IN EARLY 2007, U.S. senators asked then-Lieutenant General David Petraeus how much sectarian violence might erupt if U.S. forces withdrew from Iraq. He admitted being uncertain: “It’s hard from this distance,” he said, to understand “the real granularity of what’s going on.”

The Senate questioners sought the big picture—something CEOs are continually told it’s their job to provide. Yet for that big picture to be meaningful, Petraeus needed “granularity”—which few chief executives have the time to pursue.

For most of the past century, CEOs have coped with this tension fairly elegantly by organizing their companies into business units and geographic...
Is Your Growth Strategy Flying Blind?

During the early twentieth century, a new organizational form emerged in the United States: the multidivisional company, in which business units corresponded to key product lines and shared a central set of resources. DuPont was an early pioneer, and Alfred Sloan took the form to fruition during the 1920s, when he reorganized a hodgepodge of companies and brands into the General Motors Corporation. By adopting this new structure, DuPont, GM, and many others honed their precision in making decisions, measuring performance, managing their workers, and organizing themselves.

Our research suggests that firms today can benefit from an even more granular approach than Sloan could have imagined possible. A snapshot of one large European manufacturer of personal-care products illustrates how (the unnamed companies in this article are disguised examples). The company has three lines of business and appears at first glance to labor in a number of low-growth markets (growth forecasts for the three divisions range from 1.6% to 7.5%). But a deeper look reveals a prodigious spread in anticipated growth rates among countries and product lines within each division. What’s more, some of the most promising segments in the company happen to reside in the division with the lowest overall growth forecast (see the exhibit “Unearthing Hidden Growth Segments”).

This is not an isolated phenomenon.

We reviewed growth patterns of global firms from 1999 to 2006 and found that the correlation between overall growth rates and sector growth rates increased dramatically for companies that had taken a granular approach to management and analyzed smaller slices. In other words, companies can get a much more accurate picture of their growth prospects by digging deeply into micromarkets (typically ranging from $50 million to $200 million in value) than by looking at the divisions commonly used for measuring, organizing, and managing.

Over the past decade or so, the rapid pace of innovation on the internet, and in the information and communication technology world more generally, has made that more feasible. To understand why, consider the basic economic problem associated with greater granularity. As companies target finer-grained market segments, the sales benefits typically increase quite quickly but then start to taper off as smaller and smaller variations are tried. At the same time, adding complexity by catering to a broader range of customer needs can boost costs sharply. However, as the cost of technology platforms drops, so does the cost of targeting ever-narrower segments of cus-

The Granularity of Growth

Growth Is Granular, but Most Companies Aren’t

During the early twentieth century, a new organizational form emerged in the United States: the multidivisional company, in which business units corresponded to key product lines and

Your company’s best growth opportunities may get lost in the big picture. To find them, look at markets and performance under a microscope. For example, one construction equipment and services company suffered stagnant growth until a highly granular market analysis identified pockets with $10 billion in untapped revenue potential.

To grow your business:

» Identify microsegments of customers, geographic regions, and products with the strongest market momentum.

» Invest resources (R&D, advertising, and so on) in those areas, and jettison low-growth areas.

» Restructure your organization to focus on the expanded number of priorities. For instance, assign each microsegment its own accountable leader. Some companies will need a team of 200 or more executives to head up new product clusters or geographic slivers.

IDEA IN BRIEF

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This article describes how the world has become more granular – through, for instance, the global expansion of markets and the impact of advanced information technologies – and the challenge that presents for companies as they try new ways of understanding their growth potential and then wrestle with the organizational implications of their enhanced understanding. It is meant to be a practical road map that builds on our recent book, The Granularity of Growth, with new analyses and descriptions of several companies’ experiences adopting more granular approaches to growth. It is increasingly clear to us that granularity and economies of scale can – indeed must – coexist, and that mastering this balancing act will confer competitive advantage through the downturn and once the economy begins to recover.
The Long Tail.

When companies take a more granular approach, they po-

tomers – as Chris Anderson argued in The Long Tail.

A few examples show what we mean. Let’s start with a well-known one: Ama-

azon, the online retailer unconstrained by physical storefronts, has a scalable, sophisticated IT platform and infra-

structure and delivers many of its books not from its own warehouses but via a virtual supply chain. As a result, Ama-

zon can efficiently indulge the tastes of narrow customer segments, literally down to the individual buyer, at very low marginal cost. Technology also en-

ables companies in emerging markets to build scale rapidly while continuing to take a granular approach. Ping An, one of China’s largest insurance companies (with more than 40 million customers), is able to manage a fragmented sales force of about 300,000 agents by using a mobile-based sales management platform, thus overcoming the lack of fixed-line telecom infrastructure in some regions. Similarly, packaged-goods com-

panies in Latin America are increasingly tailoring their product and service offerings, displays, distribution approaches, promotions, and incentives to the needs of microsegments of mom-and-pop retail outlets: Salespeople armed with wireless devices feed information to headquarters in exchange for concise recommendations on tactics.

