

How to Overcome Barriers to Innovation-based Growth in Consumer Goods Companies

Part I: Successfully Executing Gated Processes

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Executive Summary

Most consumer packaged goods (CPG) firms identify at least three fundamental revenue growth strategies:

- New product development in the form of either line extensions to existing brands or new brands/categories;
- Added revenue generation from existing products through nonproduct related tactics, primarily advertising and promotional activities; and
- Trade development with partners such as Wal-Mart, Target, Kroger, etc.

Revenue growth can, of course, be supplemented with profit growth through strategies in such areas as cost reduction and pricing, among others.

There are many reasons consumer goods companies struggle in the pursuit of their innovation objectives, but Sopheon’s research and experience show that these causes generally fall into four distinct categories.

1. Execution challenges
2. Portfolio “bad bets”
3. Too few good ideas
4. Lack of alignment between strategy and execution

This paper is the first in a series focused on the unique challenges facing consumer goods firms in their efforts to achieve profitable, revenue-generating product innovation. For most CPG manufacturers, the base innovation methodology is the gated process. Our experience indicates that even leading consumer goods companies sometimes have a hard time operating these processes effectively. This paper offers principles and best practices for surmounting the barriers or road blocks that can interfere with successful gated process execution.



Figure 1: Barriers to Innovation Success. Sopheon’s research and experience have determined that there are four primary reasons consumer goods companies struggle in the pursuit of their innovation objectives.

The State of Product Innovation in the CPG Industry

Among the strategic alternatives available to consumer goods firms, none is more central than new product development and innovation. For most CPG manufacturers, however, generating meaningful innovation is also a continuous challenge. Consumer goods executives have told us again and again that they find it easy to develop new products, but have real difficulty developing products that are truly innovative.

For a long time, the consumer goods industry seemed to lead other sectors in innovation. However, in recent years, while it appears that consumer goods firms are launching more new products, fewer of the offerings being introduced are high-business-impact, game-changing innovations.

Industry experts and research studies give credence to this trend. For example:

- According to McKinsey, in 2005 consumer goods firms launched 10,649 new products to the market, but only 484 of these were defined as truly innovative, i.e., as adding material new consumer benefit.¹
- SymphonyIRI Group, writing in March 2011 on a study of the most successful CPG product launches in the period from 1996-2010, stated that brand extensions accounted for 88 percent of new food and beverage offerings and 92 percent of nonfood products introduced in 2010. According to the report: “just three percent of new products achieved blockbuster status, year-one sales of more than \$50 million. The reality is, successful new product innovation is exceptionally difficult, and a vast majority of new products don’t even reach \$7.5 million in sales during their first year.”²
- Peter Murane, in his 2008 book titled *Lessons from the Vinyl Sofa*, states: “from 70 percent to 90 percent (depending on the category) of new CPG products are pulled from the shelves in the first 12 months of launch. Unfortunately, those odds have been fairly constant for the past twenty-five years going back to New Coke and Pepsi Blue.”³

A balanced portfolio can best be achieved by improving the base process methodology.

The successful execution of gated processes is an important predictor of business success.

Of course we are not recommending that consumer goods firms drop line extensions and gamble everything on a few “big hit” opportunities. We are, however, suggesting that a balanced portfolio that combines low-risk line extensions and high-risk, potentially higher-return new products and new brands can best be achieved by improving the base process methodology.

Gated innovation processes (the most well-known of which is the Stage-Gate[®] process) are the backbone of innovation for most CPG companies. In fact, for more than 75 percent of businesses across all sectors, gated processes are the means by which new product ideas and innovation strategies are brought to life.⁴ Within the CPG sector, it is hard today to find any manufacturers of reasonable size that are *not* using a structured gated process for management of product innovation.

Cross-functional teams use gated processes to transform concepts into tangible products that generate revenue and profit for the business. The successful execution of such processes is an important predictor of business success.

About Gated Processes: A Recap

Gated processes are unlike any other kind of business process. Let's begin with a definition. A gated process is a specialized type of business process used by business teams and executive decision-makers to ensure that limited resources are systematically focused on the strategic business investments most likely to benefit the company.

The distinguishing traits of gated processes become clearer when they are compared to those of two other types of business processes with which they are sometimes confused: workflow and project management. As shown in Figure 2, these latter two processes are also relevant to innovation—and they, too, require support—but they are fundamentally different. In contrast to these other process types, gated processes are:

1. Focused on tough, iterative investment decisions. Gated processes originated in the area of product innovation, but they may be applied to any initiative that is characterized by a high amount of investment and risk, or that contains many unknowns for the business. In order to manage the high risk levels, investment decisions must be made iteratively and supported by a rich body of market, business and technical knowledge that grows and is increasingly validated as projects progress.

