

A true test of

To achieve game-changing innovation and avoid cannibalisation, new products should be researched for their incremental growth potential at the concept screening stage

By David Soulsby, *TNS Global*

The Nobel Prize-winning chemist Linus Pauling once declared: "The best way to have a good idea is to have lots of ideas." He's half right. Having lots of ideas is a great start, but it won't get you very far unless you can recognise which are the good ones. Most companies have lots of ideas; far fewer end up developing and launching the right ones.

An efficient innovation process requires making the right calls about potential winners before the expensive and resource-hungry business of product development even begins, at the stage known as concept screening. Once significant time and money has been spent developing a product, it becomes difficult to put the brakes on. If innovation is to deliver value to the bottom line, then it is essential to get concept screening right.

Take a trip to the supermarket and it's easy to see the type of 'innovation' that traditional concept screening favours. The vast majority of new launches are familiar (and not particularly innovative) brand extensions: new flavour, new easy-to-close pack, with added vitamins, or similar. If you want to find genuine game-changing innovations, you may be scanning the shelves for a while.

Why are innovation processes delivering so few genuinely innovative products? The simple answer is that many of the most innovative ideas don't make the cut because concept screening ignores their transformative potential, and instead favours products that existing customers are likely to buy.

Traditional screening judges concepts based on an aggregate projection of total sales, regardless of where those sales come from. To judge ideas' true potential, it needs to start looking at the incremental sales (or growth) they could deliver. And to do this accurately, researchers need to replace traditional aggregate analysis with an individual-based approach. Decision-makers should really be interested in whether a new launch will grow overall revenues; what they tend to be told instead is how many units it will sell. These two things are not the same.

Traditional concept screening evaluates ideas among (150–200) target consumers across a selection of metrics (purchase intent being the most common) to determine whether they clear a 'success hurdle' and merit further development.

But, potential take-up for a product actually has a weak, negative correlation to the incremental growth that the product is likely to deliver. Looking at the typical concept screening process, we can see why. Consumers usually respond more positively to an idea that includes a familiar brand, with values they already understand, for example an orange-flavoured KitKat or a new pack format for a popular washing detergent. However, the people most likely to be attracted to such products are existing

buyers of the parent brand, and therefore the products come with a high risk of cannibalisation that erodes incremental growth. Take-up is of far less value to a company if the sales come at the expense of the parent brand, particularly given that the margin on new products is typically lower than on existing products.

Therefore, the number of people who are likely to buy your new product tells you only part of the story about how valuable that launch will be in terms of growth. TNS data, across a range of consumer goods categories, shows that 40% of decisions made during concept screening would be different if companies looked at the incremental value a product would deliver, rather than simply how popular it was likely to be.

Kodak is one of many that would have benefited from a different perspective during concept screening. Its Kodak Funtime film was taken off the market within months after it proved hugely popular among 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.

An incremental view is absolutely essential if innovation is to deliver the growth expected of it by companies. This isn't just a question of weeding out cannibalistic ideas; it's a

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innovation

matter of providing clients with a full, informed picture as a basis for their decisions – an opportunity for discussions about precisely what the company needs to achieve in the market and the role that innovation should play in that strategy.

