and "Four ways to shape customer-experience measurement for impact."*<sup>9</sup>

## **7. Make capability building a priority, not an afterthought**

Success in a digital world demands specialist expertise and analytical capabilities in activities from dynamic pricing to multichannel sales to digital marketing. Smart companies start to build those capabilities by conducting a comprehensive diagnostic of growth-related skills in marketing, business development, sales, pricing, and customer experience to act as a basis for personalized

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<sup>9</sup>Thomas Bauer, Julien Boudet, Michael Lamb, and Kelsey Robinson, "Performance branding and how it is reinventing marketing ROI," June 2020, McKinsey.com; Victoria Bough, Ralph Breuer, Harald Fanderl, and Kevin Neher, "Four ways to shape customer-experience measurement for impact," April 2017, McKinsey.com.

development plans. They then execute on the plans with the same care and determination they apply to the transformation itself by nominating an executive sponsor and workstream leader to drive the effort and set milestones, identifying KPIs, and tracking progress.

Courses and training naturally have their place, but the best learning comes from doing: sitting next to an expert, observing, and then practicing a new skill. With the difficulties of face-to-face contact during COVID-19, best practices are emerging for sharing expertise remotely. Short and frequent video calls are proving to be more motivating than occasional long sessions—half an hour twice a week, say, rather than half a day once a month.

It's worth noting that tackling too many skill gaps at once saps energy and focus. A better approach is to take each function in turn and isolate a set of capabilities that directly link it to value creation. Then it's a matter of practicing, repeating, reinforcing, and role modeling the new skills. To make them second nature, smart companies

introduce daily performance huddles, set aside one-to-one coaching time, and hold high-profile celebrations of small wins.

At one leading B2B technology company, a redesign of the sales organization was coupled with a program to reinforce managers' everyday coaching skills. The program was customized to meet the needs of different roles and reinforced through changes in performance indicators and incentives. After a pilot among 30 sales reps exceeded its revenue target by over 20 percent, the company began rolling out the program across its entire inside sales team. *For more, see "The five things sale-growth winners do to invest in their people."*<sup>10</sup>

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Transformations are uncertain in the best of times, and growth transformations are the most challenging of all. Following the seven principles outlined above can't guarantee success, but it should help tilt the odds in your favor.

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<sup>10</sup>Matt Deimund, Michael Drory, Daniel Law, and Maria Valdivieso, "The five things sales-growth winners do to invest in their people," October 2018, McKinsey.com.

# 2021 global report: The state of new-business building

Business leaders predict that by 2026, half of their revenues will come from products, services, or businesses that haven't yet been created. Here's how new-business building can help bridge that gap through sustainable, inclusive growth.



**Business leaders expect** half of their companies' revenues five years from now to come from products, services, or businesses that do not yet exist, according to the latest McKinsey Global Survey<sup>1</sup> on new-business building.<sup>2</sup> Given the ambition to develop these new revenue streams, many of which respond to sustainability goals and technological change, it is no surprise that a majority of respondents say business building is one of the top strategic priorities at their organizations—double the share of recent years.

In contrast to an M&A-only strategy (in which corporations buy or merge with established companies) and corporate venturing (in which they invest in external start-ups), new-business building makes the most of your core organization's existing assets and capabilities to create separate but linked businesses offering new products, services, or business models. These often address new markets and geographies. Moreover, and unlike M&A or corporate venturing, new-business building generates organic growth, which often creates greater excess returns to shareholders than deal making does.<sup>3</sup> Examples of new-business building include Telkomsel's by.U, which provides prepaid cellular service aimed at Gen Zers, and the Lab at RXR Realty, which reimagines the tenant experience across residential, commercial, and mixed-use properties.

Our annual survey shows that the more new businesses you build, the better you get at building them; there's an experience curve that may explain why only a small segment of companies capture most of the growth from new-business building. Joining their ranks requires learning by doing. This year's survey examines the successful approaches of leading business builders, providing insights to get organizations up the learning curve more quickly. These include the crucial role played by the CEO of the parent company, the tricky balance between autonomy and centralization, the rationale for bolstering the new business through acquisitions, and the true depth of customer insight needed to succeed. Leadership matters, of course, and not just at the parent company: our survey found that new businesses led by women are more likely to succeed.

In the charts and text that follow, we will describe the survey findings in detail, starting with the urgent need companies feel to diversify the sources of their revenues to respond to sustainability challenges, shifting customer demand, and technological change.

