

The Unique Advantage

by Alexander Kandybin and Surbhee Grover

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To succeed in a mature industry like consumer products, the trick isn't being first — it's being hard to copy.

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Mars Inc. faced a challenge that was anything but sweet. Founded more than a century ago in a kitchen in Tacoma, Wash., the chocolate giant seemed to have lost its Willy Wonka–like touch. It was the 1990s, and consumers were beginning to question the wisdom of a diet high in candy bars and other sources of sugar, and were getting interested in nutrient-added alternatives such as energy bars. Sales growth slipped into the single digits for the first time in the company's history.

But introducing major new products wasn't easy for Mars. The company had had a hard time launching even minor additions to its Snickers, M&M's, Starburst, and other core lines. Its R&D culture was geared to "making no mistakes," as one insider put it. And any idea that managed to slip through that filter was subjected to consumer tests and panels that took years, cost millions

of dollars, and tended to weed out anything bold and different. The result? The 1990s came and went without a significant successful launch in Mars's snack food lines. Its core categories of confectionary and pet foods were getting long in the tooth, and analysts wondered aloud if the privately held firm's best days were behind it.

This is an all-too-common story in mature, slow-growth industries such as food and consumer products. Companies in these industries often spend relatively little on R&D, and in many cases their innovation results are marginal. An analysis of products introduced in the food and beverage industry in 2005–06 showed that just one in five new products earned more than US\$7.5 million during its first year.

Why do mature businesses struggle with innovation? Much of the problem can be traced to conven-



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tional wisdom, which goes something like this: The secret to growth in the consumer goods arena is to develop new products based on consumer needs, which are discovered through consumer research and focus groups. And what if a new idea is not great? No big deal. Marketing and advertising can always step in, turning a so-so concept into a hit. And the first to market, goes the reasoning, will capture most of the profits. This kind of thinking leads to innovation cultures that deliberately develop a long list of line extensions — new flavors of an established soda brand, say — rather than the kind of game-changing innovations that can make a real difference to the bottom line.

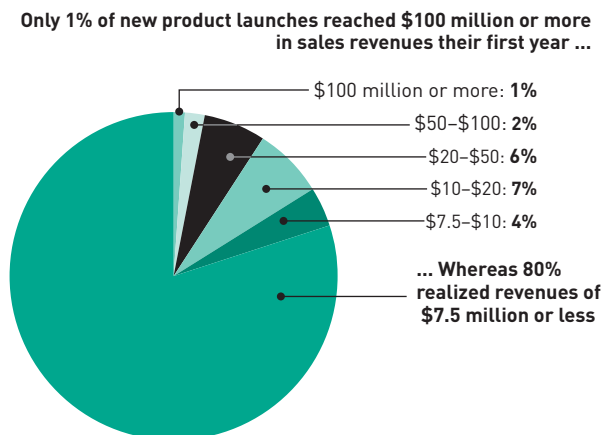
There is an alternative, one that can help rejuvenate a tired portfolio or a worn-out brand in a slow-growing industry. Rather than thinking about new products as a way to get customers excited for a little while, companies need to think about their innovation strategy as a way to build a high, hard wall between those customers and their strongest competitors. This means shifting some investment away from marketing and advertising toward the development of different kinds of new products. The most important thing about these game-changing new products is that they be difficult to copy. Meeting consumer needs is a necessary but no longer sufficient condition of sustainable innovation. New products that stand alone longest in the marketplace, without serious competition, bring in the highest returns.

The Habits of Mis-investment

Mature industries are beset by underlying dynamics that make it difficult for them to invest their money in the kinds of innovation that lead to long-term success.

Exhibit 1: Sales from New Product Launches

Few product introductions, like those represented here from the food and beverage categories, are blockbusters. Companies in mature industries often must find another way to make a splash.



Source: Industrial Resource Institute

Companies such as Campbell Soup Company, General Mills Inc., and Kellogg Company spend an average of 1 to 2 percent of sales on R&D. Although a number of studies have shown that higher R&D spending does not guarantee success, a minimum innovation investment is required for breakthrough thinking. Without it, companies tend to fill the pipeline with the “base hits” of line extension. They fall into a self-created loop of low investment, low returns, and steady but slow growth. In the end, the slow growth is not enough to keep them from falling behind competitors because everyone is in the same boat; but it does provide the illusion that the company is succeeding — or at least not shrinking — which is then taken as proof that this strategy is smart.

When the money not spent on R&D is instead spent on marketing, it reinforces the problem. Inflated advertising budgets often reflect a defensive mind-set:

When competitors launch products with a full-bore assault in the media, executives conclude that they must follow suit with equally pricey campaigns or risk losing consumer share-of-mind. Money that goes into this type of “quick fix” is not available for the more fundamental solution of breakthrough innovation.

