McKinsey & Company

Marketing & Sales

Debunking four myths of organic growth

New analysis suggests that companies are missing some growth opportunities.

by Kabir Ahuja, Abhinav Goel, and Kate Siegel

© Chris Winsor/Getty Images

May 2019

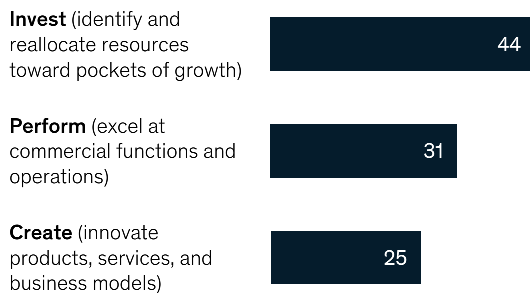
While organic growth is crucial to a company's survival, many executives underestimate its value. In past research, we found that fewer than 30 percent of businesses systematically scan for and evaluate new growth opportunities.[1] The reasons for this vary from reliance on cost-cutting efforts to difficulty overcoming short-term pressures.

To better understand how the best-growing companies achieve their success, we asked respondents to our newest McKinsey Global Survey on growth how their companies develop proficiency and expertise along three dimensions, or lenses, of organic growth.[2] Companies can **Invest**, or identify pockets of growth and reallocate resources to them; they can **Create**, or innovate products, services, and business models; and they can **Perform**, or excel at commercial functions and operations.[3] The results from our top-growth companies—that is, the companies where respondents report revenue growth four or more percentage points higher than the industry growth rate—appear to debunk some commonly held myths about organic growth and what it takes to do it well.

Exhibit 1

Top growers tend to have the strongest command of identifying and reallocating resources toward growth.

Primary lens of growth[1]
% of respondents at top-growth companies[2]



[1] A company's primary lens is based on the highest number of best practices within each one that respondents agreed or strongly agreed with. For Invest, the survey asked about 7 practices; for Perform, 8 practices; and for Create, 6 practices.
[2] Respondents who said their company's annual growth rate in the past 3 years has been at least 4 percent higher than the overall growth rate of their sector; n = 426.

Myth 1: Creating new products, services, and businesses is the best way to grow

It's easy for executives to get swept up in the excitement of launching a new product or service, and it's tempting for companies to focus only on developing new products, services, or business models (Create) as the primary way to grow organically. But the data suggest that top-growth companies tend to follow a different approach.

In fact, a majority of respondents at top-growth companies say they grow primarily through the other two lenses, with 44 percent reporting a primary focus on identifying and reallocating resources (Invest) toward growth (Exhibit 1).[4] It makes sense that top-growth companies adopt this lens more often than the other two, given that the most common best practices for investing all relate to how a company fundamentally focuses its resources and organizational attention on growth. These practices include establishing goals for growth that set the agenda throughout the organization, making investment decisions based on systematic evaluations of returns, and leadership alignment on market strategy.

---

[1] Survey, "Growing beyond the core business," July 2015, McKinsey.com.
[2] The online survey was in the field from March 6–16, 2018, and garnered responses from 1,937 participants working at private-sector companies and representing the full range of regions, company sizes, functional specialties, and tenures. Of them, 1,466 work in industries where our questions on organic growth were most relevant to their businesses and reported their companies' rate of organic revenue growth compared with the overall sector's, so their responses were included in our main analysis. Those surveyed whose responses were not included in our main analysis work in professional services, the public sector, and the social sector. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.
[3] Kabir Ahuja, Jesko Perrey, and Liz Hilton Segel, "Invest, Create, Perform: Mastering the three dimensions of growth in the digital age," March 2017, McKinsey.com.
[4] A company's primary lens is the one for which respondents reported the highest number of effective or very effective best practices. For the Invest lens, we asked about seven best practices; for Perform, eight; and for Create, six.

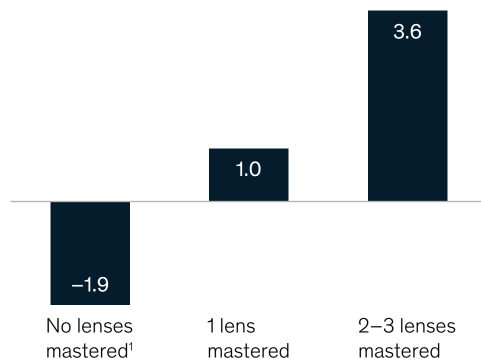
Furthermore, the results suggest that organizations are better positioned for growth when they develop a broad set of complementary capabilities. Building sets of capabilities that reinforce each other—that is, adopting best practices in two or three lenses—is associated with dramatically higher odds of being a top-growth company (Exhibit 2).

