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Innovation

Target practice

By Daniel D. Chow and Mark Fera

Consumer product innovation is often a hit-or-miss affair—but it doesn't have to be. By letting customers and employees tell them what works and by aggressively culling what doesn't, the industry's high performers are scoring consistently well.

Consumers know them when they see them: Crest Whitestrips, Lysol Disinfecting Wipes, GLAD Press'n Seal Wrap—products that practically invent a need and then become so indispensable that they are profit powerhouses for the companies that brought them to market.

But breakthroughs like these are rare indeed in the consumer products industry—despite record R&D budgets. According to AMR Research, only half of the new-product concepts that are funded ever actually make it to market, and only two-thirds of those generate the forecasted revenues (see chart, page 3). What's more, half of the so-called new products are really just brand extensions that fail to generate much excitement among shoppers. Developing popular new products and elimi-

nating the also-rans is a capability that seems to elude many consumer products companies.

Not so for the industry's high performers, which not only introduce more new products than their competitors but also bring them to market in a mere seven and a half months—five times faster than the industry average of three years from idea to shelf, according to AMR Research. And on average, the same research reveals, top-quartile performers generate 20 percent more revenue from new-product introductions than those in the bottom quartile (see chart, page 4).

How do high-performance businesses do it?

They are successful innovators, first and foremost, because they have developed what Accenture calls actionable insight—the ability

to make informed choices about which new products are likely to be hits with consumers.

Most consumer goods companies try to keep track of shoppers' product preferences in some way. AMR Research shows, for example, that almost 70 percent of companies rely on focus groups for feedback on new-product ideas. But basic market research like this gives only a partial picture of what consumers really want—not the least because consumers often don't really know what they are looking for until they are actually presented with it. For companies to get actionable insight, they must be able to identify needs that consumers might not even know they have and translate them into powerful concepts. By definition, it requires a comprehensive view.

The industry's high performers have developed that comprehensive view by investing in the tools and skills that allow them to mine and synthesize multiple sources of commercial data—order fulfillment rates, sales by type of store and product shipments, as well as broader market trends, competitor activity, and consumer perspectives and feedback.

These companies, in other words, systematize insight management, not just information management or data warehousing. And by systematically channeling the sum of all the information gathered to key functions like marketing, R&D and sales, they turn new-product development into a proactive and targeted process, sustainable over time (see chart, page 4).

Furthermore, they do all this on a global scale, working continuously to understand shoppers' preferences in individual target markets and ensuring that the products they make can satisfy them. This “super-local, super-global” approach led Oakland, California-based Clorox Company, for example, to develop a eucalyptus-

scented bleach, Aires de Bosque, for the Latin American market, where strong bleach odors are widely disliked.

It has also paid dividends for Procter & Gamble in Japan, where the Cincinnati-based company's patient analysis of the preferences and sensibilities of Japanese women led to the development of a version of its Febreze air-care product that has been a huge success in the Japanese market.

Japanese women find the odor of cigarettes so offensive that they often make their husbands—Japanese men tend to be heavy smokers—wash and change their clothes when they come home. But they didn't seem to like the scent of the Febreze room freshener that P&G was test-marketing any better. At first, P&G assumed that the women rejected Febreze because of a general aversion to Western-style products. But after closer analysis of the market research, the company found that Japanese women objected to the strong smell and viscosity of the standard Febreze spray. And when P&G came up with a more subtle scent and changed the spray pattern to a mist, they loved it.

Crowdsourcing

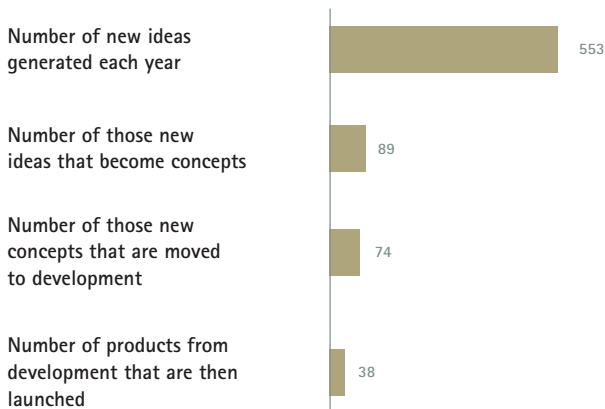
As several successful innovators have learned, opening up the innovation process to the collective wisdom of the crowd can dramatically boost the odds of coming up with the next big idea before someone else does. For most leading consumer products companies, “crowdsourcing” is a way to combine consumer insight and the insights of frontline, customer-facing employees.

