honeybuzz™

Creating commercial growth

June - How To Tell When Your Business Is In Its Final Hour.

In the last 15 years, more companies and brands have diced with death than ever before. If recession, technology and customer power are just some of the reasons for this, then how do you know when your business is in its final hour?

These were some of the Honey Buzz topics we discussed this month at Soho House. Sector experts and senior industry figures engaged in lively and thought-provoking debate, exploring the reasons why some supposedly enduring megaliths fall to their death while others use their near-death experience to find a way back.

Do you remember when there was a Blockbuster on every corner? At the height of the '90s they were opening a store every 24 hours. They opened 1,000 stores in the UK in one year. Some say that Netflix was the reason for their demise, or that they couldn't keep up with technology – but they actually had the chance to buy Netflix.

The truth was that they didn't understand how to make their customers happy. So why do some companies like Blockbuster and Woolworths fall into the abyss, while others like Lego, Mini and Burberry bounce back with renewed success? And can a company reinvent itself without having a near-death experience?

> "Most companies don't die from starvation, they die from indigestion."
>
> ***Jorgen Vig Knudstorp***
> *CEO of Lego*

Our Guest Speaker:

Owain Cleary 'Head of Innovation' at Abundance

Owain Cleary specialises in driving customer-inspired change for clients such as Experian, King Games, Virgin Media, EDF Energy and Ernst & Young. He developed the first online portal for commercial radio in the UK, the first online postage application in the UK for Royal Mail, the first click and collect application in the UK for Royal Mail, and the first transmedia experience nominated for a BAFTA for Channel 4. He is also the inventor of Energy Canvas, a proprietary tool that helps companies plan their energy strategy.

Join the #honeybuzztalks on Twitter @Honeycreative.

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The Buzz Evening Highlights …

Your customers are avenues to the truth.

"The big company has a distance from consumers. There are so many layers. They are driven by huge bureaucracies, rather than what people want."

Nick Viner, Consultant at HD Media Consultants

In 2004, Jorgen Vig Knudstorp took over as CEO of Lego. He was faced with sales that had plummeted 29% in the past year, and a staggering amount of debt. People wrote him letters asking him to save Lego because they loved it so much. Today, employees at Lego are measured on customer satisfaction – and never on sales.

Brands need to tell their customers that they fulfill a vital role. They are the avenues to truth. CEOs need every avenue of truth that they can find, and innovation needs to be based around satisfying customers. Jorgen listened to those letters, and now one of their most important goals is to make sure customers return for more fun.

"If an entrepreneur or owner doesn't understand his brand essence, or can't communicate it, then they will be pushed around by retailers."

Lulu Laidlaw-Smith, Commercial Partner at Honey Creative

There needs to be a genuine need for innovation.

"Innovation is often a management kneejerk to competitors or to the changing environment around them. There needs to be a genuine need for innovation and it needs to have a sustainable engine."

Tony Parente, Business Director at Coca Cola

Innovation is often a reaction to competitors, external changes, or requests from retailers. But do others really know what your customer needs? Innovation works best the closer you keep it to your business. Tesco Clubcard started as a transactional mechanism, and they later tweaked it be customer service focused.

Some brands believe that pure innovation is not based on listening to the consumer. For example, challenger brands are not customer-centric, they are idea-centric. They create something and then tune it to consumer needs. This is what Lego did when they developed the building block customers didn't ask them to innovate.

"The danger is when businesses see competitors making money in a sector so they decide to dabble in it too. Before they know it, they have drifted from their DNA."

Chris Ward, Co-Founder and MD of Abundance

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The key is to harness technology for customer experience.

> When people ask why companies go out of business, people will usually say technology. Actually, it's the inability to keep up with the change of consumers.

Owain Cleary, Head of Innovation at Abundance

Many people say that Netflix beat Blockbuster because of technology. But Netflix was actually started because the founder was fined a late fee from Blockbuster and thought that he could build a better business based on customer service. The insight was born out of a real customer problem, which resulted in the solution.

In 2005, Blockbuster was valued at £5 billion. Five years later they were £1 billion in debt. At the time, they had similar technology to Netflix, but Netflix understood how to harness it to the customer's advantage.

The problem for Blockbuster wasn't technology. It was that they didn't understand how to make their customers happy.

> We all see things coming from a distance. Blockbuster could have changed their business model and become Netflix. I don't think it was failure to adapt to changing technology.

Laura Whincup, CEO of Fords Packaging Systems

You should aim to be the best, not the biggest.

> Waitrose are preoccupied with chasing market share and fighting Lidl and Aldi. Why not focus instead on other reasons they are losing customers?

John Wringe, Owner and Founder of The Marketects

Waitrose are chasing market share and trying to compete with Aldi and Lidl, but will cutting cost at the expense of quality lose them existing customers? In their desire to be bigger, Waitrose introduced the essentials range. Some believe this was a mistake. It hasn't increased their market share, but does potentially decrease spend.

