Leap
by McKinsey

New-business building in 2022: Driving growth in volatile times

A new global survey finds that new-business building can boost growth and value. However, to meet revenue expectations in the future, companies must dramatically increase their efforts.

November 2022

Key findings:

- Eight in ten surveyed CEOs report new-business building as a top five priority despite recent heightened economic volatility.
- Surveyed business leaders report that their companies are building 50 percent more new businesses per year than they did two to five years ago.
- Business leaders report that every dollar of revenue from new businesses generates almost twice the enterprise value versus every dollar of core business revenues.
- Sixty-three percent of surveyed business leaders expect their investment in new-business building to increase from 5 percent of revenues today.
- Organizations will need to more than double their rate of business building to achieve leaders' expectations that 29 percent of revenue in 2027 will come from new businesses.
- Responses suggest that new businesses built by large incumbent organizations currently generate $5 trillion in revenues and could grow to $30 trillion in five years (see sidebar, "New-business building and the economy").

In the past three years that we've been surveying executives about new-business building, we've witnessed a marked shift in their perspectives on the topic: the 2020 findings reflected how much business leaders were starting to prioritize new business building.[1] The following year's survey results captured their thinking on the strategic value of those efforts as well as potential factors for success,[2] and the latest McKinsey Global Survey on new-business building finds that markets, too, are recognizing the value of new businesses.[3]

The latest survey, which garnered responses from more than 1,000 business leaders in 75 countries, shows that companies that have made business building a top strategic priority have grown more quickly than other organizations during this year of high economic volatility. In an effort to create new revenues and capture more market share, they are creating new products, services, or businesses that require them to develop new capabilities. By doing so, they are setting themselves up to be rewarded by the market: the enterprise value multiple of reported new business revenues represents nearly twice that of core business revenues.

Surveyed business leaders say their companies are already investing a meaningful share of their revenues in new businesses and that their companies are building more businesses now than they were just a few years ago. Yet, to meet respondents' expectations for the share of revenues that will come from new businesses built in the next five years, companies—particularly larger ones, with annual revenues of $1 billion or more—will need to quickly ramp up the number of businesses they build and increase their scaling and success rates. The findings show that companies see a broad range of new business opportunities. Our research also points to best practices that set apart successful new businesses from those that underperform or are discontinued.

New-business building and the economy

The survey findings suggest that new-business-building activity is poised to have an increasing role on the global economy. Surveyed business leaders working for companies with at least $1 billion in annual revenues say that, on average, their organizations are seeing 5 percent of revenues in the past year generated by businesses built in the past five years. If we take their projection that 27 percent of revenues in five years' time will be generated from new businesses built between now and then and apply that across global businesses with annual revenues of $1 billion or more,[1] we see that the revenue at stake from new businesses will be as much as $30 trillion in 2027, up from $5 trillion in revenues generated today.[2] We also can extrapolate from the survey findings that, to generate this top-line impact, core organizations have invested approximately $800 billion in new businesses in the past year[3]—more than the reported $645 billion venture capital investment in start-ups, from seed to growth.[4]

[1] According to S&P Global, the revenue sum from available 12,123 private and public companies with annual revenues over $1 billion is $95 trillion.
[2] This assumes a global annual revenue growth rate of approximately 3 percent. Source: IHS Markit. Previous research examined the opportunity specifically for new green businesses and found that growing demand for net-zero offerings could generate more than $12 trillion in annual sales by 2030. See Rob Bland, Anna Granskog, and Tomas Nauclér, "Accelerating toward net zero: The green business building opportunity," McKinsey, June 14, 2022.
[3] This number was calculated by multiplying the share of revenue invested in new-business building by respondents at companies with more than $1 billion in annual revenues by the total global revenues of companies with more than $1 billion in revenues, according to S&P Global.
[4] "Global venture funding and unicorn creation in 2021 shattered all records," Crunchbase, January 5, 2022.