But organizations should exercise caution before pursuing all three lenses at once. Only 12 percent of respondents say their companies have successfully mastered all three,[5] suggesting that mastery of these lenses requires a level of organizational attention and investment that few companies are currently able to meet.[6]

Exhibit 2

According to the survey results, mastering multiple lenses dramatically improves company growth rates.

Companies' annual growth rates relative to their sector's, past 3 years, percentage-point difference



[1] Mastery is defined as respondents' agreement that their companies are effective or very effective at 70 percent or more of practices in a given lens. For Invest, the survey asked about 7 practices; for Perform, 8 practices; and for Create, 6 practices. At companies that have mastered no lenses, n = 765; at companies that have mastered 1, n = 320; and at companies that have mastered 2 or 3, n = 381.

Corning's two-decade transformation into an innovation powerhouse illustrates the effectiveness of a dual-pronged Invest/Create approach. In 2002, the company was in crisis: the dot-com bubble had burst, sapping demand for the fiber-optic cabling that had been the source of nearly all its profits. In 2001, Corning posted a $5.5 billion net loss, nearly equal to their revenues.

To come back from the brink, the company pulled Invest levers. It squeezed the business to preserve cash, slashing payrolls by half, and pivoted the remainder remaining cash toward the budding LCD market to create near-term profitable growth. Freeing up that capital let the company start investing in R&D (Create)—reaching 11 percent of sales in 2004—to capture new opportunities such as ceramic filters for diesel engines. That Create competency positioned them, in 2007, to answer Steve Jobs' call to develop millions of square feet of 1.3-mm, ultrastrong glass within six months. Revenues from the resulting Gorilla Glass skyrocketed to $700 million by 2012. In 2015, Corning codified this virtuous Invest/Create cycle as the Strategy and Capital Allocation framework, which is still functioning today.

The company has continued to focus on this model. From 2011–16 (the last dates for which we have figures), it slated $10 billion, equivalent to a full year's revenue, for investment in R&D, capital spending, and strategic acquisitions.

Myth 2: What worked before will work going forward

For companies looking for growth, it can be tempting to double down on what worked in the past. The reality is, however, that companies need to build new strengths in order to continue growing.

