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THE GROWTH OPPORTUNITY

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Uncertainty is the new certainty, barriers to entry are lower than ever, competition has never been fiercer.

As a result, sustained, meaningful growth is something that many companies struggle to achieve. This is because in part, their marketing was good. No, that's not a typo. You see, good is no longer good enough, your marketing now has to be excellent to succeed.

Marketing excellence can help you stay on course for sustained growth when the crosswinds of uncertainty try to blow you off it. This report will show you how to plot your course and ensure you stay on it.

GAIN THEORY

// Why You Should Read this Report

The C-Suite's over-riding concern is growth. Growth in earnings and, if sustained, growth in the stock price. But in the 2020s growth will be even more difficult to achieve. Using the same business process that delivered success in the last decade will not work in the next one. Adopting a Marketing Excellence framework where we consciously plan for growth, switching our planning mindset to 'future > back' and embedding transformation will maximise the sustained growth opportunity.

Key Takeaways

Sustained earnings growth is the key challenge. **Brand purpose** should not distract, but be used to unlock profit.

Marketing excellence vital to successfully implement strategy and maximise growth opportunity.

Brands are not self sustaining assets. Efficiency is a lower priority than **effectiveness**.

Plan **Future > Back.** Embrace risk and build in flexibility to pivot as well as signposts.

Transform: what got us here will not get us to the future. What do we need to do to ensure that we remain relevant?

//Growth in Context

Companies exist to make profits.

This has been the unchallenged belief for the last 50 years in the Western world for all companies operating within the commercial sector. Even for the companies that have so far struggled to move into the black like Uber, the expectation is that profits will be made in the future. And for those that are publicly listed, current and expected future profits are directly linked to stock prices.

But in today's world, it does sometimes seem as though things are getting more complicated, with the C-suite tempted to bump other KPIs up the agenda, focusing on one of the ESG triumvirate (environmental, social and governance). However, as Laurence D. Fink, the CEO of BlackRock, makes clear, purpose and profit are not competing aims, but complementary - one is often the means by which we activate or unlock the other.

The Business Roundtable stated that "Corporate America is responsible for providing economic benefits to all, not just its investors".

Reuters, Aug 19th, 2019

We believe that Fink's assertion is correct, and that profits or earnings remain at the top of the KPI hierarchy. Growth in profits and earnings are critical and should be the prime consideration that determines success.

But many established companies are finding sustained growth a challenge.

In fact, the US based Corporate Executive Board found that **just 13%** of the global top 100 companies have been able to grow revenues by 2% in real (inflation adjusted) terms. Over the first decade in the noughties, Bain Capital found that only about 10% of companies actually met their published growth targets.[1]

[1] Both referenced in Forbes, "How To Achieve Business' Holy Grail: Long-Term Profitable Growth" by Len Sherman

//Headwinds that Blow Growth off Course

Slow Economic Growth

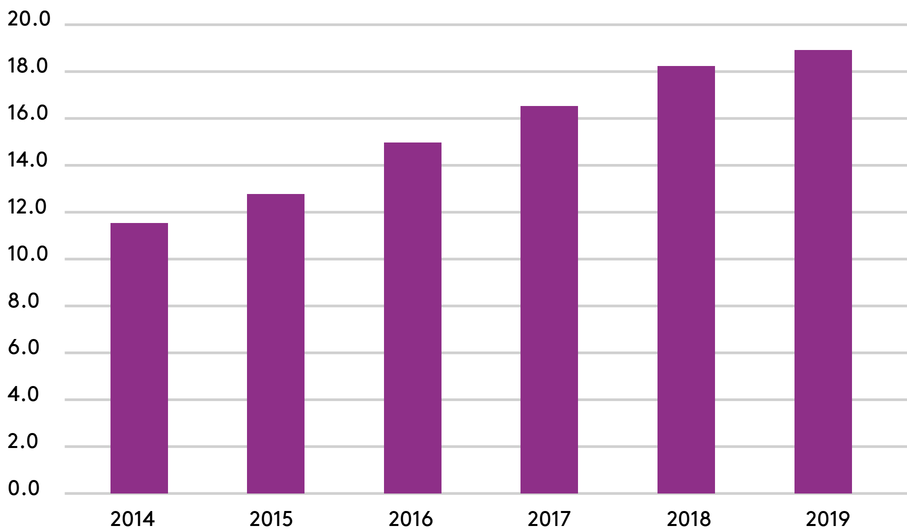
The growth rate in many mature economies has been slowing. And it's not clear where rapid improvements will come from either – whether it's the uncertainty surrounding Brexit across Europe or increasing tension resulting from US-Sino trade wars, short term prospects appear gloomy. These economic and political uncertainties are at least partially reflected in the number of stock buy-backs we have seen in recent years as economic uncertainty reduces profitable investment opportunities.

