The Food & Drink Innovation Network

NPD in a slower economy

Jonathan Banks
5 November 2008

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NPD in a slower economy

- Consumer changes
- Retail changes
- NPD opportunities
- Successful launches

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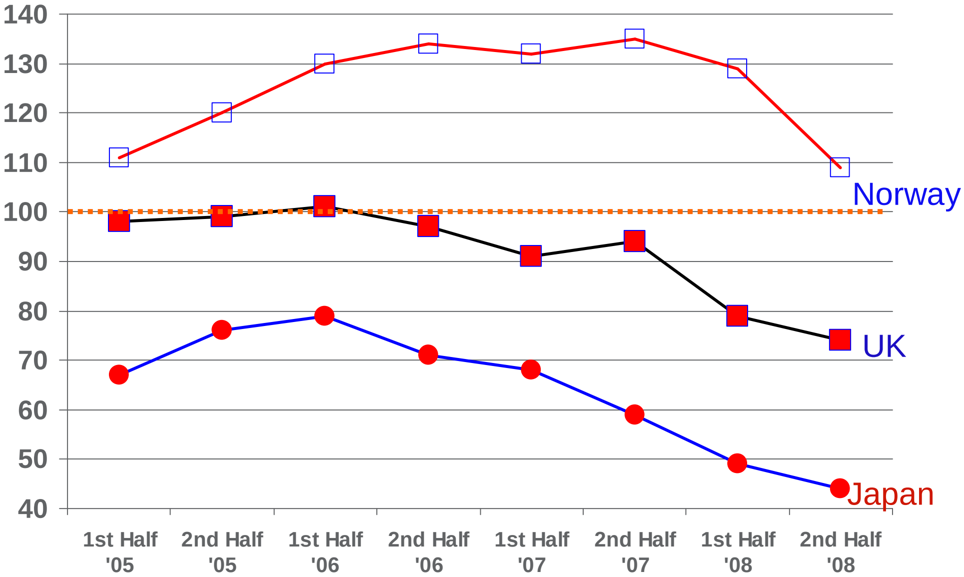
Consumer confidence...



Source: Nielsen Global Online Surveys to October 6th 2008

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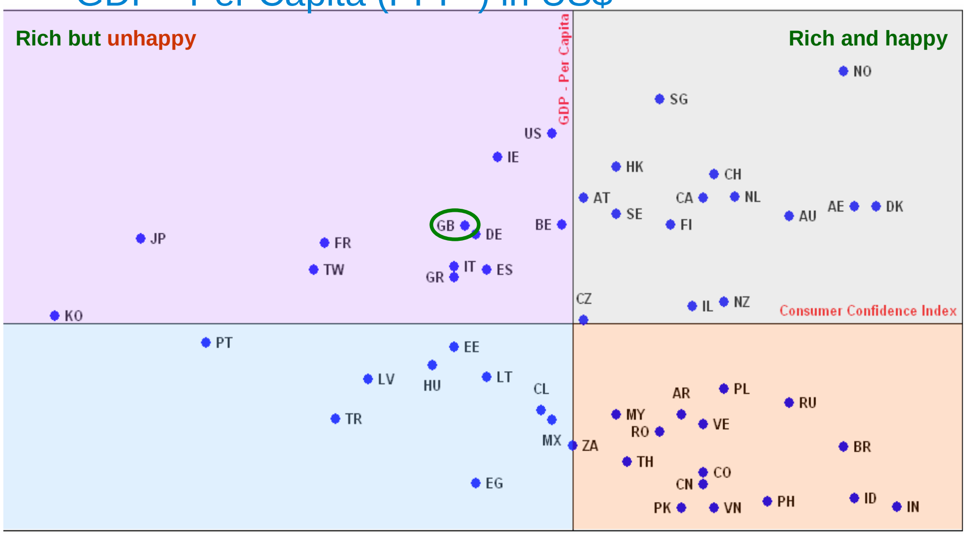
Consumer Confidence Index – 2nd Half '08 vs. GDP - Per Capita (PPP*) in US$



Poor and unhappy

*Purchasing Power Parity

Poor but happy

Source: Nielsen Global Online Survey – 2nd Half 2008; ACNielsen Analysis; The CIA World Factbook
Crosshairs = global average

