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RETHINKING THE PRODUCT LAUNCH

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Your customer value proposition is the key to organic growth — for a fast-food chain like Wendy's, or for any other consumer business.

If you could consistently drive organic growth, how much would that be worth? Quite a lot, especially in mature industries where the customer base isn't growing much and people are habitually loyal to their favorite brands. For many companies interested in growing their markets by launching new products or services, having a framework for organic growth based on a better customer value proposition could make all the difference.

By *customer value proposition,* we mean everything a customer receives, tangible and intangible, for the money he or she pays. The definition can be expressed as an equation: customer value = (product performance + service delivered + image) / price paid.

For example, consider the quick-service restaurant (QSR) industry (also known as the fast-food industry). According to recent Booz & Company research, QSR customers can be segmented into five basic groups, based on the overall reason they pick a particular fast-food restaurant. Some customers look for a pleasing ritual; some are price sensitive; some want to maximize convenience; and some seek an experience of pure indulgence. A smaller cohort of customers want it all; they are looking for all these things, and some health benefits in addition.

Quick-service restaurant chains constantly develop new product and service offerings that align with different attributes. This same research found that McDonald's, Taco Bell, and Burger King excel at developing products for customers who are price sensitive; KFC and Pizza Hut have come the closest to offering an experience of pure indulgence. Any QSR company that wants to grow organically must create either an

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improved value proposition for the segment it already leads (thus increasing its market share) or a new value proposition for a segment it does not currently lead.

Let's use Wendy's International Inc., one of the world's largest hamburger restaurant chains, as an example. We'll start with a disclaimer: This article claims no firsthand knowledge of Wendy's and is a purely hypothetical exercise, based largely on an analysis we conducted as outsiders. We are also ignoring some of the competitive realities of the QSR industry, including the overwhelming importance of store location. When customers are about to spend their dollars at their favorite quick-service restaurant, a rival chain has only a fraction of a second to get them to even *consider* going elsewhere. Even with those factors left out, the journey by which we get to a recommendation for Wendy's should be instructive, since the way of thinking about customer value propositions would be the same for any company, regardless of industry.

Wendy's, founded in 1969 in Columbus, Ohio, has been known for its large, square hamburger portions; its first major ad campaign, in the 1980s, introduced the expression "Where's the beef?" which quickly entered popular culture. It was also the first QSR to introduce salads as a regular menu item. The chain, which maintains some coherence by not serving breakfast, nonetheless scores high among consumers who "want it all." Unfortunately, this is the smallest of the five segments, and the expectations of these segment members are, by definition, diffuse, which makes it difficult for Wendy's to develop a clearly differentiated market position.

To grow its share, the company must introduce a new value proposition that appeals to larger, more commercially viable groups of customers. That will require launching some new products and services that are coherent with the rest of its offerings, making use of Wendy's existing strengths to attract a new segment of people who have not identified with this chain in the past. That's not an easy task, and any obvious ideas for new propositions — at Wendy's or other companies — should be regarded warily.

Many companies try to "bottle lightning" when launching new products or services. Either they base their decisions on their own executives' hunches or they create a disciplined process that siphons the creativity and speed out of the organization. But neither approach leads to sustainable success. Those companies that beat the odds and succeed with multiple new-product launches, time after time, tend to apply a certain type of discipline. This discipline involves three separate practices, combining creative inspiration and analysis. Each of these three practices is both a "thought starter," raising new concepts about directions for growth, and an "idea filter," helping a team decide which products and services to launch and how to position them. The three practices are:

1. Market-back analysis: an approach to gathering consumer insights that pinpoints the value consumers assign to different parts of a product or service, and produces actionable intelligence as a result. Wendy's, for example, would have to look at its potential customers, the attributes they value in quick-service restaurants, and the needs that are still unmet.

2. Darwinian competitive review: a close observation of the customer value propositions that have been shown to work across multiple markets, and the competitors who have already established themselves in those spaces. Within the fast-food restaurant landscape, Wendy's would consider the track record of mainstream and niche contenders around the globe. It would also look for non-QSR models and innovations that might be adjusted for its business.

3. Capabilities-forward assessment: a dispassionate look at what the company already does well, and which new value propositions its capabilities system could support. If your company has a notable form of prowess, it behooves you to understand what other products or services that capability might help deliver. For instance, if your kitchen setup excels at producing made-to-order hamburgers, might that flexibility also be extended to new entrees, side dishes, beverages, and desserts?