Another factor in the misplacement of investment is the predisposition of the R&D organizations themselves. Eighty percent of new products in a typical mature industry yield less than \$7.5 million in sales their first year. (See Exhibit 1.) (To put that number into perspective, grocery is a \$350 billion wholesale business globally, and sales of a major brand can top \$500 million a year.) The industry logic is that competitors are continually introducing new versions of their products, so players are at a disadvantage if they don’t match that steady clip. The tendency is for companies to focus on relatively small, often superficial line extensions that can be churned out quickly, as when Mars rolled out Tropical and Wild Berry Skittles candies in the early 1990s.

No one would argue that advertising can’t pull the occasional rabbit out of a hat or that companies should stop launching line extensions. But when excessive advertising and line extensions become habitual solutions, it suggests that a company is locked into a pattern of high marketing spending and a need for endless small launches, and is under-investing in the kinds of R&D efforts that would lead to greater profits.

Seven Paths to Advantage

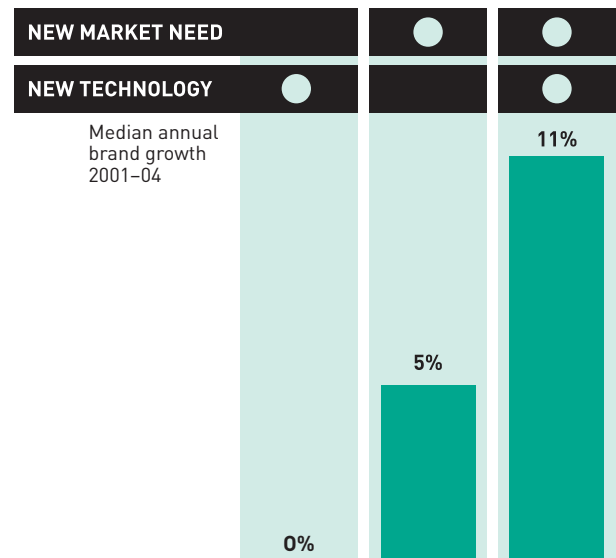
How can companies break the cycle of low-risk, low-reward copycat innovation? Through a group of interrelated changes in strategy and execution. Successful

consumer packaged goods (CPG) innovators, those whose new products establish and maintain dominance in the marketplace, tend to focus on seven areas. None of them represents a “silver bullet” on its own, and many of them are common sense, but together they make innovation more difficult to copy and lead to greater returns and higher growth. Our analysis shows that mature companies consistently neglect these areas. This is a pity, because they represent a powerful way to turbocharge an innovation engine.

1. Technology and patents. New technologies are unbeatable in giving mature industry players a meaningful advantage in the marketplace. Their power comes

Exhibit 2: New Technologies and Market Needs: A Dynamic Duo

New consumer products that contain new technology and meet a need in the market generate the greatest median growth.



Source: Booz & Company

from providing companies with a way to meet new consumer needs, including those that consumers don't yet know they have. These innovations can have the greatest value. In consumer health care, for instance, new products that match a new technology with a new market need deliver median brand growth of 11 percent, more than double the 5 percent growth of products addressing only an existing need. (See Exhibit 2.)

Technology can provide a way to solve a significant consumer problem, as Ore-Ida (a subsidiary of H.J. Heinz Company) proved with its Extra Crispy Easy Fries in 2004. A persistent complaint about frozen french fries was that they emerged soggy from the microwave. Ore-Ida solved this problem with its "X-Crisp" flash-freeze processing technology. The result was genuinely crispy microwaved fries cooked in four minutes, a successful new product.

Even if new technology doesn't prevent competitors from copying, it can significantly delay their launching of a copycat product. An example is Kellogg's Special K Red Berries cereal, which introduced a freeze-dried berry process and captured more than \$100 million in its first year — and it got a two-year jump on archrival General Mills's version.

Alongside advantaged technologies comes the responsibility to defend them. This point is not lost on Procter & Gamble Company, which has a policy of zero tolerance on patent and other infringements. P&G has taken legal action, for example, against Whitehall Laboratories to defend innovations in a hair conditioner formulation and against Perrigo Company to protect its core Olay skin-care brand.

2. Claims. In the world of consumer goods, claims are often related to the health efficacy of a product or

ingredient. And claims add substantial value when they are tied exclusively to a product and can be held for a significant period of time. In 2006, Mars developed a new line of chocolate bars, CocoaVia, which it labeled "heart-healthy" because of the demonstrated cardiovascular benefits of flavanols, a natural antioxidant in cocoa beans. The claim provides a sustainable point of differentiation because Mars owns patents related to processing technologies that are designed to retain higher concentrations of flavanols than regular chocolate manufacturing processes. The company doesn't release sales figures but says the product is "selling well," and it is expanding the line.

