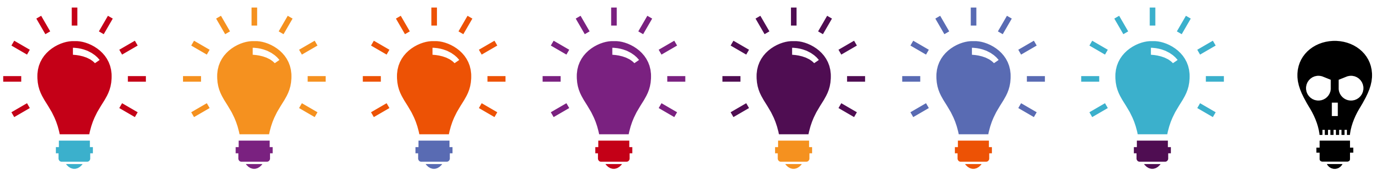
To innovate, or not to innovate, that is the question

The seven questions that would-be product developers must ask themselves



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Ready, set... innovate!

Business leaders' approach to innovation can look worryingly like the triumph of hope over experience. Thousands of new products are launched into Asian markets every year, but hardly any of them (a mere 12 per cent, in fact) actually succeed. In a McKinsey Survey, 84 per cent of senior executives affirmed that launching new products is "very important" to their growth strategy – but are all of them right?

It is essential that would-be innovators ask themselves searching questions about whether innovation is really the right approach for them, given the risks and challenges involved. In this report we'll examine those in detail and help to define the information you need to answer the most significant question of all – to innovate or not to innovate?

If you would like to discuss any of the issues you read about here – or discuss your own innovation questions, please do get in touch.

Best wishes,

Ray Crook,
Managing Director
Innovation & Product Development
TNS Asia Pacific
Ray.Crook@tnsglobal.com

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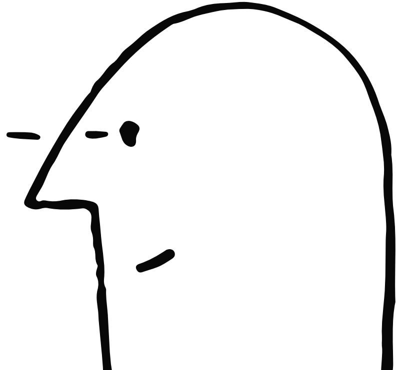

Kantar Worldpanel predicts that 75 per cent of growth for consumer products companies in the next decade will come through new product development, but such topline statistics disguise the fact that the benefits of innovation are very unevenly distributed between businesses. And the price of innovation failure can be high. Launching an unsuccessful product wastes marketing budget, undermines a brand's credibility with vital trade channels, and can damage brand equity – reducing the business's potential to launch new products in the future.

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The risks of innovation

Cannibalistic launches that bite into the share of a company's existing products run all these risks simply to shift revenues from one portfolio item to another. Worse, they help to condition previously loyal customers to start exploring other options on the shelf. A recent TNS assessment of over 3,000 launches found that in 35 per cent of cases, the new product actually decreased its parent company's overall market share. Innovation can shake up your category – but that's not always to your advantage. And that's a sobering thought for the many Asian businesses confidently predicting innovation-led growth of 15 per cent for the next three years.

For every Pepsi, which derived 8 per cent of its 2012 revenues from products launched in the previous three years, there are plenty of companies where investments in innovation actually reduce profitability. This is not to say that innovation is always a bad idea – but it is not always a good one.

Identifying the appropriate innovation approach

TNS assesses close to 10,000 new products globally every year, with more than 4,000 in Asia alone. And that gives us a unique perspective on the factors that need to be in place for products to deliver the growth companies are after.

It is essential that would-be innovators ask themselves searching questions about whether innovation is really the right approach for them, given the risks and challenges involved.

The fact is that each company's approach to innovation needs to be tailored to both its market and the nature of its business. For would-be innovators, understanding their business's true relationship to innovation is an essential first step.

For some, the greatest risk lies in being too late. Their business model calls for them to move products to market quickly, sometimes launching a good but suboptimal offer, planning to improve and upgrade quickly based on market reactions. For others, it is essential to get a new launch right first time, or they risk undermining brand credibility and crucial stakeholder relationships. Combining the relative importance of these two risks, with an understanding of what is driving the need to innovate, leads to quite distinct innovation approaches.

		Bigger risk?	
		Don't be late (Having first-mover advantages and learning iteratung in market)	**Don't be wrong** (Big investment in production and launch)
Driver of change?	**Product and processes** (Changes driven by technological advancements and process improvements)	**Define the future** Leverage what's new Iterate in market	**Iterate and optimise** Build competitive advantage Thrive while competing
	Markets and customers (Changes driven by understanding customers' needs and channel requirements)	**Ahead of the wave** Be first on the trend Disrupt the market Brand for differentiation	**Nail the need** ID and fill market gaps Limit risk

But an understanding of the right approach for each business is only the first step. It is essential that would-be innovators ask themselves searching questions about whether innovation is really the right approach for them, given the risks and challenges involved. The answers may suggest that the time is not yet right for them to innovate; they will certainly help to ensure that when they do invest in new product development, they are picking the right ideas for the right reasons, dramatically increasing their chances of success.

Question 1:

Is there a financially viable opportunity in the market?

