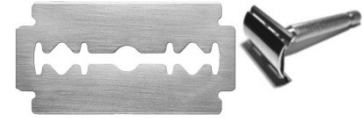


How 'Product Systems' Can Help Brands Grow

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Summary

Cambridge Design Partnership (CDP) believes that many fast moving consumer brands could create category growth by thinking differently about how their products deliver value to customers. One often overlooked approach is to launch 'Product Systems'; products which integrate consumables and durables to meet customer's needs better than ever before.

Evidence shows that leading brands use disruptive innovations to deliver growth. P&G aim for 30% of their innovations to be disruptive and 70% brand extensions (Lafley, 2008) in markets where years of incremental

development have led to a convergence of functionality and cost structure amongst established competitors.

CDP's innovation approach helps it's clients seek out the underlying changes in customer expectations, enabling technologies and supply chain economics that provide the opportunities to create unique and disruptive 'Product Systems'. Success depends on meeting customer needs in new and exciting ways thus attracting new customers, increasing the frequency of use and maximising basket spend.

The Innovation Imperative

A brand has been defined as a promise of an experience delivered through a product, based on a set of clear values. Pressure from share holders for increasing profits means that brand managers are tasked to create year on year revenue growth. Building a new brand to achieve this is an expensive exercise and evidence suggests 80% of new brands fail (Lafley, 2008), so for many companies the emphasis is on creating profit growth within existing categories.

Profitability can be increased through programs of continuous cost reduction that addresses raw materials, processes and the supply chain. However these can only deliver so much to the bottom line before quality and utility have to suffer.

Growing an established brand requires an intimate understanding of it's customers. This insight is exploited to communicate and deliver the brand's unique product style through a constantly evolving product range.

Threats to growth include retailer consolidation and media fragmentation. Increasing control of retail channels creates downward pressure on margins and increasing competition by 'own brands' at lower and lower prices. Media fragmentation makes generating growth through



The Dulux brand stands for quality, utility and beauty. However customers reluctantly accept the time it takes to paint a room and the mess of cleaning up afterwards. So Dulux asked CDP to help create a system that made painting 'Easy, fast and clean from start to finish'. Working together, CDP's engineers and Dulux's development chemists created a new Product System combining a special paint with an innovative delivery unit. Named PaintPod, it draws in new customers by making painting easier while encouraging existing users to paint more often. (Dulux PaintPod)

advertising an increasingly less cost effective option. 20 years ago companies could reach 80% of US households through just 3 TV networks, today 100 media channels are needed (Lafley, 2008).

Growth Strategies

Over 80 per cent of marketing directors surveyed said that brand extension would be their main growth strategy in the next two to three years. (Taylor, 2004)

Brand stretch was a key driver of Dove's explosive growth during the 1990s. Coupled with geographic expansion, it helped grow sales fivefold, to almost \$1 billion. The brand continued to grow at 20 per cent per year. Often retailers will be persuaded to give shelf space to new products on the strength of the brand alone and evidence shows consumers will try new products from respected brands, but they quickly disappear if they fail to deliver real value to consumers. (Taylor, 2004). Even companies with world class innovation programs such as P&G only expect 50% of extensions to succeed (Lafley, 2008).

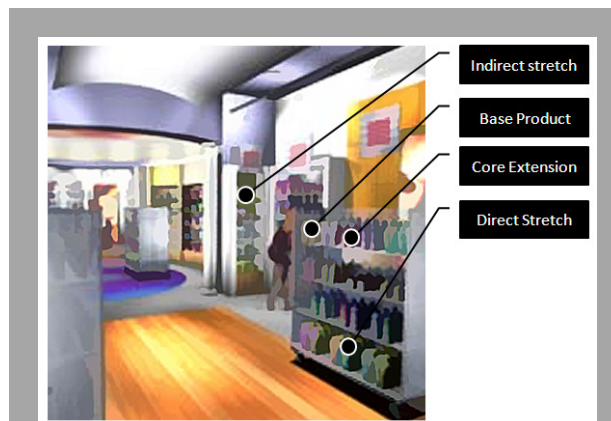
Opportunities for Disruptive Innovation

Disruptive innovation aims to deliver a brand's values in truly new and useful ways. Exciting new products can define a brand's direction and vitality as well as creating real growth, and they send a clear message to consumers which brand to believe in.

