KPMG

Creating growth platforms

Working to deliver sustainable long-term revenue growth

Realizing value series

It is widely known organic growth is challenging, but well-rewarded. This is driven by one simple idea: organic growth is the best indicator of whether management has the necessary insight and judgment to make the best use of company resources. Growth platforms are a means to identify, prioritize and organize for growth. They are the potential business units or divisions of the future.

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The importance of organic growth...

…But the difficulties faced by organizations in delivering it.

For some companies, their culture is to aim high for growth (and risk missing) rather than low, but perhaps more realistically. We frequently hear executives declare they "want to grow faster than the market", a recent example being an executive at a global luxury company that set a target to double the size of their business in three years, without major acquisitions, in a market that was broadly flat.

Data from KPMG's 2015 Global Consumer Executive Top of Mind survey indicated about two-thirds of companies claimed they will grow by 6% or more in 2016[1], a level of growth that would put all of them in the top 10% based on growth performance over the last 5 years.

On the other hand, making 'safe bets' that focus on current products are likely to leave opportunities and value on the table that competitors or disruptors inevitably find and capture. A case in point is how the major drinks companies missed the 'craft' movement in beer and spirits. The transition to smart-devices in the mobile phone market is starker.

To a large extent, this is an organizational issue. Senior management want to demonstrate ambition in their part of the business, as a means to attract investment but perhaps also to further their own reputation and career.

There is another fundamental problem, however, in that many companies simply don't have a framework or process for growth. KPMG has looked at businesses across a range of industries and more often than not find that each business unit and division develops their growth plan in their own unique way, with varying levels of research, intuition and anecdotes. We find that some companies base growth plans on mega-trends in their market-place, but fail to prioritize specific opportunities to invest in. More generally though, it is surprising how many growth plans (that promise hundreds of millions of future sales) are based on limited data and insight compared to what is required for, say, relatively small capex investments.

In our experience, most organizations generate plenty of ideas to grow. Some are large and attractive, but farther from the core business and require new capabilities and time to realize. Some are smaller and incremental to the existing portfolio, and can therefore be captured more quickly, but don't necessarily move the needle. And many more lie in between. The problem is typically not generating ideas, it is what to do with them. What is needed is a means for businesses to validate and prioritize growth opportunities into a portfolio that can be managed across the organization and over time. That's where growth platforms can help.

Using growth platforms to deliver growth

Growth platforms are clusters of 'related' growth opportunities mapped and prioritized over a relevant time period where the clustering is based on one or more properties of relatedness, such as geography, technology, customer, channel, event, knowledge, and so on.

There are potentially unlimited properties of relatedness and they are the key link to drawing together opportunities into platforms that are both strategic in nature and material in scale. In fact, the creative thinking around relatedness can at times lead to breakthrough ideas. A global drinks company, for example, identified 'new trade' as a platform to encompass new environments for drinking beer: festivals, street markets, pop-up bars, and so on. Their traditional approach to growth centered on introducing new products and new formats into traditional trade channels and a significant new channel was an entirely different direction for growth.

The clustering of opportunities into robust growth platforms is increasingly important as disruption and sector convergence introduces competition from new business and operating models, new ways of interacting with customers as well as new propositions and pricing.

Growth platforms, by their very nature, are based on opportunities that cross market or segment lines and require cross-functional input. Thus, a growth platform mindset connects related opportunities, and in doing so, drives internal collaboration and efficiencies while working to transform a company's organic growth into business units or divisions of the future which respond to sector convergence.

By identifying clusters of related opportunities, companies can plot a course towards long-term, sustainable growth but at the same time avoid investing in the 'strays' – the isolated, one-off opportunities that look attractive but don't have a future. Growth platforms are designed to enable organizations to build up insight and scale investment over time as one opportunity leads to another, and because it is a portfolio, failure on one does not necessarily sink the platform. In every platform, small and medium 'bets' provide multiple pathways to sustainable growth.

