INNOVATING FOR GROWTH

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INCREMENTAL INNOVATION

MORE VALUABLE INNOVATION

INNOVATION DRIVERS

KANTAR WORLDPANEL

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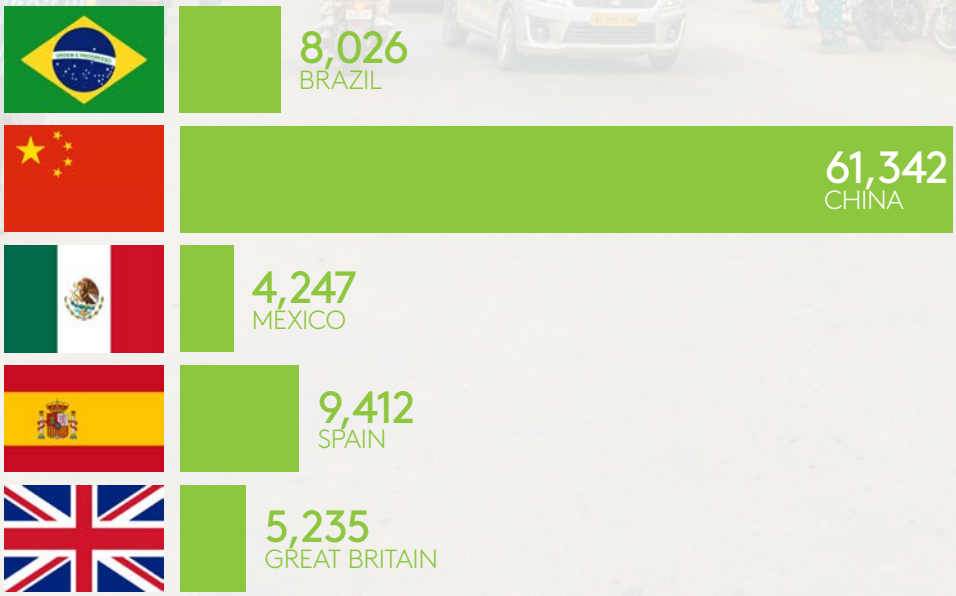
IN THIS REPORT...

We have identified all innovations from the last two years in a sample of five markets spanning both developed and developing markets: Brazil, China, Mexico, Spain and Great Britain.

A total of 88,262 new products have been in the market for at least one year. For the purposes of this report, and in order to give a fair reflection from across our markets, we are going to filter our study to those launches that achieve either 1% market penetration or reach at least 500,000 households in a year.

Overall, we will be analysing a total of 1,111 'top launches' across 38 different categories.

Number of launches in the market for at least one year, by country



INNOVATING FOR GROWTH

Innovation is an important part of a company's strategy for growth. As former P&G CEO Bob McDonald once said, "We know from our history that while promotions may win quarters, innovation wins decades."

Billions of dollars are poured into research and development every year to try and find the next hot product. Much of the work that goes in doesn't make it beyond the prototype stage and, of those that are launched into the market, only a small percentage go on to make a significant impact. Those products that make an impact are significant because they enable the company to grow. Of the 500 top performing brands globally, 80% had new launches across a 12 month period[1].

Of the 88,262 new stock-keeping units (SKUs)[2], only 931 or 1.1% of these managed to reach a market penetration of 1% in year one

The reality is that most brands are already established in a market and so the bulk of their innovation is about a refinement or addition to an existing product, although there are some genuinely new products created as well.

While innovation has clearly gained prescience in the thoughts of brand marketers, even by conventional measurement, a great deal of new product development only reaches a very small proportion of the population.

Kantar Worldpanel created this report because we believe that innovation can be more efficient.

And that starts with how we measure success.

1. Taken from Europanel's BG20 2015 study looking at brands with +5% growth across 13 countries.

2. SKU or stock keeping unit is the individual code assigned to each new product launched.

INCREMENTAL INNOVATION

To calculate the success of an innovation, you need to know far more than just how many units have been sold.

You need to be able to identify consumers' previous buying behaviour in order to calculate whether the new purchase is adding value, or simply shifting spend.

