

## **How innovative are you really?**

### **When “back to the stone-age” may not be too bad after all**

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One of the most stable trends in recent years has been the increasing product homogeneity in many markets. Products that were once clearly profiled specialties are becoming more and more commodity-like in the view of the customers. Two key reasons are responsible: First, the Internet is providing market transparency not known by customers only three to five years ago. E-Commerce puts a grand number of sources at the customers' fingertips. Second, product improvements are becoming more and more exhausted. Innovations are rarely breakthroughs so that better and better mousetraps are built. Hence, customers do not see additional value being created and consequently become more and more prone to switching suppliers based on price alone.

Recently, we had the opportunity to study product innovations for a client in the construction material industry in Germany. This market has been suffering for several years now: Per year, more than 8,000 building companies have vanished, the market for residential buildings is assumed to shrink by about 30% until 2005 and non-residential buildings are going to lose up to 20%. The supplying industries are directly affected by these developments. Competition has increasingly become a zero-sum game: In such a rapidly shrinking market, a company can only hold its position at the cost of its competitors.

Our client produces stones. Stones to build houses. In all shapes – rectangular, i. e. In order to win in the zero-sum game, our client was seeking competitive advantages by several product innovations. Basically, these products are larger than traditional stones so that bigger wall portions can be processed at a time. It was our task to answer the following question: “Are

these products innovations customers would cherish and which would generate significant competitive advantages or are they just ‘better mousetraps’?”

The study started with an extensive analysis: What are the products exactly about? How do the technical specifications translate into possible customer benefits? A product review committee consisting of technical experts and lead customers was installed to screen alternative concepts. Workshops and expert interviews in the marketplace as well as lots of brainwork by all concerned resulted in clear profiles (field of application, competitive positioning, target group, investments, costs etc.) of four products to be marketed stand-alone and three product systems.

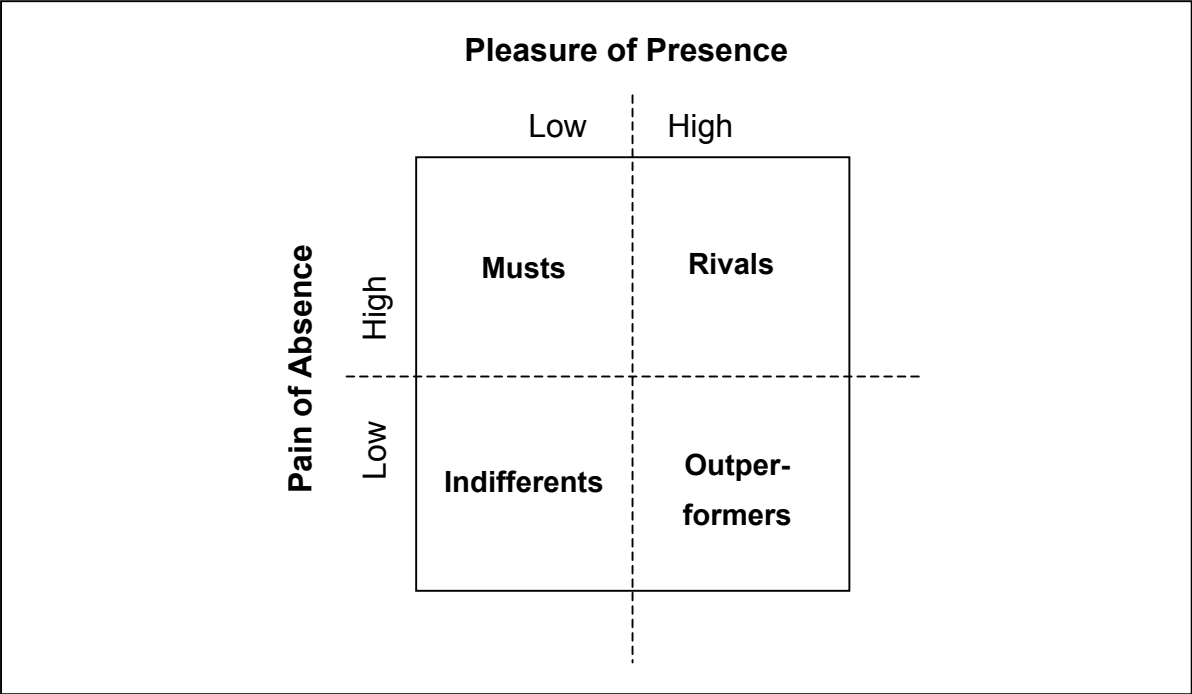
These concepts were subjected to further diligent and all-embracing scrutiny with a clear focus on an evaluation by possible customers. The methodical core was an approach we introduced in the fall 2002 issue of the *Industrial Marketing Practitioner* (pp. 12 ff.): Product Sharpening Analysis (PSA) as shown in Figure 1.