Consumer packaged goods companies must be able to manage investment decisions relating to large numbers of projects without impeding their capacity to execute the projects quickly. According to research by AC Nielsen, consumer goods firms that have innovation processes with one or two effective, rigid gates average 130 percent *more* new product revenue than companies with loose processes.⁵ CPG companies must take care to ensure they rightsize their gated processes to support the unique nature of their business.

2. Deliverable-centric. Given the difficulty and importance of product innovation-related decisions, gated processes require the creation of a collection of deliverables. These take the form of documents and business data owned by business teams and provided to support executive decision-making. This is different from a workflow process, in which a single document or business record is approved. And while gated processes require the management of deliverables against clear deadlines, they do not require the comprehensive detailing of each task that characterizes effective project management processes.

3. Cross-functional. Another attribute of gated processes is that they require a high degree of cross-functional coordination and communication. Innovation teams must collaborate across each function of the business (sales and marketing, product development, package development, operations, supply chain, finance, etc.) so that the right information is brought forward to the senior business leaders responsible for decision-making. These decision-makers (or “gatekeepers”) must also act cross-functionally in order to ensure alignment among decisions, agreed-to strategies and operational priorities.

Workflow and project management processes may or may not involve cross-functional participation. Either way, the communication flows in a different manner. Workflow processes are typically simpler and require a sequential,

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straight-line flow of communication from one person to another. Project management processes are more hierarchical, with much of the communication flowing up and down the chain from the project manager to various team members. By contrast, the gated process might be described as a slightly chaotic cross-functional formation with occasional time-outs (gates) to review what the team has learned, to decide whether to continue, and to provide opportunities for coaching of team members.

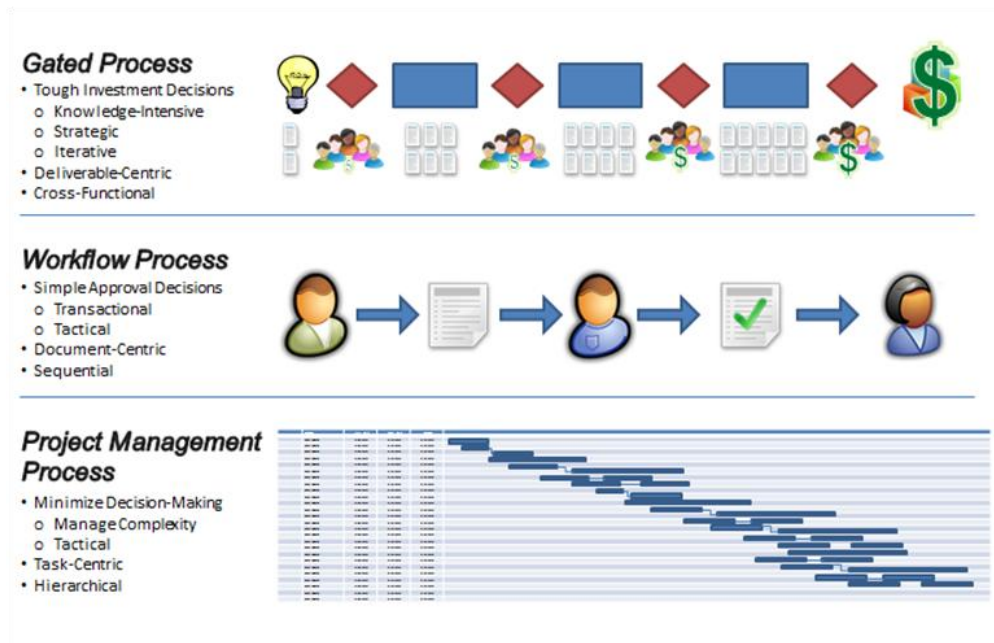


Figure 2: Types of Business Processes. Gated processes differ significantly from other innovation-related processes due to three attributes: (i) they are focused on tough, iterative investment decisions; (ii) they are deliverable-centric, and (iii) they require a high degree of cross-functional coordination and communication.

