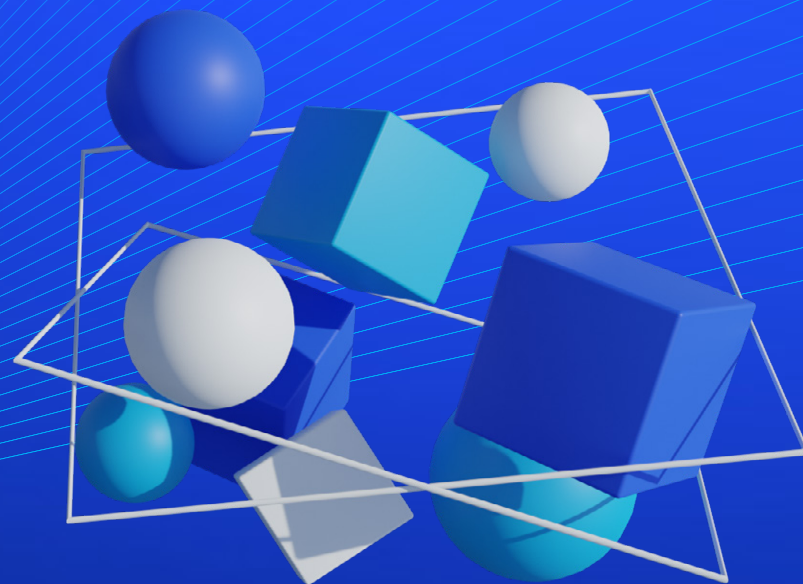
Leap
by McKinsey



CEOs' choice for growth: Building new businesses

Business leaders and investors see now as an opportune time to build new businesses. New survey data reveals what's really needed.

November 2023

This publication is not intended to be used as the basis for trading in the shares of any company or for undertaking any other complex or significant financial transaction without consulting appropriate professional advisers.

Organizations are doubling down on building new businesses, even amid ongoing economic uncertainty. The latest McKinsey Global Survey on new-business building[1] finds that a larger share of CEOs than in previous years are making the creation of new revenue streams their top strategic priority.[2] Most surveyed business leaders believe the current climate makes this a good time to prioritize those efforts for resilient growth, reflecting the capital advantages of incumbents and anticipated acquisition opportunities. Moreover, as companies grapple with economic uncertainty, CFOs see business building as the most likely strategic action their organization will take in the next 12 months, beating restructuring and capital structure changes.

In our fourth annual report on business building, we explore the types of new businesses that respondents expect in the coming years, with a close look at how advances in generative AI will enhance those efforts. The findings also highlight factors that position companies and new business ventures to succeed.

This year, we also conducted a separate survey of public-equity investors and analysts. These investors also see benefits to companies engaging in business building. Based on this survey, we share practical advice to help business leaders navigate investor perspectives and maximize the value ascribed to their new businesses.

[1] The online survey was in the field from June 21 to July 5, 2023, and garnered responses from 1,010 senior managers and C-suite executives representing 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. The additional survey of public-equity investors and analysts was in the field from September 12 to 29, 2023; those results are unweighted. All results have been recalculated after removing respondents who answered "don't know."

[2] We define new-business building as the creation of new revenue streams through new products, services, or businesses that require new capabilities.

Contents

Investments in new businesses are bearing fruit, even during uncertain times **1**

Across industries, companies are prioritizing different types of new businesses **4**

Expectations are high for the role of generative AI **8**

Three factors of business-building success **11**

Investors spell out how companies can maximize new businesses' value **17**

Investments in new businesses are bearing fruit, even during uncertain times

The results of the latest survey show that economic uncertainty hasn't stopped organizations from investing in new-business building—and, in fact, many business leaders say now is a particularly opportune time to prioritize business building. Survey responses suggest that the rate of business building hasn't slowed down since last year,[3] and 58 percent of surveyed business leaders agree that because of the current economic environment, new-business building has become a greater priority for their organizations in the past year (Exhibit 1). Respondents also point to the fact that their organizations now have a relative advantage compared with start-ups, which are experiencing more difficulty raising capital.

Companies that have already seen success from new-business building are even more likely to double down on it in times of uncertainty: 74 percent of those in the top quartile for the share of organizational revenues from business building say it has become even more of a priority than it was in 2022. Public-equity investors and analysts also see high potential: nearly two-thirds of those surveyed say it would be advantageous for organizations to increase their investment in new-business building over the next year. Furthermore, a majority see business building as an effective method for an organization to increase its valuation.

[3] Respondents report an average of 1.4 businesses built by their organizations in the past 12 months.

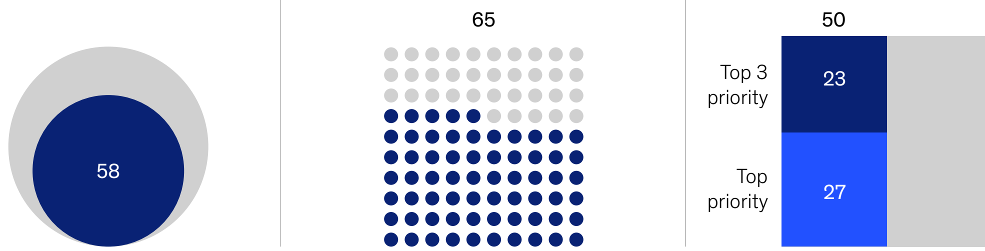
Exhibit 1

Business leaders are prioritizing new-business building, even during a year of uncertainty.

Share of surveyed business leaders agreeing that business building is a greater priority in the current economic environment,[1] %

Share of investors agreeing that it is advantageous for organizations to increase their investment in business building over the next year,[2] %

CEOs ranking new-business building as a top 3 priority,[3] %



[1]Share of surveyed business leaders who agree or strongly agree with the following statement: "Because of the current economic environment, new-business building has become a greater priority than it was 12 months ago"; n = 980.
[2]Share of surveyed investors answering "increase somewhat their investment" or "increase significantly their investment" to the following question: "Thinking about organizations you cover or invest in, which of the following actions related to investment in new-business building do you think would be advantageous for most of those organizations over the next year?"; n = 133.
[3]Share of surveyed CEOs selecting "the top priority" or "top 3 priority" to the following question: "Currently, how important is new-business building compared with other strategic priorities at your organization?"; n = 149.
Source: McKinsey Global Surveys of business leaders and public-equity investors on new-business building, 2023

McKinsey & Company

Indeed, the latest survey results show that new-business building continues to be a top priority for many companies and is a growing priority for CEOs. Twenty-seven percent of surveyed CEOs rank business building as the top priority for their organizations, a larger share than in the two previous surveys. As shown in another recent global survey, CFOs are also prioritizing business building, with 55 percent of CFO respondents expecting it to be their companies' most likely strategic move in the next year.[4]

