McKinsey Seven Degrees of Freedom for Growth

Many leaders think about growth in a narrow way: sell more of the same products to the same customers. Three McKinsey partners, Mehrdad Baghai, Stephen Coley and David White, offered a wider view in their book The Alchemy of Growth. They described seven degrees of freedom for growth, which are seven different directions in which a business can grow. The first directions stay close to the current business, while the later ones move further away and usually need more investment and carry more risk. Looking at all seven helps teams find opportunities that habit would otherwise hide.

1. Existing and New Customers

The first degree is to sell more of our existing products to our existing customers. This is often the closest and cheapest source of growth, because these customers already know and trust us. We can build loyalty, encourage people to buy more often, or offer related products they did not know we had. The second degree is to win new customers in the markets we already serve. These may be customers of our competitors, or groups in the market that we have ignored so far.

Example: a gym gives its members a discount on personal training, and launches a student offer to attract new members.

At work: Ibrahim is the business development manager of a coffee company that supplies cafés. He offers existing cafés cups and syrups with their monthly coffee order, and his team starts visiting offices that have never bought from the company.

2. New Products and Services

The third degree is to create new products and services. The best ideas often come from customer needs that we already see but do not yet meet. A new offer can fill a gap in the current range, or add a service to a physical product. It can also be a completely new product, built on the skills and the brand that the company already has. New offers need investment and testing, so it is wise to start small and learn fast.

Example: a neighbourhood bakery starts selling sandwiches and fresh juice, so its customers stay for lunch.

At work: many offices ask Ibrahim for help with their coffee machines. He launches a machine rental service with regular maintenance, and it soon becomes a steady monthly income.

3. New Delivery Approaches

The fourth degree is to change the way value reaches the customer. This means rethinking the value chain, the steps that bring a product from the maker to the buyer. A company can sell directly instead of through middlemen, move its sales online, or offer a faster or cheaper way to deliver. Sometimes the product stays exactly the same, but the new way of buying makes it

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more attractive. A better delivery approach can also lower costs and bring the company closer to its customers.

Example: a restaurant that only served guests at its tables starts delivering meals to homes through an app.

At work: Ibrahim opens an online shop with a monthly coffee subscription for homes. The coffee is the same, but customers now receive it at the door.

4. New Geographies

The fifth degree is to take the business to new places. This can mean a new neighbourhood, a new city, a new region or another country. A product that works well at home may find many new customers elsewhere. However, each new market has its own culture, rules, competitors and customer habits. Many companies reduce the risk by starting with a local partner, or with one pilot location.

Example: a popular family restaurant opens its second branch in another city.

At work: Ibrahim finds a trusted distributor in a neighbouring country. The company starts exporting there, while it learns what local cafés prefer.

5. Industry Structure and New Arenas

The sixth degree is to change the structure of the industry, for example through acquisitions, mergers, alliances or the joining of many small players. A bigger combined company can gain scale, lower its costs and reach more customers. The seventh degree is to enter a new competitive arena, which means using the company's strengths to compete in a different industry. These strengths may be skills, technology, relationships or a strong brand. These last two degrees are the furthest from the core business, so they need careful study before any big decision.

Example: two small neighbourhood pharmacies join forces, so they can buy medicines at better prices and share their delivery staff.

At work: Ibrahim's company buys two small local roasters. Later, it uses its own delivery vans to offer delivery services to other food producers, which is a new industry for the company.

Conclusion

In summary, the seven degrees of freedom remind leaders that growth has many directions, not just one. We can sell more to existing customers, win new customers, create new products and services, find new delivery approaches, enter new geographies, change the industry structure, and open new competitive arenas. The degrees are not a menu to use all at once; each company chooses the few that fit its strengths and its situation. Using the list in planning meetings helps teams see options they might otherwise miss. The same book also introduced the Three Horizons of growth, a related tool for balancing today's business with future opportunities.

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