SETTING THE RECORD STRAIGHT ON INNOVATION FAILURE

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ARE SMALL BRANDS REALLY BETTER AT INNOVATION?

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The failure rate of new products has always been high. However, in recent years, a number of nimble upstarts have emerged as fierce competitors to well-established category leaders. Their success has driven many large manufacturers to question whether their resources, scale, and processes are weaknesses that should be discarded in favor of a new “agile” play-book emulating these emerging competitors (or the tech titans of Silicon Valley). In doing so, it is easy to forget that the most prominent new players represent a very small sample, and there are many others who failed to gain traction along the way.

FOR EVERY DOLLAR SHAVE CLUB THERE ARE MORE THAN A FEW 800RAZORS.

In a recent paper, the Ehrenberg-Bass Institute for Marketing Science pointed out that, for every Dollar Shave Club, there are more than a few 800Razors. In fact, because so many startups never achieve a size large enough to be tracked, capturing the failure rate is impossible. In short, innovators tend toward “survivor bias”—a phrase coined by the Ehrenberg-Bass Institute:

“Small brands are able to post higher percentage growth than large brands because any growth is from a low sales base. But they are also more likely to fall completely out of the market than big brands. ‘Survivor bias’ can cause another error in analysing growth: it’s only the shares of surviving small brands that are tracked so the average performance of small brands is inflated.”[1]

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Nevertheless, the belief endures that these small players are doing something right, and this "something" is a function of being small. Is it better targeting through digital media? Streamlined pre-market testing protocols? The ability to test and learn in-market because they rely less on traditional retailers? Setting aside the matter of whether these tactics are actually deliberate choices or the only available choice due to limited resources, large manufacturers have started to adopt these methods in pursuit of a new formula for success.

QUESTIONS LIKE "WHAT MADE HALO TOP ICE CREAM SO SUCCESSFUL?" AND "HOW DO WE CONSISTENTLY LAUNCH MORE SUCCESSFUL INNOVATIONS?" DON'T NECESSARILY HAVE THE SAME ANSWER.

However, we must realize that questions like "What made Halo Top ice cream so successful?" and "How do we consistently launch more successful innovations?" don't necessarily have the same answer. In fact, a replicable formula for innovation success is more likely to come from scrutinizing the patterns revealed by postmortem analyses of failed launches—approximately 80-85% of all fast-moving-consumer-good (FMCG) launches—than from rare case studies of category disruptors.

Looking across thousands of product launches, we've observed three common causes of innovation failure that often don't get the attention they deserve:

1. Neglecting to address a broad consumer need
2. Failing to provide a good product experience
3. Providing insufficient marketing support

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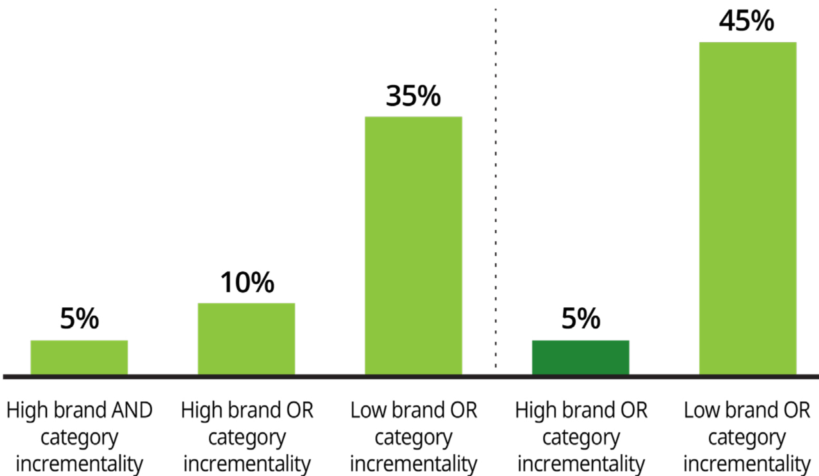
THREE COMMON CAUSES OF INNOVATION FAILURE

