BRAND NEW

Innovation in a challenging world
Fiona Dawson  
Managing Director, Mars Chocolate

Mars to the core, Fiona Dawson joined the Mars graduate scheme straight from Trinity College, Dublin in 1988. Apart from two years spent with PepsiCo in the early 1990s, Fiona has remained with the company in various roles in both cross-category and the European business, including General Manager of the Irish business, UK Sales Director, European Marketing Vice President, and most recently Managing Director of the Mars UK chocolate business in 2005. On top of the day job, Fiona is Vice-president of the Food and Drink Federation and chair of its Health and Wellbeing Steering Group. She is married with two young boys.
Innovation in a challenging world

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Fiona Dawson
Managing Director, Mars Chocolate
It is a great honour and privilege to talk to you not just about the role of branding and building strong brands, but also the part that innovation plays in ensuring their future success.

What I wish to do is to take you on a journey, starting with the company I work for – Mars Chocolate. Some people will say it is a very private company, but actually we just have the benefit of being privately owned. Founded in the UK in the 1930s, Mars is a company very much defined by the success of its brands. In fact the company name is so inextricably linked with our most iconic brand, the Mars bar, that even if the company is doing well it doesn’t feel as if we are winning unless the Mars bar is outperforming the competition.

Understanding brands is fundamental to our success, not just in the present but also in the future. For the uninitiated, a brand may appear to be just a label or a badge used to sell a product. But we spend the majority of our time focusing on deeply understanding our brands and, through them, encouraging emotional connections with our consumers, thereby ensuring their loyalty. We try to do this simply and consistently. Of utmost importance to us is that people recognise and remember what our brands stand for. I would argue that brands are as important to products as names are to people.

To give you an illustration, and I hope you will excuse me for being self-indulgent, I will use the example of my youngest son.

Those of you who are parents or grandparents may empathise with the agonising process we went through when deciding what to name our second son. Having been through a whole range of names, I was particularly keen on the name Matthew. I thought it was wonderful, conjuring up images of all sorts of prominent individuals. He would definitely be intelligent and suave! My husband, however, who is an avid Irish rugby supporter, couldn’t contemplate having a Matt Dawson (the then English rugby team’s scrum half) in the house! So we settled on the name Jack which felt nice and strong and came without any emotional baggage. He could even be a future newsreader! We only discovered the day after he was born and named that Jack Dawson was the lead character in the film Titanic, but by that time it was too late to change!

Brands (and names) carry not only emotional baggage but also great emotional connectivity. And that is what we in the branded community try so hard to achieve. We try to name our brands and to build our brands in such a way as to drive a real and intense emotional connection and loyalty with the consumer.

Let me give you another example. Some people may argue that there are finer MP3 technologies in the world than the iPod. But this brand instils such phenomenal loyalty that it verges on the fanatical – as you can see with Apple’s recent launch of the iPad.

Brands not only drive connectivity and loyalty but also create real preference and this is where we begin to
understand the business imperative. When I worked for Pepsi in the early 1990s we knew that, in blind taste tests, people preferred the taste of Diet Pepsi to Diet Coke. However, once the brand element was introduced, we saw that change significantly. The power of the brand actually changed how people perceived the taste of the product.

So not only do brands drive loyalty and emotion and create preference, they also drive a premium. People are prepared to pay more for a brand that delivers what they are looking for. Why do people pay a premium for brands? Well, it could be for a variety of different reasons, but often it is down to the very intimate, unique relationship people have with an individual brand. It may be the classic ‘it makes you look cooler’. It may be that you believe it has better functional benefits or tastes better. Whatever your relationship with that specific brand, it will certainly be because you believe it is guaranteeing you certain attributes.

Now, I would like to try an experiment. First of all, I would like you to look at this picture of a BMW and consider what this represents for you and how much you think you would have to pay for this car. Now look at the second example. It looks like the same car but it is from Audi. Is it better or worse? Would you pay more or less for it? What kind of different attributes does it have? What does it suggest to you? Does the name matter? How do your feelings and views change if it carries a Ford badge?

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BRAND NEW: Innovation in a challenging world

Let me bring things closer to home. When you are in a supermarket, the average shopper will spend 20 minutes picking up 50 items (or SKUs¹). Now, in an average supermarket there are 30,000 SKUs, which means that the consumer rejects 29,950. That is 1,500 rejections per minute! What brands allow you to do is to make shortcuts through the wide variety of different products and messages that are all competing in a very tight space. This demonstrates why brands are incredibly valuable to companies like mine. Depending on the company, they can represent between 40% and 75% of its market value and that is why we protect and look after them!

