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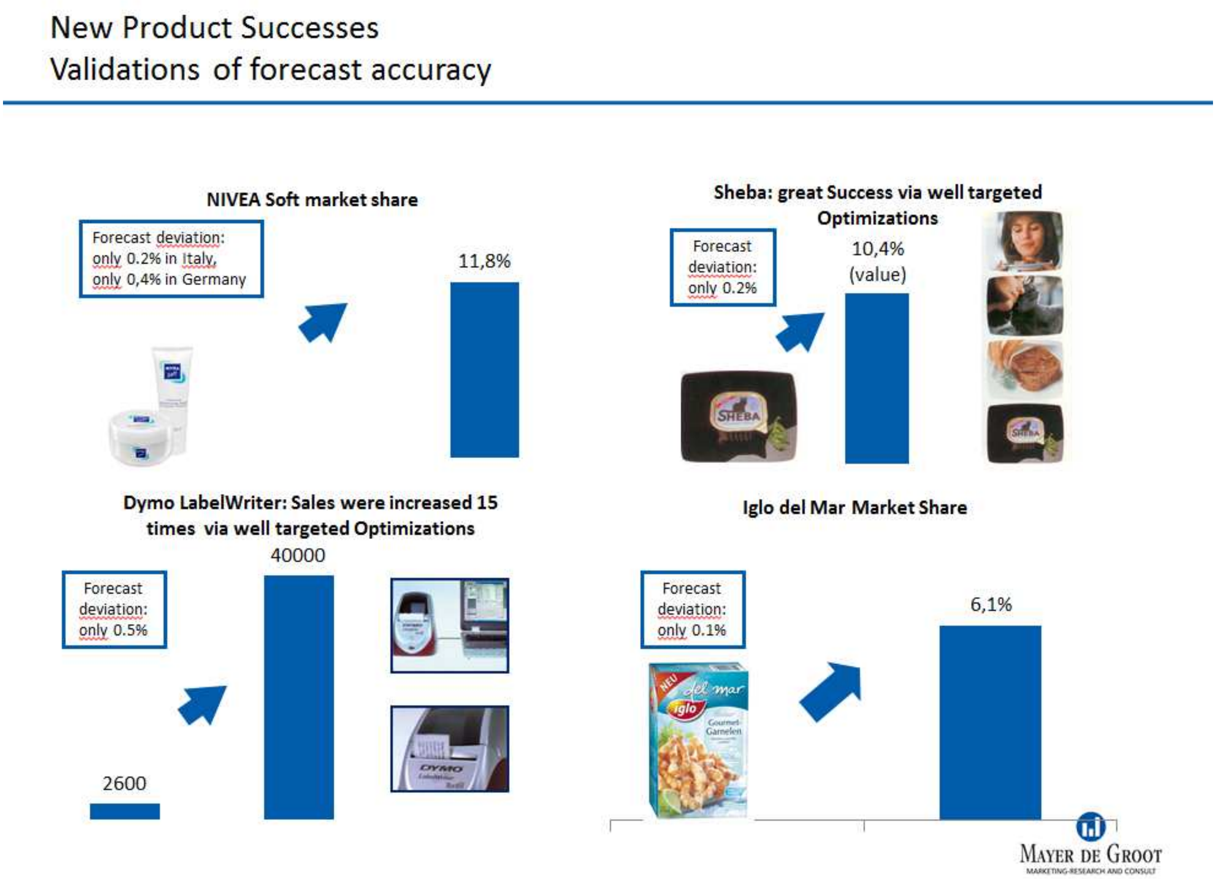
Using New Product Chances to Full Advantage

More success with innovative market simulation

Extended v*ersion, originally published: Using New Product Chances to Full Advantage, p&a international market research 2013*

Management Summary

Despite significant scientific progress and increasing attention to new product development the new product success rate hasn't improved over the last 50 years. One of the major challenges in marketing research is the forecasting of success or failure of new products or relaunches.
The $ales Effect brand choice criterion introduced in this publication is built on a broad scientific basis and incorporates recent insights of neuroscience, behavioural economics, psychology, marketing and other disciplines. The brand choice criterion is non-linear, straightforward and "tough". It allows the reliable identification of successes and flops and has been validated in more than 1.000 applications in numerous categories and international markets. Its result tell you why the brand potential is not higher and indicate concrete actions showing what has to be done in order to improve sales effects. Six case studies illustrate the abilities of the $ales Effect market simulation.



