

# CUSTOM RESEARCH

## New Product Development

### PRODUCT LAUNCHES HINDERED BY MAJOR CHALLENGES

New products have been the lifeblood of the consumer goods (CG) industry, and innovation alone might be the key to true economic recovery. Successful new product launches are typically one of the top goals for CG executives, yet this process is one of the most complex due to challenges including global regulations and product proliferation, and unlike other processes, spending on supporting technology has been lagging. This month, we partner with Sopheon to uncover the challenges facing the industry and understand the current development process.

#### Challenges

The importance of new products cannot be underestimated: 25 percent of revenue for the average CG company comes from products introduced in the last three years. The type of products varies, but almost 40 percent are

line extensions and 22 percent are promotional or packaging changes (see *Figure 1*). Only 18 percent are considered highly innovative new products.

Worrisome, however, is the success rate: only one-half of new products meet profit objectives. There are many causes, but the most commonly cited one is that the products themselves are not differentiated from the competition. Other common causes are ineffective promotions and inadequate market analysis. Interestingly, low product quality and technical or regulatory problems are reportedly “never” the cause of failure.

The front end of the innovation process has a different set of challenges, although not having enough ideas wasn’t one of them! The most common cause here is that good ideas get “stuck” and aren’t able to move through the development process. Others told us that

ideas weren’t broadly visible and, therefore, couldn’t be reused by others. Thankfully, cultural hurdles were not typically cited.

Overall product portfolio management has more typical project challenges; 59 percent of respondents told us that resources are stretched too thin due to too many active projects. Half of respondents cited simply not having enough high-value projects was always or frequently an issue, but not having visibility to the entire portfolio was rarely a problem.

Despite these challenges, most companies felt that short-term product development activities are somewhat aligned with long-term business growth strategies (see *Figure 2*). Almost one-third felt they only had a small gap and almost one-half reported a moderate gap; only 12 percent thought the gap in their strategic alignment was significant or very large.

**EXPERT PERSPECTIVE** • BY BRYAN SEYFARTH, DIRECTOR OF PRODUCT STRATEGY, SOPHEON CORPORATION

## GROW REVENUES AND PROFITS WITH INNOVATION GOVERNANCE

Bringing truly innovative products to market — on a consistent basis — has long been a challenge for consumer products companies. A recent SymphonyIRI study found that 90 percent of consumer products launched in 2010 were brand extensions as opposed to truly new brands. Only 3 percent achieved blockbuster status (year-one sales of over \$50 million).

To counter this challenge, many CG companies are implementing the business practice of innovation governance. These efforts, often supported by software technology, amount to system-

atizing and facilitating cross-functional decision-making across the innovation lifecycle. The results for such top brands as PepsiCo, Heinz, ConAgra, Church & Dwight and Beiersdorf have included more high-value, even disruptive, new products.

A common first step for companies implementing an innovation governance system is to focus on improving their “gated” innovation processes. That’s because it is at the early decision “gates” where executives face the hardest choices: should they invest significant resources in a prospective

new product or “kill” it to focus on other innovation opportunities? According to Nielsen, consumer goods firms with “effective and rigid” gates average 130 percent more new product revenue than companies with loose processes.

The vice president of research and development for a large food and beverage producer explains how this works in his company:

“Weak projects are prevented from progressing and diverting resources from ideas with greater potential. In terms of portfolio value, this difference has been transformative.”

A leading global producer of household appliances is among the substantial number of CPG manufacturers that have deployed Sopheon’s Accolade solution to enable innovation governance execution. The company reports that it has increased its volume of new product launches by more than 80 percent, cut development time by nearly three-quarters and dramatically improved margins.



**Can Data and Technology Help?**

Given the challenges inherent in new product development, technology and data could provide significant value. However, there are definite information gaps that companies struggle with when evaluating potential investments in new products. The most common involved the future financial value of a product and data to validate that products address a real market need.

