The Innovator's Enigma

By JOHN BUSSEY

In the great game of product innovation, sometimes even a bunt is better than no swing at all. We look at P&G's decision, in the midst of an investor revolt over slow sales and management focus, to introduce a small innovation -- ZzzQuil, a sleep-aid riff off the company's cold medicine. (Photo: Procter & Gamble)

In the great game of product innovation, sometimes a bunt is better than no swing at all.

 Consider Procter & Gamble's new over-the-counter sleep aid ZzzQuil, introduced with fanfare in June.

 In recent investor and analyst conference calls—which have been hot with criticism of P&G's slow sales and management—the company has touted the elixir as an example of its innovative spirit. CEO Bob McDonald put the product in worthy company when he said P&G valued creating new brands and categories—"items like Tide PODS, Swiffer, Crest White Strips, or ZzzQuil."

 But ZzzQuil is hardly a breakthrough, or even a small discovery. P&G's NyQuil cold and flu medicine contains three active ingredients, one of which is an antihistamine that makes you drowsy. Consumers have misused NyQuil for years as a sleep aid even when they didn't have a cold.

So P&G took a familiar antihistamine, diphenhydramine, left out the other ingredients for a cold, and gave it its own package and name: ZzzQuil. No unification theory of the universe, this.

What's more, P&G was late: Competitors, such as Johnson & Johnson's JNJ +0.55% Tylenol PM Simply Sleep, got to market long ago with similar products. Benadryl is diphenhydramine.

"It's a sign of what passes for innovation at P&G," says an unhappy portfolio manager. "It's not enough. It's incremental, derivative."

 Then why when I talked to a number of company consultants and experts on innovation were they almost uniformly enthusiastic about what P&G's small new product represents?

 "People have made a fetish of what you might call innovation with a capital 'I,' " says Patrick Barwise, who co-authored "Beyond the Familiar," a book on marketing and innovation. "The reality is when you look at companies that produce long-term organic profit growth, a huge amount of what they do is incremental innovation."

He likens what P&G did with ZzzQuil—how it riffed off its established brand NyQuil—to the introduction of Tide detergent in 1946 and the dozens of tweaks and brand extensions that have made Tide a huge moneymaker ever since. Similarly, Orange, the telecom brand, nabbed customers with a small billing innovation: charging for seconds of use, rather than annoyingly rounding up to the next minute as others did.

And who cares if you copy, as long as you do it better, Mr. Barwise says. "Companies succeed in the long run by profitably meeting customer needs better than the competition," he adds, paraphrasing management-guru Peter Drucker.

ZzzQuil was something of a customer-led innovation, not unlike what happened at Avon years ago when the company discovered that consumers were using its bath oil, Skin So Soft, as a bug repellent. Avon's research found the other use so widespread that the company rolled out Skin So Soft Bug Guard.

Avon, in marketing-speak, pursued all customer "usage occasions"—both bath and bug. That may sound incremental, but it resulted in millions of dollars in additional sales for Avon and a boost for a core brand.

ZzzQuil "drafts off the brand of NyQuil, and it delivers on a need," explains Dave Tomasi, P&G's marketing director for its North America health-care business. He says customers knew NyQuil worked as a sleep aid when they had a cold. "This sprang from the idea of meeting the consumers' need when they didn't have a cold. It was really that simple."

He adds that the over-the-counter sleep-aid sector has about $500 million in total sales annually, and so far his business is good.

Bill Fischer, who teaches innovation and management at IMD in Switzerland, says big innovations—upheavals in an industry—are generally followed by periods of consolidation, and then by valuable incremental innovation involving the same product. Continuous improvement, or kaizen, has been Toyota's claim to fame, for example.

The trick is that the cycle tends to repeat itself. "Big guys get wiped out because they're so busy making incremental improvements, they fail to see the big challenges coming from a completely different realm," he says. KodakEKDKQ +1.28% and its failure to leap into digital photography fast enough is one example. NokiaNOK1V.HE +0.89% and the advent of the smartphone is another.

Wall Street also worries that if ZzzQuil is a big success, it won't be long before more (and ever cheaper) store brands muscle onto shelves and crush the business.

ZzzQuil "is a distraction" from bigger fish that need frying, says Ali Dibadj, who follows P&G for Sanford Bernstein. Sleep-aid sales won't move the growth needle much at a company as big as P&G.

That said, small innovations have their virtues, and the return on that distraction may be better than critics think. Mr. Dibadj grants that.

Something to sleep on.

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