For example, from the intelligence generated by its Geek Squad personal computer maintenance services, dedicated focus groups and in-store customer feedback, electronics retailer Best Buy learned that its customers' “ideal” laptop is not only super thin and lightweight and features extra-

Ideas-to-launch ratio

Only half of the ideas that are moved to development ever make it to launch. Not enough research is done up front to determine which products will be most successful.

New products, from concept to launch



Ratio of ideas generated to actual launch

By category

Home and personal care	21:1
Food/beverage/alcohol	13:1
Apparel	9:1

By revenue generated

Less than \$5 billion	8:1
Greater than \$5 billion	20:1

Source: AMR Research 2008 Study

long battery life, optimal screen size and an illuminated keyboard, but also comes with superior warranty support. So the company developed not one but two new laptops to these specifications—one with HP and the other with Toshiba—that are the first in a new line of electronic products developed directly from customer feedback and sold only at Best Buy stores.

Similarly, the Wm. Wrigley Jr. Company sent top scientists, engineers and marketers to hang out with image-conscious teens and young adults, leading consumers of the company's famous gum. They then refined the insights they gained by bringing young people to Wrigley's Global Innovation Center in Chicago, where their reactions to new-product ideas could be keenly observed by the company's chemists and R&D team. The upshot: 5, a sleekly designed pack of gum whose appeal to young consumers lies as much in its bold, brightly colored packaging as in its chewing pleasure.

Some companies define crowdsourcing as design networks—an idea borrowed from the high-tech and auto sectors—that compare the views of suppliers, partners and other external players with those of their own, internal experts. Other companies have expanded the concept, availing themselves of global and often online communities of creative thinkers, inventors and problem solvers, both academic and commercial. A few have gone further still, turning the innovation challenge into contests by using online innovation forums to buy or bid for products developed by freelance inventors and entrepreneurs. UK-based Reckitt Benckiser, for example, solicits ideas via the RB-Idealink on its website.

Others use contests to tap into the expertise of their own employees. Best Buy, for instance, encourages its sales staff to apply their customer insights to participation in an online

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Performance and the innovation gap

There is a large gap between the most innovative companies and those that lag. The top performers launch more than 25 times as many new products, generate higher revenues and get their products to market five times faster.

Performance distinctions of innovative companies



Source: AMR Research 2008 Study

Companies need a host of capabilities if they are to be successful innovators, ranging from quick and effective decision making to sophisticated data integration.

Analytic capabilities necessary for successful innovation

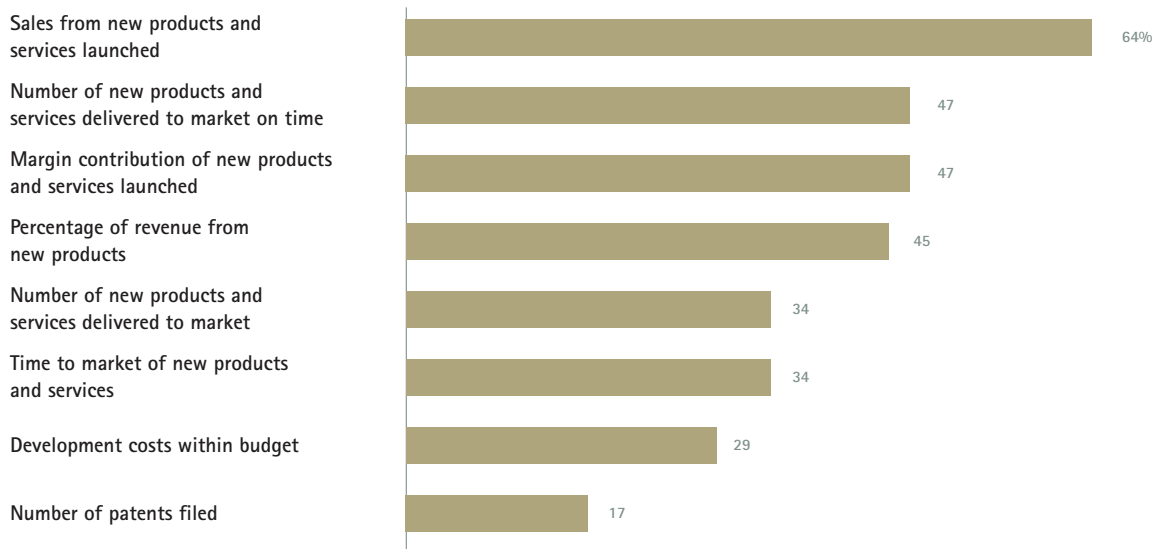
<p>1. Integrated framework for quick decision making and action</p> <ul style="list-style-type: none"> • Aligned with corporate objectives and strategy • Integrated across key commercial functions • Balanced from strategy through execution • Executed through process, people and technology • Segmented delivery by market, channel and customer 	<p>2. Advanced data integration capabilities</p> <ul style="list-style-type: none"> • Normalize data coming from different sources • Harmonize master data (hierarchies) • Manage data inconsistency • Guarantee data flexibility 	<p>3. Commercial insight journey</p> <ul style="list-style-type: none"> • Achieving insight capabilities and enabling tools and solutions typically happens through progressive steps 	<p>4. Key processes and technology sustain performance decision making over time</p> <ul style="list-style-type: none"> • Capitalize on alliances from previous commercial intelligence projects
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Source: AMR Research 2008 Study

