



# Marketing detective work

Finding opportunities for growth in your existing business

By DAVID COWAN

Organic growth is the best kind of growth, but it needn't involve major and risky innovations.

There are lots of hidden growth opportunities for a company's existing products and services. Finding them requires a process David Cowan calls 'marketing detective work'. He describes this as a wide free flowing inquiry that pieces together a jigsaw of evidence from different sources to identify where the barriers to growth exist and the opportunities lie

**T**OM STEWART, editor and managing director of the *Harvard Business Review*, recently remarked that when CEOs are tasked with cutting business costs they know exactly what to do but when asked to grow the business many feel at sea, or at best much less sure footed.

For them the growth problem has worsened over the last 10 to 15 years. In the early 1990s the easy answer appeared to be acquisitions. However, there is now abundant evidence that most acquisitions fail.

These days this apparently easy route to growth is often not regarded as growth at all and is labelled as mere agglomeration. Of course, some acquisitions have had success, the RBS takeover of NatWest in 2000 being a clear example. However, a study of 100 acquisitions in the UK and US found that only a quarter recovered the cost of the deal and achieved the synergies promised. Further, McKinsey estimates that in profit terms, £1 of organic growth is worth £4 of acquisition growth. It is no wonder then that acquisition as a route to growth has fallen from grace and organic growth is seen as the way to go.

Of course, growth is no problem if the company is riding the explosive expansion stage of a new technology or new market sector. Or if the business has the inherent cost advantage of a Dell or Wal-Mart. Or is a UK grocery major that can add market sector after market sector to its range portfolio while opening yet more outlets. But most large companies are in relatively mature markets and do not have favourable industry contexts and there are no clear paths to growth.

*David Cowan is the founder of Forensics, a strategic growth consultancy.*

## There's no escape

Some CEOs might be tempted not to try to grow, but instead to focus on what they know best – creating organisational efficiencies and improved margins. Unfortunately this is not an option. Investors expect organic growth. It may not be fully appreciated, but a numeric presumption of organic growth is baked into the stock prices of every quoted company. This point is brilliantly made in the *Harvard Business Review* article, 'The relative value of growth' (Nathaniel Mass, April 2005). On the face of it, a percentage point of margin growth appears to be worth a lot more than a percentage point of revenue growth because it drops straight to the bottom line. However, a percentage point of top-line growth usually contributes far more to shareholder value.