OUR METRIC FOR SUCCESS

We have developed a metric which demonstrates the extra, or incremental, value added by new product development. Using our shopper panel data, we model every transaction for new launches. We look at this against what purchase history shows would have been the most likely purchase for the household in a category without the launch present. We then compare these two scenarios and calculate the specific impact on value spend and volumes purchased.

This allows us to attribute the purchases of the launch into four discrete groups:

NEW SHOPPERS

New launch transactions that are from shoppers who would not have purchased the category otherwise

UNEXPECTED TRIPS

Transactions where a shopper has added an additional category trip to their cycle, without product substitution

CHANGED VOLUMES

Increased or decreased the category volume purchased in the transaction

HIGHER PRICE

Increasing the value of the category by moving consumers up the value chain

The analysis has shown that 85% of launches make shoppers deviate significantly from previous category purchasing habits

MORE VALUABLE INNOVATION

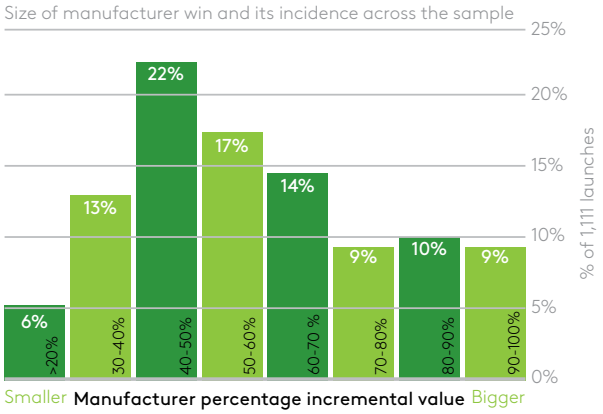
There are two types of incremental impact that we can measure: the value to the manufacturer in terms of their overall portfolio and the value to the category as a whole.

MANUFACTURER VALUE

The impact of new product development for the manufacturer is fairly clear cut and positive. In terms of shifting volumes, all launches benefit the manufacturer overall.

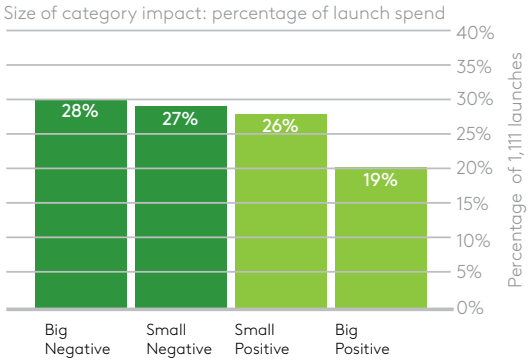
Even if the product itself performs poorly, it never cannibalises the manufacturer's existing brand to the extent that it is a negative impact overall. The brand also benefits in-store from an increased portfolio—being more visible at the time of purchase will have a positive effect on the brand as a whole. This has as much to do with retail management and consumer behaviour as it does the popularity of the new product.

The most common outcome for the manufacturer is a gain of 40-50%, meaning 40-50% of new launch sales are 'won' from other manufacturers within the category. In terms of value, brands have a 50:50 chance of achieving over 60% of new product sales as incremental to their portfolio[3].



CATEGORY VALUE

If innovations are only succeeding as a result of stealing share from other manufacturers, though, it can amount only to a zero-sum game as brands jostle for share amongst themselves. Growing the value of the category as a whole is more beneficial over the long term. By calculating the incremental impact of all 1,111 new launches in our study (which we will refer to as 'top launches'), we found that 506 have a positive effect on category sales—that's 46% of all launches.



