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NOW NEW NEXT: How growth champions create new value

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To generate new organic growth for both the short and long term, businesses need to explore three horizons for action.

How do companies such as LEGO, Chobani, Beats, Diageo, and Dollar Shave Club significantly outgrow their competition, and what can consumer companies learn from them?

Today, consumer-facing companies find themselves in a challenging predicament. They are investing billions of dollars in marketing and innovation to win the favor of consumers—but to seemingly little effect on market share. In fact, according to McKinsey & Company research, only 7 percent of corporate growth is driven by market-share gains, with the rest being driven by "where to play" choices: M&A and portfolio momentum. In the race to shift their momentum, many companies never quite catch up with the market, which remains a step ahead, while headwinds in their core categories hold them back.

Nevertheless, there are clearly exceptions, organic "growth champions" that create their own momentum and win the race. High-growth companies have a clear growth agenda, and they follow through on it. These companies can unlock hundreds of millions of dollars in new growth.

Improving organic growth rates begins with a shift from focusing on costs to focusing on cost and growth. In our experience, organic growth leaders exhibit at least one (though often a combination) of three profiles:

- The Investor has a clear understanding of where growth is with existing products and services and doubles down on the winners. This is often the fastest, simplest, and most effective way to grow. In retail, for example, this could mean investing in offers that increase profitable foot traffic; in direct-to-consumer businesses, it could mean increasing advertising in a successful channel.

- The Creator builds value through new products or services. Creators work at the frontiers of change to identify the white spaces—in emerging customer needs, unserved segments, or adjacent markets. They harness advanced analytics and digital to disrupt markets, not just improve existing models.

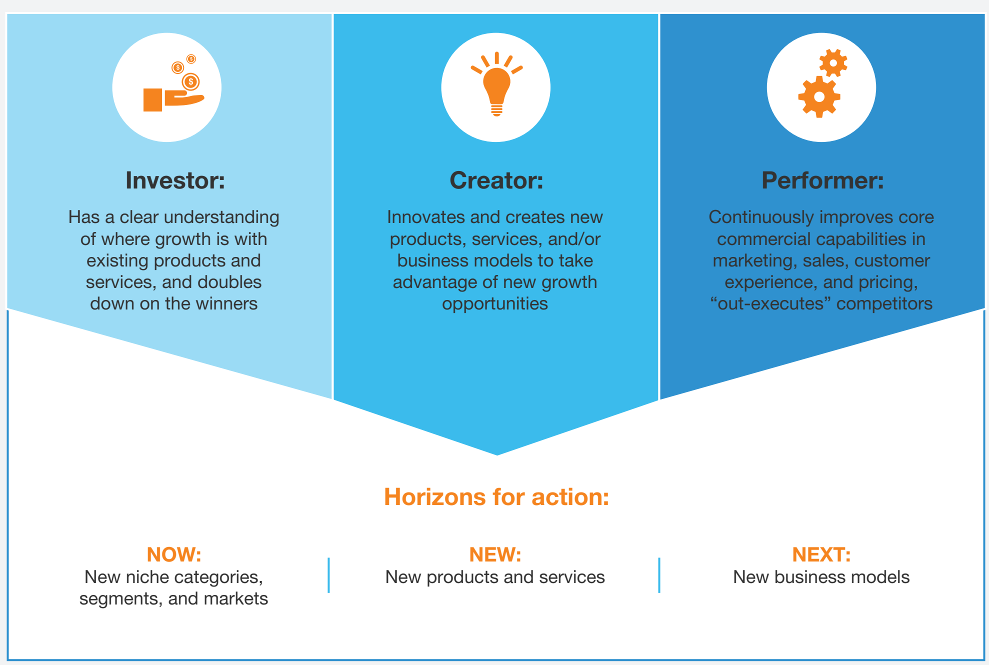
- The Performer constantly optimizes core commercial capabilities in sales, marketing, pricing, and customer experience.

We have found that these archetypes provide a simple but effective model for business leaders to examine their commercial growth opportunities. They also provide a simple and useful way to structure business-unit growth programs.

