The GameChanger Manifesto

How to win the Consumer Products Innovation Game

By Larry Popelka

The following are excerpts from Larry Popelka's upcoming book, The GameChanger Manifesto: Reshaping the new products game.

The Innovation Paradox

Ask five consumer packaged goods CEOs to list their top priorities, and at least four will say they need more innovation. And each year their cries for this get louder.

Yet if you look throughout history, we are living in perhaps the most innovative era ever, with exciting new inventions like iPods, Bluetooth, hybrid automobiles and the like. Even in boring old packaged goods there are a host of new innovative brands taking over the supermarket, like Glaceau Vitamin Water, Burt's Bees and Method Cleaners.

So why do all these CEOs need more innovation? Ask anyone in the marketing department and they'll tell you they're working harder than ever – and spending more time and resources than ever on innovation. In fact, last year alone there were more new consumer product SKUs launched than throughout the entire decade of the 1970s.

But the problem is very few of these new products have any real staying power, and even fewer are achieving any level of critical mass. In fact less than 10% of all the new items launched last year exceeded $1M in revenue.

But there are companies having success – and most of them are start-ups. In beverages alone, we've had Snapple, Odwalla, Arizona Ice Tea, Jones Soda, SoBe, Fuze, Vitamin Water and Red Bull – all from entrepreneurs. None from big companies.

Why is this happening? The problem is that virtually all big companies are still trying to develop and launch new products using approaches that worked for them in the 1970s and '80s. But the world has changed, and those processes now are too slow, expensive and inflexible to meet the needs of today's marketplace.

The Age of Social Networks and Lifestyle Brands

The reason everyone in the marketing department feels overworked is that the mass market has gone away. Back in the 1970s and '80s, a single network TV ad allowed you to reach a significant portion of the population. And most people who watched actually paid attention and believed what you said.

Tastes were relatively homogenous, so you could survey women 25-54 and come up with a single set of solutions for meeting their needs. Moreover, there was only a limited set of products available, so anything new and different was big news. I remember in my early brand management days when consumers actually got excited about our new lemon scented Clorox bleach.

The market and media fragmentation has made it harder and harder for marketers to zero in on any one meaningful target consumer or set of unmet consumer needs. Who do you develop new products for these days? Mommy bloggers? Gen Y? The Foodies Network?

And how do you reach them to tell them about your new product? Traditional media? Electronic media? Podcasts?

Once you do reach these consumers, are they ever going to care about your product and what you have to say? You'd better have something that is exciting and fits the specific needs of their lifestyle, or else forget it.

The problem at most companies is they're still aiming their new products at a mass market that no longer exists – and they're ending up with boring products. Anything that is "acceptable" to everyone is not likely to excite anyone. And in an era of boundless innovation, you better be exciting or you're dead.

Winning in a Fragmented World

Living in a fragmented world does not mean our innovations have to be small. Just look at the phenomenal success of the iPod, Starbucks, Odwalla, Oxi-Clean and an amazing number of other big new brands – more new brands than any time in history.

However, the road to success is vastly different today. Think of it as the difference between how the record companies used to create Pop Stars versus American Idol. Back in the good old mass market days, you found something you thought everyone would like, conducted in-depth research to refine every element to make it just right, and then you blitzed the airwaves. No one had a choice. They had to fall in love with the Carpenters, the Bee Gees, Donny & Marie or whoever else was thrust upon them.

Now, take a look at how it works today. There is no record company that can tell the world what they're going to listen to anymore. Thousands of small bands and singers go up on You Tube or other websites, trying to get discovered. People find them and tell friends, creating informal networks of fans, and eventually, when there is enough support, one artist rises to the top.

As these artists rise, passionate fanatics help to promote them. Eventually this fanaticism reaches a tipping point and makes it into what remains of the mass market (radio, TV, movies), and eventually - when you've won over enough supporters – you've got a hit. In the new world, once something rises to the top, it is much stronger and more sustainable because it has earned the affection of many along the way vs. being thrust upon us.

Now, think about your new product process. If you're like most companies, you're probably looking for unmet needs among a fairly large, mass-market target. Then you conduct in-depth consumer research to test and refine. Then - all at once - you blitz the market. Right from the start, you're pushing your new product into Wal-Mart, hitting the airwaves with TV advertising and waiting for the masses to beat a path to your product. You are that old-school record company still trying to sell us the Bee Gees!

