

Transformation Practice

# The role of strategy in a transformation: A conversation with Kevin Laczkowski

A holistic approach to transformation ensures that a company is positioning itself for long-term success.



### **The odds are stacked against companies**

trying to make a big leap in profitability. In this video, McKinsey senior partner Kevin Laczkowski discusses how the right strategy primes a company to make that move. An edited version of his remarks follows.

Strategy plays a crucial role in transformation. You can't just focus on performance improvements, because trends in the marketplace could wipe out a company's performance gains over a few years.

We think about transformation holistically to ensure a company is positioning itself for long-term success. The right strategy allows companies to get ahead of industry and geographic trends, adapt to new business models, exit businesses that no longer make sense, and enter new markets that they have the right to win.

If you look at all the public companies in the world, and you order them from lowest economic profit to highest economic profit over a ten-year period, you find that only 20 percent of companies command 90 percent of the economic profit generated.

That means 60 percent of companies are just treading water and 20 percent are destroying value. Even more interesting, when you look at how many companies have moved from that

middle 60 percent to the top quintile, you see that only 8 percent accomplished this over a ten-year period. So, the odds are low of significantly improving performance.

But it is possible to drive that kind of step-change improvement through a strategy that revolves around a handful of big moves. These moves increase productivity, improve differentiation, reallocate resources, and take a programmatic approach to M&A and capital productivity.

We've done extensive research looking at companies that have transformed and emerged at the front of the pack. Making a big performance-improvement move essentially doubles your odds of moving from the middle of the pack to the top, which is pretty good. And companies that have coupled a performance move with a portfolio move increase their odds by a factor of three.

That's why it's so important for companies going into a transformation to be thinking holistically around all the levers that they're going to pull and all the big moves they're going to make. Because the odds change dramatically based on whether the strategy behind your transformation road map includes both performance improvement and portfolio moves.

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