



NEW PRODUCT SUCCESS IN EUROPE

AN IRI WHITE PAPER



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1.0 EXECUTIVE SUMMARY

- Due to increased competition the price paid for everyday goods is falling
- New product development is needed to counterbalance this effect and push prices upwards
- Distribution plays a key part in the success of a new product and levels can vary enormously across countries
- Approximately one in four new products are successful in Great Britain, Italy, The Netherlands, Germany and France
- The sales rate is much higher for the best new products, even from the very first sales period
- Overall across Europe, new products in non-food categories perform better than their counterparts in food categories
- Only 10% of new product launches can be classed as real superstars

2.0 INTRODUCTION THE RISE AND FALL OF PRICES

Successful new products are the lifeblood of a dynamic fmcg category

It has long been accepted that successful new products are the lifeblood of a dynamic fmcg category. But not only does new product development (NPD) bring variety and technological advances, it is also critical for price maintenance in an environment of everyday price deflation.

Due to high street competition, growth of discounters and the increased dependence on trade promotions, the price paid for many established, everyday goods is falling. This has been true for some time in Great Britain, as well as other European countries.

However, if this was the only influence on the overall average price trend exhibited at the category level then we would notice a far greater topline deflation than has already been seen. Two other influences are also at work which can contribute to the gradual premiumisation of a category.

These are:

- Trading up
- New product development

Figure one below shows these three factors at work and how they can combine to create low-level inflation as has often been exhibited by many fmcg categories in the past. This process is as evident, and probably more important, at the manufacturer and category level, for value growth to be achieved.

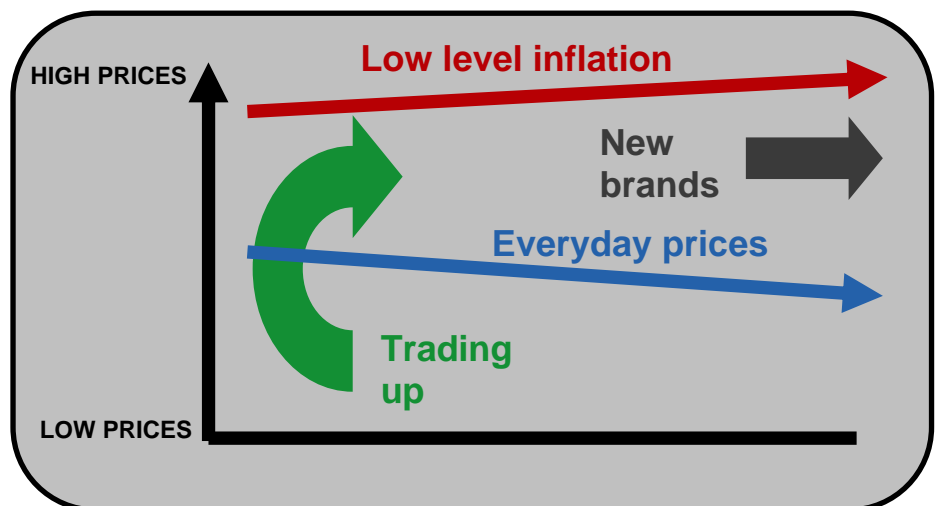


FIGURE ONE: NEW PRODUCTS HELP TO BALANCE TOP LINE PRICING

3.0 TRADING UP

Increasing disposable income encourages shoppers to trade up to premium products

The process of trading up is driven by the increasing aspirations and needs of shopper's who are more willing to part with additional money for a more expensive product.

Many people all over Europe have more disposable income available to them now than they have ever had before, which can also encourage trading up.