Improving new product ideas according to test results is often the key to success

New product launches are often associated with great and quick success. Therefore companies often claim innovative leadership or announce new product initiatives. Of course companies must develop new products to grow, stay competitive and profitable, but experience has shown that new product launches as well as relaunches are risky and costly. A great majority of new product ideas never makes it to the market and those new offers that enter the market place face very high failure rates. Despite increasing attention to new product development (NPD) and forecasting, the new product success rate hasn't improved over the last 50 years. Only 6 per cent of all new offers launched become a greater success. Even worse, 73 per cent of all new product introductions end as flops. – The cost of these failures in the U.S. market alone is estimated to be well over $100 billion annually. The same is likely to be true across Europe. Flop costs in Germany alone exceed 10 billion Euro annually.

Given the high flop rate the main problem is not really predicting future flops, which is relatively easy, but instead identifying those new factual and / or emotional product ideas which have greater market potential and can be further optimised and developed into great successes. Experience has proven again and again that great ideas often initially do not live up to expectations because some details have been solved sub-optimally.
The diagnostic power of the $ales Effect-Market Simulation test system is high. Its result tell you why the brand potential is not higher and indicate concrete actions showing what has to be done in order to improve sales effects (e.g. which image dimension has to be improved). Using these indicated actions products and services have been developed into successes which initially were or would have been failures due to convinced target group sizes that were too small. – It is not widely known that major successes such as Beck's Gold, Dymo, Iglo del Mar, Nivea Soft or Sheba would have been failures with their originally planned marketing initiatives and executions. – Many clients see this diagnostic capability – in addition to its proven forecast accuracy – as a unique and relevant selling proposition or competitive advantage versus other pre-tests or market simulations.

A tough and reliable brand choice criterion is used build on a broad scientific base

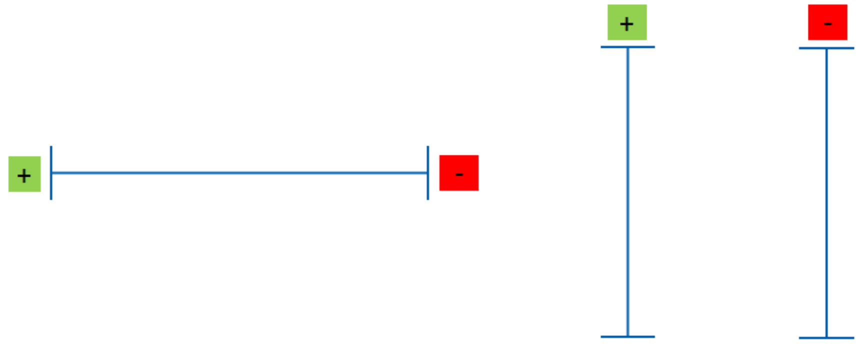
The quality of a particular product or service is whatever the individual customer rationally perceives it to be or emotionally feels it to be. However, humans do not evaluate offers in absolute terms, but focus on the relative advantages of one offer over another in order to reduce complexity and allow more mental rational capacity for other (vital) issues.

Individual customers use a simple bench mark for brand choice: the actual brand most often purchased (in line with the anchoring or reference point theory), thus reducing complexity. The current main brand offers individually the *"best problem solution"* of all known alternatives. It determines which perceived combination of emotional benefits and factual features at what specific level satisfies optimally the individual need structure.
The onus is on the new offer to prove that it is better than current main brand. If it fails to establish this superiority in the perception of recipients, individual consumers will feel no motivation and see no reason to switch from their main brands (which have served them well in the past) on a long term basis.

