

Social Media and Product Innovation

Early Adopters Reaping Benefits amidst Challenge and Uncertainty

Kalypso White Paper by Amy Kenly & Bill Poston



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Social media is changing the face of our personal interactions, with an unprecedented rate of adoption that outpaces previous innovations such as the radio, telephone, television, and even the iPod. These tools are intuitive to use and allow people to share information, collaborate, discuss common interests and build relationships. With this trend well underway, businesses are beginning to explore how social media can help them grow and improve profits, not just with common practices such as outbound marketing, but to enhance business interactions as part of the innovation and product development process. An increasing number of companies are trying to make sense of the world of Web 2.0, Enterprise 2.0, social media applications and social computing technologies, and align their innovation and strategic product development priorities with social initiatives. How can companies improve product innovation by leveraging this fundamental communications shift in our society today?

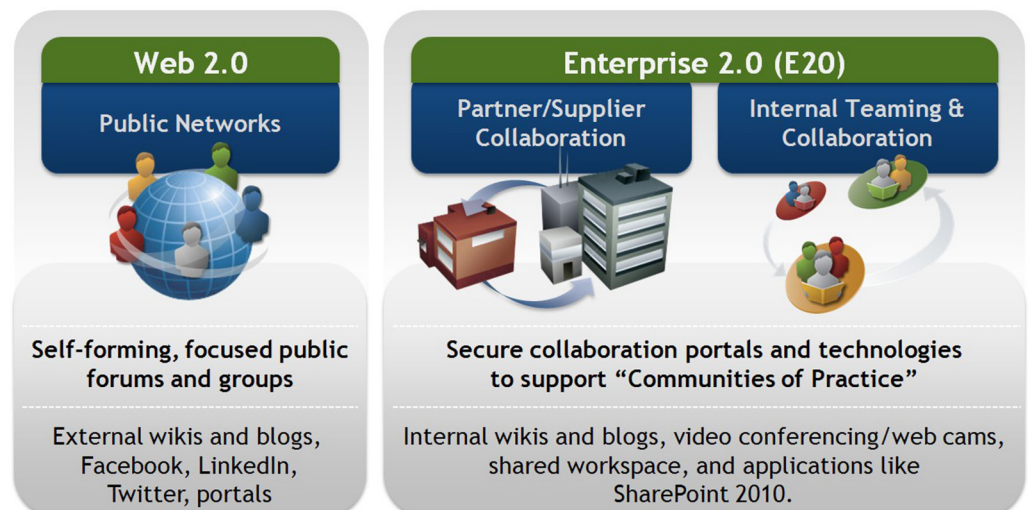
To understand how social media is impacting product innovation, Kalypso surveyed over 90 manufacturing and service companies followed by in-depth interviews of select businesses. The goal of the research was to better understand how the worlds of product innovation and social media are coming together to provide new business value in the form of Social Product Innovation.

Definition of Social Media – Social media is a set of applications that allows the creation and exchange of user-generated content in collaborative, community setting.

Definition of Social Computing – The practice of applying social media, Web 2.0 and Enterprise 2.0 technologies to business.

Definition of Social Product Innovation – The practice of leveraging Social Computing principles and technologies to support the product development process, innovation and business goals, programs and resources. Social technologies relate to innovation and product development in two key areas:

Figure 1:
Two Areas where Social Media Technologies Relate to Innovation and Product Development



The results of the research are promising. In short, Kalypso has found:

- Over one-half of surveyed companies are using social media in product innovation to some extent.
- Although the majority of responding companies has taken some action, most of these companies have only piloted the use of social media on a small number of their product innovation initiatives.
- Those using social media for product innovation are gaining business benefits, including more (and better) new product ideas or requirements, faster time to market, faster product adoption, lower product costs, and lower product development costs. More importantly, these improvements have resulted in higher market share and improved product revenue.

The research found companies in all phases of adoption. While some use social media in multiple phases of the product lifecycle, others are just using it in the front end of innovation and ideation phases. Still others are taking a passive approach, such as monitoring social networks for customer needs and gauging the market's perception of brand.

With widely varying approaches, there is certainly a need for more clarity and understanding of how companies can leverage social media in product innovation. Using social media in product innovation is not straightforward; there are no time-tested industry practices to turn to as a guide. Companies interviewed report a general lack of understanding within their organizations. Almost half (46 percent) of surveyed companies admit that they are not sure which approaches work best. Over one-third (36 percent) say they are challenged by a lack of internal expertise or best practices to follow.

