

Idea management as a key to success

Ideas are the driving force behind profitable growth. It is easier for large-scale enterprises to come up with new ideas independently or by purchasing them, but medium-sized companies consider this as a challenge. A recent study points out where turnover and innovation potentials are most likely to be found. Revealing the origin of burning ideas resides not only with professional "inventors". The German beverage industry provides a test case for that.

Life offers more options if you're a multinational. The bigger the company, the more resources it can tap, not only financially but in its sheer access to innovation. Large-scale corporations can develop ideas in-house or buy them. Medium-sized companies, on the other hand, are more challenged. The strategies they use to adapt and flourish can be very different. A sprawling world-embracing company can afford to play with ideas and to value turnover over profitability, but its smaller brethren do not have such luxuries. Due to their relatively limited resources, company growth is only of interest if it is directly profitable, which means, among other things, that the company has to do its homework properly before launching. Sloppy fundamental

work is a recipe for trouble, but the German beverage industry demonstrates a vibrant example of value innovation that can enhance the chances of success as illustrated later in this article.

Generally, after an extensive phase of restructuring and reduction, resources become limited and the new economy's once inexhaustible sources of money have dried up.

Companies that belong to the classical medium-sized category must therefore achieve growth through their own means. They must possess the capacity to develop new, profitable products and establish these on the market.

The costs associated with product development and alternative distribution methods as well as modern marketing techniques and customer

management have been growing steadily, resulting in a perceptible differentiation in the market and new competitive advantages.

In a recent study Dr. Michael Jünger looked at factors that influence company growth in over 100 medium-sized companies, with up to 500 employees in different market sectors in parts of Germany. Most of the companies chosen for the survey stated that their financial growth in the last fiscal year was mainly "organic", which means "internally generated". A minority relied on growth through the acquisition of other enterprises or businesses (Table 1).

Nearly half of all new products disappear from the market within a few years of their launch. In many cases, the companies haven't invested



By Frank Lauster and Dr. Michael Jünger

enough in evaluating true potential before launching. The three main reasons for failure are either the customer's inability to recognize the value of the new product, the product has no competitive edge against similar products made by rivals, or the cost structure renders the product unprofitable for its manufacturer in the long run.

In the past, "innovation" meant attaining a new technological dimension. Today, "innovation" is defined by new forms of providing satisfaction and value for customers.

Test case: the German beverage industry

This industry is characterized by medium-sized companies which have been introducing products based on new concepts. Thereby they involved

innovative leaps based on current trends such as convenience, lifestyle, fitness and wellness.

For example, canned RICH Prosecco has almost reached cult status in recent months. It has been attracting more and more fans from all walks of life. It isn't a new drink, but its convenience combined with a shot of vitality appeals to the customer's needs.

Other examples of new concepts are innovative "ready-to-drink" offerings such as "Nescafé Express" and energy drinks, "flavored water", like the ones produced by Volvic using fruit extracts or "Active O2" in a variety of flavors.

Based on this study, medium-sized companies see their own customers and employees as central to the provision of impulses for innovations. It has

Table 1: Main reasons for growth in turnover during the last financial year

General improvement in the German economy	47%
Increase in sales to existing customer base	43%
Increase in turnover through acquisition of new customers in Germany	39%
Increase in turnover in foreign markets	31%
Increase in turnover through new, innovative products	31%
Increase in turnover through price increases	18%
Take-over of a company or substantial portions thereof	2%

Source of the tables:
"Dr. Michael Juenger, Internes Unternehmenswachstum, 2008"

to be noted that even though competition is listed last as the source of impetus for innovation (Table 2), the customer's market-induced ideas are partially based on comparisons with competitors' products. The low rating given to competition as a source of impetus is not surprising since market-based product development is often carried out by product management and is therefore

and development (R&D).

Innovation from legislative constraints

Let's not forget the legislator's effect on product development: almost a third of the companies name legislation as an innovation driver. Why is that? Look at the introduction of "Alcopops Tax" in 2004 which hiked the price of fashionable drinks. In late May 2005, the

and "AC Nielsen". This situation forced the producers to develop alternative products, such as flavored beers, to fill the gap.

1. Market attractiveness and market opportunity

How can innovation management be sustainably professionalized within a company? To this end, internal processes ensuring that resources are confined to product ideas with sufficient marketing and revenue opportunities must be established before starting product development. The effect of these processes is to filter product ideas at three levels.

The first level relates to market potential: Is there sufficient market potential? Does the product bring the customer real value or value that is perceived as new? How is the market environment developing and how intense is the competition?

To create an objective base for comparing several product ideas, these questions must be answered by using a standardized set of criteria. This first filtering level aims to name the products that pass the test of market attractiveness.

2. Fit for the strategy

The second filtering level subjects the product ideas to a fitness test: Do they fit in the company strategy?

The questions at this filtering level focus on strategic targets



attributed to the circle of the company's own employees. Only few medium-sized companies possess a department dedicated purely to research

magazine Spiegel reported a 60%-plus drop in retail sales of Alcopops, based on data from the market research institutes "Information Resources"

regarding geographic spread, target group segments, technologies, pricing and positioning and perception on the market as well as the determination of the brand name and the desired development of the product and market area portfolio.



At the end of this level remain only those product ideas that fit in the "strategic map" of the company and that have already demonstrated market potential.

3. Sustainable profitability

The third filter investigates sustainable profitability for the remaining product ideas. Only products expected to be profitable in the long term should be pursued. Central questions in this evaluation are: Can this product contribute towards the company's turnover targets? Can a positive return on investment be achieved within a reasonable time-frame? Are the risks and investment manageable and acceptable? Are the necessary resources available at reasonable conditions?

The answers to these questions must be subjected to sufficiently detailed evaluation before a decision is made on whether to filter out a product idea or to retain it. (Graphic 1) Rejected project ideas should not be discarded, but re-

tained in an "ideas bank" for future reevaluation (e.g. if basic parameters change).

The company has to define clear roles and responsibilities for product idea evaluation. An "innovation board" could represent the final decision-making body, including a defined set of participants, who fulfill different functions within the company. An evaluation process that is used on a regular basis helps to ensure that only profitable products with sufficient market attractiveness, market opportunity and new value arguments are developed and released. Growth targets are supported and enterprise resource use is optimized.

The risk of a product flopping on the market can be reduced through systematic evaluation during product development. The evaluation process must become a central instrument for product and company management.

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Table 2: Sources of impulses for innovations

Customers	78%
Employees	73%
Management	50%
Academic institutions	37%
Legislators	28%
External consultants and agencies	10%
Investors	4%
In-house research and development (R&D)	3%
Competitors	2%

Graphic 1