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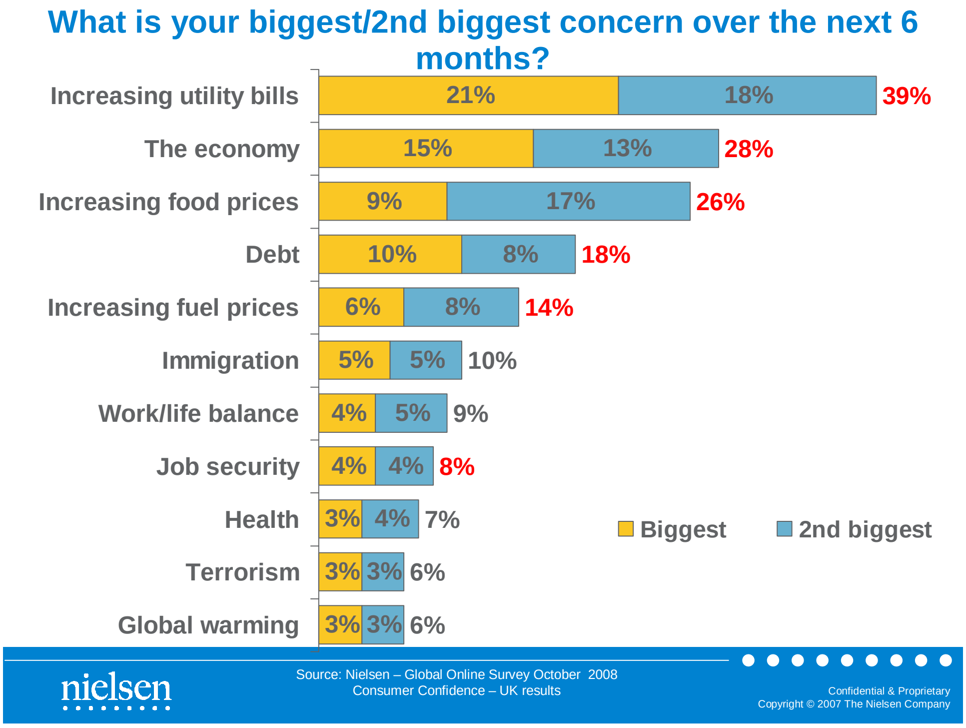

What is your biggest/2nd biggest concern over the next 6 months?
Increasing utility bills 21% 18% 39%
The economy 15% 13% 28%
Increasing food prices 9% 17% 26%
Debt 10% 8% 18%
Increasing fuel prices 6% 8% 14%
Immigration 5% 5% 10%
Work/life balance 4% 5% 9%
Job security 4% 4% 8%
Health 3% 4% 7%
Terrorism 3% 3% 6%
Global warming 3% 3% 6%
Biggest
2nd biggest
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Source: Nielsen – Global Online Survey October 2008
Consumer Confidence – UK results
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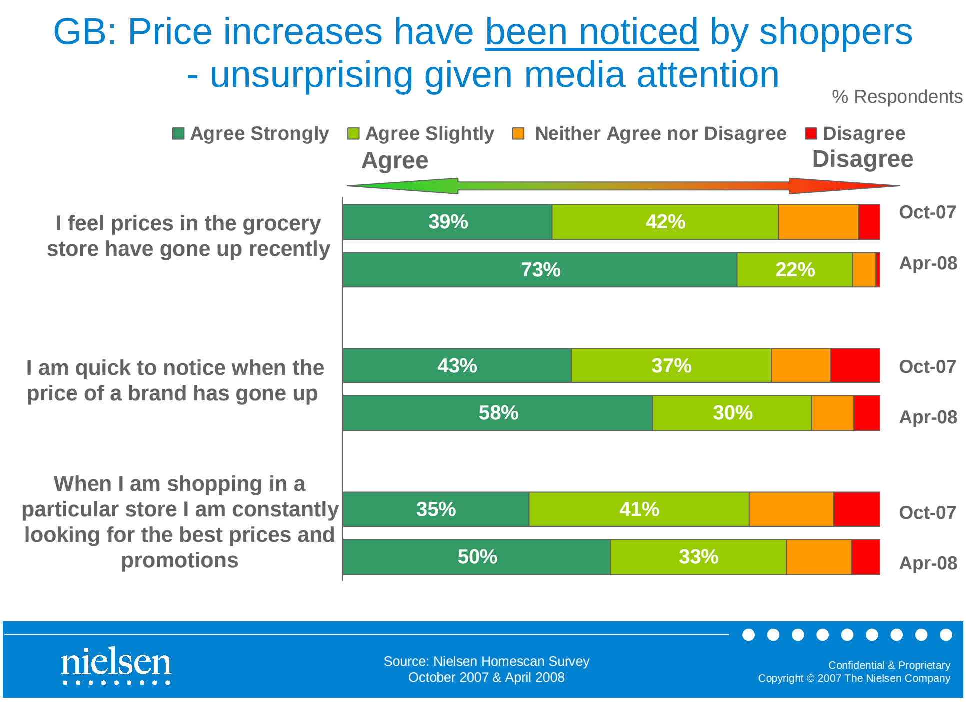

