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# Growth: Marketing Incubators

by

Tom Agan

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## Introduction

Today many marketing organizations are being asked to stimulate growth in their organizations – to become incubators of new products and services. Three successful approaches to this are emerging. One is centralized and analytical – we call it the ‘big brain’ approach. Another is more decentralized and process-based which we call ‘step by step’. Lastly, yet another approach is focused on leveraging diverse capabilities and experiences – we call it the ‘blender’ approach.

In this PSB White paper we will explore each of these approaches – describing them, providing mini-case studies, explaining the pluses and minuses, identifying the keys to success and lastly providing guidance on picking the right approach for your organization.

This paper is focused on how marketing can assist with the development and evaluation of new offers - products and services. This entails the first two steps of incubation: generating ideas and evaluating them. The subsequent steps of concept development / prototyping, test marketing, launch and operations are beyond the scope of this paper.

Other forms of growth such as selling more to existing customers, increasing customer acquisition and retention, identifying acquisition targets, co-branding, brand portfolio management, and alike typically entail approaches other than the ones outlined here.

In addition it is important to note that the role of marketing function in these efforts does vary. In some cases marketing is driving the growth efforts, other times it is primarily facilitating the process where the work is being done mostly by others in the organization, and, in some cases, only playing a limited role in an effort led by others. The assumption in this paper is that marketing is playing the leading role in each of these approaches. However, depending upon the skills and experiences that a marketing function possesses and its status within an organization, it could be relegated to a role other than leading the overall growth effort.

## 1. Big Brain

The ‘big brain’ approach starts with a conceptual framework for thinking about growth. One, for example, has three dimensions: organizational capabilities, brand permission, and market opportunities.

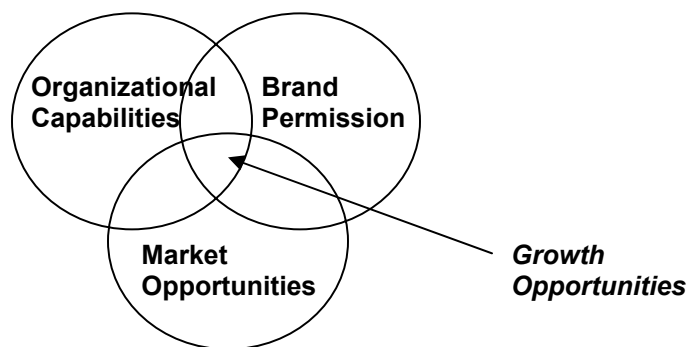
Organizational capabilities are the core capabilities of an organization – what an organization is good at doing. For example Honda is very good at making engines or Pepsi is very good at distributing beverages or Marriott is very good at operating hotels. A study of perceptions among employees, customers and competitors will quickly identify the ‘thing’ that an organization does well that people will pay, hopefully, a premium for. Typically this list is very short; if it is too long – more than three items – it probably does not reflect the true core strengths of an organization.

Brand permission is what customers give you credit for doing well today. In the case of Marriott, customers give the brand credit for running moderately priced hotels. They do not give the brand credit to run premium hotels – thus their Ritz-Carlton chain is not associated with Marriott. But when the Marriott brand was associated with Fairfield Inn, it allowed Fairfield Inn to raise rates on average of 12%. Testing the perceptual boundaries of the brand is critical to understanding how far the brand can stretch.

Market opportunities are the third dimension for identifying growth opportunities. Here one looks at the incumbents in the segment and uses research and analytics to identify whether or not customers have needs that are not being met.

It is helpful to think of these – organizational capabilities, brand permission and market opportunities - as three circles. When they intersect then a growth opportunity exists. When only two of the three intersect then the outlier needs to be addressed before the growth opportunity becomes viable.

**Fig 1**  
**Growth**  
**Framework**



For example, Starwood saw a market opportunity to move into contemporary high-end hotels. And they knew they had the organizational capabilities to make it happen. But they also knew based on research that they did not have the brand permission with their existing Westin brand; thus they launched the W brand.

At Virgin they knew based on market research that their brand gave them permission to enter the mobile phone market and that the market was growing. But they also knew they did not have all the organizational capabilities to run a mobile phone business. So they partnered with SprintNextel to launch the highly successful Virgin Mobile business.

At Apple they knew that they had the organizational capabilities and brand permission to expand beyond computers. But at the time no real market existed for legally downloadable digital music. So they created a market by offering iPods and iTunes.

Using this or a similar conceptual framework, most marketing teams will often take centralized, analytical and research intensive approach to identify growth opportunities. The idea being that a group of very smart people - supported often times by consultants - are the best at figuring out the problem of growth.

