GAMECHANGERS

How Small Companies are Winning the Consumer Products Battle

By Larry Popelka

When I graduated from B-School in the early 1980s and I decided to go into marketing, it was obvious that the road to success was as a Brand Manager at one of the big Consumer Packaged Goods companies. The big CPGs were viewed as the geniuses of the marketing world. During the 1960s and 1970s they had launched hit after hit – great new brands with memorable advertising that became a part of our pop culture. Who can forget Tony the Tiger and Kellogg's "Grrrrreat" Frosted Flakes? Or Mr. Whipple reminding us to "Please don't squeeze the Charmin"? Or the Keebler Elves? Or Miller Lite – "Tastes Great and Less Filling." All exciting new brands with breakthrough marketing masterminded by Brand Managers at the big CPGs.

Now here's a trivia question: Name one creative new brand launch by any of the big CPGs in the past 20 years. Stumped? There have been plenty of big new brands acquired by the big CPGs – and at hefty prices. Coke bought Odwalla. P&G bought Iams. Kellogg bought Kashi. Pepsi bought SoBe. Unilever bought Ben & Jerry's. And Colgate bought Tom's of Maine. But how about successful new brands from the big CPGs themselves? Tough to find any.

Now my friends in Brand Management will be quick to point out that it has gotten a lot tougher to launch a new brand these days, with media costs up, increased advertising clutter and intense competition. But the number of big new successful brands hitting the market is actually on the rise. Just look at any of the Ad Age or Adweek rankings of the top brands. There are a lot of newcomers. Starbucks, Yahoo, Wal-Mart and eBay, just to name a few. And even closer to home, how about Red Bull, OxiClean, Power Bar or Purell – all big new brands, none started by the big CPGs.

In fact, if you look at category after category, you'll see an interesting new trend today in packaged goods – small companies or even start-ups without anywhere near the marketing budgets or multitudes of MBAs are sticking it to the big CPGs. Nowhere is this more apparent than in beverages. In the 1970s Anheuser Busch and Miller Brewing had a virtual lock on the beer market. Miller, which was part of a larger CPG conglomerate, had brought in Brand marketers and was leading innovation with its launch of Miller Lite and the "Tastes Great, Less Filling" campaign. But look at the landscape today. A-B is barely holding on through sheer size and spending power; Miller is a shell of its former self, and a barrage of small company "micro-brewers" have gobbled up share.

There are dozens of other examples, too. Twenty-five years ago Campbell's Soup had an 80+% share of the soup market. Then came Top Ramen, then Maruchan Ramen, then Nissin Cup O' Noodles and a variety of other dry and refrigerated soups. Or how about tea? Unilever's Lipton and Nestle's Nestea are shells of their former selves, as we now have Twinings, Bigelow, Celestial Seasonings, Tazo and a host of other upstarts stealing share.

Right next door in coffee 20 years ago you had P&G (Folgers) and General Foods (Maxwell House) virtually controlling the at home and away from home coffee markets. The two companies spent hundreds of millions of dollars a year researching coffee drinkers and advertising to them. So how was it that they missed the whole premium/ Starbucks trend?

And while we're on beverages, how about Coke and Pepsi? In 1980 they virtually owned the non-alcoholic bottled beverage market. Not only did they have hundreds of millions in adverting, but they had trucks going to each and every store to personally deliver and sell product, giving them virtual control of the shelves. So how is it that Snapple, Odwalla, Arizona Ice Tea, Jones Soda, SoBe, Fuze, Vitamin Water, Red Bull and every other trendy new drink in between has been cutting into their shelf space and market share? OK, you're never going to come up with every hip new idea on your own. But how about just one?

Even in old, "boring" categories, there is change afoot. Two of the fastest growing cooking staples are King Arthur Flour and Hodgson Mill Flour from tiny companies that are besting Pillsbury and Gold Medal. In cleaning products, OxyClean and Simple Green have taken hold. And in salad dressing Newman's Own, Ken's Steakhouse, Brianna's, Annie's Naturals and a host of other brands from small companies are gaining share on Kraft.

All of these brands are from small companies – many with only a handful of employees and less than a million dollars in the bank. So why aren't the big CPGs crushing them with their hundreds of millions of dollars of marketing spending and their armies of brand managers? In my opinion, it's because they can't – because the big CPGs' Brand Management business model is dated and flawed.

The Brand Management model was conceived in the 1940s to address a rapidly emerging mass market following World War II. Network Television was just becoming popular, and everyone was watching. The expanding industrial revolution was making all kinds of goods affordable. And Madison Avenue was an instant hit-maker. To have a successful new brand, all you needed was a clever ad telling everyone on network TV about your product. The big CPGs developed Brand Management teams from the top talent available and trained them in the art of mass marketing. And the model worked – for 3 decades. During the 1950s, 1960s and 1970s dozens of successful new CPG brands were launched, many of the products we still use today.

But all good things must come to an end, and sometimes when they end gradually as this has, it's hard to realize they're really ending – especially when they've become a way of life for generations of marketers. Some major forces have changed the field of play.

First, there is no mass market anymore. Consumers have developed a wide diversity of interests, desires and tastes and products have become available to satisfy those specialized needs. Many of the new products that have targeted these specific needs have begun to wipe out the old mass-market brands. Just look at sporting goods – Wilson and Spalding (two brand management companies) used to be the top names in sporting goods for all sports. Today there are "expert brands" for each sport, like Trek, Speedo and Volcom.

Going hand in hand with this, it has gotten much more difficult and expensive to communicate with the masses, but much easier to communicate with narrow consumer targets. Look at all of the cable channels, magazines, clubs, etc., devoted to specific interests. Meanwhile network ratings keep falling, and the cost of network advertising keeps growing. To buy a single network primetime rating point today costs about 20 times what it did in 1975. In addition, people are paying less attention to ads, there are more commercials per hour and more and more people have TIVOs or other devices to zap out commercials.

Our Brand Management model isn't capable of adapting to either of these factors well. Most big CPGs have tried to get their marketers to address these changes, but at the end of the day, there are just too many aspects of the old Brand Management structure and culture that run counter to the needs of the new fragmented marketplace to make it workable.