GB: Price increases have been noticed by shoppers - unsurprising given media attention
% Respondents
Agree Strongly
Agree Slightly
Neither Agree nor Disagree
Disagree
Agree
Disagree
I feel prices in the grocery store have gone up recently
Oct-07 39% 42%
Apr-08 73% 22%
I am quick to notice when the price of a brand has gone up
Oct-07 43% 37%
Apr-08 58% 30%
When I am shopping in a particular store I am constantly looking for the best prices and promotions
Oct-07 35% 41%
Apr-08 50% 33%
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Source: Nielsen Homescan Survey
October 2007 & April 2008
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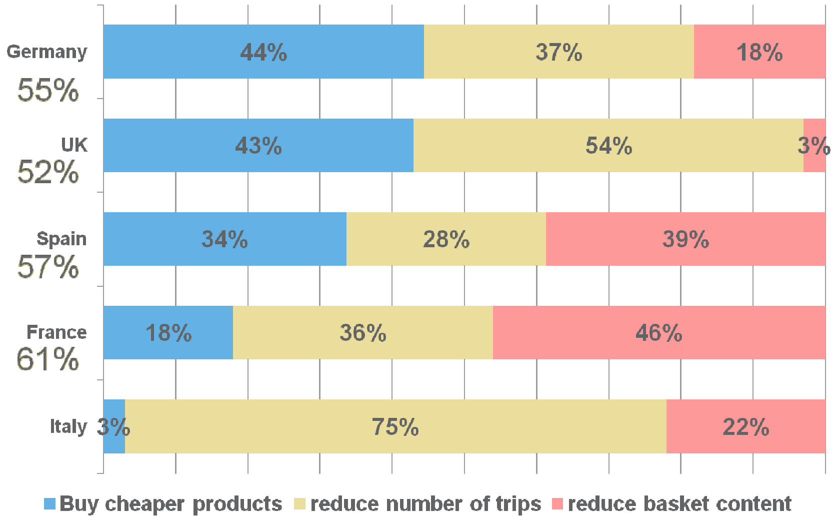
How do Shoppers **Actually** react to inflation ?



Source: Homescan January to May 2008

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Price increases on staple goods have had little impact on consumption...

Category	*Price Change*	*Impact on Sales*
Milk	+12%	-1%
Wrapped Bread	+12%	0
Eggs	+20%	-1%
Flour	+20%	0
Sunflower Oil	+23%	-4%
Dry Pasta	+25%	-8%
Sugar	+2%	0

Source: Nielsen

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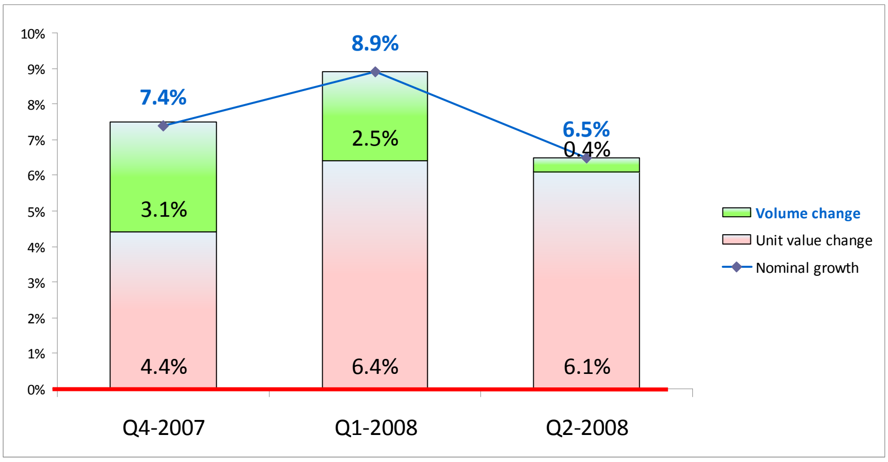
Total Europe view

