Three Horizons Of Growth

Idea In Short

McKinsey's Three Horizons of Growth is a strategic framework that helps organizations balance their current operations with future opportunities. Horizon 1 focuses on defending and extending the core business in the short term (0-2 years). Horizon 2 involves nurturing emerging businesses and opportunities in the medium term (2-5 years). Horizon 3 looks at creating viable options for long-term growth (5-10 years). This model encourages companies to allocate resources across all three horizons simultaneously, typically following a 70-20-10 ratio. By doing so, organizations can maintain their current success while also preparing for future challenges and opportunities, ensuring sustainable growth and innovation.

It may seem odd, but some companies are content to keep doing what they've been doing because it's been successful so far. Their customers are happy, their employees are happy, they're meeting their goals, and they see no reason to change. They may add a few employees from time to time to keep up with demand, but the base operation remains the same.

But, if the industry shifts, the company might not be prepared. If they keep doing business the way they've always done it, they can stagnate, lose the ability to innovate and grow, and lose their customers.

The last couple of decades have taught us that industries will change, and the change is rapid. Companies that can't innovate or grow to address industry shifts could be doomed to fail.

> For example, the rapid growth and development of the internet and web browsers in the 1990s caught the newspaper industry off guard. Thousands of newspapers have closed permanently since 2004, and thousands of jobs have been lost. The newspapers that still survive are those that could see beyond print media and found

innovative ways to work with the internet.

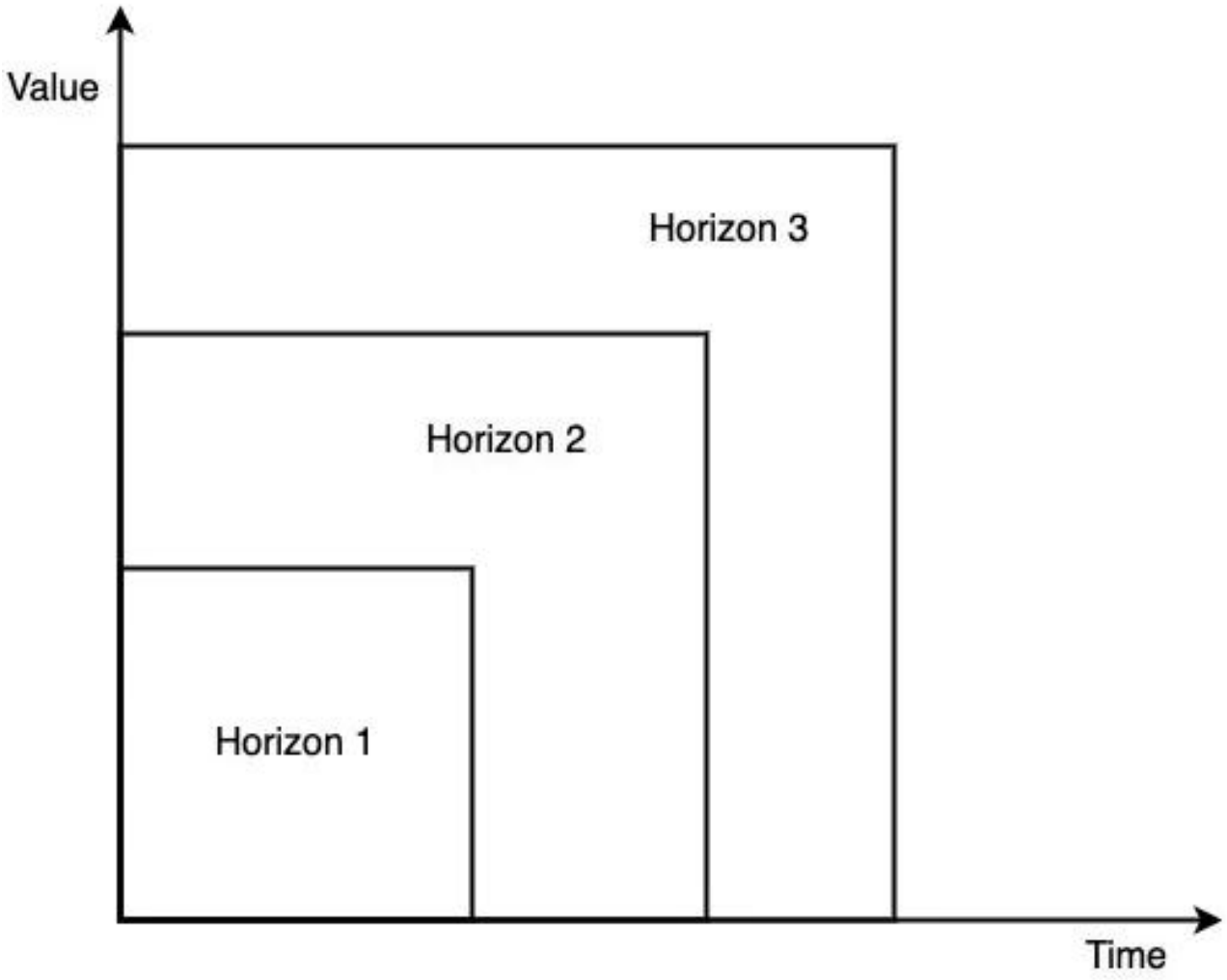
This is where McKinsey's three horizons of growth come in. The ideas presented in this model can help companies to find a balance between current working operations, and growing in new directions.

