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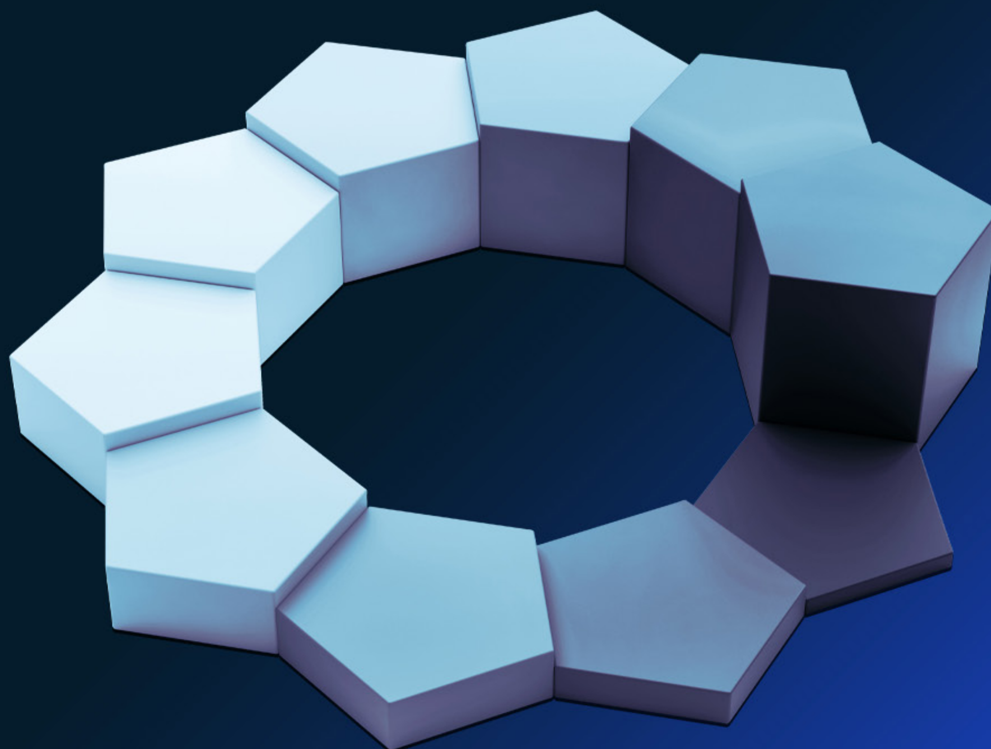
The ten rules of growth

Empirical research reveals what it takes to generate value-creating growth today.

by Chris Bradley, Rebecca Doherty, Nicholas Northcote, and Tido Röder



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One of the surest signs of a thriving enterprise is robust and consistent revenue growth. That has not been easy to accomplish over the past 15 years. Corporate growth slowed dramatically after the global financial crisis, with the world's largest companies growing at half the rate they did before 2008. Furthermore, increases in capital investments outstripped revenue expansion, compressing returns. Now, with a slowing global economy, rising inflation, and geopolitical uncertainty, growth that delivers profits and shareholder value may become more elusive still.

To buck these trends, business leaders need to follow a holistic growth blueprint consisting of three core elements: a bold aspiration and accompanying mindset, the right enablers embedded in the organization, and clear pathways in the form of a coherent set of growth initiatives. To help our clients identify these pathways, we conducted an in-depth study of the growth patterns and performance of the world's 5,000 largest public companies over the past 15 years.[1]

The research reaffirmed that revenue growth is a critical driver of corporate performance. An extra five percentage points of revenue per year correlates with an additional three to four percentage points of total shareholder returns (TSR)—the equivalent of increasing market capitalization by 33 to 45 percent over a decade. Firms that managed to grow faster and more profitably than their peers during our study period did even better, generating shareholder returns six percentage points above their industry averages.

However, relatively few companies could boast such results. A typical company grew at a measly 2.8 percent per year during the ten years preceding COVID-19, and only one in eight recorded growth rates of more than 10 percent per year (Exhibit 1).

Healthy growth has also been hard to sustain. When we compared our sample's performance in the first half of the last decade with the second half, only one in three companies that were in the top quartile of growth between 2009 and 2014 managed to maintain that rate in the subsequent five-year period. Among companies that grew predominantly organically, the rate was even lower, at one in four. This suggests a strong tendency for growth to revert to the mean.