Time horizons matter too of course. For industrial markets, such as chemicals and defense, growth platforms can be defined over ten years, possibly

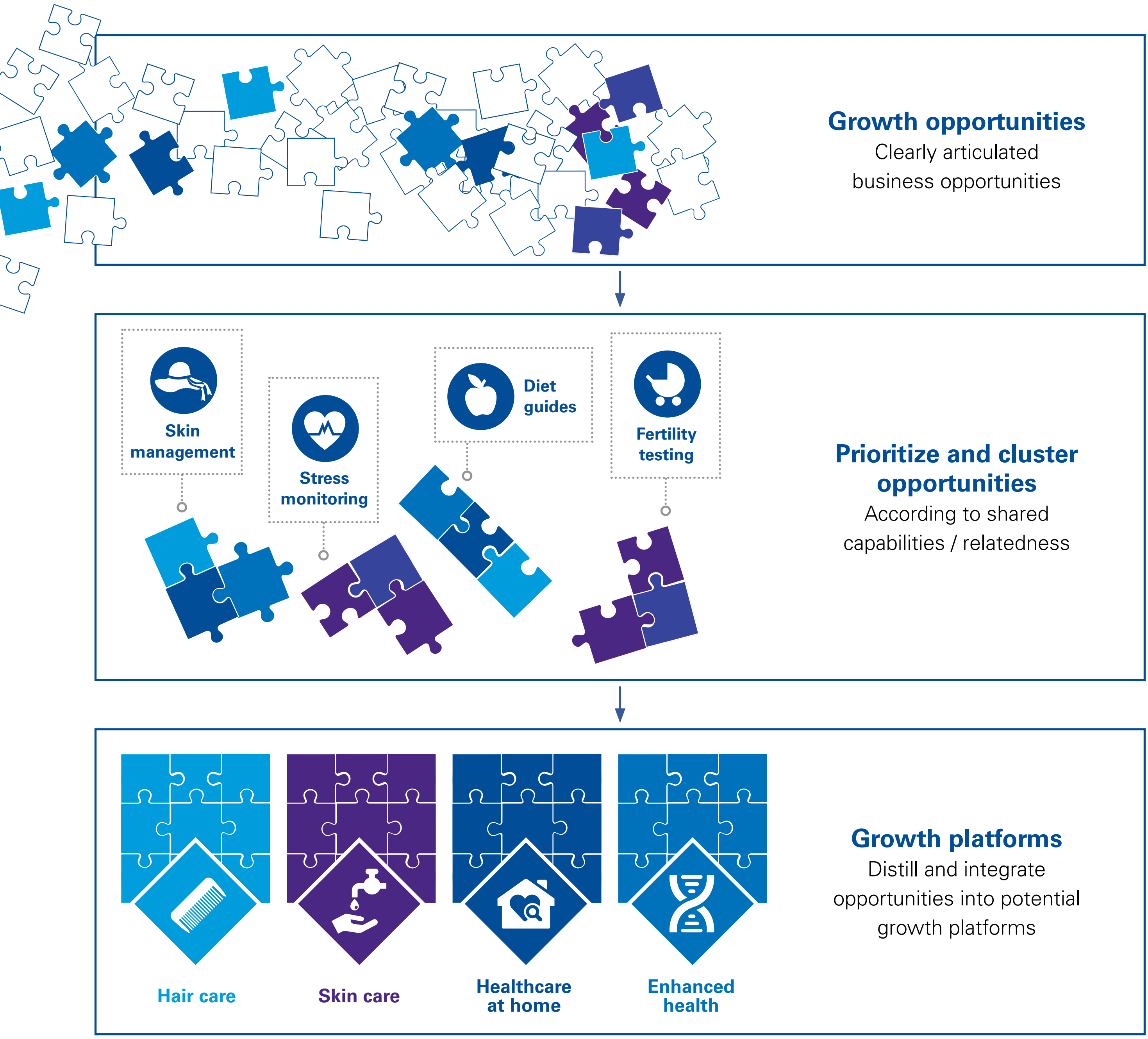
What is a growth platform?

