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Invest, Create, Perform: Mastering the three dimensions of growth in the digital age

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Growth winners think about growth in new ways and pursue it across multiple dimensions.

Growth isn't just about building value; it's fundamental to long-term business survival. Consider this: almost half of the 100 largest companies on the New York Stock Exchange 30 years ago that enjoyed strong shareholder returns but did not post top-line growth had been acquired or delisted 20 years later.

Despite such compelling statistics, we find that many companies continue to focus on controlling costs as a way to drive earnings. When controlling costs dominates the corporate agenda, it sucks the oxygen out of any growth plan. Conversely, we've found that companies that have a clear agenda for organic growth and pursue it systematically outperform the competition.

How companies actually capture that growth, however, has changed drastically with the rise of technology and advanced analytics. Digital has changed the nature of growth by rapidly accelerating the pace of business, expanding the scope of competition, and often introducing new business models seemingly overnight. Companies that are most successful at driving growth are those that can execute across multiple dimensions and inject speed, agility, and analytics into their corporate DNA.

The new world of multidimensional growth

Achieving above-market growth relies on taking advantage of tailwinds and reducing exposure to headwinds. Better allocation of resources or driving acquisitions and divestitures to be in the right place explains more than 75 percent of the variance between high and low performers. But that's just part of the story. A look at the share-price performance of 550 US and European companies over 15 years reveals that for all levels of revenue growth, those with more organic growth generated higher shareholder returns than those whose growth relied more heavily on acquisitions.[1]

[1] "The value premium of organic growth," January 2017, McKinsey.com.

Given this new dynamic, we wanted to understand better how businesses think about driving organic growth and what the top growers actually do to achieve it. To that end, we surveyed almost 600 executives at leading companies around the world. We found that companies are active across three broad growth dimensions:

- Investing. These companies squeeze funds out of various sources (e.g., admin) to double down on existing high-growth activities. An example of this approach is Zara, which found a winning model in its rapid-fashion program and grew by relentlessly investing in it.
- Creating. Winning companies build value by designing and deploying new products, services, or business models. Adobe, for example, has grown rapidly by developing its Creative Cloud services and establishing an innovative new model in which customers get access to all Adobe products for an ongoing fee.
- Performing. These businesses continuously optimize core commercial capabilities in sales, marketing, pricing, and customer experience. Capital One epitomizes this approach by using advanced customer data to identify microsegments of customers, tailor products to them, track trends, and test products.

For executives managing a complex landscape of competing priorities and pressures, this three-dimensional framework provides a simple way to assess approaches to growth and identify the capabilities needed to follow through on them. While 60 percent of respondents singled out one primary dimension for growth, all of them had a baseline of activity across each dimension. But overindexing on a single dimension means that companies could be leaving growth opportunities on the table by not paying enough attention to the other options.

This point is suggested in the survey. Each dimension can enable above-market growth,[2] though with varying effectiveness. Thirty-five percent of Performers grew faster than the market average, compared with 31 percent for Creators and only 19 percent for Investors. Among the companies with the most significant growth, however, 44 percent execute across multiple dimensions, though not necessarily simultaneously. They dial up or down on each dimension based on their goals. “You’ve got to be working the core while you build the new growth opportunities,” says Neil Smit, CEO of Comcast. “I think a lot of times my job is knowing when to pull the right levers at the right time.”