## A majority of respondents say business building is one of the top strategic priorities at their organizations—double the share of recent years.

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<sup>1</sup> The online survey was in the field from July 6 to July 23, 2021, and garnered responses from 1,178 C-level executives, senior managers, and business-unit, department, or division heads representing the full range of regions, industries, company sizes, and functional specialties. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

<sup>2</sup> In the survey, we defined business building as the creation of new products or services where a company does not have an existing footprint or the building of completely new business models.

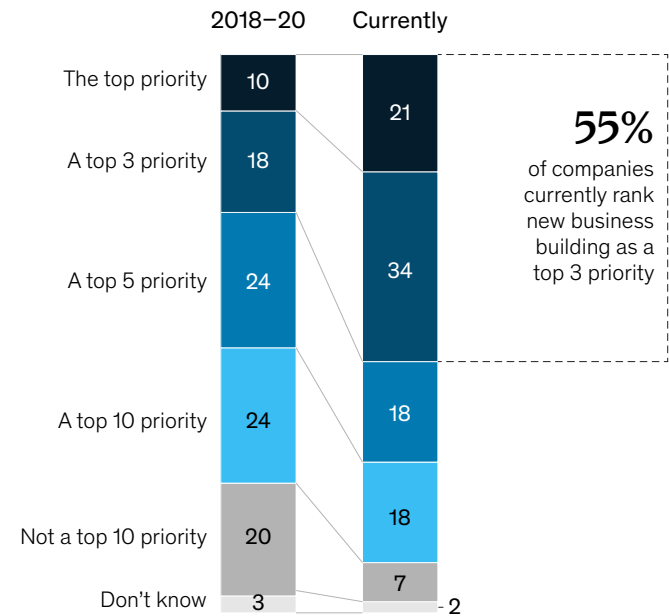
<sup>3</sup> Marc Goedhart and Tim Koller, "The value premium of organic growth," McKinsey, January 19, 2017.

## Why building new businesses is becoming more urgent

**New urgency.** Companies are more likely now than in previous years to concentrate on building new businesses. More than one-fifth of surveyed business leaders name building new businesses as their companies' top strategic priority, and 55 percent consider it a top three priority—nearly double the share who said it was such a high priority for their companies between 2018 and 2020. CEOs are now twice as likely to say it's the top priority than they were in previous years.<sup>4</sup> This new urgency is a global phenomenon: a majority of leaders in every region say the topic is a top three priority.

## The share of executives viewing business building as a top three priority has nearly doubled in recent years.

**Importance of building new businesses at respondents' organizations,<sup>1</sup>**  
% of respondents (n = 1,178)



<sup>1</sup>Figures may not sum to 100%, because of rounding.

<sup>4</sup> Twenty-four percent of surveyed CEOs say that new-business building is the top strategic priority at their organizations.



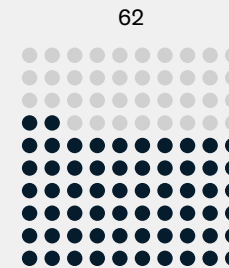
**New revenues.** The urgency for building new businesses directly reflects survey respondents' belief that today's products and services will be insufficient for addressing disruptions and meeting a sustainable future. More than 80 percent of respondents say new-business building will help them respond to disruption and shifts in demand, while 62 percent of respondents are prioritizing new-business building to generate one or more new revenue streams. Respondents foresee that five years from now, half of their revenues will come from new products, services, and business models. Some of these new revenues may be driven by large-scale efforts to address sustainability issues, but the rapid pace of technological progress is surely another factor. No matter the reason, respondents across industries consider new-business building critical to companies' financial health: 24 percent say it will be their companies' primary source of new revenue growth.

## Executives are looking to bring in half of their companies' revenues from new products, services, or businesses by the year 2026.

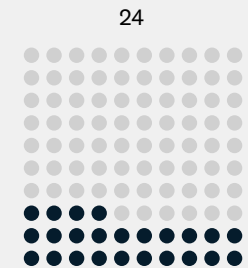
**Share of company revenues that will come from new products, services, or businesses, 5 years from now, average,<sup>1</sup>%**



**Share of respondents who say their companies are prioritizing new-business building to generate new revenue streams,<sup>2</sup>%**



**Share of respondents who say new-business building will be their companies' top source of revenue growth, next 5 years,<sup>3</sup>%**



<sup>1</sup>Respondents were asked, "To achieve your organization's enterprise-wide revenue ambitions for 5 years from now, what share of that revenue do you expect will come from its current products and/or services (including upgrades and new versions)?"; n = 1,178.

