COMMENTARY

NEW WORLD, NEW RULES

The Case for Redefining *Good Growth*

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As CEOs look beyond the initial COVID-19 crisis, many are grappling with how to catalyse revenue growth after an extreme business slowdown.

The COVID-19 crisis has brought forward the debate around economic growth:

Is economic growth bad because it can lead to unintended consequences like income and social inequality in addition to environmental degradation (argument for “de-growth”)? Or is it mostly good, improving the livelihoods and wellbeing of many (argument for growth)?

Proponents of “de-growth” argue that growth is problematic: that the search for unfettered growth leads to significant risks to human wellbeing through pandemics, social unrest, environmental catastrophes, and longer-term systemic issues like climate change. For proponents of this view, COVID-19 is a preview of what can happen when systemic issues linked to human production and consumption (like climate change, biodiversity loss, income inequality, and others) accelerate. De-growth advocates want growth to slow down. This is a difficult position to fully digest as a leader of a business with shareholders, customers, and employees – but is receiving more attention.

Individuals and organisations worried about the large-scale economic fallout from the pandemic in most of the world’s large economies make the case that the imperative now is to grow or to grow back.

Business leaders should focus on repairing the economic damage done by the COVID-19 crisis. Their imperative is to find customers, sell products and services, make money and reward shareholders and employees. Most business leaders intuitively appreciate this view, but it is problematic for forward-thinking leaders wondering how to use the COVID-19 crisis as a catalyst to inform choices for a better future.

The question that emerges is how leaders looking for a middle ground can do so, not just notionally, but pragmatically. In this article we focus on one simple concept: redefining what *Good Growth* means.

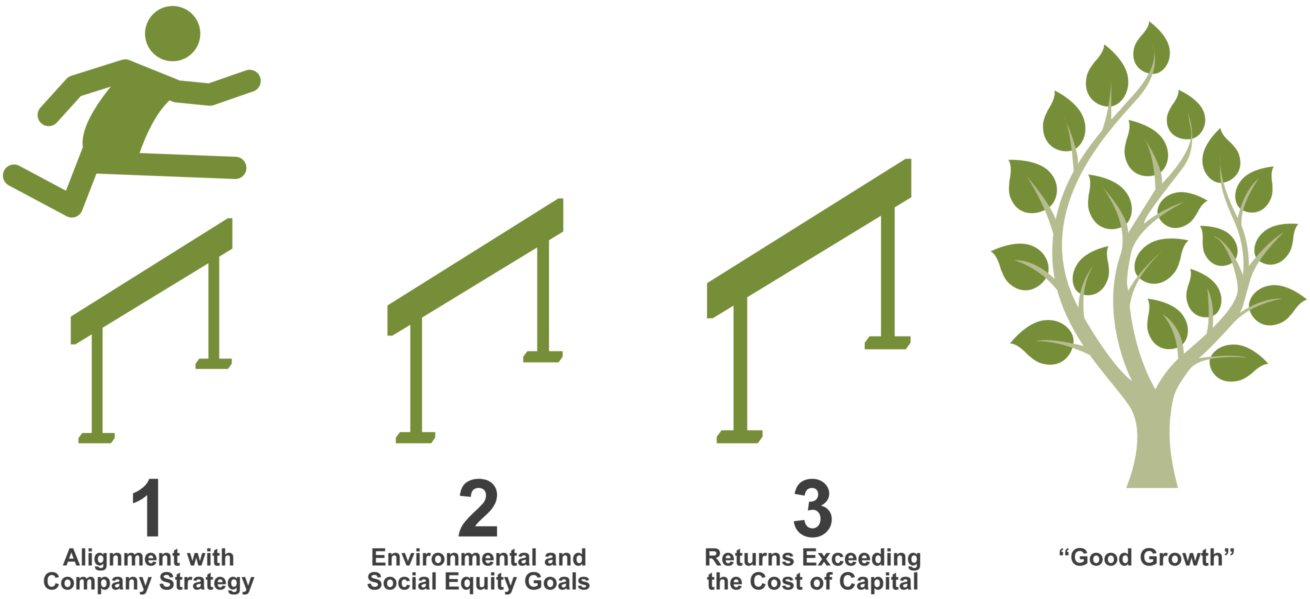
GOOD GROWTH VERSUS *BAD GROWTH* – A HISTORIC PERSPECTIVE

Marakon was one of the first consulting firms to define the term *Good Growth* in the 1990s to advocate that growth was “good” when it aligned with company strategy and generated profitable returns (i.e., returns above the opportunity cost of capital). Working with our clients we discovered that their operating models often inadvertently resulted in unprofitable growth. We built a practice based on helping clients put management systems and organisational capabilities in place that increased the likelihood of profitable growth. Specifically, we helped businesses systematically identify attractive and underserved opportunities which they were uniquely able to deliver more economically than the competition.