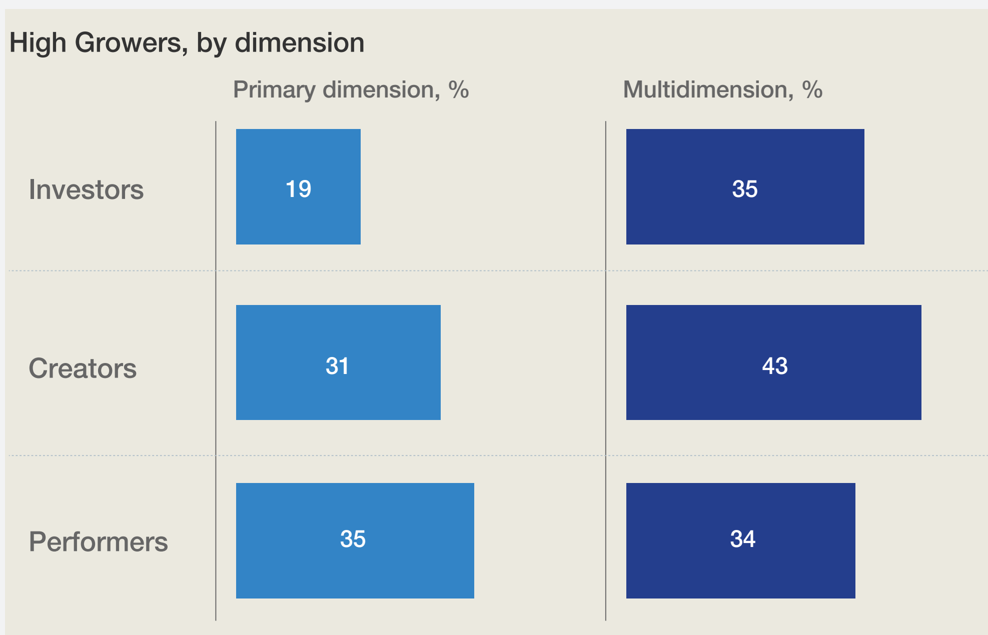
Amazon is a helpful illustration of this effect in action. The global e-commerce company succeeded originally as a technology-driven company that optimized processes and out-executed its competitors. But its continuous growth has been supported by driving investment into new categories from fashion to electronics using the same business engine, while also creating new revenue streams through products like Echo and Fire, new services like Prime that is now core to their retail business, and new businesses like Amazon Web Services.

[2] Defined as >4 percent growth above the sector rate driven by significant commercial activities with increased growth rates in the last three years.

This isn't to suggest that multidimensional companies drive growth equally through each dimension. In fact, the data suggests that growth leaders rely on a single core dimension but actively engage another one or both, with results varying based on how much weight a business gives to each. Some 35 percent of companies that are dominant in the Investor profile but also proficient in other profiles are high growers. For multidimensional Performers, it's 34. The strongest growers were multidimensional Creators, 43 percent of whom grew faster than the market (see exhibit).

Exhibit

Multidimensional companies are the top growers, with companies focused on Creation doing the best.



Source: Organic Growth survey – EU and North America (N=573)

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"While best-in-class performance is our foundation for success, we are diligently investing in other relevant growth opportunities, such as in e-commerce markets," affirms Jürgen Gerdes, member of the Board of Management of the Deutsche Post DHL group (responsible for Post, eCommerce, Parcel). “Most recently we have tapped into the creator profile with very successful digital innovations, such as our messaging service SIMSme and our innovative electric vehicles, called the StreetScooter.”

Building the capabilities that drive growth

Capturing those growth opportunities, of course, requires specific capabilities, and the best growers are clear and purposeful in developing them. Results of the survey revealed some common themes:

- All growers need a set of “table stakes” capabilities. Our survey showed that top growers, regardless of their profile, had to hone a handful of capabilities just to be in the game. These table-stakes capabilities include resource allocation, branding, and mind-set.
- There are also differentiators needed to excel, which vary by growth dimension. The best growers beat their peers by differentiating themselves through their capabilities. Distinctive Performer capabilities include sales and pricing as well as customer experience; for the Creator, it’s data, analytics, product/service design, and customer insights; the Investor outperforms on data and analytics as well as customer experience. Across all dimensions, the most significant gaps between top growers and their peers were in data and analytics (81 percent of growers have them), developing products and services (75 percent), and company processes, such as agile work environments, cross-functional collaboration, and colocated teams (71 percent). While adoption of advanced analytics is limited, those companies that use it outgrow their peers.
- Companies are looking to creation of new products or services to drive future growth. Regardless of where their growth came from in the previous three years, companies expect creation strategies to be a major contributor to growth over the next three years.