Kalypso found that early adopters are leading the way with impressive operational and financial results. Ultimately, companies are more likely to succeed when they align innovation and strategic product development priorities with Social Product Innovation initiatives.

An Emerging Trend in the Early Stages of Adoption

While many companies are familiar with using social media for outbound marketing and communication efforts, leveraging social media for product innovation is a new concept for most. Interestingly, our research found that with Social Product Innovation, action despite a lack of strategy is not uncommon. While over two-thirds (70 percent) of those we surveyed are either using or planning to use social media for product innovation (Figure 2), only one-third (33 percent) of this group have a plan and only about half (51 percent) either have a plan or are developing one.

Our research uncovered practical Social Product Innovation examples that varied from grass roots efforts to formal strategies with established initiatives. While there are some early adopters with formal strategies and established initiatives, for most companies, this is still extremely new — only 22 percent have been doing it for more than a year (Figure 2).

Beyond the Obvious Social Networks
Social Media isn't all about LinkedIn, Facebook and Twitter. Here are some Web 2.0 examples of some focused self-forming public networks.

URL	Community For
Ravelry.com	craftspeople and designers
MyChurch.org	church networks
Eons.com	baby boomers
Focus.com	B2B experts
Bakespace.com	cooking enthusiasts
Advogato.com	free & open source software developers
Cafemom.com	mothers
Exploroo.com	travel buffs
DeviantART.com	artists

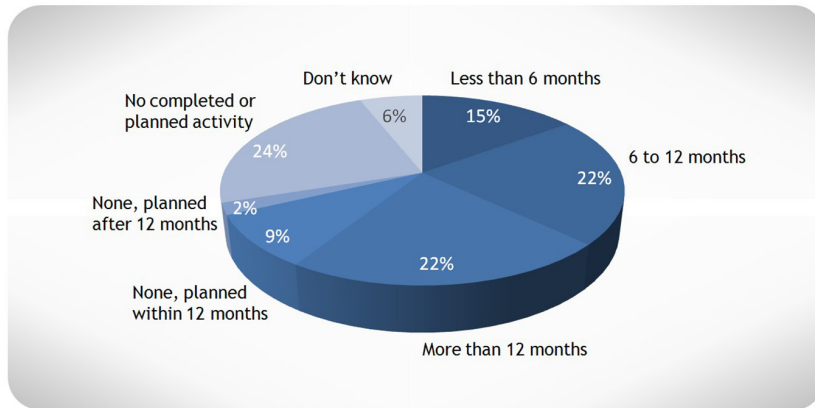
"Some new technology groups have engaged social media tools to put questions out there and are gathering responses, sometimes on a paid basis. It is open innovation combined with Internet."

A global material sciences company

"We utilize LinkedIn for product requirements, and have created a group where we talk to about 1,800 customers."

A software company

Figure 2:
Planned Use of
Social Media for
Product Innovation



“We use social media to gather ideas for product improvements and new product development, and also for tracking buzz for our products before launch.”

A global manufacturer and marketer of consumer products

“We separate our approach into 3 different social media outlets; Blogs, Facebook, and Twitter, and see each of these channels as serving unique purposes.

- Blogs targeted to build trust and encourage customers to come talk to the company
- Facebook targeted toward users who are very information-specific
- Twitter targeted for external communication of company news”

North American electricity provider

Clearly, companies are experimenting. In fact, most companies surveyed indicate that they are only using social media for a small percentage of their products or services. The research shows that companies have not yet applied this across the board; this is the early adoption phase where the majority of businesses are piloting and “testing the waters.”

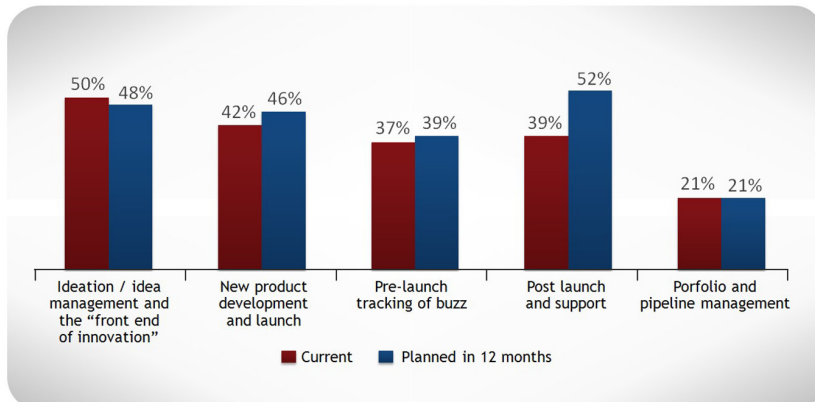
Leveraging Social Media in the Product Lifecycle

Many of the companies we surveyed have found a logical application for social media in ideation and crowdsourcing during the “front end of innovation.” Traditional product innovation methods like focus groups and formal market research can be time consuming because of the large amount of strategy and planning involved. Using social media to supplement these activities can save time and money.