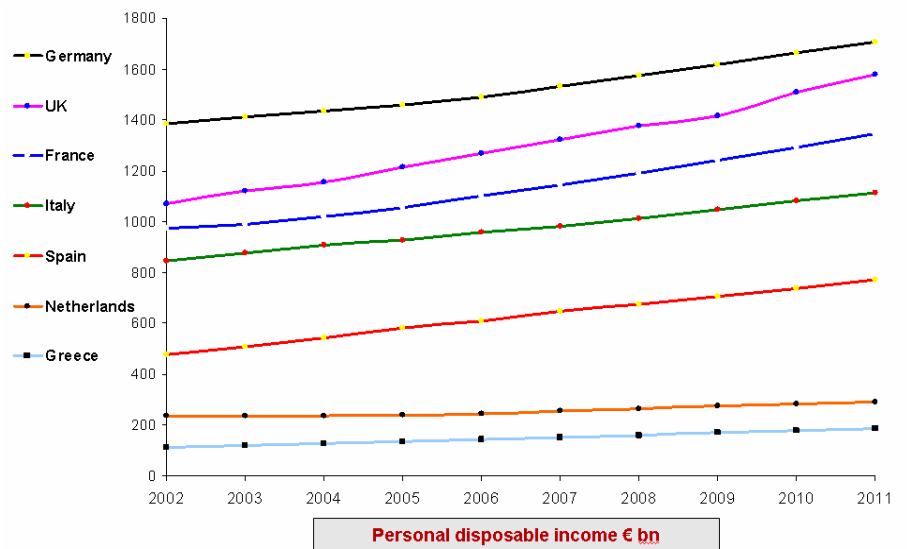


FIGURE TWO: PERSONAL DISPOSABLE INCOME IS RISING IN EACH COUNTRY

Source: The Economist Intelligence Unit Ltd, 2007. Actual, estimated and forecast figures.

4.0 NEW PRODUCT DEVELOPMENT

80% of new products launched in Europe fail

The final element, NPD, is the most critical element in stemming the tide of falling everyday prices. New launches offer manufacturers the opportunity to launch at a premium price. With the right media and promotional support shoppers can be attracted to the higher price points at the premium end of the category. However, this rather presupposes that consumers will want to buy the new products and that they will be successful in the marketplace.

Actually, on average across Europe, only a relatively small number of new products are successful. Just two out of ten succeed, with the other 80%, in effect, failing.

For the purposes of this statement 'success' has been defined as having a value sales rate at least 20% lower than the average value sales rate in the category. This study includes approximately 4000 new fmcg products with sales to date of between one and two years.

Countries included:

- France
- Germany
- Great Britain
- Greece
- Italy
- The Netherlands
- Spain

The study has been based upon a range of categories, including many of the following from each country:

- Beauty care
- Household products
- Pet care
- Ambient foods
- Dairy foods
- Frozen foods
- Oral care
- Snacks
- Confectionery

All data has been sourced from InfoScan, the IRI retail sales tracking service, using 2004 - 2006 data from grocery hypermarkets / supermarkets and pharmacy stores where available.

5.0 A MEASUREMENT OF SUCCESS

New products in Spain under achieve the category average by a massive 63%

Remarkably the average new product in Europe under performs the value sales rate of the average item in their category by more than 40%.

As Figure three below clearly shows, success rate varies widely across country. The Netherlands, Germany, France and Italy are some way ahead of Greece and Great Britain.

Last by some margin comes Spain, where new products under achieve the category average by a massive 63%. The sales rate analysis takes into account variations in distribution between products and countries. These variations can be extreme with each country exhibiting typical distribution patterns.

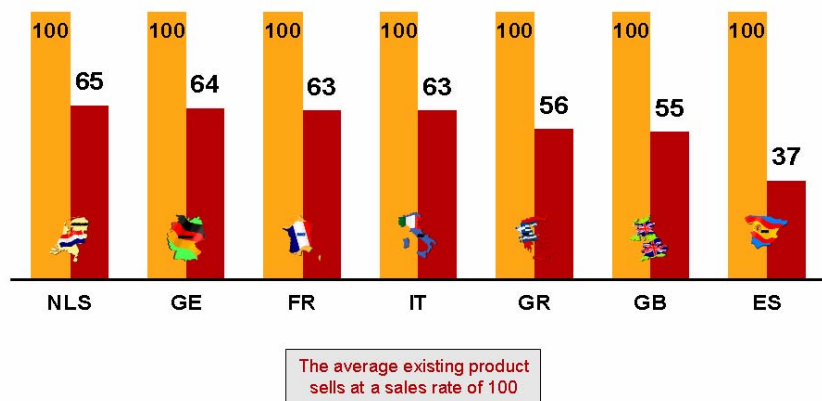


FIGURE THREE: VALUE SALES RATE INDEX. AVERAGE ACROSS ALL NEW PRODUCTS STUDIED

6.0 THE EFFECT OF DISTRIBUTION

Distribution levels vary enormously by country due to the local retail infrastructure

Figure four shows the distribution levels achieved over the first 18 months by the best performing new products. They vary enormously. This is largely a function of the retail infrastructure in the different countries and is critical to the progress of new product launches.

