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How good are you at business building? A new way to score your ability to scale new ventures

The Leap Business-Building Quotient highlights what matters in creating new ventures.

This article was a collaborative effort by Markus Berger-de León, Ralf Dreischmeier, Jerome Königsfeld, Ari Libarikian, and Eike Reus, representing views from Leap by McKinsey.

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Why do so many great ideas just fail to take off? For all the importance of business building—it's a top three priority for 52 percent of companies, up from 30 percent two years ago—companies struggle mightily to get a good idea over the hump so that it becomes a big-time success. Only 22 percent of new businesses launched in the past ten years have successfully scaled. That's a big problem, because two-thirds of the value created in new-business building is actually created in the scale-up phase.[1]

Leaders do the basics across the board and then excel in a few core areas

In our experience at Leap by McKinsey (see sidebar "Leap by McKinsey"), executives have plenty of explanations for why their new businesses fail to scale, from poor operations to insufficient talent to simply bad luck. But in many cases, these explanations are based on gut feeling or frustration looking for an outlet, not on a deep understanding of the facts. So we have reviewed more than 200 scaled corporate new businesses around the world to understand what the issues are. The analysis provides four important lessons:

1. There are seven core-business scaling dimensions and 28 practices that determine the success of scale-ups. Organizations that perform well across all dimensions and their practices are three times more likely than the average to scale their new business.[2] Overall, companies perform best in the "product and strategy" dimension, with 63 percent meeting the bar. Conversely, companies score lower on the "go-to-market" dimension.

2. Getting to scale requires companies to hit a baseline of competence in *every* dimension and practice. Doing well in six of the seven dimensions is not enough. Indeed, failure in even a single practice within a dimension can be enough to torpedo a company's scaling ambitions. We find that 70 percent of the analyzed scale-ups don't meet the bar in at least one dimension. A new venture launched by a media company, for example, met or even exceeded the base level in the majority of the practices across the seven dimensions (Exhibit 1). However, lagging in five of the practices was enough to doom its efforts.

3. The best performers hit the bar across all practices, *and* they excel at a number of them. Overall, four practices stand out: architecture (that is rigorously scalable), operating model (supported by processes that scale), customer insights (that are targeted and applied to product development), and talent and performance management (grounded on entrepreneurial talent). Which practices matter most can vary based on the business itself. If a company is launching a commodity, then it needs to especially excel at go-to-market practices. But for a company with a more complex product or service, excelling at customer insights to drive product development and feature building are essential.

[1] Sonia Barquin, Ralf Dreischmeier, Sascha Hertli, Jerome Königsfeld, and Andrew Roth, "The big boost: How incumbents successfully scale their new businesses," August 2020, McKinsey.com.
[2] Results are based on an in-depth analysis McKinsey conducted of more than 50 scale-ups.

