Growing faster than the market: Three questions the C-suite should ask

Leaders who are most successful at driving growth in their organizations are deliberate, persistent, and disciplined in the way they go about it.

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Growing a business is a matter of do or die. Consider the fate of the 100 largest companies on the New York Stock Exchange of 30 years ago. Among those that enjoyed strong shareholder returns but didn’t post top-line growth, almost 50 percent had been acquired or delisted 20 years later. Companies with high organic growth also return a better stock price.  

But growth is getting tougher in the face of new market dynamics: rising consumer expectations, increasing competition, and digital disruption. That has turned growth into more of a contact sport, rewarding businesses that can spot opportunities at hypergranular levels and then capture them quickly.

Most business leaders understand the need to change, but making it happen is easier said than done. In our experience, those leaders who are most successful at driving growth in their organizations are deliberate and disciplined in the way they do it. To help instill that approach, top growth leaders are methodical in asking and answering three crucial questions:

1. Where is my growth going to come from?  
2. How do I grow now and tomorrow?  
3. How do I set up my growth engine?  

Let’s take a closer look at these questions:

1. Where is my growth going to come from?  
There’s no point optimizing your growth engine until you’re clear about the opportunity you’re going after. That means investing in sound analysis to identify where the growth is today and where it will be tomorrow, whether that’s in your current sector or an adjacent one. Top growth leaders, once armed with a realistic picture of their company’s growth situation, take care to set their priorities in the corporate mission, knowing growth initiatives can easily misfire if they aren’t anchored in strategic business priorities. In some cases, companies will articulate or refine their corporate mission and vision in line with what they learn about growth in their industry.

Leaders map a view of their growth initiatives across two dimensions:

- **Scanning for growth opportunities.** This involves understanding how your industry and category is structured, how customers navigate it, where the profit pools are, and what trends are emerging. Then you figure out how your portfolio stacks up against it all. When one leading global consumer-goods company analyzed a set of critical factors—projected market size, proportion of nonloyal shoppers, and ability to convert consumers—it identified untapped value pools worth almost $100 million. Based on this analysis, it created a pipeline to tackle white spaces and new segments.  

- **Getting granular with customer segmentation.** Our research on revenue growth at large companies suggests that executives should “de-average” their view of markets and develop a granular perspective on trends, future growth rates, and market structures. Insights into subindustries, segments, categories, micromarkets, and even pockets of growth within existing large accounts are the building blocks of portfolio choice and a critical factor in making sound decisions about where to compete. In the past few years, the use of advanced analytics to track behavior and preferences has made it possible to segment markets down to the level of individual customers. By pursuing mass personalization at scale, companies can lift revenues 5 to 15 percent while also improving the efficiency of their marketing spend and reducing acquisition costs.
One car-rental company used advanced data-mining techniques to analyze its database of driver profiles and trips. Having identified ten distinct customer archetypes, it pulled in data from external sources to build a scoring model that it used to identify drivers in a given city or neighborhood who fit one of these archetypes. By tailoring offers and communications to individual archetypes, it managed to grow its customer base by more than 10 percent in a year, increasing revenues by almost 20 percent.

2. How do I grow now and tomorrow?

Every growth journey is different, but there are three broad fronts: Invest, Perform, and Create. Investing in growth is something companies can start doing immediately by diverting funds from activities that are not performing efficiently or effectively into the right opportunities. Performing optimally in commercial functions allows companies to generate new revenues from growth in the medium term. And creating new offerings and business models custom-designed to satisfy unmet needs more completely, quickly, and flexibly than before enables companies to build a pipeline that fuels growth far into the future. The best companies use a combination of these three approaches to drive growth quickly, and reinvest released funds into future opportunities to support longer-term growth.

Invest: Put your money where the growth is

Large companies can capture significant incremental revenue through a relentless search for efficiencies and then reallocating those resources to promising new initiatives or proven winners. McKinsey research shows that “dynamic reallocators”—companies that reallocate at least 49 percent of the previous year’s budget—achieve a compound annual growth rate of 10 percent in total return to shareholders (TRS). By contrast, “static allocators” that simply adjust last year’s spending achieve TRS growth of just 6.1 percent. Within 20 years, the dynamic reallocator will be worth twice as much as its less agile counterpart—a lead that is likely only to increase as digital disruption and geopolitical uncertainty make nimble reallocation even more important.

Central to this Invest approach is a thorough and rigorous approach to rooting out savings and a disciplined method of funneling funds to short- and long-term growth opportunities. Successful growth leaders have robust metrics and processes for identifying areas where they can squeeze out cost and a clear idea of where to invest every incremental dollar they find to drive growth.