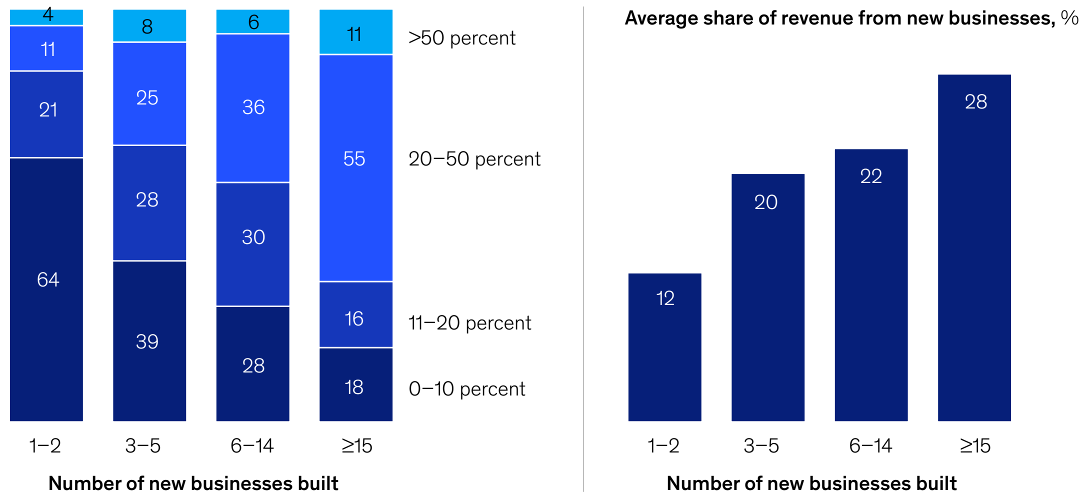
Companies' focus on new-business building appears to be increasingly reaping benefits. Twenty percent of revenues at respondents' organizations came from new businesses built within the past five years, up from 12 percent last year.[5] Perhaps not surprisingly, responses also suggest that the greater the number of new businesses an organization builds, the greater the share of organizational revenue those new businesses represent, with the greatest increase seen as organizations moved from building one or two new businesses over five years to building three to five (Exhibit 2).

[4] "CFOs' balancing act: Juggling priorities to build resilience," McKinsey, August 31, 2023.
[5] In 2023, respondents were asked directly what share of their organization's revenue came from new-business building, whereas in 2022, the finding was derived from respondents' answers to two separate questions. While the reported share of revenue generated by new businesses has increased, organizations' ambitions are in line with what they were last year, with respondents saying their organizations expect an average of nearly 30 percent of revenue to be generated by new businesses in the next five years. To achieve these ambitions, the findings suggest organizations will need to build 50 percent more businesses than they are building today. According to respondents, their organizations are averaging two new businesses per year, and the organizations seeing nearly 30 percent of their revenues coming from new businesses have built three or more businesses per year.

Exhibit 2

The greater the number of businesses an organization builds, the greater the share of its revenues coming from outside the core.

Share of organizational revenue from businesses built in past 5 years, by number of new businesses built by respondents' organizations in past 5 years,[1] % of respondents



[1]For respondents reporting that their organization built 1–2 businesses in the past 5 years, n = 199; 3–5 businesses, n = 247; 6–14 businesses, n = 285; and ≥ 15 businesses, n = 72.
Source: McKinsey Global Survey on new-business building, 980 senior managers and C-suite executives, June 21–Aug 20, 2023

McKinsey commentary

Ari Libarikian

Senior partner

What's noteworthy about this survey to me is that even as companies navigate a period of macroeconomic uncertainty, they are focusing on both near- and medium- to long-term strategies. That hasn't always been the case in times of turbulence, when the focus for most businesses is much more on near-term action and reaction. This helps explain why business building continues to grow as a business priority. More important, we're seeing that executives understand the need to develop a business-building capability to launch multiple businesses. This portfolio approach helps diversify risk and increase the probability of success and growth—the more they do it, the better they get at it.

Part of this thinking is driven by generative AI, which has created offense and defense opportunities we haven't seen to the same degree before. On the offense side, companies are seeing how generative AI can help them launch more businesses more quickly; on the defense side, they're seeing how disruptive generative AI can be and are trying to get ahead of it. While most executives recognize this dynamic, CEOs seem to be "looking around the corner" more, which explains why we've seen that they can prioritize business building more than other leaders, especially in volatile times. But it's up to them now to galvanize their companies to build businesses and create both incentives and processes that encourage business building, even as their top teams work to address shorter-term business pressures.

Across industries, companies are prioritizing different types of new businesses

Overall, the types of businesses that business leaders see as the best opportunities for their organizations are broadly in line with last year's findings. Respondents most commonly expect their organizations to build new data, analytics, and AI-based businesses over the next five years, as was true in the 2022 survey. However, this year's findings show that the share of business leaders expecting to build everything-as-a-service businesses, such as subscription businesses or remote healthcare, is now nearly as large as that for new data, analytics, and AI-based businesses.[6] Digital retail businesses have become somewhat less prioritized this year, perhaps because many of the new businesses that were stimulated by the pandemic-induced surge in digital adoption have now been built or initiated.