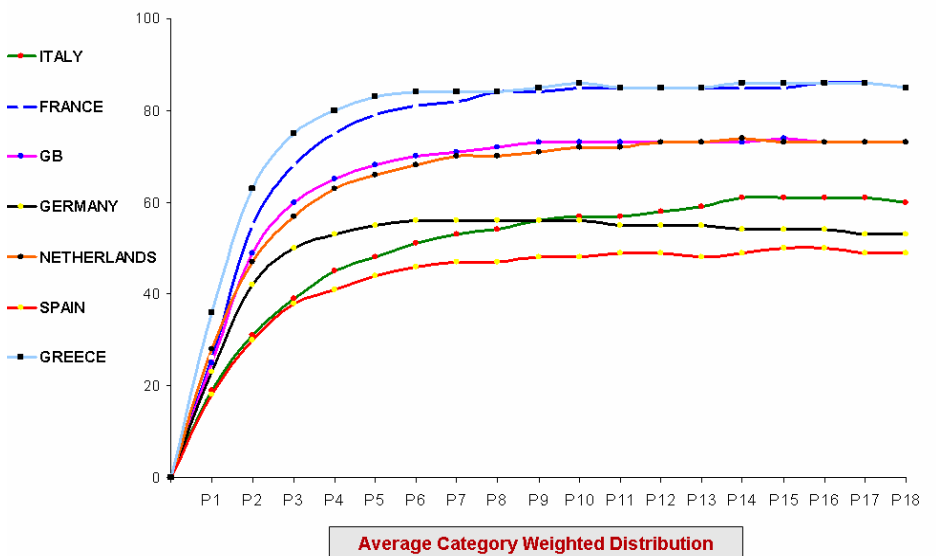


FIGURE FOUR: PRODUCT AVAILABILITY BY COUNTRY

THE BEST GROUP OF NEW PRODUCTS GAIN DISTRIBUTION QUICKLY, BUT OFTEN FALL SHORT OF THE MAXIMUM POSSIBLE

For example, the British retail trade is highly concentrated and well organised, with a small number of retailers accounting for the vast majority of sales. So, with a few major agreements in place, a new product can find itself stocked in the majority of the trade in just a few weeks.

In contrast, in Italy, the trade is highly fragmented with 11 retailer groups operating some 28 separate store chains to deal with. Distribution is therefore slow to build and on average, even after 12 months, is no higher than the 60% that new products attain in Great Britain after just 12 weeks.

In The Netherlands and in France, there is also a concentrated trade structure with a small number of key retail groups operating the majority of the grocery business. New products gain distribution quickly, very much as they do in Great Britain but at a slightly lower level in The Netherlands and faster in France.

The situation is different in Germany where distribution builds slowly and on average begins to fall even before the end of the first year. Poorly performing new products are weeded out quickly and overall, new products can often achieve relatively low levels of settled distribution.

Products that perform less well will lose distribution after 9 – 12 months

The lowest level of all, however, is seen in Spain. On average, the distribution in Spain, for the best performing new products, is still less than 50% after 18 months. The Spanish retail trade, as is the case in Italy is still fragmented across a large number of retail groups and store fascias.

Another consideration in assessing the distribution information is store size. Smaller stores inevitably offer a reduced range and there is more pressure on available shelf space. Although the Spanish trade is well endowed with large grocery outlets it has a significant number of small supermarkets.

The Italian information clearly shows how the number of separate agreements required to achieve full distribution for your new product take time to negotiate and so Italian distribution, whilst not the lowest, is gradually increasing for the longest time.

Having gained distribution, the objective of a new product is to maintain or increase that level over time. It was clear from this study that some brands have difficulty doing this and that this correlates with a poor sales performance either in terms of absolute sales or growth trend. Those products performing less well will typically begin to lose distribution after nine to 12 months from launch, presumably to make space for the next round of new products.

7.0 THE AVERAGE SALES RATE

It can be difficult to change shoppers habits and attract them to a new product

Across Europe, as shown in Figure five, only 12%, or one in eight, of new products actually exceed the average value sales rate of all category items. This figure alone shows just how difficult it can be to change shopper's habits and attract them to something new. This figure varies from 16% in Great Britain to just 7% in Spain.

