New Product or Service Development

Themes, Lessons Learned, Principles & Process, Cases, Financials, Benchmarking, Organization, Naming

Including Discussion & Examples of SGOAs*

NPD Principles: Pages 25 - 33
SGOAs*: Pages 57 - 95

"84% of global executives reported that innovation was extremely important to their growth strategies, but a staggering 94% were dissatisfied with their organizations' innovation performance."

- Report form McKinsey & Company -

PK ASSOCIATES LLC

Suggestion: ***SKIM fast*** so you know what is in this document, including articles throughout and at the end; decide what to focus on

* Strategic Growth Opportunity Areas

June 2025

Separate *courtesy* material on **Development Plan, Total Innovation, Brand Equity & Extension, and the 'SPEED' NPD StageGate Process** available on request (contact Peter Klein/ at peter@pkassoc.com)

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* SKIM what articles are included and decide **which ones, if any, to read!**

PKA New Product Development *Headlines*

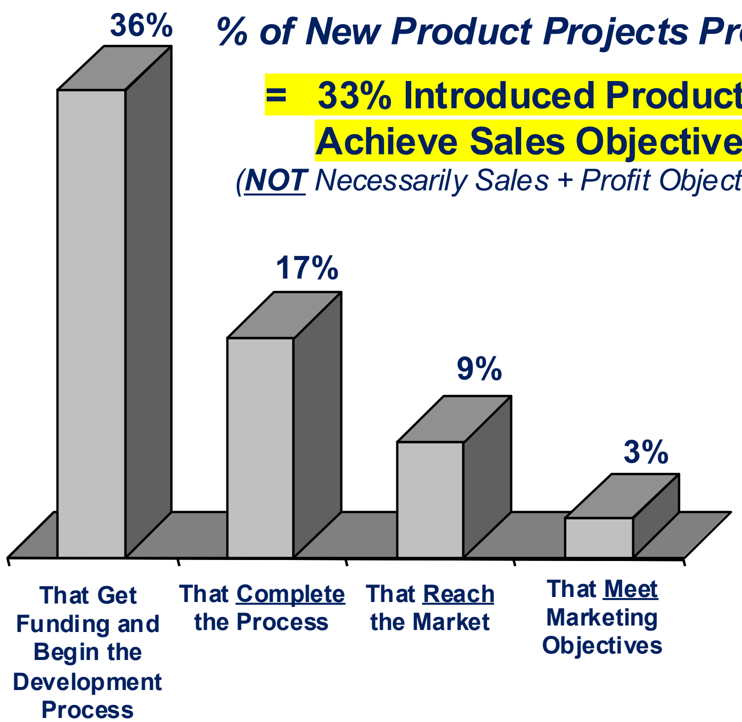
1. ***New product development challenge is difficult****…* always was, still is!
2. ***Many learning's from successes, failures and experience****…*
   including not being *a 'tactic in search of an enduring strategy'!*
3. ***6 NPD principles*** increase the odds of marketing and financial success*
   (+ other key learnings)
4. **Focus internal NPD** (beyond close-in line extensions/flankers**), and the generation/qualification of specific core new product concepts, against agreed-upon ***strategic growth opportunity areas*** (SGOA's) and a master **Development Plan** (roadmap)…

   and an ***NPD Stage-Gate process***, with speed and agility built in, with the ***right organizational culture* and *absolute executive management endorsement, support*** (or nothing meaningful will happen!)

* There have been many NP *marketing* successes over the decades, but also ***many NP financial failures***!

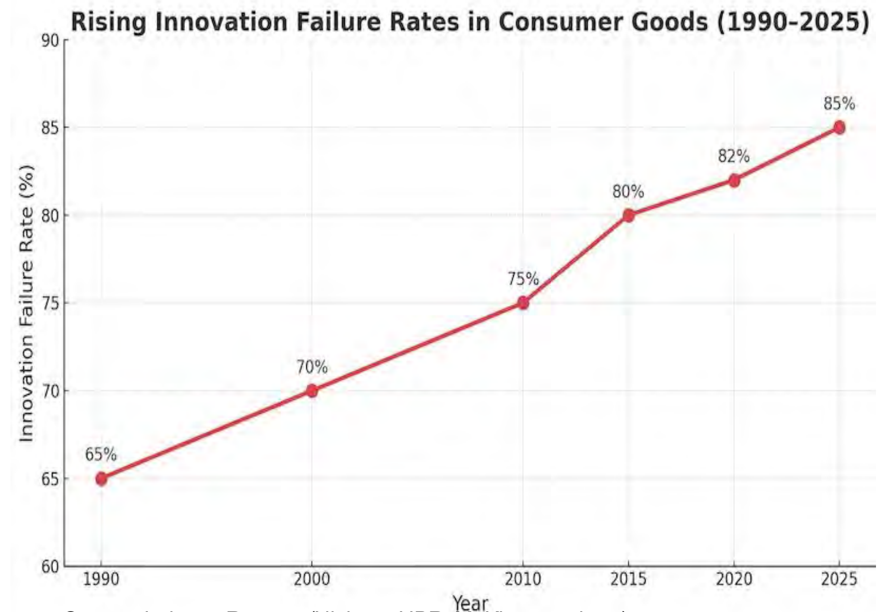
** That basically serve the purpose of ***treading water***, replacing SKUs coming off the market and not necessarily driving meaningful incremental volume and net sales; unfortunately, these programs ***usually account for 75-90+% consumer product company's development pipeline,*** since they are **low cost, low risk, fast to do and can be run by more 'junior' marketers** … and ***CEOs wonder why their business is growing so slowly and their new product program consistently under-delivers versus expectations*** (e.g., Mike Miles famous speech at *Kraft Foods* in the 1980's: ***"New Products are an empty pit!")***

About 3% of New Product Projects *Conceived* Are Actually Introduced <u>and</u> Meet Their Objectives… Studies Over the Last 50+ Years Show *70-80% of All CPG New Products Introduced Fail to Be Marketing and Financial Successes* … This Percentage <u>*Has Not Changed Over the Decades*</u>*!*



Nielsen/BASES historical data shows 52% of all NP concepts tested in BASES 1 and/or BASES II **<u>did not meet their sales objectives</u>** in the market (and the concepts generally tested in BASES over many years were larger ideas, beyond line extensions/flankers); and multiple Industry studies over the past 5+ decades by Bain and BCG (others too) show that **<u>70-80+% of all new products in the consumer products industry fail to meet their marketing and financial goals</u>**! See Nielsen/BASES section on Pages 542 – 587 and **PKA POV on Nielsen BASES I & II on Pages 278 - 286**

Source: Brandweek, Bain, BCG and PKA Research



Source: Industry Reports (Nielsen, HBR, McKinsey, others)

Primary Sources, Including Catalyx

1. Nielsen Breakthrough Innovation Reports
- Annual analysis of consumer goods launches (particularly Fast-Moving Consumer Goods or FMCG), consistently reporting failure rates between 70%–85% over recent decades.

2. Harvard Business Review (HBR)
- Multiple studies cite failure rates around 70%–90% for consumer product innovations from the 1990s onwards, especially the widely-referenced statistic that approximately 80–85% of consumer products fail within two years.

3. McKinsey & Company
- Industry insights highlight increasing market complexities + consistently high failure rates (around 75–85%) of CPG NP's from around 2000 to the present

4. Product Development & Management Association (PDMA) Surveys
- Surveys conducted periodically (approximately every 10 years) capturing broader industry trends in new product success and failure rates.

Clarification on the Data

- Graph illustrates industry-reported estimates, not the exact, standardized figures; failure definitions vary among sources (e.g., not meeting sales expectations, market withdrawal or failure to generate profits)
- Data shown is synthesized from publicly available reports and common industry benchmarks, not a single proprietary dataset
- Getting accurate data on NP success/failure/investment rates is impossible. Companies have limited accuracy to track the definition of success. BUT: this trend continues of increasing NP failure across the aggregated sources over time; the odds of NP success does not change! The more NP's launched, the higher the failure rate will be!

With So Few New Product Successes There Is Almost Always Senior Management Skepticism!

Development Obstacles

- **Senior Management often skeptical and risk averse about internal development**
  - ✓ Poor track record
  - ✓ Expensive failures -- money, people, reputation
  - ✓ Longer "fuse" than acquisition
- **Risk aversion often leads to compromised execution through a 'committee' approach… launched product often bears little/no resemblance to original concept!**

Sell-In Obstacle When Retailers Involved

- **Retailers, trade are increasingly hard to sell**
  - ✓e.g., Grocery chains usually see 200+ new product pitches/week -- accept only 40%
  - - Are skeptical about manufacturer's sell-in promises
  - - Slotting costs are skyrocketed over the decades

Likely Result

- **70-80+% of new products fail according to Bain and BCG (and others)… has NOT changed in 50+ years!**
  - ✓ Marketing *and/or* financial failures!

What's wrong with this model!

See NPD Pitfalls & Process Reports from Hanover Research

1. 2020: https://cdn2.hubspot.net/hubfs/3409306/The-State-of-Product-Development.pdf?li_fat_id=183e51eb-e662-4910-ae0c-4786a257e703
2. 2022: Page 745

Most of the Reasons Below for New Product Failure Are Linked to Lack of Strategy and/or Organizational Process

Lack of clear new products portfolio and plan

Focus
Priorities
Criteria

Inconsistent new product development process/system

Lack of experienced senior people continuity
Lack of formalized project screening, approval, implementation

Lack of sufficient resources

R&D
Operations/Engineering
Marketing
$ (Development Budget)

SYMPTOM

Lack of *Sustained* New Product Innovation and In-Market Success

Inappropriate resource allocation

Time, resources not allocated consistent with agreed-upon SGOA's *

Organizational structure

No "fully dedicated" team with focused responsibility

* **Strategic Growth Opportunity Areas**; a lot more to follow on this in this document *(see Pages 57-171)*

See 2020 NPD Research Report (Hanover):
https://cdn2.hubspot.net/hubfs/3409306/The-State-of-Product-Development.pdf?li_fat_id=183e51eb-e662-4910-ae0c-4786a257e703

New Products Fail for Many Different Reasons

Top Reasons For New Product Failure

		% Rating Factor in Top 3
Strategy	Strategic direction	44 %
	Positioning	33
	Competitive Point of Difference	32
Process	Misleading research	19
	Development process	19
	Inexperienced marketing group	9
Execution	Product didn't deliver promise	35
	Price/value relationship	30
	Packaging execution	20
	Creative execution	18
	Branding	15
	Promotion execution	9
Support	Management commitment	29
	Marketing/trade support	18

See 2020 NPD Research Report (Hanover):
https://cdn2.hubspot.net/hubfs/3409306/The-State-of-Product-Development.pdf?li_fat_id=183e51eb-e662-4910-ae0c-4786a257e703

Source: Brandweek Research; PKA

Example Reasons PKA Have Seen Over 5+ Decades for Failed New Products or Services

- **Failure to deliver a relevant meaningful, enduring and/or differentiated benefit**
  - Dry Beers, Crystal Pepsi, Ivory Clear, LA Beer
- **Failure to deliver the benefit promised**
  - Soft Batch cookies
  - Cadillac Allante
  - Clearly Canadian
  - Premier Cigarettes
- **Inappropriate price value**
  - Teddy Grahams
  - Snack Cracker category
  - Pillsbury Oven Lovin' Cookie Dough (re-sealable tubs)
- **Insufficient supportable scale… product vs. line mentality**
  - Keebler Sweet Spots
- **Failure to anticipate intensity of competitive reaction**
  - Healthy Choice Soups
  - People's Express

Ignoring Internal Problems Is Also A *Reason Why* New Products Fail

PKA EXAMPLE

When a PKA client was making the decision to launch a new product despite clear indications of failure (which later happened 9 months after launch!) a market researcher wrote two things on a notepad and showed it to me:

"Nothing is more dangerous than an idea when it is the only one you have!"

--- Émile-Auguste Chartier, French philosopher, journalist

"New product development is a black hole!"

--- Mike Miles, Kraft Foods CEO in an internal speech to the KF organization, 1980's

Ignoring internal problems happens too often, and it is driven by three issues:

1. Clients often have new product processes that do not generate enough good ideas… or rather ideas that are good enough
2. Process often takes priority over all else… too many new product processes are set up so that clients have few options but to plow ahead and *hope for the best*… **NPD success = Sr Management's Continuous Commitment + People + Process** *(or nothing big happens!)*
   - Market Research budgets (and even launch schedules) are often set up without regard for which division/SBU or major product category actually has the best ideas to be commercialized
   - A decision to launch something is made, deadlines must be met… so it is nearly impossible to turn back once the process takes over… it **gains 'its own momentum'** … it is not uncommon to hear a client say: *"I know, but we've already announced it to the trade... we need to launch!"* This translates to: ***"I know it's not going to work out, but we've already invited everyone to our wedding!"***

Ignoring Internal Problems Is Also A *Reason Why* New Products Fail – *Cont'd*

3. Decision makers often use the same logic in new product launch decisions that many folks use in other aspects of their business and personal lives
   - As managers, we succeed by taking the best action, knowing *nothing is perfect*
   - When we change cities for a new job: we chose the best home, optimizing location, space, price, aesthetics, etc.
   - When we hire someone to fill a job vacancy: we balance experience, attitude, intelligence, salary, etc.
   - The problem for new products is that **consumers do not need to buy them**…
     the brand manager might feel the same pressure to launch (facing a corporate/division/ SBU-driven deadline) we feel when picking a new house (facing a move date) … but the consumer is just fine sticking to what they know and often love

Nielsen did a lot of work in 2009-2011 about what metrics predict new product success (see Pages 542 - 587*) … see *PKA's POV on Nielsen BASES I & II on Pages 278 - 286*

- Looked at a dozen factors… e.g., being distinct, catching attention, value, etc.
- Nielsen created a way to provide a scorecard
  - The ***most profound learning*** from this is when Nielsen explains this work:
    nearly every audience member assumes that a clear strength can compensate for a clear weakness… e.g., a great location might compensate for a cramped kitchen, but only if you have a move-in date already chosen… ***consumers are very rarely under that kind of pressure!***

* Nielsen/BASES (starts on page 542) showed that 52% of all NP concepts tested in BASES 1 and/or BASES II **did not meet the sales objectives** in the market (and the concepts generally tested in BASES over many years were larger ideas, beyond line extensions/flankers); and, multiple Industry studies over the past 4+ decades by Bain and BCG (others too) show that **70-80+% of all new products in consumer products industry fail to meet their marketing and financial goals**!

New Product Development Was Also Studied in a Major Benchmarking Study *(Canadian Study)*

Study Methodology

- Benchmarking study of 161 US and Canada business units by 2 Canadian marketing professors
  - Focus on business unit as unit of analysis rather than individual new product projects
  - Firms selected from private lists of companies known to be active in new product development
  - Average annual sales revenue for business units was $563 million
- Data collected via a detailed 4-page questionnaire
- Questionnaires directed to corporate executives responsible for their business units New Product Development effort
  - Follow up personal interviews conducted with firms to identify best practices
- Questionnaire designed to characterize the business' new product practices in each of 5 major areas:
  - Process
  - Organization
  - Strategy
  - Culture
  - Commitment

Also see NPD Pitfalls & Process Reports from Hanover Research

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2. 2022: Page 745

New Product Development Was Also Studied in a Major Benchmarking Study *(Canadian Study) – Cont'd*

Key Messages From Benchmarking Study

- **Three key factors drive new product performance**
  1. A high-quality new product process
  2. A clearly defined new product strategy for the business unit
  3. Adequate new product resources — people and money and a respectable R&D budget
- **New product performance depends on the interaction of these three factors**
- **New product performance can be measured by two dimensions**
  — Profitability of a business' total new product efforts
  — Impact the total new product efforts have on the business

Innovation/New Product Failure In Consumer Goods Is Not A Research Problem. It's A Strategic One!

Despite decades of investment in cutting-edge research tools — from ethnography and neuroscience to AI-driven agile and cognitive research testing — innovation/NP failure rates in consumer goods remain stuck at 75–85%. Some data even suggests they've worsened since the 1990s.

The testing process has been continually optimized. But arguably not th thinking process. And the data suggests the CPG industry has been trying to solve the wrong problem all along!

In the rush to move fast and launch frequently, they never truly cracked the foundational discipline that innovation demands; the ability to identify, size, and solve real consumer problems in ways that brands are meaningfully allowed to play…
aka: be both ***Relevant and Differentiated***.

Most companies still direct 95% of their resources toward solution creation, and just 5% toward problem framing. That's the wrong ratio. What's going wrong?