In practice, changing a company’s commercial growth trajectory often requires some combination of the three, but successful companies master at least one. For this article, we will explore how Creator companies construct a winning portfolio of growth initiatives (Exhibit 1).

Exhibit 1

Organic growth archetypes: Three horizons of action for the Creator



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Three horizons of action for creating new growth

There are three horizons of action that the Creator archetype can take to capture growth. NOW initiatives find growth through new niches within categories, segments, and markets. NEW actions focus on developing new products and services. NEXT initiatives capture organic growth from new business models (Exhibit 2).

While the time it will take for these actions to bear fruit will vary, it's important to emphasize that business leaders shouldn't address these items sequentially. One of the biggest mistakes we see is companies postponing planning for NEXT as they continue thinking about NOW, or investing too little time thinking about NOW because they're obsessing about the NEW.

Exhibit 2

Sources of organic growth

	NOW	NEW	NEXT
Description:	Growth from new niche channels, categories, segments Focusing on fast growth	Growth from new products Innovating off something that works	Growth from new business models Inventing something completely new
Actions:	Launching a new product variant Selling a product in a new channel Expanding geographies Opening new/under-served microsegments	Launching a new product Expanding a brand into a new category Identifying and addressing unmet consumer needs	Developing a new additive business model Disrupting own core business
Sources of insights:	Granular market, channel, and category analyses	Advanced consumer-insights techniques	Mix of creative techniques and qualitative insights

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In conducting research for this article, we analyzed hundreds of consumer companies and brands and interviewed dozens of current and former chief marketing officers (CMOs). The 40 or so "growth champions" we identified were, on the surface, very different. They ranged from LEGO (a company that has been making plastic toy bricks for nearly 70 years) to Chobani and Beats (relatively new entrants in the food and headphones spaces) to Diageo (which reshaped the whiskey category behind its Johnnie Walker brand) and Dollar Shave Club (a true "disruptor" in its category).

When you dig deeper, however, you notice a number of things that unify these companies. Above all, they are companies in which the marketing organization has stepped up and taken ownership for growth. "As a CMO, dedicate half of your time to growth. CMOs who are successful focus on growth ideas, not on marketing communication plans,"[1] says Andy Fennell, former CMO of Diageo.

We also found that "growth champions" tend to exhibit the following characteristics:

- They take a structured approach to creating and managing their portfolio of growth initiatives. "You have to be systematic when going after revenue growth. The creation of a common framework is extremely useful," says Alexis Nasard, former CMO and president for Western Europe of Heineken. Structured growth planning is also a great opportunity for CMOs to break out of the confines of marketing communication and bring consumer insights to bear on strategy.

- They use advanced analytics and agile insights techniques to spot opportunities. They don't expect to come up with market-beating ideas by looking at the same data in the same way as their competitors do. They unleash the power of advanced analytics on highly granular consumer data to develop distinctive insights, and they mobilize their organizations to act on them quickly. As Unilever CMO Keith Weed, put it: "Sustainable growth is consumer-demand-led growth."[2]

- They mobilize for quick results, beating competitors to the market. A common complaint is that many marketing organizations are too slow, taking up to two years to bring a simple consumer product to market or a year to launch a new campaign. In today's marketplace, the emphasis is on speed-to-market and on rapid test, learn, and optimize. Many of our growth champions have adapted tech-company techniques, e.g., hackathons and rapid prototyping, to learn fast and drive results quickly.

The three horizons differ in the nature of their growth opportunities, the insights that underpin them, and the capabilities required to deliver. A balanced portfolio, however, will contain

[1] Like many other quotes and observations in this article, this quote comes from McKinsey interviews with many current and former CMOs in both established and emerging growth champions in the consumer-goods and retail sectors.

[2] Gardner Morse, "Reinventing the chief marketing officer: An interview with Unilever CMO Keith Weed," *Harvard Business Review*, July 2014, hbr.org.

initiatives across each of the NOW-NEW-NEXT horizons, and all initiatives should be informed by strong insights and a bias for action.