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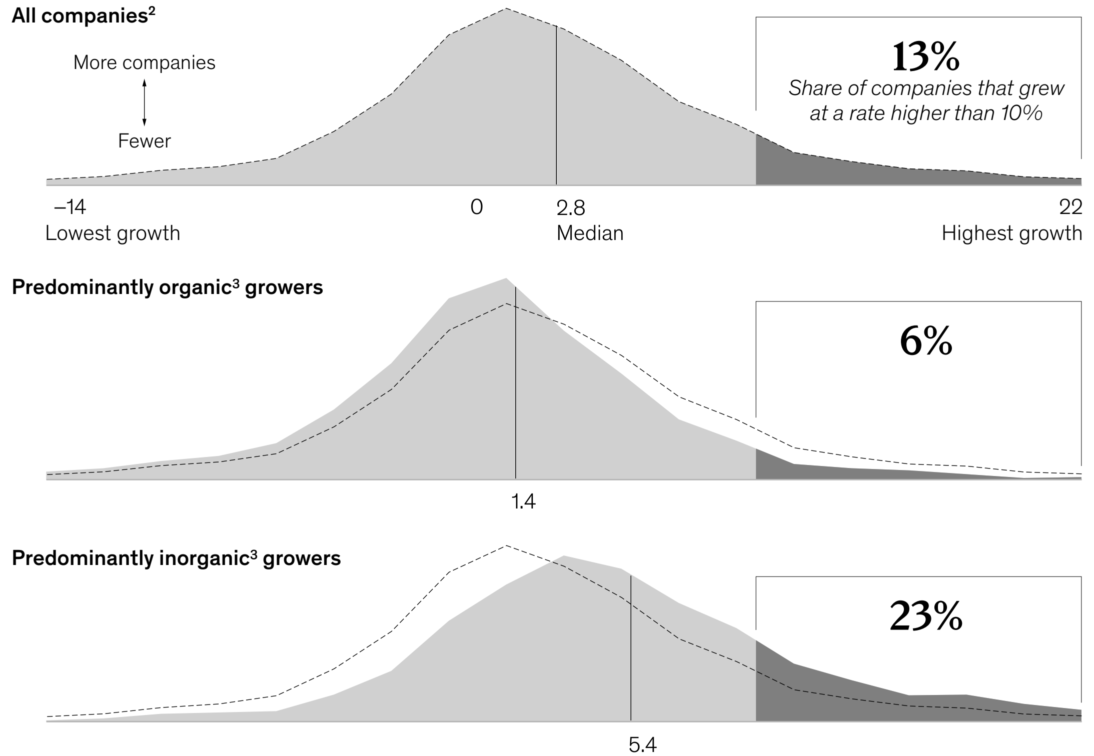
[1] Our sample consisted of the 5,000 largest publicly listed companies by revenue globally in 2019. Companies with unreliable or missing segment data were excluded from the sample. We studied the performance of these companies from 2005 to 2019, the 15 years prior to the COVID-19 crisis.

Exhibit 1

Growth is hard for companies to achieve.

Companies by revenue growth and growth approach, 2009–19, CAGR[1] %



[1] Nominal growth in dollars.

[2] Largest 5,000 publicly listed companies by revenue in 2009 with revenue and goodwill data from 2009 to 2019; 3,931 companies charted.

[3] Companies were classified as inorganic or organic growers, based on their M&A deal data, with organic defined as <1% of market capitalization acquired from 2010 to 2019. Companies with missing deal data were classified based on their net positive change in goodwill relative to starting invested capital (<15% = organic). Of the companies in the analysis, 59% were classified as organic growers, 41% as inorganic growers.

Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global; Strategy Analytics by McKinsey

Ten rules of value-creating growth

To understand how organizations can try to overcome these obstacles, we studied the growth patterns of the sample companies through various lenses. Our findings suggest ten imperatives that should guide organizations seeking to outgrow and outearn their peers.

1. *Put competitive advantage first.* Start with a winning, scalable formula.

2. *Make the trend your friend.* Prioritize profitable, fast-growing markets.

3. *Don't be a laggard.* It's not enough to go with the flow—you need to outgrow your peers.

4. *Turbocharge your core.* Focus on growth in your core industry—you can't win without it.

5. *Look beyond the core.* Nurture growth in adjacent business areas.

6. *Grow where you know.* Focus on growing where you have an ownership advantage.

7. *Be a local hero.* Commit to winning on the home front.

8. *Go global if you can beat local.* Expand internationally if you have a transferable advantage.

9. *Acquire programmatically.* Combine healthy organic growth with serial acquisitions.

