

INNOVATING FOR GROWTH

ISSUE 2 | JANUARY 2019

INCREMENTAL
INNOVATION

DRIVERS
OF SUCCESS

INNOVATION
INSPIRATION

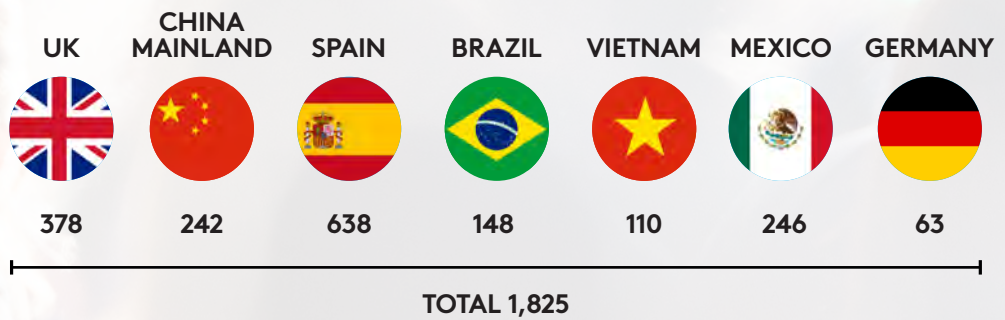
KANTAR WORLDPANEL

METHODOLOGY

We have identified all innovations from the last two years in a sample of six markets spanning both developed and developing markets: Brazil, China, Mexico, Spain, Germany, the United Kingdom and Vietnam.

In total, 107,968 new products have been in the market for at least one year. As we did in the first Innovating

for Growth publication, to ensure a fair reflection from across our markets, we have filtered 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 1,825 'top launches' – looking at each individual Stock Keeping Unit (SKU) in detail – across 44 different categories.



Number of launches in the market for 1 year that have exceeded 1% penetration for 500k households

Source: Kantar Worldpanel, GfK

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INNOVATING FOR GROWTH

These are competitive times for FMCG companies searching for growth. Smaller companies, being closer to individual sectors and capable of more agility, are finding success where many large brands are struggling. Low-calorie ice cream brand Halo Top, for instance, grew by 2,500% percent in 2016, leaving more established competitors trailing.

But there is no need for larger companies to be disheartened. With challenge comes opportunity, and innovation remains a favoured tactic of brands seeking growth.

The emphasis brand marketers place on innovation has been growing since our 2017 study. In that time, Nestlé has created Nestlé Research in Lausanne – staffed by an 800-strong team – while Kraft Heinz is investing €90 million into its Global Centre of Excellence in Amsterdam.

For all the investment that goes into new product development, it is still true that – of those eventually launched to market – only a small proportion will go on to make a real impact. In fact, only 1.7% of new product launches that have been in the market for at least a year have exceeded 1% penetration or 500,000 households.

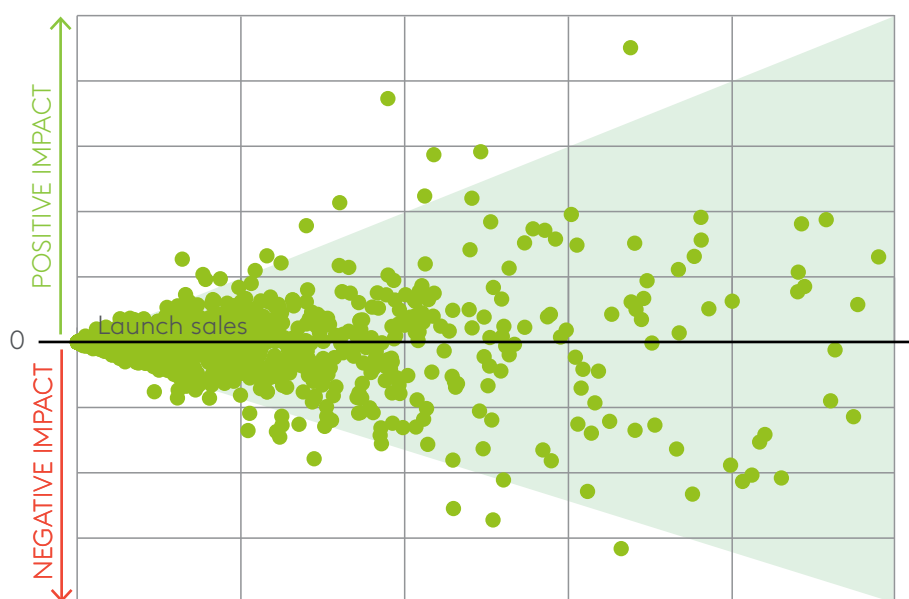
Many of these innovations have helped drive growth. In our Brand Footprint report, we identified how some of the fastest-growing global brands were using innovation as a key tool. Dove is one of the few global brands adding CRPs (consumer reach points) year-on-year, in large part thanks to its Baby Dove innovation. The skin lotion was launched first in Brazil, India and select South American markets in 2016, and then successfully rolled out the UK and the USA in 2017.