Three Horizon framework

The three horizons model was first introduced by McKinsey consultants Mehrdad Baghai, Stephen Coley, and David White in their 1999 book, The Alchemy of Growth. It is a growth strategy framework that is designed to keep you focused on innovation and sustained growth. It is a structured approach that helps you look at and evaluate potential growth opportunities while ensuring that current operations are not neglected.

With this framework, you manage business and growth using three horizons that represent short-term building and maintaining current core business, medium-term expansion and exploration into new opportunities, and research and ideas for future growth and new business opportunities.

Each horizon has a different focus, so you will need a different management style for each one. For example, horizon one has a short-term focus that can be managed by team leads looking at current trends and analysis of what's working and what needs to be fixed. Horizon one is where the bulk of your company's business is done. At the same time, horizon two and horizon three require the attention from senior management and executives as they plan out the company's long-term strategic goals and determine in which direction to go next.



Three Horizons Of Growth

Horizon one: Core business

This horizon generally gets a lot of attention because it represents the current business. Here is where you analyze what is currently working, what may have peaked, what your strengths and weaknesses are, and what you might need to abandon. This is a short term horizon (six months to three years) that has the goal of defending the core business and understanding current value.

While you are looking at ways to grow, you can't simply abandon what you are currently doing. Horizon one keeps you focused on satisfying current customers while you make tactical improvements so you can extend the business to new customers.

For example, adding security measures to fix a potential threat can add value to a current app and possibly get you more customers. But any competitive advantages tend to be short-

lived.

A large portion of your resources are funneled into this horizon to support current innovations. But at the same time, you'll want to funnel some of your resources to be used in horizons two and three.

Horizon two: Emerging opportunities

Here you take what you have and extend it to new business opportunities within the next two to five years. Your job now is to identify the opportunities that most likely will bring success when they're added to your company's portfolio. You should look at things that align well with or extend your current business model. Explore opportunities that will bring in new customers, expand into new markets, or help you to reach new goals.

Then you'll need to figure out how these new businesses will be supported—assets you'll need, specific skill sets when hiring new talent, acquiring new technology, merging business resources, and so on.

This might require a large initial investment. But if what you choose to do is a logical extension of your current business model, you should see some reliable returns on your investments. Examples might include launching a new product line or expanding your business geographically.

Horizon three: Long-term goals

Your company's value has grown and now it's time to think of what you will do in the next five to twelve years. Horizon three is where you think about creating completely new opportunities. This could include focusing on new markets or starting new businesses. It can also include long-term research projects and pilot programs. You might set up new divisions within your organization, or you might start up entirely new business units through acquisitions and mergers.

This type of expansion will require a large amount of money. And it's possible that some of your ideas are unproven and won't be profitable for a significant amount of time. But when done well, these costs are offset by new income sources.

Benefits

In large companies it's not unusual for different departments, managers, and teams to have differing visions of the company's future path. The three growth horizons model can benefit you in the following ways:

It helps you to align varying visions of the company's future growth by showing everybody the innovation plan and the goals you'll need to accomplish in that plan.

