CONSUMER CONNECTION X 2014

KANTAR WORLDPANEL'S CLIENT DAY

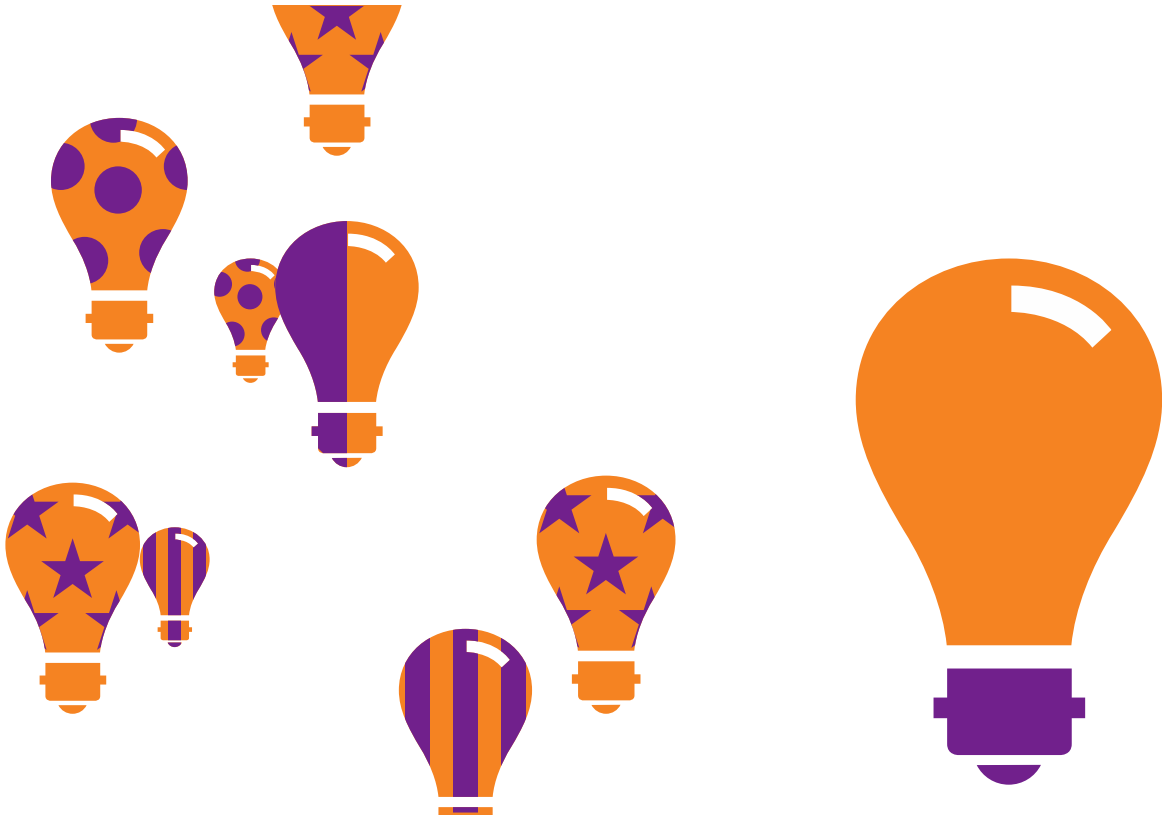
If businesses are to deliver the returns that stakeholders demand, they need a bigger contribution from their innovation efforts

Creating Growth in China via Innovation

Ray Crook, Mufan Chen

stay tuned

WHEN IT COMES TO NEW PRODUCT IDEAS…



…traditional research believes “biggest is best”

This was okay when markets were simpler & less fragmented

TRADITIONAL MARKETERS DEFINITION OF A SUCCESSFUL INNOVATION:

Survival

The new product is still in distribution after 2 years

NUMBER ONE PRIORITY FROM THE C-LEVEL STAKEHOLDERS

Innovation should drive

Growth

KANTAR WORDPANEL AND TNS ORIGINALLY ANALYSED 3,500 NEW PRODUCT LAUNCHES

- Using Kantar Worldpanel data
- Originally in developed markets
  - 5 years of new product introductions
  - Across 4 categories
- But also now in over 200 cases in China

	Number of launches analysed (Developed Markets)
Laundry detergents	180
Savoury snacks	133
Soft drinks	2,883
Skin care	292