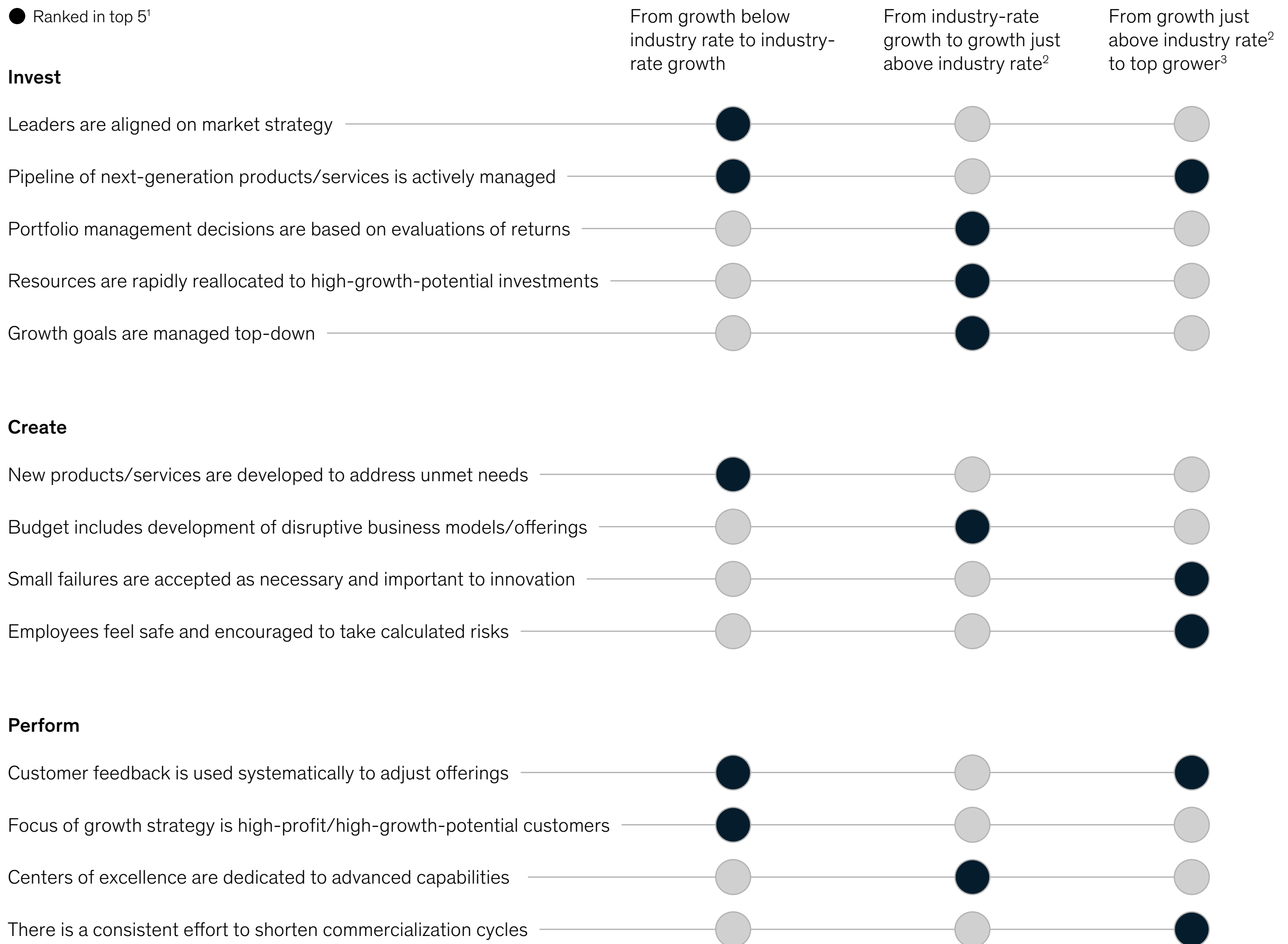
[5] We define "mastery" as respondents' agreement that 70 percent or more of the best practices in a given lens describe their companies.
[6] For more on mastery of the three lenses, see Abhinav Goel, Duncan Miller, and Ryan Paulowsky, "Choosing the right path to growth," *McKinsey Quarterly*, October 2018, McKinsey.com.

The survey's results indicate that, across industries, a few common capabilities support a pathway to organic growth. In other words, companies can focus on developing the capabilities that will address the biggest hurdles impeding their growth performance at a given point in time (Exhibit 3). Companies growing slower than their industries, for instance, should focus on improving the fit between the market and their products, by addressing unmet customer needs and systematically acting on customer feedback, for example, to catch up to the industry growth rate. To grow faster than

Exhibit 3

The results suggest that companies should focus on building different capabilities at different stages of their growth performance.

Capabilities for moving to next level of organic growth, relative to industry's average growth rate



[1] That is, the capabilities with largest percentage-point differences in shares of respondents at each level who agree that the capability is present in their company. The survey asked about 21 capabilities in total.
[2] Respondents who said their company's annual growth rate in the past 3 years has been 1 to 3 percent higher than the overall growth rate of their sector; n = 318.
[3] Respondents who said their company's annual growth rate in the past 3 years has been at least 4 percent higher than the overall growth rate of their sector; n = 426.

the industry average, they should also establish a stronger foundation of resource-allocation capabilities, perhaps by transferring resources from underperforming investments to those with greater growth potential. Once organizations are growing above the industry average, in order to maximize growth, they should focus their efforts in the ways that have proven successful for top-growth companies by:

— pursuing innovation through short commercialization cycles (58 percent of top-growth respondents, compared with 44 percent of those growing only slightly faster than their industry average)

— actively managing their product and service pipeline (67 percent, compared with 55 percent)

— accepting small failures as necessary and important to innovation (67 percent, compared with 41 percent)

Before 2012, Adobe leaned heavily on Perform capabilities,[7] increasing pricing and squeezing as much additional revenue as possible out of its physically boxed products. But Perform capabilities could only bring it so far. After seeing sales drop by 20 percent during the recession, Adobe began exploring other models to strengthen its financial buffer and better serve customers' rapidly changing needs.

Tapping into a combination of Create and Invest capabilities, the organization built pricing and uptake models, analyzed return on investment (ROI), and ultimately landed on the software-as-a-service (SaaS) model. After aligning leadership through several experiments offering both subscription and perpetual-licensing models, Adobe announced the "Creative Cloud" in late 2011 and immediately shifted resources and investments to this online suite of products. By May 2013, leadership pulled resources from building out the perpetual-licensing product and put the entire organization behind the subscription model.

