Success in innovation will come to companies that approach it as a system whose first step is prioritizing new opportunities based on how well they are likely to meet a profitable, unmet consumer demand. This lays the groundwork for adapting concepts, and then products, through a test-and-improve cycle designed to increase the degree to which they match the demand opportunity. Successful adaptation of the product in turn lays the groundwork for successful activation in the marketplace. Discovering and responding to unmet demand is hard. But a scientific, replicable system for prioritizing opportunity, adapting concepts and products to it, and activating accordingly will see you through.

Successful innovation is extremely profitable. It increases sales, expands margins, motivates the sales organization, and increases asset utilization. At its best, it redefines the basis on which you compete and helps reinvent your company and your market.
No more than 1/200 genuinely new consumer packaged goods products in the U.S. market achieves “breakthrough success.”

Intellectual capital lies at the heart of innovation, so it should be no surprise that research shows a very high correlation between a company’s intellectual capital and its return on equity. Researchers found a much higher correlation between a company’s return on equity and knowledge earnings (at .53) than the correlation with traditional earnings (.29) or free cash flow (.11).¹

Unfortunately, research also shows that, despite all the time, talent, and resources applied to innovation, no more than 1 in 200 genuinely new consumer packaged goods products in the U.S. market achieves “breakthrough success” – defined as generating over $50 million in sales in Year 1 and sustaining 90 percent of that level in Year 2.² Even when we include the incremental innovation that keeps brands in consumers’ minds and on retailers’ shelves, only about 10 percent of new products even meet their own companies’ financial targets two years after launch.

The typical response has been to compensate for this low success rate by casting a very wide net in concept development, and then using a test-and-improve cycle to identify and refine those concepts that show the most initial promise and ultimately develop them into products. There is much to be said for this process: indeed, in our own work, we routinely help clients do this to raise the certainty with which new products will meet their financial targets. However, this improvement is accomplished by completely discarding some concepts after making some investment in developing them, and putting those that survive through many test-and-improve cycles until they prompt a promising consumer response. Wouldn’t it be better to accelerate the process by focusing on adapting to the market only truly promising concepts in the first place? Our experience suggests that doing so can lead to a better than 85 percent probability of meeting the product’s financial targets.

But how is one to identify these more attractive concepts? Enter the search for profitable, unmet, consumer demand, the holy grail of growth.


It is a difficult search. Success requires identifying something consumers cannot themselves identify, but that they will promptly line up to buy when it hits the shelves. (If they could identify what they wanted, they would have done so, and someone would be supplying it already.) Fortunately, the fact that consumers cannot identify unmet demand for you does not mean you cannot identify it for them.

In what follows, we begin by describing a typical supply-driven approach to concept development, and why it carries a higher than necessary risk of failure. We go on to describe, by contrast, a rigorous, three-step, demand-driven system that can greatly mitigate those risks. Step one involves prioritizing concepts for development based on how well they meet areas of unmet demand you have identified. Step two adapts those concepts – and eventually the products they inspire – through an evolutionary test-and-improve process until the product is ready for step three, in-market activation.3

Using unmet demand to prioritize opportunities, to adapt concepts and products, and to activate in the marketplace offers innovation success to any company that pursues these three steps systematically.

CONCEPT DEVELOPMENT
BACK TO FRONT

The market is full of successful products. But for every successful one, there are plenty that didn’t make it.

Ask brand managers, and you will hear that innovation is hard. Competition is fierce. Customers are demanding. Choice, especially in developed markets, is abundant. All these things are true, but they are not the primary reason product success is so low. Too many companies identify concepts based on what they already know, and move them into the concept development stage without rigorously thinking them through

3 The focus of this paper is on steps one and two – prioritization of concepts with an identified area of unmet demand, and adaptation. The authors plan to address activation in a future paper in the What's Next series.
from the consumers’ point of view. They are identifying concepts in a supply-driven fashion, and then effectively going in search of demand to serve.

For example, when a company has a successful brand extension, it often assumes that what worked for one product will work for another product, too. We observed one company that concluded that a single-serve version of a very successful food concept would be a good idea. There were just two pieces of supporting evidence for this conclusion. The first was that the original product had been (and still was) a smash. The second, which might be argued was a nod to consumer demand but really came from the company’s own history with single-serve products in other parts of its business, was that there appeared to be a market for single-serve products in general.