Product innovation, of course, is not limited to the front end of innovation; nor is social media. While social media is currently being used primarily in the earlier phases of the product lifecycle, many of the companies surveyed indicate that they started by using social media as an outbound communications channel. The leaders are building on these early efforts and using social media for both product innovation and inbound marketing.

Kalypso research showed that use in the front end of innovation will remain relatively constant, but the use of social media in post launch and support is expected to grow by 33 percent over the next 12 months (Figure 3). The opportunity to gather feedback from customers is compelling, and will be an important evolution in the use of social media in product innovation.

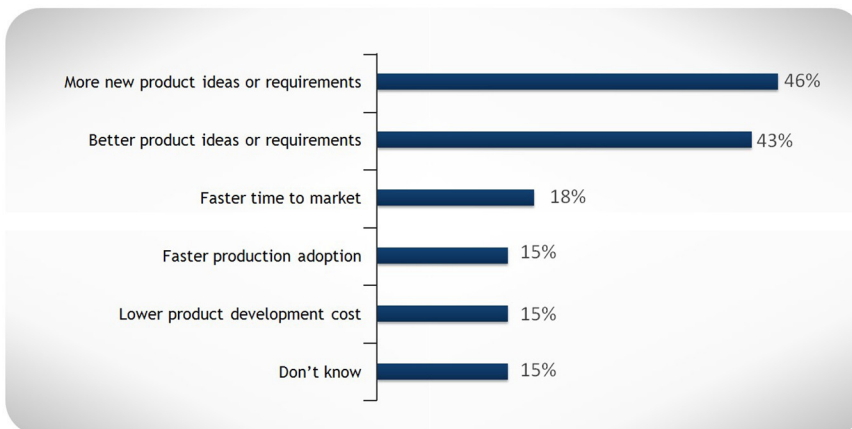
Figure 3:
Portions of the
Product Lifecycle
Using Social Media



Real Benefits in the Front End of Innovation

Social media can add value in many aspects of product management across various phases of the product lifecycle. This study looked at specific benefits achieved in the front end of innovation. For some companies, the benefits of using social media in the front end were clear. Interestingly, the most common approach combined social media with more traditional techniques. For example, one of the companies surveyed uses social technologies including Twitter, LinkedIn and Facebook to build a traditional focus group to test a new packaging concept.

But what tangible benefits have been achieved? In the front end of innovation, almost one-half of companies (46 percent) indicated that they have gained *more* new product ideas or requirements from the use of social media in product innovation (Figure 4). Perhaps more importantly, around the same percentage of companies (43 percent) have benefited from *better* new product ideas or requirements. Additional benefits reported include faster time to market, faster product adoption, and lower product development costs. These benefits contribute to the success of new products or services and help achieve higher product margins. As shown in Figure 4, the benefits are primarily top-line focused, but have also resulted in lower product development costs for many companies surveyed.



In addition to these soft benefits, there are tangible, financial benefits of using social media in the front end of innovation. The survey participants reported benefits as improvement percentages across a number of important new product development metrics. The results varied, as companies reported ranges of improvement from “no improvement” to “greater than 50 percent.” Kalypso used a conservative approach to represent the ranges by representing each range by the midpoint of the range or below, and calculated an average of the benefits achieved (Figure 5). Note that these percentages include those that indicated “no improvement.” The reported benefits would be higher if reported against only those that indicated improved performance.

“We launched a new product with a coupon on Facebook to redeem for product. The majority of customers were feeding back information; it began a conversation that extended.”

A global personal care products company

“We tested packaging concepts on Twitter for a small organic cereal company. They developed the product and wanted to test packaging concepts. We found the organic food channels, began messaging, and recruited 60 people. We got their addresses, sent them the packaging and asked for their opinion. All responded, and some wanted to continue to engage.”

A design services firm

“We use a social co-creation process with consumers for innovating new products.”

