The superior way to grow

David Cowan presents a compelling argument for growth that comes when marketing activities are based on rigorous, wide-ranging and purposeful analysis of consumer behaviour.

COMPANIES GROW in different ways. Desirable though they may be, both innovation and acquisition are expensive and risky. More ingenuous marketing actions with existing brands should be the priority.

It is widely agreed that growing through acquisition produces very uncertain returns. The acquirer pays an acquisition premium, the cultures of the acquirer and the acquired are often difficult to square and the promised scale economies and cross-selling opportunities frequently fail to materialise. Often a few years down the track the acquisition is disgorged and the exercise has been a gigantic waste of money and time and destroyed shareholder value.

There are, of course, exceptions and in specific circumstances acquisitions pay off handsomely. But, generally, organic growth is most profitable. McKinsey has shown that £1 of organic growth is worth £4 of acquisition growth.

So where is growth to come from? Innovation is the usual answer but innovation is problematic. John Kearon, in his article 'Why marketing has been the death of innovation' (*Market Leader*, Q4 2010, p.20), makes the point that large businesses don't produce major category-creating innovations. These come from start-ups, from mavericks, from visionary engineers and designers and not from the marketing people practising marketing science in their innovation centres.

Even minor innovations have a very bad track record: the statistics are well known. An IRI analysis of 484 new grocery products launched in the UK and other major European countries found that only one in seven succeeds. A wider US study found that 96% of all innovation attempts fail to meet their targets for return on investment. There are no easy answers to the growth question; however, I would like to suggest a less risky avenue – Non-Innovation-Led Growth (NILG).

A LESS RISKY ROUTE

As a term, NILG is ill-defined and vague. Some people use it to mean old product development – perhaps the revival of a neglected brand, giving it new packaging and starting to advertise it again. In some cases it means giving an old brand a new use and repositioning. The case of Brasso (see Camillo Pane in this issue, p.35) is an example: the century-old product for cleaning metal was rejigged as a product for cleaning computers. For others, NILG is about execution – optimising each part of the marketing mix.

However, there is another aspect of NILG and one that is much more important. That is the potential that comes from reframing marketing objectives based on better understanding of the consumer behaviour in question.

It is obvious to all that growth comes from changing customer behaviour: getting new brand users, getting more from existing users or selling more of the product range to the customer base and so forth. So how can we get behaviour change and hence NILG?

Marketing action should be based on understanding the causes of consumer behaviour in a particular market. The first step is a more rigorous and integrated analysis of all the relevant market, consumer and media data to generate an evidence-based theory of how behaviour can be changed.

But surely that means business as usual and is what marketing departments all over the world are already doing?

Marketing departments are awash with market research and other data. Surely they derive marketing objectives from a solid fact-based analysis of why the behaviour is as it is and the drivers of change. In my experience this is often not the case.

Marketers say they are doing things when often they are not. Or they are doing them the wrong way or not pursuing them vigorously enough. Often the evidence for marketing action is superficial or non-existent: myth and conventional wisdom are often lazy substitutes for sound data analysis.

PROBLEMS INACCURATELY DEFINED

Problem definition is the starting point. Sometimes the problem is obvious. For example, a car manufacturer's retention is low compared with its competitors. Clearly this is a problem and the objective is to raise the percentage of owners who buy the marque again.

But often the real problem hasn't been properly defined. Here are some examples from my experience.

- A biscuit manufacturer thought that its problem was brand switching and all its actions were directed at preventing this. But it turned out that this wasn't the problem at all; its consumers were decreasing their purchasing and in some cases dropping out of the market completely. That state of affairs required quite different marketing actions.
- A global FMCG company was pursuing a strategy unaware that the category in which they are the dominant global player had been losing the younger age groups. The company's share of category was constant but the category as a whole was in long-term decline and it turned out that its activities were largely responsible.
- A major retailer thought that its shop numbers were very close to saturation but on investigation it was found that there was potential for twice as many.

The marketing practitioner may be thinking that he or she would never make such mistakes or fail to spot opportunities like these. However, the examples above, and there are many more like them, came from sophisticated companies with smart experienced people working there.

