

marketreport

INNOVATION DRIVING GROWTH



“As Kiwis, we love to try new products, with 45 % of New Zealanders agreeing to this in a recent survey (IRI State of the Industry Survey 06/18) and in 2018, new products added \$528 million to New Zealand grocery stores (IRI MarketEdge MAT data to 16/09/18).”

However, in 2018, launching new products and brands into the New Zealand market has been more challenging than ever before.

IRI MarketEdge MAT data to 16/09/18 showed that across the grocery channel, the number of products ranged in 2018 went down by 7.3% versus prior year (3% when you exclude general merchandise).

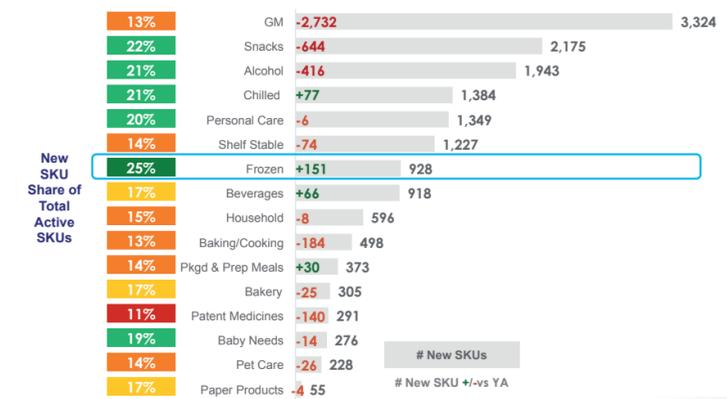
Retailers have indicated strong support for new lines. However, are struggling with the pace at which they can manage poor performing products out to enable space. Existing ranges are therefore under more intense scrutiny.

If we look at innovation, we see that 20.3% fewer new products made it into the grocery channel than the prior year, driven by reductions in general merchandise and more specifically, greeting cards (717 fewer products).

When general merchandise is excluded, there were 9.5% fewer new products (however, general merchandise still featured the largest number of new products this past year in actual terms: 3,324 followed by snacks with 2,175).

While limited by cabinet space,

Frozen has been successful in driving innovation and getting it in-store



the frozen department managed to grow the number of new products taken on by grocery stores compared with the previous year (+151), with new products making up 25% of all products within this department. Frozen also gained the most

distribution (+6.6%) across the 16 measured departments, which, combined with strong innovation performance has made it the fastest growth category on a percentage basis (+7.3% or +\$61.1 million).

Breaking down frozen innovation,

the frozen snacks category drove the highest share of range growth, with 69.7% more products. This helped to deliver 24.3% value growth to the segment.

SPOTLIGHT ON CHOCOLATE

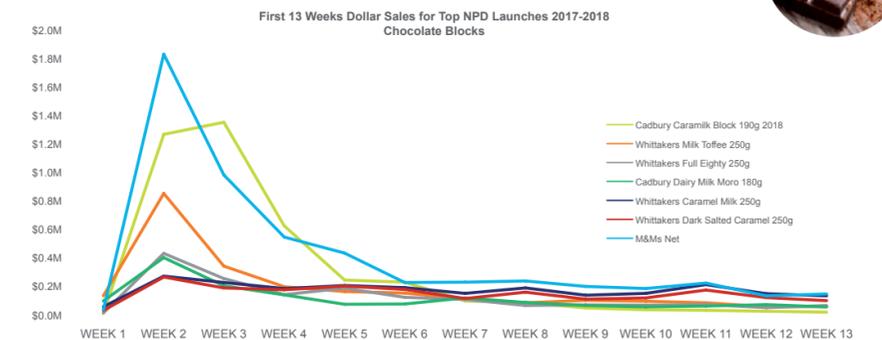
New product innovation is essential in driving incremental sales in certain categories, and this is particularly evident in chocolate, which grew at \$13.4 million (+3.8%) in 2018.

New chocolate products delivered almost three times that into the category – a whopping \$33.1 million.

When we look at new product speed-to-market within chocolate, we can see the first three weeks as critical in driving sales, rapidly ramping up and exceeding 90% numeric distribution by week two.

The hype and support behind new chocolate launches often result in indulgent treats dominating our top new products, as shoppers demonstrate their desire to try new things.

Chocolate NPD creates excitement and trial, the first 3 weeks critical



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KEY TRENDS HARNESSSED

2018 has been a great year for successful innovation that appeals to multi-faceted needs. Shoppers responded positively when introduced to new products, whether they are completely new propositions or extensions of established favourites into new flavours, formats or categories. The concept of 'Wellness' has become

mainstream, and we are selectatarian by human nature as we constantly make trade-off decisions (healthy vs. indulgence, sustainability vs. price vs. convenience). Experiences, wellness and so-called 'clean lifers' are just some of the key innovation trends in 2018 which are adding growth; we explore some examples below.



Experiences

Preference for indulgence that offers something special, sophisticated and/or has premium appeal. Whittaker's Dark Salted Caramel block was the top performing chocolate in value while only being in-market 20 weeks, with Häagen-Dazs delivering the most value growth in ice cream after 54 weeks in-market. Griffins Toffee Pops Caramelised White Chocolate (in-market 15 weeks) was the top performing new product in biscuits (value).