THEN WE LOOKED AT SURVIVAL: SALES VOLUME FOR THE NEW PRODUCT IS A STRONG PREDICTOR OF SURVIVAL

% of products that survived 2 years after launch

	Laundry detergents	Soft drinks	Savoury snacks	Skin care
High volume	92%	45%	77%	84%
Medium volume	70%	25%	60%	52%
Low volume	25%	23%	45%	38%

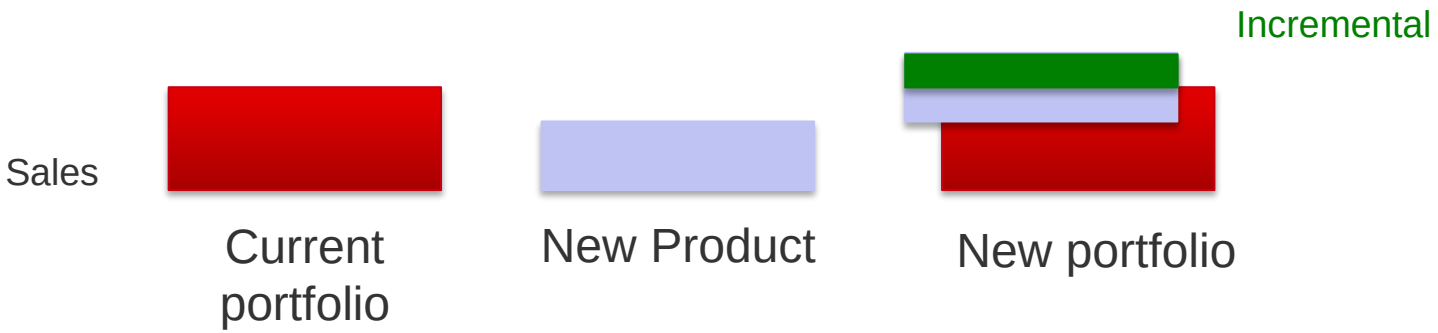
So: focusing on volume alone is valid,
if you accept survival as the definition of success

BUT WHAT ABOUT TRUE GROWTH

To classify where the new product sales were sourced from each launch was classified as:

- High incrementality
- Low incrementality

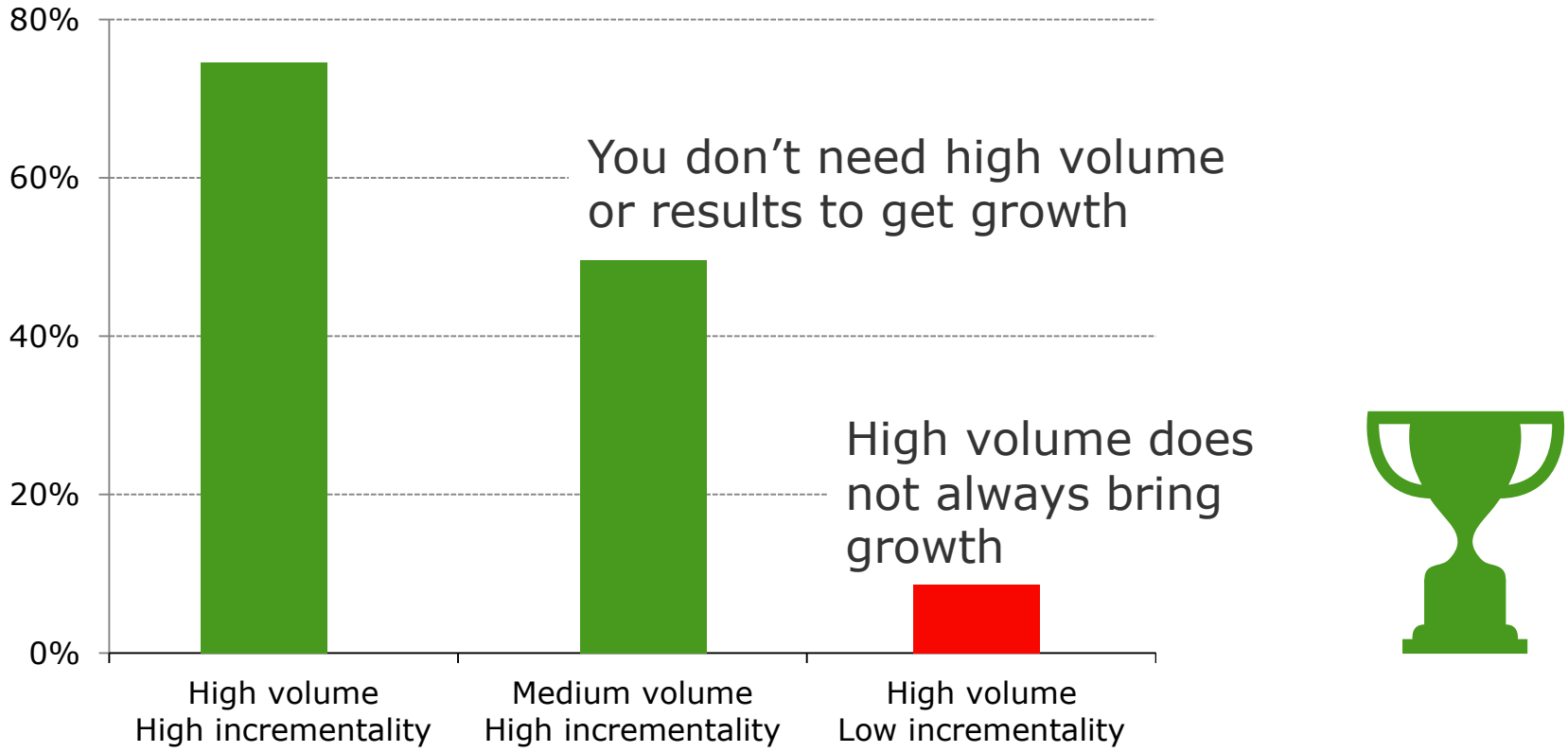
Incrementality = % of sales remaining after removing cannibalisation