10. *It's OK to shrink to grow.* Ruthlessly prune your portfolio if you need to.

We have quantified what it takes to master each rule, as well as the extent to which excelling at each improves corporate performance. The resulting "growth code" allows you to benchmark your growth performance and set the bar for your next strategy. The more rules you master, the higher your reward. But the bar is high—fewer than half of the companies in our sample excelled at more than three of the ten rules, and only 8 percent mastered more than five (Exhibit 2).

Put competitive advantage first

A high return on invested capital (ROIC) indicates a business model powered by a competitive advantage. Companies that generate stronger returns attract and deploy more capital, a virtuous cycle that enables them to grow faster and generate still higher returns (Exhibit 3). While some firms forgo profits for a time in pursuit of growth (with Amazon being perhaps the best known), the far more typical, and practical, approach is to establish a distinctive business model and then scale it.

For example, a department store chain had a business model—brand-name bargains in stores with low inventories and costs—that in 2007 delivered 5 percent higher ROIC than its cost of capital. The management team used this advantage to expand the store network from approximately 900 locations that year to more than 1,500 in 2019. As a result, revenue grew by 9 percent per year and the company generated an impressive 29 percent in annual shareholder returns.

Exhibit 2

The more rules you master to create growth for your organization, the better.

Revenue growth and shareholder returns by rules mastered, 2005–09 to 2015–19,[1] CAGR %

Number of rules mastered	Median growth	Excess total shareholder returns[2]	Share of all companies, %
0–1	–1.3	–1.1	20
2–3	1.3	–0.1	43
4–5	4.1	1.3	29
6–7	6.5	4.1	8
8+	6.8	5.7	0.3

[1] Largest 3,000 publicly listed companies by revenue in 2018 with an average revenue of >$1 billion in 2005–09, a reliable business segment, and TSR data; 1,621 companies charted.
[2] Excess total shareholder returns calculated as the company's annual shareholder returns less the median return in its primary industry.
Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

Exhibit 3

Markets reward strong business models.

Invested capital growth and shareholder returns by competitive advantage, 2005–09 to 2015–19,[1]
CAGR %

Starting competitive advantage[2]	**Median growth in invested capital over the next decade,** CAGR %	**Median revenue growth rate over the next decade,** CAGR %	**Median shareholder returns over the next decade,** CAGR %
<–2	0.4	0.9	4.5
–2 to 0	1.9	1.6	6.0
0 to 2	3.4	2.2	6.6
2 to 5	3.3	2.2	6.4
>5	5.3	3.0	8.2

[1] Largest 3,000 publicly listed companies by revenue in 2019 with an average revenue of >$1 billion in 2005–09, a reliable business segment, and TSR data; 1,621 companies charted.
[2] Average return on invested capital less weighted average cost of capital in 2005–09, a proximate measure of competitive advantage or economic surplus captured by the company. Shown in percentage points.
Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

Make the trend your friend

This age-old axiom holds especially true today as the acceleration of pre-COVID-19 trends widens the gap between corporate winners and laggards. Over the past 15 years, companies that expanded in ways that maintained or increased their exposure to fast-growing, profitable segments generated one to two percentage points of additional TSR annually. This suggests that organizations already in attractive markets should keep investing to stay ahead of the pack. Firms facing market headwinds, on the other hand, may need to aggressively reallocate their resources toward tailwinds, potentially staging large-scale pivots.

The selection of markets needs to be precise, however. In their best-selling book, *The Granularity of Growth*, our colleagues observed that many “growth” sectors have sluggish subindustries, while relatively “mature” sectors include rapidly growing segments. Take the telecommunications services industry, which grew at 1.6 percent per year over the period of our analysis. The fastest-growing company in the sector increased its revenues by 21 percent annually, while the slowest contracted by 9 percent per year. This dichotomy reflects the influence of acquisitions and divestitures, as well as portfolio choices—that is, varying degrees of exposure to segments with different rates of growth. The cloud services category is growing faster than voice services, for example, and the growth rates of each category vary widely by country.

Don’t be a laggard

Outgrowing your industry implies a strong business model—an advantage rewarded by capital markets whether you’re in a fast- or slow-growing industry. Furthermore, companies that manage to win market

share away from competitors are likely to beat the growth expectations reflected in their share price, unlocking even stronger returns.