> Neither insight departments nor their data suppliers carry out the right types of investigations that would identify opportunities for existing business growth

So why did these smart sophisticated marketers fail to spot unrealised potential or mistakes that were being made?

FAILURES IN HOW DATA IS USED

There are systemic problems about the way market and consumer data is used in many organisations. If data is used in a different way, not only will errors be reduced but opportunities for NILG will be revealed.

The search for NILG starts with the data the business already has: interrogating it to identify the causal chain that explains the behaviour in the sector and brand share positions in it. Sometimes rigorous analysis of one data source – for example, retail panel data or a particular survey – is enough to identify the growth opportunities and how they can be realised. Other cases require an integration of sales and market data, panel and usage data, segmentation data, tracking data, media data and qualitative research together with any other relevant data the organisation has.

This is different from the way most organisations approach a big new issue. Typically their insight department is consulted and the reflex is to commission a new study ignoring their existing data.

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For example, a large bank needed to sell more products to its customer base. A huge qualitative study was undertaken despite the fact that the bank had more than 4,000 research reports in its archive, many of which addressed and contained the answer to the marketing problem.

In another case, a global packaged-goods company needed to understand the decline of its sector. A massive European study was commissioned involving thousands of interviews in six countries. This company was similarly endowed with a vast amount of relevant data.

Except in the rare cases where an organisation has very little data, is the new study the right way to go. It is the wrong starting point to answer most business/marketing issues and it is certainly the wrong starting point for identifying opportunities for NILG.

A BETTER WAY OF FINDING NILG

Let us focus on NILG and how to find opportunities for it. Starting with the existing market and consumer data we need to answer a series of questions. These questions vary according to the situation but there are general approaches that have proved their value. An important starting point is what has happened over time. I call this causal history.

Over the long run what has been happening to the sector? The sector may be going up, which is good, but it may not be going up fast enough. Or it may be going down. The key question is why and, if the company involved is the dominant player, what can be done to achieve the desired outcome.

Using causal history to arrive at the depth of understanding that leads to the most appropriate marketing action, we need to ask and answer other questions. When did the ups or downs start to happen? Does this give a clue? If the sector is losing usage a switching analysis involving the wider competitive set can identify where it is going. Are there further clues here? What has the sector, or adjacent substitute sectors, been doing or not doing that might explain the trend? Among whom is the increase or decrease greatest or least? Is it they whose usage has been leaking away to other sectors? If so, why and what can be done?

The above is not an exhaustive list but an example of the sequence of questions where the answer to one question raises another. In my experience the absence of this question-chaining investigative approach is a major reason why growth opportunities for the existing business are not discovered.

After analysing the sector history, the same sorts of questions need to be asked for the company's brands. When did their shares show a sustained rise or fall? What were competitors doing that led to them increasing their share? We are not talking about weekly or monthly fluctuations, which might be caused by fluctuations of price or bursts of advertising, we are talking about a sustained rise or fall. Over a decade there may only be a handful of these events but studying these reveals potential for NILG.

THE BIGGER PICTURE

It is important to study the full brand portfolio and all the formats and variants, not just the main lines or the brand totals. Causal history often reveals that chunks of market share have been needlessly thrown away. Large businesses often abandon parts of their portfolio, starving them of resources until the brand is so weakened that it is killed off, leaving the remaining brands struggling to replace the lost share.

Needless loss of share is revealed by close study of the past. In one case it was found that innovations that were successful two or three years previously were being dumped to make way for the newest offering rendering the whole innovation process fruitless.

It is important to pay attention to the introduction of different sizes and variants and their impact on the existing range and overall share. What cannibalisation did these different sizes and variants cause? In their eagerness to introduce the new line did the company's own marketing action help the new line steal share from the existing line-up? From studies like these a causal rule book can be drawn up for how brands should be managed in the category in order to grow overall share.

This may sound like basic marketing analysis; however, for reasons we will discuss, marketing personnel are either unaware that these things have happened in the past or are not drawing lessons from them.

SPOTTING THE CRUCIAL INSIGHT

NILG requires spotting where the opportunities lie. The systematic process of causal history outlined above is one way of doing this but there are other ways too. However, the angle of approach to the data is always the same – looking to understand how and why behaviour is occurring and how it can be changed. The seminal insight often comes from using different types of sources in a number of different ways.