What does this superior perception mean in the context of market simulation? In contrast to common assumptions negative evaluations are mentally not the opposite to positive evaluations (on a bipolar scale), because our brain is constructed in a different way as neuro science has proven. Our limbic system uses completely different brain structures for the analysis of positive and negative emotions. The so called *"reward system"* is a brain circuit that, when activated, motivates or reinforces behavior. The circuit includes the dopamine-containing neurons of the ventral tegmental area, the nucleus accumbens, and part of the prefrontal cortex. On the other hand the so called *"punishment system" (namely the Amygdala) has* a demotivating influence if we perceive disadvantages of an offer. (see figure 2 on page 3)

It is important to bear in mind that humans have several quirks such as *"we focus more on what we may lose than what we may gain"*, as Ariely stated in2008. The Nobel Prize winner Kahnemann and Tyversky have observed that *losses loom larger than gains.* Hardie, Johnson and Fader have empirically proven that insight to be true: Offers are rejected which are perceived to have disadvantages in comparison to other products currently used.

Neuroscience and behavioural economics contradict the implicit assumption of classical statistics, that the relationship between positive and negative evaluations is linear.



- In contrast to common assumptions negative evaluations are not the opposite to positive evaluations (on a mental bipolar scale).
- Human brains are constructed differently.
- Our limbic system uses completely different brain structures for the analysis of positive and negative emotions.
- *"We focus more on what we may lose than what we may gain."*

These scientific insights have major implications, because they contradict the implicit assumption of classical statistics, that the relationship between positive and negative evaluations is linear. In reality this is rarely the case. People hate losses and our automatic (limbic) system can get pretty emotional about them. Roughly speaking, losing something makes you twice as miserable as gaining the same thing makes you happy. - In more technical language, people are *"loss averse".* This insight provides also a major explanation why most conventional market simulation methods are proven to be unable to predict success or failure of new products reliably.

Conventional benchmarks in comparision with the
$ales Effect brand choice criterion

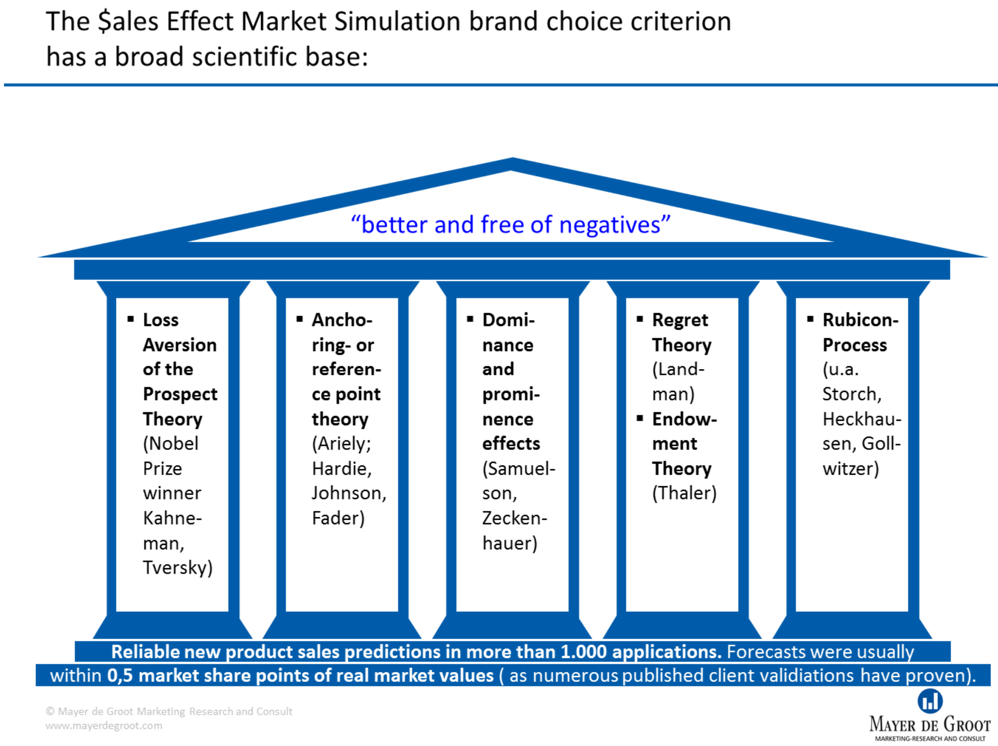
test person	1	2	3	4		Conventional benchmark fulfiled (= buy)
indulgence	-	+	+	+	➡	++
healthy	+	-	+	+	➡	++
attractive	+	+	-	+	➡	++
value for money	+	+	+	-	➡	++

$ales Effect brand choice criterion fulfiled ?	No = not bought	No = not bought	No = not bought	No = not bought

Benchmarks assume linear relationships between positive and negative evaluations, which are easier to fulfil. The $ales Effect Brand choice citerion is tougher and in line with *Loss Aversion*.

