McKinsey's Three Horizons of Growth

Companies need results today and growth tomorrow, and these two needs often compete for money and attention. The three horizons of growth model, developed at McKinsey, helps leaders to balance them. It was described by Mehrdad Baghai, Stephen Coley and David White in their book The Alchemy of Growth, first published in the late 1990s. The model sorts a company's growth efforts into three horizons, depending on how close they are to today's results. We can follow four parts: the three horizons, and how to balance them.

1. Horizon One: Defend the Core

Horizon one is the core business, which produces most of today's profit and cash. The aim is to defend it and extend it, for example by serving customers better, improving efficiency and entering nearby markets. The measures are short term, such as sales, margin and market share. Because the core pays for everything else, it must stay strong. A well-run core also gives a company the stability to take risks elsewhere.

Example: A neighbourhood café has regular customers. Applying Horizon One, the owner improves the coffee and speeds up service to keep them.

At work: Reem runs a city delivery company. Applying Horizon One, she improves route planning to cut late deliveries. Profit and customer ratings rise in the following months.

2. Horizon Two: Build Emerging Businesses

Horizon two covers emerging businesses that have shown promise but are not yet big or profitable. They need investment, talent and attention to grow, and the results come over the medium term. The measures are growth rate, customer adoption and progress toward profit, not just current profit. Some of these businesses begin as experiments from horizon three and need management support to scale. It is the stage where a promising idea becomes a real business.

Example: A café starts selling meal boxes and sees good early demand. Applying Horizon Two, the owner hires a cook and builds a kitchen to grow it.

At work: Reem's company launches a warehouse and delivery service for online shops, and the first clients sign up. Applying Horizon Two, she assigns a dedicated team and budget to grow it. She tracks the number of clients and the monthly growth.

3. Horizon Three: Plant Future Options

Horizon three holds ideas that could become tomorrow's businesses, such as research, pilots and small ventures. Many will not work, so the aim is to create options, not to expect quick

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profit. Each option is kept small and cheap, and it is tested in order to learn quickly. The measures are learning, milestones and the quality of the evidence gathered. Seeds planted today may become the core business of the next decade, but nobody knows in advance which ones.

Example: A café owner tries a small pop-up stall at a market. Applying Horizon Three, the owner tests the idea cheaply and learns what customers want before investing more.

At work: Reem tests two delivery robots on one street for a month. Applying Horizon Three, she keeps the experiment small and sets a learning goal. After the trial, she decides whether to continue.

4. Balance the Three

The three horizons are managed at the same time, because each one depends on the others. Horizon one funds horizon two, and horizon two brings growth while horizon three plants the next options. If a company only defends the core, it may fall behind, and if it only chases new ideas, it may weaken today's business. The horizons describe how close efforts are to today's results, not exact numbers of years. Leaders review the mix regularly and move efforts from one horizon to the next as they mature.

Example: A café owner divides time and money: most for daily service, some for meal boxes and a little for a pop-up stall. Applying Balance the Three, each horizon gets attention.

At work: Reem reviews her portfolio every quarter. Applying Balance the Three, she keeps most of the budget for the core, increases funding for the warehouse service and keeps a small amount for experiments. She moves the best experiments up when they prove themselves.

Conclusion

In summary, the three horizons model helps companies to protect today's results while building tomorrow's growth. Horizon one defends the core, horizon two builds emerging businesses and horizon three plants future options. It comes from the book The Alchemy of Growth by Baghai, Coley and White of McKinsey. The real skill is balancing the three at the same time. Used well, the model stops a company from trading its future for its present, or its present for its future.

Sources

- Baghai, M., Coley, S. and White, D. The Alchemy of Growth: Practical Insights for Building the Enduring Enterprise. Basic Books – https://www.hachettebookgroup.com/titles/mehrdad-baghai/the-alchemy-of-growth/9780738203096
- Mind Tools: McKinsey's Three Horizons of Growth (summary of the model) – https://www.mindtools.com/pages/article/mckinseys-three-horizons-of-growth.htm

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