Despite such possibilities, our expe-

rience is that a great many companies continue to measure, manage, and or-

ganize themselves on the basis of relatively aggregated data. These companies are likely to miss important shifts in their performance and their markets. Excessive aggregation also leads to un-

realistic performance targets, misinformed priorities, and mis-

directed leadership efforts.

Building Granular Understanding

When companies take a more granular approach, they po-

osition themselves for growth by making smarter decisions regarding everything from their R&D investments to their target markets to their advertising mix. Take the following three examples:

■ When a construction equipment and services business facing flat growth divided its global markets into thousands

of segments, it recognized several growth opportunities that had been starved of R&D resources because 85% of its invest-

ments had gone to support existing business activities.

■ A company in a knowledge-intensive industry shifted to more-granular management of its business units, driving its annual compound profit growth over 30% for each of the past five years. The company is adopting a similar approach for business development activities, going from a three-

segment to a 150-microsegment view of the market.

■ An integrated telecommunications service provider retooled its marketing mix – making fewer roughly calculated

IDEA IN PRACTICE

Many companies still steer divi-

sional strategy based on aggregated data. This big-picture practice leaves deeper levels of detail unseen, often giving managers a misleading view of performance. A granular approach can produce more-

rational – and more-rewarding – investment decisions.

EXAMPLE One large European manufacturer of personal-care products languishes in a number of low-growth markets. Divisional growth forecasts range from 1.6% to 7.5%, but an aggregated view of performance obscures the fact that the division with the lowest overall projected growth actually houses some of the company’s most promising segments. Moreover, within each division there is dramatic variation in performance at the microsector level.

Companies can grow in three basic ways: by gaining market share, by participating in fast-growing markets, and by acquiring or merging with new businesses. The authors’ research shows that the strongest contribution to overall performance comes from the vitality of the markets in which the company plays. The weakest contributor is market share – ironically, the area that traditionally commands the most management attention.

EXAMPLE A construction equipment and services business facing flat growth discovered hitherto neglected market-growth pockets by dividing its world into geographic, customer, and product slices. The exercise showed extremely small revenues and market share in the fast-growing market spaces, revealing more than $10 billion in untapped potential.

The ability to capture the performance of all three kinds of growth at a high level of granularity is neither cheap nor easy. Doing it well requires a significant expansion of the leadership team – in a large enterprise, perhaps hundreds more managers. CEOs can themselves be reluctant to go spelunking into the depths of divisions for which they’ve made others accountable. But if their conversations with business unit leaders can penetrate beneath the surface view, better strategy decisions will emerge.

EXAMPLE When the CEO of one large semiconductor company structured discussions with division chiefs to focus on performance at a much higher resolution, the company reallocated 30% of its R&D resources to previously unexamined markets where it had the strongest winning play. Two years later, it is growing much faster than the broader market.
Is Your Growth Strategy Flying Blind?

Unearthing Hidden Growth Segments

A large European multinational manufacturer of personal-care products has three divisions: hair care, personal hygiene, and organics (a three-year-old group that develops natural and organic alternatives to traditional offerings). Successively finer levels of disaggregation yield increasingly useful insights about revenue growth forecasts.

For an even more atomized breakdown of performance, see our heat map of a construction equipment and services firm in the exhibit “Backing the Best Bubbles of Market Activity.”

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**Insight 1** Ever finer slices highlight the areas worthy of investment—-and those that may warrant divestment.

**Insight 2** Of the three divisions, organics has the lowest overall growth forecast—-but that figure is misleading.

**Insight 3** Breaking down revenues by country reveals that organics is home to the company’s most productive region (Germany, where sustainability is an especially hot consumer issue).
media trade-offs (television versus direct mail versus radio) and instead selecting the right media within narrowly defined regions for specific lines of business (wireless versus land lines). As a result, it boosted sales between 10% and 15% in several regions and increased average lifetime customer value by 15%.

To seize opportunities like these, firms must examine both market potential and company performance in greater detail.

**Market potential.** Our research indicates that building a granular understanding isn’t simply about assessing segments and markets at lower levels of aggregation, though this is important. It is also about sizing up the sources of growth in a more precise manner. We see three distinct categories of growth: mergers and acquisitions, plus two types of organic growth – market share gains and portfolio momentum (that is, the growth of the markets in which the company plays).