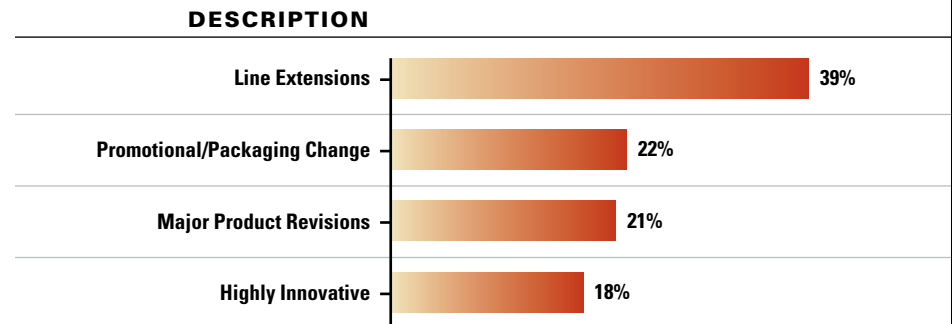
When determining success and tracking metrics, perspectives may differ based on role (see Figure 3). We looked at how often companies compare forecasted targets to actual results for marketing and finance, and financial metrics were tracked much more closely. Companies tracking finance metrics for all or most projects were almost double those tracking marketing objectives that closely.

**“Only one-half of new products meet profit objectives.”**

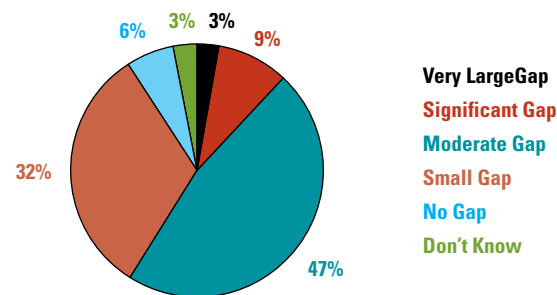
Tools to manage business decision-making vary widely but are more prevalent in very large CG companies. For example, while less than one-quarter of companies use a dedicated Product Portfolio or Product Data Management system, 67 percent of companies with more than \$2 billion in annual revenue use such tools. These larger companies also adhere to stage-gate processes, with 82 percent always or usually adhering to the gated process, compared to 41 percent of the total pool. Half of respondents use a Project Scheduling system, but 100 percent of companies in the \$2 billion or more bracket use them. For companies of all size, Microsoft tools are still the most prevalent. ❖

To read this research in its entirety, visit [www.consumergoods.com](http://www.consumergoods.com).

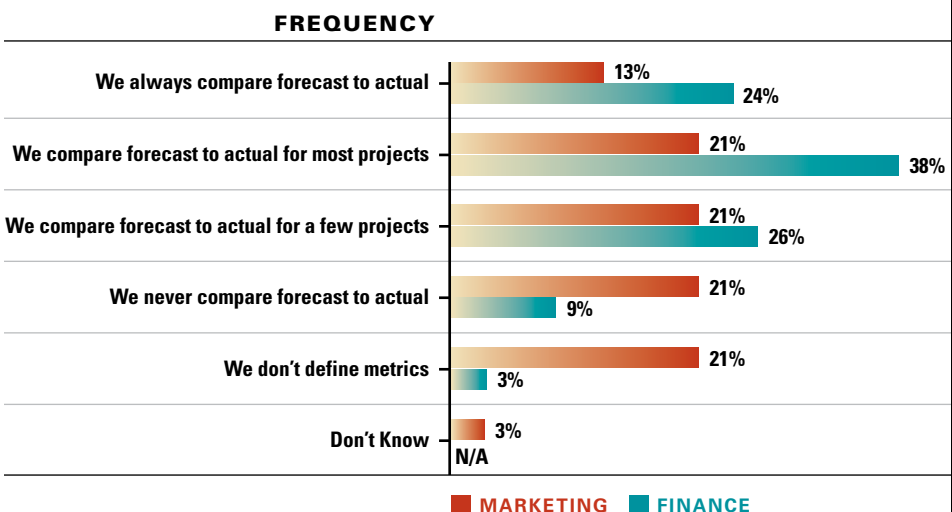
**FIGURE 1**  
Characterization of New Product Releases in Past 12 Months



