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Growth Strategy

Create a System to Grow Consistently

by Paul Blase and Paul Leinwand

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Spruce Gran Picea (9,550 years old; Sweden) Rachel Sussman

Summary. Delivering consistent growth is one of the hardest things a company can do. A brilliant idea or product innovation can create a burst of episodic growth, but few companies demonstrate growth year in and year out, especially amid the disruptions and uncertain economy we've experienced during the 2020s. Some companies have... **more**

Delivering sustained growth is one of the hardest things a company can do. A brilliant idea or product innovation can create a burst of episodic growth, but few companies demonstrate growth year in and year out, especially amid the disruptions and uncertain economy we've experienced during the 2020s. Some companies have cracked the code on sustained growth, however, while realizing the elusive goal of knowing precisely where next quarter's revenue will come from.

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To better understand the value that can be created when firms grow consistently, we and our colleague Brett Davidson conducted a study of 2,142 publicly traded U.S. companies with annual revenues of more than $200 million. We divided the companies into quartiles based on their five-year compound annual growth rates (CAGRs) over the period 2018 to 2022 and focused on the top quartile of growth performers. We rank-ordered those 535 companies—we call them *growth leaders*—by revenue growth for each year within the period and identified the ones that were in the top half every single year. That's remarkably consistent growth, and for that reason, we call those 234 companies *growth champions*.

Both groups in the top quartile had similar average CAGRs over time, but the growth champions demonstrated a consistency that was significantly more valued by the market, earning an average valuation of 4.2 times revenue versus 2.8 for growth leaders and 1.7 for companies in the lower three quartiles.

Next, we sought to understand what allowed the growth champions to show such steady upward trajectories in revenue. Was it their business models? Were they simply faster at putting differentiated solutions in customers' hands? Did acquisitions play a role in propelling consistent growth? Those factors mattered, of course, but our study confirmed what we have observed in our work for many years: The highest-performing organizations invested in a *growth system,* an integrated collection of capabilities and assets that drove both short-term and long-term growth.

This approach is fundamentally different from the way companies tend to manage growth. Most are stuck on a treadmill, searching for growth in places where they have no fundamental advantage (or, worse, are disadvantaged). So even when they manage to increase revenues the cost is often prohibitive. At the extreme, companies become desperate for growth, viewing almost every customer acquisition as a high-stakes endeavor. They squeeze out short-term growth by extending price discounts, managing the endless churn of customers with new promotions, pushing out innovations that wind up cannibalizing existing revenue, or launching dozens of initiatives that they know are underfunded or in target areas where they don't have a differentiated offering. In the process, they become weaker competitors.

To deliver consistent growth over time, companies must get off the treadmill, which invariably requires a big mindset shift: Leaders need to focus less on tactics for achieving short-term growth and more on building a fundamental engine of long-term growth.

The Five Components of a Growth System

Our research—which includes interviews and case studies—shows that a growth system has five components. We describe them below through the lens of successful companies—Toast, IKEA, Vertex, Adobe, and Roblox—that have built effective growth systems. No company we studied has developed all five elements perfectly, but these companies have a keen sense of how to improve their growth system over time.

Define a compelling customer outcome. The foundation of a growth system is a differentiated and compelling customer offering—a clear, relevant, and unique promise that defines what you will deliver and to whom. Consider Toast, a leader in fintech that has achieved growth consistency by creating payment solutions specifically for restaurants. Toast is dedicated to helping restaurant employees delight their guests by focusing on food and hospitality instead of payment logistics. It continually hones and improves its offering, with innovations such as self-service check-out kiosks and loyalty-program-management technology that makes it easy for restaurants to design customer reward programs and launch targeted email-marketing campaigns to build engagement. By designing its growth system around a needed, differentiated solution for restaurants, Toast has carved out a strong position in a crowded market and has made it extremely difficult for generic payment-solution providers to encroach on its turf.

Architect the right capabilities. Growth champions create highly specific blueprints that detail how all the capabilities of their growth system work together to create products, solutions, and services that deliver the desired customer outcomes. These blueprints are much like those for complex buildings, specifying all the resources, technology, data, and processes required to do the work. Growth champions invest heavily in these capabilities, taking resources from other places as necessary. They also rely on their ecosystem business partners to help build out key elements of the blueprint. These companies spend a significant amount of executive energy on the design and implementation of this system; it is what defines the organization, rather than the products and services that come and go.