Meanwhile, Três Corações became Brazil’s third-fastest-growing brand, helped by innovations in flavoured milk, powdered chocolate and a new cappuccino range including single-serving sachets. When successful, innovation has the power to propel growth—but problems of efficiency remain.

This publication is designed to carry the conversation forward, and to demonstrate that sales alone are not the sole measure of success. In fact, bigger launch sales do not necessarily mean a bigger category benefit—they can also lead to higher category losses.

To truly understand the value of innovation, you need to understand its category impact—and that means measuring incremental innovation.

Innovation Impact on Category Sales



Category incremental sales

Source: Kantar Worldpanel, GfK

INCREMENTAL INNOVATION

To calculate the success of an innovation, you need to know more than how many units have been sold. You need to identify previous buying behaviour, to calculate whether the new purchase adds value or simply shifts spend.

OUR METRIC FOR SUCCESS

By measuring every individual transaction in every launch, we can demonstrate whether a new product adds value, is incremental, or has a negative impact on a category. Comparing this with expected purchase behaviour if the launch wasn't present, we can also calculate the impact on value spend and volumes purchased.

We judge the success of a new product launch by measuring its impact on the category:

GROWING CATEGORY SPEND

Launch causes existing shoppers to buy more volume than usual from that category, or to spend more during a trip

Launch brings in new shoppers to the category

SHIFTING CATEGORY SPEND

Launch cannibalises from the manufacturer's own portfolio

Launch encourages steal from competitors

REDUCING CATEGORY SPEND

Launch causes existing shoppers to buy less volume than usual from that category, or to spend less during a trip

And by analysing shopper behaviour after the purchase:

1 How long do they take to come back to the category?

This tells us whether, for the new product trip itself, they increased their usage rate versus their previous norms (calculated from historical behaviour).

If, for example, a larger quantity is purchased but the shopper returns within the normal expected timeframe, the launch was incremental for the category.



2 What does their repertoire look like now?

As they now have a new product in their repertoire, we want to establish its impact on the other products in their basket.

We look at whether any other products have lost out, for example, or whether the shopper has simply increased their overall category spend.

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



1. New shoppers

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



2. Unexpected trips

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



3. Changed volumes

Increasing or decreasing the category volume purchased in the transaction



4. Higher price

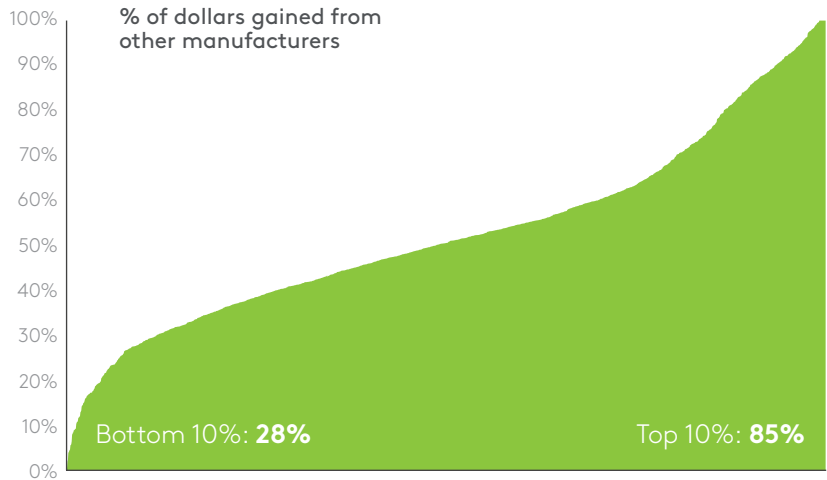
Growing the value of the category by encouraging shoppers to buy the category at a higher price point

HEADLINE MEASURES

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 a new product for a manufacturer is generally positive. All innovation will make some gains from competitors within a category, but it is important to note that the results are highly variable. While the 'average' launch at its mid-point will 'win' 51% of its sales from other manufacturers, the bottom 10% of launches only gain 28%. In contrast, the top 10% of launches gain 85% of shifted sales from competitors.