#1 - NEGLECTING TO ADDRESS A BROAD CONSUMER NEED

Approximately one half of initiatives tested don't effectively articulate to consumers how they deliver on a broad consumer need. In some cases, such as when the proposition is premium or targeted to a very specific audience, this is by design. Still, for a "niche" brand to have a chance of success, it must be incremental to the brand or to the category—ideally both. However, our preliminary R&D reveals that only 5% of concepts that lack broad appeal will deliver above-average incrementality to the brand. In other words, launches considered niche are rarely incremental and could actually shrink the brand depending on how much support is misdirected to them. These findings corroborate the empirical analysis conducted by the Ehrenberg-Bass Institute for Marketing Science which suggest that, while successful niche launches are possible, they are extremely rare. Therefore, while the use of newer technologies that allow for more targeted communications and new distribution strategies (e.g., e-commerce launches, regional launches, etc.) can provide a boost for targeted products, the safest and most realistic path to innovation success is to develop a product with broad appeal.

ONLY 5% OF CONCEPTS THAT LACK BROAD APPEAL WILL DELIVER ABOVE-AVERAGE INCREMENTALITY.

BREAKDOWN OF EVALUATED INNOVATIONS



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THE HIDDEN COST OF VALIDATING A CONSUMER NEED POST-LAUNCH

A common chapter in the "agile play-book" adopted by many large FMCG brands focuses on in-market iteration. The process goes like this: having identified a potentially promising need state to target, a product is placed in an e-commerce environment. Through rapid A/B testing or actual transactional learning, the brand gathers insights to validate the consumer need and provide direction on how the product can be improved. The fact that these incubated launches are of smaller scope and seem to have no opportunity costs suggests that there are no financial consequences to failing fast and learning.

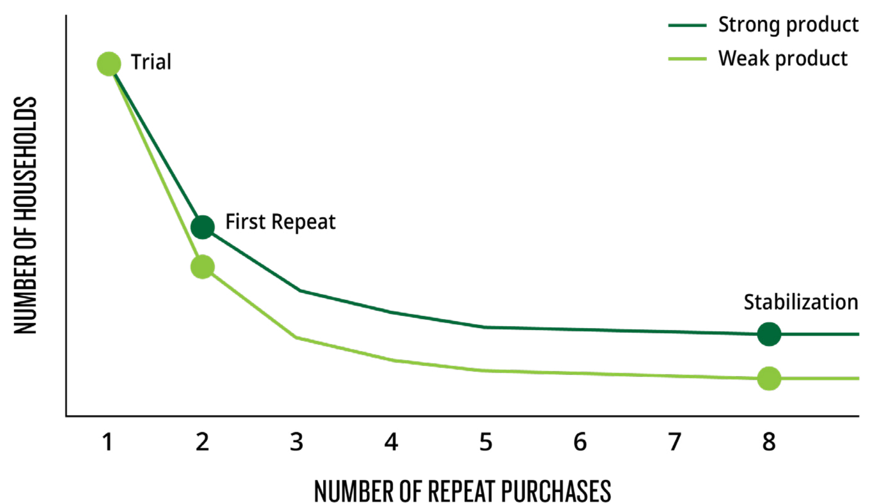
This couldn't be further from the truth. In a world of shrinking research budgets and timelines, the effort required to properly launch, track, iterate, and repeat a series of conclusive in-market tests certainly isn't trivial. Ironically, if there are advantages that smaller brands have over entrenched competitors, it would be more time and focus, not less. This isn't to say that small players don't feel pressure to launch to market quickly—they do. However, they don't have to contend with "sibling brands" competing for resources from the parent company or pressure from financial markets to show more immediate returns. Said another way, a smaller brand does not have to wrestle with the question, "Should we invest in the innovation, or should we put this money behind our established brand?" The only option is to innovate. In the case of large brands, there certainly is an opportunity cost worth considering: allocating resources to a losing launch that could've made a big impact elsewhere.

#2 - FAILING TO PROVIDE A GOOD PRODUCT EXPERIENCE

Manufacturers striving to be more agile are streamlining their product testing prior to launch, increasing the likelihood that consumers' first experience with their products will be suboptimal. In a recent survey of more than 350 innovation professionals, 47% confessed that testing and refining the product experience tends to suffer most compared to other stages of the innovation process when speed to market is a priority.[3]

47% OF INNOVATION PROFESSIONALS CONFESSED THAT PRODUCT TESTING TENDS TO SUFFER MOST WHEN SPEED TO MARKET IS A PRIORITY.

