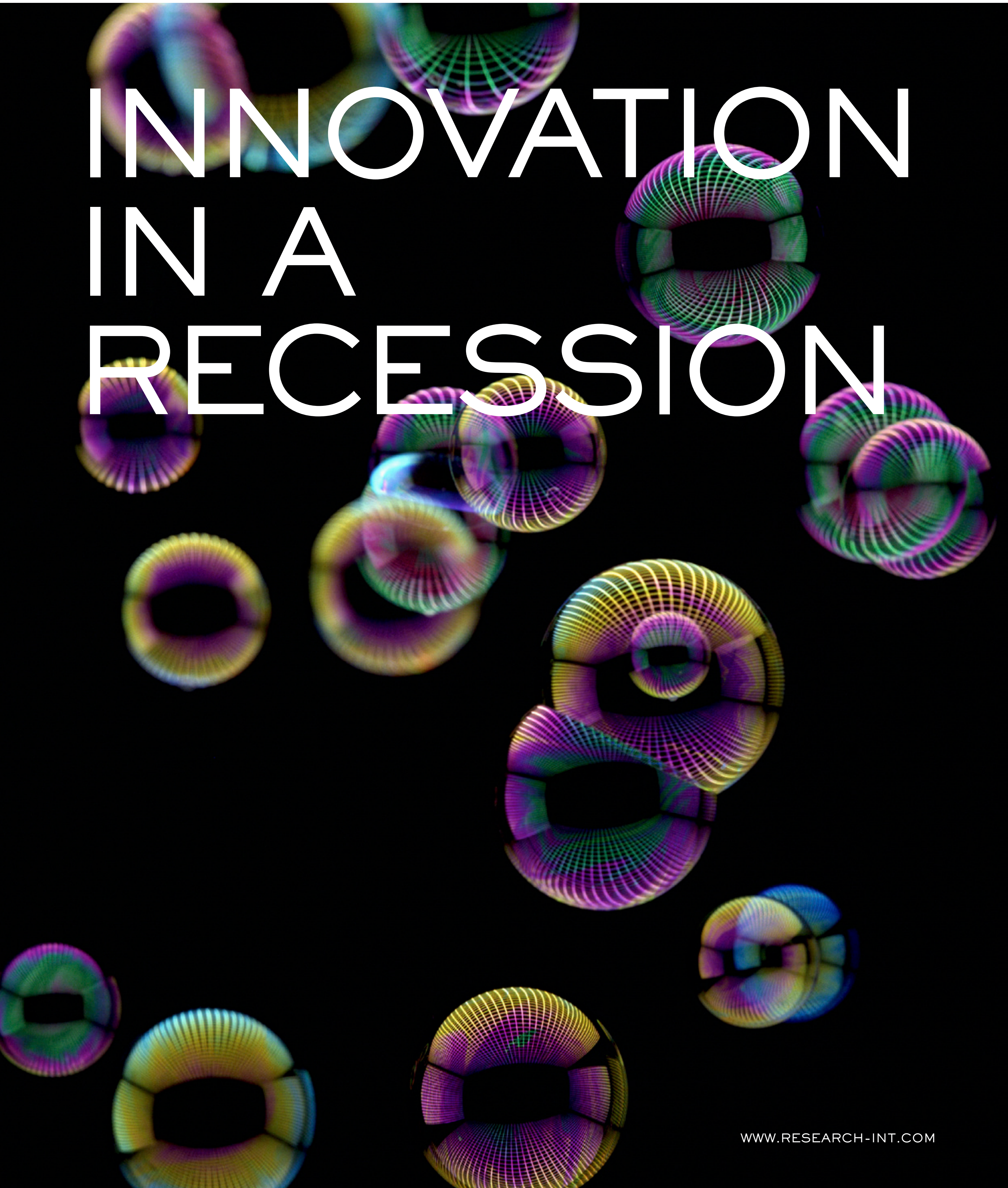
RESEARCH INTERNATIONAL

INNOVATION IN A RECESSION



WWW.RESEARCH-INT.COM

HOW TO DRIVE SUCCESSFUL INNOVATION IN A RECESSION

Do you feel that everyone is telling you that you need to innovate in a recession but no one is telling you how you need to innovate?

If you are feeling that way, it is not surprising….

Since the world economy started to slide into recession, there have been a huge number of articles reminding marketers that companies that continue to invest in innovation during a recession find themselves well placed to benefit from the economic upturn when it happens. However, in recessionary times there are also huge pressures on marketing and R&D budgets and pressure from retailers to cut prices. So a key question facing many marketers is how to innovate successfully in a recession.