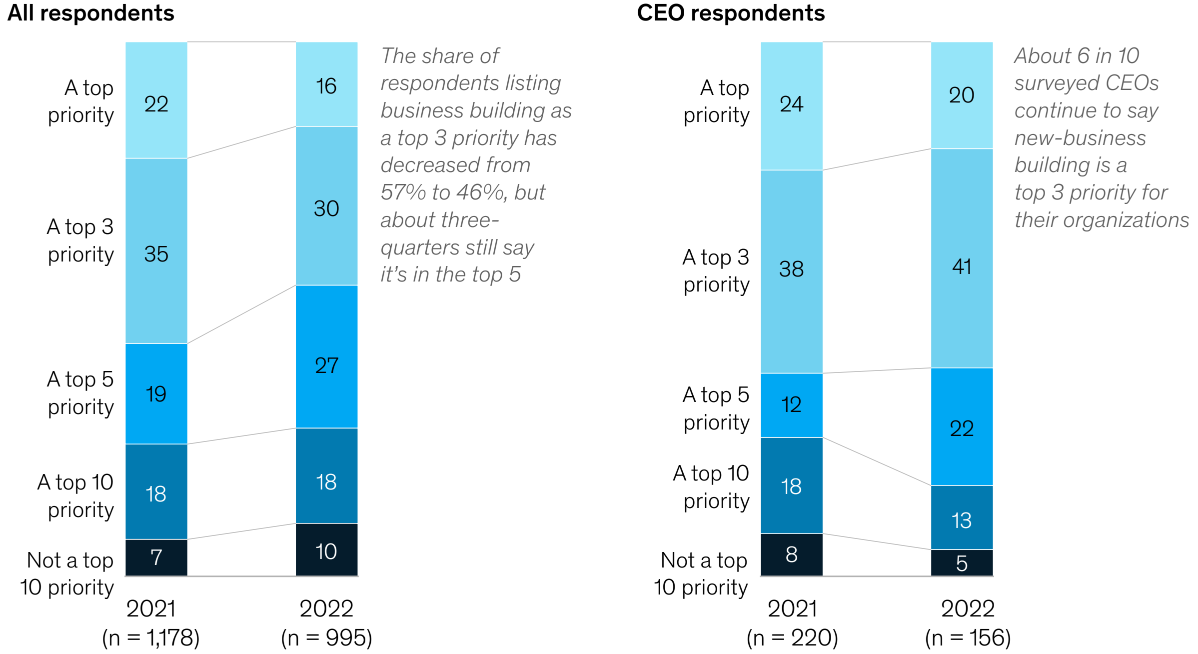
[1] Shaun Collins, Ralf Dreischmeier, Ari Libarikian, and Upasana Unni, "Why business building is the new priority for growth," *McKinsey Quarterly*, December 10, 2020.
[2] "2021 global report: The state of new-business building," McKinsey, December 6, 2021.
[3] The online survey was in the field from July 19 to September 1, 2022, and garnered responses from 1,007 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

A continuing priority despite heightened economic volatility: New-business building continues to be a priority for business leaders, especially so for CEOs—though when looking at all survey responses, its ranking as a top three priority has declined since the previous survey.[4] Among all respondents, 46 percent say it is one of the top three strategic priorities for their organizations, compared with 57 percent who said so last year. However, nearly three-quarters of respondents in the latest survey consider it a top five priority—in line with last year's finding. In both surveys, CEOs were more likely than other leaders to say building new businesses is a top three priority, and the share of CEOs considering it a top five priority has increased this year. Companies' continued prioritization is reflected in the number of new businesses being built. Respondents say their organizations are currently building an average of 1.5 new businesses per year, up from one business per year two to five years ago.

[4] Our definition of new-business building has changed slightly since the previous survey. In the 2021 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. In the latest survey, the definition was the creation of new revenues through new products, services, or businesses in which new capabilities are required to do so.

New-business building continues to be a priority—particularly among CEOs—despite recent economic uncertainty.

