Growth 2.0: A new approach to changing your growth trajectory in a digital world

Growth builds value. It lies at the core of asset appreciation. And it's fundamental to long-term business survival.

Consider this. Almost half of the 100 largest companies on the stock exchange that enjoyed strong shareholder returns but without top-line growth 30 years ago were acquired or delisted 20 years later.

Despite the compelling statistics, we are consistently surprised that so few companies are committed to growth. High-growth companies have a clear growth agenda, and they follow through on it. These companies can unlock 100s of millions of dollars in new growth.

Driving a change in growth trajectory for business-unit leaders begins with a shift from focusing on costs to focusing on costs and growth, primarily through at least one of three models:

- The Investor: has a clear understanding of where growth is for existing products and services and doubles down on the winners. An example of this profile is Zara, which found a winning model in its rapid-fashion program and grew by relentlessly investing in it.
- The Creator: builds value through new products, services, or business models. Adobe, for example, has grown rapidly by developing its Creative Cloud services and establishing a stable subscription model.
- The Performer: continuously optimizes core commercial capabilities in sales, marketing, pricing, and customer experience. As an example company, Capital One has used advanced customer data to identify microsegments of customers, tailor products to them, track trends, and test products successfully.

These profiles provide a simple but effective way for business leaders to examine their organic growth opportunities. What's new, however, is that an unprecedented set of forces have profoundly changed the nature of growth. Nine years ago, McKinsey's granularity of growth analysis introduced the idea that companies could disaggregate the "where" to get behind the averages and uncover new pockets of growth. Today, digital and analytics have so fundamentally altered what it means to find and capture growth that business leaders need to reorient themselves to a Growth 2.0 world.

Advanced analytics has introduced a step change to the idea of granularity. The ability to personalize an offer to an individual at a moment in time or to adjust the price of a single SKU at a specific location has introduced "hypergranularity" to growth.

At the same, digital has altered the pace of change. High-growth companies in today's digital age don't just know where to play at a hypergranular level; they act on the opportunity quickly as well. Digital capabilities have greatly increased the metabolism of business. Companies don't necessarily need to be "first movers," but they do need to be "fast movers."

These developments have ratcheted up the intensity in managing growth and made it even more of a "contact sport." Capturing organic growth today requires advanced analytics to help drive complex decisions quickly, the active management and reallocation of resources on a much more frequent basis, rapid testing approaches to evaluate growth opportunities in a live environment and then scale them quickly, and the development of completely new delivery models. Digital and analytics have radically shrunken timelines, allowing companies to measure growth in seconds and weeks rather than only in months and years.

New ways to change your growth trajectory

Too often we find business-unit leaders focused on beating their earnings budget and not enough on topline growth. When cost dominates the corporate agenda, it sucks the oxygen out of any growth agenda. We cannot overestimate the importance of having a growth mind-set. Last year, we worked on more than 1,500 engagements globally, helping clients drive growth. In conversations with executives who have a track record of growth, we were struck that terms like "obsession" and "focus" consistently emerged as the hallmarks of what it takes to change the growth trajectory.

Funneling that growth energy effectively is the next challenge. We've found that the following three models provide a simple and useful way to structure business-unit growth programs. In practice, effective growth often requires some combination of these three, but successful companies master at least one.

1. The Investor

The fastest, simplest, and often most effective way to grow is to put money where growth is already happening or about to happen for existing products, services, or business models. In retail, for example, that could mean investing in offers that increase profitable foot traffic; in direct-to-consumer businesses, it could be increasing advertising through a successful channel; in B2B, it could mean allocating the salesforce to a fast-growing region. Many companies don't do this, or don't do it at sufficient scale to accelerate growth. Senior leaders should be asking themselves, How much more can we invest in areas where growth is happening?

Investment in growth starts with a clear understanding of where the growth is within the existing portfolio, as well as a deep understanding of current investments across all channels. That investment approach can be as simple as hitting on an advertising program that works and doubling down on it. Zalando, the fastest company in European history to reach $1 billion in revenue, did just that. They started with a simple model—selling shoes online for a good price with excellent customer service and an advanced technology infrastructure—then invested millions in successful advertising campaigns that allowed them to expand their model into 15 countries across Europe and across multiple other fashion lines.

Analytics has allowed companies to develop much finer and more accurate "sources of truth," i.e., a fact base of detailed insights. In practice, this means pulling in multiple sources of data on consumer demand, from macrotrends to market-level analyses to ground-level performance metrics. 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" vs "has worked."

Having the facts, however, often isn't enough. Leaders need to challenge existing allocation processes, which tend to simply facilitate decision making based on spending levels from the previous year. In fact, 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 the next.

One B2B telecom company pinpointed attractive growth markets by dividing a town into grids and analyzing SMB performance by market, segment, and customer. They then focused their commercial efforts on untapped areas, increasing subscribers by 10 percent and EBITDA by 7 percent.