**FIGURE 2**  
Short-Term Product Development Activities Vs. Long-Term Business Growth Strategies



**FIGURE 3**  
Comparing Forecasted Targets Vs. Actual Results for New Products





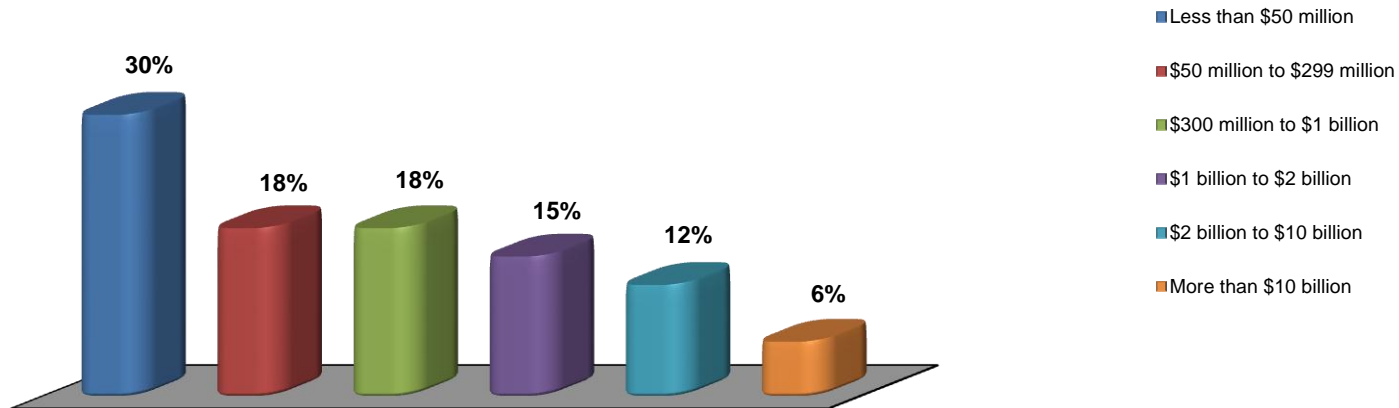
***Consumer Goods Technology***

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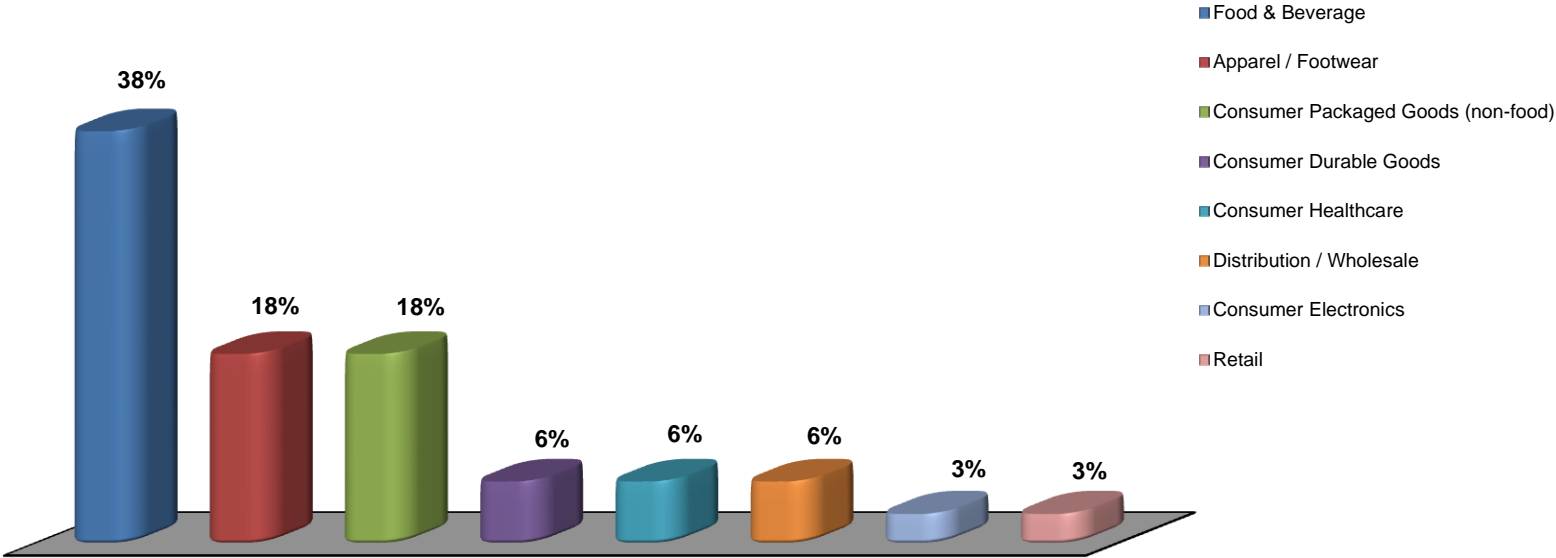
# 1. What were your company's total revenues in 2010?