Prioritization of building new businesses at respondents' organizations,[1] %



[1] Figures were calculated after removing respondents who said "Don't know." They may not sum to 100%, because of rounding.
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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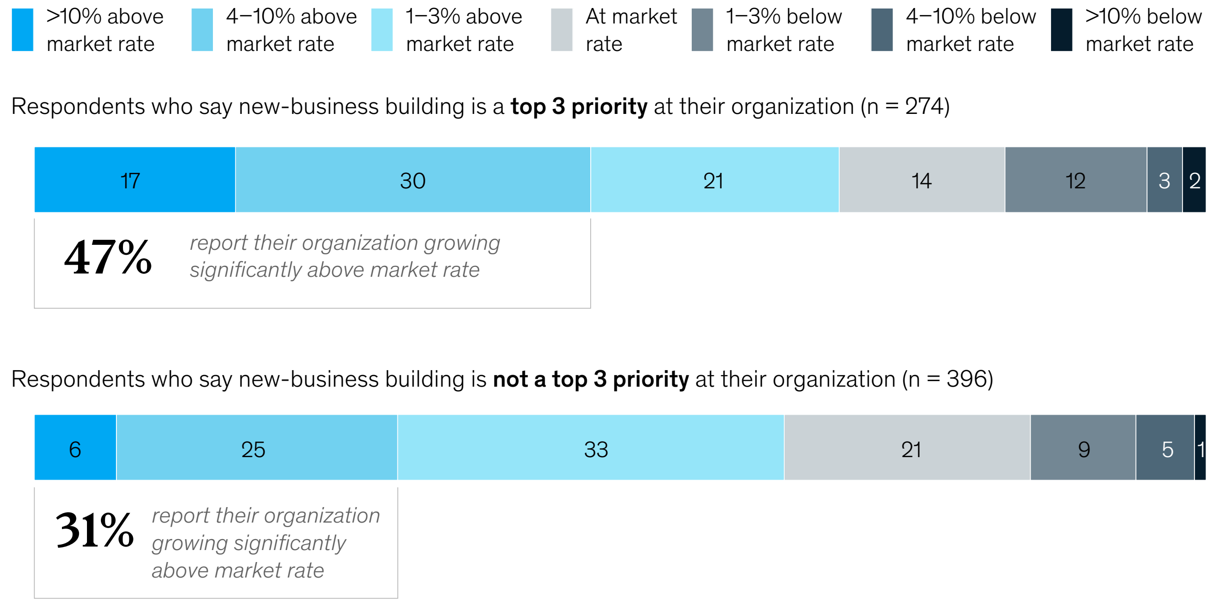
New-business building and financial outperformance: The survey findings suggest that companies that make new-business building a top three strategic priority or higher grow faster than other companies, even during times of economic shocks. In fact, respondents from those companies are more than twice as likely as others to report growth that is more than 10 percent above market rate. This outperformance in revenue growth is one of the primary attributes we have historically seen among resilient companies.[5]

[5] Cindy Levy, Mihir Mysore, Kevin Sneader, and Bob Sternfels, “The emerging resilients: Achieving ‘escape velocity,’” McKinsey, October 6, 2020.

Responses suggest that companies prioritizing new-business building outperform other companies on revenue growth.

Organic revenue growth performance in 2022,[1] % of respondents



[1]Figures were calculated after removing respondents who said “Don’t know.” Only respondents who said their organizations’ growth was driven at least equally or more by factors within their control (ie, commercial performance), as opposed to external factors (ie, market forces), were included in the analysis.
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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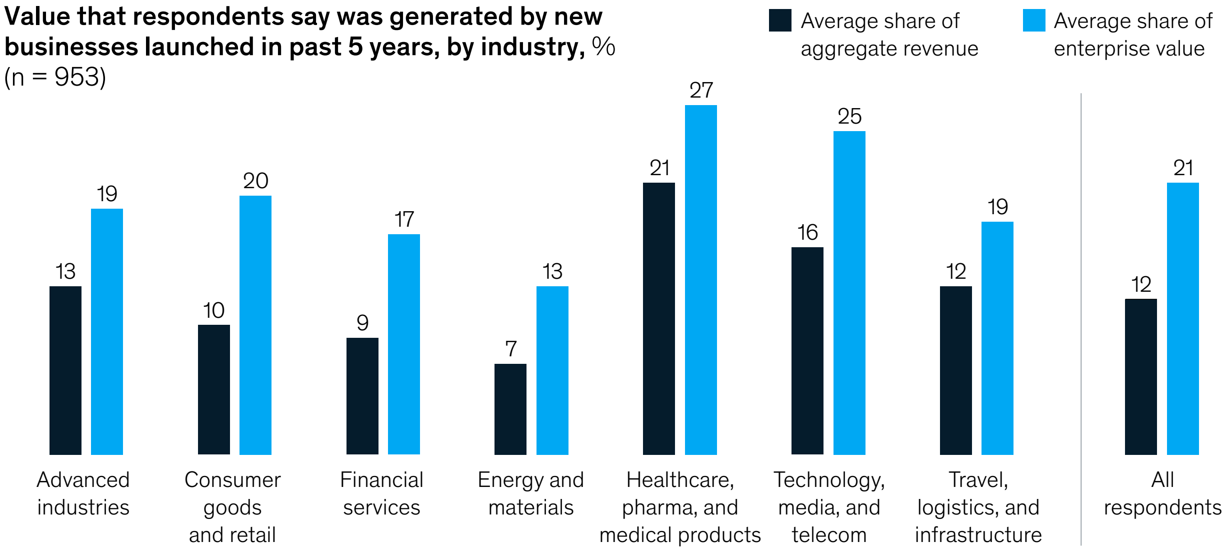
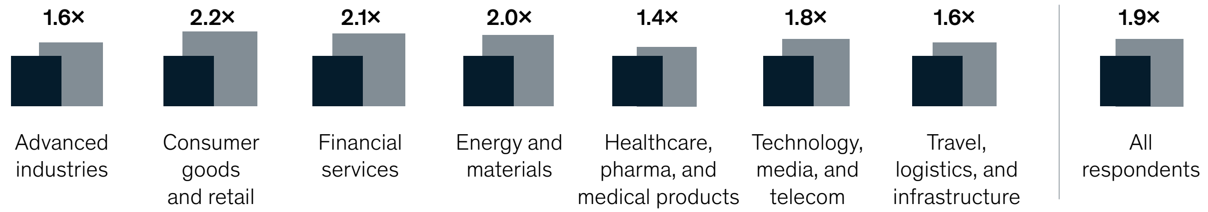
The value of new businesses: The survey responses indicate that organizations that build new businesses are on their way to positioning themselves for growth and higher valuations. In the findings, the enterprise value multiple of reported new-business revenues represents almost twice that of core business revenues. Respondents estimate that new businesses built in the past five years accounted for 12 percent of their companies' revenues and 21 percent of their enterprise value. This finding holds broadly across industries with different levels of digital maturity.

