

Breakthrough Innovation: How It Happened at AAA Mid-Atlantic

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ABSTRACT

AAA Mid-Atlantic was concerned about sustaining its strong market position over time. To forestall the possibility that interest in the future might weaken, AAA Mid-Atlantic engaged (r)evolution partners and Yankelovich, Inc. to lead a breakthrough innovation initiative. Several unique principles are central to the breakthrough innovation methodology pioneered by (r)evolution partners, particularly the creative integration of Yankelovich consumer insights. This innovation initiative for AAA Mid-Atlantic identified two specific concepts for immediate introduction. The first has exceeded expectations by nearly 60 percent and is on track to generate an incremental 3 percent in revenue and 33 percent in net contribution over the next five years. The second will be introduced in 2006 with a strong likelihood of similar success. A variety of other concepts have been added to the new product pipeline for AAA Mid-Atlantic, with an estimated potential of 48 percent in additional revenue by 2010. Most importantly, though, AAA Mid-Atlantic got an Innovation Roadmap from this initiative, a standard deliverable of innovation work led by (r)evolution partners. This roadmap gives AAA Mid-Atlantic a blueprint for millions in additional profits over the next five years as well as a structure for better tailoring its services and implementing future innovations.

AAA MID-ATLANTIC CASE

MAKING MAGIC HAPPEN

Breakthrough innovation is elusive. An original idea is at the root of most companies, but over time success makes a routine of novelty. This isn't bad, of course; it's just business. But innovation is no less important to endurance than it is to conception. Sooner or later, new ideas will overtake the tried and true. So established companies cannot rest on their laurels. The secret to longevity is constant reinvention and breakthrough innovation. Yet, more often than not, this proves to be baffling and unattainable, although not for lack of trying.

There is a thriving cottage industry of marketing innovation services. Every marketer has sat through hours upon hours of focus groups, one-on-ones, laddering interviews, ideation sessions, creative assessments, concept evaluations, research presentations, strategy conferences, ethnographic videos, storyboard reviews, brainstorming meetings, competitive analyses, brand summits, and more. There's little that most marketers haven't tried, but the good ideas that make for breakthrough innovation remain as elusive as ever. Coming up with a good idea seems like magic. Because in a sense, it is.

The genius of magic comes not from the supernatural but from a systematic, coordinated and synchronized management of the elements. It only seems mystical. In fact, magic comes from being in control.

The problem with most approaches to breakthrough innovation is that they leave too much to chance. When the magic happens, it's just happy serendipity. It happens, but it's a chancy and costly way of doing business. Breakthrough innovation can happen every time, though, as long as everything is carefully and scientifically managed. Not that it's easy. It isn't. It's hard, but it's not an enigma either. It can be made to happen. Which is what Yankelovich, Inc. and (r)evolution partners did for AAA Mid-Atlantic.²

SITUATION & BACKGROUND

The American Automobile Association, better known as AAA, has been strongly associated with emergency roadside assistance for over a century. In addition to roadside services, AAA sells a variety of offerings tailored to its members needs for travel, repair, insurance and more. AAA's 48 million users can take advantage of these services in over 110 countries. In the U.S., these services are made available through regional clubs that operate under the broader brand umbrella as independent business units.

In 2004, the AAA Mid-Atlantic business unit was the clear leader in its operating area with dominant market share. However, AAA Mid-Atlantic was concerned that without innovation its ability to attract new members in the future might start to level off, especially because of the increasing presence of private label emergency offerings from automobile manufacturers and insurance companies.

To avert the potential loss of future market share, AAA Mid-Atlantic decided to launch a broad-based strategic initiative to add something innovative and enticing to its portfolio in order to continue to grow revenue and margins.

The AAA brand is highly trusted and almost universally recognized. AAA Mid-Atlantic wanted to build from this powerful presence to make its membership offerings relevant and appealing in ways that would anticipate future trends and keep its business growing strongly and steadily. While many innovations had been introduced in other parts of the business, nothing new had been launched with regard to membership since the mid-nineties.

