Why can't big companies grow?

The startling conclusion of an analysis of growth records of major companies reveals that the organic growth record of large companies is negative. Marketers must be the organic growth leaders within their companies but Cowan argues that marketing has serious problems in its engine room and will not fulfil the growth mission until these are addressed

By DAVID COWAN

COMPANIES are under increasing pressure to deliver organic sales growth because much of the low hanging fruit from downsizing, process reengineering and outsourcing has now gone. But are large companies good at growing their businesses organically?

Strangely enough this is a poorly researched area so we decided to study the organic growth rates of large companies. As a universe we took the top 50 UK owned companies by turnover in 1993 and chose 25 for the study. We calculated their organic growth rates for the five years following 1993 (i.e. up until their latest financial year ending in 1998 or, in some cases, 1999).

To ensure the sample was representative the 25 companies were chosen at random from 18 FT industrial sectors to which the top 50 belong. Table 1 shows the companies selected. The 1998 turnover of the 25 companies was £200 billion.

Calculating the organic growth rates of the 25 companies involved the analysis of 150 annual reports. It was necessary to take into account the turnover effects of around 600 acquisitions and disposals. In the five-year period, acquisitions had a total turnover of £25 billion and disposals of £50 billion. In order to take account of the continually changing core, a company's five-year organic growth rate was calculated using the average of its five year-on-year organic growth rates.

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HOW GOOD ARE BIG COMPANIES AT GROWING ORGANICALLY?

Table 2 shows the five-year average organic growth rates for the 25 companies. It can be seen that 16 had positive average growth rates and nine had negative ones. The overall average growth rate for the 25 companies was small - only 1.5%. Of course, inflation is involved and over the period inflation averaged 3% per annum. When this is factored out there is a considerable reduction in organic growth performance, as Table 3 shows.

After this adjustment is made, only eight companies have average growth rates greater than zero and the average growth rate for the 25 companies is negative at -1.5%. However, we also have to take into account that the economy has been growing since 1993. Growth in consumer spending at constant prices has been at an average rate of 3.1 % over the period. When this is factored out growth rates reduce even further. Now only six companies are growing faster than the economy. But only two of these are

THE SELECTED COMPANIES

Allied Domecq	Hilton Ladbroke
Bass	ICI
BAT	Inchcape
BP	Marks & Spencer
British Gas	National Power
British Steel	P&O
BT	Rolls Royce
BTR	Argyll Safeway
Cadbury Schweppes	Sainsbury's
EMI	Tate & Lyle
GEC	Tomkins
Glaxo Wellcome	Zeneca
Hanson	

TABLE

ORGANIC GROWTH RATES 1993–8

National Power	-8.8	Zeneca	2.9
Hanson	-6.5	BT	3.1
Inchcape	-3.3	Tomkins	3.1
Allied Domecq	-3.1	British Steel	3.1
BTR	-2.7	Tate & Lyle	3.7
EMI	-1.5	GEC	5.1
ICI	-1.2	Argyll Safeway	6.4
BAT	-1.1	Sainsbury's	6.5
Cadbury Schweppes	-0.3	P&O	6.6
Hilton Ladbroke	0.5	Marks & Spencer	6.9
British Gas	0.5	Rolls Royce	7.4
Bass	1.2	BP	8.0
Glaxo Wellcome	2.0		

TABLE 2

ahead by over 1 % and the average for the 25 is - 4.6% (Table 4).

We therefore arrive at the main finding of the study: big companies don't grow. And worse, at constant prices and relative to the economy, most big companies are in decline!

The 25 companies studied have a net asset value of more than £77 billion. With these huge resources at their disposal it is shocking to discover that these big companies have failed to grow organically. Peter Martin declared in the *Financial Timex*

'At the heart of almost every big merger lies an implicit confession of failure, failure of the acquired company to achieve acceptable returns on its assets, failure of the acquirer to achieve adequate internal growth.'

'Alice in Mergerland', FT, 1 December 1998

With this weak underlying position we can see the necessity of mega-mergers to amortise costs and de-merge maneuvers to increase shareholder value.

Clearly not all the failure to grow can be laid at marketing's door. As with everything, chief executives have overall responsibility. But, that said, marketing very much sees itself as the engine of corporate prosperity. Take this quote from the *Marketing Society Review* earlier this year:

'Marketing is one of the most, if not the most exciting and rewarding paths to follow. Exciting because marketing is at the very core of most companies' competitive efforts; rewarding because we are able to see just how well we have identified and anticipated the needs of our customers, and provided for these in a way that provides a profit today and tomorrow.

