How's It Growing?

A roundtable discussion about what it takes to achieve growth in today's marketplace, featuring:

- Donna Sturgess
  GlaxoSmithKline
- Rick Ridgeway
  Patagonia
- John Gilbert
  Dunkin' Donuts
- Michael Shinall
  Meridian Consulting Group

What are the key drivers of growth for your organization?

Donna Sturgess: The greatest key driver of growth at GlaxoSmithKline (GSK) is that we have taken innovation on board as an organizing principle. We have identified innovation as our greatest opportunity to drive growth and aligned our structure, operations, resources and budgets accordingly.

Taking cost and complexity out of the organization is a subset of our growth strategy; the money that is saved is then plowed back into the business. It really is the ultimate in portfolio management; we are taking costs out to fuel innovation and creating our own internal cycle to manage our business based on what is best for the portfolio in total.

Rick Ridgeway: At Patagonia, we manage our growth very carefully. It's always been organic and it will continue to be. Consequently, we're seldom looking to broaden our distribution because we feel it would get us into areas where the brand doesn't belong. We're also unique in our own industry in having essentially five channels of distribution.

We have our own retail stores and our own mail order, catalog sales. We also have our own online sales, as well as very robust wholesale distribution in addition to very robust direct distribution to pro-athletes and key influencers. We can't grow the business at a really high double-digit rate and keep all those channels happy and healthy. So, acquiring new customers within existing channels is our focus.

John Gilbert: For Dunkin' Donuts, the shift from at-home coffee to on-the-go coffee has been a tremendous catalyst for growth. In addition, the Echo Boomer generation is now entering its formative coffee-drinking years. They are starting to get their first jobs and starting to drink coffee. The difference is that it's not Folgers at home, it's Dunkin' on the road. That's probably the biggest engine.

The next biggest engine is related, but not quite the same. The way consumers use beverages today is so different than in the past. In contemporary marketplaces, beverages have to do something extra for you. Orange juice might be "immune fortified," for example. It can't be just orange juice anymore. That trend is providing tremendous interest in our beverage products.

A third engine is fragmentation, which is both an opportunity and a threat. The opportunity is that consumers increasingly are accessing brands and brand information through the internet and local retail and decreasingly through big brand advertising. That may be a threat if you're in the big brand advertising business — which we are to a degree — but it's also a growth opportunity if you can target your products specifically for a particular consumer or occasion.

> "Innovation is our greatest opportunity to drive growth and we've aligned our structure, operations, resources and budgets accordingly."
>
> *—Donna Sturgess*
> GlaxoSmithKline

Michael Shinall: Retailers should do two things to drive growth, which almost sound contradictory. One is, they need to figure out exactly which businesses they're in so they can focus better on those businesses. At the same time, they need to experiment with new businesses and determine whether there are new growth opportunities for them.

Most manufacturers, meanwhile, have a significant productivity problem in that they used to sell about a million dollars worth of merchandise with 100 SKUs; today they'll sell $2 million dollars worth, but with 1,000 SKUs. They are getting growth, but it's at the expense of productivity. So, while manufacturers do need to think about SKU rationalization, they also need to think hard about what really constitutes innovation because new products are a key growth driver.

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> **—*Rick Ridgeway***
> Patagonia

How will those drivers change over the next three years?

Gilbert: The drivers will continue to change in a linear fashion from where they are today. If you take Dunkin's first growth driver — the on-the-go consumer — consumers will be even more on-the-go in the future than they are today. As a result, you'll see more and more convenience-type products.

The second area — beverages that do something for you — will continue to be an opportunity for explosive growth. Beverages that replace meals or snacks — a product like a smoothie, for example — will provide tremendous growth.

In terms of fragmentation — within the next five years, when big media can't deliver because consumers don't want it, we're going to have to think of a whole different deployment strategy for our resources than we do today. That will have implications up and down the food chain.

Ridgeway: As with most industries, ours is evermore in flux through consolidations amongst our wholesale retailers; that reality is a continuing challenge for us. But it also increases the importance of our direct channels. We're never going to ignore any channel over another one, but the direct channels continue to grow in importance for the company. So we see that trend continuing moving forward.

But we also continue to find ways to support our wholesalers in this environment of consolidation. We promote them in our catalogs and train our retail staff to know where the wholesale accounts are and the items that they may offer that we don't have.

Shinall: We're going to need a better understanding of the relative influences of purchases across the key business drivers. For example, if you're shopping for a young family and you're about to buy detergent, then your mom, your friends or perhaps the brand of detergent you've seen at your local Laundromat might be influences. Then, when you arrive at the store, you're influenced by how the products are positioned on the shelf, and what's on sale this week.