Fast Moving Consumer Goods market dynamics



Source: Nielsen Growth Reporter

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Self-fulfilling prophecies

- We're having a recession
  - it will last
- More private label
- More promotions
- More shopping in the Discounters

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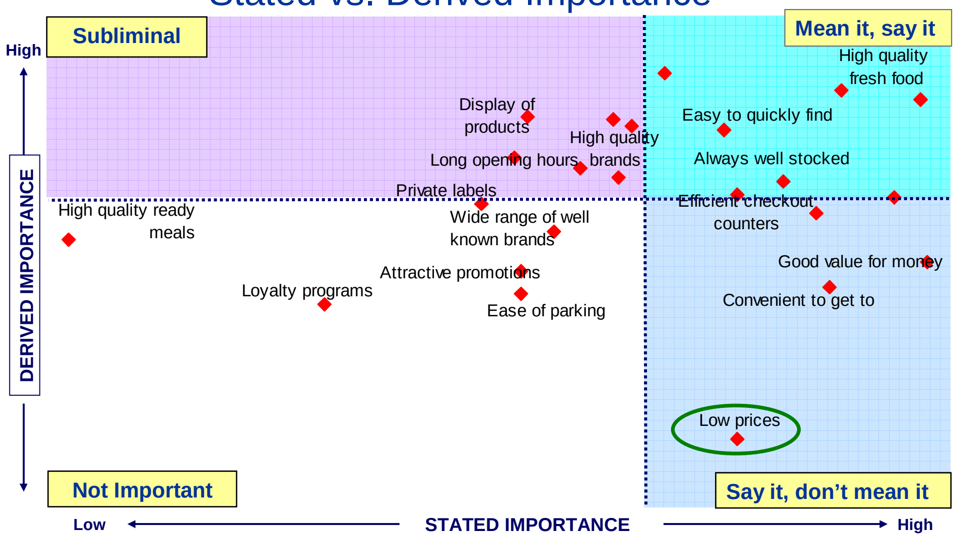
Great Britain: Importance of Attributes
Stated vs. Derived Importance



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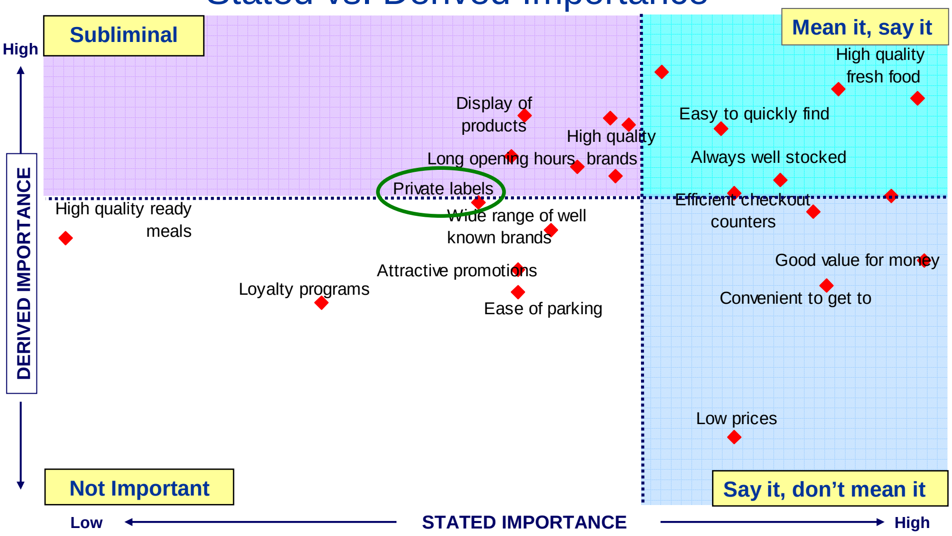

