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Consumer-centric innovation  
Tapping into consumer  
insights to drive growth



# Carving a path for long-term success

Tomorrow's successful consumer product companies will likely be those that have leveraged consumer insights to create nationally recognized brands that are worthy of their price. Effective consumer-centric innovation can often be the path to this outcome because it can help create products that capture the consumer's imagination, provide entertaining brand experiences, or offer solutions to previously unmet needs.

Innovation. It's a word that appears in just about every annual report from companies that sell products for the consumer's end use. Everyone talks about it, but, sadly, very few companies think innovatively about the concept, particularly when it comes to new product development. Instead, many consumer-facing organizations remain focused on risk-averse activities that satisfy Wall Street's expectations for slow-but-steady growth. They have steered away from the truly innovative, but often costlier, "market making" products. Because such staid corporate strategies do little to excite consumers, growth trajectories for many of these companies remain about as uninspired as their new product plans.

While many executives acknowledge this failing, they also admit that true innovation remains a crucial pathway to long-term success, even for the mature sectors within the consumer products arena. Company mind-sets as a result are slowly changing. More organizations are now starting to leverage the sweeping social and technological changes that allow them to move beyond their traditional product innovation approaches.

At Deloitte, we believe that companies should consider six steps to help make their innovation efforts more consumer centric. These components, which will be discussed later in this report, provide companies with a new way of thinking about innovation that often can yield favorable long-term results.

## "Me too" product strategies = "Me two" profitability

Companies' ideas around innovation are changing because, in today's hypercompetitive business world, the previously much-used "Me Too" strategy of line extensions and copycat introductions of competitors' products has often lead to "Me Two" profitability. That is, lack of truly innovative product introductions that appeal to consumers has produced lower returns on investments. In contrast, the innovation leaders, with their first-to-market advantage, often become the "Me First" winners in consumer acceptance and brand relevance.

Certainly, the process of bringing new products to market has not been easy. Various results over the years suggest as much:

- Less than 5% of new brands reach \$50 million in year-one sales, according to Information Resources Inc. (IRI)
- 69% of respondents to the Most Memorable New Product Launch Survey could not identify one new product introduced in 2008. Source: Schneider Associates, Mintel International and IRI
- "With 80% to 90% of new products disappearing from store shelves within a year, the success rates of launches have gone virtually unchanged for the past 30 years," said IRI President of Consumer and Shopper Insights Bob Tomei, in an August 20, 2008 press release.
- In a 2008 BusinessWeek survey, 25% of company executives said, "Compared to five years ago, we are no more efficient at new product/service marketing." This figure was up from 15% in 2004.
- An AMR Research study found that "late to market/ missed demand" was the top reason among companies for product launch failure.

As the process of launching first-class national brands continues to be less than rewarding for many companies, pressures are increasing on another front: private label. According to The Nielsen Company, private label sales, as a share of total dollar sales at grocery/drug/mass retailers, rose to 17% at the end of 2008 from 15% at the end of 2003. And, consumer acceptance is growing: Roper survey results quoted on the website of the Private Label Manufacturers Association found that eight out of 10 consumers believe that store brands are as good as or better than national brands.

More recently, the economy's sharp deterioration has forced cutbacks in many companies' research and development (R&D) budgets, adding another layer of difficulty to the innovation process. According to the Financial Times, total R&D expenditures of S&P companies declined 13% over the year ending in the third quarter of 2008. The decline likely worsened in the fourth quarter, given the overall meltdown in economic activity.

From a longer-term perspective, R&D staffing at many companies has been either pared back or assigned other tasks that impair these individuals' ability to pursue truly innovative product development. The increased scrutiny and downsizing of internal R&D budgets is likely a major reason why the innovation imperative has moved beyond the walls of the corporate headquarters. Externally sourced innovation can not only be less expensive for the company, it can also provide greater financial rewards.

New demands on product development have also come from the strong growth in the global consumer base. Particularly in emerging markets, a brand's perceived personality and status play a significant role in the purchase decision. Products made with 20th century thinking often do not resonate with 21st century consumers in China or India, where cell phones are the norm and the phrase "land line" has no context.