The concept of growth platforms has been around for some time. As reported in the Harvard Business Review (May 2006), a research project conducted with Harvard and Insead titled 'The CEO Agenda and Growth'[2] approached 24 companies that had achieved significant organic growth. They talked to CEOs, chief strategists, heads of R&D, CFOs and line managers and asked them: 'Where does your growth come from?' All the companies grew by creating New Growth Platforms (NGP) on which they built families of products, services, and businesses and extended their capabilities into new domains.

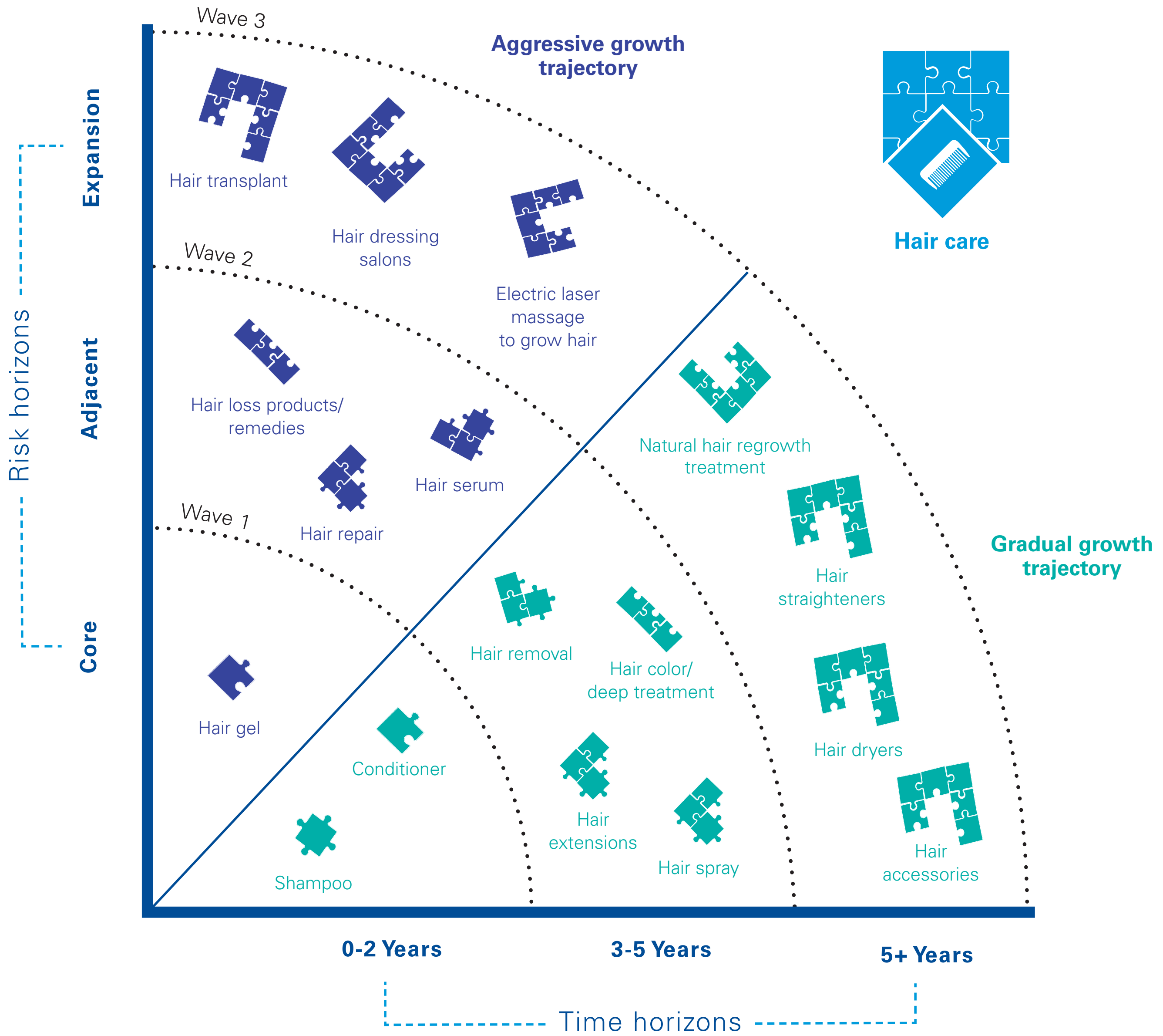
longer. For consumer businesses such as Fast-Moving Consumer Goods (FMCG) and telecoms, this may be three years at most given the rate of change in these sectors. Appetite for risk is also a critical consideration. An energy client we worked with recently is typical of how companies manage growth platforms against risk and time. They defined three risk horizons – core, adjacent and expansion – and mapped six platforms to deliver US$1.5bn growth over 10 years.