Profitable investment opportunities with an acceptable risk profile are becoming harder to find. So, companies are using buy-backs as a way to return value to stock holders. However the problem is that companies do not improve with buy-backs. For every $ spent in this way, it's a $ that can't be invested in new plant, machinery or innovation.

Barriers to Entry are Falling

For mature brands, lower barriers to entry present a real threat to their long-term success. This is true for bricks and mortar retailers who are seeing their share of trade fall as consumers continue to seek greater value and convenience and buy online. Many of these sales will be from established players within the retail space, simply offering an online purchase channel but others will be new, pure-play online. While this offers value to consumers it inevitably creates pressure on margins and creates a tougher retail environment within which all are operating.

Online sales predicted to increase to almost one fifth by the end of 2019



Source: Office for National Statistics, Retail Sales Index, September 2019

And it is true within household goods too as new challenger brands launch as DTC (Direct to Consumer) propositions and steal market share from existing brands. And if Amazon 365 Everyday Value isn't causing disruption yet, it surely will soon.

The financial services industry isn't immune to this either, with more than two million people already registered for Monzo's current account, in addition to other start-up banks such as Tide and Starling Bank seeing success in acquiring a solid customer base.

Internal Complexity

This is probably the biggest single cause – whether the complexity arises from previous growth into adjacent or diversified markets, or it comes from geographical expansion, or, it just comes from the gap between your belief in the superiority of your own product/service vs. customer perceptions, missing growth targets tends to be attributed to internal faults.

In fact, Joe Kaeser, CEO at one of Europe's largest conglomerates, Siemens, is adamant that increasing complexity results in reduced focus that can only end in mediocrity. [2]

[2] Reported in The Economist, 21st Sep 2019

//Opportunities Exist in the Same Spaces as the Challenge

Within this environment, what is the growth opportunity?

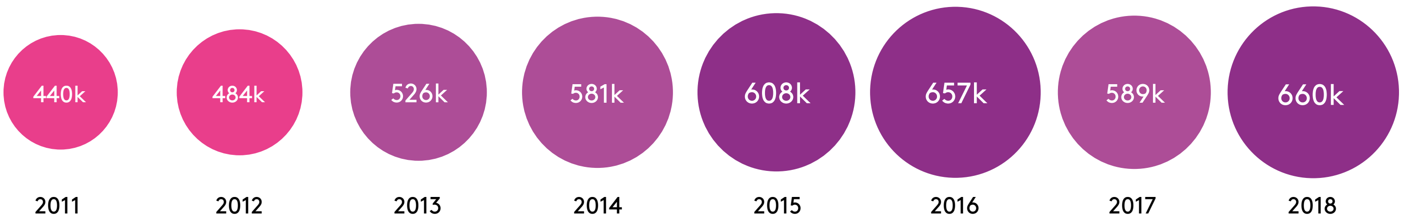
Where does it come from?

How do companies ensure they make the most of the opportunities that are there?

What is clear, is that opportunities do exist in the same spaces as problems.

We can see this from the number of start-ups, with the number reaching an all time high in 2018. Clearly, opportunities for growth exist for companies that are agile and dynamic enough to take advantage.

New business start ups in UK



Source: Centre for Entrepreneurs, Startup Tracker

So how do we make sure that we maximise our growth potential?

Quite simply, we need to adopt a marketing excellence framework. Marketing is the factor that is completely under our control - it creates differentiation and gives consumers a reason to buy.

Innovation, of-course, remains essential but the gap between a successful launch and copy-cats appearing in today's connected global economy is constantly getting tighter. Marketing is the key, and to ensure it works as hard as possible, Gain Theory recommends following five straightforward steps.

1. **Accurate diagnoses**. As a precondition for success, companies must have the ability to diagnose **what** happened, explain **why** it happened and predict what **will** happen.

2. **Laser focus on the metrics that matter**. Those that have a proven ability to increase earnings and lead to sustained growth[3] and declaring what success looks like in advance.

3. **Consciously planning for sustained growth**. Growth will not happen by accident. And it is brutally clear that brands are not self-sustaining assets. They need constant support, regardless of the sector they are operating in.