Source: Kantar Worldpanel, GfK

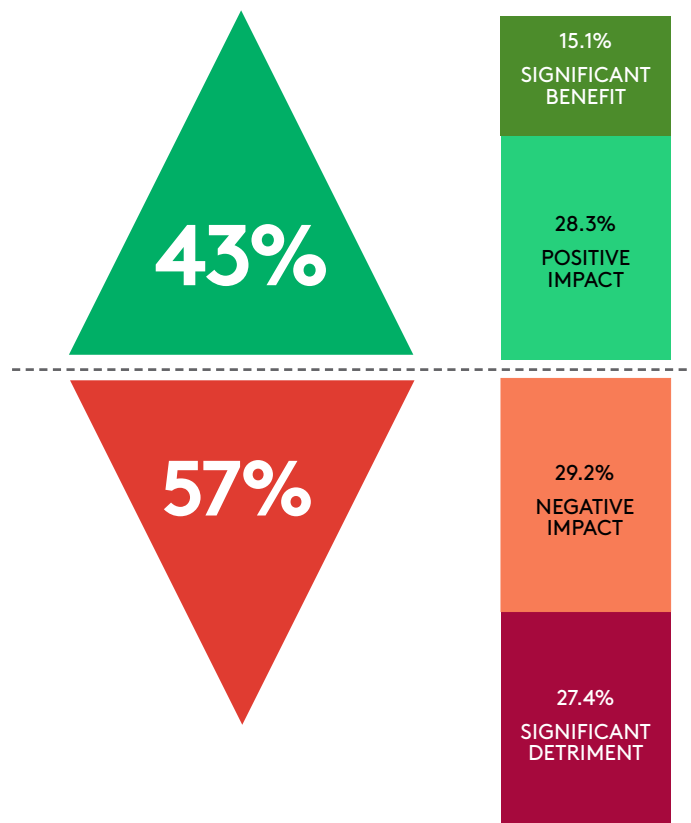
CATEGORY VALUE

Growing the value of the category as a whole is more beneficial over the long term than stealing share from other manufacturers. Yet this remains hard to achieve, as our data shows.

Of the 1,825 launches analysed in our study, we found that 43% had a positive impact on category sales. Furthermore, 15.1% of these launches had a 'significant benefit'—meaning the category growth was more than 10% of the first-year launch sales.

It's crucial to note that over half of launches (57%) had a negative impact on category sales, highlighting just how difficult it is for launches to be successful.

% of Positive vs Negative Launches



Source: Kantar Worldpanel, GfK



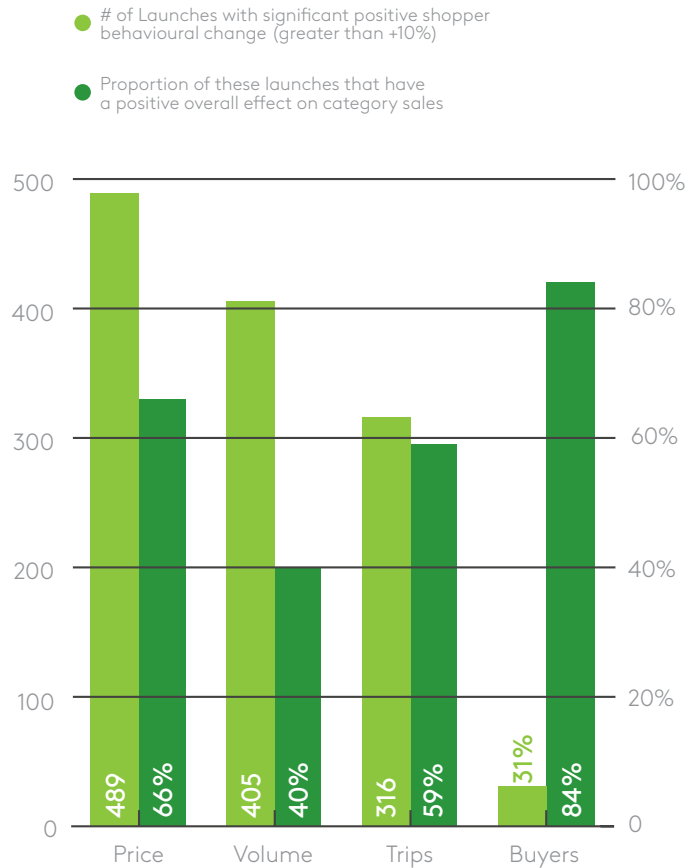
INNOVATION DRIVERS

As previously discussed, there are four main innovation drivers. However, as the below chart shows, not all of these have an equal impact on category sales.

TRADING UP

We continue to see that price paid is the behaviour that moves the most often as the launch interrupts a shopper’s regular purchase cycle. Therefore, trading up remains the key driver of positive category impact. Of the launches we identified, 489 have led to shoppers trading up significantly and buying at a price 10% higher – on average – than we would expect for the category.

Two thirds (66%) of the time trading up occurs, the overall impact on the category is positive.



Source: Kantar Worldpanel, GfK

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 this happen?

This year’s study continues to suggest that bringing buyers into a category is very rare. Less than 2% (31) of the launches analysed in our study attracted new buyers at a significantly positive rate, with more than half of these occurring in Vietnam alone.

Attracting new buyers to the category, therefore, should not be the main goal for a brand—measuring success by this factor alone will never tell the full story. Trading up has a more positive impact, more often.