Common Challenges to Gated Process Execution

The defining traits examined in the previous section make gated processes the powerful tools they are. But for many consumer goods companies, these same traits undeniably also contribute to the challenges associated with process execution. When we begin to work with consumer goods companies on improving their processes, we generally hear about five specific issues:

Effective teamwork is the key to a successful gated process.

1. **“Our business silos prevent effective cross-functional teamwork.”**

Innovation is by its very nature a cross-functional activity, and effective teamwork is the key to a successful gated process. Too often, however, even though marketing, R&D, packaging development, manufacturing and other functions are supposed to be working toward common goals, they are not in synch.

2. **Often heard from Marketing and brand management: “Our process takes too much time and keeps me from my ‘day job.’”**

Working within gated innovation processes can be very time-consuming. Adherence is often perceived to be difficult, administratively burdensome and highly bureaucratic. Staff members would like to contribute more to the process, but feel that their day-to-day responsibilities must take priority.

3. **“We never kill projects in gate meetings.”**

A third issue concerns the decisions that are made – or not made – within the process. Too often, gate meetings are nothing more than status reviews in disguise. They accomplish little toward their core purpose: decision-making. Team members lose motivation after repeatedly generating large amounts of information and seeing projects, both good and bad, simply languish.

Too often, gate meetings are nothing more than status reviews in disguise.

4. **“We don’t learn from our process missteps.”**

Often teams suspect they are making the same innovation-process mistakes over and over again. But they are too busy moving on to the next project to be able to assess and share the lessons learned, whether from successful or unsuccessful initiatives.

These issues often come together to create one last challenge:

5. **“We aspire to have a world-class innovation process, but in reality we’re struggling with process adoption.”**

As described earlier, most consumer goods companies do have some type of gated innovation process in place. However, introducing these processes without the right support creates significant managerial and administrative burden and gets in the way of full adoption. This explains why only 54 percent of companies have a process that is really used.⁶ In other words, nearly half the businesses that have deployed processes are unable to capture the additional value that comes from process maturation.

Introducing processes without the right support creates significant managerial and administrative burden and gets in the way of full adoption.

Four Principles for Developing an Effective Gated Process

Despite the hurdles, for most organizations gated process success is an achievable and richly rewarding goal. Here are four proven, best-practice based principles that, when followed, can reduce administrative burden, improve decision-making, and lessen the effort required to establish a viable process within your organization.

To be successful, innovation teams must be provided with support that moves them beyond islands of information.

1. Make Cross-Functional Teamwork Real

Research findings consistently support the importance of cross-functional teamwork to the effectiveness of gated processes. In fact, studies have shown that high-performance organizations successfully execute on cross-functional work activities two to three times more often than low performers.⁷ Too often, however, even when innovation teams strive to be cross-functional, members still end up working only inside their functional group. Unless aided by processes and systems that enable cross-functional interaction, product innovations teams tend to fall into ways of working that reinforce functional barriers.

To be successful, cross-functional teams must be provided with support that moves them beyond the islands of information that restrict their knowledge, awareness and insight into an environment that facilitates and reinforces cooperation and integrated effort across all functions. This requires innovation processes and systems designed from the ground up to enable cross-functional teamwork.

One of the principal benefits of a viable innovation process is that it enables all stakeholders – team members and decision-making executives alike – to view project goals, risks, and opportunities. Because all process stages, gates and deliverables are organized and presented in a common context, teams are better able to work together to drive projects forward. Managers, leaders and individual contributors from every function can readily understand the process, track progress, and more effectively play the role that is prescribed for them. Further, executives are better able to access the information they need to steer projects and make the right investment decisions.

The most powerful way to achieve adoption of an innovation process is to make sure that it saves people time.

2. Eliminate Friction to Ensure Adoption

The most powerful way to achieve adoption of an innovation process is to make sure that it saves people time. Great care must be taken to eliminate every potential source of friction from process use. One way to do this is to embed best practices directly into a set of agreed-to templates for creating deliverables. These templates should comprise standardized questions and provide advice that guides the user to communicate what is required at each process stage and gate. This ensures that team members – even those who are new to the process – are able to optimize their input and participation.

The process should also make it easy for teams to reuse the information in deliverables, whether through automation tools or some other method. This reduces the amount of time and effort team members must invest. For example, with the right kind of technology support, summary documents such as executive presentations can be automatically created from templates, turning a job that would otherwise take hours or days into one that is completed in a matter of seconds. Capabilities such as this eliminate unnecessary double-data-entry and give team members additional time to focus on the substance of their contribution to the process,

Another way to eliminate friction is by providing a single place where teams can store and monitor all initiatives deliverables. Reducing the time required to track status details allows team members to concentrate more strictly on the quality of the work being completed.

