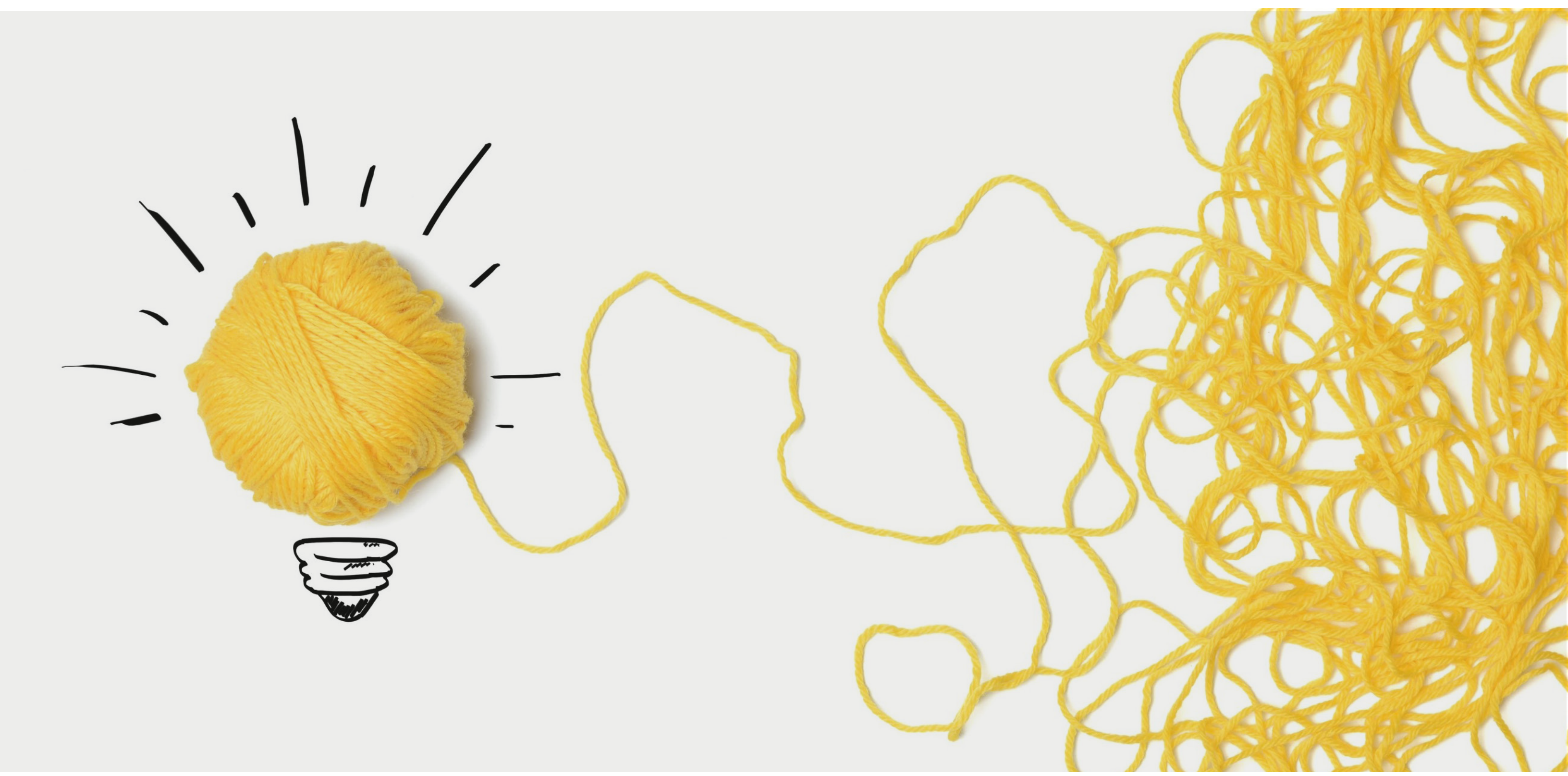
PRODUCT INNOVATION

How to Guarantee a Successful New Product Launch



BLOODHOUND GROUP

Content

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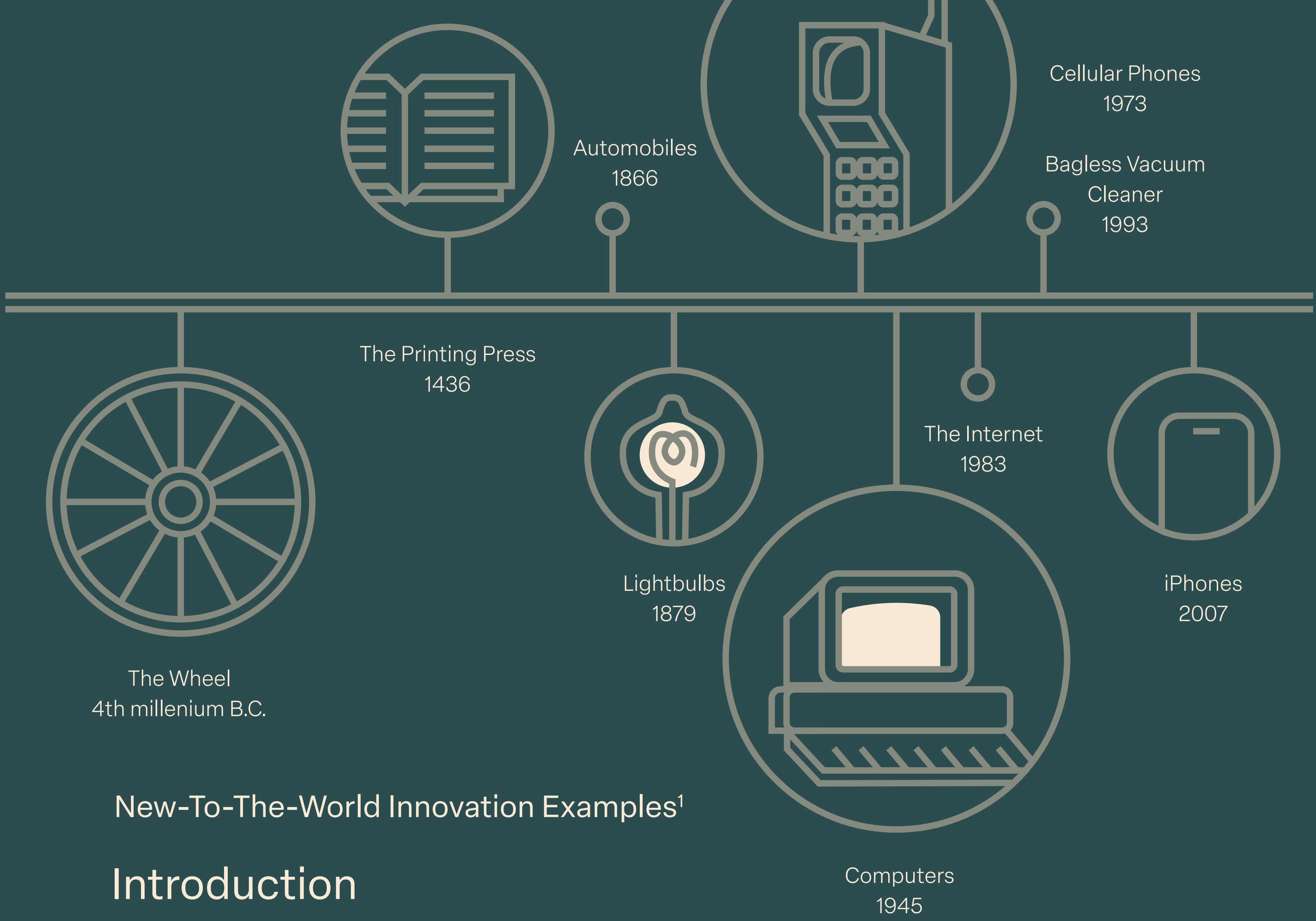


New-To-The-World Innovation Examples[1]

Introduction

New products can be a compelling — and profitable — way for brands to deliver functional benefits while building and reinforcing customer loyalty. However, according to Harvard Business School professor Clayton Christensen, more than 30,000 new products are introduced into the marketplace each year, and 80% of them fail. The reason, he asserts, has less to do with the products themselves and more to do with the companies' failure to cover key basics during product conceptualization, development and commercialization planning.