- Too often they reverse engineer consumer needs to justify a new technology, platform, or internal agenda.
- Teams struggle to clearly articulate the consumer desire they're solving for, how big it is, or how well it's currently served.
- Tensions that drive real behavior are misunderstood or oversimplified.
- Brand permission points are overlooked — or worse, ignored.
- When ideas do surface, they're filtered through the brand's lens, not the consumer's* ideal solution. Or compared to other failed ideas out of date or totally irrelevant to your context databases.
- CPG industry is not lacking insight and research development and testing tools. Far from it. And EVERY tool promises you it works well. The industry is lacking consumer*-centred thinking early in the development process.

When the upstream work is done rigorously — when the problem is understood deeply, including and critically by senior management, and the tension is sharp, and the innovation/new product 'ingredients' are well defined — the concept test becomes a formality. *Winners emerge early and clearly.* If your concepts aren't regularly testing as a 'breakthrough winner' you are not doing the foundational work well enough; and no amount of advanced testing' will fix that!

Are you solving the wrong problem in innovation/new products?
What needs to change in your organization to re-balance the equation?

* Especially among heavy and super heavy category/segment users; unless you purposefully are targeting non-users or light users (VERY expensive with low success odds!)

PKA's Five Major Areas In Which New Product Practices Should Be Characterized

Process

A firm's new product development process that promotes a strong market orientation
- Undertaking marketing tasks in a quality fashion
- Doing pre-development activities well
- Having sharp early product definition

Organization

A firm's way of aligning projects with cross-functional teams
- Regular interfaces between departments
- Empowered leader

Strategy

A firm's total new product strategy
- Clearly defined roles and goals of new product development
- Specified product/market arenas to focus on
- Formalized organizational structure

Culture

A firm's internal culture and climate for innovation
- A positive climate that encourages entrepreneurship
- Providing free time and resources to undertake new activities

Commitment

A firm's Senior Management's involvement with and commitment to new product development
- Clear vision about importance of new product development
- Provide funds and resources

PKA External Assessment – Key Findings

Below is an External Assessment of both ***Benchmarked and Inspiration Companies*** to identify best practices and inspirational solutions; this page and the next page are the Summary (more material follows in this document)

Process	• Innovation leaders required to be deeply immersed in category and consumer (Starbucks work as barista's, Nike hires athletes) • Laser focus on consumer's unarticulated needs (Nike's GO DEEP philosophy, Apple's focus on 1-on-1 anthropological studies) • More willing to apply judgment / intuition…senior leaders involved. Use data and judgment. Not slaves to process or gates (At Starbucks, leadership approves launch based on Passion/gut reaction, fit with SBX, and Business data) • Constantly experimenting (Starbucks iterative, real-life testing to keep pipeline full; Kellogg's test kitchens for experimentation) • Leverage design thinking and iterative cycles (Apple's Industrial Design Team iterates using prototypes to get to optimal solution; P&G invested in as differentiator
Organizat-ional Structure	• Base teams lead renovation. Separate innovation teams focus on more disruptive ideas, often separated from the core business • Biggest ideas are often located and led outside the building (Apple: Start-ups are treated like start-ups) • Objectives of every function include innovation • Dedicate innovation space to R&D capabilities at DLM HQ and Walnut Creek (Kellogg's WKKI campus builds culture, rapport, cross-functionality)
Talent	• Seek different skills for different tiers of innovation • Seek diversity for breadth of thinking (e.g., Starbucks seeks diversity, retains start-up founders) • Create intensely loyal employees (Nike's pep rallies every 90 days; Starbucks everyone is a partner approach)



PKA External Assessment – Key Findings *(Cont'd)*

Tools & Capabilities	• Toolkits and training leveraged (Even Apple uses process, in particular for commercialization, despite Jobs' claim: "we have no process') • Use digital to amplify innovation… (P&G Learn/experiment w/digital approaches to CI, Nike leveraging digital communities
Strategy	• Clarity of brand promise inspires & aligns • Champion an overarching vision (Starbucks lost its way without it; since redefining, has had a strong run of growth)
Enterprise Engagement	• CEO / CIO are big and vocal champions of innovation across the company and can champion and protect breakthrough ideas (CEO looks for bottom-up ideas by walking the halls) • Leadership's actions send signal that innovation matters, actively engaged through process (Apple engages leadership regularly throughout product development)
Cultural Support for Innovation	• Ignite, impassion and empower the company to be innovative (Deep Dives into disparate cultural environs inspire designers make new connections) • Employ physical space as an innovation catalyst (Starbucks seeks coffee house feel at HQ, Nike like a college campus, Blue Buffalo screams pet food company) • Protect / celebrate / elevate the maverick thinkers (Apple coddles top designers and provide them special restricted space space; Kellogg's Academy Awards of Innovation for Marketers; Blue Buffalo act as confident mavericks) • Showcase R&D discoveries (Kellogg's R&D hosts bi-annual events… innovation fairs and galas) • To elevate innovation, celebrate success <u>and</u> failure… (Apple redefines 'failure' = new learning

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4 Headlines	2
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PKA Successful New Product *Principles* — *Lessons Learned*

Some Examples Used to Draw PKA's Principles From

- Healthy Choice
- SnackWell's *
- Snapple
- Pillsbury Toaster Strudel *
- Starbucks
- Fresh Express
- Gillette Sensor, Mach3, and Fusion *
- Silkience Hair Shampoo *
- Microsoft Windows
- Lipton Brisk
- Quaker Rice Cakes
- Green Giant Create-A Meal *
- Dockers
- Domino's Pizza
- Apple iMac & iPod
- Bayer Ultra-Thin Easier-to-Swallow Aspirin *
- MilkBone Brushing Chews *
- Home Depot
- Southwest Airlines
- AT&T Universal Card
- Home Shopping Network
- MCI
- Oscar Mayer Lunchables * / **
- Apple
- Gillette Dry Idea Anti-Perspirant Deodorant *
- Nabisco 100-Calorie Packs *

* Products Peter Klein personally worked on (or oversaw) over his career + others not shown above

** Lunchables Case Study on Pages 97 - 151

PKA POV

The Single Most Frequently Shared Characteristic of Successful New Brands and Businesses is the ***Ability to Bring a New Benefit to an Existing Category***

- SnackWell's brought no fat to indulgent snacks
- Oscar Mayer Lunchables brought fast, fresh, portable combination meals to lunch occasion (case study to follow, pages 97 – 151)
- Snapple brought great taste and all-natural to iced tea refreshment
- Toaster Strudel brought great taste and real/perceived freshness vs. shelf stable Pop Tarts
- Starbucks brought high quality and variety to AFH coffee
- Fresh Express brought convenience to salads
- Apple and Microsoft brought simplicity to computing
- Lipton Brisk brought a refreshing non-carbonated flavor to soft drinks
- Quaker Rice Cakes brought chewing enrichment ("crunch") to healthy snacking
- Green Giant *Create-A-Meal* brought familiar side dish components to convenient center-of-the-plate meals
- Gillette Sensor, Mach3 and Fusion brought superior performance to shaving
- Healthy Choice* brought health (low fat) and good taste to convenient foods

* Although it took over 15 years to make any meaningful profit due to over-extending far too fast

Continued…

Source: TCG & PKA

PKA POV:
The Single Most Frequently Shared Characteristic of Successful New Brands and Businesses is the Ability to Bring a New Benefit to an Existing Category – *Cont'd*

- Dockers brought branding and style to casual clothing
- Dominos brought quick to delivery
- Home Depot brought education and customer service to the DIY market
- Southwest Airlines brought consistently low price (with a competitively advantaged cost structure) to air travel
- Boston Market made wholesome homestyle meals convenient
- AT&T brought "No fee for life" to credit cards
- The Home Shopping Network brought the ultimate convenience to shopping
- MCI brought price to long distance; and eventually sold the company for a *very high* multiple and shareholder return

Source: TCG & PKA

PKA POV: 3 New Product Tactical/Execution *TRUTHS* – Examples That Meet Each

NP Examples	**1. Adhere to holistic vs. sequential testing**	**2. Price to the market not to your cost structure (or) margin requirements**	**3. Year 2+ support is non-negotiable!**
Oscar Mayer Lunchables *	X	X	X
Gillette Fusion Razor	X	X	X
Green Giant Create-a-Meal	X	X	X
Keurig Brewers & K-Cups **	X	X	X
Quaker Rice Cakes	X	X	X
GrandMa's Single Serve Cookies	X	X	X
Nabisco Snackwell's	X	X	X
Nabisco 100-Calorie Packs ***	X	X	X
Ritz Chips	X	X	X
Bud Lime	X	X	X
P&G's Swiffer	X		
Oral-B Cross-Action Toothbrush	X	X	X
South Beach Diet Foods/Bars	X	X	X
Tide Pods	X	X	
Milo's Kitchen	X	X	X
Meow Mix Tender Centers	X	X	X
MilkBone Brushing Chews ****	X	X	X
Johnson's Baby Cornstarch Powder	X	X	X
Playtex Living Gloves with Drip Catch Cuff	X	X	X
Playtex 'Clean Cuisine'' Gloves	X	X	X

Notes on 4 of the above examples asterisked on the next page

Source: Provided by PK/PKA to IRI's Chairman as a courtesy for his speech input (August 2016)

Notes From Prior Page - Tactical NP Truths

* **Lunchables**: One definition of "adhere to holistic vs. sequential testing" is that every MR test should try to present a "holistic bundle" that captures as many of the relevant decision-making variables as possible, then Lunchables is a great example; so, developers try to "show the gestalt" from the start, to elicit legitimate responses. My experience says that "screwy or incomplete or confusing stimulus" is a source of much confusion along the way. The old MR rule: the closer you get to real world stimulus, the more you trust the responses. For sure we tried to follow that on Lunchables (my MCA team that I led + folks at OMFC). *See it, pick it up, sense the weight, look it over, what do you think?* Anyone trapped by the CFO crowd into pricing to costs or especially target margins is in for an ugly time of it. Of course, one cannot survive with a product where, over time, the price charged is too low to cover costs and make money, since my definition of a successful NP is both a Marketing + Financial success (nothing else counts!). But, when projects start up, you almost never know what the actual run-rate costs will be! Typically, the OP's folk's sand-bag them out of sight for CYA purposes. Then the CFO insists on % margins that at least match the total division average, composed of stuff that's been optimized and cost-reduced for decades. Put the two together and the Mandated Price point will be way high vs. the legitimate "consumer demand-driven price to market" level.
Lunchables was originally totally screwed up on manufacturing and costs until about Year 3 – and the then Kraft Foods CEO tried to kill the project for the lack of *up to snuff margins* until the sales volume just kept skyrocketing upwards. Good luck to anyone stuck with CFO-imposed demands on % margins from Year 1; *doomed to failure before you begin*. "Non-negotiable Year 2+ support" is a drop-dead must; many of the NP's I see have <u>almost no Year 1 support beyond trade deals and perhaps a small ad budget</u>! That's why we focus so much energy on the impact of the NP and its 'on-shelf clothing'. To succeed, the design almost needs to sell itself at point of purchase. Good luck with the old school notion of Advertising as a cost of doing business and keeping brands vital over time. I hardly ever bump into any *old school* guys anymore! Lunchables did spend year after Year 1 – but Oscar Mayer got away with this by arguing that each year they were adding a meaningful *new idea to the line,* hence the need. The Base, then With Dessert, Fun Pack, Pizza, on and on. Enough money was spent cumulatively over time to build a Power Brand. But I almost never see that level of strategy operating today. *More checkers than chess!* It's also why I always strongly recommend focus on ***'Platforms' (SGOAs)*** vs. One-Offs. A shot at momentum and competitive defense. How sad to see the big companies still almost totally unable to do internal NPD anymore -- and relying instead on M&A to try for a one-year step up in growth. All the real action on NPD lies with the start-ups who plow forward with experimentation rather than the old BASES model and the impossible CFO economic hurdles (*aka*: Dollar Shave Club lost money for its first 4+ years and finally made money in 2016 (a year after UL acquired it for about $1bn)

** **Keurig**: Was a $5bn brand driven by *disruptive innovation* that restructured a category and created a new partition within the coffee category; good example (as is Lunchables) of ***big innovations that created a new market structure partition or sub-category*** versus closer-in new products

*** **100-Calorie Packs**:

- The development was all in the upfront *hypnosis and external expert panels*; with many development steps done concurrently
- Price was exactly to *market demand*; was the most profitable SKU in the entire Kraft/Nabisco portfolio; used so little actual 'ingredients' to make the consumer value was really in portion control packaging (service convenience)
- This was developed as a ***strategic growth opportunity area (SGOA***), a platform to be built on over time; kept Marketing Support beyond Year 1 + the new SKUs coming to market; by Year 3, the rationale to support with advertising was no longer valid since the target & consumption consumer targets already 'got the concept, knew where to look for it, etc.')

**** **Milk-Bone Brushing Chews**: **Nielsen New Product winner;** GMA Innovation of the Year winner

Source: Provided by PK/PKA to IRI's Chairman/Rick Lenny as *a courtesy* for his speech input (August 2016)

There Are Also <u>Other Factors</u> That Are Enablers or Catalysts for New Product Success

- First to capture an emerging trend
  - Home Depot and Self Reliance
  - Snapple and desire for BFY alternatives to soft drinks
  - SnackWells and Boomer's desire for small indulgences
  - Dockers and casual business dress, Boomer's need for non-jean comfortable clothing
- Broadly extendable <u>business</u> building idea
  - Not a ***'new product in search of an enduring, sustainable strategy!'***
  - Strategic growth opportunity areas: Healthy Choice, SnackWells, Lunchables
- Distribution muscle, strategic alliances if appropriate
  - Frito-Lay's Tostitos Salsa (100% salty snack aisle ACV)
  - Snackwells (100% cookie/cracker aisle ACV)
  - Lipton Brisk and Ocean Spray (Pepsi), Nestea Cool and Original (Coke)
- Intersect target consumers where they live, work, and shop
  - Gatorade: Point of sweat!
  - Snapple: C-stores, delis (less than 30% volume from supermarket channel)

Source: TCG & PKA

There Are Also Other Factors That Are Enablers or Catalysts for New Product Success *(Cont'd)*

- Inherent Velocity Potential
  - Lines vs. Items
  - Depth of Repeat
- Provide an easier form of access
  - Domino's quick delivery
  - Home Shopping Network
  - Dell Computers
- Senior management and organizational commitment, resources and synergies
  - ConAgra divisions played out Healthy Choice
- Executional excellence
  - Healthy Choice graphics
  - Starbuck's quality
  - Gillette Sensor, Mach3 and Fusion's integrated marketing plan and programs

Source: TCG & PKA

There Are Also <u>Other Factors</u> That Are Enablers or Catalysts for New Product Success *(Cont'd)*

Principles of a great launch…		Examples..
Consumer & KOL	▪ Crisp articulation of benefits told through compelling copy and brought to life with a bold media plan that helps the introduction cut-through ▪ Bold activities that address/dramatize the core business challenge ▪ Enlist advocates, ideally ahead of launch to create excitement ▪ Make it easy to 'create the behavior' (e.g., free trial, money off, etc)	DiGIORNO Ford P&G
Retailer	▪ Powerful selling story tailored to the retailer's needs – Communicate how product drives new business (e.g., more than just steal share) and why it warrants incremental space – Show robust support plan and how excited consumers are ▪ Incentives for early shipping and/or display	SAB MILLER Campbell's
Internal	▪ Aggressive pre-launch war-gaming; have the counter plan and required funding ahead of launch ▪ Identify and monitor detailed launch metrics, KPI's, and key milestones (e.g., distribution, trial, repeat, GRP's, etc) at a daily/weekly level; meet weekly to review/discuss ▪ Action plan to execute if launch does not go according to plan – Develop competitive defense plan and money required vs. just holding a 'lump sum that is not based on specific moves ▪ Monitor what is being said online, 24x7 and be prepared to react ▪ Actively track competitive moves (be in the stores, talk to the buyers, monitor spend, etc) and make recommendations on action if applicable (e.g., BOGOs, additional trade spend)	kraft foods

Based On Challenges and Success/Failure Lessons Learned, ***6 NPD Principles*** Have Been Developed by PK/PKA

PKA NPD Principles

1. **Disciplined approach**
   - Strategic foundation, identified opportunity areas and business plus consumer proposition refinement vs. "*I've got an idea*"
   - Balanced development portfolio… with several irons in the fire with differing time horizons
   - Accountability and control *
2. **Targeting is a mandatory**
   - To whom, for what… define beachhead target
   - Heavy user/needer as the guiding force and predictor of success
   - Develop proprietary consumer insights that solve problems and are actionable
3. **Push the edges of innovation through deductive *and* inductive approaches**
   - Low hanging fruit and outside-in thinking
4. **Leverage brand equity wherever possible**
5. **Drive towards consumer delight and aspire to competitive differentiation**
   - Be relevant and different among well-defined target
6. **Senior level commitment/involvement, and staff with senior / experienced people**
   - Or nothing big will happen!