Lastly, don't forget to also eliminate friction for the innovation business leaders responsible for managing your innovation process. They are at the heart of the process. Their time should be spent driving the business and creating a culture that ensures process adoption – NOT on process administration. Managers should be provided with support and capabilities that make it easy for them to participate in developing the process, to help govern it once it's in place, and to modify it over time as required to meet the evolving needs of your business.

3. Make Sure Gate Meetings Have Teeth

So you have a team that is running efficiently and generating credible, effective recommendations based on the value of projects. Great! What should senior management do with that information?

Executives have the responsibility to act as gate keepers. In that critical role, they need to remember a golden rule: Gates are decision points where projects should be prioritized and resources should be allocated. Whether it's Go, Kill, Hold or Recycle, a decision must be made about each and every project brought under review.

As noted earlier, research findings on innovation best practices consistently support the importance of rigorous gate reviews.⁸ In fact, the whole point of implementing a gated process is to ensure decisions are made to kill bad projects in early stages, before significant investments are made. Unfortunately, for many companies, gate meetings are essentially status reviews – hard decisions are not made, resources are not closely reviewed, and projects are rarely killed.

One way to give gate meetings more teeth is to include a standardized scorecard for every project among the meeting deliverables. Scorecards help gatekeepers apply consistent, best-practice criteria to every project that is brought to them for review. Scoring criteria are agreed to by stakeholders when the innovation process is first defined. Properly conceived, these measures ensure that the right strategic questions are considered during the decision-making process.

Criteria should be primarily business-centric (not just technology-centric), and should include such factors as strategic fit, competitive advantage, market attractiveness, and financial reward. If a project's score falls below a pre-determined level, strong consideration should be given to killing it. This discipline helps companies achieve higher new product success rates – in some cases, higher than 80 percent – because potential failures are identified and killed much earlier in the process.

Another way to promote rigorous gates is to require that requests for financial and human resources be highly visible. It is sometimes easy for executives to forget that when they give projects a Go they are essentially "writing a check" by making an investment of resources in the continued progress of the project. Unless such requests are explicit, gatekeepers will later have a difficult time determining whether they got good value for their money. It's a bit like a restaurant that posts no prices on its menu. Gatekeepers must have a clear understanding of resource needs before they "order" to ensure that the right resources are applied to the projects that matter the most.

Reducing the time spent tracking status details allows team members to concentrate instead on the quality of the work being completed.

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Resource allocation decisions cannot be made in a vacuum.

Resource allocation decisions cannot be made in a vacuum. Before giving a project a Go, gatekeepers must be able to see how it compares to other efforts that may be vying for the same resources. We call this support for “priority-based” gate decisions, which means that each gate meeting must also include a portfolio-like review of all competing projects, the resources they require, and each project’s priority ranking. Once it is confirmed that a) a project has value, (b) that it has priority, and c) that the needed resources are available, it can receive a Go.

In summary, executives are no different than the members of your innovation teams - they require help to effectively play their roles. Central to those requirements is access to decision support tools that enable them to evaluate projects consistently, objectively and knowledgeably. They also need to be able to gain a clear understanding of the resources they are committing, and how those commitments align with other priorities.

4. Measure Processes for Continuous Improvement

The fourth principle for developing an effective gated process is measurement. It is impossible to manage and improve your innovation process if you don’t measure it. In order to ensure continuous, long-term process improvement, gated processes must be assessed with the same rigor one would apply to the evaluation of any other business process. Because innovation processes are relatively complex, most companies require special support to assess the state of their process, to track advancements, and to identify performance bottlenecks.

Improving even marginally on just a few measurements can have a material effect on your business.

Best-practice process metrics can be identified by answering a small number of questions:

| Question | Insight Provided |
|---|--|
| 1. Are we investing effectively in the front end of innovation? | Ensures a good volume of ideas and concepts at the front end, a better selection of quality candidate projects to consider for funding, and a healthy, funnel-shaped pipeline of projects. |
| 2. Do we need to generate more concepts that can feed early stages of the funnel? | |
| 3. Are we reducing time to market? | Enables assessment of time-to-market as well as the identification of process areas that are causing bottlenecks. |
| 4. How long are projects spending at each stage? | |
| 5. Is our portfolio increasing or decreasing in value? | Month-over-month value trends indicate whether or not the company is on track to meet growth objectives. |

Here are examples of best-practice process metrics that companies typically need to consider as they evaluate gated processes:

- Targeted number of projects per stage (funnel/tunnel)
- Kill rate of early-stage projects
- Total value of the new product portfolio
- Accuracy of revenue, budget, resource forecasts
- Length of time per stage
- Percentage of projects late to market or over-budget
- Number of Recycle decisions in gate meetings
- Average time of gate meetings
- Risk factors related to broker or employee sales force
- Co-packer performance risk factors

While evaluating process performance and results across this scope of metrics may at first feel daunting, improving even marginally on just a few of these measurements can have a material effect on your business.