of Launches impacting the amount of category buyers



Source: Kantar Worldpanel, GfK

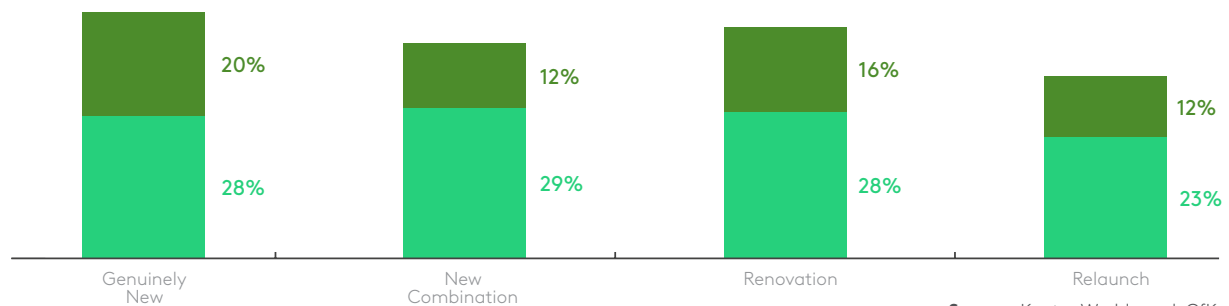
NEW INNOVATIONS TRUMP NEW COMBINATIONS

Our study highlights that genuinely new innovations are more likely to be positive for the category than a new combination. In fact, a fifth (20%) of all 'genuinely new' innovations lead to category growth of more than 10% of the launch sales in year one.

With 40-50% positive impact on category sales, new combinations and renovations should not be underestimated. However, our analysis suggests that relaunches have less of a positive impact on category sales. Here, almost two-thirds (65%) of relaunches had a negative impact on category sales.

Positive impact by innovation type

● Significant benefit ● Positive impact



Source: Kantar Worldpanel, GfK



Less than 2% of the launches analysed attracted new buyers at a significantly positive rate

COUNTRY COMPARISON

Our data shows that launch strategies around the world often take limited account of the category impact.

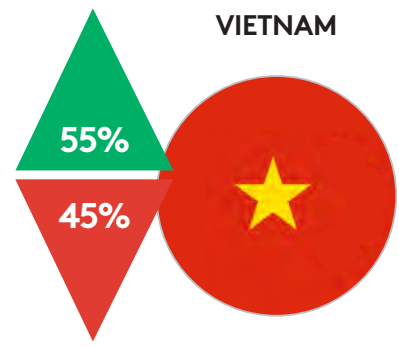
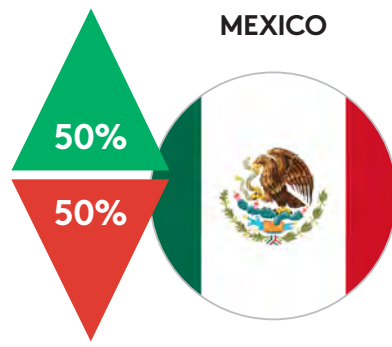
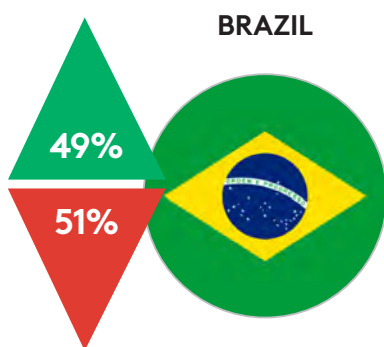
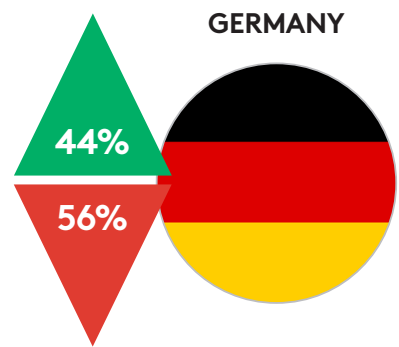
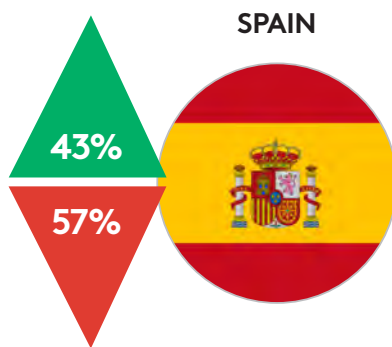
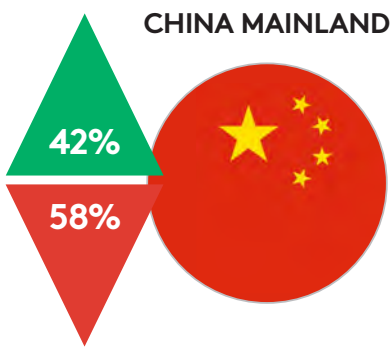
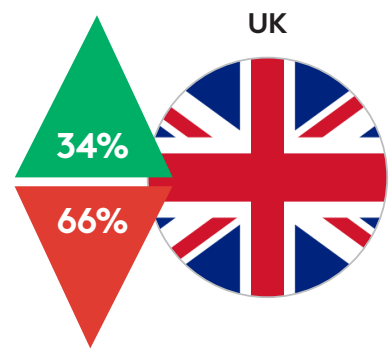
The average product launch trades shoppers down and encourages them to buy less volume. However, this pattern doesn't always hold true at a local level.

For example, your chances of launching a product with a positive category impact are much better in Vietnam than they are in the UK.

