

Article

June 2017

# Creativity's bottom line: How winning companies turn creativity into business value and growth

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Top-performing companies use four key management practices to turn creativity into value.

**M**ost of us can remember a couple of favorite ads. They're funny, clever, thoughtful. Creativity can delight, even inspire. But does it generate business value?

The short answer is yes. That conclusion came through clearly in McKinsey's analysis of one widely recognized proxy for creativity. To have a quantitative measure that could be used to examine the linkage between creativity and business performance, we developed the Award Creativity Score (ACS), an index based on the prestigious Cannes Lions awards given annually for advertising and marketing excellence.<sup>1</sup>

The ACS index weighs three factors: the total number of Lions won by each company between 2001 and 2016, with more points assigned for the most prestigious awards; the breadth of categories represented; and consistency over time, based on the number of years a company has been recognized.

We found that the most creative companies, based on their ACS, did better than peer firms on two key business metrics: financial performance and McKinsey's Innovation Score. This doesn't mean there's a straight-line path between climbing the podium at Cannes and besting market indices or out-innovating competitors. But when we dug more deeply, we found that the most creative companies did certain things differently. Specifically, they exhibited a set of four business practices that we believe drive their marketing creativity, their ability to innovate, and their capacity to translate those virtues into business value.

While measuring creativity remains an inexact science, our analysis provides evidence to support the notion that creativity matters for the bottom line and identifies the practices that differentiate the most creative companies from the rest.

## **Creativity is associated with superior performance**

There are many reasons why companies perform well, such as market position or technology leadership. But it's also true that creativity is at the heart of business innovation, and innovation is the engine of growth. With an increasing focus on the *science* of marketing—including performance marketing, marketing AI, and advanced analytics—it's important not to forget about the *art* of marketing.

## **Creative leaders outperform their peers on key financial metrics**

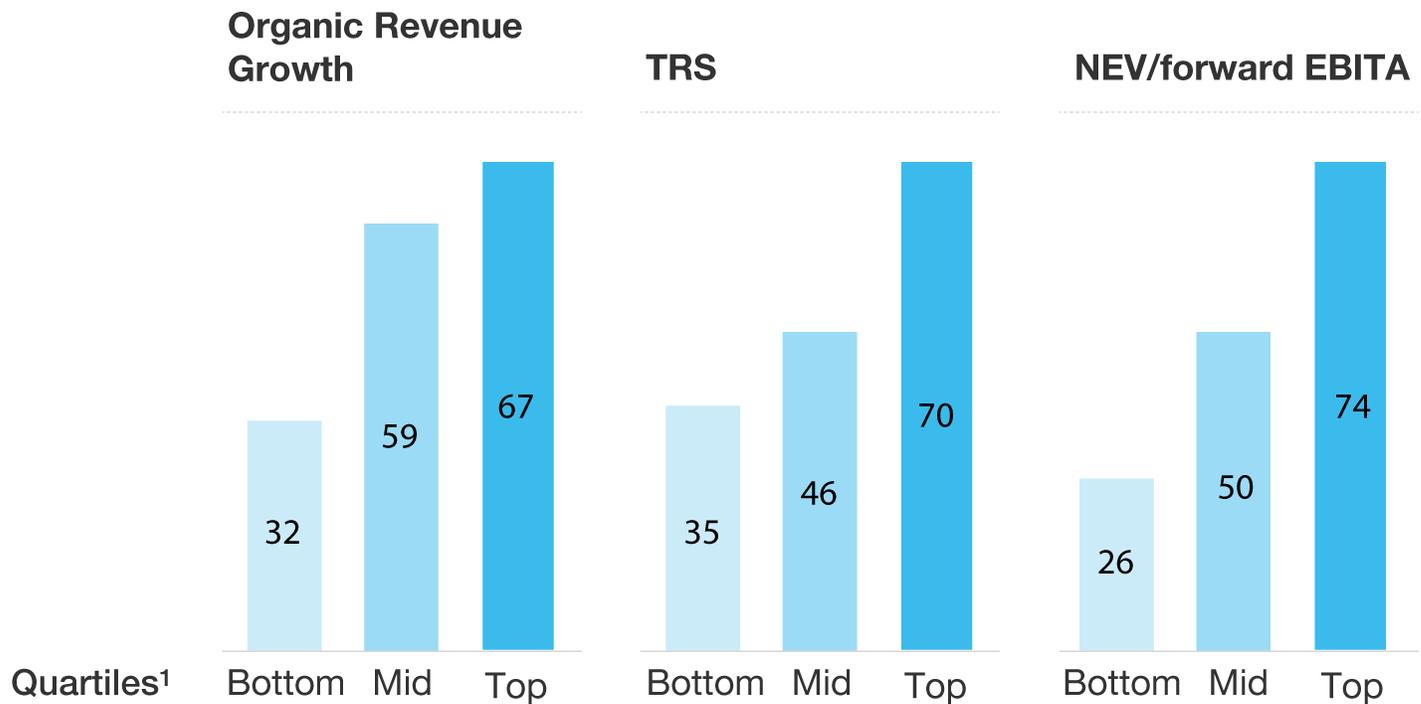
When we looked at the financial results of companies whose ACS scores were in the top quartile, we found they performed better than peer firms on three key measures:

- 67 percent had above-average organic revenue growth.
- 70 percent had above-average total return to shareholders (TRS).
- 74 percent had above-average net enterprise value or NEV/forward EBITDA<sup>2</sup> (see Exhibit 1).

