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Point of View

CONSUMER GOODS SECTOR

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Code RED:
Relevance. Expensiveness. Differentiation.

The Best Measures for Choosing High Potential Consumer Goods Concepts

Sometimes it's good to see red.

At Ipsos Marketing, we use Relevance, Expensiveness and Differentiation, or, as we refer to them, the RED measures, across the entire new product development process – from concept development to full simulated test markets and post-launch performance evaluation. "RED" is the engine that drives our innovation research.

Leveraging these three measures throughout the concept evaluation process, as opposed to relying on Purchase Intent, results in better decisions about which concepts should be pursued.

How do we know?

Ipsos Marketing conducted extensive R&D that reveals that Relevance, Expensiveness and Differentiation avoid two pitfalls inherent to Purchase Intent. Specifically:

1. The RED measures are less sensitive than Purchase Intent to executional differences in concepts. Executional differences relate to elements in the concept not directly associated with the insight or benefits, such as package image and price.
2. Unlike Purchase Intent, the RED measures do not favor familiar concepts (in essence, line extensions) and do not overlook promising niche and breakthrough ideas – which often generate higher profits than line extensions.

The RED measures not only avoid these pitfalls, but also can be used as diagnostic tools to uncover what drives concept performance. Armed with this information, Marketers can take specific actions to improve concept performance. For example, a concept that performs high on Differentiation but low on Relevance can be reworked to better address consumer needs or can be evaluated among a different target audience. On the contrary, Purchase Intent is an outcome measure that provides only an end result – the answer to whether or not the consumer is interested in buying the product. As such, Purchase Intent cannot be used by Marketers to determine which drivers can be changed to improve concept performance.

What follows is empirical evidence, along with the business rationale, for why Marketers should leverage Relevance, Expensiveness and Differentiation as the key measures for making critical decisions about which concepts to pursue.

Defining RED: Relevance, Expensiveness and Differentiation

Before we present our evidence on why Relevance, Expensiveness and Differentiation avoid certain pitfalls of Purchase Intent, it is important to first define these measures and offer our perspective on them:

- Relevance is the extent to which a product meets consumer needs, both functional and emotional. Relevance is a good predictor of short and long-term success because it indicates whether the problem solved by a concept is important to consumers.
- Expensiveness is the extent to which a product is priced higher or lower than the competition. Unlike Value for the Money, which is the relationship between the quality of the product and its price, Expensiveness is a pure measure of price.[1]
- Differentiation is the extent to which a product has a unique benefit vs. competitors. Differentiation is a good predictor of short and long-term success because it indicates whether a concept is better than solutions currently available.

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Many of today's most successful products achieved their prominence in the market because they were perceived by consumers to be relevant and differentiated at a competitive price. An excellent example is *Colgate Total®* toothpaste. In 1997 it was the only toothpaste approved by the FDA to have clinically proven ingredients to help prevent gingivitis, plaque and cavities.[2] *Colgate Total®* was able to solve a problem important to consumers better than any other product on the market at a competitive price. As a result, *Colgate Total®* went on to become the number one selling toothpaste.[3]

RED Measures Are Less Sensitive than Purchase Intent to Executional Differences in Concepts

Since our RED measures are directly related to the insight and benefits presented in a concept, we hypothesized that they would be less sensitive than Purchase Intent to executional differences in concepts. To test our hypothesis, we conducted R&D that involved testing more than 100 concepts among 1,500+ respondents. We tested three scenarios:

- Respondents exposed to concepts that included a package image (i.e., a picture of the product) and price;
- Respondents exposed to concepts that included price but no package image (i.e., no picture of the product; text description only); and
- Respondents exposed to concepts that included a package image but no price.

The concepts tested covered a wide range of food and beverage categories, varying levels of execution (high quality package image versus drawing), and different levels of price (premium price versus low price).

The effects of package image and price on the RED measures vs. Purchase Intent are shown in *Figure 1.* Results are shown as indices vs. a baseline, where the baseline is the set of concepts tested with *both* package image and price.