The UK struggles in comparison because launches are less likely to bring new buyers and additional trips to the category. This points to penetration increases being less common in more developed countries, where most shoppers with an interest in the category will already be buying it.

Similar differences can be observed at category and sector level, for both incremental impact and overall launch size. These norms should be considered at the planning stage, with expectations and forecasts altered appropriately.

% of Positive vs Negative Launches by country



Source: Kantar Worldpanel, GfK

CASE STUDIES

Over the coming pages we will share successful, inspirational innovations from retailers and manufacturers around the world.

CORSODYL ULTRA CLEAN, UK

Corsodyl was known for being a treatment toothpaste brand, therefore they launched a daily-use alternative, whilst maintaining its expertise. With an above-the-line marketing campaign educating consumers on the importance of gum health, Ultra Clean achieved 2.5% penetration and £4.3m in sales in its first year.

Corsodyl's ambition was to double its toothpaste sales and shares by aggressively growing the gum category—and it achieved this, increasing overall brand penetration by 84% and annual sales to £11.4M. This equates to 637,000 new shoppers buying the new product. Of these, 75% were new to the Corsodyl brand and 64% were new to the gum segment, highlighting the incrementality of the launch.

Corsodyl met new needs by creating a daily use product, while its media campaign meant Ultra Clean was front-of-mind with shoppers keen to take better care of their gums.



3 MIEN GOLD, VIETNAM

Riding on the momentum from the launch of 3 Mien instant noodles, brand owner Uniben decided to launch a more premium version called 3 Mien Gold, capturing the premiumisation trend in the market. After one year, 3 Mien Gold achieved 9.6% and 38.2% penetration in the Urban 4 cities (Ho Chi Minh City, Ha Noi, Da Nang and Can Tho) and rural areas respectively, which is the equivalent to more than 6.5 million households.

Undeniably, the main driver of its success lies within its high quality, whilst remaining competitively priced and demonstrating an in-depth understanding of Vietnamese taste palates. 3 Mien Gold differentiated its offerings with Herbed Beef Stew and Special Sour & Spicy noodles. And, it gained a competitive advantage against other Sour & Spicy brands through offering three seasoning bags, which made it more premium than the current two seasoning bags of its competitors. This packaging strategy also gives consumers more flexibility in how they want to season their noodles.



CASE STUDIES

McDonald's The Original Recipe, Spain

McDonald's entered the Spanish FMCG market through a partnership with German manufacturer Develey, launching its tomato sauce – The Original

Recipe – last year, and it became one of the most successful product innovations in the country in 2017. The Original Recipe achieved more than two penetration points within its first three months – seven times the average penetration for innovations in the same category

– and reached more than 1.3m households in its first year.

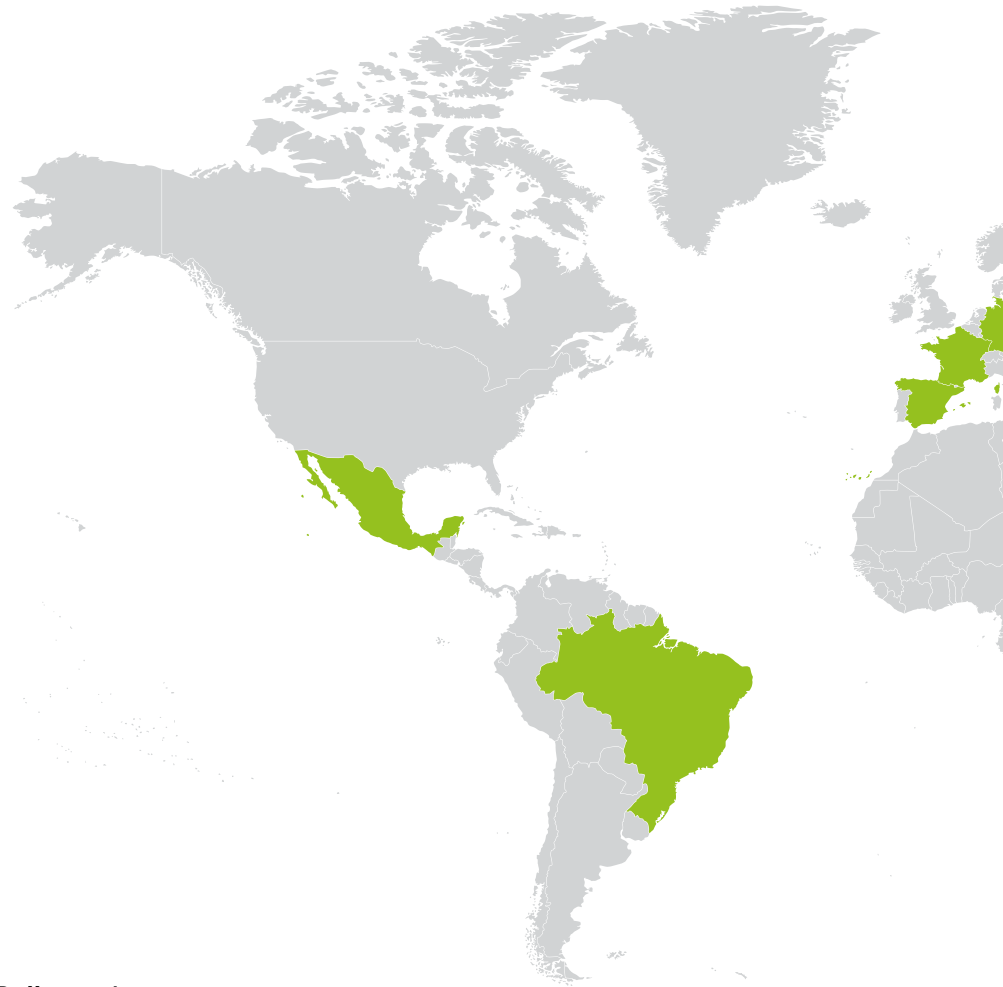
With exclusivity in Mercadona—it shows how a launch can be positive even if just available in one retailer, given their potential reach of 90% of Spanish households each year.