1

For those companies who are focused on ensuring commercial growth, the first question the business should ask themselves about potential innovations is also the most important. Oil companies don't drill expensive wells just because somebody's instincts tell them that there's enough black stuff down there to justify the cost. Other businesses also need to take a scientific approach to sizing the opportunity before they commit resources to it. And they must do so from the earliest stages idea generation.

To maximise the chances of achieving growth, the innovation process must include a precise examination of potential customers' ideal needs, in order to look beyond what existing products provide. It must understand the emotional, functional and social benefits required to meet those needs, the size of the prize to be gained by doing so, the challenges of realising the opportunity, and the potential impact on a business's existing portfolio once a new product launches. And all of this insight is required before an idea or new product is created and developed. Only by exploring the implications of meeting ideal needs can a business understand how attractive each opportunity really is - and only then can they set about prioritising which opportunities are most important to them.

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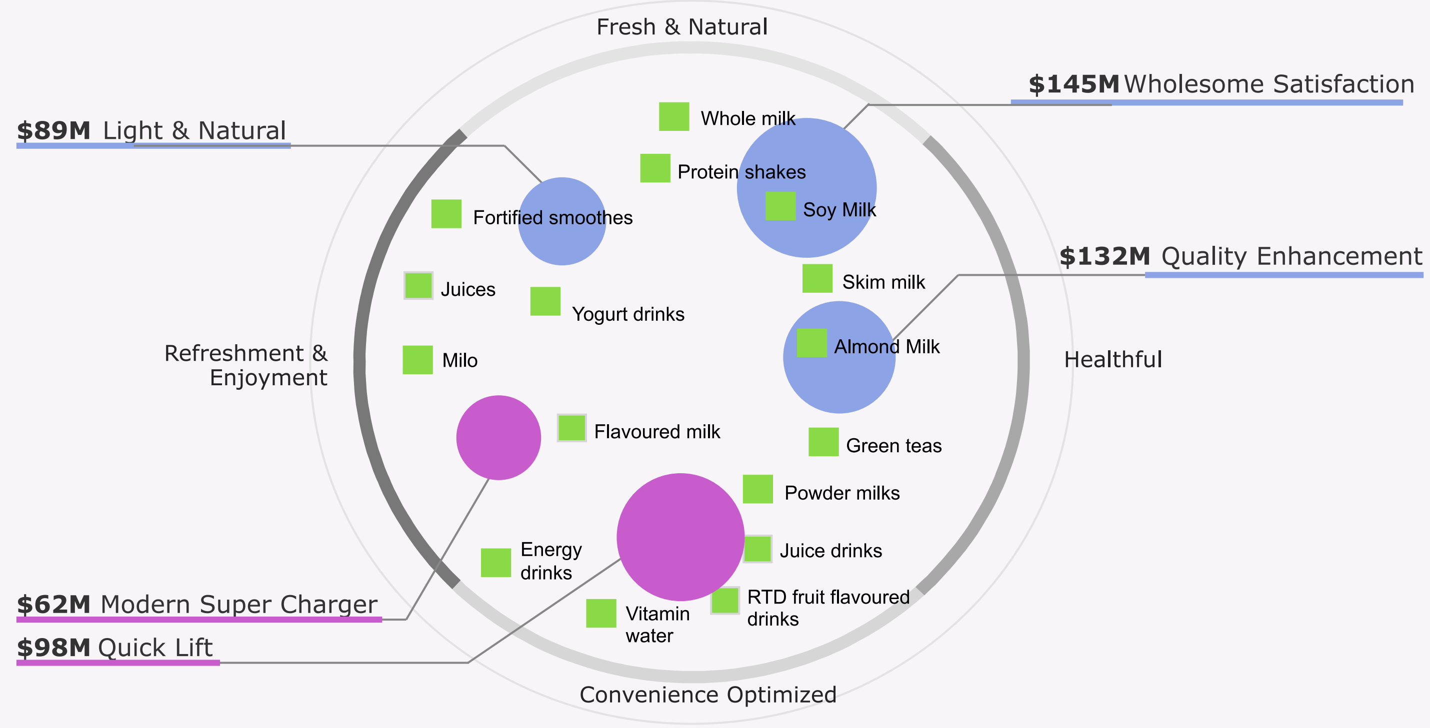

The problem that many innovation leaders face is that the data they use to predict the size of a potential market tends to be almost wholly retrospective: it tells you what the opportunity was rather than what the opportunity will be in the future. Tracking data, trend data, U&As and channel feedback reveal how existing products are delivering against yesterday's needs, they are less effective in mapping the unmet needs that provide the greatest opportunities for growth in the future. Information from these sources must be integrated with quantified insights about ideal needs to identify the biggest future opportunities.

