The Considerations for Launching an Innovation

By David Midgley , INSEAD Professor of Marketing

Contrary to popular belief, innovations don’t sell themselves. Successful adoption depends on how brands position themselves and how much they listen to their customers.

Innovation matters to the long-term success of firms, and marketing plays a key role in developing and launching innovations. While I have no doubt that managers and executives think carefully about the circumstances in which they propose to launch an innovation, recent marketing research brings to light an extended list of critical factors to consider in formulating long-term strategies, as well as specific tools to reduce the uncertainty inherent in such decisions.

Marketing practitioners may be especially interested in several studies (covered at greater length in my comprehensive article “**Strategic Marketing for the C-Suite**”) offering new concepts and metrics for concretising the nuanced relationship between success in innovation and consumer demand. Contrary to the conventional wisdom, which typically focuses on one “winning” strategy, the research suggests that a company’s ability to innovate successfully depends on its specific consumer mandate.

Moreover, when it comes to marketing buzz, volume does not always equal value.

The “innovator’s license”

Companies without a history of innovation may be in a hurry to reinvent themselves in order to keep pace with agile start-ups. A 2013 study in ***Journal of Marketing*** implies they should proceed with caution, as consumers appear to consider brand positioning before accepting a new product as a genuine innovation. Brands such as Apple that enjoy a high degree of innovation credibility with consumers are, in effect, granted exemption from the prevailing norms of their product category — a phenomenon the authors name “the innovator’s license”. Brands that have not yet earned innovation cred are penalised by consumers when they stray from said norms.

The authors found that only brands viewed as innovative were rewarded by consumers for pushing marketing boundaries; non-innovative brands alienated consumers when they did so. Interestingly, the authors observed that the “license to innovate” applied not only to marketing strategies but to pricing strategies as well. The authors conclude that consumer permission is a prerequisite for transitioning from a non-innovative company to one that reaps the full benefits of innovation. Consumers may relax their expectations of firms that have a solid reputation as an innovator.

The trajectory of “buzz”

Researchers have also shown that significant pre-release buzz doesn’t necessarily guarantee successful product adoption.

According to a 2014 paper in ***Marketing Science***, marketing managers should track not only the total amount of pre-release buzz but also how buzz fluctuates in the run-up to product launch. Using buzz data for 681 new video games, the authors concluded that buzz that starts high relative to competing products but dwindles as the release date approaches is likely to presage disappointing sales. They assert that even an incomplete dataset on pre-release buzz trajectory provides more accurate sales forecasts than pre-release advertising budgets, product characteristics, or the total volume of accumulated buzz. Moreover, they cite evidence that pre-release buzz is quickly taken on board by financial analysts and investors, and thus affects stock prices prior to launch.

Targeting "revenue leaders" instead of influencers

Innovators are often told that the best way to spur widespread adoption of a new product is to get influencers buzzing about it. Marketers commonly target opinion leaders early in a product's life cycle, soliciting their feedback and gifting free samples in what industry professionals call "seeding programmes". But a 2013 article in ***Journal of Marketing*** suggests that these campaigns are often misdirected because they focus too much on maximizing the quantity of customers affected as opposed to their value. In other words, marketers would often be better off trying to reach the higher-spending consumers rather than the most influential. The reasoning? People's social networks tend to consist of others like themselves, so setting selected "revenue leaders" abuzz should stimulate interest among their peers with similar purchasing patterns.

The authors found that across all seed sizes larger than one percent of the total target market, revenue leaders were more valuable than opinion leaders. That's because as the target group becomes larger, there will be more overlap between influencers' social networks and therefore less value to be derived per consumer. Also, expensive efforts to target influencers risk redundancy, since opinion leaders are more likely to become early adopters anyway, due to their high degree of social connectivity which keeps them in the know about new products and technologies. So it may be prudent, especially when the seed size is larger, to target revenue leaders instead.

Whose sales are you stealing?

Supposedly, disruptive innovation enables companies to introduce new products without siphoning demand from existing product lines. However, a 2010 article in ***Marketing Science*** contends that innovation actually increases potential avenues for cannibalisation, as products with innovative attributes often attract demand from multiple categories. For example, Procter & Gamble's Febreze eliminates odor and works directly on fabric, so it theoretically could compete with both P&G's air fresheners and its laundry detergents.

The authors developed a model designed to quantify the different categories of demand for newly launched products — from within and between-category cannibalisation, to brand-switching (i.e., demand swiped from other companies) and newly created demand. Their test case was the introduction of the Lexus RX300—the first crossover sport utility vehicle—which had the potential to poach sales from “both the luxury SUV and luxury sedan categories”. Using six years of sales and marketing mix figures for Lexus and competing brands, the authors found that RX300 sales due to cannibalization were far outweighed by those resulting from brand-switching and newly generated demand. Therefore, Lexus United States CEO Jim Press’s early assessment of the RX300 as a “huge hit” appears to be accurate.

The cannibalisation-calculating model could also be used to help competitors formulate a responsive strategy to new innovations, complete with exact amounts for both price reductions and increases in advertising spend.

Conclusion

Happily for marketing professionals, research literature bears out the supposition that the success of a radical innovation—both in the market and the stock market—depends at least in part on the level of marketing support it is given. But support needs to be coupled with an understanding of likely competitor response and of the firm’s competitive advantages and disadvantages. Over time, proven innovators may be granted a “license” to push the boundaries of the categories in which they operate. Brand positioning, brand equity and firm reputation are thus key elements of a firm’s innovation success.

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