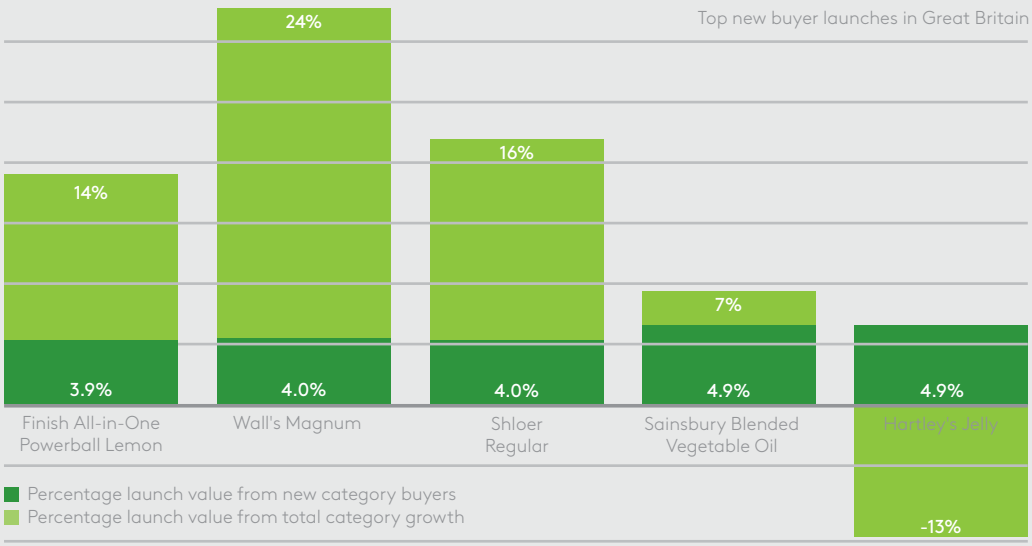
However, as launches get bigger, the percentage contribution of category impact tends to be smaller. Most won't impact the category by more than 20%, and none more than 40%. In fact, the biggest six launches we measured had a negative effect on category penetration. Big launches that have a positive effect on the category are rare, but hugely rewarding.

One example is the Warburton's giant crumpets launch in Great Britain, which had a significant investment of $8.57 million and resulted in a category value increase of 9.3%.

3. This is all from a purely 'in-market' perspective, monitoring the shift in shopper spend—not accounting for the additional spend manufacturers invest to support launches (R&D, manufacturing, advertising)

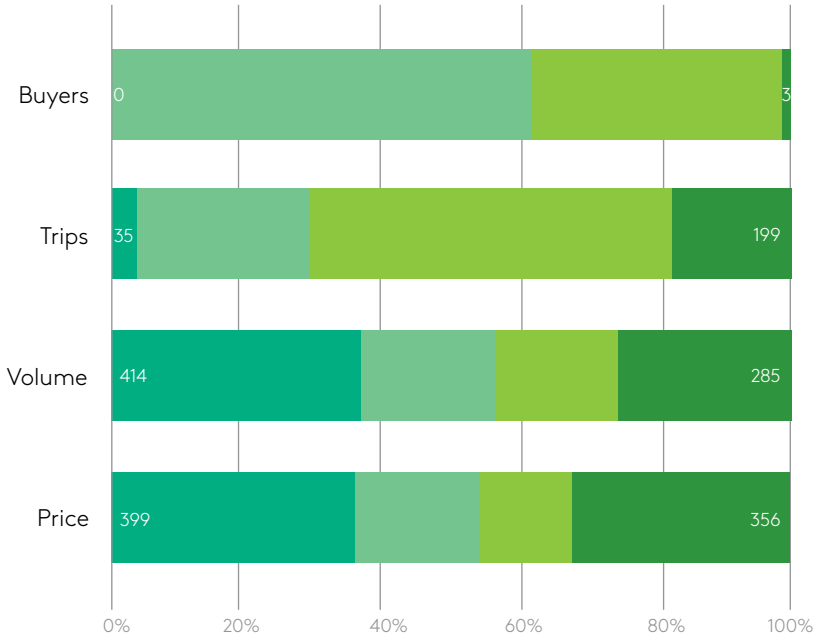
FINDING NEW BUYERS

The notion of a new launch attracting a shopper to buy the category for the first time is a very powerful one, but how often does it happen? Here are the five launches in Great Britain which attracted the most new category buyers. Magnitudes of these launches are still small – circa 4-5% of launch sales – but, given their scarcity, are worth investigating. From this study, we can see that even the launches attracting the most buyers to the category cannot always count themselves a success—incremental impact varies a lot. In the case of Hartley's, if its jelly launch was measured simply by the number of new buyers to the brand, it would be a clear success. However, when measured against its impact on incremental category value, it performed negatively—buyers bought the brand at a significantly lower price than their expected category purchase.