Japanese Cedar (2,180 to 7,000 years old; Yakushima, Japan); Rachel Sussman's project *The Oldest Living Things in the World* combines art, science, and philosophy to represent vast timescales. Her photographs of organisms over 2,000 years old capture the living history of our planet—and what we stand to lose in the future.

IKEA has developed a clear growth system featuring highly specific capabilities that deliver the promised outcome of home furnishings that everyone can afford. Its system includes superior design capability coupled with deep knowledge about how to control cost and price. Nearly every aspect of a piece of furniture —from its dimensions to material choices to the customer assembly process that's integral to IKEA's efficient flat packaging —is carefully modeled as part of the design process. IKEA's materials-procurement process balances a short-term focus on meeting cost objectives with a long-term focus on sustainability. To improve the design of its products, the company has invested in a “privileged insights” capability to learn how customers go about their daily lives (including working with customers to glean insights from cameras placed in their homes) so that it can create innovative offerings aimed at solving a wider set of customer challenges. Another linchpin is IKEA’s store set-up capability that improves customers’ browsing and shopping experience by efficiently organizing collections of merchandise. Thanks to these carefully architected capabilities, IKEA has expanded its offering globally while growing sales with existing customers.

Create the right operating model. Operating models constrain growth when they promote silos around key functions such as marketing, sales, product development, pricing, and customer service. In too many companies, each function creates its own operating model, which impedes collaboration. To build the kind of integration necessary in a growth system, companies must rethink how they organize the most important parts of their businesses, setting up outcome-oriented, cross-functional teams with the right expertise.

Vertex is a global biotech firm that has grown by delivering on its purpose to provide novel treatments in specialty disease areas such as cystic fibrosis, diabetes, sickle cell anemia, and acute pain. It has designed a novel end-to-end operating model that breaks down silos across internal groups (R&D, clinical delivery, and commercial delivery, for example) and external constituents (academic researchers, smaller biotech firms, patient advocacy groups, hospitals, insurers, and manufacturing partners) to accelerate drug discovery and development. It continually invests in and tunes the model as the company grows. For example, as

Vertex expanded globally and became more decentralized, it created new ways to promote innovation, such as tournaments, training programs, and facilitated lectures by leading scientists. To improve its breakthrough cystic-fibrosis treatments, it works with health care providers to optimize care pathways from hospital centers into patients' homes, creating better patient experiences and outcomes. To scale drug production while maintaining quality, it works with select manufacturing partners to develop continuous manufacturing technology (the first such program to secure FDA approval). Vertex's operating model also includes a culture that promotes breaking the status quo and learning from failure, which is central to developing new treatments, delivering better patient outcomes, and propelling growth.

Renew insights continuously. Growth champions anticipate how trends will affect customers and revenue generation, now and in the future. They realize that timing matters: Spotting the right trends early is necessary to make investment plans and shift product portfolios. But make no mistake: We're not talking about generic trend analysis. Growth systems aren't unidimensional or temporal; they do not rely on dutiful, check-the-box customer-satisfaction surveys. Instead, they are built on integrating direct exchanges with customers as part of the value delivered, including open-ended dialogue with people about their likes and dislikes across the product development and use cycle. Companies that build these next-generation insights capabilities look for all opportunities to engage with and learn about their customers, from the ordering and delivery of products and services, to postsale interactions like warranty support. Growth-system companies use those insights to find the “white space” where opportunity lies, improve features, fine-tune service models, and understand what competitors are doing to capture mindshare and wallet share.

Huon Pine (10,500 years old; Mount Read, Tasmania)   Rachel Sussman

Adobe’s system of customer engagement is dynamically linked to the experience of using the firm’s software. Many Adobe products, such as Photoshop, offer tremendous functionality, but their complexity can be daunting to users. So Adobe has embedded technology that provides instant feedback and tips for users according to what problem they are trying to solve. At the same time, Adobe learns where customers are spending their time, what unique problems they are bringing to the software, and what capabilities they may need in the future to solve them. Our study showed that simply identifying insights—using market research, for example—is not typically a successful path to growth. Companies that build processes to engage customers not only learn more about their users but also create the type of value that drives real loyalty and translates directly into growth.

Measure return and reallocate investment. Growth champions allocate resources to capabilities that help them achieve differentiated customer outcomes, and they reinvest the profits in those resources. They also carefully measure the relationships between inputs (investments) and outputs (performance). While key metrics include R&D growth, asset growth, revenue growth, margin growth, customer satisfaction, return on invested capital, and total shareholder returns over a five-year time period, one of the most important metrics for these companies is simply how much they are funding their growth system. Because budgets tend to be based on a year-over-year process and closely tied to a siloed functional model, most companies struggle to meaningfully shift their investments to the most important capabilities for growth. To propel the growth system, they need to ask, How much of our budget is going to those areas? Are we making progress toward the goals of each part of our system?