Consider this tale of two retail companies, both of which grew at 4 percent a year between 2007 and 2017 but in different segments. A home improvement retailer achieved its growth in a category that grew at 3 percent annually, and the company generated annual TSR of 17 percent. A sports apparel company, in contrast, was outpaced in growth by its segment peers by one percentage point annually, and its shareholder returns were more lackluster at 1 percent per annum. While many factors could have affected these two companies' stock price aside from their growth rates, our analysis suggests that outgrowing your industry is worth, on average, an additional five percentage points of shareholder returns per year. Among companies that managed to achieve this while being more profitable than their peers, this figure was one percentage point higher still.

Turbocharge your core

When developing a growth strategy, often the first question on a CEO's mind is, "Where should that growth come from?" To help find the answer, we categorized revenue increases among our sample companies into growth within the core industry (their largest industry segments at the start of the study period), in secondary industries (smaller but still significant revenue contributors in the first year of our time frame), and in new industries (segments where the companies did not initially have a presence).

This decomposition reinforced the importance of a healthy core business. Put simply, it is improbable that you can achieve strong growth if the core isn't flourishing. Only one in six of the companies in our data set with core-segment growth rates below their industry median managed to achieve overall corporate growth rates above those of their peers. Therefore, finding a way to unlock growth in the core needs to be a top priority. For some organizations, this may require a wholesale revamp of the operating model. Others may need to identify granular pockets with growth potential in their existing markets or new ones and reallocate resources to them from more stagnant segments.

Look beyond the core

Our study found that, on average, 80 percent of growth comes from a company's core industry and the remaining 20 percent from secondary industries or expansion into new ones (Exhibit 4). However, these figures varied among sectors during our study period. For example, industrial companies generated a full third of their growth from new industries, while utilities consolidated toward their core business areas more than other sectors.

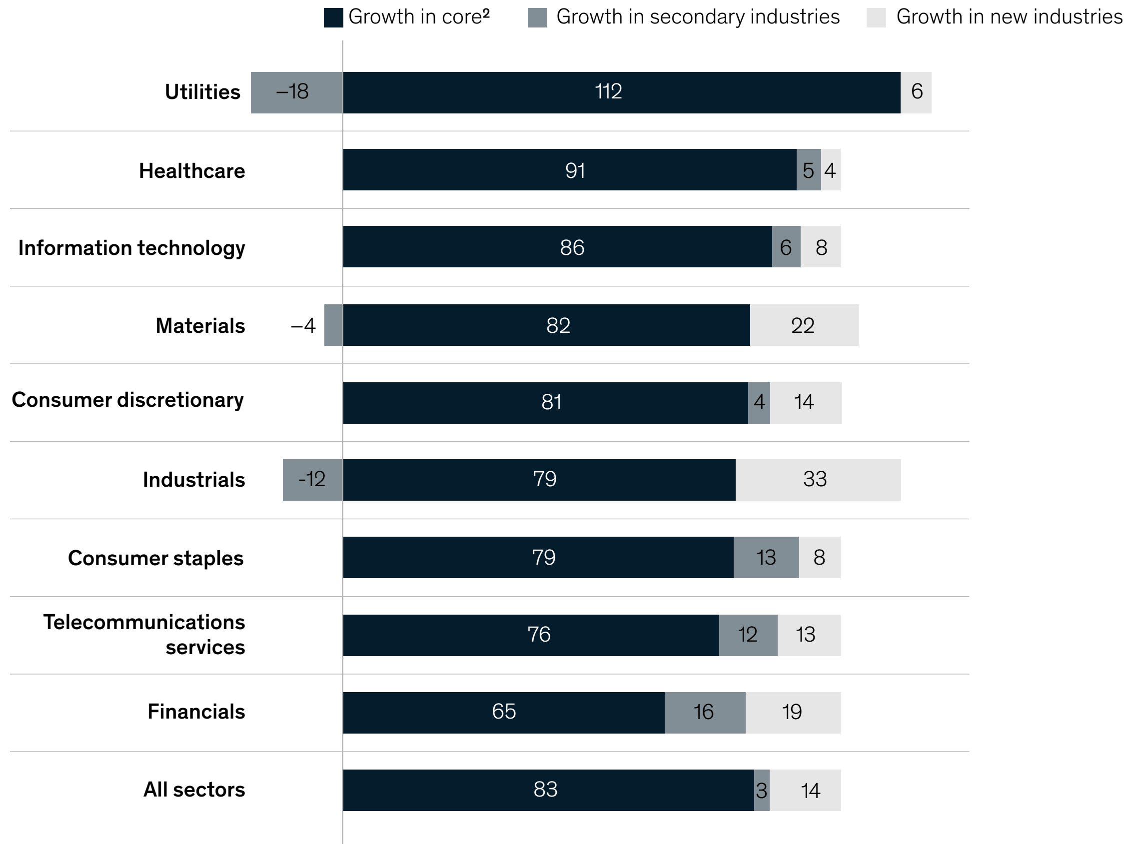
Companies that grew into adjacent industries generated, on average, an extra 1.5 percentage points per year of shareholder returns above their industry peers. One such company was a global automotive tire supplier that diversified into brake and safety system technology, powertrains, and vehicle connectivity and information systems. Together, these segments now account for approximately 75 percent of the company's total revenue, and its growth exceeded that of its peers by 2.4 percentage points per year. But examples of this strategy abound. The current transition to net-zero carbon emissions, for instance, presents many promising opportunities for companies in chemicals, construction, and other industries to expand into fast-growing adjacencies such as recycled plastics, sustainable construction materials, or meat substitutes, as demand for their legacy products declines.