As it happened, the original product was very much oriented towards the needs of a whole family. So the extension had no more chance of success than, say, single-serve meatloaf. Certainly, there is plenty of demand for meatloaf, and there are plenty of people who want single-serve products. Nevertheless (although we confess we have not tested the idea), we doubt that single-serve meatloaf strikes the reader as a particularly compelling value proposition.

Is all supply-driven innovation bad? No. Brand-extensions are powered by brand loyalty. Significant marketing investments generate plenty of trial, and some trial will stick. And plenty of innovators possess good instincts for what the market will respond to. But supply-driven innovation is always hit-or-miss. Over the long term, demand-driven innovation will succeed far more often than not.

**GO SLOW TO GO FAST**

So, even if supply-driven concept development doesn’t always fail, life would obviously be better if the test-and-improve cycle began with a concept that is pretty well guaranteed to succeed if systematically adapted to the precise shape of consumer demand. To raise significantly the prospect of entering the product development process with a high chance
of success, you must begin with an absolute dedication to prioritizing opportunities based on provable, financially promising, unmet consumer demand. It’s not quick, and it’s not easy, but it saves much more time later on than it takes up front.

It is hard to get at what customers’ don’t know they want. As Henry Ford said a century ago, if he’d asked people what they wanted, they would have told him a faster horse. Steve Jobs famously said, “A lot of times, people don’t know what they want until you show it to them.”

Nevertheless, Bud Light Lime found and fulfilled a counter-intuitive demand for a sweeter beer. Mio Liquid Water Enhancer discovered and responded to a desire for personalizing one’s beverage. Magnum brought an interest in sophisticated elegance and high style to that most everyday and simple of children’s treats, chocolate-covered vanilla ice cream bars. How did they do it? One of the strongest detectable indicators of unmet demand in consumers’ lives is the presence of unwelcome trade-offs. Who, after all, insisted that beer must be bitter? Why shouldn’t I buy water and still have it be my own drink? And why can’t I buy a chocolate-covered vanilla ice cream bar and still feel special – if not downright glamorous – when I do it?

The following illustrative example demonstrates how one can go about identifying unmet demand through a reliable and replicable process. The beauty of this demand-driven process is that it can be applied to initiatives across the full range of typical business-growth strategies, whether revitalizing an existing brand, entering a new region, attracting new users to a category, seeking to increase price or purchase frequency, taking a brand into a new category, or deploying a portfolio of brands with little risk of cannibalization. In all cases, a company will need to identify an unmet need to succeed. And, in all cases, a portfolio of pre-existing concepts can be prioritized against the results of the analysis and advanced into concept testing just as easily as a new set of concepts can be developed. It isn’t often you come upon a universal system for pursuing anything, let alone something as important as innovation. We believe this is such a system.

LESS PAIN, MORE GAIN

Let us suppose, then, that a company in the non-prescription pain relief market wants to expand its brand portfolio, but isn’t sure how to proceed.5

The first step is to identify and quantify all relevant drivers of consumer demand by analyzing consumers’ expressed reasons for buying over-the-counter (OTC) pain relief products. By having the same consumers assess the brand performance of all the products in the market against these drivers, as in Exhibit 1, the company can identify white space not currently occupied by any brand. (The columns represent the 11 attributes consumers consider when they evaluate and buy OTC pain relief products, with percentages indicating their importance to consumers. The axis at left represents how well each product, indicated by a dot, performs against each attribute).

It would be tempting simply to conclude from this chart alone that there is significant, profitable white space in “relief from extreme pain,” and perhaps to a lesser extent in delivering a drug that is more “quick acting” than most, but not as much as the market leaders in this space. (“Versatile” is probably too small to pursue as a differentiator.) The “quick acting” possibility is more complicated because there are brands below and above it. The presumption of profitability would lie in the possibility of providing a drug that acts more quickly than most, without incurring some of the negatives of the quickest-acting drugs in the market.

But this is indeed only a presumption at this point. The chart shows only where white space is, not whether it is profitable or not. To put the point bluntly, if extreme pain is only 7 percent of the reason consumers are purchasing these products in the first place, perhaps there’s a good reason for the white space. Consumers may not value pain relief above the level provided by products already in the market. Nevertheless, the fact that the white space is there warrants exploring the value of marketing a more powerful product than any in the marketplace.

It is worth pointing out that the company may want to develop a whole suite of concepts focused on one or more of the other drivers. This chart suggests that doing so is likely to be harder going than concentrating on the white space in the category.