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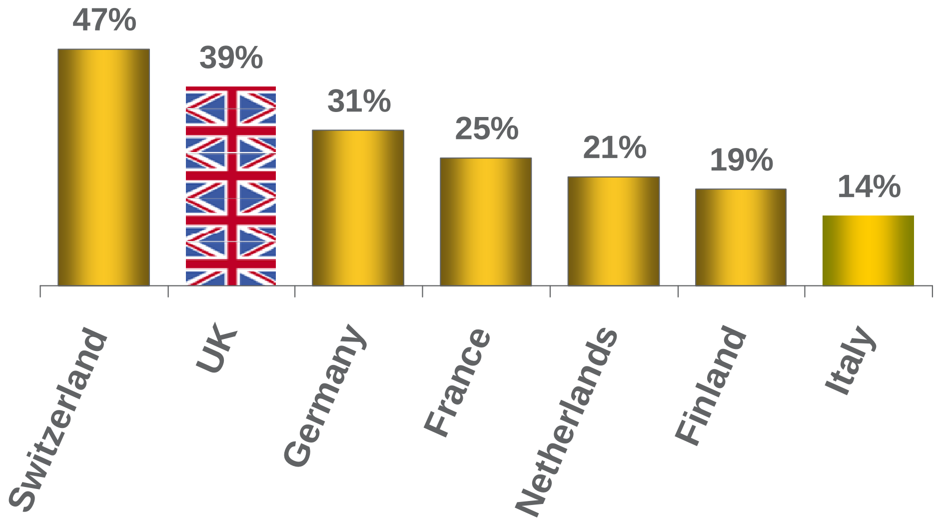
Private Label Category Share by Value



Source: Nielsen 2007
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Switching to cheaper alternatives...

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Source: Nielsen Media Research

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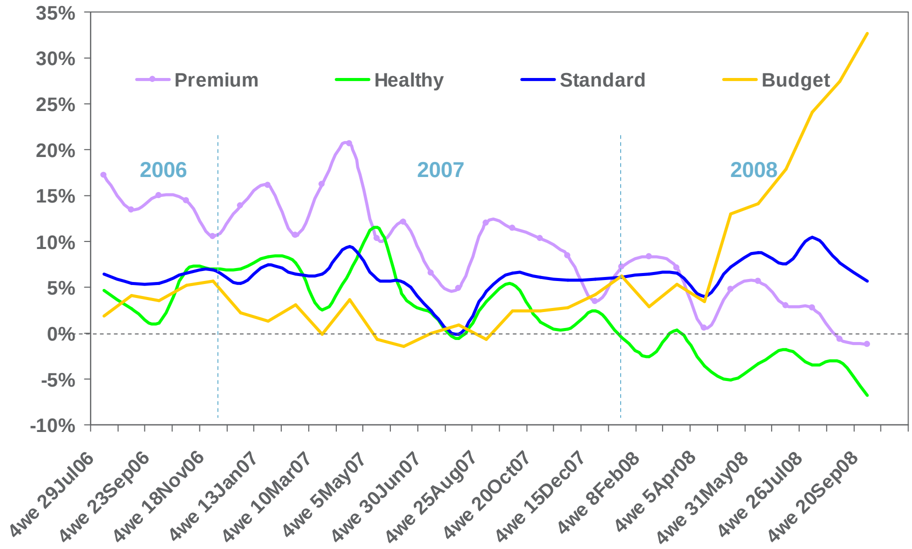
Private label sub-brand growth



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Categories coded with sub-brands attribute account for 58% Sales sold through £4.2Bn Grocery Multiples market (for data 4 w/e 20th September 2008)

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Tesco’s New Discounter Range

Source: Tesco

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Tesco tertiaries...

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Source: Nielsen Media Research
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Degree of commoditization of categories is measured through the share of private labels!

- **Private labels grow in those categories where brand builders fail!**
- **Private label does not cause brands to be weak, it is the consequence!**

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4 megatrends

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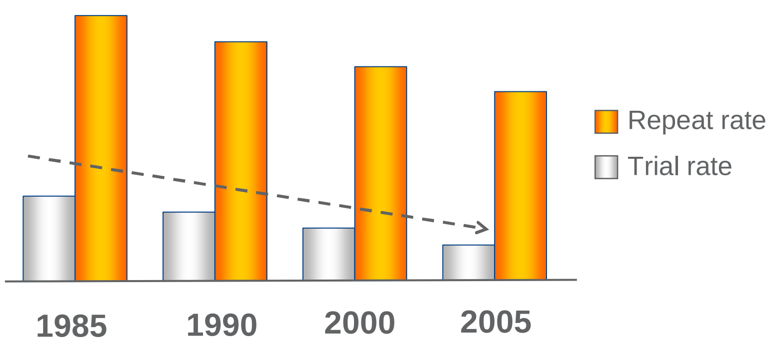
NPD is getting harder …

