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Topic

Market Analysis: Launch and Forecasting

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Consumer Goods: A Key Buyer in Need of Smart Market Research

Understanding Market Potential

Addressing the Drivers of Innovation Performance

All innovations are introduced into a competitive environment, since almost everything we buy can be substituted with an alternative product. Surprisingly, many innovations are evaluated in a research setting without the competitive environment being taken into consideration. The reasons given are that the competition can be hard to define or that incorporating the competition is too complicated. These barriers are valid, but they can be overcome. There are a number of ways to incorporate the competition, such as exposing consumers to competitive positionings, having consumers evaluate competitors or asking consumers to make choices from a shelf. Another way is to understand the amount of competition in the markets into which the innovations enter and what we call market structure. The focus of this article is to provide a perspective on the influence of market structure on the long-term success of innovations. But before we go into detail on market structure, let us examine the other key drivers of innovation performance (see figure 1).

Figure 1: Key Drivers of Innovation Performance

When examining the characteristics of new, innovative brands or products, we see that despite being successful, possibly opening up new sub-categories and being perceived as differentiating, they can still initially fail in pretesting. Innovations may have believability issues, score low in terms of purchase intent and be considered more expensive in consumer testing. As a better alternative, our research on research has identified three key criteria that act as a good proxy for consumer testing and deliver insights on true concept and product performance: relevance, expensiveness and differentiation.

In order for a product to succeed, it should be at least as relevant to the consumer as its competition, and here relevant means the extent to which a product meets consumer needs, both functionally and emotionally. Relevance is a good predictor of short- and long-term success, because it indicates whether the problem that is solved is important to consumers. A product should be perceived as different from the competition by possessing unique benefits. Differentiation is a good predictor of short- and long-term success because it indicates whether a product is better than the solutions currently available. Finally, the consumer should also perceive the innovation as being appropriately priced compared to the competition.

However, in addition to the product meeting these three criteria, it still needs market forces such as media, promotion and distribution behind it on appropriate levels, as well as good placement and execution within the market, for example good shelf visibility and strong brand recall power. In spite of these success drivers, a product can still fail if the market structure prevents the gaining of shares.

Considering Market Structure

Market structure can often pose a weak point in the research design, meaning the structure into which a new product is being introduced

▸ **The Authors**

Dr. Nikolai Reynolds is Head of Ipsos InnoQuest Germany, providing innovation research globally supporting clients in maximizing ROI of their innovation strategies. As a former member of Synovate he and his team assist clients from finding the right product idea until determining the optimized marketing mix. Furhtermore, he is lecturing at the University of Bonn in Market Research.
✿ *Nikolai.Reynolds@ipsos.com*

Frank Schüler is Manager at Ipsos InnoQuest Germany. After having worked in innovation, brand and communication research in different positions he has been leading the forecasting at Ipsos for several years. He has been consulting clients in different stages of their innovation process – from first ideas to final mixes for launch – with early potential estimations to simulated test markets.
✿ *Frank.Schueler@ipsos.com*

also has a direct impact on the potential long-term success of the launch. Consequently, the nature of the market – along with consumer reaction to a new product and anticipated marketing spendings – is a necessary component of a consumer goods volume forecast. This framework has been utilised in thousands of simulated test markets across hundreds of categories and extensively validated by Ipsos. Market structure is a property of any market that enables or constrains the long-term potential of a new product to achieve market share. The simple assumption is that markets with a higher concentration of players in a given category are more permeable, i.e. it is more difficult to gain shares when a market is fragmented. This theme first emerged from Hendry models as shown by Butler 1966. It may appear counterintuitive, but as each new product is introduced into a market, market penetration may increase and it appears as though a market should have more potential.

However, another dynamic is at work: As more products enter the market, consumer preference profiles become more polarised, making it more difficult to be successful long-term. This point is often ignored by volume forecasting models. The impact of market polarisation is often masked during the first year, because heavy advertising and promotion spending increases short-term sales, as a new product steals volume from competitors. However, unless the new product has clear advantages, these short-term benefits typically do not persist long-term after advertising and promotion spending declines. As a result, what appears to be a successful product in year one fails in years two and three.