The findings suggest that each dollar of revenue from new businesses generates twice as much enterprise value as that of the core business.

Value that respondents say was generated by new businesses launched in past 5 years, by industry, % (n = 953)



Relative enterprise value of new-business revenues compared with organizations' revenues,[1] multiples



[1]Calculated as (percent of enterprise value / percent of revenue) / [(1 – percent of enterprise value) / (1 – percent of revenue)].
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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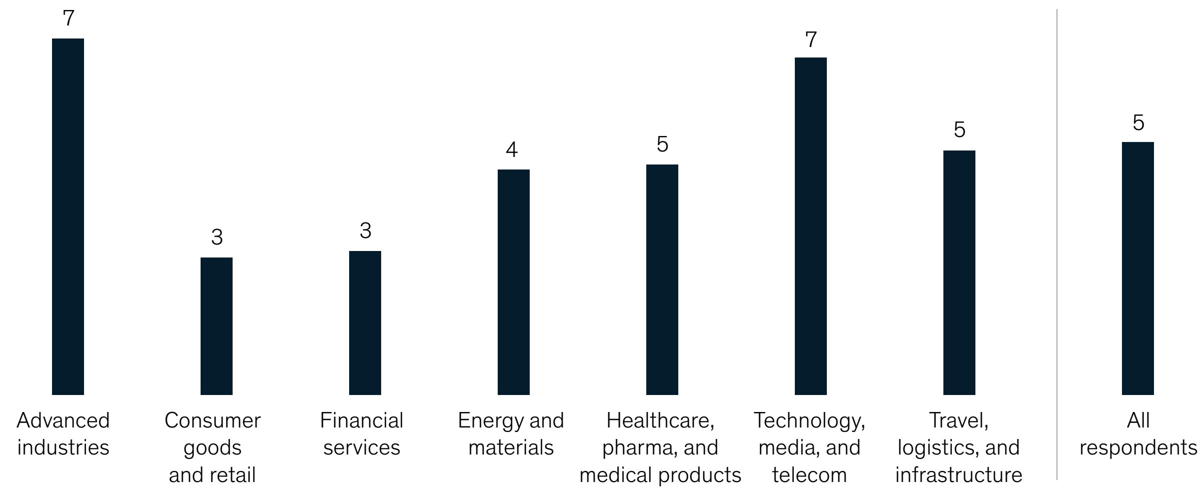
Investment in new-business building is strong—and expected to increase: Companies recognize that building these new businesses requires significant investment. On average, surveyed business leaders say their companies are investing about 5 percent of their revenues in building new businesses. Respondents in advanced industries and technology, media, and telecommunications report the highest share of investment by revenues.[6] Most respondents—63 percent—expect their companies to increase their investment in business building over the next 12 months.

[6] "Advanced industries" includes respondents in advanced electronics, aerospace and defense, automotive and assembly, and semiconductors.

On average, respondents' organizations are investing 5 percent of revenues into new-business building annually.

Investment in new-business building by respondents' organizations, past 12 months,
% share of revenues (n = 969)



Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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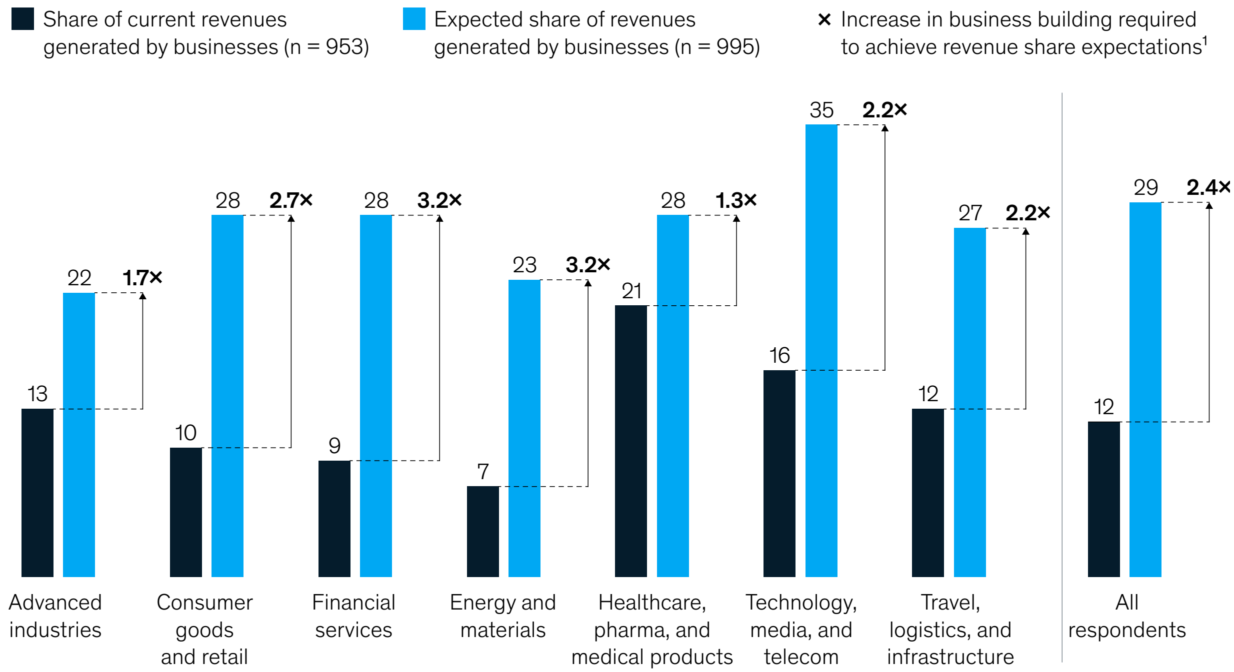
The need to increase new-business-building activity: To meet business leaders' expectations for the revenue contribution of new-business building, companies will need to quickly ramp up their new-business-building activity and increase their scaling and success rates. Survey respondents say they expect that the new businesses their organizations develop over the next five years will contribute 29 percent of total organizational revenues—about 2.4 times the share of revenues that respondents say have been generated by new businesses that launched in the past five years. Assuming the average success rates of new businesses stay constant, organizations will need to more than double the number of new businesses they build per year, from 1.5 today to 3.5 per year, to meet those revenue expectations. Respondents from companies with more than $1 billion in annual revenues will need to set their sights even higher: the number of businesses they would need to build to achieve their revenue expectations (27 percent from new businesses built in the next five years) would grow from about 1.5 per year today to about seven per year over the next five years.

Businesses built in the next five years will need to generate 2.4 times the share of revenues of businesses built in the past five years.

Aggregate revenue from new businesses at respondents' organizations, by industry, %



[1]Assumes constant new-business success and scaling rates. Calculated as [share of aggregate revenue generated by new businesses launched in next 5 years / share of aggregate revenue generated by new businesses that launched in the past 5 years].
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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The next wave of new-business building: Respondents expect to build many different types of new businesses in the next five years. While respondents most often say they expect their organizations to build data and analytics platforms and digital retail businesses, responses were fairly evenly distributed across the seven types of businesses we included in the survey. There are significant differences by industry, however. For example, energy and materials companies are expected to focus on environmental-sustainability-oriented businesses, while respondents working in consumer goods and retail and in financial services most often expect their companies to develop digital retail businesses.

Respondents expect a wide range of new businesses to be built in the next five years.

Types of new businesses that respondents expect their organization will build, next 5 years,[1] by industry, % of respondents (n = 961)