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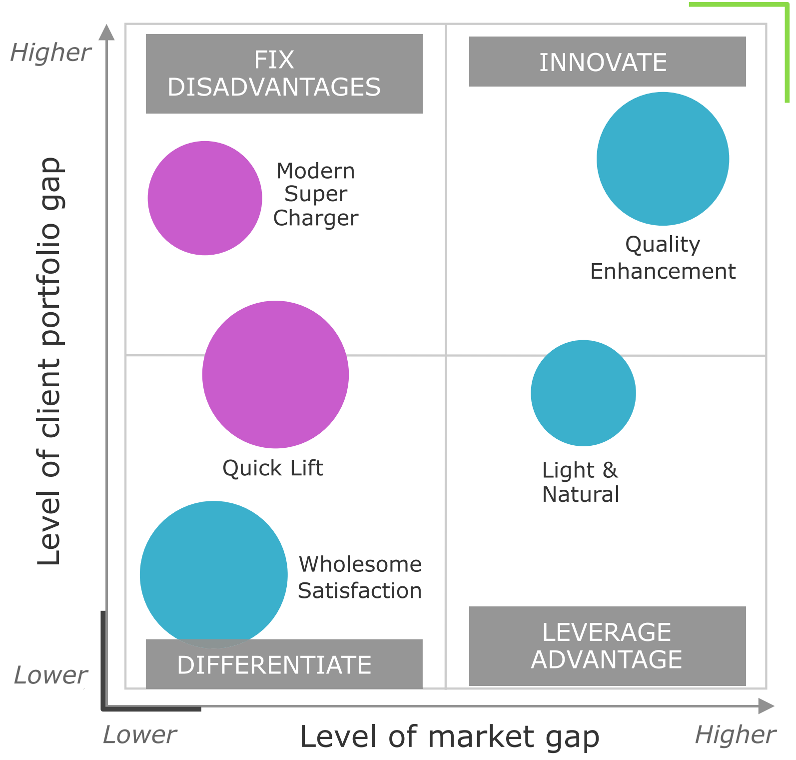
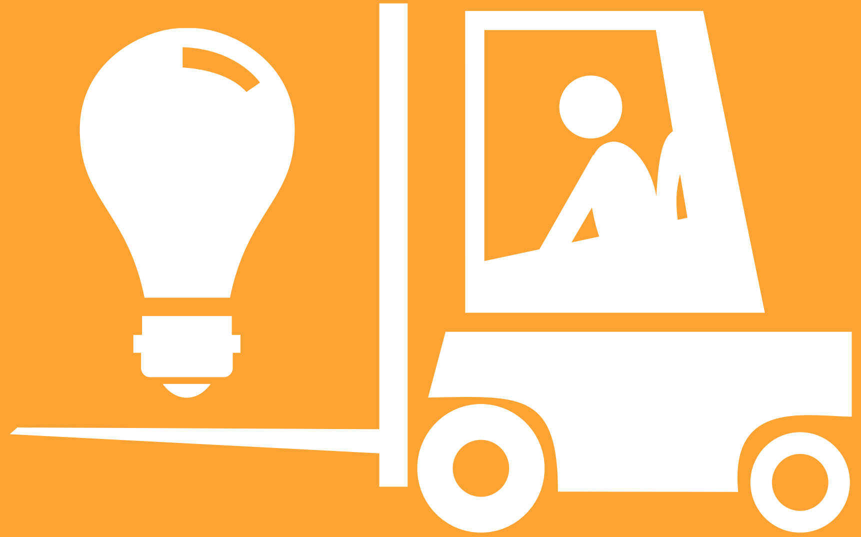


Question 2:

Can my business deliver the benefits required to take advantage?



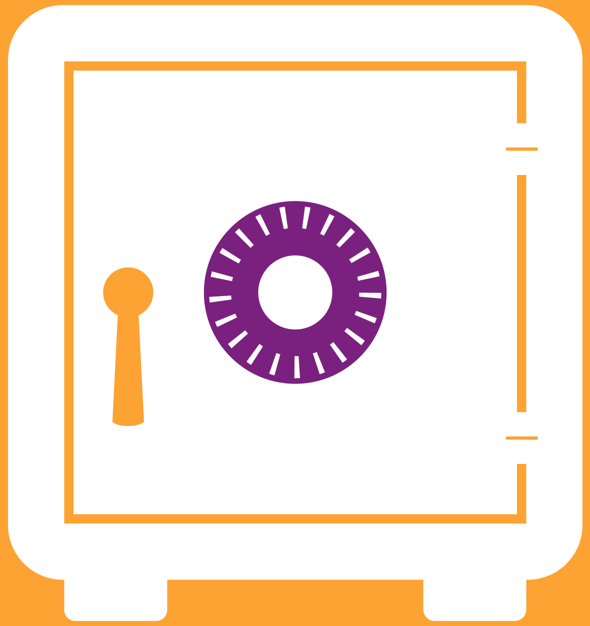
Just because a genuine opportunity exists, does not necessarily mean that your business is able to fill it. In targeting an opportunity, we want to identify the functional, social and emotional benefits that are required to be successful.

The key question that a business should ask itself, before launching into product development, is whether it is ready and able to meet those requirements: is it prepared to invest in the new machinery or processes necessary to deliver an ideal solution for example, or would it be forced to compromise in a way that undermines the end benefits for consumers?

These are questions that should be asked before heading down the route of concept development, because investment should only be directed towards opportunities that companies have a genuine appetite for.

Ideal requirements

Quality enhancement	($132m)
Fortification	
Is naturally rich in vitamins and minerals	
Is a good source of vitamins B	
Helps prevent me from getting sick	
Makes me feel better about myself after consuming	
No negative ingredients	
Is low in fat	
Is low in sugar	
Is low in cholesterol	
High quality	
Is more expensive but worth it	
Tastes as good as you get at a restaurant	
Is made with the highest quality ingredients	
Manufacturer has a great reputation	
Confidence	
I am confident in my long term health	
Sure I'm getting right amounts of the right nutrients	



Question 3:

Is the opportunity best served by an existing brand – or must I create a new one?

