

Keep a close eye on the market

by **Keith Goffin**

Professor of Innovation and New
Product Development



and **Dr Marek Szwejczewski**
Reader in Operations Management



Many new products and services fail - a staggering number in some markets. Research in the States showed that 90% of new food products were taken off the shelf by supermarkets within three months of being introduced. Recent failures in UK supermarkets include Weetabix Gold, McVities Heat to Treat, and Birds Eye Pub Specials. Why do so many new products fail?

Whether it is consumer goods or more complex products, research shows the main reason for market failure is lack of differentiation. Many new products are just too similar to current market offerings. But how can this be happening when one of the key responsibilities of marketing is to identify customers' needs and develop exciting concepts for new products? The main reason is that most marketing departments are using interviews, surveys and focus groups as their sole means of gaining customer insights.

When used in isolation, interviews, surveys and focus groups are ineffective. This is because customers and end-users find it difficult to articulate their needs in response to direct questions. Typically they will refer to existing products and ask for incremental improvements using phrases such as "I would like it lighter... and faster". Focus groups augment interview techniques with simple observation, with market researchers behind two-way mirrors. The main flaw of this approach is that customers are observed outside the normal environment in which products and services are purchased or used.

People act differently and express different opinions when they are removed from their everyday environment or are being paid to express their views. An example of this was the failure of a new cola product introduced by the Coca-Cola Company in the 80s. The 'New Coke' product was welcomed by focus groups but totally rejected by the market. This is a clear demonstration of the limitations of traditional market research techniques.

Innovative techniques

What is needed is a radically different approach to understanding customers. Today's marketing professionals need to be proficient at using a range of innovative market research techniques to unlock customers' hidden needs. Here are three examples:

I. Ethnographic technique

With this market research technique, marketers immerse themselves in consumers' daily lives and observe how they go about their daily routines and make their decisions (see Miele case study below). By studying customers in their natural environment, marketers can get a more accurate understanding of the types of products and services required which would probably not have been revealed in a focus group or survey. It also allows marketers to look for contradictions between what consumers say (in focus groups) and what they actually do.

For example, Whirlpool, the consumer product manufacturer found that customers were observed to use washing machines in very different ways to what they claimed during focus groups. From the results of these observations, the company designed a washing machine that had simplified controls making it easier to use.

2. Lead user technique

Lead users are customers or end-users who have more challenging, often extreme requirements, than most of the current marketplace. Identifying and working with such users can help companies develop more robust products and services. For example, Cobra International, a world-leading windsurf board manufacturer works closely with champion surfers in developing lighter and stronger boards. 3M uses the lead user technique regularly and Lego has used it recently to develop a new generation of its very successful Mindstorms robot kits. Lego had regular meetings with their lead users which helped the company define the key features of the kits.

3. Repertory grid technique

A rarely used but extremely effective method for identifying customers' hidden needs is the repertory grid technique. This was developed by psychologists and it uncovers customers' thinking and is used to really understand the needs that customers cannot articulate - their so-called hidden needs. It is the products that address hidden needs that really surprise and excite customers.

VirginMoney used the repertory grid technique to identify how personal finance products and services were perceived compared to other 'life-stage' purchases being considered by middle-aged people. However, the new techniques are not only useful for consumer products. In a business-to-business (B2B) environment, Bosch used the technique to understand the needs of operators of pharmaceutical production systems. Using this approach the company was able to design their production equipment so that it was clearly differentiated in the market.

Adoption of innovative techniques

Effective market research is fundamental to product development and using a range of tools and techniques in combination is the best approach. Although leading companies have achieved notable successes by using innovative techniques for market research, mainstream adoption is painfully slow. Many marketing professionals who are extremely proficient at quantitative methods are not familiar with qualitative methods from ethnography and psychology. However, the situation is slowly changing as shown by Cranfield research (see Figure 1) which illustrates that confidential benchmarking of 36 companies shows that 63% of them use three or more techniques in combination; and over 25% used six techniques in combination. But there are laggards - incredibly six companies were found to have conducted very little market research.

Market research techniques that are typically used (see Figure 2) are customer visits (86%), surveys (64%) and focus groups (50%). Although nearly 60% reported using 'systematic observation', visits to some of these companies found that observation was informal and did not use a full ethnographic approach (which was only used by 8% of companies). So, even the leading companies in the benchmarking sample have opportunities to enhance their market research, as they have not yet developed the capability to apply the techniques effectively.