When Launches Fall Short

Managers are not accustomed to this level of rigor in decision making about organic growth, and that helps explain why innovation initiatives produce disappointment more often than success. Many times, when a product or service is introduced, customers fail to see a reason to switch or upgrade. The obstacles to successful innovation aren't new, but they have become more challenging in an era of global economic strain, low job and wage growth, and cautious consumer spending. In this difficult environment, bad or poorly executed ideas have nowhere to hide.

In retrospect, innovators can usually explain why a given product succeeds or fails. For instance, when McDonald's introduced the Arch Deluxe in 1996, the company invested US$300 million in marketing, research, and production. This limited-edition hamburger was specifically marketed to adults (the ad campaign showed kids rejecting it), with the slogan "the burger with the grown-up taste" and a recipe, created by a well-known chef, that included specialty condiments, Spanish onions, and hickory-smoked bacon. The hamburger failed to become popular and was soon discontinued. With the benefit of hindsight, McDonald's executives recognized that their plans had not accounted for the factors driving customer decisions. Some customers would not pay the relatively high price (especially because McDonald's is regarded as a price leader), and others were apparently holding out for a healthier alternative.

Similar prominent stories of product launch disappointments include New Coke, the Apple Newton, the BlackBerry tablet, the Tata Nano, and many more. In the packaged-goods industry, for example, a record number of products were introduced in 2005. As tracked by the research group Information Resources, less than 1 percent exceeded $100 million in Year One sales, only 10 percent earned sales above $20 million, and less than 25 percent reached sales of $7.5 million.

Businesses try to avoid these failures, of course, by applying ever more sophisticated techniques for testing the customer value proposition of a new product or service. These methods include surveys, focus groups, and conjoint analysis (the use of statistically weighted surveys to compare combinations of product attributes). But customer value proposition efforts can fall short for any number of reasons. Sometimes the wrong research method is used: for example, conjoint analysis where rapid prototyping would be more appropriate. Sometimes the right statistical method is used, but it is misapplied. Sometimes the results of the research are not considered in the context of the brand's existing position, the market realities, or the would-be innovator's capabilities system. And at times, good ideas fail because of problems in execution.

Creating a successful customer value proposition takes intuition and experience, but the odds of success go up if a structured process is applied. This process should bring together the three practices of market-back analysis, Darwinian competitive review, and capabilities-forward assessment.

Market-Back Analysis

Actions speak louder than words, but all too often, market research merely asks for words; it simply questions consumers about their attitudes, likes, and dislikes. Instead, the focus should be on understanding consumer behavior: for example, the trade-offs consumers make when considering a purchase, and the factors that drive them to switch brands, products, or channels.

One way to gain this knowledge is to marry data from surveys — explorations of individuals' preferences and expected future behaviors — with information about their actual behavior. This has the advantage of grounding what people say with insight about what they do. Another approach is to develop statistics-based research on product options: either conjoint analysis or one of its variants, such as maximum difference analysis. This technique presents consumers with a series of feature and price bundles and infers from their choices which product attributes or features are most important to them. A third approach is to create simulated shopping experiences, which mimic as closely as possible the choices that consumers face in the real marketplace.

These analyses can become the basis of customer segmentation, allowing you to focus on specific groups of customers on the basis of their priorities and price sensitivity. Consider: Who are your target customers? Which attributes and product features matter most to them? Where is your "headroom" — the best opportunity for picking up customers and market share? What would it take to get customers of other providers to switch to your products or services?

For this article, simulating an analysis for Wendy's, we surveyed a group of potential quick-service restaurant consumers, asking them what attributes they most value in their fast-food restaurants. The patterns of consumer preferences identified by the analysis sorted naturally into five distinct segments, as noted earlier:

• About 21 percent of survey respondents ranked convenience and familiarity as important attributes. Members of this segment are looking for a *pleasing ritual* and don't want to be surprised.

• About 19 percent of respondents mentioned price affordability and convenience as valued attributes. This is the *price-sensitivity* segment. Its members also tend to favor delicious food and perceived healthiness, so long as it doesn't cost too much.

• About 18 percent of respondents are interested only in *convenience.* No other attribute receives an above-average mention from them. They focus on the quick in QSR.

• About 16 percent of the respondents cared most for *pure indulgence.* Within this group, more than half rate delicious food (in general) and taste (of the hamburger itself) as important attributes.

• The last category, *I want it all,* encompassed only 10 percent of respondents. Unsurprisingly, they ranked nearly all the attributes highly. More than half of them valued taste, delicious food, and being familiar with the store; more than 75 percent valued perceived healthiness and convenience. The only low-ranked attribute was price.