Research International have analysed their huge database of over 40,000 innovations to identify key success criteria for driving successful innovation in a recession. Of all the measures that we know drive success in innovation, we have found that the need for your innovation to be both relevant and exciting becomes even more important during recession.

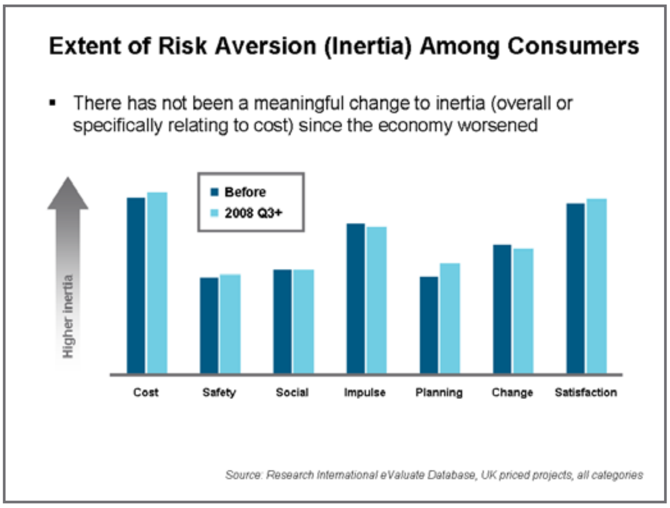
Successful innovation is all about hitting the sweet spot where well understood needs collide with a relevantly designed product or service. In a recession understanding needs becomes even more important than usual; this is not a time for whimsy, it is imperative that the start point for your innovation is consumer needs and understanding how they are changing. If you can then design a product to meet those needs you will generate the excitement that will both cause consumers to overcome their own barriers to purchase and also to recommend the product to others.

Dispelling some myths

There is a school of thought that consumers are not open to innovation during a recession. The argument contends that consumers retreat into their shells, wanting the reassurance and comfort only of the products and brands they know and shun the risk associated with buying a new product.

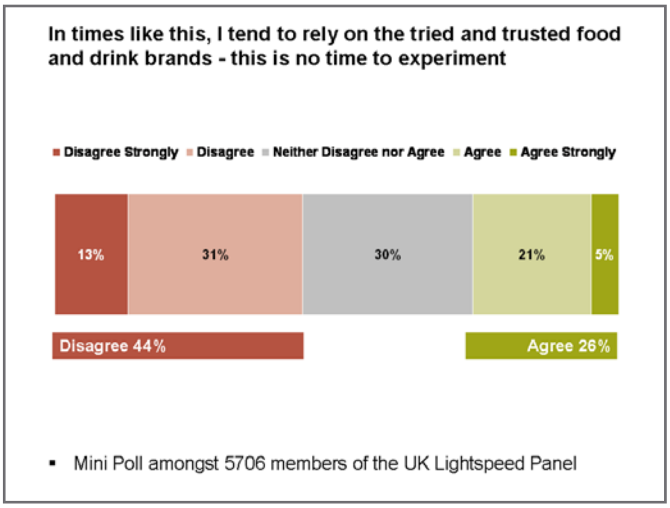
Research International's database and other data we have collected shows that this is not the case. Firstly, there is no evidence that consumers become more risk averse during recession. Research International include a range of measures in our innovation projects that are designed to show the degree to which consumers are risk averse vs. experimental in their attitude to innovation. Figure 1 (see next page) shows that scores have not changed since the UK economy started to worsen from Q3 2008.

Figure 1



Further, when they are asked outright, consumers are much more likely to disagree than agree that this is no time to experiment, as figure 2 shows.

Figure 2



Secondly, it seems that consumers are still generally positive to innovation during a recession. Figure 3a shows that absolute value for money and purchase intention scores are unchanged since the recession began. Looking back to the last recession of 1991-1992, there was only a small decrease in scores for value for money and purchase intention (see figure 3b)

Another myth is that value for money is the be all and end all during a recession. This is a myth because value for money is always important in driving success. We have found that although value for money is always an important driver of trial, its importance is unchanged since Q3 2008 (see figure 4).