Once an opportunity has been identified, and the potential for the business to fill it has been confirmed, the key question that innovators need to address is whether this is a job for a new or existing brand.

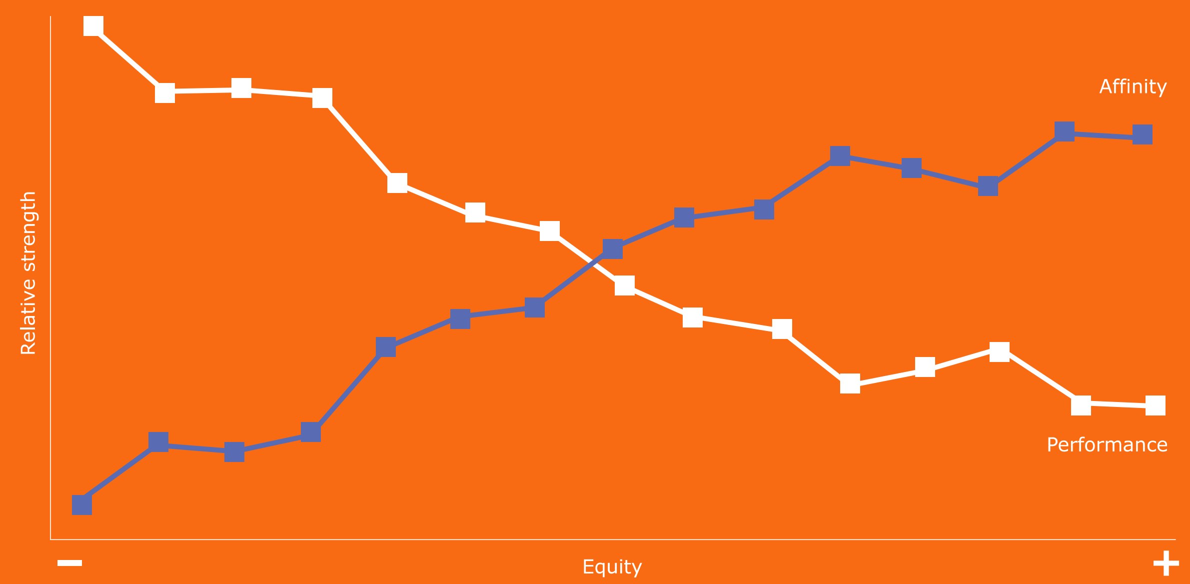
More than 85 per cent of new product launches take the form of brand extensions, and there is a good reason for this. Leveraging the equity already established by the brand provides new launches with a vital leg-up in the market. However, businesses must first understand the precise nature of their brand's functional and emotional appeal, in order to assess whether and how it can stretch to new areas. Relying on superficial judgment alone can miss some opportunities whilst leading to overconfidence in others.

Bic, a famous maker of pens, razors and cigarette lighters, proved surprisingly successful when extending its brand to sailboards, which use similar materials in their construction and allowed the brand to extend its functional and emotional benefits of top-quality yet affordable. It proved far less successful when trying its hand in the women's hosiery space, where disposability was the only functional benefit it had to offer.

The importance of functional and emotional benefits varies between categories, but also changes during the lifecycle of a brand.

The importance of functional and emotional benefits varies between categories, but also changes during the lifecycle of a brand. Younger brands typically need to leverage their established functional benefits if they are to stretch successfully into new areas, whereas the emotional and social benefits of more established brands can provide them with greater range. Apple launched its iPod Classic with a strong emphasis on functional benefits ("1,000 songs in your pocket") but now leverages intangibles ("engineered for maximum funness") to support its latest extensions.

As a brand gets stronger affinity becomes more important



Source Equity Engine[sm] database

Just because a brand cannot leap into a new space in a single bound does not mean that it cannot take gradual steps over time to take advantage of an emerging opportunity. This longer-term approach to brand-supported innovation has delivered considerable success for Nescafé in China. Smaller advances in the form of its Smoovlatte and Coffee Mix Milky brand extensions helped to stretch its positioning from a stimulation product to include the enjoyment-focused emotional benefits now associated with its Café Series line.

Question 4:

Will taking advantage of the opportunity generate incremental revenue for my business?

> Innovators can't afford not to ask where their sales are really going to come from.

The importance of brand extensions to so many launches makes it essential for businesses to address the issue of growth potential. Put simply, it is not enough for a new launch to generate a high volume of sales for a business – it needs to ensure that enough of those new sales are incremental to the sales its existing brands would have delivered anyway. If they are not, then the business is focusing time, money and resource on a launch that offers no real commercial advantage, or worse, might actually weaken the position of its more established and more profitable products. And of course, it is diverting resources from other potential innovations that could deliver greater incremental benefit.

