

GENERATING *BREAKTHROUGH GROWTH* IN MATURE MARKETS

Can Southwest Airlines, Starbucks and P&G teach you how to sell more paint?

By MICHAEL J. LANNING

Generating major new, total-market growth in mature markets is rarely pursued, but exceptionally rewarding and profitable. Yet, making it happen, though never trivial, is much more feasible than is widely understood. It can be done by applying a realistic market-focused approach, based on three principles:

- Deeply understand what could motivate end-users to increase usage, and what barriers they face, by studying what they do, not what they say they want;
- Armed with these insights, formulate a real value proposition to tear down the barriers, change consumers' behavior, and unlock dramatic new growth; and
- Then redesign and integrate all business functions and elements (product, brand, pricing, etc.) to singlemindedly, profitably deliver this proposition.

Our experience in architectural consumer coatings indicates potential to dramatically transform this market's size and profitability. But that potential is apparently not generally pursued in this industry, despite a few limited initiatives.

Perhaps coatings players are too busy improving efficiency to seriously pursue market-growth? Given increasing price pressures from big-box retailers, cost improvement is important—but is not often the route to profitable growth (and is often insufficient to even improve profit). In general in the U.S. economy, "Value is migrating, away from the center," from manufacturing to low-cost distribution (e.g. Home Centers, WalMart) and to differentiated solutions (including products and services that give end-users more real value). Architectural coatings must adjust to this change, too. Launching a program of growth-explo-

ration as suggested here can help make such an adjustment, and reorient the industry on a much more profitable trajectory.



HIDDEN POTENTIAL

New total-market growth in a mature consumer market yields great benefits to an industry. It increases profits broadly as a result of better capacity utilization, and reduces competitive intensity; and the innovators who lead the stimulation of growth usually enjoy a disproportionate share of the new profits. But industry players typically conclude that total-market growth is not realistically possible, since the market long-ago reached a mature, slow-growth state.

However, mature markets are often actually underdeveloped. Many consumers who could beneficially consume, or consume far more (like heavy users), do not. Why would usage be underdeveloped? Because even in a mature market, non- or light-users continue to face obstacles to usage: cost of usage; complexity/difficulty/hassle of usage; and low awareness/understanding of the most compelling experiences (often with powerful emotional and social content) that result from usage.

Yet, such potential is typically missed by industry players; especially incumbents. The potential is usually not very obvious, and self-perpetuating myths and misunderstandings (about why and how consumer markets grow dramatically) help keep this potential growth hidden. In the absence of major new usage-stimuli, these patterns of stable usage persist, and take on the look of permanent immutability. The industry's behavior over time only further inhibits market growth: reduced investment in innovation (product and other); increased focus on intermediaries, instead of real end-users; and a price/cost fixation.



But breakthrough growth can often be achieved in these mature markets, by first creatively exploring and discovering insights into end-user behavior, then aggressively moving to proactively stimulate and reshape that behavior. In fact, despite the low-growth mythology in mature markets, numerous proactive, creative players have stimulated just such happy upheavals, providing plenty of reason for architectural coatings players to take heart.

SOME EXAMPLES

Consider the experiences of the frequent business traveler in Texas in the 1970s, which inspired the founders of Southwest Airlines (SWA) to create a great strategic innovation, generating dramatic new growth in a mature market. The industry knew that profit lay only in long-haul flights, not the short-hauls which fed the big hubs. But for travelers wanting to make business trips of 150-300 miles, this offered miserable choices: drive five to six hours, with modest hassle and costs, and make one business meeting; or fly and take three to five hours, perhaps three times the cost, and maybe have two business meetings; or stay home—no travel time, hassle or cost, but also no meeting.