Figure 3a

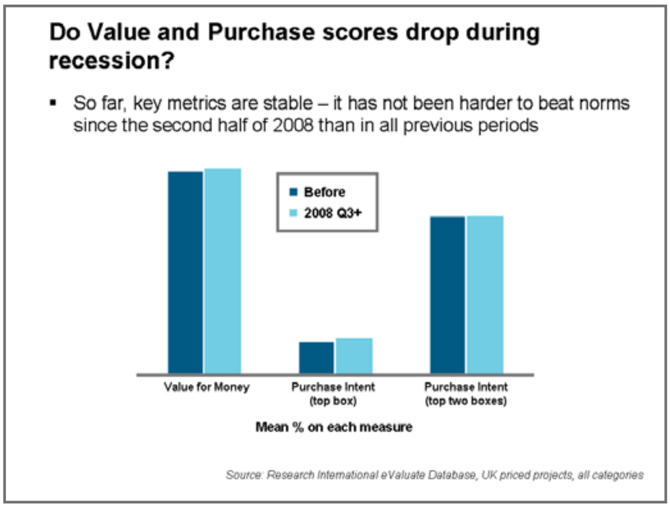


Figure 3b

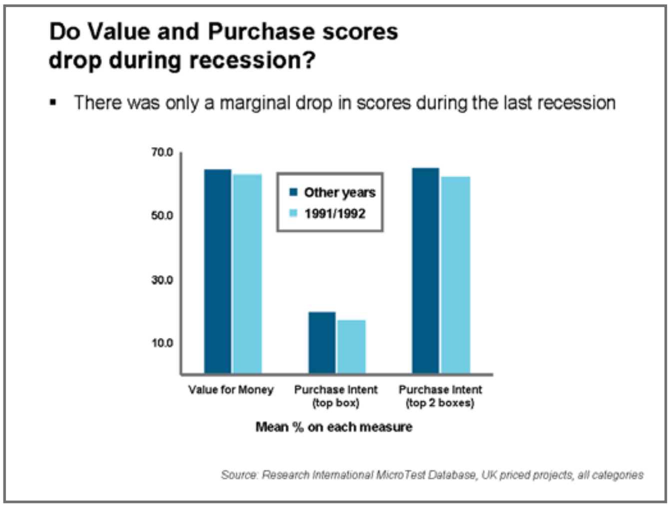
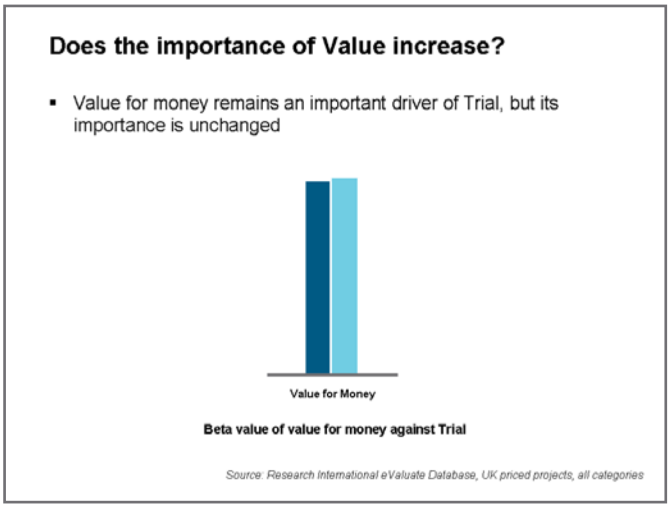


