

"Sales Growth belongs in the selling-as-science school. The book argues that data, process management and outsourcing can do as much for sales departments as for other areas of the corporation. This book, which finally gives the field some proper attention, is long overdue." —*The Economist*

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# SALES GROWTH

SECON D EDITION

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FIVE PROVEN STRATEGIES  
*from the*  
WORLD'S SALES LEADERS

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BAUMGARTNER | HATAMI | VALDIVIESO

Foreword by MARC BENIOFF  
Chairman and CEO, Salesforce



## PRAISE FOR SALES GROWTH

“Improving sales performance with methods and tools is a must. A refreshing change beyond the common focus on back-office and operational excellence. This book is fact-based and takes a unique customer perspective. I have no doubt that the practical insights laid out here lead to sales growth.”

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—*Richard Kellam, former Chief Customer Officer, Mars*

# **SALES GROWTH**





# **SALES GROWTH**

Five Proven Strategies from the  
World's Sales Leaders

**Second Edition**

**Thomas Baumgartner  
Hodayoun Hatami  
Maria Valdivieso**

**WILEY**

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It is brave (or foolish) to predict the future. Nevertheless, we offer our views on the trajectory of sales management. The rise of automation brings enormous opportunities for value creation and sales growth, but is not without its challenges. Companies should already be preparing for a major overhaul of how they sell—no industry is immune. The greatest benefit may come from not selling at all and outsourcing the function to a third-party specialist; less the “death of the salesman” and more the death of the internal sales function?

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## FOREWORD

I've always wanted to start a company. I grew up watching my father build a chain of apparel stores, and I started my first business, Liberty Software, when I was 15. A friend and I wrote computer games (*Crypt of the Undead* was one of our first), my grandmother wrote the music, and we sold them to Atari. In college, I ran the company out of my dorm room; I studied entrepreneurship, and interned at Apple, where I wrote code for the Macintosh and became enamored with the "Think Different" mind-set that permeated the organization, from the revolutionary products the company built to the pirate flag flying on the roof. Early in life, I knew I wanted to create new products, encourage revolutionary ideas, and build a distinctive culture in my businesses.

So it came as a great surprise when, upon college graduation, my entrepreneurship professors told me not to start my own business but instead get "real-world experience." Specifically, they urged me to take a sales position that focused on building relationships with customers. They called it "carrying a bag."

I was less than enthusiastic. A career in sales wasn't anything close to the path I had envisioned for myself. Yet this turned out to be some of the best business guidance I've ever received. It certainly changed my life and deeply influenced the company I ultimately did create.

After graduation I accepted a job at Oracle answering its 1-800-number. I didn't want to be a 1-800-number operator, but soon I discovered that working with the customer was a lot easier and a lot more fun than writing code. It also taught me the value that guides everything we do at Salesforce today: nothing is more important than customer success, and sales is the entry point to learning how to make the customer successful.

Anyone on the front line has incredible access to information about the customer, the competition, and the changing market. Sales gives us the intelligence necessary to know our customers, deliver the right products, and compete. It's really the heart of an organization, the vital connection to the customer—and far too often it's overlooked.

During my career, I've had a chance to see sales from every angle. Early on, through my work as a salesperson, I understood the value of a program that would allow people to track leads, manage contacts, and keep tabs on account information. I also knew the traditional systems we had, which were expensive to buy, time-consuming to implement, and difficult to use, could be vastly improved. Observing the trends that were happening in the consumer world, I thought that sales-force automation and customer relationship management products could better serve customers if they were sold as a service and delivered over the Internet, which would make these pivotal products faster to implement, easier to use, and far less expensive. So, in 1999 I founded Salesforce with a new technology model, the cloud; a new business model, pay-as-you-go subscription services; and a new philanthropic model, donating 1 percent of Salesforce's product, 1 percent of Salesforce's equity and 1 percent of employees' time to help nonprofits fulfill their missions.

At the time, I had no idea that we would ultimately evolve our service to other areas, such as customer service, marketing, and analytics, and also develop a platform on which others could build new applications. But that is what our customers showed us they needed.

Today, we are leveraging the cloud, social, mobile, data science and Internet of Things technologies to help businesses connect and collaborate with their customers in new ways. Companies like Unilever, State Farm, and Mattel are using our technologies to transform themselves into customer-centric enterprises that can go faster, better align their organizations across business groups and functions, and be more innovative.