What we do is develop a product into a brand, with the aim of developing a sustainable iconic brand for the future. We do that by developing what we call distinctive memory structures. This is all about the look and feel of the whole product. It can vary depending on the category but when I think of our products, it will be about the colours we use, the typeface, the fonts, the way the name is positioned on a pack, the type of packaging materials we use and where the product is placed in the store. All of this, together with the advertising we use, contributes to the creation of our brand and drives the emotional connections with the consumer.

Once you have your brand (or mega brand), you need to think about how to grow it sustainably. One of the most powerful tools we have is innovation. Now why do we innovate? There are many reasons. Primarily, we innovate because we want to keep satisfying our customers and thus stay ahead of the competition. Thankfully, we work in a very free and competitive environment and very soon, inevitably, good ideas are quite naturally imitated.

But we also innovate to be relevant. What worked for consumers 20 years ago does not necessarily work today and, indeed, will not necessarily work in the future. We have to ensure that we continue to keep up to speed with what our consumers are looking for.

However, innovation is an incredibly risky and therefore costly business. A recent Europanel survey showed that just 20% of all product innovations delivered significant growth and only 14% delivered category value. That is to say, the rest of that innovation effort had no effect at all. Bringing it closer to home, work by TNS and Kantar has shown us that, in the grocery industry last year, only five out of every 100 new products in the market had a market share in excess of 1% at the end of that year! That is remarkable when you stop and consider the amount of research, time and resources invested in those products.

You would be justified in asking why we should bother with innovation when the success rate is so low, particularly as we have a successful, strong brand and proposition.

¹Stock Keeping Units
Well, we know for a fact that, particularly within the packaged goods industry, the top quartile of companies has at least three-and-a-half times the level of innovation as the rest of the pack. In an increasingly difficult economic climate, innovation provides a viable alternative to what is becoming an ever-increasing dependency on deep price promotions. In addition, we also know that innovation creates value; people are prepared to pay more for the new innovations that they are looking for in a recessionary environment.

And finally, as brand manufacturers, it provides us with competitive insulation. We know that private label shares are lower in categories where there is perceived to be more and better innovation.

It is a dilemma. We know we must innovate to stay ahead of the pack and to drive value and profit in our businesses. But how do we do it? Some commentators would suggest strongly that innovation should be something new: completely disruptive and absolutely breakthrough. Many, many, very well known pieces of research, including the PIMS research on disruptive innovation, would back that up. However, I hold a contrary view. I firmly believe that innovation should be based on evolution rather than revolution. What you should start with is a deep understanding of your core business and evolve from that. That is the way to consistently grow your business.

Although some of the winning brands in the packaged goods industry in 2009 had no innovation (they had strong growth momentum as it was), the majority had a level of innovation in the marketplace. For 55% innovation came on top of a strong base business, while for 15% innovation was replacing a declining core.

If we delve a little deeper, we can see that the innovation took place in three main areas: 22% in sub-brands, 23% in variant extensions and 25% in size extensions. Not exactly breakthrough innovation, but meaningful innovation within the marketplace. These are just some of the winners in 2009. What the majority have in common is innovation coming off a strong, core brand base.

There are many ways that you can stretch a brand. If you have a strong core proposition, you can innovate within that core business. You can look at renovating it, offering a different functional benefit to your consumers. Then you can start to stretch it beyond that core, developing new formats that, in the case of a confectionery product for example, allow it to be consumed on different occasions.

**BRAND STRETCH CAN TAKE MANY FORMS:**
You can look at new categories, giving you access to more aisles in the supermarket, and you can look at new occasions in their own right, broadening your seasonality and relevance at different times of the year. And indeed you can innovate within routes to market. To give you a classic Mars example, vending is a viable new route to market for us as indeed is a new launch we have done with HMV. What that allows you to do is to adapt your route-to-market strategy, reducing your overall reliance on a few key players.

**INNOVATION CAN ALSO BE ABOUT IDENTIFYING NEW ROUTES TO MARKET**

What all brand stretch innovations must have is a real sweet spot. When you are looking at stretching your brand from its strong core, you need to do a couple of things. Firstly, you need to spot the market opportunity. This may seem obvious but you need to understand that you have a product that the consumer is looking for and willing to buy, then you need to understand what your competitive strategy is and ensure you are playing by the rules of the game. Very few innovations have completely changed how that category has been viewed.

You then need to ask yourself whether it is building your brand vision. Is it contributing to its consistency and credibility? Will it be viewed by your consumer as a viable brand extension and does it have a positive impact on brand equity? And finally you should leverage your existent competencies – understand where and how you can be truly great. It could be that your market advantage lies in technical understanding or it could be your supply strategy. When you combine all of this together, quite clearly you need to have a financially attractive business model.