We used multivariate regression analysis to calculate the relative importance of these three elements. All are meaningful contributors to growth, but the most important at the more than 400 companies we surveyed was portfolio momentum, which accounted for nearly half the total uptick. M&A performance came in second, at roughly one-third. Market share gains, a primary focus of many management teams, accounted for about one-fifth.

Companies trying to understand market potential may look at their overall growth rates in specific customer segments. In our experience, the simplest way of scrutinizing the underlying market momentum of the different parts of a company’s business is to create a heat map that shows the momentum and market share levels for the firm in extremely fine detail. To understand what this looks like in practice, let’s return to the construction equipment and services company that faced a flat growth outlook as its core markets matured. The sheer size of the company’s business and the rate at which the core markets were slowing made it virtually impossible to achieve meaningful growth rates by focusing on market share gains in established segments and regions.

When the company divided the business into geographic, customer, and product slices, it identified nearly 4,000 measurable growth pockets (see the exhibit “Backing the Best Bubbles of Market Activity”). This analysis showed that despite the slowdown in the overall market, fast-growing pockets held more than $10 billion in revenue potential. Furthermore, the company’s actual revenue in many of these intriguing growth pockets was extremely small.

This basic exercise of mapping each $50 million to $200 million growth opportunity on the dimensions of market momentum and current market share is enormously powerful. The former gives a feel for the strength of the wind at the back or in the face of each business unit. (It’s worthwhile to compare recent portfolio momentum rates with growth forecasts to paint a dynamic picture of the market and understand how a company is performing in light of expectations.) Market share, by contrast, describes the firm’s current position relative to others: Is it chronically underperforming in the market; is it still just wading in; has it achieved a viable foothold and earned the right to grow rapidly; or is it in a strong competitive position, such that maintaining its standing will be a key investment focus?

**Company performance.** Building an understanding of market potential is a good start, but companies can get far more rigorous by deploying a benchmarking approach that we have named the growth MRI (after the high-resolution medical-scanning technology). Anyone who has had a family member diagnosed with cancer will understand the importance of the MRI scan. For an oncologist to simply break the news that there is cancer would not be very helpful. Before deciding on the best course of treatment, the doctor must know what type of cancer it is, where it is, and how advanced it is. The growth MRI provides the same degree of specificity for chief executives seeking to grow their companies.

The conceptual underpinning of this approach is the relationship between shareholder-value creation and the three growth components (market momentum, market share gains, and M&A). When we assessed this relationship in the 400 companies we surveyed, we found that top-quartile performance in one growth component (even if coupled with bottom-quartile performance in another) was associated with greater shareholder-value creation than average performance across all three. Strength in more than one area, though rare, led to even better results for shareholders. Over time we have evaluated alternative ways of looking at growth and found that one figure offers the best correlation with shareholder-value creation. It is the number of components with top-quartile performance minus the number with bottom-quartile performance – or, the net growth rating. The growth MRI exposes the relative performance of each part of the business by benchmarking its net growth rating against a relevant industry threshold. Looking at the world in this way allows companies to identify areas of strong and weak growth and quickly point to priorities for investment or divestment.

To grasp the diagnostic value of the growth MRI, consider the following example of one large multinational with a diversified set of businesses. At the corporate level, the company has a net growth rating of zero, which equates with “good” performance. Looking at the company through a geographic lens reveals that two of its five regions are rated as “good.” Another, propelled by a tailwind provided by strong market momentum, is achieving “great” performance. On the bad side, two regions exhibit poor market share growth and are rated “poor.” It is already clear that the average “good” performance of the company as a whole masks the distribution of performance in the organization.

Cutting the data again, by line of business, reveals even greater variation. Of the company’s 16 lines of business, five rate as “poor” and one rates as “great” (the remaining 10 are
Is Your Growth Strategy Flying Blind?

Backing the Best Bubbles of Market Activity

THIS DIVERSIFIED MAKER of construction equipment (and, more recently, provider of logistics and project-management services) has four main divisions that operate in the Americas, Europe, and Asia-Pacific. Its offerings range from light to heavy specialized excavation and earth-moving equipment and cranes; it also provides support services such as site lighting, power generation, and mobile offices.

Because the highly competitive construction industry is hard hit by the economic downturn, the firm’s growth expectations of 6% will be challenging to meet. When performance numbers are rolled up to the division level, it is difficult to identify either promising market segments to pursue more energetically or those from which the company could profitably withdraw. Only by taking a granular view of the entire portfolio of activities (by individual product lines, customer segments, and regions) does management get a telling picture of both opportunities and liabilities.