This technology shift is more profound than anything we've seen, and is transforming the way we sell. Buyers are engaging with brands in ways never before possible. We are now working in a world in which everyone is trying to determine how to best leverage technology to sell, but this does not mean that technology replaces sales. Too many companies have cut sales departments or neglected to nurture them.

This is not a time to diminish sales; it's a time to reassess and reinvent it. As technology evolves and the world becomes more interconnected, companies need to implement the right strategies and right services to get



better at selling. Having a dedicated, enabled, and passionate sales team is the way companies grow. By managing and motivating sales to develop trusted relationships with customers, and by using tools to make the process more transparent, collaborative, and strategic, companies can deliver sustained and consistent growth.

As the CEO of Salesforce, which has more than 150,000 customers, I meet with thousands of CEOs every year. In my own business as well as those of our customers, I witness how sales is being transformed. In this digital era, sales reps aren't lugging around briefcases full of purchase orders—they are closing deals on their phones and tablets in real time. Companies are creating one-to-one journeys for their customers that traverse sales, service, and marketing. And every part of the selling process is more intelligent, data-rich, and quantifiable, allowing sales teams to connect with their customers in entirely new ways.

Given the critical value of sales and how the digital revolution is transforming it, one would assume that business experts and business school professors would be cranking out reams of rigorous research and filling journals with insights on sales topics. Surprisingly, this is not the case. The topic of sales management is sadly underresearched, especially compared with the massive amount of material available in other business disciplines such as marketing, operations, or leadership. It's incredible to consider that business students can earn an MBA without ever attending a class on sales. Top journals devote less space to sales than to other management areas, and few, in fact, recognize sales for the important management practice that it is. There has been no great business book that offers a comprehensive, scientifically grounded analysis of sales as a discipline today—until now.

*Sales Growth: Five Proven Strategies from the World's Sales Leaders* leverages the leading minds and data of McKinsey & Company to fill the gap in sales-management research. It puts sales management back where it belongs—at the center of management thinking about what makes businesses successful.

McKinsey is a trusted adviser to the world's leading businesses and institutions, and reading this book is like walking into a room where more than a hundred of the world's sales leaders are openly sharing their perspectives on the most pressing issues they face. In addition to the stories and case studies woven through the text, there are exclusive interviews with sales visionaries from some of the very best sales organizations.

From finding opportunities ahead of the competition to making the best use of multiple channels, boosting sales performance, and providing real

sales leadership—this book covers all the bases. For each topic, the authors share insights, examples, and case studies that are instantly adaptable to any business. Readers gain access to McKinsey’s network to learn how other sales executives have found hidden pockets of growth in geographies and sectors where they thought they knew all the possible leads. They can see how sales leaders manage channel partners to represent their brands as well as their direct reps do. They can learn how to adjust their sales strategies to win in emerging markets or find the best way to develop sales DNA in their organization.

In this second edition of *Sales Growth*, the authors have built on strong foundations with new research and additional interviews. The new edition also incorporates some of the changes in the field over the past few years, such as the impact on sales growth of increasing automation and outsourcing. But the underlying message of the book remains the same. Sales is both science and art, and the knowledge, research, and expertise in this book will help sales leaders make sense of what’s happening in the rapidly changing business world and equip them to build organizations positioned to succeed in the next decade and beyond.

Marc Benioff  
Chairman and CEO  
Salesforce

*One of the pioneers of cloud computing, Marc Benioff founded Salesforce in 1999 with a vision to revolutionize the enterprise software world with new models for technology, business, corporate philanthropy, and management. Under his visionary leadership, Salesforce has grown from a groundbreaking idea into a Fortune 500 company and the number one customer relationship management platform. Salesforce has been ranked by Forbes as one of the world’s most innovative companies over the past several years, and by Fortune as the world’s most admired company in the software industry for three years in a row.*

## PREFACE

**W**hen we wrote the first edition of this book in 2012, we were confident we were breaking new ground. Nevertheless, we were still surprised by the overwhelming reaction from readers. While we were gratified by the 30,000 copies read by sales executives around the world and the countless social-media posts and extensive publishing attention, what struck us was how the conversations about the role of sales in driving above-market growth had reached a completely new level.

