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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.

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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

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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

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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.

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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