Our brand choice criterion is non-linear, straightforward, tough and argues: Customers switch their current main brand (= individual best problem solution) only on a long term basis if the alternative is perceived better in at least one purchase relevant criterion and free of negatives on all other criteria relevant to brand choice. It is built on a broad scientific base, see figure 4 for reference below.

The prediction, if a respondent will purchase or not, is made for each individual separately – so called *segment-of-one* approach – because most markets are fragmented, if not pulverised. Therefore it is no longer good or precise enough to predict brand choice for an average person in a segment.



Validations and Forecast Reliability of the $ales Effect Market Simulation

This non-linear brand choice criteria have been used successfully in numerous product categories and international markets. In more than 1.000 cases in which offers have been (re-) launched with more or less the same marketing-mix executions as tested, predictions have usually been within half a market share point of actual market figures. Six case studies prove that brands can be developed systematically to achieve greater successes, using innovative and reliable methods.

Sheba: with concrete optimization advice to international success

Market segmentation studies indicated the existence of a super-premium cat food segment. But several attempts of pet food subsidiaries of the Mars group had failed to launch a new brand above its own market leader, premium brand Whiskas.

The R & D department had developed a new super-premium product with high quality ingredients which was offered in an innovative packaging (deep drawn bowl). The „last“ super-premium cat food attempt was tested thoroughly by the Mars group. Market simulation and a test market in northern Germany were carried out. But the results were contradictory. A conventional market simulation – based on the so called „relevant set approach“ – predicted a flop, but wasn't able to provide any concrete advice for optimisation. Sales development in the test market, however, was positive.

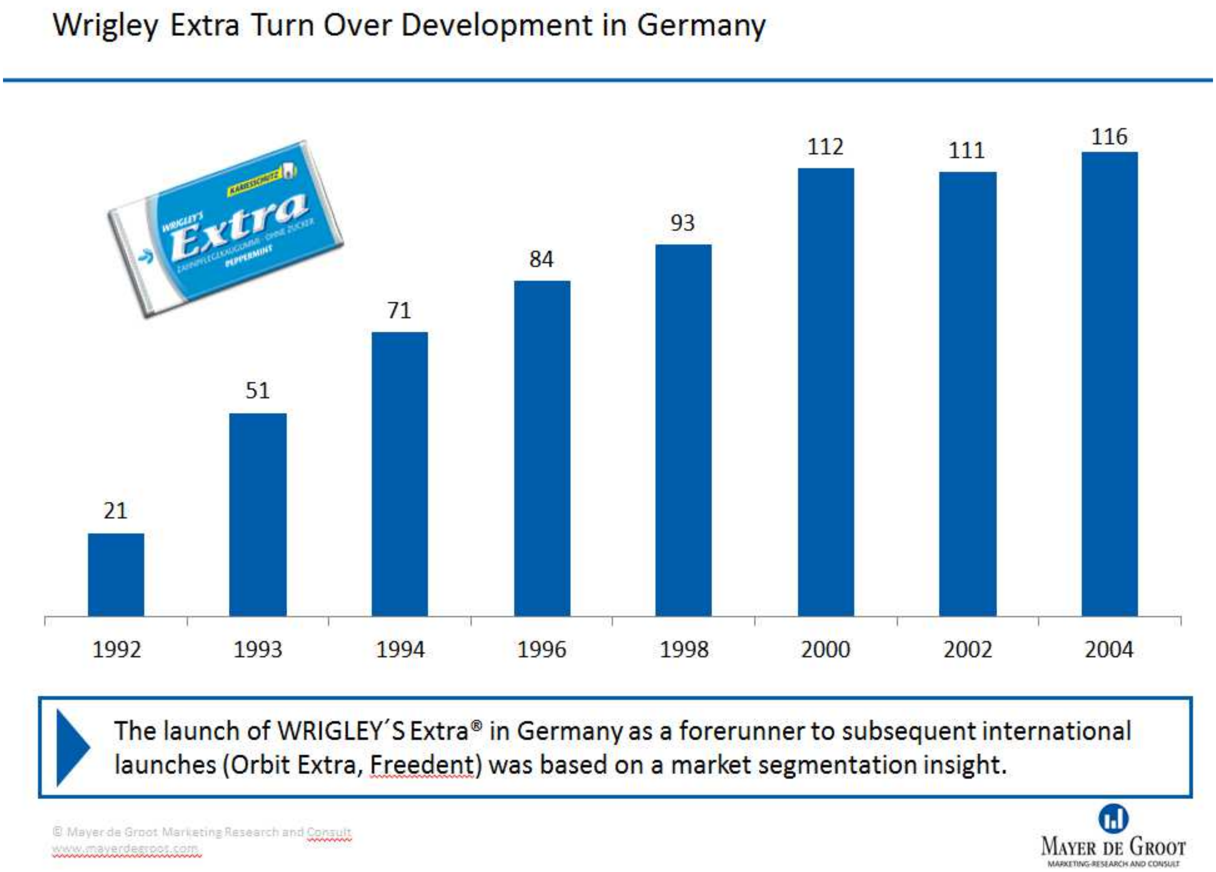
Given the strategic importance and potential high investment in new packaging lines, it was decided to use a second market simulation method. In the method selection process the objectives, proven reliable determination of market potential and the ability to provide concrete optimization advice.   It was obvious that these criteria would play an essential role for the strategic launch decision in Europe. Mars decided to use a method for the first time, which is nowadays named “$ales Effect market simulation”.