This feedback and requests for more insights drove us to write a new edition, which is what you are holding now. What's new? There are three entirely new chapters covering the role of presales, the benefits of marketing and sales collaboration, and a forward-looking view that reimagines what sales might look like in the years ahead. We have also made major updates to the chapters on digital channels, big data, direct sales, and channel partners to incorporate the latest trends and how they're affecting sales. In addition, throughout the book, we've layered in new examples and data based on recent McKinsey surveys of buyers and sellers, and on conversations with many more market-beating sales leaders.

For all the changes, this edition has remained close to its roots: a book for sales executives by sales executives. In that spirit, we have added 20 completely new interviews with sales leaders across many industries: from consumer goods to power generation, from financial services to high tech, and from manufacturing to logistics. These stories from the "front lines of sales growth" are rich with insights into how leading companies use the five sales strategies to deliver growth that beats the market.

These case stories are not just illustrations of how you should think about sales management. They are proven strategies. Together, they comprise a roadmap to tangible top-line growth and bottom-line improvement.

Few if any companies will tackle all five strategies covered in this book in one program. But we are convinced that the insights, examples, and lessons here can deliver significant growth. This book is a record of experimentation, of innovation, and often of courage. We trust it will provide you with a blueprint to pursue sustainable sales growth.

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STRATEGY 1

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# **FIND GROWTH BEFORE YOUR COMPETITORS DO**



# Look Ten Quarters Ahead

*For tomorrow belongs to the people who prepare for it today.*

—African proverb

**B**ack in 2009, the United States Congress spent weeks drafting the American Recovery and Reinvestment Act. Most companies simply followed the process, praying it would help kick-start sales that had been ravaged by the deep recession. But at one major high-tech equipment company, sales leaders weren't waiting. They knew the legislation would create opportunities for them. They put together a dedicated team with a field sales leader to spearhead the stimulus program and made it a focus for the sales organization. This group was responsible for developing compelling offerings, finding target customers, and creating an investment plan.

As soon as the outline of the bill came into focus, the group got busy planning how to exploit the potential that the new law would provide. They saw that the legislation called for grants and tax rebates to encourage healthcare providers to upgrade IT infrastructure and transition to electronic medical records. This infrastructure included products the company made.

The sales group swung into action, quickly developing a tailored offering for hospitals over the first four to six weeks. This was not a case of working with product development to launch tailored products. There was no time. Instead, the group had to select the suite of products that best fit customers' needs and that fell within the scope of the legislation. It also developed sales collateral that told hospitals exactly how to take advantage of the federal

subsidies in the stimulus bill. The company quickly met with many hospitals and was able to secure multimillion-dollar deals within the first few weeks after the bill was passed. It was months ahead of its competitors.

This is a prime example of forward-looking sales management, an important differentiator of top-performing sales organizations. Certainly, all sales leaders know that they should pay attention to what is happening in the wider world to anticipate changes that could turn into opportunities or threats. But the best follow the example of this company; they make trend analysis a formal part of the sales planning process and, as a result, are perfectly poised to capture the opportunities created by sudden changes in the environment.

Turning the stimulus package into a coherent, on-the-ground program is just one example of capitalizing on a forward-looking view of the market. Another leading high-tech company's sales leadership continuously monitors economics, consumer behavior, and other forces to identify two or three relevant trends each year, and then translates them into concrete sales programs. It develops cross-functional SWAT teams that work with customer account teams to educate customers on the nature of a trend and to sell them on its solution. These teams engage with potential clients over a set period,

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Sales leaders continuously monitor economics, consumer behavior, and other forces to identify two or three relevant trends each year.

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explaining their reasoning and how the particular trend translates into a business impact. Customers valued this forward thinking and, as a result, favored partnering with the high-tech vendor as a way to get ahead of their rivals.

Whether it's ecobusiness or cloud computing, by linking sales activities with emerging trends the company has scored breakthrough wins at Fortune 500 customers.

