the forge

Unleashing Innovation

Why Future Consumer Value is the unlock to sustainable innovation success.

A Forge Perspective

Introduction: we need a new narrative for innovation

There is a prevailing narrative that most innovation fails. Google it and you will find multiple articles that cite Harvard Business School professor Clayton Christensen, who developed the theory of disruptive innovation, saying there are over 30,000 new products introduced every year, and 95% fail. This is quoted again and again without a source, so it is hard to know when Christensen, who died in 2020, said this and in what context. Or whether he said it at all. Regardless, the 'fact' that 95% fail is the headline statistic in blogs and articles about innovation by credible and reputable organisations such as MIT. But is it really true?

Debunking the myth

If we think about it logically, it doesn't make sense. If most innovations fail, why would anyone take the risk? Perhaps we are all hoping to be in that elusive 5%, although with odds like that, most rational people – and companies – would steer clear. But there is evidence that most companies perceive innovation as valuable and important and, conversely, see failing to innovate and keep up with consumer shifts or competitor activity as a risk. For example, research by EY shows that the top two priorities in 2023 for CEOs who want to grow are 'improving technology capabilities and innovation' and 'introducing new products and services or improving existing ones.'

We reviewed the annual reports of some of the world's largest FMCG companies and found further evidence that, at board level, innovation is seen as critical; this critical innovation can take many forms including optimising supply chains, improving formulations, creating more consumer-centric products, generating brand equity and driving sustainability. This last is particularly important as organisations respond to the climate crisis and to consumers' demands for more sustainable products, packaging, production

and supply. Innovation and sustainability are interwoven to the extent that we would contend that it is not possible for companies to become more sustainable without innovation.

Follow the money

Innovation is at the top of the CEO agenda and its prominence in annual reports suggests commitment to innovation is a key message for investors. Further evidence that the 95% failure rate is a myth comes from the sums that these companies are willing to invest in innovation and the returns that are possible. For example, in FY22 AB InBev realised 5 billion USD in revenue from innovations introduced over the past three years. This is against total revenues of 57.8 billion USD, which means that innovation accounted for just under 9% of revenues. And in FY22, Unilever realised €1.7bn incremental turnover from innovations, just under double its R&D spend (€908m). This isn't an exact calculation of ROI as there are other factors involved, but the data is indicative of the value of investment in innovation.

Selected FMCG business' R&D spend (FY22, USD Millions)
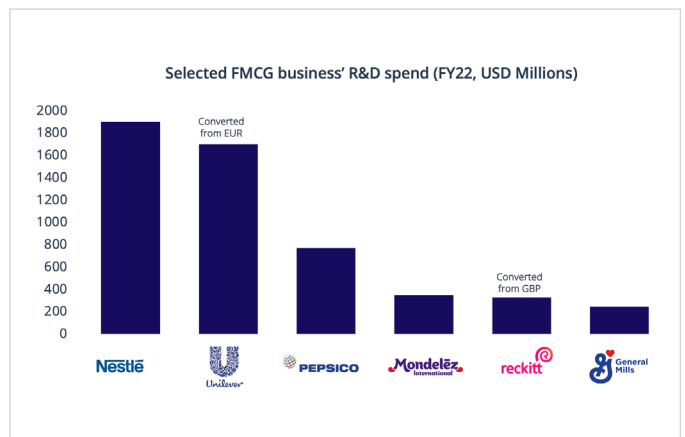
*Source: Selected FMCG business' FY22 annual reports*

There is evidence to suggest that the real failure rate is much lower than 95%

If 95% is wrong...

As well as the investment data that suggests that companies value innovation, there is also evidence to suggest that the real failure rate is much lower than 95% – around 40%, according to one source.

In June 2023, Nielsen analysed more than 60,000 innovations across five countries over more than four years and found that 52% of new items with national distribution grew sales in their second year on the market. They also found that manufacturers who grew innovation sales in 2022 were 1.8 times more likely to grow overall sales compared to those with stagnant or declining innovation sales.