Total revenue	%
Less than \$50 million	30%
\$50 million to \$299 million	18%
\$300 million to \$1 billion	18%
\$1 billion to \$2 billion	15%
\$2 billion to \$10 billion	12%
More than \$10 billion	6%



2. What is your primary consumer goods vertical?

Consumer goods vertical	%
Food & Beverage	38%
Apparel / Footwear	18%
Consumer Packaged Goods (non-food)	18%
Consumer Durable Goods	6%
Consumer Healthcare	6%
Distribution / Wholesale	6%
Consumer Electronics	3%
Retail	3%



**3. Approximately what percentage of your company's revenues comes from products introduced in the last three years?**

Average percentage	%
Revenue from products introduced in the last three years	25.73%

**4. On average, what percentage of the new products launched by your company meets their profit objectives?**

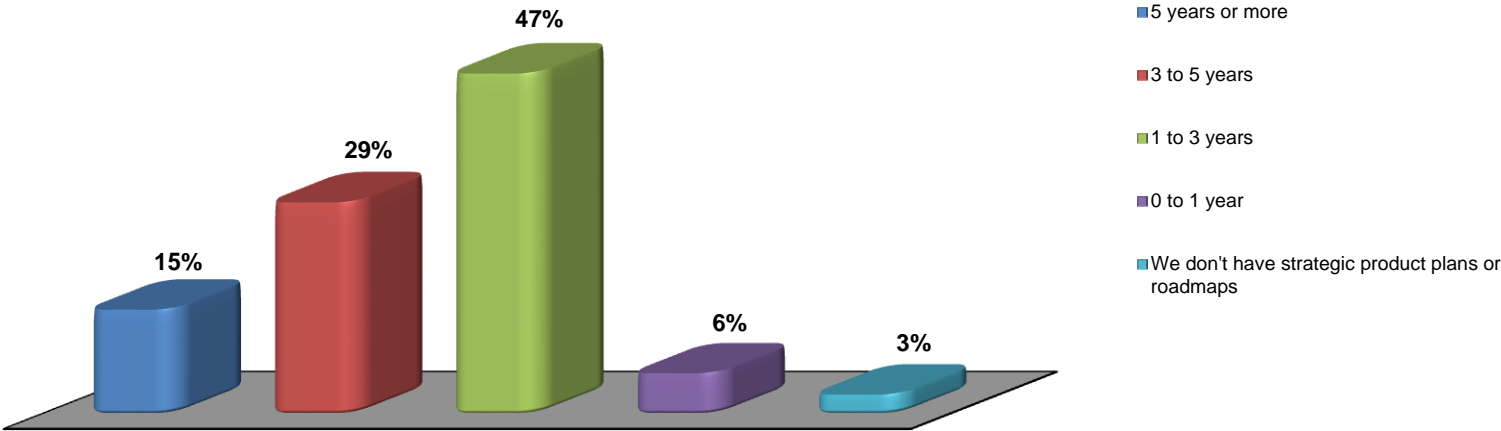
Average percentage	%
New products launched that meet profit objectives	50.06%

**5. When your company introduces new products that *fail to achieve profit objectives*, which of the following are the most frequent causes (with 1 being "almost never a cause" and 5 being "almost always a cause")?**

	Almost never a cause	Sometimes a cause	Frequently a cause	Often a cause	Almost always a cause	N/A
Inadequate market analysis	15%	30%	15%	27%	9%	3%
Poor timing - too early / late to market	21%	48%	12%	12%	6%	0%
Product not differentiated from competition	9%	32%	18%	26%	15%	0%
Low product quality	70%	21%	0%	0%	6%	3%
Ineffective promotion of the product	9%	34%	9%	28%	16%	3%
Ineffective pricing of the product	15%	52%	9%	12%	12%	0%
Inadequate distribution channel	36%	30%	3%	18%	12%	0%
Higher than anticipated product costs	22%	41%	19%	9%	9%	0%
Technical or regulatory problems	67%	18%	0%	3%	9%	3%
Production or supply chain problems	24%	53%	9%	6%	9%	0%