Claims, however, can carry a downside risk, precisely because a competitive advantage that cannot be defended may quickly undermine any initial benefit. Competitors will often exploit a claim that is made for a widely available ingredient. Take the example of Quaker Oats, which spent a small fortune proving to the satisfaction of the U.S. Food and Drug Administration that, yes, oat bran can help lower cholesterol. Quaker (a unit of PepsiCo) may be the premier oatmeal brand, but oats are a commodity, and Quaker did not own any special technologies related to this claim. General Mills, which makes Cheerios, was free to conduct its own piggyback studies and broadcast the cholesterol-lowering benefit widely in its product marketing. The result: Sales of Cheerios climbed 11 percent, while Quaker's sales actually fell 3.5 percent.

3. Ingredient synonymy. Think of baking soda, and what name comes to mind? How about peanuts? Or more recently, pomegranate juice? Arm & Hammer, Planters, and POM Wonderful, respectively, have each carved out an enviable position by becoming virtual syn-

Packaging can prove very difficult to duplicate; Soup at Hand microwave-safe containers were one of the most successful new product launches in Campbell's history.

onyms for their category. Such domination affords pricing power for products that are essentially commodities. It also builds a barrier to competitive entry and allows economies of scale and higher margins.

Perhaps more important, such synonymy with an active ingredient can provide a powerful platform for entry into adjacent categories. Planters successfully ventured into candy bars, and Arm & Hammer launched a line of baking soda toothpastes. In these examples, the ingredient itself provides the competitive protection. Crest and Colgate could — and did — develop baking soda toothpastes, but they did not “fit” as well in the consumer’s mind. And POM Wonderful has been able to leverage its dominance in juice into adjacent categories, including blends, teas, and POMx antioxidant supplements. The company’s sales grew almost 10-fold in the four years after its 2002 launch.

4. Unique brand characteristics. Strong brands can build an identity in consumers’ minds that transcends products. Few people can think of, say, the *Wall Street Journal* and not get a sense of authority in business news. For innovation purposes, such a positioning can provide a springboard for new opportunities.

An example can be found in the soft drink category. The Coca-Cola Company’s primary asset is the formula of its flagship soda, and the company built on that taste when it developed and launched Coca-Cola Zero, a low-calorie product intended to taste more like regular Coke than Diet Coke. PepsiCo couldn’t mimic Coca-Cola Zero, naturally, because its consumers want a product that tastes like Pepsi. It took Pepsi two years to develop a new diet cola called Diet Pepsi Max that leveraged its own unique taste assets — much longer than it generally takes to bring out a traditional line extension.

Other characteristics that can provide unique advantage include a meaningful heritage, which gives a certain emotional heft to new products or services from, say, Singapore Airlines. Positioning itself as the quintessence of what Westerners think of as “Asian values,” the carrier has successfully emphasized its hospitality and high-tech amenities, including new airplanes and in-flight entertainment systems. And there’s value in being recognized as dominant in one area; ESPN has used its position as the “Worldwide Leader in Sports” to expand successfully into dining, with its ESPN Zone chain of theme restaurants.

5. Product experience. Successful products have an emotional component that builds a bridge to consumers, becoming part of their lives. Expanding on this aspect of a brand can be another way to build difficult-to-copy value into a product. Logistically challenging and often costly, such an effort can nevertheless be effective for the right brand.

Nestlé SA has succeeded in transforming its Nespresso System into a chain of stores that sell appliances and coffee. The Nespresso System centers on high-quality packaged espresso packets that work with a special espresso maker. It carries an emotional claim as the first product to bring true café taste into European homes. Nestlé capitalized on the system’s modularity and the company’s key relationships along the value chain to open 79 retail locations in Geneva, Vienna, Paris, Zurich, Moscow, and other cities.

6. Packaging. Packaging is often viewed as an innovation afterthought. The truth, however, is that new formulation is often easy to copy, whereas packaging innovation can leverage technology, emphasize unique brand characteristics, enhance the product experience,

Launching a steady stream of good ideas can give a brand a reputation for fresh thinking that transcends the individual ideas and translates into market share gains.

and in fact prove very difficult to duplicate.

Packaging innovation often requires major changes to the manufacturing process, which is a strong defense. An example is Campbell's Soup at Hand microwave-safe containers, launched in 2002. Although their contents didn't change, these easily heated, sip-able containers rapidly became one of the most successful new products in Campbell's history. The package helped the company's ready-to-serve soup lines grow 8 percent in Soup at Hand's first year out and gave it a four-year head start on rival Progresso. This success even caused the company's president, Douglas R. Conant, to redirect his strategy, saying, "We intend to make the *C* in *Campbell* synonymous with convenience." Although the new product's value proposition was convenience, the fact that it was neither easy nor cheap to copy helped drive its lasting success.