<u>Reinventing Innovation</u>

1. ***Start with the Bankers***

Most big companies are losing money on their Innovation programs. That's right. If you add up all of the costs (R&D, Consumer Research, Package Design, Production Scale Up, Slotting Fees, Etc.), it is probably costing you more money to create those new products than the value you get back in future profits from the products themselves.

So what's wrong with this picture? Pretend you were a venture capitalist investing in start-ups. Would you invest in your own new products program? Most companies never even think about this. New products are treated as a "cost of doing business."

But what if you started thinking like this. You might think a lot differently about your innovation process. Take a look at the successful consumer product start-up companies – companies like Burt's Bees, Method Cleaners, Glaceau Vitamin Water. All of these companies had hard-nosed investors who demanded a good return – and they got it.

Glaceau Vitamin Water sold for $4.1B – a return of well over 30X vs. the original investment. And this was not an anomaly. The average VC generates an annual return of 25-30% on every dollar invested. Many of their dollars go up in smoke. But they have a portfolio of bets. The winners are big, and the losers are killed off before they lose too much.

In most companies there is a new products budget, but the doling out of funds to individual products is not highly scrutinized. Yet this is the most important task – this is how the VCs earn their pay. It is how new products are forced to quickly prove themselves or get cut off.

The VC system does two things: First, it forces investment in bigger opportunities with bigger potential payouts vs. the seemingly "safe" ideas that waste just as much money and time. Second, it changes your entire mindset about the cost side of the equation, and forces you to think about how you can get products through the next hurdle quicker and with less money.

Oxi-Clean, a successful new brand created by a small group of entrepreneurs, was recently sold to Church & Dwight for $325M. The total investment to launch and expand this brand: $50K. One of the reasons why Oxi-Clean succeeded is their lack of money forced them to be more creative about making a big impact in their marketing faster and at a lower cost. If you want better innovation, you need to create a venture capital mentality. Every dollar is precious.

2. ***Place More Small Bets***

Many companies mistakenly believe that "focus" leads to success. And indeed in some areas of management, it does. But in the "American Idol" innovation environment, you can't afford to put all your money on one contestant.

Venture Capitalists typically look at 100 or more ideas for each investment that they make, and they make 10 to 20 investments for each "home run."

Most big companies look seriously at about 10 ideas for each new product bet, and they count on that one bet working. In today's environment, those are lousy odds. How many great singers would Randy, Paula and Simon find if they started with a pool this small?

So how do we place more bets? You can't work 10 times as hard and spend 10 times as much money without passing out and going broke. The answer is simple – you've got to completely rethink how you spend your time and money.

Look at how much money you're spending on the average new product project and divide by 10 or 20 or maybe even 100. Look at how many man (or woman) hours you're spending on each and do the same. Now you're probably left with one person and $50-100K per product. That's how entrepreneurs work. That's how successful new brands are being started.

3. *Launch products that people hate*

If nobody hates your new product, then there's probably nobody passionately in love with it either.

Most companies have a "play it safe" mentality. This is what keeps big brands out of trouble. Protect the assets, circle the wagons. But this isn't what creates successful new products today.

In a sea of new products you need to be different to stand out. You need to stand for something meaningful in people's lives. You need to be dramatically better in ways they have not seen before. Instead of making your laundry detergent clean a little bit better, find people who are disenfranchised by all of the products currently being made, and make something unique for them.

That's exactly what Method Cleaners did. They realized that all of the existing cleaning products were made for the same consumers – and they were all competing on performance. Method recognized that no one was speaking to younger consumers who cared less about performance and more about stylish packages, nice fragrances and environmental responsibility.

Find a small group of people (less than 1% of the population) that love you, market to them, play to their passions, and they will adopt you. You will also be surprised at just how much of your product they will buy.

A few years back one of my friends started a business making Star Wars memorabilia. Many people like Star Wars. My friend could have developed inexpensive gift items with broad appeal and put them in Wal-Mart and Target. But instead she chose to focus on an extremely small group of die-hard fanatics.