<sup>2</sup>Question was asked only of respondents who said new-business building is at least a top 10 strategic priority for their companies; n = 1,069.

<sup>3</sup>n = 1,178.

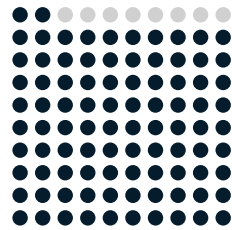
*The sustainability imperative.* Sustainability plays a significant role in new-business building: more than nine in ten respondents say they'll build new businesses at least in part to meet demand for sustainable products and services. Additionally, 42 percent expect to put sustainability at the center of their new businesses' value proposition. But the survey also suggests it's early days for companies looking to address their sustainability goals: nearly 80 percent of respondents say their new businesses don't track sustainability targets relating to carbon footprint or other environmental impacts.

## Many respondents say new businesses will address sustainability, yet few businesses track sustainability metrics.

### Sustainability in new businesses, % of respondents

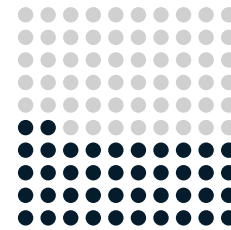
New businesses built in the next 5 years will address sustainability to some extent (n = 1,178)

92



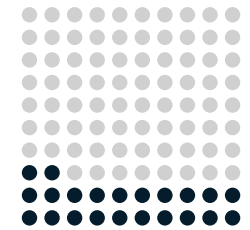
Sustainability will be part of the value proposition for new businesses built in the next 5 years (n = 1,178)

42



New businesses regularly track sustainability metrics (n = 1,032)

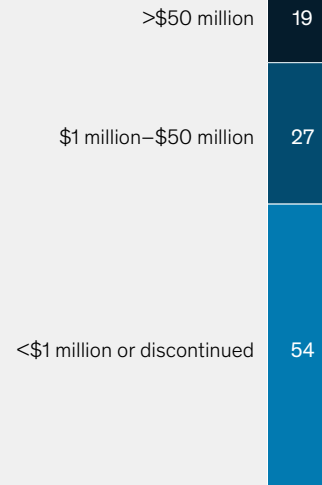
22



*New-business building is difficult.* It may surprise few observers to hear that new businesses often fail to scale. Four or more years after launch, at least 80 percent of all new businesses haven't scaled beyond \$50 million in annual revenue, according to respondents. More than half of new businesses have fallen short of \$1 million in annual revenue—or have been shut down entirely.

## Less than one in five new businesses achieves annual revenues beyond \$50 million.

**Annual revenue generated by new businesses,<sup>1</sup>**  
% of new businesses reported by respondents



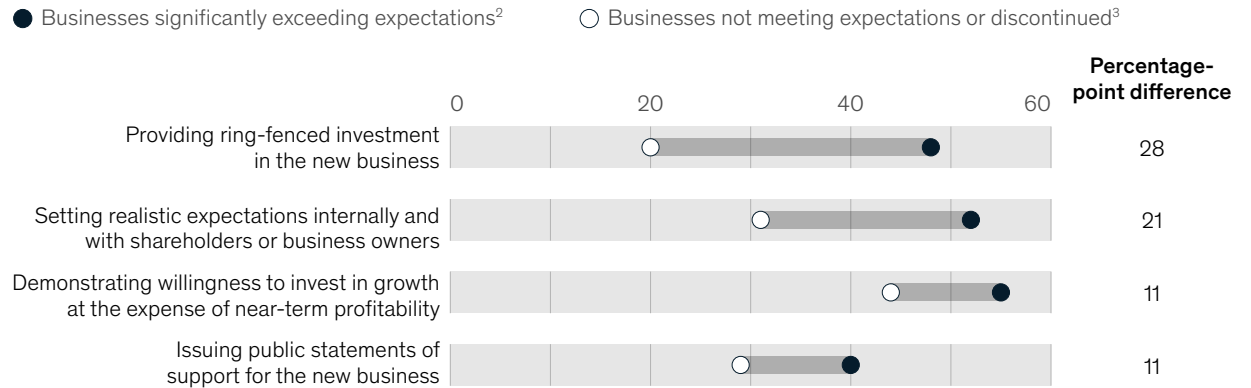
<sup>1</sup>Respondents answered about new businesses that their organizations launched between 2011 and 2017; n = 1,041.

