

Next Generation Innovation

DECONSTRUCTING STRATEGIES TO CREATE A TRUE INNOVATION ENVIRONMENT

BY ALBERT GUFFANTI

Some consumer packaged goods (CPG) companies have long track records of successful innovation. For others, innovation is an R&D black hole. This month, KK Davey, managing director of SymphonyIRI Group's Symphony Consulting business unit, outlines core strategies of companies that innovate successfully and offers his perspective on balancing innovation with other corporate imperatives.

What strategies do successful CPG innovators have in common?

DAVEY: Today's best innovators do three things well. They drive innovation from a strategic perspective, understand how they want to change the relationship with the consumer/shopper and collaborate tightly with their retail partners. These companies manage their brands strategically; for example, they have sharp, well-articulated brand value propositions, clearly defining what is different about their brands to the shopper. They have developed a highly-analytical "consumer-back" approach to product lifecycle management, enabling them to optimally allocate merchandising and promotion support. And, they track progress of new product introductions in tandem with retail partners via meaningful scorecards. Finally, winning manufacturers involve consumers early in the innovation process.

How does successful innovation translate to top- and bottom-line growth?

DAVEY: Each new product, package or line extension adds complexity to the brand portfolio. Manufacturer innovation must mesh with retailers' innovation strategies. Some retailers demand innovation, others are creating a simplified shopping experience and are driving complexity out of the store. CPG executives must understand the total cost (to both the manufacturer and retailer) of managing a complex portfolio and what happens to those costs with each new introduction.

Best-in-class manufacturers understand the full ROI of their innovation streams and continuously balance their portfolios to drive profitable growth, which is driven by four factors: understanding the full economic reality of the portfolio, managing complexity, collaborating with the retailer on ongoing portfolio management and implementing new product introductions with targeted pinpoint marketing support.

What does it mean to understand the shopper better?

DAVEY: To maximize the impact of innovation, CPG companies must have a highly-detailed, granular view of shopper attitudes and behav-



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iors, down to the neighborhood and even household level and where they shop. This begins with creating a "single point of truth" about the shopper. In the past, product development, merchandising and other groups within a CPG company maintained their own customer data, databases and analytical tools. As a result, when launching a new product, each group made decisions based on dramatically different information and insights — with the predictable result.

Today, successful innovators integrate data from disparate sources, including survey data, purchase panel data, usage panel data and frequent shopper card data, to work with a single set of strategic, predictive analytical insights generated in a matter of hours as compared with weeks with older solutions. Each department now works with one common set of granular information about consumers and shoppers and their needs and preferences.

Clearly, it's about more than just understanding differences between Millennial and Gen X shoppers, or Hispanics versus other ethnic cohorts. It's about understanding the needs of the single, female, Caucasian Gen X shopper, who commutes, lives alone and stocks up once a week and shops in a drug store, or the married, male, African American Gen X shopper, who visits a discount grocer three times a week to keep his growing family well nourished.

Further, leaders are going beyond understanding their shoppers to involve them in the innovation process itself. For example, PepsiCo sponsored a contest dubbed "DEWmocracy" to select three new Mountain Dew flavors under the tagline, "The Next Dew Is All About You." Consumers picked the name, the package design and even the ad campaign.

All manufacturers and retailers discuss innovation to the point that a backlash has occurred as management realizes the complexities that often accompany expanded new product introductions. Next generation innovation embraces creative approaches to identifying and meeting shoppers' needs but tempers this creativity with sound business strategy and analysis. ❖