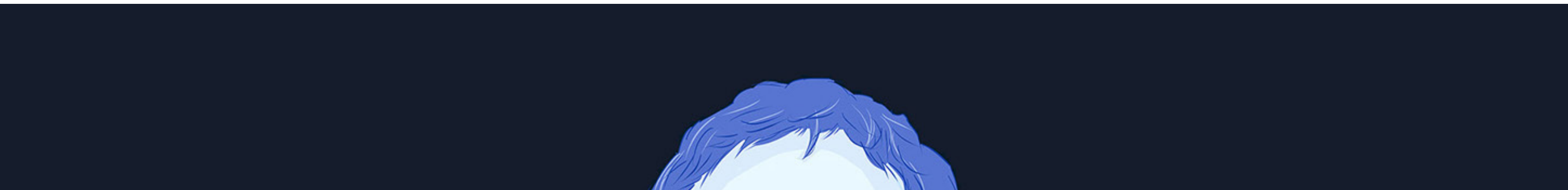
McKinsey Digital

Learn to Leap #13

How incumbents can lay the foundations for hypergrowth

To accelerate core-business and new-digital-business growth, established companies should adopt the best practices of successful start-ups.



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Even with considerable resources available, many big organizations find it challenging to achieve double-digit revenue growth for new products and services—a range that for many start-ups and scale-ups would be dangerously low. But established companies can expand the market reach of their new businesses quickly and effectively by gaining an understanding of how scale-ups and start-ups operate, from their team structures and tech setup to their cultural mindset. Florian Heinemann, founding partner at Project A Ventures, a leading venture-capital (VC) firm in Europe, discusses his insights with McKinsey's Philipp Hillenbrand about how to incorporate a start-up-like approach to marketing, business intelligence, and building high-performing teams.

Key insight #1

To achieve aggressive growth, traditional companies need to adopt an incentive mechanism, good performance-management practices, and a VC mindset.

Philipp Hillenbrand: Why are younger companies, such as start-ups, typically much more successful at achieving sustained rapid growth compared with established companies?

Florian Heinemann: People assume that the larger corporations have superior resources, know-how, and money, so they should theoretically grow faster. The big difference between these corporations and younger companies, however, is that the moment you take on venture capital as a business, your whole setup is structured around trying to achieve hypergrowth. It's not an explicit contract—obviously as a founder you don't formally subscribe to 100 percent growth. But everybody involved on the board will push the company to at least attempt this kind of growth.

Some of these young companies are very successful at achieving rapid organic growth, which increases their ability to grow faster with less money. In these high-growth environments, you'll often see the "flywheel effect." This refers to achieving a growth effect based on having a superior product with substantial positive customer reviews that the company can use to support acquisitions, increase sales, and then reinvest in the product. As this process repeats, companies are increasingly able to monetize their customers.

Also, don't forget that most key employees in a start-up environment are incentivized to participate in the company's equity growth, through stock options, for instance. They know that if they can really get this flywheel going, they can make substantial amounts of money. As an employee who came on board quite early, or even as one who came on a little later but contributed substantially to the company's growth, you can make money way beyond what you would normally get as a typical employee.

Florian Heinemann biography

Florian Heinemann is a founding partner at Project A Ventures, where he is responsible for marketing, customer relationship management, and business intelligence. Before cofounding Project A, he was managing director at Rocket Internet. Over his career, he has been an investor and business angel in more than 80 start-ups. Apart from his Project A–related board activities, he sits on the boards of Körber AG and About You and the digital advisory boards of Henkel and Oetker.

Modern start-ups also have a different setup compared with traditional companies. Teams work across different functional areas and also apply very strict, outcome-focused goal-setting and management techniques, similar to Google with its objectives and key results (OKR) framework. If you have functional teams that include people with different expertise—such as tech, data, and product people—who are very closely aligned with the company's goals, you have a powerful combination.

Key insight #2

Big corporations need only a handful of people to kick-start a start-up-like growth engine.

Philipp Hillenbrand: Do start-ups *attract* a different type of talent, or is a different type of talent *needed* to support this kind of growth environment? And how can more established companies mimic this model?

Florian Heinemann: You'll find extremely capable people in a corporate setting. It's not so much that their functional expertise is different, at least from my perspective. The critical attributes are probably attitude, energy level, and the willingness to invest significant amounts of time. But I don't know whether that's a different kind of personality that you attract *per se*. If you put 80 to 90 percent of people in a certain environment that functions as we just described, they will follow that culture—and that's true in start-ups as well as in traditional corporations.

If, for example, you had the right three, four, or five people who are culture setters, you could mimic those start-up setups within the corporate environment, so long as you also mimic the incentive structure and you limit the impact a traditional organization would have on this kind of experiment. It's also critical to have some people who are at least a little flexible in terms of their mindsets, but I don't think you need hundreds.

However, if you already make very decent returns each year as an organization, it probably is not the right move to change everything. What you need is a structure parallel to the current business, plus some kind of independent, small, multidisciplinary group that mimics the start-up setting. When we've talked to more established founders, their biggest fear is, "How can we keep this whole thing agile enough to churn out new business models and new initiatives?" I don't think you can do that by having everything in hypergrowth mode all the time. The thing to learn is how to have this constant creation of new business opportunities that follow the model of an early-stage start-up while other, more mature parts of the business are already organizing and working in different ways.

About Project A Ventures

Established in 2012, Project A Ventures invests in companies with a digital mindset and the tenacity to transform their industry. With more than $500 million in assets under management, Project A focuses on seed and Series A investments of $1 million to $8 million, providing strong operational support for its resident ventures through its own developer, design, digital-marketing, data-engineering, and business-development teams.