Opportunities for innovation often arise out of slow changes in established markets and technologies. The most perceptive managers realise that these can go unnoticed until new competitors suddenly pop up, revolutionise customer expectations and change the competitive landscape for good.

There are salutary examples of global companies who underestimated the potential opportunities of apparently slow changes until it was too late. Who would have predicted ten years ago that Sony's triumphant global Walkman portable music brand (\$3.27bn sales since 1979 (Shimbun, 2007)), itself brilliantly built on a radical product innovation would go on to lose 73% of the US market for portable music players (2007 market research data, NPD Group) to a new entrant starting with no experience in their sector! (Apple)

CDP believes that one such disruptive trend is the decreasing perceived value and actual manufacturing cost



Types of Brand Stretch:

Core extension: Products within the same family which would be adjacent on the shelf and used on the same occasion, where the core product's unique benefits are directly applicable.

Direct stretch: Products in related families which would be on the same aisle and used on the same or similar occasions. Increasing product development is needed to ensure these products deliver the same brand values of the core.

Indirect Stretch: Product from different aisles where key product attributes are shared with the core product but used on completely different occasions.

360 degree stretch & licensing: Products from different shops completely – where only the brand personality is the link. (Taylor, 2004)

of consumer electronics relative to that of other FMCG categories. For example in the US the relative price of consumer electronics has dropped by 92% over the last 50 years (US Consumer Price Index Data, 2008) relative to that of typical fast moving goods (personal care products in this example).

This is the result of three underlying trends coming together. Moores law describes how microelectronics doubles in complexity every 18 months, fuelling increasing functionality and reducing manufacturing costs for legacy technologies. The accelerating manufacturing capability and efficiency within the tiger economies together with the sheer scale created by globalisation produces increasing value for money at the commodity end of the durable sector.

In contrast FMCG brands have constantly developed the perceived value of their products to expand their categories to maximise profitability. The result has been a gradual convergence in customer's minds. For example teenagers can buy an MP3 player (*marketing message: with real time MP3 bit stream compliant perceptual decoding*) for less than the cost of a market leading skin care moisturiser (*marketing message: with amino-peptide complex and intracellular fortifier*). The result is they can no longer judge value and take technology for granted.

10 years ago the sound quality available from a low cost MP3 player was only available from specialist audio brands costing 10 times as much. This has put immense pressure on durable brands to constantly innovate to maintain the value of their products (*not just an MP3 player, but now an MP3 plus video plus web browser*), leaving behind a sort of 'techno-durable no mans land' where consumers perception of value has been eroded as the state-of-the-art has moved on. Retailers with effective global sourcing networks are quickly exploiting these opportunities introducing 'value' durable ranges with great success. In 2007 Tesco's non food sales grew to 25% of turnover, with significant growth in the consumer electronics sector (BBC News, 2007).

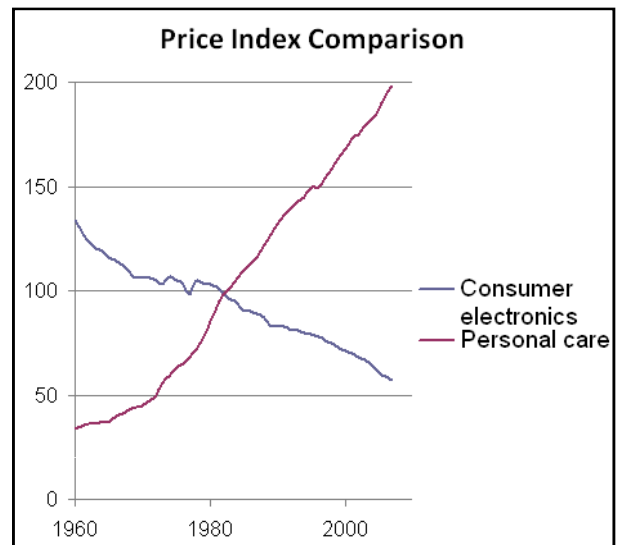
CDP believes there are exciting opportunities for FMCG brands to exploit this space to revolutionise their product performance. By its nature, innovation creates both opportunities and threats. While the innovation process may seem risky at first; doing nothing could be ultimately the most expensive option.