NOW—Growth from new niches

NOW initiatives focus on new ways to generate growth quickly. This could mean selling an existing product in a new channel or market, launching a product variant, rejuvenating a core product by infusing it with new meaning, or opening up micromarkets. NOW initiatives have a high likelihood of impact, often require relatively little effort, and take a rather short time to implement. They represent a company's "bread-and-butter business," as one CMO described it.

However, NOW initiatives shouldn't be taken for granted. Many companies still have a lot of potential to grow by exploiting overlooked segments, channels, or categories. The insights that power NOW initiatives often come from existing market research, product data, or straightforward surveys. In NOW, it is especially important to increase the metabolic rate of the organization and optimize for speed.

Sometimes, even the most successful companies underestimate the growth potential of their core business and tend to lose focus. Take LEGO, the Danish toymaker. In 2003, sales fell off a cliff. The company had ventured into many—perhaps too many—new categories in parallel: children's clothes, accessories, and lifestyle products. As CEO Jørgen Vig Knudstorp put it, "We went into three new categories per year, when we should have gone into one every three years." LEGO subsequently refocused its business on being a "small giant" in the subcategory of toy-construction kits. "What we realized is that the more we're true to ourselves, the better we are,"[3] Knudstorp said in summing up the brand's growth philosophy. With success, LEGO grew from revenue of €0.9 billion in 2004 to €4.8 billion in 2015.

We have observed two distinct growth plays that are particularly powerful in helping companies realize the full potential of NOW opportunities: granularity and category ownership.

Take a granular perspective

Moving beyond averages and taking a more fine-grained view of the opportunity—by geography, consumer segment, or product category—can allow companies to find growth that others have missed.

Looking at things through a geographic lens, McKinsey research indicates that 600 global cities will drive more than 60 percent of GDP growth by 2025, and in many categories, growth is much more concentrated in these cities than in the broader country or region.

[3] Compare LEGO case study in Chapter 3.5 of Jesko Perrey, Tjark Freundt, and Dennis Spillecke, *PowerBrands*, Third Edition, Wiley, 2015.

Understanding which cities will matter most to future performance and investing in them will likely drive better results than focusing on whole countries or regions. Diageo used a local lens to identify ten cities in Brazil that were promising markets. A successful small-scale marketing program in these cities encouraged the business to roll out an ambitious £100 million plan more broadly. In 2009–13, global sales increased by more than 30 percent, making Johnnie Walker the leading international spirits brand by retail sales value.

Similar thinking can be applied to consumer segments. Microsegments trump mass demographic and attitudinal segments—at global scale, even niche markets become attractive. Consider the case of Lululemon, a Canadian company that built up a billion-dollar business in a few years by focusing on an underserved microsegment—yoga gear for affluent, educated women—that the big sportswear companies had overlooked.

Technology makes it easier and cheaper than ever before to manufacture and distribute niche products. For example, Nike and Adidas plan to put 3-D printers in stores that will allow customers to design one-off shoes that will be ready in 15 minutes. Diageo uses containers to build mobile factories in emerging markets that cost just $2.5 million, compared to $15 to 20 million for a conventional factory. We urge those who think niche segments are not attractive to think again.

Own category development

Successful brands take responsibility for changing growth trajectories in their core categories, often by tapping a new niche. They don't simply fight for share or assume that category trajectories are predestined, as did many brewers that focused their efforts on new markets, assuming that growth prospects for beer in mature markets would, at best, stay flat. It was left to craft and microbrewers to rejuvenate the category, attracting new consumers at a much higher price point. Category development requires taking a new look at the category you're in and approaching it as a challenger. It's no surprise that many of the companies that have succeeded have been new entrants.

One example is Chobani, which took just seven years to develop Greek yogurt from a niche product into a billion-dollar business and become the category leader. When Chobani launched in the US, Greek yogurt was a tiny category found mainly in gourmet shops and organic sections of high-end food stores. Founder and CEO Hamdi Ulukaya sought to attract a much wider audience and position Greek yogurt as an everyday snack.[4] This included displaying the product in the main dairy section, not with specialty foods. The company continued to develop the category both through geographic expansion (yogurt was mainly

[4] Hamadi Ulukaya, "Chobani's founder on growing a start-up without outside investors," *Harvard Business Review*, October 2013, hbr.org.

consumed in the northeastern US) and by targeting new consumer segments (such as infants and Hispanics) and specific consumption occasions (such as evening indulgence) with new varieties and marketing activities.

