A proven recipe for organic growth: Deliberate focus on a diversified approach

An overview of today's growth 'ingredients': Invest, Create, Perform

Liz Hilton Segel with Barr Seitz

MAY 2018 • MARKETING & SALES

Companies, like people, tend to do what's worked well in the past. But when it comes to driving organic growth, that past success can often create "blind spots" and close off a vast range of opportunities. Being deliberate and focused on building a diversified growth program has proven much more effective. McKinsey's Barr Seitz recently sat down with Liz Hilton Segel, a senior partner in McKinsey's New York office and leader of the Marketing & Sales Practice in the Americas, to discuss the importance of corporate dexterity in driving organic growth in the digital age.

Why is it important to think in terms of multiple ways to drive organic growth?

We've done a lot of work with clients who are trying to change their growth trajectory and with private-equity owners who are evaluating whether to buy a new asset and whether that asset will be worth more over the long run.

What we've found is that there are really three different approaches companies take to try to increase their overall growth rate: they can Invest, Create, or Perform.

Executives tend to use strategies that worked for them in the past, which can reflect a personal preference or a specific company context. Either way, they tend to employ one technique more than the others.

Companies also face myriad distractions—cost agendas, regulations, or other business requirements. So part of what's required is a focus on growth and buy-in from the management team to growth as the top priority of the business. Once this foundation had been laid and everyone is committed, the question becomes how to accomplish the goal, and the work begins on laying out the roadmap to get there.

How does this Invest-Create-Perform approach help to achieve growth?

Let me share an example. We were engaged by a private-equity firm to evaluate whether an entertainment company in the theme-park space could generate greater growth. Our approach was classic due diligence, but we applied the Investor-Creator-Performer framework to our thinking.

On the Investor portion, our first question was, "How many new cities could absorb one of these theme parks?" We found that there were cities all over the world where the company could grow dramatically with some additional investment.

Then we scrutinized what the company's theme parks offered to patrons in the way of things like room types, available entertainment, and the bar and restaurant scene. We realized that some further innovation in their value proposition could ratchet their average daily revenue up significantly.

Finally, we examined their sales channels, which we found didn't have nearly the required level of performance management. So we introduced a very simple scorecard to track performance.

By applying the Investor-Creator-Performer framework, we learned they could achieve a very significant amount of top-line growth.

What are the main characteristics of a successful Investor strategy for driving growth?

Companies that pursue the Investor approach believe the way to get top-line revenue growth is to put more investment to work. They'll typically go after some form of a cost-savings program either in procurement or in selling, general and administrative expenses. They may also find incremental margins through pricing action.

They're looking to build a war chest and apply it to either growing their distribution channels, growing their sales force, or putting significant investment behind marketing. They'll know exactly what they're going to get for the next $10 million of investment in their sales force and have the confidence of a quantified return if they release incremental spending in their sales or marketing channel.

There's also a need to look across the company and identify parts that have both less and more opportunity for top-line growth and then make a purposeful reallocation of capital to enable the company to grow.

What capabilities or practices need to be in place for an Investor growth strategy to pay off?

We're finding that companies are moving to a much more dynamic investment-reallocation approach to fund growth possibilities, using new ideas about where to make incremental investments in either the sales force, new marketing programs, a new product line, or a new country.

One of my clients in the credit card industry employs an extremely disciplined process for marketing-investment allocation. They reevaluate the investment choices open to them on a monthly basis, making reallocation decisions according to available investment capacity at the time.

What amazes me is that companies pursuing an Investor growth strategy are ones where the CFO is usually arm-in-arm with either the CEO or the head of the business unit, really working in lockstep to change the company's trajectory. In companies where growth is not the priority, you'll typically see a finance organization or a CFO much more focused on cost containment and margins.

How do companies successfully pursue a Creator strategy to drive organic growth?

In companies with a Creator mind-set, there's a conviction and a belief that with the launch of a new product, new revenues will follow. But in companies that lack a Creator mind-set, there's a sense that existing products are going to have to deliver as they are, or a lack of belief in the possibility of a new product driving new revenues.

Digital is creating so many opportunities for companies to change how they engage with consumers and putting a real premium on the customer experience. If they invest behind a new customer experience—potentially a completely digitally enabled customer experience—that might give them the opportunity to shift their market position.

What does a Performer growth approach look like?

Growth Performers operate with a continuous-improvement mind-set. These are companies that look at their sales force and say, "I am 100 percent positive that with this exact same sales force I can find a way to new top-line growth."

It might mean deeper insights about which segments of the sales force can produce better returns or a greater understanding of the different industry segments that they're selling to. A company pursuing a Performer approach to growth often looks quite closely at pricing decisions and makes far more disciplined choices about where to provide discounting and where to take incremental price increases.

Companies that pursue the Performer approach to growth are literally able to generate a 5, 10, or 15 percent increase in their revenue production with the exact same investment in their sales and marketing engine.

What traits do CEOs who are most effective at driving growth in their businesses share?

CEOs who believe they can change the growth rate of their business usually focus both on the short term and the long term. So they'll be looking quite closely at results, let's say over the next six quarters. They'll be looking for programs they're confident can produce very visible results that can be reported to the analyst community and build a sense of momentum.

These CEOs generally set a very ambitious agenda around growth. They'll galvanize the whole team so everyone knows they share a single-minded purpose, which is to take the company on a top-line-growth journey. They typically set an agenda for growth just as a company going after a cost transformation would. They lay out a purposeful set of initiatives and put the investment path in place necessary to spur growth.

For example, one of my clients joined a company that had been consistently delivering on its earnings targets, but had not been delivering revenue growth on any material level for quite some time. During one of his first weeks, he took a look at all the company reports and noticed one of their call centers wasn't delivering the same performance level as the other three.

He picked up the phone and called the head of that call center and asked, "Why aren't you delivering at the level that we expect?" He would immediately get a bump in performance. So he called somebody who's three levels below him and said, "I've been looking at your close rate, and your close rate's four points below the other call centers'. What exactly is going on over there? I'd like to talk about it again next week." He sent a signal that said, "We're watching the performance of all of our sales and marketing channels very carefully." ■

Liz Hilton Segel is a senior partner in McKinsey's New York office. The interview was conducted by **Barr Seitz** of Digital McKinsey and McKinsey's Marketing & Sales Practice.