The second simulation forecasted a larger market opportunity. The analysis also indicated the existence of a larger optimization potential group within the segment of *„cat lover“*. These respondents, however, didn’t perceive initially a superior cat enjoyment compared to their current main brand of cat food. This contradicted significant cat preference results in numerous blind product tests. Their perception was influenced by the observation that their cats did not finish a Sheba pack size per meal (no empty “plate proof”). Additionally research indicated that the initial Sheba 150 gram size was too big for an average cat per meal. Therefore, when Sheba was launched internationally its packaging size was reduced to 100 grams. This change influenced the perceived cat preference of Sheba in a positive manner and convinced the larger group with optimization potential to switch to Sheba. The $ales Effect market simulation yielded a good fit between forecasted and real market share values. The deviation was only 0.2 percent points. (See figure 1 page 1 for reference)

WRIGLEY´S Extra: How to gain and defend a 90 per cent market share

The success story of WRIGLEY´S Extra and its international sister brands started with an observation: The majority of adults stopped using chewing gum in public when they started work, because they perceived it to be socially unacceptable. Therefore innovative qualitative techniques were used to unearth adults’ motives as well as barriers to chewing gum. The benefit of reducing the incidence of tooth decay showed promising market potential, namely within the target group of people above 20 years of age.
The launch of WRIGLEY´S Extra in Germany as a forerunner to subsequent international launches was well qualified through qualitative and quantitative research tools. Projective market research techniques provided in depth insights into the emotional and factual needs as well as barriers of relevant target groups. These insights ensured that all marketing-mix elements, such as on pack communication, advertising and below the line activities, had initial and sustainable impact.

On the quantitative side, market segmentation proved that a larger target group was interested in the dental care benefits of chewing gum. Subsequently market simulation techniques checked various launch scenarios for economic viability, which indicated substantial market potential. These assessments proved to be true also in the long run: In 2008 Wrigley’s Extra enjoyed a share of 34 percent in the total German gum category and a share of more than 90 percent within the dental care chewing gum segment. Sales of Wrigley’s Extra to consumer exceeded 100 Million Euro, making it to one of the biggest brands in the sugar confectionery market in Germany.