The successful small companies are by no means marketing geniuses. But because they are not saddled with an existing model, they are able to organize their marketing efforts in whatever fashion makes the most sense. As a result, the small companies are better able to operate within this new environment than the large, established CPGs – and as a result, they are winning in the market.

It's not clear whether any of the big CPGs realize this. None have acknowledged it. In many ways it is a problem that is easy to sweep under the carpet. All of the big CPGs are essentially suffering from slow U.S. growth, and many of these new small company brands are cropping up outside of the CPGs' narrowly defined categories or in channels that are "untracked" by AC Nielsen and Information Resources, the two major reporting services. Campbell's, for example, can still report hefty market shares, because it competes in a category called "wet soup." Ramen is a different category. A large portion of Orange-Glo's OxiClean was sold direct to consumers through infomercials and "alternative" retailers like Bed, Bath and Beyond that don't show up on anyone's market share report.

In addition, many of the big CPGs have focused on international growth – expanding sales rapidly in developing countries. In the developing world, where consumers are just beginning to be able to afford U.S. products and where they are just starting to gain access to television and advertising, the big CPGs' hits from the 1960s and 1970s are doing great – like laundry detergent and dish soap. The Brand Management model still works great there. But take a look at the U.S. or North America growth rates of any of the big CPGs over the past 10 years and you'll see a different story. It has been a struggle for them to get any U.S. growth – other than through pricing and acquisitions. Twenty years ago P&G only generated 40% of its revenue from outside North America. Today it is 52%. Colgate Palmolive used to have a thriving U.S. business. Today - other than toothpaste - they have virtually given up on the U.S. market. Wall Street likes these companies because the international markets are more than offsetting the softness in the U.S. But at some point – when the rest of the world begins to catch up to where the U.S. is today in media and product choice – these companies will all have the same problems on a global level.

And the U.S. situation could worsen. Many of the big CPG brands are time bombs that could quickly implode. The dirty little secret among the big CPGs today is that their core U.S. businesses are growing old. Most products sold by the big CPGs in the U.S. have what marketers refer to as "aging franchises." Simply put, this means their consumers are getting old. Young consumers are disproportionately buying products made by smaller, more innovative companies. Let's go back to our beer example. Budweiser still has a great market share among people in their 50s and 60s. Where they've lost ground is with people in their 20s, 30s and 40s, where Microbrews are strong. In the coming years as Bud's core users get too old to drink or die off, then they'll start to take some real hits.

And Anheuser Busch is not the only one in trouble. Just go to a Whole Foods or a Trader Joe's – two retail chains that disproportionately appeal to young people. You will be hard-pressed to find a single product from a big CPG player in one of their stores. Even in chains like Wal-Mart that hate to deal with small vendors because of all of the hassles, more and more products are showing up in the CPG sections from small companies. Why? Wal-Mart needs growth, and if the big CPGs won't provide enough innovation for them, they'll seek it out wherever they can.

Many of the big CPGs have tried to fix this problem by pruning brands from their portfolios. Many have blamed small brands, and begun selling them off. If you are following a mass-market model, the small brands are the first to become least economical, because you can't afford to plow hundreds of millions of dollars into marketing them to overcome all sins. But as the mass market continues to dry up and become more and more expensive, each year these companies will have to prune more and more brands until eventually no brand will be big enough to "fit" their way of doing business. Meanwhile, the small companies picking up these brands are in many cases doing much better with them, even though they don't have anywhere near the same level of resources. Just take a look at what Pinnacle Food Corp. has done with some corporate castoffs, like Vlasic.

So what exactly are the successful small companies doing that the big CPGs are not? I have spent the past several years studying and working with small companies. While there are certainly many small companies that are in just as much trouble as the big guys, there are a number that have become successful. And the successful ones have a number of things in common that are working. In the pages that follow I have identified what I believe to be the most important of these, which I think are essential in their success. They are amazingly simple things that anyone could do if they wanted to. But if you are a big company operating with a Brand Management model, they are probably amazingly difficult changes to implement, because they fly in the face of everything you are doing today.

Small Company Marketing Model Keys to Success

1. Be the Consumer

The managers at successful small companies are in those jobs because they have a passion for the product they sell. They are the leading consumers of their product. They live and die by it. It is part of their life. In their spare time they talk to others about it. They take pride in being the experts in their field – so they will be the first to try any new competitive product. Because they know so much about their products and categories, the people who run these companies are the first to spot product problems or opportunities. They are the most demanding consumers themselves – so they will make certain that their product is the best.

Employees are hired very carefully. The most important qualification is that they must also be heavy users of the product and share the owner's passion for it. When everyone in the organization "gets it" in terms of the product experience, you don't need a lot of research to know you're on the right track. Why has REI replaced Coleman, which was once the top brand in camping? Because the people who work at REI are all passionate about the outdoors. And the company feeds their passion by encouraging them to use the products and become even greater outdoor enthusiasts. And the more they do it, the more they think of ways to make the products better or add new features.

In the Brand Management model, there are a lot of smart people, but they are often completely out of touch with the consumer. People are put into brand positions without any regard for their interests or product knowledge. So to compensate, the large CPGs invest hundreds of millions of dollars in consumer research – focus groups, quantitative studies, diary panels, and even "home visits" to watch consumers using the product. But the fact is no amount of research and brainpower can make up for actually being the target consumer yourself and having a circle of friends with the same interest. It's hard to learn the game as a spectator; you need to play it.

2. Be Unique

Small companies recognize that their product is not going to be all things to all people. In fact, they don't even care if their product or marketing upsets people outside their target. Their products are not only functional, but they have attitude. Take a look at some of the new beverages – Fuze, Odwalla, Red Bull. Unique names – some weird. Unique packages and labels. Quirky images that articulate an attitude. How do they decide to do this stuff? In most cases there are one or two people with a lot of creativity making all of the decisions. There are no layers of management reviewing and approving these things. Just creative people with a vision – creating not just a brand, but a spirit. And the spirit is infectious. At upstart Jones Soda consumers are invited to submit their own ideas for flavors and labels – with the best ones making it to the stores. Consumers today want not only products that are functional, but products with a style and attitude that speak to them. Think about how Ben & Jerry's created such a loyal following. Hippie images. Ice Cream with big chunks of stuff mixed in. Weird flavors like Chunky Monkey and Cherry Garcia. Political statements – "Rainforest Crunch." The big companies in ice cream – like Breyers - never got crazy like that, and they were never loved the way Ben & Jerry's fans love Ben & Jerry's.

