

Mastering three strategies of organic growth

Organic growth is key to companies' futures. According to survey results, the best firms follow more than one path to achieve it and also are better at developing the right capabilities to support it.

There's no single formula for delivering organic growth. In fact, the results from a new McKinsey Global Survey on the topic suggest that the companies that see the most growth follow diverse paths.¹

That insight has significant implications for a company's health and performance. Organic growth could not be more important to companies' survival. A look at the share-price performance of 550 US and European companies over 15 years revealed that, for all levels of revenue growth, companies with more organic growth generated higher shareholder returns than those whose growth relied more heavily on acquisitions.²

We wanted to understand better how businesses consider and pursue growth along three strategies: **investing** in existing high-growth activities by reallocating funds from a variety of sources; **creating** new products, services, or business models; and **performing** better by constantly optimizing their core commercial capabilities, such as sales, pricing, and marketing.



According to respondents, most companies pursue just one of these strategies as their primary source of organic growth. But the executives reporting above-market growth at their companies—our “top-growth” firms—are more likely than others to say they are pursuing a diversified approach to growth. Compared with the others, respondents at the top-growth companies also report much stronger capabilities in several areas, such as analytics and product development.

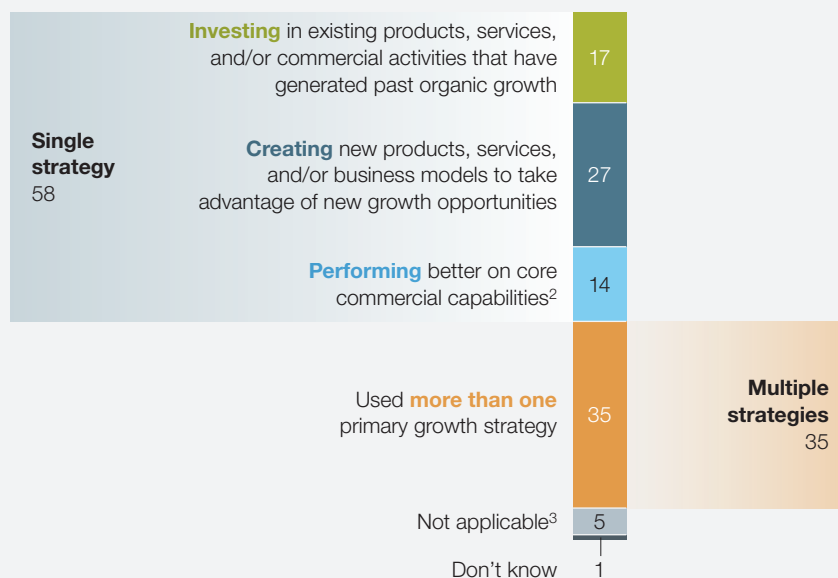
A diversified approach to organic growth

Growth is top of mind at many companies, according to respondents: 93 percent say theirs have pursued at least one strategy to generate organic growth in the past three years, and nearly two-thirds agree or strongly agree that organic growth is at the top of their executive teams’ agendas. But regarding the three strategies of growth we explored (investing, creating, and performing), the responses suggest that there is no one-size-fits-all approach.

Nearly 60 percent of executives identify one primary strategy for generating organic growth, while the rest of those pursuing organic growth say their companies follow more than one (Exhibit 1). According to

Exhibit 1 According to respondents, most companies tend to pursue a single strategy for generating organic growth.

Strategies used to generate organic growth, past 3 years,
% of respondents,¹ n = 1,175



¹ Figures do not sum to 100%, because of rounding.

² Such as marketing, pricing, and customer experience.

³ That is, business was primarily focused on M&A or on cutting costs.

