

VISION



How research can contribute to innovation

Anthony Freeling, Director, Ashridge Strategic Management Centre, argues that market research can contribute most to innovation by understanding the outcome of many small steps and not in making heroic predictions of the results of giant leaps.

In a recent article in Market Leader (Freeling, 2007), I argued that the problem with most radical innovation discussed in books and journals is that the lessons drawn are from successful big leaps. However, the message from strategy academics, consultants and practitioners is stark: most innovations fail, most companies pursuing radical innovations die and most successful innovations do not come from large companies. I would add that even fewer successful innovations come from the marketing departments of big companies. The evidence is that marketers should concentrate on incremental innovations where their skills are most relevant and most likely to produce success.

In this context, the implications for market researchers are also stark. Rather than pretend they can predict with any certainty the attractiveness of major innovations to consumers who themselves have little idea, it is my view that they should provide marketers with the tools to understand where incremental innovation might have the greatest success - and develop research methodologies that can support rapid test and learn.

In Market Leader, I quoted "Fast Second," a book by Constaninos Markides and Paul Geroski. They suggest a simple characterisation of different types of innovation, depending on the one hand on the degree of change the value proposition creates in consumer behaviour, and on the other on the necessary extent of change in the established firms' competences (Figure 1).

Figure 1

Effect of innovation on consumer habits and behaviours	Major	Major innovation Online banking Post-it Notes	Radical innovation Café in US/UK (Starbucks) Personal computer (IBM) Online bookstore (Amazon) Download music site (iTunes)
	Minor	Incremental innovation Plain chocolate Kitkat Innocent drinks Dove Washing powder tablets Ford Focus	Strategic innovation Skype Pret a Manger smart Cars easy Jet Ikea
		Minor	Major
		Effect of innovation on established firms' competencies	

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The authors' argument is that first-mover advantages for radical innovations are misunderstood. They demonstrate that it is not the first company that enters a new market that gets the advantage, but rather the first company that succeeds in the market that gets these advantages and becomes the big winner. None of the successful, well-known brand names actually created the market: Charles Stack was first in online book-selling, not Amazon.com, while Napster held sway before iTunes.

Markides and Geroski also argue that most radical innovations such as television, the internet, mobile phones or aspirin are supply-push innovations (i.e. they start from supply and try to create demand), not demand-pull ones (i.e. identifying needs and then creating products that meet them). They conclude that large companies should not worry about the initial stages of 'colonising' the new market, but rather wait to be fast-second market 'consolidators'.

TEST, LEARN AND COMMIT

To understand how marketing and research can contribute to successful innovation when the changes in value proposition are smaller we can learn a lesson from evolution. In biology, progress is made in small steps, with lots of failure, relying on variation, selection and scaling.

Variation is where it all starts. If there is no variation, so that all creatures are the same, then obviously there can be no progress. Variation in marketing means changing the value proposition or how it is communicated. Trying out new variations is a necessary element of making improvements and research can help us by pointing the direction for experimentation – we do not need to be blind as in biological evolution. Equally we must not overestimate our prescience.

Selection is critical because evolutionary progress rests on the assumption that fitter creatures are more likely to survive. We need to be confident that the better marketing variation is selected. If not, inferior marketing offers will survive. This is particularly important in the realm of marketing communications where it is notoriously hard to assess which advertisement has been most successful, so fewer good ones may be selected, leading to slower progress. Selection is critically dependent upon good research – indeed without it we do not know what is working and hence which ideas to kill.

Scaling is key because it is necessary for offers in the marketplace to reflect what was selected. If there is constant chopping and changing, evolution would be stopped in its tracks since the step by step progress would be lost. In marketing this means committing wholeheartedly to the improved value propositions. This is not the primary impact area for research.

SO WHAT IS THE ROLE OF MARKETING AND MARKET RESEARCH IN INNOVATION?

Marketing's role is to maximise the potential of the existing consumer environment by testing new ideas at low cost, being rigorous in identifying which tests work best, and being good at scaling up successful ideas. Good research is the only way this can be achieved.

Good research provides pointers of where to experiment (without being arrogant enough to assume the experiment is unnecessary), good research ensures the cost of experimentation is kept low whilst providing the best possible "information for the buck", good research provides the speed of response required to keep ahead of competitors.

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Marketing is concerned primarily with making improvements on the customer dimension of Figure 1. I believe that marketers and researchers alike are kidding themselves if they believe they can reliably predict major changes in consumer behaviour. There are too many uncertainties in how consumers may react and too much unpredictability in competitive response for single-shot leaps into the unknown to be relied upon. This explains why Markides and Geroski emphasise the importance of supply-push rather than demand-pull. Neither radical nor major innovation can reliably be produced through market research, no matter how imaginatively the research is designed. These large leaps are best made by R&D labs or smaller companies simply trying out new value propositions.

In other words, marketing can lead evolution in value propositions, not revolution. Steady improvements in performance are marketing's natural domain; huge leaps are not. Research can support this by improving the understanding of customers in the region of existing offers and by ensuring rigorous measurement of results.

EVERY LITTLE HELPS

Tesco and its use of Clubcard provide an excellent example of this approach to innovation. This was clear from the very early days of Clubcard. When Tesco and Safeway each launched similar loyalty schemes, they both recognised that the greatest long term value should lie not in increased sales due to the 1% discount it provided, but rather in using the data that the cards provided them, for the first time allowing them to link sales to individual customers. Loyalty card members would opt in to a relationship in which they permitted the grocer to learn more about their behaviour, and in return the grocer would tailor its offer to the individual, in particular through targeted promotional offers.

However, the two companies approached this opportunity in quite different ways. Safeway sought to analyse every element of every transaction. They attempted to understand their customers much better through this enormous analytical undertaking, developing a segmentation approach capturing all the intricacies of shopper behaviour. Then a "big leap" new strategy could be put in place. This enormous effort failed as it resulted in an analytical load beyond their capability. Tesco, on the other hand, consciously threw away most of the data in an attempt to develop a few useful insights initially. When these insights were proven to be of value, they slowly added complexity to their analysis and to the activities they prompted, with the complexity increasing every year. Today Tesco delivers many different promotions to its customers, each driven by an understanding of their own specific purchase patterns. Investment analysts have credited Clubcard with being the most significant driver of Tesco's success - so important that it has become the Tesco way of doing business.

By making many small adjustments to its strategy, over time evolving to a very complex set of tactics, Tesco got greater value from its loyalty card than Safeway in its attempt to leap straight to a fantastic solution. Today Clubcard is instrumental in allowing Tesco to continue piloting new ideas at low cost with very fast research information, so it can adapt or kill the loser ideas and scale up the winners.

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CONCLUSIONS FOR RESEARCH

Some authors and practitioners argue that through better consumer insights, successful big leap innovation can be practically guaranteed. I am a huge supporter of market research, but I believe that view to be misguided at best, arrogant and self destructive at worst. The evidence is clear: we simply cannot predict the success of these large leaps. This is not due to poor research, but because the number of variables to be considered and the things that can change in consumers' minds, the competitive environment or field execution make it essentially unknowable. On the other hand, better research experimentation and tracking can support the evolutionary approach that underpins more agile marketing - and can contribute directly to competitive success.

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REFERENCES

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