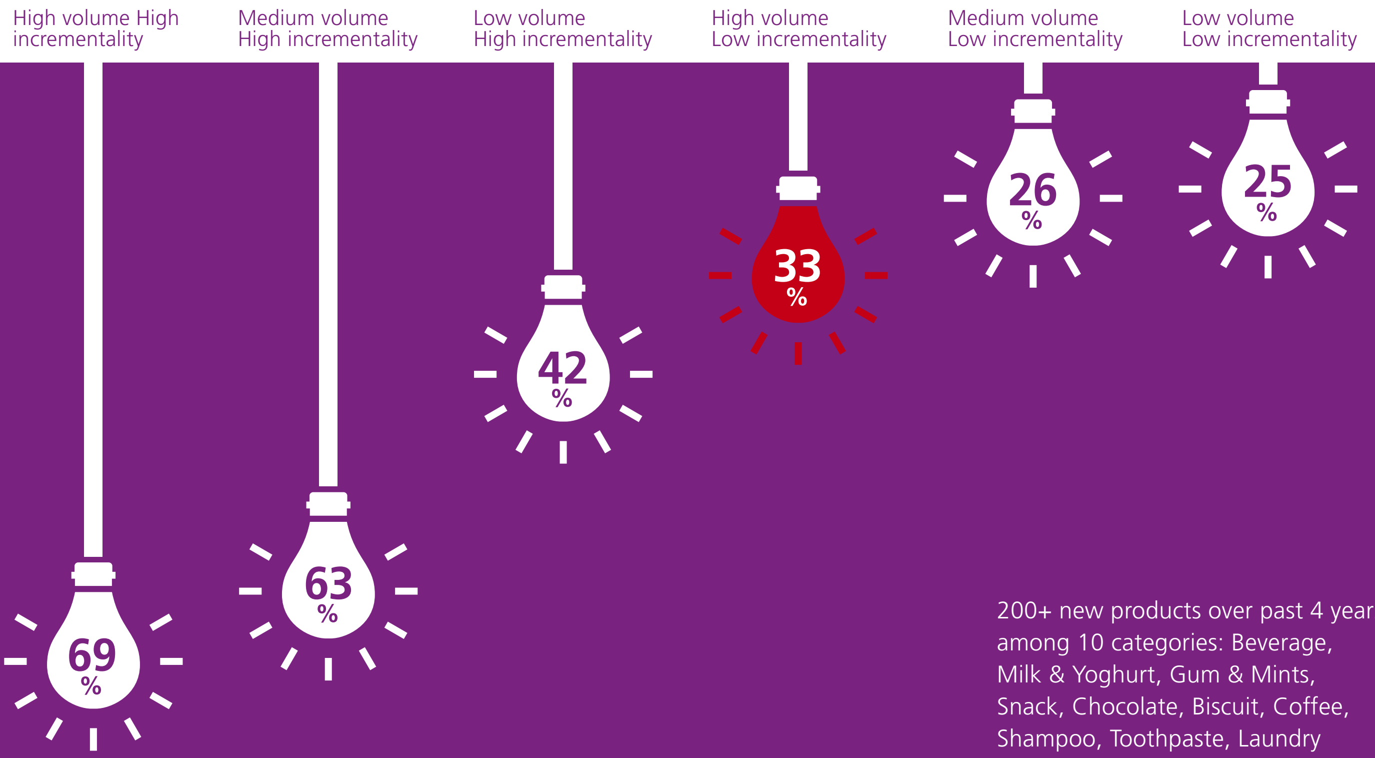
The fact that incremental growth is rarely considered in the early planning stages of innovations helps to explain why so many of the new products that businesses choose to develop are line extensions (a new flavour variant for example). These ideas often promise high sales volumes, yet closer analysis reveals that far too many of those sales come from the brand's existing products; in many cases, alternative ideas that promise fewer absolute sales but far more incremental ones, would deliver greater benefit to the business's bottom line.

An additional factor that must be borne in mind is the potential of brand extensions to erode overall sales by reducing the prominence of established brands on the shelf – and encouraging consumers to experiment with alternatives. Nor is cannibalisation solely a threat for extensions that are close in nature to the parent brand; breakthrough innovations can also have a negative impact on the portfolio as a whole.

Analysis of the TNS and Kantar Worldpanel database of new product launches reveals that basing the choice of which ideas to develop on incrementality would have resulted in a better launch decision being made on 44 per cent of occasions. Innovators can't afford not to ask where their sales are really going to come from.

Growth is not driven by the total volume performance

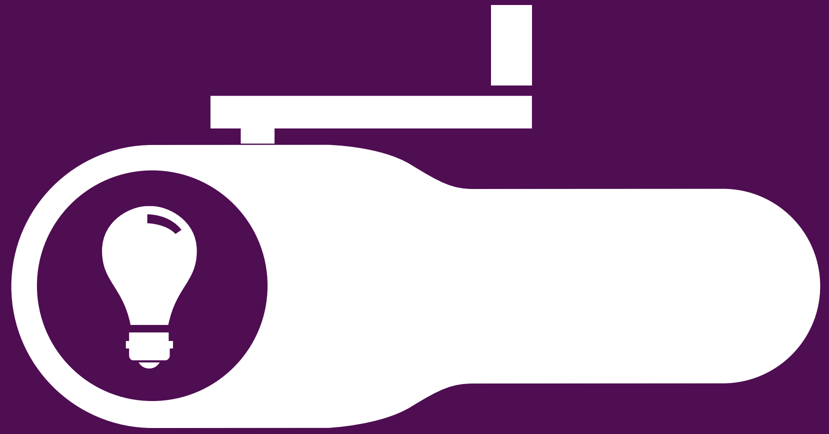
Probability of full success



200+ new products over past 4 years among 10 categories: Beverage, Milk & Yoghurt, Gum & Mints, Snack, Chocolate, Biscuit, Coffee, Shampoo, Toothpaste, Laundry

Question 5:

Is my business geared up to innovate – and can it support a new product?