This shift to the cloud proved fruitful for Adobe. By the end of 2017, the company had seen three consecutive years of double-digit revenue growth and recurring revenue was 84 percent of total revenue with an estimated 12 million subscribers.

Myth 3: Innovation capabilities can't be developed

For companies that have built a strong foundation of capabilities, creating innovative products and business models can be a powerful and differentiating source of growth. In fact, among the three lenses, Create is the one in which respondents at top-growth companies report the largest gap between themselves and their nearest peers.

But realizing growth through innovation can feel as elusive as it is important: it requires exceptional creativity and can bring about transformational results. Of the creation-related capabilities we asked about, top-growth respondents most often say their companies accept small failures as a necessary part of innovation, which is also the practice that most differentiates these companies from those growing just above the industry rate (Exhibit 4). They also report a much higher tolerance for employee risk taking than their peers.

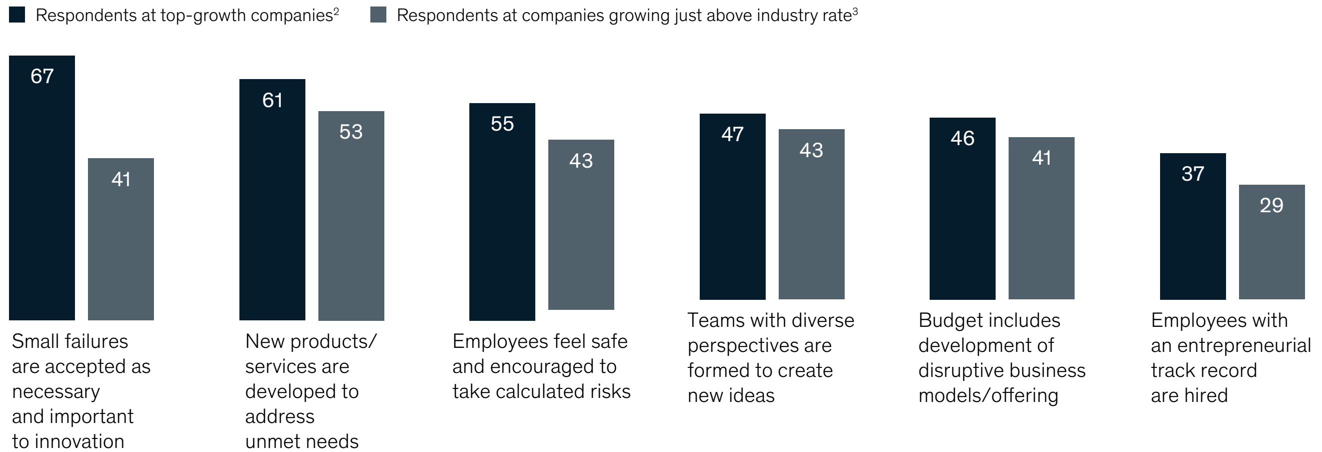
The experience of Tyson Foods' postcrisis turnaround illustrates how a business can develop effective Create capabilities. The CEO made a commitment to product innovation, instituting a "trends council" to systematically connect consumer-research findings to each business function, staffing mixed-background innovator teams to build product pipelines, and doubling R&D spend over four years. Beyond specific tactics, the leadership team worked to create a

[7] Based on "Reborn in the cloud," McKinsey interview, July 2015, McKinsey.com.

Exhibit 4

Among the top growers' strongest capabilities for 'create' is accepting small failures as necessary to innovation.

'Create' capabilities at companies[1]
% of respondents



[1] Respondents who said their company is effective or very effective at each practice.
[2] Respondents who said their company's annual growth rate in the past 3 years has been at least 4 percent higher than the overall growth rate of their sectors; n = 426.
[3] Respondents who said their company's annual growth rate in the past 3 years has been 1 to 3 percent higher than the overall growth rate of their sectors; n = 318.

pervasive culture that encouraged risk taking and new frontiers.

They enabled that Create lens with complementary Perform capabilities: they used pricing to carefully position their innovations in four growth platforms; in distribution, they diversified into e-commerce; in operations, they staffed industry experts on their innovator teams. Through these efforts, the organization was able to build a diverse portfolio of category-leading brands. From 2012–16, Tyson produced 2 percent real, organic, top-line growth annually in a marketplace that grew only 0.3 percent annually, while at the same time expanding its margins by nearly four percentage points.