Today, first-person action cameras are heavily associated with the brand GoPro. But actually, these products have existed since the 1960s, mainly targeting professional athletes and Hollywood studios. In 2004, GoPro launched its first camera, an analog waterproof photo camera that cost about $3 to produce, and targeted surfers. The business grew steadily but remained very small in subsequent years. It wasn't until 2010 that GoPro started really developing the category from a niche into a mass market. The main success factor was not the technology, but rather GoPro's focus on new consumer segments, using clever, content-based marketing to target one microsegment after another. While the company only sells six different cameras, its content and marketing activities address 27 different segments based on activities and interests—from snowboarding and rock climbing to pets and family. The company's revenue has increased 20-fold in just four years, from $64 million in 2010 to $1.4 billion in 2014. Today, GoPro dominates the US market for portable cameras, not just action cameras.

NEW—Growth from new products and services

NEW initiatives take something that works and use it as the basis for innovation, i.e. launch a new product, expand a brand into a new category, or address new segments. Because NEW initiatives venture beyond existing business, analyzing the market as it is won't be enough. Identifying unmet needs and spotting NEW opportunities require being close to consumers and customers. Examples of effective techniques include social listening, sentiment analysis, digital ethnography, and online consumer cocreation. For example, discussions in an online beauty forum inspired Nivea to develop a no-stain deodorant, the company's most successful product launch in ten years. Unilever engaged in consumer cocreation for its TRESSemmé dry shampoo line, also one of this company's most successful launches.

In our work with clients, we observe two particularly impactful growth plays companies employ to become NEW champions: expanding category definitions and acting on emerging trends.

Expand category definitions

To broaden their understanding of where to play, leading marketers explore all the competing options that consumers can choose from when they decide what to buy. There exists a real risk that companies will tend to define their market in a way that

Agile insights

Market research has traditionally been a linear and sometimes slow process. In the past, it was not uncommon for attitudinal research to take three months and for innovation investigations to take as long as one year. This is changing rapidly in response to demands to move more quickly in order to keep up with the accelerating pace of business.

Newer, digitally enabled techniques are generating greater flexibility, effectiveness, and speed. Unilever, for example, is replacing many face-to-face focus groups with online focus groups that can be assembled in ten minutes and provide facial coding of emotional responses and automatic transcription. Similarly, mobile ethnographies can be completed in a weekend, and rapid quantitative surveys can be fielded and analyzed in one or two weeks.

These developments are allowing marketers to create more targeted and relevant insights programs that can tailor techniques and questions to the right customers at the right time. Such speed and targeting has made insights generation faster and cheaper, allowing marketers to achieve "pretty good" insights before moving on to real-time testing and iteration in their marketing pilots and campaigns.

flatters their own brand (in terms of market share and equity) and not look at the broader competitive set or at opportunities outside their frame of reference.

When Procter & Gamble launched Olay Total Effects, it effectively created a new category: "mass premium" skin care. With much higher price tags ($20, compared to a $6 average charged for other Olay products) and aggressive efficacy claims ("Fight the seven signs of aging"), Total Effects went head-to-head with department-store brands (previously excluded from P&G's market-share calculations). Gina Drosos, who led the effort at the time (she's currently president of Assurex Health), said, "The thing that made us feel comfortable was getting close to the consumer and understanding what she wanted." The company conducted thousands of interviews with skin-care users and discovered that women around the world expressed the desire for a product that wouldn't fight just one or two signs of aging, but all of them. In price-elasticity tests, researchers were surprised to find that Total Effects was forecast to achieve higher volumes at higher prices because of the prestige and the self-rewarding effect that comes with a high price ticket. Retailers and competitors were skeptical, but it worked. By 2003, Olay had become a billion-dollar brand.[5]

[5] Davis Dyer, Frederick Dalzell, Rowena Olegario, *Rising Tide: Lessons from 165 Years of Brand Building at Procter & Gamble*, Harvard Business Review Press, 2004.

