

Marketing and Organic Revenue Growth

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Required to grow /// If your company is not growing, it's dying. Most companies seek revenue growth to insure survival, to satisfy stakeholders and/or simply because that's what our economic system and the stock market expects. Companies can either strive for organic growth or growth through acquisitions. For marketing the first option is more attractive because it relates directly to one of its core responsibilities: customers. Excluding financial transactions like currency and commodity market positions, revenue comes from customers. Therefore revenue growth must come from either customer acquisition, improved customer retention, or increased revenue per customer. Among marketing's two essential tasks of efficiently using resources to market existing products and services and generating organic revenue growth, this second activity becomes even more crucial as the pace of change continues to accelerate.

Why grow? /// From a shareholder's point of view, stock price is the key metric and the price-to-earnings (P/E) ratio is an importance component of it. For a non-growing company, future earnings or cash flow will be constant. The value of the firm then will be a perpetuity worth annual earnings divided by the cost of capital. For cost of capital of 10 %, this makes a firm worth $E/10\%$ or about ten times current earnings. By comparison, a firm that grows consistently at a modest 5 % per year is worth double that, all else equal. Doubling shareholder value is obviously a desirable result.

FIGURE 1:
Sources of organic growth



Growth also has a desirable effect on employees. It is easier to attract and keep talent to a “winning team” like a growing company. People tend to be more motivated when growth is likely, which in turn leads to greater effort and improved performance, as well as more positive press coverage.

Why not buy growth through acquisitions? /// The other widely practiced approach for growing a company is through acquisitions. Unfortunately, numerous studies have found that noticeably fewer than half are successful; while they increase total revenues, they do little for stock price. Reasons why acquisitions fail to live up to their hope or hype include failure to realize the assumed cost savings, loss of key employees and inability to generate synergy. This latter issue is often predictable. The current owners of a firm typically know more about its value than the acquirer, which leads the acquiring firm to overpay. The only way to compensate for the overpayment is for the acquirer either to have genuine synergy or to be able to implement a different strategy or business model than the previous owners fol-

lowed, for example, through utilizing their greater resources. Therefore, acquiring small, newer firms whose valuations are not efficiently priced by the financial market seems to work better than acquiring larger ones with a commensurate larger impact on top-line revenue.

Sources for organic revenue growth /// The paths toward organic revenue goals are multiple but can largely be classified into four categories (Figure 1).

New products can open up new markets and help acquire new customers. They also improve retention, for example, by increasing the number of relations with existing customers. Innovations can also increase the margin per customer with cross- or up-selling products. Apple demonstrates impressively that organic growth can be accomplished with constant innovation of its core products like the iPhone and iPod plus the development of new offerings like the smart Apple Watch or Apple Pay.

