

2021 global report: The state of new-business building

Business leaders predict that by 2026, half of their revenues will come from products, services, or businesses that haven't yet been created. Here's how new-business building can help bridge that gap through sustainable, inclusive growth.



Business leaders expect half of their companies' revenues five years from now to come from products, services, or businesses that do not yet exist, according to the latest McKinsey Global Survey¹ on new-business building.² Given the ambition to develop these new revenue streams, many of which respond to sustainability goals and technological change, it is no surprise that a majority of respondents say business building is one of the top strategic priorities at their organizations—double the share of recent years.

In contrast to an M&A-only strategy (in which corporations buy or merge with established companies) and corporate venturing (in which they invest in external start-ups), new-business building makes the most of your core organization's existing assets and capabilities to create separate but linked businesses offering new products, services, or business models. These often address new markets and geographies. Moreover, and unlike M&A or corporate venturing, new-business building generates organic growth, which often creates greater excess returns to shareholders than deal making does.³ Examples of new-business building include Telkomsel's by.U, which provides prepaid cellular service aimed at Gen Zers, and the Lab at RXR Realty, which reimagines the tenant experience across residential, commercial, and mixed-use properties.

Our annual survey shows that the more new businesses you build, the better you get at building them; there's an experience curve that may explain why only a small segment of companies capture most of the growth from new-business building. Joining their ranks requires learning by doing. This year's survey examines the successful approaches of leading business builders, providing insights to get organizations up the learning curve more quickly. These include the crucial role played by the CEO of the parent company, the tricky balance between autonomy and centralization, the rationale for bolstering the new business through acquisitions, and the true depth of customer insight needed to succeed. Leadership matters, of course, and not just at the parent company: our survey found that new businesses led by women are more likely to succeed.

In the charts and text that follow, we will describe the survey findings in detail, starting with the urgent need companies feel to diversify the sources of their revenues to respond to sustainability challenges, shifting customer demand, and technological change.

A majority of respondents say business building is one of the top strategic priorities at their organizations—double the share of recent years.

¹ The online survey was in the field from July 6 to July 23, 2021, and garnered responses from 1,178 C-level executives, senior managers, and business-unit, department, or division heads 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.

² In the survey, we defined business building as the creation of new products or services where a company does not have an existing footprint or the building of completely new business models.

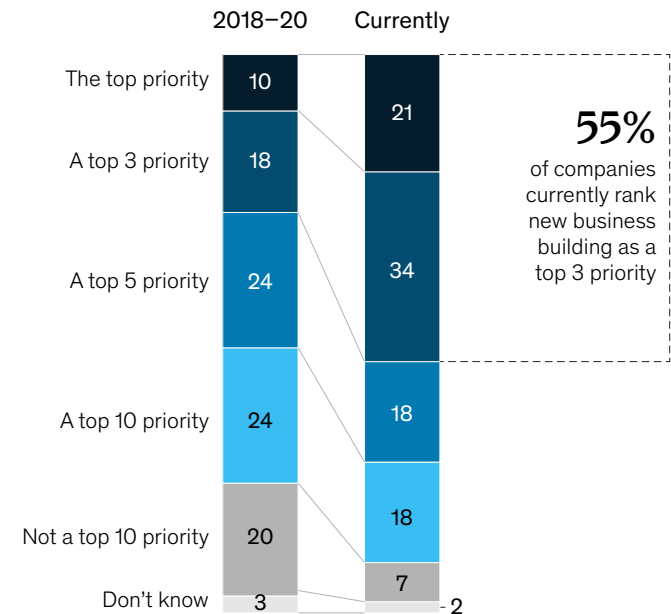
³ Marc Goedhart and Tim Koller, "The value premium of organic growth," McKinsey, January 19, 2017.

Why building new businesses is becoming more urgent

New urgency. Companies are more likely now than in previous years to concentrate on building new businesses. More than one-fifth of surveyed business leaders name building new businesses as their companies' top strategic priority, and 55 percent consider it a top three priority—nearly double the share who said it was such a high priority for their companies between 2018 and 2020. CEOs are now twice as likely to say it's the top priority than they were in previous years.⁴ This new urgency is a global phenomenon: a majority of leaders in every region say the topic is a top three priority.