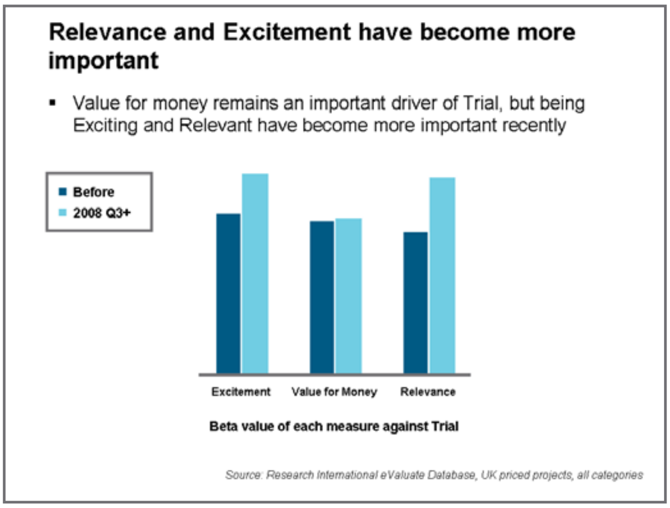
Figure 4



How to innovate successfully in a recession

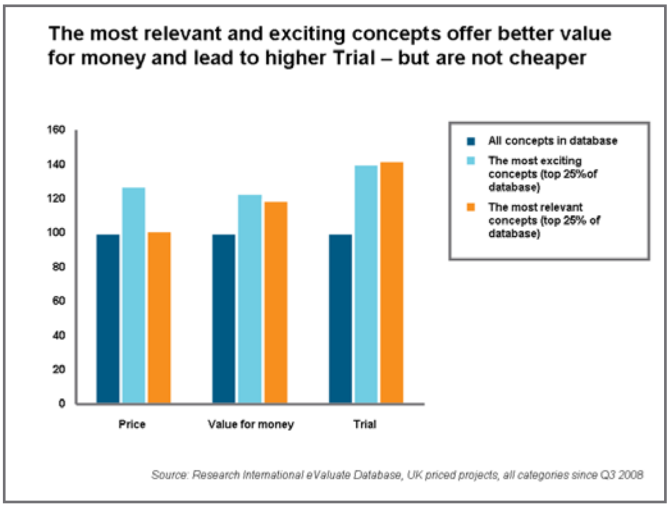
So whilst value for money always was important in driving Trial for new products, its importance has not increased since Q3 2008. However, we have seen the importance of Relevance and Excitement increase significantly in terms of driving Trial (see figure 5).

Figure 5



However, Relevance and Excitement are not related to price. In fact as figure 6 shows, the most relevant and the most exciting ideas are actually priced slightly higher than the average of all concepts yet they offer better value for money as well as leading to much higher Trial.

Figure 6



So why is there a need for more relevant and exciting innovation during a recession?

In recessionary times it is inevitable that customer needs will evolve. Or at the very least people will believe they are evolving and their priorities will change – they start thinking about decisions which had previously been habitual. We see this across the whole range of consumer purchasing, for example:

- spending less on eating out, or at least trading down to fast food rather than restaurants
- cooking from scratch rather than buying a ready meal
- considering whether an own label product will be just as good as the brand they usually buy
- having a box of chocolates in front of the TV rather than going out for a meal
- cancelling or postponing purchase of high ticket items such as a new TV or car
- etc

The more people start to think about their needs and how they are changing, the more acutely they will start looking for innovation that is relevant to those needs. Consequently the more we understand customer needs and how they are evolving, the better our chances of successful innovation.

In terms of excitement, it is important to note that it is used here in a relative sense – i.e. more exciting than competitors in the relevant field. So while it may be obvious to see how Apple can generate excitement with potential innovations you need to take a more subtle view to see how an innovative insurance product or detergent can generate excitement amongst its target because it fulfils a real need in a new and meaningful way.

It is also interesting to consider whether excitement becomes even more motivating in a 'down' environment. Set against the context of a whole host of worries about our financial security and future, maybe that new innovation that brings something different to my life becomes more exciting than usual?

At quite a simple level of meaning, excitement raises energy levels and drives people to action. It creates a change in the balance of a market that can provoke trial – more exciting than the competitive offer means more chance of fulfilling my needs in a better way. It can cause that reassessment that is needed for the adoption of anything new. So in a recessionary environment where needs are evolving and innovation must be relevant to those needs, an exciting innovation will provide a solution to those needs.

Innovation is no different from any other marketing; it depends on the profitable anticipation of customer demand. The more we understand customer needs and how they are evolving the better our chances of successful innovation. Especially in a recession, successful innovation happens with the collision of well understood needs and a relevantly designed product or service. This generates excitement.

Excitement provides the emotional push that gets innovations accepted. It can be very powerful in overcoming the rational objections that the new always evokes ("it's too expensive", "I don't know anyone who uses this", "Will it work?"). And remember we are talking about relative excitement – a new attachment for a power tool that does something new that you really need is just as exciting in its context as the new BMW is in its context.

So excitement is correlated with customers wanting to try an innovation and with them believing that it is different from other offerings. It has another advantage in that excitement is also correlated with people wanting to talk about an innovation – they are proud of their discovery and want to pass it on. This is very good news for the long term chances of success for the innovation – there is nothing better than personal recommendation. Those who have bought a new product are twice as likely to have first heard about it from someone they trust than people who are aware of it but have not purchased. Personal recommendation can assume even more importance when spending money is tight.

The importance of relevance and excitement set against a background of declining budgets suggests a need for a reappraisal of how innovation is approached. The conventional process is often described as an innovation funnel where we must have a lot of ideas and gradually whittle them down because we know many of them will fail. This feels like planning for failure - in fact the innovation failure rate remains high despite the funnel approach being in use for many years. Focus must be even more important in tight financial times; there is simply no spare money to waste on generating large numbers of ideas which have limited chance of coming to market.

Research International would argue that it is much better investing time and money in making sure that we really understand our customer needs (and to keep on top of how they are changing) than in coming up with a large number of product ideas to fill a funnel. Companies can then socialise these small number of needs with R&D colleagues and let them concentrate on coming up with a much smaller set of better solutions. More economical, more efficient and more likely to lead to success.

Innovation is the lifeblood of a strong brand. It can be a disproportionate competitive advantage in difficult economic times. Successful innovators would already know the importance of relevance and excitement but our findings show that now more than ever there is a need for focus and to accentuate good practice in innovation.