Finding faster growth

The trouble with innovation

If businesses are to deliver the returns that shareholders demand, they need a bigger contribution from their innovation efforts

The trouble with innovation

The targets set for any business usually involve some form of growth – and growth beyond that which the day-to-day running of the business will deliver on its own. The responsibility for filling this "growth gap" and satisfying the demands of senior executives and shareholders falls to innovation.

In tough economic times, the gap between growth targets and the revenues actually generated by businesses tends to increase. And this puts increased pressure on innovation to make up the difference. Kantar Worldpanel predicts that 75% of growth for consumer products companies in the next decade will come through new product development. That's a lot on innovation's shoulders.

More than half of senior executives declare themselves unsatisfied with the financial returns of their investment in innovation, 80 percent of new products fail and only one percent of ideas receiving some form of investment actually result in a successful launch. The true picture may be even worse, as even many nominally successful product launches don't actually result in topline growth. With such a low overall success rate, innovation cannot hope to meet the demands of a growing growth gap. It needs to become a lot more effective at finding winning ideas and a lot more efficient at developing them – and that means questioning some long-held assumptions about the best way to approach innovation.

75%

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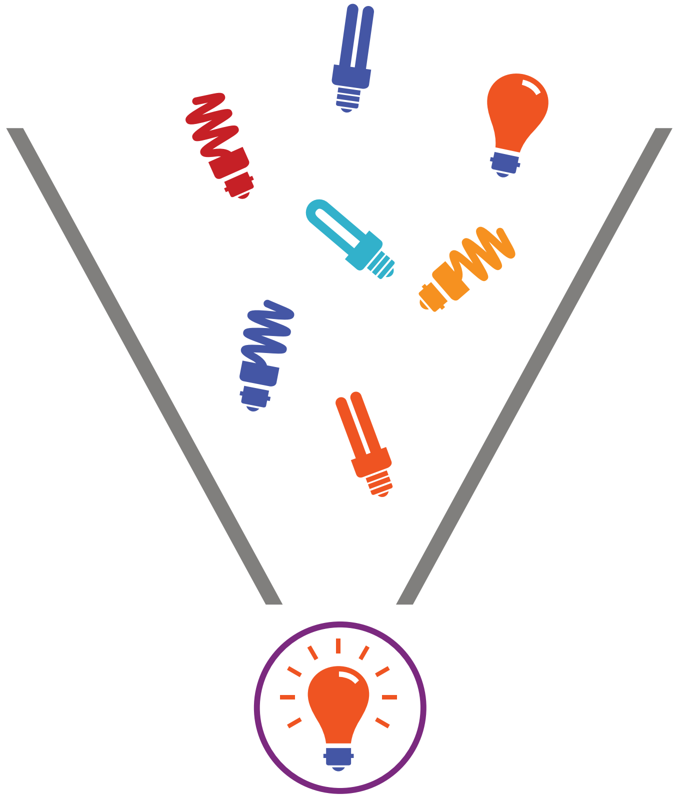
Finding winning ideas

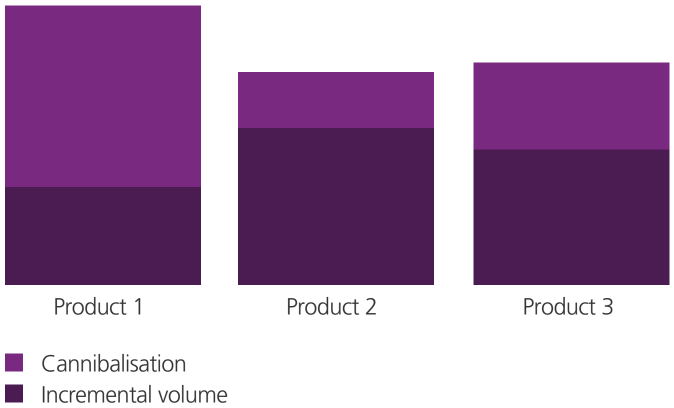


The trouble with innovation

We need to talk about innovation
The real trouble with innovation is that the techniques that businesses adopt for identifying consumer needs and developing solutions to fit them have not evolved to deal with today's world of crowded markets and broad consumer choice. It was once the case that any idea big enough would be likely to grow overall revenues for a business; that an idea, once generated, would therefore face an uncomplicated path through development to launch; and that rough estimates about the number of people likely to buy or use it would be enough to inform investment decisions. These things are no longer true, and yet much in the standard approach to innovation still assumes that they are.

