INNOVATION ON PURPOSE

HOW RETAILERS AND SUPPLIERS COLLABORATE TO BREATHE NEW LIFE INTO NEW ITEM LAUNCHES
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INNOVATION
OR SKUs FOR NEWS?

It is said that new items are the lifeblood of the industry. But is this actually true today?

What sets apart truly innovative launches from other new items? What can retailers and suppliers do to ensure that they are launching innovations that provide value to the market, not just “SKUs for news”?

The NACDS Retail Advisory Board advises and provides recommendations to the Board and staff on timely issues affecting the membership base. The mission of the Industry Issues and Projects (IIAP) sub-committee is to identify, investigate, and provide industry-focused solutions that address relevant meaningful and actionable industry issues, and then provide recommendations to the NACDS Board of Directors on retail-focused priorities impacting the membership.

To that end, the committee set out to explore these questions and provide a framework for both retailers and suppliers to consider as they bring their products to market. The focus is on new items, which includes new brands and line extensions – but not restages of existing products.

NACDS membership and the IIAP sub-committee include representatives from both suppliers and retailers who have different levels of resources. There are many different tactics and strategies that can be taken by the industry and individual players to improve new item launches. It is important that the findings are useful to all members regardless of size.

With that in mind, the committee settled on one area where everyone can focus where there is a strong need: Collaboration between retailers and suppliers to launch new items and bring true innovation to market. The findings and recommendations in this study are informed by survey responses (see right), Nielsen sales performance data and committee discussions.

This white paper itself is a collaboration between NACDS and Nielsen. Nielsen has provided expertise on innovation, survey capabilities, data for analysis, and resources to generate published materials.

ABOUT THE SURVEY OF RETAILERS AND SUPPLIERS

The IIAP sub-committee conducted an online, anonymous survey of retailers and suppliers in order to understand attitudes and experiences regarding launching new products. Data and findings from that survey are included throughout this report.

Members of the IIAP shared a link to the survey with colleagues, and participation was voluntary. No identifying data or meta-data was collected about respondents, keeping it anonymous. We received 57 responses from a mix of retailers and suppliers.

These survey results helped guide our findings and recommendations. We are grateful to those that took time to provide their input.
EXECUTIVE SUMMARY

Retailers and suppliers still agree that innovation is the lifeblood of the industry and essential for sustained growth, despite declining revenue from new items. Retailers and suppliers continue to maintain a focus on innovation and see it as the main strategy for long-term growth.

There is substantial room for improvement in how retailers and suppliers collaborate to bring new items to market. The three key strategies for stronger collaboration are:

SET THE RIGHT KIND OF EXPECTATIONS

HOLD EACH OTHER ACCOUNTABLE

WORK TOGETHER TO CREATE GROWTH OPPORTUNITIES

Focus on the purpose of the innovation in the market when setting expectations for new launches, not necessarily the absolute size. Consider the growth potential and impact on the market – such as growing a category or a portfolio. Smaller suppliers are seeing the most growth from new items, so there’s more to successful innovation than sheer size.

Retailers and suppliers must commit to the discipline of holding each other accountable for the launch expectations they set – using concrete, trackable metrics.

Retailers and suppliers must work together to create growth opportunities through a feedback loop of ongoing learning. In particular, sustaining support for launches in outyears is necessary for long-term innovation success.
Given these findings, the question becomes “what now?” Analysis of the survey responses and Nielsen sales performance data uncovered common themes that can serve as a guide to improve new item launches.

**Make these three strategies a consistent discipline by including them as part of your innovation process.** From ideation to launch, suppliers should answer the question: what is the purpose of this new item? This should be just as important as understanding the potential absolute size of the launch. For retailers, these strategies should inform the selling-in process and what questions are asked of suppliers. Continue this into the launch as part of a formal tracking program.

