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The Promise of In-market Innovation

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A new strategy recommends putting out new products in large volume and letting the marketplace — not focus groups — separate winners from losers.

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The history of consumer goods is littered with products that were carefully researched and trotted out for numerous focus groups to great enthusiasm — and that flopped when they hit the market. Do you remember, for example, the Konica e-mini digital camera? Probably not, because like many ideas that founder, it was on the market for too short a time for most of us to notice. A strange device, it took pictures, doubled as a Web-cam, played MP3s, and recorded audio. Most of the retailers carrying it and reviewers examining it didn't know what to make of the e-mini. Neither did consumers; before very long, the product was pulled from the shelves.

The unfortunate lesson from this and other similarly short-lived launches: Traditional market research (chiefly, consumer surveys and interviews as well as sales data for related products) is not a particularly good predictor of success. Worse, it tends to thwart creativity. For one thing, market research is not suitable for assessing novel product ideas. An innovative product, virtually by definition, is not going to have existing real or anecdotal data to support whether or not it will be well received. Consumers cannot respond intelligently to items they've never heard of or seen before. To circumvent this shortcoming, companies often focus on products and ideas that are research-friendly — in other words, incremental offerings that seem to fulfill an existing, discernible need. As a result, true innovation loses out to a proliferation of line extensions.

In addition, an overreliance on consumer input often leads to suboptimal decisions as marketers feel compelled to act on every byte of market information. At first, for example, small changes are made to packaging or ingredients. Then, slightly bigger fixes are made to, say, the size of the item. The cumulative effect is that the finished product is a far cry from what was originally envisioned.

A better alternative exists: a product launch strategy that we call in-market innovation. With this approach, companies debut a substantial number of new products with limited up-front testing or filtering, and the marketplace itself doubles as the focus group. Rather than attempting to predict how products will perform through old-fashioned studies and surveys, in-market innovation lets the consumers dictate the portfolio of winners and losers. Although this approach may seem to be more expensive than market research (because of the larger number of items developed and launched), a deftly implemented in-market innovation strategy is potentially more efficient and less costly than traditional efforts and often provides a quicker path to enhanced revenue.

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The most obvious savings come from minimizing market research costs, because each iteration of an idea, concept, or product does not need to be tested. But just as important, the number of decision points and possible changes to the product are greatly reduced. That, in turn, trims production and design expenses and eliminates the wasteful steps in product development that tend to kill innovation or slow the speed to market (and access to increased cash flow) and gives a product the chance to prove its viability.

Moreover, because in-market innovation requires true collaboration with consumers through simulations and mini-launches, it enables companies to enjoy an early, quick, and accurate read as to whether customers really want a new product and would be willing to pay for it. This lowers the risk and, thus, the cost of each product debut, and lets companies allocate investments better to support winning brands and sidestep losses associated with failures.

To best understand the value of in-market innovation, consider how the strategy can be implemented in each of the four steps of product innovation.

Step 1: Feasibility

With in-market innovation, this stage, which normally involves multiple market research studies, is driven by simulation and virtualization designed to measure the value of potential concepts and assess sales opportunities in a context akin to actual market environments. For example, in a simulated retail landscape, a consumer may be asked to "buy" products by examining and touching them or researching their pros and cons — in short, as they would choose an item in the real world. This goes a long way toward bridging the gap between predictable consumer purchases and the more nebulous consumer intent.

Step 2: Product Development and Design

Using the in-market innovation model, companies deploy a variety of production techniques to reduce development costs. For example, to produce the high-concept, high-tech toy Mindstorms, the Lego Group tapped into the expertise of external research labs at MIT and active users and consumers (kids) for their preferences on design, software, and hardware. Through this process, Lego has been able to address feasibility, market research, and product development simultaneously.

Some companies can reuse raw materials with in-market innovation, leveraging production expenses among an array of items and allowing them to manufacture more products that may meet customer preferences. A good illustration is Tiffany & Co., which tends to release to the market all items with any chance of success, but over time maintains production only on those items that attract a sufficient customer base. When a particular product has been overproduced and hasn't caught on, the merchandise is melted down and recycled or sold to recapture costs.

Step 3: Commercialization

Mini-launches are an inexpensive way to gauge customer response to a product without committing an overabundance of resources to it. One approach is beta testing: Unfinished products are placed in the market so they can continue to evolve to match customer expectations. Software and application companies are particularly enamored of this strategy, often asking large groups of consumers to make recommendations to improve imperfect versions of products. Less well known is that beta testing is also gaining in popularity among consumer goods companies. Consumers can sign up to receive potential new products from Procter & Gamble Company on the P&G Everyday Solutions Web site. For example, P&G's Crest Whitestrips was beta tested through the Internet before becoming a hit in traditional retail outlets.

Setting up temporary stores to handle products yet to be fully launched is another possible offshoot of in-market innovation. Method Products Inc., which makes environmentally friendly cleaning supplies, conducts product testing, validation, and branding through temporary stores that attract customers with strong price points, word of mouth, and Internet advertising.

A similar mini-launch program involves controlled test marketing using, for example, store brands. Target Corporation has adopted this by debuting new product lines and concepts through the private label Archer Farms. Target takes advantage of its extraordinary access to millions of shoppers through its stores to test consumers' responses to products in limited release, and then reinvents products based on consumer interest.

Step 4: Branding

Because brand equity is a very real concern any time a company launches a new product, in-market innovation increases the risk that the reputation of a product line will suffer from the surfeit of new items. To best manage this risk, some companies launch new products independently, without any association to the main brand.

For example, Molson Coors Brewing Company created a new subsidiary, AC Golden Brewing Company, to minimize brand risk from new products. As Molson Coors CEO Leo Kiely explained it in the *Wall Street Journal*, "Historically, national brand launches in the U.S. have cost major brewers millions of dollars, and more than 95 percent of them fail. [Molson Coors Chairman] Pete Coors kept saying there had to be a better way to do this, and so he came up with the concept for AC Golden Brewing. This gives us another way to get innovative ideas to market without redirecting critical resources from our core brands."

Over time, if the new brand is successful, it can migrate to larger, more successful brands that the business owns. This ensures limited exposure to an existing brand's equity initially, and in time allows the new brand to leverage the established brand's advertising and marketing campaigns.

To effectively execute the in-market innovation strategy, companies must steer the corporate culture toward a "big tent" product development philosophy. Incentives need to be structured to encourage constant idea generation, and to a large degree embrace (or at least not punish) failure. In addition, cross-functional teams and enhanced information systems must be in place to capture market information quickly as it presents itself throughout the launch. Companies need to be certain that their decision-making processes will ensure that products are immediately discontinued after failed launches. Moreover, knowledge gained from failure must be applied to future innovation.

When companies focus on learning from real world performance rather than the time-consuming and expensive market research techniques that are traditionally used to measure customer intent, innovation is the reward. Indeed, more than anything, in-market innovation is a strategy that stresses the value of the new and the creative — the engines of business growth that few companies today can afford to ignore. +

Resources

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