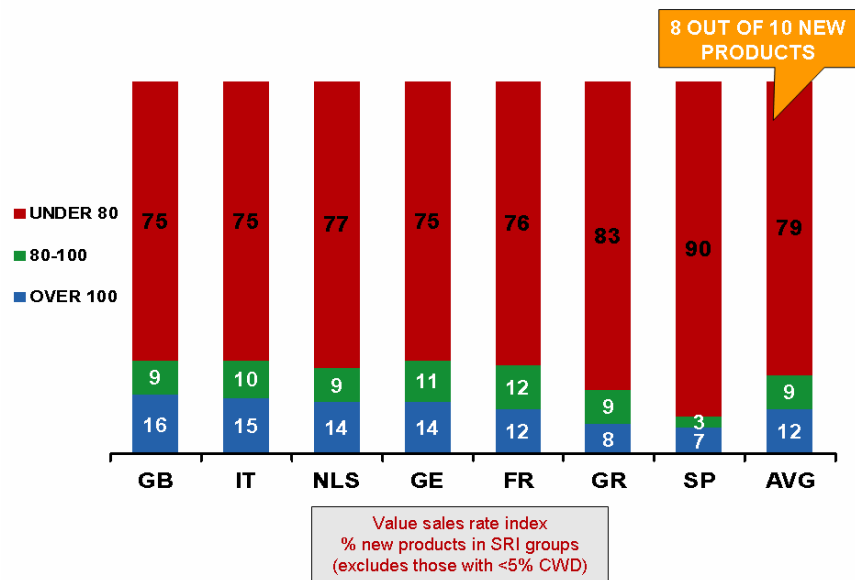


FIGURE FIVE: THE VALUE SALES RATE INDEX SHOWS SPAIN HAS THE MOST UNSUCCESSFUL NEW PRODUCTS

In order to enjoy a reasonable degree of success in the market it is not always necessary to exceed the category average sales rate. Analysis shows that the average sales rate across all individual items often falls in a band from 60% to 80% of the category average. This phenomenon is caused by the up-weighting effect on the category average of the faster selling items which are few in number and high in sales.

Therefore, when looking for success rates, anything above an index of 80 can be considered successful. Taking this additional layer of new products into account increases the success rate in Great Britain to 25%, or one in four. This is not dissimilar to Italy, The Netherlands, Germany and France, but well ahead of Greece and Spain.

Clearly, with Great Britain only featuring in sixth place on the overall league table of success, those in the under 80 bracket are generally performing much worse than in the five countries above Great Britain.

8.0 TRACKING THE SALES RATE INDEX

Even the best new products can find their sales rate deteriorating over time

Tracking the volume sales rate index over time as in Figure six below, shows how much higher the sales rate is for the best performing new products, even from the very first sales period. With so much new product activity in the market today, even the best can often find their sales rate deteriorating over time.

Trade promotion, whilst much more popular in some countries (notably Great Britain) than in others, is not in itself a key discriminator of success. The lowest performing group of new products were trade promoted almost as much as those in the group of best performers.

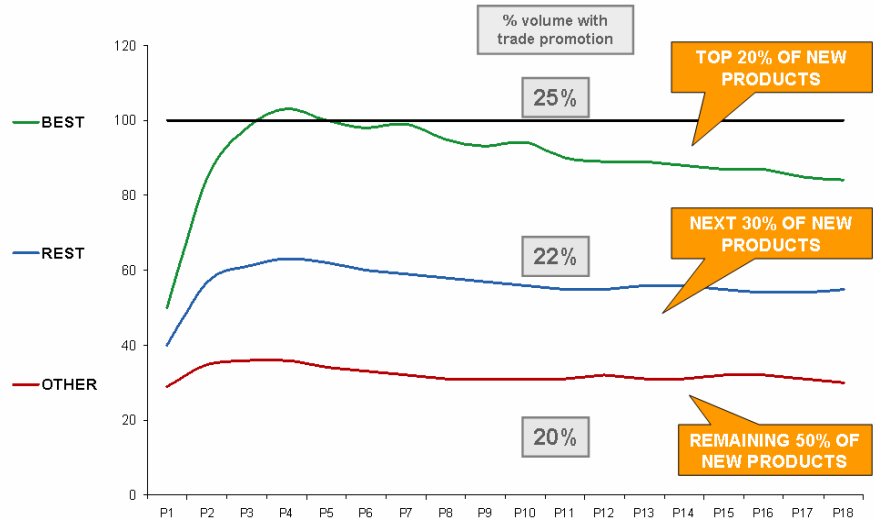


FIGURE SIX: AVERAGE VOLUME SALES RATE INDEX ACHIEVED BY NEW FMCG PRODUCTS IN EUROPE

9.0 FOOD VS. NON-FOOD

New non-food products perform better than those in food categories

Splitting the 4000 new products in the study into food versus non-food reveals some dynamic differences. Figure seven shows that, overall, new products in the non-food categories perform better than their counterparts in the food categories.

This may demonstrate the shopper's greater willingness to try out new non-foods more readily than new foods. But maybe there is more room for 'real innovation' in non-food, with less consumer risk as more purchases would be for personal rather than family use. Or maybe new products are launched to keep up with new fashion trends or to clean new types of surface or fabrics. Whatever the reason, it's generally easier to get consumers to buy new non-foods than foods in Great Britain, Germany, France and The Netherlands.