Product Systems

"Brands are rejuvenated by new products that match new needs, not by advertising" (Kapferer, 2004)

Successful Product Systems combine a consumable with a powered durable to create outstanding product performance. When they meet customer needs and express key brand values then they can create real category growth.

An excellent example of a Product System was implemented by the Cuprinol wood care brand (Cuprinol). They understood that a significant barrier to purchase was the prospect of a day spent painting fences on hands and knees getting scratched by the roses! The paint industry traditionally focused on conventional advertising and promotion supported by the development of new product



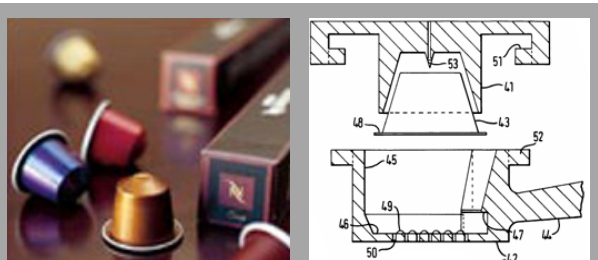
benefits to create growth. Cuprinol's brand values promised performance and quality so perhaps this could include the application process as well.

When an innovation process identified the opportunity to create a sprayable product then offering a customized spray applicator was the logical next step. The launch was spectacularly successful and 'sprayable' became a must have feature in the category. Success came from understanding that easy, quick application was an important and unmet customer need and one that customers instantly empathise with at the point of purchase.

Sprayable was easy to promote and drew in new customers, it resulted in more painting events and created a higher basket spend.

While Product Systems must all deliver a revolution in product performance, their implementation strategies vary tremendously. Important variables include the ratio of durable price to consumable price, whether they are optional or essential to the function of the consumable, the margin on the durable relative to that of the consumable and market structure.

Examples of contrasting strategies occur when the durable cost is similar to that of the consumable and when it is much more expensive. In the case of disposable cameras consumable and durable costs converged and both products integrated into a successful new brand extension. In the case where the durable costs in the order of 100 times that of the consumable then durable and consumables can be sold through completely



Nespresso coffee capsules (Nespresso) with a drawing from patent EP891734 below. It shows the foil capsule 43 locating in the brewer 51 & 44. The blade 53 pierces the capsule and allows steam to be injected into the capsule, whose foil closure 48 then bursts against the serrations 49 allowing the perfectly brewed coffee to escape.

different channels (example Dolce Gusto coffee system). In an extreme case the durable is not sold at all and is simply used to demonstrate and highlight the benefits of the consumable at the point of sale (see Olay STAS box) reinforcing brand values and creating customer loyalty.

The coffee house revolution the 90s has generated several successful Product Systems as it transformed coffee into a luxury experience. Customers wanted cappuccino, latte, espresso and chocolate at home with the convenience they had become to expect from 'instant'.

The major food companies could easily create new instant style products, but they recognised that the opportunity would be significantly better served by Product Systems, where the brewer could provide the reason to believe the drink was special.

Nestlé launched the Nespresso brand in 1986 (Nespresso) which grew to 727 million Euros in 2006 by providing high quality coffee in an easy to use packaging and brewer system supported by excellent web based marketing and customer service. At the heart of the system was the innovative new pack designed by Nestle scientists which initially allowed portioned coffee to be used in standard espresso brewers with only a small modification.