New Brand Trial and Repeat Rates



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Source: Nielsen BASES

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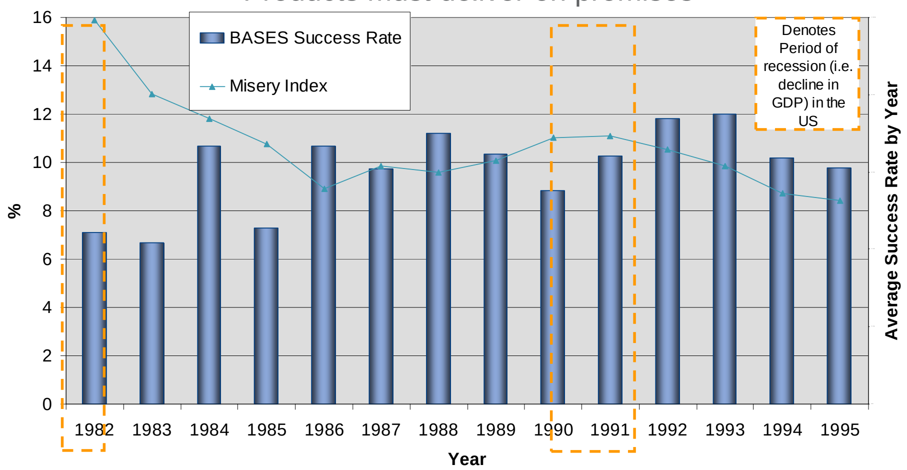
NPD Success rates: similar regardless of climate

Consumers are as likely to try new products in a recession.

Products must deliver on promises



*Misery Index is the sum of the inflation rate and unemployment rate.

** periods officially described as recession in the US

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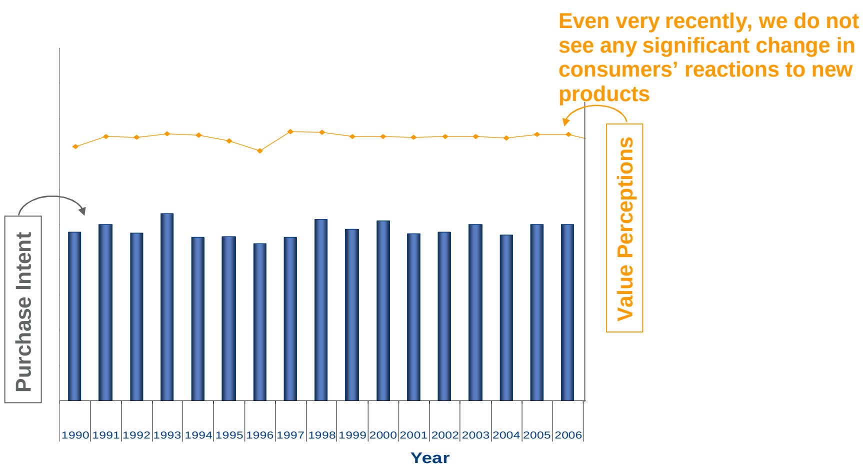
Consumers' purchase interest and value perceptions towards npd don't change significantly over time

Weighted Purchase Intent for Consumer Products in the UK from 1990 - 2008



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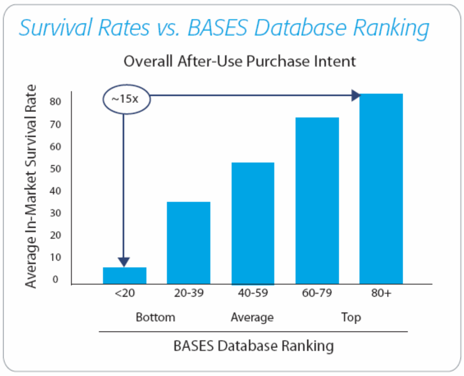
A strong product performance is **critical** to long term survival



Strong after-use performance vs. BASES Database is a lead indicator of longer-term survival.

By changing the product, for better or worse, you are effectively changing your relationship with your consumer. Don't underestimate how important this is.