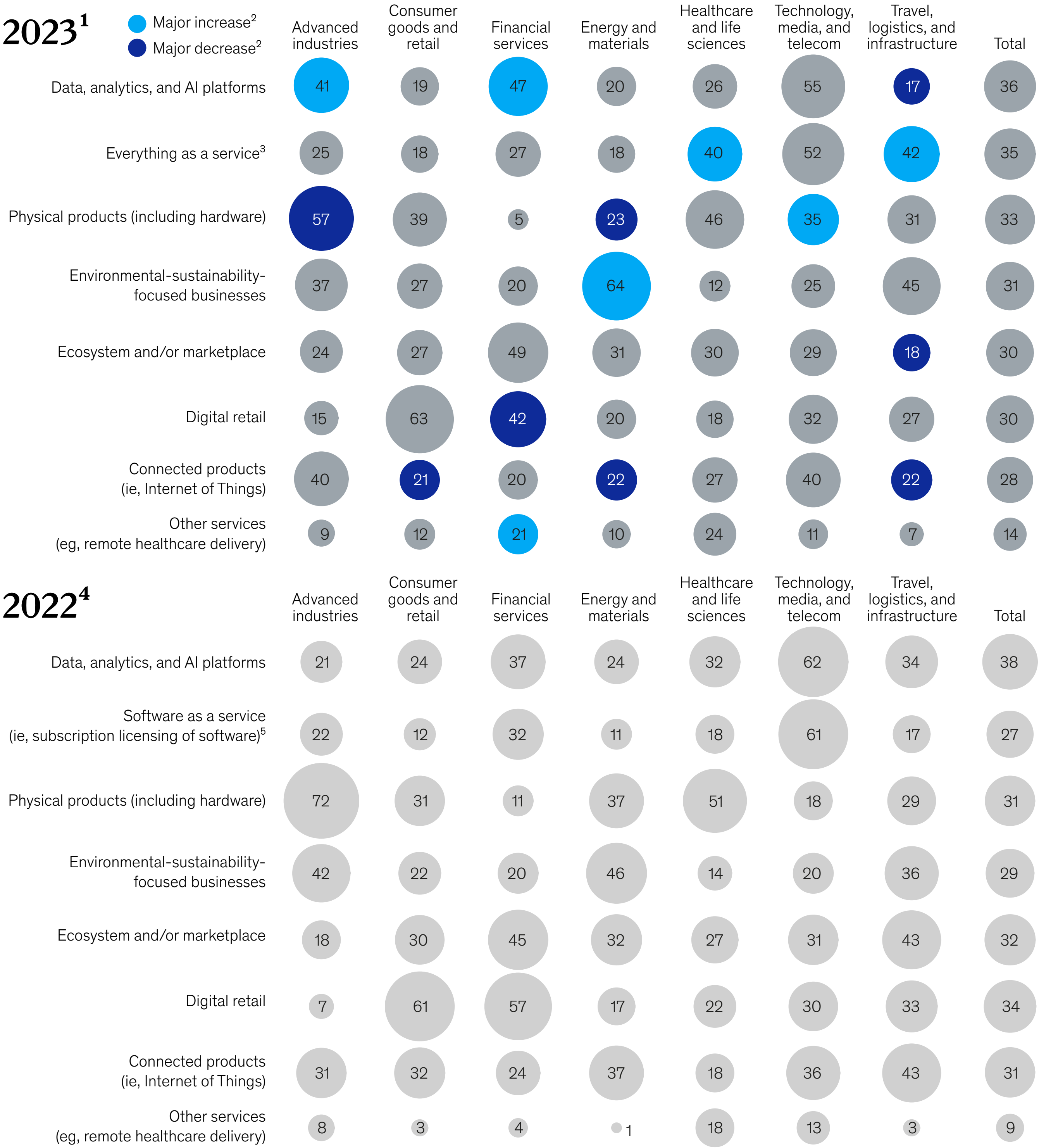
While the overall expectations are mostly similar to last year's, a look at specific industries shows clear changes in which new businesses are being prioritized (Exhibit 3). In advanced industries such as automotive, aerospace, and semiconductors, while most respondents continue to expect their companies to build physical products–based businesses, the share predicting their creation has decreased. There is now significantly increased interest in building data, analytics, and AI-based businesses. These might include end-to-end platforms for predictive maintenance and operational efficiency.

[6] In the 2022 survey, the category asked only about software as a service.

Exhibit 3

At the industry level, expectations for the types of new businesses that organizations will build have shifted significantly from last year.

Type of new businesses respondents expect their organizations will build, next 5 years, % of respondents



[1]Respondents were able to make multiple selections. Figures were calculated after removing respondents who said "don't know." For respondents in advanced industries, n = 104; consumer goods and retail, n =101; financial services, n = 124; energy and materials, n = 106; healthcare and life sciences, n = 134; technology, media, and telecom, n = 187; travel, logistics, and infrastructure, n = 107. [2]That is, a year-over-year change of more than 10 percentage points. [3]Eg, subscription services or subscription software. In 2022, category was called "software as a service." [4]Respondents were able to make multiple selections. Figures were calculated after removing respondents who said "don't know." Respondents in advanced industries, n = 97; consumer goods and retail, n = 148; financial services, n = 132; energy and materials, n = 128; healthcare and life sciences, n =100; technology, media, and telecom, n = 139; travel, logistics, and infrastructure, n = 103. [5]In 2023, category is called "everything as a service."
Source: McKinsey Global Surveys on new-business building, 2022 and 2023

McKinsey & Company

McKinsey commentary

Belkis Vasquez-McCall

Partner

The survey highlights some significant continuity in terms of what sectors are prioritizing for their business-building efforts, and many of the trends are increasing. The focus on sustainability, for example, has increased in certain industries and highlights large corporations' turn to business building, in part, at least, to meet their environmental, social, and governance goals. It's striking to see, however, just how large a role technology has in generating and enabling not just new businesses but also new business models that generate value. The cloud and advanced analytics, for example, have enabled as-a-service capabilities, which are opening opportunities for businesses to shift to subscription models. That's important to bear in mind, because we still see too many companies turning to tech for its own sake and losing sight of where the value is.

It's worth noting with all the valid interest in technology, data, AI, and generative AI that physical products are still a core part of many companies' business-building strategies. In the life sciences sector, for example, companies will continue to develop medical devices. But many of them—whether they're large equipment, vehicles, consumer products, etcetera—are increasingly intertwined with the digital world. So not only will data and tech need to work together to deliver as-a-service capabilities, but they'll also need to be harnessed to deliver and support physical products too.

Respondents working in the energy and materials sector[7] are also less likely than last year to expect their companies to build physical products–based businesses, as their focus turns even more strongly toward sustainability-based businesses—particularly new energy businesses such as renewables and energy storage. (For more on expectations for sustainability-based businesses, see sidebar "Leaders continue to see opportunities in sustainability-focused business building.")

Respondents in the healthcare and life science sectors continue to expect to primarily build businesses around physical products. Yet they now show much more interest in everything-as-a-service businesses, compared with last year. Examples can include virtual-health-based platforms, benefit management applications, and medical robotics.

[7] This sector includes respondents working in agriculture, chemicals, electric power and natural gas, metals and mining, oil and gas, and paper and forest products.

Leaders continue to see opportunities in sustainability-focused business building

Surveyed business leaders' expectations for the number of environmental-sustainability-based businesses they will build have held steady since the 2022 survey, with about three in ten respondents predicting their creation in both surveys. We have found in previous surveys that new-business building is seen as a mechanism for addressing sustainability: companies with successful business-building records are more likely than others to consider sustainability a top reason to build new ones. This year's findings show that investors also consider sustainability an important reason for building businesses. Surveyed investors see new-business building as a way to pursue companies' environmental, social, and governance goals: meeting the demand for sustainable products and services is one of the top three reasons they think companies can benefit from new-business building.

Among respondents expecting to build sustainability-based businesses, the largest share predict that those businesses will focus on carbon-emissions reduction, in the form of new energy businesses and green manufacturing and industrials such as sustainable-steel production. Plans for green businesses differ by industry. Respondents in energy and materials and in transport, logistics, and infrastructure, for example, most often expect to build new energy businesses, while those in technology, media, and telecommunications are more focused on the water life cycle (exhibit).

Exhibit

Asset- and energy-intensive industries are most likely to prioritize new energy within sustainability-focused new businesses.