**Focus on the common goal of growth.** Different stakeholders have different jobs, but within the industry we all have the same ultimate goal: GROWTH. If both suppliers and retailers are asking themselves – and each other – what the purpose of a launch is for the market, then it is easier to set useful expectations for growth and hold each other accountable. Growth is more important than just the gross revenue of a launch.

**Use data to benchmark versus competition, track progress and inform decisions.** Setting expectations is important, but ensuring they are realistic versus prior market performance is essential for making those expectations actionable. Similarly, key decisions once a launch is in market should be grounded in data. Later in this report we talk about the problem of “Launch and Leave,” which could often be avoided or mitigated with diligent tracking or setting more realistic expectations in the first place.

**Higher expectations deserve higher scrutiny.** The reality is that most launches start with high expectations but fall short on in-market performance. Very few launches in a given year will actually grow a category. Retailers, especially, should maintain healthy skepticism.

**It’s not just about the “big” launches.** Sustaining – often smaller – launches that don’t grow the market (in the absolute) make up the majority of new items. This is generally healthy for the market. But to be worthwhile they should bring some incremental benefit for someone...at the very least, for consumers. These deserve scrutiny, too. Many are simply “SKUs for news”.
“Every year we take 4,500 SKUs off the shelf and put 4500 new ones on, and there’s no appreciable difference in my revenue.”
ARE NEW ITEMS THE LIFEBOOD OF THE INDUSTRY?

We asked retailers and suppliers “Are new items the lifeblood of the industry?” – 100% responded YES. And 99% of respondents said that new items are “very important” or “somewhat important” to the success of suppliers and retailers.

However, the retailer quoted on the previous page – who sees little revenue growth despite thousands of new items – doesn’t seem quite so optimistic. The reality is that across the consumer packaged goods industry, only 10% of new launches succeed in market. The rest are usually off the shelf by two years after launch.

A Nielsen analysis of consumer packaged goods in standard retail channels in the United States during the four-year period from 2012 to 2015 found that revenue from new items declined 15% from 2012 to 2015. Overall, new items aren’t driving as much revenue. Could suppliers and retailers be losing faith in innovation? What are we to make of all this?

15% decline

revenue from new items in past 4 years

10%

new item launches succeed in market

*Nielsen xAOC data through November 2015 in United States; “new items” includes new brands and line extensions (but not restages or pack changes)
ONE GOAL: GROWTH

Most retailers and suppliers believe that innovation is an essential strategy for growth. If you don’t innovate, consumer tastes will evolve and competition will eat your lunch.

In fact, this is exactly what’s happening, and it’s smaller manufacturers that are seeing growth.

A Nielsen analysis of standard consumer packaged goods retail channels in the United States during the four year period from 2012 to 2015 found that large CPG manufacturers introduced $61 billion in new items. However, they only saw $6.3 billion in growth.

On the other hand, smaller CPG manufacturers earned $51 billion - $10 billion less than large manufacturers. But they saw $21.4 billion in growth, 3.5 times that of large manufacturers.

Most smaller suppliers simply cannot launch as many new products as the larger players, so they must be more purposeful in what they bring to market. They leverage new media such as social media to promote in new ways. They also must be more deliberate in how they work with retailers.

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**CPG MANUFACTURERS IN US: 2012-2015**

<table>
<thead>
<tr>
<th></th>
<th>New Item Revenue</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>LARGE MANUFACTURERS</td>
<td>$61 bil.</td>
<td>$6.3 bil.</td>
</tr>
<tr>
<td>SMALL MANUFACTURERS</td>
<td>$51 bil.</td>
<td>$21 bil.</td>
</tr>
</tbody>
</table>

*Nielsen xAOC data through November 2015; large manufacturers made up ~50% of category sales, small manufacturers made up the remaining ~50%; excludes Private Label and manufacturers who did not introduce new items during period*
When we look at who is succeeding with innovation and who is falling behind, it all comes down to GROWTH. Different people in different organizations have different jobs. But within the industry we all have the same ultimate goal: GROWTH.