BIGGEST IS NOT ALWAYS BEST IF YOU ARE LOOKING FOR GROWTH

Laundry detergents (Developed Markets)

Probability of successful growth (%)

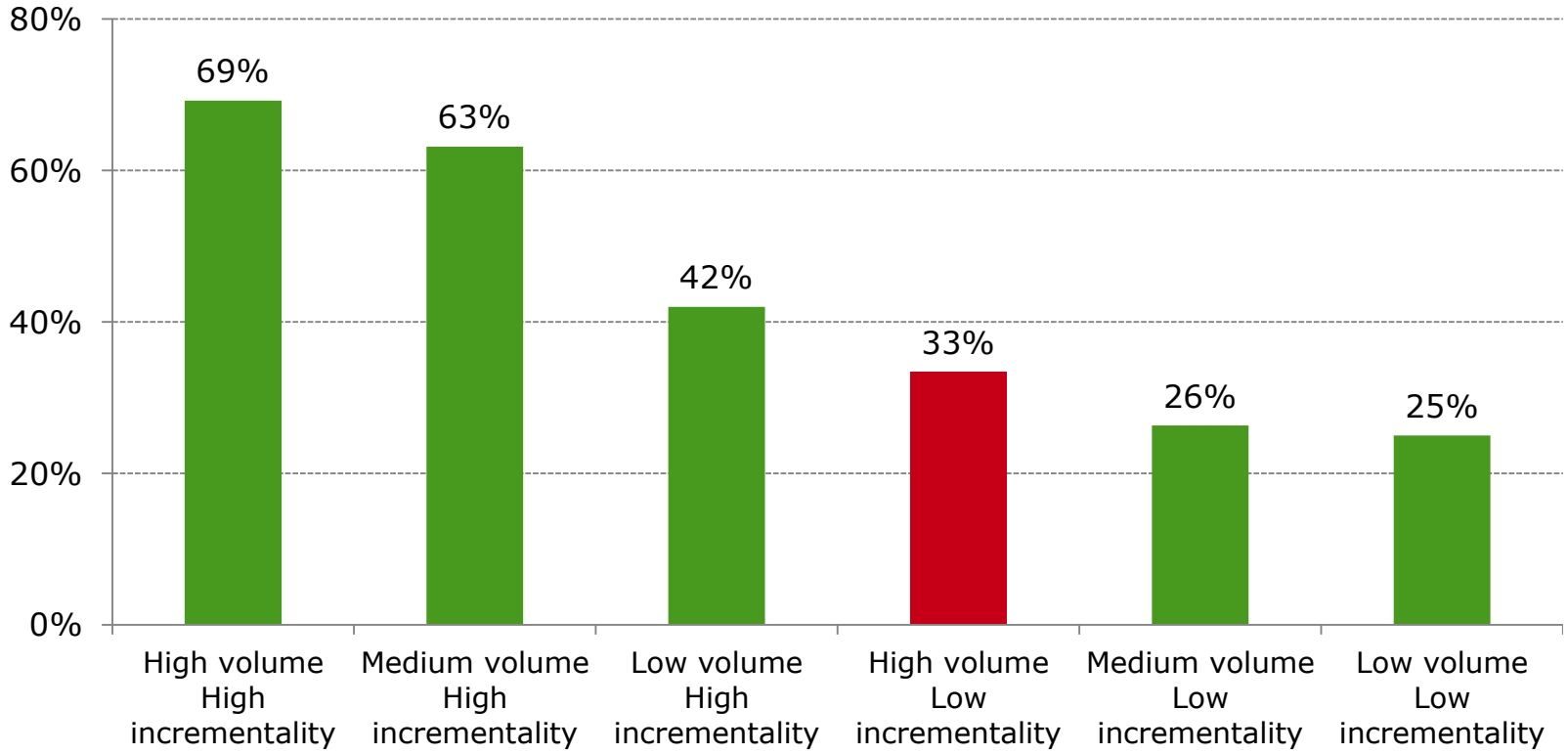


* Successful growth: Survive and encourage parent brand to grow above category pace

THE SAME HOLDS TRUE IN CHINA. INCREMENTAL GROWTH IS THE REAL DRIVER

Probability of full success

200+ new products over past 4 years among Beverage, Milk & Yoghurt, Gum & Mints, Snack, Chocolate, Biscuit, Coffee, Shampoo, Toothpaste, Laundry categories.



FURTHER FACTS FOR CHINA

AMONG THE LAUNCHES

45%, 19%, 4%