PSA is based on the insight that customers have four types of needs. ‘Musts’ are those needs that have to be fulfilled but which normally cannot generate a competitive advantage. Customers feel very annoyed should you fail along these qualities but do not feel increasingly satisfied if you increase your performance beyond a certain expected level. However, the performance/satisfaction-relation is symmetrical when it comes to the so-called ‘Rivals’. Good performance along these needs is rewarded by your customers as well as a lack of performance results in dissatisfaction. It is possible to generate competitive advantages using rival qualities to overtrump your competitors.

Excelling at the so-called ‘Outperformers’ delights your customers. They really appreciate your efforts here and do not resent should you decide not to pursue these needs vigorously. Finally, you should steer clear of ‘Indifferents’. Customers do not care if you fulfil these needs or not.

As a strategic guideline, you should be good enough in fulfilling the Musts but only good enough. Outperform your competitors selectively using Rivals. Be outstanding at selected Outperformers and be courageous in cutting Indifferents. This holds true if you aspire competitive advantages through (product) performance as our client does. Should you strive for a cost-leader position, stick to the Musts and be competitive concerning the Rivals but do not outplay your competition. Get rid of Outperformers as well as of Indifferents. This way,

you will save a significant portion of your costs and outdistance your competitors in that respect.



**Figure 1: Product Sharpening Analysis – analyze pleasure and pain to sharpen your product**

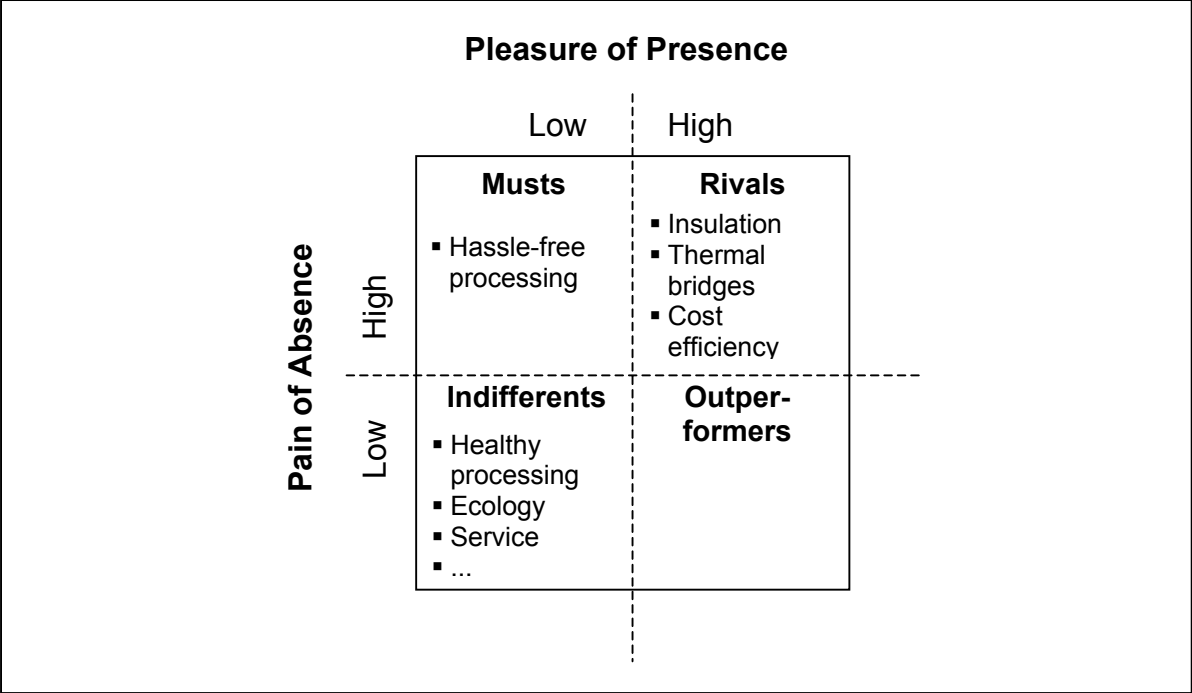
Subjecting our client’s innovations to PSA involved measuring customer opinion through elaborate market research. The results were as shown in Figure 2.<sup>1</sup>