The current approach fails to address the true meaning of growth in today's markets, focusing on volume rather than **incrementality**. It relies on rough averages when it comes to predicting human behaviour and as a result fails to project accurately the incremental potential of an idea, which can only be gauged by knowing who will buy it, what purchases it will replace, and how this pattern may change over time. Traditional innovation models also focus investment on the back end of the process, developing ideas but paying insufficient attention to generating the right ideas for development; and in outsourcing innovation to different companies at each innovation stage they divorce innovation from strategy, sacrificing existing knowledge and condemning businesses to an inefficient and cumbersome innovation process.

The biggest volume is not always best



Incrementality and sales volume
The standard research industry assumption of 'biggest is best' ignores the value-destroying menace of cannibalisation, which can severely limit the growth potential for many launches. By accurately understanding this cannibalisation risk we switch the focus to the incremental growth a new product brings to the business.

Understanding incremental potential early in the innovation process, provides a better way to separate winners from losers, ensuring that growth comes from competitors, or from new customers - not at the expense of a business's existing products or services.

The trouble with innovation

TNS has developed an end-to-end approach to innovation that is designed to meet the challenges of modern markets and deliver the rate of success necessary to fill the growth gap efficiently. It's an approach rooted from the start in the importance of delivering genuine, incremental growth and backed by a uniquely precise approach to identifying opportunities and modelling consumer behaviour.

Here's how businesses can update their approach and ensure that they are generating winning ideas for today's markets:

1. Demand true growth
A company doesn't simply need a new product to deliver a lot of sales – what it needs is for that new product to deliver profitable growth. **Incremental** volume is the only true measure of growth potential – but this is rarely reflected in the way that companies judge which strategies to follow, ideas to develop and new products to launch. The vast majority of new launches today are brand extensions ("with added vitamins", "new orange flavour", "easy-to-open pack" and the like) that carry a high risk of cannibalising existing products, eroding margins (typically lower for new than for existing products) and driving down profitability. Why are such ideas consistently favoured by the traditional innovation model? Because traditional models stubbornly judge ideas based on the projected total potential they will deliver, even if those sales come at the expense of profitable existing products.

Kodak is one company that has demonstrated how expensive this approach can be. Its Kodak Funtime film was taken off the market within months after it proved hugely popular amongst existing customers. The problem was that, as a low-cost alternative to existing Kodak products, Funtime was doing a great job of eroding revenue per unit: the worst kind of cannibalisation. Similar damage can be done by new products that steal share from a company's existing portfolio of brands whilst failing to grow the category in question: when a company launches a new men's deodorant brand that steals share from its previous market leader, for example.

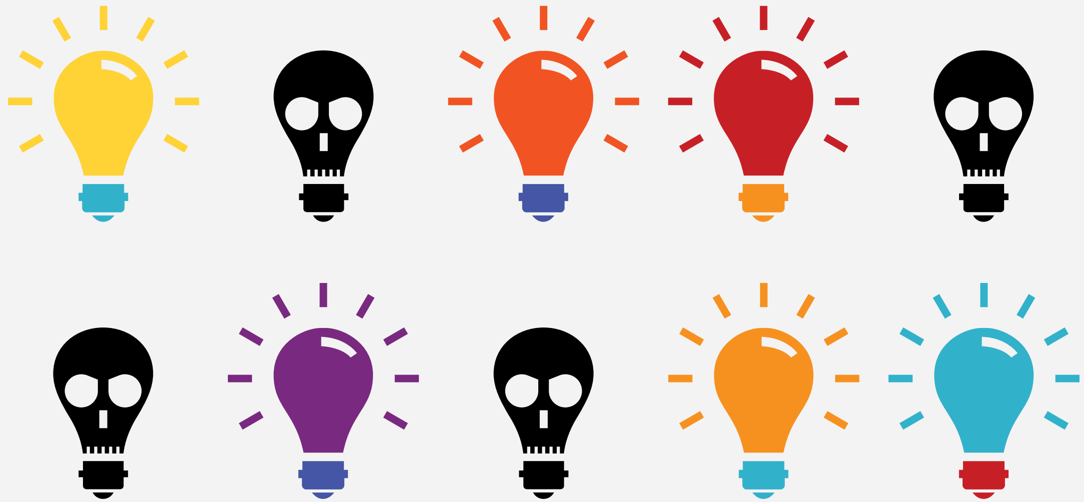
Brand extensions carry a high risk of cannibalising existing products

The trouble with innovation

TNS analysis shows that judging concepts on incremental potential – rather than an estimate of total sales – results in companies taking a different decision about which ideas to progress 40 percent of the time. Imagine how many iPads, Red Bulls and Innocent Smoothies could be amongst the incremental opportunities rejected in favour of less innovative ideas that promised big sales at the expense of existing products.