So, AAA Mid-Atlantic decided to undertake a membership innovation initiative in keeping with its overarching vision of "exceeding member expectations in everything we do." The key objective was to develop a set of high-potential concepts appealing to existing customers as well as new prospects that could drive revenue by leveraging existing assets and competencies.

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² Yankelovich, Inc. and (r)evolution partners work together in partnership for innovation, ideation, workshop and concept development services. Yankelovich, Inc. (www.yankelovich.com) specializes in lifestyle trends, customer segmentations, marketing communications and database targeting solutions. (r)evolution partners (www.r-evolutionpartners.com) specializes in innovation, marketing strategy and branding.

INNOVATION

To jumpstart the breakthrough innovation it sought, AAA Mid-Atlantic engaged Yankelovich and (r)evolution partners. (r)evolution led the initiative and Yankelovich provided the essential grounding in consumer insights.

The (r)evolution innovation process is a highly structured, carefully orchestrated approach that systematically incorporates several proven principles.

- An innovation process must include a strategic assessment of the areas in which to innovate. This includes a trends review, a competitive analysis, and an internal audit of assets and capabilities (including brand equities). Many ideas can be generated for any strategic initiative but unless they fit the overall strategic framework and conditions, they are inappropriate and wrong.
- Ideation insights must be drawn within the context of the strategic assessment. In addition to simply thinking about the implications of the information, this means getting experts involved. Typically, (r)evolution partners interviews five to ten subject matter experts in preparation for any work and includes one or two of them in the actual brainstorming meetings.
- The ideation sessions must be carefully structured. (r)evolution partners thinks a lot in advance about every element. The participants – how many and exactly who attends from the client; which experts and what is the role for each; who has the best style and experience to facilitate for the audience and objectives. The environment – filled with things big and small that are inspirational and relevant to the objectives. Even the food – if the session goes past lunch, for example, the rule of thumb is to go heavy on the salads and light on the carbs.
- Prioritization and validation of the ideas is as important as the situation assessment. (r)evolution partners starts with a matrix of 15 criteria, including elements like brand/company fit, competition and substitutes, operational complexity, and financial objectives. These criteria are used for both qualitative and quantitative validation.
- A particularly important criterion is the likelihood of creating sustainable competitive advantage. It is important to find ideas that leverage capabilities and assets that only the client can access or leverage. Otherwise, the exciting new twist will be completely indefensible. Too often, a breakthrough innovation can be copied by everyone, which only increases competition and erodes margins.
- Strict validation criteria are a must. When thresholds are too low, the ideas that are hardest to achieve are often passed over for easier ideas. Yet, the hardest ideas are usually the ones with the most sustainable advantage (because it is literally true that if it were easy, everyone would be doing it already).
- Validation testing must be constructed to produce unique insights. While standard research methods are useful, the breakout ideas tend to come from research like focus groups with Marketing Moms (i.e., moms who left senior marketing positions to stay at home with young children) or online studies with Brand Traitors (i.e., consumers who recently switched from the client brand to its biggest competitor).

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- Finally, (r)evolution partners helps build the business case, which is essential for securing strong buy-in from stakeholders like senior management and partner organizations. A business case presents the idea in a way that can be measured against other priorities so that people can visualize its success. One crucial component of this is the actual illustration of the concept. It's not just that a picture is worth a thousand words. Pictures bring the magic to life.

All of these principles were crucial to the project for AAA Mid-Atlantic. The first step involved an evaluation of the marketplace environment within which any innovations would have to take root. For this, the team turned to Yankelovich for its insights into consumer lifestyle trends. Several macro trends relevant to AAA Mid-Atlantic's situation were explored in detail, including the growing desire for community and connection, the increasing caution about making large expenditures that might not fulfill expectations, and the greater prevalence of person-to-person car sales. Additionally, the consumer target of interest to AAA Mid-Atlantic was segmented and prioritized based on demographics, psychographics, behaviors, and service preferences.

As part of this overall background review, interviews were completed with internal stakeholders, consumers, and experts. A competitive review was also undertaken to ensure that any innovations would be unique, relevant, and executable in the expected competitive environment.