As companies consider driving growth across each dimension, they need to be clear and purposeful about building the capabilities and practices that will help them move with greater speed and precision.

1. Invest

The simplest way to grow is to put money where growth is already happening in existing products, services, or business models. In retail, that might mean investing in offers that increase profitable foot traffic; in direct-to-consumer businesses, it could mean increasing advertising through an already successful channel; in B2B, it could mean allocating sales force to a fast-growing region.

Investing more in existing growth plays requires money, of course. Activating the Investor dimension is based first on a relentless search for efficiencies to unlock funds for growth priorities. Those efficiencies can come from paring down administrative costs, renegotiating agency contracts, or moving funds from poor-performing areas of the business.

As Comcast expanded into business services, for example, CEO Smit realized that its network buildouts were highly profitable. But teams had trouble getting capital unless they could secure three new customers ahead of time to justify the investment. The data showed, however, that once a "hyperbuild" was completed, many more customers followed. With this insight, Smit made it a priority to secure capital from other sources in the business and pour it into network buildouts. Business flourished, growing at an estimated 15 percent year over year, allowing Comcast to move from serving small and medium-size businesses to enterprise customers.

For this approach to be effective, companies need to accurately identify where the growth is occurring within their existing portfolio and aggressively reallocate. The usual practice, however, is to make allocation decisions based on spending levels from the previous year. In a study of more than 1,600 companies in the US, we found a high correlation (0.92) between the budget a given business unit received in one year and how much it received in the next.[3]

High growers, in contrast, actively reallocate to invest in current growth based on clear data. One B2B telecom company, for example, used analytics to pinpoint attractive growth markets by dividing a town into grids and analyzing SMB performance by market, segment, and customer. It then focused its commercial efforts on untapped areas, increasing subscribers by 10 percent and EBITDA by 7 percent. Some 75 percent more high-growth companies, in fact, have analytics and data capabilities,[4] and 73 percent have analytics embedded in their processes.

Improving the allocation process is about speed as well. Annual budget cycles aren't good enough anymore. Fast growers actively track the performance of their spend and rebalance allocations monthly or even weekly.

2. Create

Companies that are strong on the Creator dimension work at the frontiers of change to develop new business models or identify white spaces, whether they're in emerging customer needs, unserved segments, or adjacent markets. They analyze data and extract customer insights that will help them to identify new opportunities. In fact, 55 percent more Creator growers than nongrowers rely on customer insights, and 79 percent say that business decisions are based on customer insights. In addition, top growers excel at product and service development, aligning innovation with strategy, and applying design principles.

[3] *Marketing Performance*, Wiley & Sons, 2016.

[4] *Sales Growth*, Wiley & Sons, 2016.

In practice, strong Creator companies are adept at pulling in multiple sources of data on customer demand, from macrotrends to marketplace analyses to ground-level performance metrics. They don't rely simply on focus groups or surveys, but use both advanced analytics tools and agile approaches to get a more accurate picture of their customers.

One car-rental company, for example, used advanced data-mining techniques to analyze its database of driver profiles and trips to identify distinct groups of customer archetypes. The team then pulled in external data from a variety of sources to build a scoring model to identify drivers in a given city or neighborhood who fit one of the ten archetypes the business had developed. They then tailored offers and communications to each of those segments. Within one year, the company grew its customer base by more than 10 percent and increased its revenues by almost 20 percent. That focus on customers along the Creator dimension plays out in strong capabilities for delivering personalized offers and communications. The best companies, in fact, are able to drive a 10 to 30 percent uplift in revenue and retention through personalization.

Creators don't just rely on data, of course. To really understand their customers, they use design thinking—customer empathy, ethnography, in-person observation—to identify and act on unmet needs. Alberto-Culver, a beauty-care business focused on hair (acquired by Unilever in 2011), followed this approach when it turned to its customers to find new growth. It established My Beauty Café, an online community dedicated to hair care and beauty regimens. It learned that women struggled to feel "fresh and rejuvenated" on the days when they didn't shampoo—a significant group of people, since half of US women don't wash their hair every day. Community members contributed to every step of developing a product to address this issue, from initial ideation and concept refinement to sample testing, packaging, and advertising.