This eliminated the requirement to develop special machines. However as the brand achieved success partners developed custom designed brewers to increase convenience, style and choice. Currently Nespresso have agreements with 8 machine partners providing customers with a range of 135 different models with brewer sales reaching 1m p.a in 2005. (Berssenbrügge, 2006)

In 2006 Nestlé launched their Nescafe Dolce-Gusto system (Dolce Gusto) with a brewer manufactured by Krupps to fill the gap between instant coffee and Nespresso quality.

Competitors, such as Tassimo from Kraft Foods (Tassimo) have leveraged their Kenco brand and in house vending experience to develop their own Product Systems, selling their own brewers under a licensed white goods brand name to open up distribution channels and to add credibility in the consumers mind.

Potential Benefits of Product Systems:

Takes product performance to a new level, making competitors out of date.

Attracts new users to the brand from outside core customer groups.

Encourages increased usage of the consumable.

Increases average basket spend.

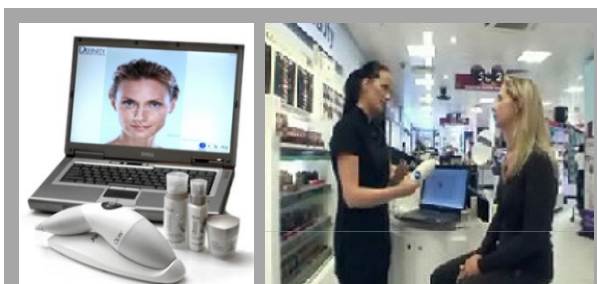
Redefines customer expectations in that sector.

Locks in customers through strong patented links between the consumable and durable.

Creates great PR.

Exploits the valuable in-depth understanding brands have of their customers in new ways.

A successful Product System must deliver performance above that provided by the consumable alone so the system becomes a core part of the brand experience. The durables sheer presence in the home becomes a strong reminder to the consumer to come back to the brand over and over again.



Procter and Gamble's Olay brand (Olay) recently introduced the Skin Tone Analysis System (STAS) in selected stores to enable trained Olay beauty consultants to analyse customers skin type and perform consultations to advise which product best met their needs. STAS is a development of technology originally created at CDP aimed at the clinical dermatology market. STAS is a powerful sales tool and provides customers with a graphic demonstration of the science behind the Olay range, increasing basket spend and encourages brand loyalty.



Product Systems linking durables with consumables are common in the medical sector, driven by the practical needs of sterility and quality as well as the marketing imperative. In the \$4bn market for blood glucose test kits for diabetics CDP helped Pelikan Technologies launch an innovative new system for drawing blood with minimum discomfort. Focusing on parents who have to test their children several times a day, the Sun 'finger friendly' lancing system comprises a hand held electronic device and a 50 test cartridge. Patents and regulatory requirements mean only Pelikan can supply this consumable and customers who value the benefits of the Product System for their children's wellbeing are happy come back time and time again. (Pelikan Technologies, 2008)

Potential Risks

A risk when introducing new Product Systems is that the durable steals sales from the consumable and frustrates category growth. The Dulux PaintPod (see inset above) Product System avoids this by locking customers in to repeat purchases of the consumable by exploiting patented intellectual property at the interface between the consumable and durable. The combination of novel paint formulation and innovative application system

delivers the benefits of speed and cleanliness and provides the customer with a step change in product performance that cannot be reproduced by competitor's consumables.

A second risk lies in the process itself of creating and supplying an innovative durable. The cost and risk of creating and manufacturing a durable can appear high compared with a typical FMCG development program; however when compared to the cost of a national TV advertising campaign (which according to a recent McKinsey study can fail to deliver in 85% of cases (Lafley, 2008)) it can be shown to be an effective investment. An important factor for success is recognising that the skills

needed to innovate in the durable space are distinct from those in the FMCG one, and getting the right project team is a vital starting point.

