CEO AWAKENING:
TRADITIONAL NORMS OF CONSUMER PACKAGED GOODS INNOVATION ARE HISTORY

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(Palm Beach Gardens, FL – September 29, 2006.) Something new is keeping the CEOs of America's consumer packaged goods (CPG) companies up at night and it stems far beyond the historic pressures of daily operational responsibilities and the welfare of stakeholders.

The sacred assumptions held by the most successful CPG chief executives are now brewing an escalating perfect storm that is creating difficulties for sustaining profitable brand growth. It is a tidal wave of change across the industry that is contributing to a leadership dilemma that the Grocery Manufacturers of America (GMA) has coined "insomnia in the corner office."

As the storm takes hold, evidence of a CEO epiphany is palatable.

While the number one issue cited by the CPG industry executives polled in a recent GMA/A.T. Kearney study was finding sources of sustainable growth, 30% of those executives believe their existing business models are the main problem in getting there!

One can begin to understand the position chief executives now find themselves in: The path to better growth is not as clear as it once was. CPG manufacturers face increasingly volatile global trade, political, and cross-cultural challenges, especially from emerging economic superpowers like China. On the domestic front, they must contend with regulatory pressures and heightened scrutiny from Wall Street as well as media and technology proliferation that have produced better-informed, more independent U.S. consumers. And M&A, once a dependable route to incremental revenue injection, is no longer an end in itself to durable growth.

But that's only part of the picture. CPG brand leaders are challenged to foster new models of collaboration with customers as well as adjust to working in new ways with government on regulations and trade policy. The current wave of consumer change brings a constant struggle to improve understanding of customer behavior and needs while at the same time there are new demands to improve channel management amidst burgeoning fragmentation. Product lifecycles are shrinking, the time to market is shorter, and there is more downward pressure on upfront spending. And how could we forget the deafening litany of threats from terrorism that could come in the form of food supply contamination or product distribution disruption?

It is now more difficult than ever for CEOs and their deputies to go from a blueprint of improving top-line growth and building shareholder value to the reality of fulfilling growth objectives. However, if the awakening to a new paradigm doesn't soon produce organization change, once-entrenched trademarks and legacy brands risk becoming stagnant and a threat to the stability of entire portfolios. And that is the scenario for a perfect storm.

The Peril of Sacred Assumptions

How is it that we managed to arrive at such a turbulent point in time without a roadmap to better results? For one thing, many CPG leaders safely assumed that they could continue to replenish brand value with incremental increases that simply bumped up against equally rising costs of manufacturing, sales and distribution, marketing and retention strategies. They have pursued their growth goals by relying on traditional techniques such as price increases, cost cutting, "me too" copycat line extensions, feature enhancements, and package redesigns. The approach to "innovation" has often been ad hoc and blue sky, or reactionary to a perceived "crisis".

In many instances, a vague concept of end game growth was executed through a series of unrelated, creativity-inspired steps by well intentioned, but under trained and inexperienced, employees. Activity was confused with results, product innovation was confused with brand innovation, and product concepts were confused with business concepts.

But let's be fair. Many CPG leaders have tried to "innovate" while dealing with the often-unavoidable paradox of internal constraints. They run the gamut, from limited human capital and financial resources to organizational complexity and resistance, functional silos, and an inability to successfully integrate and mine disparate sources of critical research data. Speed has often been awarded at the expense of substance and as a result, speed alone cannot produce the breakthrough ideas that create predictable growth. Fewer still have the means to successfully capture the actual cost and impact of innovation to their organization so managing the process has gone unattended. Huge amounts of money ends up being thrown at R&D initiatives in which there is no basis for real profit or sustainable growth. Companies yield erratic product performance characterized by wide spikes or extreme financial ups and downs.

Homegrown constraints have only festered more within the context of increasingly outdated strategic assumptions, and they are numerous: Brand manufacturers have competed by stressing product components and features, pushing them out to markets positioned in categories, rather than defining pools of high consumer demand - where unmet needs and the drivers of behavior reside. The old approach risks cannibalization and injects inefficiency as brands fight for individual sustainability within portfolios and have their performance success defined in category measures. An over-reliance on demographic "intelligence" leaves a gulf for the deeper data on the interplay of unmet needs states, consumer behavior and channels. And product development gets approached as a one-time event, which works against creating a context and process for renewable growth sources.