Act on emerging needs

"A good hockey player plays where the puck is—a great hockey player plays where the puck is going to be," Canadian hockey hero Wayne Gretzky once said. To build better products and create competitive differentiation, companies need to know consumer needs before they are even articulated. They also need the courage to act when they detect an emerging need. As Diageo CMO Syl Saller put it, "An obsession with consumers better equips companies for change. Consumer insight must inform how, when, and where a brand embraces new ideas in the pursuit of growth."[6]

Take headphones, for example. Until recently, headphones was a dormant market dominated by a handful of long-established brands. Most consumers simply used the loose, in-ear headphones that came with their MP3 player or phone, most of them white or black. Seven years ago, along came an attacker to change all that. Beats Electronics now holds an astonishing 64 percent share of the US market for headphones priced at $100 and above. Beats took a granular perspective, targeting a small but influential segment of young, urban, style-conscious consumers. Targeting these trendsetters, Beats designed a product that addressed two of their needs: superior sound quality and self-expression. Beats positioned its product, produced by musician Dr. Dre, with the promise to "hear the music the way the artist wanted you to hear it" and offered the 11 different available colors as statements of personality and self-expression. Today, its products are visible in almost every gym, street, and workplace.

NEXT—Growth from new business models

NEXT initiatives try out new business models, explore disruptive ideas, and create things from scratch. Often they take a lot of time and energy and have highly uncertain outcomes. But if they work, they can have huge impact. Disruptors, such as Uber, AirBnB, and Netflix, are leading the way in this respect. The lesson for incumbent consumer-goods players? Disrupt your own industry before others do it for you, even if that means you see some initiatives fail. In fact, more and more consumer-products giants are experimenting with new additive or disruptive business models, such as subscription-based direct-to-consumer approaches or mass customized products using technologies such as 3-D printing.

Some companies are setting up dedicated teams to explore NEXT initiatives. LEGO has tasked its Future Lab with inventing the "future of play." Staffed with 50 of LEGO's top employees, the lab works with lead consumers and upcoming start-ups to identify new target groups, new markets, new technologies, and new business models. It works like a start-up, developing a minimum of viable products that it launches in small quantities, iterates, and scales when they prove successful. Since Future Lab is an entity run separately from the parent organization and even has its own small manufacturing

[6] Syl Saller, "To drive growth, brands must embrace change but respect marketing fundamentals," *Marketing Week*, November 5, 2015. Diageo is the parent company of Johnnie Walker.

facility, it can experiment with radical ideas without the limitations of working within the day-to-day business environment.[7] Similarly, Diageo has set up a Futures Team that is charged with identifying and creating disruptive growth.

Companies don't need to have a large team or an impressive innovation hub in Silicon Valley to start with NEXT initiatives. Even two junior employees with open minds can make a big difference. If their ideas seem promising, the company should go ahead and increase funds and resources. While NEXT initiatives tend to take a little longer to get to market, the aim should not (only) be to secure growth in the years ahead. The aim can be on a smaller scale at first—to go to market in 6 to 12 months, even if only in three cities and with improvised operations. The idea should be to start small, iterate, and scale quickly.

To grow in NEXT, companies have two plays available: developing additional income streams through additive business models and disrupting the existing business (Exhibit 3).

Exhibit 3

Six proven strategies for generating new organic growth

NOW Get granular	Focus on specific **microsegments** and **cities. Niche products and segments can be very large if global.**
NOW Own category development	Take responsibility for changing **growth trajectories** in core categories by targeting new segments, occasions, price points, and channels.
NEW Expand category definitions	Understand the **full competitive set** based on how consumers/customers make decisions. Most consumers don't think of product categories in the same way businesses do.
NEW Act on emerging needs	Invest in consumer-insights capabilities to deeply **understand consumers' needs**. Build new and better offerings in your core category. Experiment with emerging and agile insights techniques.
NEXT Explore new revenue streams	Systematically **scan and evaluate business models** that allow you to tap into additive adjacent value pools. Question existing paradigms.
NEXT Embrace disruption	Assume that **technology and/or new entrants** will disrupt your industry. Identify where disruption is likeliest to occur; don't wait for **perfect data**.