That’s why the firm created this heat map, which shows roughly 4,000 pockets of the business. The bubbles are colored to correspond to the company’s four divisions and sized to represent the relative value of the business the company currently does in each pocket. The placement of a pocket along the horizontal axis indicates its market share; placement on the vertical axis indicates the segment’s momentum growth rate—how much wind is at its back.

It’s easy to see that more pockets fall below than rise above the company’s aggressive 6% growth target. What other insights can leadership draw from this highly granular view?

INSIGHT 1 Making further investments in the slow-growing, larger market-share pockets in the lower-right quadrant will almost certainly produce less value than equivalent investments in the faster-growing segments above the 6% line.

INSIGHT 2 In seeking to free up capital to redeploy to faster-growing pockets, the company should probably manage numerous below-the-line segments toward divestiture.

INSIGHT 3 By examining opportunities that are peripheral to or even outside its core business, the company discovered $10 billion in untapped revenue.

SAMPLE Power-generation business for public-sector customers in Dubai.
The real power of the MRI comes at the next level of granularity. It's possible to push the analysis to several hundred or even a thousand cells in order to get an extremely fine-grained look at which areas have tended to succeed and whether there are patterns by region or type of business. Without making things too complex, let's look at the exhibit “The Full-Growth MRI.” Nine of the 80 cells (the ones shaded black or dark gray) exhibit “exceptional” or “great” growth performance. Forty-nine of the 80 cells (the ones shaded light gray) are rated “good.” The remaining 22 “poor” cells impose a heavy performance burden on the company, accounting for low overall growth relative to competitors.

The MRI can help companies go further in identifying their growth challenges and opportunities. For example, only 15 of the company’s 80 cells exhibit at least top-quartile market momentum. The rest of the business – including cells with strong M&A or market share performance – doesn’t benefit consistently, as it should with a growth-sustaining wind at its back. To address this, the company is now investing resources in the areas with strong market growth and seeking to shed some of its low-growth holdings.

Managing Your Business in a More Granular Way
When a company takes a more detailed view of its activities, it shines a spotlight on areas that senior management has never before seen clearly. As aggregation and consolidation give way to precision, it becomes easier to identify previously hidden parts of the organization that are performing strongly – as well as those that are not. This can be an uncomfortable experience for senior executives, as it often has profound implications for the organization’s structure, people, and processes.

The impact on structure is the most apparent effect (though not necessarily the most important): More-granular management can lead to changes in how business units are grouped and the lenses used to view their growth potential. It also is likely to influence how many layers of management are needed, and which functions are shared and which have devolved to the business units. A question executives must always ask themselves is whether the benefits of centralization genuinely outweigh the benefits of focus and unambiguous accountability. This isn’t a new question – Alfred Sloan wrestled with it, too – but it’s one that companies may answer in new ways with a granular approach to strategy.

We’ve observed that the people and process issues are more important than structural challenges – and frequently take more time to get right because they are the guts of how most companies run. CEOs need to evolve how they lead and manage the increasingly granular organization. This means developing the ability to quickly reallocate resources as needed. It often requires CEOs to expand their concept of “top leadership” to encompass not dozens but hundreds of executives across the relevant performance cells. And it calls for overhauling how CEOs review and discuss results with those managers – whose own performance, when seen in a more granular way, may be revealed as exemplary or deficient.

Resource reallocation must be derived from insights about where growth pockets will be, not where they are now.
Is Your Growth Strategy Flying Blind?

Reallocating resources. A more-precise understanding of company performance and market potential will lead to resource reallocation, both within and across businesses. The goal, of course, is to target pockets of higher market momentum, thus increasing the growth rate for the company as a whole.

We have found that two guiding principles are imperative for effective resource reallocation. First, it must be derived from insights about where growth pockets will be, not where they are now. Take, for example, General Electric CEO Jeff Immelt’s announcement a few years ago that by 2010 the company would be investing $1.5 billion annually in renewable energy businesses. Second, it’s helpful to use zero-based budgeting (requiring managers to justify each expense rather than incrementally increasing the budget year after year) to unfreeze and correct past misallocations.

Zero-based budgeting was crucial for the construction company that had previously devoted just 15% of its R&D resources to growth-related activities. Taking a clean-sheet approach allowed management to make tough choices and free up resources for three major thrusts: investing in the more rapidly growing product areas, regions, and customer segments; trying to boost the underlying market growth of a large business that would be unwieldy to divest but could easily drag down the company’s growth prospects; and redeploying resources to fund acquisitions in an entirely new market area with the potential to equal or exceed in size the company’s existing business.