Figure 1

Effect of Including Package Image or Price on RED Measures vs. Purchase Intent

	Concepts Including Price but No Package Image	Concepts Including Package Image but No Price
	Index to Baseline	Index to Baseline
RED MEASURES		
Relevance	97	99
Expensiveness	100	N/A
Differentiation	99	100
Purchase Intent (Top Box)	81	106

Baseline = Concepts Tested with Both Package Image and Price

In both columns of *Figure 1,* the RED measures remain at about the same level *regardless of whether or not the package image is included* in the concept. (Indices range from 97 to 100.) Relevance and Differentiation also remain the same *regardless of whether or not price is included* in the concept.

However, Purchase Intent changes depending on whether the package image or price is included in the concept. Specifically, Purchase Intent drops substantially when there is no package in the concept (Index = 81) and Purchase Intent increases somewhat when price is removed from the concept (Index = 106).

Further analysis shows that manipulating the quality of the package image also influences Purchase Intent to a greater extent than the RED measures, as shown in *Figure 2* below. Compared to Purchase Intent, the RED measures are stable regardless of whether a high quality package image or a simple drawing is shown in a concept.

Figure 2

Effect of Package Image Quality on RED Measures vs. Purchase Intent

	Index of High Quality Package Images to Drawings
RED MEASURES	
Relevance score	104
Expensiveness score	95
Differentiation score	108
Purchase Intent (Top Box)	122

Similarly, Purchase Intent is more sensitive to price level than Relevance and Differentiation, as shown in *Figure 3* below. For Purchase Intent, the Index of Average Price to Premium Price increases to 134 while the same index is 103 and 107 for Relevance and Differentiation respectively. As one would expect, Expensiveness is impacted by price; hence, the Expensiveness index of Average Price to Premium Price is 117.

Figure 3

Effect of Price Level on RED Measures vs. Purchase Intent

	Index of Average Price to Premium Price
RED MEASURES	
Relevance	103
Expensiveness	117
Differentiation	107
Purchase Intent (Top Box)	134

Based on the analyses above, our hypotheses are proven to be correct:

Relevance, Expensiveness and Differentiation are less sensitive than Purchase Intent to executional differences in concepts.

The implication of these findings is that our RED measures provide a more objective evaluation of the insight and benefits of a concept than Purchase Intent. Consequently, Marketers who use the RED measures will make better decisions about which concepts have the most potential for success.

RED Measures Do Not Favor Line Extensions or Overlook Niche and Breakthrough Ideas

Another shortcoming of Purchase Intent is that it tends to overestimate the potential of line extensions or "me-too" products and underestimate the potential of breakthrough and niche products.

Line extensions often do not achieve the level of incremental sales or profits as breakthrough products. And, in a large number of cases, they do not survive at all. An example of line extensions gone awry occurred in 2004 when a popular candy in Western Europe introduced a wide array of new flavors. While consumers were willing to try these new flavors, repeat purchase was low and in two years overall sales of the candy dropped 18 percent.

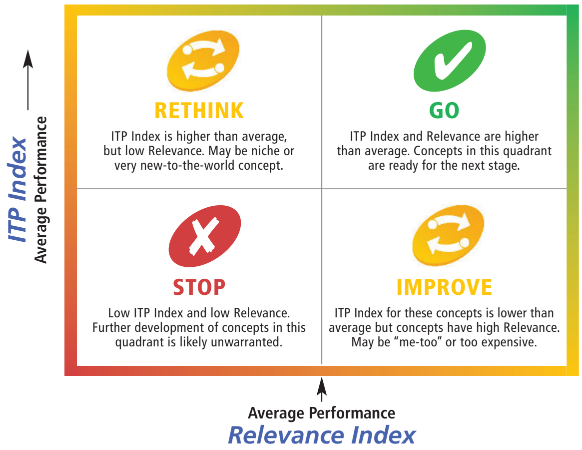
Unfortunately, line extension concepts tend to score well on Purchase Intent because they are not unique. Line extensions appeal to a large audience as they emulate existing products with high equity and penetration. As a result, line extension concepts are pushed through the product development system because they meet Purchase Intent hurdles, but later fail in-market because of lack of differentiation.