Barriers to new techniques

Our research identified the reasons why many companies have not yet adopted these new techniques. Firstly, the techniques are neither widely known nor understood. Secondly, techniques such as systematic observation need to be learnt. They are more complex than simple customer visits and so the experience needed to apply them should not be underestimated. Thirdly, the volume of qualitative data (e.g. video clips, photographs, interview transcripts) that is collected is considerable. So if you do not have the right skills and experience, trying to identify customers' hidden needs can become like looking for a needle in a haystack. Fourthly, some companies sidestep the difficulties by using consultants to conduct hidden needs research. The drawback of this approach is that market research agencies do not share their methods, and so companies do not absorb any of the knowledge about how customer insights were gained. It is also important that the whole new product development team is involved in gathering market insights, and not just outsiders (see Nokia case study). Finally, within organisations there are often subtle barriers to the adoption of new methods for market research.

Surprisingly, it is marketing departments that often present the biggest barrier to the adoption of new market research techniques. Marketing professionals can also be reluctant to admit that their own expertise (based on surveys and focus groups) is outdated and may view the new techniques as a threat to their own market knowledge. So there are often significant cultural issues to be addressed before enhanced methods of market research can be successfully adopted.

Senior managers need to take a lead in changing the way that their organisations generate market knowledge. Building the capability to identify customers' hidden needs and convert these insights into breakthrough products is the emerging hot topic in innovation management. So make sure your company does not get left behind.

We are currently researching how companies can become more effective at identifying customers' hidden needs. If you are interested in becoming involved with this research, please contact us. [MF](mailto:k.goffin@cranfield.ac.uk)

Nokia case study: Going to the Gemba with Nokia

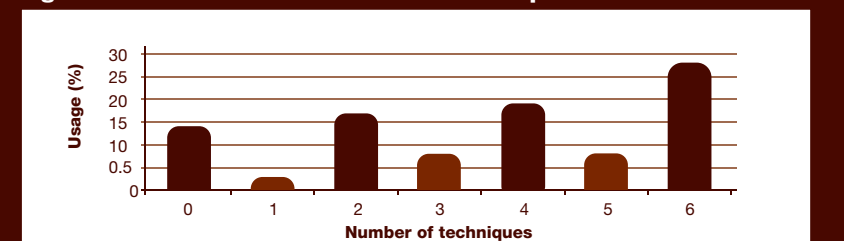
One of the world's leading manufacturers of mobile telephones, Nokia, has recognised the importance of understanding customer culture. The UK operation that is responsible for developing some of the company's products was aware that the Japanese market has different characteristics. Rather than employing a market research agency, Nokia management decided that it was important for members of the New Product Development (NPD) team to see the issues first-hand. As a result, sales, marketing, R&D and managers were all paired up with Japanese colleagues. In pairs, they observed Japanese people using mobile phones in public places and gathered their opinions.

In Japanese, Gemba means 'where things actually occur; it is raw, untainted information'. Nokia used it as a term to stress that managers must spend sufficient time on the production floor; if they were to learn how to improve production efficiency.

Sending new product development employees into the Gemba to conduct the market research had the advantage of widening commitment but most of the employees were not experienced in market research. Therefore, Nokia trained the team and produced a training guide which consisted of: an introduction to the objectives of the research; an explanation of the importance of the Gemba; guidelines for observation; guidelines for approaching and interviewing people and obtaining volunteers for focus groups. Following the procedures in the guide, Nokia employees collected photographs of the locations where they made their observations; answers to a semi-structured questionnaire (a contextual interview) and short field notes following a set format.

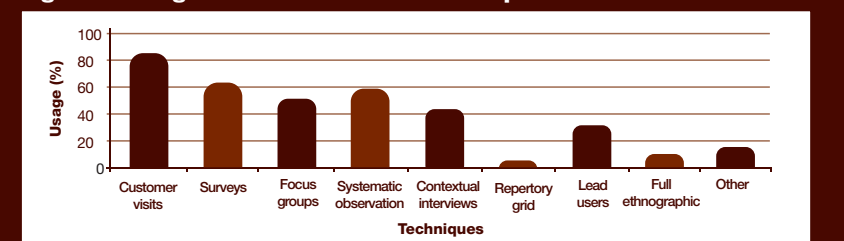
This Nokia example demonstrates the importance of having market research conducted by the New Product Development team and not just by a market research agency.

Figure 1: Number of market research techniques used in combination



Source: Cranfield School of Management Innovation and Design Excellence Awards (IDEA) 2006/2007

Figure 2: Usage of market research techniques



Source: Cranfield School of Management Innovation and Design Excellence Awards (IDEA) 2006/2007

For further information contact the authors at k.goffin@cranfield.ac.uk or m.g.szwejczewski@cranfield.ac.uk