45% stayed on shelf after 3 years,
only 19% delivered significant incremental gains,
only 4% delivered high volume & high incremental gains

Source: KWP database of 77 categories

FURTHER FACTS FOR CHINA

1.5%, 50M is the average launch penetration and sales value (RMB) after one year.

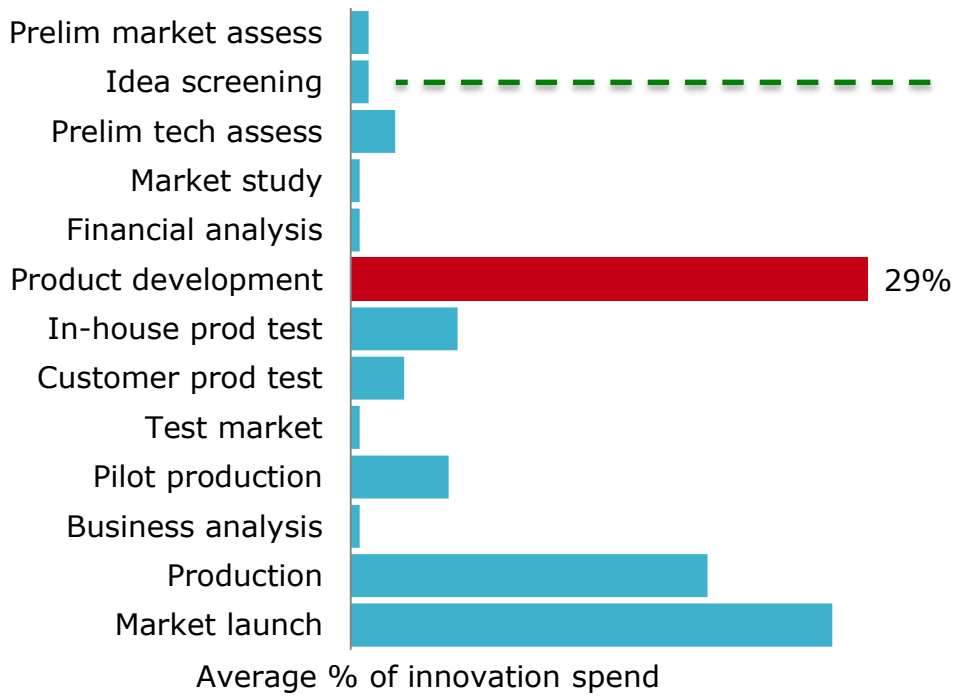
31% of buyers of a new product are new users; **11.8M** are incremental spending of the brand.

On average, new products bring **2.7%** growth to the mother brand

* Based on 200+ new products over past 4 years among 10 categories.in China.

