

CPG Innovation: Increase Collaboration, Avoid Collisions

BY MIKE FRIEDMAN

Recently, Steve Steutermann and Kevin Sternecker of Gartner published a research note called “Avoiding a Consumer Products and Retailer Collision.”¹ Steve and Kevin’s conclusion that “product innovation, which is critical to organizational success, must be measured” is right on target. However, Gartner’s survey findings also show that “companies are not utilizing scorecards to measure new product launch (NPL) success or pre- and post-launch execution, despite the importance of innovation and NPL in the marketplace” which, unfortunately, is not surprising.


Retailers are simplifying their shelf sets, reducing their inventories and introducing their own brands. When consumer products (CP) companies don’t measure how their innovations have performed and don’t know the reasons behind the results, a collision with retailers is inevitable, with the CP manufacturer ending up the loser. CPG companies all say that innovation is a critical element of their business growth plans and measuring innovation results is important.

So why aren’t they measuring how they are doing?

Here are several reasons:

1. Innovation is risky and success is difficult to deliver

Reported innovation success rates are pretty low; Kalypso estimates anywhere from 70-80% of innovations fail to meet original targets. Despite CP organizations saying that accountability is a core principle, people are often reluctant to take accountability for results that are difficult to achieve. As a result, innovation project teams define different ways to measure success, skirting the key question – “Did we deliver the sales revenue, profit and net present value (NPV) goals as set forth in the business plan?”



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¹ Gartner, Inc. Avoiding a Consumer Products and Retailer Collision, Steven Steutermann, Kevin Sternecker, April 19, 2010.

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Typical responses include:

- “Our launch was on time”
- “Our product test scores were winners”
- “Our concept scores were in the top ‘definitely would buy’ box”
- “We delivered our distribution goals”
- “We met our customer service targets”
- “Our cost of goods sold met our targets”

While these are all good things, true success only happens when they contribute to meet the business’ in-market goals. Measuring innovation results requires a willingness to accept accountability. We always look at an organization’s lack of willingness to embrace accountability as a root cause for not measuring results.


2. Information systems are not capable of measuring results

The task of measuring innovation is not trivial. Work processes and responsibilities must be modified to link innovation projects with shipment databases at the SKU level. Innovation definitions must be clearly articulated and followed. These include types of innovation, revenue and margin numbers (i.e. detailed standard descriptions and linkage in the database for all desired metrics). The data must be updated monthly at a minimum, allowing progress to be monitored and acted upon. In fact, daily updates are important for innovation launched within the previous six months.

Management must also define how they want to aggregate the data: by brand, segment, market, region, technology platform and customer. They should also include not only the results, but how they want to analyze the key factors influencing the results, as outlined by Steve and Kevin in their article. We look at a company’s ability to get the results and causal data from their information system as an indicator of their ability to sustain innovation results and avoid retailer collisions.

3. Management does not do anything with the data

Tracking and reporting results is important, but not sufficient. People in the organization should know and understand what management does with innovation data. If it is used only for reporting and not for making any decisions, most organizations will not put in the time to ensure that it is accurate or timely. Management has a responsibility to clearly define what actions they will take as a result of the innovation data and analysis process and then communicate what they have done. Otherwise, the activity is not a good use of scarce resources. We look throughout organizations to see if the people doing the work really understand why innovation results are measured, why the analysis is done and what management actually does as a result.



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4. Management says they are measuring results because they do after-launch reviews

Sometimes we hear from companies that they measure and analyze results because they have a robust after launch review process in place. Launch reviews are excellent and can generate real insight. Unfortunately, more often than not, the reports are written, broadly shared for information, and then stored in individual files or put on SharePoint and nothing is ever done with the conclusions. This is not a robust innovation measurement process. It can be a base to build on, but in and of itself, is not sufficient.

Innovation needs to be measured and analyzed on a portfolio basis, not only initiative by initiative. To be effective, the data need to be acted on to drive improvements and used by project teams at the moment they need it to increase odds of winning in the market place. We try to look deeper into the organization to see how the knowledge from the innovation measurement process is being used to improve results. The goal is not just to measure innovation, but to deliver better results.

So how might CP companies increase retailer collaboration, decrease collisions and put in place a robust innovation performance management system?

Consider four actions:

- Establish clear accountability for in-market results.
- Fix your information system to deliver timely and accurate data.
- Act on the data and then communicate those actions broadly.
- Leverage after-launch reviews to build a robust innovation measurement process, not a standalone approach.

What to do and why it is important is very clear. It is a question of getting it done.



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KALYPSO CONTACT

Mike Friedman, Partner
mike.friedman@kalypso.com

www.kalypso.com