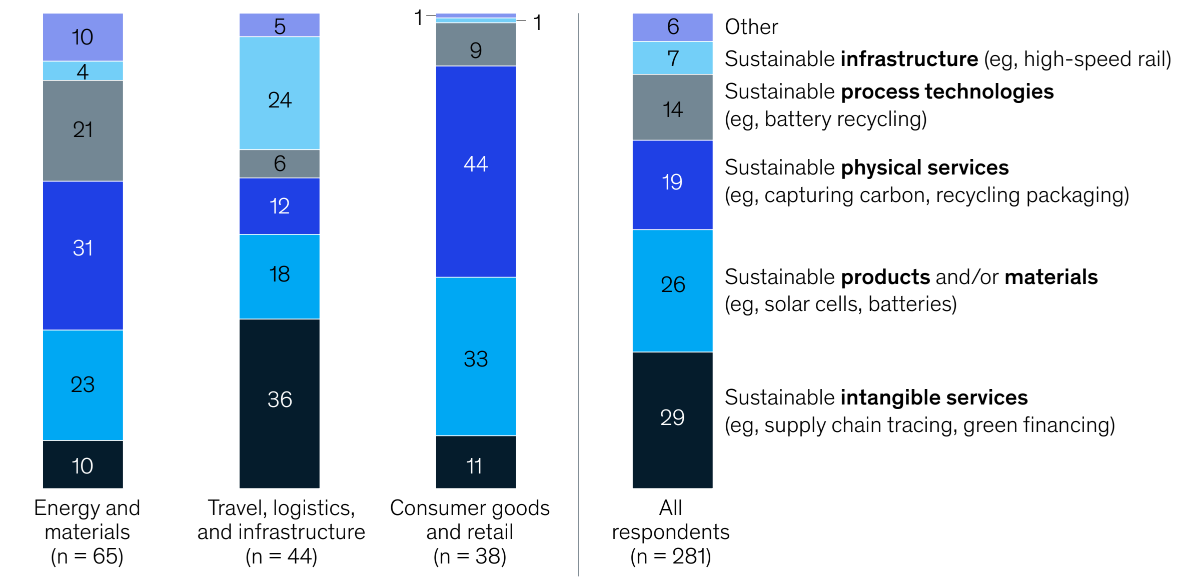
	Advanced industries	Consumer goods and retail	Financial services	Energy and materials	Healthcare, pharma, and medical products	Technology, media, and telecom	Travel, logistics, and infrastructure	All respondents
Data and analytics platforms	21	24	37	24	32	62	34	38
Digital retail	7	61	57	17	22	30	33	34
Ecosystem and/or marketplace	18	30	45	32	27	31	43	32
Connected products	31	32	24	37	18	36	43	31
Physical products	72	31	11	37	51	18	29	31
Environmental-sustainability focused	42	22	20	46	14	20	36	29
Software as a service	22	12	32	11	18	61	17	27
Other services	8	3	4	1	18	13	3	9

[1]Respondents were able to make multiple selections. Figures were calculated after removing respondents who said "Don't know." In advanced Industries, n = 97; in consumer goods and retail, n = 148; in financial services, n = 132; in energy and materials, n = 128; in healthcare, pharma, and medical products, n = 100; in technology, media, and telecom, n = 139; and in travel, logistics, and infrastructure, n = 103.
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

Increased interest in green-business building: Responses suggest that companies are building more environmental-sustainability-oriented businesses now than they were five years ago, and 29 percent of respondents say their companies will build a sustainability-focused business in the next five years. The respondents most often say they expect those businesses to offer sustainable intangible services, such as supply chain tracing or green financing, or sustainable products or materials, such as solar cells or batteries. Among industries, energy and materials has the most even distribution of types of new green businesses that respondents expect to build. Respondents in travel, logistics, and infrastructure expect most of their new green businesses to be focused on intangible services or sustainable infrastructure, while in consumer goods and retail, the focus is on physical services and products.

Executives say intangible services and sustainable products are the types of green businesses most likely to be built in the next five years.

Type of environmental-sustainability-focused businesses respondents believe their organizations are most likely to build in next 5 years,[1] % of respondents (n = 281)



[1]Respondents were asked this question if they said their organizations are likely to build environmental-sustainability-oriented new businesses in the next 5 years. The industries shown are the ones that had a meaningful number of responses to this question. Figures were calculated after removing respondents who said "Don't know."
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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The leading-edge technologies that will enable new businesses: More than half of respondents expect that they will need to incorporate artificial intelligence into their new businesses to deliver on their value propositions, and 35 percent say the same about the Internet of Things. The technologies cited by smaller shares of respondents are of particular interest in certain industries. For example, respondents in advanced industries often point to physical robotics and 3-D printing, as well as augmented or virtual reality as requirements, and respondents in travel, logistics, and infrastructure also cite augmented and virtual reality more often than respondents in most other industries.

In most industries, a majority of respondents point to AI as a required technology for new businesses in the years ahead.