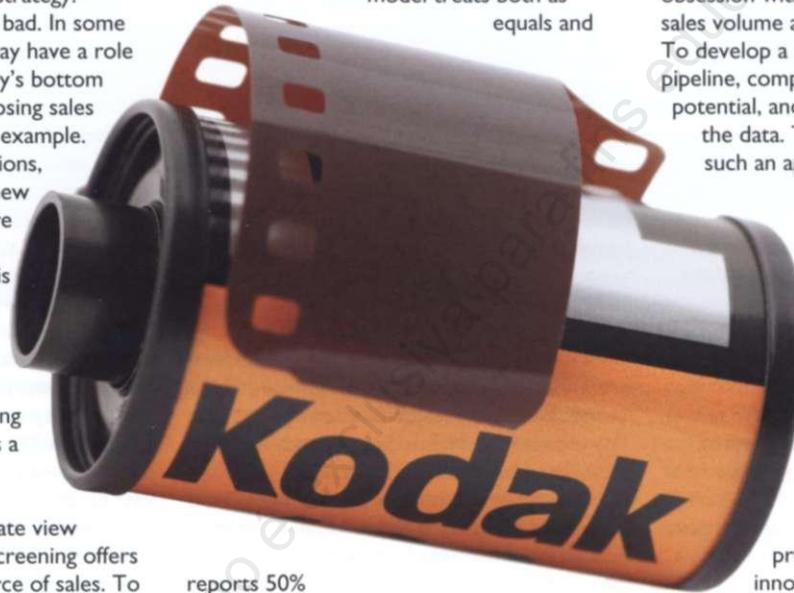
Cannibalisation isn't always bad. In some cases, cannibalistic products may have a role to play in protecting a company's bottom line; where a parent brand is losing sales or is threatened by a rival, for example. Yet in such finely poised situations, a detailed understanding of a new product's impact is all the more important. Blinding oneself to the dangers of cannibalisation is never an effective approach to planning successful innovation.

Switching to analysing incremental growth potential isn't just a simple case of looking at different metrics; it requires a fundamental overhaul of the analysis behind the concept screening process. The aggregate view traditionally used in concept screening offers a very limited view of the source of sales. To accurately predict the incremental value a new launch will deliver requires an individual-based model that looks in detail at each respondent's repertoire of purchases and analyses how the new product will affect it.

Traditional aggregate modelling approaches give all respondents equal weight and take an average of their response, which does not reflect reality. Instead, we need to use individual-based approaches to concept screening. And when we do this, the difference is dramatic. Individual-based modelling doubles the accuracy of growth forecasts by reflecting existing buying patterns and purchase frequency, and applying insights about likely switching behaviour.

A simple scenario illustrates the very different results that aggregate and individual-based approaches deliver. One respondent reports she will buy a new product once a

week – but her purchases will be entirely cannibalistic of the company's existing brands. Another subject reports she will buy the new product once a year, but this purchase will supplant that of a rival brand. An aggregate model treats both as equals and



reports 50% cannibalisation. An individual-based model takes purchase frequency into account and reports the true cannibalisation rate: 98%.

The individual approach also allows you to give extra weight to the views of more future-oriented consumers, which is an important component of spotting more radical innovation that doesn't have mainstream appeal. When this view of incremental growth is the dominant measure in the concept screening process, very different winning ideas start to emerge from the pack. Firstly, 45% of ideas that previously occupied the top quartile of concepts to be progressed drop out altogether, ruled out as offering limited benefit to the top or bottom line.

At the same time, 10% of concepts that would traditionally be rejected leap into the highest-potential group. These concepts are often highly innovative ideas that may not

appeal as widely across the general population; but are more likely to draw new consumers to a brand or category, and are therefore highly incremental.

Innovation is being strangled by an obsession with mainstream potential, absolute sales volume and aggregate data analysis. To develop a balanced and healthy innovation pipeline, companies need to look at growth potential, and take a less democratic view of the data. The screening that results from such an approach will be more sympathetic to truly

innovative ideas – and more likely to recommend products that add real value to the bottom line. Imagine how many potential iPads, Red Bulls and Innocent Smoothies have perished at the hands of a blunt screening process before they had a chance to flourish?

Marketing research is often presented as the enemy of true innovation. It doesn't have to be this way. By providing decision-makers with the full strategic context, an incremental view gives genuinely stretching ideas that can grow markets a better chance of 'making the cut' in the early screening process. In forcing concepts that leverage an existing brand to show they can actually increase that brand's overall value, it ensures all ideas stand on their merits.

If companies are serious about making innovation the engine of growth, then it is essential they adopt a concept screening approach that is fit for purpose – one that prioritises ideas with a genuine contribution to building the business. Their investment in the future deserves nothing less.

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