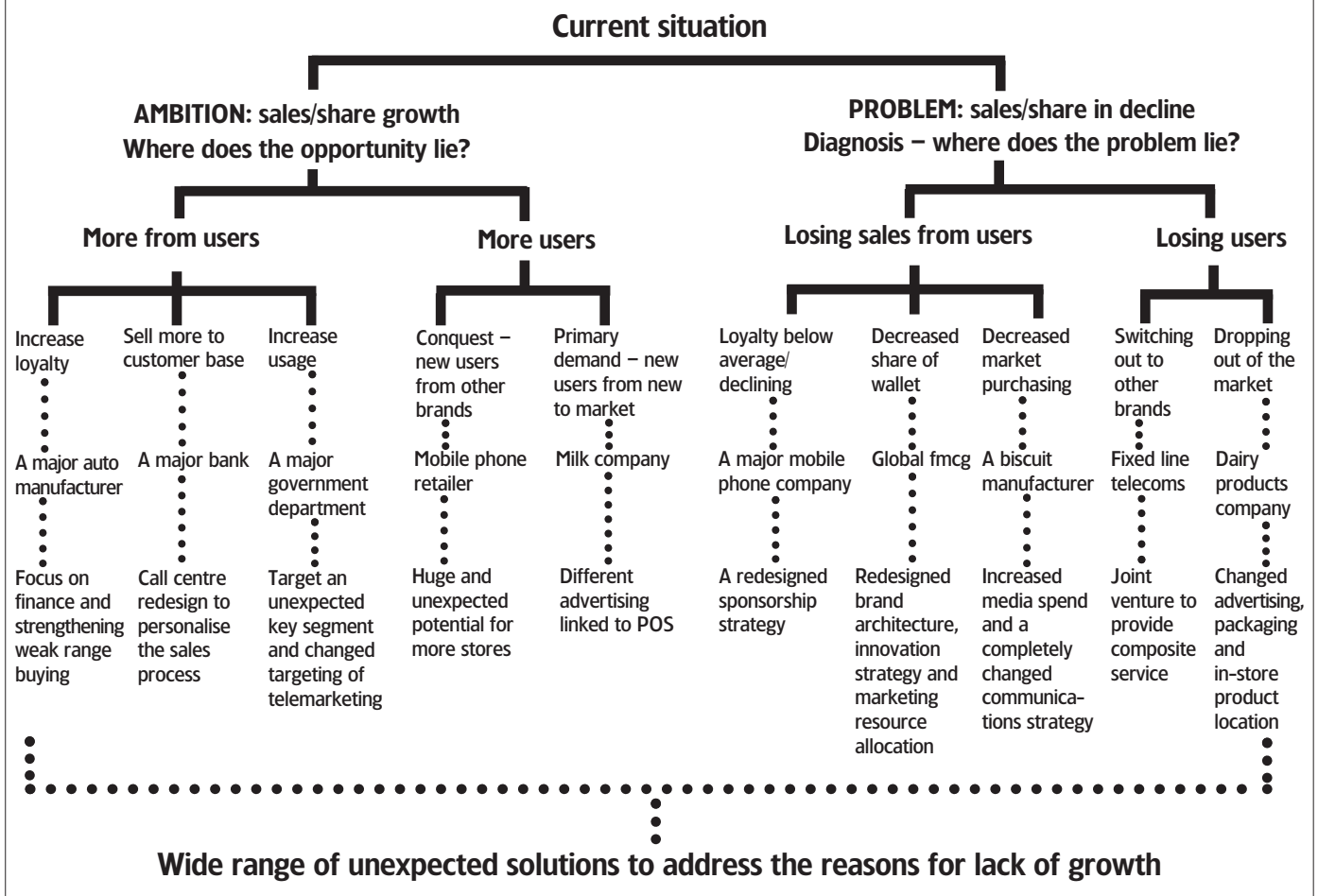
Decomposing the stock price of consumer businesses shows that if they can convince the market that they can grow the top line by just one extra percentage point this can be worth five, six, seven or even more points of additional margin. For example, it turns out that for P&G a percentage point of growth is worth seven times that of margin and the company must grow at a minimum of 4.5% per annum or its share price will decline.

So there is no escape: businesses have to grow and they have to grow organically.

So where to turn? For guru Gary Hamel it has to be innovation: 'when a company runs out of innovation it runs out of growth'; 'a company can't outgrow its competitors unless it can out-innovate them'. Who could disagree? All companies must be looking for ways to innovate. They need to be open to the technological, social and regulatory forces of change and the opportunities these forces reveal, as well as stimulating the creativity of their employees and harnessing resources outside the organisation.



## Where does the growth opportunity or problem lie?



### Innovation is risky

But innovation has its risks and they are not insubstantial. That new products have poor success rates is well known. A recent IRI analysis of 484 new grocery products launched in the UK and the 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! Of course, it needn't be this bad, and businesses are striving to raise their innovation productivity. Companies like P&G have upped their game dramatically: their Connect-and-Develop innovation model has more than doubled their success rate with both reduced innovation costs and R&D as a percentage of sales down nearly 30%. But P&G is a world-class company and it has produced a world-class innovation engine. Quite a daunting prospect for many to emulate.

### Enter marketing detective work

I would like to suggest a complementary activity, not one involved with looking for new growth platforms or new products or new services but rather looking for growth opportunities within the existing business. Opportunities that do not involve major product or service changes. This activity I call marketing detective work. Marketing detective work is a systematic process that identifies growth opportunities for existing products or services.

In looking for growth opportunities we must start from the current business situation. It may be that sales are satisfactory but there is still a need for more growth. On the other hand the business may be suffering from sales or share decline. In seeking to address these issues there are a limited number of ways that opportunities or problems can occur. These are shown in the figure above.