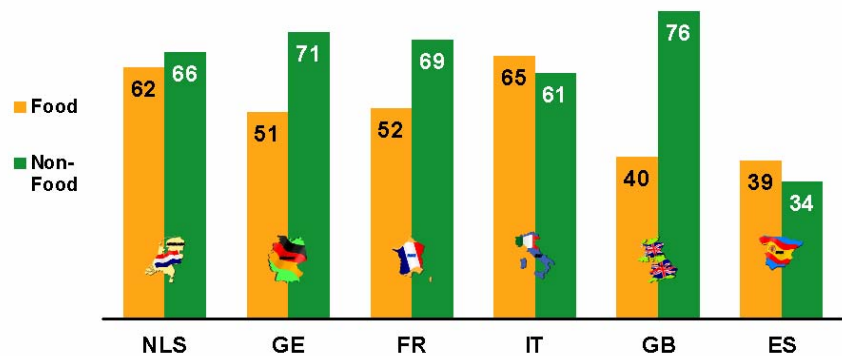


FIGURE SEVEN: VALUE SALES RATE INDEX. AVERAGE ACROSS ALL NEW PRODUCTS IN STUDY

In Italy, new food products scored the highest for foods across all countries, just above The Netherlands, showing these two countries could be the most adventurous in their acceptance of new food ideas.

Spain however scores low on both food and non-food. With the lowest overall success score of all the countries and the lowest distribution, certainly this is the hardest country in the study in which to launch a successful new product, and by some margin.

10.0 CONCLUSION

Only 10% of new launches are true superstars

In summary, Figure eight shows how only 10% of new launches exceed the category average sales rate in value and are, therefore, the true superstars. Another 10% succeed, with a viable position in the category, performing at least as well as most items in the category.

The remaining 80%, that achieve more than 5% distribution, generally fail based on a low sales rate and ultimately lose their distribution as more new products take their place.

But it's those one in five successes that, due to a premium price, add back value to the category and manufacturer sales, which are so necessary to maintain or establish growth on the bottom line in times of everyday price deflation.

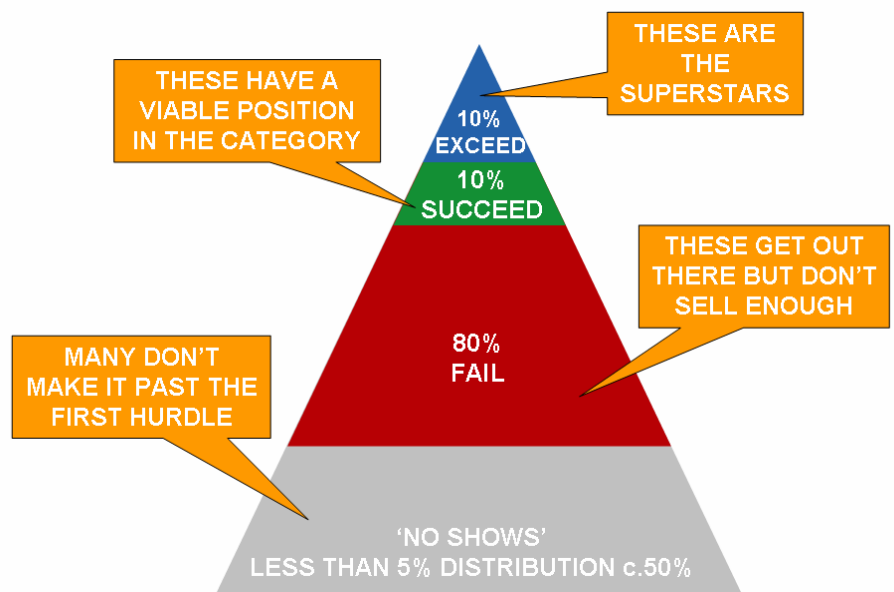


FIGURE EIGHT: NEW PRODUCTS OVERALL

THIS DOCUMENT WAS WRITTEN BY TIM EALES, INDUSTRY INSIGHT DIRECTOR,
IRI EUROPEAN DIVISION, 5 JANUARY 2007

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ABOUT IRI

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INTERNATIONAL HEADQUARTERS
EAGLE HOUSE, THE RING
BRACKNELL, RG12 1HS
UNITED KINGDOM

Telephone: +44 (0)1344 746000

WWW.INFORES.COM