NPD in a slower economy

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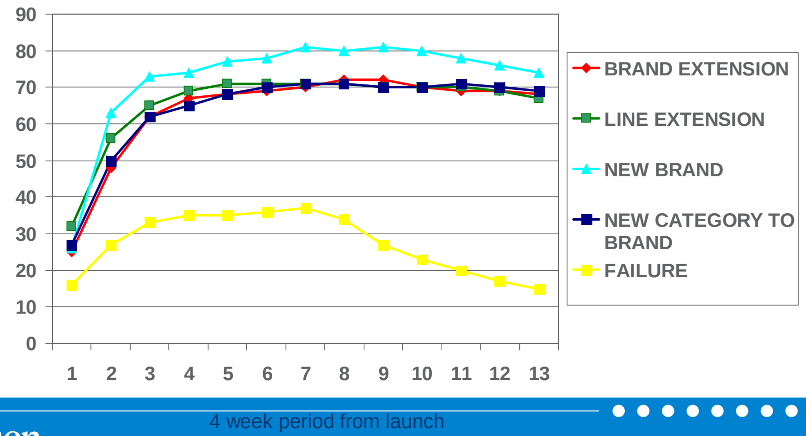
Distribution

- New brands generate the highest support as retailers make room for something that offers an added benefit to the existing range.
- Poor performers are generally given 7 months to prove themselves before delist threatens.



Source: ACNielsen - Grocery Multiples

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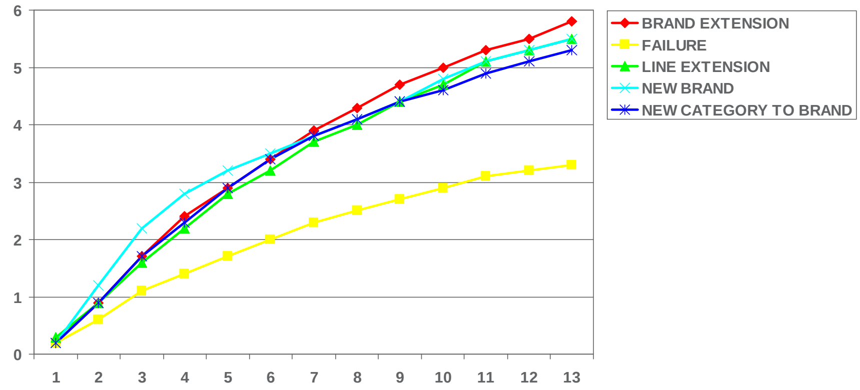
Trial

- One year after launch you would expect to reach nearly 1.5m households.
- New Brands recruit trialists at a faster rate within the first 5 months.
- If penetration has not reached 4% after 52 weeks a strategic review may be required.



Source: ACNielsen Homescan – 52 weeks

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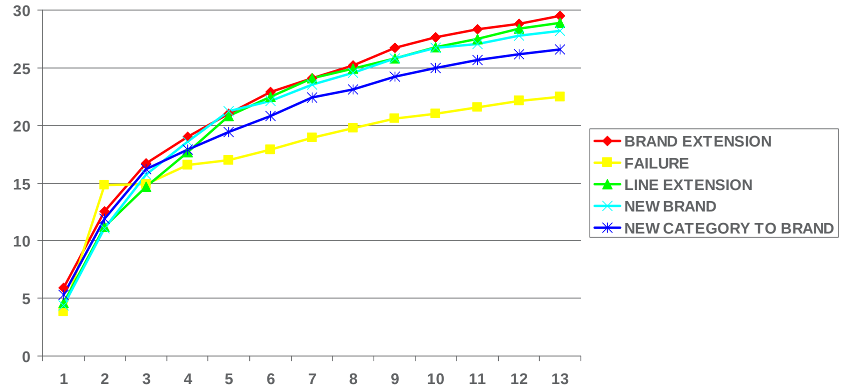
Repeat purchasing

- Brand extensions, where the parent brand has already demonstrated post purchase satisfaction and built up a strong loyalty base, achieve the highest rates of repeat.
- Umbrella brands need to be cautious of the increased risk of substitution, and repeat rates for the parent should be monitored closely in tandem.