Do small companies taking these bold positions always make the right decisions? No. In fact they have a lot more failures than the big CPGs. But they manage their failures, by keeping costs and investments low until they're proven.

The big CPG model is designed to cater to a mass market and to avoid failure, but it results in bland, lifeless products. At the big CPGs, every element of a product is meticulously tested – the name, the package, the color, the smell, the taste. Because the tests are quantitative among a broad sample, anything unusual or weird gets weeded out. Products and packages lack character. All of this rigor and testing leads big CPGs to the least offensive products. It is like turning fine pasta with aged Parmesan into Kraft macaroni and cheese. The problem gets further compounded by layers of management who must each review any new idea before it goes into market – leaving us with only the safest of the safe that pass everyone's screen.

3. Pinpoint potential fanatics and make them love you

Small companies don't have budgets to reach the masses, so they have to be highly selective in whom they target. The best targets are people who are most likely to be fanatics about your product. In targeting fanatics, it is important to select a group that is less than 1% of the population. Think about people who are the true wackos, willing to spend hundreds of dollars on your product once they find it. A friend of mine started a business selling "Star Wars" memorabilia. Many people like "Star Wars," but if you can find the true fanatics willing to spend $300 for a working replica of a Luke Skywalker light saber, well, then you've hit nirvana. Think about how much money you could spend delivering your targeted message to each one of these fanatics based on the expected value of a sale. It is a lot - more than enough to build a brand among this group. But it takes a lot of creativity to find them. You're not going to find them through standard demographics. You need to get into their heads and figure out what else they have in common in their lives and where else they are likely to congregate either in person or on a virtual level.

Once you find the fanatics and educate them, most fanatics will spread the word to others – for free – because they love your product so much, and it is an important part of their life. David Sunflower Seeds is now a big brand in the nut category, which Nabisco's Planter's had long dominated. In fact 20 years ago Planter's had virtually written off Sunflower Seeds – too time consuming for the average consumer to eat, and not likely to ever become large. But David has created a strong brand entirely around salted-in-shell sunflower seeds. The key to their success was finding the perfect target – in this case baseball players. During a ballgame, players have all kinds of time on their hands, and sunflower seeds are the perfect snack. They are healthy and also a fun way to kill the time. And because of their size, you never get full – so you can literally eat them throughout an entire 3-hour ballgame. Classic Brand Managers would scoff at such a small target – too much of a niche, can't possibly amount to anything, they'd say. But the fact is, if you find the right target, two things happen: 1) The target buys a heck of a lot more product than you'd ever dream they would. 2) The target expands because of emulators and onlookers who suddenly see the value in your product. In the case of David, virtually every Little League, T-Ball League and Girls' Softball League dugout in America today is littered with David Sunflower Seed shells. You're just not a ballplayer if you don't have a bag of David Sunflower Seeds in your back pocket – they're a standard piece of equipment. But more importantly, now the spectators are eating them, too – moms and dads and even major league fans at the stadium. By finding the right target, David started a trend that became infectious.

Once you find the fanatics, it is important to give them the full story about your product. It's hard to fall in love with someone when all you know is his or her name. Give your core target a complete picture of your product, what it does, why it does it, how it was developed and why it is good. Assuming you have picked the right target and product, you will create a lifetime love affair. Don't worry about your target getting bored or not having time to hear your message. If you have really picked the right target and you have a good product, your target will want to hear everything you've got to say. You can't do this in a 30-second ad – you need to find vehicles like infomercials, booklets, seminars, magazine articles, bloggers, PR events, in-store sampling, web pages etc. that deliver the full message.

One of the reasons why micro-brew beers are so successful is that they often have stories behind their creation, which give them a sense of purpose and personality. You can find these stories on labels, pamphlets, print ads, and websites – wherever there is an opportunity to do this. The hottest new dog food on the market today is not Purina or even P&G-acquired Iams. It is a brand called Nutro – the number one brand at Petco. Why? Nutro has hired dog care experts to man the Petco stores on weekends to help provide advice to dog owners who are serious about their dog's nutrition. Part of that advice includes explaining all of the health benefits of Nutro – so consumers can gain an in-depth understanding of the product and why it is better.

It is important that the message you provide fanatics is not just "buy me, buy me," but that it consists of helpful information. If Nutro is really the nutrition expert, they've got to prove it by providing the right advice in a credible way. If they can't or won't, then they're probably not the experts. Or worse – they're probably just another marketer with a gimmick who is after your money. You see, marketing today is a lot like dating. If you want someone's affection, you don't walk up to them and say, "Pick me." You've got to strike up a conversation that demonstrates to your date that you're the one – because you've got the same interests, you're smart and you're trustworthy. Do that right, then you've got a date. Or sold your product.

At some point, once you've got the fanatics firmly in your camp, you may want to expand your marketing to cover a bigger group. You may also need to shorten the message to increase reach and lower the price to make the product more accessible to a larger group. But as you do this, it is important to stay true to your core consumers, and keep them loving you. If you do, they will be some of your leading salespeople as you expand. Don't water down your product or the edginess of your message to try to broaden the appeal. You will be loved more if you stay true to your core ideals and wait for people to see the value in you.

Traditional Brand Management was created to perform mass marketing. While most companies have increased their focus on targeting specific groups of consumers, their targeting is still fairly broad. A target that encompasses 20-30% of the adult population is still a mass-market target, and it makes it difficult to develop products or a message that is powerful enough to move anyone. Big companies also don't like long, detailed messages, in part because their products usually don't have personalities rich enough to talk about for more than 30 seconds. They also don't like them because it means operating in marketing mediums that are foreign to them. In addition, big companies also have a problem being genuine with their consumers, because the products are not created out of a vision but through reams of research. They end up looking like the blind date that was "coached" to say all of the right things rather than saying them from the heart.