The share of executives viewing business building as a top three priority has nearly doubled in recent years.

Importance of building new businesses at respondents' organizations,¹
% of respondents (n = 1,178)



¹Figures may not sum to 100%, because of rounding.

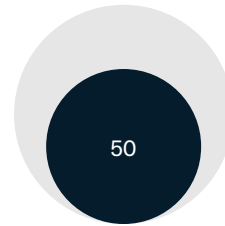
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⁴ Twenty-four percent of surveyed CEOs say that new-business building is the top strategic priority at their organizations.

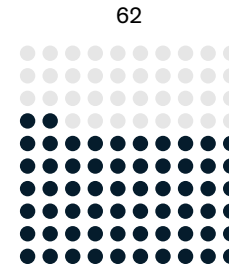
New revenues. The urgency for building new businesses directly reflects survey respondents' belief that today's products and services will be insufficient for addressing disruptions and meeting a sustainable future. More than 80 percent of respondents say new-business building will help them respond to disruption and shifts in demand, while 62 percent of respondents are prioritizing new-business building to generate one or more new revenue streams. Respondents foresee that five years from now, half of their revenues will come from new products, services, and business models. Some of these new revenues may be driven by large-scale efforts to address sustainability issues, but the rapid pace of technological progress is surely another factor. No matter the reason, respondents across industries consider new-business building critical to companies' financial health: 24 percent say it will be their companies' primary source of new revenue growth.

Executives are looking to bring in half of their companies' revenues from new products, services, or businesses by the year 2026.

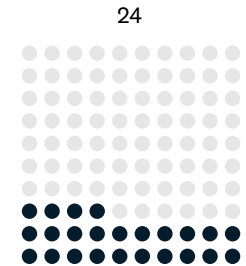
Share of company revenues that will come from new products, services, or businesses, 5 years from now, average,¹%



Share of respondents who say their companies are prioritizing new-business building to generate new revenue streams,²%



Share of respondents who say new-business building will be their companies' top source of revenue growth, next 5 years,³%



¹Respondents were asked, "To achieve your organization's enterprise-wide revenue ambitions for 5 years from now, what share of that revenue do you expect will come from its current products and/or services (including upgrades and new versions)?"; n = 1,178.

²Question was asked only of respondents who said new-business building is at least a top 10 strategic priority for their companies; n = 1,069.

³n = 1,178.

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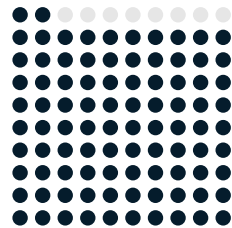
The sustainability imperative. Sustainability plays a significant role in new-business building: more than nine in ten respondents say they'll build new businesses at least in part to meet demand for sustainable products and services. Additionally, 42 percent expect to put sustainability at the center of their new businesses' value proposition. But the survey also suggests it's early days for companies looking to address their sustainability goals: nearly 80 percent of respondents say their new businesses don't track sustainability targets relating to carbon footprint or other environmental impacts.

Many respondents say new businesses will address sustainability, yet few businesses track sustainability metrics.

Sustainability in new businesses, % of respondents

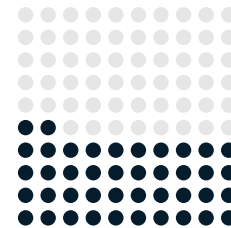
New businesses built in the next 5 years will address sustainability to some extent (n = 1,178)

92



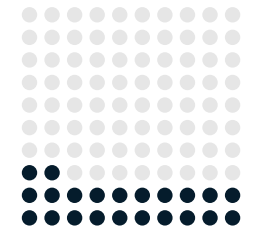
Sustainability will be part of the value proposition for new businesses built in the next 5 years (n = 1,178)

42



New businesses regularly track sustainability metrics (n = 1,032)