As noted, Wendy's is the go-to restaurant for this last group — an enviable position in some respects. (Some quick-service restaurants, such as Dunkin' Donuts, seem not to command any segment consistently.) But the want-it-all segment does not appear to be large or profitable enough to support further growth. Other, larger segments hold more promise for Wendy's. If it wants to grow profitably, the company needs to look across the customer segments where it is not currently the leader and figure out where it has the most headroom. In other words, it needs to look more closely at its rivals' least satisfied consumers.

Darwinian Competitive Review

Innovation executives and chief marketing officers are always thinking about new product or service introductions and enhancements — about how they can come up with the Next Big Thing. Few business possibilities are as exciting as a new idea that could become a company's next billion-dollar product, and these ideas frequently involve a real spark of creativity. However, even the best ideas must map to some proven value proposition — something that has already worked elsewhere. If no such analog can be found, it's a good bet the company's new or enhanced product won't be successful.

That is the point of calling market dynamics Darwinian. No customer value proposition emerges alone; like species that evolve through natural selection, all marketable ideas have antecedents. At best, they're applications of ideas that have proven successful in the

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past. The emulated business model need not be from the same industry; it could be something that the company borrowed from another industry. Ideas such as providing expert customer service to justify premium pricing or becoming a leader in environmental soundness have leaped across a remarkably diverse set of industries, including food, energy, automobiles, and consumer electronics.

The challenge with Darwinian market dynamics is to figure out the value propositions that are open to innovative new entrants. Consider: What are the most successful customer value propositions in the world today, and why do they work? What do competitors offer, and how does that vary by customer type and market?

For this article, we conducted a scan of competitive value propositions in the QSR sector around the world. We discovered seven that have survived Darwinian natural selection: value (including low price), convenience, experience (an appealing restaurant environment), familiarity, health, taste (of the food), and having a premium product or service. Most successful restaurant companies have not limited themselves to one of these value propositions; instead, they combine two or more to configure their identity. Starbucks offers convenience and experience. Subway offers familiarity ("pleasing ritual") and a perception of nutritional value (it is one of the very few QSR players that has successfully promoted the healthfulness of its offerings).

By testing consumer perceptions of rival brands in our survey, we learned that some attributes are virtually locked up. McDonald's, the industry leader, has staked its livelihood on price sensitivity and convenience, and it will do everything necessary to defend its leadership position. Meanwhile, among the mainstream (non-premium) QSRs in the United States, having an appealing consumer experience seems to be underrepresented. It is possible that Wendy's could improve its customer value proposition along these lines.

Capabilities-Forward Assessment

A capabilities system is the integrated combination of processes, practices, skills, competencies, technologies, and culture that allows a company to deliver its distinctive value proposition in a competitively advantaged fashion. The most coherent companies tend to have three to six differentiated capabilities that combine into a capabilities system, reinforcing one another, creating barriers against competition, and giving companies the right to win in their chosen markets. (Six is the maximum number, empirical observation suggests, that companies can maintain.) Differentiated capabilities are specific and usually cut across multiple functions. Amazon's genius at retail interface design, Tesco's application of data in the service of increasing customer loyalty, and Honda's leadership in internal combustion engines are all examples of differentiated capabilities. Having the right capabilities in alignment can make the difference between mediocrity and greatness — in offering a product at "low cost" versus "lowest cost," for example, or providing casual customer engagement versus extreme customer satisfaction.

When a company sets out to create a new customer value proposition, it sometimes has to apply its existing capabilities system in a different way or adapt it to support a broader product or service offering. This is the essence of a company being capabilities-forward in its thinking. An example of this was Apple's launch of iTunes in 2001. The iTunes service took advantage of

IT'S YOUR COMPANY'S JOB TO KNOW WHAT YOUR CUSTOMERS WANT; A CUSTOMER VALUE PROPOSITION REPRESENTS A SYSTEMATIC WAY TO ACCOMPLISH THIS.

Apple's capabilities system, including the many things Apple did (and does) to make complicated technological products intuitive. Indeed, Apple has famously adapted its capabilities for beautiful, functional design and consumer insight into one new market after another: data processing (computers), consumer products (the iPod), mobile phones, online entertainment (music and video), retail stores, tablets, and now publishing (books and magazines). If Apple TV achieves similar success, it will be another example of the dramatic reach of this capabilities system. In emulating this approach to growth, it's important to remember that Apple had to adapt its capabilities system along the way, by adding an ability to manage content partnerships and work with different kinds of network providers. Only by doing this could Apple succeed with its customer value proposition and win in a new area. (It's still not clear whether this capability will be strong enough to meet the challenge of providing programs for Apple TV.)