Share of respondents who believe each technology will be required to deliver the value proposition of new businesses built in next 5 years,[1] % of respondents (n = 961)

	Advanced industries	Consumer goods and retail	Financial services	Energy and materials	Healthcare, pharma, and medical products	Technology, media, and telecom	Travel, logistics, and infrastructure	All respondents
Artificial intelligence/ machine learning	44	31	81	27	50	62	57	54
Internet of Things	31	37	17	43	30	46	35	35
Blockchain	7	21	20	15	14	10	16	15
Augmented reality/ virtual reality	24	11	5	15	7	14	18	12
Physical robotics	27	12	4	19	14	1	12	11
The metaverse	8	8	4	9	2	12	12	8
3-D printing	17	10	2	8	11	11	5	8
Quantum computing	2	7	5	9	12	1	5	5
Other	7	4	6	10	2	6	4	6

[1]Respondents were able to select up to two responses. Figures were calculated after removing the respondents who said "Don't know." Respondents who said "Not applicable" are not shown.
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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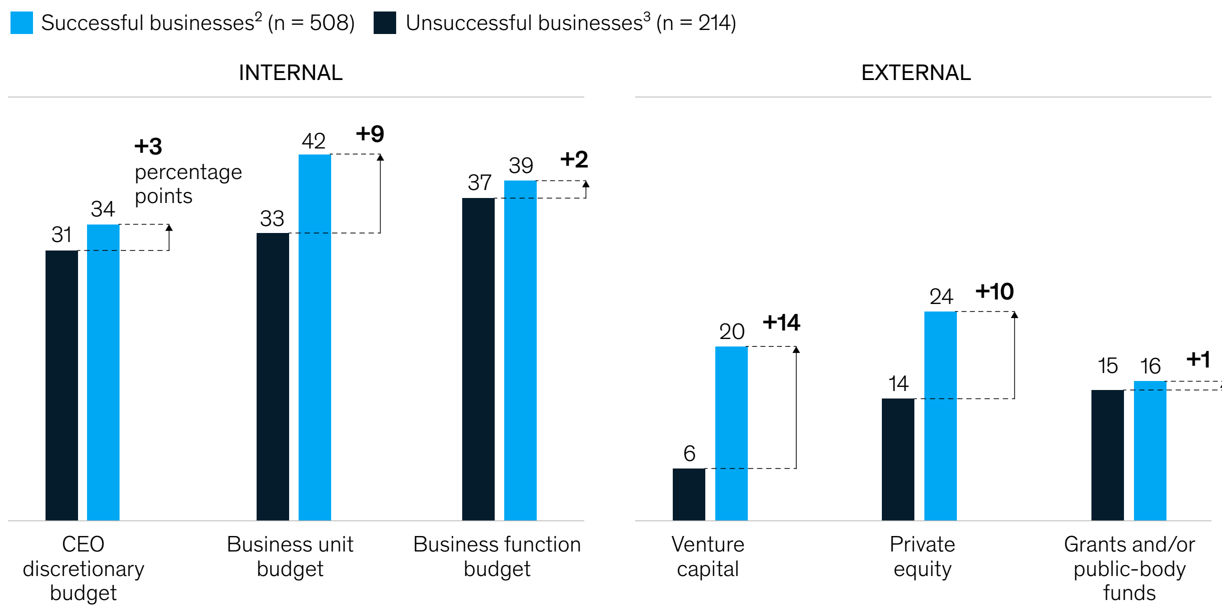
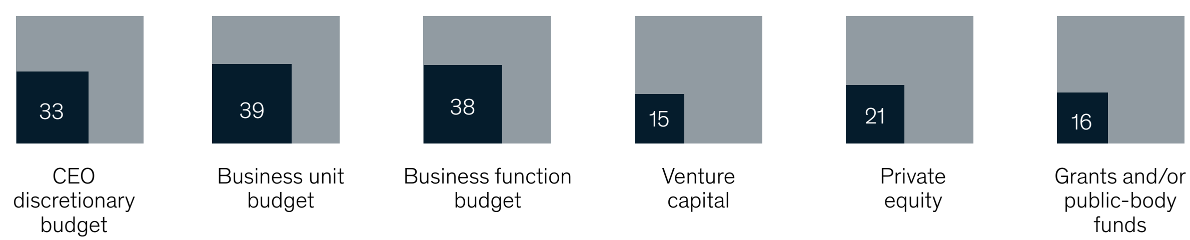
Sources of funding for new businesses: While internal funding is the most common source of investment in new-business building, with roughly similar splits between CEO discretionary, business unit, and function budgets, we are also seeing external sources of funding such as from venture capital and private equity firms, as well as grants. Responses show that successful new businesses—businesses that respondents say met or exceeded organizations' expectations for scale or growth—are more likely than other businesses to have received external funding. The benefits of external funding are self-reinforcing. It is no doubt easier for businesses to secure external funding when showing signs of success, and the funding itself brings operational benefits. Venture capital firms can also encourage a greater level of discipline, resource efficiency, and potentially a greater degree of separation from the core.

The findings show that access to venture capital and private equity funding set apart successful new businesses from the rest.