Suavitel Complete, Mexico

Suavitel, the fabric softener brand, launched its Complete SKU in early 2017. Initially it didn't perform strongly, however with renewed focus towards the end of 2017 it has turned things around.

Being 800ml, Suavitel Complete was a premium product at a higher cost and smaller size than competitors, and its benefits and positioning were not clearly communicated.

Therefore, the brand used better value pricing strategies and larger product sizes to boost sales, as well as better communication of the premium benefits it offered—softening, colour protection, fewer creases alongside the all-important fresh scent.



Pullman Artesano, Brazil

Artesano bread was launched in March 2017 and was a great innovation for the Sliced Breads category. It created a new format (thicker slices) and a new claim ("homemade") for the category.

The new product played on consumer nostalgia and a desire for homemade produce, making

emotional connections with customers by taking inspiration from freshly made bread associated with family occasions. Artesano also succeeded in innovating the packaging of the category, creating a matte rather than a transparent version, and created a new 30-second television commercial focusing on family moments.

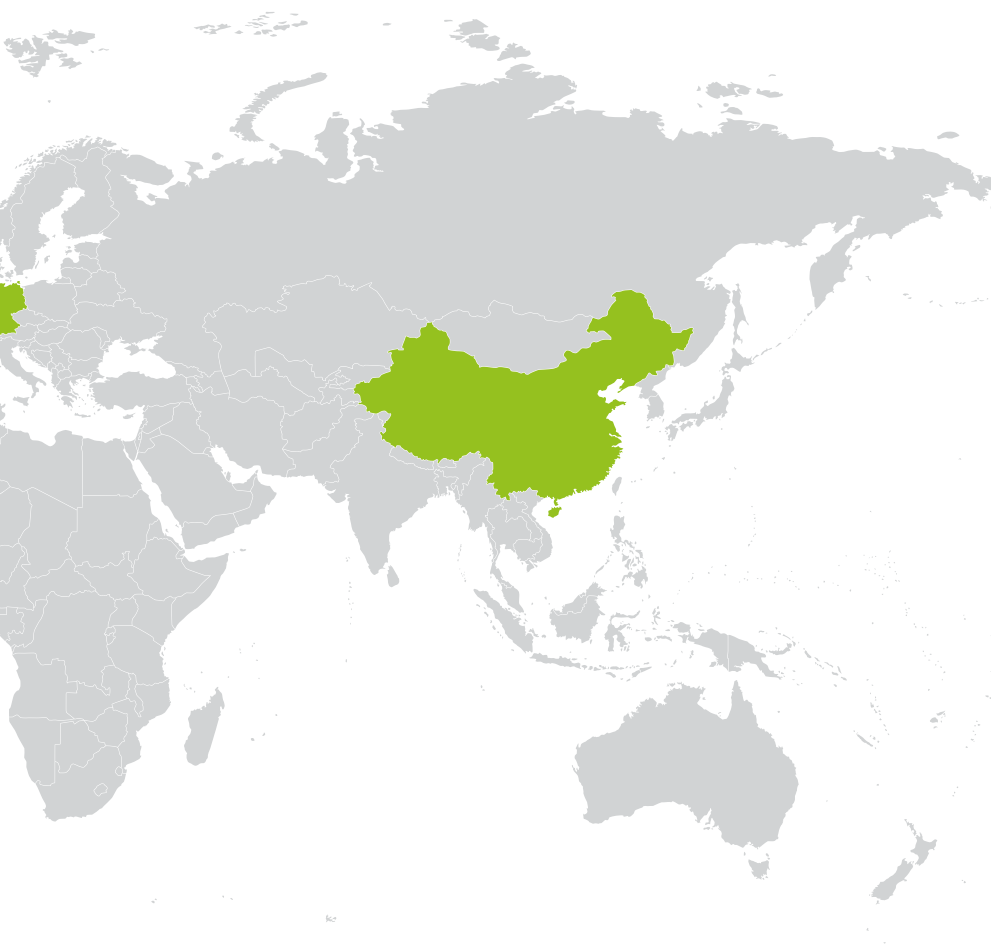
7UP Lemon Lemon, France

PepsiCo launched 7UP Lemon Lemon, a lower sugar and more natural range coming in three flavours: lemon, citrus and white peach. The product has attracted new buyers to the parent

brand—50% of Lemon Lemon buyers didn't purchase 7UP the previous year.