Type of environmental-sustainability-focused new businesses respondents believe their organization will build in next 5 years,[1] % of respondents

	Energy and materials	Technology, media, and telecom	Travel, logistics, and infrastructure	Total
New energy (eg, renewables, grid modernization, energy storage, alternative fuels)	53	33	51	42
Green manufacturing and industrials (eg, sustainable steel production)	31	52	42	34
Sustainable consumer products and packaging	18	22	38	29
Future of mobility (eg, battery electric vehicles, micromobility)	31	29	28	28
Circular economy (eg, single-stream recycling systems, electronic-waste recycling)	31	36	34	27
Software platforms (eg, smart-grid systems, AI for energy optimization)	11	41	40	26
Sustainable water life cycle solutions (eg, treatment, sustainable industrial-water supply)	27	54	26	24
Carbon credits and/or trading (eg, carbon-market platforms)	26	38	13	23
Green building construction and operations (eg, green building materials, high-efficiency equipment)	12	14	49	21
Green finance (eg, credit lines for green technology or sustainability projects)	21	24	12	21

[1]Only asked of respondents who said they expected their organization to build at least one environmental-sustainability-related new business in the next five years. Total share reflects respondents from all industries. Industries not shown had a sample size fewer than 45 in response to this question.
Source: McKinsey Global Survey on new-business building, 980 senior managers and C-suite executives, June 21–Aug 20, 2023

McKinsey & Company

Expectations are high for the role of generative AI

Respondents expect AI capabilities to facilitate new-business building in multiple ways, from enhancing new businesses' productivity to completely disrupting business models over the coming years. More than half of surveyed business leaders expect that AI capabilities will be necessary for new businesses built in the next five years—double the share for any other specific technology. Even though organizations' adoption of generative AI, in particular, is still in its early days, nearly half of surveyed business leaders anticipate that these new AI capabilities will accelerate their organizations' investment in new businesses.[8] Investors are even more likely to view generative AI as an accelerant: 75 percent of those surveyed expect generative AI to increase business-building investments.

Despite these high expectations, only respondents at organizations based in North America—where many of the leading commercial large language models have been developed—are much more likely than last year to expect their organizations to build new data- and AI-focused businesses in the coming years. And even last year, their expectations had outpaced most other regions'.

Seventy-five percent of surveyed investors expect generative AI to increase business-building investments.

[8] Forty-five percent of surveyed business leaders say that advances in generative AI will lead their organizations to increase their investment in new-business building over the next five years.

Looking specifically at expected uses of generative AI, we also see meaningful differences by industry, with respondents commonly anticipating that the uses that will underpin their new businesses' value propositions are the ones most relevant to their value chains (Exhibit 4). In the consumer sector, for example, respondents expect generative AI to help tailor the customer journey, while in travel, logistics, and infrastructure, respondents predict that scenario planning will be the most valuable application.

Exhibit 4

The generative AI uses that respondents expect to underpin their organizations' new businesses vary by industry.

Generative AI use cases that respondents say are most likely to underpin the value proposition of a business their organization will build in the next 5 years, % of respondents (n = 944)

	Advanced industries	Consumer goods and retail	Financial services	Energy and materials	Healthcare and life sciences	Technology, media, and telecom	Travel, logistics, and infrastructure	Total
Intelligent process automation	37	34	37	35	14	35	36	33
Smart customer journeys	25	41	30	29	26	29	29	29
Conversational interfaces	19	18	23	26	20	30	20	22
Personalization of content and/or services	14	29	37	18	23	20	13	21
Scenario and outcome simulations	22	11	26	18	12	16	41	20
Content generation systems	17	27	14	17	27	18	14	19
Synthesis and summarization	24	6	12	27	29	17	17	19
Copilots and virtual coaches	10	7	12	7	12	15	8	11

Source: McKinsey Global Survey on new-business building, 980 senior managers and C-suite executives, June 21–Aug 20, 2023

McKinsey & Company

McKinsey commentary

Paul Jenkins

Senior partner

Generative AI is on everyone's minds, so it's not surprising to see significant interest in it—as well as AI more broadly—reflected in the survey. As the survey indicates, the greatest immediate interest is in improving productivity through intelligent-process automation. That's a natural starting point, because it's something everyone can understand, and the value is quite straightforward. But it's important to note that this really is just the start.

I like to think of generative AI's impact as happening across three horizons. The first one is around productivity, which is where much of the energy is today. The second one is around innovation, where generative AI can enable totally new capabilities, such as mass personalization of communications, and offers to individuals a synthesis and summation at a speed and scale that were unimaginable before. And then there's a third horizon, where true disruption happens—and where the biggest opportunity for business building lies.

Any business that is based on knowledge or has lots of knowledge workers is squarely in this third horizon. With the power of generative AI, you can imagine certain kinds of services—from financial to healthcare—becoming available to more people, at a lower cost. Although companies' leaders seem to think that this horizon won't dramatically affect them in the next five years, that may turn out to be wishful thinking. And though there aren't yet many new businesses where generative AI is at the core of the value proposition, it would be wise to assume there are lots of people working to develop them. So that horizon might not be as far away as some people think.

Three factors of business-building success

When we look at successful new businesses—that is, those that met or exceeded expectations for scale or growth—and the organizations that build them, the results suggest three success factors, from how they make decisions to what kind of support they seek from outside their organizations. (To see one way the leaders of successful new businesses differ from those of other businesses, see sidebar "Diversity in new-business leadership is accelerating, and it matters.")

Discipline is linked with business-building success
The survey results suggest that the companies launching the greatest number of businesses—and having the most success with doing so—are taking systematic steps during the process.[9] Specifically, respondents at the organizations that are best at business building note a handful of mechanisms out of the 12 we tested that seem to underpin their success.[10] First, they have an established framework and process for launching new businesses—for example, approaches for testing market hypotheses and criteria for business attractiveness. They also have established partnerships and alliances or a process for putting them in place to support new business building, and they have a systematic method for monitoring and evaluating the new business's outcomes. These organizations tend to ensure that there is at least one C-suite sponsor to champion business-building efforts, and they hold regular meetings between new businesses' leaders and the core organization's senior leaders.

The number of mechanisms an organization has in place to assist with new-business building matters. Respondents who say their organizations have established five or more of these mechanisms to assist with new-business building report a higher volume of new businesses built (nearly twice as many) and a much higher success rate (2.4 times higher) than their peers at organizations with none in place (Exhibit 5).[11] In summary, it is about not only having a good idea, a few smart venture leaders, and corporate advantage but also incorporating structure and discipline in the business-building process itself.

[9] That is, organizations that respondents say have built on average three businesses per year in the past two to five years with at least half of those businesses having met or exceeded the organizations' expectations.
[10] The other mechanisms we asked about were having a mechanism for reviewing ideas for new businesses, a mechanism for sourcing and incorporating externally developed technologies, a process to review and purchase start-ups' offerings as an early customer, a dedicated team or unit for business building, technology and infrastructure necessary for launching new businesses, designated funds for business building, and a comprehensive training program for business building.
[11] The success rate was calculated by taking the average share of new businesses that respondents say are still operating and performing in line with or exceeding the core organization's expectations for scale and growth.