From an analysis of recent product launches, we have seen that adding a precise view of incrementality to traditional measures of just total potential gives us more predictive power in terms of a new product's eventual success. This is particularly the case for launches that don't generate blockbuster volumes, where incrementality is key to success. So why don't more businesses demand an incremental view early in the innovation process? Part of the answer is that the techniques traditionally used in concept screening and other areas of the innovation process are simply not very good at predicting incremental volume effectively. Traditional "share of requirements" analysis gives some indication of the potential for cannibalisation but not with the degree of accuracy (and therefore credibility) required to direct innovation decisions. Partly as a result it tends not to be included in the vital early stages, when key decisions are taken as to which ideas should be progressed. The TNS approach changes all that.

In 40% of cases, companies would have taken different screening decisions, taking incrementality into account

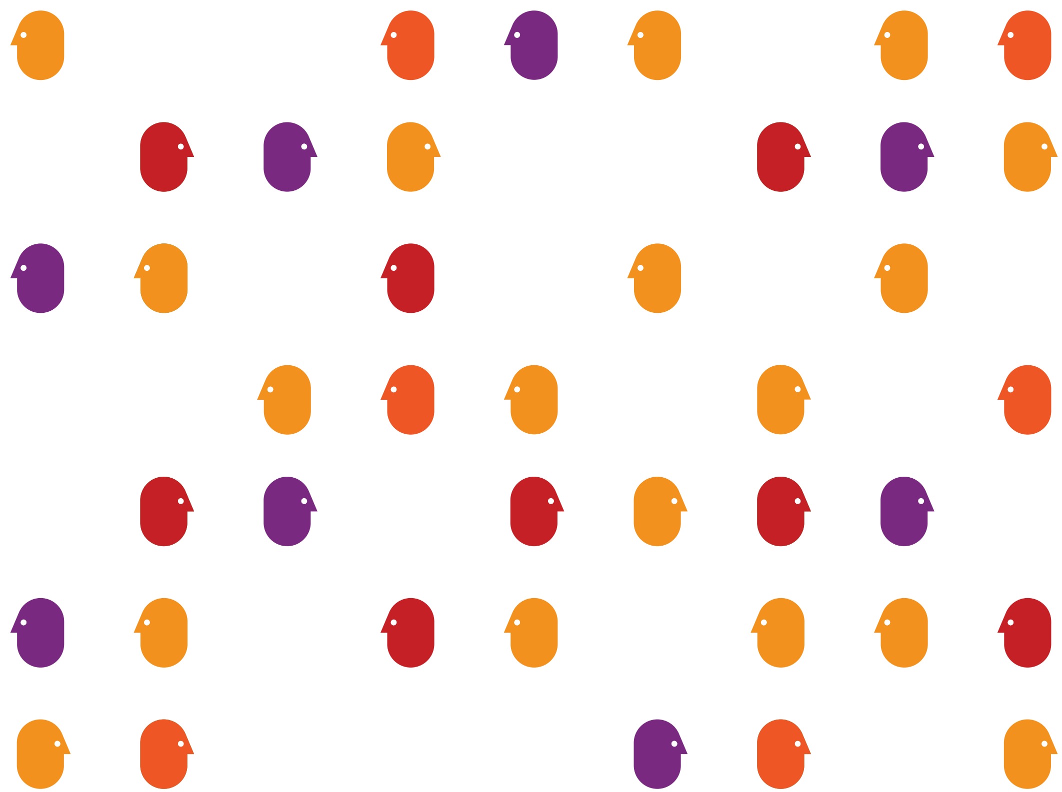


2. Analyse individuals, not averages

The traditional approach to innovation is guided by an aggregate view of the world that is effective enough at estimating total sales volume, but far less capable of projecting how individuals will behave. Effective individual-based modelling, which can predict how the spending patterns of consumers will change as a result of a new product launch, is essential for a precise understanding of the incremental growth that an idea could deliver – and its likely success beyond the initial launch phase. And this requires an approach to research that can deliver respondent-level validity rather than depending on mutually compensating error to deliver roughly correct average incremental sales numbers.