* See example of ***'control'*** on Pages 707 – 712 (Consumer-Driven Development & Implementation Process/CDI ***Process Reference Documentation*** – *SUMMARY*)

Based On Challenges and Success/Failure Lessons Learned, Additional PKA *NPD Principles* Should Be Remembered

PKA NPD Principles

Additional NPD Principles

(The 6 listed on the prior page will each be discussed separately on the next 7 pages)

- **Ruthlessly focus on consumer understanding… better understanding will yield better ideas … *not necessarily more ideas!***

- **'Let players fold if they don't have a strong hand to play'**… two components:
  - The evaluation systems should be disciplined and rigorous enough so that managers are confident about their initiative's performance
  - The system should have balanced compensation for moving forward or walking away (after a senior VP at a CP company decided to 'launch anyway', someone said: *"Look, if he launches this and it looks like a success, he'll be promoted to the division president… if it starts to look like a failure, he'll know soon enough that he'll just get a new job elsewhere!"*

- **Focus on the right metrics**
  - At some CP companies the decision to launch or not is supported by the process the client has put in place, yet the decision does not make sense… this happens both ways:
    a. doomed things moving ahead, and
    b. criteria that does not make sense for a certain category killing strong innovation

1. Disciplined Approach

PK/PKA NPD Principles

- Strategic foundation, identified business plus proposition refinement vs.

  "I've got an idea"

- Black boxes and fancy nomenclature are smokescreens
- Hard work by veterans is the key…

  "Keep it simple" approach

- Standardize, <u>stick consistently</u> to your new product process and projects
- Once in the marketplace, have courage to stick-to-your-guns
- Accountability and control

Continued…

Also see NPD Pitfalls & Process Reports from Hanover Research

1. 2020: https://cdn2.hubspot.net/hubfs/3409306/The-State-of-Product-Development.pdf?li_fat_id=183e51eb-e662-4910-ae0c-4786a257e703
2. 2022: Page 745

1. Disciplined Approach *(Cont'd)*

PK/PKA NPD Principles

- Balanced development portfolio
  - — With several irons in the fire with differing time horizons
  - — Pipeline of qualified ideas against identified strategic growth opportunity areas
- Essential to avoid peaks and valleys within an overall new product program, which consume inordinate amounts of time and money and preclude a smooth flow of new product introductions over time

Illustrative

Basic New Product Projects
Should Comprise a Balanced Portfolio

	# Months To Test Market	% of Total
Short-Term Projects	12-18	60
Intermediate-Term Projects	19-36	30
Long-Term Projects	37-48+	10

2. Targeting Is a Mandatory

PK/PKA NPD Principles

- Today's competitive environment, where everyone needs real growth, lack of focus doesn't get you very far
  - —To whom, for what… define beachhead target
  - —Heavy user/needer as the guiding force and predictor of success
  - —Develop proprietary consumer insights that solve problems and are actionable
  - —Lay-out hypothesized matrix defining distinct consumer segments, their motivations, behavior and need states

Example

Consumer Segments (To Whom)

Need States (For What)	Nutrition Driven	Convenience Driven	Kid Driven	Price Driven
Breakfast Pick-Me-Up	Oppy. Area A			
On-the-Go Lunch		Oppy. Area B		
Afternoon Snack			Oppy. Area C	
Etc.				

3. Push the Edges of Innovation Through Deductive and Inductive Approaches

PK/PKA NPD Principles

Deductive approach

- Focus on *inside thinking and analysis* to break the mold… filling known need gaps and holes in current product portfolio
- Gets the low hanging fruit ('singles' per baseball analogy)

Inductive approach

- Focus on outside thinking/analysis; e.g., double/triple/home run new product / service ideas or innovative technologies from other categories/industries….
  What are implications for your category and adjacencies?

SEE PAGE 768 for AI-Driven NPD example

4. Leverage Brand Equity Wherever Possible

PK/PKA NPD Principles

- Costs a fortune and a lot of time to establish a new brandmark
- General Mills: Pulled plug on Hidden Treasures, Ripple Crisps, Triples… Sugar Frosted Cheerios and Wheaties did fine
- Build new brandmarks when you have new benefits that provide potential

  for: scale

  supportable platforms

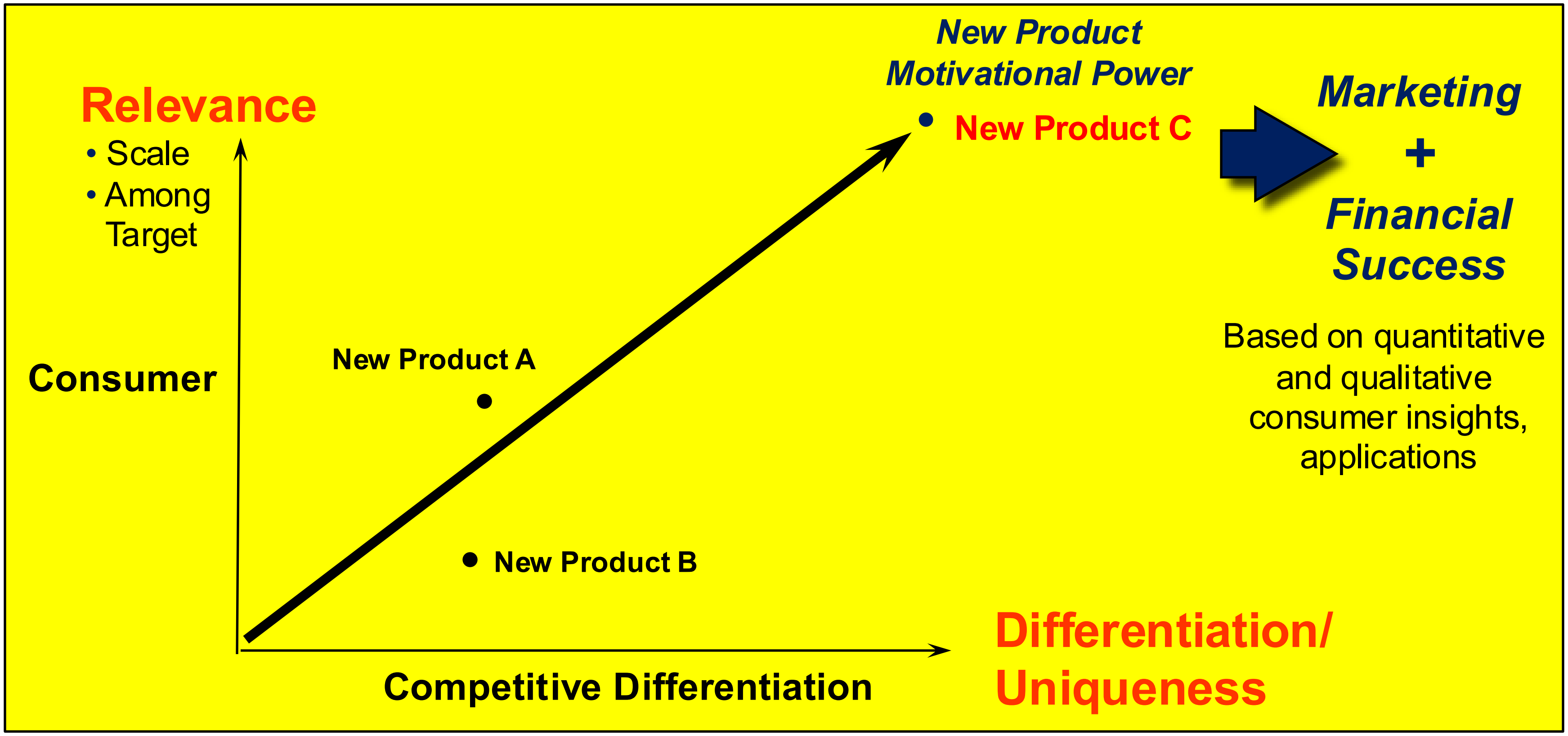
  → Healthy Choice
  Snackwells
  Lunchables

- Use lower-level new product/service ideas to refresh, invigorate existing brands

5. Drive Towards Consumer Delight and Aspire to Competitive Differentiation

PK/PKA NPD Principles

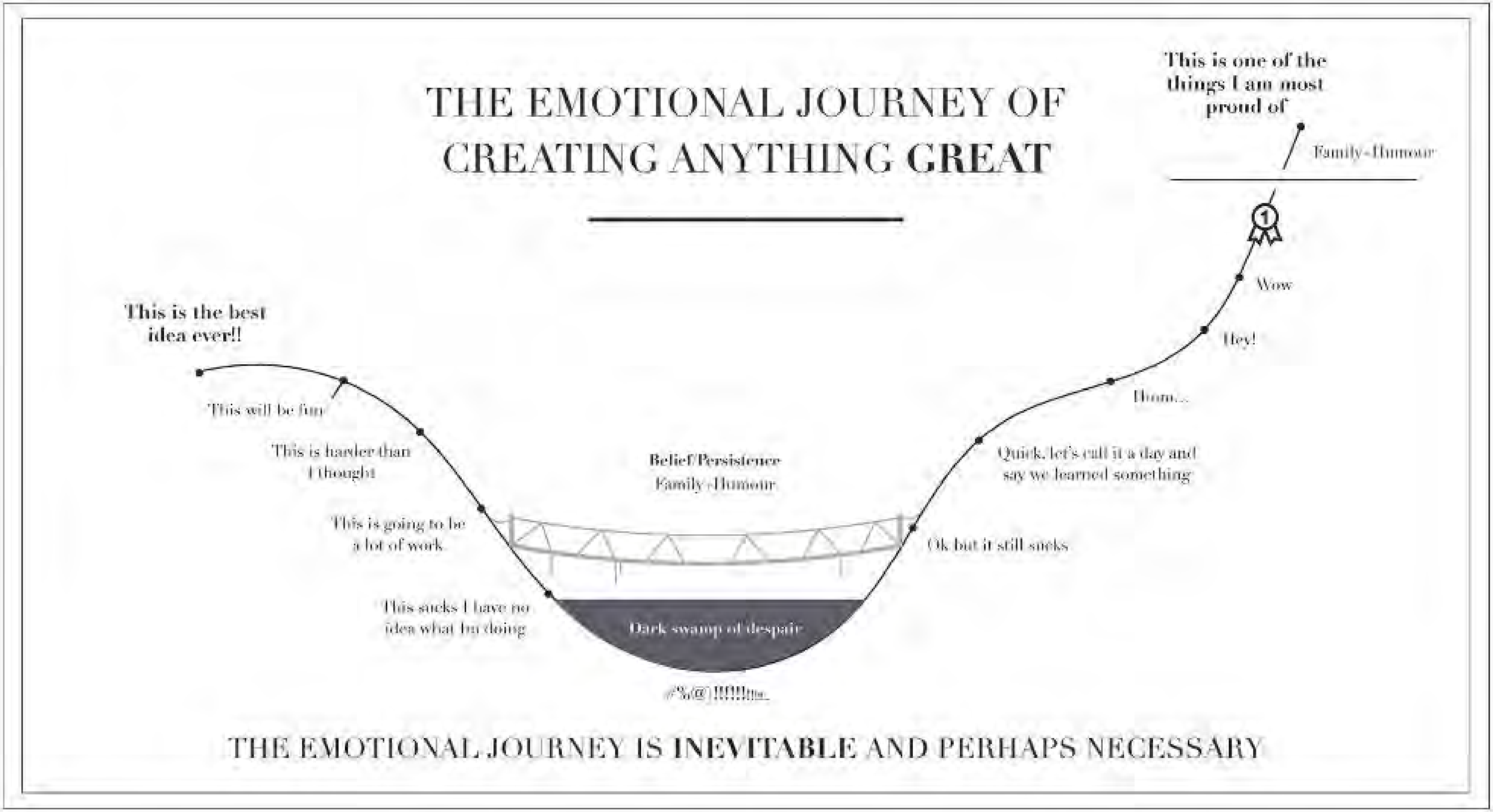
- Be **relevant *and* different** among well-defined target… a simple, but often overlooked axiom
- In all your qualitative and quantitative new product work, have consumers assess your concepts/products along both dimensions… let consumers push you in the right direction: *along the diagonal arrow*



6. Senior Level Commitment/Involvement, and Staff With Senior/Experienced People

PK/PKA NPD Principles

- Or nothing big will happen!
- Involve seniors beyond “reviewing decks”
- Realistic understanding of “what it takes to win”
- Allocation of available resources to get the job done
  - People
  - Financial (realistic budgets)
  - Functional areas’ support and accountability
  - Priority vs. other strategic commitments
- Project business teams should include a variety of innovation styles
- Teams should be led by veterans in development, not rookies
- Product ‘champions’ have high internal visibility and are critical to execution



Source: Industry source unknown

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* **SKIM** what articles are included and decide **which ones, if any, to read!**

This Section Provides *General Learning* On New Product Productivity and Organization *(More PKA POV/Perspective)*

New Product Productivity -

Peter Klein Personal Experience Over 50+ Years - Benchmarked View

1. **Strategic Growth Vision Needs**
2. **New Product Operating Policy Improvements**
3. **Cultural Improvement Needs**
4. **Organization and Control Improvements**
5. **Procedure and Execution Improvements**
6. **Other Cost Escalation and Failure Factors**

Strategic Growth Vision Needs

New product programs at a Company, SBU and/or Category levels which flow from a well-developed strategic growth vision <u>and</u> identified <u>Strategic Growth Opportunity Areas</u> with championship at the top and buy-in at all the key working levels have much better chances of making it successfully to the marketplace with reasonable cost/benefit

1. **The clarity of the Company (and SBUs, categories) business purpose captured in a strategic growth vision helps to focus all new product programs and avoids the "laundry list" new product projects syndrome**
2. **The most productive strategic growth visions are those which leverage current trademarks, other assets and business systems in each new product program**
3. **The effective strategic vision takes a position on what internal development can and can't do and, therefore, defines the strategic role which external development must play on both a strategic and practical level to grow the business towards its growth vision destination**

   Effective strategic vision leadership at the Senior Management level can avoid serious new product productivity problems. And Senior Management will not be caught in a position of being surprised when start-up new product ventures fail and/or soak up far too much development time and money; these ventures simply won't be promoted by well-conceived strategic growth visions at the company, divisional and category levels

Strategic Growth Vision Needs *(Cont'd)*

4. **A true strategic growth vision identifies the strategic basis for sustainable competitive advantage for its subject business area**, each individual new product opportunity is leveraged by the assets and capabilities which support the total business. The net result is that no one competitor can knock-off a well-conceived "new" new product proposition (*beyond* close-in flavor/form/packaging line extensions)

   For instance, Frito-Lay's store-door distribution and selling systems support all Frito-Lay new products. When Frito-Lay finds a consumer price/value winner, that new snack proposition will be sustained by the Frito-Lay store-door distribution and selling system

   You may be spending a lot of time and money searching for "business system plays" and may wonder why this approach is not bearing higher new product productivity. Instead of looking for "business system plays", we would look for on-strategy consumer business building ideas.

5. **A strategic growth vision, at the company, divisional and category level, <u>also identifies</u> the required mix of "close-in" line extensions/flankers** (that tend to 'refresh', keep current businesses contemporary and replace discontinued SKUs... does not tend to significantly build real volume) and "medium-longer term" new segmenting and/or "new" new product opportunities

New Product Operating Policy Improvements

Standardize decision criteria at each stage in the new product approval process and link these criteria to state-of-the-art measurement techniques with consistent protocol across divisions and development projects

1. ***Make sure testing protocols and technique utilization are state-of-the-art.*** You can save significant time and money by testing key variables against key decision criteria through single-source market testing techniques
2. ***Link these state-of-the-art techniques to standardized decision criteria*** which need to be established at each stage in the new product approval process
3. ***Build on your partnership relationship with Circana/IRI or Nielsen or others along the lines of what P&G appears to be doing***. P&G developed an effective system of measurement techniques which leverages the information and analysis technology of scanner and consumer panel-based data to P&G's unique new product systems' needs and applications

Cultural Improvement Needs

All companies need a healthy climate if it is to breed more new product successes at reasonable cost/benefit

1. ***Senior Management must not take a 'prove it to me' in orientation.*** (I do not know that it does at your company!). Its championship role should be to concentrate on its opportunity priority list and to follow through sufficiently into partnership participation at the new product execution level where it counts. There should be no '*we versus they'* in the system and should be enough 'ownership' in new product projects at the working level

2. ***'Educated judgments' should not replace systematic, state-of-the-art testing disciplines and findings.*** Systematic testing should uncover problems at low cost (such as line advertising, etc.)

   It's not unusual for us at clients to come across 'go national' decisions where the national plan represents a significant modification of test market execution! Too may post-mortems show this as a critical problem. More than once, we found that test markets have been 'loaded' to generate the test market success promised in key manager's MBOs

Continued ...