Companies with the right mind-set can release tens or even hundreds of millions of dollars for

CEO takeaways

- Start with a realistic picture of your company’s growth situation, and make sure you have a clear vision and mission to guide your decision making.

- Work out where to play by understanding customer trends and value pools in your current and adjacent categories, segments, and markets.
Customer experience (CX) is one potent driver of growth. Successful CX enhancements can increase sales, facilitate cross-selling, and boost revenues by as much as 15 to 20 percent. One large European bank digitized its credit processes to slash its approval times for small and medium-sized enterprises (SMEs) lending from 20 days to less than ten minutes, far outpacing competitors. It increased win rates by a third and improved average margins by more than 50 percent. Similarly, reducing the complexity of CX—for instance, by optimizing online self-help features such as FAQ pages so that customers don’t have to make unnecessary calls to call centers—can free up savings in cost to serve on the order of 15 to 50 percent.

Introducing automated algorithm-driven dynamic pricing is another important source of growth. Companies can achieve sustainable price increases without damaging customer satisfaction by focusing resources on specific groups, such as more-profitable customers. Some global retail and consumer companies have achieved sales growth of 2 to 5 percent by this route, while also adding 5 to 10 percent to margins. B2B businesses are adopting dynamic pricing too. After introducing a mix of new pricing approaches, redesigning its supporting organization and incentives, and training more than 300 frontline-sales staff, one global chemicals company achieved $150 million per year in incremental revenue over three years.

Similar growth opportunities exist in sales. Adopting omnichannel sales and analytics can be a crucial enabler of growth for B2B companies that understand when and when not to use digital. These companies achieve five times more revenue than their peers, eight times more operating profit, and twice the return to shareholders. Adopting new digital channels can reduce the cost to acquire a new customer and the cost to serve an existing one, changing the commercial efficiency of the future channels that can be reinvested into current or new
opportunities. From our research and experience, three traits have emerged that should be core ingredients of every company’s optimal human-digital blend: speed, transparency, and expertise.

Create: Innovate by design with the customer at the center
To build things that customers want, a business needs to out-innovate its competitors—not just uncovering unmet customer needs to find profitable white spaces but also using technology to enter new markets or go to market in new ways. Yet a recent McKinsey survey found that just 27 percent of companies systematically scan for opportunities to expand beyond their core business.13

New sources of growth come from redesigning business models, creating something new, and exploring disruptive services. New business models don’t have to be complex; they could involve tapping into new sales channels to reach different customers, for instance, or introducing new services to support an existing product.

When exploring new opportunities, winners go beyond standard focus groups and surveys and pull in data on macro trends, marketplace analyses, ground-level performance metrics, and a host of other sources. Thanks to digitally enabled techniques such as social listening, sentiment analysis, digital ethnography, and online-consumer cocreation, research into unmet needs is more effective, more flexible, and faster than ever before. Companies can assemble an online focus group of B2B buyers in as little as ten minutes. Mobile ethnographies can be completed in a weekend; quantitative surveys can be fielded and analyzed in days.

Having equipped themselves with a deep understanding of customer purchase journeys, leading companies employ design thinking to create new products and services that will address unmet needs, reach unserved segments, or support entry into adjacent markets. At a time when consumers can choose from the best products that global marketplaces have to offer, design has become a key source of differentiation and a C-suite topic. Companies with scores in the top quartile of the McKinsey Design Index outperformed industry-benchmarked growth by as much as two to one.14

To help get ideas to market quickly, winning innovators increasingly rely on “speedboats”: small launches where a product is tested and refined in a real market setting. One global consumer-goods company has been testing products in nontraditional locations such as office buildings, juice shops, and yoga studios to gain insight into why consumers buy or don’t buy them. Through multiple iterations, it uses the feedback to refine products until it sees indicators of success and then rapidly scales them.

Today’s companies can capitalize on this kind of approach because they have multiple distribution channels, digital channels, and social-media outlets at their disposal to reach consumers at low cost. They can also take advantage of external networks that support efficient and productive discovery and development.

The ability to scale up rapidly is critical to getting new products to market before competitors can. Leading consumer-goods innovators have reaped substantial rewards by scanning the market for promising ideas, watching for emerging consumer acceptance and new behaviors, and then jumping in before the market landscape has fully evolved. When we evaluated 25 high-growth categories in four countries in North and South America, Asia, and Europe, we found that companies that took this approach were growing faster than the market 60 to 80 percent of the time; in the US, they won the highest market share 80 percent of the time.15
Merger & acquisition (M&A) functions can play an important role as well, though they need to become much more dynamic on reading the evolution of market trends, competitor moves, and the entry of new attackers. This requires greater focus on the return on capital in the current business areas and on future growth opportunities, and oftentimes an ecosystem of partners to deliver.