Exhibit 1

## Companies that perform well on the Award Creativity Score tend to outperform on financial metrics

Likelihood that creativity score quartile has above-average financial performance %



1 Using only companies with creativity score >0, combining the two middle quartiles

SOURCE: Team Analysis

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Firms that scored lower on ACS were far less likely to post above-average financial results.

We have further confidence in the linkage between ACS and superior financial performance, given other McKinsey research that has shown the value of distinctive creative work. In almost 90 percent of categories, consumers are not loyal to their chosen brands, and almost 60 percent

will switch when considering a new purchase.<sup>3</sup> This means the moment of initial consideration can be decisive in a consumer's decision journey—and great creative can be a key to winning the battle for initial consideration.

## **Creative leaders are also more innovative**

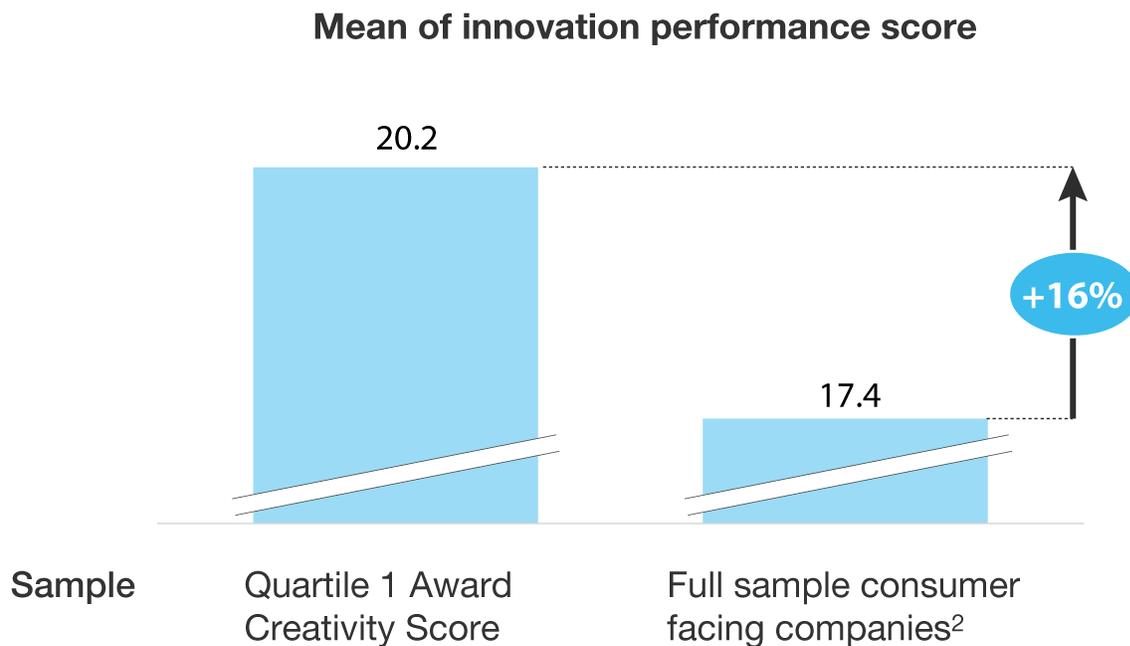
Firms in the ACS top quartile also scored 16 percent higher than the average consumer-facing company on another key measure: McKinsey's Innovation Performance Score, which is based on a set of indicators that our research has shown are linked to innovation outcomes (see Exhibit 2).<sup>4</sup>

Exhibit 2

## Companies with high ACS scores are also successful innovators, as measured by McKinsey's Innovation Score

Innovation score of companies with top Award Creativity Scores relative to full consumer-facing company survey

N=680<sup>1</sup>



<sup>1</sup> T-test with p= 0.0013

<sup>2</sup> Consumer facing companies sample of innovation survey includes industries consumer packaged goods, retail, wholesale, high-tech (hardware), automotive incl. assembly (658 responses)

SOURCE: Innovation Quarterly Survey 2016/2012

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These insights are corroborated by other McKinsey research, which has shown that the fastest-growing companies—the ones we call Creators—are particularly strong at developing new products, services, or business models.<sup>5</sup>

# The four practices associated with creativity and innovation

Although creativity is strongly correlated with superior business performance, senior executives can hardly expect better results simply by exhorting their people to “be more creative.” To determine what executives can do, we used data from two surveys to identify the distinctive practices of firms with top ACS scores.