Retailers want to grow categories and shelf. Suppliers want to grow their brands and portfolios. Both want to grow their revenue share relative to competitors. Shareholders and investors? They definitely want growth.

We asked survey respondents what is most important in determining the success of new items for retailers and suppliers. The vast majority – 70% – said GROWTH.

However, revenue from new items is still down. If you want to grow, innovation is not a sure thing. What can we do about this? How can we better grow through successful innovation?

One of the survey questions we asked retailers and suppliers is: “From your perspective, how well do you think retailers and manufacturers work together on bringing new items to market and making them successful?” The response was between “somewhat well” and “neither well, nor poorly” – with only 4% saying “very well”.

While there are no norms to compare this to, that isn’t a ringing endorsement of the current state of collaboration.

There are many ways to answer the question of how to better grow through successful innovation. The NACDS membership is made up of both retailers and suppliers, both small and large, with different processes and levels of resources.

But one area that everyone can focus on – and where there is clearly a strong need – is improved COLLABORATION. Collaborating on new items to bring true innovation to market.

How well do you think retailers and manufacturers work together on bringing new items to market and making them successful?

96% Say there’s room for improvement

70% of survey respondents said that GROWTH is the most important factor in determining the success of new items for retailers and suppliers.
A CALL TO COLLABORATION

Through numerous discussions among the committee, consulting with colleagues and conducting the anonymous survey of retailers and suppliers, the IIAP committee decided to focus on three areas where retailers and suppliers can collaborate better. The remainder of this white paper will explore these three areas.

SET THE RIGHT KIND OF EXPECTATIONS

We propose a classification scheme to encourage discussion in a way that speaks the language of growth.

HOLD EACH OTHER ACCOUNTABLE

We have suggestions for metrics that will help hold parties accountable.

WORK TOGETHER TO CREATE GROWTH OPPORTUNITIES

We encourage ongoing learning about what works for each retailer/supplier relationship, flowing from the above two areas.
How do we set the right kind of expectations for new item launches? It starts with focusing on the purpose of the new items. Frequently the pre-launch discussion is around the absolute size of the initiative, resulting in a race to promise the biggest launch — regardless of whether that is realistic. Remember, smaller suppliers are seeing the most growth from new items, so there’s more to successful innovation than sheer size.

Setting expectations based on the purpose of the launch means framing it around the growth potential and impact on the market. Because growth is everyone’s ultimate goal, focusing on the purpose makes the discussion and next steps more actionable.

Retailers and suppliers should also ask whether the launch addresses a substantial consumer need, keeping the consumer front and center.

Finally, innovation should be intentional. Often suppliers and retailers strive for big innovations but fall short - throwing things against the wall and seeing what sticks. We asked survey respondents to estimate what percentage of new item launches they’ve worked on started with expectations of high volume during development but ended up much smaller when they launched. On average, they said 54%. Imagine the amount of wasted resources there. Keeping the purpose in mind helps us avoid “innovation without a cause.”

What do you think should be the primary objective for most new items? (Choose one)

- “Keep up with consumer needs/wants” 49%
- “Expand the category” 42%

PURPOSE OF NEW ITEMS
ADDRESS A CONSUMER NEED
REALISTIC EXPECTATIONS
INTENTIONAL INNOVATION

What to focus on when setting expectations for new item launches?
CLASSIFICATION OF NEW ITEMS

With the principles from the previous page in mind, the IIAP committee created a classification scheme for new items to guide retailers and suppliers in setting the right kind of expectations based on the purpose of the launch and impact on the market.

These three tiers are all necessary for a balanced store, shelf, or portfolio. Very few launches can be a Market Grower, and that’s okay. On the other hand, far more launches will be Sustainers – and that’s also okay. Sustaining launches that incrementally delight consumers with things like new flavors are important for keeping consumers engaged with brands, categories and retailers. This classification largely ignores absolute launch size. Even a limited launch from a small supplier can be a Market Grower.