Much of the failure rate can be attributed to how companies define new products. Often a new product is not actually new. Rather, it's an incremental improvement of an existing product or service created to strengthen competitive position. A true new product is a new–to–the–world idea or concept that defines a new product or service category. Booz Allen Hamilton estimates only 10% of all new product concepts are new–to–the–world.[2]

Here is some additional perspective that's worth noting. Many breakthrough market innovations that grew into highly successful businesses actually started as something else: YouTube was launched as a video dating site, and Slack began as a multi–player video game platform, for example.

So, how do you know whether your potential new idea is a winner — truly new–to–the–world and targeting the right audience for the right purpose? This paper provides guidelines for ensuring the innovation you are contemplating is properly validated and positioned for the market. Answering four fundamental questions along the path from ideation to concept commercialization will greatly improve the odds of success.

1. Does the Innovation Solve a Problem?

Most innovation comes from outside an industry. Companies within the industry are tied to one or two technologies, manufacturing processes or distribution channels that represent their source of profitability. So, R&D teams focus on leveraging existing capabilities rather than investing in new-to-the-world ideas.

Entrepreneurs, on the other hand, see the world through the lens of a new technology or as a frustrated customer longing for a better way to solve a problem. They approach innovation proactively rather than developing new concepts based on customer feedback regarding how to improve existing products.

An analysis of true innovative concepts shows that “proactive market orientation” — attempting to discover and satisfy customers’ “latent needs,” or those needs of which the customer is unaware — results in a much higher new product success rate.[3] This proactive orientation has driven most of the innovative ideas commercialized by Apple.

So, how do you tie a new product idea to a proactive market orientation where real problems or latent customer needs are satisfied? Answering "yes" to one of these two questions reveals the direction for exploration:

1. **From a technology perspective**, does the technology create product features that solve a real problem for customers?

Or...

2. **From the customer perspective**, how many customers perceive the problem to be significant, and if so, how do they define it?

Whether you start from the technology or the customer perspective, it is critical to understand:

- Why there is no solution to this problem.
- If there is a solution, does the innovation offer significant benefits (convenience, cost, speed, effectiveness) over existing alternatives?
- If people do not identify with the problem or see the opportunity to improve their everyday lives through adoption of the innovation, what obstructs their view to seeing the benefit?

The first step in answering these questions is to conduct qualitative interviews with customers. Here you want to explore how the hypothesized problem might be defined in a customer's day-to-day life.

It is critical to take care not to lead the interview by defining the problem yourself or introducing the proposed solution and asking if the respondent has ever experienced the problem.

As much as you may care about your new idea or technological concept, the proposed solution should be left out of the conversation with research subjects. Discussing the solution creates an innovation confirmation bias. Focus should be solely on discovering a customer's unfulfilled needs. Listen intently to what they are telling you, not what you want to hear from them.

Next, seek to understand the customers' desired outcomes to the problem they define.

A common mistake in conducting voice-of-the-customer (VOC) research is to approach the process as if it were a product requirements exercise. This results in shallow understanding of the problem an innovation might address. Instead, try to determine what customers are ultimately trying to accomplish and what stands in the way of their success. Solicit stories and explore the context of the problem, what customers were doing when they encountered the problem and what they attempted to do to solve it. And while you are at it, uncover what other problems they ran into along the way. Sometimes issues that surface at various points in the solution process represent better opportunities for you to pursue than the one you originally envisioned.