22

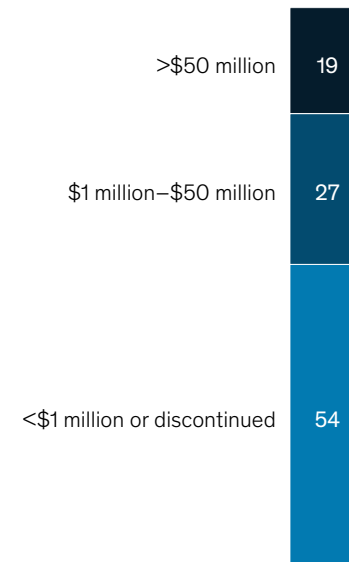


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New-business building is difficult. It may surprise few observers to hear that new businesses often fail to scale. Four or more years after launch, at least 80 percent of all new businesses haven't scaled beyond \$50 million in annual revenue, according to respondents. More than half of new businesses have fallen short of \$1 million in annual revenue—or have been shut down entirely.

Less than one in five new businesses achieves annual revenues beyond \$50 million.

Annual revenue generated by new businesses,¹
% of new businesses reported by respondents



¹Respondents answered about new businesses that their organizations launched between 2011 and 2017; n = 1,041.

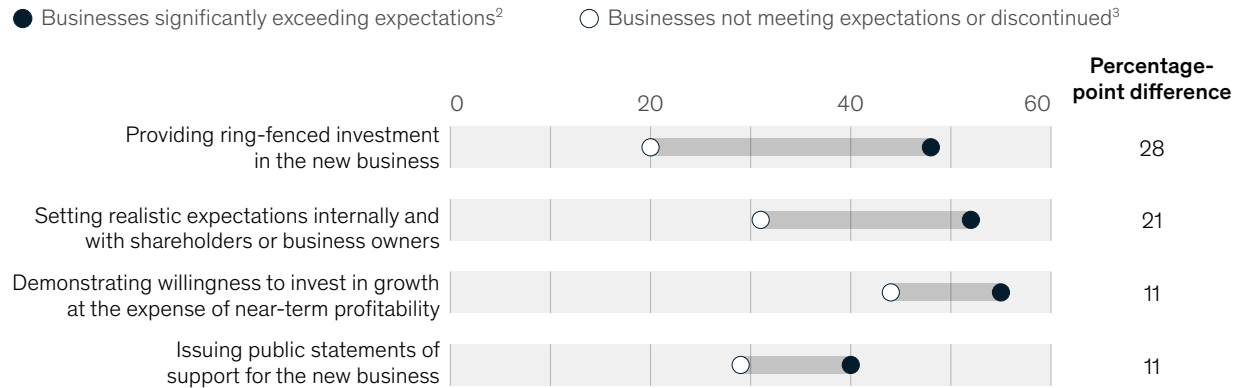
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How to build successful new businesses

The role of the CEO. The CEOs of core organizations have an active role to play to ensure new businesses' success. We identified four specific actions that, according to respondents, CEOs of companies that successfully built a new business are much more likely to take than the leaders of organizations with underperforming businesses.⁵ These CEOs ring-fence investment in the new businesses and are willing to invest in growth, even at the expense of near-term profitability. They also set realistic expectations with both internal and external stakeholders on the businesses' investment needs and time to profitability, and they voice support publicly for the new businesses. The survey found that when CEOs took all four of these actions, their new businesses were 1.9 times more likely to be successful than the new businesses overseen by other CEOs.

Successful CEOs take four key actions to support their companies' new-business building.

Actions taken by core organization's CEO,¹ % of respondents



¹Out of 11 actions tested. Respondents answered about the new business with which they were most familiar.

²Respondents who described the new business as "significantly exceeding the core organization's expectations for scale or growth"; n = 161.

³Respondents who described the new business as "performing below expectations for scale or growth" or "discontinued"; n = 276.