Similarly, Kantar Worldpanel research shows that only around 18% of new grocery products are dead by the end of year two, with nearly four in ten growing or flourishing.
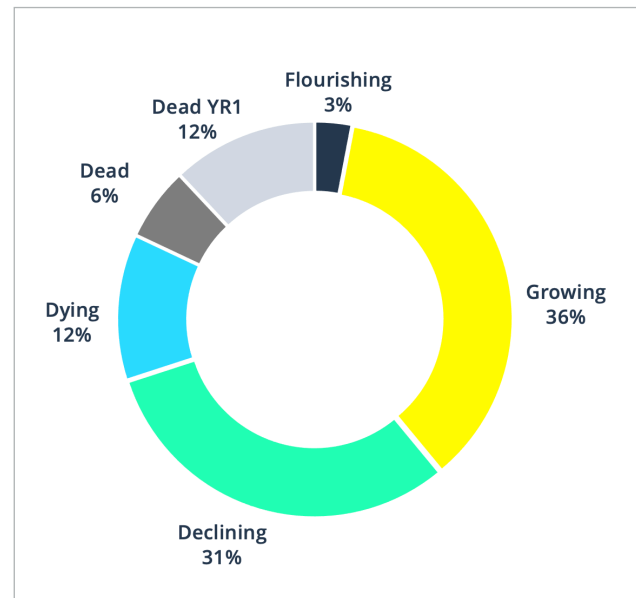
NPD Survival Rates: Year 2 performance, total grocery.
Source: Kantar

Both analyses highlight part of the problem with quoted innovation failure rates: it depends how we define innovation, and it depends how we define failure.

Are we thinking about innovation as transformative, disruptive horizon three development or does it include smaller scale core innovations, renovations or tweaks to existing products? And which metrics are we using to assess whether an innovation has succeeded or failed? Retail hurdle rates, new customer acquisitions, sales growth in year two, NPS? All valid measures but none giving the full picture. The Kantar research also shows that 16% of even the most successful first-year new products end up dead or dying by their fourth year. Failure can depend on when and how we measure it.

Why does the myth persist?

If it's not entirely true that most innovation fails – and we can't effectively measure it anyway – why has this narrative taken hold? We think there are a number of reasons, as follows:

01 Sometimes 'innovation' gets the blame for failure when the issue is in the activation – manufacturing limitations, packaging issues or marketing failures, for example.

02 It might be that cognitive biases mean the myth of frequent failure rings true for innovators. Loss aversion means that failure hurts more than success makes us happy. And confirmation bias means that we might just notice failure more, if we expect to see it.

03 If the narrative is that innovation mostly fails, it can make it easier for innovators to justify failure when it does happen.

And what is the problem?

Does it really matter if there is a widespread belief that innovation fails? We believe it does.

One of the biggest casualties of this narrative is innovation culture; if everyone believes innovation will fail it creates an environment and an organisational culture in which it is difficult for innovators to succeed. Leadership doesn't believe in innovation, which leads to underinvestment. Marketing and sales don't believe in it, which leads to lack of support for new products. And then failure becomes a self-fulfilling prophecy.

The reality is that many organisations are stuck in a kind of love/hate relationship with innovation. Innovation is essential for growth, and it is also exciting; it's about the future, everyone wants to work for an innovative organisation, it feels fun and creative and holds the promise of better times to come.

Trying to balance the excitement and importance of innovation with the narrative that it is likely to fail is hard and can turn innovation into a risk management exercise. We work with innovators, and we see this tension play out in a range of issues at all stages of the innovation life cycle.
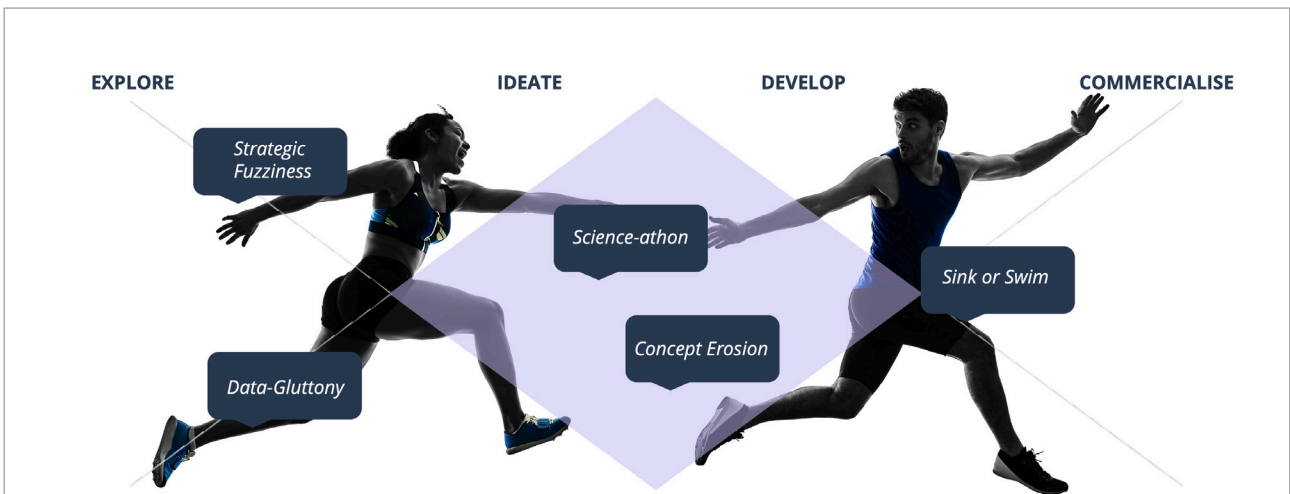
Strategic fuzziness: we often observe an unwillingness to make difficult choices and to narrow down priorities; instead, companies hedge their bets which dilutes resources and minimises the chance of successful outcomes.