SWA's founders imagined a very different set of short-business-trip experiences, and built an airline designed specifically to profitably deliver them. SWA provided a trip with consistently less total time (door-to-door) than either driving or flying other airlines, while being amused and feeling more liked, rather than hassled and irritated, by front-line staff, all at close to the cost of driving. As trade-offs versus competing airlines, SWA passengers got no assigned seating, meals, interline-ticketing or bag transfer, and usually no convenient connections to more distant cities. But they got much more value, for a 150-300 mile trip, than possible from other airlines, driving or staying home. This value proposition increased total air traffic dramatically, typically +20-50%. And by focusing only on this proposition, eliminating many industry-standard costs not needed for this strategy, SWA was also consistently profitable for 25 years while no other airline came close.

FAST-MOVING CONSUMER GOODS

Even in very mature fast-moving consumer good (FMCG) categories, we have seen companies repeatedly find ways to stimulate major new growth, with interesting parallels to architectural consumer coatings.

Our firm has, first hand, observed at least seven examples achieved by Procter & Gamble. For example, consumers widely used liquid fabric softeners based on functional benefits. But P&G's brand Downy deeply studied

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consumers' experiences—how they washed their families' clothes, and how little those families actually noticed. Downy convincingly told a story of "family appreciation" (a "noticeable difference") that dramatically grew the brand and its category for decades. Dryer-added-sheets brand Bounce, created +20-30% additional category growth when introduced, because it made fabric softening much easier (consumers no longer had to catch the rinse cycle in the washing machine).

P&G's cough relief brand Vick's VapoRub showed mothers that they could use it to enhance interaction with the cold-ridden child. She can only dispense other cold medicines and then wait for the effect, often feeling helpless while the child suffers. VapoRub advertising made her much more aware that with this product she could touch the child, rubbing the medicine into the chest, and producing immediate relief. Consumers thus realized they could do something, with a caring emotional component, about a cold/cough, producing sustained growth of this brand and very old category.

In 1980, the U.S. coffee market was in long-term decline. It was not cool among young people, increasingly associated with older consumers. The industry increasingly focused on price competition, catering to retailers' ever-greater demands for price discounts. Then Starbucks created a whole, integrated set of new resulting experiences. Higher quality coffee, freshly ground; and more important, a distinctive, relaxing, contemporary retail/coffee-house environment. This allowed a little (affordable) luxury.

Starbucks generated a dramatic new explosion of coffee consumption—despite as much as a 40-times price premium. The whole category benefited; Starbucks especially enjoyed a totally new, highly profitable business.

In another example, Kodak Australasia (with the help of The DPV Group) deeply explored consumer behavior, and identified underdeveloped usage in the largest segment (Snapshotter). This consumer needed coaching and demonstration to help her use her photos more. Kodak reinvested in the camera specialty channel (then steadily declining, along with its base of "photo enthusiast" consumers, and largely written off by the industry). These retailers could interact with the Snapshotter and coach her. With Kodak's help, the channel was revived - newly focused on attracting and helping Snapshotters. As a result, the total photo category grew at remarkable rates (+5%) for several years, with world-leading profitability for Kodak Australasia.

REDECORATION NOT RENOVATION

Our exploration of the residential painting experiences consumers have—and don't have—indicates that this category has vast untapped potential, which the industry should pursue aggressively and comprehensively.

In architectural coatings, the "primary entity"—the real end-user crucial to generating market growth—is not the

paint maker, retailer or contractor, but rather the consumer, especially the female. Not just for DIY—she is the primary entity even when the coating is bought and applied by contractors, or by her husband, because she is the one who wants to redecorate, to change the feeling of her home, to express herself through color. Encouraging, and helping, consumers use more color, more frequently, is the key to generating much more residential repainting.

The emotional, social, self-expressive payoff from repainting, with color, seems amazingly powerful. One woman, in recounting the recent redecorating of her living room, told us, "I love beautiful rich colors. White is boring; with white walls, I don't know who that person is. With colors, it tells people who I am, what I like."

A couple, showing us their repainted living, dining and kitchen spaces were ecstatic; they insisted on opening a bottle of wine to recount their story. After putting it off for years, they one day painted one room a deep green. They and their friends loved it, and soon they had repainted most of the house. "We had a great party at the end, with friends helping us paint and then celebrating with us—it was great and now we have friends over more often," the wife said.

