The Role of E-commerce in Product Innovation

A R&D guide outlining ways to use e-commerce for a more effective analysis on a future product's success.

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Intro

There are dozens of reasons why products fail, and our engagement leaders see them daily.

The categories where SPRIM's clients innovate (functional foods, FMCG, prescription drugs, personal care), the markets they sell to, and the sales channels they use are not just targets, but dynamic landing zones. These landing zones are continuously shifting and easily missed, resulting in poor product development results. Since consumer buying criteria changes quickly, e-commerce allows you to test products easily with low risks to ensure you're hitting the right market.


About the Author

Dan Brenner is the Chief Growth Officer at SPRIM and SPRIM Ventures. He leads client engagement with a focus on business strategy, new product development and consumer research. Dan has co-founded and led e-commerce companies, managed brands from start-up to acquisition, and worked with R&D executives at some of the largest consumer product companies in the world.

Online Grocery Shoppers

49%

23%

2017   2018
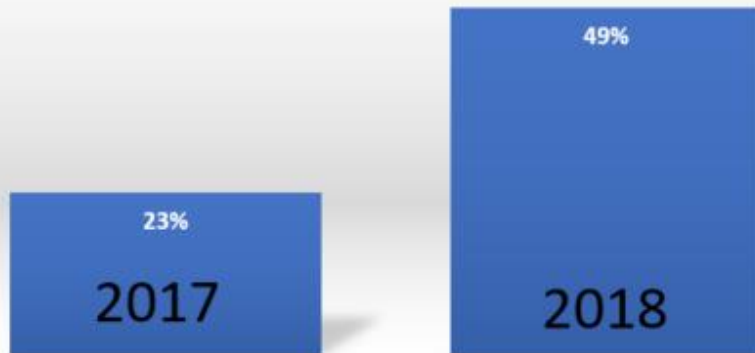
According to a January 2018 Nielsen research study, 49 percent of Americans are buying food online. That number doubled in just one year. Nielson now calls 2017 the year of disruption.

We're seeing the proliferation of online shopping for CPGs; however, companies still ask for brick and mortar product testing. In our experience, those clients need to take a step backward.

This guide is meant to be an introduction to using e-commerce in the R&D process.

E-commerce & Early Adopters

Products sometimes fail because companies cannot attract consumers entering the category. Category entrance often happens during a life transition. Life transitions often occur at young ages. Young consumers like to shop online, making e-commerce the place to be.

For instance, a razor may sell well to Gen X, but won't sell to the generation entering the shaving market – Gen Z. Gen Z'ers (and Millennials) are typically early-adopters and the most likely to look for a disruptor. If the early-adopters buy online, you can theorize the older generations will follow suit in stores, making your product a success. We should couch this by saying this is commonly true, but, like all R&D, there are cases where this model won't work.

Engage with the Right Market
All too often companies don't sub-categorize early-adopters from their laggard counterparts during market research. There's a difference between someone telling you in a survey they would buy something and actually putting up the money. A laggard may tell you your product is wonderful, but in reality, it's only the early-adopters who will pull the purchasing trigger. When we're helping clients assess new product reception from the best target consumers, we always ensure that we're understanding the *types* of people that are giving high scores, not just the quantity of positive remarks.

