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ANA President Bob Liodice explains why CMOs need to rise to the stature of a C-suite player in his latest column.

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CMO STRATEGY

Edited by Jennifer Rooney, jrooney@adage.com

So what do you think?

Have you experienced the downside of rapid company growth–and if so, what did you do about it? What else do CMOs need to be mindful of when brand value is at stake in expanding companies? Share your perspective. GO TO ADAGE.COM/CMOSTRATEGY

THE HIGH PRICE OF RAPID GROWTH

MUCH IS AT STAKE: Expansion is great—but if brand value suffers, CMOs must be the ones to hit the brakes

By ERIK SHERMAN

INTERNET-BASED auto-insurance dealer Esurance has been on a growth roll: 40% from 2005 to 2006 and 70% each of the three previous years. Credit smart marketing, mixing online and smart TV spots with a stylized cartoon character—Erin Esurance, they call her.

And this year? The company is deliberately slowing down.

"We scaled back our growth plans for operational reasons," said Chief Marketing Officer John Swigart. "You can't hire people fast enough; you can't train people fast enough. Simple things like real-estate licenses and leases, getting space for everybody. We don't believe we could have [continued] without putting substantial strain on the company and challenging the offering of service to the customers."

Killer brand is great. Killer brand and hot growth are better. But growth can outpace a company's ability to maintain the experience consumers expect from a company or product. Just this year, Toyota has had recall problems when increased production outpaced quality control. Starbucks was embarrassed by an internal memo in which its founder and chairman worried about the company losing its soul from the efficiency necessities of its 13,000 locations. What happens when manufacturing systems for 10,000 units a month won't handle a million, or the talent pool that provides employees for 2,000 locations cannot sustain 10 times that number?

Sometimes operations, strategy and marketing go head-to-head with conflicting drives and requirements. And when efficient manufacturing, timely delivery, reproducible customer experience and recruitment take strategic precedence, you might say goodbye to that coveted marketing identity. Suddenly the experience consumers expect isn't there any more—and neither are they. And yet, if a company is to expand the way many investors demand, things will have to change. The difficulty for CMOs is preventing brand equity from changing too.

"For any company hitting critical mass, this is an age-old dilemma," said Kevin O'Donnell, senior partner at branding consultancy Prophet. "It's the inherent need to drive operational performance vs.

Growing pains

While some corporate brands take hits, others master the art of graceful expansion

FAIL | **SCALE**

LAURA RIES, consultant, Ries & Ries

SATURN

It was enormously successful. What happened? Its customers got older, earned more money, had children, wanted a different kind of car. Instead of staying true to its focus, Saturn created more cars to sell. Today it has a full line of cars and is doing miserably.

TOYOTA

Lexus is the classic example of how to launch a separate brand in a separate category to expand business. Toyota created Lexus for high end and Scion for the kids because Toyota wasn't "cool" enough.

PETER ROGOVIN, managing partner, Next Level SMG

SEARS

Despite a soaring stock price brought about mainly by cost cutting and scale, its brands (with exception of Craftsman) have withered. Sears remains differentiated–where else can I buy tires, tools, jewelry and suits?–but less relevant because it stands for just variety.

JC PENNEY

JC Penney has really mastered the conversion. It could have just as easily lost the battle for Middle America if it was not attuned to the needs and tastes of its strategic-value consumer.

KEVIN O'DONNELL, senior partner, Prophet

STARBUCKS

Sometimes companies get off track because they lose the connection between what they are selling and what's being bought. But if you have to continuously evolve your brand and relationship with your customer, it's silly to assume that you're always going to get it right.

MCDONALD'S

It was on a tear opening new locations and then ran out of room. Its restaurants looked kind of old and it offered extremely unhealthful food. Now almost half the stores are open 24 hours and its product line is far more extensive. It's customer-centric.

DAVID BECKER, president, Philippe Becker Design

GUCCI

In the 1980s and 1990s, it expanded too quickly and diluted the power of the brand, nearly becoming a parody of its former self. It has since started to recover–but the crawl back to legitimacy is taking far longer than the fall.

COACH

Coach has managed to reinvent itself in record time, boosting sales and attracting new customers without diminishing or watering down the perception of the core brand.

the need to continuously build and develop long-term asset value, which is essentially brand." Taking the shortest route to increased sales and market share can put long-term brand health into direct conflict with short-term mammon.

The potential conflict is not new, but this is a time when investors and corporate management put an unprecedented premium on expansion, and online communication makes it easier than ever for dissatisfied customers to trash your offerings. Never before have growth and brand clashed so hard—with the CMO in between.