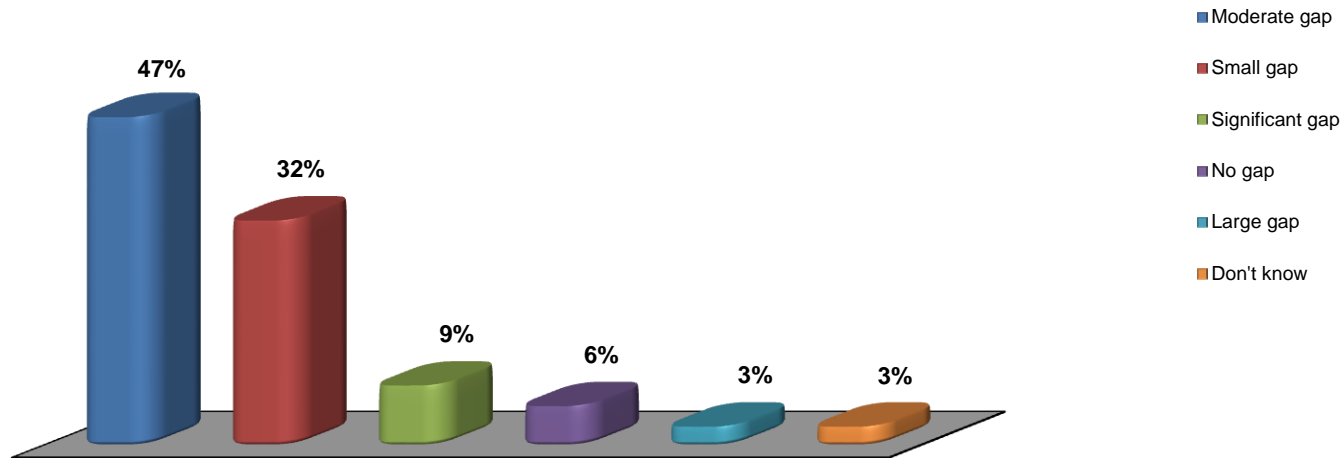
6. How far into the future does your organization look when it conducts *strategic product planning/roadmapping*?

Planning/Roadmapping	%
5 years or more	15%
3 to 5 years	29%
1 to 3 years	47%
0 to 1 year	6%
We don't have strategic product plans or roadmaps	3%



7. Which statement best describes how well your company's short -term product development activities are aligned with long-term business growth strategies?

Growth strategies	%
There is a <b>moderate gap</b> in alignment between our short-term product development activities and our long-term growth strategies	47%
There is a <b>small gap</b> in alignment between our short-term product development activities and our long-term growth strategies	32%
There is a <b>significant gap</b> in alignment between our short-term product development activities and our long-term growth strategies	9%
There is <b>no gap</b> in alignment between our short-term product development activities and our long-term growth strategies	6%
There is a very <b>large gap</b> in alignment between our short-term product development activities and our long-term growth strategies	3%
Don't know	3%





8. In the past 12 months, what percentage of products released by your company would you estimate falls within each of these categories?