Growth champions build next-generation capabilities to engage with and learn about their customers, from

ordering and delivery to postsale interactions like warranty support.

The video game and content-development platform Roblox systematically measures its progress toward its goal of connecting one billion people globally. The company makes investments in R&D that enable individuals, social influencers, marketers, and celebrities to create ever-expanding forms of content. Event producers use Roblox to create virtual concerts to promote their bands' live tours, and sponsors can place advertisements in them. Celebrities and social influencers can create personalized, lifelike 3D avatars enabled by the latest AI. Video game developers can create calendars, community forums, and in-platform user-to-user call features to expand engagement. Roblox also looks for ways to embed its platform in devices with active gamer populations, such as Sony PlayStation, and in emerging domains such as virtual reality headsets. When people use these assets, they generate in-game, easily convertible currency, called Robux. That allows Roblox to connect the number of daily active users and engagement hours with revenue growth. And that, in turn, helps the company decide where to make its next wave of growth investments.

Putting It All Together

Designing an all-encompassing growth system is not easy. A prime example of a company that has demonstrated sustained success by creating such a system is Salesforce, one of the growth champions in our study. Salesforce is laser-focused on *customer outcomes,* diversifying its offerings to respond to an evolving market while grounding innovation in what is important to its customers—something some rival tech companies have been slower to do.

Over the past decade, Salesforce has supplemented its flagship CRM *capabilities* with cloud-computing and AI services, while also acquiring Tableau (visual analytics) and Slack (real-time messaging). Salesforce continually collects *customer insights* through its IdeaExchange platform, which allows users to propose new features or changes to products. Trailhead, Salesforce's learning platform that engages with users through gamified training and resources, has been instrumental in building a knowledgeable, proficient user community, fueling innovation and driving revenue. Salesforce's basic *operating model*—customers pay subscription fees, with charges increasing the more they use its software—aligns top-line growth with customer success. Salesforce aims to make it easy for customers to use its products, and as they do, revenue per customer and the number of multimillion-dollar accounts naturally grows. What's more, Salesforce's revenue is remarkably consistent, thanks to multiyear subscription agreements. The software-as-a-service (SaaS) model also naturally generates data on how and how much customers are using the software—a key metric for *measuring ROI.* The entire growth system creates network effects that lead to not only

higher sales of new products and more cross-selling but also a high retention rate—a number Salesforce publishes to reinforce its commitment to customer success.
So where to start? In studying companies that have successfully built elements of a growth system, we observed four behaviors that help create momentum. First, growth-system companies have the full support of the CEO, who is often the person instigating the work and who plays a vital role in getting companywide buy-in. They also have real collaboration among executive team members, who are committed to building a system together rather than just focusing on their individual areas.

Second, they acknowledge that growth systems require a multiple-year journey to build and scale. CEOs and executives prioritize investment in the system even as they strive to meet near-term targets. As Frans van Houten, a former CEO of Philips, says: "We talk about the need to both perform and transform. If you only transform but don't perform, you have no here and now. If you only perform but don't transform, you have no future. Therefore, in our scorecards we measure both. In our reviews we talk about both. And the targets that I give to all my executives… always [include] some transform objectives."

Third, these companies create a three- to five-year timetable, listing milestones and deliverables against the blueprint, and they inspire their teams to create the most-differentiated and -valuable capabilities to propel the system forward over the long term. This is not a financial forecasting exercise; it’s a well-conceived road map of how the portfolio of products and services will evolve and what capabilities must be developed to deliver on current and future growth targets.

Lastly, growth-champion leaders provide continual and dedicated support. This work can’t be a side job for a few high performers; it must be a central focus of the company, with a management structure that supports it and an ongoing cadence for reporting to the leadership team on progress.

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Executives are exhausted from the ongoing search for growth. If your team spends its time tactically eking out revenue increases, it’s time to step back and understand the power of a growth system. Great innovation can create the next market, and great insights will uncover new opportunities. Companies should not and cannot wait for markets to be defined or disrupted. Even when products and services become outdated, the system’s capabilities can be extended or repurposed to shape and transform your future.

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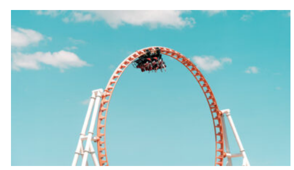

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