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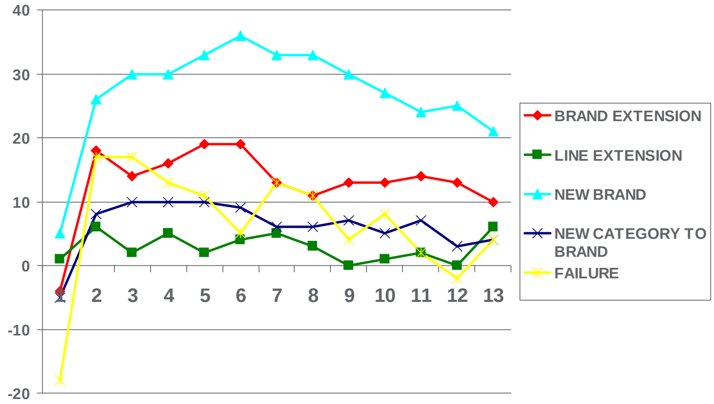
Price differential

> New brands can demand a higher price premium, but deflationary pressures erode this premium during year 1



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Summary of benchmarks

- New brands get highest distribution support
  - Distribution build shoulders at month 3
  - Failures lose distribution at month 7
- Successes reach 5-6% pentration = 1.5m households
  - Failures don't get to 4%
  - Repeaters in year 1 = 25-30%
  - Depth of repeat stabilises after 5 purchases
  - Depends on distribution
- 'NCTBs' attract the most new buyers to a category
- Promo support needs to be high but not too high
- New Brands add the most value to a category
- Failures fail despite low pricing
- NPD typically achieves 1½ - 2% share

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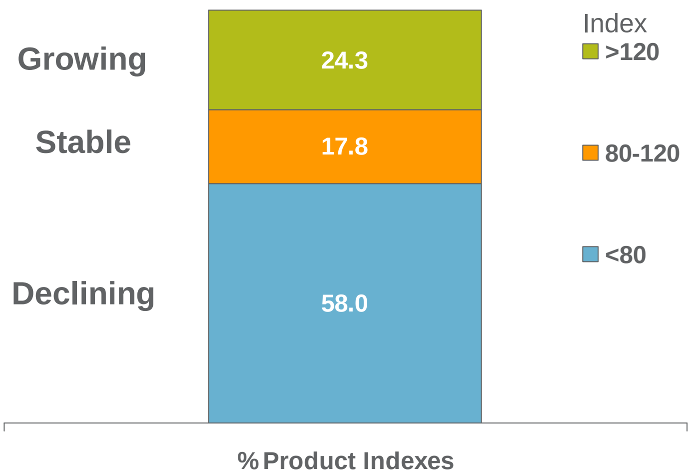
Proportion of launches worth more in Year 2

Only 24% of successful launches are worth more in Year 2 than Year 1



169 New Launches Used in sample

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How to succeed!

- True innovation has greater success than me-too products or line extensions
  - You'll make more profit backing big winners
  - Avoid the temptation to keep relaunching failures
- First to market tends to have lasting advantage
- Products must deliver on concept promise
- Long-term support – success depends on persistence
- Major category players are more likely to have greater success rates
- Trial rates emerged as a key factor in influencing sales volume – and for that you need distribution

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Keep your Foot on the Gas!

- Over the past 50 years, companies that maintained aggressive sales and marketing efforts during recessions experienced an average revenue growth of **+275%** during the first full year of recovery. In contrast, those companies that pulled back their marketing and sales spending increased revenue by only **+19%** during the recovery period (McGraw-Hill)
- It makes sense to maintain or actually increase marketing spend during recession
  - "Bang for Buck" – **ad costs decrease**
  - Expand use of "free" or "guerilla" marketing techniques such as press releases, Blogs, and community involvement
- Most distribution share growth happens going into a recession or coming out of a recession, not at the top or the bottom of an economic cycle (Rick Johnson, CEO Strategist LLC)

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Sources: HBR: "How to Market in a Recession, 2008" "Proactive Marketing During a Recession, 2005. "Marketing During a Recession. Get the Wind at Your Back, 2008." "Marketing Strategies During Recession," 1993

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A Nielsen view of the economy...

- Many consumers haven't been through this before
  - Debt hasn't been this high before
- US$ hasn't been this weak before
  - € acts as a shock absorber
- Delay car replacement, have fewer holidays
- In grocery:
  - Food is last to be hit (Maslow)
  - Opportunity to reduce food waste
- Beware self-fulfilling prophecies...
  - We're in a recession
  - More will be sold on promotion
  - Private label will grow
  - Discounters will grow

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