## How to build successful new businesses

*The role of the CEO.* The CEOs of core organizations have an active role to play to ensure new businesses' success. We identified four specific actions that, according to respondents, CEOs of companies that successfully built a new business are much more likely to take than the leaders of organizations with underperforming businesses.<sup>5</sup> These CEOs ring-fence investment in the new businesses and are willing to invest in growth, even at the expense of near-term profitability. They also set realistic expectations with both internal and external stakeholders on the businesses' investment needs and time to profitability, and they voice support publicly for the new businesses. The survey found that when CEOs took all four of these actions, their new businesses were 1.9 times more likely to be successful than the new businesses overseen by other CEOs.

## Successful CEOs take four key actions to support their companies' new-business building.

### Actions taken by core organization's CEO,<sup>1</sup> % of respondents



<sup>1</sup>Out of 11 actions tested. Respondents answered about the new business with which they were most familiar.

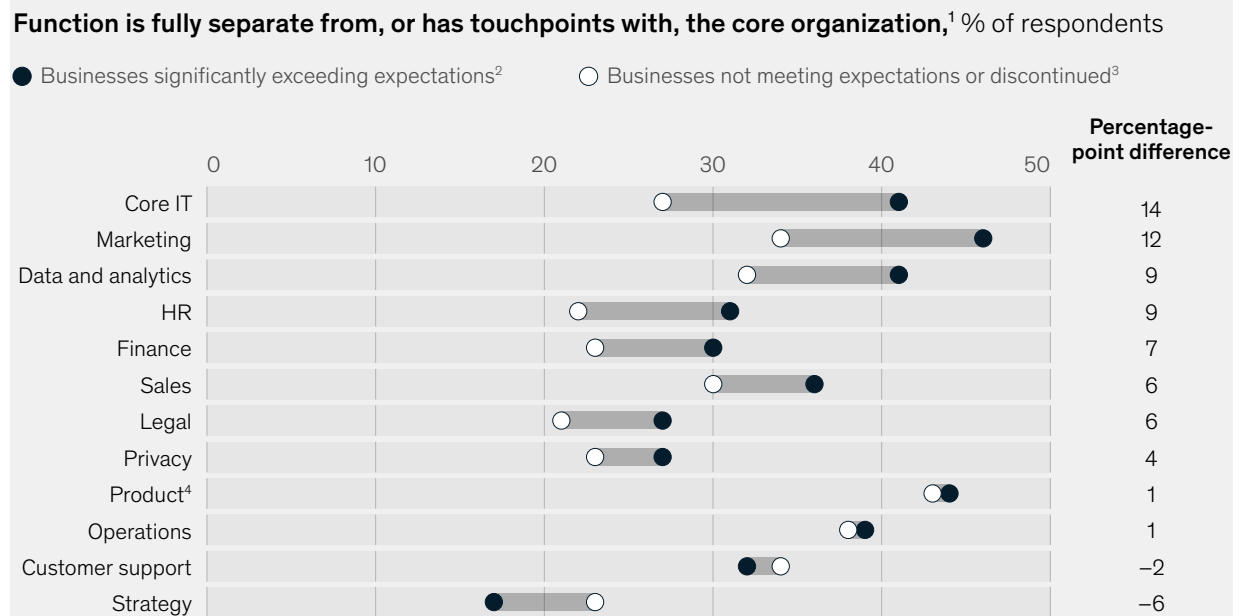
<sup>2</sup>Respondents who described the new business as "significantly exceeding the core organization's expectations for scale or growth"; n = 161.

<sup>3</sup>Respondents who described the new business as "performing below expectations for scale or growth" or "discontinued"; n = 276.

<sup>5</sup> A successful new business is one that, according to respondents, significantly exceeds the core business's expectations for scale or growth. A business that underperforms is one that, according to respondents, does not meet the core business's expectations or has been discontinued.

*The right amount of autonomy.* The survey suggests that successful business builders grant their new businesses considerable autonomy in core IT, marketing, and data and analytics. In these areas, the core organization's tech stack or operational processes may often be too cumbersome for swift-moving new-business building. Successful business builders are also more likely to keep the HR function separate from the core business, which can help new businesses compete with start-ups for talent. Despite these degrees of autonomy, successful business builders are careful to keep their new businesses strategically aligned.

## Successful business builders give new businesses autonomy in IT, marketing, and data and analytics, while keeping them strategically aligned.



<sup>1</sup> Respondents who describe the relationship between the functions at the new business and those of the core as "part of the core," or "extension of the core (eg, run from the same team, with some differences)," or who said "not applicable" or "don't know" are not shown.