Cultural Improvement Needs *(Cont'd)*

Farther back in the development process, it's critical that key concept test variables be translated into the product, positioning and/or copy strategies in good faith after the product moves into the marketplace. The problem is that the 'baby may get thrown out with the bath water' when new product execution is the real problem

3. Project momentum and fear of failure must not override the facts.

Senior Management should educate its culture on the fact that oftentimes in new product development you must fail to succeed but need to cut your losses in the process. A lot of this problem may be MBO-driven whereby key managers try to down-play MBO failures with promises that *'success is right around the corner if only we take this next development step'*

New Product Organization and Control Improvements

Innovation/NP project management within existing operating units is the only way to execute new products successfully or a single operating group cutting across all operating business units and responsible for incremental ("doubles" and "big bang" NP ideas with a clearly understood mandate addressing that the individual business units are responsible for ("singles"… aka: product improvements and line externsion, fankers). 'Venture team management' outside an existing division infrastructure usually represents a gross overpromise to everyone involved at a big company unless it is carefully managed, executed and has the continual endorsement of top management

1. ***'Venture teams' do not work!*** There is too much delegation to junior-experienced people, too much 'educated judgment' which turns out to be uneducated because of lack of experience and testing technique insights... and runs a major risk of not getting executional buy-in, "ownership" by the eventual operating unit needed to implement the idea (who usually view it as a *win/lose or lose/lose* proposition!)

   Big companies just are not entrepreneurial nor should most of them be

   Their strengths are best applied against systematic, disciplined development opportunities, which are driven by cross-functional 'project teams' and leveraged by asset and capability mass no true entrepreneur could manage, especially in a large corporate culture

New Product Organization and Control Improvements – *Cont'd*

2. ***Project Management is the way to go.*** Project Management demands 'constructive matrix management' (this is a subject unto itself), tight decision standard and measurement technique rules promulgated by Senior Management and tight financial controls from milestone to milestone (what to prove out at what costs in key phases to 'see the next hand')

3. ***Project Management requires Senior Management to set the decision standard and measurement rules*** so that project teams are clear on the 'rules of the development road', and everyone knows the cost ballpark of each phase so there are no surprises. New product cost escalation is a management quality problem, not a fact of life that companies have to live with. unless the opportunity is to be implemented in the market outside your existing divisional structure

4. ***Project Management has been proven in the U.S.*** The Nation's space program; at Ford* with their original 'Team Taurus' and 'Team Fusion' years ago, and the Brand Management function, which is really based on Project Management principles

* Recognizing the Ford CEO said in 2008 that the firm MUST get market/consumer-driven versus supply driven (took a while!)

New Product Organization and Control Improvements – *Cont'd*

5. Key organization principles and practices include (because 'they work!'):

- Top management commitment
- Keeping almost everyone away from breakthrough and other strategic innovation
- Ensuring a loose-tight oversight
- Not allowing rigid stage gate processes, and
- Too tight resource planning and budget control to stifle the creative process

PKA's NPD approach, which was learned often the hard way over 5 decades, includes the above principles, and:

- ***A central strategic innovation/NPD group***, led by a proven and inspiring pro with both an invention mindset and business head
- ***Working on the big ideas and the future pipeline with an experienced mostly senior staff***… developing new business concepts and not ***tactical new product ideas in search of an enduring and sustainable strategy***... developing platforms that are buildable over time

New Product Organization and Control Improvements – *Cont'd*

5. Key organization principles and practices include (because 'they work!'): Cont'd

- ***Selective use of outside partners from the design and innovation world to contribute and build ideas***

A ***Disciplined Entrepreneurship Innovation/NPD model*** works, allows you to fast tract low risk close-in opportunities and do sufficient, need-to-have homework on the higher reward, higher risk ones.

Over time, you can also migrate close-in line extensions and flankers (these are the 'bunt singles' **where many firms literally have 80-90+% of their so-called Innovation/NPD efforts focused since they are easy to do, fast, low-cost low-risk and 'juniors' can execute… but basically replace SKUs coming off-market!)** to the base brand marketing groups; freeing-up capacity for the central Innovation/NPD group to focus on the more strategic platforms and products (doubles-triples-possible home runs!). This structure ensures the base brand and category groups remain focused on driving today's business and not get distracted with the strategic new products that need constant nurturing and iteration, and it also protects the funding for the long term

New Product Organization and Control Improvements – *Cont'd*

5. Key organization principles and practices include (because 'they work!'): Cont'd

As AG Lafley (x-P&G CEO) said publicly: *"If you don't protect the strategic innovation in a walled off way, including R&D and some blue-sky exploration, you are eating your own seed corn."*

Not everyone in the base marketing groups necessarily agrees with this overall approach, but PKA is very reluctant to move away from what has worked so well over the decades for those firms that have 'won' in Innovation/NPD!

Procedural and Execution Improvements

There are many steps your management can take to improve the consistency of effective and efficient execution across its new product projects

1. ***Scanner panel technology can move ideas along faster than ever before.*** Techniques are available today that speed the understanding of behavioral (purchase), attitudinal and usage structures for product categories, particularly in markets that are 'cross-category' in nature. '**Market Structure**' models, <u>augmented</u> by consumer-driven motivational, attitudinal category segmentation frameworks can help a lot here. Additionally, concepts can be more effectively screened based on their position in these structures/frameworks, thus providing a more comprehensive understanding of market potential before market testing

2. ***Information on competitive barriers to entry is now explicitly available from single-source scanner data-base suppliers*** like Circana/IRI, Nielsen and others facilitating entry decisions at an earlier point in time. This information also facilitates marketing plan formulation as input to the simulation phase of the process

Procedural and Execution Improvements *(Cont'd)*

3. ***Your Market Research Department(s) should be involved in on-going evaluation of more accurate methods*** of pre-test simulations that explicitly incorporate promotional and advertising variables based on real-life, in-market experience

4. ***Top management must keep up to date with the rapid changes in electronic information testing techniques*** which tie buying behavior to individual households with known demographics, attitudes, TV program viewing behavior, and promotion utilization behaviors to the impact of a brand's buyers on total retailer account sales. Market Research always needs to be up to date, and its recommendations ***must not get cannibalized*** by 'educated judgment' calls by ill-informed Marketing and Management. Pre-testing and test market designs can get far too complex with too much duplication of data which leads to over-researching

   It's generally not unusual for me to find at clients the use of multiple suppliers to measure the same things in different test markets for the same new product. *The idea is to keep it sample and decisive.* The call is to avoid 'sophisticated ***ad hoc'*** testing designs which leave the door open for too much uneducated judgment, as test market and national expansion decisions are made

Procedural and Execution Improvements *(Cont'd)*

5. ***State-of-the-art testing techniques can evaluate different marketing strategies for a new product within the same overall testing design***. Some clients use these techniques but apparently only one variable at a time. For instance, BehaviorScan-like techniques was used in the U.S. to test multiple variables while a product was in test market. After the product went national, these same BehaviorScan-like markets acted as leading indicators of ‘national things to come’ and anticipated and solved problems for subsequent application nationally. You can use test market information as a continual competitive advantage in establishing a successful national business

Procedural and Execution Improvements *(Cont'd)*

6. ***You should consistently put a premium on maximizing learning in test market Round 1***; then Senior Management will have higher confidence in whether it has a winner or not, as opposed to having to move with lower confidence to a Round II recycle and to do everything (and more) all over again to duplicate costs and much more time

   For instance, if trade sell-in and control testing of multiple Marketing variables need to be tested, then test the new product simultaneously in sales areas which include BehaviorScan-like markets for the following benefits:

   A. The upside potential of the product is understood in the controlled environment

   B. The trade response is understood in the sales area

   C. The BehaviorScan-like market(s) can be utilized to test different Marketing programs, thus increasing the probability of success when rolling the product more broadly

Procedural and Execution Improvements *(Cont'd)*

7. Make a commitment to state-of-the-art suppliers, who you can work with as a partner in developing and applying systematic, proven testing technologies and techniques to your new product programs. Senior Management must ensure that New Product testing execution is not too ***ad hoc*** with too much experimentation and too little focus on developing those techniques which provide the opportunity for big insight pay-offs. The technology is moving far too fast for you to figure out the 'perfect solution'

Now is the time to place your bets on those suppliers which you believe you can win with in the pursuit of new product testing excellence. Senior Management must determine if it needs to increase its 'knowledgeability' of the state of the supplier technology art; otherwise, it will not be credible in leading the charge toward more systematic, disciplined new product testing and measurement that appears to be underway and is critical if you are to ***accelerate real volume growth***

NOTE: PKA POV on Nielsen BASES I & II on Pages 278 - 286

Other New Product Cost Escalation and Failure Factors

1. ***Discontinuity and lack of succession New Product management.*** The movement of individuals without an 'in-kind' succession plan must not undercut your whole development program, setting it back for a year or two. Without ***continuity of quality people*** in key new product management positions, new product growth visions, development program ownership, and 'knowledgeability' leverage cannot exist

2. ***'Trainees can't do a man's or woman's job'.*** It is critical that Senior Management honors this truism consistently. I believe this problem is at the heart of many new product problems. ***Too many new product folks are trainees***; they haven't 'been there before'. The quality of strategic development and execution behind new product projects has suffered as a result of this lack of experience

Other New Product Cost Escalation and Failure Factors *(Cont'd)*

3. ***Possible R&D and Marketing over-engineering of new product propositions.*** I bet this may be involved in many new product programs. What happened to *'keep it simple'* before you have the right to think you can win by making it complex? There are no 'end runs' in new product development! My experience says unless your asset and capability leverage represents "51+%" of a new product proposition, you will fail or spend the inordinate amount of time on development recycling with attendant delays and costs of over-engineering everything in hopes of winning. ***Live by the rule that if it isn't at least '75% familiar'*, the new product will fail because consumers and retailers won't know what it really replaces in their lives**

4. ***Strategic-based new product portfolios are a must.*** What business is Management trying to build through new products? Where is the enduring strategic focus? Where are the new business building concepts behind each major individual new product project (exceptions: 'close-in' minor line extensions/flankers)? What business are you trying to build through a **portfolio** of new product projects introduced sequentially over time through the development discipline of 'keeping the funnel filled'? There may be many ***ad hoc*** new product projects *in search of business ideas* and not enough strategic new product portfolios building businesses for today and tomorrow

Other New Product Cost Escalation and Failure Factors *(Cont'd)*

5. ***Performance objectives reward process, not results***. I suggest to get rid of any quarterly and annual MBO's and replace them with ***MFOs, 'Management For Opportunities'*** … so project managers focus on capitalizing upon opportunities and not playing time-driven process games

6. ***Typically, firms or business units have too many new product projects in relation to the resources available and have too few resource estimating and management controls.*** The resultant resource trade-off decisions will benefit the programs that make the priority cut, increase success odds and lower development costs

   Do you have a ***new product resource assessment process?***

7. ***'Learning labs' can help.*** Project Management demands sequential learning on a project-by-project basis. Oftentimes, an upfront, in-market 'learning lab' experience can be very helpful (e.g., market simulators). It can control financial exposure and maximize learning and confidence levels in early development stages. Judgment: This is why Unilever acquired Dollar Shave Club for $1bn, after 4 years of no profits… as a *learning lab* for other UL products in the DTC business

Other New Product Cost Escalation and Failure Factors *(Cont'd)*

8. ***'The next big opportunity is around your shoe tops':*** Be sure not to be prone to look for the 'next generation' opportunity without leveraging current trends in a timely fashion. I believe that ***there's nothing really new in new products!*** I also believe that there's a time and a place for most things

Current trends and their relationships show the obvious, but they're often misunderstood. For instance, the response rate of major U.S. Food Processors to major trends lags well-documented consumer needs by around five years. *Single-serve, good-for-you, premium quality* trends were being responded to well after these consumer needs became clear

My message: ***Act on current trends while they're actionable***.

Don't try to lead a market to water when it's not ready to drink!

Give consumers what they want today and stay on the leading edge of these clear consumer need trends, as they take shape and shift. Try to avoid waiting to figure out the 'perfect solution' with all the attendant over-engineering; your new product programs will be more pragmatic and productive and not exposed to excessive risk and development costs

Other New Product Cost Escalation and Failure Factors *(Cont'd)*

9. ***Break up any strategic grid-locks:*** There should not be a tendency to try to learn 'everything' before a new product project proceeds to the next stage
   Sometimes the tendency is to *think too big and do too little*. I would encourage you to get into any new adjacent categories that have an identified entry strategy and growth opportunity areas on a controlled exposure basis... and *if* appropriate also seriously consider the role that a 'buy and build' acquisition strategy and tactics can play
10. ***'Nice to know' Market Research studies:*** You should not be known for over-researching in the new product area and be known for getting enough bang for its market research dollars. The systems, disciplines and controls mentioned throughout this review can help change that. If research is focused against measuring against decision action standards, any 'nice to know' research goes away.
    The "trainee" syndrome also contributes to any over-researching situation. The 'fear of failure' syndrome is also a political reality which leads to over-researching. Only top management can stop any unproductive new product development research problem *if* it exists… use ***Hypnosis Groups*** to get at actionable insights for current brands and new product development (vs traditional focus groups mostly asking the same questions for decades!)

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
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Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
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NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* **SKIM** what articles are included and decide **which ones, if any, to read!**

PKA STRONG POV:

Need to Develop and Agree to Focusing Internal New Product Development Against Agreed-Upon Strategic Growth Opportunity Areas (SGOA's) and a Master Development Plan* (Roadmap)

- Identifying SGOA's is a ***strategic and disciplined approach*** to new product development
- Identifying SGOA's is a ***strategic imperative*** over time, because it allows you to agree to where to focus R&D/technology, people and development spending resources
- There are many 'left brain' and 'right brain' ways to generate SGOA's…

  They all are ***market/consumer-driven***
- Agreed-upon ***SGOA's are the inputs for a Master Development Plan*** for an SBU or category

* Separate *courtesy* material available by PKA on what is a **Development Plan** and why have one (contact: peter@pkassoc.com)

What Is a Strategic Growth Opportunity Area?

Think of them as <u>well sites</u>…

- Territories to hunt in for specific platform ideas built over time via core new product ideas
- Provide focus for resources and follow-up execution activity

Well sites… *where to drill for core concepts, ideas*

For Each SGOA, Describe the Area and Identify the Basis-For-Interest and Key Success Requirements… Plus, *Illustrative* New Product Concept/Idea Examples

SGOA should include…

Description	What and how
Basis-for-Interest	Market Consumer Trade Competition Economic potential, scoping Company fit
Success Requirements	External + Internal/Functional

SGOAs CAN BE EXECUTED THROUGH INTERNAL AND/OR EXTERNAL DEVELOPMENT

Identifying SGOA's Brings Many Benefits

- Engages senior management early
  - Pre-empts questions, issues upfront
  - Gets *ownership, buy-in* by resource allocators: $, people

- Organizational alignment for increased success odds
  - Gets management and organization strategically-focused

- Avoids New Product *wind-up toy* syndrome!
  - *A tactical idea in search of an enduring strategy!*

SGOA's Can Come From A Wide Variety of Sources

Where to Look For SGOA's

What Is A Growth Platform – Some Specifics

Summary

A platform is derived from leveraging either current or new product technologies or trademarks to generate a family of products with new consumer benefits

***Growth Platform*: New consumer benefit product / package / process or industry trend that can be leveraged to provide topline and bottom-line growth across more than one product system, Trademark or business unit and deliver new news to the businesses**

E.g. Low/No Fat products – Snackwells

***Product Platform*: Leveraging product/process/package technologies to generate a family of products usually within a specific trademark, but could be adaptable to multiple trademarks and deliver new consumer benefits**

E.g. Lunchables Combination Packs

***Technology Platform*: Leveraging product/process/package technologies that can be adapted to multiple product systems to deliver new consumer benefits and new news**

E.g. Heat stable, flowable savory or sweet fillers
Coating Technologies

***Consumer Benefit Platform*: Generate a family of products leveraging consumer trends to deliver new benefits while utilizing new or existing product/process/package technologies across multiple brands and product systems**

E.g. Breath Freshening platform

What Is A Growth Platform – Some Specifics *(Cont'd)*

A growth platform is a base from which a broad stream of new products can emerge

The base could be:

the recognition, delivery, and supporting communication of new (or previously unrecognized) consumer benefits, even via entirely existing technologies

Or

new product, package, or process technologies that deliver important new consumer benefits (or make those benefits more evident, more recognized) and/or provide their suppliers with important competitive advantage (e.g., economic advantage) in delivering existing benefits

The base should provide an important measure of competitive insulation, whether that insulation be technical or purely marketing… e.g., first to own new benefit area, perhaps via a new trademark that clearly stands for that new benefit in consumers' minds

The resulting family, stream of new products may be limited to a single trademark *or* cut across multiple trademarks; it may be limited to a single Business Unit or work across multiple Business Units

What Is A Growth Platform – Some Specifics *(Cont'd)*

Illustrative Examples of Growth Platforms

Recognition, delivery, and supporting communication of new consumer benefits:

- Lunchables (with new, proprietary packaging innovation)
- Healthy Choice
- SnackWells
- Many new HBC trademarks / brands
- Taco Bell Home Originals ('real Taco Bell fun food in the home')

New product, package, or process technologies to deliver important consumer benefits:

- Pampers (pioneer in disposable diapers)
- Tide (first synthetic detergent)
- Aerosol delivery of household products by SC Johnson (pioneer in aerosol air fresheners, insecticides, furniture polishes)

New product, package, or process technologies to deliver other competitive advantages:

- Quaker bagged cereals (for cost/price advantage)

Technology leverage across multiple trademarks:

- SC Johnson pioneering innovations with aerosol delivery
- Procter & Gamble innovations in paper making process that enabled the "birth" of such brands as Charmin, Bounty, and Puffs

Technology leverage across multiple SBU's

- Procter & Gamble leverage of non-woven technology advances in its Paper (Diapers) and Laundry (Fabric Softener Sheets) Divisions

What Is A Growth Platform – Some Specifics *(Cont'd)*

Example Growth Platform Scope For One Company

Minimum $100M by Year III of launch, with expectation of at least $200M sales by Year V

Clear potential for extended stream of product opportunities

Fit with broad definition of Snacking (e.g., any eating occasions outside of regular substantial meal)… think '***Snackable Foods'***

Technical Feasibility estimated initially at 'at least 70%, and rising to 80%+ before substantial expenditures (e.g., $1+ million)

Must provide competitive insulation, whether alone (e.g., breakthrough technology) or in combination with other strengths (e.g., trademarks, distribution / selling, etc.)

