Is Your Consumer Packaged Goods Innovation Engine Running on Empty?

by Adi Alon and Brian Doyle
Far from firing on all cylinders, most Consumer Packaged Goods (CPG) innovation engines are sputtering.
Successful innovation turns new ideas into measurable value creation opportunities for both companies and their customers. Yet only 26 percent of CPG companies believe that their innovation efforts deliver sustainable competitive advantage.\(^1\) Despite high levels of R&D investment—home and personal care companies, for example, typically spend as much as 2.3 percent of revenues on R&D\(^2\)—significant revenue growth from innovation remains elusive.

Not so, however, for industry leaders. By abandoning the traditional single-engine approach to innovation in favor of a new, two-stroke strategy, a few top companies have been able to power ahead. And their experiences reveal some surprises.

### Not fit for purpose

Few companies would readily acknowledge it, but most CPG “innovations” are actually renovations—incremental changes to existing products.

Given recent history, that’s scarcely surprising. SKU counts have risen inexorably, in line with the sector’s global expansion. What’s more, in their zeal to protect consumers, regulators are mandating ever more rigorous product standards. Small wonder that, rather than strive for the game changers that deliver new value for consumers, 67 percent of CPG companies tend to pursue the safe option: maintaining market share through line extensions.\(^3\)

Over the past three decades, the number of products available in the average supermarket has more than quadrupled.\(^4\) Most of these products, however, are simply brand refreshes. And consumers have had enough.

Today’s shoppers want not more choices, but better ones. Irritation runs especially high in developed markets, where most products debut.\(^5\) In the US, the majority of new CPG products record less than $10 million in sales in their first year. In Europe, only seven out of 12,000 product introductions generate more.\(^6\)

Swollen product portfolios require significantly more renovation, of course. But by raising unit costs and slowing speed to market, the over-engineering of renovation is hindering true innovation. Anecdotal evidence suggests that R&D teams are spending as much as half their time on repetitive tasks, redundant designs and aimless experimentation.\(^7\)

Plainly, the single-engine innovation approach is not only wasteful. It’s also unfit for either purpose—renovation or innovation.
Renovate better to innovate better

The inefficiencies of the current product renovation approach have driven leading players to seek to improve it, largely by leveraging digital technologies to streamline and simplify their processes. The results are impressive.

Consider, for example, Procter & Gamble's "virtual reality centers"—3D store environments that use virtual reality to test packaging design. As a result of using them, according to Filippo Passerini—former P&G Group President, Global Business Services and Chief Information Officer—what used to take the company weeks to complete now takes days or hours.8

Such efforts have also exposed an unexpected symbiosis. More efficient renovation doesn’t just accelerate speed to market for existing products. It also frees up both financial and human resources to focus more effectively on true innovation. In addition, it delivers those innovations to new markets a lot faster.

Leading companies have discovered that faster, more efficient product renovation actually drives swifter, more effective product innovation. Two complementary innovation engines—one focused on renovation, the other on true innovation, working in tandem, and enabled by digital technologies—are proving significantly better than just one.

Renovation complements innovation: one simply wouldn’t work without the other. Both, however, must be optimized to deliver the sales boost the sector so badly needs.

Two engines are better than one

Instead of combining their renovation and innovation engines, leading companies have separated them. The two engines share common goals: maximize return from the company's innovation investment while building and sustaining competitive advantage. But they approach these goals rather differently. Furthermore, the measurement and management of innovation, speed, risk, and product portfolio, as well as the skills required to run each engine, are interpreted differently—in subtle yet critical ways.

Speed to market vs. speed to learning

The concept of speed is critical for both engines—but with important distinctions.