Alberto-Culver made headlines when it launched a new hair-care range, TRESemmé Fresh Start Dry Shampoo. The new range quickly became one of the ten best-selling products in the overall styling category in the US mass market.[5]

Notably, companies that are strong Creators are more agile than their peers, with 58 percent of the best growers adept at collaborating across functions and 54 percent continuously innovating to cut down time to market. They embrace digital, which has made testing and learning quick, inexpensive, and much less risky. Rapid prototyping targeted to a specific audience can test the viability of a product or service before significant resources are committed. This capability allows companies to "pull forward" their portfolio of initiatives and make better-informed bets.

Agile practices are enabled by "war rooms," small teams of people across the business (including a campaign manager and people from creative, digital media, analytics, operations, and IT) who collaborate to address specific customer segments or opportunities.

[5] Peter Evans, "Procter & Gamble and Unilever escalate big hair war," *The Wall Street Journal*, February 2014, wsj.com.

3. Perform

In our experience, as much as two to five basis points of incremental revenue growth is hidden in existing commercial processes at large companies. Those businesses that best activate the Performer dimension build competitive advantage by continuously optimizing their commercial operating model.

Advanced analytics has opened up new opportunities for improving commercial performance in almost every area, simply by providing ways to analyze more data faster and speeding up decision making. Standard market-research processes that often take weeks or months are giving way to near-real-time dashboards that allow leaders to understand if an investment is working as opposed to whether it has worked. Some 73 percent of high-growth companies focusing on the Performer dimension, in fact, distinguish themselves by making it easy to act on insights generated from analytics. They also outpace their peers in sales and pricing capabilities, particularly when it comes to acting quickly and at a granular level. We found that 75 percent of them can make granular changes to pricing and 68 percent can do so quickly. Pricing simulators allow businesses to merge data on price sensitivity with analyses of switching behavior to predict how a product might lose or gain market share as prices rise or fall.[6]

The scale of data and the analytics tools to process it have opened the door to advanced automation. When it comes to sales, for example, 40 percent of sales activities could be automated using technology that already exists, and that could rise to almost half once machines improve their ability to understand and process language. One large telecom business has built out a sales automation program that now accounts for more than 20 percent of the company's annual profitability.[7]

Effective automation isn't just about processing things better or more quickly, of course. When done well, it can greatly improve customer experience, a core capability along the Performer dimension. In fact, those companies with customer-experience capabilities are twice as likely to be top growers. Some 77 percent of these companies have teams dedicated to interacting with customers to complete a discrete task (such as opening a bank account), and 78 percent say they always prioritize customers over short-term costs.

One large retailer harnessed these Performer capabilities to capture almost $300 million in incremental sales in just five months (and a total of $870 million in 18 months). It analyzed and assessed organic growth opportunities across its full set of digital assets (e.g., site, e-mail, display, search, mobile, social), then launched 100+ campaigns in six months targeting specific customer behavior, such as customers who browsed but didn't buy. Using test-and-learn approaches to relentlessly optimize their communications, they scaled the successes to capture full value. In this way, they were also able to reduce new campaigns in six months while reducing campaign cycle times by 75 percent.

[6] "The pricing renaissance: New ways to reduce risk and unlock value," April 2015, McKinsey.com.

[7] *Sales Growth*, Wiley & Sons, 2016.

While there is no single formula for delivering growth, there is a single overarching trait: having a growth mind-set and pursuing it with vigor. In conversations with executives who have a track record of growth, we have been struck by how often and consistently words like “obsession” and “focus” emerge as the hallmarks of what it takes to change the growth trajectory. As Smit told us, “You have to align the whole organization on growth. They have to live and breathe it.”

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