Reasonably expected path to attractive profitability (operating margin 15+%), whether through uniqueness and resulting anticipated pricing power or through cost reduction

Return on investment within 3 years of national launch

SGOA Opportunity Area Prioritization Framework

- Apply prioritization gauntlet to each SGOA, leveraging survey results, consumer insights, capabilities assessment and secondary data sources

Illustrative

Illustrative Opportunity Assessment Gauntlet

	Criteria	Opportunity A	Opportunity B	Opportunity C	Opportunity D	Opportunity E	. . .	N
Judged Market Attractiveness	Size of Opportunity	●	●	◕	◔	◕	◑	◑
	Profit Potential	◑	◑	◑	◑	◑	◑	◔
	Redefines Competitive Environment	◔	◔	◕	◕	◕	◕	◑
	Unmet Consumer Need	◕	◕	◕	◔	◕	◑	◔
	Opportunity for Competitive Insulation	◕	◕	◔	◕	◕	◑	◔
	Overall	High	High	Moderate	Moderate	High	Moderate	Low
Strategic Fit	Equity Fit	◕	◕	◑	○	◑	◑	○
	Technology/ Sourcing Feasibility	●	◑	◑	◕	◕	◑	◕
	Alignment with Business Unit Priorities	◕	●	◕	◕	◕	◑	◔
	Fit with Margin Expectations	◔	◔	◔	◔	◔	◔	◔
	Overall	High	Moderate	Moderate	Low	Moderate	Moderate	Low
Overall Attractiveness		◕	◕	◑	◑	◕	◑	◔

Focus for Immediate Idea Brainstorming

Illustrative Examples of SGOA's

Play to consumers existing behavior…
just provide a better mousetrap!

All new products should be 70+% familiar!

- Bring Relevant & Differentiated benefits
- Preferably bring a new benefit to an existing, familiar category or need

	Relevancy	Uniqueness/ Differentiation
Quaker Rice Cakes® • Re-positioning for Quaker following acquisition	Healthy Snack - Vs. diet snack food	Chewing enrichment 'Crunch'
Lunchables® * • Opp'y. Area; Dev. Plan defined • Core concepts: Initial line Follow-on lines	Weekday lunch is boring for kids & moms Mom's hate making it for kids… and self Kids hate eating PBJ, bologna or cheese sandwiches	Portable, ready-to-eat, combination lunches Simple, not complex, go-together foods - i.e., meat, cheese, crackers, etc.

* Case Study follows in this document

Strategic Growth Opportunity Areas (SGOAs) Link to SGOA Drivers

SGOA Drivers	**Cookie Example -- *Frito-Lay US***
New or improved benefits	• Good-for-you
New segmentation opportunity	• Portable form • Single-serve cookies
Capability leverage opportunity	• Direct store-door selling & delivery system (core skill*) • Acquire GrandMa's as a tactic to provide backroom sweet baked goods baking/plant
Economic restructuring	• Single-serve permits higher per ounce pricing
New product or service idea	• Feasible, manageable

Best to deliver on one or more of the above drivers

* Frito-Lay called on almost 10,000 more outlets weekly (UDS/up-and-down-the-street accounts) than Nabisco and other DSD or warehouse distributed snack operators!

Example: SGOA Linked to SGOA Drivers

Frito-Lay's Cookie SGOA Was a Huge Test Market Success…
and Started the Cookie Wars When They Decided to Include Mass Outlets When They Expanded Nationally!

Description	Introduce good-for-you, single-serve cookies into NON-supermarket Frito-Lay outlets nationally; acquire GrandMa's regional cookie company* and its one plant as a tactic, a '*means to an end'*	
Basis-for-Interest	Overall:	GrandMa's regional experience plus Frito-Lay store-door delivery capability fit**
	Consumer:	Single-serve *Good-For-You* cookie interest Recognizes cookie gap in single-serve snacks
	Trade:	Minimal single-serve volume in alternate outlets; incremental business; consumer fit
	Competition:	Big 3 cookie marketers can't reach non-supermarket outlets as well as Frito-Lay**
	Economic potential, scoping:	Pro Forma's worked for Frito-Lay
	Frito-Lay fit:	Commitment to finger-food, indulgent snacking
Success Requirements	Leverage Frito's D-S-D and its up-and-down-the-street accounts	

- Success in Kansas City test market…
  22-25% Category share of entire K.C. geography, without supermarkets!
- *Management got greedy; SGOA* said ***"do NOT enter large Grocery stores, starts a cookie war!"***
  - Decided to add supermarkets during roll-out (Sr Mgmt: *"If we only get 1/3 - 1/2 the shares & volume in Grocery that we got in up-and-down-the-street accounts…!"*) … *led to the Cookie Wars* (Frito-Lay, Nabisco, Keebler, P&G)!

* Frito-Lay did not have baked sweet goods operational/manufacturing assets; needed to acquire it as a tactic to execute the SGOA

** Frito-Lay's DSD called on 10k MORE retailers weekly outside Big Box Stores (C-Stores, up-and-down-the-street stores, etc.) than competition (Nabisco, Sunshine, etc.); SGOA focused here (avoid Big Box Stores and nuclear warfare with Nabisco!)

SGOA Example: Convenience-Driven Foods

Illustrative-ONLY (Summary)

Description — **Convenience-driven foods for families with kids on their own**

Target (To Whom) — Families with working parents and kids

Need State (For What) — Kids on Own . . . Foods for kids (e.g., pre-sweetened kid's cereals)

Hypothesized Consumer Problem — *"I won't be home for dinner, so I need an easy meal the kids will love."*

Current Solutions/ Examples

- Pizza
- McDonald's Happy Meals
- Lunchables
- Hot Dogs
- Looney Tunes Frozen Dinners

Benefit Solution — Easy meals kids love, and moms approve

Illustrative Alternative Product Lines/Groupings

"Dinnerables" — (Lunchables concept at dinner)

- Play value
- Dipping/Finger food
- Bite size minis
- Textures
- "Buildable" foods
- My own/ empowerment

Bowl or Cupables - Portable Personal Mini Meals

- M&C-based
- Rice-based
- Make it yourself
- Easy prep
- Add water
- Fun shapes and colors
- Flavors
- Make own

International Favorites

New Favorites

Pasta Pie

SGOA Example: Convenient Breakfasts

Illustrative-ONLY (Summary)

Description	**BFY Portable Breakfast** – Hand-held cereal cakes/bars – Pouched grain-based munchables (e.g., cereal clusters)
Consumer Targets	• Busy Weekenders
Need States	• AFH/Carried/Car • Time Strapped • Adults, kids?
Rationale	• Convenience demands continue • Pouched munchables underdeveloped • Bar business, specialty breads growing
Preliminary Rating	A

SGOA Example: Convenient Breakfasts

Illustrative-ONLY (Summary)

Description	**RTE Component Breakfasts (Breakfastables)** – Single-serve – Cereal bowl, milk, yogurt, fruit, muffin – Bagel, cream cheese, fruit spread, orange juice
Consumer Targets	• Convenience-Driven Indulgers • Busy Weekenders
Need States	• AFH/Carried • Time Strapped • Adults
Rationale	• Opportunity to work for breakfast as it has for lunch
Preliminary Rating	A

SGOA Example: Meal Enhancement

<u>Illustrative</u>-ONLY (Summary)

Description	**Kid Sauces for Vegetables** – Fruit and fun-based sauces that make even broccoli bearable – Cheese, peanut (butter), ranch, tomato — salty sauces that reduce the *bitterness* kids don't like
Consumer Targets	• Families with Kids
Need States	• AH/Dinner • Kids
Rationale	• Mother's helper to get kids to eat main and sides –Ketchup currently only option and fails to specifically target and merchandise to Kids
Preliminary Rating	B

SGOA Example: Meal Replacement

Illustrative-ONLY (Summary)

Description	**Fortified Meal Replacement Beverages** – Fruit/dairy based – Snapple-ize creamy beverages – Great tasting delivery of 100% MDR – Convenient at-home shakes
Consumer Targets	• Busy Weekenders • Health Functionalists
Need States	• AH or Carried • Breakfast and Beyond • Adults, perhaps kids
Rationale	• Meal replacement and yogurt drinks on growth trend • Snapple exploded by bringing great tasting fruit combinations to smooth beverages • Supplement growth continues — this provides satisfying, great tasting delivery form
Preliminary Rating	A

SGOA Example: Meal Replacement

Illustrative-ONLY (Summary)

Description	**Snacks as Mini Meal Replacements** – Snack versions of top 20 foods – Hand-held "pocket" snack foods — heat 'n eat (pizza, snacks, calzones, stuffed breads, etc.)
Consumer Targets	• Convenience-Driven Indulgers • Busy Weekenders • Family Pleasing Traditional Cooks
Need States	• Lunch/Dinner • AH or Carried • Time strapped, fragmented meal occasions • Older kids, adults
Rationale	• Need for more substantive snacks –More fragmented meal occasions –More eating on the run
Preliminary Rating	B

More SGOA Examples: Gum/Mints Category

Illustrative-ONLY (Summary)

Objective	Strategies	EXAMPLE SGOA's *(World of Gum/Mints)*	Examples	Potential EXAMPLE Tactics
Grow The Category	**Attract New users**	7	13	Illustrative Thought Starters
	Regain Lapsed Users	10	11	Illustrative Thought Starters
	Increase Consumption Among Current Users	7	14	Illustrative Thought Starters
	These SGOA's cut across the objectives/strategies	4		Illustrative Thought Starters

Bold ones are described in case study "snapshots" (16)

More SGOA Examples: Gum/Mints Category *(Cont'd)*

Objectives	Strategies	EXAMPLE SGOA's *(World of Gum/Mints)*	Examples	Potential EXAMPLE Tactic
Grow The Category	**Attract new users**	Redefine the category; raise our sights	Crest	Own oral care within gum With portfolio of products
		Bring big new benefit to the category (potentially partner with major brands)	Benjamin Moore with Arm & Hammer	Pain Relief
			Afrin Pure Sea Nasal Rinse	Support anti-aging: taste bud clarity
		Enhance emotional benefit	Michelin Tires	"One-A-Day" RecalDent for my child
		Leverage gum delivery system as a benefit	Chewable products, e.g. vitamins, Pepcid AC, GasX	Address health issues: germ kill, cough & cold
		Align on major relevant consumer trends and innovate towards each (Leverage new foresight platforms)	Dark Chocolate	Health & Wellness
			Listerine Strips	Convenience
			Keurig Single Cup Brewers	Convenience + quality + variety + value
			Personalized M&Ms	Personalization
			Wal-Mart Bag	Gum disposal
			Dollar-ama exclusivity (Can)	Value-ization Costing clusters (Can)
		Market category benefits	Pork…The Other White Meat Got Milk?	Good for teeth, after meals, focus, transitions, chewing
		Target specific marketing	Bank Of America College Seniors	Teens, Hispanics, Moms, Asians (Can)

* SGOA: Strategic Growth Opportunity Areas

More SGOA Examples: Gum/Mints Category *(Cont'd)*

Objectives	Strategies	EXAMPLE SGOA's *(World of Gum/Mints)*	Examples	Potential EXAMPLE Tactic
Grow The Category	**Regain Lapsed Users**	"Gum Is Good" education effort	I Love New York	Tell the tale, overcome consumption barriers, directly address reason for lapse
Flatten out the curve		Create new usage occasions	Special K Challenge	Dessert gum
		Piggyback	Reese's Pieces, Oreo	Partner with QSRs to include gum in bags
		Mom-involved purchases	Oscar Mayer Lunchables	Mothers of kids under 12 Teen/mother "peace" piece
		Portion control	Nabisco 100 calorie packs	Gum as Weight & Nutrition management regimen
		Reinvent retail experience back-of-store (BOS)	BBQ sauce in meat section	"Own" new locations throughout the store, by channel (bottled water)
		Improve shopabiilty	Campbell's Soup	Fix the shelf
		Directly address and overcome reasons for lapsed	POPped, Benjamin Moore color customization	Gum disposal packaging degradable gum; address social stigma
		Deliver benefits from categories they are migrating to	Nabisco Chips	Mints, bottled waters
		Life stage brand cycle	Centrum and Centrum Silver, Purina	"Passages" approach to product need evolution by age

* SGOA: Strategic Growth Opportunity Areas

More SGOA Examples: Gum/Mints Category *(Cont'd)*

Objectives	Strategies	EXAMPLE SGOA's *(World of Gum/Mints)*	Examples	Potential EXAMPLE Tactic
Flatten out the curve		Medium To Heavy	Code Red Nabisco Iconic Brands	Channel/Target dominance: Boys in C-Store
			Budweiser	Young Adults
		Heavy To Super Heavy	Increase serving size	Proctor shampoo cap hole
		Become a fast, effective follower on competitive advances	100 Calorie Category	React quickly; match Wrigley on wins
		Own a category benefit	Coors Light	Focus on breath-freshening weight management, concentration
		Trigger Impulsivity	Snickers	C-Store emphasis Dedicated innovation space (new releases)
			Gatorade	"Arms reach of…"
			Nabisco "Go Cups" Cheerios Hand-To-Mouth	Differentiate on design
				Channel specific solutions
		Create habitual usage occasions	General Foods International Coffees	Brand A after lunch Brand B before kiss Brand C during sports
		Upgrade base	Software Industry	Continuous quality improvements
		Power Partnerships	McDonalds/Disney	Bottled water/beverages Nike/Sports Disney

* SGOA: Strategic Growth Opportunity Areas

Summary Examples

of

More SGOAs

Case Study "Snapshots"

Crest	Broadened and elevated category/brand definition
Benjamin Moore	Brought totally new benefits to category
Keurig Single Cup Coffee Brewers	New benefits bundle created next generation brewing for entire category
Personalized M&Ms	Personal connection
Bank of America College Seniors	Big benefit bundle way beyond category norms
Got Milk Campaign	Marketing category benefits
Oscar Mayer Lunchables *	Mom + kids functional and emotional benefits created new segment
Nabisco 100 Calorie Packs *	Permissible indulgence "white space" around unmet need
Nabisco Chips *	Sourcing volume from another category on your terms/in your aisle
Mountain Dew	Teen connection
Nabisco Teen Snacks *	Teen boys at C-Stores with iconic brands (e.g., Oreo's, Chips Ahoy)
Budweiser Heavy Users *	Owning heavy users (blue collar guys) and heavy usage occasions
Coors Light	Own a category benefit and reason why
Gatorade *	Own an occasion with ubiquitous distribution/superior marketing
General Foods International Coffees	Create habitual daily usage regimen
Swiffer	Directly address and overcome barriers for lapsed

* Peter Klein had an active role on these new products

CREST Total Oral Care (Across sub-segments and forms)

Objective: To grow the gum category

Strategy: Attract new users

SGOA: *Redefine and broaden the business definition – raise our sites*

Foundational Consumer Insight: *Crest toothpaste had earned tremendous consumer and dental professional credibility since it was awarded the ADA seal of approval (1960) and pioneered the "Look Ma, No Cavities" claim. Since then, it had been locked in a share war in toothpaste with Colgate and occasional others (Ipana, AquaFresh); Crest had been the science leader (Advanced Formula Crest (1979), Tartar Control Formula Crest (1985), but a fast-follower strategy by Colgate and others made it difficult to fully leverage profitable gains. P&G had also developed and brand manager other products in the oral care space: Scope, Gleem*