How do you know when you've done enough qualitative research on a given topic? A rule of thumb is to keep interviewing as long as you are learning something relevant to your research objective. It often takes 15-20 interviews per research question to reach the point where a response pattern is revealed.[4] If after 10 interviews your findings do not start to converge into a pattern, your question might be defined too loosely and need to be divided into multiple questions.[5] Once your interviews stop yielding new insights, it's time to move on to development of a clear value proposition.

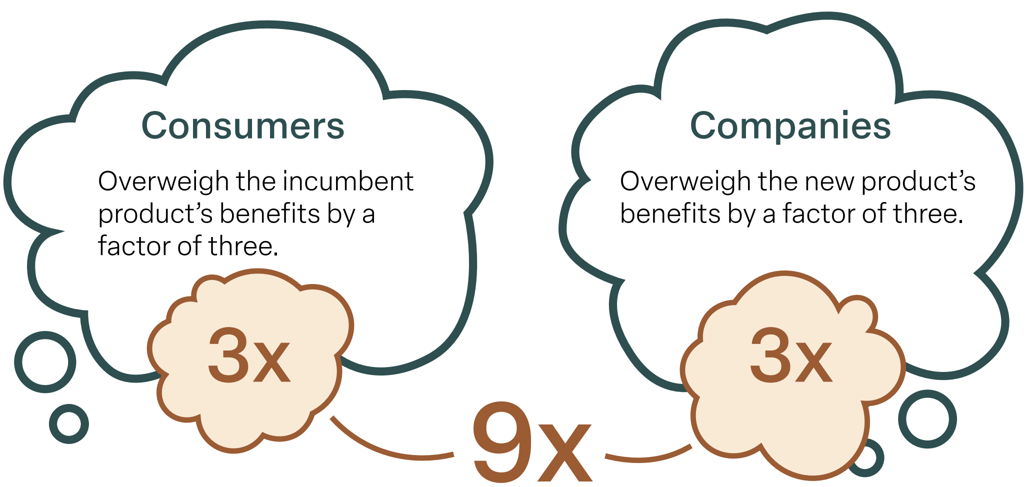
2. Is There a Compelling Reason for the Customer to Buy?

What may seem like a solid reason for purchase from the innovator's perspective might not resonate as well with customers.

Overestimating potential acceptance of a new innovative concept is not unusual. Every entrepreneur or development team takes a bias into the new product process. This bias for success must be weighed against the switching bias consumers have for solutions they are currently using.

Customers evaluate the potential outcomes of switching to a new product in terms of "losses" and "gains." Research by Daniel Kahneman and Amos Tversky found that consumers overweigh a loss by a factor approximately three times that of a gain.[6] This loss aversion suggests that customers place a higher value on tried-and-true products they own versus the claims of a new product offering improved performance benefits.

Like customers, creators of new products are biased. Inventors overvalue the benefits of their innovation by a factor of three. The combined effect of the positive bias (what innovators think customers desire) and the negative bias (what customers really want) yields a mismatch of nine-to-one, or 9X.



Mismatch between what innovators believe consumers want and what consumers truly desire[6].

