Don’t Wait for Good Times to Focus on Growth

By Justin Manly, Jeremy Kuriloff, Ketil Gjerstad, and Alexa Albrecht

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It’s human nature to hunker down in times of turbulence. But our analysis suggests that’s a mistake. Because when it comes to value creation in both the medium and long terms, top-line growth is the most important driver.

It’s of course essential to optimize your company’s cost structure, but a focus on cost alone risks cutting the wrong things. Without a clear growth strategy, it’s hard to know which costs and capabilities will drive medium- and long-term advantage—and many of the most successful growth stories rely on applying existing strengths in new areas.

Over time, failing to grow can become a self-fulfilling prophecy. Morale suffers, top talent leaves, competitors seize the opportunity to disrupt, and the company risks entering a doom loop that’s hard to escape. And if it’s hard to grow now, it will be ever harder after some of the best people have left and your company has a less attractive value proposition for new talent than rivals do.

Importantly, while growth isn’t always easy, it is possible. Our analysis shows that the variation of growth rates for companies within any industry is dramatically wider than the range of median growth rates across industries. Each company has to chart its own path, of course, but its starting point suggests which approaches are more likely to succeed.

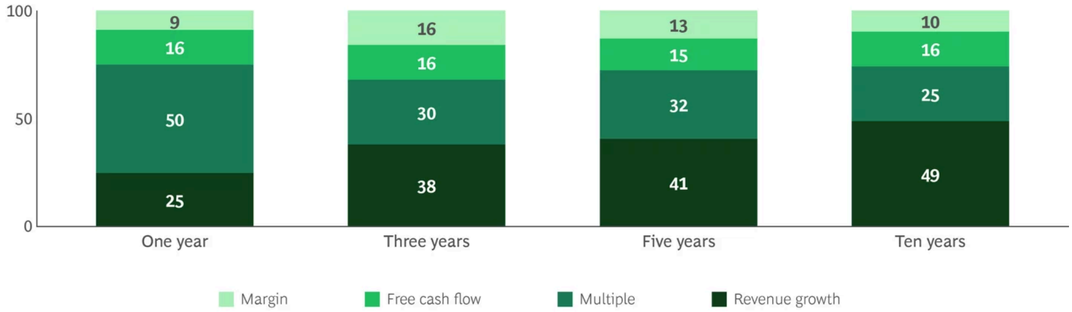
The Medium- and Long-Term Growth Imperative

A paramount goal for every management team is to drive competitively superior value creation—and growth is an essential ingredient. Revenue growth is a top driver of total shareholder return (TSR), and its importance increases as the time horizon lengthens. (See Exhibit 1.)

EXHIBIT 1

Over Time, Revenue Growth Is the Most Important Driver of Value Creation

Sources of TSR for S&P 500 top-quartile performers, 2014–2024 (%)[1]



Sources: S&P Capital IQ; BCG's ValueScience Center.
Note: Because of rounding, not all percentages add up to 100.
[1]S&P 500 excluding financial institutions, December 2024; analysis used net income margin and price-to-earnings ratio.

In the very short term, revenue growth is the second most important driver of one-year value creation—and by three years it has become the most important driver. Over the longer term, it accounts for about half of ten-year TSR. Margins, free cash flow, and multiples remain important, but they take a back seat to top-line improvement.

Investors Reward a Return to Growth

Consider the top-quartile value creators for 2018 among publicly traded nonfinancial companies with a market capitalization higher than $5 billion. Of this group of 414 companies, only about 15% achieved their superior TSR without revenue growth.

Investors in those 64 companies may have been giving management credit for short-term moves that would improve current business economics—or some space to pursue and realize promising new growth strategies. However, their patience was not infinite. That became clear when we looked at how the cohort of 414 performed over the next five years from 2019 through 2024. Ultimately, they could not sustain TSR performance in the medium term without growth.

Analyzing the performance of the top quartile revealed three distinct segments: companies that continuously grew, rebounded, or stagnated. Those that continuously grew increased revenue both in 2018 and over the subsequent five years. They delivered the best TSR performance of 10.6% per year from 2019 through 2024. (See Exhibit 2.) While the S&P 500 Index grew at a higher rate over this period, much of that growth was driven by the top tech stocks, the magnificent seven of Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla. Our analysis focused on 2018's top-quartile value creators—and of the seven, only Microsoft earned a spot.

Of the companies that failed to grow in 2018, another group rebounded, returning to growth from 2019 through 2024, and they were rewarded for it, achieving TSR of 7.6% per year. There was some evidence that they may already have communicated a growth story to investors that had begun to bear fruit, since their 2018 TSR was driven by both multiple and margin expansion.

Rebounder Daiichi Sankyo, for example, had a new oncology compound—an antibody-drug conjugate called trastuzumab deruxtecan—that had shown exceptional promise in the treatment of certain breast, lung, and gastric cancers. In 2017, it had earned a breakthrough therapy designation from the US Food and Drug Administration, putting it on an accelerated approval pathway. And in early 2019, Daiichi Sankyo cemented a partnership with AstraZeneca to develop and commercialize it. Under the brand name Enhertu, the therapy was approved in 2019 in the US, 2020 in Japan, and 2021 in the European Union, leading to significant sales growth. Through fiscal year 2023, Enhertu was the key driver of growth, and it helped the company achieve a 22% compound annual growth in TSR from 2019 through 2024.