Enabling Company Core Competence: *Dentist recommendation and ADA relationships; global strategy development (late 90s) focusing on moving major brands into higher order benefits, e.g., Pampers into baby care; Tide, Downey, Bounce into fabric care*

Foundational Retail Partner Insight: *P&G's trade partners throughout the world were looking for category leadership from P&G and Crest was a bigger idea than simply a toothpaste*

Year Launched: *2001 and on-going*

Evolutionary Path: *Segmented into adult and kid, then In rapid order once the strategy had been implemented: Traditional Products; Dentist-Inspired Products; Whitening Products; Flavor Experience Products; Fresh Breath Products; Sensitivity Products and Crest Kids Products. The Pro-Health Crest line has been certified by the ADA as effective against the following conditions: cavities, gingivitis, plaque, sensitivity, teeth stains and bad breath. The newest Pro-Health product: Crest Pro-Health Enamel Shield Toothpaste and Enamel Shield Rinse. The brand also provides toothbrushes (manual and battery) for adults and kids (using licensed characters), floss, white strips and rinses*

Competitive Response: *Fast follower*

Business Impact: *Total oral care global platform (brush, floss, rinse, whiten) allowing P&G to compete profitably with conventional, as well as high margin (Rembrandt) brands; brings category orientation to the aisle and retail partners, de-averaging price for each component of the oral care process, provided basis for acquisition evaluation (Glide floss, Oral-B was part of Gillette, etc.)*

Benjamin Moore With Arm & Hammer

Objective: To grow the gum category

Strategy: Attract new users

SGOA: ***Bring a big new benefit to the category, partnering with other major brand***

Tactic: ***Bring totally new and relevant benefit to the category***

Foundational Consumer Insight: ***There is a high-value consumer segment left untargeted in the D-I-Y world of home improvement, (i.e., pet-owners and smokers)***

Enabling Company Core Competence: ***An innovation process designed to identify unmet needs and create radically new solutions sets, e.g. Benjamin Moore color-match process via mobile phone technology***

Foundational Retail Partner Insight: ***Average room or home repainting every three-to-six years; business opportunity to speed that cycle and increase sales; first movers get disproportionate share of cycle speed benefit***

Year Launched: ***2009 and on-going***

Evolutionary Path: ***In May, launched new paint formulation with Arm & Hammer odor-reduction benefit – good for three years. In June, launched the color-match process news. Each designed to gain disproportionate share of forecast uptick in current home improvement (vs. new home starts and home sales)***

Competitive Response: ***A great deal of "business-as-usual" and price advertising by competitors; nothing to match the innovations***

Business Impact: ***TBD***

M&M's (Personalized)

Objective: To grow the category

Strategy: Attract new users

SGOA: ***Align on major relevant consumer trends and innovate towards each***

Trends: ***Personalization and customization***

Foundational Consumer Insight: ***High consumer involvement increases affinity and attachment to the M&Ms Brand***

Enabling Company Core Competence: ***Flexibility and variety (size, shape, color, fillings)***

Year Launched: ***2004***

Evolutionary Path/Timeline: ***Introduced to consumers, expanded to businesses for corporate logos and messages; "faces" launched (can print your face on M&Ms); can talk and sing; tie ins with Disney and MLB – can get favorite character or team logo printed on M&Ms***

Competitive Response: ***Hershey and Nestle offer personalized messages on wrappers***

Business Impact: ***Over one million bags sold; fastest growing division at M&M/Mars***

Bank of America College Seniors Acquisition

Objective: To grow the category
Strategy: Attract new users

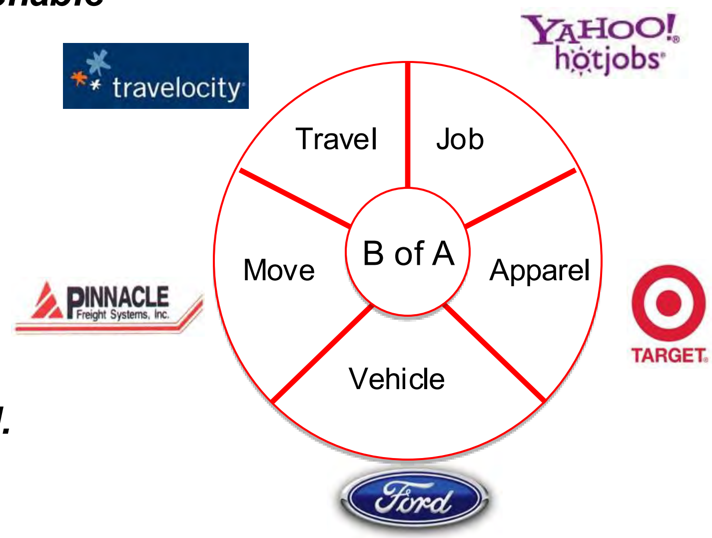
SGOA: ***Target specific marketing***

Tactic: ***Very tightly targeted integrated marketing program bringing new big benefit bundle to the category***

Foundational Consumer Insight: ***College seniors don't trust banks and don't care about "interest free checking." However, they are very focused on successful transitioning to the real world and have several needs (get a job, relocate, buy a car, etc.) banks can help enable***

Enabling Company Core Competencies: ***Provided a wide variety of financial services and new benefits from partners***

Foundational Retail Partner Insight: ***B of A established power partnerships with HotJobs, automotive companies, apparel retailers, moving companies, etc. to provide college seniors' information, services and savings to help them transition to life after college. B of A was the integrator and portal.***



Business Impact: ***Gained 240,000 new accounts among college seniors. Exceeded program objectives by 300%. Earned college seniors' trust and business and also helped with their parents***

RITZ Chips

Objective: To gain share from Frito Lay salty snacks
Strategy: Attract new users from the chip aisle

SGOA: ***Expand category definition and new competitive frame of reference***

Tactic: ***Channel/Target Dominance, e.g., teen girls at drug store***

Foundational Consumer Insight: ***Consumers craving lower fat/calorie ba***
salty snacks eaten right out of the bag; 75% of Americans snack daily

Enabling Company Core Competence: ***#1 iconic cracker brand; DSD distribution; cracker category captain***

Foundational Retail Partner Insight: ***Grow cracker aisle and offer BFY alternatives***

Year Launched: ***2003***

Evolutionary Path: ***Added more chip-like flavors; expanded to Wheat Thins and Garden Harvest***

Business Impact: ***$76 million year one (2004); $92mm in '08 (FDMx); attracted men to the Ritz Brand and the more "manly cracker"***

Mountain Dew Code Red

Objective: To gain a disproportionate share of the category growth
Strategy: Increase consumption among current users

SGOA: ***Move "medium" to "heavy" users***

Tactic: ***Create exciting "buzz worthy" sub-brands and market them to and through the bulls-eye target***

Foundational Consumer Insight: ***The super-heavy user of Mountain Dew could serve as a "breeder-reactor" for new sub-brand, exciting medium and light users, as well as trade partners through an extremely targeted approach***

Enabling Company Core Competence: ***Current Mountain Dew website with powerful gaming capabilities was already a magnet for super-heavy "geeks" who hung out at Convenience stores and on-line***

Foundational Retail Partner Insight: ***Through partnership with C-stores and local bottlers, limited launch via single-serve 24-ounce bottles created demand at all channels of trade (fountain, grocery, mass), substituting one Coke beverage for new Pepsi (Mountain Dew) product being demanded by mothers of teen boys***

Year Launched: ***2000***

Evolutionary Path: ***Code Red game placed on Mountain Dew website, with no explanation, other than a promise to send two cases to the 1000 top scorers. Fifteen hundred "winners" received two cases delivered by local bottler to their doors. Gamers took two bottles to school: One for themselves and one for "the cool kid." This extremely limited distribution was the only way to get the produce initially. Soon, began being sold in C-store channels. Relatively quickly, teen boys were telling their mothers to get Code Red for in-home consumption, but mothers couldn't find it at grocery or mass; they began demanding it. Stores began begging the bottlers for it – even if they could only have it in the 24-ounce single-serve size (not a grocery or mass size). There was no mass advertising, and the brand was on allocation almost immediately. Fountain, grocery and mass all promised to delete a Coke SKU if they could get Code Red. Bottlers, too, were a critical audience and became converted to the idea of viral marketing (versus the usual $100 Million launches and Las Vegas-style presentations to which Coke and Pepsi had come to rely).***

Competitive Response: ***Tried to play catch-up, but never quite got it right***

Business Impact: ***Created a $100 million sub-brand in six-months without advertising support; changed the Pepsi innovation and marketing cultures; created Mountain Dew as "hot, cool" proposition for teen males***

Nabisco Teen Snacks Initiative

Objective: To gain a disproportionate share of the category growth
Strategy: Increase consumption among current users

SGOA: ***Move heavy users to super heavy***

Tactic: ***Channel/Target Dominance, e.g., teen boys at C-stores***

Foundational Consumer Insight: ***Nabisco's iconic snacks are fundamentally appealing to teens but need to be put in more snackable single serve packaging and merchandised aggressively in teens*** ***primary snack channel (C-stores).***
Strategic decision <u>not</u> to create new teen targeted brand

OREO

Enabling Company Core Competencies: ***Iconic snack products and brands***

Foundational Retail Partner Insight: ***Teen boy focus also drove incremental sales among men***

Year Launched: ***2002***

Evolutionary Path: ***1) Put appealing brands (Oreo, Chips Ahoy, Ritz Bits) in attractive single serve packages; 2) Added go cups for cup holders; 3) created larger single serve sizes and more indulgent varieties; 4) Beverage bundling programs with Coca-Cola; 5) used pre-price***

Business Impact: ***Significant volume and share growth in C-Store channel driven by teen boys/men***

BUDWEISER - Young Blue-Collar Guys

Objective: To gain a disproportionate share of the category growth
Strategy: Increase consumption among current users

SGOA: ***Heavy To Super Heavy***

Tactic: ***Own heavy consumption occasions among heavy users***

Foundational Consumer Insight: ***Heavy consumption occasions = a lot of beer drinkers together for a long time where beer is sold and consumed (e.g., Indy 500… 500,000 guys there for 6-7 hours buying/consuming beer). Young blue-collar guys are passionate about sports including car racing***

Enabling Company Core Competence: ***Iconic brand distribution leadership***

Evolutional Path: ***1) own the venue… pouring rights, signage, drivers; 2) leverage contiguous retailer promotions; 3) connect to heavy users through their passions (e.g., car racing)***

Business Impact: ***Maintained category leadership with foundation in young blue-collar guys***

COORS Light Beer

Objective: To Increase Brand Share in the Category
Strategy: To Increase Consumption Among Current Users

SGOA: ***Own a category benefit***

Tactic: ***Own refreshment benefit and cold as reason why***

Foundational Consumer Insight: ***Refreshment is a key benefit of the light beer category. Cold is the key reason why support***

Enabling Company Core Competence: ***Coors "Rocky Mountain" equity supports refreshing/cold***

Evolutionary Path:

Frost Brewed Coors Light

The world's most refreshing light beer

Single minded marketing and innovation focus on "owning" COLD as reason why

- Frost brewed
- Cold activated innovative cans/bottles… mountains turn blue
- Wide mouth can: enables gulping
- Silver bullet train advertising breaks through ice
- Cold beer insurance advertising

GATORADE - Impulse

Objective: To gain a disproportionate share of the category growth Strategy
Increase consumption among current users

SGOA: ***Trigger impulsivity***

Tactic: ***Deliver within a "arms reach of the category need state", e.g., arms reach of breath freshening need; arms reach of snacking alternative need; arms reach of transitional state change need; arms reach of focus…***

Foundational Consumer Insight: ***Need to refresh, hydrate and invigorate on and off the field***

Enabling Company Core Competencies: ***Science, sports and ubiquitous distribution***

Year Launched: ***1965 (Quaker bought in 1983; Pepsi bought in 2001)***

Evolutionary: ***Ubiquitous "arms reach at point of sweat" distribution. Be at every sport, on every sideline, in every fitness club, etc. Major team sponsorships and signage. Trademarked orange bucket and traditional "Gatorade days on coach" to celebrate victory***

Competitive Response: ***Coca Cola introduced POWERade in 1988; similar sports sponsorship strategy***

Business Impact: ***From $90mm in 1983; $1 billion in 1993, $5 billion in retail sales in 2008 (Pepsi Annual, last year we could get sales for)***

General Foods International Coffees (GFIC)

Objective: To grow the gum category

Strategy: Increase usage among current users

***SGOA:* Own a usage regimen**

***Foundational Consumer Insight:* The primary target, working women, need and deserve a "me moment" to relax and reward after work prior to starting dinner and evening activities. GFIC's sweet indulgent flavors and warm beverage qualities were perfect for this occasion as an easy after work transition routine**

***Retail Partner Insight:* GFIC was positioned to trade as complimentary to coffee but different. No slotting allowances and no trade promotion but highly profitable**

***Evolutionary Path:* 1) Established "make everyday moments" more special positioning; 2) Developed long standing award winning "Celebrate The Moments Of Your Life" communication campaign; 3) Refined product strategy to focus on indulgent chocolate-based varieties; 4) Leveraged international aura to fuel "me moment" escapism; 5) Usage moments in advertising focused on late afternoon transition; 6) Media bombarded after work drive time**

SWIFFER

Objective: To grow the category
Strategy: Regain lapsed users

SGOA: ***Develop new, proprietary technology and brand; "instead of inventing a better cleaner we invented a better cleaner we invented a better way to clean"***

Tactic: ***Address and overcome barriers; make cleaning quicker, easier, more satisfying "take the bore out of the chore"***

Case: ***Swiffer***

Foundational Consumer Insight: ***People hate to clean but love a clean house, just want to get it done so they can feel happy; weren't getting the clean they wanted***

Enabling Company Core Competence: ***Product development and technology***

Foundational Retail Partner Insight: ***Replace traditional slow-moving mops, brooms, dusters***

Year Launched: ***1999***

Evolutionary Path: ***Expanded into whole family of mopping and dusting line including Sweeper Vac, Wet Jet, Dusters; Carpet Flick; added Febreeze Fresh Scent to the line***

Competitive Response: ***Fast follow dusters and mops and lots of disposable wipes: SCJ's Pledge Grab It; WetJet Power Mop, Orange Glo Dustmop, Black & Decker Power Mop***

Business Impact: ***$100mm in first four months; $500mm in 2005, heading to $1billion***

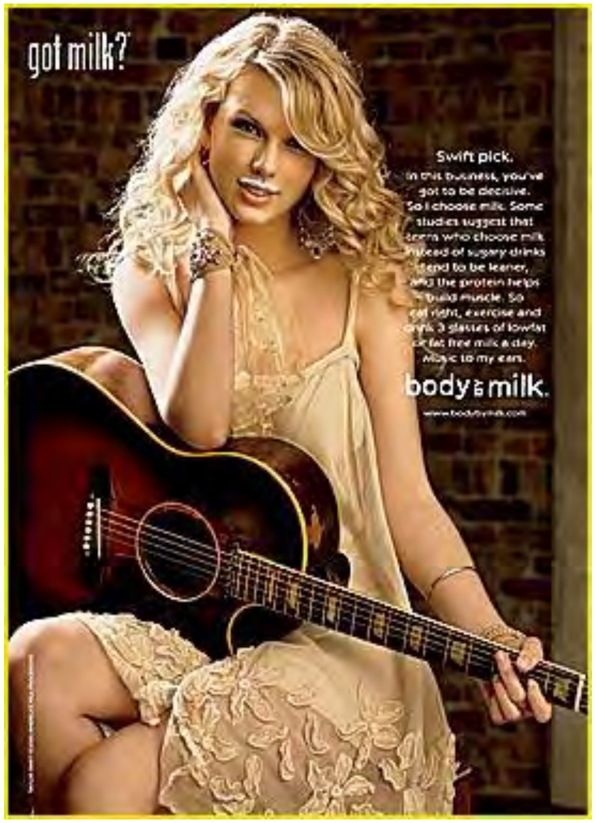
“Got Milk” Campaign

Objective: To Grow The Category

Strategy: Retain existing users and attract new ones

Growing the Milk Category…

‘*What Leaders Do*’ (Drive Category Growth)



***SGOA:* Align on relevant consumer trends**

***Trend:* Lifestyle drinks/more snacking**

***Foundational Consumer Insight:* In-home beverage that cleanses the palette after sweet and sticky food/milk consumption peaks at age 10; to teenager’s milk is boring**

***Enabling Company Core Competence:* Wholesome, nutritious beverage in the majority of home refrigerators. “The whole campaign was based on somebody sitting at home 30 feet from the fridge. We want them to feel the pain.”**

***Foundational Retail Partner Insight:* Co-brand with well known complements (cookies, cereal, bananas, peanut butter)**