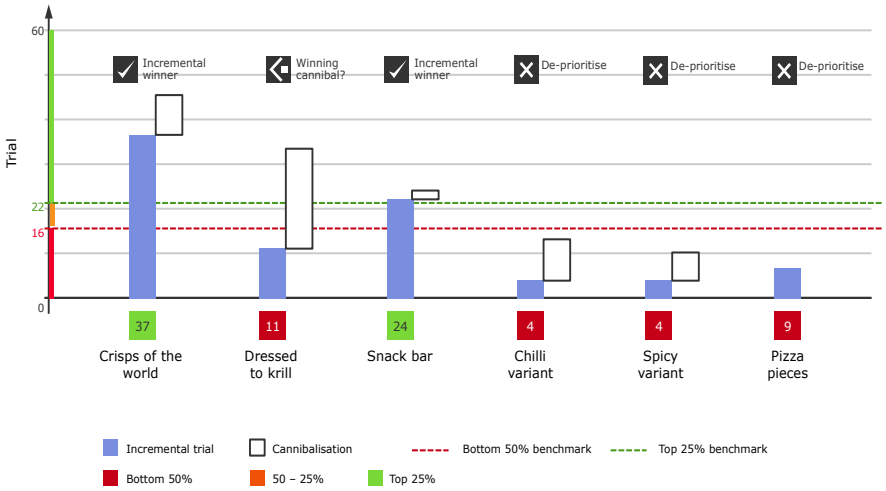
THE DECISION NEEDS TO HAPPEN & HAPPEN EARLY

Once the decision has been made to invest in product development it is difficult to 'put the brakes on' a project



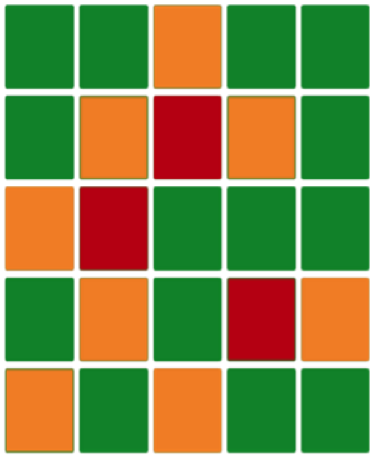
Source: Cooper & Kleinschmidt

Accurate incremental assessments can be made early in the innovation journey



INCREMENTALITY MAKES A DIFFERENCE TO YOUR RECOMMENDATIONS, WE MUST MEASURE IT

In 44% of cases you would make a different screening decision



Progress

Rework

Kill

INCREMENTAL GROWTH – HOW TO ACHIEVE IT

To win growth we must minimise the cannibalisation, to achieve this the extension must:

Bring in totally new buyers

Grow the category

Meet different usage occasions than the parent brand

Not be used as a straight swap for the parent

Draw on the Affinity strengths of the parent, but offer functional differences

INCREMENTALITY - BRING IN TOTALLY NEW BUYERS

- Snickers 20G: 1.5 RMB
- Traditional trade & low tier city

51% buyers of Snickers 20G were brought in exclusively by this new products.

* New products evaluation refers to its first 52 weeks performance since its launch.

INCREMENTALITY - GROW THE CATEGORY

- 2.2% Penetration, over 40M in revenue
- 99% Buyers are new to Schweppes
- Blur the category boundary: 3% switching volume from Fanta while 10% from Functional drink

- Samsung blurred boundary between tablets and phones

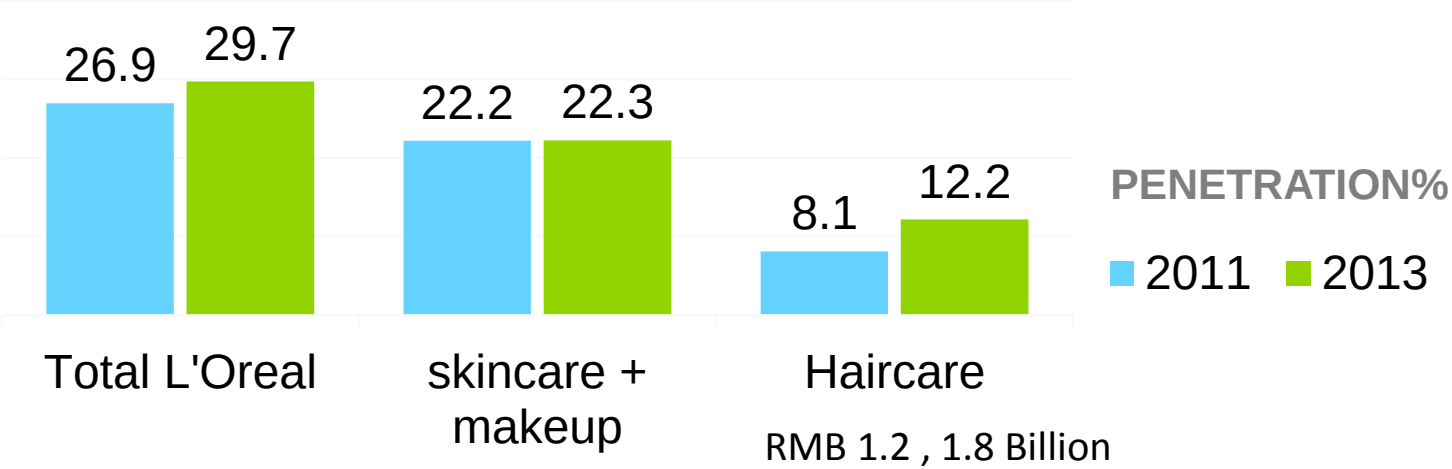
* New products evaluation refers to its first 52 weeks performance since its launch.