Myth 4: Superior growth is not possible in my industry

It is well known that a sector's overall growth is correlated with the growth rates of individual companies within it.[8] But that reality can become a crutch for underperforming companies, especially in slow-growth sectors. When the idea that best-practice growth capabilities are hard or even futile to develop is a pervasive mind-set, it becomes an additional barrier to acting on and addressing growth.

The data, however, tell a different story. On average, respondents across industries report very similar

[8] Mehrdad Baghai, Sven Smit, and S. Patrick Viguerie, "The granularity of growth," book excerpt, *McKinsey Quarterly*, March 2008, McKinsey.com.

rates of adopting key growth capabilities—between 40 and 50 percent, whether they are in high tech or in basic materials.[9]

Furthermore, the results indicate that top-growth companies exist in every industry. When comparing the capabilities of top-growth companies with those of companies growing below the industry rate, the results suggest a significant gap—between 20 and 46 percentage points—across sectors in the adoption of best practices (Exhibit 5). In other words, significant jumps in growth rates are possible in any industry when companies have strong organizational capabilities in place.

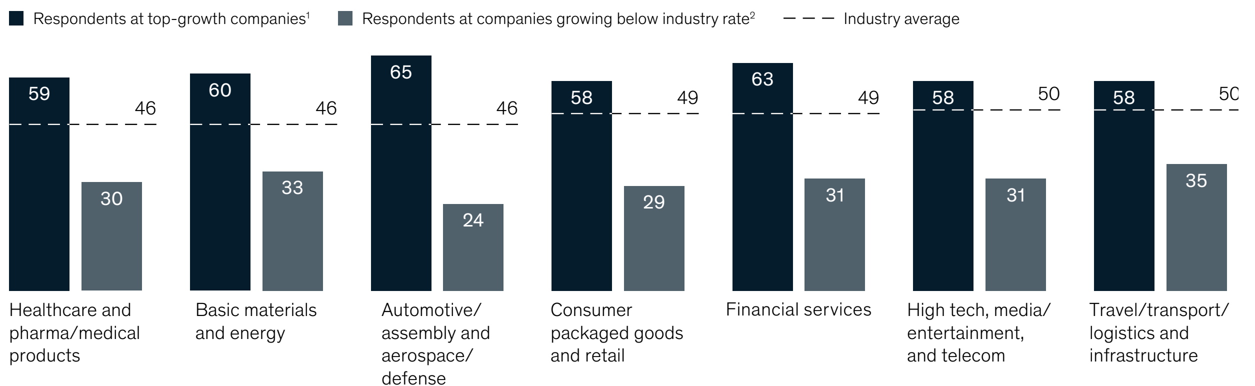
One industry that has seen slow top-line growth is specialty chemicals. Our previous analyses of the sector show that most of the increases in total return to shareholders (TRS) come from valuation increases and margin improvements, driven by functional excellence. One area where the industry has been less successful is in driving top-line growth.

The specialty-chemicals division of a major conglomerate set out to improve EBIT by more than three percentage points through revamping account-management capabilities. It created a program to segment and prioritize customers and to identify opportunities for cost reduction and margin leakage through internal analyses and benchmarks, then rolled out key-account action plans and best-practice commercial policies. The initial success within the pilot business unit led the organization to invest over 2,500 full-time-

[9] Respondents working in below-average sectors report a 43.8 percent adoption rate for the capabilities the survey asked about. Among the above-average sectors, respondents report an average adoption rate of 48.1 percent of capabilities.

Exhibit 5

Across industries, respondents report a similar distribution of organizational capabilities for growth.



[1] Respondents who said their company's annual growth rate in the past 3 years has been at least 4 percent higher than the overall growth rate of their sector; n = 426.
[2] n = 229.

employee hours into capability building across the corporation. After 12 months, the organization was on track to demonstrate top-line growth along with a ten point plus EBIT, three times higher than it had originally sought.

It's important for companies reviewing their growth agenda and strategizing for improvement to take a hard look at their explicit or implicit assumptions on how growth is achieved. Deliberate identification and targeting of capabilities is a tried-and-true method that distinguishes firms with consistent growth records from those without them.

Kabir Ahuja is a partner in McKinsey's Stamford office, **Abhinav Goel** is an associate partner in the Cleveland office; and **Kate Siegel** is an associate partner in the Detroit office.

Designed by Global Editorial Services
Copyright © 2019 McKinsey & Company. All rights reserved.