Diversity in new-business leadership is accelerating, and it matters

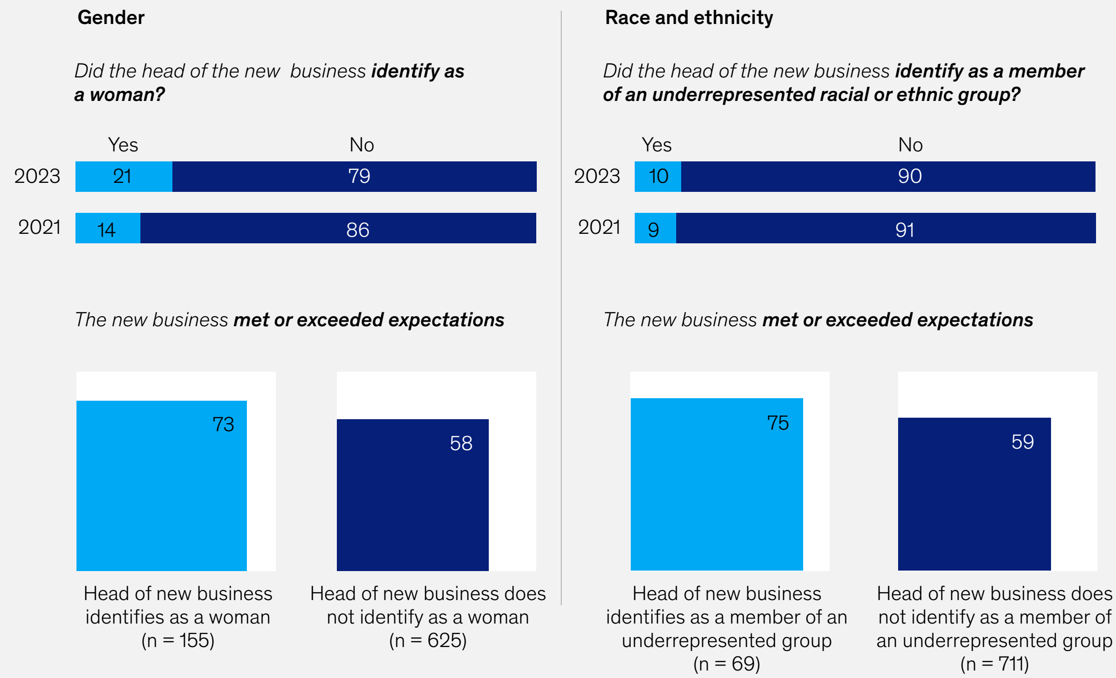
While leaders of new businesses do not yet reflect the makeup of the general population, the latest survey findings suggest that organizations are making strides. In our 2021 survey, 14 percent of respondents said that their organization's new business with which they were most familiar was led by a woman.[1] This year, that share jumped to 21 percent.

As previous research has found, there is a strong business case for diverse corporate leadership, and the latest results suggest that new businesses with diverse leaders are more likely to succeed than those without (exhibit). Respondents reporting new businesses that are led by individuals who identify as women, members of underrepresented racial or ethnic groups, or both are much more likely than others to report that the businesses have met or exceeded organizations' expectations.

Exhibit

Responses suggest that new businesses led by women or members of an underrepresented group are more likely than others to succeed.

New business's leaders and respondents' perceptions of new business's success, %



Source: McKinsey Global Survey on new-business building, 980 senior managers and C-suite executives, June 21–Aug 20, 2023

McKinsey & Company

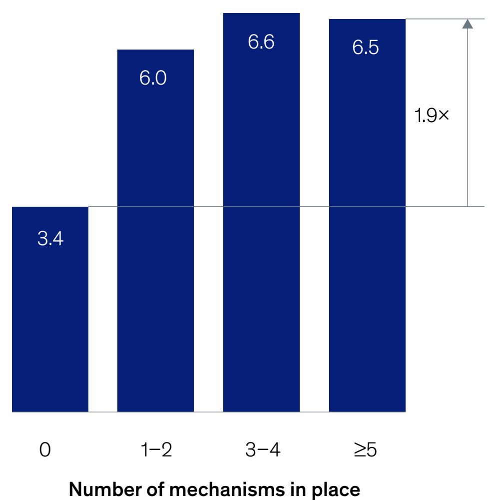
---

[1] "2021 global report: The state of new-business building," McKinsey, December 6, 2021.

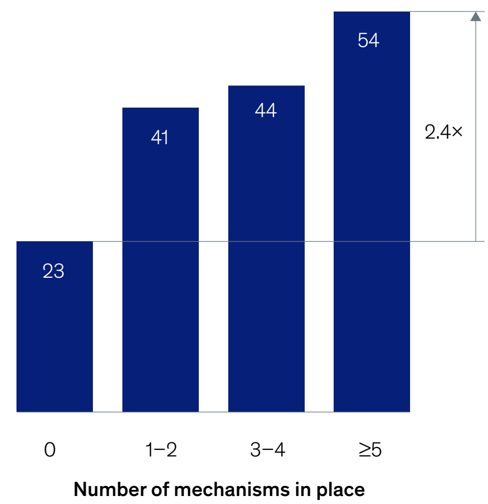
Exhibit 5

Survey responses suggest that organizations seeing the most business-building success—and the most businesses built—have mechanisms that assist them.

Average number of new businesses built in past 5 years by respondents' organizations, by number of mechanisms in place to assist with new-business building, number (n = 971)



Successful businesses[1] launched by respondents' organizations in past 2–5 years, by number of mechanisms in place to assist with new-business building, % (n = 693)



[1]The share of businesses that are currently operating and performing in line with or exceeding expectations for scale and growth.
Source: McKinsey Global Survey on new-business building, 980 senior managers and C-suite executives, June 21–Aug 20, 2023

McKinsey & Company

Successful builders don't do it alone

Successful builders[12] also know when to seek help from outside their organization. While nine in ten respondents say their organizations have used external partnerships at least to a small extent when scaling their new businesses, respondents from successful builders are nearly twice as likely as others to report using partnerships to a great extent in new-business building. Moreover, 64 percent of all respondents say their organizations' primary business-building strategies involve acquisitions, suggesting the frequency with which companies are moving outside their boundaries.

The findings also suggest that outside funding is a differentiator. For the second consecutive year, respondents reporting successful new businesses are more likely than others to say those businesses received venture capital or private equity investment while they were being scaled. Coinvestment brings not just money but also additional advice and challenges to new-business leaders' thinking that can benefit the businesses' valuation. Sixty-two percent of surveyed

[12] Respondents were asked to answer questions about the new business with which they were most familiar. Successful builders are those organizations that, according to respondents, built a new business that is meeting, exceeding, or significantly exceeding expectations for growth, scale, or both.