Data gluttony: when there is uncertainty, the answer is so often to get more data, which leaves teams and individuals in a state of perpetual data overwhelm and unable to use intuition to help make sense of insights.

Science-athon: when the process moves on from exploration through ideation and into development, the temptation can be to roll out the immense scientific and technological capabilities that organisations have, and are good at using, for each concept, even if there is no evidence that the output will create value.

Concept erosion: also known as death by 1,000 cuts. Most innovators will be familiar with this. You start out with a defined idea, but as it goes through the innovation journey it is progressively chipped away with compromises to the formulation ingredients, production process, packaging... until the outcome bears little relation to the original concept.

Sink or swim: and then at launch, companies tend to burden all introductions with a similar set of KPIs, usually relating to sales performance, even if the concept was created with entirely different strategic objective. This results in brilliant ideas that need nurturing over time to help consumers see the benefits falling by the wayside.

EXPLORE   IDEATE   DEVELOP   COMMERCIALISE

Strategic Fuzziness

Science-athon

Sink or Swim

Concept Erosion

Data-Gluttony

It's time to change the narrative around innovation, do away with the failure myth and the love/hate relationship and adopt a new approach.

A new, value-based narrative

We reject the idea that 'most innovation fails' in favour of the idea that 'innovation that creates future consumer value will succeed.'
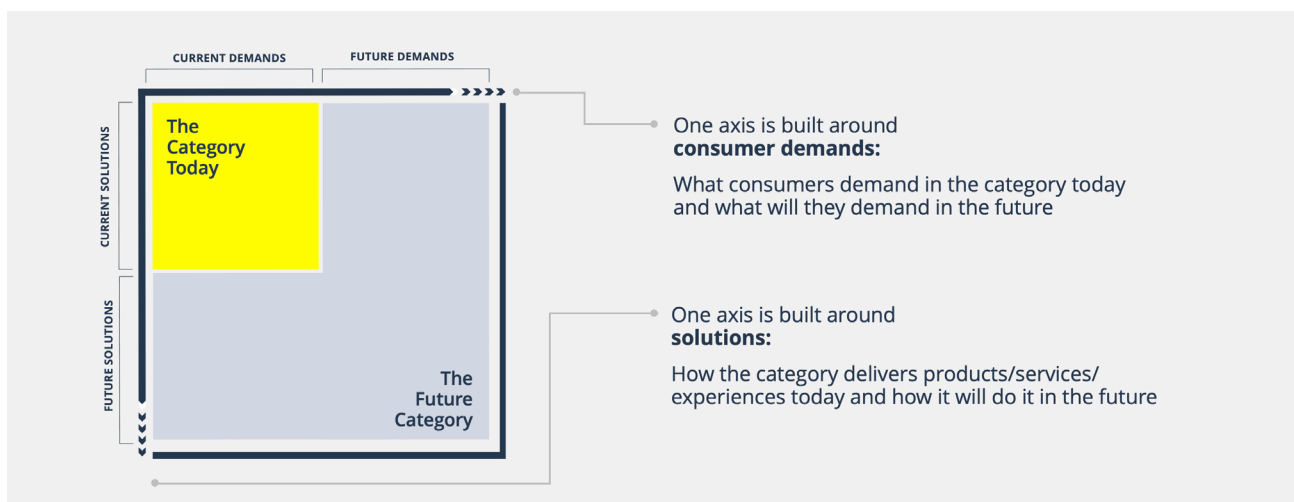
What do we mean by this? When you boil it down, innovation is all about creating value. People only have space in their lives for what they value. And that value can take multiple forms: social, emotional, functional. Any attempt to persuade consumers to change their behaviour – buy the product, pay the premium, join the gym - needs to be rooted in a deep understanding of the value they will derive. We would go so far as to say that all commercial value in innovation is rooted in human value.