INNOVATION DRIVERS

To better understand what drives incremental category growth, we examined our sample of the top 1,111 launches. The results were stark.



NEW BUYERS AND MORE TRIPS

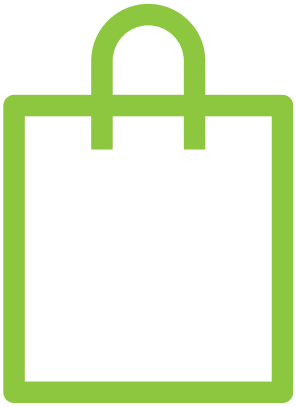
In our sample, we found that launches very rarely move significant numbers of new buyers into the category.

In fact, we can see that 62% of the new launches examined actually had a 'negative' effect—they attracted fewer buyers to the category than the average existing SKU. When it can be achieved, however, bringing new buyers into the category is incredibly valuable – gaining new buyers is how brands grow – but our research shows only three instances of this achieving a significant positive impact.

Launches are much more likely to drive new category transactions. In 199 cases (1 in 5), the launch value represents a significant boost in category transactions.

And in over 70% of cases the launch SKU is more effective than existing SKUs at attracting additional category purchase occasions.

So, whilst attracting a new buyer into the category is very difficult and rare, new product development is usually more effective at tempting a shopper into an additional transaction (i.e. more trips than expected without the new launch being present).



HIGHER VOLUME AND HIGHER PRICE

Volume purchased, along with price paid, is the factor that moves significantly most often as the launch interrupts a shopper's regular purchase cycle.

Of course, these are two sides of the same coin—a shopper might make a higher volume purchase for the attraction of a comparatively lower price, and vice versa. So, to have a significantly positive category impact from the new launch, the two ways this is most likely to happen are to drive greater volume at the purchase, or to trade the shopper into a higher price point.

If we look at the group of launches with a big positive impact – 356 of the 1,111 – price is the most important driver of this impact.

On occasion, there are launches that drive a significant 'trade up' and do not lead to a related decline in category volume purchased.

CATEGORY FOCUS: PRICING FOR YOGHURTS

Within our 1,111 launches, there are 89 yoghurt launches and we can see in this sample that the launch price does have a predictive effect on the category incremental impact:

- **59%** of products that launch **below** the average category price cause a **negative** impact on category sales
- **88%** of products that launch **above** the average category price cause a **positive** impact on category sales

SPECIAL
STRAWBERRY
1.99
SPECIAL
1.99

WINNING INNOVATION STRATEGIES

The way that a launch adds incremental value to the category varies greatly by country. This is particularly clear across the developed and developing markets in this study. Here are some of the best examples we have seen.

PREMIUMISATION

The price point at which a product is launched is critical not only for the signals it sends to the consumer in terms of its position within the competitive set, but also for the performance of the product at launch. There is almost always a direct relationship between the extra value delivered to the category and scale.

Premium products are generally not likely to attract the volume of lower-priced products but they are probably going to be incremental to the category. In developed markets such as Great Britain and Spain, where categories have already achieved a high penetration, bringing in more buyers can be very hard to achieve. Here, premiumisation is likely to be the most successful strategy. For example, in January 2016, Unilever launched two new flavours of its handheld ice cream brand Magnum: Magnum Pink (raspberry flavour) and Magnum Black (espresso and dark chocolate).

Our data shows that the Magnum Pink launch was particularly successful, achieving 5% penetration of British households in its first year and ranking as the country's sixth biggest launch of the year across all categories.

Crucially, the launch also grew the ice cream category, with some 23.5% of sales being genuinely incremental. It was particularly successful in ensuring that wide trial translated into incremental sales for both the category and the Magnum brand. As a premium launch – the average selling price was 59% above the category average during the first year – even buyers shifting from the Magnum core range were likely to increase their category and brand expenditure on a given purchase.

Our data shows that for every £1 spent on Magnum Pink, 42p was incremental to Unilever. Magnum Pink, then, is a classic example of one of our key rules of innovation: a known brand name and extensive support can deliver scale, but premiumisation tends to ensure incrementality.