Marakon historically defined *Good Growth* as*: growth opportunities at the intersection of company strategy and the company’s ability to invest at rates of return consistently above the cost of capital.*

Today, we propose that it is appropriate to build on this concept and further evolve the definition of *Good Growth*.

Figure 1: Notional Hurdles to Cross to Find "Good Growth"



GOOD GROWTH VS. *BAD GROWTH* – A REVISED DEFINITION

Good Growth opportunities meet three hurdles:

1. They are aligned with company strategy, i.e., a company's macro perspective on the industries and markets it participates in and its source of advantage;

2. They are in specific and measurable alignment with environmental or social equity principles. For example, they consider the occupational health and safety of employees and the general public, they are carbon neutral, they are neutral or net positive in terms of the impact on natural capital, they respond to the needs and wants of the many versus the few, etc.;

3. They deliver rates of return to the business that are higher than its cost of capital.

Finding opportunities that meet these three hurdles (Please refer to Figure 1) should allow companies to further their strategic agenda while playing to their competitive advantage, i.e., "building back better," and still making attractive returns.

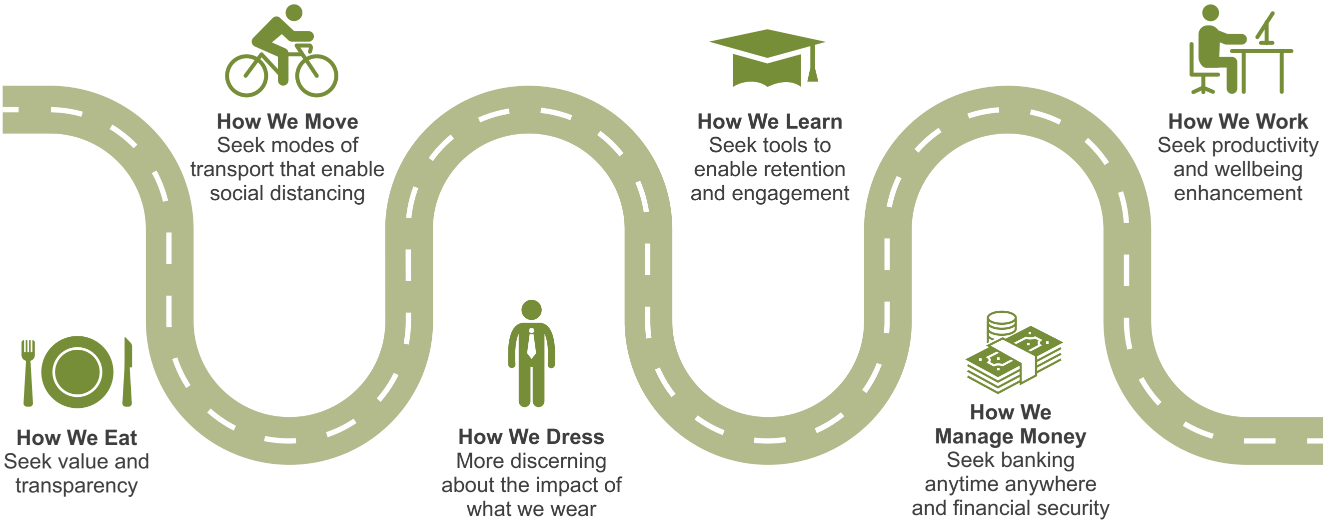
GOOD GROWTH OPPORTUNITIES AFTER THE COVID-19 CRISIS

We believe the *Good Growth* concept is a pragmatic tool that can be used by executives and their teams to develop new growth ideas emerging from the crisis and as a platform for employee engagement via idea generation.

We begin where any growth discussion starts – with a perspective on observed changes in consumer behaviour. As our lives evolve to coexist with COVID-19, what behavioural changes are inevitable? How has consumer behaviour evolved with regards to how we eat, work, dress, learn? And what unmet human needs emerge? What growth opportunities has the crisis generated? Figure 2 on the next page summarises our starting point on key changes in consumer behaviour.