Based on our research and the discussions with the 200 sales executives we interviewed, it is clear that great companies do three interrelated things to capture the benefits of forward thinking:

1. **Surf the trends.** Good sales leaders know how to hit monthly and annual sales targets. Great sales leaders tap into the big picture, watching for strategic openings in economic trends or changes in customer sectors and regions. They know these can be real opportunities.
2. **Invest ahead of demand.** This might mean making a small investment in analytic capabilities or beefing up the number of frontline sales staff ahead of the emerging trend.
3. **Make it a way of life.** Programs that successfully exploit emerging trends are not one-off flukes or lucky bets. Leading sales organizations



have a built-in forward perspective and mechanisms to turn insights into action.

## Surf the Trends

The high-tech equipment company reacted swiftly to a political change. But developments that create new selling opportunities can come from many sources: technology trends that change consumer shopping patterns or re-define business models, regulatory trends, or political trends (Table 1.1). To ride these trends, the best sales executives make it their business to know what is happening beyond their organizations, their customers, and their industries.

Knowledge is only one part of the equation, though. Top-performing sales organizations have the will and the means to translate macro-shifts into real top-line impact fast. Often, they are able to launch tactical, opportunistic sales programs that deliver differentiated growth in a challenging environment.

For example, as the 2008 financial crisis unfolded, South Korean auto manufacturer Hyundai concluded that economic uncertainty would make consumers skittish about committing to major purchases such as cars. On January 2, 2009, the company launched the Hyundai Assurance Program, which allowed consumers to return their cars with no penalty if they lost their jobs or suffered any other involuntary loss of income. The program was free for the first 12 months after purchase, and there were no restrictions on types of customers. The company actually negotiated exclusive private-label use in the United States of a guarantee scheme provided by a Canadian company called Walkaway.

In the immediate wake of the program's announcement, automotive consumer-research organization Edmunds reported that "purchase intent shot up 15 percent . . . and has remained at 7 percent above its seasonal norm." Such was the popularity of the offer that Hyundai augmented it with a limited-term offer to cover three months of payments while the customer looked for a job. Longer term, Hyundai became the only major car manufacturer to actually increase US sales in 2009, and research cited the Assurance Program as one of the major factors behind customers' decision to buy a Hyundai.<sup>1</sup>

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<sup>1</sup> PR Newswire, January 3, 2009; Just-Auto.com, January 16, 2009; The Plain Dealer, February 4, 2009; Reuters, February 20, 2009, February 15, 2010; NDTV, February 16, 2010.

**TABLE 1.1 Great sales teams constantly scan the horizon for the next opportunity<sup>2</sup>**

Example trend		Opportunities
Technological	<b>Internet of Things:</b> estimated economic impact is \$3.9 trillion – \$11.9 trillion by 2025.	Use IoT data and advanced analytics to generate sales insights.
Political	<b>Cybersecurity:</b> The US government has set a \$16 billion budget for cybersecurity in 2016; the budget has been growing at an annual rate of 24%.	Offer products and services with increased security, and emphasize these features in value propositions.
Geographical	<b>Emerging markets:</b> Expected to expand by an average of 4.7% annually from 2012–25.	Invest sales resources in growing markets to establish incumbent position.
Regulatory	<b>Carbon emission reductions:</b> e.g., EU targeting 40% reduction by 2030.	Go after customers most affected by regulatory changes.

Forward-looking sales management can be strategic as well as tactical. The first-mover advantage created by forward-looking sales plans drives sales in areas where competitors have yet to arrive. This enables the pioneer to build share and enjoy high margins, at least for a while. For example, a major IT company that we discuss in detail below has a forward-looking sales function whose sole purpose is to accelerate the acceptance of next-generation technology among early adopters to give the company an edge within a few years.

As we have said, sales executives don’t just monitor economic trends; there are also megatrends such as climate change that create enormous

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The first-mover advantage created by forward-looking sales plans drives sales in areas where competitors are yet to arrive.

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challenges and opportunities across industries and markets. Of course, corporate strategists and marketing departments adjust their organization’s long-range positioning (in capabilities and products) to address needs created by these trends. But forward-looking sales departments also study how they can tap into changing consumer attitudes caused by such megatrends.

A maker of heating and air-conditioning equipment, for example, realized that perceptions about climate change and sensitivity to energy prices already have a real impact on when and why consumers decide to buy new equipment. The company has developed a model that incorporates different scenarios for energy prices and other key drivers of energy demand. Each scenario includes implications

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<sup>2</sup> McKinsey Global Institute; *Washington Post*; The World Bank; European Commission.

for different types of customers, including each client's likely demand and which products to highlight.