Anybody can talk a good innovation game, but in order to walk the walk, a business needs to be both properly equipped and properly committed. To be truly ready to innovate, a business must have a culture that is reasonably comfortable with taking risks and aligned with the particular risks required by the innovation opportunity. It must be able to operate with clarity, supported by strong leadership and accountability, and it must have the commitment to stick with an innovation programme rather than abandoning it (and writing off its investment) whenever times are tough and corners need to be cut. But although an innovation-friendly culture is a great start, it needs the support of the right systems and structures if it is to translate into success: employees in the right roles and with the right skills, a clearly defined process for generating, developing and launching ideas, and the necessary level of financial support.

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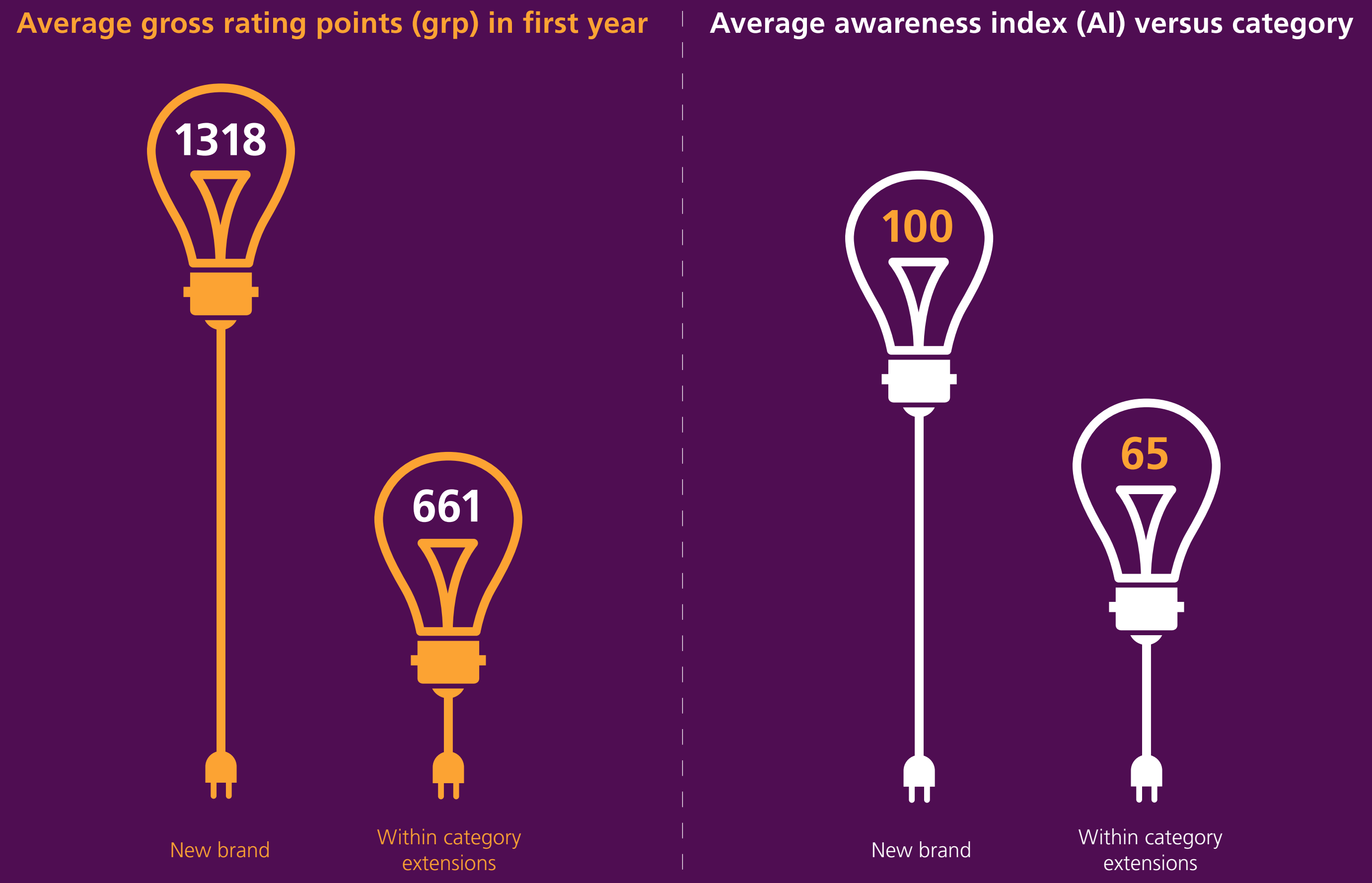
The requirement for committed investment isn't limited to the development process. New products tend to require heavyweight marketing campaigns if they are to establish themselves in the market, and many apparent shortcuts compromise on a new launch's potential. The advertising spend for the first year of a new brand is typically double that for a line extension. However, advertising for line extensions is noticeably less effective (Millward Brown data shows that ads are wrongly attributed to the parent brand on one third of occasions and that this leads to a 35 per cent drop in effectiveness).

Whatever brand strategy is chosen for a new product, the business must be prepared to put its money where its mouth is when it comes to supporting it. It's here that many innovation strategies tend to fall down. In over 75 per cent of cases, the amount of media support anticipated in a new launch's marketing plan was not achieved in reality.