I would like to share with you what I think is an incredibly inspiring example. When I look at Heinz Tomato Ketchup I am filled with admiration, because I think that they own a category like no other packaged goods player within the marketplace. The last time I looked they had over 70% market share while facing incredibly tough competition. They also have a very tight innovation brief which prevents them touching their core product. They have tried in the past to come out with new variants but they have been less successful. So what they did in the 1990s was truly inspired. They changed the rules of the game for that category, but from a very subtle standpoint. They moved from glass jars into squeezable bottles. They soon extended this to their entire range and it has been so successful that all of the sauce industry, not just the ketchup category, has followed suit.

In 2003 Heinz spent significantly on an R&D model trying to solve the next challenge – the fact that the squeezable bottle was not perfect: you couldn’t quite
get the last drop out. But they also had to avoid the ketchup 'squidging' out on the plate. So they spent a significant amount on R&D and again revolutionised the category, moving their entire range into the new design. They have now been followed closely by others so it will be interesting to see where they move to next.

So what do you do to manage for success in an environment where there is such a high failure rate? Clearly a lot of research goes into the 95 out of 100 products that don’t work, so it is not a question of research effort. The first thing you need to do is innovate from a strong brand. If your base brand is not performing well then you need to undertake a root-cause analysis to understand the reasons why. Innovating on top of a declining core and a reduced consumer proposition is the branding equivalent to having a baby to save your marriage. It is not advisable and you have to live with the consequences for a long time afterwards.

The other thing you should do is innovate to follow the consumer, not just your targets. So many of us have been in the situation where we have had a gap in our growth ambition. You have a new product and you decide to launch. However, of all of the failures that have been analysed from an innovation standpoint within the UK, 90% of them have failed, not because of the product itself, but because the product concept and positioning was wrong. On the other hand, of all of the successes that have been studied, 83% of them worked because the product concept and positioning were right. This was followed by the product demonstrably delivering on the brand promise.

You then must ensure you do not waste time. There is practically no difference in the amount of time spent on innovation successes and failures. The same goes for the number of consumer tests. So once you have a tested concept and product, go to market. We have all been in the situation where we have analysed something to death and tweaked it to the nth degree only to lose sight of the vision we started with.

**SUCCESS VERSUS FAILURE?**

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Last, but by no means least, you need to be intentional. What do I mean by this? When you are on the runway in launch mode on an innovation project you need to make sure that you actually take off. You cannot abort – that would be fatal. What that means is you have to align all of your resources behind your launch plan. Make sure you execute brilliantly in the marketplace and keep your support in place for some time afterwards. It is said, I think wisely, that innovation is 1% inspiration and 99% perspiration. It doesn’t come easy. You have to work incredibly hard at it to make sure it is a success.

So you may think: ‘That’s fine, you work for Mars. I don’t work for a branded company. What does all this mean to me?’ Well, my answer is that this is relevant to everyone. We should all care because brands are very important to our economy. They build scale and they create value and wealth within the UK. They attract competition, which again creates more value and, as I have said, brands innovate to stay ahead of the
Brands are incredibly important and innovation is the life-blood of a successful future. All of this means we continue to create jobs and build expertise within the economy. Innovation and competition are the twin themes of the EU in its multi-year competitiveness programme and together we must ensure that brands and their contribution are understood. We must also ensure that we have the right environment to build and safeguard our brands. We need to ensure that the UK remains an attractive place for investments. It may be through our tax regime and how we attract investment or it may be through the regulatory environment so that, when branded companies innovate, they know that their innovations will be protected from free-riding.

Brands are incredibly important and innovation is the life-blood of a successful future. I am absolutely convinced that by businesses working together (fmcg\(^2\) brand manufacturers cannot do this alone), we can ensure that brands continue to play a vital role in the economy. We can ensure that healthy competition is encouraged and that innovation continues to pave the way to a very bright future.

\(^2\)fmcg: fast-moving consumer goods
This is the tenth in the Brands Lecture series. 
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Tim Ambler, London Business School

**Posh Spice and Persil**
Jeremy Bullmore, WPP Group

**100% Marketing**
Rob Malcolm, Diageo

**Hybrids, the Heavenly Bed and Purple Ketchup**
David Aaker, Prophet

**Brands Beyond Business**
Simon Anholt, Earthspeak

**The Lovemarks Effect**
Kevin Roberts, Saatchi & Saatchi

**They think it’s all over…**
Martin Glenn, Birds Eye Iglo Group Limited

**Can brands save the world? Let’s hope so**
Richard Reed, Innocent Drinks

**In brands we trust**
Lord Bilimoria CBE DL, Cobra Beer

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