Category blurring 'dessertification'

Treats have become desserts in their own right, such as Ben & Jerry's not just delivering ice-cream, but a full-on dessert experience via Half Baked Choc Chip Cookie Dough (second fastest growing brand, in-market 96 weeks).

Experimental flavour combinations enticing us to try

More than 60% of 18 to 44 year olds want exotic and interesting flavour choices (IRI State of the Industry Survey 09/18), such as Whittaker's Artisan Marlborough Sea Salt and Caramel Brittle with Saffron (seventh best new chocolate product in value). Restaurant inspired Copper Kettle Special Reserve Slow Roasted Pork Belly and Mustard Jus and Copper Kettle Special Reserve Sea Salt and Black Truffle chips drove strong results (sixth and tenth best performing new snackfoods products respectively in value). We are also seeing Kiwis be more adventurous when it comes to speciality cheese which is growing at +8.3%.

Brands leveraging category 'extensions'

Brands are taking advantage of their equity to encourage loyal buyers to try new categories and formats, such as M&Ms moving into blocks, which delivered \$5.5 million in its first 14 weeks. In addition, Cadbury Moro (18 weeks, second best value contributor in chocolate) and Cadbury Dream Oreo (43 weeks, fifth value contributor in chocolate) also saw strong growth by simply moving into new blocks formats. Magnum introduced a new format by moving into tubs, which was the second highest new brand performer in ice cream (36 weeks).



Winning brand collaborations driving innovation

Collaborations are driving consumer engagement, with the top two performing products in ice cream - Tip Top Squiggles Ice Cream (50 weeks) and Fruju L&P Ice Blocks. Fruju L&P Ice Blocks was the third top new product in convenience channels. Oreo's extension into Oreo's Cadbury Chocolate Coated biscuits was the second best performing new product in biscuits.

Entertaining at home as an essential part of Kiwi culture

Beyond BBQ's, an emergent theme is the antipasto platter driving premiumisation and growth across grocery. We are also seeing diversified finger food options, with different ethnic products such as dumplings at +\$5 million, driven largely by Kungfood - the second largest new grocery manufacturer.

Personal identity is also the heart of entertaining

Making sure you look great, your home looks great, and your values are being projected has never been more important to New Zealand shoppers. This is not only true from the perspective of the impression you give visitors to your home, but also ensuring you're photo-ready for the wider world - for social media. Adding ambience to your home has proven a priority (Essano Candles and



Reed Diffusers grew \$1 million in 50-57 weeks) while showcasing your support of social causes via great looking hand wash such as Thankyou (second new non-food manufacturer this year in value) has become a growth area.

WELLNESS & 'CLEAN LIFERS'

Wellness is a major growth lever that's driving categories to new levels. While the yoghurt category has delivered \$10.8 million value growth, new products added a significant \$27.4 million. This contribution was driven primarily by Greek and protein

yoghurt introductions, with Kalo a standout new entrant this year at +\$6.6 million over 46 weeks. Chilled juice and drinks were driven by fermented Kombucha, which grew at +\$10.3 million and added 45 new products added this year.

Elimination and exclusion is driving growth in gluten-free, dairy-free and flexitarian through new innovation. Dairy-free yoghurt was worth \$56k in 2014 and has now rocketed to \$14.6 million in 2018. Dairy-free cheese in 2017 delivered \$580K in sales but climbed to \$2.6 million this year. Sunfed Chicken Free Chicken Chunks was the top performing frozen snacks and accompaniments product worth \$920K over 58 weeks.

Ingredient belief influences purchasing

Turmeric continues to be a highlight, with supplements up \$3.7 million across grocery and pharmacy off the back of 149% growth in product count. This also continued to push strong sales across food and beverage products throughout grocery, with matcha another new watch-out ingredient.

Wellbeing is shaping liquor choices

The emergence of low alcohol and alcohol-free options in beer has seen Heineken 0.0 a significant riser in its first four weeks of market entry. The rise of healthier liquor attributes such as low carb, is also evidenced by Speight's

Summit Low Carb, the top performing new product and contributor to sales growth in alcohol, with \$3.3 million growth over 52 weeks.

Growing awareness of what we put onto our skin

Natural and organic have enjoyed 33% growth in the number of products available in-store. Earthwise leveraged this as the number one growth manufacturer in personal care, driven by their Glow Lab range (\$3.2 million over 49 weeks). There has also been a lot of natural and organic innovation across personal care categories - such as in hair care (Herbal Essences bio-renew) and toothpaste.

Shoppers are concerned about their impact on the world around them, with household environmental products becoming more important with new risers Seventh Generation and Living Green two new brands to watch out for.

A combination of quality-conscious, natural and premium themes as well as strong visual cues have worked well in a number of categories such as nappies with Rascal+Friends the top new manufacturer delivering \$6.5 million in 52 weeks.



CONSIDERATIONS

- How does your brand communicate premium elements and how does this resonate with shoppers?
- Are there healthy or social attributes in your products that you can leverage in your communication?
- Do you call out the absence or reduction of unhealthy attributes?
- Are there opportunities to include limited editions or rotational flavours?
- Can you think of partners you could collaborate with?
- Are there categories that your brand could expand into? Or different formats that you can apply to your brand?
- How are you actively increasing your presence in-store and on-pack to disrupt and engage shoppers?
- How quickly does your company adapt to changing consumer preferences and needs?

FOOTNOTE: Unless otherwise stated all data is IRI MarketEdge MAT data to 16/09/18 in Grocery.

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