But repeatedly consumers showed us how difficult it is getting help with color selection, or finding a helpful contractor, or going through the arduous DIY process. Even for those who love redecorating with color, the obstacles are substantial.

And many other consumers are not fully aware of how rewarding the emotional and social experiences are that can result from a repainting project. One typical woman showed us how every wall in her home was white or off white; she insisted she wanted nothing else. Yet, when we asked her if she ever liked the home of some friend who repainted with colors, she changed, talking about how much she loved and admired one friend's choice of colors; asked why she didn't try the same thing, she described her fear of choosing a wrong color and looking silly.

The consumer holds the key to a highly underdeveloped market. She is capable of much more involved, enthusiastic participation in painting as part of home redecorating. So, she could spend far more—directly and indirectly. She just needs a good deal more help and encouragement.

But the industry does not fully address this consumer, even if, as some executives point out, the industry is more focused than ever on the female consumer. The industry is still distracted, first, by the contractor—an important intermediary, but not the real end-user. The industry also continues to be oriented to the male consumer more than the female. Yet, it is she, not he, who wants to redecorate the home. In net, the industry still offers her cans of chemicals, not great home-decorating experiences.

Consumers consistently find poor help available in Home Centers or other big box store—if they are even dreaming of painting with color. Staff who can say little

more than, "This is what we have lady. Which do you want?" And look at the alternative—paint stores—through the eyes of one heavy-using female consumer:

"They're paint stores, you know? They're generally not geared to the housewife or the woman who usually selects the paint. They're really geared more to the painter. They're just so totally utilitarian with those metal cabinets, you know, paint brushes stacked here and there...I mean, if they did a little boutique salon like thing, they could get ladies to stay in there much longer. They've got painters hanging out in there longer, spilling coffee...Seriously, there's nowhere to sit or put your samples, or even your purse. Put in some comfortable seating, a worktable would be nice." When we asked her about the expert staff?, she added, "Well, you know, they're guys and they always know more than you do..."

Reinforcing this inadequate focus on consumers' resulting experiences is a self-fulfilling belief in the primacy of price. This focus seems like tough minded realism, and does correspond to the reality of market behavior today. But it actually reflects a lack of innovative value delivery—not the real value to consumers of redecorating their homes.

Due to this misunderstanding, the industry continues with low investment in product and other innovation, limited real study of consumer behavior, and little testing for consumer reaction to new, innovative stimuli.

WHAT TO DO

Companies interested in dramatic new growth could and should start with a deep exploration of the behavior and attitudes of the end-user/primary entity, especially the female consumer, with an eye to understanding how much greater usage could be. This does not mean conventional research asking consumers what they want in paint. It means interview them in depth, preferably in their homes; study what they do, and don't do; analyze why, and creatively infer insights on how to change their behavior.

Look, observe, interview, and analyze: what's missing in today's experiences for these end-users? Explore non-users and low users. Ask why? What (great) experiences do they not get (whether or not they have a clue what they're missing)? But also explore the heavy-users - including ones who converted from non/low usage to high-usage. What are the best resulting experiences for them, including emotionally/socially most powerful ones? Could these be valuable to the low/non-user? How do heavy users overcome the trade-offs? Are non/low users unaware of these most attractive experiences possible from repainting their homes? If they were more aware, could this influence them?

Translate the insights thus gained into new strategies - starting with formulating new value propositions that could change consumer attitudes and then behaviors, and convert this change into major new consumption and spending. Then redesign and integrate your business



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around the effective, profitable delivery of these new market-growth value propositions.

Include contractors and the retail environment as important supporting elements, but not as the primary customer entities. The question is not: "will our contractors and independent retailers like this strategy?" It should be: "how can we bring them on board? How can you influence and even redesign how the whole chain and all elements can help deliver a new, growth-oriented value proposition? Then, aggressively test, refine, research and expand what works. **CW**

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