INNOVATIVE VERSUS NEW

HOW RETAILERS AND SUPPLIERS COLLABORATE ON NEW ITEM LAUNCHES
# IIAP COMMITTEE

<table>
<thead>
<tr>
<th>Bill Anderson</th>
<th>Sarah Arthur</th>
<th>Philecia Avery</th>
<th>Victor Curtis</th>
<th>Jacque Franklin</th>
<th>David Hoodis</th>
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<td>HEB</td>
<td>Johnson &amp; Johnson</td>
<td>Kroger</td>
<td>Costco</td>
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<td>Henkel</td>
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<td>Edgewell</td>
<td>Hy-Vee</td>
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<td>Tim Quinn</td>
<td>Dewayne Rabon</td>
<td>Adam Seston</td>
<td>Karen Shadders</td>
<td>Peter A. Thompson</td>
<td>Scott Young</td>
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<td>Mars Chocolate</td>
<td>SEG</td>
<td>Unilever</td>
<td>Wegmans</td>
<td>Colgate-Palmolive</td>
<td>Hallmark Cards</td>
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Our Committee to the NACDS Membership

Deliverables:
1. Executive Summary at TSE
2. Deliverable our findings at the December ‘16 RAB meeting

Insight:
- New Item Classifications
- Scorecard Accountability
- Process Learning’s – Opportunities and Challenges
Every year I take 4500 SKUs off the shelf and put 4500 new ones on, and there’s no appreciable difference in my revenue.

Retailer
LARGE FOOD MANUFACTURERS 2011-2015

NEW ITEMS

$18.7B

EXISTING ITEMS

($17.4B)

NET GAIN

$ 1.3B

Source: Nielsen xAOC data through October 2015; center store food; large manufacturers that made up ~50% of center store food sales
ARE NEW ITEMS LIFEBOOD OF THE INDUSTRY?

100%

Of our survey respondents said YES

Source: Survey of 48 retailers and suppliers; survey remains ongoing
ARE NEW ITEMS LIFEBLOOD OF THE INDUSTRY?

GROWTH IS EVERYONE’S GOAL
GROWTH COMES FROM INNOVATION

INNOVATION IS THE LIFEBLOOD
WHAT PERCENTAGE OF CPG SALES ARE NEW ITEMS?

Most said 25-50%
WHAT PERCENTAGE OF CPG SALES ARE NEW ITEMS?

5-10% Total $ Sales

15% DECLINE from 2012 to 2015

Source: Nielsen xAOC data through October 2015
37% of CEOs see their role as **LEADER OF INNOVATION**

Source: 2013 Pricewaterhouse Cooper CEO survey
HOW TO GROW THROUGH SUCCESSFUL INNOVATION?

From your perspective, how well do you think retailers and manufacturers work together on bringing new items to market and making them successful?

Source: Survey of 48 retailers and suppliers; survey remains ongoing
HOW TO GROW THROUGH SUCCESSFUL INNOVATION?

81% answered “somewhat well” or “neither well, nor poorly

COLLABORATION IS KEY

Source: Survey of 48 retailers and suppliers; survey remains ongoing
HOW CAN RETAILERS AND SUPPLIERS COLLABORATE BETTER?

- **Set the right kind of expectations**
- **Hold each other accountable**
- **Work together to create growth opportunities**
CASE STUDIES FROM NIELSEN BREAKTHROUGH INNOVATION REPORT
SET THE RIGHT KIND OF EXPECTATIONS
SET THE RIGHT KIND OF EXPECTATIONS

How well do you think retailers and manufacturers set expectations for new item launches and then hold each other accountable?
SET THE RIGHT KIND OF EXPECTATIONS

67% answered “neither well, nor poorly” or “somewhat poorly”

Source: Survey of 48 retailers and suppliers; survey remains ongoing
SET THE RIGHT KIND OF EXPECTATIONS

Where to focus

- PURPOSE OF INNOVATION
- ADDRESS CONSUMER NEED
- REALISTIC EXPECTATIONS
- INTENTIONAL INNOVATION
COMMITTEE CLASSIFICATIONS

TIER 1: MARKET GROWER

Incremental to category

Create significant new segment or a whole new category

Net positive revenue for both supplier and retailer

Address unmet consumer need

Expect very few in a given year for entire store
COMMITTEE CLASSIFICATIONS

TIER 2: SHARE EXPANDERS

Incremental to supplier and/or retailer

Category growth is minimal or neutral

Meets consumer need much better than before

Substantially better than competition
COMMITTEE CLASSIFICATIONS

TIER 3: SUSTAINERS

Innovation that protects share, does not grow category or brand substantially

Incremental versus doing nothing

Keeps up with evolution of consumer needs and competitive innovation

To succeed must be better than competition’s sustainers

Consumers are delighted and kept engaged with brand, category, and retailer
The vast majority of innovation activity comprises the closer-in launches that keep brands fresh, consumers engaged, and retail customers supportive. ‘Sustaining innovation,’ as the term itself suggests, is a requirement for survival. You need it every year – year in, year out... The mark of innovation mastery is a balanced innovation portfolio.