In addition to ensuring a good initial usage experience, product experience is a key driver of long-term success. Brands often overestimate the loyalty of repeat buyers. On average, it takes approximately seven repeat purchases for a consumer to become a truly loyal buyer.[4] Between the trial purchase and the first repeat purchase, a brand will lose approximately half of its buyers. From the first repeat purchase to the second, the brand will again lose half of the remaining buyers. This cycle continues until it stabilizes—around the eighth purchase. Without a strong product experience, brands won't make it to that eighth purchase, especially given the proliferation of new entrants, promotions, and unavoidable variety-seeking.



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With the world's largest product testing database, BASES has observed that initiatives with strong product performance are 15 times more likely to succeed in market than those with poor performance. Moreover, those that BASES deems "not ready" on product-driven dimensions but launch anyway have an 80% failure rate in-market. The difference between a strong and a weak product experience can result in sales difference of 30% in year one. Closing this gap through fast, efficient pre-market testing has considerable advantages over experimenting in-market.[5]

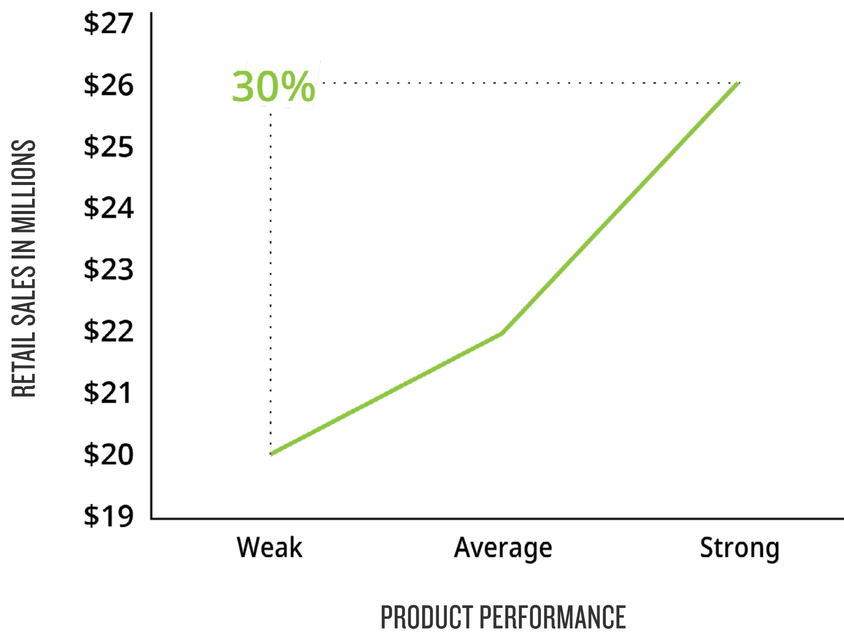
80%

FAILURE RATE FOR LAUNCHES DEEMED "NOT READY" IN PRE-MARKET PRODUCT TESTS BUT LAUNCH ANYWAY

30%

GREATER YEAR-ONE SALES FOR LAUNCHES WITH STRONG PRODUCT PERFORMANCE OVER THOSE WITH WEAK PERFORMANCE

RETAIL SALES MAPPED TO PRE-MARKET TEST PERFORMANCE



Assumes a typical food product category, 1SKU, $3.30 retail price, 68% year-end distribution, $7M advertising spend, average trade/consumer promotion, and no competitive order of entry effects. Database rank assumes purchase intent, value, claimed units, and claimed frequency all fall into these respective quintiles. "Average" performance equates to a database ranking in the 50th percentile.

Why products should be thoroughly tested prior to launch

Following Silicon Valley's lead, some innovators believe that optimizing the product post-launch—introducing a small batch, monitoring the results, revising the product, re-launching, and repeating the cycle—is the best method. In practice, we've found that software development strategies are not so seamlessly applied to physical consumer products. Whereas consumer expect software to have bugs that will be corrected within days of being identified, they don't expect FMCG brands to release food or personal care products with updated formulations weeks or months later. When the initial product experience doesn't win over consumers, they are highly unlikely to purchase that product a second time. Moreover, altering the initial formulation of a product can cause backlash from those consumers who preferred the original version.