She created items that excited these fanatics, vividly recreating experiences from the movie. One of their most popular items was a $300 working light saber. Their company, Master Replicas, built a much larger, stronger and sustainable business with this strategy than they would have with a traditional mass market approach. Instead of trying to sell $5 items that would have stayed in the stores for a few months, they sold $500 or more per person to this narrow target group. They also created insanely loyal consumers who kept coming back for more – and who recruited others to join them. That is the power of marketing to a narrow target.

4. *External Eyes*

Everyone is smarter than anyone.

You may think you've got a great R&D department, but your innovation program will always be better with outside ideas and technologies. At this moment there are thousands of people around the world working on products and technologies that could reinvent your category. You have two choices:

1) Ignore them and hope that somehow you'll do better on your own.
2) Co-opt them and use them to expand your business.

Foolish pride often gets in the way here. "What do you mean ***someone else*** is better at developing new products in our category where we're the experts? No way."

Way. Category leaders often have the hardest time seeing disruptive innovations, because they are blinded by the existing rules of the game. If you have had a big share in a category for a long time, it is even more important to get outside thinking, because chances are someone with a new technology or business model is already plotting your demise. Just take a look at what Netflix did to Blockbuster in the movie rental business. It wasn't until Blockbuster was about to go belly-up that they even began fighting back with a similar offering.

In many companies, external ideas rarely make it through the system because every functional group has the ability to block a new product. If we can't develop it in our own R&D labs, make it in our own manufacturing plants, sell it through our sales force and take credit for the idea in our marketing department, we usually don't like it.

These constraints might have been real 20 years ago. But we're living in a virtual world today. Almost anything can be outsourced – often for less than our own internal costs. So if you allow a lack of internal capabilities to constrain you, you're going to give up the best new business opportunities to entrepreneurs who do not have these constraints.

Yet in most companies, it is easy for people to view anything from the outside as a threat to their jobs, and emotions on this issue often run high. In most cases, the only way around these road blocks is to create an internal or external "skunkworks" or venture group with independent management that has the ability to work outside of the corporate structure. If this group is small and independent, it is less likely to be seen as a threat.

A Brand New Future

If you find all of this a bit frightening, congratulations – you're normal. Most people are fearful of change. And if you truly understand these concepts, you'll recognize that they are a dramatic organizational departure from how we've all been used to working.

But, take a look at your current new product results and the stress being placed on your organization to do better with a process that's not working well. Are you building share with leading innovations? Or is it a struggle just to hang on? Would you like to have the next Glaceau Vitamin Water or Clorox Green Works and double the size of a core business? You can. And you can do it without upsetting the apple cart at your company. Here's how:

Take 10% of your existing new products budget. Get it by cutting out the lowest potential ideas on your new products list. If you're like most companies, you're losing money on new products – cutting out the bottom 10% will actually save you money.

Now take that 10% and use it to fund a small ventures group to implement these concepts I have described. These approaches create bigger, better, more sustainable innovations – and they do it faster at less than one-tenth the cost of what you're paying now. If you follow our road map, you should start getting results by Year II, and the program will very quickly pay for itself.

Six years ago we implemented exactly this plan at the Clorox Company. I headed up the Ventures Team, reporting directly to the Executive Committee. In a five year span, with less than 10% of the company's new product budget, we delivered 2X the new product growth of the rest of the company combined. We got our products to market faster. Our products were bigger and more sustainable and had a higher success rate than Clorox's internally-developed new products. Clorox Toilet Wand, Clorox Anywhere and Green Works Cleaners were 3 of the products that came out of our effort. And we did it all with a small team working independently from the rest of the company.

Now it's your turn. Are you going to keep doing what you've been doing and hope it works better? Or are you ready to be a GameChanger?

Larry Popelka is president and founder of GameChanger Products – a team of 6 executives with over 150 years of consumer products experience and over 25 successful new brands launched. Prior to starting GameChanger, Popelka was VP of New Ventures for the Clorox Company, a $4.5B consumer packaged goods company in Oakland, CA. In 2004, the Monitor Consulting Group called Popelka's Ventures Team's approach the best they'd seen in consumer products. GameChanger's mission is to help other companies implement this approach. Popelka is writing a book, ***The GameChanger Manifesto***, which outlines this process in more detail.