Question 6:

Do I have enough time?

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Innovation opportunities tend to be time-sensitive in two related ways: a product must reach the market before the needs it addresses are taken care of by others; and it must deliver results within the time period that the trade (and its owner) expect.

Businesses must first ask whether the time exists to develop a product effectively before the opportunity closes. Successful products can be developed rapidly (Indofoods is a master of the three-month turnaround, for example) but this can only be achieved when the business knows what is required to make the product a success, willing to take calculated risks – and is fully geared up to deliver it.

The next question is whether a new product can deliver success quickly enough to satisfy the expectations of the business – and the trade partners that it relies upon. The key to survival is often to get sales and get them quickly, with a focus on attracting early adopters that can deliver the immediate revenues the new launch requires. When it comes to broader communication across the category, brands need to focus on building levels of excitement that can persuade occasional buyers to bring their purchases of the new product forward.

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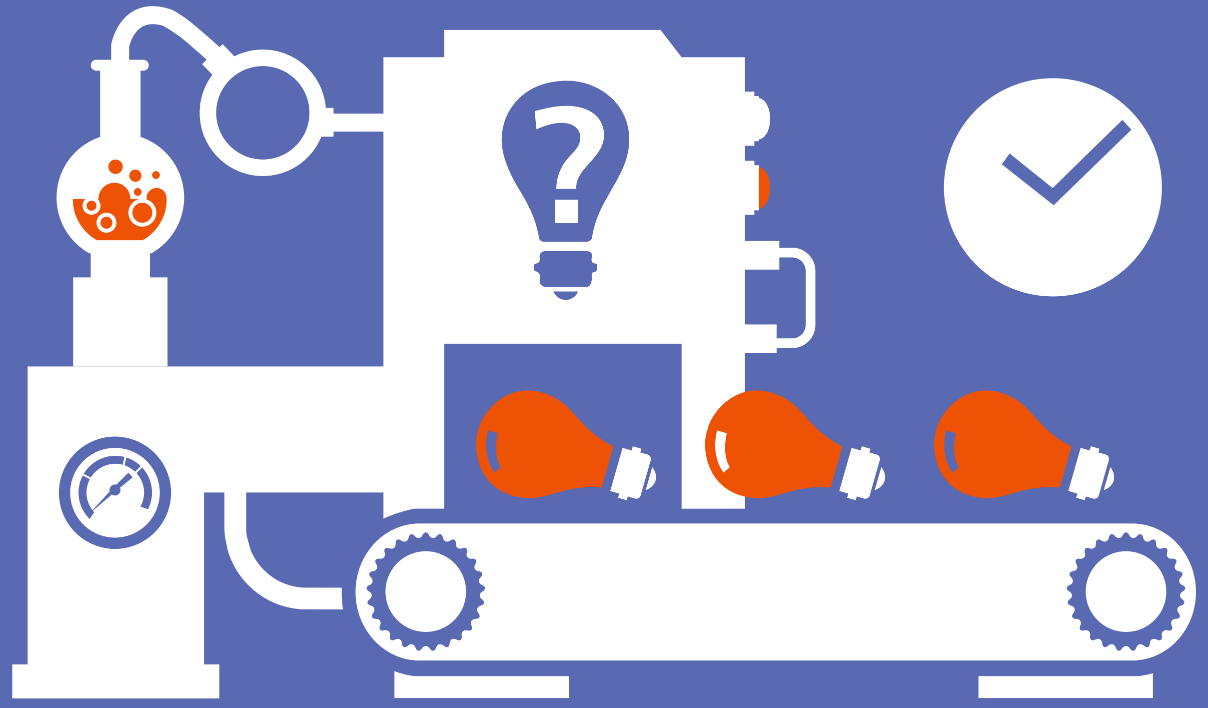
For those companies following a 'launch-then-optimise' model, a key additional timing-related question is how quickly they will be able to respond to market reaction and behavioural learnings with new product iterations.



Question 7:

Will people keep buying the product once it is launched?

I t is one thing to launch a product successfully; maintaining its position in the market so that it can generate a long-term return on investment is a different matter. In order to achieve sustainable success after the initial launch period, the new product must deliver against the expectations that consumers have when first buying it.