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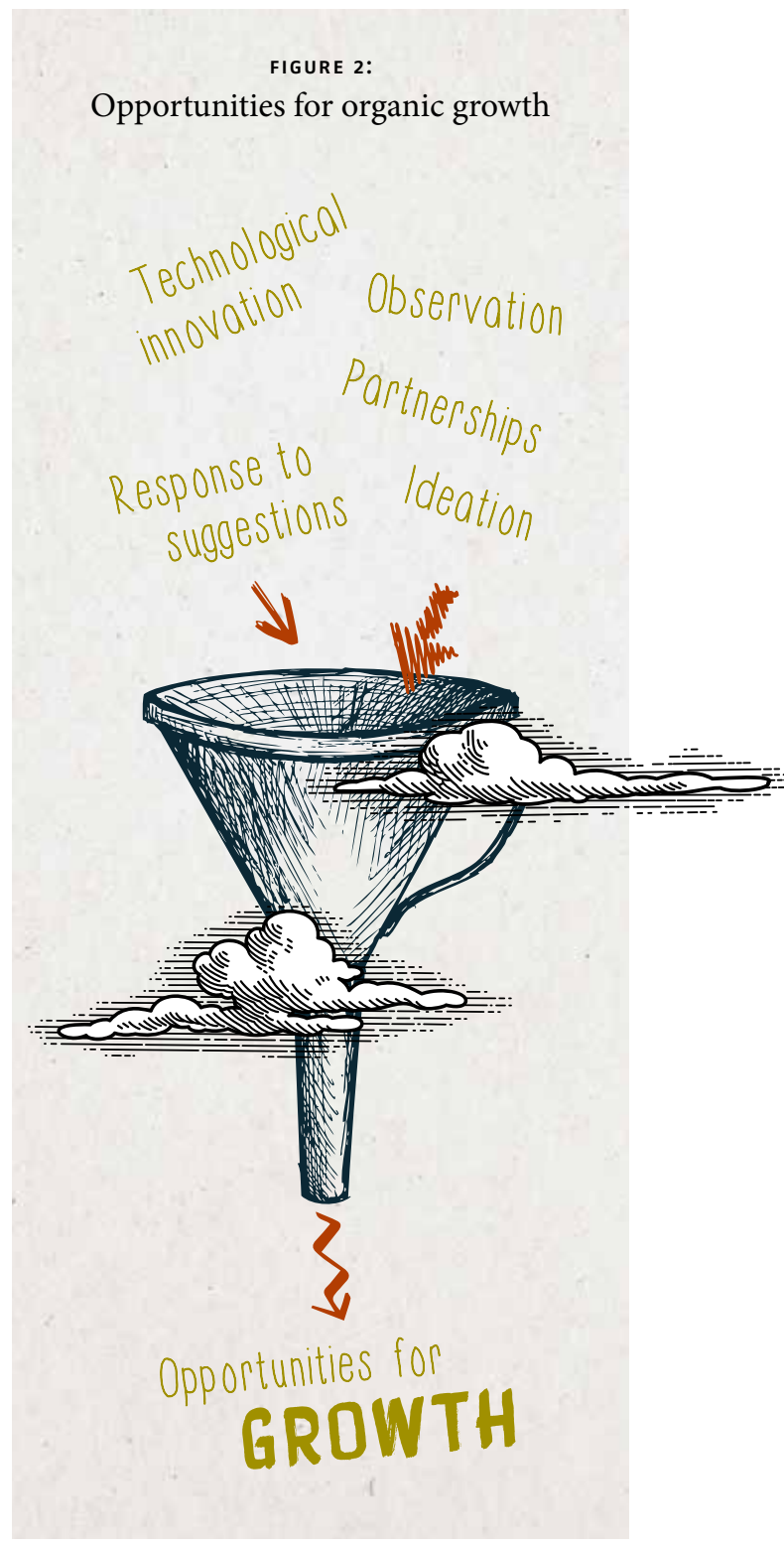
Brand building improves willingness to pay and hence price, and a positive image facilitates brand extensions to categories where the “fit” is good. Kellogg’s, for instance, leveraged its brand equity to move from simple corn flakes to all sorts of cereals and then to snacks and other food.

Customer management tools, such as loyalty programs or CRM systems, can increase retention. While some retailers successfully offer incentives to keep shoppers in their outlets, too much care or lock-in is not always appreciated.

Finally **channel innovation**, like going from brick and mortar to online or vice versa or multi-channel marketing, opens new opportunities for growth. Sometimes simply adding more outlets can increase revenue, as Starbucks has demonstrated impressively over the past decades.

Identifying growth opportunities /// There are many sources of growth ideas. The key is to generate a large number and then select the most promising among them. There are many sources of growth ideas. The key is to generate a large number and then select the most promising among them.

FIGURE 2:
Opportunities for organic growth



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 For a growth initiative
 to succeed, all stakeholders need
 to be considered.
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- > Perhaps the most obvious one is *technology development*, but there are other useful approaches as well.
 - > Simply *observing how customers behave* can lead to ideas for improving existing products or solving their problems. A particularly useful version of this is “solution spotting.” For almost any problem, somewhere in the world there is someone with a crude or “duct-tape” solution. Simply modifying it and bringing the solution to scale can generate significant revenue.
 - > Employees, suppliers, channel partners and customers often make *suggestions*. Having a way to collect, screen and try some of these is strongly advisable. Listening to consumers’ comments in social media can produce a plethora of information. And talking to non- or lapsed customers is more likely to reveal a major innovation option than talking to satisfied users who by definition like things as they are.
 - > *Partnering with customers* is another option. Techniques like using lead-users and beta-sites to jointly develop products are well established, as is the use of focus groups. Recently, collaborative design enabled through electronic communicators has begun to proliferate, and crowdsourcing is a tempting concept. While there are success examples, scientific research on its effectiveness is still limited, although currently expanding. Of course the ultimate partnering involves customization by individual customers. Configurators of all kinds are used frequently. Although limited to currently available features, they provide more individualization and help satisfy both performance and psychological needs.