***Year Launched:* 1993 (PKA has access to Campaign developer*)**

***Evolutionary Path:* Added celebrities in 1995, cobranded with complements (Oreos), expanded to Hispanic market Spanish campaign**

***Business Impact:* 90% awareness; turned around 15-year Milk category decline and stabilized sales; drinking milk became fashionable and cool; milk innovation…like Dean Foods Milk Chugs, which got kids drinking milk again and high margin for schools**

* **Independent consultant;** *“What could you say about milk? It was white and came in gallons. People felt they knew all there was to know about it, so it was hard to find a strategic platform to grow the Category”* (he was hired by the California Milk Processor Board, and he hired the ad agency: Goody, Silverstein & Partners (San Francisco)

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	**96**
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* **SKIM** what articles are included and decide **which ones, if any, to read!**

SGOA Cases

Transformative / New Paradigm

New Product Platforms

- Lunchables®
- Nabisco 100 Calories Pack®
- Keurig® / Green Mountain® Single-Serve Coffee

Additional One Page Example SGOA Summaries At the End of This Section

New Product Extension Example (from Chef Boyardee), pages 671- 676

The Lunchables® example to follow was developed by Peter Klein and the team he led from Marketing Corp of America in the mid-1980's…

Peter was very involved in directing/leading the team from MCA that identified for Oscar Mayer (a KraftGF Division at that time) the Strategic Growth Opportunity Area (SGOA), the Development & Business & Marketing Plan…

and worked across 125+ core selling concepts to develop the Lunchables® target, positioning statement, ad strategy statement, growth principles, and a 10-year Master Development Plan… *that worked*

- The name was submitted by JW Thompson ad agency in Chicago as one of 5 quantitatively tested names (working names during the development timeframe included: ***Mrs. Meyers Lunch Packs*** and ***Easy Fixin's***)
- Jim Kilts (OM Consumer Division General Manager), Bob Drane (Market Research & NPD Marketing Head) and later Peter Dunn (Marketing Director/Lunchables) were the primary internal drivers at Oscar Mayer, with the Operating Committee's endorsement (led by Jim McVey, President and Tom Duessler, EVP of Oscar Mayer Foods SBU of Kraft Foods)
- The material above and to follow is based on ***public domain information***

Lunchables® – Case Study

Lunchables®

- SGOA + Development Plan defined and agreed to by Executive Management
- Core concepts: Initial line, 4 SkUs
  Follow-on lines defined early-on

Relevancy

Weekday lunch is boring for kids & moms
Mom's hate making it for kids… and self
Kids hate eating PBJ, bologna or cheese sandwiches

Uniqueness/ Differentiation

Portable, ready-to-eat, combination lunches
Simple, not complex, go-together foods
- i.e., meat, cheese, crackers, etc.

Also see Pages 254 – 273 for additional Lunchables®-related material

Lunchables® – Case Study

- **$1.34 Billion Annual U.S. Retail Sales! ***
- **High Margin!**
- **New Category! (1988 Introduction)**
- **Continued Growth! (80+% share on-going)**
- **3 Years in Development Before Intro ****

August 2023:

Lunchables could show up at some school cafeterias this fall—as Kraft Heinz gets a foot in the door on a potential $25 billion untapped market

- https://www.wsj.com/articles/kraft-heinz-sees-a-25-billion-opportunity-it-starts-with-lunchables-372fb82f

* 2018; not necessarily today in 2021; this number came from a public Nielsen presentation

** From initial identification of the SGOA through concept & plan development through engineering and manufacturing equipment design and development, etc.

Leveraging Demand Insights for Impact – Lunchables® Created a New $1.5 Billion U.S. Retail Category

Situation

- Oscar Mayer's significant cold cuts meat business was being negatively impacted due to new trends and private label competition
  - Fewer lunches being packed; fewer cold cuts overall
  - Brand losing differentiation and pricing power in commodity market
- Management wanted to reverse trends and ideally create a significant new growth platform for cold cuts

Demand Strategy Approach

- Identified the most valuable customers; the segment of Moms and kids who spend the most on cold cuts
- Developed new insights into key need states, what is most valuable and motivating to targets and their *unmet* needs
- Created a new-to-the-world category as an insulated growth platform leveraging proprietary Kraft brands and refrigerated distribution system strengths

Results

- Lunchables® created a new category when introduced in 1988
- Annual retail sales of $1.34 bn in 2018 (+19% over 2016-2018)… $218MM after the initial 12 months
- Lunchables commands an 82% share of its category
- Lunchables® was designed as **a key platform for ongoing product introductions,** including fun packs, low fat, pizza, variety packs and others rather than a single product… its development was initiated by first identifying an ***SGOA****

* Strategic Growth Opportunity Area

Source: Industry speeches and articles, 1990's - 2020

Original 1984 Vision (*Fast Fresh*): Drove Oscar Mayer Senior Management to Commit to the Development of the Identified and Qualified SGOA*… Led to 125+ Core Concepts that Yielded the $1.34bn (2018 Retail Sales) Lunchables® Brand Platform

FAST FRESH -- Self-Service Center

SGOA Growth Vision/ Umbrella

Have Oscar Mayer become the premium branded meat/meat-based company by providing preparation convenience, variety and freshness benefits … to major consumer segments at appropriate easting occasions

Strategic Framework

- **Bullseye**
- **Extensions** Hot Dogs/Bacon/ Cold Cuts
- **Related Core** Cold Cuts + Nuggets + Chilies
- **New Core** Br.O.T. Analogs + Entrees

Opportunity Areas (Key Benefit or Meal Occasion "Gaps")

- Value-Added Everyday Breakfast
- Better For You / Healthful
- Super Premium
- Grazing / Breakfast Faster Meal Prep ("Assembly")
- Value-Added Everyday Dinner

Business Concept(s)

- Bring Convenience To Breakfast Occasion Via Fast/Portable/ Portion Control
- Lean Good Tasting Meals
- "Gold Standard" Quality Nuance Marketing
- Fresh(er) Convenient Meals / Snacks For At-Home & Away From Home
- Superior Quality Convenient Prepared Main Meals
- Chicken

Timing & Org Location

- S-T / M-T (Established Brands)
- M-T / L-T Focus (Backburner)
- M-T (Internal NPD)
- S-T Focus (Internal NPD)
- M-T Focus (Main Meals)
- M-T / L-T Focus (Int NPD & Ext Dev)

* Strategic Growth Opportunity Area

Source: Industry speeches and articles, 1990's - 2020

Lunchables® – Success Drivers

Lunchables Case

Oscar Mayer competed on its own terms

- Moms with young kids target
- Familiar "Oscar like" types of foods
- Primary Oscar channels
- Oscar's refrigerated meats store section/business system
- Leveraged Oscar parent brand

Disciplined <u>principles</u> were followed

- Segmented business
- Same brand "gauntlet" benefit, packaging, store section, brand
- Carefully staged sub-line introductions over time
- Focused marketing spend on 'new news' for efficiency
- Great advertising *hit the emotive hot* button **(Mom's Appreciation)** *with* ***"Thanks, Mom"*** campaign (JWT Chicago developed based on MCA project team's focus group insights)

Source: Industry speeches and articles, 1990's - 2020

Lunchables® Innovation Was Focused by Identifying and Prioritizing Strategic Growth Opportunity Areas (SGOAs)

Lunchables Case

SGOA that led to development of Oscar Mayer Lunchables

Target Description (To Whom)	• Moms of kids who bring lunch to school/day camp, etc.
Consumer Need (For What)	• Weekdays carried lunches that are convenient and appealing
New Consumer Demand Insights	• Mom's: "Wish there was something I could grab on the mornings when I don't want, or have the time to, make a sandwich for my kids" • Kids: "Wish I had something that tasted good and that's more fun that Mom's sandwiches"
Benefits(s)	• Ready-to-eat, good tasting, portable and fun single-serve lunch kits
Broad Opportunity Sizing	• Early estimates of the potential market size indicated a significant opportunity
Business/Brand Leverage	• Oscar Mayer brand equity • Oscar Mayer refrigerated distribution system • Internal sourcing of branded ingredients (e.g., Kraft, Kool Aid)

Source: Industry speeches and articles, 1990's - 2020

Example of Building A New 'Business' Concept Over Time Via New Products… A Marketing and A Financial New Product Success *(Nothing Else Counts!)* That Was Not In Search of An Enduring Strategy *(It Had One!)*

Lunchables Case

Target

Moms of kids who carry lunch

Need State

- Too hurried/tired to make lunch

Occasion

- Weekday lunch

Need Insights

Mom

- Increasingly time pressured
- Some mornings don't have time and/or desire to make lunch

- *"Wish had something to grab on mornings don't want to make sandwich"*

Kid

- Mom's sandwiches are boring
- Kids like to be involved and empowered

- *"Wish I had something that tasted good that's more fun than mom's sandwiches"*

Frame of Reference

- Homemade sandwiches (Mom)
- Homemade sandwiches (Kid)

Ante

- RTE
- Portable
- Fresh
- Kids like taste

Convenience
Quality
Taste

Driver

- Fun
  - To make/assemble
  - To eat
  - Package
  - Dessert

Easy for You
Fun for Them

Reassurance

- Branded ingredients (quality)
- Appreciation
- Kid appreciates treat … "***Thanks, Mom***"
- Kid appreciates Mom

Source: Industry speeches and articles, 1990's - 2020

Lunchables® Platform Core Concept

Lunchables Case

	Moms	Kids
Key Insights	Working moms have less time/interest to make kids brown bag lunches	Mom's brown bag lunches are pretty boring Kids like to play with their food
Need	For when she doesn't have time or desire to make lunch, a high quality RTE alternative that kids will like, and mom won't feel guilty about	A fun, involving alternative that's more of a treat and change of pace than Mom's brown bag lunches

Total Proposition

A fresh, fun RTE lunch that kids will love, and moms will feel good about… a special treat that gets appreciated… ***"Thanks, Mom!"***

Source: Industry speeches and articles, 1990's - 2020

Lunchables® Platform Expansion

Lunchables Case

Built platform over time by targeting new occasions and competitive set while maintaining a strong brand “gauntlet”

Platform Expansion	Meat, Cheese, Crackers	Fun Pack	Breakfast (Waffles, Pancakes)	Fast Foods (Pizza, Burger, Tacos)	Dessert (Smores, Brownies)	Healthier
Description	Original	Added Treat & Beverage More Complete	New Occasion	New Competitive Set	New Occasion	Nutritional Improvements

Lunchables Brand “Gauntlet”

Brand “Gauntlet” Remained Unchanged

- Same target: working moms with kids 6-12
- Same product concept format: RTE fresh fun involving
- Same proprietary refrigerated package
- Same core benefits: easy for mom, fun for kid
- Same brand imagery

Source: Industry speeches and articles, 1990’s - 2020

Lunchables® Example Defines Differences Between Strategy, SGOA, and New Product Platforms

Lunchables Case

Development Strategy

- Develop an umbrella mega-brand against a specific meal occasion and consumer problem
- Execute it over time through a series of new product line offerings…
- Refreshing the lines when appropriate

Lunch Kits SGOA

- Provide fast, fresh and fun meals focused on the lunch occasion… because "lunch is boring for kids and adults; nothing newsworthy" … fresh and fast to make are key
- To adults and Mom's with kids, 3-12 products providing a fresh alternative to everyday lunches that require little/no preparation
- RTE, single-serve, portable meat-based combo meals
  - Consider non-meat based over time to provide variety against consumer variety need
- Refrigerated for real, perceived freshness

Lunchables Platform

- Line of 5 SKUs of meat + cheese + crackers in a single-serve, portable package… specific flavor varieties determined
- Specific ante and driver benefits identified
- Positioning statement identified

Lunchables Cycle Time

	Date	Elapsed Time
Kick-off meeting	Nov. '85	---
Concept Test	May '86	6
BASES II Test	May '87	18
BehaviorScan Test Market	Oct. '87	23
Start Roll-Out	Aug. '88	33

Source: Industry speeches and articles, 1990's - 2020

Growth Platforms Should Identify Opportunity for Building the Business Over Time

Lunchables Case

- Double digit growth
- Sustained competitive advantage
- Scale
- +$1bn sales

Regular Lunchables

Variety Packs

Fun Packs

Low Fat

Pizza

Sandwiches

Nachos, Tacos

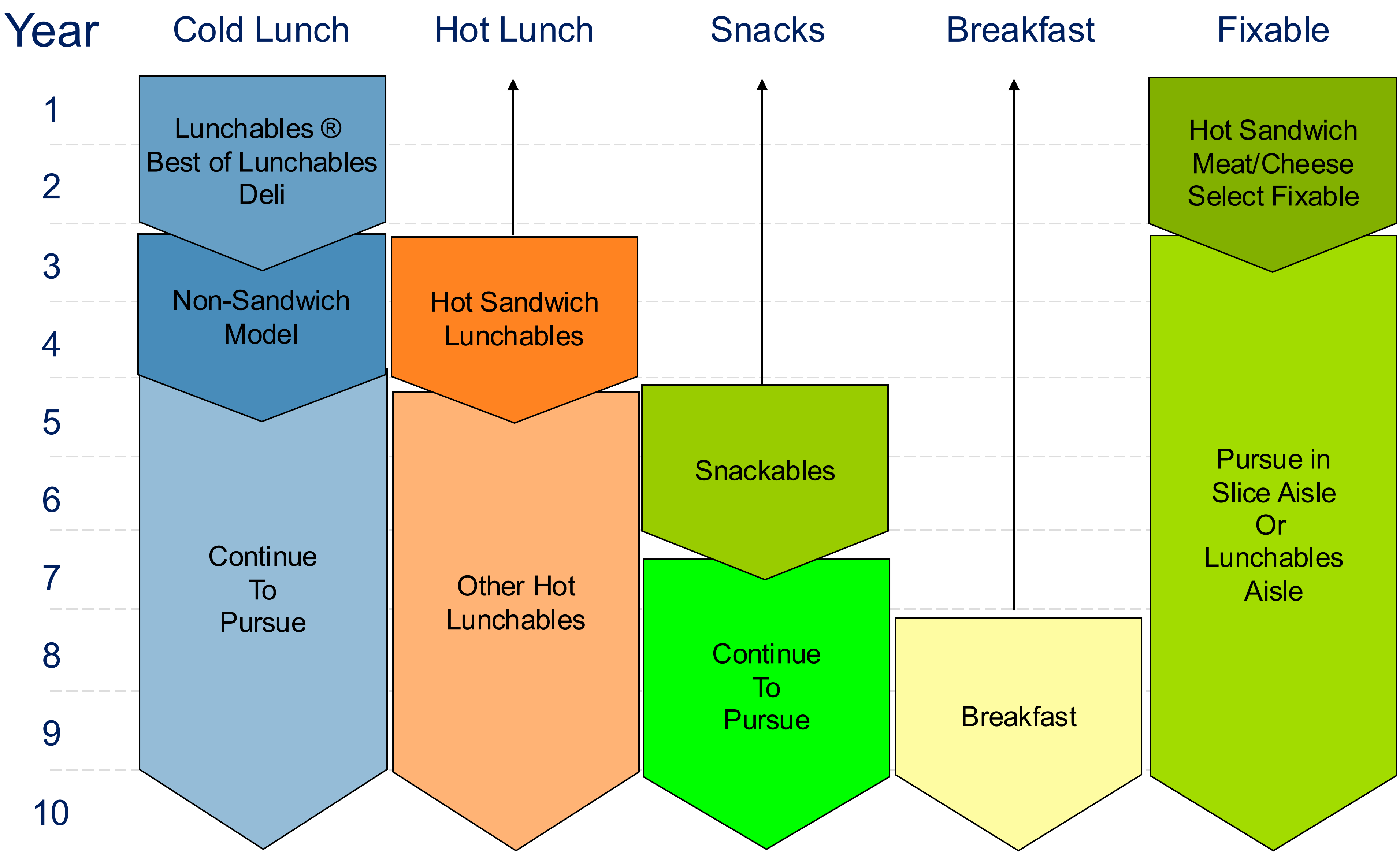
Eventually, more than 60 varieties of Lunchables and other brands of trays would show up in the grocery stores

Opportunities being introduced today were identified 15-20 years ago!

Source: Industry speeches and articles, 1990's - 2020

10 Year Vision/Plan – *1988!*

Lunchables Case



Source: Industry speeches and articles, 1990's - 2020

Early Lunchables® Prototype for Consumer Exploratory Research

PKA POV on Nielsen BASES I & II on Pages 277 - 286

Source: Industry speeches and articles, 1990's - 2020

Oscar Mayer Lunchables® - Example

(Prior to Introduction of Mexican/Taco and Other Sub-Lines)

Lunchables Case

1st 12 months of national distribution: $218MM retail sales
1991: Breakeven at Operating Profit; 1992: $8MM in OP

Operating Profit eventually was 14-16%, following cost saves on the trays...