4. Find creative ways to get your message out

In small companies, marketing managers don't have a lot of resources to get their message out, so they are forced to get creative. Every dollar spent needs to generate new business quickly and at an efficient rate or the company will soon be out of business. So small companies are very selective. The good companies try many things, but they'll only commit real money once they are certain they have a winning approach. A great example is NetFlix – the Internet start-up that brought Blockbuster to its knees. During its early years, NetFlix never ran a TV ad. They were never on the radio. The bulk of their marketing campaign consisted of post cards for "10 Free DVD Rentals" that were inserted into boxes of new DVD players, as DVD player sales were just starting to take off. Talk about efficiently reaching your target! To get their 10 free DVDs, people had to go to the NetFlix website, where they learned all about the NetFlix program. And once they did this, most people were hooked.

The world today has gotten so complex and cluttered that if you do not find a creative, sure-fire way to break through, you might as well not spend your money. In fact, what the big CPGs are missing is that it is not even about the money anymore. Blockbuster spent millions in advertising through traditional mediums, and they were defeated by a 32-cent postcard.

The majority of the marketing dollars in the big CPGs is still spent on traditional 30- or 15-second TV ads. For most products this is not the best marketing vehicle. But for Brand Managers, it is the most comfortable one. With traditional TV advertising you know exactly what you're buying – Reach, Frequency, GRPs. The so-called "alternate vehicles" often don't have metrics, so it's hard to explain to others how you spent your money. They also often take longer to work, which is problematic for the typical Brand Manager on a fast track. Next, there is the issue of knowledge. Most big CPGs train their people rigorously on the ins and outs of TV advertising – but it's hard to provide training on unique approaches, like putting postcards in DVD players. And finally, there's the ad agency. A key part of the big CPG model is the big, full-service ad agency. While most agencies today have – out of necessity – created departments specializing in "alternate media," most agencies still make their living doing 30-second ads. And even though they may bring in "alternate media" specialists, the reality is they're not going to recommend you spend all your money on postcards in DVD players because they know there's no way you're ever going to pay them a fat commission to help with something as simple as that.

Aside from all of this, the biggest challenge in finding the right vehicle is creativity and experimentation. For most products the winning marketing vehicle is not at all obvious. It takes a lot of brainstorming and trial and error to find the next "killer app." for your brand. For brand managers this can be a daunting task with no easy solution. Since most big CPG companies give Brand Managers millions of dollars to spend each year, there is never enough pressure or motivation to put in the hard work to come up with truly impactful "alternate media." I believe the only way for senior managers to drive this behavior in their marketing teams is to cut them off. Don't let them spend another cent until they can find a targeted approach to getting their message out that really works. You'll be surprised at how much money you save – and what better thinking you get when you move to a zero-based budgeting approach in marketing.

5. Don't just advertise – sell

If you've found the fanatics for your brand, delivered them the right in-depth message and made them love you, then why not go ahead and close the sale right then and there? In these days of e-commerce, every product should have a website where you can buy that product, and every advertisement should have a web-address and / or 800-number leading to a direct sale site. Whether it is a TV ad, a print campaign, radio, sampling or virtually any other marketing activity, give your consumers – especially your fanatics – a way to respond directly, and your entire marketing effort will be more effective.

Few of the big CPGs have discovered the true value of direct marketing. But the successful small companies – who have limited budgets - know it is their ticket to ensure that every marketing dollar is spent wisely. There are two benefits to direct-selling in your marketing. First, it lowers the cost of the marketing. Every product you sell directly to consumers as a result of an ad puts more money in the bank for you to spend back in marketing. On a great direct response spot, direct product sales can pay for half or even all the cost of the media. But even if it only pays for 10% of the media – that gives you a 10% bigger media budget. Second, and more importantly, direct response is a great way to hold your ad agency accountable for results. If you've got a good ad, you'll get a good response – it's that simple. Poor ads get a lousy response. If you've got an old-fashioned, full-service agency, chances are they will fight this tooth and nail. Most full-service agencies don't know much about direct marketing, and they're not used to being held accountable for results. They'll probably give you a lame excuse that they are just building "awareness" and "brand equity" and that your 800 number makes their beautiful creative message look cheesy. Don't believe it.

Good direct response ads look every bit as attractive – often more attractive than - the best agency ads. Check out some of Guthy-Renker's ads – a direct response company that has built a $1.5 Billion portfolio of consumer products that they created through infomercials. And these are not your late-night Ginsu knives. Gunthy's portfolio is mainly skincare and beauty aids, like ProActiv and Principal Secret sold with high-quality and high ethics.

The old mass market/ ad agency model was to drive awareness, with awareness ultimately leading to sales. In this era of reality programming where the consumer has unlimited choice, short, superficial messages just don't cut it anymore – they are not persuasive and they're not even building awareness. If you are really building meaningful awareness, then your ads will also be persuasive. And if they are persuasive, they will make many consumers take action right away. There was an old saying that went: "Half of all advertising doesn't work. We just don't know which half." Well now we do. If I owned an ad agency, I would be quickly building my direct response capabilities, because many industry experts are predicting that within 5 years, direct response will be the only type of advertising.

One of the beauties of direct response is that it allows you to experiment. It's easy to test all types of direct response ads quickly and inexpensively. In almost every case, the better your message, the more you will sell. Just put your ad out there and see what happens. If it doesn't work, make some changes and see if it gets better. Direct response ads give you the ability to tweak several times and quickly retest each version. And because you're collecting names, addresses and phone numbers, you can do all kinds of neat follow-up research to look at repeat, depth of repeat and satisfaction. Direct response also helps you develop your media plan. The big full-service agency can't tell you which cable channels, day parts or shows are most effective for your product. They can guess. But with direct response, you know immediately – allowing you to use today's fragmented media to your advanytage.