The process typically unfolds like this:

1. Research, both primary and secondary, is conducted for each of the three key questions:
  - What are we really good at?
  - How far can our brand stretch (without undermining our core brand equity)?
  - What current voids (left by competitors) or new market opportunities exist? How big are they? How potentially profitable are they?
2. If the three intersect then a message and offer are developed and tested. As these are developed a financial model is also created.
3. If only two of the three intersect, but the opportunity still looks promising then options for bringing the third circle in are developed and evaluated.
4. Ultimately management reviews and approves the growth plan allocating capital and resources to the effort.
5. Metrics are identified and tracked to monitor results and provide feedback.

There are several plusses and minuses to the 'big brain' approach. In terms of advantages:

1. It tends to be quite successful especially when done as a program and supported by strong analytics.
2. Because it is centralized it tends to have strong top-level involvement, understanding and support leading to better focus.

3. Since the rationale is clear behind the recommendations, it tends to be easy to explain internally and also externally to investors and the media.
4. Generally it brings much more internal clarity on the true, rather than believed, strengths of an organization and its brand.

On the downside:

1. It can be quite expensive due to the cost of supporting research and consulting.
2. This approach can be fairly time consuming, taking several months or a year to complete.
3. It requires a stable leadership team that values logical thinking and data-driven analysis.
4. Because it is centralized and somewhat distant from the realities of the day to day business, new ideas that typically start from the lower levels of an organization can fail to make it to the top if ongoing employee input / research is not conducted in the beginning and throughout the process.
5. In large organizations, 'big brain' does require cross-functional coordination between finance, HR, marketing and strategic analysis, with one of these taking the lead. If marketing takes the lead it must have a deep capabilities set, either already in place or supplemented by external consultants, to effectively understand and coordinate the various aspects of the analysis. A marketing function that is exclusively or heavily focused on communications is typically going to struggle leading a project like this if not supported by other resources.

## **2. Step by Step**

The 'step by step' approach to driving growth revolves around process. Here marketing typically develops a multi-step process for uncovering, evaluating and developing growth ideas anywhere in the organization. Rather than a central team developing ideas, the thrust here is having marketing act as a promoter, facilitator and overall manager of a process that is available to anyone, anywhere in the organization. But those in the organization who submit ideas for funding are the ones responsible for the developing the concepts.

The process typically looks like this at a high level:

1. A company-wide growth initiative is announced and promoted by senior management and marketing.
2. Anyone in the organization with an idea fills out a template explaining the idea, estimating the market potential, estimating the cost to develop and launch, and expected obstacles / risks.

3. The submissions are evaluated centrally by a cross-functional team facilitated by marketing and prioritized. High priority ideas are then given developmental funding.
4. In the developmental funding phase, the concept is fleshed out and tested with prospective customers to determine viability. A detailed financial model is created covering both launch (one-time) costs and operating costs vs. revenue. Many organizations will do a discounted cash flow to see if they recover their cost and capital and exceed their investment thresholds.
5. A formal management review of the ideas is conducted before they are approved for launch. Depending upon how much money and resources are involved, this could even be a board level discussion.
6. As the idea moves into a launch phase, marketing continues to monitor progress and provide support to the team as needed. In addition, already established tracking and management structures monitor results.

For one global company, with a strong Six Sigma culture, the approach outlined above has identified numerous growth opportunities that could represent in the years ahead several billion dollars in additional revenue.

As with the other approaches, 'step by step' has several plusses and minuses. In terms of advantages:

1. It has high organizational involvement and gives smart, motivated people a way to successfully break out of their current roles.
2. It brings a bit of entrepreneurial flavor to large and slow moving organizations.
3. By being open to all, it has a democratic, less hierarchical flavor to it.
4. It allows new ideas, and more breakthrough ideas, to emerge since lower levels of the organizations where these typically originate now have a forum for them to be vetted. For example, it offers the opportunity to leverage the direct experience of sales and service employees who are on the 'front line' with customers every day.
5. It is less costly since it is less analytically intensive and the work to develop and analyze these ideas is usually being done at lower levels in the organization.
6. It requires less knowledge and time of the functions such as marketing and finance.

On the downside:

1. The analytics on these tend to be less rigorous since the concept development is being led by individuals with typically less experience.
2. There can be significant brand and business risk since a wide range of ideas are often produced, developed and even launched. In other words, there is greater risk of entering new businesses that do not make sense.
3. There is a higher failure rate due to a less focused, more decentralized effort.
4. There is a greater risk that existing organizational structures will compromise the idea.
5. It requires an organization to have good and well-understood process discipline which many do not.
6. It is likely to have less top-level management support and buy-in.

### **3. Blender**

In the 'blender' approach a team of people from a variety of functions and often times complemented by outsiders are brought together to ideate new ideas for growth. Marketing oftentimes funds and facilitates this group as well as performs an initial assessment of the ideas it generates.

The underlying belief here is that developing new growth ideas is inherently a messy, creative process that is stymied by the layers and silos in an organization. By breaking away from the organization and its structure, and creating an environment with fewer boundaries, growth ideas will flourish. In a sense this is both decentralized and centralized at the same time. It is decentralized because the team is often populated with younger and more junior level people. It is also centralized, however, because the team is located in one place and ultimately its ideas are usually vetted and approved by senior management.