For companies with fast-growing core businesses, expanding into new areas can help position their portfolios ahead of future trends. Those with slow-growing cores, on the other hand, can use adjacent businesses to offset slow growth elsewhere.

Exhibit 4

Only 20 percent of most organizations' total growth comes from beyond the core.

Share of revenue growth by growth type, 2005–09 to 2015–19,[1] %



Note: Figures may not sum to 100%, because of rounding.

[1]Largest 3,000 publicly listed companies by revenue in 2018 with an average revenue of >$1 billion in 2003–07, a reliable business segment, and TSR data; 1,595 companies are charted.

[2]We allocated each reported business segment to one of 130 industries and then used the following definitions: the core industry was the one with the largest share of revenue at the start of the analysis period; secondary industries were all noncore industries in a company's portfolio at the start of the analysis period; and new industries were those that a company entered during the analysis period.

Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

Grow where you know

As we saw, diversifying into adjacent segments can be a valuable growth strategy, but how similar should these segments be, both to the core and to each other? We used a simple measure: industries are similar if they often appear together in corporate portfolios (for example, cable and satellite together with broadcasting, or aerospace and defense with industrial machinery).

Our analysis shows that companies growing in a way that increases the similarity of their portfolios earn, on average, an additional one percentage point of TSR per annum. Those that expand into new industries can expect an additional two percentage points if the new industry is similar to their core (Exhibit 5).

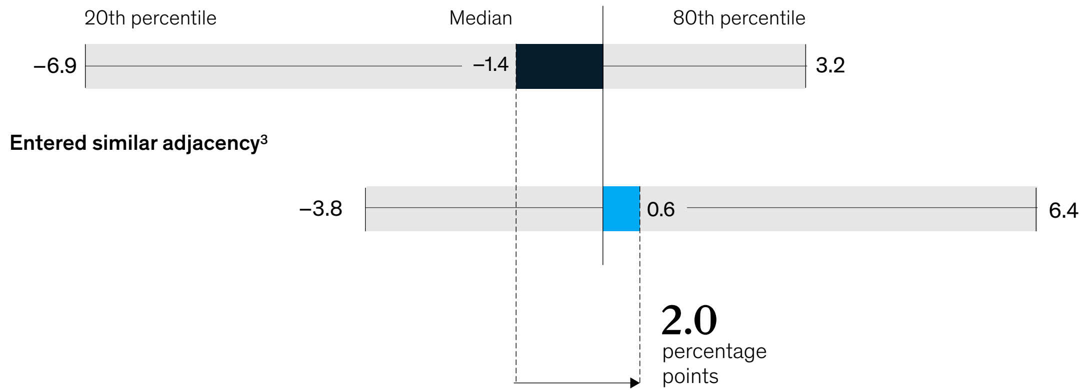
Why does similarity matter so much? We believe it is a proximate measure of whether a company

Exhibit 5

Companies that grew into similar adjacencies outperformed their peers.