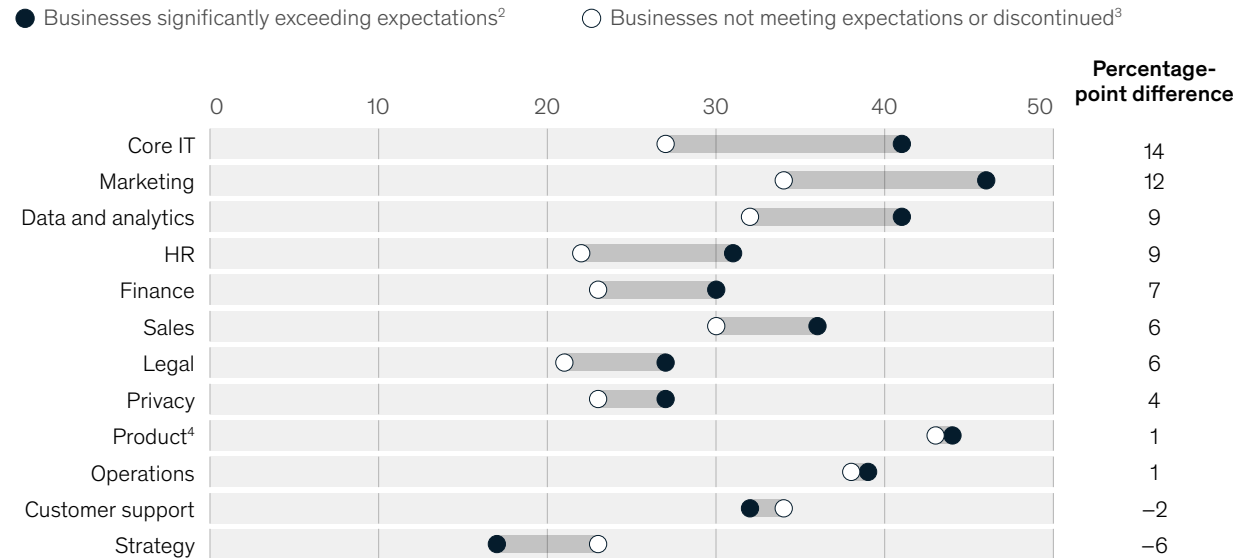
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⁵ A successful new business is one that, according to respondents, significantly exceeds the core business's expectations for scale or growth. A business that underperforms is one that, according to respondents, does not meet the core business's expectations or has been discontinued.

The right amount of autonomy. The survey suggests that successful business builders grant their new businesses considerable autonomy in core IT, marketing, and data and analytics. In these areas, the core organization's tech stack or operational processes may often be too cumbersome for swift-moving new-business building. Successful business builders are also more likely to keep the HR function separate from the core business, which can help new businesses compete with start-ups for talent. Despite these degrees of autonomy, successful business builders are careful to keep their new businesses strategically aligned.

Successful business builders give new businesses autonomy in IT, marketing, and data and analytics, while keeping them strategically aligned.

Function is fully separate from, or has touchpoints with, the core organization,¹ % of respondents



¹ Respondents who describe the relationship between the functions at the new business and those of the core as "part of the core," or "extension of the core (eg, run from the same team, with some differences)," or who said "not applicable" or "don't know" are not shown.

² Respondents who described the new business with which they were most familiar as "significantly exceeding the core organization's expectations for scale or growth"; n = 161.

³ Respondents who described the new business with which they were most familiar as "performing below expectations for scale or growth" or "discontinued"; n = 276.

⁴ Including development.