4. **Flipping the planning process**. Instead of looking from the present into the future as most currently do, plan instead from the future back to the present. Adopting this technique is one of the most powerful methods of avoiding business as usual growth targets.

5. **Embed transformation into the process**. We know that 'what got us here will not get us there'. Neither will it deliver the success that we need. We need to accept the basic need for transformation – whether this is new skills, new products/services, new markets or new internal process, and accept that transformation is at the heart of almost all successful growth strategies.

Let's look at some of these in more detail...

[3] As highlighted in Gain Theory's 2018 Marketing Strategy White Paper

//Consciously Planning for Sustained Growth

Meaningful and sustained growth will not happen by accident; nor will it be a by-product of the standard annual budget round.

What we need to do is stop viewing growth as an **output** from our strategic plans and start seeing it as the input or **starting point**.

Status Quo: 'Present > Future' Planning

Most of Gain Theory's clients across Europe, North America and APAC adopt a fairly standardised approach to planning, whether for the next year or the next 3, 5 or 7. And this is to start from today and project forward – the dominant approach to planning since the 1950s.

Often, incredibly detailed information about the state of the market today - competitors, market share, share of voice, likely trends in media consumption by channel, different economic scenarios - feed into plans. This can be incredibly time consuming. And yet, no matter how detailed, they all suffer from the same flaw: the forecast is built from the present and looks to the future.

The implicit assumption here is that the factors that contributed to our current success, are the same factors that will play a role in our future success. They might, but they probably won't. The future rarely looks like the past, especially in business.

It limits the outcome or the growth potential because it almost forces us into a **business as usual** viewpoint, plus or minus a couple of percentage points. If the strength of the economy is important now, it's going to be important next year, right? And using consensus forecasts we can get a high/low estimate of what we think it will be in 12 months' time, so that gives us a key indicator of demand.

It can also engender a sense of complacency. On the face of it, this seems an odd claim to make. Certainly it's hard to feel complacent when the business environment is so tough. And yet, the implicit assumption in almost every Present > Future plan is that our brands will continue to be relevant. Yes, market conditions are tough at the moment, but our brand – the products and services that we sell – will continue to appeal and generate demand.

Zero based budgeting is much maligned, but at its heart it provides a robust process for annual planning, especially within a marketing context.

At its heart, ZBB is a very simple process that forces budget holders to justify spend. The process is not inherently about cutting costs, although it is often used in that way. Actually, the process is more about insisting that marketing is accountable for each line of spend and to ensure that vanity metrics or spend with little or no discernible business benefit are not supported.

The problem arises when there is misunderstanding of what marketing is trying to achieve and tries to assess each element of spend against the same KPI or metric – often this is sales revenue. But this takes too narrow a view. Building the brand to support a price premium that all customers pay year after year is likely to be far more profitable regardless of sector than any short term uplift in sales from media, which is what most ZBB will look at. This marketing excellence framework is covered in the next section.

This is a dangerous assumption. By assuming continued relevance, we almost give ourselves permission to reduce marketing support, especially as far as supporting the brand is concerned. Often, a zero-based budgeting process is used, where each line of marketing spend is evaluated on its contribution to revenue. Now, I'm actually a fan of ZBB, though perhaps not running it each year. But a lot of companies use it by rewarding actions that have a clear and demonstrable impact on immediate revenue and penalizing those that take longer to materialize. There are a number of resources that point out the problems with this approach, so we won't cover these here[4]. Nor will we rehash all the arguments around the issues suffered by Kraft Heinz, but a relentless focus on cost-cutting, especially when combined with low innovation is not a recipe for sustained growth.