Excess total shareholder returns[1] by similarity of new growth areas, 2005–09 to 2015–19,[2] %

Entered nonsimilar adjacency



[1]Excess total shareholder returns calculated as the company's annual shareholder returns less the median return in its primary industry.
[2]Largest 3,000 publicly listed companies by revenue in 2018 with an average revenue of >$1 billion in 2005–09, a reliable business segment, and TSR data; 1,621 companies charted.
[3]Top-quartile industry similarity score: we calculated industry similarity based on how frequently two industries occur together in corporate portfolios.
Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

is a natural (or best) owner of an asset and thus able to generate optimal value from owning or operating the business. This value could derive from synergies with other businesses the company owns, distinctive technical or managerial capabilities, proprietary insights, or privileged access to capital or talent. Take the example of General Mills' purchase of Pillsbury from Diageo. There was little overlap between Diageo's core business and Pillsbury's, while Pillsbury's and General Mills' businesses share many of the same competencies and assets. This enabled General Mills to reduce costs in purchasing, manufacturing, and distribution, and thereby to raise operating profit by roughly 70 percent.

Be a local hero

Industry (along with moves up and down the value chain) is only one aspect of the "where to grow" issue. The other is geography. Just as it is hard to achieve overall growth if your core business isn't thriving, it is unlikely that you can raise your growth trajectory without winning in your local market.[2] In fact, fewer than one in five of the companies in our sample that had below-median growth rates in their local region managed to outgrow their peers. Many members of this minority are companies in slow-growing regions, such as Japan, that offset lethargic local growth with aggressive international expansion. An air-conditioning and refrigeration manufacturer, for example, managed to offset slow growth in Japan by successfully expanding to North America and China.

Go global if you can beat local

Approximately half of the total growth by companies in our sample came from geographies

[2]Defined as the largest region in the portfolio by revenue. We allocated each business segment in a corporate portfolio to one of 12 geographic regions. The region that accounted for the largest share of revenue at the start of the analysis period is termed the local or home region, while all other regions are classified as international regions.

outside their home regions—an aggregate number fueled by Japanese and European companies that relied on international markets to compensate for slow growth at home. In faster-growing areas, such as China and North America, international regions accounted for closer to 30 percent of total growth.

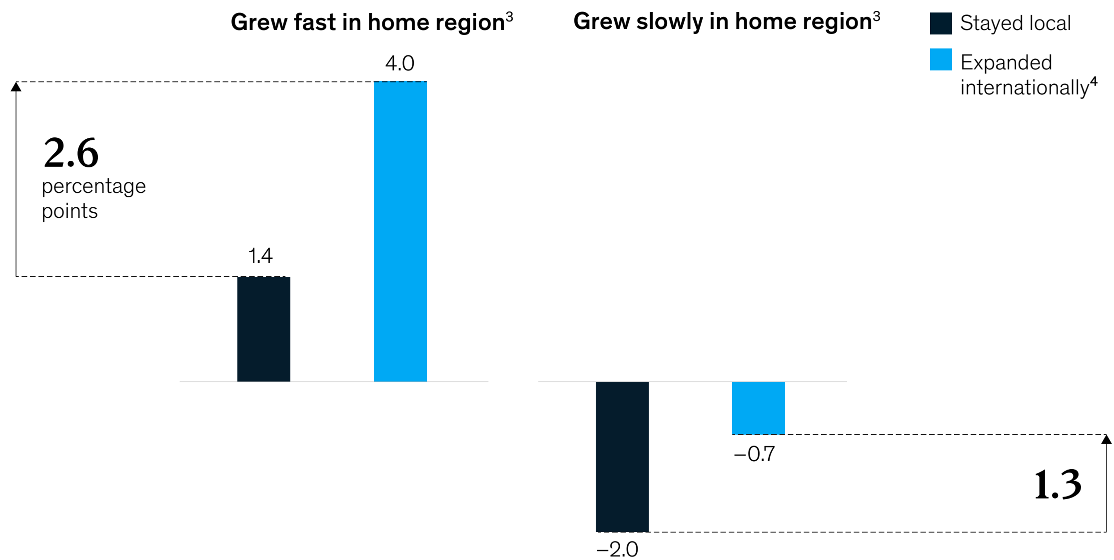
Companies that expanded internationally generated 1.9 percentage points more annual TSR than their industry peers, but those with healthy growth in their home markets benefited more than those merely treading water at home. The former category generated an additional 2.6 percentage points of annual shareholder returns through geographic expansion, while those that struggled locally gained only 1.3 percentage points—not enough to offset the performance drag from the weak home market (Exhibit 6).

To succeed at international expansion, it's critical to have a clear source of competitive advantage that is transferable across regions. Without it, foreign companies will probably struggle to compete with incumbents that better understand the local context. This reality may explain why

Exhibit 6

Organizations with fast growth in the home region can benefit most from international expansion.

