Setting an agenda for organic growth in the digital age

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Business leaders can focus on three mind-sets to drive growth in their companies and sustain that growth for the long term.

Executives who make growth their priority and ambitiously set goals and invest based on that intent are often more successful in growing their businesses. In this episode of the *McKinsey Podcast*, McKinsey partner Kabir Ahuja and senior partner Liz Hilton Segel speak with McKinsey's Barr Seitz about how a company can increase its growth rate using three different mind-sets, or lenses, to direct its strategy.

Podcast transcript

Barr Seitz: Hello. And welcome to the *McKinsey Podcast*. I'm Barr Seitz, global publishing leader for McKinsey's Marketing & Sales and Digital Practices. And I'm very happy to be joined by Kabir Ahuja, a partner, and Liz Hilton Segel, a senior partner who leads the Marketing & Sales Practice in the Americas. They are also the coauthors of the article, "Invest, Create, Perform: Mastering the three dimensions of growth in the digital age," which was published in March. In today's conversation we'll be digging into the importance of organic growth, how the best companies approach it, and what they do to change their growth trajectories. Liz and Kabir, thank you very much for joining us today.

Kabir Ahuja: Happy to be here.

Liz Hilton Segel: Thank you.

Barr Seitz: Liz, let's start with you. In getting ready for this conversation, I reread a few McKinsey articles on growth. There was one in 1996 called, "Staircases to growth," which looked at how the top growers took a systematic series of manageable steps rather than single bold leaps to sustain growth.

Then in 2007, there was the article, "The granularity of growth," based on the book of the same title. It argued that companies can unlock significant growth by identifying, at very narrow and small market segments, where demand is strongest. So the topic of growth isn't new. What *is* new about growth?

Liz Hilton Segel: Digital has changed a lot about how companies compete for their consumers and their customers. Competition is higher than ever because digital and the internationalization of markets make consumer expectations and the fighting for consumers and customers more intense than they've ever been.

It really leads to pressure on companies to make sure that their products and services, and their customer experiences, are truly at the cutting edge of the industry to ensure that they're getting their fair share of revenues in the marketplace. But digital and advanced analytics also offer opportunities for companies. We are seeing people leverage real-time data in very, very new ways to make better decisions on how they price, where they invest, and where they apply their sales force. While, on the one hand, digital is offering the threat that if you don't keep up, you're unlikely to retain your market-share position, it's also offering an opportunity to extract even more value by innovating your commercial processes.

What we've seen is that, as the financial markets have increasingly put pressure on executives to deliver earnings in a very consistent way, there's been more and more company focus on cost and cost containment. Certainly that's partially driven by a slow GDP growth globally. But our questions are, "Can you really pivot to more of a growth agenda? And can you leverage some of the cost savings that you've developed skills in to invest further in the company's growth?" Ultimately, that's a better path to value creation. Our point of view is that growth really matters both to company value creation but also to company survival.

If you look, you'll find that over half the companies on the New York Stock Exchange that did not grow didn't survive. And so it absolutely is a priority. When we look at our clients, and other institutions, we really have faith and confidence that people can grow more. What we would do is invite them to explore the question of, "What would it take to increase the company's growth rate?" Because with focus and a disciplined attempt at it, we're really confident that the company's growth rate can be more than what it's been.

Barr Seitz: Great. Kabir, you led a body of research into how the best companies approach growth in the digital age. What were some of the highlights of that research?

Kabir Ahuja: We talked to a large number of executives to learn how they think about growth, how they approach growth, and how historically their companies had created and delivered growth. What we found out was, first of all, one of the key markers of a successful growth agenda is having a senior leadership team that has the intent to grow. They actively think about growth as a top management item and invest behind it.

Then we have a separate set of learnings, which is about the *how*. We learned that there were three lenses that companies use to drive growth. One is performance, which is easily understood. It's improving the operational and commercial engines to increase sales and channel performance.

There's a second, which is creation. That creator lens is all about generating new revenue through new products and services. Then there's the investor lens, which is all about reallocating your resources the right way and taking money away from, and resources from, parts of the business that aren't returning well, so that you're not starving places where there's opportunity to grow. We found that the best growers use all three lenses.