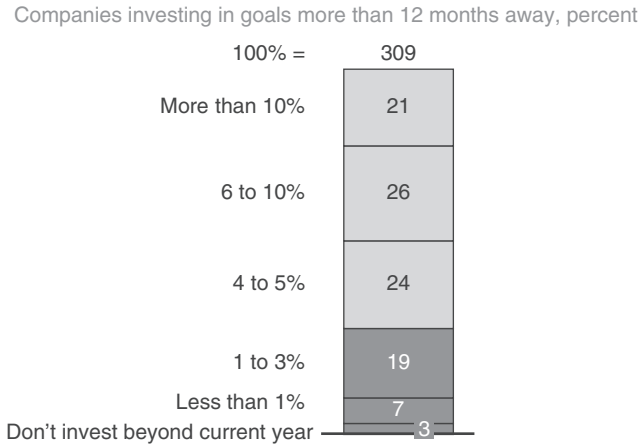
For example, in a scenario with steeply increasing oil prices, more customers are expected to purchase heating systems based on alternative fuels or add modules to use solar energy. Those interdependencies have been modeled based on market and customer data. The results are translated into sales targets for different product groups and insights to guide sales force tactics and define incentives. The model is frequently updated to ensure it incorporates fresh data and thinking. There are also periodic reality checks to make sure that the program continues to reflect likely scenarios. This process allows the company to turn a very broad trend into practical insights for the sales team and gives it a leg up in a competitive marketplace.

## Invest Ahead of Demand

Forward-looking sales programs also depend on access to resources: companies have to be willing to take risks now to get themselves out ahead, creating sales capacity long before the revenue will materialize (see sidebar "Reborn in the Cloud" for the story of Adobe Systems' reinvention).

Many sales executives we interviewed explicitly account for investment in new growth opportunities in their annual capacity planning processes. While this usually involves simply drawing territories and assigning customer lists to support growth initiatives, it can also include requests for dedicated resources to pursue new sources of long-term demand, particularly in emerging markets. Forty-five percent of the companies we interviewed conduct sales planning that goes beyond one year, and the level of investment can be high. More than two-thirds invest at least 4 percent of their sales budget on activities supporting goals that are at least a year out—a significant commitment in an environment where sales leaders fight for each dollar of investment (Figure 1.1).

The ability to commit in advance helped one Asian auto company crack the Indian market. As it assessed India in the late 1990s, the prospects for success for foreign manufacturers were not clear-cut. There was little doubt that the nation's rapidly expanding middle class would boost demand for cars, but tapping into that growth from the outside was not going to be simple. A big constraint was the need to develop the right distribution network, since many of the best dealers were already tied to existing local manufacturers.



**FIGURE 1.1 Companies are making meaningful investments in longer-term sales opportunities**

The conventional approach would be to piggyback on a local manufacturer’s network and partner with dealers in the largest cities first to gain presence quickly. This is the least expensive and fastest way to attack a new region. However, it had limited upside for the carmaker. The leading dealers tended to put their domestic brands first, and only dealers in the big cities could afford to support a second brand. Without real focus from dealers, the prospects of becoming a market leader were far from certain.

This knowledge prompted the company to look further into the future. Although economic growth was concentrated in the largest cities now, it was undoubtedly spreading, and a new wave of middle-class Indians would arise in second- and third-tier cities in just a few years. A player that had a

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dealer network in place in those cities before demand materialized would be exceptionally well positioned.

The sales leadership laid out a plan to sign up more than 110 dedicated dealers across India, including in secondary cities. The plan involved recruiting two specific types of dealers: small independents and sellers of minor brands who were eager to expand. The company focused heavily on each dealer’s personal aspiration to grow and willingness to buy into a five-year vision. Beyond the largest cities, dealers would need to stay lean in the early years when demand would be low.

This meant the owner would have to be flexible, operating with a small staff that would have to double up in management roles. In many cases, the owner would also have to act as a new- and used-car manager. Then, when demand started to grow, the dealers would need to scale up and invest. Recruiting dealers who fit this profile would be a sales project in itself.