Sources of funding for new business, by perceived performance of new business,[1]
% of respondents



Sources of funding for new business, % share of all respondents



[1]Figures were calculated after excluding respondents who selected "None of the above" or "Don't know."
[2]New businesses that respondents said significantly exceeded, exceeded, or met the core organizations' expectations for growth or scale.
[3]New businesses that respondents said performed below the core organizations' expectations for growth or scale, or were discontinued.
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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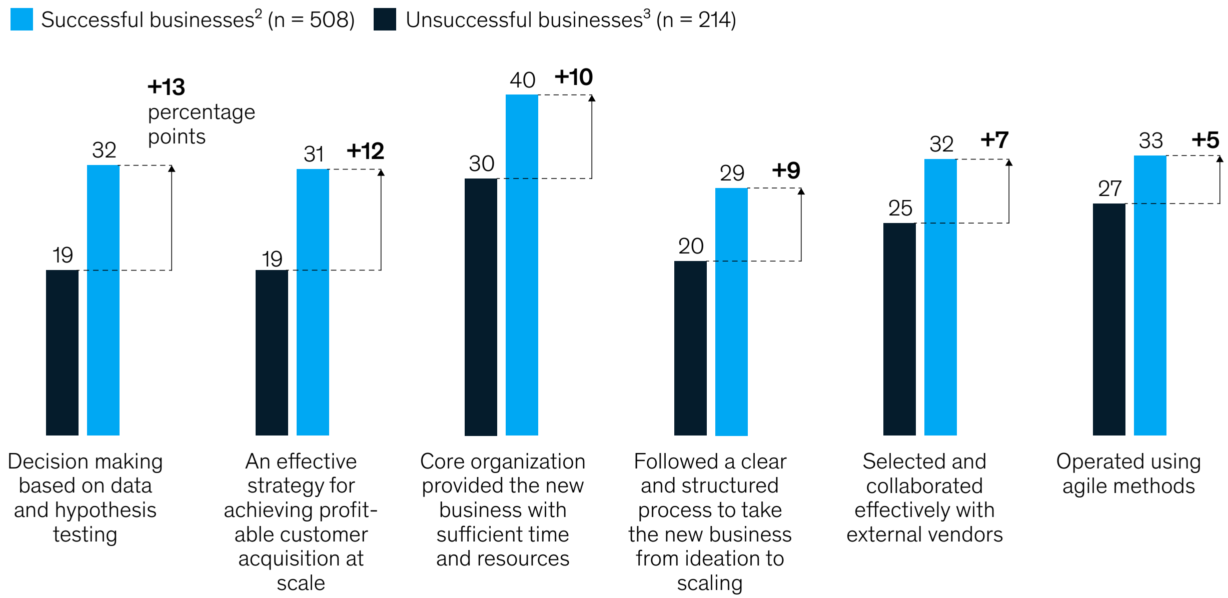
The best practices of successful new businesses: In addition to increasing investment, organizations seeking to develop large-scale new businesses can look to the practices in place at companies that have succeeded with business building. The findings suggest that these successful new businesses are more likely than others to make decisions backed by data and to have an effective strategy for achieving customer acquisition at scale. They also tend to have sufficient resources from their core organization and a clear and standard process for scaling new businesses.

Business leaders indicate that markets already recognize the value of building new businesses, and the scale of investment suggests that incumbent organizations have the potential to lead the next wave of innovation and disruption within their industries. However, companies will need to begin building many more businesses than they have thus far—and do it quickly, with increased investment—to meet their revenue expectations for the years ahead. Continuing with the current approach will not suffice. Companies can become better at scaling new businesses—and we anticipate, and prior research shows, that the more companies build new businesses, the better they become. Building this critical muscle over time will support their valuations and longevity.

Responses suggest that successful businesses are more likely to have data-backed decision making, effective strategies for scaling, and sufficient resources.

Practices in place while new business was being built, by perceived performance of new business,[1]
% of respondents



[1]Out of 15 statements tested in the survey. Figures were calculated after excluding respondents who selected "None of the above" or "Don't know."
[2]New businesses that respondents said significantly exceeded, exceeded, or met the core organizations' expectations for growth or scale.
[3]New businesses that respondents said performed below the core organizations' expectations for growth or scale, or were discontinued.
Source: McKinsey Global Survey on new-business building, 995 C-suite executives, senior managers, and business unit or division heads, July 19 to September 1, 2022

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The survey content and analysis were developed by **Markus Berger-de León,** a senior partner in McKinsey's Berlin office; **Shaun Collins** and **Ari Libarikian,** a consultant and senior partner, respectively, in the New York office; **Ralf Dreischmeier,** a senior partner in the London office; and **Belkis Vasquez-McCall,** a partner in the Southern California office.

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