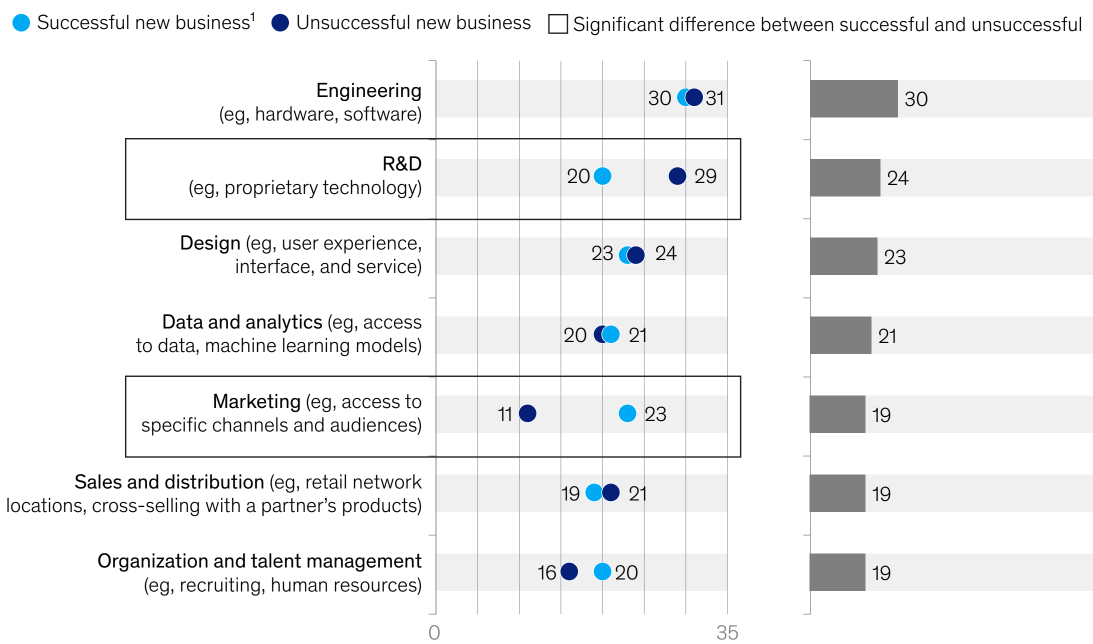
investors say the involvement of a recognized venture capital coinvestor in the new business would increase their valuation of that business.

Furthermore, the survey results suggest that accessing marketing capabilities is another key differentiator. Respondents tend to say the capabilities they accessed through external partnerships that were most essential to their organizations' new businesses were all related to building the business: engineering, R&D, and design. However, respondents reporting success are less likely than others to value the effects of external partners' R&D work, instead pointing to partners' marketing capabilities as essential to the new business (Exhibit 6). Other findings also show the importance of new businesses' access to marketing capabilities in general. Responses suggest that successful new businesses are much more likely than others to have materially used the core organization's marketing capabilities in their first year and beyond. This finding supports what we have observed at many companies building businesses: building them is often the easiest part. The biggest challenge is how to market and sell the new product or proposition.

Exhibit 6

Respondents reporting success point to the benefit of accessing external marketing capabilities, while others often view R&D as a key external capability.

Respondents who agree the given capability offered by an external partner was essential to their organizations' new business, %



[1]A successful new business is one that, according to respondents, is meeting, exceeding, or significantly exceeding expectations for growth and/or scale; n = 434. An unsuccessful new business is one that, according to respondents, performed below expectations or was discontinued; n = 273.
Source: McKinsey Global Survey on new-business building, 980 senior managers and C-suite executives, June 21–July 5, 2023

McKinsey & Company

The latest findings show that organizations with the most experience see higher success rates: they have 2.8 successful businesses for every underperforming one.

Expert builders succeed more often and fail faster
The survey results confirm that experience is the best teacher for new-business building. We learned in previous years that companies with significant experience building businesses are more likely than others to generate a higher ROI. The latest findings show that organizations with the most experience—that is, those that respondents say have built three or more new businesses per year—see higher success rates: they have 2.8 successful businesses for every underperforming one. For companies with less expertise, this ratio drops to 1.6. The most experienced organizations also tend to have the other success factors we identified—such as engaging with external partners—in place.

A closer look at organizations' success rates shows that experienced business builders have the confidence to shutter businesses quickly when they aren't succeeding, thereby increasing the success rate of the businesses that are still operating, while other companies do not have this assurance. These expert business builders are 1.4 times as likely as others to close an underperforming business than to continue operating it. Having a formal mechanism for monitoring the performance of the business—which the most experienced builders commonly have—can help organizations determine when to close a business.

McKinsey commentary

Markus Berger-de León

Senior partner

Building a start-up is one of the most difficult things to pull off. But it's striking from the findings in the survey that when companies follow a specific methodology, there is a clear linkage with success: there's a recipe, and the data shows that it works. Having this practical guide can be helpful for business leaders, who can often articulate their aspirations well but then have trouble leading the build.

It's not rare, for example, that in this vacuum, leaders will micromanage the new business team and follow their own tried-and-true practices, which may work well in a corporation but not so much in the start-up world. Or they'll take too much of a hands-off approach and then be surprised when things aren't going well. A clear methodology includes a set of hypotheses to validate, a road map, a KPI tracker, and a communications guide—each part of it provides a vital reference point for both the incumbent and the business.

Investors spell out how companies can maximize new businesses’ value

This year, we separately surveyed nearly 150 public-equity investors and equity analysts, and their analyses of new-business-building efforts reveal three ways business leaders can think like investors.