Many CPGs and Ad Agencies make the mistake of thinking Direct Response is just about longer commercial lengths or cheaper (remnant) media space. So they do direct response marketing, but don't really try to sell product through it. Many of them rationalize that they don't want the hassle of selling product and they want to drive consumers to retail. But most big retailers today, including Wal-Mart, have come to like companies that do direct response marketing, because they know that in the long run it builds their business. As a rule of thumb, for every unit of your product that you sell through direct response, you will sell another 6-7 units at retail. So Wal-Mart will sell plenty of product. As for the selling hassle, in these days of virtual everything, if you're a big company and you can't find a way to get an e-commerce website or an 800-number set up for your product, you've got problems. More importantly, forcing the discipline of successfully selling in your ad will ensure you've got the most persuasive ads. Many big CPGs rely on heavy-duty consumer research to try to see if they have good advertising. This is slow, expensive and not as accurate as real in-market direct selling.

6. Break through with New Brand Names

If you have an exciting new product, it needs an exciting new name. The most successful new products, all have exciting new names that are memorable – Google, Ikea, Altoids, Mini-Cooper. New names work if you have an effective way to communicate them to your consumers. If you followed steps 1-5 above, then a new name is absolutely the way to go. And studies have shown that the most successful names are the bold, exciting ones – like Yahoo! – not the safe, descriptive ones – like Fresh & Clean.

Big CPGs have all but given up on new brands, because in the world of mass marketing it has gotten way too expensive to create new brands. So the mass-market approach to branding now has every new innovation getting wedged into an established brand as a line extension in the name of efficiency. There was a time during the 1970s and 1980s when CPGs had gone too far with new brands that were not highly differentiated, and consolidation made sense. P&G's laundry detergents – Tide, Cheer, Bold, Dash, and Oxydol – were all targeted to the same mass-market consumers with subtle product differences that weren't meaningful. So, of course, consolidation made sense. But if you wanted an exciting new mocha cappuccino coffee, would you rather drink Folger's Select or something new and exciting called Starbucks?

Black and Decker – not a traditional Brand Management company – realized several years ago that it could not make its flagship brand stand for top quality tools. The Black & Decker brand just wasn't respected by contractors and serious DIYers. So Black & Decker launched a new brand in the same category – DeWalt. The DeWalt products were top quality, and the marketing spoke directly to contractors in their language – something the Black and Decker brand could not credibly do. The DeWalt brand grew over time – leading the company to 10 years of strong topline growth and higher margins, and today it is much bigger than Black & Decker in sales.

Contrast this with the top tier CPGs who are consolidating brands – trying to make them even more ubiquitous – in the interest of pooling their advertising dollars for more mass media punch per brand. In a mass-market world where the name of the game is expensive general market television, of course, fewer, bigger brands are better. But the reality of our time is consumers want products tailored to them, and they want brands that are in touch with their specific needs and feelings. These days you will ultimately be bigger and more successful by going in with a new, highly targeted brand and target your spending than by trying to be all things to all people in a mass way.

7. Keep fanatics enthusiastic with variety

Once they've developed a core group of fanatics, successful small companies make sure they don't lose their fan base by ensuring they fill every one of their target's needs. Consumers can get bored, so you can't rest on your laurels. You've got to constantly bring them the best new innovations in your field and keep them amused with variety. If you do, you will be rewarded with ever-increasing sales from this core group, and more importantly, increased love for your brand. If you don't, the risk is that they will wander.

One of the hottest new personal care lines is Burt's Bees – a line of natural soaps, lotions and balms. The line has over 100 items and is constantly getting updated. Consumers who try one product and like it come back for more and more. No bricks and mortar retailer carries every item – most carry an assortment of the most popular ones. But loyal users know that if they can't find an item they really want in-store, they can always get it on the Internet. Unlike mass-market consumers who are often indifferent about products they buy, loyal brand fanatics - like the ones who buy Burt's Bees - will go to great lengths to find a specific product they love. So as long as their favorite products are available somewhere, you can satisfy their cravings.

The big CPGs avoid this level of variety like the plague because their entire operations are built around mass market scale and efficiency, and to try to offer this variety within their model would run counter to their cost savings objectives. Yet it is incredibly easy to offer this variety via outsourcing – which is essentially the way small companies operate. And since consumers are willing to pay a little more for more choice, there is no need to sacrifice margins. It just requires the big companies to modify the way they view the world.

More importantly, this presence of choice improves your brand's image – even among people who don't buy all of the products. As anyone who has been to Niketown or M&Ms World can vouch – having an exciting range of products makes brands a lot more interesting and compelling. The wrong approach to variety is to look at an SKU by SKU breakdown and start deleting the slowest movers. The right approach is to look at variety and say, "What does it do for my brand image?" Costco has started carrying some very high-end items via Costco.com. They even went so far as to carry an original Picasso painting. Are they going to get rich selling these items? No. Is it going to improve their image and add excitement to their consumers' experience? Absolutely. Think of variety as a marketing expense and as a way to keep your brand healthy – not a problem that needs to be cost-saved away.

8. Go around competitors, not through them

Small companies know that the big companies could at any time crush them with their resources. So they make it a point to steer clear of any head-on confrontations. Twenty years ago when Wal-Mart was a young upstart, Sam Walton made sure that as Wal-Mart entered new metropolitan areas, stores were opened first on the periphery where there were few traditional retailers present. People would drive miles to get to a Wal-Mart, so this was not a problem for their target consumer. But it kept them out of the sites of the local supermarkets that had a lot to lose and would have fought tooth and nail over their core geography. So Wal-Mart rolled into these fringe areas, like a Trojan Horse, without a battle. Then once Wal-Mart became established, it expanded throughout the entire market, and it was too late for the supermarkets to do anything about it. Supermarkets would die a long, slow death. In packaged goods marketing, it is better to be ignored than feared by your competitors. No one ever wins a war; they just get bloody.

How do you get competitors to avoid you? Why don't established players attack the Wal-Marts of the world before they have a chance to take hold? For one thing, there are a lot of these little guys, and it is hard to predict which ones are going to take hold – so you can't possibly squash everyone. So a key to not getting squashed is to have a lot of initiatives and keep your competitors guessing about which ones will really work.

Today there is such a void of new innovations in the big CPG world that when anyone does anything remotely new, every other big player goes on the attack or tries to copy the innovation. This is a sure sign of an industry that is low on creativity and innovation.