Keeping score

Companies use a range of metrics to evaluate new-product success, including basic sales data as well as time to market and number of patents.

Most common consumer metrics used to evaluate new-product success



Source: AMR Research 2008 Study

(Continued from page 3)

“prediction market” called TAGTRADE. The employees make forecasts about what they think will happen with a particular company initiative—holiday sales of a specific new product, for example—and the players with the most accurate predictions receive a small cash prize or an iPod. TAGTRADE has often proved more accurate than the manufacturer’s forecasts.

Successful conversion

P&G, nearly half of whose product inventions now originate outside the company, credits these kinds of open innovation initiatives with driving much of the company’s average 6 percent organic sales growth since the beginning of the decade. However, the swift, successful conversion of good product ideas into consumer hits requires much more.

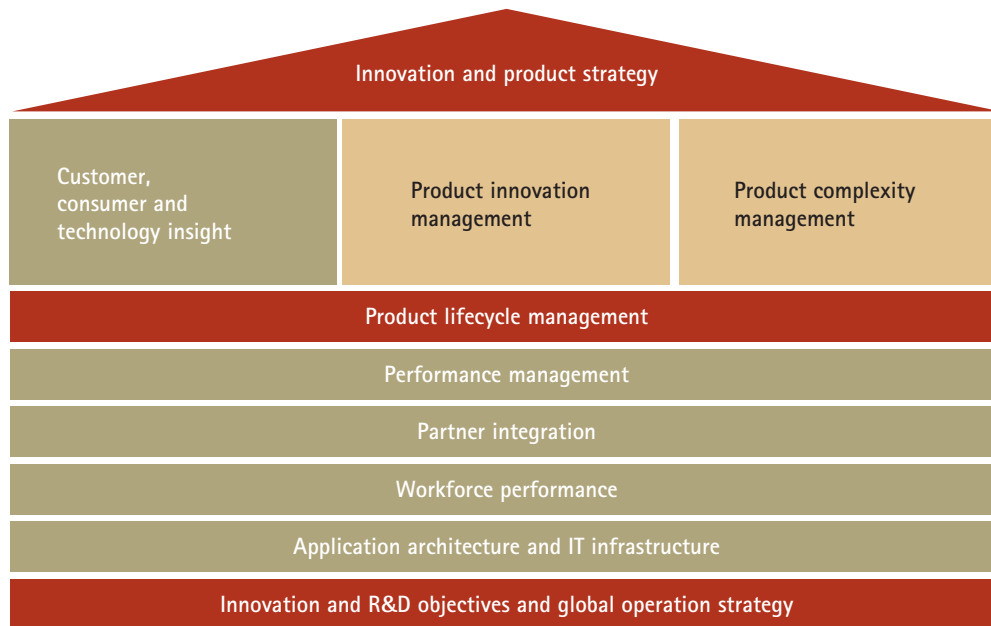
Developing the sense of perspective that can balance short- and long-term innovation bets is obviously

important. So is making sure that the right number and type of projects are being worked on—a decision that will vary widely, of course, from company to company and depend largely on growth targets and other specific strategic concerns. Leading companies also recognize that each new-product development project is different, especially in terms of the time required to complete the separate stages of development, and they make certain that processes are flexible enough to handle this variability while still ensuring that they can deliver the products swiftly and efficiently into the marketplace.