Andreas Stihl AG, inventor of the chain saw, has since 1926 sold through authorized dealers that offered support and service. But the world has changed.

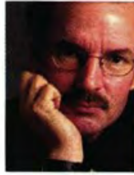
"You would have to be deaf, dumb and blind not to see what's going on every weekend when you drive by a Home Depot or a Lowe's," said Ken Waldron, national marketing manager of Stihl Inc., the company's U.S. division. But the company has continued business as usual. "Some folks would look at Stihl and say, 'What's wrong with you? Don't you understand what you need to do?'"

Management did. "Chasing pure volume will ultimately come with a price," Mr. Waldron said. The extra expense in hiring and equipment to handle the volume would force the company into continuing that business. "Sooner or later, pricing pressures [would] come ... to bring prices down. We believe you end up doing that through compromising quality."

Big retailers also wouldn't provide the support and service the company's business model requires, thus undercutting the customer experience and the existing dealer chain. "The dealer is as critical to our brand experience as a three-ring piston," said Mr. Waldron. So Stihl ran an ad campaign explaining that consumers couldn't buy its products at home centers, only at dealers who would do all assembly and could provide service.

Peter Rogovin, managing partner of management-consulting firm Next Level SMG, calls this the Wal-Mart effect. "For a little while, [Snapper was] selling in Wal-Mart and the like and competing against lawnmowers that were $100," he said. The company eventually found the experience undercut brand and pricing.

Companies rarely discuss such problems. "For example, John Deere has had many complaints about service about its stripped-down line that is in Home Depot stores," said Kelly O'Keefe, executive education director of the Virginia Commonwealth University Adcenter. "Clearly, they compromised quality to reach a broader audience, but they would say they were just expanding to a new market with a new line. I don't know of any examples where the company would agree that they cut quality to save cost." John Deere did not respond to requests for an interview.



KEN WALDRON, NATIONAL MARKETING MANAGER, STIHL INC.

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JOHN SWIGART, CMO, ESURANCE

"We don't believe we could have [continued] without putting substantial strain on the company and challenging the offerings of service."

Stihl made a choice between expanding in size and maintaining its brand as it has been. At times, the trick is to expand but in a controlled fashion. Systems Paving is a $75 million home-improvement business that installs interlocking paving stones for homeowners. The company has grown an average of 20% annually, and it could grow by as much as 40% this year. Marketing Manager Debbie Katz said that a system—encompassing initial training and regular classes for all personnel—keeps everything on the rails. Systems Paving has postponed opening new locations until it could find the right people. "We've sometimes started a location, realized that we had the wrong person there, put the right person in, and all of a sudden you get different results," Ms. Katz said.

NOT SO OBVIOUS

But the smart business decisions aren't always so obvious. Look at Howard Schultz's memo about the brand danger facing Starbucks: He was afraid Starbucks would become a commodity-goods company.

Although Starbucks did not respond to interview requests, it's easy to see the other side of the story. The chain has gone from a half-dozen stores to over 13,000, and it wants to reach 40,000 locations. The old way of operating would mean training upward of a half a million people to make espresso. Open coffee bins mean shorter bean shelf life and greater chance for contamination.

No company can completely get away from the operational and brand trade-offs. "The more you expand who you are and who you're serving and what you are serving, the harder it is to manage and make any decision," said Laura Ries of brand consultancy Ries & Ries. "You improve quality, and the wait goes up. You improve speed, and service quality goes down."

That quality of service is vital to brand, according to Russell Jones, a retail consultant with management consultancy AlixPartners. Yet companies often separate operations and marketing. CMOs may not hear of changes in products, production methods and distribution unless something goes wrong. Then consumers find out the hard way. "[Companies] make a change, and the consumer says, 'What happened?'" Mr. Jones said. If the alteration is drastic enough, a brand can plow nose first into the ground before anyone realizes that something has happened.

Such businesses don't realize that efficiency alone can't drive success. "Companies are wildly successful when they understand customers well and they operate at average performance," Mr. Jones said. If they forget that brand connection to customers, efficiency only delays the collision.

"The mistake some companies make is to pay lip service to the brand or the experience," said Andrew Rohm, assistant professor of marketing at Northeastern University. It's also easy to lose track of the experience that consumers expect—and even to assume it to be one thing when it is actually another.