Meanwhile, the plate shift on Wall Street has ushered in a new era of innate skepticism, short-term - if not fragile - swings in confidence, and heightened regulatory oversight. Yet the common practice of distraction from the gap between a brand's projected growth goal and the growth performance that is actually achieved continues. So is it any mystery as to why CEOs have shorter job tenure than ever before?

The average projections for growth by brand manufacturers lie in the 5-7% range, while real delivery ends up averaging 2-3%. The 5-7% guidance that has been given to the street, only to continuously go undelivered, creates tremendous uncertainty for brand organizations in the markets - and that erodes stakeholder confidence. CPG manufacturers then, unintentionally create an increasingly difficult environment in which to leverage resources to close the huge gap between what the market has been led to expect and what the company can deliver. What CEOs need is a predictable means to address this gap and its attendant uncertainty. They need the confidence to manage the risk of the guidance shortfall not once, but continually, because the shortfall between projection and performance re-occurs every quarter.

Since the only marketing metric that counts today is growth - driving and sustaining it to better profitability - CPG brand leaders must stretch beyond traditional norms to create new methods for exceeding costs well beyond historic margins.

The timing couldn't be better. CPG senior management is indicating that they are placing their best hopes where they belong - with a new innovation paradigm. In IBM's most recent Global CEO Study, 65% of the 765 company executives surveyed across a wide range of industries plan to radically change their companies in the next two years, moving their agenda from cost-cutting to driving profitable growth. Around 80% noted that improving innovation performance was a major initiative while only 20% recognize that they have been highly successful doing so in the past. It appears that a new path to sustainable CPG profitability can now be embraced; one that makes brand innovation and organic growth a predictable, not improvisational, process.

The "Tried and True" is Now Expensively Obsolete

In order to grasp a new framework for product innovation, CPG leaders must be willing to disengage from widely held assumptions. If you think of almost any market that bodes opportunity for your business and look for examples of sustainable growth - using historical definitions of those markets and market leadership - it will be an exercise in futility. The amount of branded competition in most markets today is bewildering; an over-abundance of competitors vie for what is essentially the same pie.

This glut of competition is what oxymoronically leads to the biggest hindrance to sustainable growth - the *Parity Trap*: the belief that the competition is the customer. It's a tactical reaction to the assumption that what the competition is producing is something "we too must do" as it is obvious the customer really wants and needs it. Competitor brands become the surrogate for any fresh, original thinking, and the prevailing gauge for assessing what is driving and motivating the customer.

Brand leaders have historically also relied upon the most traditional source of insight - singularly focused market research - to assess the future behavior of customers from the assumption that *past* behavior is the most dependable indicator of what they will do next. It *can be* one indicator, but an indicator that doesn't have the relevant data points surrounding it. This one-dimensional approach has taught some painful lessons. One need only look to the recent turmoil in the financial services and investment world to be convinced that past performance is not an indicator - in and of itself - of future success (see **Figure 1**).

Innovation's New Paradigm

One key component to the new paradigm, or contextual growth framework, is the dramatically changed consumer to brand relationship lifecycle, the offspring of tremendous upheaval. A new, independently resourceful consumer drives a heightened expectation that product manufacturers will perpetually produce "revolutionary" lifestyle enhancements. For CPG manufacturers, brand success is therefore far more dependent upon truly original thinking, which entails the intentional discovery of the less obvious in order to get out in front of the trends that lead to development of new world, newer to company, or newer to world growth opportunities.

Such "breakthrough" innovations must lead to product solutions not yet realized but that fulfill presently unforeseen or anticipated consumer needs, often before consumers realize it themselves. They must disrupt and unlevel the competitive playing field in order to sustain engagement with consumers who have a seemingly limitless appetite for adaptive utilization.

Which brings up another key factor: While consumers may make the "best available" product choices at a given moment, they are also more capable than ever of abandoning old habits and entrenched allegiances for the right reasons. The number of disruptive innovations that have been successfully assimilated into the marketplace in recent years has affirmed that consumers are capable of significant conversions to new, untested categories that necessitate big shifts in their product preferences and brand allegiances.

Today's innovation views a "market" as a "domain" - a footprint, if you will, in which the drivers of brand growth are developed from the full integration of people (their needs, attitudes and behaviors) with products and channels (Figure 1). It is a footprint where your competencies and attendant brands may lead via alternative expressions of innovation, and therefore own (see **Figure 2**). We call this *Domain Ownership* (see **Figure 3**). It is premised on defining the market landscape by large-volume pools of high needs and demand sources of the best customers - especially customers with *unmet* needs - along with a portfolio of major opportunities derived from the most profitable ideas, to deliver a brand's right to win at every consumer touch point.

