WHITE PAPER

NEW PRODUCT STUDY:
NPD in an environment of range rationalisation.

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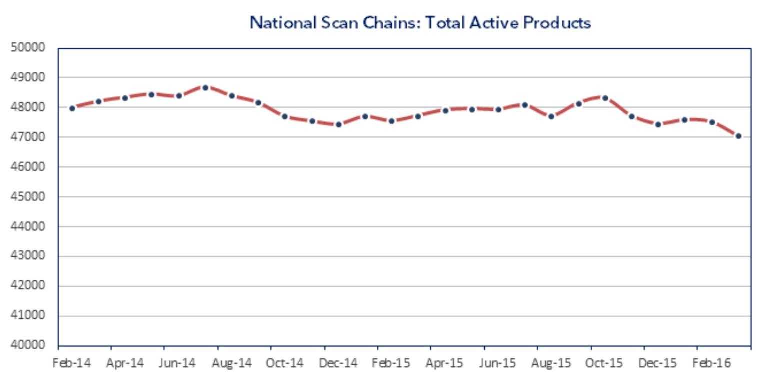
IRi Growth delivered.

New Products - What's the Story?

The number of items stocked in an average Supermarket has recently began to decline within Australia. Over the period of our study, February 2014 to March 2016, this has resulted in 1,000 fewer packaged grocery items appearing on Supermarket shelves, a drop of 2%. This trend is accelerating in recent months.

So, as retailers reduce their range, does this make it harder for manufacturers to get the listings that they need, in order to achieve new product sales targets? It would seem so.

Items per store have been beginning to fall in recent times.



Sales Rate Index (SRI) is a critical measure

In order to measure sales performance, each new product has been compared with its competitive set to give a number known as the **Sales Rate Index (SRI).**

SRI measures the relative performance of each item in the new product's range against the average item in the category or sector based on sales per point of distribution. This means that we can see whether a new product is achieving better or worse sales than its competition in the stores where it is available, then, as its availability increases, so will its sales.

'Success', has been defined as the new product havinga higher SRI than the average product that it is being compared to.

Analysis tells us that to achieve this, an SRI of 80 or more is required, most products in a store will undersell the overall average as it includes the very high sales achieved by a small number of best-selling items.

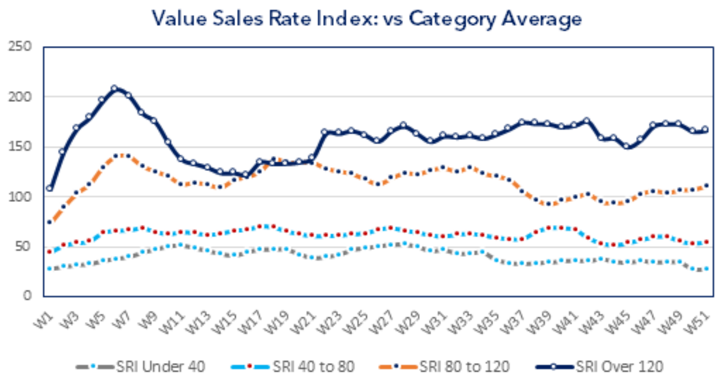
A new product with a low SRI will soon be spotted as a poor seller and will be delisted accordingly. As it grows in distribution it gains sales incrementally but at a slower rate and then when maximum distribution is achieved, it usually declines in sales from that point.

Conversely, a new product with a high SRI is reacting well to media spend and trade promotions. It gains sales quickly as distribution increases. It is not then subject to delist and maintains distribution as well as having the opportunity to then talk about the success it is having to achieve further listings, increasing distribution and multiplying sales in the process. It may sound obvious, but initial success is about launching a new product that shoppers want to buy, which is demonstrated by the SRI, then it's all about maximising that potential by gaining as much distribution as possible.