Taken together, the dimensions of time and risk define natural waves of growth within platforms. However, a growth trajectory that is more aggressive on the risk dimension and shorter in time is possible but will require more significant investments and potentially acquiring or partnering for capabilities. A more gradual trajectory invests more modestly and develops capabilities inhouse.

Basic health example[3]

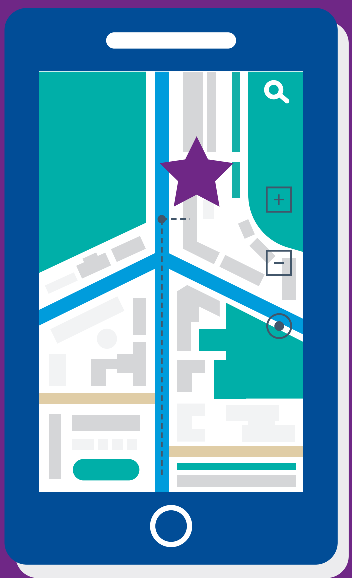


Hair care example[4]



Building sustainable growth capabilities

If growth platforms are the roadmap or blueprint, the challenge is to institutionalize growth as a capability and culture.



We have identified three key success factors from organizations we have worked with in terms of how to deliver the holy grail for executives: sustainable growth.

1. Set up operating models for growth

The first is that growth ambitions can only be realized when the company's operating model is set up for growth. The challenge is that priorities of functions and markets vary, both in objectives and timing, from investments in growth platforms. What manufacturing want to achieve in terms of production efficiency and unit costs and what sales want to deliver in terms of volume and margin are not likely to align with the trajectory and requirements of a new growth platform. By their nature, growth platforms are based on opportunities that cross-market or segment lines and require cross-functional input. Therefore, alignment is needed higher up the organization. In terms of timelines, growth platforms are anchored around 3, 5 or 10 years, whereas the core business operates largely with 1 or 2 year time horizons. To address these issues, some companies have created a new function or entity to house or incubate platforms with longer-term objectives. Others have established cross-functional leadership to ensure input from and alignment to the core business. The key lesson though is that growth platforms need to be treated as a "special case" if they are to succeed.