With this strong foundation of internal input, external research and consumer insights AAA Mid-Atlantic and (r)evolution partners began the process of ideation. The ideation sessions produced over 400 concepts. These ideas were evaluated through an analytic screening process that identified the few potential breakthrough opportunities. Starting with a matrix of fifteen criteria, the concepts were screened on factors such as alignment with brand vision, relevancy to target, ability to leverage AAA assets and equities, and the approximate market size of the opportunity. Once the concepts with the greatest potential were identified, each concept was assessed through validation research.

Quantitative research showed that interest across the 30 concepts ranged from 40 percent to 80 percent of respondents. To optimize the level of interest, AAA Mid-Atlantic and (r)evolution partners worked with professors from The Wharton School (at the University of Pennsylvania) to design a modeling analysis to identify the optimal combination of benefits for offerings directed at new members. Specifically, the goal was to determine the combination(s) that would maximize market share while yielding the highest contribution per member.

RESULTS

There were two key results from the breakthrough innovation initiative led by (r)evolution partners and Yankelovich, Inc. First, two specific concepts were identified. Because AAA Mid-Atlantic has built a substantial and comprehensive infrastructure around its existing membership packages, these new product innovations are able to leverage the existing platform in robust ways that are aligned with consumer preferences.

One of these innovations – Premier Membership Package – was launched during 2005. It includes an additional towing benefit called “On Your Way” that gives members a complimentary taxi-ride with each AAA tow. And on the basis of modeling results from optimization research about combinations of service elements, it also includes one 200-mile tow per household and five service calls per member.

To date, the results for Premier Membership Package have exceeded expectations. Instead of the projected 5 percent response rate, AAA Mid-Atlantic has seen an 8.5 percent response rate so far. In particular, call center personnel report that members are particularly interested in the “On Your Way” and 200-mile tow elements, both of which were key ideas generated during the ideation and validated by the optimization research. The Premier Membership Package is expected to generate a 3 percent revenue increase and a 33 percent increase in net contribution over the next five years.

The other concept – Travel Add-Ons Package – will be launched during 2006. This package includes worldwide family and emergency medical transportation, a free Hertz gold membership, waiver of airline and rail processing fees, concierge services, and navigational route support. This package also enables frequent travelers to customize their membership to better meet their personal needs and interests. This package is expected to provide strong returns, too. Thirty percent of members surveyed said they would purchase it.

Beyond these two concepts, many more ideas were generated that are now in the new product pipeline. Collectively, it is estimated that they could generate an incremental 48 percent in revenue by 2010.

In addition to these specific concept ideas, an Innovation Roadmap was delivered to AAA Mid-Atlantic. This is a standard deliverable from the innovation work done by (r)evolution partners and Yankelovich, Inc. This roadmap gives AAA Mid-Atlantic the blueprint for a process that could yield an estimated \$23 million in additional profits over the next

five years. This roadmap provides direction and focus for the wide array of membership offerings by creating a structure to better tailor specific services to customer needs and to reduce the complexity of implementing innovations.

CONCLUSION

Ed Morris, Vice President of Membership for AAA Mid-Atlantic, had this to say about the overall impact of the breakthrough innovation initiative led by (r)evolution partners and Yankelovich, Inc.:

“Leveraging our powerful brand through innovation was the key to our long-term success.”

“Several years ago we determined that we could not continue with business as usual. Leveraging our powerful brand through innovation was the key to our long-term success. From the ground up, with the (r)evolution partners and Yankelovich, Inc. team, we devised a breakthrough approach and generated numerous concepts grounded in trends and member research. We have recently launched the first of these innovations and our results to date have already

exceeded our expectations.”

By stepping forward and moving to the cutting edge of innovation before it was absolutely necessary, AAA Mid-Atlantic has continued to fulfill its promise to members to constantly exceed their expectations. As a result, AAA Mid-Atlantic has protected its future position and ensured that it will continue to grow its revenue and margins by providing highly valued automotive, travel, financial, and insurance services to its members.