In certain categories, like HBA, it gets even more complicated because pharmacists and other professionals have influence, as well. Marketers often try to quantify the value of those various factors at the point-of-purchase as well as the "buzz" factors, but most don't yet put it all together to determine the relative influence of one on the other. So, the question is: If you can spend a dollar, would you rather spend it creating a buzz among friends-and-family or lowering the price point at the retail store? It's increasingly important to look at your expenditures holistically like that.

Sturgess: I don't see our drivers changing at GSK because with an organization the size of ours, we just can't wave a wand and make it suddenly innovative. It takes real time and real hard work to turn an organization of this size into the kind of innovative organization we want it to be. We've been at this now for almost two years, and it's going to take us another couple of years before we get to a place where internally we can judge whether we have moved the organization in a meaningful way.

How must the marketing organization change to achieve growth?

Ridgeway: Our goal at Patagonia is to synchronize all of our marketing efforts across all of our channels, so that all channels speak with a common voice. Even more important, they must all speak in support of each other. For example, because more than 70% of our customers who receive our catalog actually make their purchases online, we need to make sure that our catalog and web groups are working well together.

Our company is horizontal and has a culture of collaboration. That can slow us down a little bit sometimes, but when we make decisions we have buy-in across the company. We also have the advantage of doing everything ourselves. We have our own in-house ad agency, our own in-house design department, and our in-house internet department for the website. We don't even have a marketing department, *per se*. Rather, we have people who coordinate the marketing that's done in all these various areas of the company.

Sturgess: Where in the past we drove a lot of our business based on analytical excellence, we are evolving our organization to where it has equal parts of analysis and innovation. We don't want big, crazy, ideas →

that don't make financial sense. The point is, innovation has to be a manifestation of a strategy. Otherwise, you might have wonderful ideas that in the short term make a lot of money, but in the long term don't provide a platform for growth.

I'm also a believer that ideas can erupt from anywhere. The question is, are you there to catch the ideas? Ideas travel along the path of least resistance. Someone who sits in a central marketing group should be able to grasp the next best idea for a product that sits at-shelf at Target, for example. But you want to make sure that someone who has a great idea about what should happen at Target also knows who to direct that to.

Shinall: We've seen organizations succeed in a number of different ways, but one model that's increasingly emerging is to create a standalone innovation division with defined processes, hurdle rates and time dimensions associated with bringing new products to market. The innovation function can be very successful because its sole focus is on developing brands, not building them. Then, at some point, after a new product has gone to market, and met a certain level of success, it is integrated within the brand team itself.

A key difference is that today, there's a third head that's often consulted — the retailer. Previously, new product development was based on a balance between what the consumer wanted and what was profitable. Innovation — 10 or 15 years ago — typically meant marketing innovation — packaging, product and positioning. It's critical to have a sales or a retailer perspective of new product innovation. In fact, sometimes a vp of innovation might not report to the marketing function but rather to a general manager or president.

Gilbert: There will still be a need for classic brand management. There will still be a need for teams of people identifying and satisfying consumer needs. But how we express the solutions to those needs will change fairly substantially. Already, something like 95 percent of TiVo owners opt-out of the TV commercials. There are a lot of things we're trying to do to compensate for that, but for now it comes down to the law of large numbers and TV gets you big audiences quickly, efficiently and cost-effectively. The problem is that there's no substitute for the impact we feel on our business today from TV.

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Which consumer segments are most promising as growth drivers?

Gilbert: In addition to the Echo Boomers, the Hispanic market is a growth driver for all the obvious reasons. The insight is that most U.S. Hispanic consumers would like to have the product for which a brand is best known. So, for Dunkin' Donuts, it's donuts and coffee; Hispanics don't want us serving flan. However, it isn't a stretch to believe that Hispanic products for general market consumers couldn't be a reasonable product for us at some point.

A third group is the aging Baby Boomer, just because it's so big and has been so contributory to Dunkin's brand success. The good news is that many of them aspire to be younger and there are ways to reach Baby Boomers through a larger marketing strategy that's effective with young adults.

Ridgeway: Patagonia is not a very demographically constrained brand. Our apparel doesn't seem to have any negative connotations for young people just because older people wear it. When we dig into why, it goes back to Patagonia's core values, which seem to be values that cut across generational lines. Since we are not a demographically segmented brand, we don't market that way. We segment our customers into four categories: prospects, casuals, loyalists and cheerleaders.

Casuals are those who have bought from us once in the last couple of years. Loyalists have bought from us two or three times. Cheerleaders are the four-plus consumers.

We find that as people buy from us more frequently, they also buy from us across channels with increasing frequency. Forty-one percent of our customers find our products on our website, in our catalog, in our own stores and in our wholesale accounts, as well. Consequently, all of our marketing is driven by that realization.