For the more developed economies, the global recession evident in the first half of 2009 has brought about significant shifts in consumption. Conspicuousness is being toned down; socially responsible behavior is being turned on. Health and wellness are being emphasized as the antidotes to a stressful lifestyle. Many economists

expect slower retail sales growth over the longer term as households build up their savings from the spending surge of the previous decade. Slower retail sales growth and changing preferences will only add to the urgency to create products that excite and delight consumers.

In such a tough environment, companies cannot afford to be thinking about innovation initiatives that take too long, are too costly, and deliver too little. Successful companies will likely be those that leverage consumer insights to create nationally recognized brands that are worthy of their price. Consumer-centric innovation (CCI) can often be the path to this outcome because it can help create products that capture the customer's imagination, provide entertaining brand experiences, or offer solutions to previously unmet needs.

### **Moving to open innovation, and beyond**

As consumer product companies embrace the reality of empowered consumers and the Internet-enabled world, many have been moving to an "open innovation" product development model. This model is based on the idea that information can now be gathered on a mass scale by using both external (end users, suppliers, academia, etc.) and internal (employees) sources as inputs into the new product development process. The concept has taken hold because companies are realizing the benefit of having access to a global network of qualified, available citizens who are willing to provide input on problem solving or suggesting new solutions to old ways of doing business. Open innovation is creating new ways to organize and think about R&D within companies.

Proponents of open innovation say there is no benefit to locking up intellectual property. A company can often profit from others' technological expertise through licensing arrangements and/or joint ventures. Such approaches can help companies avoid abandoning ideas with great commercial value because of lack of funding, competition from other projects, or lengthy timetables for completion.

“A new art and science of collaboration is emerging – we call it “wikinomics.” It is a metaphor for a new era of collaboration and participation. The collective knowledge, capability, and resources embodied within broad horizontal networks of participants can be mobilized to accomplish much more than one firm acting alone.”

– WIKINOMICS: How Mass Collaboration Changes Everything. Don Tapscott and Anthony D. Williams

Open innovation is becoming increasingly relevant for many companies and is the fertile soil from which consumer-centric innovation has grown. Moving beyond just creating collaborative, external opportunities around innovation, CCI puts the consumer at the core of the innovative process. Consumers’ thoughts, behaviors and preferences are sought out, monitored and analyzed so that their needs and wants are better understood – perhaps even before they themselves have verbalized them.

By taking open innovation a step further, companies are allowing individuals, particularly customers, to play a much more active role in the product innovation process. For example, companies are allowing consumers to customize their own products, design their ads, and act as brand ambassadors to recommend products. The goal is to use these consumer insights and comments to build

and sell products that are true demand-drivers in the marketplace. Such market-leading activity often lead to superior financial performance.

Companies are embracing consumer-centric innovation at varying levels of intensity. The concept can be viewed as a continuum. In Figure 1, companies that rely on Consumer tested Innovation use consumer input sparingly, if at all, in their product development processes. At the other end of the spectrum are companies that walk hand in hand with consumer down the innovation path. Using this latter strategy, companies often institute sweeping organizational changes to increase the focus on target consumers and to more deeply immerse the consumer’s perspective in the innovation process. Taking the middle ground are those that pick and choose from various consumer inputs to assist them in new product development and introduction.