So how do we get ourselves out of this world of copycats? The only way is to focus on creating more real innovation

– and launching more of it in the market. Don't study your competitors for ideas – study your consumers, and understand them better than your competitors. If you don't want to be copied yourself – take more risks on new products, but manage those risks so you don't lose money. If you take more risks, some will succeed and some will fail – but overall you'll have more growth. More importantly, by taking more risks you'll make it more difficult for competitors to copy everything you do, and eventually, they'll give up. In industries where innovation is high and companies are attempting many things – like pharmaceuticals – the big companies consciously try to work on areas that are unexplored by others. No one wants to share a market with a competitor when there's another market they could have all to themselves. If you're serious about innovation, you'll avoid the temptation to waste your new product development dollars on copycat products and focus on things that no one else is doing.

9. Attack established business models

Small companies increase their chances of success on innovations by changing established business models. It is not so much that they are setting out to create different business models from the start. The successful small companies simply look at the consumer need they are trying to fill and find the best way to fill it, without allowing the business model to be a constraint. More often than not, a new business model is a way to improve consumer value, offer greater benefits or improve the overall consumer experience. By selling direct to consumers, Dell Computer was able to offer customized products to consumers, better service and a better value. A better business model is a powerful barrier to competition, because it is difficult for competitors to build all of the necessary capabilities to react quickly.

One of the biggest problems the big CPGs face is they are locked into a single business model and have a hard time envisioning anything different. Part of the problem is that few people in big companies can see the big picture. Work today has gotten so specialized and segmented that individuals rarely have perspective about how the whole company works and how changes in their activities could improve the overall results. Studies have shown that individuals that leave big companies to start their own businesses are only about half as successful as individuals coming from small companies – even though the education levels of the big company people are much greater. It all has to do with ability to understand the whole operation and how it works – integrated thinking vs. siloed thinking.

The other reason why small companies have no problem changing business models is because no one is locked into an existing approach. It just comes naturally as they try to figure out how to improve consumer value. If they lack capabilities in an area, the area just gets outsourced, and they keep moving. In big companies, there are always jobs at stake, ruffled feathers, fear of change and lack of capabilities to try a different business model.

10. Be patient

For the average small company, it takes about 5 years to develop a winning product proposition and realize its success. Even if you're doing all of the previous 9 steps properly, you're probably not going to get overnight results unless you have the next iPod. But the benefit of this patience is that businesses that are created over time are stronger and more resilient. And the core consumers are more committed because their loyalty has been built over time.

Big CPGs, especially the publicly traded ones, rarely have patience. This is partly because they over-spend in people, research and marketing for each project – driving projects that require more time deep into the red. They also have a need for fast results and a launch model based on quickly getting into the mass market But for products that are new and different and require adoption of new behaviors by your consumers, you need time to build a following and gain momentum, or you will find your success was just a flash in the pan.

Purell hand sanitizer is one of the most compelling new products to hit the market in the past 10 years. With SARS, Bird flu and other global pathogens, there is a real need for this product. But when it was launched in the mid-90s, many of the big hand soap companies followed it to market with similar products. The big companies did their typical mass market, big spend launches, and while sales were OK during the first year due to all of the spending, none of these brands lasted more than 2 years. None of them got consumers to truly incorporate this new product into lives – something that required a new behavior on the part of consumers. But Purell, from the tiny Gojo Company in Akron, OH, took a more patient route, building a following with a core target of health professionals – the natural fanatics for this brand. Eventually it spread from health professionals to a growing consumer base of germ-a-phobes, turning it into a sizeable brand. Gojo actually spent a lot less on marketing than its big rivals – Dial, Reckitt-Benckiser and others. But by patiently building the core, it established a strong base and became a solid new brand with staying power.

11. Learn by failing

Small companies learn through trial and error. They try something, and if it doesn't work, they move on to something else again and again, until they find something that does work. Because they're minimizing spending and moving fast, there is not much waste. This is an efficient model for finding the right consumer message, marketing plan and business model – especially if you have something truly new. As long as you manage your costs and your time by keeping all your tests as small as possible, there is never much risk to this approach. Real in-market learning from real consumers is more valuable than any battery of consumer research.

Big CPGs – in contrast - like to plan just the right move, research it with consumers, analyze it to make sure it is right, have half the organization check it and recheck it to make absolutely sure it is right, and then execute it on a big scale. Because of the army of people and large sums of money involved, there is rarely an opportunity to experiment. This gives you zero margin for error because everything turns into a big all-or-nothing bet. It also makes many of the big CPGs gun shy – because there is no room for error. If you miscalculate on just one aspect of your plan, you fail because you only get one shot in the market. It makes you want to try things that are a lot closer to home, with fewer things than can potentially go wrong.

Big CPGs have convinced themselves that their approach is less risky because of all of the controls. But the reality is that it is the highest risk approach, because there is no chance for low-risk experimentation before a launch. If you are a big CPG, trying to implement this principle will be much more difficult than you think. You will quickly find that all of your company's processes are built around the calculated, plan-before-you-act model. Furthermore, your people probably won't have the right skills to do this. Conversely, successful small companies have become adept at quick learning through a variety of alternate sales channels and approaches. Prior to its recent sale, Orange Glo, for example, regularly put new products on its website, in e-mails to consumers, in inexpensive infomercials and at fringe retailers, like Bed, Bath and Beyond to get a quick read on them. Other small companies set up kiosks in shopping malls, get on QVC or hawk their wares at county fairs. Creating an arsenal of these learning tools and gaining experience with them is necessary to be successful in this area. And importantly, it needs to be done on a very low budget with hardly any resources – not a big company budget. The cheaper and faster you can do this, the more things you can test.

12. Get Your Hands Dirty

In small companies and start-ups, the marketing person is often doing a lot more than just marketing. They might be delivering product to stores, talking to store managers, answering consumer complaints or doing live product demonstrations. All of these provide learning that gets them more in touch with their consumers. Entrepreneurs that go on QVC for example, get to see exactly what part of their sales pitch results in the greatest number of calls to order product. It becomes a great way to refine the advertising message.

Want a good challenge? Have Warehouse Club Costco set up a one-day "Road Show" for your product – one store for one weekend, and go try to sell your product to consumers yourself. You'll quickly find it's much tougher than you think. But you'll also learn a heck of a lot about what it takes to sell your product – what's good about it and bad – straight from consumers. This is how marketers at small companies learn. One experience like this is better than reams of consumer studies. There is no substitute for hands-on learning.