BRAND STRETCH

Brand stretch is a tactic that sees brands quite literally stretching themselves across a category, launching into pockets that expand their appeal, while staying relevant to consumers. This can be a tricky balancing act, requiring brands to have a deep understanding of how shoppers buy their category in order to devise how to stretch most efficiently.

Some new products look for new target audiences to complement their existing brand cohort. Pechoin in China, for example, is a time-honoured local skincare brand with a more mature audience. To move into more demographics, Pechoin launched a new sub-brand named Sansheng Blossom targeting younger consumers with tailored pack design and channel strategy (focusing on e-commerce and personal care stores). One of the hottest new products in Chinese FMCG is Nongfu Spring, a beverage manufacturer which developed a small tea flavour segment. In a crowded market, the brand launched a fruit tea – rare in China – with outstanding package design and higher average price.

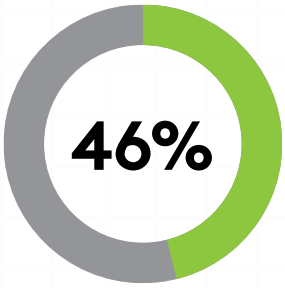
L'Oréal Paris Hair, whose products tap into an emerging functional segment – non-silicon shampoo – saw success with its HA series. With aggressive media support mainly on 'Anti-Dandruff' SKUs to compete tactically with Head and Shoulders and Clear. Ever since launch, HA series has boosted the parent brand performance in terms of both sales and penetration.

NEW BEHAVIOURS

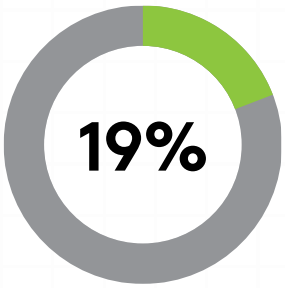
One of the greatest challenges that a brand can undertake is to launch a product that either creates a new behaviour or responds to a need not currently catered for. If successful, this strategy will be highly incremental, but the chances of failure are also very high.

To strengthen its role as a 'partner to meals' and to encourage consumption during the summer, Brazil's Tang introduced Tang Nutri. The brand, already widely known as a favourite powdered drink, now has the combination of vitamins C, D and zinc which, coupled with a balanced diet, helps to provide nutrients for the family. Tang Nutri was the top new innovation in Brazil attracting 16.2% penetration in its first year.

ALMOST HALF OF LAUNCHES HAVE A POSITIVE CATEGORY IMPACT

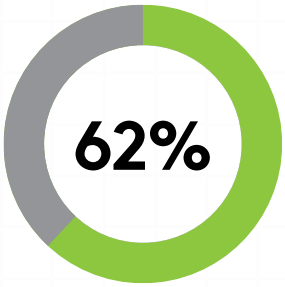


of launches are positive for category sales



of launches have a 'big positive' impact in category spending

ATTRACTING NEW BUYERS TO THE CATEGORY IS HARD—BUT VALUABLE



of launches are less effective at attracting new buyers than the average existing SKU

of launches are significantly successful in attracting new category buyers

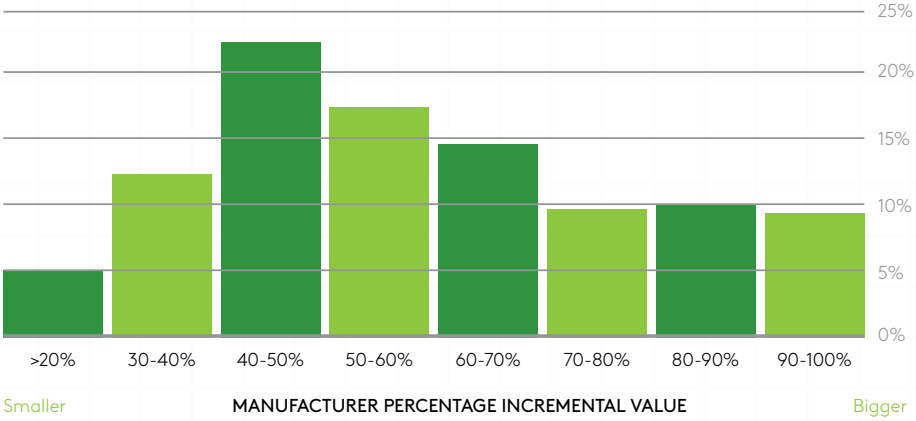
KEY TAKEAWAYS

SOURCES: KANTAR WORLDPANEL 2016

ALL LAUNCHES ARE POSITIVE FOR THE MANUFACTURER

THE MOST COMMON OUTCOME IS 40-50% OF LAUNCH SALES BEING INCREMENTAL TO THE MANUFACTURER (note this is from an in-market perspective)