The standard of marketing in our top companies is second to none. As the discipline that most clearly contributes to current and future prosperity and employment, it should naturally follow that *marketing is one of the most highly regarded professions in British industry.'*

Marketing Society Review, February 1999

If companies are not growing organically this raises questions about management generally, but some of these questions must be directed at marketing and the way it functions. The view taken here is that an important reason for sluggish growth is that marketing has engine room problems and these are rendering it much less effective than it might otherwise be.

THE FIVE ENGINE ROOM PROBLEMS OF MARKETING

The problems are attitudinal and cultural but there are problems in how marketing is organised and a lack of skill in important areas.

Engine Room Problem 1: Growth issues are not investigated systematically

Despite the hundreds of millions of pounds spent on market data, this expenditure is not used to investigate problems and opportunities systematically. Rarely are programmes of investigation directed at the big growth questions, such as:

1. How can the organic growth rate be doubled?
2. What are the root causes of sales decline and what can be done about them?
3. What do we have to do to get new users?
4. Why is the customer base not buying more from us and what do we have to do to change this situation?

INFLATION ADJUSTED ORGANIC GROWTH RATES 1993–8

National Power	-11.8	Zeneca	-0.1
Hanson	-9.5	BT	0.1
Inchcape	-6.3	Tomkins	0.1
Allied Domecq	-6.1	British Steel	0.1
BTR	-5.7	Tate & Lyle	0.7
EMI	-4.5	GEC	2.1
ICI	-4.2	Argyll Safeway	3.4
BAT	-4.1	Sainsbury's	3.5
Cadbury Schweppes	-3.3	P&O	3.6
Hilton Ladbroke	-2.5	Marks & Spencer	3.9
British Gas	-2.5	Rolls Royce	4.4
Bass	-1.8	BP	5.0
Glaxo Wellcome	-1.0		

TABLE 3

INFLATION AND CONSUMER EXPENDITURE ADJUSTED ORGANIC GROWTH RATES 1993–8

National Power	-14.9	Zeneca	-3.2
Hanson	-12.6	BT	-3.0
Inchcape	-9.4	Tomkins	-3.0
Allied Domecq	-9.2	British Steel	-3.0
BTR	-8.8	Tate & Lyle	-2.4
EMI	-7.6	GEC	-1.0
ICI	-7.3	Argyll Safeway	0.3
BAT	-7.2	Sainsbury's	0.4
Cadbury Schweppes	-6.4	P&O	0.5
Hilton Ladbroke	-5.6	Marks & Spencer	0.8
British Gas	-5.6	Rolls Royce	1.3
Bass	-4.9	BP	1.9
Glaxo Wellcome	-4.1		

TABLE 4

There will be awareness of the issues, and lots of opinions about what should be done, but rarely are the questions asked formally and a programme of investigation put in place to thoroughly investigate the causes of the problems and how they can be tackled.

This is my experience generally. Specifically, I have been able to analyse the research libraries of three large companies and 8000 reports were analysed. The analysis revealed libraries stuffed full of tracking studies and tactical, narrow focus descriptive reports which did not address strategic growth issues. There was the occasional isolated report that touched on the problem but a complete absence of any joined-up, causal, change-centred investigation.

Take Company 1, one of the world's largest telecommunications companies. A big problem was that competitors were taking away large numbers of accounts from the customer base. If losses to the customer base could be reduced this would increase the organic growth rate. The divisional research library contained 2900 research reports. I trawled through this library and found one 6 year-old qualitative research report that had something to say about the motives for leaving, and there was one 3 year-old quantitative report which, with further analysis, was of some use. But that was all. Incidentally, the current team was unaware of either piece of work; both were long forgotten.

The second company was a large financial institution. A major strategic objective was to sell more financial products to the customer base. In the research library there were 4100 reports. Not one of them addressed the key issues head-on, questions like: Why do some of the customers buy but others do not? Which customers might it be possible to motivate? What would motivate them? What barriers stand in the way? What variables need to change and in what way?

There were fragments and hints here and there but they were wholly incomplete. In this archive, costing in excess of £50 million, the problem had simply not been systematically addressed.

The third example was a FTSE 100 food company. Sales in its major market were in decline. This time only 1000 reports were in the research library. Not one of them attempted to identify the cause of the decline and there had been no systematic investigation. Of course, executives had lots of pet theories but, following investigation, these all turned out to be wrong.

That systematic investigation is rare must, in part at least, be attributed to attitude. Marketers do not appear to feel the need to ask the big growth questions and then to systematically go about answering them. A major reason for this is Engine Room Problem 2.

Engine Room Problem 2: Subjective, opinion-based, non-empirical methods for taking the big decisions

Very often what happens is that the big decisions are taken on a subjective basis with no investigation and the little decisions are researched to death. The big decisions are often taken on the trot in meetings. A more formal approach is the brainstorming session which, because it is a formalised version of what happens in meetings, is worth further discussion.