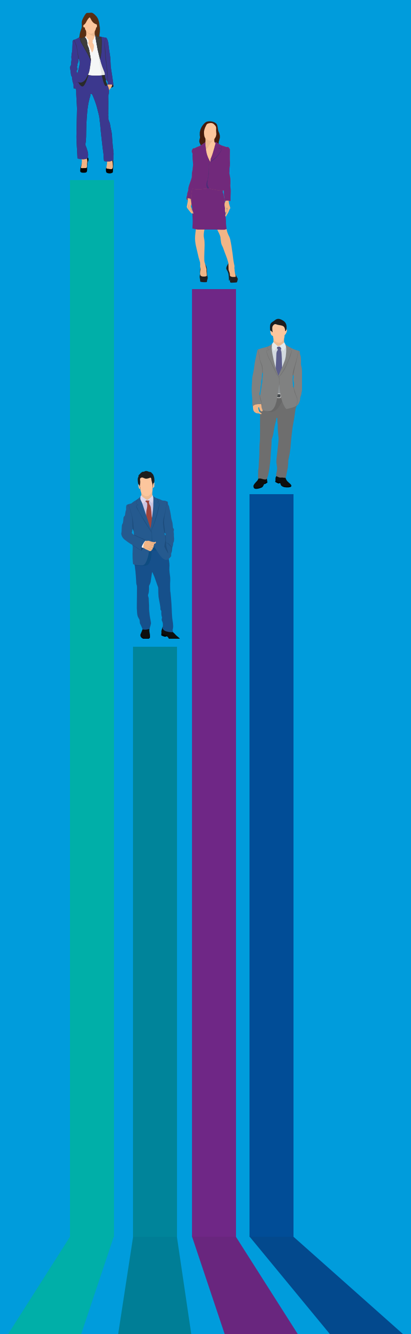
Our experience suggests there is a critical first step however, and that is to develop clear charters for each growth platform that combines the financial and business model objectives with the key operating model requirements, and to use these charters to get commitment from the organization to play their part. The flip side, however, is that growth platforms must not be completely disconnected from the core business (which can trigger the 'not invented here' effect), even if they are managed outside the everyday profit and loss infrastructure.

2. Maintain momentum during implementation
The second success factor is to maintain momentum and measure progress frequently and transparently. We see many cases of organizations that invest heavily up front in creating and organizing ideas into platforms but then 'let the business get on with it' in terms of implementation, and assume it will all be delivered. This approach is more or less guaranteed to fail.

Our experience is that growth platforms need to be managed carefully as a portfolio of investments with specific metrics that are not the same as for the more mature parts of the business. Momentum is key to success. Regular reviews and involvement by senior management to underscore the importance of new platforms and to ensure investment and focus is maintained, particularly through difficult periods when progress is slow or the rest of the business needs more attention. Growth platforms have a different risk-return profile than business as usual and so the temptation to minimize risk and expense by under-investing must be resisted.

3. Create an entrepreneurial environment for star talent
The third success factor is to ensure growth platforms are attractive propositions for the most talented employees. The companies that succeed in growing always have star talent leading their platforms and importantly recognize the different skill set required for success. In particular, platforms require more of a 'start-up' mindset and a willingness to take risks and to experiment. On the other hand, it's equally important that talented employees don't see growth platforms as a diversion in their career path and are willing to invest part of their career in platforms that are recognizably outside the core business and perceived as more risky.

In summary, growth platforms are clusters of 'related' growth opportunities mapped and prioritized over a relevant time period. They tend to be cross-functional and focused on longer-term time horizons. They require organizations to approach them as special case opportunities if they are to succeed, but this does not mean they should be disconnected from the business. Rather, success requires growth platforms to be staffed by strong team members, who have senior support, and operating models configured to deliver.



The path to growth

KPMG measured annual growth in developed markets for sectors such as consumer goods and industrial products at 2 percent or 3 percent over the past 3 years, at most. This sort of run rate will naturally lead some executives to conclude the path to growth is through acquisition, accepting the consequent risks. We would argue executives should take a harder look at opportunities for organic growth and use the concept of growth platforms to identify clusters of related opportunities.

When building the roadmap towards sustainable organic growth and delivering against this blueprint, executives should consider the three critical success factors outlined in this paper:

1. Set up operating models for growth
2. Maintain momentum during implementation
3. Create an entrepreneurial environment for star talent.

We believe this will be increasingly important as disruption and sector convergence change the dynamics of competition.

Reader comments

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1. KPMG Global Consumer Executive Top of Mind Survey, 2015
   https://assets.kpmg.com/content/dam/kpmg/pdf/2015/06/global-consumer-executive-top-of-mind-survey-2015.pdf

2. Creating New Growth Platforms, Harvard Business Review, May 2006
   https://hbr.org/2006/05/creating-new-growth-platforms

3. Proprietary KPMG analysis prepared as input to this report - not publically available

4. Ibid.

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