We then refer to our three notional hurdles of *Good Growth* to further sieve out pockets of *Good Growth* emerging from these behaviours. The first hurdle of alignment with company strategy is unique to an individual company, depending on its distinct market context and source of competitive advantage. As we

Figure 2: Re-imagining a Day in the Life of a Human in a Post-COVID World



do not focus on any one company or sector, we use the "Sectors Impacted" by each behaviour as a proxy for the first hurdle. We then focus on the second and the third hurdles, i.e. which of these opportunities are environmentally and socially sustainable, whilst also potentially, profitable.

Here are examples of Good Growth waves created by shifts in six key consumer behaviours.

BEHAVIOUR 1: HOW WE EAT

Sectors Impacted: Agriculture, Food Manufacturing, Logistics, Packaging and Technology

The virus, in particular its potential origins in a food market, as well as increased risk for individuals with underlying health conditions, has accelerated two major trends in the food world — consumer focus on health and wellness and consumer scrutiny of food sourcing origins and practices. Economic pressures from the immediate COVID-19 crisis will also augment the search for value. Businesses that play in this strategic domain who respond with affordable, sustainable and profitable solutions to these trends will carve out attractive pockets of *Good Growth*. For example, blockchain technology applied to food supply chains can be a solution that improves information and traceability. Businesses that source products sustainably will now have a technological solution to demonstrate their advantage and sell this to consumers. Regeneratively sourced meat, whether local or international, can be a lower-carbon option for consumers demanding it. Retailers that can tap into this space while still delivering affordability for consumers (perhaps via a focus on different cuts) may develop SKUs that meet the three hurdles.

BEHAVIOUR 2: HOW WE MOVE

Sectors Impacted: Transport, Energy, Consumer Services and Technology

Consumers may continue to avoid public transport and crowded public spaces where they can. State actors, in particular in metropolitan cities, have understood this and are trying to reimagine the future of mobility to ensure it is both sustainable and in line with social distancing. For example, Anne Hildago, the Mayor of Paris, with what she calls "tactical urbanism," seeks to transform the city with "**corona cycle ways**" and wide pavements for pedestrians to enable social distancing. London and Milan have also closed some streets to cars to provide cycling-only routes and facilitate pedestrian traffic to help maintain social distancing guidelines. The UK Government legalised rental e-scooters in June, in order to foster a sustainable transport ecosystem. Companies who can profitably enable the transition to a sustainable transport network can find pockets of *Good Growth*. For example, as per a recent **survey**, 85% of Americans consider bikes safer than public transportation during the pandemic, and this has led to some bike categories seeing more than 100% growth vs. the previous year. Bicycle manufacturing, bicycle servicing and bicycle rental companies can grow their market share and respond to consumer demand. Manufacturers of electric cars and providers of electric charging points can address the caution around public transport while delivering solutions better for the environment than traditional automobiles. The key to unlocking this kind of opportunity at scale will, once again, be consumer affordability.

BEHAVIOUR 3: HOW WE DRESS

Sectors Impacted: Agriculture, Textile Manufacturing, Fashion and Retail

The fashion industry has found itself inextricably linked with COVID in the UK. On the one hand, as consumers stay at home, they are spending less time and money on buying and wearing new clothes. For example, in March alone, UK spending on clothing decreased by 25% (Statista). On the other hand, COVID has exposed the dark underbelly of fast fashion, as Leicester witnessed extended lockdowns due to the COVID outbreaks in garment factories accused of worker exploitation. As sustainability credentials of the fashion industry come under scrutiny, young consumers are unlikely to overlook modern slavery, waste generated by fashion and the excessive use of precious natural resources in manufacturing clothing. When demand for clothing builds again, consumers are likely to decide what products to buy based on the impact those products have on society and the environment. Apparel and footwear companies who continue to profitably embed ethical and environmental credentials into their business are likely to gain from *Good Growth* when the fashion industry rebounds. For example, by using organic textiles and fibres in clothing; manufacturing high quality, durable products; offering repair options to consumers to extend the product lifecycle and reduce waste; and even committing to use only recyclable source material in jewellery, as Pandora recently announced.