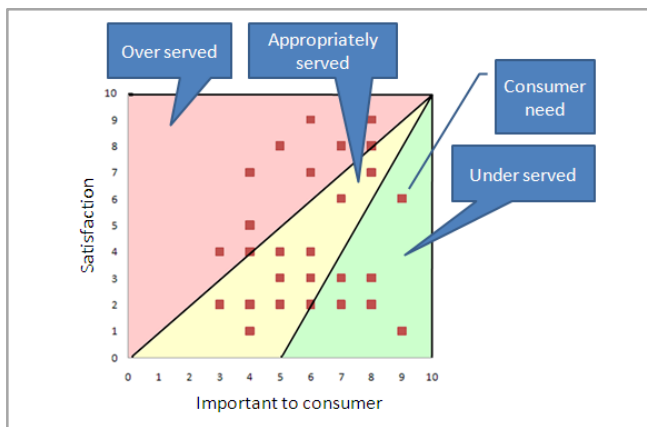
Typically FMCG manufactures are super expert in their product technologies and manufacturing processes having refined them over many years, but durable development often demands different management techniques, working with new enabling technologies and new off shore supply chains. The obvious solution is to partner with a durable manufacturer. This can be effective when the System is well established and the partners clearly understand the commercial opportunity (example Nespresso), but it can add unnecessary risk if the goals of both parties are not fully aligned. In this case independent technology developers and manufacturers can be recruited to complete the team.

Timescales for durable development programs will often be longer than the annual budgeting cycles typical in FMCG companies and new processes may be needed to manage and control projects over two or more years. Targets for managers that focus on short term performance must be adapted to reward a longer term view.

Implementation Strategies

The product manager's role is to use customer knowledge and insight to identify unmet opportunities and to create a clear vision for the Product System. An effective tool used by CDP to uncover these opportunities is to identify and plot customer needs against the degree to which they are satisfied by existing products, together with their importance to the customer (Ulwick, 2008). The aim is to identify needs which are important to customers and are poorly served by existing products (green sector on diagram). Satisfying needs that are already well served (red sector) makes it hard to add significant value and often leads to products with more and more features of marginal interest in an attempt to create differentiation.

In the on-trade beverage sector there is a trend towards 'super chilled'. Customers really value chilled drinks but bottled beverages soon warm up reducing customer satisfaction. CDP's engineers recognised this unmet need and saw an opportunity to freeze some of the beverage rapidly inside the bottle at the point of serve to keep the drink cold from start to finish. This innovation also provided an opportunity to bring the brand to the front of the bar with a freezing device that looks just like a conventional beer font, opening up bottled brands to benefit from the 'super chilled' experience.



The innovation process requires a project team comprising marketers and consumable and durable specialists to create and evaluate new ideas that challenge the accepted wisdom. Effective management of development risk and project cost means moving quickly to create models and prototypes that test concepts with consumers to learn how they will purchase and use the product and what factors will drive repeat purchases. Unfortunately failures are an inevitable part of this process but often provide the most valuable insights accelerating progress in the long term.

The aim should be to succeed, or fail fast & cheap! Indeed the most successful innovators like P&G see project failures as a key part of the process of learning about their customers, and their view is that eliminating failures would result in a conservative approach that could stifle the next big idea. (Lafley, 2008)

Even if a project does not work out, failure is relative and provided the economics are closely managed and the implementation is of an obviously high quality then failure can just show the brand to be bold and full of ideas.



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In conclusion this paper has described Product Systems and presented some successful examples of how they can take FMCG product performance to new levels. This is achieved by identifying unmet customer needs and by thinking differently about how they can be fore filled. The best systems are smart, interesting and fun, developing the dialogue between the brand and consumer. Successful Product Systems attract new customers, increase product usage and maximise basket spend to create category growth.

About Cambridge Design Partnership

CDP are passionate about new products! The company is a successful, independent research and development consultancy focused on creating value for clients by converting ideas and technology into commercial success.

Our clients come from consumer, medical and industrial sectors and they have one thing in common: they see investment in innovation as fundamental to growth and competitive advantage. Working as an integrated team, the company operates ahead of market change with a dynamic, flexible approach that leads to enduring client relationships, anchored by high quality work and excellent customer service. Our staff of over 35 engineers, scientists and designers has grown rapidly to establish a world leading reputation for technical excellence, astute project management and, above all, thinking differently.

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