Barr Seitz: Great. This idea of corporate dexterity to pursue a diversified approach to growth makes sense. I think you'd expect companies to be able to walk and chew gum at the same time, to oversimplify the point. So, Liz, why is this diversified approach to growth important? And what would a CEO or business-unit leader do differently because of this insight?

Liz Hilton Segel: One thing, just to start with, is, as an executive, to simply ask yourself the question, "Which strategies do I tend toward?" My experience working with clients across a lot of companies is that executives, as individuals, and management teams really do tend to bias.

There are certain things that they are more comfortable with, that they know have worked for them, and so they'll tend to stay on that strategy for a longer period of time. They will see it as risky to step out beyond that. If you bring ten executives together, and you describe to them the three lenses of growth, and you ask them to describe [themselves], very quickly people will say, "Oh, well, I'm performer oriented," or, "I'm investor oriented," or, "I'm creator oriented."

People can self-diagnose quite easily. The question on our minds is if you're quite deliberate about trying to broaden your capability set as a company and then to take a step back and say, "What do we want to aspire to as a growth rate? What do I think our industry's producing? If I try to aspire to grow at a rate in excess of the industry, and I try to adopt a broader or more diversified tool kit, what would I do differently than I'm doing today?"

Kabir Ahuja: That's one of the hardest questions that I see, at least in all of my conversations, is, "How fast should I be growing?" It's a fundamentally hard thing to understand what your trajectory is and how much you can affect it.

Barr Seitz: How do you answer that question? I'm assuming it's very difficult.

Liz Hilton Segel: We try to take both a top-down and a bottom-up approach to it. So the top-down point of view simply is, "Let's look at your industry segment. Let's look at the degree to which you are weighted to the faster- or the slower-growing parts of your industry segment." Then create a natural growth trajectory based on the momentum of the industry.

The bottom-up approach to it is to take each of these lenses—investor, creator, performer—and say at a granular level, "What do we think the opportunities are for your company? And what's holding you back from achieving those opportunities to create a road map?"

Kabir Ahuja: Often it ends up with an aspiration for growth that is greater than when they start. That's really the mind-set shift that we encourage senior executives to take, especially those who can control those multiple lenses—to have a growth aspiration and be oriented around it.

Barr Seitz: Did you ever see that movie *The Candidate* with Robert Redford? It's about a candidate running for the US Senate. He gets caught up in the campaigning, and he forgets what he's running for. And then he wins. There's this great scene at the end when he talks to his campaign manager and asks him, "All right. What do we do now?"

As a CEO looking at this framework—creator, performer, investor—and they're ready to develop that corporate dexterity to pursue a diversified growth program, but what do we do now? Kabir, how does an executive turn this organic growth map into a functioning operating model for growth?

Kabir Ahuja: You have to start with being deliberate about creating a plan for how to grow using the different lenses and then, on the back of that, have a sequence and understand the capabilities you need.

An example company: for the investor portion, we found there were actual cities that were ripe for expansion into. From the creator lens, we said, "Look, there's a lot of innovation in entertainment and the bar and restaurant scene." The value proposition could actually ratchet up their revenue by a significant amount if you could find two or three more opportunities for patrons to spend and be happy.

Then from the performer lens, their sales channels didn't have the required level of performance management that they needed. We had a clear sense in each of the three lenses where growth could come from. Then on the back end, you have to think about what capabilities you need, what you have, and the speed to impact of each of those activities and sequence them in the right order.

Barr Seitz: This idea of being deliberate I just find intriguing because it seems so simple.

Kabir Ahuja: It does. We had a CFO forum in London. We had 100 of the world's leading CFOs, and we talked about this. It was funny because, in reflection, many of them said, "Oh, yeah, we're definitely a performer." Then you ask the question, "Well, was that on purpose, or is it just what you're comfortable doing?"

Oftentimes the answer is, "It's what we're comfortable doing." And that's fine. They happen to be very good at it, and it's delivered a lot of value. But then you run out of juice at some point. You need to diversify the tactics you use. Liz, I'm sure you've seen this with your clients. There's a way to consciously choose to do something else and build the capabilities to make sure it succeeds.

