

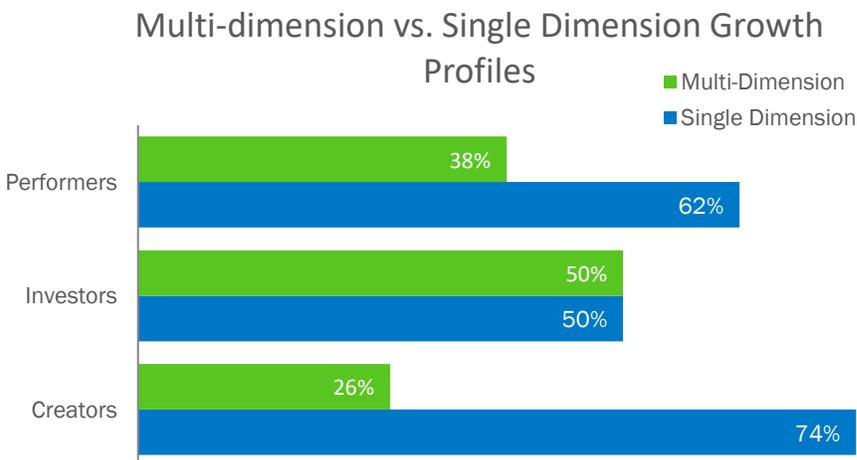
## Valitas Insights: What's your Growth Profile? The Dimensions of Organic Growth

We write regularly about growth through acquisition in our newsletter. This week, however, we are shifting our focus to the importance of organic growth. After all, as noted in the HBR article [Creating an Organic Growth Machine](#), acquirers need to generate organic growth in the businesses they buy to make their acquisitions successful. Cost synergies only go so far, generating cost savings that justify an acquisition premium in only 36% of transactions.

A recent [McKinsey article](#) examined the growth profiles of businesses that succeed at driving organic growth (“growers”). Drawing on survey results of almost 600 executives in the EU and North America, the authors found that growth strategies and behavior fall into three broad profiles:

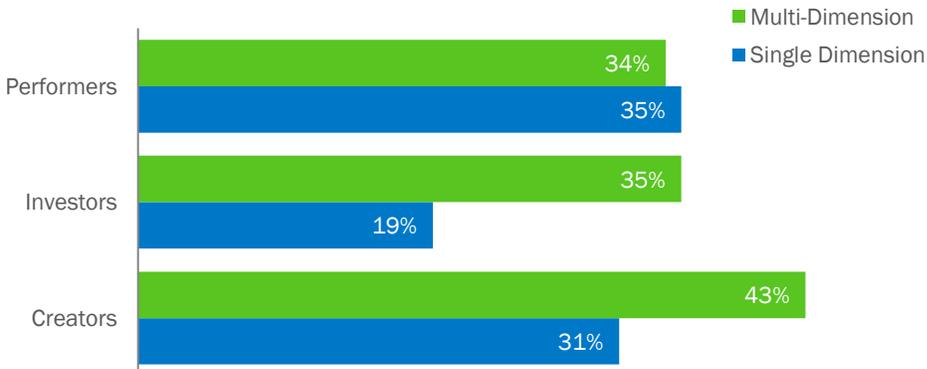
1. **Investors:** investors understand the sources of growth from their existing business segments, and will reallocate capital from underperforming to higher growth product lines or services;
2. **Creators:** creators drive growth by innovating, developing new products, services and business models; and
3. **Performers:** performers optimize their core commercial capabilities in sales, pricing and marketing.

While 60% of the survey respondents used one of these approaches as their primary growth strategy, the most successful growers<sup>1</sup> were those that used a diverse approach, layering one or more additional growth profiles onto their primary profiles.



<sup>1</sup> Companies with 4% greater growth rate than their sector's over the past 3 years

### Share of Significant Growers: Multi vs. Single Dimension Across Primary Profiles



As illustrated in the chart above, “investors” and “creators” benefitted significantly by adopting a multi-dimensional growth strategy. This makes intuitive sense – for example, growth in a “creator’s” new product line would be enhanced by strong sales and execution capabilities. Amazon serves as an [excellent illustration](#) of a multi-dimensional profile in action. Investment in new, promising categories and the creation of new services like Amazon Prime, all underpinned by streamlined processes, have played a combined role in contributing to the company’s continuous growth.

There is an additional factor that appears to boost growth across all profiles: advanced analytics capabilities. According to the McKinsey survey results, although only a small percentage of respondents had these capabilities, those that did were associated with the highest levels of growth.

As a practical conclusion, we believe that the following questions provide some direction and focus on the issue of organic growth<sup>2</sup> :

1. What is our unique advantage? (Can we exploit it as a creator or investor?)
2. How do we add value in ways that others do not? (Should we be allocating additional resources to those areas?)
3. What can we do better than our competitors that allows us to add value? (Should we bolster those processes?)
4. How can we build the kind of capabilities that will propel us forward over time?

With this framework in mind, management can emphasize one or another growth dimension, according to the goals they establish, and as one CEO remarked, “[know] when to pull the right levers at the right time”<sup>3</sup>.

<sup>2</sup> [Growth Needs to Come from the Entire Company, HBR Review](#)

<sup>3</sup> Neil Smit, CEO of Comcast, quoted in [McKinsey article](#), March 2017