New-product development, in fact, greatly complicates the manufacturing process and can involve lengthy launch times, so the overall efficiency of all processes is critically important. Without it, decision making can fragment, and governance, processes and programs become misaligned, extending lead times even further.

The Accenture Innovation and Product Strategy Framework

Companies need an overarching approach to product lifecycle management that addresses performance management, partner integration, workforce performance, application architecture and IT infrastructure.



Source: Accenture analysis

Most companies still rely on home-grown, piecemeal processes and programs for product lifecycle management. Leading companies, by contrast, recognize the value of an overarching approach—one that addresses performance management, partner integration, workforce performance and IT infrastructure in the interests of broader product innovation strategy (see chart, above).

Leading innovators also support these initiatives appropriately, by running a leaner pipeline while building some slack into development plans and production schedules to avoid delays, for example, or by cross-training employees so they can be redeployed to break any bottlenecks that may occur.

A cross-functional approach is essential. Reckitt Benckiser, for example, involves its brand and marketing managers in innovation programs. And the R&D department at Crayola,

a children's arts and crafts manufacturer, regularly exchanges ideas with the rest of the company—as well as with the hordes of kids (and their parents) who throng the Crayola Factory, the company's hands-on tourist attraction in its hometown of Easton, Pennsylvania. The kids and parents try out the paint and crayon products and provide feedback and ideas for new products.

Clorox, meanwhile, formed a cross-functional team with a leading US retail grocer to boost sales of its recently rejuvenated Kingsford charcoal brand. Though the retailer's customers preferred the Kingsford product, they couldn't always find it in-store. When they did, its most attractive new feature—"Sure Fire Grooves," which help the charcoal light faster, burn longer and make food taste better—was far from obvious. So Clorox and the retailer collaborated to beef up the product's on-shelf positioning by promoting

the special pleasures of the Kingsford grilling experience. The upshot: a 13 percent increase in the retailer's sales of Kingsford grilling products within a year of implementing the promotional plan.

Portfolio optimization

Developing products with characteristics and attributes that consumers find especially attractive increases each new item's unique potential value. And that, of course, strengthens the business case for each new product, and makes it easier to spot (and shed) products that add little differentiation to the portfolio. Which is why, instead of putting more and more products into the marketplace, as most companies still do, leading companies make portfolio optimization—managing product complexity and intelligently paring SKUs—a top priority.

Witness, for example, the experience of one global beauty and cosmetics company that successfully eliminated almost 30 percent of its more than 40,000-SKU global product portfolio after carefully analyzing just what consumers valued about each one. With its sales and marketing teams now free to focus on the right mix of the most profitable products, this company is set to boost margins beyond its initial forecasts.

Leading companies also measure the success of their product decisions differently. AMR Research reveals that most consumer products companies use sales, not profits, to determine

whether or not an item or product line should continue to be produced (see chart, page 5). But leading companies recognize that profitability is critical as well. In fact, it is *incremental* sales and incremental profits that best measure a new product's success—especially when compared to other products in the category or segment.

Neither sales nor margin measures work very well in isolation, to be sure. Product decisions based purely on profitability data, for example, distort the view of winners and losers because they don't take operational costs into account. Balancing and optimizing the range of products against the total supply chain cost from origin to destination, or cost-to-serve, is the way to go. Reckitt Benckiser, for example, boosted the market share of its well-established Air Wick brand with incremental add-ons like Air Wick electrical oils and Air Wick Xpress products.

There are plenty of reasons for the unchecked product proliferation that blights much of the industry. Every product has its brand and sales team champion. And maintaining hard-won retail shelf space with fewer products can be tough. Most companies conduct annual portfolio reviews. But because of internal turf wars, too few make deep enough cuts in the number of SKUs they offer to retailers. And ironically, when they do attempt to make cuts, they often end up eliminating the very products that occupy a unique position with consumers.

Leading companies tackle the innovation challenge differently from their competitors. They recognize that an overstuffed product portfolio confuses consumers, dilutes the brand equity behind the product—especially if a high proportion of its contents look much the same—and drives up back-end costs. Process discipline and a cross-functional approach to product lifecycle management plainly help the industry's high performers achieve superior returns on their innovation investments.

But what really distinguishes them as innovators is a powerful drive to understand—and please—the people who buy their products.

About the authors

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