However, I dare you to try to get a brand person at one of the big CPGs to have any interest in doing something like this. It doesn't happen. In fact, I have rarely seen a big CPG marketer ever even talk to a consumer in a situation that wasn't pre-arranged by a market researcher and research agency. Jobs in big companies are highly compartmentalized, and people get mad if you don't let them do their job or follow the standard protocol.

13. Be Fast and Cheap

Too much money makes you stupid. Successful small companies - even those that have started to gain some success - stay fast and cheap. If you spend every dollar like it is your last one, you will have better plans. You will also be more nimble. Nothing slows down a business like increased resources. The more people and dollars you have, the more work gets created. At small companies, the lead marketer is usually the lead decision-maker – so decisions are made in real-time, not at some later date by a committee or hierarchy, with pages of power-point analysis. Out of necessity, small companies quickly find the few things that work and stick with them. Orange-Glo spent several years doing nothing but infomercials for OxyClean. Why? They worked. Every ad that ran generated enough sales to pay for another ad, and so on. What if you told your marketers they wouldn't get another dollar until they could demonstrate a return on the money you've given them already?

By limiting costs and increasing speed, small companies can try many more new ideas and new products. They don't have to have a great hit rate, because they get so many more at bats. This is a key factor in their higher levels of innovation – they simply try many more things per dollar spent.

In the world of big CPGs money flows like water. Rarely do marketing budgets go through a "zero base" budgeting process. If you had it last year, you'll usually get it again. Use it or lose it is essentially the mantra. So every last dime gets used. Armies of people slave over and debate the marketing plans. But at the end of the day, there is little true accountability over the spending. And if a brand is struggling, the knee-jerk response is to add more money.

In the world of targeting, ideas count for a lot more than dollars spent. If you have good ideas, you don't need a big budget to grow. In the world of small companies and VCs, good ideas must come first. Then they must be market-tested. Then, if and only if they yield results, more money is invested. The big CPGs have it backward. First they provide the money, then they let their people figure out how to spend it. Try operating like a VC on just one brand, and I guarantee you will save money ***and*** end up with more growth.

14. Love the Job You're In

The people at successful small companies love what they're doing and generally feel like they're doing something important that is going to help the world become a better place. If they don't, then they usually don't stay very long – because there's usually nothing else to stay for. If you love what you're doing, then you're more likely to want to stay in your job for the long-term and pursue projects with long-term value. The continuity is extremely important because well-targeted brands and businesses today require a deep understanding, which often takes several years to master. Also, when people perceive they are working together for the common good, it is easier to put egos aside and work productively as a team.

Most of the big CPG Brand Management organizations hire the smartest people they can find from the top MBA programs. Most of these people have visions of someday becoming a General Manager, and the Brand organization is a stepping-stone in that direction. These organizations are highly competitive "up or out" operations, with 50% of the new hires being moved "out" within 3 years and 85% out within 7 years. Brand people typically rotate every 18-24 months between assignments. This program was created during the mass-market era when it was more important to learn the ins and outs of marketing in general than the workings of a specific brand. But there are a number of problems with this model today – and they lie at the heart of today's big CPG growth problem. First, there is little depth of understanding on a brand, because there is no continuity. Second, there are few long-term initiatives, because you need to put points on the board quickly to move up. Third, the motivational forces are wrong. People work hard to get ahead, not for the love of the brand. Unfortunately, looking good to management is more important than other things. Fourth, the consumer understanding is often delegated to the lowest person on the totem pole because it is not nearly as visible or rewarded as other activities. And finally, collaboration is low, because of the competitive nature of the jobs.

This model might have made sense in the 1960s and 1970s when CPGs were stodgy, paternalistic organizations that needed to be shaken up. It might also make sense if the primary goal is to learn general marketing skills rather than gain a deep understanding of your brand. However, in today's world where marketing approaches vary dramatically by product and where depth of brand understanding is critical, there are better approaches. Moreover, the old Brand Management model is a huge waste of resources, as a new wave of recruits comes in each year and spends most of their early years getting trained only to get the boot just when they're starting to become productive.

If I were to design the ideal marketing organization today, I would have people with 20+ years of marketing experience running brands, acting as do-ers, understanding their consumers, and making all of the decisions. A few junior people, content in their role as "helper", would support them. I would pick people for their jobs based on their love for the brand. If they did well, I would keep them in place as long as possible – at least 8-10 years. And I would reward them with large bonuses based on the growth of their specific brand – so if they really did well, they would share in the brand's value creation and make a lot of money. I would forget total company bonuses and stock, which are meaningless, since these individuals would be focused only on their brand. This is essentially what small companies do – and the difference in motivation and brainpower on their businesses is huge. In fact, many of their people are laughing at the big CPGs and how silly and political their Brand Management staffing model is. These days it is incredibly easy for small companies to find experienced marketing talent, because the big CPGs systematically discard so many quality people. The other benefit of this approach is that these senior marketers need virtually no training or supervision. You don't need brilliant marketing directors, VPs or General Managers looking over their shoulders. And most people who are in marketing love this work. Running a brand on your own and turning it into something better is the most exciting thing a marketer can do. It is not a task that should be entrusted to someone just three years out of school.

15. Use Your Intuition

Small companies cannot afford a lot of data, so there is nothing to analyze. The way they learn about their business is to get out to the stores and talk to consumers and retailers up close and personal. Marketers at small companies sink or swim based on intuition and instinct. So if they don't have it, they better get it fast, or their company will soon be out of business. To that end, the people running their brands typically have many years of experience, as experience is the only way to gain intuition.

In the 1960s and 1970s glory days of Brand Management there was also very little data available on a brand, and intuition played a big role in marketing a brand. But in the late 1980s retail stores installed UPC scanners – forever changing the face of Brand Management. Since then the data suppliers have added shopper panels, simulated test markets, metrics to show the payout of each specific marketing activity and dozens of other measures. As big CPGs began to see the value in using data to tweak their marketing plans, the role of Brand Manager shifted from that of "intuitive thinker" to "numbers jockey." As a result, big CPGs began hiring individuals who had better numbers skills and fewer of the intuitive skills – because numbers were making an immediate impact. Decisions today – even those about ad campaigns - are all based on: "What do the numbers say?"