TNS has pioneered an approach to research that applies the principles of behavioural economics to survey design. By asking only questions that are relevant to the way that consumers make decisions, we are able to significantly increase the correlation of survey responses with individuals' actual future behaviour. And this individual-based model doubles the accuracy of incremental sales predictions when compared to aggregate calculations.

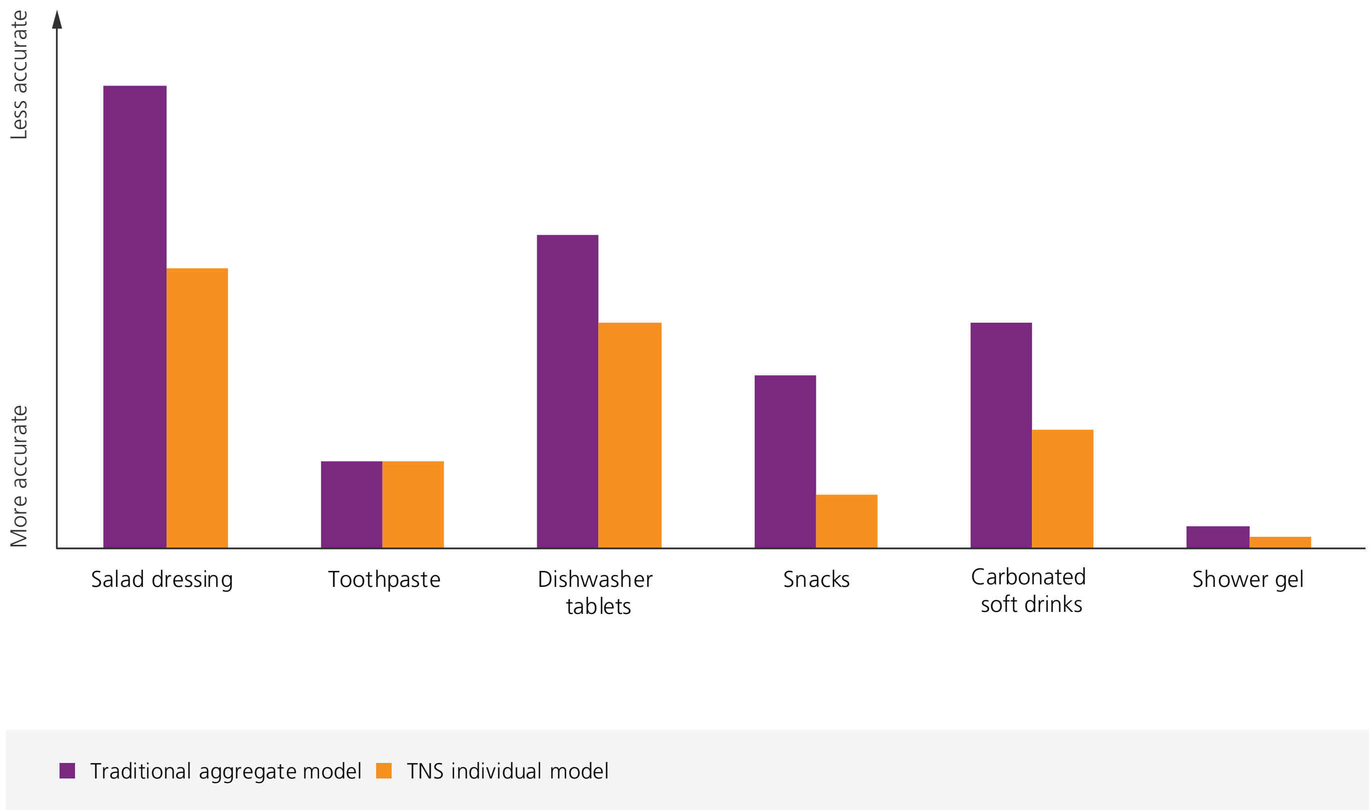
Understanding individuals improves forecast accuracy and informs effective target marketing



Respondent-level validity: the power of individual-based modelling

It's an often-ignored fact that survey data can be valid at aggregate level but wrong about individual people. This comes about through mutually compensating error, whereby roughly similar numbers of people give the opposite wrong answers: one group of people saying they will purchase a product when they won't; the other saying they will not purchase a product when they actually will. The difference between these responses in helping to understand an individual's future behaviour is particularly significant for projections of incremental value. To predict incrementality effectively, it is important to know which individuals will purchase a new product and what the impact on these people's existing spending patterns will be. Understanding who will and won't buy your new product is not just about forecasting accuracy: it can support more targeted marketing, better cross-brand endorsements and other launch optimisation tactics.