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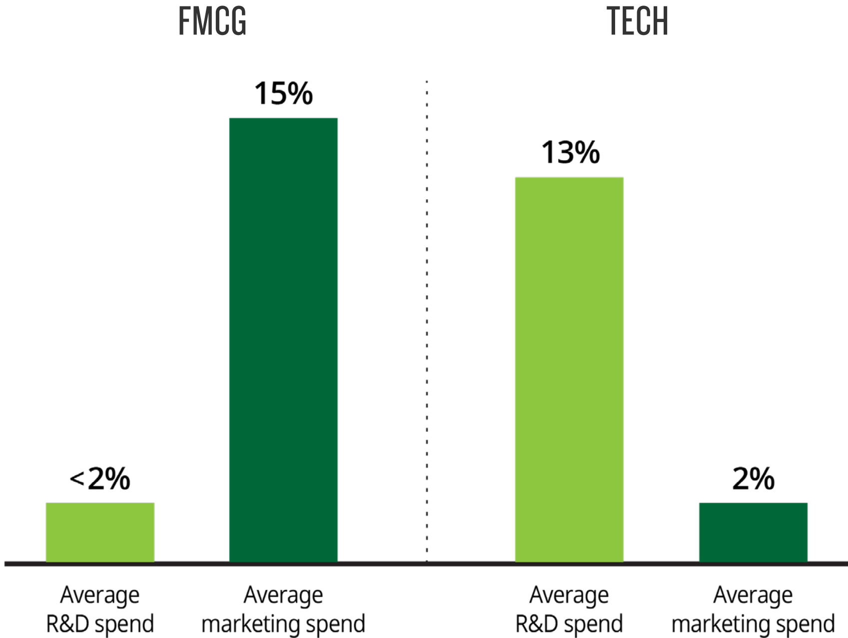
Practically speaking, the user experience of FMCG products can't be meticulously tracked and improved with a simple app update. Moreover, in-market product tests are time-consuming and expensive; consumer feedback can be difficult to dissect; there is risk of exposing the innovation to competitors; and there is always a risk that poor product reviews will endure on social media in perpetuity, ultimately harming trial rates down the line.

Interestingly, a recent analysis of budgeting in the FMCG and technology sectors revealed that technology companies tend to dedicate significantly more of their budgets to R&D and significantly less to marketing, compared with their FMCG counterparts.[6] If anything, FMCG brands should spend more time developing and refining their value proposition.

Taking a step back, we should ask ourselves why some brands believe that post-launch product tests are inherently better. While these tests provide a real-life environment, tried-and-true predictive methods exist that don't require unnecessary risk, complexity or expense.



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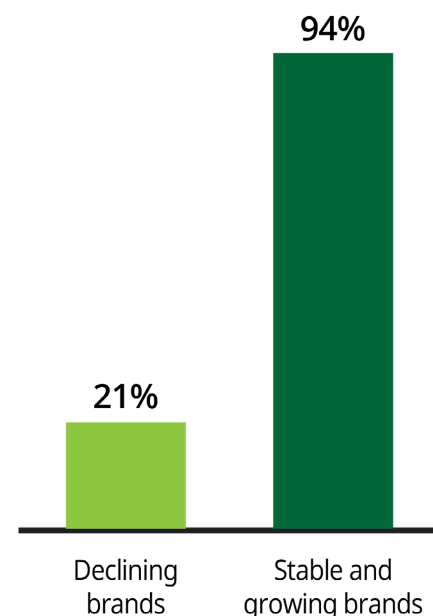
#3 - PROVIDING INSUFFICIENT MARKETING SUPPORT

A review of 600 product launches across multiple markets and categories revealed that one-third of the initiatives failed as a function of insufficient marketing support.[7] Interestingly, an exceedingly strong product or proposition would've made little difference for these launches—they simply didn't have the baseline marketing support needed to get the ball rolling.

Unfortunately, marketing support challenges tend to stretch beyond year one. To remain competitive in year two, products can't rely only on repeat customers—they also need a healthy influx of new triers. Because sustained trial demands a continued and growing awareness of the product, an investment in media is typically required to keep the product fresh in consumers' minds. Despite this reality, budgets are often cut after year one, which erodes sales velocities. Eventually, this results in a loss of distribution and inevitable decline in years two and three. This chain reaction explains why two-thirds of new products decrease in volume during their second year in market.