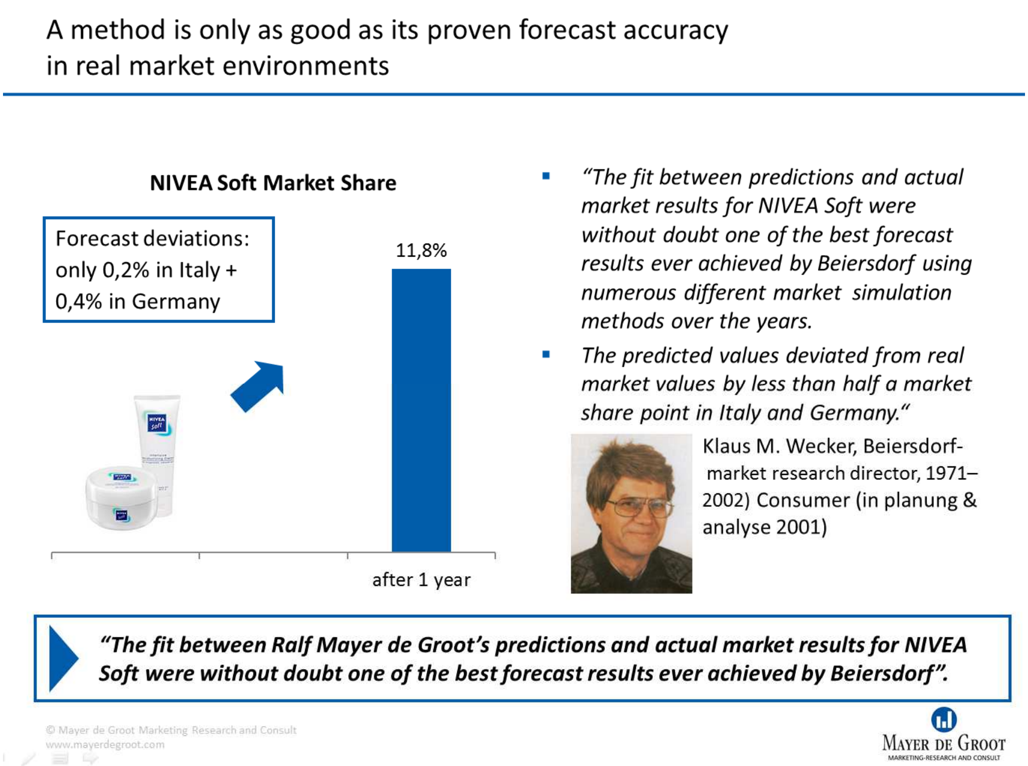


WRIGLEY has also successfully exploited the dental healthcare proposition of chewing gum in numerous countries around the globe. For historic reasons and because consumers learn cumulatively, different brands have been used. In France Freedent dominates the dental care chewing gum segment with a share of roughly 70 percent in 2008. - The same is true for Orbit in the UK. - The brand Orbit is also associated with a unique success story in Eastern Europe. Orbit is the leading Chewing Gum brand from Prague to Vladivostok and from Murmansk to the Caspian Sea with market shares in the chewing gum segment around or even above 60 percent in 2008. This innovation started in Germany and became a great international success.

NIVEA Soft: Success through strategic market insights

The integration of new products into new markets under the umbrella of a family brand is undoubtedly a risky task. Not every extension fits to the brand concept or lives up to expectations. An even higher amount of finesse is demanded when a new product is introduced into the core market of the umbrella brand. This difficult question arose when market research surveys showed that a substantial consumer segment desired a skin cream which could be spread on and absorbed by the skin more easily than NIVEA Cream.

Beiersdorf´s R&D department therefore developed a new cream with a softer consistency, which was named NIVEA Soft. However, before NIVEA Soft could be successfully implemented, traditional management needed to be to be convinced. With a NIVEA market share in Germany of about 45 percent there were substantial fears of product cannibalization. These fears initially weighted heavier than the hopes for a further extension of the leadership position in the universal skin care market. On the other hand, it was considered that introductions should not be stopped by potentially unfounded fears. Beiersdorf therefore decided to conduct another fundamental NIVEA brand extension study in Italy and Germany.
The key results of the survey were: NIVEA Cream showed small residual growth potential. But the exploitation of these last few percentage points would have been a rather costly affair. – However, NIVEA Soft achieved a promising potential of 22 percent in Italy and of 23 percent in Germany, although experience has taught that it is rather coincidental that a brand has almost the same growth potential in two markets. NIVEA Soft convinced – as intended – a new and different target group than NIVEA Cream. The product cannibalization rate was therefore relatively small.