2. The Creator

New products generate about 25 percent of a company's revenues and profit. Creators work at the frontiers of change to identify the white spaces, whether they're in emerging customer needs, unserved segments, or adjacent markets. They harness advanced analytics and digital to disrupt markets, not just improve existing models. Advanced analytics allows companies to get beyond "China" or "millennials" to parse segments at a much more granular level in order to identify attractive growth opportunities. Our analysis reveals, for example, that detailed segmentation leads to three to five times greater revenue per bid for B2B companies. That principle applies as well to allowing companies to segment demand curves much more finely. One media publishing company, for example, discovered that a large proportion of its high-loyalty customers (~15 percent of subscribing customers) were willing to pay more, but there was no product to offer them. The company quickly created a premium digital product geared toward those customers, which led to immediate uptake at a 30 percent increased price point.

While digital has provided companies with new ways to identify and respond to customer opportunities, it's also upped the ante for—and created a new source of growth in—customer experience. In both insurance and television sectors, for example, a one-point improvement on a ten-point scale of customer satisfaction corresponds to at least a three-percentage-point increase in the revenue growth rate. For product companies, the new digital world often means moving from a core product to a product-plus-service offering. For example, auto manufacturers now often provide digital subscriptions (e.g., to navigation or audio services) as a core add-on to any vehicle.

As the importance of owning the customer relationship increases, nearly all companies are looking to create digital relationships as an anchor to a new product-plus-service offering. In many cases, the experience is as important as the product itself–if not more so. One

interesting manifestation of this is video game consoles, where Microsoft has moved from reporting on consoles sold to reporting active Xbox Live users. Microsoft views service usage as a more meaningful measure of the customer's relationship and active engagement with the service than a measurement of devices that might have been sold but sit unused.

Digital has also 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 to it. This capability allows companies to "pull forward" their portfolio of initiatives and make better-informed bets. New IT capabilities allow for automation, continuous monitoring, and sharing of information and processes across product development. A large financial institution is using a continuous-delivery approach to streamline its product testing and go to market quickly with new digital services. Processes that once took days to complete now take minutes.

The massive amounts of data that companies and their customers generate also enable businesses to more quickly access "digital adjacencies" and open up new revenue streams. IBM acquired the Weather Company, then bundled the weather data and tailored it to specific sectors as a product it could sell to a wide variety of businesses, from insurers to retailers.

3. The Performer

In our experience, as much as two to five basis points of incremental revenue growth is hidden in existing commercial processes at large companies. Realizing that potential depends on optimizing and coordinating core capabilities across the entire organization.

Advanced analytics has opened pricing in particular to the promise of both hyper-granularity and speed. Consumer-goods companies, for example, now have the data and tools to evaluate more than 90 percent of in-store promotion events, where not so long ago they struggled to reach 65 percent. Dynamic-pricing practices mean that executives can adjust prices moment by moment at the individual SKU level. Pricing simulators allow businesses to merge data on price sensitivity with analyses of switching behavior to predict how a product might lose or gain volume and share as prices rise or fall.

At the same time, 40 percent of sales activities could be automated using technology that already exists, and that could move to almost half once machines' ability to understand and process language improves, as engineers believe it will. 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.

Personalization is another area where the promise of hypergranularity has opened new avenues. While we know that personalization can deliver five to eight times the ROI on marketing spend and can lift sales by 10 percent or more, analytics and automation are now in a position to scale that benefit. That can mean more high-touch applications, such as Nike and Adidas's plans to put 3D printers into stores that will allow customers to design one-off shoes and produce them on site in 15 minutes. But it's in the less sexy systems applications that personalization at scale finds its greatest potential as advanced analytics discovers useful and practical insights which then trigger the sending of appropriate messaging, e.g., if customer A does action B, send item C.

One large retailer harnessed these hypergranular and rapid digital 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+ new campaigns in six months while reducing campaign cycle times by 75 percent.

Building out a "growth DNA" grounded in one of these profiles provides a solid foundation for growth, but continuous growth over time requires a marriage of all three profiles: the Investor, to drive growth today with existing products, services, and models; the Creator, to develop new products, services, and revenue streams that unlock new growth and defend against possible disruptors; and the Performer, with optimized digital and analytical capabilities to act on growth opportunities faster and more profitably than their competitors can. While this doesn't mean necessarily giving equal weight to each profile, it does mean a more holistic and integrated view of growth across the three profiles.

Amazon succeeded originally as a Performer, a technology company "masking" as a retailer that outexecuted its competitors. But its continuous growth has been supported by driving investment into new categories from fashion to technology using the same business engine, while it has created new revenue streams through products like Echo and Fire, new services like Prime, and new businesses like Amazon Web Services.

For all the impact of digital and analytics, driving growth is still a very human endeavor. New processes, governance structures, escalation protocols, and talent are needed as well as less tangible qualities such as empathy for the customer. "Automating" growth is not an option, at least not for the foreseeable future. In fact, while there is no single formula for delivering growth, there is a single overarching trait: being deliberate in building a growth agenda and then acting on it. High-growth leaders believe they can change the growth trajectory of their businesses and are purposeful and systematic about doing so.

Before embarking on a growth journey, companies clearly need to start with a nuanced understanding of their industry structure, consumer trends, and their own capabilities. Whatever the course, a dispassionate assessment should begin with three core questions:

- Where is the growth coming from?
- What is the size of the opportunity, and is it profitable?
- Is that growth winnable by acting on one of these three growth profiles? □

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