On the other hand, breakthrough and niche concepts tend to score low on Purchase Intent because they are either too unique or not understood well enough by consumers to appeal to a large segment of the population. Consequently, they often are not moved through the innovation pipeline. Some of these concepts, however, may generate a high level of interest among a specific target and can achieve sales success through high levels of repeat purchasing. Take the case of *Red Bull*.® Marketed as an energy drink to combat mental and physical fatigue, the product has a relatively narrow target audience. However, that did not stop *Red Bull*® from becoming a huge success: in 2006, more than four billion cans were sold in over 130 countries.[4]

Marketers need to find a way to avoid accepting low-potential me-too ideas and abandoning high-potential niche and breakthrough ideas. Ipsos Marketing's RED measures offer a solution in the form of the InnoTrial Potential. Specifically, Ipsos Marketing has developed the InnoTrial Potential as the key performance indicator for its **INNO***Screen*® concept screening system. The InnoTrial Potential – or ITP – is an estimate of maximum in-market trial potential and represents the percent of consumers who will ever try the product.[5] The ITP is based on the RED measures which, in addition to overcoming the pitfalls of Purchase Intent described in this paper, have been proven to predict new product success.[6]

As demonstrated in the **INNO***Screen* Action Standard Map *(Figure 4),* Marketers can leverage the ITP to determine which concepts should proceed to the next stage of innovation, which need to be re-worked and which should not be pursued. Using the ITP in the framework of the **INNO***Screen* Action Standard Map, me-too products with high Relevance and low ITP are not given the green light if they are not differentiated enough or too expensive (IMPROVE quadrant). Conversely, niche and breakthrough ideas with a high ITP are not automatically discarded if they demonstrate low Relevance (RETHINK quadrant).

Figure 4 **INNO***Screen* **Action Standard Map**



The ITP Leads to the Same or Better Decisions vs. Those Made Based on Purchase Intent

Ipsos Marketing conducted an analysis comparing concept screening decisions made using the ITP vs. concept screening decisions made using Purchase Intent.

Decisions using the ITP are made in the context of the **INNO***Screen* Action Standard Map. There are four possible decision routes: Go, Improve, Rethink or Stop. (See *Figure 4.*)

PI also typically offers four possible decisions: Go, Probably Go, Probably Stop, or Stop. For the purposes of our analysis, concepts were split into five quintiles based on weighted PI. Concepts falling in the top quintile were assumed to have a "Go" decision, while concepts falling in the bottom quintile were assumed to have a "Stop" decision. When concepts fall into the second quintile, it is not always clear whether the concept should be pursued; in many cases, these second quintile concepts do move forward. Therefore, we considered the decision made for concepts in the second quintile to be "Probably Go." Concepts falling into the third quintile typically do not move forward. Therefore, we considered the decision made for concepts in the third quintile to be "Probably Stop."

Figure 5 shows the relationship between PI decisions and ITP decisions. Overall, there is a high level of consistency between decisions based on PI vs. those based on ITP: in 85% of the cases, a "Go" decision based on PI corresponds to a "Go" decision based on the ITP. Furthermore, in the vast majority of the cases (98%), a "Stop" decision based on PI corresponds to a "Stop" decision based on the ITP. This consistency is not surprising since there is a strong correlation (.80) between Relevance and PI.[7]

Figure 5

Percent of Cases in which Purchase Intent Leads to the Same Decisions as ITP

ITP Concept Screening Decision	Purchase Intent Concept Screening Decision: Go Top Quintile	Probably Go Second Quintile	Probably Stop Third Quintile	Stop Fourth Quintile	Stop Bottom Quintile
Go	85%	57%	23%	8%	1%
Improve	9%	14%	15%	8%	0%
Rethink	4%	11%	12%	6%	1%
Stop	2%	19%	51%	78%	98%

Note: Purchase Intent Weighted

While the ITP and Purchase Intent typically will lead to the same Go/No Go decisions, there are situations where using Purchase Intent may incorrectly lead to a "Go" or "Stop" decision, whereas the ITP would offer an "Improve" or "Rethink" recommendation.