Not every new item launch can be classified as one of these three tiers. These are often “SKUs for news” that lack purpose. That may be acceptable to a retailer and supplier, but it is important to set the expectation for those items. We’ve developed a Tier 4 for these and other cases.

This fourth tier is admittedly a catch-all: Strategic New Items. These need to be dealt with differently than Tiers 1, 2, and 3.

- “New News” is the one classification cast in a more negative light. Some new launches may seem like Sustainers, but in reality they offer nothing different for consumers or the market.

- Targeted/Account Specific new items are special cases, and although they don’t move the market they can be valuable.

- RX to OTC switches are outside the scope of this white paper.

How should retailers and suppliers use this classification scheme? While each business will find the right way for their own uses, we recommend making it part of your innovation process. From ideation to launch, suppliers should answer the question: what is the purpose of this new item? Then retailers should engage in a discussion of whether that classification is realistic and accurate.

Review each tier and honestly assess how a given new item stacks up. The characteristics of each tier are not black and white, although many can be proven out with data at pre-launch (concept testing, volume forecasting) and at post-launch (sales data). Tracking these metrics is essential for ongoing learning and holding each other accountable, which will be addressed in the next two sections. Those points of collaboration start with setting expectations.
# Classification of New Items

<table>
<thead>
<tr>
<th>Tier</th>
<th>Market Grower</th>
<th>Share Expander</th>
<th>Sustainer</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Incremental to category</td>
<td>Addresses unmet consumer need</td>
<td>Net positive revenue for both supplier and retailer</td>
<td>New News</td>
</tr>
<tr>
<td></td>
<td>Creates significant new segment or new category</td>
<td>Very few in a given year</td>
<td></td>
<td>Not incremental, even versus doing nothing</td>
</tr>
<tr>
<td></td>
<td>Net positive revenue for both supplier and retailer</td>
<td></td>
<td></td>
<td>Does not address unmet consumer need</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No better than competition</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Likely is a copycat</td>
</tr>
<tr>
<td>2</td>
<td>Incremental to supplier and/or retailer</td>
<td>Meets consumer need much better than before</td>
<td>Category growth is minimal or neutral</td>
<td>Targeted/Account Specific</td>
</tr>
<tr>
<td></td>
<td>Category growth is minimal or neutral</td>
<td>Substantially better than competition</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td>Incremental versus doing nothing</td>
<td>Keeps up with consumer need and competitive landscape</td>
<td>Protects share, but does not grow category or brand</td>
<td>Consumer delighted and engaged</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>New News</td>
<td>Limited distribution</td>
<td>RX to OTC Switch</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not incremental, even versus doing nothing</td>
<td>Low investment for retailer</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Does not address unmet consumer need</td>
<td>May be focused on a region or consumer segment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No better than competition</td>
<td>May make strategic sense for retailer</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Likely is a copycat</td>
<td>May function as in-store test market</td>
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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.
Once retailers and suppliers have set the right kind of expectations with each other, it is essential that they hold each other accountable for what they’ve committed to. This goes beyond the kind of launch that is expected (the tiered classification), to the expected support each party will put behind a launch.

Our survey data indicates that there is substantial room for improvement in how retailers and suppliers set expectations and hold each other accountable (see right).

The goal is to encourage more productive collaboration toward the common goal of growth – partnership and shared success, not just everyone getting what they want.

The most important part of this stage, is the most simple: just do it. Setting expectations and accountability should be a consistent discipline built into the processes around each retailer/supplier relationship. Expectations should be explicitly agreed upon by all parties, documented and tracked with data.

While not a specific scorecard, the below questions and corresponding metrics can be used as a starting point for driving ongoing accountability.

**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

**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 Plan To Support in Outyears?**
- Track support in Months 1-12 of launch, and in outyears

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

**What Is The Record Of Success?**
- How many launches from supplier in past 3 years?
- How many still on shelf?
- How many met pre-launch expectations?