The opportunity may lie in gaining more users for the product or service – does a realistic opportunity lie here? If there is a sales problem, is it because the brand is losing users? Alternatively there may be an opportunity to extract more revenue from the users the brand already has, either through increased category usage, increased loyalty, or selling more products or services to the customer base. By which of these routes is growth most likely to come? Which is the most realistic and most achievable at the least cost? If sales are in decline where does the problem lie?

The job of detective work is to use data and evidence to pinpoint the area to focus on, then to understand the causes of the current situation and how it can be changed. The solutions that emerge from this way of investigating are very varied and almost always unexpected. Some of these solutions and the wide variety of businesses they refer to are shown in the diagram.

When people hear about marketing detective work they are sometimes surprised. Surely, detective work is what businesses do all the time.

No, it is *not* something that businesses do all the time. Quite the reverse. In my experience detective work is rare even in the largest and most sophisticated companies. The reasons for this will be discussed shortly.

### Insight departments do different things

But what about insight departments and market research companies? Insight departments are primarily involved with providing new market research and regular tracking reports. They decide what research to do and they quality-control and buy these inputs from market research companies. Insight departments will do some secondary analysis and answer marketing queries but their central thrust is not problem solving by intensively analysing and synthesising the wide range of customer, market and media data that already exist.

The inputs insight departments provide play an important role in steering the marketing process, but their work is very much

within the frantic process of the day-to-day. Strategic inputs are made, but these tend to come in the form of fixed, self-contained products – the segmentation study, the positioning study, where brands are positioned on two dimensional grids and the desired direction of change is indicated, etc. There are also general models sold by research companies that provide strategic guidance and the occasional strategic qualitative study.

### Detective work is a broader, free-flowing inquiry

I am not trying to disparage this work, in fact detective work would not be possible without the material it creates. I only make the point that marketing detective work is a different kind of work. Detective work seeks to make strategic inputs from a much freer-flowing questioning process and broader inquiry. The work varies by case but it often involves using and integrating a much wider data set than normal. This includes internal data more traditionally held by departments like finance, customer relations or property planners in the case of a retailer. It often involves studying what happened many years before and what can be learned from the outcomes that occurred then, as well as integrating syndicated studies and public domain information.

### Integration is key

A key word here is integration. The output from insight departments tends to be stand-alone studies. For instance, stand-alone qualitative research, stand-alone tracking data, stand-alone measurement of market trends and share. Rarely are sources connected together using one source to explain the findings of another, or check its veracity or test the hypotheses arising from a third. Connecting data sources is very important in detective work; it is always trying to relate one source to another to create a pattern of evidence and to understand the causal chain.

In a free-flowing inquiry into how to grow, or why share is declining, or why loyalty isn't higher, it often emerges that organisations are applying solutions to problems that have



not been correctly defined, or they are trying to grow in the wrong way and consequently not having the success needed.

In one case a brand was losing share and a competitor gaining; the natural assumption was that brand users were switching to the gaining brand. Intensive analysis of panel data revealed that this wasn't the case at all. Users weren't switching to the competitor, they were dropping out of the sector, hence sales, and therefore share, were decreasing. The company had been barking up the wrong tree and the problem it actually had required a very different strategy to the one it had been pursuing.

### A problem well defined ...

The old adage 'a problem well defined is a problem half solved' is never truer than in marketing detective work. Discovering that one particular type of car finance generates much higher customer retention than another, and that a competitor has a high penetration of this type, leads to an obvious course of action.

Of course, even when the problem or opportunity is identified it is not always obvious how customers' behaviour can be changed, and the challenge for the investigation is to identify causal mechanisms – pinpointing the relevant marketing and business levers the organisation has at its disposal and how they should be used.

The uncovering of causal mechanisms comes from identifying correlations, creating and testing hypotheses, using data to verify predictions and sometimes setting up experiments to eliminate alternative explanations. Causal mechanisms are often revealed by understanding, at the individual customer level, how competitors have succeeded in changing behaviour. And indeed studying and understanding in a much deeper way where and how the company itself succeeds.