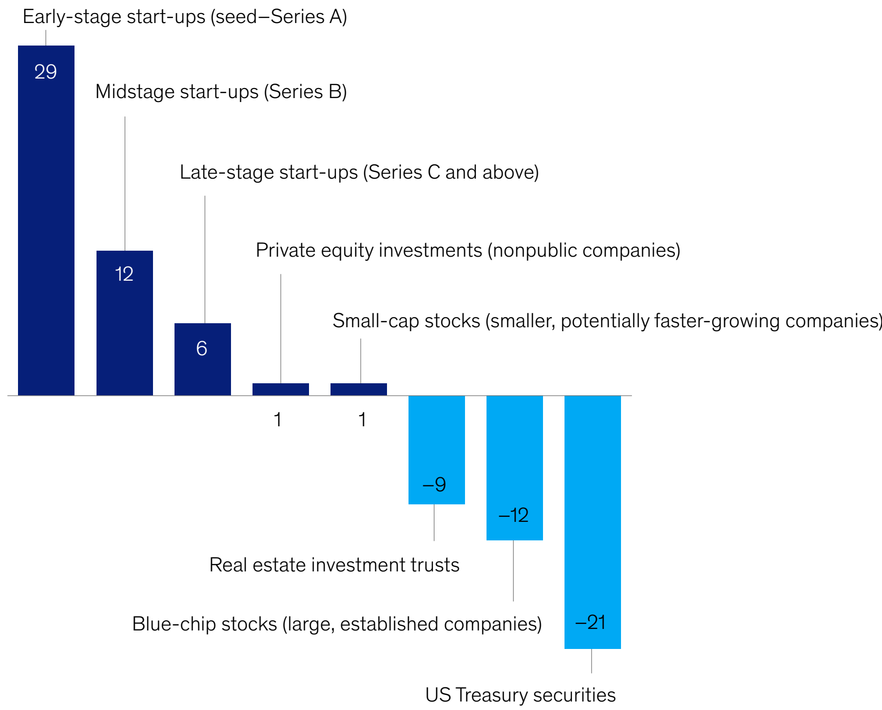
First, they can take a portfolio approach to business building. Investors understand the risks and know that success is not guaranteed. On average, their definition of an acceptable success rate for an organization building new businesses—30 percent—acknowledges that more than two out of three new businesses might never become viable, large-scale businesses.

The findings also suggest that investors consider new businesses to be less risky investments than any stage of a start-up, on par with investing in small-cap companies, while appraising these two types of businesses similarly (Exhibit 7). Eight in ten surveyed investors expect a new business built within an organization to be valued at least as much as—if not higher than—it would be if it were an independent company, such as a start-up. Furthermore, two-thirds of surveyed investors say that new-business building is an effective way of boosting an organization’s valuation.

Exhibit 7

Surveyed investors consider new businesses to be less risky investments than start-ups.

Percentage difference in investors' average risk ranking on a scale of 1–10 of each of the following types of investments, normalized against investors' risk ranking of investing in a new business built by an established organization, index (0 = risk level of new business built by an established organization)



Note: This publication is not intended to be used as the basis for trading in the shares of any company or for undertaking any other complex or significant financial transaction without consulting appropriate professional advisers.
Source: McKinsey Global Survey on new-business building, 143 public-equity investors and analysts, Sept 11–24, 2023

McKinsey & Company

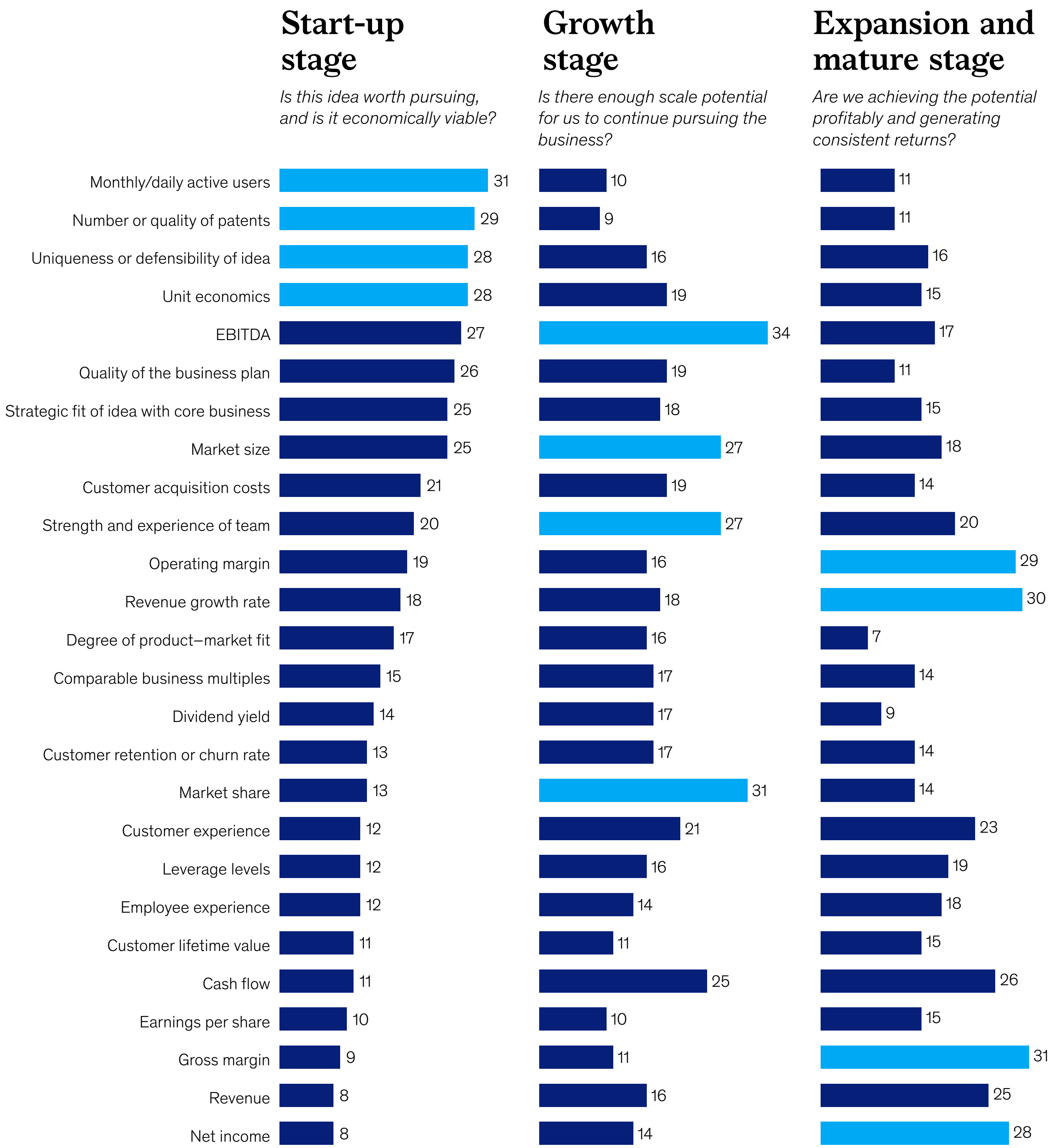
Second, business leaders should be patient rather than expect a speedy path to profitability. Investors are more patient than business leaders may expect—and may, in fact, be in less of a hurry than companies' leaders to see profits. On average, surveyed investors expect a new business to take nearly four years after the business is publicly announced to reach profitability.

Finally, business leaders can track and report different metrics at different stages in the building process, with a clear strategy for communicating progress to investors. Investors expect evidence of a business's potential and performance—be it of market demand up front or product–market fit later on—to look different at each stage of the new business life cycle (Exhibit 8). In the start-up stage, for instance, investors are concerned about whether the idea is viable and determine whether it's worth pursuing through metrics such as the number of daily active users. As the new business grows, investors want to understand its full potential. As the new business expands and matures, investors are eager to see its growth and profitability.