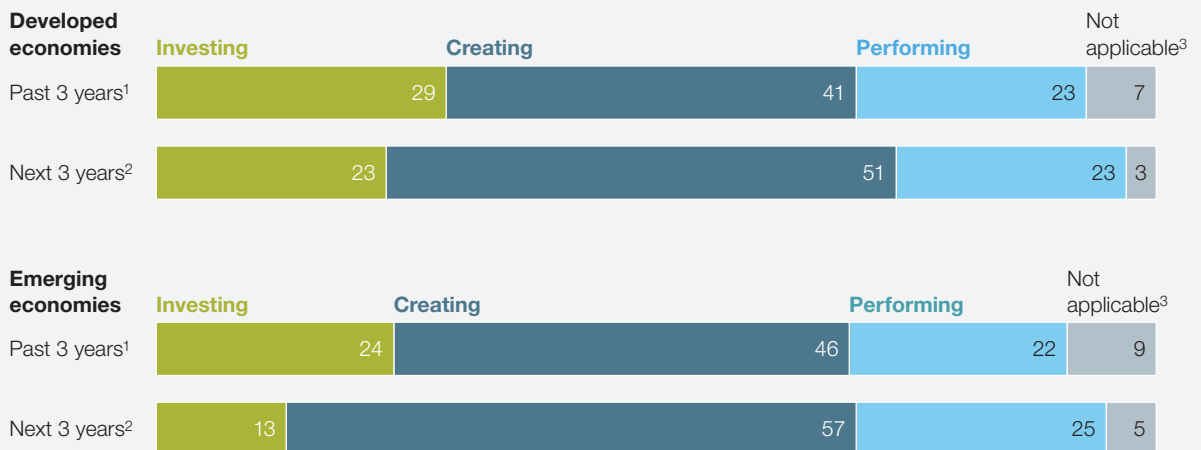
respondents, a diversified approach is more common at larger companies than at smaller ones. It is also reported more often in developed markets than in emerging markets, where reliance on the creating strategy is most common.

Looking ahead, though, the results suggest that companies must evolve how they grow. Of the three strategies, respondents say the largest share of their past growth came from investing in existing activities that are proven winners. Even at companies using multiple strategies, respondents say they have relied most on investing in recent years. But when asked which primary strategy their companies will pursue in the next three years to generate organic growth, just over half of respondents cite the creation of new products, services, or business models, while only 19 percent choose investing. In both developed and emerging markets, respondents are most likely to say that creating new products, services, or business models is where their companies will focus (Exhibit 2).

Exhibit 2

In both developed and emerging economies, executives expect their companies will seek future organic growth by creating new products, services, or business models.

Primary strategies used at companies to generate organic growth,
% of respondents, by office location



¹ Respondents who answered “used more than 1 primary growth strategy” or “don’t know” are not included in analysis; figures may not sum to 100%, because of rounding. In developed economies, n = 541; in emerging economies, n = 218.

² Expected strategy. Respondents who answered “don’t know” are not included in analysis. In developed economies, n = 847; in emerging economies, n = 311.

³ That is, business was primarily focused on M&A or on cutting costs.

The impulse to create makes good sense, given the current challenges to faster growth that executives identify. The most commonly cited obstacle is a lack of growth in their primary markets (thus the need to seek new markets or customer segments), followed by growing competition from new businesses and business models, product or service offerings that aren't sufficiently different from those of competitors, and lower prices and better promotions offered by competitors.

Identifying top-growth companies

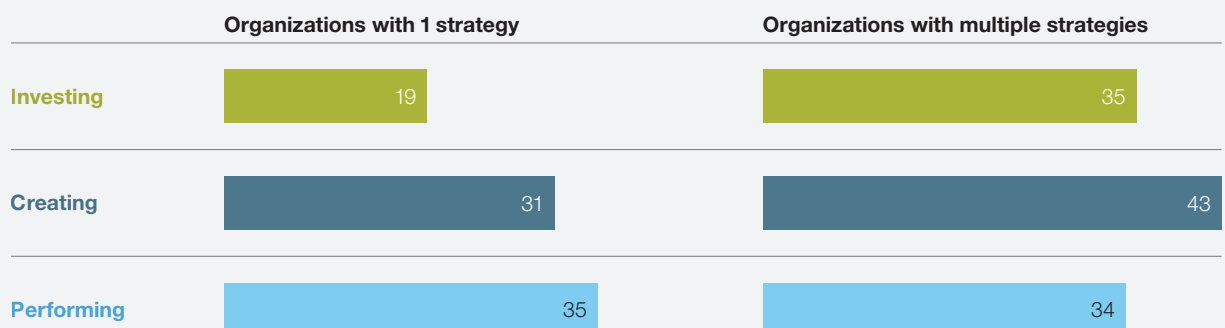
Just as there are multiple strategies for growth, there are multiple ways that companies can outperform others. We identified a group of top-growth companies, and respondents at the top report different strategies for how they got there.³

On the whole, the results suggest that high growth is most often associated with strategies based on the creating and performing dimensions. But the companies pursuing multiple approaches are the most likely to succeed at driving organic growth: 44 percent of top-growth respondents report the use of more than one growth strategy. Not all multidimensional companies, though, drive growth equally through each strategy. At companies that are dominant in investing but follow at least one other strategy, 35 percent are top-growth firms (Exhibit 3). The respondents whose companies pursue multiple strategies but focus on creating new products, services, or business models are the most likely to report success at driving growth, with 43 percent of them saying they work at top-growth firms. But when companies follow a creator strategy alone, only 31 percent of respondents report high growth.