Expected Online Behaviors of Smartphone Users (by Age)
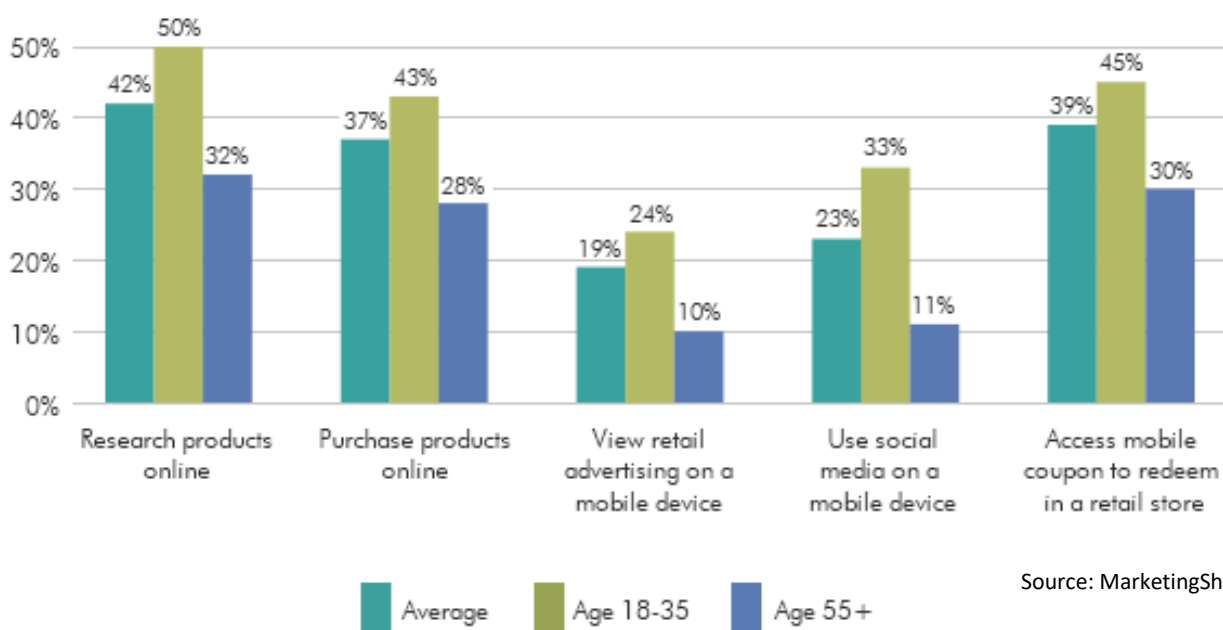
Source: MarketingSherpa

Legend: ■ Average ■ Age 18-35 ■ Age 55+

E-commerce & Tangible Results

The behaviors of your customers online are more effective predictors of product success than self-reported panels commonly used for CPGs. It's a real-time interaction, as opposed to asking your customers to give feedback after walking into a store and making a purchase. Or asking for opinions during a focus group. Opinions are vastly different than actual purchases.

However, if a customer circles back to write a review of a product after purchasing it on an e-comm site, you can assume it left an impression. If you receive many positive reviews, it's an encouraging sign toward a successful product.

Obsolescence of Focus Groups?

Companies frequently want to organize focus groups. Focus groups typically include a very small test pool, and similar to a jury, one strong personality can sway the verdict. Data generated online show true buying criteria and intent, with no bias to account for.

E-commerce & Cost, Risk & Time

It's tough to hit the bullseye on the first launch, which is why we tell our clients to make the smallest possible bets. Smaller bets cost less with lower risk. E-commerce sites are playgrounds for small bets in product testing, allowing companies to experiment and gather data. (More on those to come.)

Time is also an important consideration. The product development cycle takes years. Once companies get to the testing phase, they may already be three years into the process. Why spend another 10 months testing, only to discover your launched CPG is far from perfect? Testing online can be done in 10 days for a lot less moola.