Excess total shareholder returns[1] by speed of growth and expansion location, 2005–09 to 2015–19,[2] %



[1] Excess total shareholder returns calculated as the company's annual shareholder returns less the median return in its primary industry.
[2] Largest 3,000 publicly listed companies by revenue in 2018 with an average revenue of >$1 billion in 2005–09, a reliable geographic segment, and TSR data; 1,372 companies are charted.
[3] We defined a company's home region as the region (n = 12) with the largest share of revenue at the start of the analysis period; all other regions were classified as international regions. Grew slowly in home region was defined as growing below the median home region growth rate of all companies in the sample set (1.8% pa).
[4] We classified a company as expanded globally if its international growth in the ten years from 2005–09 to 2015–19 amounted to >20% of 2005–09 (starting) revenue. The companies were distributed across the four categories as follows: 29% were classified as stayed local and grew fast in home region, 34% as stayed local and grew slowly, 21% as expanded internationally and grew fast, and 16% as expanded internationally and grew slowly.
Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

companies that grow strongly at home benefit so much more from global expansion—they are more likely to have winning business models, aspects of which can be transferred to new regions.

The case of a high-performing European manufacturer of agricultural and municipal vehicles illustrates the benefit of venturing abroad from a strong home base. The company leveraged its equipment's stellar reputation to expand into the United States, where it continued to generate market-beating returns. On the other hand, when a European grocer that struggled in its home market expanded aggressively into Latin America, its TSR trailed that of its peers by seven percentage points per annum over the subsequent decade.

Acquire programmatically

Mergers and acquisitions account for approximately one-third of the revenue growth among companies in our data set. McKinsey's long-standing research into M&A strategies has repeatedly reaffirmed that it is not the total value of transactions but the deal pattern that drives shareholder returns. After segmenting companies into four categories, our colleagues found that programmatic acquirers—those that did at least two small or medium-sized deals a year along the same theme—outperformed peers using other M&A approaches.

We wondered whether programmatic acquirers outperform organic growers simply because they grow faster, so we extended the analysis to control for growth rates—in other words, comparing the performance of companies with different M&A strategies but similar growth rates. We found that programmatic acquirers still outperformed their organic peers. This suggests that even when companies that grow purely organically match the growth rates of their acquisitive peers, they are less likely to generate peer-beating shareholder returns (Exhibit 7).

Exhibit 7

Programmatic acquirers outperform, even when the analysis controls for growth.

Excess total shareholder returns[1] by deal pattern, 2009–19,[2] %

Growth pattern[3]	Revenue CAGR <0%	0–5%	>5%	All companies
Programmatic M&A	–1.0	2.8	5.1	2.1
Organic only	–2.7	0	1.5	0
All other M&A	–3.2	0.2	1.4	–0.2
Large deal M&A	–3.9	–0.4	2.3	–0.8

[1] Excess total shareholder returns calculated as the company's annual shareholder returns less the median return in its primary industry.
[2] Largest 2,000 publicly listed companies by revenue in 2018 with reliable M&A and TSR data; negative-growth companies not shown but same pattern holds; 1,990 companies are charted.
[3] Large deal was defined as 1 or more deals with deal value >30% of acquirer market capitalization (MCAP); programmatic as more than 2 deals pa; none as >30% of acquirer MCAP; organic as <2% of MCAP acquired over the period; 14% of companies were classified as programmatic, 26% as organic only, 16 percent as large deal, and 44% as all other.

Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

Today, many companies with legacy business models are using programmatic M&A to both digitize and enlarge their businesses. Take the example of a European publishing group that made more than 60 acquisitions over the past decade to expand its portfolio into digital media offerings: digital assets now account for more than 70 percent of its revenue.