Exhibit 8

Investors prefer to validate different aspects of a business at each stage of the new business's life cycle.

Share of surveyed investors who say the given metric is a main metric they use when valuing a new business built by an established organization in the given stage,[1] % (n = 122)



[1]Start-up stage includes product validation, market testing, and initial customer acquisition. Growth stage includes scaling operations, customer acquisition, and heavy investment. Expansion/mature stage includes market diversification, product expansion, achievement of profitability, and efficiency improvement. Respondents who said "don't know" or "other" are not shown.
Source: McKinsey Global Survey on new-business building, 143 public-equity investors and analysts, Sept 11–24, 2023

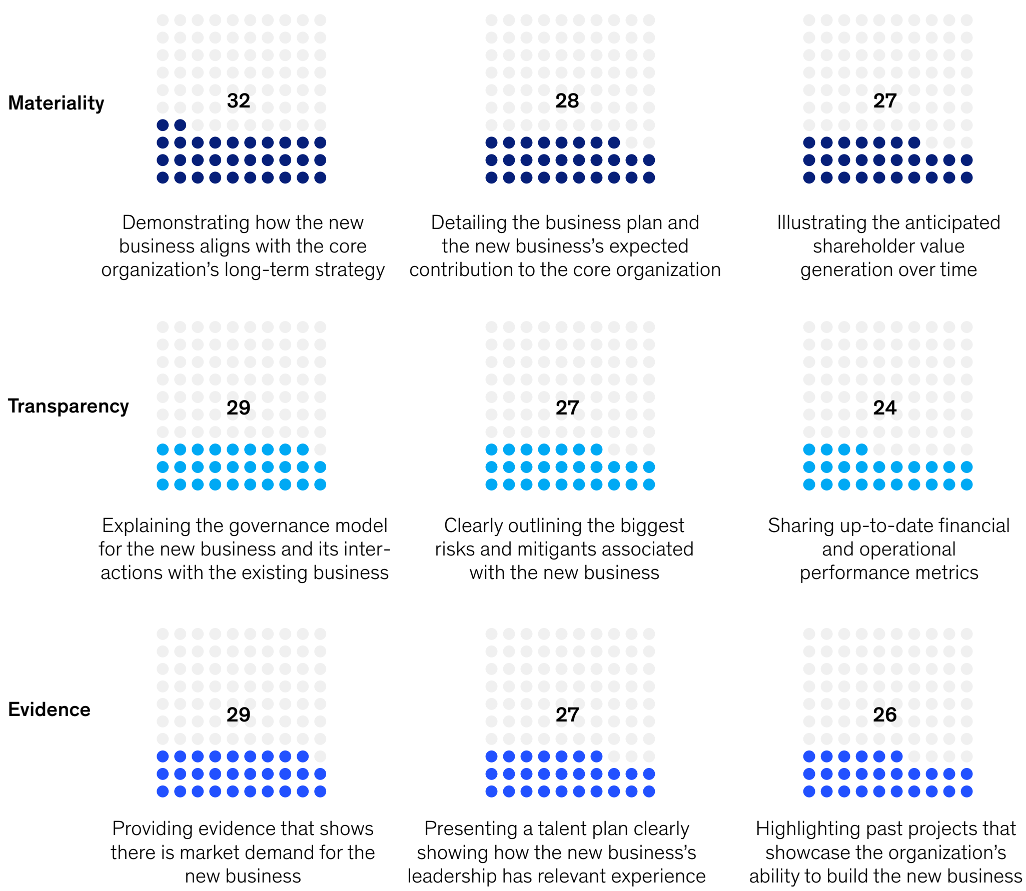
McKinsey & Company

Responses suggest that a multifaceted strategy for communicating with shareholders can help organizations realize the full value of their new businesses. When asked about the most important actions an organization can take with shareholders, investors say that an organization must clearly communicate the materiality of the new business, be transparent about its expectations for the new business, and provide evidence of the business's performance. The top way that investors say an organization can show a new business's materiality is to demonstrate how the business aligns with the core organization's long-term strategy (Exhibit 9). To ensure

Exhibit 9

Investors see three areas in which organizations should focus their communications with shareholders.

Investors who say a given action is the most important action an organization can take with shareholders to realize the full valuation potential of a new business, % of respondents (n = 143)



Source: McKinsey Global Survey on new-business building, 143 public-equity investors and analysts, Sept 11–24, 2023

McKinsey & Company

McKinsey commentary

Shaun Collins

Associate partner

We have often said that it's important for companies to take more of an investor approach when it comes to business building, and it's interesting to see some specifics on how that manifests. External investors, for example, are comfortable with a four-year timeline to profitability—and sometimes longer. They recognize that it takes time to build a strong business and that it requires what we like to think of as "active patience." That doesn't mean, of course, that companies sit on their hands for four years to wait for the outcome. They push, adjust, communicate, reallocate, learn, and adapt along the way.

The other point that stands out is that they expect 30 percent of new businesses to succeed: a success rate that might encourage companies to develop a portfolio of new businesses. We know from our other surveys that a portfolio approach is important for building the muscle to build new businesses—the more you do so, the better you get—but it bears repeating that not all of your new businesses will become big winners. That's OK, if you have enough businesses going. These two takeaways, in particular, should provide CEOs with significant reassurance that investors understand the dynamics of business building and will reward companies that embrace them.

transparency about new businesses, responses suggest that organizations can explain their governance models and interactions with the new businesses to shareholders; in previous years, we learned that the likelihood of success of a new business was linked with the degree of separation between the new business and the core organization. As to offering evidence of the new business's performance, investors most often say companies can show market demand for the business.

The survey findings suggest that investing in new-business building now can better prepare organizations for growth in the years ahead. Successful builders are developing not just a single business but a portfolio of new businesses. And broadly, successful business builders are putting together more diverse teams, building these businesses with discipline, overemphasizing marketing and sales, and involving external partners and investors in the process. They are seeing, as a result, new value creation and significant new revenues.

About the Authors

The survey content and analysis were developed by **Markus Berger-de León,** a senior partner in McKinsey's Berlin office; **Shaun Collins** and **Ari Libarikian,** an associate partner and senior partner, respectively, in the New York office; **Paul Jenkins,** a senior partner in the Oslo office; and **Belkis Vasquez-McCall,** a partner in the Southern California office.

They wish to thank Dominick Battaglia, Lilli Beard, Leonard Bessis, Eric Feddersen, Maria Ocampo, Barr Seitz, Gisa Springer, and Audrey Wu, as well as professors Thomas Maximilian Klueter (IESE Business School) and Felipe Monteiro (INSEAD), for their contributions to this work.

Find more content like this on the
McKinsey Insights App

Scan • Download • Personalize

Leap by McKinsey
November 2023

Designed by McKinsey Global Publishing

McKinsey.com

@McKinsey
@McKinsey