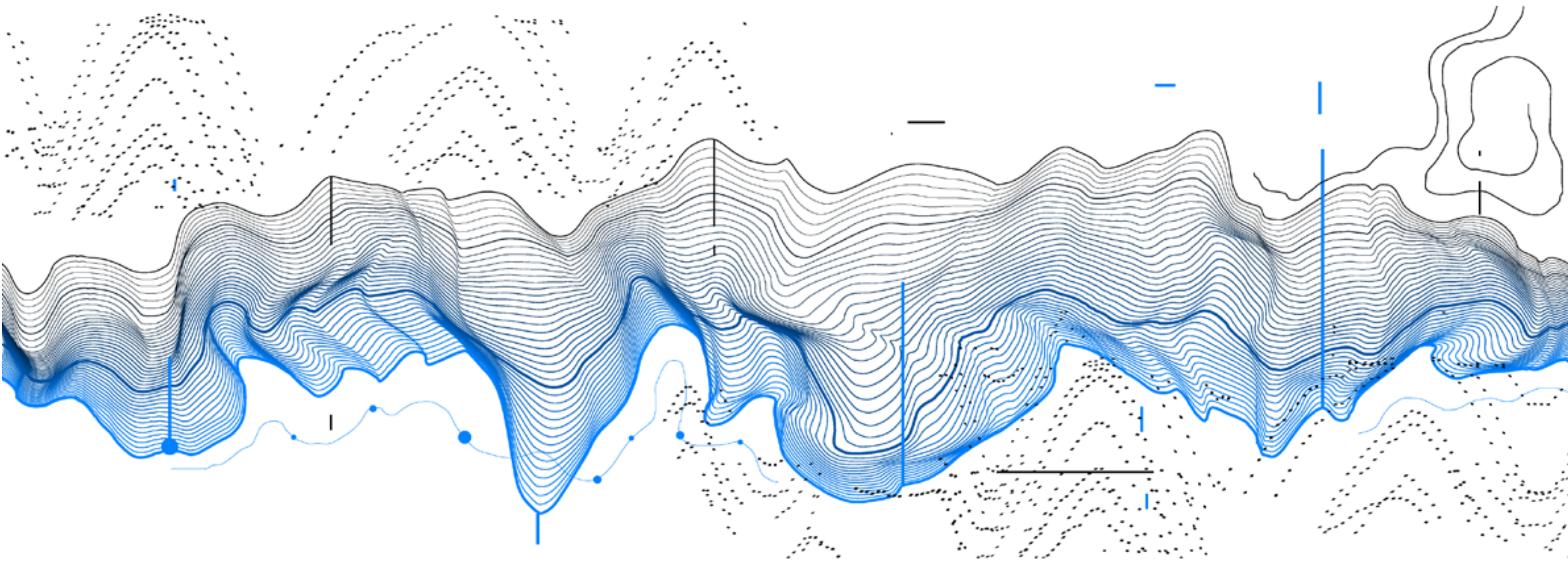
It's easy to be wise in hindsight, and only a handful of analysts flagged the issues with Kraft Heinz before the crisis developed. But boosting margin by cutting costs can only be done so many times before it becomes unsustainable. As Robert Moskow (Credit Suisse Group AG) wrote in April 2018 "The new leadership at Kraft Heinz talks a lot about the importance of growth, but we don't see evidence of significant product innovation coming out of the business". There were product extensions – new flavours of existing products, but little that was new. This, and an emphasis on what seems from the outside to be a poorly used zero based budgeting process within marketing and one of the highest goodwill to asset ratios in the S&P500, perhaps made the fall inevitable.

[4] Two recent publications include Profit Ability, published by Thinkbox in partnership with Gain Theory and Ebiquity and of course Binet and Field's The Long And The Short Of It.

//Reframe your Paradigm: 'Future > Present' Planning

Thankfully, not all present > future planning processes will end in a spectacular fashion as was the case with Kraft, with a stock price falling from its height of over $96 in February 2017 to less than $28 today. The point is that because growth is the **output** from a detailed planning process it is unlikely to result in significant growth.

But if we can successfully decouple the link between strategic planning and the annual budget round we are in a much stronger place. We can adopt a 'future > back' approach to planning. And this means that the destination or growth target is no longer an output of 'business as usual' assumptions plus or minus a percent or two. Instead, the vision of where we want to be in the future – say in 5 years – is an **input**, or the starting point to the process. And this is the absolutely crucial difference.



So, what exactly is 'future > back' planning? Instead of starting from now and working out where we think we'll be in 1, 2, 3, or in 10 years' time we start from **where we want to be** under a range of potential different future scenarios.

Once we know our desired end-point we can work back to determine each step that needs to be taken, and when. With present > future planning, we assume future relevance, at least for the next couple of years. For 'future > back', we absolutely do not, and the need to **transform** is made crystal clear. We might need to transform our perceptions of the market we are in or our business process. What is certain is that, to grow and perhaps even survive, we will need to transform and evolve. Some points that our clients have found useful to consider include the following…

What business are we in?

This seems a bizarre question to have as the first thing to consider, but it is vital. And the follow-up question is "will this business be around in 5 years' time?". We mentioned the Kodak moment earlier and while there are many ways of accounting for their fall from grace it is perhaps because they were insistent that they were in the business of selling film. Well, on the face of it, that's probably true. But it's also very limiting. It might have been more accurate to say that they were in the business of capturing memories and telling stories. So what became a threat (digital imaging, which Kodak actually pioneered) becomes simply another way of meeting their customers' needs.