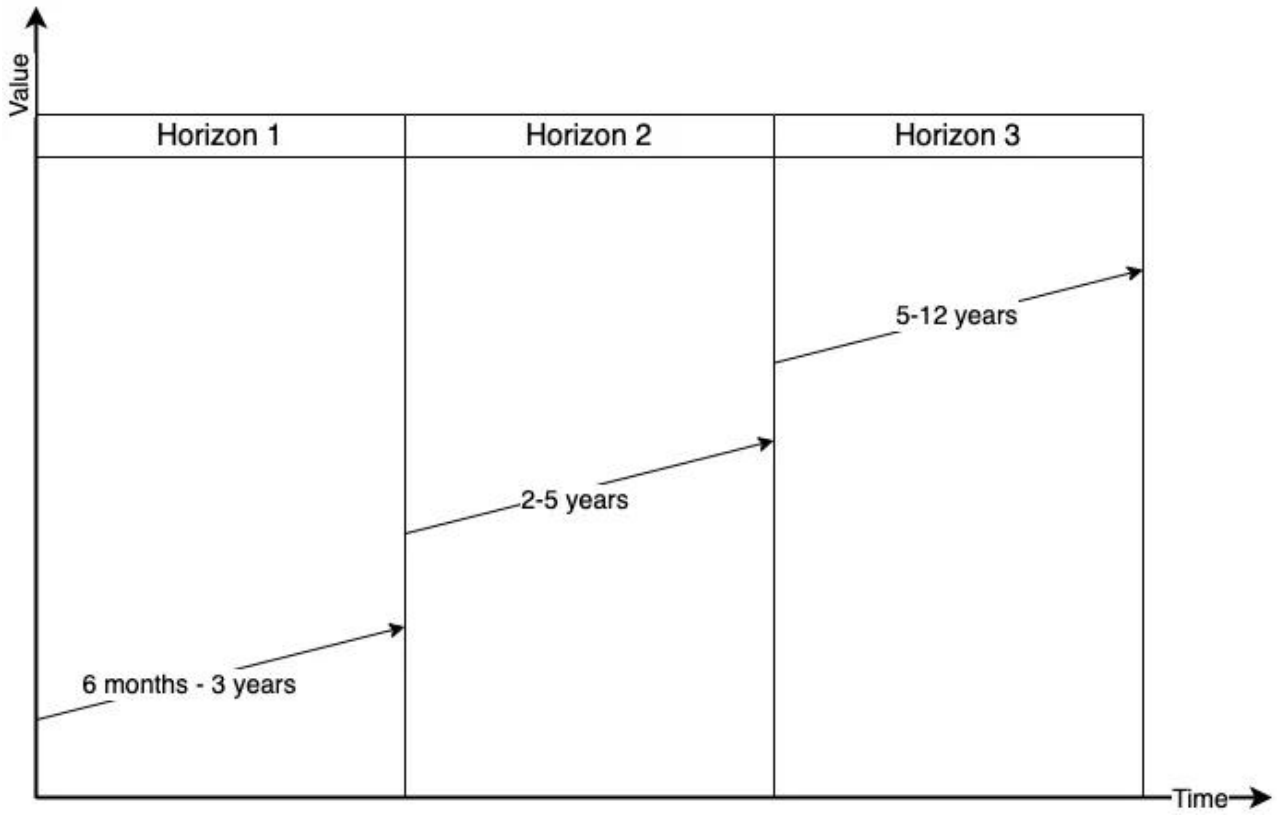
It gives you a common language from top to bottom in the organization that is easy to understand, and that can be used to describe how the company is planning and investing for growth.

It helps you to communicate the timeline for each horizon, including when you expect to see positive results and a return on your investment.

It helps you to visualize your company's future so you can more easily manage your company's portfolio and growth strategy.

How to use the three horizons model

The horizontal axis (the x-axis) represents the approximate amount of time it might take before you begin to see results from the efforts you put into the activities in each horizon. You should not look at these times in terms of "we'll do this, then we'll do that." Instead, you need to remember that successful implementation of the three horizons requires that all three are managed concurrently.



Horizons Of Growth Evolution

The vertical axis (the y-axis) represents value creation or the profits you get from your various business activities within each growth horizon.

70/20/10 Rule

This is a simple rule that helps you to determine the proportion of time and resources that should be applied to each growth horizon. The 70/20/10 rule is a guideline that says you should:

Use 70% of your resources and time on the core businesses in horizon one. You want to use the majority of your resources in this area because these are the businesses that have been successful and proven to win against your competition. The work in this horizon is important because you are always looking for ways to get as much value as possible from proven activities.

Use 20% on emerging businesses that show great promise and that could give you an advantage over your competitors. These ventures have the potential to add a significant amount of value to your business, and the potential for increasing your revenue streams.

Some of the businesses and activities in horizon two may fail, so you'll want to make sure you have enough resources to ensure that there are successes to carry you to horizon three.

10% of your resources are assigned to horizon three. If you don't ensure that you have resources assigned here, you might lose sight of your company's ultimate goals. When that happens, you could end up spinning your wheels in horizon two without making any progress. Most of the work here will focus on research and experimentation. A lot of the ideas here are visionary and will be new to the world when they are released. Executives and senior managers are best suited for managing the long-term goals of horizon three.

Summary

McKinsey's Three Horizons of Growth is a strategic framework that helps organizations balance current operations with future opportunities. It consists of three horizons:

1. Horizon 1 (0-2 years): Focuses on core business, optimizing and defending current operations
2. Horizon 2 (2-5 years): Nurtures emerging opportunities and new business initiatives
3. Horizon 3 (5-10 years): Explores long-term growth options and potentially disruptive ideas

The model suggests allocating resources across all horizons simultaneously, typically in a 70-20-10 ratio. This approach enables companies to maintain present success while preparing for future challenges and innovations, ensuring sustainable growth.