Figure 1. Implementation of CCI can vary from limited to all-encompassing

	Consumer-tested innovation	Consumer-focused innovation	Consumer-centric innovation
<b>Consumers’ role</b>	Mostly uninvolved	Reactive	Champions
<b>Degree of company control</b>	Interactions controlled by company	Consumers given freedom to express aspirations	Company can empower end users and others throughout the innovation process
<b>R&amp;D philosophy</b>	Closed innovation	Consumer-guided	Dynamic open innovation
<b>Organizational design</b>	Organized by manufacturing process	Organized by product purpose	Organized by consumer segment
<b>Role of Computers/Internet</b>	Computer-aided design, Quantitative testing of concepts & advertising	Testing, but also used for product information, advertising	Mining blogs and social networking sites for insights, leveraging virtual private communities, enabling co-design/ customization of final product
<b>Critical issues</b>	Lack of ideas, conviction, for most innovation	Tendency towards incremental innovation, easily copied	Right system and structure for R&D, marketers, and consumers enables use of consumer insights across the process

Source: Deloitte LLP

Importantly, companies that truly embrace CCI can win over the trust of certain consumers, thereby creating advocates. To build advocacy, companies must use various means such as being authentic, honest and transparent with consumers, and stay in touch through communicating and building anticipation into the interaction. As a result of these interactions, consumer advocates often become champions for the brand. Companies can benefit because these advocates provide inputs into the product innovation process and they help grow demand through their “recommender” or “evangelist” roles. Consumers likely win because they know they are involved with a brand that will remain relevant and responsive to their way of life.

Certain companies have also found value in seeking out those who are somewhat less passionate about the brand. Although they are not true “evangelists,” these consumers can still provide valuable input to companies. Further, the close association that these consumers develop with the brand can possibly turn them into true advocates and help sway their own purchase decisions toward the product.

### Implementing consumer centric innovation

As noted, companies are embracing CCI differently, with varying degrees of success. Although CCI adoption is not yet widespread and applications are still evolving, there have been recent successes in CCI-driven product introductions that have enhanced profitability for various companies.

Perhaps the most written-about company in this regard has been Procter & Gamble. Its “consumer is boss” philosophy, company-wide emphasis on design thinking and co-creating with customers, use of “influencer marketing,” and commitment to having 50% of its total innovation come from sources outside the company, have made it a darling with investors and many consumers. Largely due to its focus on consumer centric innovation, P&G in 2009 was the only packaged goods company in the top 15 Most Innovative Companies list from BusinessWeek.

The central characteristic of CCI is that companies more intimately engage consumers throughout the innovation process. As will be discussed shortly, there are six key components of consumer centric innovation: management commitment, expanding innovation opportunities, increasing Web participation, creating opportunities for consumer interactions, uncovering consumer needs, and employing new marketing tactics.

Companies that fully embrace CCI go well beyond just passively waiting for consumers to provide suggestions or testing new ideas with them. These companies employ a wide variety of methods to actively stimulate the consumer’s creativity. They also seek out consumers to work on early ideation, design and ultimately the marketing of new products. Additionally, this innovation process involves mining online social media for information on brands and products, to help uncover further insights.

Technology is of course the great enabler for consumer centric innovation. It is becoming easier and more cost-effective for companies to directly interact with consumers and obtain their comments. Worldwide, there are now roughly one billion Internet users according to comScore. By various estimates, anywhere from 65% to 70% of Americans already use the Internet. At last count, there were an estimated 150 million people using Facebook. Several Deloitte surveys have indicated that consumers – particularly Millennials, those roughly in their 20s – are very tech savvy and interested in obtaining and sharing information online. Additionally, market research firm Gartner, Inc. expects that by 2010 more than 60% of Fortune 1,000 companies with Websites will connect to or host some form of online community that can be utilized for customer relationship purposes.

Collaborative innovation will be further fueled by consumers who are eager to share their insights – not always for money; sometimes just for personal glory – with companies and other consumers. Tech-savvy individuals, particularly Millennials, willingly go to websites

**Figure 2. Various Deloitte surveys: Tech-savvy consumers**

	All	Millennials	Survey name
% who own a mobile phone	89%	91%	State of Media Democracy, 10/08
% who maintain a profile on a social networking site	48%	76%	State of Media Democracy, 10/08
% who learned of a new product for first time online	63%	69%	State of Media Democracy, 10/08
% who have recommended a product through a blog, message board or online review	31%	40%	State of Media Democracy, 10/08
% who expected to use their cell phone to assist them in their holiday shopping	9%	17%	Holiday Survey, 10/08
% who have been negatively influenced by something they read about a product on the Web	24%	NA	Food Survey, 4/08
% who have gone to a food company's Website to find product information	22%	NA	Food Survey, 4/08