These predictions were proven to be reliable by subsequent market performances. The deviation in the predicted market share were only 0,2 per cent points in Italy as well as 0,4% in Germany. In the first year NIVEA Soft achieved a double digit million Euro turnover in Germany. However, the forecast deviated by only 9.000 €. Therefore the $ales Effect Market Simulation achieved high forecast reliability in both countries

The international study also provided sound advice in other marketing decisions. In spite of high claimed attractiveness of the NIVEA Soft concept, the existence of a high trial purchase barrier was identified. Before product trial the majority of consumers hesitated to believe before product trial that NIVEA Soft could be spread on and absorbed by the skin than NIVEA Cream more easily. This barrier was overcome by intensive sampling activities.

In addition the relevant target group of brand switchers in favor of NIVEA Soft could be reached via the most effective TV-environments and magazines due to product specific media placement research insights. This enabled NIVEA Soft to conquer the number two position behind NIVEA Cream in a short time period. The case of NIVEA Soft proves again that reliable strategic market research provides the essential basis for strategic brand success even against competitors which are significantly larger and have access to bigger financial resources than Beiersdorf.

Birds Eye and Iglo

Iglo, the Birds Eye sister brand in Europe, is a well-known and well accepted brand with a long history. However due to other Unilever business priorities, Iglo lost top of mind awareness, brand strength and sales volume. Market shares in the German frozen food business decreased in the last Unilever decade from 15 per cent to 8 per cent. Therefore it was decided at the end of 2006 to sell the Birds Eye Iglo Group to the private equity company called Permira.

At the beginning of the brand turn around program, market research was carried out with the objective of achieving better brand positioning for Birds Eye and Iglo. In Limbique Emotional Explorer the true reasons for brand choice were identified in the British and German market. Birds Eye’s and Iglo’s brand strength was increased via addressing the real market drivers in different frozen food segments.

In 2007 it was considered to strengthen and up trade the Birds Eye and Iglo brand even further via the potential launch of a seafood range named Iglo del Mar. Market research insights helped to triple its success via superior positioning and well-targeted optimisation of advertising**.** Iglo del Mar launched in 2008 achieved a market share of more than 6 per cent after ten months. The predicted market share deviated only by 0.1 per cent from real market figures in Germany. – In the UK Birds Eye was chosen as the “most revitalised brand” in 2008. (see figure 1 page 1 for reference)

Dymo LabelWriter

The innovative Dymo LabelWriter had already been launched with varying degree of success in Belgium, France, Sweden, Great Britain and the US. In the German Saarland test market, however, the sales volume in the first year was 62 per cent below its objective. This was despite intensive TV advertising support. The reasons were that key motivations for using the innovative product were not properly communicated.