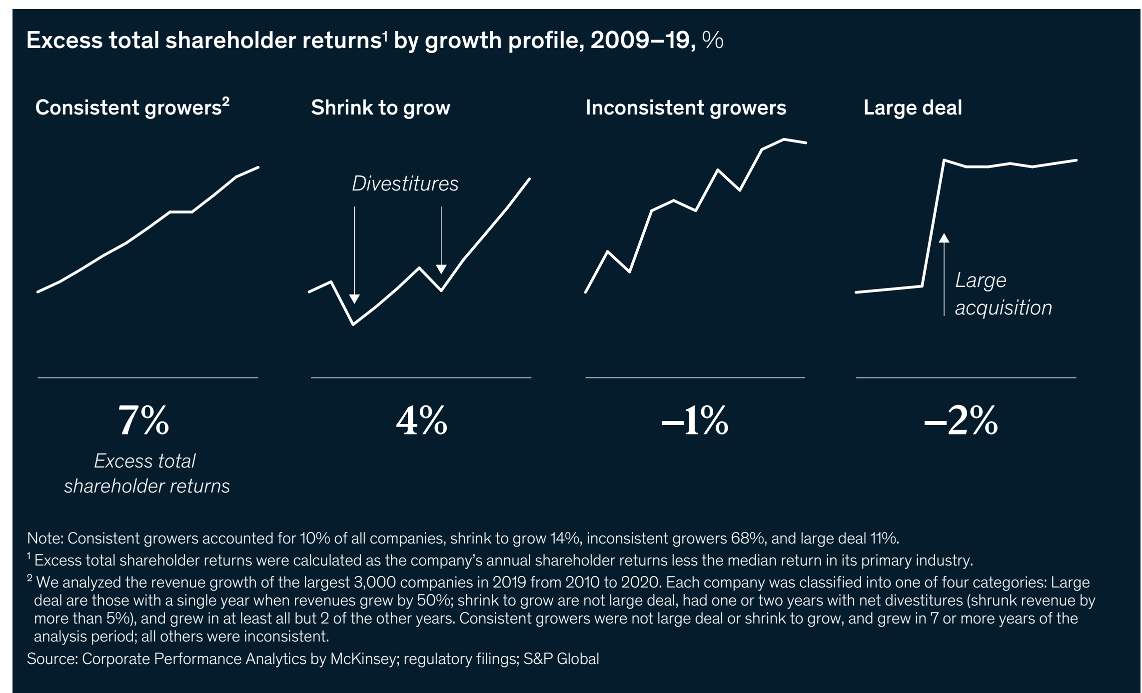
Why is programmatic M&A so powerful? First, practice makes perfect: programmatic acquirers build organizational capabilities and establish best practices across all stages of the M&A process, from strategy and sourcing to due diligence and integration planning. Second, those that pursue large deals often need to overpay to secure the asset and then must successfully integrate two businesses of similar size—something that's notoriously difficult to get right. Finally, doing many small deals enables companies to gain access to new markets or consolidate fragmented ones without the risk of "betting the house."

It's OK to 'shrink to grow'

Many management teams feel pressure to deliver consistent growth, which is understandable: the 10 percent of companies in our sample that grew for seven of the ten years between 2010 and the end of 2019 strongly outperformed their peers. But suppose you don't have this consistent growth engine? Statistically, the worst thing you can do is try to buy growth with a "big bang" acquisition. Your best option is to periodically prune back by divesting slow-growing parts of your portfolio and reinvesting the proceeds into new areas (Exhibit 8).

Exhibit 8

For companies that don't have a consistent growth engine, periodic pruning of slow-growing parts of a portfolio is the best alternative.



Note: Consistent growers accounted for 10% of all companies, shrink to grow 14%, inconsistent growers 68%, and large deal 11%.

[1] Excess total shareholder returns were calculated as the company's annual shareholder returns less the median return in its primary industry.

[2] We analyzed the revenue growth of the largest 3,000 companies in 2019 from 2010 to 2020. Each company was classified into one of four categories: Large deal are those with a single year when revenues grew by 50%; shrink to grow are not large deal, had one or two years with net divestitures (shrunk revenue by more than 5%), and grew in at least all but 2 of the other years. Consistent growers were not large deal or shrink to grow, and grew in 7 or more years of the analysis period; all others were inconsistent.

Source: Corporate Performance Analytics by McKinsey; regulatory filings; S&P Global

Companies in our sample that used such shrink-to-grow strategies divested assets in one or two years but grew consistently during the other years. They managed to generate five percentage points more annual excess TSR than inconsistent growers and large-deal acquirers. The key is not to confuse increasing scale with value-creating growth. For example, one Australian conglomerate has consistently divested less attractive parts of its portfolio, such as insurance, and put the proceeds into growth opportunities. Its shareholders have been handsomely rewarded, with a TSR of more than 10 percent per year from 2009 to 2019.

All business leaders have cost benchmarks. Now you have a growth benchmark, too. However, mastering the ten rules of value-creating growth is only one part of a holistic growth recipe. Start by developing a clear growth ambition: a quantum of growth that is more than just the momentum of your current businesses. Then develop a coherent set of growth pathways that encompass as many of the rules as possible. Finally, instill the capabilities and operating model to execute with excellence.

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