If we are to unlock future consumer value through innovation, we need to do two things:
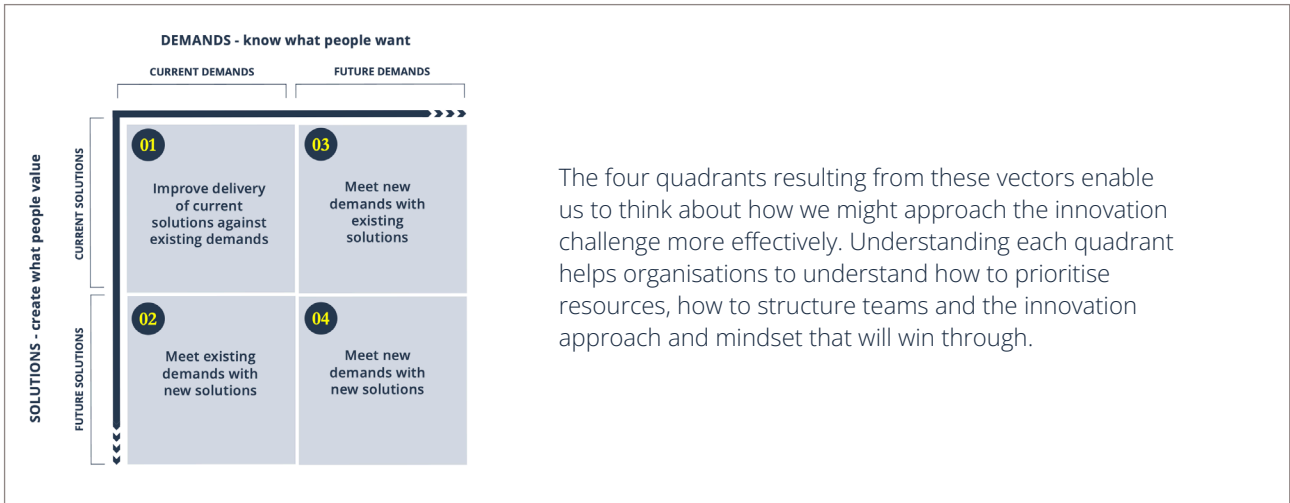
01 Know what people want, need or aspire to, now and in the future - Demands.

02 Create what people value by developing and optimising products and experiences to satisfy these needs and aspirations - Solutions.

At The Forge, we use these two 'vectors of value' to help organisations think through innovation strategy. Your category today is an expression of the value created by meeting people's current needs with the solutions available now. And your future category is an expression of all the potential value that can be created by meeting an infinitely more diverse set of needs with an infinitely more diverse set of solutions. These spaces are dynamic as well as infinite – yesterday's future is today's present.

In most companies there is inherent tension between the vectors, and especially so against longer time horizons. We regularly hear innovators say, "when we start reimagining what people want, we find the solutions don't keep up" and conversely, "the more exciting the science, the harder it becomes to find a real consumer benefit."

CURRENT DEMANDS · FUTURE DEMANDS

CURRENT SOLUTIONS · FUTURE SOLUTIONS

The Category Today

The Future Category

One axis is built around **consumer demands:**
What consumers demand in the category today and what will they demand in the future

One axis is built around **solutions:**
How the category delivers products/services/ experiences today and how it will do it in the future

How do we use the vectors?

The four quadrants resulting from these vectors enable us to think about how we might approach the innovation challenge more effectively. Understanding each quadrant helps organisations to understand how to prioritise resources, how to structure teams and the innovation approach and mindset that will win through.