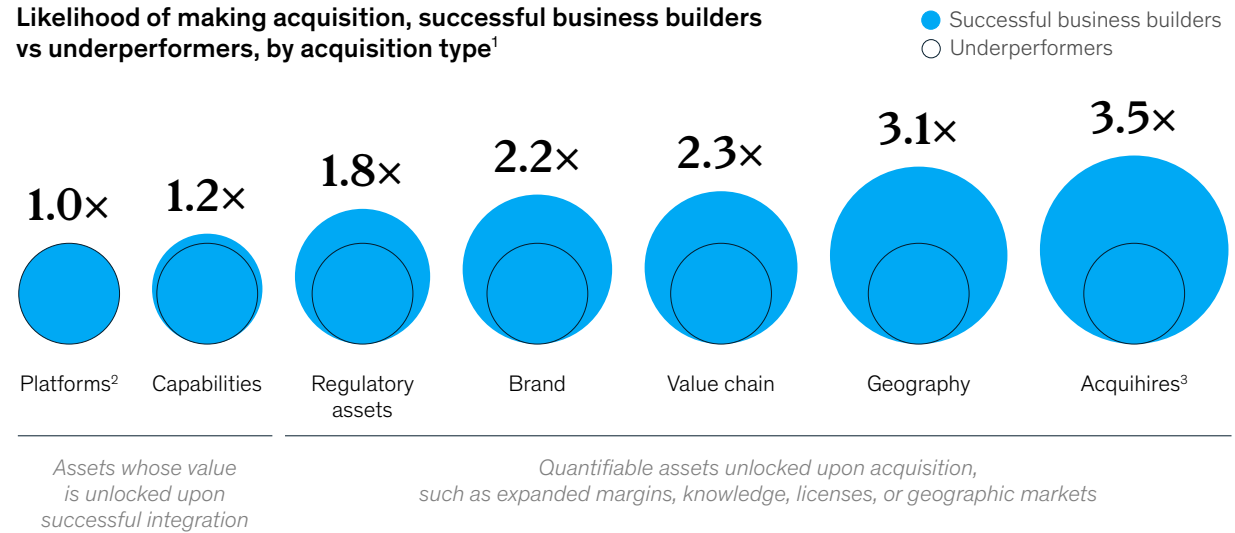
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Acquisitions can accelerate success.

Successful business builders report making a small number of focused acquisitions early in the scaling of their new businesses. New businesses that made two acquisitions early in the scaling process are 25 percent more likely to significantly exceed expectations than those that either made no acquisitions or that made three or more of them. That means looking at acquisition targets in the first few months of building a new business but choosing them wisely. Some types of acquisitions deliver value immediately upon acquisition and thus help a business scale more quickly, rather than requiring precious time and effort to unlock value.

Successful business builders are more likely than others to invest in acquisitions that deliver immediate value.

Likelihood of making acquisition, successful business builders vs underperformers, by acquisition type¹



¹Respondents answered about the new business with which they were most familiar. Successful builders are those that, according to respondents, built a new business that is "significantly exceeding expectations for scale or growth"; n = 161. Underperformers are those that, according to respondents, built a new business that is "performing below expectations" or has been "discontinued"; n = 276.

²Acquisition of a platform is defined as "acquisition of an entity that operates in the space where the new business is planned and can act as the platform from which to build that new business."

³Acqui hire is defined as "acquisition of an organization to bring in senior talent, such as CEOs and other C-level roles."

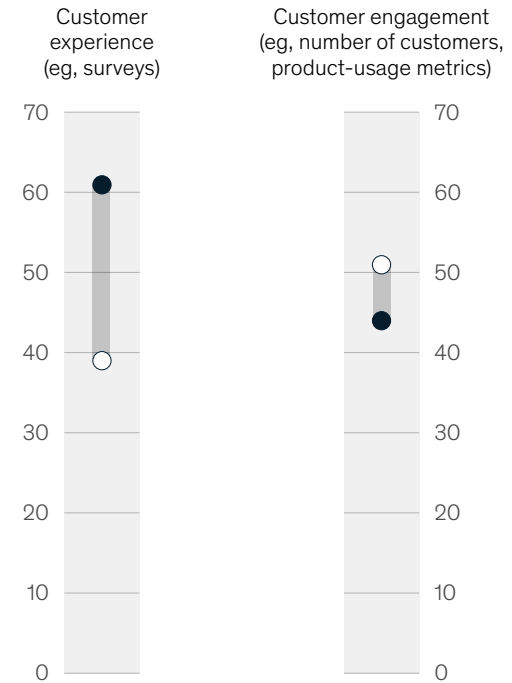
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Deeper customer insights. The survey suggests that developing a deep understanding of customers, during both concept generation and scaling, also helps new businesses succeed. While half of all respondents say their companies measured customer engagement (such as the number of customers and product-usage metrics) through early scaling, successful business builders also use more holistic customer-related metrics—such as customer surveys, feedback panels, diary studies, and ethnographic field studies—relating to customers’ experiences throughout their decision journey. Furthermore, when asked what they wished they had known before their organizations built their new businesses, respondents most often wished they’d had a better understanding of their customers’ needs, expectations, and pain points.