Individual-based models double the accuracy of incremental sales predictions

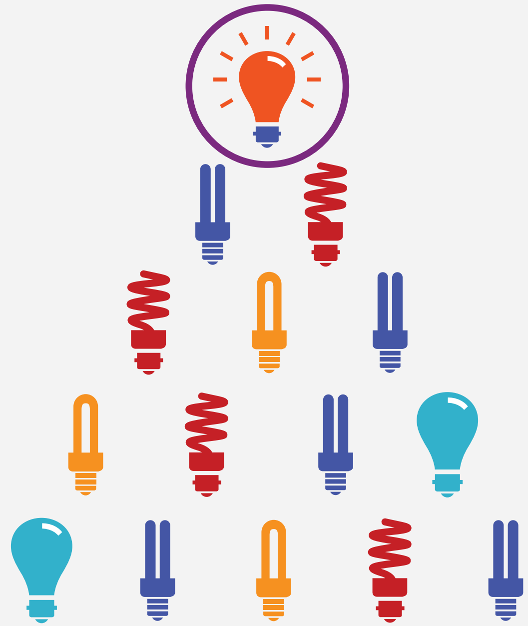


3. Invest in finding the right ideas, not just developing them
Asking the right questions when assessing ideas' potential will significantly improve the return on investment delivered by new product launches. However, it cannot in itself improve the quality of ideas that a business generates in the first place. Businesses invest considerable sums in developing winning ideas; they pay far less attention to finding the right ideas to develop. We estimate that companies are sifting through around 1,000 ideas to come up with one successful product launch. Imagine how much resource, time and money is wasted in this process – especially when so much of that time is spent expensively re-engineering concepts that were never really up to scratch in the first place.

One of the fundamental weaknesses in the traditional approach to innovation is that it often starts at the wrong point: with an ideas workshop, often deliberately separated from the rest of the business, rather than with a proper analysis of business strategy and objectives. This results in a "fuzzy front end" for innovation, a slightly mystical process of inspiration and idea generation that produces a range of potential new concepts for development. The key phrase here is "range": we're accustomed to thinking of innovation as lateral, ranging widely in search of solutions and looking "outside the box". In fact, what a business requires in order to succeed in competitive and fragmented markets is a precise idea of where a winning concept is likely to be found. And this involves integrating existing understanding of customer needs and the competitive landscape.

TNS achieves this through seamless integration of a problem-solving creative approach to ideas generation, with the insight provided by a focused quantitative framework. We scope consumer needs in four key strategic areas, drawing on the full range of insights available to distinguish genuine opportunities from simple "gaps in the market" and prioritise areas that hold the most potential for incremental growth. The insights that emerge from this process are then used to guide all subsequent qualitative development, ensuring a focused approach that keeps projects on track.

Companies are sifting through around 1,000 ideas to come up with one successful product



The trouble with innovation

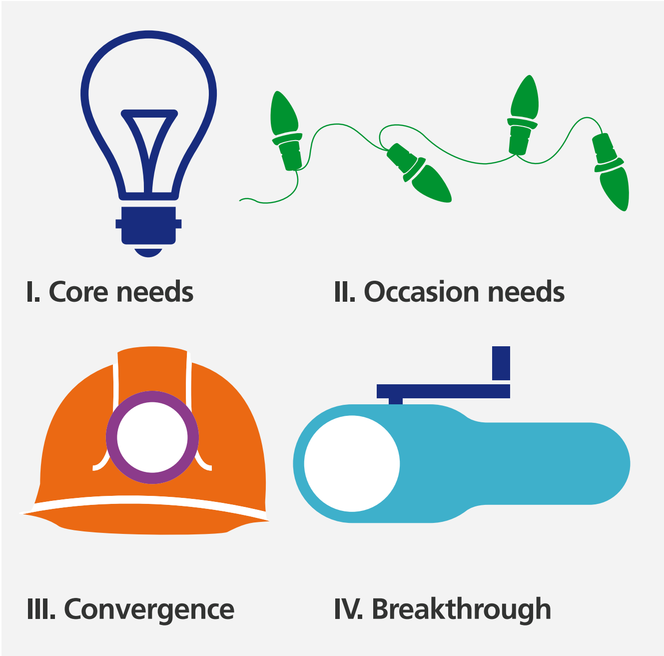
The four areas where opportunities can hide
Our approach precisely interrogates all of the areas in which consumer needs have the potential to intersect with strategic objectives for a business. This informs a precise plan to guide innovation strategy.