Encouraging Changes in Managerial Process

If we are to know - and therefore understand - why many sacred assumptions about creating brand growth no longer apply, we must assimilate the changes in business process as the cornerstone to this new innovation paradigm. For it is with a better, more systematic process that we can create renewable sources to greater profitability.

A renewable approach to growth demands a new assumption: that you have a forward-looking source of insight, that is, foresight. This enables you to keep your fingers on the pulse of the market to anticipate what customers will *really do* sometime in the future.

CPG brand management has historically been practiced as part art form, heavily leveraging gut feel in the decision process. Fortunately, the plate shift in consumer behavior has been matched by the change in managerial process. Now gut feel has a partner in management's decision system - algorithmically defined science. One only need look as far as Oracle, SAP and CRM, for example, to see how significant the blend of art with science has become. Further, the emerging BPM (Business Process Management) industry is growing rapidly as a discipline and a technology for modeling, optimizing and automating business activity. BPM systems are designed to capture metrics such as time, cost, and volume in real time, with the help of embedded tools.

Today's management is looking for a unified means to navigate and process their business metrics; one that can integrate historically independent and unrelated sources of business data. This new marriage of art and algorithmically defined science entails having all of your data reside within one software application that can be accessed via a single, central dashboard (see **Figure 4**).

This functionality in the new innovation is critical. When disparate sets of data are combined, the observer can see patterns that explain the business in a way that were never possible before because the data points themselves were not in one place. In a nutshell, the success of Oracle and other similar software is that it uncovers patterns that give the observer a fresh, more powerful, more predictable perspective on their business, injecting more scientific certainty into the art of growth decisions within a full business context.

The Process to Creating *Renewable* Growth Sources

To successfully create a renewable growth source, you need several components: First, the most comprehensive database of market and brand defining characteristics available in order to fully measure the plethora of needs states, with brand performance, across those defining characteristics. Why? Because anticipating what consumers may need over the horizon needs to be assessed against how well current solutions are filling those needs. But you need this view from a unique vantage point, one that toggles between a strategic 40,000 feet up for context, and one that's "in the weeds" for tactical action and execution.

Then you need to apply a dynamic segmentation scheme to the data, using three different segmentations. Assessing what people *will* do requires a triangulation of their attitudes and beliefs, the kinds of needs requiring fulfillment, and their *view* of the solution set. Performing this common type of segmentation is one thing, integrating it all - and cross-referencing it - is another thing all together.

If you are able to integrate in one relational format the drivers of growth - needs, need states, consumer behavior, consumer attitudes, market drivers, brand imagery, brand perception, brand satisfaction, channel selection and media habits - you can model any comparative issue between an infinite number of growth ideas. If you couple this capability with the use of original, or primary, market research - including qualitative and quantitative tools - as well as stakeholder views of the business and secondary sources (business/customer data), you can output the inter-relationships and tools that identify and exploit a brand's renewable growth source. This growth source is comprised of the prime growth domain; the growth opportunities, sizes, and priorities; the best consumer segments, need states, products, and channels for each opportunity; how to win at each point touch point; and the apropos performance measurements.

However, the right scientific process is only as good as it is interdependent of the right creative *context*. There are limitless ways to be creative but the *act of innovating* must be fed by strategy that delivers good follow-through to business-based solutions. It contrasts sharply from the traditional, limited approach of information-based solutions. Expert teams must dynamically interact with client teams to optimize the resources of brand management and creativity catalysts in a disciplined improvisation that is embedded with what we define as *strategic integrity* - the perpetual validation of ideas and filter of rationality that ensures every growth platform created is aligned with the organization's original strategic intent (see **Figures 5 & 7**).

By applying this functionality and methodology, you create a process that integrates the business, market, products, brand portfolio, customer and channel in the quest for renewable ideas that is prioritized and sequenced in a multi-year innovation plan. It becomes a closed-loop system, anchored in high demand launch points, that renews itself from a process of continuous growth source replenishment (see **Figure 6**).

And that will lead you onto a clear path out of the storm, toward more predictable and dependable profitable growth. Something for CPG leaders to lose less sleep over.

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