Successful business builders track the customer experience holistically, rather than focusing on customer-usage metrics.

New business evaluated metric regularly from concept development through early scaling,¹ % of respondents

- Businesses significantly exceeding expectations²
- Businesses not meeting expectations or discontinued³



¹Respondents answered about the new business with which they were most familiar.

²Respondents who described the new business as “significantly exceeding the core organization’s expectations for scale or growth”; n = 161.

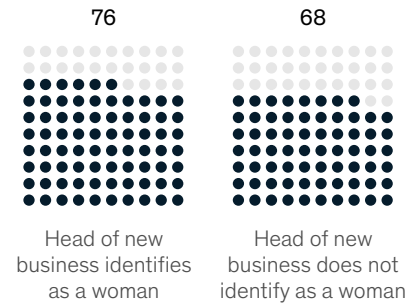
³Respondents who described the new business as “performing below expectations for scale or growth” or “discontinued”; n = 276.

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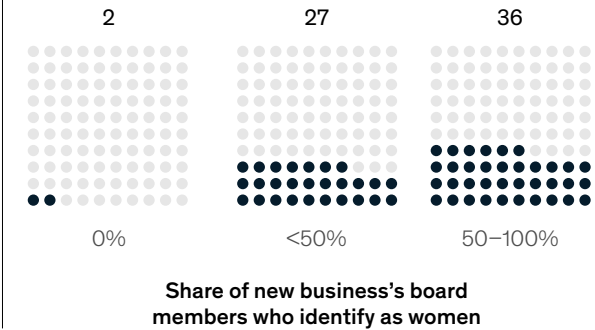
Diverse leadership. The survey also found that women-led businesses are 12 percent more likely to meet or exceed expectations for growth, yet just 14 percent of respondents say the new business they are most familiar with was led by a woman in its early stages. Without representation at the board level, new businesses might miss the benefits of diverse leadership. The survey shows that new businesses that have diverse boards—either with gender or racial and ethnic diversity—are more likely to be led by a woman.

New businesses led by women are more likely to succeed, and diverse boards are more likely to select women to lead new businesses.

New business is meeting, exceeding, or significantly exceeding expectations,¹
% of respondents



New business had a leader who identifies as a woman,¹ % of respondents



¹Respondents answered about the new business with which they were most familiar. Figures were recalculated after removing respondents who said "don't know." For respondents reporting that the head of the new business identifies as a woman, n = 132; for respondents who say the leader does not identify as a woman, n = 901.

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Today's companies are looking to bring in 50 percent of their revenues from new products, services, or businesses by the year 2026. New-business building is a crucial way to get there. While it's true that the more new businesses you build, the better you get at building them, it's also true that less-experienced business builders can improve their odds by learning from the leaders. As our new survey shows, sustainable growth through new-business building requires close attention to the role of the parent company's CEO, to the rationale for making acquisitions, to the depth of your customer understanding, and to the diversity of your leadership.

Companies are looking to bring in 50 percent of their revenues from new products, services, or businesses by the year 2026. New-business building is a crucial way to get there.

The contributors to the development and analysis of this survey include Lilli Beard, Markus Berger de Leon, Shaun Collins, Bhavna Devani, Ralf Dreischmeier, Will Fairbairn, Nate Janewit, Thomas Lambeck, Ari Libarikian, Derek Schatz, Upasana Unni, and Belkis Vasquez-McCall.