Liz Hilton Segel: What's hard about it, and often why a new executive can create the shake-up necessary to reset the growth agenda, is that, certainly in the case of being an investor, odds are you're going to break glass as it relates to how the budget has been spent in the past.

You're going to go in and say, "Hey, we need to find a way to spend less money here in order to spend more money there. We're in a performer mind-set. There's actually a better way to do this. And we're going to deliberately build new skills to optimize our pricing approach or to squeeze more efficiency out of our marketing spend." By definition, what we're asking for is change. And we're asking for change in the service of higher company performance on the growth dimension.

Barr Seitz: Liz, when we've talked about this idea of having a diversified approach to growth, you've mentioned companies performing like triathletes, where they have to build up different sets of muscles to be able to do multiple things well. What sorts of muscles do businesses need to develop to drive growth? And how do they balance the development of them to do those three things well?

Liz Hilton Segel: Kabir referred to this earlier, but you have to decide to be in the race. You have to decide that you're there to play and that you're there to play a growth game. And you need to get the whole management team lined up behind a growth game.

When we start talking about growth, sometimes people think this is a CEO question because it's a strategy question. Sometimes people think, "Oh, this is the CMO's question," because it's about how to spend your marketing dollars. Or sometimes people think, "Oh, it's the head of the sales force," because they're the ones who create revenue for the business.

But in reality it's the entire management team's question, and the CFO plays about as valuable a role as anybody because ultimately they're a major part of the question of how resources are allocated. I would say the first thing, absolutely table stakes, is a mind-set that, "We are here as a management team to deliver a faster growth rate than we have in the past."

The second thing is a very disciplined resource-allocation process—and whether that's about net new, meaning that there's always a point of view in the company about where to spend dollars on the margin and clarity about what those dollars will return, or whether that's a mental model that says no individual budget item is held because it was last year's number. There's always opportunity to squeeze out more savings in a company. The reason why is because, if you don't do that, there's an opportunity cost relative to where new investments might be placed to get incremental growth.

Beyond those two, what we found is that folks who were top growers had two capabilities that really stood out relative to their peers who were not growing as fast.

One was, not surprisingly, around data and analytics. That might be a marker of what companies today who are really leaning forward—what are they investing capabilities in? We certainly see data and analytics as something that helps you squeeze out incremental growth on the margin. Then the second thing is the ability to collaborate cross-functionally to work in an agile method; this is another marker of top growers.

We didn't see things like innovation per se as something that particularly differentiated top growers from others, which I think is interesting. We did see, for the different lenses we talked about, for companies that self-identified as a creator, that customer insights was something that they also called out as being unique to them. Within the investor, we found that they identified speed and efficiency in their processes as something that was a particular competency of their organization.

Barr Seitz: When we talk about data and analytics, there's a sense that that's all about productivity. How do you think about that as a growth-tool capability?

Kabir Ahuja: Understanding this whole resource-allocation question, it's not just a process question. It's also a data question. It's, "How well can I understand the cells of performance?"—whether it be by channel, by geography, by type of sales force. There are so many ways you can cut data in your business.

This is back to the articles that you talked about. The principles are still applied today: granularity of growth—understanding where to put your dollars to find growth. Data can be a huge accelerator to that and make a real difference.

Similarly, you can use data and analytics in insight. We now have empirical views on how people interact with the world because of digital. It is really powerful to not just use data as a back-end "How did things go?" but actually understand how the world works around you, how your customers experience your products or services, or even interactions with you, and then use that to go back into this whole creator mind-set.

Liz Hilton Segel: In general, when we work with clients to help them either change their capabilities or to achieve a higher level of performance, our experience is that the two go hand in hand best. In other words, if you're a company and you say, "Look, I'm sitting here with a 3 percent growth rate, and I want to be at a 6 percent growth rate," and you believe that data and analytics is the path to that, we will of course bring in people that have data and analytics expertise. That's certainly very helpful to a client to pave out where they want to go.

But more important is applying that to a specific set of initiatives that are going to produce the higher growth rate, so that the building of the data and analytics capability is fueling the outcome you want, and then it's completely self-reinforcing.