This approach is the antithesis of the step by step, process-driven approach, outlined earlier. The blender approach is sort of like making sausage – a bunch of smart, out of the box thinkers are put together and given some money to go and develop anything they want – and then marketing and management waits to see what comes out. But what does come out then typically goes through a more conventional analysis consisting of market research and financial analysis before further funds are allocated to finalize the offer and launch into market.

Yahoo has just created a blender. They have recently established 14,000 square foot workspace South of Market in San Francisco USA, staffed it with a group of

people both insiders and outsiders, and have tasked them to come up with new growth ideas.

Several quite famous older precedents also exist. Bell Labs, Lockheed Skunk Works and Xerox PARC were all similar efforts that yielded results. Bell Labs developed the transistor (among many other inventions), Skunk Works stealth aircraft technology, and PARC the mouse and graphical user interface.

In the blender approach there are three important flavors. One is unbounded ideation which basically means people are free to do whatever they want. The second is bounded ideation which is where boundaries are established as to what is in bounds and out: for example, you will create new ideas involving airplanes. Lastly there is focused ideation where the team is instructed to solve a specific, known problem such as exceed the speed of sound – the great challenge of the 1950's.

The blender tends to be the classic highest risk / highest reward of all the approaches. As with the other approaches there are several plusses and minuses. In terms of advantages:

1. You will get lots of interesting ideas – and stand a better chance of finding something truly breakthrough or transformative.
2. For a highly hierarchical organization this may be the only way to break away from it enough to prevent it from blocking new kinds of ideas.
3. It does reflect the reality that bigger ideas usually do not result from careful, logical analysis – rather they often arise from non-linear connections, a mix of perspectives and lateral thinking.

On the downside:

1. You usually get lots of bad ideas and it is hard to pick out the good ones from all the others.
2. It is almost impossible to understand if it is working well or not.
3. It is expensive.
4. There is low internal understanding and buy-in since the ideation is being done in isolation.
5. Functions like finance often hate it because it is so inherently sloppy and messy.
6. Even after spending time and money coming up with ideas, you then need to spend even more time and money evaluating them.
7. It can breed organizational resentment as in “Why do these people get to play with new ideas while I have to run the day-to-day?”



## Keys to Success

In launching a successful growth program there are several keys to success:

- Pick the approach that best matches the organization and the problem (more on that in a bit).
- It tends to make most sense for marketing to lead these efforts since they tend to understand the customer and market best BUT marketing must have the appropriate skills demanded for them to be an effective leader.
- Make sure any ideas created are properly evaluated through market research and financial analysis.
- Do not be hesitant to use outside consultants to help set up a process like this, to perform certain steps and provide necessary skills and fresh perspectives.
- Ensure whatever approach is used has the support and involvement of senior management.
- Have explicit criteria for evaluating ideas and share them with those developing the ideas. The challenge typically is not to find ideas; the tough part is picking the one or two that hold promise. By having explicit evaluation criteria that have been well thought out and thoroughly vetted this will tend to make this crucial step much faster and more successful.
- Encourage cross-functional perspectives and collaboration throughout. This has been shown over and over again, especially in the auto industry, to reduce time and costs as problems are identified and solved much sooner.
- Be careful of idea overload. Most organizations can only absorb one to three major new initiatives at a time. Almost all organizations try to do too much, doing nothing well. But this avoids making hard internal decisions and choices.

## How to Choose an Approach

As general rules of thumb these are the kinds of situations where each of the three approaches is most appropriate:

1. When you have an organization led by thinkers, oftentimes ex-consultants, and/or want thoroughly thought through ideas, when the company is not highly diversified, and when the leadership team wants to make a few bigger bets on growth then the 'big-brain' approach is often the best.
2. When an organization is highly diversified and very process oriented then the 'step-by-step' approach is usually best.

3. When the organization is very hierarchical and/or management wants breakthrough ideas that may take years to play out and the problems are not well defined, then 'the blender' is often the best approach.

In some cases an organization might employ more than one method depending upon its objectives and self-assessment.

## Summary

Growth is a challenge facing all organizations today and marketing is a natural leader of such an effort. But like anything this important, to do it well takes time and experience. It is a complicated topic and involves understanding a variety of quite different approaches. Given all the pressures faced running the day to day business and the need to satisfy short-term financial objectives, it takes the exceptional organization and leadership team to invest the time and effort required to drive longer-term growth.



**Tom Agan** is Managing Director of the Penn, Schoen and Berland New York Office

## About PSB

Penn, Schoen and Berland (PSB) is a strategic consulting firm that works with corporations around the world on a wide range of marketing issues, messaging and research. PSB is part of the WPP Group.

**For more information about designing and implementing growth programs please contact Tom Agan at [tagan@ps-b.com](mailto:tagan@ps-b.com) or 404-434-8943.**