Leap by McKinsey

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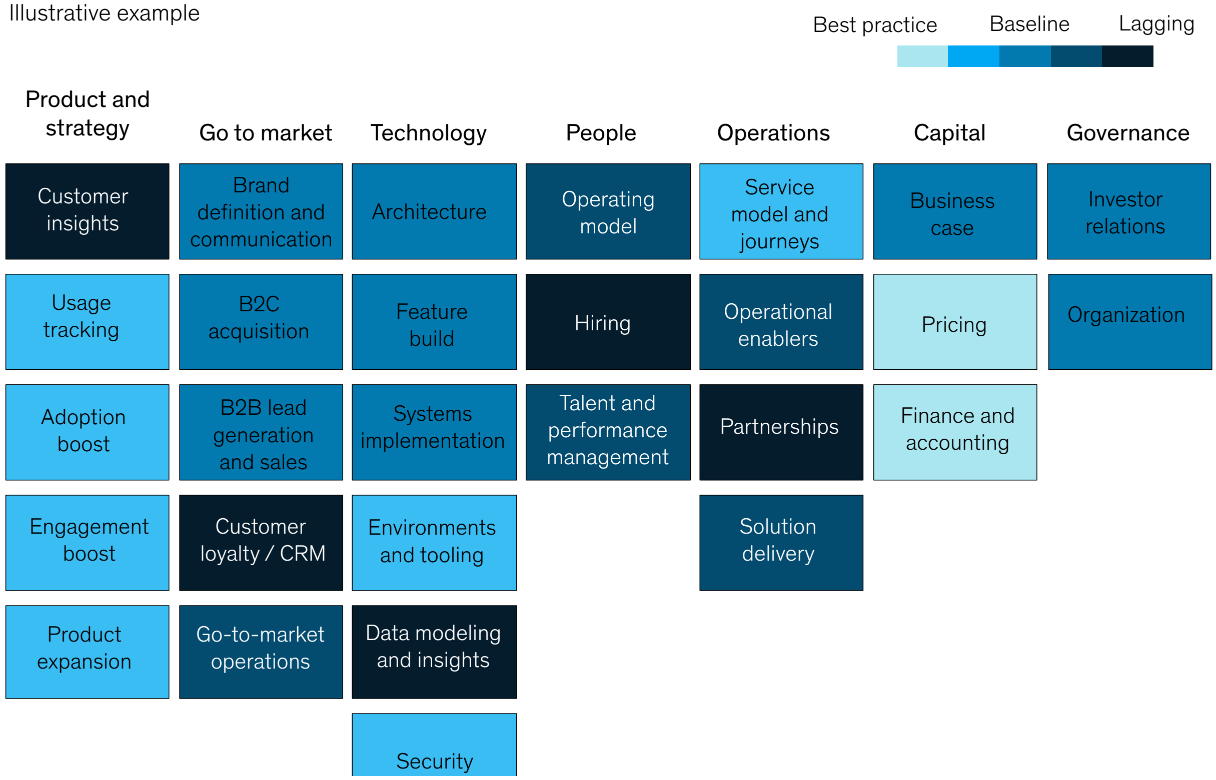
Exhibit 1

Lagging in one or more practices can derail new-business scale-up efforts.

Leap Business-Building Quotient capability

Illustrative example



4. Companies tend to have a poor understanding of their own capabilities. While 80 percent of the surveyed scale-ups address the practices to some degree and conclude they are doing a decent job, a more rigorous analysis shows that only 20 percent meet best-practice standards.

This analysis has formed the basis of a simple metric that assesses the scale-up readiness of a new business—the Leap Business-Building Quotient, which we refer to as the LQ (see sidebar "What is the Leap Business-Building Quotient?"). The LQ score indicates where new businesses perform well and

What is the Leap Business-Building Quotient?

The Leap Business-Building Quotient (LQ) is a score based on a comprehensive framework that assesses new business capabilities related to successful scaling. The fully anonymized self-assessment survey is distributed to all core stakeholders in the new venture, across hierarchies and functions. Based on an analysis of 200 scaled ventures, the assessment covers 28 practices across the seven core dimensions required for scaling. The output is a high-level LQ score that can then be disaggregated into scores for each dimension and practice.

where they perform poorly, highlighting specific actions that undermine their capabilities. The LQ score provides a fact base to help business leaders focus on which practices to upgrade.

Let’s take go-to-market (GTM) operations as an example. The LQ diagnostic reveals that 83 percent of scale-ups use agencies for their GTM programs, mainly to boost their digital marketing. Only 23 percent of the organizations, however, use best-in-class practices to integrate agencies where their expertise is most needed (Exhibit 2). Instead, agency services are measured in terms of inputs as opposed to outputs, and contracts are signed without specifying aspirations and defining key performance indicators (KPIs).

How a leading international manufacturing firm went from good to great

A leading international manufacturing firm, renowned for its engineering excellence and strong R&D pipeline, had a strong record on incubating new businesses. But that success did not extend to scaling, which rarely delivered on the potential of those businesses, so the company decided to focus more specifically on improving its scaling practices. Using the LQ framework, it moved to reach baseline levels in each dimension and then to excel at a number of the practices that were most relevant to its business. Here is what it did across three of those practices.

1. Customer insights: Co-create with customers
One of the defining root causes for the business’s lack of success in scaling promising minimum viable products (MVPs) was that its software-developer culture demanded technical perfection before launching products to the broader market. This meant that while the company ran selected focus groups, it did not test concepts and initial prototypes with its actual customers. This not only eliminated valuable feedback from product users but also meant that product development was often too centered on internal needs and unvalidated assumptions.