Understanding adjacency is important too – the solutions used by companies in similar businesses – are a rich source of insight, as well as the more obvious route of talking to customers, the ultimate deciders of your brand.

Current reality

This is incorporated in the process. We still need to understand the recent past and the present – we need to understand our core competencies, who our competitors are, how much demand exists for our offering. But we are no longer letting these drive the future of the business. In fact, under this approach to planning, we need to understand our core competencies in order to know how much new talent we will need to acquire, and where from – in other words know what we were and what we need to transform to.

Uncertainty

It doesn't make much sense to only consider a single version of the future – not with all the change that we're seeing. Instead, the transformation process explicitly considers a range of potential future states, some of them beneficial for our company, others not. But if we know what we want to look like as a company and we understand a range of various future outcomes, the actions we'll need to take will become much clearer.

Signposts, flags and milestones

Obviously the world is uncertain, and we can imagine where we want to be under different scenarios but, as time progresses, some future states become likelier than others (see the box below). An essential part of planning for growth is to ensure that we develop an understanding of what events will signpost one state becoming likelier than others and that we track these and either pivot or adjust our plans accordingly.

The outcome of the Brexit referendum in June 2016 represented one such pivot: all UK services companies[5] who sold a significant volume of business to markets in North America (and charged in US$) would have seen an immediate increase in profitability almost irrespective of anything else they were doing. This was quite simply because pre-referendum 1 US$ bought you £0.69. After the results were in, it shot up to £0.8. It has fluctuated since then, but as of writing it is hovering at this point again. An increase of 15%. One of the reasons that the FTSE100 accelerated so quickly!

Companies that had considered such an outcome and who could pivot quickly to take advantage benefitted from superior results.

There are many other examples of change. For example, in the UK restricted parking has been one of the factors that has pushed shopping off the high street and onto retail parks. But could driverless cars lead a recovery? With the driver typically taking around 65% of the fare, a driverless cab will definitely see prices fall. And what does this mean for all those retail outlets with enormous square footage devoted to car parks? Will these still be necessary? If not, to what use can retailers or landlords put this land?

[5] All companies would have benefitted to an extent, but many CPGs would have to bear higher import costs of raw materials – one of the reasons behind the well-publicised spat between Unilever and Tesco

In October 2013, UK newspaper The Independent ran an article titled "Recognition: how will we control the computers of the future?"

While there is still no definitive winner, voice currently looks a good bet, There is increasing acceptance of Alexa, Google Home and others with some sources estimating that by the end of 2019 almost a third of UK households will have a smart speaker.

Yet back in 2013, The Independent had this to say…"It's not a front runner because regional accents and slang still confuse voice systems.. Useless if they're not programmed for your accent."

It's easy to be wise 6 years down the line, but the point is not to poke fun at predictions that have / may have proved wrong. The point is to plan for alternative states and to build in flags that act as guidance for the likely outcome.