The trouble with brainstorming is that it is inherently anti-empirical; the method assumes that the answers to problems lie in the executives' heads and what is needed is a transfer from heads to flip charts. But because there has been no fact based investigation, what lies in executives' heads is often subjective and uncritical group-think sets in. An `obvious' explanation is uncritically accepted without evidence. For instance, it is uncritically accepted that lack of success is due to the economy or the weather. Or a foreign competitor is successful, not because of a superior offering, but because they are `dumping' and the competition is unfair.

Obviously this type of group-think is very dangerous because when problems are considered beyond one's control no further action is deemed necessary.

Subjectivity also shows itself when there is an apparently `obvious' course of action. For example, it is `obvious' that discount schemes are needed to rebut a competitor. This is accepted uncritically and huge sums are spent on discount schemes, but they don't work if price is not the motivator.

Marketers need to challenge this cultural habit because these `obvious', uncritically accepted notions upon which the big decisions depend often turn out not to be `obvious' at all. A case in point was a biscuit manufacturer. Sales were in decline and the top-line data showed that between periods 1 and 2 brand share had declined from 60% to 50% and own label share had risen from 40% to 50%. The `obvious' source of the problem was own label, and the `obvious' solution was to assert brand values. This led to qualitative research and away-days to define the essence of the brand to compete more directly against own label.

But there was more to it than this because digging deeper showed that the problem was quite different. Analysing what was going on at the household level showed that purchases of the brand by users were declining but purchases of own label by own label users were not. This gave the impression of brand switching when, in fact, no net brand switching was actually taking place. What was needed was the stimulation of primary demand among brand users - a very different task to asserting why the brand is better than own label.

This was the first step in the analysis. Having identified how the decline was taking place the next step was to design a programme of investigation to understand why it was happening and what to do about it. Four further pieces of research were required. This is an example of a joined-up programme of investigation so rarely conducted by marketing departments.

This second engine room problem, the cultural habit of subjectivity, is directly related to the failure to investigate growth issues systematically because, if unsubstantiated group-think `knows' what the problem is and what needs to be done, there will be no perceived need for systematic investigation.

Engine Room Problem 3: The `silo-approach' to marketing

Typically the reflex of a marketing director coming into a new job is not to ask the overarching questions about how to motivate customers, but rather to scrutinise the routine elements of marketing- the advertising, the packaging, the

"It puts our company's organic growth rate to shame."

direct mail, the customer service, and so on.

Although these elements can be innovated they operate within the existing business framework. However, to motivate customers it is often necessary to change the status quo, possibly quite dramatically. For example, it may require another part of the organisation to behave very differently, financial services, for example.

The personal touch is needed to sell financial products to its customer base. But financial services companies systematically cut themselves off from their customers by forcing them to deal with anonymous agents in call centres. Focusing on advertising, sponsorship, point-of-sale, and promotions completely misses this point.

In other businesses, a radical change to the marketing mix may be needed - new channels of distribution, alliances with other companies, radical new pricing, for example. In large companies the silo approach is often embedded in the structure, with different people and sometimes completely different departments responsible for different elements of the marketing mix. This is a huge barrier to organic growth because those responsible for one element of the silo often see little point in conducting an overarching investigation into the causes of non or low purchase because the findings are likely to throw up issues outside their area of responsibility.

The rationale for the silo approach seems to lie in the integrating power of the `brand'. In other words it is thought that the silo approach is justified because customers will buy more of the product if the separate elements of the marketing mix conform to the brand personality. Important though this may be, it is by no means sufficient. In each case there will be hard causal reasons why Company X is not selling more of its product and these need to be identified and addressed. The silo approach makes the identification of cause nigh impossible and is a key part of the formula for low growth.

Engine Room Problem 4: Data and how marketers use it

❑ *The descriptive orientation of market research*
Market research has created a wonderful set of tools for measuring and describing existing consumer behaviour. Recommending the appropriate marketing mechanisms that are likely to change behaviour is a different skill and one that market researchers typically do not have.

You might think that this does not apply to qualitative research but it does. Much qualitative research works to a fixed descriptive rather than a causal agenda. Here is a typical set of qualitative research objectives:

1. To explore market attitudes and behaviour
2. To explore the decision-making process
3. To explore brand perceptions
4. To examine attitudes to the company's products
5. To provide guidance to develop the market

Consumer attitudes and behaviour are described under these headings, but if you listen very carefully you will often find that neither the causes of behaviour nor how it can be changed have been identified. Usually the work has not been structured or conducted in a way to get at these issues. However, this is not always easy to spot because researchers make suggestions and appear to be change-oriented, but careful reading of what has been said often shows that the suggestions are not developed out of a causal analysis.