BEHAVIOUR 4: HOW WE WORK

Sectors Impacted: Technology, Commercial Real Estate, Food and Transport

Work-from-home directives, are becoming, for many white-collar workers, an encouraged choice given the experiences of retained or increased productivity while limiting potential exposure to the virus. Some **big tech companies have led the way**, allowing remote working indefinitely. Thus, employees and employers are likely to seek ways to enhance employee productivity, wellbeing and quality of social interaction from the confines of home. Companies that can offer innovative and profitable solutions to the work-from-home alternative will contribute to a reduction in carbon emissions with less commuting and business travel. For example, remote working solutions and workforce virtualisation tools could further enhance productivity. Virtual reality technology could make remote learning more engaging. Employee wellbeing programmes on mental or ergonomic health could inculcate a sense of wellness among employees.

In a blue-collar context, as workers return to manufacturing plants, construction sites etc., there are concerns around worker health and safety. Companies that find innovative and profitable solutions to enable this transition will realise *Good Growth* opportunities. For example, technologies that help plants and sites meet government safety guidelines while maintaining production efficiency through monitoring tools such as temperature checks, contact tracing, etc.

BEHAVIOUR 5: HOW WE MANAGE MONEY

Sectors Impacted: Banking, Insurance, Asset Management and FinTech

COVID-induced lockdowns have changed how we bank, how we think about financial risk and where we invest our savings. Staying at home has translated into most banks observing a c20% rise in the use of digital services. The health and economic repercussions of the pandemic have heightened awareness of health and wellbeing and its connection to financial security. Additionally, a newfound respect for the limits of nature has increased consumer consciousness with regards to where they direct their individual savings and investments. These fundamental shifts in consumer behaviour open opportunities for Financial Services players to offer profitable products and services, whilst responding to consumer needs around financial flexibility and security, and consumer preferences with regards to ethical investing. For example, innovations in protection products (life, income and critical illness cover) to price the offering appropriately, responsibly and sustainably could help consumers meet their heightened need for financial security. One such innovation is **Vitality's risk-adjusted health insurance pricing** which is supported by links to healthy behavior patterns. Additionally, players and platforms offering sustainable investing options to retail investors, such as access to environmental, social, and governance (ESG) funds, could tap into waves of *Good Growth*.

BEHAVIOUR 6: HOW WE LEARN

Sectors Impacted: Education, Healthcare and Technology

Enforced lockdowns around the world took 1.2 billion children out of the class room. As educational institutions and students shift to online classes, they seek a smooth transition that facilitates retention and engagement, as do adults outside of formal education looking to upskill themselves in a downturn. Companies who meet these needs also enable the democratisation of education, offering learners access from anywhere at any time and at a lower cost. Companies who can profitably help education to transform from a strict structured practice to be more fluid, are likely to find several waves of *Good Growth*. For example, augmenting classroom learning with digital tools, introducing virtual wellbeing programmes in schools, introducing new ways of tutoring etc. There also may be new opportunities to create content for adult upskilling through open online courses as done by Coursera (for hard skills), Duolingo (for language) or MasterClass (for hobbies or softer skills like writing, comedy, etc.).

The potential list of *Good Growth* opportunities is long. As we explore additional human behaviours such as how we entertain ourselves, how we dispose of waste, how we travel, how we keep fit, how we groom ourselves... the list gets even longer. The exploration of *Good Growth* will be unique to each company as it jumps the first hurdle of aligning the opportunities with its strategy, given its individual market context and competitive advantage.

Leaders considering choices for a better future post the COVID-19 crisis can:

- Begin by asking questions tailored to their starting point;
- Use those questions to identify new or adjacent growth opportunities;
- Evaluate those opportunities in a structured and objective manner against the three *Good Growth* hurdles;
- Use the insight to prioritise and develop more holistic growth options.

In summary, a pragmatic redefinition of *Good Growth* may be a helpful wedge for businesses and leaders keen to build back better.

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ABOUT MARAKON

Marakon is a strategy and organizational advisory firm with the experience and track record of helping CEOs and their leadership teams deliver sustainable profitable growth. We get hired when our client's ambitions are high, the path to get there is not clear (or taking too long) and lasting capabilities are as important as immediate impact.

We help clients achieve their ambitions for sustainable profitable growth through:

- Stronger strategies and advantaged execution based on:
    a. A better understanding of what drives client economics and value
    b. Insight into changing industry dynamics and the context in which clients need to succeed
- A stronger management framework to generate better ideas and link decisions and actions to value
- A stronger organization with a more focused top management agenda and well-aligned resources
- A more confident and effective leadership team that's focused, decisive, and strategic

We have a joint team delivery approach where client ownership and engagement is paramount. Partners are highly engaged in the work product and supported by strong analytical and industry relevant capability. We work as advisers and catalysts in close, trust-based relationships with top management teams.