- > To actively search for ideas in a structured way, numerous *ideation methods* exist. Internal methods include brainstorming and individual creativity, and the evidence is strong that structured creativity produces both more and better ideas. Of course the ideation process can also be outsourced to specialized consulting firms.
- > Thinking about innovation benefits from exploring *non-traditional business sources* as good ideas in *Fortune*, *Forbes* etc. are quickly observed by others as well. Sources related to design, sociology, technology, science fiction and even academic journals may provide a relatively unique idea.

Stumbling blocks to innovation /// Even good ideas that have initial support from all relevant parties can fail. A number of factors determine whether an innovation will actually be adopted and ultimately launched. These include both *individual and firm characteristics*. Limited ability and poor execution in terms of designing, manufacturing, financing, marketing and managing the new idea might cause failure. Management also needs enough autonomy and support from top management to be successful.

Three crucial factors related to the *interaction of the innovation with the potential adopters* are relative advantage, compatibility and risk. Relative advantage is the extent to which an innovation is an improvement over the current alternative: Is it a better mousetrap or does it provide better performance or some real economic, psychological or social value? The other factors refer to the innovation’s compatibility with existing behavioral patterns and the risks associated with its use. Importantly, unless someone is desperate, incompatibility is usually the biggest obstacle to adoption.

Other risks relate to the *economic environment*. There might be unforeseen regulatory hurdles that hinder or technological breakthroughs that obsolete the innovation. Competitors might undertake harmful action, in particular if their business is at risk. Or customer taste may simply be changing too quickly. For a growth initiative to succeed, all *stakeholders* need to be considered. The outcomes need to be “net positive” to all relevant parties both inside and outside the firm. Many innovations fail because of inadequate consideration of key constituencies like finance, the sales force, suppliers or channel partners.

Estimating success and sales potential /// It is impossible to exactly predict what will work, although data-analytic methods have shown promise in areas like music and movies. One interesting new approach is prediction markets. These pseudo-stock markets rely on the “wisdom of crowds” to predict the results of elections as well as product success. They seem to do quite well, although at the cost of making an idea public before one launches it.

Forecasting the sales of an innovation becomes more difficult the more innovative the new offer is. For minor or continuous (lemon-scented) product innovations, standard market research methods like surveys, conjoint analysis and simulated test markets work well. For major and “real” (discontinuous) innovations, it is often hard to imagine the product or its use. In these cases, “information acceleration,” typically computer enabled, allows for a more realistic view.

Asking for purchase intent generally leads to an overstatement of the demand for innovations, as individuals tend to factor in the benefits but not the costs of purchasing. For really new products, demand typically follows an S-shape, sometimes with a long left-tail reflecting the time period before sales take off. Growth models that capture the eventual slowing of adoptions are predictively superior, especially at the key turning point when sales slow and linear extrapolations continue upward. It is also possible to use past results reported in meta-analyses as estimates of model parameters even before sales have begun.

Considerable work has shown that innovations that follow specific patterns or templates throughout an ideation process have an increased likelihood of success. Similarly and not surprisingly, products that solve a specific problem or employ a “spotted” existing solution do well. In contrast, products that are invented without the customer in mind or trend-following products tend to fare badly.

The marketing mandate /// Organic growth is the key to shareholder value, and marketing is the key driver of organic growth. Various methods provide assistance in uncovering, refining and launching growth initiatives. The key assets, however, are a “prepared mind” that recognizes opportunity when presented with it and a state of perpetual dissatisfaction with the current status.

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FURTHER READING

*Boyd, Drew; Goldenberg, Jacob (2013):
Inside the Box: A Proven System
of Creativity for Breakthrough Results,
Simon & Schuster.*