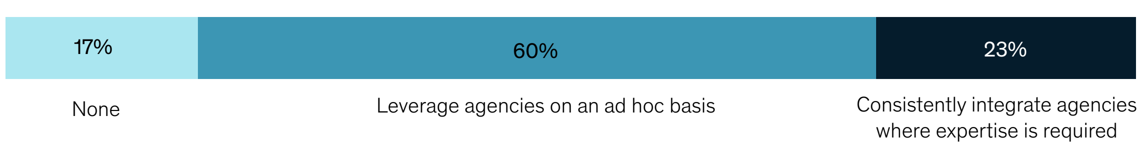
When launching its new industrial IoT-solution business, executives decided to radically improve how they worked with customers to develop insights. Before even starting with actual product development, for example, they produced a 3-D simulation to visualize their analytics product’s concept, illustrate its potential benefits, and enable better testing with potential customers.

They presented the simulation at the industry’s flagship event. Importantly, they went out of their way to invite people from different industries to take a look and try it out. Customers got a good sense of the product and its benefits and provided real-life feedback that pointed out use cases that the company had originally not thought of. A representative from a chemical manufacturer, for example, saw how the video tool could be used to analyze and detect anomalies in production. A large restaurant owner

Exhibit 2

Only 23 percent of scale-ups integrate agency expertise.

What is your operating model for working with agencies?



saw how the solution could help optimize its seating. Both signed on to help co-create their versions of the product and committed to pilots on the spot. Further "immersion dates," when leaders from a range of far-reaching sectors were invited to review the product, helped to convince potential customers to commit to jointly developing and rolling out the new solution. As a result, this business became one of the top three performers in the sector in less than three years.

2. Operating model: Set up a scalable operating model from the start fueled by entrepreneurial talent

The industrial incumbent was strong in setting up a successful foundation for launching new businesses. It empowered the founding team and provided it with autonomy in launching the new business. Not surprisingly, however, the founders often focused solely on what they were most excited about: developing the MVP and winning first customers. In contrast, they generally lacked the talent and experience needed to establish an organization and processes for scale. Among the many issues this caused was that as the ventures started to scale, the founders rapidly hired people but ended up with more direct reports, sometimes as many as 15, than it was able to manage effectively.

LQ scores highlighted this issue within operations, so the company took two measures to set up the operating model and processes for scale from the start:

— The business brought in new talent to develop leadership teams that combined entrepreneurs and experts with experience operating large organizations. These experts knew how to successfully delegate and manage tasks across the organization and set up back-office structures, from accounting to operations, to create a scalable organizational backbone. They established collaboration training, put in place project-management tools, and institutionalized agile ceremonies such as stand-ups, sprint planning, and retrospective feedback meetings. These practices helped prevent rework and information discrepancy when new businesses started to scale.

— In quarterly reviews, leaders assessed whether the venture's operating model needed to be adapted. One issue they often had to address was that as product development progressed—for example, as new features were introduced—the team grew to the point that it could no longer work effectively in agile ways. So the leaders would break the team up into smaller "feature" teams focused on specific aspects of the product.

3. Feature build: Develop technology that creates a competitive advantage and source the rest

As part of a manufacturing conglomerate that enjoyed excellent engineering capabilities, the new ventures often developed the majority of the tech stack themselves. The problem with this approach was that engineers were working on commoditized tech rather than focusing on where the business was differentiated. For example, a double-digit team built proprietary accounting and billing systems, even though they had no impact on the customer experience and there were already plenty of good options in the marketplace.

Start-ups don't act this way, often because of the pressures of limited time and funding. They build what is crucial to their business and either buy, use existing open source, or "rent" services for the rest. Learning from its experience, the conglomerate decided to set up rigorous criteria for making versus partnering versus buying decisions and rolled out two core rules throughout all entities: 1) develop technology and software only if no suitable solution can be found on the market and/or the new technology creates a relevant, competitive advantage for the company, such as protection of intellectual property; and 2) use or adapt solutions from the mother company only if they are better and cheaper than solutions offered by the market.

Following these criteria led to a roughly 30 percent decrease in technology costs for new ventures and accelerated the setup speed for their technical infrastructure from two months to two weeks.

Business building requires a holistic approach from idea to successful scale-up. Developing a healthy LQ has proven crucial for businesses to achieve the full potential value of scaling new businesses.

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