I. Core or "cost of entry" needs are those important to nearly all consumers on nearly all occasions. In many cases, the needs are obvious; the vital insight comes in identifying how a client's portfolio and the rest of the market perform on these expectations. The introduction of dollar menus, which played a key role in powering the resurgence of McDonalds, is one example, delivering on the core need for value in the Quick Service Restaurant category.

II. Occasion needs provide a window into consumers' ideal, forward-looking demands. They define the market of the future, rather than today, and there is likely to be strong consumer demand for any product that can deliver against these needs. Health is a powerful example of an occasion need that has been creating opportunities for new products since the 1980s. Activia yogurt, carbonated soft drinks with reduced sugar, chips made with healthy grains and fried in healthier oils: all demonstrate the appeal of products that promise to improve health or address health concerns.

III. Convergence opportunities are possible in every market and category, representing ideal deliveries against consumer needs that transcend the delivery capabilities of a single existing product. Televisions with internet access, smartphones, cosmetics that incorporate moisturisers, snacks that serve as meal substitutes, and Swiffer's combination of the benefits of broom and mop: all testify to the power of convergence needs.

IV. Breakthroughs offer consumers an alternative to trade-offs resulting from the limitations of existing offers, potentially reshaping markets with resultant strong potential for incremental growth. Breakthroughs offer big rewards in return for greater risks that make a precision view of their potential vitally important. Products like Pert Plus, also known as Wash & Go, breaking new ground by combining shampoo and conditioner into one product, and chocolate-covered pretzels that marry sweet and savoury taste experiences, are examples of breakthroughs that have delivered significant incremental growth.



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4. Stick to the game plan
The value of this initial strategy phase depends upon maintaining focus throughout the idea generation and development process. Straying off-course can lead to ideas being expensively re-engineered in ways that actually decrease their likelihood of delivering incremental growth. TNS uses the strategy phase to create a tailored structure that includes critical direction on "must have's", "stay away from's" and unmet needs, and is used to maintain focus throughout development. Known as the Innovation Launch Point (ILP), this plan ensures integrity from concept through to launch, maintaining focus on the areas that can deliver greatest incremental value, and ensuring a faster, better directed and more efficient innovation process that is designed to maximise return on investment.

Putting research back into innovation
An out-dated approach to innovation has too often come up short when it comes to generating the ideas and launching the products that can fill the growth gap for businesses. In the process, it has sadly undermined the perceived value of research within the innovation process. We have become accustomed to the accusation that research blunts innovation, excludes genuinely breakthrough ideas and stifles creativity. Where out-dated research techniques ask the wrong questions of concepts and ideas, this accusation rings true.

There is another way, however. The techniques that TNS has pioneered for scoping opportunities, assessing potential and guiding development put research back at the heart of the innovation process. Our incremental, individual-based approach is proven to improve innovation's success rate by 50 percent, significantly enhancing its impact on the bottom line and demonstrating that the precise application of research can have a transformative effect on innovation's potential to deliver growth. With the growth gap looking bigger than ever, such transformational power has rarely been more valuable than it is today.

50%

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About Opinion Leaders
Opinion Leaders is part of a regular series of articles from TNS consultants, based on their expertise gathered through working on client assignments in over 80 markets globally, with additional insights gained through TNS proprietary studies such as Digital Life, Mobile Life and the Commitment Economy.

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, one of the world's largest insight, information and consultancy groups.

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If you would like to talk to us about anything you have read in this report, please get in touch via enquiries@tnsglobal.com or via Twitter @tns_global

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Steve previously spent over thirty years leading and growing his company Landis Strategy and Innovation into one of the world's leading innovation companies. Landis is now part of TNS' Innovation & Product Development practice area. Throughout his career Steve has worked with global companies helping them define their innovation strategies, generating and developing powerful winning ideas to drive top-line growth. Steve has advised companies on innovation in many sectors including food & beverage, OTC, pharmaceutical technology, leisure and food service.