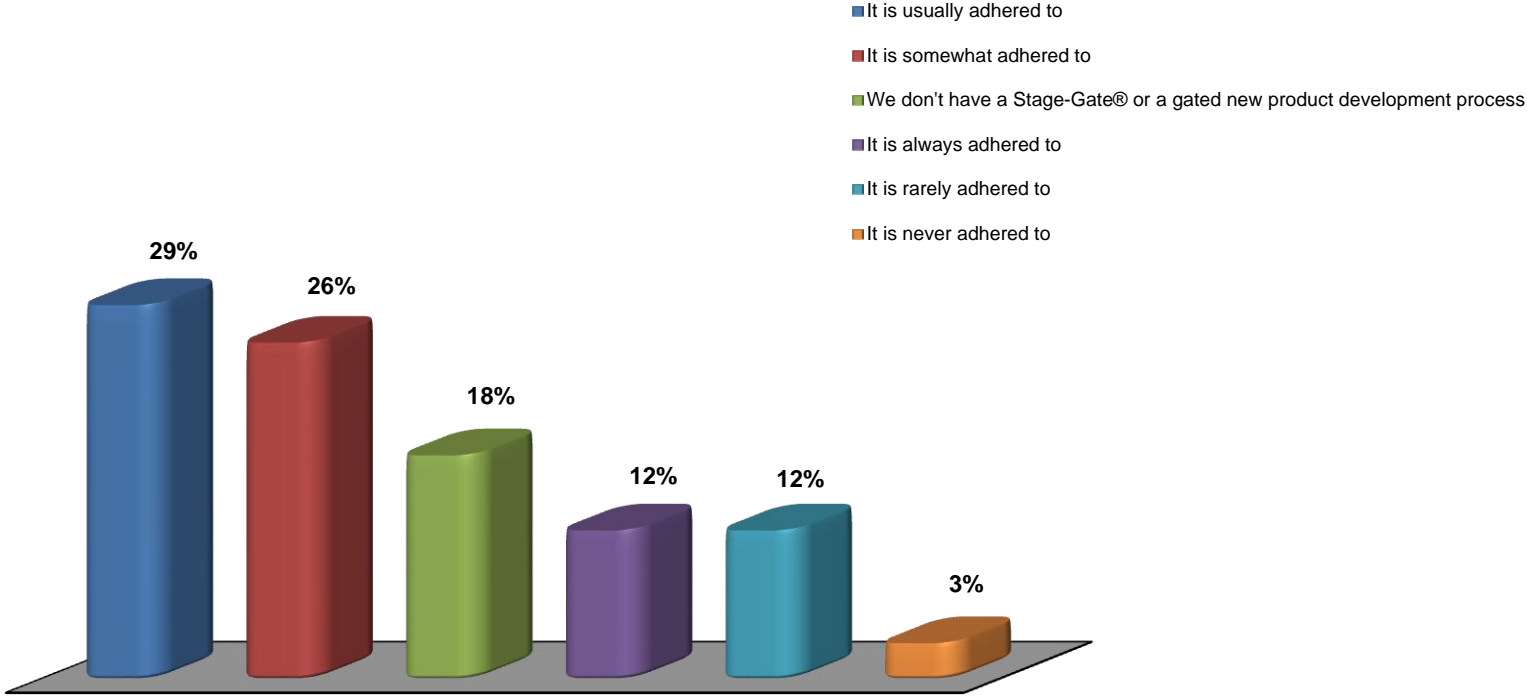
Average percentage	%
Highly innovative:	17.97%
Major product revisions:	21.69%
Line extensions:	39.71%
Promotional developments / package changes:	22.58%

9. Which of the following are challenges your company faces at the front-end of its innovation process (with 1 being "almost never a problem" and 5 being "almost always a problem")?

	Almost never a cause	Sometimes a cause	Frequently a cause	Often a cause	Almost always a cause	N/A
We have too few ideas	44%	25%	16%	9%	6%	0%
Our ideas tend to be of low-value	18%	38%	21%	15%	9%	0%
Our ideas do not support our business strategies	26%	47%	6%	9%	9%	3%
Good ideas get "stuck" and don't move forward into development	12%	38%	15%	18%	18%	0%
Ideas are not broadly visible and therefore can't be reused by others	18%	21%	29%	15%	18%	0%
We don't collaborate across functions to develop ideas	21%	30%	21%	18%	9%	0%
Our culture discourages idea sharing	31%	41%	9%	6%	9%	3%
The front-end of our innovation process is disorganized	21%	39%	15%	12%	12%	0%

10. If you have a Stage-Gate® or other *gated* new product development process, how well is your company adhering to the process?

Adhering to process	%
It is <b>usually</b> adhered to	29%
It is <b>somewhat</b> adhered to	26%
We don't have a Stage-Gate® or a gated new product development process	18%
It is <b>always</b> adhered to	12%
It is <b>rarely</b> adhered to	12%
It is <b>never</b> adhered to	3%



11. Which of the following is among the most frequent information gaps your company has when evaluating a potential investment in a new product (with 1 being "almost never a problem" and 5 being "almost always a problem")?