2016 Nielsen Breakthrough Innovation Report
## COMMITTEE CLASSIFICATIONS

**TIER 4: STRATEGIC**

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<tr>
<th>NEW NEWS</th>
<th>TARGETED/ACCOUNT SPECIFIC</th>
<th>RX TO OTC SWITCH</th>
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<tr>
<td>• Does not address unmet consumer need</td>
<td>• Limited distribution</td>
<td>• Behave differently than other launches</td>
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<td>• Heavily driven by strategy over revenue</td>
<td>• Low investment for retailer</td>
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<td>• Some Sustainers are actually New News</td>
<td>• May be focused on a region or consumer segment</td>
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<td>• May make strategic sense for retailer</td>
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<td>• May function as in-store test market</td>
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SET THE RIGHT KIND OF EXPECTATIONS

TIER 1: MARKET GROWERS
TIER 2: SHARE EXPANDERS
TIER 3: SUSTAINERS
TIER 4 STRATEGIC
HOLD EACH OTHER ACCOUNTABLE
WORKING TOGETHER FOR GREATER OUTCOMES

MORE PRODUCTIVE COLLABORATION
Between retailers and suppliers

CONSISTENT DISCIPLINE
Partnership and shared success

SET EXPECTATIONS & MEASURE
Document, track and review together
MEASURING PROGRESS OVER TIME

EXPECTATIONS ARE:
- Explicitly discussed
- Agreed upon by all parties
- Documented
- Tracked with data

FIND WHAT WILL WORK BEST FOR YOU...
AND JUST DO IT!
HOLD EACH OTHER ACCOUNTABLE

Suggestions for a scorecard

**In Which Tier Of The Classification Is Your Launch Intended To Be?**
Incremental Revenue Growth To Brand And To Category
Revenue Sales And Profitability for Retailer

**What Is The Plan To Support In Outyears?**
Track Support In Months 1-12 Of Launch, And In Outyears

**Will The New Launch Bring In New Buyers?**
Consumer – Level Data

**What Is The Support Plan For Launch Year?**
From Supplier: Advertising, Consumer Promotion
From Retailer: Distribution, Trade Promotion

**What Is The Strategic Intent Of The Launch, Both For The Retailer And Supplier?**

**How Many New Launches From Supplier In The Past 3 Years?**
How Many Are Still On The Shelf?
How Many Met Pre-launch Expectations? Exceeded?
CASE STUDY: MILK-BONE BRUSHING CHEWS: UNCOVERING THE CONSUMER STRUGGLE

Ethnographies and consumer diaries revealed that oral care is the #1 pain point for pet parents.

The gold standard of care is to brush your dog's teeth everyday—but not even vets do it!

Painful process, dreaded by pets and their owners.
SIZING THE OPPORTUNITY

Low compliance and awareness for DAILY ORAL CARE

- **5%** brush their dogs’ teeth regularly – but most hate it
- **26%** use dental treats, but aren’t sure they work
- **30%** are not even aware of the need for oral care

$3.6B TOTAL SPEND

On dog oral health with low awareness

- **$450M** Dog dental products
- **$550M** Current dental treat market
- **$2.6B** Vet office dental services
FORMULATING THE “JOB TO BE DONE”
Complete transform canine oral care with a product that...

Reframes oral care in a human context
Can support a clinical claim As effective as brushing
DEVELOPING JOINT BUSINESS PLANS

- Start 1-2 years ahead
- Explain the vision and “category” narrative
- Share consumer data
- Start to plan placement decisions
- Gather pack size and custom specs earlier versus late
- Updates every 6 mos.
OUTCOMES

$50M

in year one...

Happy pets and pet parents!

NEW Milk-Bone® Brushing Chews

Is it time to brush my teeth?!
Building distribution, cultivating retailer relationships, working hard on the in-store execution – this is mundane stuff, but it’s the bones and flesh of great consumer products businesses.

Bai, 2016 Nielsen Breakthrough Innovation Report
WORK TOGETHER TO CREATE GROWTH OPPORTUNITIES
Sometimes I feel like it’s a launch and leave. There’s excitement when it launches, but then we just move on to the next thing. It should be launch and leverage!
DON’T LAUNCH AND LEAVE
Support through first year and into years 2 & 3

2/3 of launches **decline in year 2 compared to year 1** in the U.S.

Only 1/6 grow

Biggest driver of growth in year 2? **Trial and New buyers**

**YEAR 2 TO YEAR 1 MEDIA SPEND RATIO:** Declining vs Growing Brands

- All DECLINING brands: 21%
- All GROWING brands: 94%

Growing brands maintain support in outyears

CPG averages based on analysis of more than 300 U.S. new product launches from 2004-2011. Analysis does not adjust for subsequent line extensions.
DON’T LAUNCH AND LEAVE

Continue support through first year and into years two and three

Repeat is still important for long-term viability

Beware the sunk cost fallacy

Beware the self-fulfilling prophecy of failure

Use data and benchmark to see where you stand
CASE STUDY: ARM & HAMMER CLUMP AND SEAL

The Impossible Question
If Price Were No Issue, Could Be Make Litter Box Odor Disappear?

Four Years Of Development
1. Product Formula
2. Packaging

Collaborated with Retailers
1. Consumer Benefit
2. Strategic Appeal Of “Break The Glass Ceiling” Of Consumer Satisfaction
3. Consumers Would Be Willing To Pay More For Premium-priced Litter If Delivered Promised Benefit

$100 million in sales in year 1
50% growth in year 2
WORK TOGETHER TO CREATE GROWTH OPPORTUNITIES
HOW CAN RETAILERS AND SUPPLIERS COLLABORATE BETTER?

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