<sup>2</sup> Respondents who described the new business with which they were most familiar as "significantly exceeding the core organization's expectations for scale or growth"; n = 161.

<sup>3</sup> Respondents who described the new business with which they were most familiar as "performing below expectations for scale or growth" or "discontinued"; n = 276.

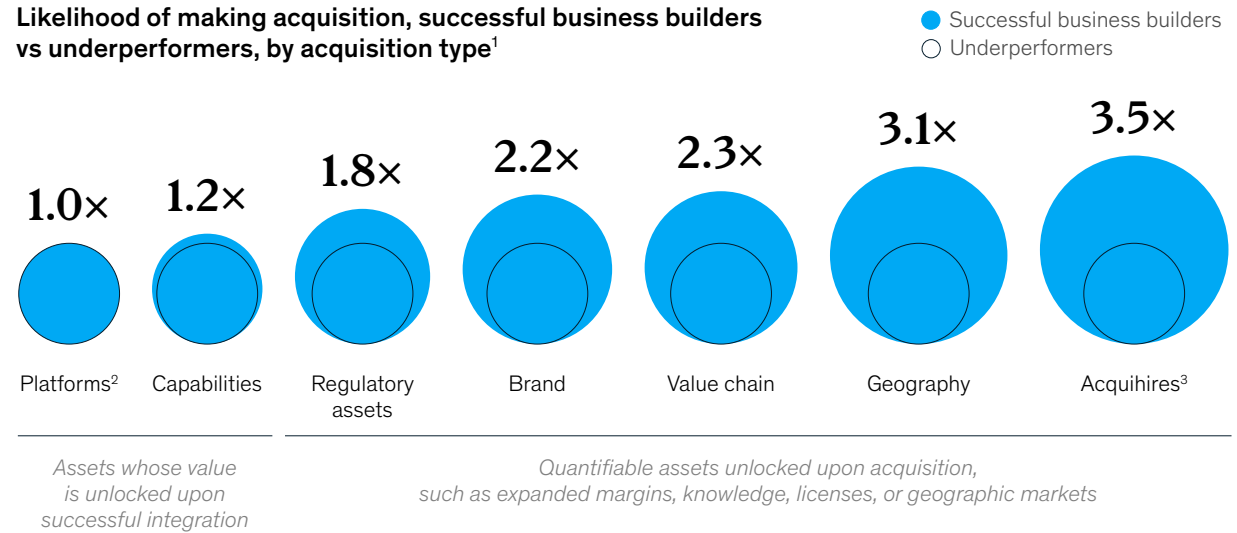
<sup>4</sup> Including development.

*Acquisitions can accelerate success.*

Successful business builders report making a small number of focused acquisitions early in the scaling of their new businesses. New businesses that made two acquisitions early in the scaling process are 25 percent more likely to significantly exceed expectations than those that either made no acquisitions or that made three or more of them. That means looking at acquisition targets in the first few months of building a new business but choosing them wisely. Some types of acquisitions deliver value immediately upon acquisition and thus help a business scale more quickly, rather than requiring precious time and effort to unlock value.

## Successful business builders are more likely than others to invest in acquisitions that deliver immediate value.

### Likelihood of making acquisition, successful business builders vs underperformers, by acquisition type<sup>1</sup>



<sup>1</sup>Respondents answered about the new business with which they were most familiar. Successful builders are those that, according to respondents, built a new business that is "significantly exceeding expectations for scale or growth"; n = 161. Underperformers are those that, according to respondents, built a new business that is "performing below expectations" or has been "discontinued"; n = 276.

<sup>2</sup>Acquisition of a platform is defined as "acquisition of an entity that operates in the space where the new business is planned and can act as the platform from which to build that new business."

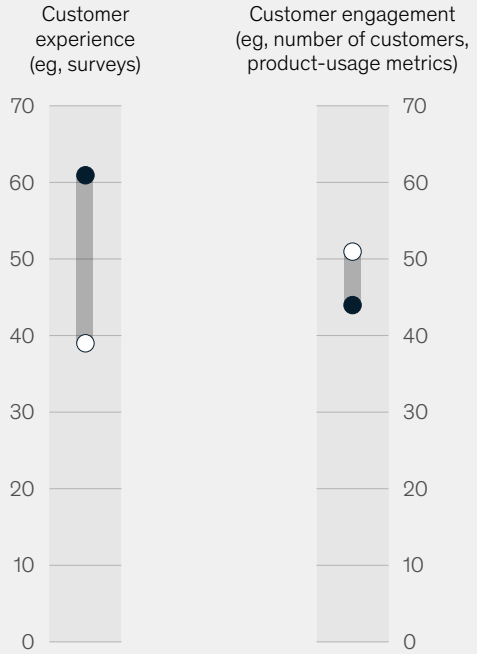
<sup>3</sup>Acquihiere is defined as "acquisition of an organization to bring in senior talent, such as CEOs and other C-level roles."

