

# Innovation Acceptance



“All too often innovations fail to address customer needs.”

## Include the customer's perspective

All too often innovations fail because OEMs and suppliers know too little about customer requirements and do not pay adequate attention to innovation marketing. Only about one out of six innovations offered is actually purchased.

There are too many complicated innovations on the market to be received by the customers in the traditional intuitive way. Fewer and fewer drivers know about all functions in their cars. Even well-established functions remain hidden to many customers: 70 percent of German and U.S. car drivers know about ABS but only 40 percent are familiar with ESC.

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### Marketing focus

The car driver faces a flood of innovations. In addition to excellent functional improvements in innovations, the marketing process must be streamlined.

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Even though many former optional features have become serial equipment, optional features have multiplied: In the BMW 7 series, the total rose from 14 extras in 1986 to 92 in 2006. Today's customers are overwhelmed by the sheer number of serial and optional equipment. Complicated feature names and acronyms often make it difficult for the customer to even guess what function a given extra could possibly deliver. 35 percent of all Lexus GS features use acronyms and abbreviations.

Different customer groups have different perceptions of the benefits of automotive innovations. To a large extent, the success of innovative features also depends on regional differences: Asian car buyers, for example, are much more interested in infotainment electronics than their American counterparts. Most car buyers have only a limited budget for optional equipment, but their price sensitivity is largely unknown to OEMs.

The customers' limitations and differences in knowledge, desire and budget lead to a very low order rate for new car features. Once a new function has been bought, however, customers are very content with it.

A visit to 50 car dealers uncovered little interest in selling innovations and even less knowledge about their nature and benefits. Regarding innovations that are non-core to the specific car brand, only two percent was actively sold to the customer.

In the future, OEMs and suppliers must test the chances for success of their innovations much more thoroughly. They need to know in advance what innovations are desirable to which groups of customers of which brand. And they need to develop models that explain which innovation can succeed against which traditional function within the total features portfolio.

# Why innovations fail in the eye of customers

## Consumer polling

The voice of the customer will help to identify the most valuable innovations. Simple and clear messages should explain the advantages of an innovation to the end user.

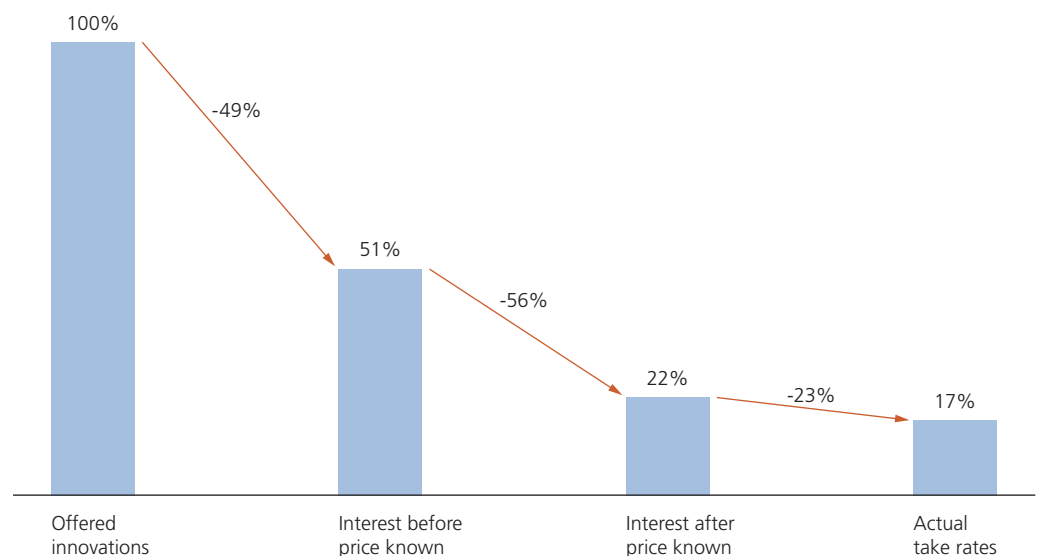
For “Car Innovation 2015,” Oliver Wyman polled 550 new-car customers in two big automotive markets: Germany and the United States. The customers were asked about acceptance and budget restrictions. A sophisticated marketing science tool (strategic choice analysis) was used to explore customer preferences about passive safety systems in connection with budget restrictions. Additionally, statistics on consumer behavior in the two countries were analyzed, and dealers’ knowledge and explanation of car innovations were checked in 50 test situations. Expert interviews were conducted at the OEM and supplier level to learn about the industry’s perspectives on key innovations. The results show that drivers feel overwhelmed by the huge number of innovations. In particular, the massive number of company specific names (4Matic, dynamic drive) and abbreviations (HCCI, JDLS) create confusion. “Car Innovation 2015” found one strong customer focus was the total cost of ownership. Customers overwhelmingly said they wanted a high level of mobility at an affordable price. This answer from consumers in two very highly developed automotive markets surely cannot be interpreted to mean that they just want a basic car. But the research does show that their basic focus is not on innovations but on mobility.