01 Create value in core | Improve current category delivery

Better deliver against the current category demands with incremental improvements to solutions that target priority or higher value demands

New value created through:
- Premiumisation
- Enhanced relevance
- Withstanding price pressure and value erosion

Critical skillsets & capabilities:
- Marketing & innovation teams

Innovation mantra:
The power of creative constraints
- Evolve and redefine consumer benefits
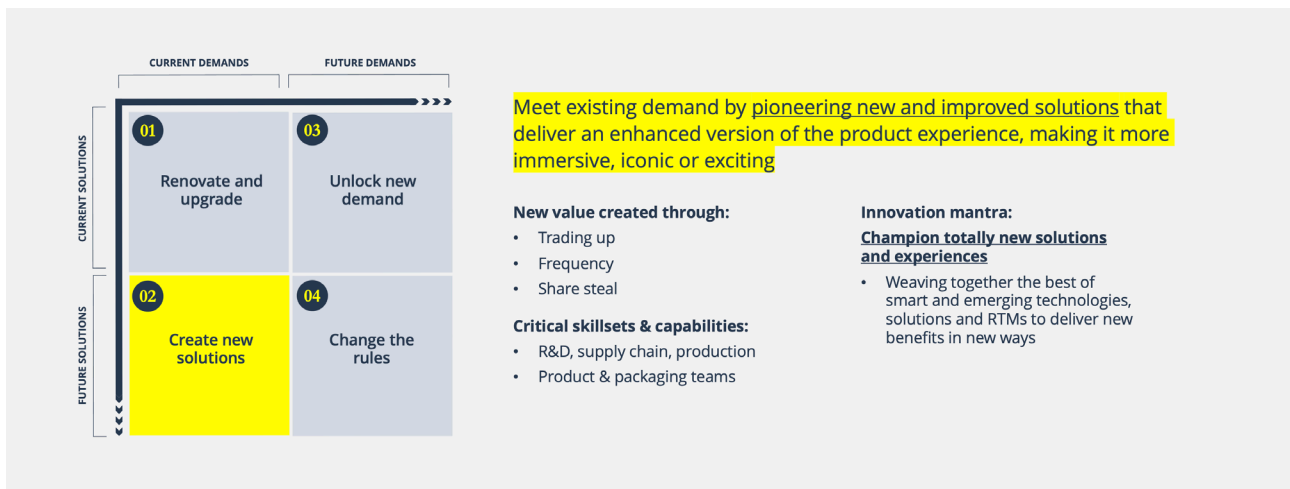- Relevant evolution of category experience within realms of existing product and commercial model

Although innovation can be thought of as being all about the future, there is still a role for innovators in exploring the first quadrant. This is where we find some of the innovation that may be being overlooked in that 95% statistic because it isn't as exciting or future focused: the renovation and upgrades that add consumer value through premiumisation and enhanced relevance. However, there are rewards to be gained in this quadrant; it requires the least investment of budget and time, so it is lower risk, and if current products don't evolve, they will stagnate.

For example, in 2017, Heineken 0.0 was launched in the alcohol-free lager category; an existing solution which met an existing demand for alcohol-free versions of traditionally alcoholic drinks. However, what was different was the taste. Until that point, much of the alcohol-free beer available didn't taste that good.

Promoting Heineken 0.0, the company said, "Brewing a great tasting 0.0% alcohol lager beer, is it even possible?" and went on to answer their own question, "It wasn't easy… Our master brewers… spent years exploring, brewing, and tasting before they finally created a recipe… that deserves the Heineken mark."

The market agreed. Reviewers raved over it; one writer in a blind taste test against regular Heineken declared, "Both of these dang beers taste exactly the same." And today, Heineken 0.0 is by far the best-selling non-alcohol beer in the UK. By bringing their existing brewing expertise to a new challenge, Heineken's innovation was to do the same things as competitors, but better, thereby elevating what an alcohol-free beer can be.
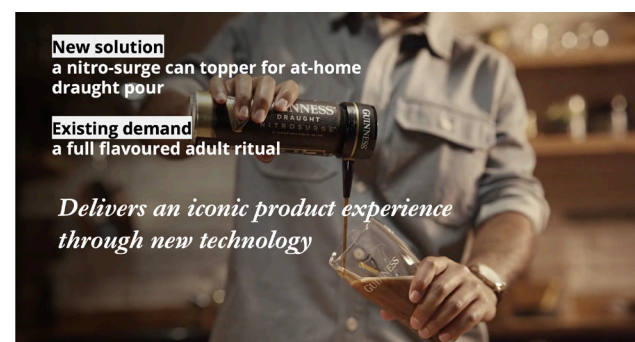
02 Create value in stretch | Create new types of solutions