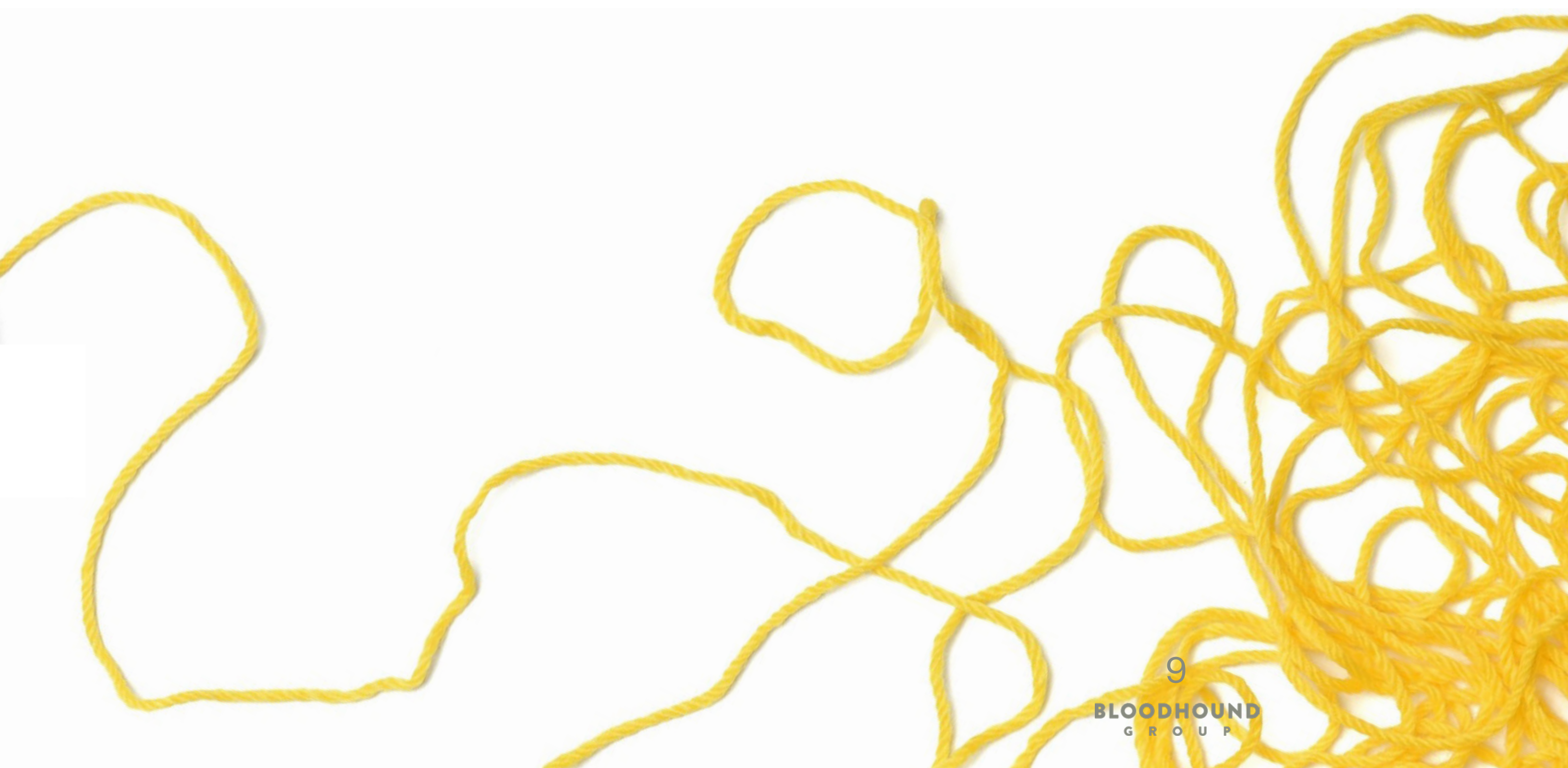
Being mindful of the two metrics helps keep this bias at bay. Both circle back to the problem exploration phase with customers.

The first metric focuses on the relative importance of the problem. What priority do customers place on solving this problem relative to others in their lives? You might discover a brilliant solution to a problem that the customer does not care enough about to spend the mental effort to consider a solution, much less consider paying for a solution to resolve the problem.

The other important metric to explore is how significant the incremental benefit gap is between existing solutions and the one provided by the new innovation.

Be sure to clearly understand how customers are currently addressing the problem. Are they already sufficiently satisfied with the current solution that the perceived risk or inconvenience required to change is too great to overcome?

Customers might be quite comfortable with the status quo and find switching for an incremental improvement not worth the trouble.



An excellent example of the 9X effect is the Juicero machine.[7] In 2013, California-based startup Juicero, riding the wave of the Internet of Things (IoT) obsession, got the attention of investors by promising to deliver a wifi-enabled, fresh-squeezed juice device, coupled with packages of pre-cut fruits and veggies. The company raised $120M and built a great-looking machine priced at $700. The invention was positioned as a "Keurig for juice."