The dealer remains a primary information source in the sales process. “Car Innovation 2015” found out that some dealers take 12 minutes to explain innovations while others ignore them entirely. The average was five minutes. Mercedes-Benz dealers spent the least time on innovations, Lexus dealers the most. There was little connection between the emphasis that the brand put on innovation and the time that the dealer spent explaining or offering certain innovations.

The OEMs’ innovation marketing is clearly linked to the number of available innovations. Comfort and safety made up 46 percent of the OEM innovation portfolio during the “Car Innovation 2015” research. They also were the focus of the companies’ innovation marketing, with 56 percent of references. The topic “total cost of ownership” was among the lowest priorities in OEM innovation marketing (eight percent of references in marketing material), despite a share of 14 percent in the total number of innovations.

## Only 17 percent of innovations are bought by the customer

Sales success of innovations<sup>1</sup>



<sup>1</sup> Germany / U.S., based on 14 innovations in buying simulation

## Example:

### Assessing the take rate of optional equipment

Most automotive innovations are developed by suppliers – and most begin as optional equipment in new cars. As a result, it is hard for suppliers to adequately estimate how often their product will be ordered – the first uncertainty is how well the car will be received. And the second is how attractive the innovation will be to the customers of the new model. The estimates that the OEMs provide to suppliers tend to be overly optimistic and should not be used as a gauge for production planning.

In analyzing the buying intentions of car customers, “Car Innovation 2015” found a core set of extras that consumers tended to buy. Consumers will buy non-core extras only if they still have money in their budgets after they have bought the core set. However, the chosen extras differ not only by budget, but also by age group and region. For example, 45 percent of European customers over 55 years would like an automatic, while only 21 percent of younger customers want that extra. In Germany, 55 percent of all customers would order side airbags as an extra. But internationally only 46 percent would do so.

Using Oliver Wyman’s “Strategic Choice Analysis,” suppliers can determine in advance the range of the take rate for their extra. And what is more, they might adapt pricing, configuration or naming in ways that would increase their product’s chances of success.

## Implementation:

### Build customer understanding

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#### Involve your people

The OEM or supplier must involve every employee and put him or her into the position of the end customer.

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The results of “Car Innovation 2015” show that OEMs as well as suppliers need more knowledge about customer acceptance of innovations. That knowledge is vital feedback for prioritizing innovations, for conducting realistic planning and for improving innovation marketing.

Customer research on innovation knowledge and acceptance can best be conducted by choice analysis, identifying the preferences and price sensitiveness of complex buying decisions. The many questions to be answered for different markets include:

- How are innovations understood and valued in different markets?
- Which market demands which serial configuration and which extras?
- Which innovations highlight and strengthen the brand image? Which have the power to create differentiation in the market?
- How can dealers be motivated and supported to actively sell innovations?