A food company

Figure 4:
Social Media Impacts in the Front End of Innovation

Figure 5:
Tangible Benefits of
Social Media in the
Front End of Innovation

Metric	Average Improvement
Faster time to market	16%
Faster product adoption	20%
Higher market share	6%
Improved product revenue	5%
Lower product cost	12%
Lower product development cost	15%

"Six of our last twenty-five features came from listening to social media."

A software company

"I have one example of a change driven from a conversation in the community that cut support call volume by over 50 percent on that topic."

A software company

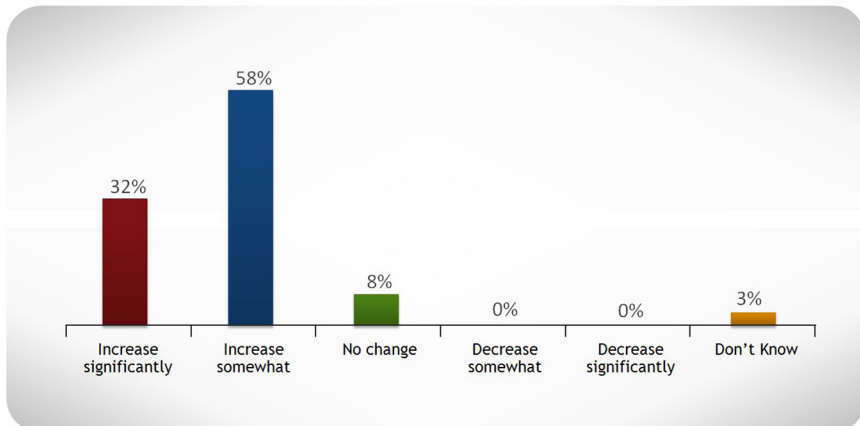
Companies significantly improved the metrics above. Although the benefits are likely based on a small percentage of products, the benefits are compelling and indicate a tremendous source of new value for companies. One example of concrete benefits is from a design services firm that used social media to recruit people to provide feedback on packaging for a new consumer product. According to the firm, *"The total cost was 1,600 GBP plus the cost of postage as compared to a comparable traditional focus group, which would be 5,000 GBP and would require six to seven groups to get to the right demographic."*

Companies that achieve the most success have a more well-defined Social Product Innovation strategy, and tie this strategy to their overall product innovation and development initiatives.

Trend is Growth Despite Challenge and Uncertainty

Many companies face challenges identifying leading practices and defining strategies. Despite these challenges, early adopters are gaining significant business benefits from their efforts. One of the best gauges that can be used to determine success in this early adoption phase is how many companies plan to increase their use of social media for product innovation. Of the companies that are using or planning to use social media for product innovation, development and management, 90 percent are planning to increase their usage over the next 12 months. No companies planned to decrease it (Figure 6).

Figure 6:
Change in Use of Social
Media for Product
Innovation, Product
Development and
Product Management



Companies that have started down the path of using social media for product innovation do not plan to back off. About one-third (32 percent) are planning to increase their use “significantly.” While initiatives are still in the early stages, they are gaining momentum. There is a feeling that there will be a fundamental shift, and few want to be left behind.

Conclusion

Social media applications are becoming more embedded into our everyday lives, both professionally and personally. With over one-half of survey respondents indicating that they are using social media for product innovation, there is a clear movement underway to leverage social media to help drive higher levels of product innovation and profitability. While the majority of the efforts today are small in scale, the early results are very promising.

The most successful Social Product Innovation initiatives are those that align with the company’s overall product development and innovation strategies.

Recommendations

- Pilot the use of social media and social computing technologies in product innovation, product development, and product management
- Learn from early experiences and develop corporate knowledge and expertise in these emerging techniques
- Identify organizational ownership of execution and include cross-functional resources in the development and evaluation of initiatives
- Share ideas and learn from others to take advantage of emerging knowledge and best practices
- Get started in order to reap the benefits from early projects and prepare to further leverage these capabilities as processes and strategies mature

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About Kalypso

Kalypso is the world’s premier innovation consulting firm, helping clients improve performance by delivering on the promise of innovation. Kalypso offers clients full service capabilities including Business and Innovation Strategy, Front End of Innovation, Portfolio and Pipeline Management, Development and New Product Introduction, Value Management, PLM Technology, Leadership and Learning, and Intellectual Property Management. For more information, visit <http://kalypso.com>. Follow [@KalypsoLP](https://twitter.com/KalypsoLP) on Twitter and on Facebook at <http://facebook.com/KalypsoLP>.

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