Kabir Ahuja: One of the biggest things about data analytics is it gives you the capability to respond much quicker. It's data analytics both in terms of level of precision, using machine learning and a whole bunch of new techniques, but also the speed at which it happens has changed dramatically how the actions a company can take on the back end happen.

Barr Seitz: And why is that so important today?

Kabir Ahuja: Well, everybody's moving faster. If you have a new product, you can expect a fast follower faster than ever before.

Liz Hilton Segel: If I think about one of my retail clients who is now just beginning the journey of using real-time competitive pricing information to change their promotional decisions every day on every SKU, the concept of that seems very daunting at first. But once you actually get moving on it, you can always make it incrementally better.

Barr Seitz: Liz, you've alluded to this in our conversation earlier, in terms of the mind-set that executives need to have to drive growth. Having worked with business leaders on growth and observed how the most successful ones operate, what are the characteristics of leading executives who can drive growth consistently?

Liz Hilton Segel: The first thing is just to set an ambitious agenda around growth and to be as purposeful about going after that growth agenda as you might after a cost transformation or a reengineering or restructuring effort.

The company needs to have the leadership of the CEO or the business-unit head. It needs a purposeful set of initiatives, and it needs a clear path to go after achieving those initiatives. So the first thing simply is, set the agenda and do it in a disciplined way.

The second thing I would note is that it is really helpful to be thinking concurrently about the short term and the long term. Sometimes growth conversations can have an ethereal feel, like we're talking about several years from now. While it's absolutely important to put investments down today and to go after innovation that may not produce for a couple of years, there's no question that that's valued. There needs to be a balance with things that will really deliver and produce results in the short term.

The last thing is, look closely at results. You want to make sure that you're seeing material improvements quarter over quarter, whether it's to build momentum within the analyst community or whether it's to build momentum around the employee base, to build confidence in greater investment going forward, look closely at results.

Kabir Ahuja: The only thing I would add to that is that senior executives who are driving growth have the opportunity to set a story that the company can rally around and genuinely create excitement around growth. Growth is an exciting thing. One of the characteristics of the CEOs and business leaders and executives who execute growth successfully is that they set that growth story for the company and rally everyone behind it.

Barr Seitz: To get to the next level down, what does that look like to set a growth agenda? What does it look like to review results and take decisions based on that?

Liz Hilton Segel: My view is it looks like any planning process in the company. It is an end-to-end review of every opportunity for growth that is in the company. It might go business unit by business unit. It might go function by function. But it's the disciplined asking of the question, "Where can we get more?"

Whether that's, "Where can we get more from what we do today?"—the way we talked about through the performer lens. Or whether that's, "Where is there a white space in a market that we are not yet seizing?"—and therefore you look at it through the creator lens and say, "What is a part of the market we want to actually play in? And what are our ideas about what products or services might play in those markets?" Or whether it's the question around the investor, which is, "If I had another hundred million dollars, where would I deploy it?" And now let me go ask the question of, "Where am I going to get that hundred million dollars?" Like any planning process, it's just a disciplined look across the company. It's just with an expectation of an outcome, which is an acceleration of the company's growth rate.

Kabir Ahuja: And just to pair with that: discipline tracking.

Liz Hilton Segel: Yes.

Kabir Ahuja: It's the disciplined look about where we're going to grow and then tracking if you're delivering that growth against the identified areas. So much like what Liz said, it's like any other structured process, and growth can be delivered that way.

Liz Hilton Segel: It just comes back to the message that we started with. If you go through and put in one group our clients who grow very rapidly, and another group our clients who do not, and you ask, "What's the top management priority?," the differentiator is what they're focused on. For the companies that are not growing, it's because their agenda is around cost or their agenda is around something else. For the companies that are growing, it's because that's the top management unit's objective.

Barr Seitz: I'm afraid we're out of time. Thank you, Liz and Kabir, for joining me for this conversation.

Kabir Ahuja: Thank you.

Liz Hilton Segel: Thank you.

Barr Seitz: As a reminder, you can read their article, "Invest, Create, Perform: Mastering the three dimensions of growth in the digital age," on McKinsey.com. And you can keep up with the latest from McKinsey on organic growth by following us on Twitter, @McK_MktgSales. Thank you for joining us today. □

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