Another thing that happens is that researchers appear to be offering a causal prescription for change but in fact they are merely describing things within the wrong model of change. How sponsorship works is a typical example. A popular model is that if a grey and boring company sponsors an exciting and glamorous activity then there will be `rub-off - the grey and boring company will be perceived to be more exciting and glamorous.

In fact `rub-off` only occurs in special circumstances. Yet this model is widely accepted and produces studies that work to the following formula. The study describes the image of the company - dull and boring - and describes the image of the sponsorship activity - glamorous and exciting. It then assumes that glamour and excitement are relevant to the brand and recommends the sponsorship.

The research appears change-oriented when in fact it has merely described attitudes to the company and the sponsorship activity, and incorrectly assumes the things that really matter - rub-off and the relevance of glamour to the brand. In reality the relevance of glamour and excitement have not been investigated but this is overlooked because they sound like good things to have.

❑ *The use marketers make of market data*
If marketing is to make an impact on the growth problem the use of all market data has to be addressed. The study of the 8000 reports mentioned above shows that, despite the huge amounts of money spent, marketers are not analysts or intrepid investigators of relevant market issues. The money is spent on stand-alone, fixed agenda quantitative and qualitative studies. But diagnosing problems and identifying opportunities requires lots of data analysis and programmes of different pieces of research all joined up. It is a forensic process which marketers need to value more highly.

Engine Room Problem 5: The way innovative ideas are sought

If one reads accounts of great business successes - Morita and the Walkman, Georgio Armani, Vic Mills who created Pampers, Sam Walton and Walmart - it is clear that the original impetus came from spotting an opportunity that would motivate a market segment. The insights were grounded in the market and arose from the recognition of unmet needs by individuals on the ground, observing and experiencing that market.

In practice marketers seldom operate on this model. More common is what could be thought of as an ungrounded model of innovation. Typically, lots of ideas are generated but these ideas arise more or less out of the blue rather than from having a finger on the market pulse and seeing the problem to solve or the opportunity to exploit. The ungrounded approach generates lots and lots

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The name of the game is being skilful in asking the big growth questions, then being more skilled than before and more skilled than competitors in answering them

of ideas then uses consumer research to screen them.

This is the funnel approach to new product development (NPD). It is not a model for spotting unmet need and opportunity, but is rather more like the proverbial monkeys-on-typewriters approach of having lots of ungrounded ideas and using market research to determine if they have happened upon Shakespeare.

There are two big problems with this ungrounded funnel approach. The first problem is that it does not appear to be producing the results. The failure rate is still said to be 95% and it has been at 95% for over 30 years. The New York-based Market Intelligence Service studied 25,000 products launched in 1996 and concluded that only 7% offered significant new or added benefits, and a recent article in *Market Leader* produced evidence to show that major companies are responsible for virtually no new category innovation.

The second reason why the ungrounded funnel approach is problematic is because it reinforces the tendency to study markets in an unsystematic way. If ideas fly off the wall and can be screened for suitability in concept testing then why bother with in-depth market understanding to spot opportunity? Thus the ungrounded funnel approach trivialises innovation, and innovation becomes incremental at best. Any big changes that occur tend to come from copying a competitor or from what has been done in the some other country.

HOW CAN MARKETING HELP COMPANIES GROW ORGANICALLY?

Focus on organic growth and marketing's centrality to it

There is insufficient focus on organic growth. The current corporate watchwords are `shareholder value' but this is often a cover for failure to grow. In the long term a company will not survive if it cannot grow. But who in the organisation is responsible for growth? Who has it at the top of their agenda? The first job of marketers is to evangelise throughout the company the importance of organic growth, and because growth comes from changed customer behaviour marketing is in pole position to be responsible for it.

Constantly ask the big growth questions

Central to the way forward is daring to ask the big growth questions because these get to the relevant issues. Sometimes there are several big questions, sometimes one overarching question dwarfs the others. How are we going to get new users? How are we going to be the ones to grow this market? How are we going to reverse the sales decline? Marketers may need help in formulating the header questions and then unpacking them into sub-questions and seeking the answers in a tenacious manner.

`Tenacious' is an important word because the big questions are difficult to answer and require a number of interlocking approaches. It is all too easy to fall into the traps identified earlier. The name of the game is being more skilful in asking these questions, and then being more skilled than before, and more skilled than competitors in answering them.

Become detectives in constant pursuit of consumer knowledge

Sherlock Holmes is the model. Formulating and answering these questions can be difficult because a number of investigative and analytical skills are required. Minds need to be cleared of believing they already have the answers when the big questions have never even been properly identified and investigated. In detective mode the marketer needs to proceed as though in a forensic investigation, identifying the causes of behaviour and implementing the appropriate change mechanisms.

In the last few years there has been a lot of talk about the `crisis in marketing'. But if marketers could become the `engine of organic growth' there would be no crisis. Marketing would indeed become of the most highly professions in British industry.

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