Erich Joachimsthaler, CEO of marketing consultancy Vivaldi Partners, thinks that for all the good intentions, Mr. Schultz of Starbucks may be concentrating on the wrong issue: "What Starbucks is all about is the third place—the coffee house as an extended part of the home." It's not the coffee aroma, he said, but having a familiar spot in which to do business or even hang out. If Mr. Joachimsthaler is right, then focusing on atmosphere could actually send the company down the wrong path. Bigger concerns might be stores with too little room to allow people to loiter, or charges for Wi-Fi access when many competing businesses offer the service for free. "I don't go home and first have to sign up with a $5 charge for Wi-Fi for the day," Mr. Joachimsthaler said.

Ironically, sometimes maintaining brand equity will require changes in underlying corporate concepts, because economies of scale alone won't work. Steen Kanter, now CEO of management consulting firm Kanter International, was president of Ikea U.S. during the furniture company's massive expansion in the early 1990s.

"There were probably no land mines we could step on that we didn't step on," he said. Because of the company's initial success, management was sure it knew what the consumer wanted. But the company wasn't always right. For example, the retailer focused on marketing flat-pack furniture using the same campaigns that succeeded in Europe as a form of advertising efficiency. "We didn't think of the fact that American cars were a lot larger [and could hold assembled furniture]," he said. And that Americans wanted to buy a chair, not a box.

REMEMBER THE TURKEY

In-store restaurants—a big feature of the sales experience at Ikea—used the same small glasses they had always used, saving money, because no one realized that, unlike their European counterparts, Americans like having ice in their drinks. Offering the same-size cabinets as in Europe wasn't popular: "Do you know why American kitchen cabinets are bigger in the United States than in Europe?" he asked. "Because of the stove. Why is the American stove bigger than the European stove? The [Thanksgiving] turkey." European beds were smaller and wouldn't fit into existing American frames, so consumers here assumed that Ikea wanted to force the sales of new mattresses and box springs. Simply scaling up didn't work.

The company wanted to keep the brand, but learned that meant finding new ways to get to the same goals. Styling remained, but all the practical issues had to change. "You've got to understand how the consumer thinks and adjust to them," Mr. Kanter said. "It took Ikea years. But when we finally got it, we got it." And it took hard work from a matrix organization where operational and marketing staffs had to interact.

But the biggest struggle is against the dollar signs dancing before the eyes of management. American business assumes that more is better. And even more? Better still. Here's where the internal sales skills must be out in force, because you may be the single advocate for the customer experience. Keeping the balance between growth and brand is tough but vital. Make a mistake, and you may wish there was insurance for the wreck your business could see.

ERIK SHERMAN...

is an independent journalist based in Massachusetts whose work has appeared in Advertising Age's Point, as well as in The New York Times Magazine, The Financial Times, Fortune, Inc., and Newsweek.

Reader response

RE: "INTEGRITY IN MARKETING IS NOT OPTIONAL," BY LYNN UPSHAW, JULY 20:

It is just such a shame that any marketers, or their communications agencies, feel such pressure to achieve short-term goals that they will even consider sacrificing their integrity by trying to mislead their customers and prospects. That strategy never works. At one time the industry did a better job of policing itself—associations did it and so did the media. That doesn't seem to be as much the case today. Unfortunately, consumers often lump all "advertising" together, so when one marketer stretches the truth, all marketers suffer the consequences with a loss of credibility. So marketers have to work harder to establish a trusting relationship between consumers and their brands.

Jerry Gibbons
A-Team Advisors, San Francisco

RE: "WHY YOUR MISSION MATTERS," BY ABIGAIL POSNER, JULY 30:

You can find a lot of smart, talented, successful people who are able to take their businesses only so far because of the limitations of their leadership and vision. Your organization's ability to grow is directly tied to your ability and desire to grow personally as a leader. That is the Law of the Lid: If you want to reach new level of effectiveness in your job, raise your lid. If you want to grow your company, grow your lid. If you want to increase shareholder value, increase your lid.

Martin Calle
Chairman,
Calle & Co., Villa Park, Calif.

RE: "HOW TO MARKET TO ASIA'S MASSES," BY MICHELLE KRISTULA-GREEN, AUG. 6:

As an Asian myself, I 100% agree with the author's comment that marketers need to meet masses'—the real masses'—needs. The real masses in Asia are not those so-called influential consumers, but rather those who account for 70% of the population. Many local brands successfully target this neglected market and make their brands profitable among them. I left China in 2004 and now live in New York. So I completely agree: Don't be surprised by the $2,000 the people earn but how they spend the money. That's a very wise comment.

Anonymous
Salt Lake City