Consumer Goods TECHNOLOGY

BETWEEN THE LINES | STEVE ROSENSTOCK

THE INNOVATION REVOLUTION

PLM supports improved consumer value for CG manufacturers

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More than ever, consumer goods (CG) companies are focused on delivering new products to market. However, challenges abound as new products are being launched in an era of increased private-label brands and dwindling consumer loyalty. This month, *CGT* sat down with Daniel Staresinic, Global Practice Director, Consumer Products for **UGS**. Staresinic offers his perspective on this newfound focus on innovation and keys for CG companies to succeed in this competitive market.

What caused the new found focus on innovation for consumer goods companies?

We recently reviewed Lexis-Nexis for articles from 2003 through 2006 with multiple hits on the terms "innovation" and "NPD" (including close variants), where CG industry designations also appeared in the article. The annual growth rate in such articles is steady, and greater than 15 percent. Last year there were more than 300 such articles published. So what we might say is not necessarily that the focus on innovation is "new found," but that what we are seeing means that innovation is steadily becoming more of a focal point for many of our branded CG manufacturers.

As to why this is the case, we talk about two primary factors, one external (to the enterprise) and one internal.

The external factor is quite simply that the market has an undeniable appetite for innovative products. It is well documented that the first company to shelf with a novel product can run a 20 percent to 30 percent price premium until they meet a credible challenger. This means consumers are willing to financially reward the innovative product. But today's market is commoditizing products more quickly than ever, creating a stronger pull-through effect for unique and better-performing products. Manufacturers see this and want to react.

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The internal factor is perhaps controversial, at least in the IT arena. But consider this information: Most consumer products companies have been engaged in ERP roll out for the past five to 15 years. They have spent hundreds of millions of dollars and uncounted effort hours in this pursuit. Leaving aside whether each company is satisfied with the direct fruit of that effort, it requires only a moment to see what impact that has necessarily had on the innovation process. Most CG companies have not had the discretionary money or bandwidth to explore and implement tools to improve the innovation process. Today many CG companies — especially in North America — are coming out of the ERP cycle and realizing that the next screaming gap is innovation.

Is internal collaboration necessary between product development, supply chain, IT, marketing and sales?

Continuous collaboration is the defining attribute of the innovation process, and the greatest single factor that differentiates it from the transaction management processes, like finance, planning, execution, supply chain management, etc. The five functions you mentioned work together to deliver the innovation to the market. In fact, we say that they are working together to deliver increased consumer value in the global marketplace.

In order to deliver consumer value, a company must enable its creative intelligence (brand management, marketing, design capability) to unite with its technical intelligence (R&D, manufacturing, supply chain, quantitative knowledge) to deliver breakthroughs in product, package or positioning. Collaboration is the core process that drives this unity. A brand manager who reacts to a consumer insight by proposing a new product claim, and the R&D manager who must endeavor make that claim a reality, know that the process is not linear. Some claims have already been proven invalid; some have never actually been tested. Delivering the consumer value behind the insight will more than likely require a multi-month period of collaboration between these two managers and others in the extended organization. It may result in formalizing the original claim, or in some other, entirely unexpected, channel of value. In the end, the value delivered will be a strong function of how effectively each function has collaborated with the others towards a shared market objective.

It is a complex process and the process is broken today in many ways for many companies. This is not a secret. Manufacturers have found ways to work around these fracture zones: like multi-functional "speed teams," teambuilding exercises, etc. But these are not highly effective strategies because they essentially focus on optimizing the interactions among small groups of individuals. Yet there are literally hundreds of individuals who are impacted in a company by even something as "simple" as a graphics change. In other words, traditional efforts have not led to sufficiently scalable collaboration. That is the challenge that companies must address in order to take their innovation capability to the next level.

How does the increase in retail store brands affect this process?

Earlier, you asked about what has caused the innovation focus. We discussed the external environment's tendency to rapidly commoditize innovative products. Well, retailers play a huge role in the rapid commoditization cycle. Store brands are quite clearly better than they have ever been (when viewed in comparison to their branded competition). Often a private label brand is using a one generation older version of the current branded product on the shelf. Sadly, in lieu of "real" innovation, many CG manufacturers have taken an "incremental" approach to product improvement. That means that the one generation older product is perhaps imperceptibly inferior to the current "new and improved" version. Thus we have the close parity of private label to branded products in many categories today.

Consumer loyalty is earned, not granted. A product must deliver better value or it will not earn loyalty. A CG company can lower its price or improve is product to deliver that value. Lower price is out of the question as a strategy for CG manufacturers. So that leaves improving the product, which brings us back to the innovation process and to product lifecycle management (PLM) technology.

Why have CG manufacturers been slow to adopt PLM solutions into their business?

Earlier we discussed the ERP effect on innovation. That is, the inability of CG manufacturers to devote human and financial resources to the innovation process during the past five to 15 years. As a direct consequence, adoption of enterprise-class PLM platforms has been retarded. PLM is the platform for scalable collaboration management and holistic product/process data modeling. Just recall for a moment what it was like to have a totally disjointed ledger or an indefinite approach to DRP/MRP. That is the issue today in the horizontal process that is responsible for delivering brand value to the marketplace.

We prefer to talk about consumer value and PLM in the same breath. Delivering consumer value to the global market is the fundamental purpose of the CG company. It is what drives volume and share (and market cap). You mentioned collaboration earlier and we discussed the need for the creative and technical functions of the company to come together to deliver value. PLM is the platform for that.

Documented PLM benefits include improvements like speed to market (30 percent to 5 percent), reduced rework and waste (50 percent to 65 percent), improved R&D productivity (10 percent to 30 percent) and lower cost (5 percent to 15 percent). But the bottom line equity of PLM for a CG manufacturer is what it enables in terms of driving brand value by aligning the various functions in their efforts to continuously deliver more consumer value to the market. CG