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[7] LEGO's David Gram on how LEGO continues to invent the future of play through intrapreneurship. Video can be seen at http://thesamewavelength.com

Explore new revenue streams

New business models can add to the existing business by, for instance, offering new services with a current product or tapping into new sales channels to reach different customers. These new business models don't always have to be radically innovative in order to deliver high returns.

Starbucks is constantly adding new revenue streams to its retail business, for example, by selling ready-to-drink and packaged coffee in grocery stores and delivering packaged coffee to the home for a monthly fee. However, the masterpiece must be the prepaid cards that Starbucks launched a few years ago. Of course, these cards provide customers with a convenient payment method, lead to more store visits among card owners, and allow the brand to tap into the gift-giving market. But also interesting is the fact that payment fees to credit companies are (relatively speaking) more than 50 percent lower for a $25 prepaid card than for a $3 coffee. Plus, although there are no expiration dates on the cards, Starbucks communicated in its 2015 annual report that it had made a profit of $110 million in the preceding three years from unredeemed cards. Moreover, with total card-value liability of about $1 billion, the cards could lead to nice interest capture when rates increase again. While the upside of this example seems very compelling, a recent McKinsey survey found that just 27 percent of companies are systematically scanning for new opportunities outside of their core business.[8]

Embrace disruption

Whereas the previous growth play is about adding new revenue streams to the existing business, disruption is about attacking and cannibalizing it. For example, Coca-Cola has teamed up with coffee specialist Keurig Green Mountain to launch a machine that allows people to make their own cola at home. Heineken has done much the same with Sub, a draught-lager machine for domestic use that it is selling directly to consumers.

Companies that think their category is disruption-proof should consider what's happened in other seemingly stable fields. For decades, consumer-goods companies all over the world admired Gillette's business model. But it didn't protect Gillette from attackers. Only three years old, razor-blade home-delivery service Dollar Shave Club is already enjoying sales equivalent to 10 percent of Gillette's US market share. The start-up hit revenue of about $140 million in 2015, more than twice its previous year's sales. As Unilever CMO Keith Weed put it: "Disrupt or be disrupted. That may sound strange coming from a global company operating across 190 markets. But embracing disruption is critical to creating change. As marketers, we need to become better at experimenting, taking risks, accepting the occasional failure, and learning quickly along the way."[9]

[8] For more details, read "Growing beyond the core business," July 2015, McKinsey.com.

[9] Keith Weed, "Unilever CMO Keith Weed's key Cannes takeaways," *Marketing Week*, July 9, 2015, marketingweek.com.

While prognostications on the future and market research will lead to imperfect visions of the future, leading companies still consider how major consumer, economic, or technological trends could affect a given category. They think about how an attacker with new models could disrupt their industry, and they team up with entrepreneurs, start-ups, and innovators from other industries to challenge established ways of doing business.

Five sets of questions companies can ask themselves to get started

Companies should not take NOW NEW NEXT as an invitation to spend the next half year looking for growth opportunities. The aim should be action. Accordingly, marketers can start right away on Monday morning by answering these five sets of key questions:

1. How balanced is our portfolio? If we take our portfolio of growth and innovation initiatives and plot them against NOW NEW NEXT, how balanced does the distribution look? Do we have a perspective on which of the six "growth plays" would be successful in our business?

2. Who is thinking about disruption? Are we as systematic in NEXT as we are in NOW? Is anyone tasked with disrupting our core business—or are we leaving it up to competitors? What are we doing to explore additive business models?

3. Are we limiting our horizons? In exploring NEW opportunities, do we impose limiting mind-sets on how we define consumers, our category, or the addressable channels?

4. Do we use advantaged insights? Do we rely on the same data and insights as our competitors—or do we have a source of distinctiveness?

5. Are we agile enough? Have we been able to accelerate our time-to-consumer and time-to-market? Or are we still stuck with cumbersome and slow innovation processes?

Organic growth is a top priority for business executives today. Armed with a clear organic-growth agenda and sufficient resources for those initiatives, businesses can generate growth for both the short and long term. □

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