Creating the Right Size Innovation

In a world with always changing technology, it's important to examine what type of innovation you have and whether it's worth pursuing. We often find ourselves re-directing clients who operate in uber-dynamic spaces. These clients tend to spend too much time pursuing an incremental innovation when the market is clearly ready for something breakthrough or radical.
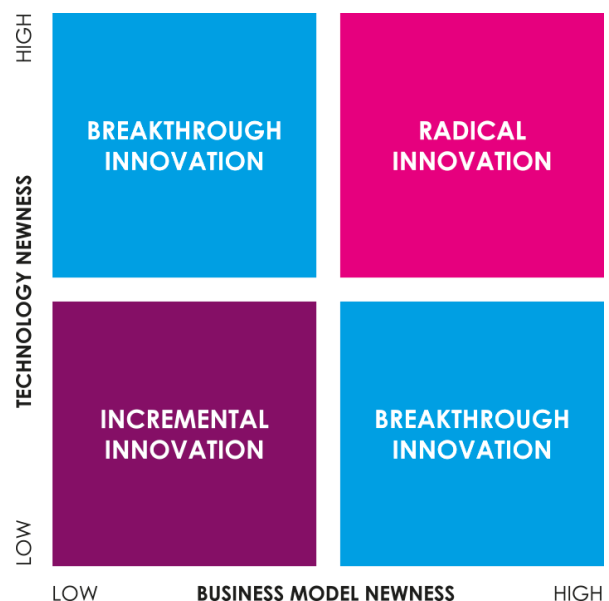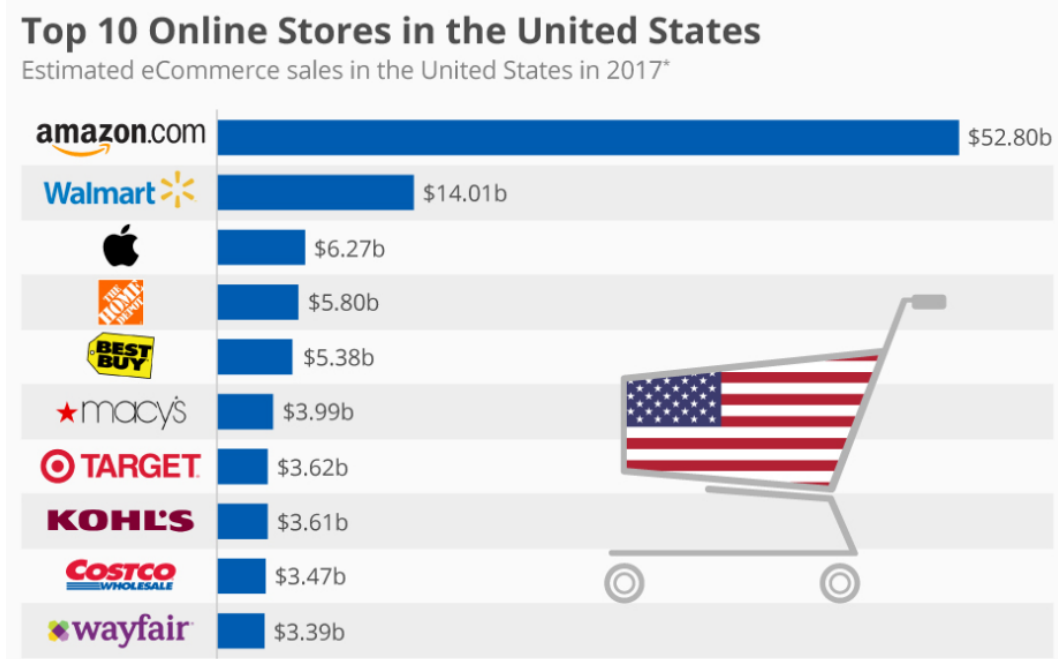
E-commerce & Big Data

Selling online allows businesses to get granular with data, tracking not only every transaction, but also every click.

While we understand the long-standing and mutually beneficial relationship between our clients' brands and Amazon Retail, we also recommend leveraging 3P for product testing and new launches. Third-party management brings you closer to the consumer to monitor trends, behaviors and B2C micro-interactions, rather than a retail partner providing meta-data.

Top 10 Online Stores in the United States
Estimated eCommerce sales in the United States in 2017*

Store	Sales
amazon.com	$52.80b
Walmart	$14.01b
Apple	$6.27b
The Home Depot	$5.80b
Best Buy	$5.38b
macy's	$3.99b
TARGET	$3.62b
KOHL'S	$3.61b
COSTCO WHOLESALE	$3.47b
wayfair	$3.39b

Source: Statistica

While third-party sellers account for approximately 44 percent of items sold on Amazon, most large companies don't bother with it. There are some cons and credibility issues with third-party sellers—and perhaps it doesn't make sense for some products already on the market—however, companies should have a third-party outlet designed specifically for learning.

E-commerce & Experimentation

Experimenting with buzz words, images and packaging on a product listing can offer insights into what triggers consumers to buy.

We often recommend companies experiment with their keyword weighting, focusing on ingredient-based verbiage (a newer approach) as opposed to benefit-based (classical). Searching for "prenatal vitamin" online will reveal very different results than a search for "folic acid prenatal." The consumers searching the latter are more educated about the product and understanding their awareness level is an important test before product launch.

SPRIM was founded in 2001 as a life sciences consulting firm and has worked with some of the largest CPG, pharmaceutical and OTC companies in the world.

SPRIM has more than 500 people in 19 offices across four continents. Large multi-national companies, startups, institutions, and governments around the world turn to SPRIM for help developing relevant, fresh and meaningful health innovations. From traditional categories like nutrition, cosmetics, personal care and pharmaceuticals to the new health frontier of digital-connected devices and algorithm-based diagnostics, SPRIM delivers winning health solutions and tangible commercial results.