An exercise for articulating your current three to six differentiated capabilities is thus an essential starting point for your growth plans. Consider the following: What capabilities system do you have in place today? How might these capabilities deliver a new product or service to your current or a new market? Given your market "playbook," what capabilities do you need to invest in, acquire, or develop, to deliver your new customer value proposition?

Looking at Wendy's from the outside, one might conclude that the restaurant has three truly differentiated capabilities. The first is an ability to project comfort and a homey experience through its brand. The second — reflected in a menu that is relatively broad and offers several healthy choices — is the development and delivery of multiple food types. This includes having enough customer insight to understand which menu items get consumers excited. And the third is a system for procuring and transporting a variety of ingredients, including higher-quality meats than either McDonald's or Burger King offers.

From Analysis to Product Launch

When markets are new, and competition is embryonic or nonexistent, it may be possible to succeed with a new product by using only one of the three practices: market-back analysis, Darwinian competitive review, or capabilities-forward assessment. Even a hastily built fighting force can gain ground in a new or undefended territory. In more heavily defended, more mature markets, it is far better to apply these three approaches together. We recognize that unpredictable factors often play a role in product launches, even in mature markets: the arrival of an enabling technology, a marketing breakthrough, or, yes, lucky timing. The three practices, no matter how shrewdly applied as thought starters and idea filters, can't help much with these "X factors." But they can provide a framework for systematizing the innovation process, one that makes success more likely.

Thus, one can imagine the Wendy's executives, after completing all three practices, realizing that they could not make much headway among price-sensitive consumers or consumers focused primarily on convenience. As we noted, McDonald's has these value propositions sewn up. But Wendy's might look differently at the pure indulgence value proposition. The chain's differentiated capabilities in developing a broad range of foods and in handling higher-quality meats could put this segment within the company's reach. Pure indulgence consumers might represent a natural new target, a group Wendy's could reach most easily from its base among those who want it all. To succeed with this group, the company would have to think freshly about its overall store experience, and fulfill the expectations of superior taste that these customers hold.

Wendy's would next have to figure out which of its existing capabilities could be leveraged to create what customers would perceive as an enjoyable, indulgent dining experience. In addition, what capabilities did the restaurant chain lack? How would Wendy's have to expand its capabilities system to succeed with indulgent food?

As it happens, although this analysis has been purely hypothetical, we note that Wendy's has adopted an approach similar to what we envision. It has an active re-design of its customer value proposition under way with an apparent eye for indulgence (its Hot 'N Juicy burger, introduced late in 2011, is one example) and a rotating menu of great-tasting side dishes: natural-cut French fries with sea salt, gourmet salads, and so on. Its new advertising campaign (including its recent "eat like a baby" television spots) emphasizes indulgent themes. It is promoting natural ingredients for taste and satisfaction. In early 2012, Wendy's passed Burger King to become the second-largest hamburger chain in revenues in the United States.

One can imagine Wendy's taking the approach still further to differentiate itself. For example, it could be the first QSR to carry Greek yogurt desserts or other indulgent foods. The more it focuses on this distinctive approach — difficult for competitors to replicate and consistent with its capabilities — the greater the number of people who could be drawn in, beyond the chain's original want-it-all consumer segment. This could ultimately drive significant incremental traffic and increase average ticket size across the store network. Moreover, Darwinian competitive review might show that both the taste- and experience-focused value propositions were relevant in multiple geographic markets.

In discussing brand expansion and organic growth, many people immediately gravitate to the most dramatic examples of success in consumer goods with excellent product development processes — companies like Procter & Gamble or Toyota. Others focus on the heroic genius of innovation, recalling Steve Jobs's famous answer when Walter Isaacson asked him what market research he had done in advance of developing the iPad tablet computer: "None. It's not the consumer's job to know what they want."

If it's your company's job to know what your consumers want, then the three component practices of a customer value proposition represent a systematic way to accomplish this. As we've said, these practices are thought starters that will give you the seeds with which to formulate ideas. They are also useful idea filters for ensuring that the value proposition will succeed. A market-back approach will ensure that the market is big enough and willing to pay appropriate prices; the capabilities framework ensures that the company can be good enough to realize its intentions; and the Darwinian scan reveals competitive barriers and unseen opportunities. Together, they combine the attributes that marketing strategists need most: empathetic artistry and analytic rigor. +

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Resources

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