But the machine was quickly discounted to $400, followed by a complete production shutdown within months of its launch when customers discovered the pricey device was no more effective at making juice than squeezing fruit with your hands.

"Are customers already sufficiently satisfied with the current solution that the perceived risk or inconvenience required to change is too great to overcome?"

3. Is Customer Demand Large Enough to Support a Sustainable Business Model?

After identifying the customers most likely to try and adopt an innovation, it's critical to estimate how many of these potential customers there are—that is, to determine the scope of primary demand.

This requires two important steps:

1. First, determine the size of the markets for the alternative solutions that are currently being used to satisfy demand.
2. Then, calculate the percentage of prospective buyers/customers in these markets who like the product concept and are predisposed to at least try it.

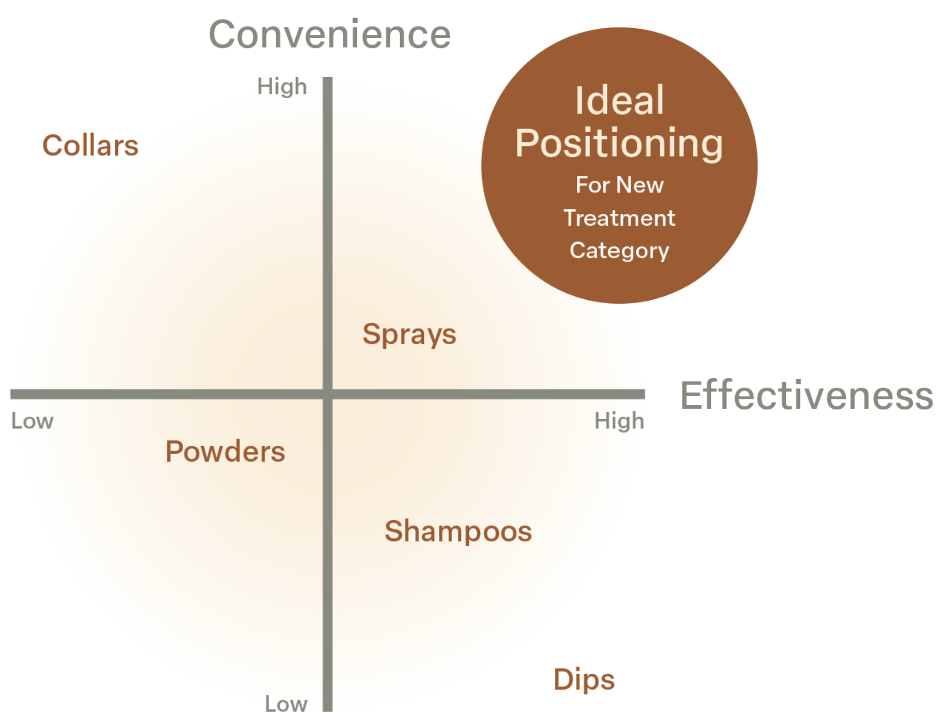
The results will allow your innovation team to make critical assumptions as they develop a business model for estimating the sustainable sales and earnings growth required to achieve a solid return on invested capital.

Here is an example of how assessing the market for alternative solutions can be used to estimate primary demand and market potential. Years ago, we worked with an R&D team on an innovative "spot-on" flea and tick treatment that today is used by the Frontline and Advantix brands. To estimate product potential, we used industry-reported sales of existing treatment forms, such as sprays, dips, collars, powders, etc.

We supplemented this data with pet owner and concept research to understand the relative efficacy and convenience appeal promised by the new product form. For example, pet owners using flea and tick collars were likely to try the new form because it was as convenient to use as the collar but proved to have greater efficacy in ridding a pet of fleas. Likewise, pet owners taking their dog to a veterinarian for "dipping" in flea insecticide found the new product's efficacy to be just as good, but much more convenient. Estimating potential switching from these collar and dip categories gave us a range of potential users for developing detailed pro formas.