Overly-optimistic planning is a common culprit

Though these problems become apparent after one or more years in market, they begin much earlier in the innovation planning stage. Based on a recent analysis of 80 randomly-selected U.S. product launches across multiple categories, most of the variance between the initial forecasted sales estimates and the actual in-market performance could be explained by overly-optimistic marketing assumptions. The average volumetric difference between these two scenarios—planned vs. actual support—was approximately 30%.[8]

> **THERE'S A CONSISTENT BIAS TOWARDS SIGNIFICANTLY OVERSTATING THE ANTICIPATED LEVEL OF MARKETING SUPPORT.**

Regardless of client, country and category, many similar analyses we've conducted over the years tell the same story: there's a consistent bias towards significantly overstating the anticipated level of marketing support.

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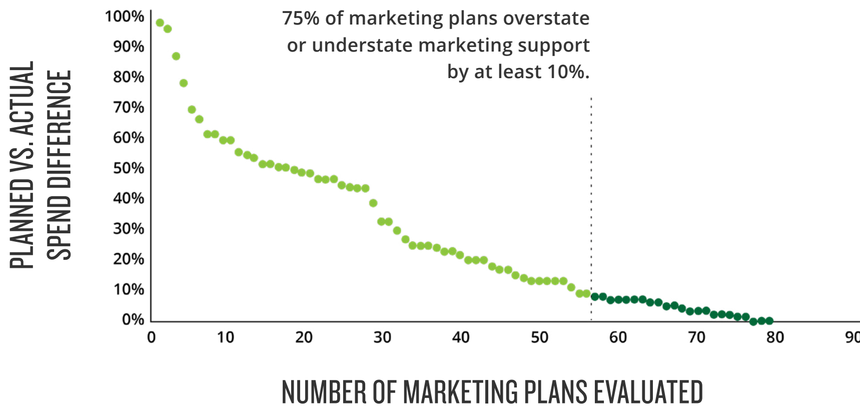
One could argue that it's impossible to predict accurately what will happen when the product finally launches; innovation cycles can take months or even years, during which time both internal budgets and the marketplace can shift considerably.

> **BASES FORECASTING TEAMS HAVE PARTNERED WITH SELECT CLIENTS TO REDUCE THE VARIANCE CREATED BY FAULTY ASSUMPTIONS FROM 30% TO 5%.**

Over the past few years, BASES forecasting teams have partnered with select clients to improve the accuracy of marketing assumptions, reducing the variance created by faulty assumptions from 30% to 5%.[9] As objective arbiters free from internal politics and priorities, the BASES forecasting teams leverage category benchmarks, past execution history, and known best practices to make considerably more accurate predictions of expected levels of support. Though it requires effort, skill and access to the right information, we know that predicting accurate marketing inputs in advance can be done.

MARKETING PLAN ANALYSIS (EXPECTED VS. ACTUAL SUPPORT)



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CONCLUSION

While many of the positions stated here are not necessarily popular, there is robust data to support them. New methods, interfaces and frameworks can be valuable, but they're no substitute for addressing more fundamental challenges that continue to plague many manufacturers. The principles driving innovation success remain relatively simple on the surface:

- Invest in a good idea
- Transform it into a fantastic product that delivers on the promise
- Effectively support the brand in year one so it has a chance to compete
- Have the patience to drive enough penetration to build sustainable volume
- Maintain organizational focus on only those innovations that will drive overall brand growth

The easiest path to the first page of search results, positive social media mentions, and a five-star rating is to offer a fantastic product experience that delights consumers.

NEW METHODS, INTERFACES AND FRAMEWORKS ARE NO SUBSTITUTE FOR ADDRESSING MORE FUNDAMENTAL CHALLENGES THAT CONTINUE TO PLAGUE MANY MANUFACTURERS.

SOURCES

[1]Ehrenberg-Bass Institute for Marketing Science, "Are Big Brands Dying?" October 2017

[2]Ongoing BASES R&D analysis

[3]BASES client survey, May 2017

[4]BASES R&D analysis

[5]BASES R&D analysis

[6]CircleUp, "The Product Launch Fallacy of Big CPGs," March 2017.

[7]BASES R&D analysis, 2017.

[8]BASES R&D analysis, 2017.

[9]BASES R&D analysis, 2017.

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