Source: Deloitte LLP

to vote on products designed by others, submit ads to companies to help them sell their products, or suggest products or solutions to others via forums, blogs or social networking sites. Still others actively participate in online communities such as InnoCentive, where they contribute individually or as a group to various organizations seeking solutions to problems. Acting as the middleman, InnoCentive has already distributed \$20 million to “solvers” (InnoCentive’s term) from companies, according to *E-Commerce News*. The expanded use of these externally focused strategies will likely drive growth and prosperity in the years ahead for many consumer product companies.

Expanding further on Figure 2, the following six components of CCI should be considered by companies in their efforts to become more externally focused in their innovation processes, become more effective in their use of consumer insights to discover, design and deliver successful new products to the marketplace and improve their ability to create products that not only meet, but exceed, consumers’ expectations.

**Management commitment.** Leveraging CCI to realize enhanced profitability often requires major commitment from the top levels of the organization. Deloitte’s work in this area has found that companies that employ a holistic approach to CCI – entrusting the company’s entire workforce with creating new levels of consumer influence on the innovation process – often benefit with improved financial performance. Commitment cannot be just at the highest levels; champions are often needed through the

organization so that all departments, including marketing, sales, finance, IT, and R&D, are working toward the same goal. Creating cross-functional teams that work together on CCI also has been shown to help the process. Since innovative thinking should be encouraged, companies may also find that flatter, less siloed organizations are more conducive to creativity.

For many of the CCI leaders, the “build it and they will buy” generic philosophy has been abandoned. These companies are not coming up with the product first and then figuring out who might want to buy it. Instead, the process is being reversed: organizations are first focusing on particular target consumers, homing in on unmet needs, and then developing innovations – often in concert with those consumers – that meet those needs. Management’s commitment in this regard is to spend R&D money wisely by focusing attention on how to more effectively create value for consumers and the organization.

**Expand your innovation funnel.** Companies are finding success by looking beyond their employees to find new sources of product innovation and to speed up R&D efforts. They are using a broader base of inputs now available to them. Many are employing open innovation processes that seek answers from a vast global talent pool eager to share knowledge. Various companies are co-creating with their own customers, thereby lowering associated risks while also building brand loyalty. These expanded pipelines often create win-win relationships for all involved.