The first challenge, however, was building the conviction to bankroll this unorthodox approach. Complicating matters, the company had just one product suitable for the Indian market; others were in the pipeline but as much as two years away. However, the sales leaders believed that this distribution strategy would capture the full potential of the Indian market because the dealers would be fully focused on the brand, and the automaker would have an important first-mover advantage in smaller cities.

The company also decided to offer subsidies to help dealers through the early years, arguing that the eventual sales volume and associated profits justified this up-front investment. The subsidy came in the form of incentives to help the dealer pay for its facilities and build new vehicle and parts inventory—expensive capital outlays required for adding a new brand. The incentives were calibrated to enable the dealer to break even in the early, lean years, but dealers certainly were not given a blank checkbook. Within two years, they were expected to be self-sustaining, and the vast majority achieved this based on the product lineup and their own entrepreneurial skills.

Once the plan was approved, the second challenge was convincing more than 50 dealers to sign up with a foreign franchise. Although the targeted dealers didn't have access to the top domestic brands, they were being courted by other car companies trying to enter India. What sealed the deal for many was the announcement that the Asian automaker would build a local production facility. This was an important differentiator, reinforcing the manufacturer's long-term commitment to the market.

The results have been extraordinary and have fully justified the sales team's vision. Within two years, the company introduced additional models and gained enough volume to withdraw the dealer subsidies and attract additional dealers. Within five years, the original network had doubled, and the company was in the top five for market share in India, and it enjoyed top-tier customer satisfaction. An above-average return on sales of 8 percent meant that the company had exceeded its initial sales investment many times over.

## Reborn in the Cloud

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Anticipating trends and thinking at least ten quarters ahead can take companies right outside their comfort zone. Adobe Systems saw the winds of change in time and made the radical transformation from a desktop application software company to a cloud computing company. There were bumps in the road, but the company's stock price has more than tripled, overall revenue growth has climbed from single digits five years ago to double digits today, and recurring revenue has risen from 19 percent in 2011 to more than 70 percent of total revenue today.

Adobe's initial model drove revenue growth by raising the selling price or moving people up to more expensive products. But times were changing. Cloud technologies made recurring-revenue models possible and made it easier to roll out product updates more frequently than every 18 months. This gave customers faster access to Adobe's product innovations at a time of rapid advances in devices, browsers, mobile apps, and screen sizes. Then came the recession. Many of its peers already had recurring revenue streams and were weathering the storm better than Adobe, despite its high levels of customer satisfaction. The transition to the cloud seemed to be the right next step.

It was a tough transition and not everyone was initially convinced that the risk was worth taking. "We spent hours knee-deep in Excel spreadsheets modeling this out. We literally covered the boardroom with pricing and unit models, and predictions for how quickly perpetual licenses would fall off and how quickly online subscriptions would ramp up," explains CFO Mark Garrett.

Having decided to act, the company prepared investors for a drop in revenue and earnings in 2012, and shifted analysts' focus to the new metrics of the cloud business. As the switchover progressed, investors began asking about longer-term objectives, so Adobe projected the compound annual growth rate and earnings per share three years out. This longer-term outlook was a new concept for a company that had previously only given guidance one year out.

Such a radical change of model required major investment across the company, not least in sales planning. On the product side alone, uptime, availability, disaster recovery, and security all became critical product components that had to be developed. The sales force and channel had to be compensated differently, and even the accounting organization had to change as it moved from billing three million customers a year to four million a month.

Adobe's vice president of business operations and strategy, Dan Cohen, recognizes the benefits of change. "Companies that simply stick to what has made them successful in the past leave themselves open to disruption. You have to take a fresh look at your products—and be willing to 'burn the boats.' Executives in every industry need to read the tea leaves and look at changes that are happening in their own or adjacent industries. Don't wait until someone is disrupting your business to make any kind of necessary transformation. It will already be too late. It can be hard to catch up to others that have gotten the jump. It can feel risky to make this type of move, but once you recognize that the market will go in the new direction with or without you, there's really no other choice."<sup>3</sup>

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<sup>3</sup> Based on interview with Mark Garrett and Dan Cohen that appeared in "Reborn in the cloud," McKinsey Insights, July 2015.

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