As shown in *Figure 5,* in 9% of the cases Purchase Intent would lead to a "Go" decision and in 14% of the cases Purchase Intent would lead to a "Probably Go" decision while the ITP would recommend that the concept be improved. Why? Because the concept is likely a line extension that either is not differentiated enough or is too expensive, even though Relevance is high. The problem with the concept will become clear to the Marketer when looking at the RED measures.

Figure 5 also reveals that the ITP would make a recommendation of "Rethink" in cases where PI would likely result in a "Stop" decision 19% of the time. Through the ITP, we know that these concepts exhibit low Relevance but high Differentiation. As such, they may be breakthrough or niche ideas and would need to be treated carefully. In these situations, the questions that need to be asked are:

- Is the interested target audience large enough to generate a good return-on-investment?
- If the size of the target audience is small, are the repeat components (repeat rate and repurchase frequency) strong enough to result in good ROI?
- Would a good strategy be to try to improve Relevance to increase the number of interested consumers without diluting the core idea?

The ITP does not automatically dismiss niche or breakthrough ideas but instead offers alternative solutions for rethinking these concepts. The ITP and the RED measures can be leveraged as diagnostic tools to uncover what drives concept performance. On the contrary, Purchase Intent is an outcome measure and is not able to offer solutions for improving concepts.

Concluding Remarks

Relevance, Expensiveness and Differentiation are superior concept screening measures because they are less sensitive to differences in concept execution than Purchase Intent. Moreover, the RED measures, as summarized in the InnoTrial Potential, accurately identify the best decision routes for concepts – Go, Improve, Rethink or Stop – and can be used diagnostically to identify the underlying causes of concept performance. The RED measures enable the Marketer to avoid me-too ideas that may be doomed to product failure and convert seemingly marginal concepts into winners. Purchase Intent, on the other hand, is an outcome measure. As such, it represents the consequence of concept performance rather than the cause and offers little diagnostic value.

It is Ipsos Marketing's position, therefore, that the RED measures should be used as the primary action standards for evaluating new consumer goods concepts. Accordingly, we have a consistent research philosophy that integrates the RED measures throughout the new product development process.

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About Ipsos Marketing

Ipsos Marketing – The Innovation and Brand Research Specialists – is the Ipsos brand for Marketing Research.

Ipsos Marketing operates under a global structure that brings clients unequalled research expertise throughout their innovation and brand development process. Supported by specialized teams, Ipsos Marketing offers in-depth understanding of the drivers of consumer choice and of the marketing challenges faced by our clients. Our experts provide integrated qualitative and quantitative research solutions, as well as advanced modelling and forecasting techniques that include simulations and linkages to in-market data.

Ipsos Marketing is present in 55 countries, with a leading position in both mature and emerging markets. In 2007, it achieved global revenues of 445 million euros, contributing to 48% of Ipsos' total global revenues.

Pierre Le Manh is the global head of Ipsos Marketing. Its Consumer Goods business area is led by Lauren Demar and its Industry & Services business area, including Ipsos Vantis, is led by Ed Wolkenmuth.

Ipsos Marketing is a specialization of Ipsos, a global survey-based market research company that offers expertise in advertising, customer and employee loyalty, marketing, media, and public affairs research.

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[2] http://www.colgateprofessional.com/products/Colgate-Total-Advanced-Clean-Toothpaste/faqs

[3] http://investor.colgate.com/ReleaseDetail.cfm?ReleaseID=121287&ReleaseType=Product&header=&ReleaseDate=2000-12-13

[4] http://en.wikipedia.org/wiki/Red_Bull

[5] The ITP assumes 100% awareness and distribution and an average level of advertising identification and shelf visibility.

[6] Markowitz, Lee and Fressart, Bernard. *Three New Product Success Factors You Should Measure, Control and Own.* Ipsos Marketing Point of View. January 2009.

[7] Ipsos Marketing analyzed more than 1,000 recently tested concepts across multiple categories (beverages, food, household goods, personal care, OTC, and more) and determined the correlation between Relevance and PI is .80.