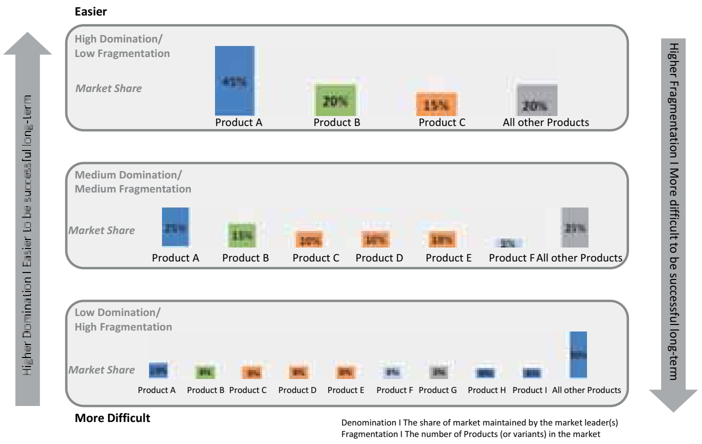

Figure 2: Market Structure: Domination vs. Fragmentation

Unfortunately, in the earlier stages of the innovation process, the majority of concept testing systems make the tacit assumption that achieving long-term trial and volume is no different from one market to the next. As further evidence of the influence of market dynamics on new product success, we have established that the market structure – defining the ease or difficulty of achieving long-term success in a market – influences the trial potential of new product launches. This learning is based on extensive data mining of global databases containing the testing results of over 60,000 established brands and 15,000 new products across more than 60 countries.

Dominance and Fragmentation as Indicators

The market structure is based on the degree of brand dominance and fragmentation in the market. Domination and fragmentation impact the degree of penetrability of the market structure:

- Domination: The share of market maintained by the market leader(s).
- Fragmentation: The number of brands (or variants) in the market.

The degree of domination coupled with the degree of fragmentation impact how easy or difficult it is for a new entrant to be successful in the market long-term. The more dominated a market is, the easier it is for a new entrant to penetrate. The more fragmented a market is, the more difficult it is for a new entrant to penetrate. Mature markets are often highly fragmented and can require 15 or even 20 or more brands (or variants) to capture 80 percent of the market share. New markets, on the other hand, are generally heavily dominated by a single brand/variant, with two to four brands/variants accounting for 80 percent of the total market (see figure 2).

Long-term Potential

The market structure is a property of a market, not a property of a new product – it imposes a constraint on the long-term potential of any new product. In fact, the market structure actually enables the calculation of a new product's long-term potential prior to having any data, assuming the product being introduced is *average* in terms of product quality and marketing support.

By categorizing the relative structure of a given market into a specific quintile (based on our global database), it is possible to further refine maximum trial potential to reflect the realities of the marketplace. As a specific example, for a product with comparable consumer reaction the market structure has what can be described as a moderate impact on the trial potential (see figure 3).

Based on these findings about the influence of dominance and fragmentation, Ipsos InnoQuest has incorporated market structures into all of its forecasting models for concept screening to provide more refined product development guidance earlier in the process.

Of course, consumer response and planned marketing spendings are critical components that impact the forecast. Still, the significance of market structure in the equation cannot be ignored. And while the market structure implies a barrier to a new product's potential, the definition of a market is quite fluid. Marketers continually define how narrow or broad a category is by analysing consumer needs and identifying opportunities for category expansion and product repositioning.

Reliable Predictions

Businesses know that understanding the market in which a new product will compete is an important first step in the innovation process. Consequently, prior to developing concepts they invest significant resources in analysing potential markets via focus groups, attitude and usage studies, segmentations and market structures. However, it is important to recognize the significance of the market throughout the innovation process and to incorporate market parameters – specifically the market structure – into the volumetric forecasting phase of new product development.

To understand how we can exploit the market structure for the success of the innovation even more, we examine how the basic market features reflect a market's competitiveness and how they have an impact on a new product's ability to generate trial and repeat. For instance, if we set the performance to an average new brand level and if we keep assumptions on support constant, how does this potentially impact the long-term launch success of the innovation? Here we employ a long-identified phenomenon which has been leveraged in Ipsos' market structures database to provide a modelled indicator for a new market entry called *Predicted Average Result* (PAR).

▸ **Abstract** The aim of this article is to provide a perspective on the influence of market structure on the long-term success of innovations. To understand on how we can exploit the market structure for the success of the innovation, we examine how the basic market features reflect a market's competitiveness and have an impact on a new product's ability to generate trial and repeat. We employ a long identified phenomenon which has been leveraged in Ipsos' market structures database to provide a modelled indicator "Predicted Average Result" (PAR) for a new market entry. PAR can aid to set a minimum benchmark of what a new brand or product launch normally would achieve in a given category and market. By taking into account both market size and PAR data, we can identify what are the overall top category/country cells in terms of expected average new brand/product potential.