The first was a new, dedicated survey explicitly designed to identify practices associated with creativity. The second was our Innovation Diagnostic, which tests for 104 practices associated with innovation. The combined data show the firms that consistently do well at Cannes are distinguished by four key practices. These provide clear lessons for companies looking to turn creativity into growth.

## 1. Hardwire creativity and innovation in daily practices

As obvious as it may sound, creativity and innovation need to be business priorities. Even more important, a company needs to execute on those priorities in its daily practices. This can be difficult, given the relentless pressures on business leaders to hit quarterly financial targets.

In companies within the top ACS quartile, senior executives serve as role models for creativity and innovation. They don’t simply encourage their people to pursue those objectives—they see themselves as personally on the hook to deliver creativity and innovation.

In addition, almost 60 percent of companies in the top ACS quartile self-identify as industry shapers or innovation leaders versus slightly more than one-third of their peers. In the most creative firms, a strong narrative has permeated the enterprise: people inside the organization believe in what the company is trying to do and that they can help to achieve it.

This commitment is reflected in a mind-set that prioritizes creativity and innovation. Thirty percent of the firms in the ACS top quartile discuss creativity and innovation at more than half of their board meetings versus only 20 percent of peer firms. Seventy percent of top-quartile firms view marketing spend as an investment rather than an expense, compared with only 40 percent of other firms. Moreover, nearly one quarter of the top-quartile firms prioritize marketing spend relative to other budget categories, something none of their peer firms do. By

looking at marketing spend more as a cost of goods sold than as a discretionary operating expense, these companies are able to govern their resource allocation and decision making in a fundamentally different way.

The commitment to creativity shapes how money gets spent. As a percentage of sales, the marketing budgets of top-quartile firms are more than two-and-a-half times those of their peer firms. The most creative firms also spend more on data scientists. As a result, 86 percent of top-quartile firms consider their marketing capabilities to be “best in class,” something only 40 percent of other firms say. Investing in the right tools—and even more importantly, in the right people to use them—is a fundamental prerequisite for successful innovation.

## **2. Become customer fanatics**

Companies at the top of the ACS rankings have a near-fanatical devotion to understanding their customers. This leads them to go way beyond standard research methods like surveys and focus groups. Instead, they rely on multiple sources—advanced analytics, ethnographic research, and behavioral analysis—to understand customers intimately.

Three key practices are at the core of the Discover dimension of McKinsey’s Innovation Diagnostic: customer orientation, use of multiple lenses to generate insights, and development of differentiated value propositions based on those insights. Along all these dimensions, companies in the ACS top quartile did better than other consumer-facing firms, with 15 to 17 percent more of their people agreeing or strongly agreeing that their organizations were strong in these practices.

The most creative companies employ two particular practices more than other firms: they regularly observe customers in the customers’ own environments, and they understand the problems customers are seeking to solve through use of their products and services. Creative firms also combine insights gained about customers’ needs with technologies and new business models to come up with white-space solutions and distinctive marketing campaigns.

## **3. Feed the need for speed**

Speed may be the defining attribute of modern business, and ACS leaders outperform their peers in this regard. Specifically, survey responses tell us they translate insights into action—new product launches or new marketing campaigns—more quickly than comparable firms.

For a start, the companies in the ACS top quartile make faster decisions: 74 percent of them say their decision making is “sometimes fast,” as opposed to only 40 percent of other firms. And 11 percent of the top-quartile companies say “risk taking is encouraged” internally, something reported by none of their surveyed peer firms.

While the most creative companies move quickly, they also do so with rigor, by defining specific deliverables as opposed to vague goals, and making clear who is accountable for delivering and when. Almost three quarters of companies with top-quartile ACS scores have “clear goals” and “regularly track and report” against these goals versus only 40 percent for firms with lower ACS scores.

## **4. Adapt or die**

Firms with top ACS scores also show an ability to adapt after the launch of a new product or marketing campaign. The top-performing companies recognize that launch is just the beginning of a process of obtaining marketplace feedback, which serves as the basis for ongoing evolution and improvement. Nearly two-thirds of the people working at companies in the ACS top quartile agreed or strongly agreed that their organizations were able to learn from early market signals, as against fewer than half at other firms.

To adapt well involves applying data and analytics to understand how customers are reacting to a new product or campaign and then moving quickly to reshape the offering in response. A core capability to make such a test-learn-adapt approach work is being able to work in agile ways. That starts with putting in place cross-functional teams with the authority to act, thereby avoiding delays for approvals or expert input. More than three-quarters of people at ACS top-quartile firms agreed or strongly agreed that their organizations had a strong cross-functional culture, while only 56 percent of people at other firms could say the same.

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Many executives consider creativity an ineffable activity that can't be managed—and, in fact, creative ideas often do come from stark moments of deep insight. But as the writer Jack London noted, “You can't wait for inspiration, you have to go after it with a club.”

Effective creativity—the kind that drives growth and business performance—comes from “working the problem” and having in place disciplined management practices that can foster sparks of insight and then shepherding them into tangible business outcomes.

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The authors wish to thank Karin Löffler, Laura Schaeffer, and Pavan Sathiraju for their contributions to this article.