Another game changer was tuna packaged in the Flavor Fresh Pouch, an innovation introduced by Starkist (then a unit of Heinz) in 2000. This vacuum-sealed foil package shook up the tuna fish industry when it appeared because, for the first time, packaged tuna could be sold in groceries without a can. Although competitors have since introduced their own foil packaging, the convenience of this product continues to allow Starkist to charge a premium for it over tuna in cans.

7. Effective vertical integration. With outsourcing and offshoring so common, and the heyday of soup-to-nuts global manufacturing entities decades in the past, it may seem strange to insist that vertical integration can be a source of difficult-to-copy advantage. But for some companies, it is. Think of Swarovski AG, which has maintained its position as the world's finest crystal manufacturer by keeping a tight rein on its meth-

ods and processes. Over a century of innovations, the company has perfected a unique method for transforming sand and lead into some of the most beautiful objects in the world. Fearing a loss of its advantage and closely guarded trade and technology secrets, the Wattens, Austria-based firm refuses to move its core technical operations out of the country, despite high labor costs there.

The Advantage of Scale

All of these strategies should be pursued together. It is possible to gain additional benefits by building scale, amplifying the effects of hard-to-copy innovations by spreading them across multiple products. (See "Design for Frugal Growth," by Jaya Pandrangi, Steffen Lauster, and Gary L. Neilson, *s+b*, Autumn 2008.) For instance, a breakthrough technology or process can be applied to a number of products or categories, as Frito-Lay Inc. (a subsidiary of PepsiCo) did with its "baked" chips innovation. The process allowed the company to produce lower-calorie, less-greasy chips, and it was implemented across the Doritos, Tostitos, Lay's, and Ruffles brands. Scale can be built up internationally by employing a common platform across geographies, as Nicorette (a brand within Pharmacia AB's international portfolio at the time) managed to do with its nicotine replacement therapy smoking cessation products. The brand dominates this category in large part because of its coordinated cross-border strategy, encompassing logistics, distribution, regulatory compliance, and consistent messaging that respects local sensitivities.

It's even possible to gain scale of a kind with a highly nimble, prolific innovation organization. Launching a steady stream of good ideas, as P&G has done in home

products in recent years, can give a brand a reputation for fresh thinking that transcends the individual ideas and translates into market share gains. (See “P&G’s Innovation Culture,” by A.G. Lafley, *s+b*, Autumn 2008.) The rules still apply; any new product must be difficult to copy or it will not maintain its value. But the whole can be greater than the sum of the parts. The brand itself can benefit from an aura of originality that translates into consumer preference and sales.

Finally, we fully recognize that ideas that are difficult to copy are difficult to develop, and mature companies also need a strategy for when such ideas are in short supply. Here, we suggest defying conventional wisdom about being first to market. If a product can be copied, it’s often more profitable to be the copier. Consider the Spanish-owned clothing retailer Zara International Inc. (a subsidiary of Inditex), which has become one of the world’s fastest-growing retailers by combining an efficient supply chain with a successful knockoff strategy. This formidable one-two punch caused LVMH Moët Hennessy Louis Vuitton SA’s Daniel Piette to call it “possibly the most innovative and devastating retailer in the world.”

One company that’s managed to employ many of these strategies to its own benefit is the one we started with: Mars. Over the past few years, it has seen its sales growth rebound to 16 percent. The company has successfully chipped away at risk aversion in R&D and streamlined its cumbersome market testing processes. It’s had a number of successful launches, including Snickers Marathon, the CocoaVia line, and WholeMeals bone-shaped pet food.

Mars also renewed its emphasis on production and formulation technologies that it could apply across multiple products. For example, it holds patents on the special ink used to print personalized M&Ms, themselves a significant new development meeting an emerging consumer desire for customized confections. These personalized candies, called My M&M’s, were developed by an internal team in just 90 days using a streamlined R&D process. As these and other examples have shown, companies can find a lot of life after middle age. The key is to have the right attitude. You can’t be a kid

again, but we’ve mapped out some of the roads that could lead to renewal.

The magic formula for keeping innovation healthy in a mature industry is knowing there is no magic formula. If staying young and strong were easy, we’d live in a different world. There will always be a place for line extensions backed with big campaigns and for being first to market. But it’s important to make sure when you’re dipping into your own fountain that your competitor isn’t standing right beside you with a siphon. +

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Resources

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Kevin Dehoff and John Loehr, “Innovation Agility,” *s+b*, Summer 2007, www.strategy-business.com/press/article/07208: Explains how to follow Toyota’s example without copying its specifics, and create your own versatile product development process.

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