For the renovation engine, which needs to maximize revenues, the essential performance indicator is speed to market. A successful renovation engine leverages digital technologies to reduce the time that R&D resources spend on low-tech, low-value, low-risk activities, cutting product iterations to a minimum. Consider, for example, how Salesforce.com’s embrace of a simple, agile R&D process with a common language has helped keep its Cloud services' renovation engine lean, nimble and swift to market.9

By contrast, the success of the innovation engine hinges on speed to learning: how quickly new ideas can be gathered, absorbed and acted on to drive “the next big thing.” P&G, for instance, designed its Connect + Develop open innovation program to harness as wide a universe of external ideas as possible, and to enable its new product innovation engine to learn from these ideas—efficiently and at speed. The initiative has resulted in such key product innovations as the Scope Outlast mini-brush, Tide Pods and the Swiffer Duster.10
Risk avoidance vs. risk management

The renovation engine needs to minimize risk—hence the importance of applying a traditional stage-gate approach to minimize (and even remove) development risk. For the innovation engine, however, which needs to embrace risk in order to drive break-through product, service or solution development, risk management is the critical consideration.

When, for example, Netflix decided to invest US$100 million in producing “House of Cards,” it wasn’t looking to minimize risk through a traditional gating process—but rather to manage it (hence the media maven’s use of Big Data and advanced analytics to inform its investment and support decisions regarding lead actor, producer and content).11

Measuring efficiency vs. measuring effectiveness

Efficiency is key to the success of the renovation engine. Operational KPIs such as cycle time and stage-gate adherence predominate. For the innovation engine, however, quality factors are more important: the novelty of new ideas and their potential as drivers of long-term value.

AT&T, for example, leverages KPIs from an internal platform called The Innovation Pipeline (TIP) to help measure the success of its innovation organization—the number of ideas generated and the number of contributors. This dynamic, online crowd-sourcing platform, which brings together the creative talent of AT&T employees worldwide, pitches its best ideas to AT&T executives who determine funding.12 Much as a venture capitalist invests in a broad portfolio of companies before knowing which of these investments will actually pan out, these executives are building a portfolio of early innovation experiments and prototypes that act, in effect, like options.

Portfolio management vs. platform management

Traditional portfolio management processes and dashboards can help optimize the product mix in renovation portfolios, which are geared toward managing a large number of smallish initiatives. But the innovation engine, which functions as a platform for taking fewer, bigger bets, needs to be managed with a higher degree of executive focus. It requires integration across functions and the strategic agility to enable either course correction or the expansion of original concepts.

Unilever, for instance, has created one global organization—more interconnected and flexible, as well as more efficient, and (crucially) fully supported by executive leadership. As a result, Unilever has enabled its R&D teams to learn from their mistakes and focus on fewer, bigger innovation initiatives.13

Excellent operators vs. outstanding creators

Because it focuses on process and execution, the renovation engine needs skilled and efficient operators. But the innovation engine requires additional skills: creativity, integration and flexibility among them. Pixar, for example, is looking for three key traits in its highly productive animation innovation engine hires: story telling, humor and excellence.14

Crucially, however, R&D resources need to be balanced in order to ensure the complementarity that’s key to the success of the two-engine approach. Case in point: the R&D talent pool at one large CPG company has plenty of innovators and creators—but because of operational skills gaps its renovation engine has experienced poor time to market.
Shifting gears

Most CPG companies have yet to recognize that the traditional, single-engine approach to innovation has had its day—let alone to adopt the radically new, two-engine approach that distinguishes top players. Research shows, for example, that barely a third are currently investing in analytics capabilities.15

By transforming their R&D processes into accelerators of both more efficient product renovation and more effective product innovation, companies could create more value for customers and drive new growth for themselves.

To get a head start, and strengthen your chances of innovation success in the future, there are several steps your company could take now:

1. Take a good, hard look at the performance of your current innovation engine. Are you late to market? Is innovation ROI falling below your expectations? Are you short of innovation resources?

2. Decide which of your innovation activities are actually renovations, and which drive “true” innovation. Could you make better use of digital technologies to improve one or both of them?

3. Start thinking about how you might balance the efficiency of a renovation engine with the effectiveness of an innovation engine. Are those two engines properly defined? Could you overhaul your operating model to optimize their complementarity?

With CPG revenues slumping, getting breakthrough innovations off the ground is becoming an urgent necessity for all players. The time to start considering your options is now.
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