INCREMENTALITY - MEET DIFFERENT USAGE OCCASIONS THAN THE PARENT BRAND

BB CUSHION

- In Korea 2012→2013:
  13%→23% penetration%

INCREMENTALITY - NOT BE USED AS A STRAIGHT SWAP FOR THE PARENT



DRAW ON THE AFFINITY STRENGTHS OF PARENT BRAND, BUT OFFERING FUNCTIONAL DIFFERENCES

White Doctor Gown

- **Dependable**
- **Authoritative**

Professional in
Sensitive teeth

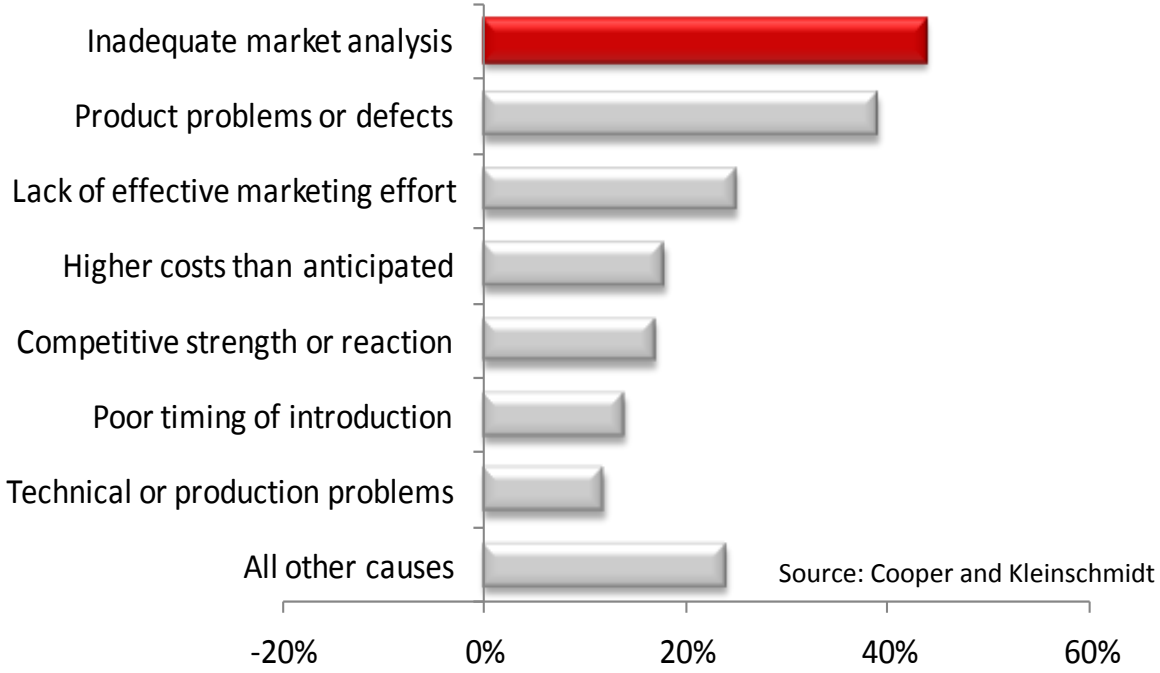
Whitening: **<u>7.3 out of 10M</u>** are net increment.