Acquisitions and divestments will be an important part of resource reallocation at most companies. Our research indicates not only that M&A is a critical source of growth for large organizations but also that taking a granular view will help them spot more situations where the only way to move quickly into a high-growth market space is through a targeted acquisition. Businesses revealed as poorly performing, in unattractive market spaces, should be jettisoned.

As firms begin to manage in this way, they will need to scale up their M&A capabilities. This means building the capacity to screen more deals, getting better at looking beyond purely financial criteria to growth potential and strategic fit, know-

Fighting Gravity in a Downturn

CORPORATE LEADERS have a choice as they work their way through a global downturn: Pull in their horns and ride out the storm, or look for opportunities to go on the offensive and get ahead of their competition. If past is prologue, most will follow the first course – and that will be a mistake.

To be sure, it’s an understandable mistake. As revenues slow and margins are squeezed, management naturally switches focus. The company protects its balance sheet, leading to the deferral of growth and low-priority investments, the shelving of large acquisitions, and the sale of assets. Many firms simply freeze under pressure: In the last downturn, the companies in our database with decreased revenues in a major business segment were one and a half times more likely than those with increased revenues to make no portfolio moves at all.

The best growth companies take the opposite tack, treating a recession as a time to increase their lead. They leverage the advantage created by their more-granular management approaches in at least three important ways:

FIRST, they cut discriminately. One client of ours, rather than reduce costs 20% across all business units, asked some “cells” within the organization to cut more than that so other especially high-performing pockets could be spared altogether. The same logic should apply if divestments are needed to free up capital; granular analysis can identify key assets to retain. Done thoughtfully, cost cutting can actually improve the company’s portfolio momentum and enhance the likelihood of outperforming peers in the future.

SECOND, such firms pounce on acquisition opportunities the downturn creates – and do so with an alacrity that is the stuff of legends (think of General Electric’s speedy dispatch of an army of deal makers to Asia after the financial markets took a dive in 1997–1998). Potential deals that may have been off the table might suddenly be viable again as asset prices fall. This is especially true for small- and mid-cap targets where drops in market capitalization threaten not just their growth strategies but their very survival.

THIRD, the best growth companies view a downturn as an occasion to take advantage of the competition’s weaknesses. As rivals cut costs and staff, they expose themselves to attack. We worked with one client to identify the 30 most attractive micromarkets where competitors became vulnerable through broad cost-reduction initiatives. The client formed special “blitz teams” to pursue aggressive market share gains in exactly those places.

We’re not saying companies should go on a spending spree in a downturn and tighten their belts in an upturn. Nor are we naive to the fact that some firms simply aren’t in a financial position to exploit the opportunities presented by downturns. But for large numbers of healthy, resilient companies and their CEOs, we hope our findings are a useful counterweight to their natural tendencies, which can lead to missed opportunities.
The Full-Growth MRI

Scanning an organization’s overall growth requires looking at three components: mergers and acquisitions, market share, and the momentum of markets in which the company plays. This chart depicts one company’s performance in all three categories, broken down by its five regions and 16 business units. (The absence of a bar for one or more components means its performance ranks in the middle quartiles – neither particularly good nor bad.) The overall growth rating, expressed as a number from 3 to –3 in the small box at the lower right of each cell, is derived by subtracting low-performing components (to the left of the vertical line) from high-performing ones (to the right). By including additional data cuts – product lines, customer segments, smaller geographic regions – this relatively simple 80-cell chart could grow to include hundreds or even a thousand cells.

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We agree that all CEOs need breadth of vision, but they also need a clear view down through the organization. Becoming more granular isn’t necessarily about dividing the organization into more business units (though it could be). Nor is it about collecting more data (many companies have all they need) or requiring more meetings (busy executives don’t have the time). Rather, greater granularity is about infusing existing structures and processes with better information and then refining them on the basis of that information. The IT and connectivity revolutions of the past 20 years have made it possible for companies to extract and act on meaningful insights at a more detailed level than ever before without massive investments or ongoing expenses. The growth leaders of the future will embrace the power of that possibility.

Some executives worry about the amount of time that this management approach demands. But thoughtful application of greater granularity in reporting, through the use of such tools as the growth MRI, can actually save executives time. The hidden issues affecting growth are brought to light immediately, making the dialogue between the CEO and the business unit much more specific and thus much closer to the reality of both the market and the internal organization. The dialogue can focus on solving the unit’s problems and executing agreed-upon solutions. In most cases, the number of issues discussed doesn’t increase, but the quality of discussion is greatly improved.

Large firms should devolve responsibility for growth opportunities not to dozens but to hundreds of leaders.

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