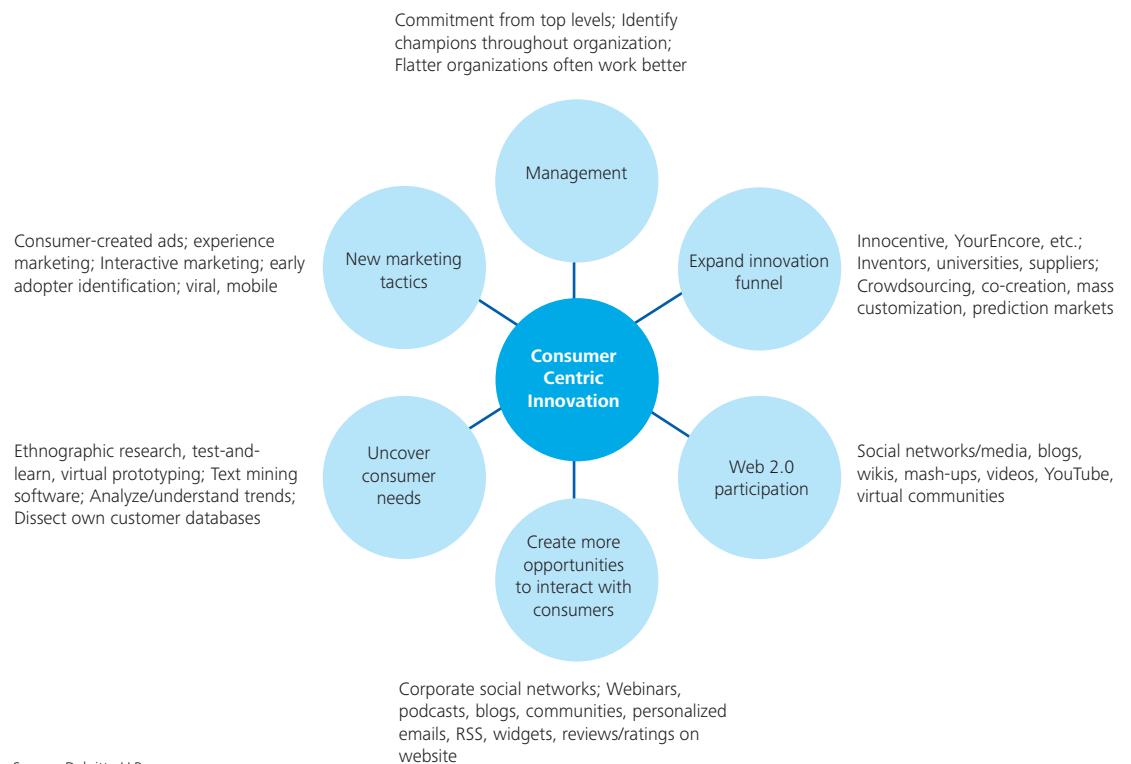
One example of this open innovation trend has been General Mills' 2007 launch of its Worldwide Innovation Network (G-Win). This strategy offers the company a way to accelerate innovation through a collaborative effort with various external communities. In an October 2008 article in the *Wall Street Journal*, Peter Erickson, senior vice president for innovation, technology and quality, said that 300% more ideas had come into General Mills since it launched G-Win.

**Increase your Web 2.0 participation.** CCI-oriented companies are realizing the benefits of better mining the Internet for information related to consumer preferences and product critiques. In particular, user-generated content (UGC) has provided a wealth of knowledge around consumers' interests. UGC includes videos, social networks, blogs, and wikis. It is an increasingly popular content generator in the online space. Low-cost ways of monitoring online commentary include setting up alerts or bookmarking particularly relevant sites. eMarketer in

early 2009 forecast that the number of individuals who consume user-generated content will grow from 60% of all Internet users in 2008 to 70% in 2013, rising to an absolute number of 155 million consumers. Web 2.0 participation also can involve stimulating or encouraging online discussions about your product.

**Create more opportunities for your consumers to interact with you.** Companies are making it easier for consumers to interact with them via PCs or mobile devices. Most frequently, companies are opening up their Websites to enable more two-way interaction. By creating areas on their Websites where consumers can write online reviews, sign up for personalized emails, participate in contests, or read or contribute to blogs, companies are gaining vast amounts of knowledge. Distinct from monitoring externally-created UGC, companies that receive direct inputs from their customers on their own Websites often receive more precise information.

**Figure 3. Inputs into consumer centric innovation**



**Uncover consumer needs.** Technology has greatly expanded the ability of companies to better understand consumer sentiments around brands and products. Some companies are using tools such as ethnography, consumer targeting, virtual prototyping, and in-market experimentation to better understand interest in new products. This kind of research often provides valuable feedback to companies and is integral to successful consumer centric innovation. Additionally, companies are learning to better analyze all the information buried in their consumer-related databases, including loyalty programs. Some are using text-mining software to get at the product comments contained in all the consumer-generated media available on the Internet. In addition, the ability to collect and analyze this vast amount of data, and to disseminate it across all departments, is important to the overall strategy of uncovering consumer needs – some of which may be latent.