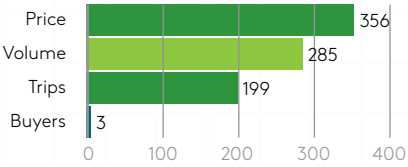
Launches grouped by percentage gains for the manufacturer



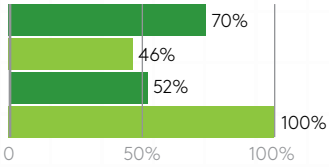
TRADING SHOPPERS UP IS THE MOST RELIABLE LEVER FOR A POSITIVE CATEGORY IMPACT—BUT IT POTENTIALLY LIMITS LAUNCH SIZE

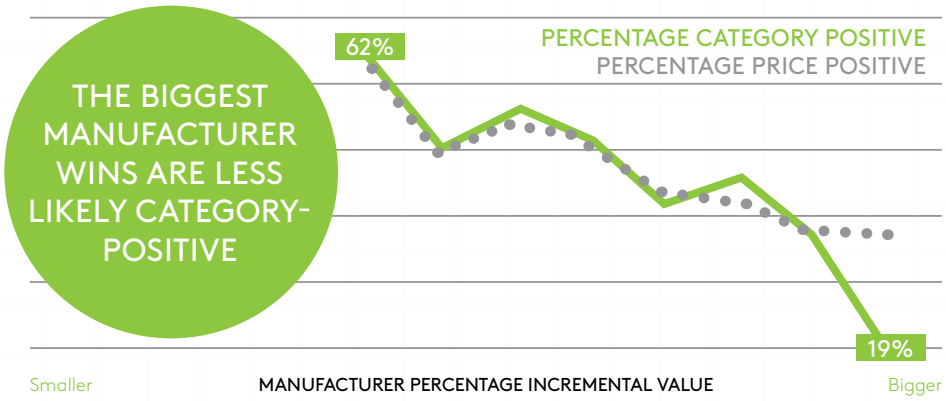
THIS IS THE MOST COMMON OUTCOME AND IS MORE LIKELY TO BE CATEGORY-POSITIVE THAN INCREASE VOLUME AND TRIPS

Number of launches with significant positive shopper behavioural change (greater than +10%)



Proportion of these launches that have a positive overall effect on category sales





85% OF LAUNCHES MAKE SHOPPERS DEVIATE SIGNIFICANTLY FROM EXPECTED CATEGORY PURCHASING

947 of the 1,111 launches move a shopper metric by 10% or more

THE TRUE VALUE OF INNOVATION

Measuring the incremental value of innovation is the only way to ensure that a launch is really adding value to the brand.

The increased value can certainly come from winning share from competitors, but at some point continued growth must come from increasing the size of the category itself.

In this study we have sought to understand what drives category growth. The results have been surprising in the respect that so few innovations attract new category buyers. As all brands grow by attracting more buyers, a learning here might be to develop launch strategies that directly target this as an objective.

What is perhaps unsurprising is that there is always a tension between price and volume. Where an innovation leads to an increase in volume, most commonly this is because of a lower price. Driving more value for the category overall is almost always achieved through the launch of premium products which move buyers up the value chain.

ABOUT US

About Kantar Worldpanel

Kantar Worldpanel is the global expert in shoppers' behaviour.

Through continuous monitoring, advanced analytics and tailored solutions, Kantar Worldpanel inspires successful decisions by brand owners, retailers, market analysts and government organisations globally.

With over 60 years' experience, a team of 3,500, and services covering 60 countries directly or through partners, Kantar Worldpanel turns purchase behaviour into competitive advantage in markets as diverse as FMCG, impulse products, fashion, baby, telecommunications and entertainment, among many others.

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