Tension, Now and in the Future

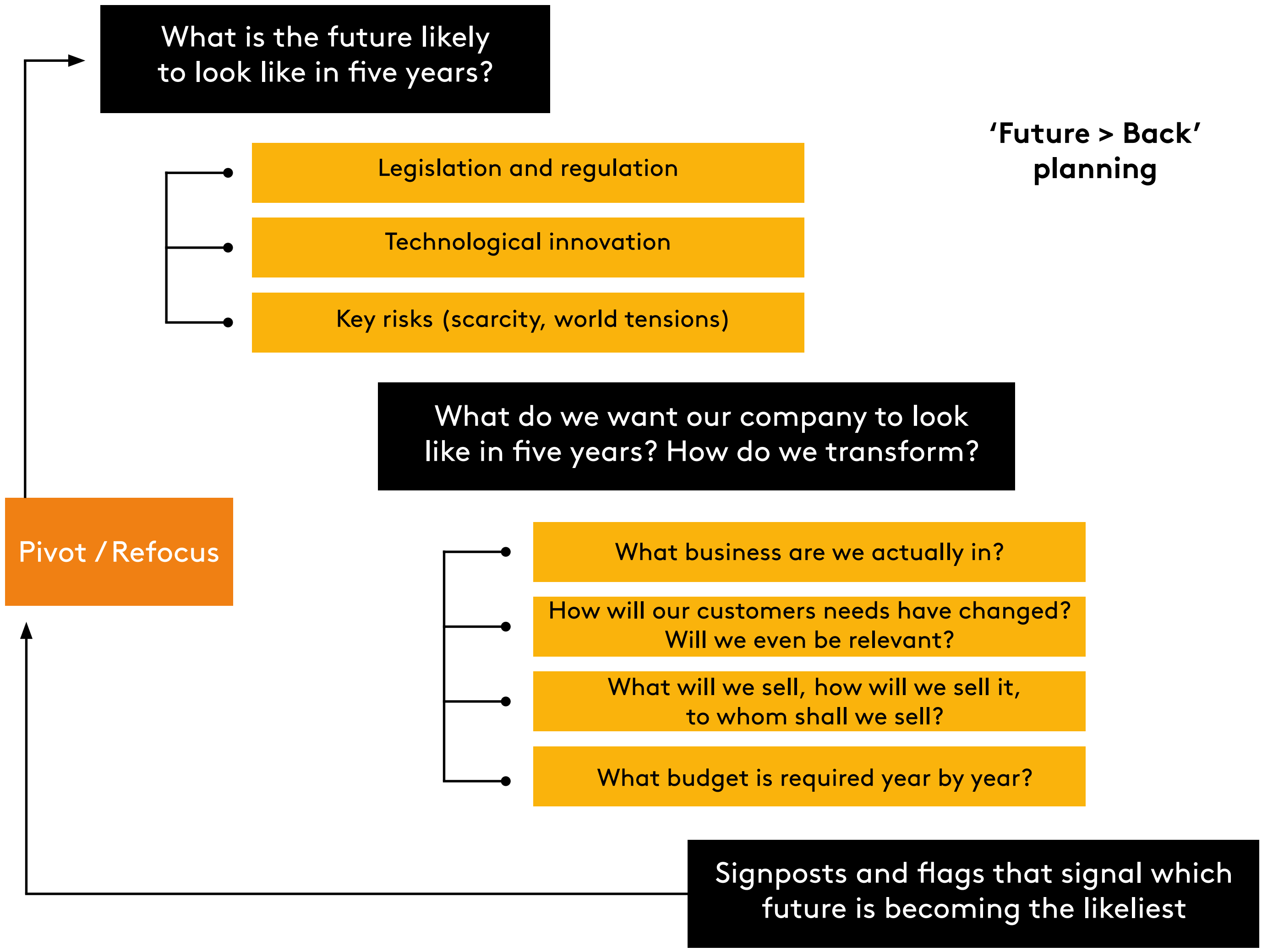
This is inevitable – any transformation process involves a degree of pain as we adjust to change.

- If we see a need for different skill sets, do we bring these in-house or outsource? If in-house, is training the answer? Or do we need completely different profile of people? If different, when do we start bringing them in? And where do we get them from?

- How do we manage the inevitable tension between existing practices / the business as it is now versus where we want to be in the future?

But planning for change and incorporating the flexibility to pivot will more surely lead to sustained growth than any other approach.

While there is an element of blue-sky thinking to any approach like this, our purpose is to demonstrate that it is not just aspirational. Therefore, it will not result in empty, vacuous vision and mission statements that are devoid of either meaning or action. By grounding our strategic planning in where we want to be in the future, we can work backwards to create meaningful and detailed plans for each step of the journey, combined with signposts and milestones that will alert us to when we need to pivot and when one future outcome is becoming the most likely.



//About the Author

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Jon is a Managing Partner at Gain Theory and has more than 25 years' experience in the Marketing Effectiveness field both client-side and as a consultant.

In his client-side role at National Savings, his remit as Chief Economist saw him play a pivotal role in bringing together the various data and analytics functions to ensure that there was a consistent measure of success that was socialised across the business.

At Gain Theory, Jon helps clients understand how to optimise the value of marketing investments by leveraging market-leading tactics devised through intelligent data, analytics, insight and consultancy. His work has helped leading brands improve new launch forecasting, optimize the mix between paid, owned and earned media as well as improving course correction in-campaign.

As an accomplished author and speaker, Jon has published a number of papers highlighting the demonstrable impact of advertising on share price, the ultimate KPI for the C-Suite.

//About Gain Theory

We Inspire Marketing Excellence

A Global Marketing Effectiveness Consultancy

Across six continents, we are united by a common mission: to empower informed marketing decisions, by more people, more often.

Our consultants help marketers use data, analytics and technology to build brands and generate sustainable business growth, quickly and cost efficiently.

We help marketers focus on the right data, not 'big data', by asking and answering the questions that drive business value. We pair consultancy and technology to foster a data informed culture and unlock organizational barriers that stand in the way of growth.

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