### Big pharma seeks to reshape its R&D model

In recent years, the pharmaceutical industry has been experiencing difficult times. Declining R&D productivity and fierce price competition from generics have made it more difficult for companies to achieve profitable growth. Further, R&D spending as a percentage of sales currently is higher for the drug industry than it is for any other industry, according to Standard & Poor's. Pharmaceutical companies as a result are increasingly relying on outside networks to help them improve their R&D efforts. At The Economists' 15th Annual Pharmaceutical Conference in early 2009, Dr. Richard Barker, director general of the Association of the British Pharmaceutical Industry, noted that the industry had shifted its thinking on research and development from vertical integration, with occasional outsourcing, to an open innovation model. Risk-sharing relationships, as a result, were growing. GlaxoSmithKline, for example, has made an alliance with a company called Covance to help it source more innovation from outside. And Novartis' Diabetes Genetics Initiative (DGI) involved the company placing its data in the public domain on the Internet several years ago so that it could gain outside assistance on understanding the genetic basis of the disease. Through this effort, researchers eventually found three new genomic regions influencing type 2 diabetes risk.

Another key element of consumer-centric innovation is determining which of these comments or ideas companies should listen to and act on. The excessive amount of consumer-generated content available online can be daunting; companies need precise filters and good data analytics to make sense of what otherwise can only be viewed as noise.

**Employ new marketing tactics.** Consumer-centric innovation is creating numerous opportunities in marketing, particularly in engaging consumers to express their opinions on a company's products. Web-enabled mobile phones/devices are one segment helping companies to interact more with consumers: they provide marketers with "anywhere" access to consumers. Further, many technology-driven marketing strategies allow consumers to act as fans or true product evangelists. Because many of these new marketing tactics can improve the consumer's engagement with brands or products, companies often develop closer relationships with those individuals, thereby gaining even greater insights.

In the 2009 Super Bowl, the top rated ad was not from an ad agency but was created for Frito Lay's Doritos brand by two self-described "nobodies from nowhere" who had responded to the company's contest. The company received 1,900 entries from brand fans who were willing to work for nothing for the chance to have their ad seen by what turned out to be an audience of nearly 100 million Super Bowl viewers. In the end, because the ad was voted the most popular Super Bowl ad, the creators received a \$1 million prize from Frito Lay.

The older, more traditional marketing mediums should not be ignored. Technology, however, has greatly expanded the ways that companies can actively reach out to consumers, often in real-time, to better understand their needs and wants.

### Realizing CCI's power and potential

Businesses today operate in a new era of collaboration and participation. Inwardly facing companies that do not work in collaboration with consumers will likely struggle; they will likely continue to introduce mediocre products that fail to excite the public.

In contrast, companies that embrace consumer-centric innovation are often finding success. Due to the limitations of traditional innovation and the reality of today's empowered consumers, these companies are creating more flexible innovation models that generally have lower bring-to-market development costs. Building close relationships with brand advocates in particular can represent a cost-effective, targeted approach to CCI for many companies. By promoting customer interactions, gathering information from willing participants, and using that information to more quickly introduce solutions to the marketplace, companies can experience stronger sales and improved financial performance.

The ability to successfully innovate can also help companies avoid the "growth gap," the difference between market expectation and actual business results. And because these in-depth consumer insights often are opaque to others, the competition is less likely to anticipate a consumer centric innovator's moves. Over the longer term, intangibles such as strengthened brand equity and employee loyalty can also be improved through a CCI approach.

While implementing CCI can present risk, not embracing CCI can undermine innovation effectiveness, thereby leading to a deterioration in brand equity. Once a company has fallen behind on the innovation front, it can have a difficult time catching up. In a time when consumers are increasingly bypassing companies and creating their own products or solutions and sharing them with others, the power and potential of consumer-centric innovation is too important to ignore.

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“Thanks in no small part to extraordinary changes wrought by the Internet and related communication technologies, we have discovered that innovation and sizable profits can flow from adding openness to your business model.

“Open businesses are increasingly trading ideas with their competitors, customers, and other outsiders, showing a mutual receptivity to new ways of thinking and multiplying innovation and benefits for all participants with unprecedented speed. Companies that know how to encourage the bubbling up of ideas, internally or from an outside community of experts, advisors, or opinionated consumers, will expand their base of imaginative assets.”

– *Innovation Nation*. John Kao

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