How well do you think retailers and manufacturers set expectations for new item launches and then hold each other accountable?

67% said “neither well, nor poorly” or “somewhat poorly”
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
In this last section we want to highlight and stress the importance of suppliers and retailers working together to create growth opportunities. In the previous section we talked about accountability. That means not only ensuring each party meets expectations, but also examining and keeping an accounting of what works and what doesn’t.

Again the most important message is to make this a consistent discipline – just do it! Every launch and every retailer/supplier relationship is different, so we encourage you to figure out what lessons you can draw from successes and failures so you can drive more mutual wins.

We asked survey respondents what is the most common mistake they see with new item launches. By far the most frequent response was around “launching and leaving” a new item. A sampling of the exact responses are below.

To stress the value that can be derived from learning from past launches, we’ll highlight lessons about launching and leaving and what you can do about it.

What do you think is the most common mistake made with new item launches?
(open-ended)

“Launch and leave”

“Lack of continuous support”

“Items are launched with only a 1 year launch plan. A 2+ year plan ensures the item is still receiving focus as sales and penetration continue to build.”

“Not investing in year 2 of innovation”

“I have seen so many examples of good new items that never reach critical mass because there was inadequate investment in building a base of shoppers to try it”
LESSON: AVOID THE LAUNCH AND LEAVE

Let’s be honest with ourselves. Everyone knows this is a pervasive issue in the industry. If you work on launching new items you see this time and time again.

The “leaving” of a launch can take different forms, but it usually involves pulling support; frequently in year one of the launch, sometimes at the first sign of a problem. Perhaps more common is not supporting a new item after the first year and seeing sales decline in year two and into outyears – if it survives that long.

A Nielsen analysis found that two-thirds of launches decline in year two compared to year one volume, and only one-sixth see growth.

Why is that? The biggest driver of growth in year two is actually the same as year one: new trial, new buyers. The common misconception is that after the first year there are enough buyers to sustain the initiative on repeat volume. This is rarely the case.

Many – often most – consumers are not aware of a new item or had the chance to purchase it in year one. This is especially the case with categories that have a long purchase cycle (longer time in between purchases), where consumers might only purchase every few months.

What can you do about it? The good news is that marketers are in the driver’s seat when it comes to generating trial in year two. It is done largely the same way as in year one: with distribution in retailers, generating awareness and promotion.

Nielsen looked at 300 new product launches and found that brands that declined in year two had a media budget that was, on average, one-fifth the year one media budget. But brands that grew in year two maintained almost the same level of media spending in year two.

The takeaway is clear: to drive growth with innovation you should support through the launch year and into outyears.

Of course, beware the sunk-cost fallacy of continuing to support launches that simply are not working, but also avoid being quick to abandon at the first sign of a problem. Use hard data and benchmarking to make informed decisions and understand when to keep investing in potential.
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 a launch and leverage!
CONCLUSION

There is one point we wish to stress that runs across all these strategies for collaboration on new items: make it a priority and a consistent discipline. Regardless of which metrics you track in a scorecard or whether you use the classification tiers for setting expectations, a focus on collaboration between retailers and suppliers will lead to more productive launches and better innovation.

One important question that came up during the course of this work is how branded manufacturers can balance the request to share more confidential new item detail, while understanding that retailers have their own private label strategies that may compete with these. Each launch and each partnership is unique, and we found no broad recommendation on this topic. The committee recommends further study of the issue.

We hope the ideas here are useful to you and at the very least start a conversation. Look for places to collaborate better. Look for where you can bring in data to get everyone on the same page and working together. Find the win-win. Find true innovation. Find growth.

ACKNOWLEDGMENTS

We sincerely thank the following: the Retail Advisory Board of NACDS for their guidance and sponsorship of this work; those who completed the anonymous survey for retailers and suppliers, which helped provide context and perspective; Nielsen colleagues for feedback and design; and the IIAP sub-committee for their contributions and direction throughout the course of study.

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