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You should aim to be the best, not the biggest.

At the peak of Lego's expansion, they were branching into clothing, theme parks, and were aggressively innovating their range. They had 10,500 individual components and the chef figurine came with 18 different expressions. Now they task their designers to come up with ideas using limited components. Their ambition is to be the best, not the biggest.

Another example would be McDonald's, thriving on a limited core range and bringing out limited editions variations running for short periods of time for variation and promotions.

> "Range review is critical to minimise wastage within your portfolio. Regional rationalisation helps towards profitability at a local level in turn minimising stock holding at a national level."

Lulu Laidlaw-Smith, Commercial Partner at Honey Creative

Are pound stores the best innovators on the high street?

> "Poundland are so spot on the money in applying innovation to their business. Whilst the core DNA is everything for a pound, they continually introduce new service innovations which keeps the core concept fresh and exciting and are fleet a foot to change and evolve to the dynamic needs of the marketplace."

Chris Ward, Co-Founder and MD of Abundance

Woolworths were the original pound shop. They came to the UK in 1996 and their differentiator was that everything they sold was under sixpence. But by the time they went out of business they had lost sight of their brand essence and where they came from, and their stock was bought up by a new generation of pound shops.

Woolworths were beaten by businesses that reinvented the concept for the recession-era.

These new innovators looked at the overall product range, assessed their competition, constructed multiple deals, and borrowed gimmicks from other retail sectors. When the recession came along they bought failing retailers because the environment allowed them to.

> "We have to reach a point where we stop calling them soft discounters. Some of them are still in double-digit growth. They are retailers in their own right."

Tony Parente, Business Director at Coca Cola

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Profit always influences how companies read the tea leaves.

> "Sometimes companies can read the tea leaves incorrectly. Smaller companies read it one way, and a bigger company reads it another way."

Alastair Jessel, Owner and MD of Taywell Ice Creams

The food and drinks sector is still fighting the war on sugar. The price of sugar has dropped over the past two years and sales went down 14% last year and 30% in the last calendar month. Is this because people are consuming less sugar, because of negative media attention, or because companies are changing their recipes? It depends who you ask…

Coca Cola are successfully reacting to this change, but the Italian drinks industry is still in denial over sugar. They talk about sugar as a noble ingredient in a way that is reminiscent of tobacco companies just before government intervention.

Businesses look at the statistics and they read what they want from the data and profit always influences what they see.

> "How many of the top 100 companies on the London Stock Exchange are brands that were there 50 years ago in exactly the same guise? The answer is zero."

John Wringe, Owner and Founder of The Marketects

If you can't innovate from within, then innovate outside your business.

> "The MD of Tetley couldn't launch a premium tea so, with the backing of Tetley, he left the company to start Tea Pigs."

Lulu Laidlaw-Smith, Commercial Partner at Honey Creative

It's not uncommon for founders of dying companies or even companies that have grown too big to innovate effectively to leave with their knowledge and experience to start again. The MD of Tetley couldn't innovate from within, so he left to set up Tea Pigs. More and more big businesses are adopting similar survival strategies.

Unilever has started an entity called Unilever Foundry to invest in tech-start ups. They are backing around 60 companies at the moment and have an annual budget of £100m. That's less than Unilever spend in petty cash for their tea. Others are doing the same, but the key is to leave smaller brands to operate with autonomy like Unilever have done with Ben & Jerry's, or like Coca Cola have done with Innocent.

> "Prior to innovation qualify your brand essence, and by that I mean identify what your company's DNA really is. Once the foundation is built, only then can you plan to achieve your brand vision and in doing so, plan you innovation. And that's what our team at Honey can do for you!"

Lulu Laidlaw-Smith, Commercial Partner at Honey Creative

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How do you know if your business is in its final hour?

> "Death isn't a heart attack for companies. It happens over a period of time."

Owain Cleary, Head of Innovation at Abundance

What do you think? Join the discussion and tell us your thoughts on the characteristics of brands that brush with a near-death experience.

How do you know when your business is slowly dying? Do you take responsibility for this failing or blame it on external factors? Brands in their final hour tend to pay lip service to customers, increase in complexity, develop an infatuation with expansion, and have a slow and linear process of innovation that is going nowhere.

But brands that come back from the brink tend to rediscover their core identity, believe in less is more, treat their community as one of their biggest assets, value customers as avenues to the truth, creatively flourish within constraints, place emphasis on creating meaningful experiences for customers, and link incentives to customer satisfaction.

Honey Buzz, our round table talks - is a collaboration of marketers and business leaders to share learnings on how to create commercial growth.

Join us for an evening of lively and thought-provoking debate to drive the creation of commercial growth. Held at Soho House, you'll be sitting alongside other sector experts and senior industry figures bringing their own unique and thought-provoking insights and experience.

Let the buzz begin...

Interested in speaking at Honey Buzz? We're always on the look out for guest speakers with a different angle on brand and communications. If you're interested, please do get in touch.

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