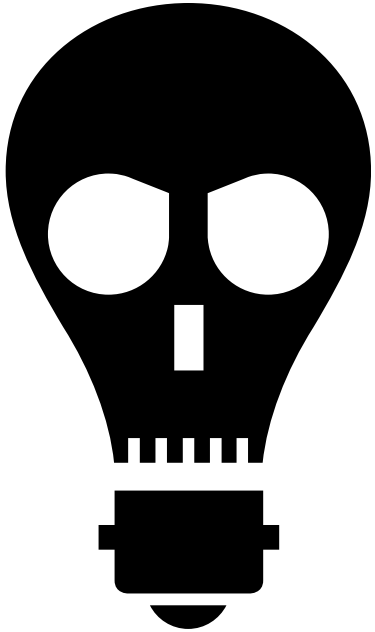
Gum care: **<u>15.9 out of 22M</u>** are net increment.

* New products evaluation refers to its first 52 weeks performance since its launch.

WHERE DOES IT GO WRONG?

Main causes of new product failure:





Most often causes for low incrementality

1. It is not seen to be differentiated
2. Low effective awareness generated by advertising
3. Pack designs often not sufficiently differentiated, resulting in low standout in store (especially for current non-buyers of the parent)

WATCH-OUT: ITS NOT SEEN TO BE DIFFERENTIATED FROM CURRENT OFFER

Differentiation Sweet spot

- Market gap
- Portfolio gap
- Deliver key benefits

Fortify to Avoid

Consumers here want not only a positive effect on health in general, but also a solution that will help them avoid common health worries of today in a natural way.

	Need State Requirements	Ambient white milk %Agree	Premium plain milk %Agree	Lactobacillus drink %Agree
Health Maintenance	Has positive effect on health	69	65	36
	Prevent the three highs	31	19	12
	Heart-healthy	32	41	16
	Helps boost your immune system	50	50	40
	Helps maintain healthy cholesterol levels	43	25	17
	Improves blood circulation	35	25	26
	Helps hydrate properly	50	25	27
Balance	Good balance of taste and health	50	38	31
	Promotes body harmony/ inner balance	55	40	19
Natural	All-natural ingredients (no additives)	42	32	11
	Natural taste, not heavily processed	31	15	3
	Natural color, not heavily processed	49	32	12
Digestion	Helps digestive system work at its best	32	26	57
	Soothing to the stomach	58	49	27
	Easy to digest	43	43	39
	Contains easily-absorbed nutrients	55	56	36
Trusted Quality	Guaranteed to be safe	30	51	23
	No side effects on human body	54	37	26
	Hygienic	44	55	26
	Has scientifically-proven benefits	52	53	33

Best in class
Product innovation opportunities

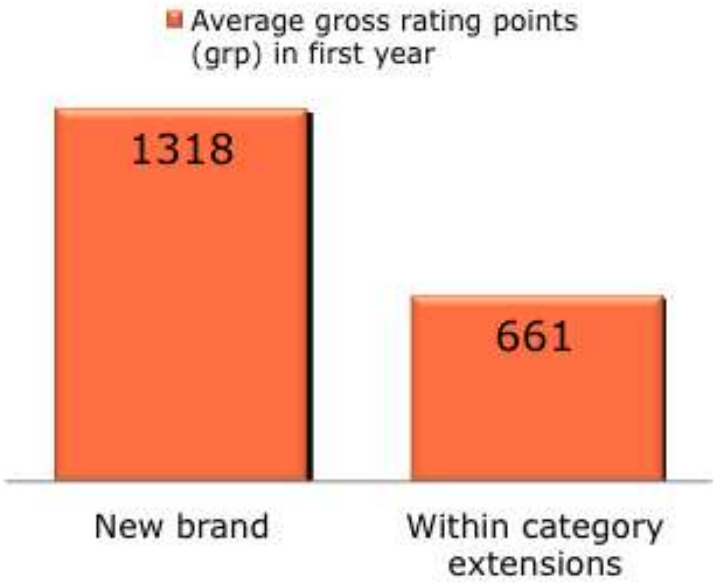
Yili partnered with Danisco and launched **Meiyitian** based on the key drivers & benefit market gaps; containing 30 billion Lactic acid bacteria and claiming 0-fat to be no-burden to cardio-vascular related concerns