By piecing together three quantitative studies it was possible to show that 83% of electrical retailers' sales came from customers who, in their search for an electrical product, visited the store first. On the basis that the store the potential customer thinks of first is likely to be the store visited first, name awareness was established as an advertising objective. This led to seven-second commercials being deployed that led to spontaneous awareness rising from 51% to 73%, which led to same-store sales rising by 10% in a market that increased by only 2%.

Sometimes the rigorous analysis of a single survey can identify growth opportunities. In the case mentioned earlier where the task was to improve customer retention of a global car manufacturer, the starting point here was noting a surprising fact. A competitor, whose car satisfaction and after-sales service satisfaction were both merely average, had nevertheless achieved the highest retention among private car buyers. How could this be when customer satisfaction was known to drive retention?

By analysing the car industry's major survey it showed that the answer lay in the clever use of car finance that was being used. Something that was easy to copy.

Insights can also come from long-lost pieces of qualitative research that pinpoint a motive that is still relevant but overlooked. Sometimes different survey samples can be combined to accurately pinpoint a key number. In some cases open-ended questions on quantitative surveys can be re-analysed to produce a qualitative insight.

COMPANIES LACK AN INVESTIGATIVE CULTURE AND MEMORY

Gains from NILG can be huge. An NILG investigation identified ways for a business in the personal care sector to increase sales by over 25% or £75m annually. In another, in the automotive sector, an investigation yielded a £55m sales gain with £10m going to the bottom line. A major retailer increased its sales by 48% by understanding the causes of its existing market share and how it could be radically improved.

While narrow data mining and econometric analyses are conducted by some companies, these usually have a tactical focus. In my experience sources of growth are not being sought in the way described above, for a number of reasons.

Marketing departments don't seem to place a high enough priority on clear evidence-based problem definitions as a basis for their marketing objectives. Many organisations lack the kind of investigative culture that leads to building causal histories – narratives that connect the marketing objectives to the actions required to achieve them.

A contributing factor is that there is virtually no appreciation of the value of understanding what is going on long term and the strategic value of this. It is rare for research reports to have data that covers more than three years in any depth. In packaged goods, companies such as IRI and Nielsen either don't keep or won't guarantee to keep data for more than three years.

Sometimes the client company does keep the data but it is often in a format that requires considerable effort to render it usable. When asked why data is not kept for longer, the supplying companies reply 'we are never asked for it' or 'we ask if clients want us to keep the data but they won't pay for it to be kept'.

Of course, there are the more analytically oriented marketing directors who seek a scientific approach but it is often CEOs, finance directors and directors of strategy that express the greatest frustration. And it is easy to see why they are frustrated. They are presented with lots of isolated and disconnected reports and usually no long-term vision of where growth from the existing business will come from.

Insight managers are not primarily analysts, they are data providers. They do supply analyses but their principal role is to buy the services of research companies. Hence their response to a major question is to commission yet more research rather than analyse and integrate the data the business already has.

The research companies are primarily data gathers. For sure they provide analyses of their data but these are within-survey analyses not multi-source investigations. And they don't have access to all the data that a business has. Neither insight departments nor their data suppliers carry out the right types of investigations that would identify opportunities for existing business growth.

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THE STORY SHOULD HOLD WATER

Philip Kotler, in his fundamental text, *Marketing Management: Analysis Planning and Control*, states that 'few senior management are satisfied with the data they are getting'. Also, finance directors are frustrated by the lack of cause-and-effect connection between marketing actions and the results they achieve. In a recent interview Eric Samuels, Intel's EMEA director of finance, said that in terms of results 'we don't necessarily need proof, but the story needs to hold water'. He added: 'When marketing men say spending is needed to help the brand my next question will be "help the brand do what?"'

Kotler and the finance directors are identifying the need for greater market understanding. And it is this greater market understanding that comes from purposeful question-led investigation using all the data a business has that also shows how NILG can be achieved. ■

David Cowan is founder of Forensics.
david@forensics.eu.com