Key insight #3

Small cross-functional teams are essential.

Philipp Hillenbrand: How have the structures of marketing-and-sales (M&S) teams in scale-ups and start-ups changed?

Florian Heinemann: Very few people can create a superior product/market fit. But if you get these people together in a small, fully or partially cross-functional team, that really gets things going. That's why I like this kind of team so much, because the intensity with which you can iterate and experiment really creates energy.

Within digital marketing, you might have a growth team made up of product people who design what the user sees, tech people who can implement the design, and marketing people who get the product in front of users with their media spend. You also have data people who can provide insights and marketing analysts or business-intelligence people, so that if you're conducting an A/B experiment, you can easily compare results and get insights on which version produces superior results.

If you have a good growth team, you can run five or six tests per week and continuously improve the customer experience. Booking.com is probably the prime example in the B2C world for this; it's a conversion machine. The company has people producing content, people doing marketing and product data, and end-tech people all combined into one team and working together to decide what would be the next level of conversion and monetization for the platform. And that can be anything. It could be improving the retention and rebooking rates of Booking.com or putting more people through the conversion funnel.

Key insight #4

Achieving explosive growth requires mastering the intersection of data, digital-marketing channels, and technology. A microservice architecture for the tech stack is essential.

Philipp Hillenbrand: To extract great insights from data, you need good technology in the growth and digital M&S context. How would you describe the aspirational target tech setting of a modern M&S-led company?

Florian Heinemann: Microservices is currently the buzzword of today's tech world. It used to be that companies built huge, monolithic structures and applications that had all the functionality in one big piece of software with different components, but it was very hard to untangle. You couldn't just change or improve the search function on an e-commerce site, for example. It was interrelated with other pieces of software, so it took a long time.

The microservices movement says, "OK, let's try to cut applications into different pieces that work together to build one application but structure them so that you can exchange a single microservice without touching anything else." Microservices communicate through application programming interfaces (APIs), so they use standard protocols and interfaces when interacting with each other. You can always exchange a microservice with another microservice that adheres to the same kind of protocol. Organizations, and especially tech organizations, that really adhere to this principle have become a lot more flexible, because it enables them to work in a much more decentralized way. And if you structure the technology right, it also helps you support the kind of growth initiatives we just described.

Previously, if you wanted to pursue an experiment, nobody from tech was involved in coming up with the idea and refining it, so it took longer for things to happen. But now, tech people are involved from the beginning and can tell you, "If you do it this way, it will go a lot faster because it just touches one microservice, not five." This has definitely accelerated the process for testing and executing growth initiatives, and it also supports the agile development framework you see in many start-ups. Instead of following a waterfall type of technology development, where you plan something for six months before anything happens, companies can conduct short sprints of two or four weeks, where they focus on certain initiatives, and then the next sprint starts.

Key insight #5

Cross-functional teams need to have business-intelligence talent so they can act as data translators.

Philipp Hillenbrand: How should a modern organization be set up so it can act as an integrator across data, data-led key performance indicators (KPIs), and goal setting? And how often should companies be reviewing their M&S reports?

Florian Heinemann: In the truly good organizations, teams have data accessibility and receive reports daily so that they know quickly if their efforts are successful. Teams may have access to data-visualization or analytics tools and other similar applications. This is powerful because it allows business-unit leaders to easily answer any questions they have themselves. Otherwise, you might have a supervisor saying, "Oh, last week I looked at the reports for all of you, and your performances weren't that good because of this and that."

This is also why I'm so keen on having data people on teams—whether the teams are functional or cross-functional. They can help members assess the quality of their performance on a daily basis. And what you will see if you set up the M&S teams in the right way is that the frequency of daily decisions made goes up. While this can cause people to make mistakes more easily, they can also correct them very quickly.

Key insight #6

The ideal organizational mentality is that the better (data-supported) argument wins.

Philipp Hillenbrand: Beyond their structural setup, what do successful growth leaders have in common?

Florian Heinemann: I find that if you have the right kind of mentality within an organization, it can be highly motivating. People are deemed "right" not because they did a better presentation than somebody else or their boss likes them more; rather, the better argument wins because it's supported by data. But it's not easy to create that mentality, as it's very objective.

In most departments, it's not so clear whether something is right or wrong based on just one KPI. Sometimes it's a little more complex, so you have to decide as a team which KPIs are the most meaningful to make a decision and to assess which option is better or worse. This approach should be the goal, and it can also support the flywheel-focused growth mode.

Key insight #7

Moving fast is critical, but in some cases due diligence is just as important.

Philipp Hillenbrand: Is there a mistake that you've made from which others can draw lessons?

Florian Heinemann: Moving fast is obviously a virtue. And so is feeling secure, despite moving fast on sometimes sparse data. But occasionally, if the data are too sparse, you should make time to think twice. For example, we gave money to someone we later found out was a convicted criminal, and it was quite a costly mistake—it cost us a seven-digit amount of money. We could have easily researched the person if we'd taken just one or two more days, but since deals are so competitive, nobody wanted to say, "OK, let's do our due diligence properly on this guy." This person came from one of the top investment banks, and the deal was brought to us by a top VC firm, so we thought, "What can possibly go wrong?"

Even in highly reputable organizations, there might be people who don't share your moral values, and sometimes that's a no-go. Always try to really think about whether certain things make fundamental sense or not. This ability and having a certain level of caution are helpful before you move forward at 180 kilometers per hour.

Philipp Hillenbrand is a partner in McKinsey's Berlin office.