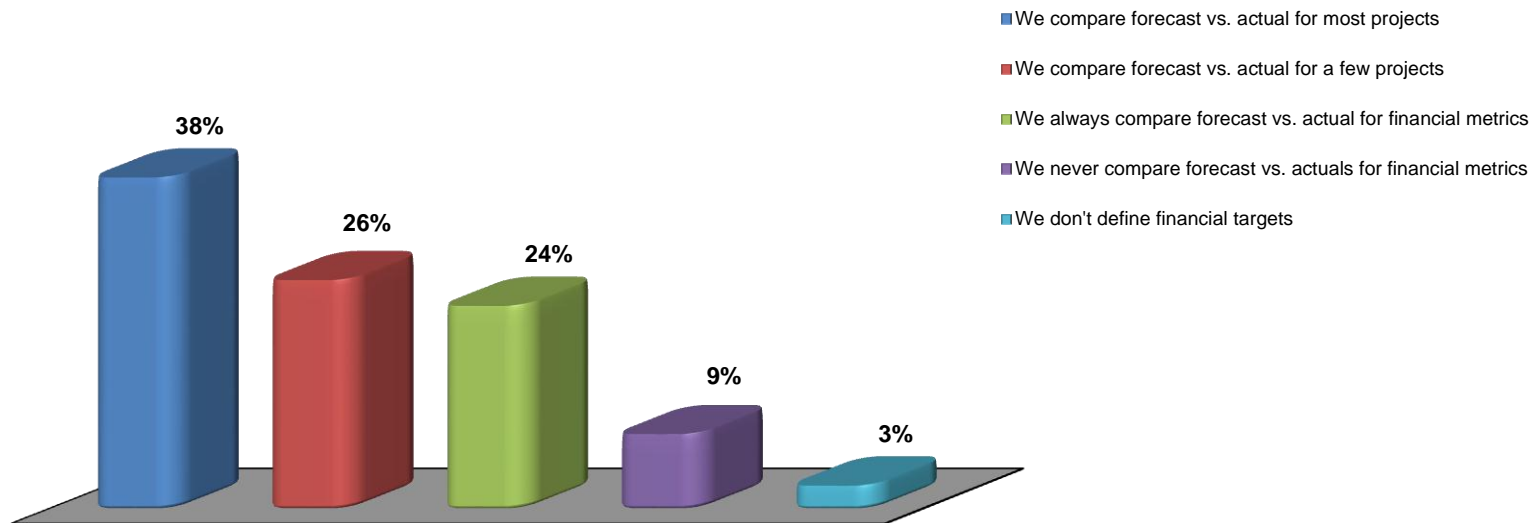
	Almost never a problem	Infrequently a problem	Sometimes a problem	Frequently a problem	Almost Always a problem	N/A
Lack of data regarding the future financial value of the product	15%	12%	24%	36%	9%	3%
Lack of data regarding the financial resources (costs) required for success	15%	24%	38%	15%	6%	3%
Lack of data regarding the human resources required for success	18%	26%	26%	24%	6%	0%
Lack of data to validate that the product addresses a real market / customer need	12%	15%	29%	26%	15%	3%
Lack of data to validate that the product is aligned with our business strategy	15%	36%	27%	12%	6%	3%
Lack of data regarding the feasibility / risk associated with the project	15%	18%	30%	27%	6%	3%

12. Which of the following are challenges your company faces in managing its product portfolios (with 1 being "almost never a problem" and 5 being "almost always a problem")?

	Almost never a problem	Infrequently a problem	Sometimes a problem	Frequently a problem	Almost Always a problem	N/A
We don't have visibility to all of the projects in the portfolio	21%	26%	21%	15%	12%	6%
We don't have enough high-value projects in the pipeline	9%	21%	21%	29%	21%	0%
We can't tell if our portfolio is aligned with strategic targets	18%	12%	29%	24%	12%	6%
We can't tell if we have enough people to resource the desired portfolio	6%	30%	21%	27%	9%	6%
Our decision-making criteria are not standardized and we can't compare candidate products against each other	15%	6%	38%	26%	9%	6%
Investment decisions are made based on politics rather than data	15%	18%	29%	15%	18%	6%
Our resources are stretched too thin because we have too many active projects	12%	9%	18%	12%	47%	3%