The focus group and quantitative pet owner research delayed the product launch by close to a year, but the resulting category switching insights allowed us to develop a solid, financially sound business case for properly investing in the new innovation's launch. Today, the spot-on treatments comprise a billion-dollar pet flea and tick category.

Flea & Tick Treatments
Perceptual Map



Another proven approach for estimating market size is to use benchmarking services. BASES is a consumer packaged goods research company that utilizes a proven screening process to assess the volumetric potential of concepts and products prior to introduction.

The company employs years of benchmarking results across categories and the world's largest product-testing database to estimate likely acceptance and market potential. 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."[8] The difference in product sales results can vary as much as 30% in the first year of commercialization. By using BASES benchmarks for estimating primary demand for a concept, marketers can determine with some degree of certainty whether there is sufficient interest in the concept for trial and performance during trial to lead to adoption.

Taking the time to validate concepts based on realistic, objective product adoption research will significantly improve the likelihood of success — or take you back to the drawing board for concept refinement.

"Initiatives with strong product performance are 15 times more likely to succeed in-market than those with poor performance."

4. Is There Adequate Funding for Category Education and Development?

Successfully launching new-to-the-world products requires educating prospective customers on why the new product concept is a much better way to solve their problem. Innovators sometimes make the dangerous assumption that consumers will easily see the advantages. But a concept can be so innovative it takes enrolling a credible source to educate potential customers on the benefit.

In the case of the spot-on flea prevention concept, pet owners found the product efficacy and mode-of-application claims hard to believe. We determined they did, however, trust the recommendations of their veterinarians. The task then became how to convince veterinarians of the product's benefits. The answer was clinical trials, which our client conducted against each of the leading brands representing alternative categories. The results demonstrated the new product's efficacy and made it easy for veterinarians to promote.

Educational materials and learning aids were developed to support the sales and technical service teams. Lunch-and-learn sessions were used to explain the innovative treatment to veterinarians and their staffs. Answers to frequently asked questions were summarized and provided to the teams to accompany every sale. Consequently, customer expectations were established early on, and brand sales took off. As new questions were received by the client's technical team, educational materials were updated and delivered to local veterinary clinics.

Bottom line, had there not been sufficient funding to educate both veterinarians and pet owners on the new flea and tick category mode of action, trial and adoption rates would likely have been much lower.

Key Points

- Only 10% of innovations are “new-to-the-world.”
- These innovations have a higher likelihood of success than incremental improvements of existing products.
- To effectively vet innovative concepts, focus on the context of the problem you intend to solve and why no solution currently exists.
- The innovation’s proposition must be compelling enough to overcome customer switching bias.
- Primary demand for the solution must be of sufficient size to sustain an ongoing business model.
- Sufficient funding to educate customers about the innovation’s benefits will help ensure its adoption and go-to-market commercialization success.

Conclusion

Now you are equipped with the four fundamental questions to answer along your innovation conceptualization and commercialization journey. Remember that launching a new product takes acute attention to your market, a humble view of your innovation's value and a persistent willingness to iterate until you get the solution right. Above all, stay present to the fact that a customer discovery mindset is ultimately the most critical factor for success.

Endnotes

[1] "9 Examples of Innovative Products," Harvard Business School Online Business Insight Blog, March 23, 2022, retrieved March 2023 from https://online.hbs.edu/blog/post/innovative-product-examples; adapted by The Bloodhound Group.

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[7] Ellen Huet and Olivia Zaleski, "Silicon Valley's $400 Juicer May Be Feeling the Squeeze," Bloomberg, April 19, 2017, retrieved March 2023 from https://www.bloomberg.com/news/features/2017-04-19/silicon-valley-s-400-juicer-may-be-feeling-the-squeeze?leadSource=uverify%20wall.

[8] Ramon Melgarejo and Kamal Malek, "Setting the Record Straight on Innovation Failure," NielsenIQ Insights, December 2018, retrieved March 2023 from https://digirupt.io/3-mistakes-thatll-kill-your-new-product/.

Learn More

If you would like support navigating the new product development and commercialization process, our experts can help. Please don't hesitate to get in touch with us:

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