The downside of this is that we have lost creativity and risk tolerance. Few Brand Managers today have the capabilities to make intuitive decisions, and if they do, they're not very good at it without the numbers there as a crutch. The problem with running a business based on the numbers is that numbers will only tell you what has happened in the past. They will not tell you when to try something new or what that new thing might be. Big new ideas will almost always get killed by numbers, because new ideas don't fit historic models. Numbers are great for tweaking short-term plans. They are lousy if you're trying to be innovative or create long-term growth.

Some of the greatest new products and greatest new ad campaigns failed to pass quantitative tests. In consumer testing Apple's famous "1984" commercial failed. But Steve Jobs had the courage to run it on Super Bowl Sunday even though his Board of Directors told him not to. Successful innovation is more about ideas and courage than testing.

16. Honor the Consumer

Successful small companies are not just out to sell products. They believe they are on a mission to help improve their consumers' lives. Their business models reflect this. It is all about consistently offering the best possible consumer experience at a fair price, because that is the only way the underdog gets ahead. Costco has overtaken the established supermarkets in many cities not simply because it has better prices, but because it offers a better overall value equation. A big part of the value equation is diligently ensuring that the quality of all of its food is above supermarket standards, and discarding food that is not at its absolute freshest - rather than trying to quickly sell it. Each year Costco discards over $5 Million worth of chicken – chicken that most supermarkets would still try to sell. Starbucks will not sell coffee that has been brewed more than 60 minutes ago. Diligently maintaining a quality consumer experience is one of the most important things you can do to grow your business.

The big CPGs talk a good game. Almost everyone these days has something in his or her corporate mission statement about the consumer being king or boss. The unfortunate truth, though, is because of short-term profit pressures, the big CPGs are forever scheming up ways to take value away from the consumer and put it back in their shareholders' pockets. How often have you seen products "resized" to essentially disguise a price increase? How often have they added a new feature or benefit that cost nothing to do and then charged more for it? Or worse, taken value away in the name of cost savings? Or sold you a "starter kit" at an ultra-low price only to force you into buying over-priced refills for the rest of your life? At many CPGs the correct mantra should be "how can we screw the consumer today."

But consumers today are smart and connected. As a result, they're wising up to these marketing games. Consumer trust of big companies and advertising is at an all time low. If you cheat the consumer today, expect to find your name smattered across chat rooms and blogs. In these days of open communications, companies that don't play games with the consumer will win. You've got to treat the consumer as a partner, and be open and honest with them. Give them a fair deal and everyone wins; try to cheat them and you'll alienate them for life. Big companies historically have been more trusted than small companies, because historically they have had more consistent quality in their products. But the worm is turning. Many of the successful small companies today are beating the big companies because consumers like them and trust them more, because they have proven that they really are out to be helpful, rather than treating their consumers as an easy mark. And in many categories now, fed-up consumers are actually seeking out small companies over big ones.

Where do we go from Here?

Despite their flaws, the big CPGs still have two big advantages: 1) They have huge resources. 2) They are the incumbents with capabilities to out-execute any newcomers. If they simply deployed some of these resources and capabilities in a more productive fashion, they could be the ones driving all of the great innovation. The small companies would not stand a chance. But how do we implement this?

If you are running a big CPG, you essentially have 3 choices. If all this sounds way too intimidating, and you're not ready to change anything, then your best option may be to wait for someone else to create new businesses and then try to acquire them once they have been proven. Beware, though, that you're not likely to create any real shareholder value this way, since small, fast-growing companies are in high demand and often command prices of 3-5X Sales or more. Just look at the multiples paid by big companies for Ben & Jerry's, SoBe and other fast-growing small companies. In many cases the prices paid may actually be above what these companies considered to be fair market value because they are so desperate to improve their topline growth rates for Wall Street. Also, if you take this route, you may have difficulty managing these brands once you buy them, especially if you plan on plugging them into a brand management system once they're yours.

A second option is to abandon traditional brand management altogether and create a new marketing organization that better meets the needs of your specific brands – similar to what I've suggested in this article. In most companies this would be a daunting task with many pitfalls, and I don't recommend it unless you are confident you can handle all of the political and people issues.

A third, and more practical option, is to create new products groups armed with this model and empowered to go after growth ideas. If you do this, you must make sure you have the right individuals in charge of this effort – people who live and breathe this philosophy and have seen it in action. You must also make sure that your team has the authority and resources to go after any idea that meets your basic size and category parameters. They must also have the ability to take these projects from start to finish. A fatal flaw is to plug a promising idea started by an entrepreneurial new products group into a Brand Management organization, only to lose the vision, passion and business knowledge in the process. Or worse yet, would be to allow your established brand organization to have decision-making authority over ideas pursued by your new product entrepreneurs. If you do this, you're likely to end up with nothing of value once you're done. As part of this effort, you might also consider moving some struggling brands into this group and attempting to revive them using these principles. You may be surprised at the results.

Many big CPGs have experimented in this area, but with limited success, because in my opinion they haven't gone far enough yet in breaking from the old approaches. P&G has an army of people trying to create new brands, and they have had a few successes, such as Swiffer, but they have also spent incredible sums of money to essentially build these through the old mass-market model. There is clearly a better, more cost-effective way, and the first big CPG company that can successfully implement it will become the new rising star in the industry. Will it be you?

Larry Popelka has over 20 years of consumer products marketing and business experience for Fortune 500 Packaged Goods companies. He spent the past 5 years living these Game Changer principles as VP of New Ventures for the Clorox Company in Oakland, CA. At Clorox, Larry managed an effort that invested in and incubated over 20 entrepreneurial businesses, with several of these becoming successful new Clorox products – including Clorox Toilet Wand, Clorox Anywhere disinfectant, the iRobot Scooba floor cleaner and - launching in January'08 – GreenWorks 100% plant-based cleaners. Larry is currently president of GameChangers Products, a consulting business that helps large companies improve their innovation, new product and marketing programs and helps small companies with Game Changing products connect to capabilities and resources.