Exhibit 3 Companies pursuing multiple strategies are more likely than others to be top-growth firms, and those focused on creating see the best results.

Primary strategy for growth,

% of respondents who say their organizations are top-growth companies¹



¹Top-growth companies are those that over the past 3 years, according to respondents, have increased their rates of organic growth, have grown by at least 4 percent above market rate, and whose growth is more attributable to the companies' commercial performance than to market forces. "Top-growth" analysis includes only respondents in Europe and North America, which represent the majority of respondents (65.4 percent) who meet the top-growth criteria.

Exhibit 4 Regardless of the growth path, culture and branding are common strengths among top-growth companies.

Capabilities in place at respondents' organizations,¹
 % of top-growth respondents,² by primary growth strategy

	Investing	Creating	Performing
Mind-sets, organizational culture	68	75	68
Branding	65	72	73
Resource allocation	64	61	67
Customer experience	55	54	62
Developing products, services	52	62	48
Sales, pricing	49	57	62
Organizational processes	45	49	45
Customer insights	44	53	51
Data, analytics	33	43	35

¹ Respondents were asked about 44 different skills, across the 9 categories listed here, and whether they agreed or disagreed that each one described their organizations. This analysis includes only respondents who agree or strongly agree with every skill in each category.

² Top-growth companies are those that over the past 3 years, according to respondents, have increased their rates of organic growth, have grown by at least 4 percent above market rate, and whose growth is more attributable to the companies' commercial performance than to market forces.

The capabilities that drive growth in the digital age

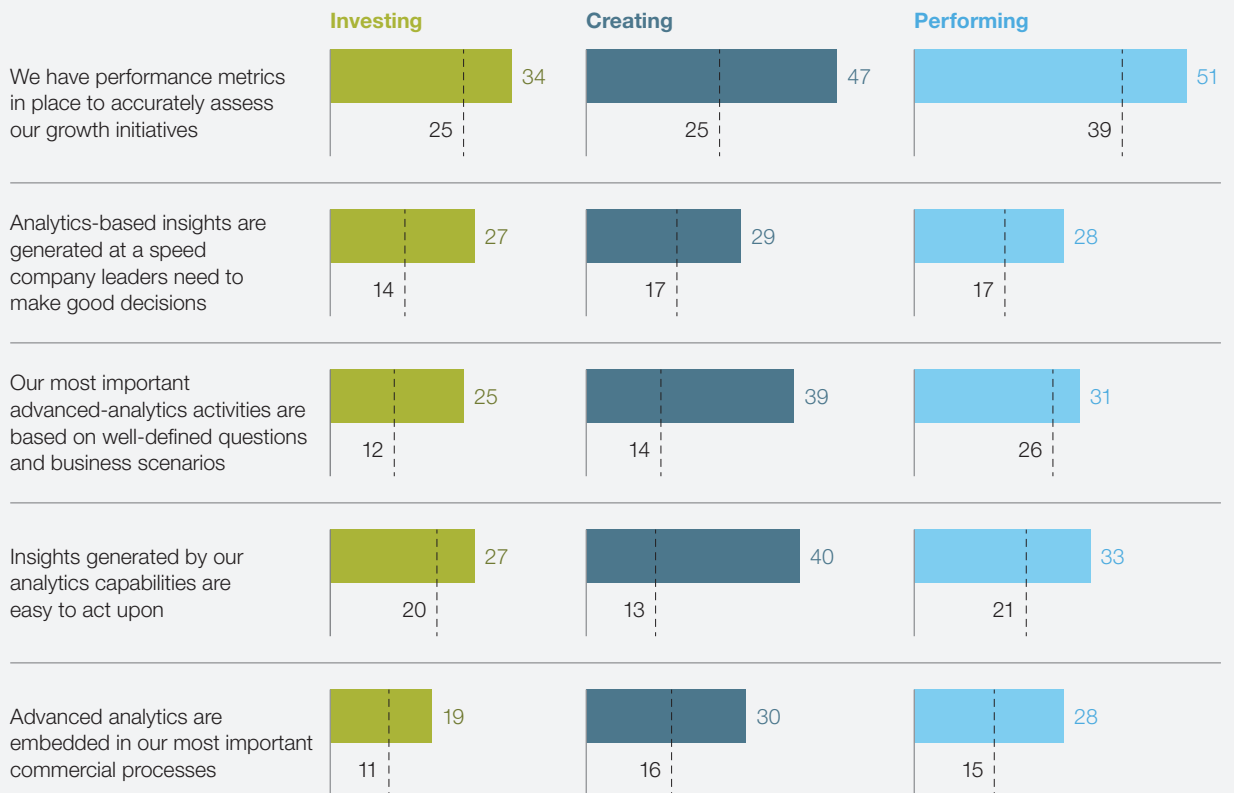
According to the survey results, there are some core skills that the most successful companies seem to have mastered, regardless of the growth strategy they are pursuing. We asked about nine types of business capabilities and companies' respective skills in each one. The two capabilities that top-growth respondents cite most often, in all three paths to growth, are branding and developing the right mind-sets and organizational culture (Exhibit 4). For companies following the investing and performing strategies as their primary paths to organic growth, resource allocation also is a table-stakes capability that they need just to be in the game. For "creators," perhaps unsurprisingly, respondents say that developing products and services is one of their companies' strongest capabilities. And among "performers," the top-growth companies are much better than their peers at sales and pricing.

