

The prevailing business model: a high price for a low growth

The market research industry has enjoyed steady expansion over the last half century but has it seen its best days or does it still have a high growth potential?

Think of the brightest captains of our industry and imagine you could bio-engineer one of them into the Steve Jobs of our business. You would have an equivalent talent mix of inspiring inventor plus thorough researcher plus innovative developer plus hip designer, brilliant presenter plus maniac executive plus strong leader plus visionary entrepreneur. What would and what could such a charismatic market maker mean for the growth of our industry?

For five decades the market research sector has seen on average some growth gross 9% . Since 2000 net growth rates in custom research in the top five countries are down to just something between 1% and 2%. Not only this. A venerable market leader recently even showed negative growth in the UK and the US. If this happens to one of our all-time global heroes, you fall into alarm mode.

Is it time to look at how much growth potential is left for our industry in the future in the mature markets? It is of course heart-warming to see for 2005 a net growth of 25% for China, 7.4% for the whole of Asia Pacific and 9.3% for the new EU member states. But what can we expect for custom research in the top five countries, which stand for more than two thirds of the global market for market research?

Big bang

Since ESOMAR's humble beginnings some 60 years ago, our profession has been blessed by very favourable macro conditions. We enjoyed protracted and stable economic growth in the western world. We also saw marketing winning turf as a corporate success factor as industry after industry discovered the value of marketing, brand building and marketing research.

Then we had the big bang with Mrs. Thatcher forcing through privatisation, first changing the UK landscape and then infecting the whole of Europe – an open avenue for market research which generated huge new research budgets aimed at customer satisfaction and customer retention. We saw the creation of a new service-centric infrastructure and a bonanza for the whole market research industry, which until then had derived its key impetus for growth from areas such as media measurement, image research, market segmentation and NPD.

End of story. Period. We haven't seen a new blockbuster in town

for 20 years. *CRM?* – not even one of the top ten providers has managed to become a significant player. *Management consulting?* Sorry, same story. *Innovation?* This is ultra-high on any CEO agenda and could well serve as one of the next growth engines for market research but what we see is that the choicest part of the innovation business (and all of the limelight) still goes to amazing ethnographers and stunning design labs. There is definitely nothing big and juicy on the horizon yet to make the directors of large research factories smile.

Bad news

There is in fact little good news about other growth prospects despite more products with shorter life cycles. But there is quite a lot of bad news: *Budget pressure* –out-of-pocket expenditure of big and small market research buyers tends to go east if not east-south-east. Also *clients' central purchasing functions* are now pestering all the big research sellers. The *technology factor*: online services are driving down project revenues by some 10% to 50%. *Client consolidation*: poisonous for our once steadily growing, wonderfully profitable continuous/ multi-client studies. *Weakening market fundamentals in custom research*: with no growth-escalators in sight in North America or Japan and, the EU 15 growing over-capacity is heating price competition and eroding margins.

So much for the sector's market potential as a whole. Certainly the best players can outsmart the market and consistently produce the all-important 'profitable growth' for their shareholders: by exploiting high growth market research markets in Asia, Latin America and the new EU entrants; by forceful global M&A to win in the consolidation game; by restless, ruthless cost-cutting and staff reduction (well, at times slightly suicidal in the growth and innovation game); by outsourcing and off-shoring; by productising and by scaling. But when you look very carefully at the strategy statements of the industry leaders in the custom research arena, you see an ageing business model which is aching under its escalating complexity.

Profit

The profitability giants of our industry such as IMS, Nielsen Media Research and Arbitron are all one-trick ponies. The predominant profit capture model of the custom research houses is the extreme

opposite. A prototypical competitor may have to entertain a global holding management, four regional managements and 50 local managements. Then each of these 55 units will need to provide leadership via five corporate functions: finance, R&D, marketing, HR and production. Let's assume that holding is offering its *n thousandth* clients global expertise in six business sectors, five branded products and in four production bands, promising their dear clients 'integrated global services'.

To perform this noble management task (actually you have at hand gargantuan groups, born from numerous disparate acquisitions from all over the world) you multiply their 55 units times their five functions times their six sectors times their five branded products times their four production bands and you come to 33,000 cells, that a powerful management may wish to somehow individually and overall promote, optimise and integrate. Looking at the resulting organisation chart, you get immediate vertigo – and the same also applies when looking at the organisation charts of our beloved 'global key clients'.

Inspiring

All the industry captains are racking their brains. What comes first? Which corporate level, function, task, region gets priority, when and where? Some agencies are now giving substantially more power to their global sector leaders, at the loss of the local full service authority. Others try (try!) to empower global product champions, at the loss of regional research design competence. Frankly, in most global research groups the actual implementation

of global structures and procedures is a mess, a glorious global mess, though still a triumph of independent research minds (and sometimes of their hard-nosed clients) over global organisation charts and the best management intentions.

But then, the large custom research houses cannot – and should not – give up their predominant business model. It can still keep them on a growth track. Obviously, some global research houses show more impressive organic growth rates than others. There are two factors which may make the difference. Growing a people business of high complexity deserves top and senior managers with equally high people skills. And then there is no substitute for bold innovators or inspiring leaders, starring as the Steve Jobs of our industry. ■