### Joined-up evidence

Here are three brief different examples of marketing detective work in action.

■ By analysing and combining three different types of customer survey it was discov-



ered that over 80% of an electrical retailer's sales arose from customers that visited the company's store first, ahead of visiting competitor stores. By focusing on this and spending the same advertising money on 10-second commercials instead of press and longer television ads, this boosted front-of-mind awareness from 51% to 73%. Same store sales rose by 10%, in a market that rose by only 2%. On the same cost base, the sales uplift increased profit by 40%.

■ In another case an fmcg manufacturer had a wide portfolio of brands in a large £1.8bn market. Analysis revealed that at very high levels of distribution (95+%) relatively small changes in distribution led to disproportionate changes in brand share. This was quite counter-intuitive; usually a decline from, say, 97% to 95% would be regarded as insignificant. Acting on this information the manufacturer withdrew from the market half its brand portfolio and focused its sales force on maximising the distribution of the remaining brands. With half the number of brands it successfully turned around an overall share decline of 2% per year into growth of 0.5% a year. This had a huge impact on the bottom line. The company saved £40m alone on the marketing spend of the discontinued brands and staff required to support them.

■ In a third instance a retailer believed that

**Marketing detective work helps companies achieve organic growth.**





it had reached saturation with 420 stores. However, marketing detective work challenged this assumption and proved that there was a strong business case for at least 70% more stores. The company opened another 100 stores, boosting profit by 23%. Another 100 stores are planned.

In other cases the application of this method of inquiry has led to: changes in brand architecture, the re-design of call centres to sell financial products more effectively, and joint ventures with other companies to create bundled service offers, which are more attractive and help prevent customer defection. It has changed the pattern of support different brands in a portfolio receive and changed the sponsorship strategy of a global company.

Marketing detective work almost always reveals new growth insights because no one has analysed and connected up the data in this way before. Why is this?

### **Big decisions are usually evidence-lite**

Your brand has 10%, how is it going to get to 15%? Your market share is in decline, how can it be reversed? Loyalty is too low – how can this be raised? Senior executives usually have ready answers to these important questions.

However, in my experience the more important the question the less the answer will be evidence-based. Marketing detective work is about answering these sorts of questions with data, but because these answers are already ‘known’ there is no felt-need to carry out any detective work – the team can proceed directly to solutions. No doubt much research will be carried out to fine-tune the solutions but the big decisions on how to proceed have already been taken.

The French physiologist Claude Bernard once remarked: ‘It is what we think we know already that often prevents us from learning.’

This is very much the situation when trying to grow the existing business. CEOs rarely demand marketing detective work because they believe (without evidence) that they already know the answer. This is a major barrier to growth.

### **Insight managers don’t have the time**

From the insight manager’s point of view, not only are their bosses not demanding the free-flowing inquiry of detective work, there is also the problem of time. With this work it is not uncommon to spend 40-plus days analysing a single key database looking for opportunities. The only people in organisations with this sort of time are junior staff. But the task is not to crunch the numbers but to find routes to growth and higher profit. Marketing detective work is strategic thinking with data: it is a senior activity. Insight managers simply don’t have the time. As a consequence marketing detective work is rarely carried out.

### **Another cylinder to add to the growth engine**

As we have seen, organic growth is mandatory and to get growth the cry is ‘innovation and yet more innovation’. Business gurus scoff at the existing business. They fail to see its potential: pursuing growth here is dismissed as incrementalism. They advocate revolution.

It is certainly the case that businesses need to be looking for the revolutionary leap forward, pioneering new business models and bold innovations wherever possible. However, for most business these opportunities come along rarely and are risky. Yet the demand for more growth, year after year, is relentless.

Businesses need to be firing on all cylinders, improving their products, improving their services, improving their marketing; tuning up their organisations to deliver and, yes, looking for innovations too. This is not in dispute.

The point I am making here is that marketing detective work is another cylinder to add to the growth engine. It produces surprising findings, challenges conventional wisdom and uncovers hidden opportunities. And, because many of the existing business’s costs are already covered, growth from the existing business is highly profitable. 🍷

*david@forensics.eu.com*