Shinall: There's a certain homogenization of America happening. I agree with John Gilbert that sometimes we market Hispanic products to Hispanic consumers when what we should be doing is marketing Hispanic products to non-Hispanic consumers. Localizing the marketing toward individual groups or segments of individuals is fine, but the better approach is to understand those consumers and how that influence plays back on the rest of the broader population.

From a category perspective, some of the product categories that you might think are a little bit sleepy actually hold the greatest promise in terms of growth potential and innovation. The dairy category is a hugely growing segment given the new products, such as organic, that are really growing. There's also tremendous growth in some of the personal care categories, like shampoos and hair care. There actually are very few categories that are totally stagnant.

Sturgess: GSK is looking very hard at places where we can impact public health. Our smoking franchise is very big for us, and because weight loss is such a big health issue, that's our next foray. FDA willing, we will be moving into the weight-loss category, over the counter, in 2006. Over the next several years, I also think consumers are going to focus more and more on the transmission of germs and will be looking for products that can insulate them from contagious diseases.

Which media vehicles are growing most in importance and why?

Shinall: We need to find more intimate ways to use the internet without violating privacy. We also need to turn the retail store into a marketing medium. Wal-Mart has experimented by running ads in their stores that are unique to Wal-Mart shoppers. Some manufacturers are also experimenting with putting TV screens on shopping carts, and on the self-scanner guns. If the shopper uses a loyalty card, it's possible to target messaging or promotions based on their interests.

Gilbert: This is going to seem like a bit of a strange answer but TV is growing in importance because it's declining! Our TV effectiveness is declining at about 10 percent a year, but is still really important as an impact media. So, one of the strategies to deal with that decline is to invest more in it. Obviously, continuing to invest in TV isn't a long-term strategy because at some point even that incremental investment isn't going to get us anything.

Meanwhile, the challenge with the internet is that it's difficult to get messages to people who don't want to hear your message. They can ignore you, they can opt-out, or they can go to sites where you don't exist. In addition, I'm not sure consumers are going to invest a whole lot of their internet time learning a whole lot more about a $3.00 transaction at a Dunkin' Donuts, as opposed to researching a new car, or arranging travel. For us, the internet is still a bit of a question mark.

Ridgeway: The catalog continues to be the focus of our marketing efforts because we use it for purposes beyond selling products. I would doubt that there are many other companies that devote between 40 and 50 percent of their catalog to non-selling space. As much as half of our catalog real estate goes into essays and stories about customers using our products, the adventures they've had, our own commitment to providing solutions to the environmental crisis.

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Our ad budget is about four percent at this point. That's pretty low for most companies. The most valuable marketing of all, as everyone knows, is word-of-mouth. In fact, we know that 52 percent of our new customers come to us through word-of-mouth. You can achieve that kind of word-of-mouth best when you are an authentic brand, and an authentic company. The return that Patagonia enjoys comes from the people who become so loyal that they almost proselytize our brand for us.

Sturgess: I'm also thinking a lot about word-of-mouth and its impact on some of our assumptions about how we've gone to market traditionally — specifically the whole concept of "trial and repeat." In a television model, we would send messages to get consumers to go to the store to try our products and then buy it again, hopefully. However, in a word-of-mouth world, we almost have to put the "repeat" before the trial because the chances are now greater that a consumer won't even try a product unless they've heard about it from someone else, via word-of-mouth, first.

In other words, a consumer's decision to try a product may be based on someone else's verdict as to whether a product is worth buying a second time. So, in effect, the product has to stand up to performance on repeat as opposed to trial. A marketer could spend a lot of money to get trial through television advertising, but fail to get the trial because the repeat cycle — based on word-of-mouth — is now kicking in much faster. That also means that there's no more room for products that are all sizzle and no steak because they will be discredited faster. ■

John F. Gilbert III is vice president of marketing for **Dunkin' Donuts,** where he oversees advertising, sales promotion, product development and concept initiatives for the brand worldwide. Previously, John served as chief marketing officer for Kentucky Fried Chicken and senior vice president of marketing and R&D at Carlson Restaurants Worldwide.

Rick Ridgeway is vice president of marketing and environmental programs for **Patagonia.** Rick has also produced and directed more than 40 adventure shows for television, published 40 magazine articles and is the author of six books, most recently *The Big Open.* Along with three companions, Rick was the first American to summit K2 and the first to do it without bottled oxygen.

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Donna Sturgess is the Vice President of Innovation & Strategic Planning at **GlaxoSmithKline**, Consumer Healthcare. She is responsible for ideation and innovation, focusing on the global brand assets. Donna focuses on thought leadership to drive new ways of working to develop vibrant and viable solutions to business and product challenges to deliver remarkable products to consumers. She is a co-author of the newly released book "The Big Moo" by the Group of 33, edited by Seth Godin.