The innovation achieved 4% penetration within just six months, representing a successful launch for a brand competing within the carbonated soft drinks market and

giving it something new within the crowded lemonade sector. It has also brought additional volume to the market, and to the 7UP range, without cannibalising its existing portfolio—allowing PepsiCo to gain market share from Sprite, its main competitor, and other carbonated soft drinks brands.



Dou Ben Dou, China Mainland

Soy milk is popular in China due to its long association with health and spicy foods. And with an increasing attention to health and nutrition, Chinese consumers are becoming more conscious about the ingredients in their beverages.

Recognising this need, Dali Group launched Dou Ben Dou, an organic, natural and low sugar soy milk.

Its unique selling point is that it is completely natural and free from GMO food flavouring and preservatives.

The company's innovative packaging strategy—12 single packets—also boosted sales, especially as a popular form of gifting during Chinese New Year.

Weihenstephan Die Streichzarte, Germany

In Germany there are two growing FMCG trends that food brand Weihenstephan fulfils: the demand for quality, and for convenience. The company's Die Streichzarte innovation has a very high butter content (73%), ensuring it maintains a premium perception and butter-like taste while at the same time being easy to spread—even straight from the fridge.

Weihenstephan also designed packaging that snapped shut—something its butter competitors do not do, as they opt generally for traditional foil packaging.

This innovation was new in the dairy spreads category, helping maintain the product's freshness and enabling the brand to further deliver quality and convenience.

MAGNUM PINTS

Unilever's Magnum capitalised on the growth of small tub formats to add a range of pints sized tubs to their hand-held range of premium ice creams across several markets in 2017. After one year in market, Magnum Pints reached between 2% and 4% penetration in the UK, France, Germany, the US and Australia.

The Pints represented a great example of extending a range into new occasions, delivering incremental growth to the brand.

Unilever would have been concerned by whether the launch would cannibalise Ben & Jerry's, the manufacturer's other premium tub provider. However, incrementality analysis shows that less than 5% of Magnum Pints launch sales were stolen from Ben & Jerry's in UK after three months and again after 15 months post introduction to the market.

Similar levels of Ben & Jerry's tub cannibalisation were seen in other countries after 12-15 months, representing a resounding portfolio success for Magnum and Unilever.

Much of the growth has come from attracting buyers to switch from competitors, aided by winning distribution too.

Unilever has done a great job growing Magnum distribution as well as preserving Ben & Jerry's availability, with Magnum's main competitor, Haagen Dazs, suffering most.

As a premium proposition with strong brand awareness, Magnum Pints represents a good choice for retailers. UK retailers have been rewarded with over 30% of launch sales being incremental to the category—by trading consumers up from cheaper tubs and additional trips made as consumers keep coming back for more.



UK retailers have been rewarded with over 30% of launch sales being incremental to the category





FIVE MINUTES WITH CARREFOUR GROUP

Sylvain Ferry, Directeur Marque Nationale at Carrefour Groupe, discusses innovation strategy and what constitutes 'success' in a new product launch.



On innovation in FMCG...

There are some 1,800 new products coming onto the shelves at Carrefour but, at the same time, true mould-breaking innovation is on the wane. There are new product launches, but not really launches of innovative products.

Of these new products, about half are either new flavours or formats. We are seeing a more defensive type of innovation; one designed to counter falling FMCG prices and guarantee shelf space is taken up. We have to ask ourselves if we are talking about true innovation or simply brand positioning. These days, many manufacturers use existing brand power to launch into new categories, but what they are really doing is making their own version of an existing product with a different label.

Innovation by its nature is always going to create ripples or waves in the market—or indeed a new market entirely, responding to a demand not yet expressed by the consumer. A new product that's not an innovation simply ticks a box and fills an existing wedge of the market.

On successful innovation...

Of those 1,800 new products, perhaps only 150 could be considered innovations—and only 20-50 have been really successful.

For me, one brand in particular has stood out: 'C'est qui le Patron?!'.

Its core product is milk, and its business model is to sell products whose specifications and pricing have been defined by consumers themselves—also ensuring producers are paid a fair price.

Beyond its unique market positioning, this innovation has created a direct link between consumers and producers.

We have also had new recipes from the Nestlé Atelier chocolate brand. As well as introducing new flavours to the market, they have also managed to create a new texture. The biggest mistake made by retailers and manufacturers is to believe that a strong brand identity is enough to create value. If they go to the market offering just the brand, and without having a really sound product to back it, it will not succeed.

On Carrefour's innovation strategy...

Each year our partners propose an ever-greater number of products to us, so our selection criteria has to be increasingly discerning. The ones we choose must be able to recruit consumers and win their loyalty.