CURRENT DEMANDS | FUTURE DEMANDS

| 01 Renovate and upgrade | 03 Unlock new demand |
| 02 Create new solutions | 04 Change the rules |

Meet existing demand by pioneering new and improved solutions that deliver an enhanced version of the product experience, making it more immersive, iconic or exciting

New value created through:
• Trading up
• Frequency
• Share steal

Critical skillsets & capabilities:
• R&D, supply chain, production
• Product & packaging teams

Innovation mantra:
Champion totally new solutions and experiences
• Weaving together the best of smart and emerging technologies, solutions and RTMs to deliver new benefits in new ways
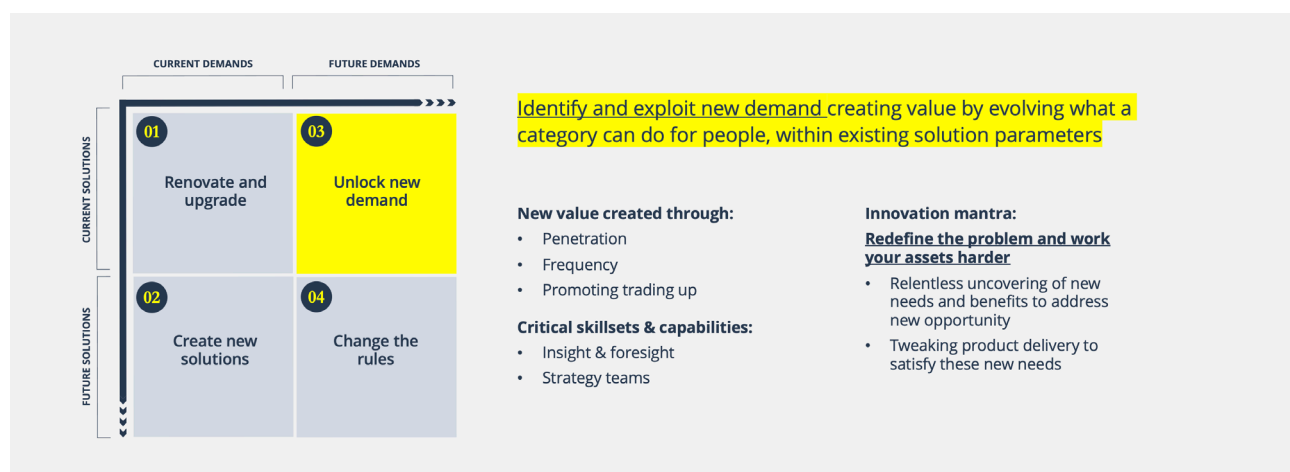
The second quadrant is still rooted in existing needs but brings new science, technologies or approaches to create novel solutions to existing demands. This adds consumer value though making the product experience more exciting and appealing, and encourages consumers to trade up, increase frequency of use or move over from competitors' offerings.

For example, the Guinness Nitrosurge device brings new technology to an existing need – getting a great tasting pint at home. The marketing for the device emphasises how it can create the 'iconic two-part pour' which has been a key feature of Guinness branding over the years. Parent company Diageo's annual report for 2023 credits the innovation with "premiumising the Guinness

experience in new spaces" and being part of the reason that "in fiscal 23, more new consumers drank Guinness than ever before."

New solution
a nitro-surge can topper for at-home draught pour

Existing demand
a full flavoured adult ritual

Delivers an iconic product experience through new technology

03 Create value in stretch| Unlock new demand

CURRENT DEMANDS | FUTURE DEMANDS

| 01 Renovate and upgrade | 03 Unlock new demand |
| 02 Create new solutions | 04 Change the rules |

Identify and exploit new demand creating value by evolving what a category can do for people, within existing solution parameters

New value created through:
• Penetration
• Frequency
• Promoting trading up

Critical skillsets & capabilities:
• Insight & foresight
• Strategy teams

Innovation mantra:
Redefine the problem and work your assets harder
• Relentless uncovering of new needs and benefits to address new opportunity
• Tweaking product delivery to satisfy these new needs

The third quadrant is about identifying and exploiting new demand and creating consumer value by evolving what a category can do for consumers, within existing solution parameters. This quadrant adds value for the organisation by extending market penetration within the category, increasing the frequency of purchase and promoting trading up to the brand or from a lower

tier. This quadrant and quadrant two are often seen as interchangeable within organisations but actually benefit from a different innovation approach. Whereas the approach in quadrant two is focused on understanding emerging capabilities and technologies and their ability to deliver benefits in a new way, quadrant three has a focus on demands – what are the new and emerging

trends and behaviours to which we can apply existing approaches so as to create value?