Building on the PAR and our validations, we can differentiate between (i) the proportion of category buyers who will make an initial trial purchase under a defined distribution and advertising awareness level (PAR trial), (ii) the PAR share, that is the average expected share that a new product launch should expect to achieve in a given category after the full launch period, and (iii) the absolute PAR share (meaning the PAR share in conjunction with the actual market size), i.e. provide in-market estimates by applying given assumptions of awareness and distribution to translate this into in-market estimates. Consequently, PAR and the market structure are interconnected. For example, the market share opportunity for a new brand (with all else being equal), called *PAR share*, declines as the number of brands in the market increases. Hence, there are basic principles that impact the new product's potential (PAR):

- A market at the top is less fragmented
- A market at the bottom is more difficult to generate trial
- When there is more choice, markets are naturally more segmented, with more niches, more polarized preferences, etc.
- Markets that have higher domination and lower fragmentation are more penetrable, i.e. new product launches have higher share potential.

With these points in mind, PAR can help businesses in manifold ways. It can help to set a minimum benchmark regarding what a new brand or product launch would normally achieve in a given category and market. In addition, by taking into account both market size and PAR data, we can identify the overall top category/country cells in terms of expected average new brand/product potential. Furthermore, it is possible to provide a review by region & category, i.e. of the biggest opportunities from a regional and category perspective, by using the same data. When using PAR in conjunction with data regarding market structure, there are also other additional areas of application, such as identifying where there is opportunity for growth: In which markets should brands consider launching new products, meaning are there markets where a brand share is low, but there is a relatively high expected entrant share (such that additions to the portfolio might bring significant incremental volume). In addition, we can make assumptions on an optimal number of brands for a given market: As a function of the brand presence, it can provide guidance on whether the brand's portfolio is considered optimised or whether there is justification and opportunity for considering further brand launches (see figure 4).

	Moderate Fragmentation	Fairly High Fragmentation	High Fragmentation
Category Penetration	40%	40%	40%
Share of Market Leader	25	15	10
Share of #2 Product	15	10	5
Number of Products = 80%	8	15	20
Maximum Trial Potential (at average product quality and 100% awareness and distribution	**17,4%**	**14,5%**	**13,0%**

Figure 3: Range of Trial Potential

Conclusion

But let us still keep in mind that this is a simple analysis based on market structure. It is based on a mechanical treatment of fragmentation and consumer loyalty data, and therefore does not take into account factors which can have a significant effect on in-market success, such as the market's specific price sensitivity, the degree of segmentation of the market, the performance of trade marketing, the level of competitor spendings, etc. Nor does the analysis take into account important factors which will impact the brand's ability to compete, such as fixed assets, distribution, etc., and we assume the same consistent mix performance irrespective of market conditions – that a certain level of noticeability is achieved, for example. Nevertheless, this approach provides an additional objective view that can be considered when addressing the potential of innovations against the background of marketers mainly defining how narrow or broad a category is by analysing consumer needs and identifying opportunities for category expansion and product repositioning. ◄

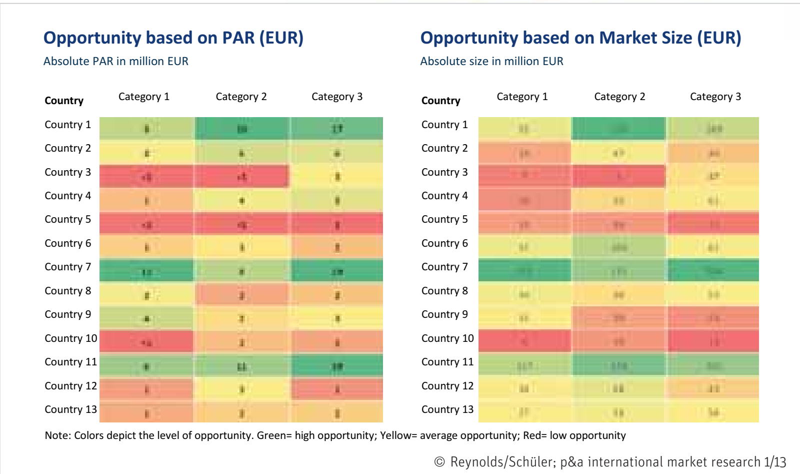

Figure 4: Market Opportunities

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