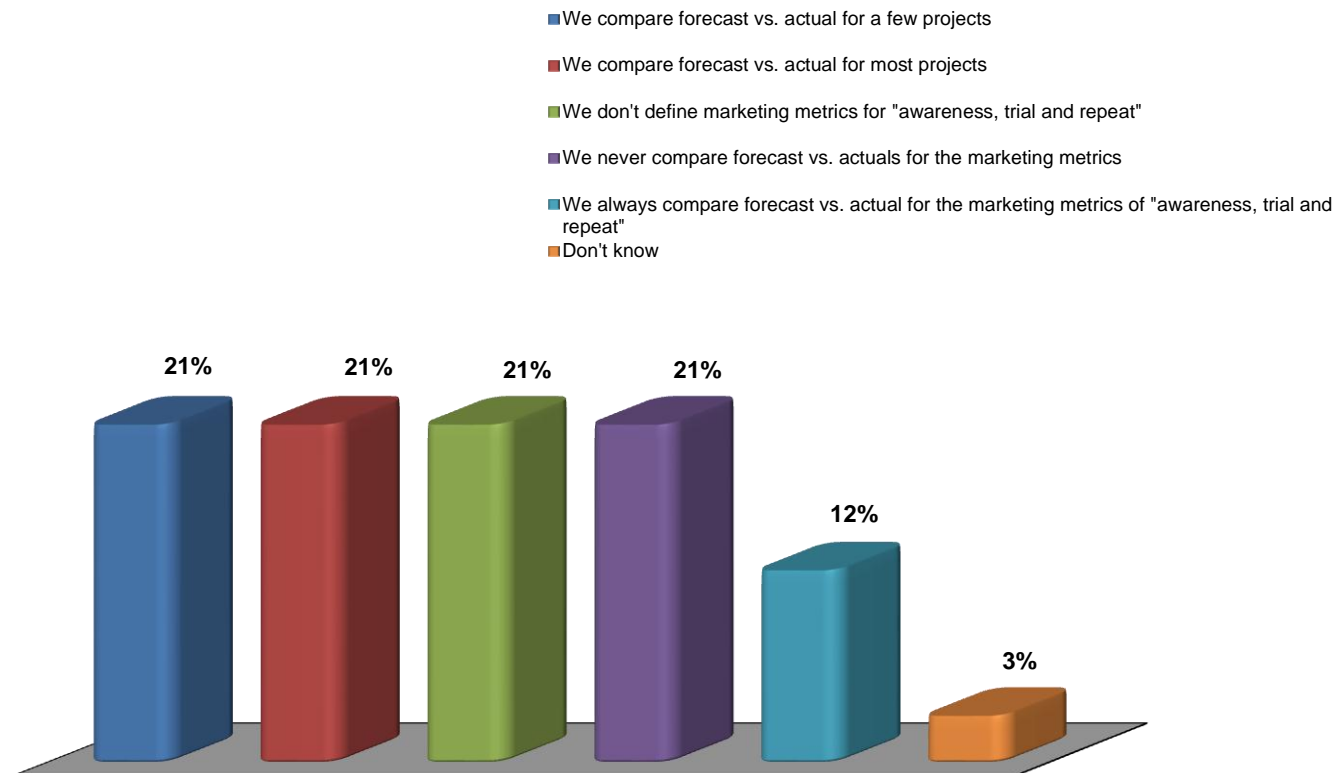
13. After your company launches a new product, how often does it compare the *forecasted financial targets* (volume, revenue, profit) to the actual *in-market financial results* ?

How often	%
We compare forecast vs. actual for most projects	38%
We compare forecast vs. actual for a few projects	26%
We always compare forecast vs. actual for financial metrics	24%
We never compare forecast vs. actuals for financial metrics	9%
We don't define financial targets	3%



14. After your company launches a new product, how often does it compare the *forecasted marketing targets for "awareness, trial, and repeat"* to the actual *in-market performance results* ?

Compare	%
We compare forecast vs. actual for a few projects	21%
We compare forecast vs. actual for most projects	21%
We don't define marketing metrics for "awareness, trial and repeat"	21%
We never compare forecast vs. actuals for the marketing metrics	21%
We always compare forecast vs. actual for the marketing metrics of "awareness, trial and repeat"	12%
Don't know	3%



**15. What types of tools, if any, are you using to manage business decision-making for product innovation portfolios?**

Tools	%
Microsoft® Office-based tools (e.g., Excel®, Word, PowerPoint®)	68%
Project Scheduling System (e.g., Gantt Charts, Work Breakdown Structures)	50%
Homegrown / Internally Developed System	44%
Enterprise Resource Planning (ERP) System	38%
A dedicated Product Portfolio or Stage-Gate Management System	24%
Product Data Management System	24%
We are not using any tools to support this process.	9%
Other	6%