5 This example is illustrative only; the data bears no relation to the actual details of the OTC pain relief market.
Unserved white space can be identified by mapping brands already in the market against the attributes consumers care about.
To find out whether the white space identified represents unmet demand for “extreme pain relief,” one analyzes a “driver response curve” for the attribute. The extreme-pain curve asks and answers the question: “For every increment of pain relief, does the attractiveness of the brand increase or decrease?” It turns out to have a very interesting shape (Exhibit 2).

The curve is created based on thousands of consumer observations about the pain relief brands in the marketplace. As we can see, pain relief performance does not drive overall consumer attraction to any of the currently-available pain relief brands, which all cluster near the beginning of the curve. This may be because most headaches go away at a modest level of pain relief, or because more pain relief means more side effects, or more expense, or whatever.

Looking to the right, however, we see the curve suddenly begin to climb: it seems that if consumers regarded a brand as credibly relieving extreme pain at a significantly higher level, it would be very attractive.

**ONCE A CERTAIN PAIN-RELIEF THRESHOLD IS EXCEEDED, CONSUMER INTEREST RISES RAPIDLY**

**EXHIBIT 2**

[Graph showing the driver response curve with two brands, Brand 1 and Brand 2, and indicating that once a certain pain-relief threshold is exceeded, consumer interest rises rapidly.]
This represents a positioning opportunity in the market; to date no brands have succeeded in being perceived as sufficiently differentiated on extreme pain relief to tap into this unmet demand.

So far, so good on extreme pain. As for the other attributes, there may be opportunities in providing certain combinations of benefits even in the absence of significant white space. The map in Exhibit 1, in combination with a set of response curves, allows the company to determine with precision the level of unmet demand for any of the 11 attributes that matter – or, indeed, any combination of those attributes – and prioritize concept development accordingly.

**ADAPTATION THROUGH THE TEST-AND-IMPROVE PROCESS**

Once a set of concepts has been appropriately prioritized (including discarding those not matching up with unmet demand), they are evaluated in priority order as the test-and-improve process begins. Every successive adaptation of each concept is evaluated by consumers against its competitors on the attributes shown in Exhibit 1. For an extreme pain relief product, the goal is to achieve competitive or nearly-competitive scores on all the attributes listed, along with significantly higher scores on pain relief. Further, as noted in the introduction to this article, the process will need to be repeated once a concept has been made tangible as a product, because products so often do not fully deliver on the concepts to which they were shaped.

In this example, the company tested three successively stronger adaptations of the extreme pain relief concept, respectively refining the communication plan, improving the packaging design and color, and balancing the core proposition more effectively against the parent brand’s safety heritage (“Strong enough for your worst migraine, safe enough for everything else”). The third and final adaptation of the concept outperformed on its core “extreme pain relief” strategy, showed promising financial potential, and scored well against the metrics for success we use in our work with clients (Exhibit 3), achieving an overall probability of in-market success of 87 percent.
It cannot be said too often that this process will routinely involve the adaptation of both concepts and the products they inspire. The product created in response to this third adaptation of the concept may very well disappoint. The transition from concept to product is hard. Companies must resist ‘satisficing’ on a product that doesn’t quite deliver on the promise of the concept. Even if each concept and the product derived from it requires a couple of testing cycles, the process significantly improves the probability of success, does so with fewer iterations, and is significantly less likely to result in discarding of concepts than a supply-driven process.

12 FACTORS FOR SUCCESS

EXHIBIT 3
This is what’s next: positioning one’s innovation effort for success by prioritizing all opportunities based on the strength of their initial match with unmet consumer demand, and then putting each concept in priority order through an evolutionary, adaptive cycle, doing the same for the resulting products as necessary, and only then activating.

Perhaps, despite some issues identified here, it all sounds suspiciously easy. In fact, the kind of discipline involved is hard to begin with, and harder still when we consider the other, human side to the innovation story. What we have not discussed here are the challenges that innovators often face within an organization in protecting their original vision all the way from prioritization to and beyond activation. Products need champions once they are in the market, too!

That is another topic entirely, and one we will treat in a forthcoming paper. But we may note here that any product developed to meet unmet demand is, by definition, trying something radically new. It’s so much more comforting to develop a product for a market that already exists. Accordingly, there will be many people in any large company ready to encourage a softening of the effort in the direction of established processes and market positions – with the best of intentions. Success requires resisting such encouragement. Investing in a universal, scientific innovation process – an “innovation system,” if you will – provides just the rigorous fact base innovation champions from the CEO down need to keep the organization aligned all the way to ultimate success.

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