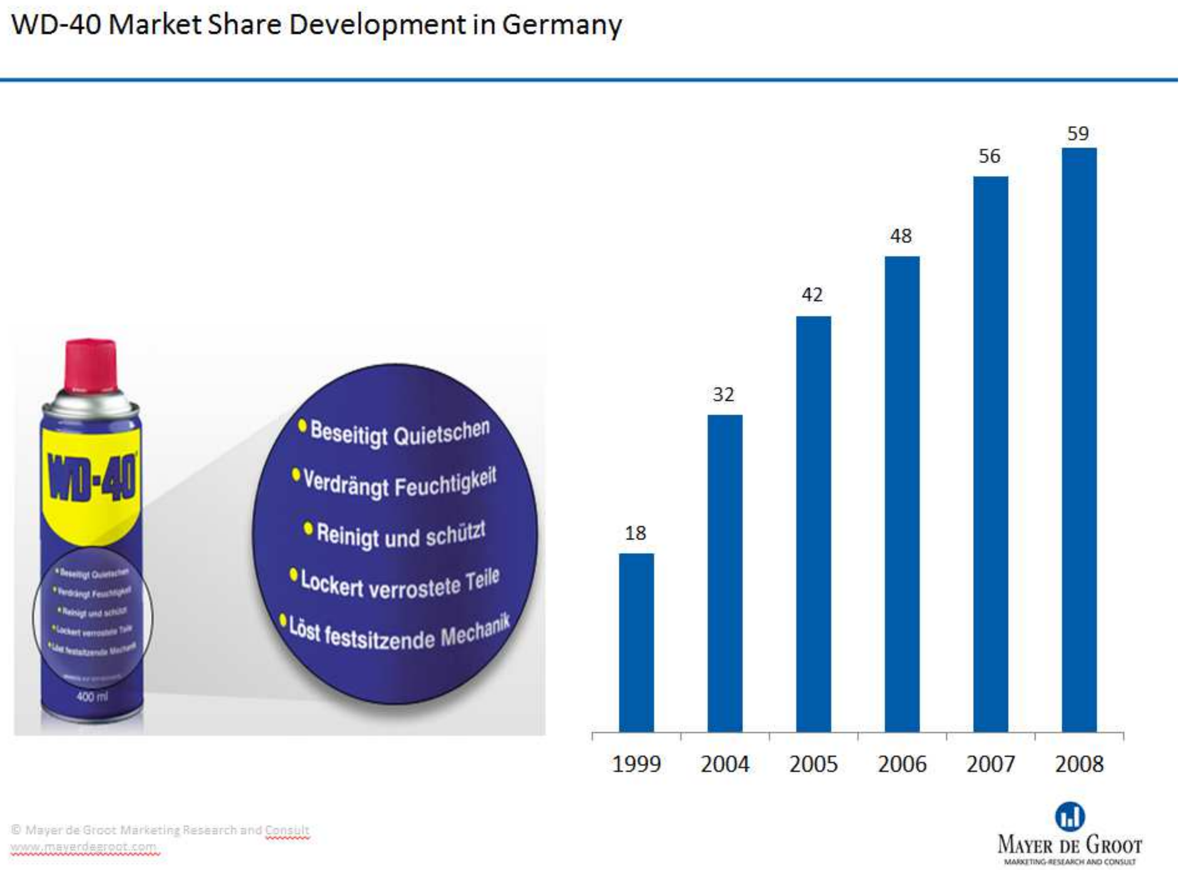
Projective techniques unearthed the real market drivers for the innovative label writer. Based on these insights existing international commercial film material was re-cut and voice over completely changed. Our advertising effect pre-test, which uses our tough brand choice criterion, forecasted that the improved advertising commercial would achieve great sales success. This proved to be true: National sales volume increased by a factor of 15. DYMO LabelWriter became a great success and “product of the year 2006”. The advertising effect pre-test had predicted a sales volume of nearly 40.000 machines during the first advertising period. This forecast proved to be very reliable. It was exceeded only by 201 machines or only 0.5%. – This is another example of predictive reliability. (see figure 1 page 1 for reference)

WD-40

No doubt, very few brands will ever be able to match the popularity of WD-40 in the US. However, WD-40 in Germany was initially in a different position. Caramba had been marketed since 1874 and was in 2002 still the dominant market leader with a market share of nearly 50 percent. At that time WD-40 had less than 20 percent share.

German professional and DIY target groups reacted somewhat sceptically to a product which used the well proven US-claim “more than 1001 uses”. This sounded too much like a fairy tale promise for a brand with limited awareness at that time.

Qualitative research insights led to a re-positioning as “five products in one” capitalising on the core five functions of WD-40, which are prominently communicated on the can. The re-positioning was successful despite nearly no advertising support: WD-40 market share increased from approximately 20 per cent in 2002 to 59 per cent in 2008 in Germany. WD-40 sales volume increased by 500 percent during that time period. This outstanding success was relatively accurately predicted by a sequential significance test using the tough $ales Effect test brand choice criterion in 2002. The case of WD 40 proves again that reliable strategic market research provides the essential basis for strategic brand success even with small budgets.



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