What’s most striking is that many of the innovative characteristics are irrelevant for the customers! That was hard to stomach. Most internal voices expected just these to be firecrackers and even the lead users did not foresee these results (which by the way confirms many of our experiences in applying the lead user concept – employ it with caution!). Much less surprisingly, customers see hassle-free processing of the stones at the construction site as a Must. Excessive breakage, e. g. is unacceptable. However, a certain amount of breakage is considered unavoidable and products that are less vulnerable do not generate competitive advantages.

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<sup>1</sup> In order to protect our client, we only report excerpts of the study which are disguised.

We would have liked to see the Outperformers-section of the Product Sharpening Analysis packed with innovative characteristics. We were not lucky. None of the product characteristics were able to delight our client’s customers. However, there are some features that could differentiate our client from competition. Among these were insulation, thermal bridges and cost efficiency. Yet, only the latter was specific to the products. The thermal features were caused by the material’s physics and would apply to the regular stones as well.



**Figure 2: Results of the PSA – back to the stone-age isn’t too bad after all**

Simultaneously, we had conducted a decider analysis to find out who decides in the case of construction products. We found that architects and property developers had the main stakes in deciding the construction material to be used (in Germany there is competition on the material level mainly between bricks and gas beton). The building company could only decide which specific product and which brand to use when the material is a given.

Now, what did we have? We had some material features which could serve as Rivals. However, these were only relevant to building companies and not for architects or developers who would decide on the material: The right advantages for the wrong target groups! That left us with cost efficiency as the remaining lever for competitive advantage. Further analyses

showed that this would indeed be a pretty big stick but for several reasons which we cannot point out here, it had its limits, too.

In a nutshell, the innovations were not as innovative as our client had hoped. The strategic implications are enormous. Germany is a country that is used to building “brick by brick”. Non-residential premises may pose some exceptions but as a rule, this holds. The road to innovation seems to be a much more bumpy one than expected. What counts in the marketplace is cost efficiency and not philanthropical issues such as healthy processing or ecological matters. This points to a strategic shift: If innovations only lead to the proverbial better mousetrap, cost leadership may be a much more successful option.

Investments in the studied products were halted and some of the money was redirected to sales efforts focused on developers and architects. Winning them for the material would mean facilitating the sales of the regular stones in turn stimulating significant cost-saving effects in this scale-driven business.

We have seen similar patterns in a variety of industries. Products have become alike, innovations only scratch the surface. “Innovate or die” is not necessarily the motto anymore. You may innovate *and* die if your innovations don’t really hit the customer’s nerve. PSA helps finding out what hits and what doesn’t. For our client, it seems much better to accept that the “stone-age” isn’t over yet and master the strategic implications. Do you know in what age your business really is?