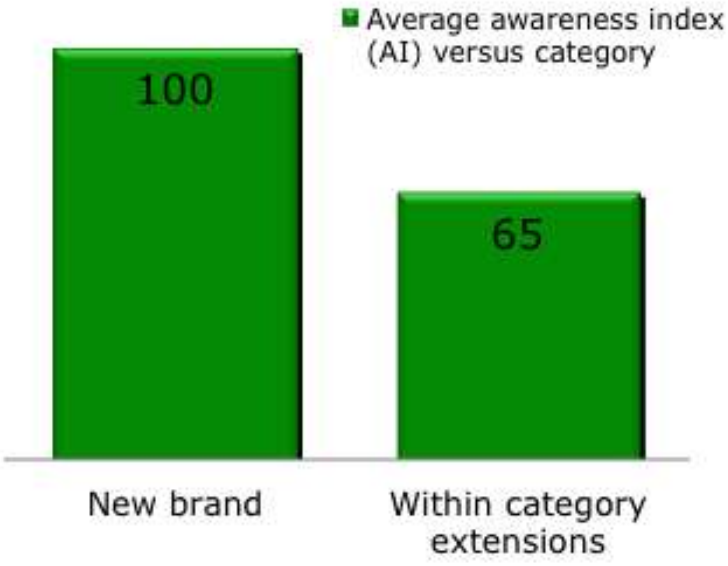
WATCH-OUT: DELIVERING DIFFERENT KEY BENEFITS WOULD INCREASE INCREMENTAL VALUES

	INCREMENTAL % IN VALUE
Oreo	
Oreo Ice Cream ('10) **Oreo Mini ('10)**	*32%*
Oreo Double Fruit ('11) **Oreo Birthday Cake ('12)**	*24%*
Oreo Mini Wafer Cube ('13) **Oreo Mini Straw ('13)**	*15%*

* New products evaluation refers to its first 52 weeks performance since its launch.

WATCH-OUTS: LOW EFFECTIVE AWARENESS GENERATED BY ADVERTISING FOR EXTENSIONS





The more different or incremental the extension is to mother product, the more you need to treat it as a new brand. Without support, consumers rely on the packaging to convey the message.

Source: Millward Brown

WATCH-OUTS: PACK DESIGNS NOT SUFFICIENTLY DIFFERENTIATED

- Pack designs often not sufficiently differentiated, resulting in low standout in store (especially for current non-buyers of the parent).

Daily C Red Guava & Kumquat Lemon:

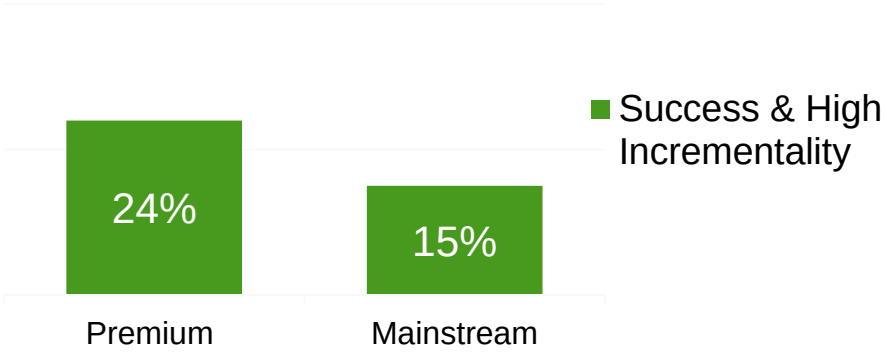
22% incremental consumer; lower than the average of 37% among beverage.

* New products evaluation refers to its first 52 weeks performance since its launch.

TRUTHS, MYTHS & QUESTIONS THAT ARE ALWAYS RAISED

- Premiumisation – why does it succeed sometimes but not always
- Should we look to launch prestige products
- Should local players focus on prestige or masstige innovation
- Do the number of product innovations correlate with the growth rates
- Exclusivity for retailers, should we give it
- What happens to brands & categories that don't innovate
- How should I launch
- What impact can digital have on my launch

PREMIUM INNOVATIONS DO HAVE A GREATER CHANCE TO PROVIDE INCREMENTALITY



54% of MNC's innovations are premium products; and only **27%** of local company's innovation are premium.

And local deliver premium incremental growth **30%** more often than MNCs!

* Based on 200+ new products over past 4 years among 10 categories.in China.

7 THINGS TO GET INCREMENTALITY

1. Understand the market and identify all the incremental growth opportunities (gaps) first
2. Identify which key benefits of that gaps will drive the growth
3. Test the correct innovation to pursue (via incremental growth) at the start of the journey
4. Deliver exceptionally on those key benefits
5. Consider different strategies (New buyers, occasions, category fragmentation, new category, higher margins)
6. Draw on the affinity strengths of the parent, but offer functional differences
7. Watch out: lack of differentiated benefits & packaging, low support

Thanks!

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stay tuned