New products that have a good SRI demonstrate it from very early on in their lives. The chart below shows how SRI develops over time for those with high vs. low SRI. The best start high, usually attaining a peak of over 200 (so selling around 2.5 times faster than average). This tends to fall over time as trial diminishes and probably media support is reduced but ultimately they sell at something close to 1.5 times the average for products in their category. At the other end of the scale, products that start with a low SRI, stay low and tend to get lower from the day they are launched.

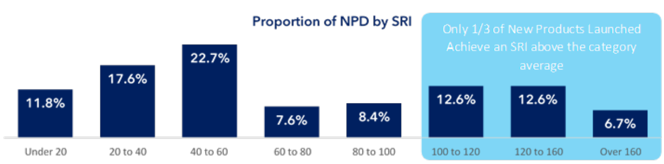
Overall sales will increase for these products as they gain distribution but as soon as that levels out, then sales will fall. There may be a good reason why the SRI is low. The price could be too high, the advertising or promotions may not be working, the position in store could be wrong or the pack may not be communicating the product benefits. If such a reason cannot be found then it may just be that the product is not resonating with shoppers and if it can't be changed, then an appropriate plan to withdraw the product may need to be found.

New products that start with a Sales Rate Index above average remain high, low starters don't improve.



THE BEST START HIGH, USUALLY ATTAINING A PEAK OF **OVER 200** (SELLING AROUND **2 TIMES** FASTER THAN AVERAGE)

AT THE OTHER END OF THE SCALE, PRODUCTS THAT START WITH A LOW SRI, STAY LOW AND TEND TO GET LOWER FROM THE DAY THEY ARE LAUNCHED



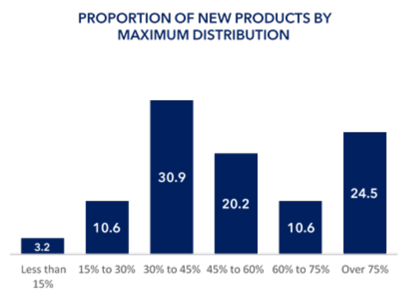
How has life changed for new products?

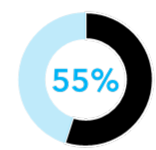
Distribution:

As discussed, whilst SRI is the engine, distribution is the fuel. A top-selling new product needs both but if fuel is in limited supply, even with a top-class engine, the distance covered will be limited. The average maximum distribution achieved by new products in major supermarkets in our study was 55%.

It has often been said that to be successful with NPD one should aim for 75% distribution within 12 weeks. In fact, only 1 in 20 new launches achieves this target in multiple retailers (only 1 in 30 across all outlets) and their success, as measured by SRI, is no higher than the average new product. They have the muscle to gain early listings but often the product does not perform and ends up taking space that another new product, with superior SRI, could exploit far better. It seems that as retailers have been concentrating on reducing range it has become more difficult to grow distribution for new products. Less than 1 in 7 new products ever reached 75% distribution in 2013/15, in 2010/11 this was 1 in 5.

Achieving a very high level of distribution as a new product is relatively rare. The mid-point, with 50% above and 50% below, is just 36%.





The average Maximum Distribution achieved by new products launched across the Major National Retailers

ONLY 25% OF NEW LAUNCHES EVER ACHIEVE GREATER THAN 75% DISTRIBUTION

Delisting:

New products with the lowest Sales Rate Index are at the greatest risk of being delisted. Amongst the better distributed products we can see that those with an SRI of less than 40 (so less than half of the minimum success criteria) are starting to be delisted after 36 weeks of trading.

11% of all new products in the market for more than one year were delisted in the following 12 months. To some extent it's surprising that it takes this long. With extra attention being paid by the retailers to sales rate and shelf-space optimisation, this rate of decline for failing NPD could hasten dramatically.