For example, by creating Dettol Antibacterial Laundry Cleanser, the brand has extended into a new category using an existing solution from an adjacent category to meet a new demand – the need to sanitise washing. This demand has emerged partly in response to the trend for washing at lower temperatures and a perception that doing so might enable bacteria to spread.

New demand
to eliminate harmful bacteria in clothing

Current solution
laundry detergent

Unlocks new consumer value by adopting needs from adjacent categories

04 Create value in new | Change the rules

Step change and redefine how a category creates value by combining new demands with new solutions

New value created through:
• Redefining value entirely

Critical skillsets & capabilities:
• Business development, business model innovation, corporate development
• Partnerships and M&A teams

Innovation mantra:
Experiment to disrupt yourself
• Rethink what your category offers people
• Rethink how you deliver these benefits and how you capture value from it

Quadrant four is where we find what is typically seen as the most exciting type of innovation; industry disrupting, maximum risk maximum reward, horizon three innovation that changes the rules of the category and offers consumers something entirely new.
The insights that feed consumer understanding in this quadrant are most likely to come from exploratory trends research and ethnography and from pushing the research boundaries into adjacent categories.

For example, Zoe is an entirely new approach to dieting and nutrition that meets a new need – that for personalised nutrition to suit the individual's gut biome – with an entirely new approach: customers sign up to

a membership scheme having first completed a series of in-home tests to understand how their body responds to food.

New demand
An eco-system of app, testing, self-monitoring

New solution
optimised gut health, energy and weight management

zoe

Delivers an iconic product experience through new technology

To make this new narrative work, innovation teams need to do three things:

1. Continually explore and feed the vectors

Because these spaces are dynamic, the need to research existing and emerging demands and solutions is constant. Although existing needs are relatively stable, it is how they are expressed that is constantly evolving. For example, what does 'freshness' or 'sustainable' mean to people now. Research such as semiotics, language analysis and consumer panels can help put meaning around the expression of current needs.

Feeding the further out reaches of the vector, the future demands, requires looking at emerging trends, not just in the category but in adjacent and even unrelated categories to see how they are starting to play out in consumer behaviour, and which are likely to stick. Research techniques such as social listening and ethnography can help to make sense of the trends.

In feeding the solutions vector, there is a distinction between getting more out of the capabilities we currently have versus how to be disciplined in understanding the new approaches that are available to us to create future solutions. Many organisations are good at tech scouting but less good at turning this into practical expressions of the most promising solutions and a sense of how they might connect to the consumer. This requires a shift from a manufacturer-led to a human-centered mindset.

2. Synchronise around the quadrants

The value of this approach is in how each quadrant has a different imperative, summed up in the mantras in each section above. Innovation strategy needs to take account which sectors to prioritise and why, and teams need to understand which space they are in. This has implication for which individuals, skills and resources are needed as well as how to activate innovations and measure success. For example, as mentioned about, quadrants two and three require very different approaches but organisations often treat them as interchangeable. Teams also need to stop viewing the innovation journey as sequenced, with teams working in silos, handing off concepts via stage gates to the next team, and take a synchronised view across the quadrants instead.

3. Make the value visible

All this effort is only worthwhile if organisations can convey the value of the innovation to the consumer. Too often, this element is neglected until the very end when decisions about pack design and comms are handed off to a marketing team, who are seeing the concept for the first time.

It is essential to ensure that every single detail of the proposition tells the value story to the customer; not just the product itself but the ingredients, the supply chain, the ethics of the production process, the colours, fonts and language, the promotional activity, the channel, down to where it sits on the shelf in the supermarket must all be grounded in consumer value.

A call to arms

The narrative that most innovation fails is worse than just untrue; it is damaging to companies and innovators alike. What is true is that innovation helps businesses grow and provides consumers with new, exciting and appealing ways to meet their demands.

At the Forge, we are championing a new value-based narrative. We call on innovators and forward-thinking organisations to be bold, spread this narrative and break free from the constraints of a dysfunctional love-hate relationship with innovation. With this mindset, there are no limits to how we can ideate, invent, and develop the products and services that will go on to change the world.

If you are wrestling with an innovation question
and would like a sounding board,
speak to The Forge's experts here

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