How Sopheon Can Help

Sopheon was recently named one of the top ten suppliers of new product development and introduction solutions to consumer goods manufacturers in a Readers' Choice survey of senior-executives by CGT (Consumer Goods Technology) magazine. This recognition is one of a growing number of indicators of the value and popularity of our solutions. But we believe it also mirrors our hard work in making sure that every company that chooses our software comes to view us as a partner on their innovation journey.

With over 40 percent of our customers in the consumer goods space, Sopheon has amassed a uniquely rich body of knowledge and experience relating to product development and innovation practices and processes within consumer goods companies. Utilizing this expertise, there are a number of ways in which we can offer practical assistance to your organization in its efforts to improve and execute its gated processes. This includes helping you establish the baseline of where your company stands compared to companies considered best-in-class in product innovation within your industry.

Further, we can demonstrate how our Accolade® solution will enable you and your business to adopt and capture the value offered by gated processes by supporting the implementation of each of the principles discussed in this paper. Among other benefits, Accolade will allow you to;

- ☑ Ensure cross-functional teams fully adopt your innovation process;
- ☑ Dramatically reduce the effort required to create process deliverables – in some cases from hours to minutes;
- ☑ Enable you to evolve your innovation process to match new business and market requirements;
- ☑ Achieve new product success rates of 80 percent and higher by killing bad projects – with confidence – in the early stages of the innovation process; and
- ☑ Drive continuous innovation-process improvement.

Accolade was developed to support gated processes. Dr. Robert Cooper, creator of the Stage-Gate methodology, was actively involved in early stages of the software's development, and many of his best practices were built into our solution from the ground up. Since gated innovation processes vary from company to company, Accolade is designed to allow easy modification by the business people that manage these processes. It can also be used to manage a variety of related processes including accelerated Stage-Gate, concept development, basic research, strategic initiatives, cost reduction/Six Sigma, technology development, and many others.

We encourage you to engage us in a further discussion of these possibilities. Although effective gated process execution is challenging to achieve, its benefits are both attainable and significant. By successfully implementing such a process, you'll be well on your way toward reaching new levels of sustainable market differentiation that can ensure your company's business growth for years to come.

Sopheon has amassed a uniquely rich body of knowledge and experience relating to product development and innovation practices and processes within consumer goods companies.

We can offer practical assistance with execution of your gated processes in a number of ways. Contact us on info@sopheon.com to learn more.

Related Reading in the Sopheon Resource Center

- ⇒ Case study: [Rich Products Updates Product Development to Continue Delivering Innovative Firsts](#)
- ⇒ Case study: [Setting Priorities: Electrolux Enhances and Manages Innovation Processes](#)
- ⇒ Case study: [Accolade Helps New Zealand King Salmon Quadruple New Product Output](#)

Reference Notes

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About Sopheon

Sopheon (LSE:SPE) is an international provider of software and services that help organizations improve the business impact of product innovation. Sopheon's Accolade® software suite is the first in the industry to provide all-in-one support for strategic product planning, ideation and innovation process execution. The suite's Vision Strategist™ component automates the roadmapping process, allowing users to visualize and forecast the future of products, markets and technologies. Accolade's Idea Lab™ component helps organizations generate, select and develop winning product and service ideas. Accolade Process Manager™ automates the product innovation process and provides strategic decision support for the management of product portfolios.

Sopheon's software is used by top innovators throughout the world, including industry leaders such as PepsiCo, Heinz, ConAgra, Burger King, SABMiller, Electrolux, Beiersdorf, Dr Pepper Snapple Group, Briggs & Stratton, Land O'Lakes and Rich Products.

Sopheon has operating bases in the United States, the United Kingdom and the Netherlands, with distribution, implementation and support channels worldwide. For more information on Sopheon and its software and service offerings, please visit www.sopheon.com.



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