The remaining segment, the companies that stagnated, failed to return to growth and were punished with annualized TSR of just 1.6% for the period. Given that their 2018 TSR was predominantly driven by multiple expansion, it appears that investors at the start of the period were making a bet on unproven potential.

We also analyzed the earnings call transcripts of companies that rebounded and stagnated from 2019 through 2024. The companies that rebounded were much more likely to feature growth and innovation topics in their presentations, and these topics played a larger role in the subsequent question and answer sessions with investors. Conversely, the companies that stagnated were much more likely to discuss cost and profitability with investors.

Four Best Practices to Reignite Growth

For many companies struggling with a challenged core business, reigniting growth requires increasing access to more attractive profit pools in which their capabilities and advantages give them a right to win a disproportionate market share. The companies that are most likely to succeed in that effort embrace four best practices. (See Exhibit 3.)

Determine growth archetype and playbook. A company's starting position suggests the types of growth strategies that will most likely drive value. Our earlier research identified six starting-point archetypes; each is characterized by industry growth rate and company market-share trajectory. For each archetype, a particular mix of growth strategies—such as optimize the core, expand the core, stretch into adjacencies, or explore new frontiers—is most associated with driving breakout growth.

For example, if your company is losing share to a market leader in a high-growth market—the underdog archetype—you're more likely to drive breakout growth by fixing the core offering than by moving into an adjacency. By contrast, if your company is in a low-growth market, a move into an adjacency makes sense, but the recommended path to breakout growth depends on whether it is gaining or losing share and its value-creation performance vis-à-vis rivals.

By 2016, agricultural equipment supplier John Deere was a classic tactician archetype, gaining share in a low-growth market while outperforming peers on annual TSR by 5% over the prior five years. The most common strategies pursued by tacticians to reignite growth are—in order of frequency—stretching into adjacencies, expanding the core, and moving into new frontiers. Deere pursued all three.

It moved into adjacencies by complementing its existing earth-moving business with road building through the acquisition of road equipment manufacturer Wirtgen. Deere expanded the core by bringing its precision technologies to customers beyond its US corn and soy farming base—extending its focus to smaller farms and other countries. And, via its subscription-based SaaS offerings, such as See & Spray, it moved into a new frontier. From 2016 through 2023, Deere's revenue grew at 13% per year versus 6% for its peers—and its TSR grew at 25% per year, nine percentage points higher than that of its peers.

Prioritize ruthlessly. While archetypes offer a blueprint, they're not the strategy. Creating a strategy is about deciding what to do—and what not to do. Management attention and investment capital are scarce assets, so it's essential to deploy them against a short list of growth initiatives that are very likely to have a material impact on growth and value.

> "Prioritizing initiatives that are likely to have a material impact on growth and value is not just about size but also about the potential for success.

Importantly, materiality is not just about size but also about the potential for success. A company's assets and capabilities typically determine where it is uniquely well positioned to capture a leadership position. There's no clear answer on the right number of bets. In our experience, we've seen larger organizations with high risk tolerance and strong current performance successfully managing 8 to 15 bets—while more risk-averse companies tend to focus on two or three high-priority initiatives.

Among US telecommunications carriers in 2012, T-Mobile was in a distant fourth place. Its plan to sell itself to AT&T had fallen through the prior year over antitrust concerns. It had earned a $4 billion breakup fee in the form of cash and additional spectrum access, but it needed a plan. A classic underdog, T-Mobile focused on strengthening and expanding its core.

Since it couldn't win on scale, T-Mobile sought to differentiate itself as the "Un-carrier," eliminating contracts and charges for roaming and data overages. These moves earned it more than 8 million new customers by 2014. It merged with MetroPCS in 2014 to strengthen its network and gain access to the prepaid segment. And then in 2020, it bought the third-place carrier Sprint, an acquisition that enabled it to roll out 5G to more than 85% of the US. Those three moves—and the company's completion of the technically challenging Sprint integration ahead of schedule while achieving higher-than-projected synergies—yielded 11.6% revenue growth, lifted it to second place in the market, and delivered 19% annual TSR (four times the rate of its closest rival) from 2013 through 2024.

Use M&A strategically. Transactions can be a powerful catalyst for growth—accelerating access to new markets, capabilities, intellectual property, and more. But they're also risky. Off-strategy deals are a distraction to be avoided. It's important that any M&A support the key pillars of your company's archetype-inspired growth strategy. That's what T-Mobile did. Its two deals brought critical technology, access to new customers, and ultimately the scale needed to be a top competitor in the US market.

Structure for success. Once your company has settled on its priority initiatives, it's important to manage them for success. Establishing a growth program office (GPO) is a great way to bring discipline to the process at multiple stages of a growth initiative. At the outset, a GPO drives success by pressure testing core assumptions, developing success metrics, and signaling the strategic importance of the growth program to the management team and organization at large. Then throughout the process, a GPO provides support and thought partnership to initiative teams, helps to elevate critical decisions requiring executive team engagement, ensures the right functional experts are brought to bear, and maintains accountability by tracking and reporting KPIs.

Even in uncertain times, growth is possible. There are opportunities to be found across nearly all industries. For companies that continue to sit on their hands, the doom loop awaits. But for those that move quickly and skillfully to identify and seize the ones best suited to their starting positions, growth is the reward.

Authors

Justin Manly

Managing Director & Senior Partner
Chicago

Jeremy Kuriloff

Managing Director & Partner
New York

Ketil Gjerstad

Managing Director & Senior Partner
Oslo

AA

Alexa Albrecht

Principal
New York

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