3. How do I set up my growth engine?
Markets shift, so businesses must keep finding and pursuing new sources of growth. To do that, they need a growth engine: an operating model underpinned by analytics and top talent, and built around the core blocks of organization-wide alignment, focused capability building, an agile culture, and a leadership mind-set.

To launch a growth transformation, the most important element will be dedicating sufficient resources and being rigorous in driving the process. That means putting in place a well-supported growth-transformation office that has the authority and resources to rigorously track and manage the transformation. It establishes a baseline and manages output to that baseline. This kind of central resource is crucial because it can drive and coordinate change across the entire business. It also provides a stable backbone with well-oiled processes for tracking implementation, driving initiatives, removing barriers, and managing trade-offs for short-term earnings targets. Without a dedicated team in place, change tends to be piecemeal or incremental, which inevitably leads to impact far below expectations.

The transformation office has an important role in focusing on developing the right capabilities. McKinsey research has found that top growers beat their peers by differentiating themselves in key capabilities such as data and analytics, and by developing products, services, and processes such as agile working and cross-functional collaboration. In developing those growth capabilities, our research has shown that it’s crucial to sequence their development thoughtfully. If you are moving from the bottom to the third quartile, for example, you might focus on aligning priority markets, building a product strategy and portfolio, and systematically measuring the voice of your consumer. If you move from the second to the top quartile, some examples of capabilities to develop include improving core offerings, introducing innovation awards, or

CEO takeaways

- Develop a clear view of exactly where you can squeeze out cost and where to invest each dollar you save for the greatest impact.
- Set aggressive targets for productivity and growth, and use analytics and capability building to optimize commercial levers.
- Adopt novel methods to probe unmet customer needs, employ design thinking to create innovative offerings, and scale up fast.
improving processes to shorten commercialization cycles.

Developing these capabilities clearly has implications for talent and skills. Recent research by the McKinsey Global Institute found that digitization and automation are beginning to make new demands on workforce skills, with marketing and sales likely to be among the functions most affected. Up to 40 percent of sales activities can be automated with today’s technology, and that number can go up to 50 percent as technology advances. Overall, the greatest need will be for advanced technological capabilities and basic digital skills, followed by social and emotional skills.17

For new capabilities to take full effect, businesses need to reinvent how work gets done. That means making offices more like workshops, with employees working together to build something great. A McKinsey survey reported that 71 percent of high-growth companies have adopted agile processes such as scrum, sprints, cross-functional collaboration, and colocated teams.18

Agile ways of working need to become a fact of life, embedded in every aspect of a company’s operating model from innovation and product development through to marketing. Indeed, agile approaches are critical in enabling companies to target micro-markets, test ideas at speed, run hundreds of campaigns simultaneously, personalize offers on a truly granular scale, use data to drive decisions, and maximize MROI. This applies to embedding design thinking into how companies work. One major European furniture manufacturer employed both a central design department and small independent design teams working within product groups. It found the distributed teams had a clearer focus on customers and better cross-functional partnerships. They were 30 percent more successful in getting concepts to market and 10 percent faster in time to launch.19

The final piece of the growth puzzle is a leadership mind-set. Top growth leaders are obsessed with growth and committed to keeping their business on a growth trajectory. They have a key role in developing a well-crafted story to help people at all levels understand what changes are in store, what the company is striving to create, and how new ways of working will affect what they do every day. Then they must communicate that clearly and continuously to the organization. They are also disciplined in the

CEO takeaways

- Build alignment on your growth effort across the organization by telling a compelling growth story and role modeling the change you want to see.
- Pay close attention to evolving capability needs, sequence them based on where your company is on the growth curve, and be ready to reinvent the way your organization works.
- Constantly ask yourself and your people: How will this conversation/decision/action help us grow?
way they go about orienting the business to growth, constantly asking themselves and their peers questions such as:

- Do I use language that emphasizes growth rather than productivity?
- Do I and my top team role model the behavior we want to see from our employees?
- Should I carve out a lighthouse organization that focuses purely on growth?

Growth today drives not just performance, but survival itself. The companies with the brightest prospects are those that know where to find pockets of growth, how to capture that growth now and in the future, and how to build a growth engine for sustainable success.

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3. The Growth Opportunity Scanner is a proprietary McKinsey solution that maps market, category, and competitors and identifies opportunities for growth.

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