**Deeper customer insights.** The survey suggests that developing a deep understanding of customers, during both concept generation and scaling, also helps new businesses succeed. While half of all respondents say their companies measured customer engagement (such as the number of customers and product-usage metrics) through early scaling, successful business builders also use more holistic customer-related metrics—such as customer surveys, feedback panels, diary studies, and ethnographic field studies—relating to customers’ experiences throughout their decision journey. Furthermore, when asked what they wished they had known before their organizations built their new businesses, respondents most often wished they’d had a better understanding of their customers’ needs, expectations, and pain points.

## Successful business builders track the customer experience holistically, rather than focusing on customer-usage metrics.

**New business evaluated metric regularly from concept development through early scaling,<sup>1</sup> % of respondents**

- Businesses significantly exceeding expectations<sup>2</sup>
- Businesses not meeting expectations or discontinued<sup>3</sup>



<sup>1</sup>Respondents answered about the new business with which they were most familiar.

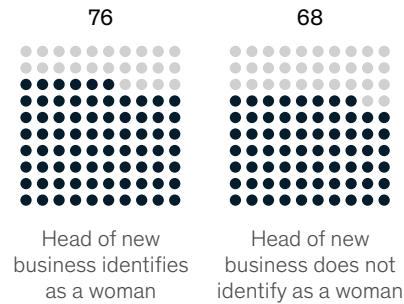
<sup>2</sup>Respondents who described the new business as "significantly exceeding the core organization's expectations for scale or growth"; n = 161.

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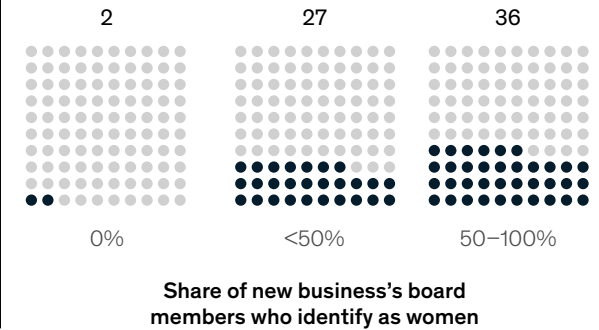
*Diverse leadership.* The survey also found that women-led businesses are 12 percent more likely to meet or exceed expectations for growth, yet just 14 percent of respondents say the new business they are most familiar with was led by a woman in its early stages. Without representation at the board level, new businesses might miss the benefits of diverse leadership. The survey shows that new businesses that have diverse boards—either with gender or racial and ethnic diversity—are more likely to be led by a woman.

## New businesses led by women are more likely to succeed, and diverse boards are more likely to select women to lead new businesses.

**New business is meeting, exceeding, or significantly exceeding expectations,<sup>1</sup>**  
% of respondents



**New business had a leader who identifies as a woman,<sup>1</sup>** % of respondents



<sup>1</sup>Respondents answered about the new business with which they were most familiar. Figures were recalculated after removing respondents who said "don't know." For respondents reporting that the head of the new business identifies as a woman, n = 132; for respondents who say the leader does not identify as a woman, n = 901.



Today's companies are looking to bring in 50 percent of their revenues from new products, services, or businesses by the year 2026. New-business building is a crucial way to get there. While it's true that the more new businesses you build, the better you get at building them, it's also true that less-experienced business builders can improve their odds by learning from the leaders. As our new survey shows, sustainable growth through new-business building requires close attention to the role of the parent company's CEO, to the rationale for making acquisitions, to the depth of your customer understanding, and to the diversity of your leadership.

## **Companies are looking to bring in 50 percent of their revenues from new products, services, or businesses by the year 2026. New-business building is a crucial way to get there.**

The contributors to the development and analysis of this survey include Lilli Beard, Markus Berger de Leon, Shaun Collins, Bhavna Devani, Ralf Dreischmeier, Will Fairbairn, Nate Janewit, Thomas Lambeck, Ari Libarikian, Derek Schatz, Upasana Unni, and Belkis Vasquez-McCall.