Exhibit 5

For data and analytics, the top-growth respondents report much stronger capabilities than their peers at other companies.

Data-and-analytics capabilities at respondents' organizations,
% of top-growth respondents who agree or strongly agree with each statement,¹ by primary growth strategy

All others



¹Top-growth companies are those that over the past 3 years, according to respondents, have increased their rates of organic growth, have grown by at least 4 percent above market rate, and whose growth is more attributable to the companies' commercial performance than to market forces. Respondents who answered "somewhat agree," "neutral," "somewhat disagree," "disagree," "strongly disagree," or "don't know" are not included in analysis.

Beyond these core capabilities, other responses highlight which skills set apart the top-growth companies. Among companies focused on investing and creating, top-growth respondents are at least 70 percent more likely than their peers to report strong data and analytics skills (Exhibit 5). For example, among top-growth respondents at creator companies, 40 percent agree or strongly agree that their analytics-generated insights are easy to act upon; only 13 percent at other companies focused on creating say the same.

Looking ahead

In response to the challenges that the survey results revealed, here are some steps executives and their companies can take to drive organic growth in the digital age:

- *Focus C-level attention on growth.* Any growth program must start with prioritizing organic growth specifically, not just growth in general. Although C-suite leaders are contending with significant pressures and priorities, from cost concerns to regulatory issues, boards and CEOs that put organic growth at the top of the leadership agenda and hold senior executives accountable for delivering it can put their businesses on a better growth trajectory. That leadership alignment around organic growth creates the necessary intent to drive successful growth strategies. An organic-growth program also requires a clear understanding of how each strategy (investing, creating, and performing) can change a business's growth trajectory.
- *Set clear goals for analytics.* Advanced analytics plays a decisive role in driving growth, according to the survey. But few respondents report analytics capabilities at their organizations, perhaps due to a lack of recognition of analytics' value, or a lack of willingness to invest in it. While it is important that companies develop their analytics capabilities quickly, it is not efficient simply to charge ahead with expensive, time-consuming IT investments. Any approach to better analytics should begin with a clear set of goals that are meaningful to the business, such as acquiring more customers or converting customers to bigger-ticket items. That way, there are clear deliverables for the company's advanced-analytics investments and a greater degree of accountability. This clarity can also help businesses move more quickly to meet their analytics-related revenue targets.
- *Build agile muscles.* While technology plays an important role in improving business capabilities, companies cannot overlook the ways their people work—namely, encouraging employees to work in more agile ways.⁴ Several agile methods can enable companies to reconfigure their strategy, resources, and organizations quickly, so they can succeed in a rapidly changing environment. In a hackathon, for example, small teams work to develop prototypes of products and solutions with real-life applications for solving a business problem. These ways of working have a bias for action and favor testing good ideas, rather than developing perfect solutions. Companies can foster agile ways of working, supported by a culture of continuous learning and improvement, by establishing performance metrics (for example, time to market or number of pilots sent to market) that are action oriented and give employees incentives to work quickly. ■

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- ¹ The online survey was in the field from July 12 to July 22, 2016, and garnered responses from 1,175 C-level executives, senior managers, and midlevel managers. This group represents the full range of regions, industries, company sizes, and functional specialties. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.
- ² Marc Goedhart and Tim Koller, "The value premium of organic growth," January 2017, McKinsey.com.
- ³ We define a top-growth company as one that over the past three years, according to respondents, has increased its rate of organic growth, has grown by at least 4 percent above the market rate, and whose growth is more attributable to its commercial performance than to market forces. The "top-growth" analysis is focused on respondents who are in Europe and North America, which represent the majority of respondents (65.4 percent) who meet the criteria of the top-growth definition.
- ⁴ For more on the topic, see Wouter Aghina, Aaron De Smet, Monica Murarka, and Luke Collins, "The keys to organizational agility," December 2015, McKinsey.com.

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