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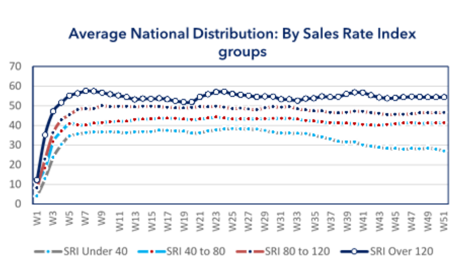
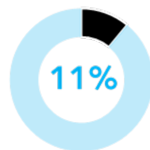


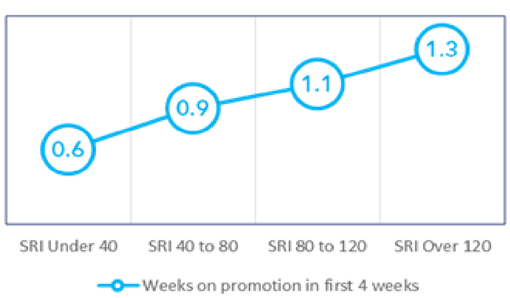


The percentage of new products launched that are delisted within the first year

Contribution from Price/Promotion:

With Sales Rate Index a key to success early on there is a link between Sales Rate Index and promotional execution in the launch period. Products that fall into the successful SRI groups were on average promoted in more of the first 4 weeks. Interestingly the relationship was not as strong over the first 13 weeks indicating that the key is to promote early. This could be due to encouraging greater trial as well as the benefit of better distribution execution.

Weeks on promotion in first 4 weeks



In the UK

The likes of Tesco, ASDA, Morrison's, Sainsburys and Waitrose have reduced their range on average by 6.3% over the 2 years to end of December 2015. And this trend has continued with a further reduction in range of 4% into June 2016.

At the same time a significant reduction in the number of branded new products being launched has been evidenced. This has probably been caused by suppliers reducing innovation budgets which will have suffered over time as trade promotion costs have escalated and remain as high as ever, as well as margins being squeezed by the continuing reduction in prices.

Across packaged groceries, there were 13% less new branded items launched in 2015 than in 2013, the reduction was steeper amongst food categories than amongst non-food categories and the number of private label items launched fell twice as quickly, by 26%.

Conclusion

As retailers aim to reduce range, new products will find it harder to gain listings. The reduction in new branded items launched within packaged grocery in the UK highlights the possible challenges that lay ahead within Australia. Delistings are likely to be happening more often and more rapidly under the scenario of more frequent range management by retailers. All of this culminates in the contribution of NPD reducing, which is of serious concern as it is generally recognised that they are the lifeblood of the industry.

The Sales Rate Index of a product at launch is key to its success. Suppliers should use the levers of promotions, above the line marketing to drive early trial and work with retailers to ensure the best roll out execution is achieved. Remember in general products that start strong stay strong and products that start flat will likely be under supported by the retailer and eventually die.

What can you do?

More than ever it is important to only spend the NPD budget on really good ideas. Having a good idea of what level of sales and distribution will create success, with the right product, helps to manage expectations, mitigate failure and improve product management. Introductory offers can help drive trial and distribution in the early days needed to win.

When speaking to retailers, using well-constructed arguments based on factual data to grow distribution and to retain listings is paramount. Every extra percentage point of distribution adds to sales. Measure the sales of your new products against sensible benchmarks and use these measurements for warnings, either of extra capacity required or to mitigate losses.

What is included in this study?

The IRI new product study for 2016 includes only 'true NPD' products that bought a new idea to the table. We have specifically excluded items that were temporary job lots, pack size changes or flavor rotations/range extensions.

The analysis included Branded items only, with Private Label excluded.

The analysis was conducted on a sample of Food and HBA categories launched since 2013 and selling for at least 52 weeks.

Sales Rate Index was calculated using the Dollars/Store/Week for each product vs. the existing Core range of its competitive set (excluding new and delisted products.) The major national scan retailers Coles/Woolworths were included in order to achieve accurate distribution measurement.

This study has been based on the 2016 Product Study produced by IRI UK.

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