First and foremost is whether a product responds to a need or trend as expressed by our customers. Products also need to be a good fit both with our group strategy of nutrition transition—an area Carrefour is aiming to become a leader in.

Then we take into account the sales forecast potential—potential turnover and, of course, the resulting profit margin, without forgetting the level of saturation within a given group or family of products that are going to compete against those innovations. Fundamentally, an attractive innovation that is also a quality product—one that creates value within the market—represents good value all the way from our customers to retailers and manufacturers alike.

On measuring innovation...

Naturally, the first criteria is the turnover and margin of a given product within its category. Following that, we look at the repeat purchase rate and the loyalty rate—and, therefore, whether an innovation has managed to draw in new buyers.

In addition, we look at whether there has been a real expansion in sales across a given product type, or if the new product is just cannibalising—taking sales away from a manufacturer's share of the existing market.

When we are evaluating innovation success, we measure those that have been able to hold their own in the market and are truly here to stay. Of the total 1,800 new products hitting Carrefour's shelves, it can be expected that 50% will disappear in less than one year.



MEASURING SUCCESS

When evaluating the success of any innovation all brand owners should keep an eye on:

1. **Sales** – how much has been spent on the new SKUs
2. **Shoppers** – how many buyers the new SKUs have attracted
3. **Repeat** – how many of these buyers have returned
4. **Price** – how much are these buyers paying for the new SKUs

However, these four metrics are only useful when we can compare them to previous initiatives and relevant competitors. When we evaluate against an appropriate benchmark we are really measuring:

1. **Overall success of the launch** – absolute sales and share vs competitor innovation
2. **Were enough shoppers attracted to your innovation** – penetration vs expected
3. **Were shoppers satisfied enough to return and buy again** – percentage of repeaters vs expected
4. **Were shoppers willing to pay a premium for the product** – price per volume or pack vs the category

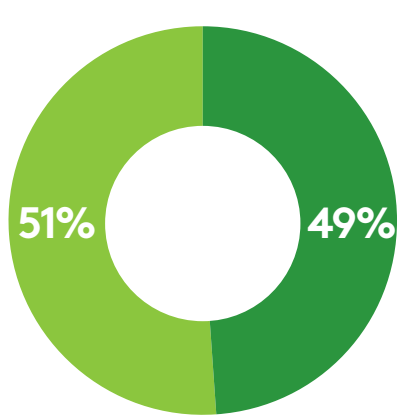
We shouldn't stop there. These figures can be particularly mis-leading for a sub-brand or new variant on an existing brand that is positioned on the same shelf as existing brand products. The innovation might be strong, but could it also be eating up more profitable, existing SKUs?

This is where we need to understand incrementality. Knowing whether the buyers attracted to your innovation have grown total brand/manufacturer and category sales is vital.

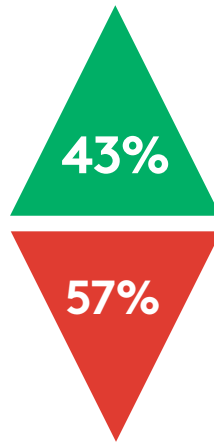
Through analysing brand innovations across the world, we can help set relevant category/ country benchmarks, measure against these benchmarks, and – most importantly – measure their incrementality.

WHAT SHOULD I EXPECT?

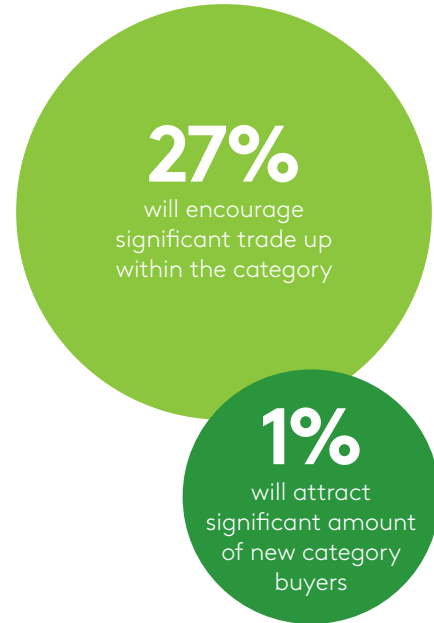
To help set accurate expectations and recognise the true drivers of success, for every 100 SKUs launched only one will reach 1% penetration, and of those:



- Are first to the category with a specific attribute
- Adopt an existing attribute for the first time



- Will be positive for the category
- Will be negative for the category



Source: Kantar Worldpanel, GfK

HOW TO WIN



Spread far and wide

Distribution is the leading factor of success. Getting into more stores, with more SKUs, is key. But remember, successful distribution still relies on an acute understanding of category incrementality



Premiumisation

Launching at a price premium has a much better chance of being positive for the category



Don't focus on new-category buyers

Launches rarely attract new buyers to the category—established brands and SKUs usually do that much better. Banking on your innovation significantly growing category penetration is betting against the house with 100-to-1 odds



Be thematic, not first

Being first to launch a new attribute does not give you a demonstrable advantage. Instead, the timely adoption of emerging 'themes' is more conducive to success

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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