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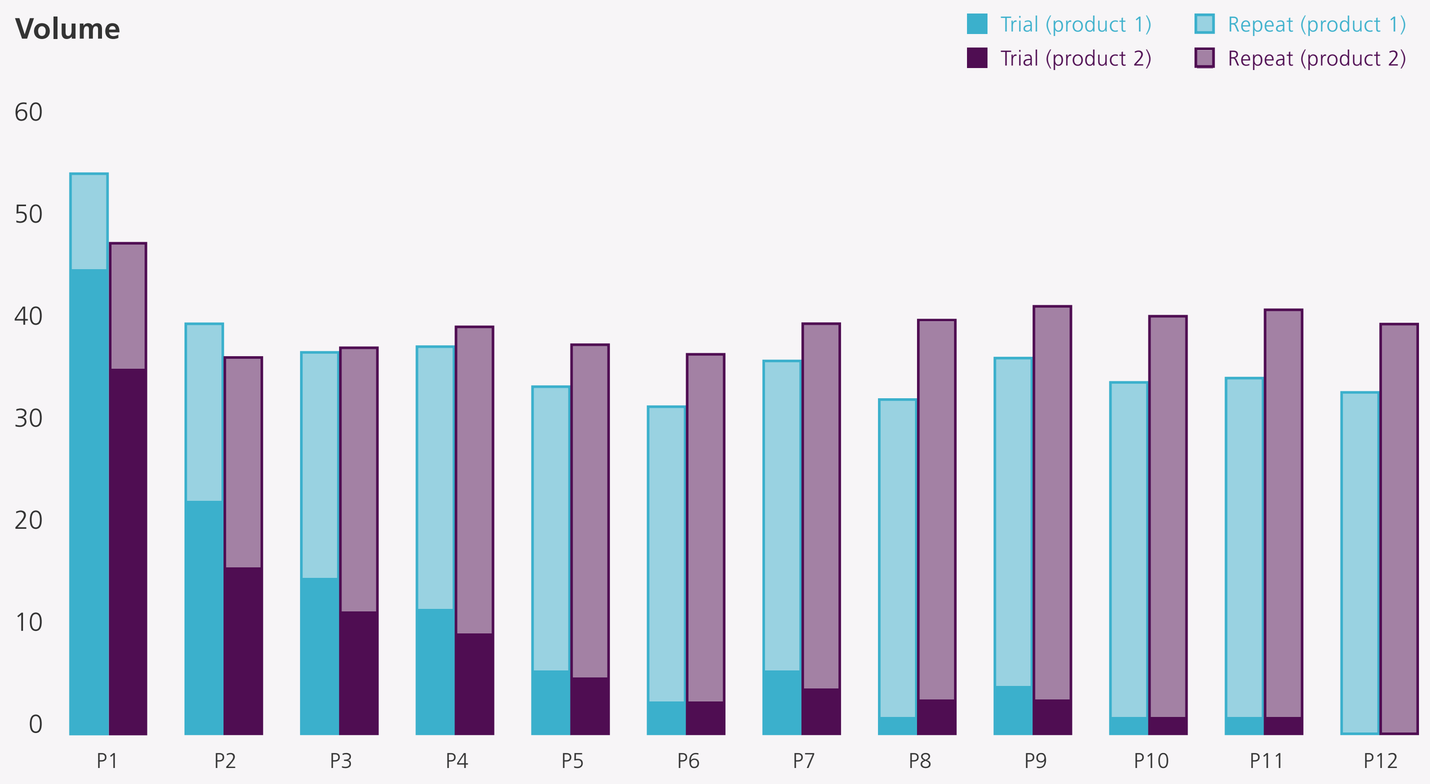
Products do not need to be premium quality in order to be successful; the key to success is clear synergy between the proposition promise and the actual product experience. Overselling a product and masking its deficiencies through marketing spend can only delay failure; it cannot avert it. If a good enough product cannot be delivered in the time available - or quickly optimised after launch - then positive answers to all the other questions are irrelevant; a business is still likely to see its innovation investment going to waste – and its brand equity and trade reputation potentially compromised.

There is some considerable market evidence that deliberately avoiding overselling the product benefits delivers better prospects for long-term growth than promising benefits that the experience cannot deliver. Smaller numbers of consumers who try a product and become loyal customers add up to considerably more value than large numbers who try and then reject it. Repeat purchases of a product that aligned perfectly with consumers' expectations and reasons for buying can bring larger volumes over time.



To innovate or not to innovate?

If a business can answer each of these seven questions positively then it should innovate – and innovate like it really means it. The opportunity is there, the time is right, and it has all of the elements that it needs to take advantage. If it can't, then further questions need to be asked as to whether this is indeed the right opportunity. This is not to say that the business cannot find a way to develop its new product – but it needs things to change either within its organisation, or within the market, in order to make the launch a success; it is not to say that it cannot innovate more effectively in the future, but it may be better served by waiting for the right moment in its development to pursue this strategy. Innovation is important to the future growth of most businesses, but that future may be further off for some than others. It is essential for each business to understand its own relationship to innovation, how quickly the market changes, the level of acceptable risk – and to ensure that it has all it requires to succeed on those terms.

About TNS

TNS advises clients on specific growth strategies around new market entry, innovation, brand switching and stakeholder management, based on long-established expertise and market-leading solutions. With a presence in over 80 countries, TNS has more conversations with the world's consumers than anyone else and understands individual human behaviours and attitudes across every cultural, economic and political region of the world.

TNS is part of Kantar, the data investment management division of WPP and one of the world's largest insight, information and consultancy groups.

Please visit www.tnsglobal.com for more information.

About the author

Ray Crook
Managing Director,
Innovation & Product Development,
TNS Asia Pacific

Ray.Crook@tnsglobal.com
+61 4126 70605

Ray has over 20 years' experience of helping companies to develop successful innovation strategies in Europe and Asia Pacific. His expertise covers the entire innovation journey, including: identifying and prioritising white space opportunities; idea generation; product development and optimisation; pricing; packaging; volumetrics; and bringing new products to market.

Ray leads a team of experts across the region who partner with manufacturers to bring successful innovations to market. The team is committed to improving the success rates of new launches, getting new products to enter the market quicker whilst achieving better return on investment.

Ray is regularly published in marketing and business publications and is often invited to speak on his perspective on developing winning innovation strategies.

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