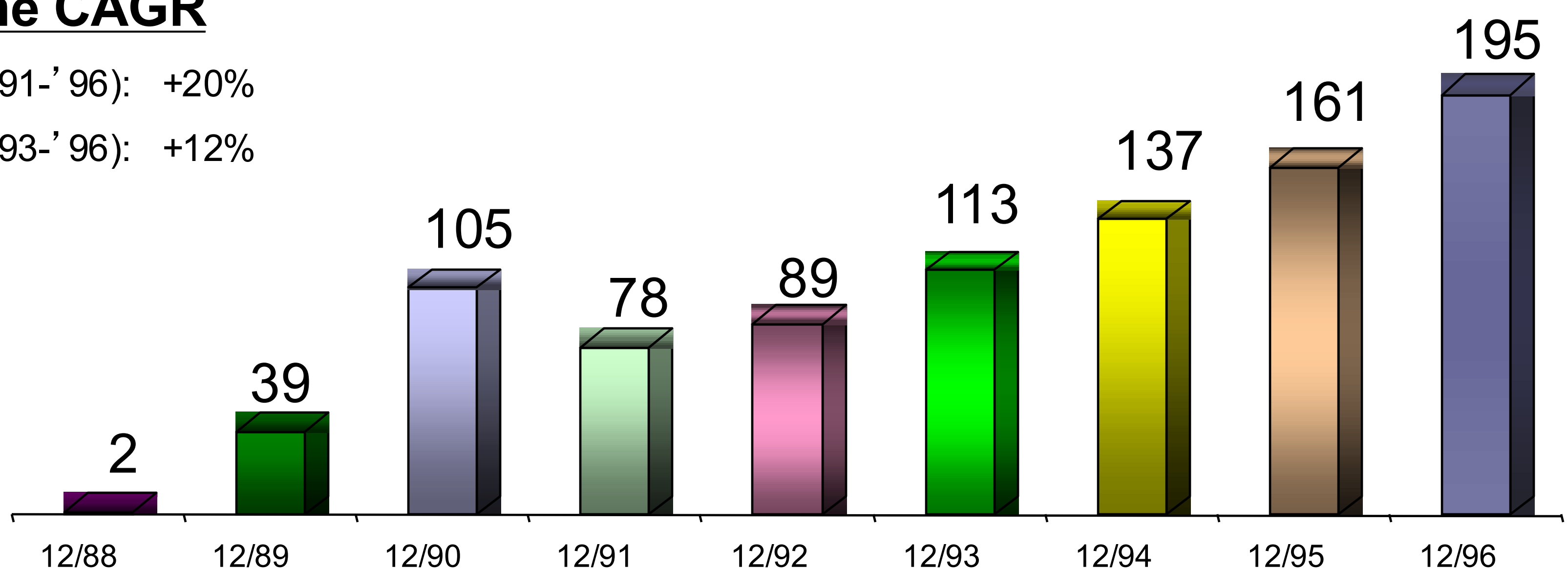
Retail sales grew to $1.34bn (2018) and has 82% share of retail dollars for Combination Lunches after 30 years

Annual Unit Sales (Millions) Select Outlets / Not ALL Outlets

Volume CAGR

5 Year ('91-'96): +20%

3 Year ('93-'96): +12%



Source: A.C. Nielsen; shown at an Industry New Products Conference

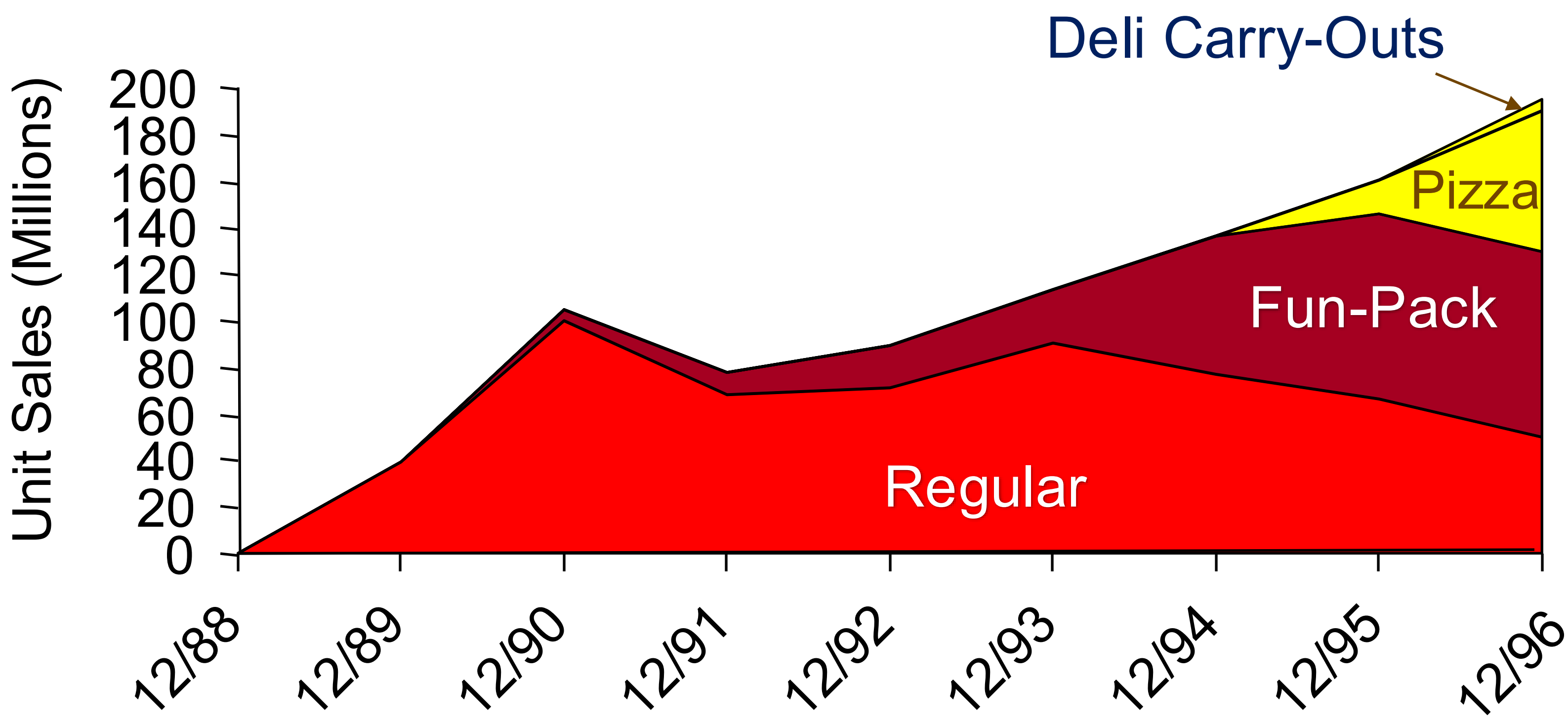
PK ASSOCIATES LLC
www.pkassociates.com

Oscar Mayer Lunchables® - Example

(Prior to Introduction of Mexican/Taco and Other Sub-Lines)

Lunchables Case

Example of building a strategic Business Building Concept over time via a series of product lines under a larger umbrella mega-brand concept



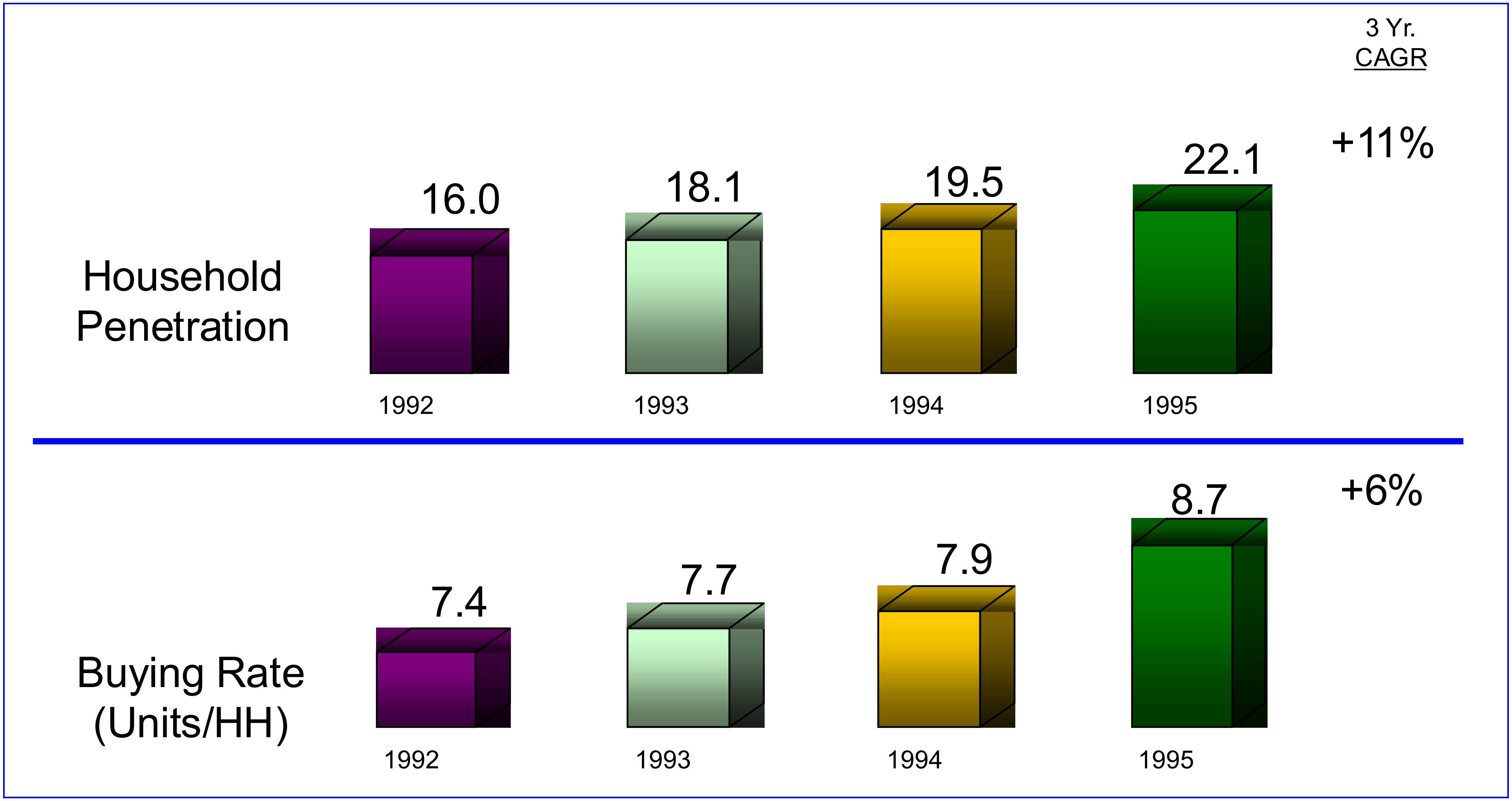
Source: A.C. Nielsen; shown at an Industry New Products Conference

Oscar Mayer Lunchables® - Example

(Prior to Introduction of Mexican/Taco and Other Sub-Lines)

Lunchables Case

A classic example of how innovation attracts new buyers and drives Brand sales and profits



Source: A.C. Nielsen; shown at an Industry New Products Conference

Another Way to Frame the Lunchables® SGOA

Lunchables Case

SGOA: The Marketplace Opportunity

Weekday Carried Lunches for Moms with young kids.
Dramatic rise in working women created a consumer need for moms...
“I wish I had something that I could grab on the mornings I don't have time to make kids brown bag lunch" and a need among kids: “Mom's sandwiches are pretty boring"

Brand Value Proposition [How We Win]

Ready-to-eat, good tasting, portable and fun single-serve lunches
Oscar Mayer parent brand, store section, business system

Innovation [What Win With]

Meat, cheese, cracker, beverage and treat
Lunch Kits in proprietary packaging
Over time evolved to further out fast food, varieties, desserts and also healthier alternatives

Positioning [Consumer Proposition]

To busy Moms and kids on-the-go [consumer target], Oscar Mayer Lunchables® [brand] are the complete lunches [frame of reference] that make lunch fun [key benefit] because they are RTE (ready to eat), buildable and available in favorite varieties. The emotional end-benefit is Mom's appreciation. When Moms give Lunchables® to their kid they felt it was a treat and gave Mom some appreciation [famous *"thanks mom"* advertising tagline]

This innovation also provides learning because the Lunchables® ingredients were not innovative but the reformatting them into buildable components in an innovative package created a fun new convenient category… and the sequencing from familiar to farther-out was also critical

Lunchables® History – *Peter Klein / PK Associates*

Background Context

Back in the mid-1980's I was at MCA (Mktg Corp of America, Westport, CT) and Jim Kilts, who had joined OMFC from GF in White Plains, NY (I had done a lot of work with Jim and others at GF since 1982, including the two of us went to Nabisco, in 1998, and Gillette, in 2001, as the turnaround team)) to run OMFC's Consumer biz, he hired MCA and a team I led on Stuffin' Burgers ('SB').

- SB, a line of frozen pre-prepared hamburgers, was in a test market for about 15+ months and floundering, and OM wanted a 7-week outside-in assessment of why and what to do. After 4 weeks I called a "time out!" and told the OM folks 'we are done and why... save your $ for the last 3 weeks!'.
- "What is OMFC 'doing' in FROZEN! It is learning things the industry knew/learned 20-30 years before, the ***consumer has 'voted no' on the brand and for good reasons***, AND ***'where is OMFC's REFRIGERATED Development Plan beyond close-in L/E's, Flankers... leveraging the core skills and scale it has in the Refrigerated meat-based store section?"***
- The folks at OMFC agreed (it was the first...and only...time I ever stopped a consulting project before the end during my career!); and asked me to help them **develop a Refrigerated Development Plan**, **including identifying SGOAs / Strategic Growth Opportunity Areas**

There were back then a few more junior marketing folks in the NP group, and Jim asked Bob Drane (who was running Market Research) if he would also head-up the NP Mktg group. Bob called me and asked for advice, never having a 'line' job before and believing his career was 'at risk' with such a move. I told him to take it, it will be fine, and he'll be terrific at it... and that he will get whatever support he needs from inside and outside. He took the added responsibility and did great.

Lunchables® History – *Peter Klein / PK Associates*

Background Context – cont'd

- We completed the Refrigerated Development Plan, and identified 5-6 SGOAs across the Breakfast, Lunch, Dinner and Snacking meal occasions, including illustrative/example-only core concepts to help bring the SGOAs to life. Each SGOA included a description, basis-for-interest from an external and internal view, key success requirements, financials (development $'s, pro forma's, etc.), and priority timing for each (what to start first, why, etc.).
- One of the SGOAs focused on the Lunch occasion and teed-up what was later to become Lunchables.
- OMFC senior management, including Jim Kilts, Jim McVey (OMFC President, Tom Duessler/EVP, etc.) agreed; and asked me/MCA to work with them against the Lunch Occasion SGOA, followed later by the Breakfast Occasion SGOA... while they handled internally the Dinner and Snacking Occasion SGOAs

Lunchables

We kicked off the project, which included identifying and qualifying with consumers (qualitative + quantitative research) 125+ core concepts against 6-8 consumer end-benefit areas (always searching for core concepts that met the breath test of being <u>both</u> ***Relevant and Differentiated*** among a well-articulated consumer target group.

From all this (and other) work what emerged was a working name called 'Mrs. Meyer's Lunch Packs'. As we went deeper into this area the Lunchables name emerged from a name test (the actual name was teed-up by one of OMFC's ad agency JWT-Chicago teams that was brought in late in the development process as part of the NPD project team, led by Clark Murray back then who later joined OMFC).

About 2/3's of the way through the Lunchables development process Peter Dunn joined from GF White Plains (Maxwell House Div) to be assigned full-time to the project, reporting to Bob Drane who still led NPD Mktg & Mkt Research.

Lunchables® History – *Peter Klein / PK Associates*

Lunchables – Cont'd

We identified back then 7-10 years of Lunchables product portfolio after the initial 4 SKUs introduction, including identifying 5 specific brand *MUST HAVE PRINCIPLES* intended to endure over the life of the brand (*aka*: 'do not violate any of these!').

I remember presenting the program to OMFC senior management that requested approval of engineering/ manufacturing design development and CapEx for 16 lines; and while we (MCA) were asked back then to present the *low-end* of our program Pro Forma P&L that showed the brand would build to, what I recall, was about $150-175M in Net Sales. I did a voice-over that said as far as I and MCA were concerned**, this brand and its business/financial proposition was as much as a *$750M Net Sales opportunity through our eyes*** and wanted to minimally go on the record back then.

The rest is history!

We also did major follow-up work on the Breakfast Occasion SGOA.

Lunchables® History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999)

Reflections On My Time At Oscar and the Lunchables Project

I was very lucky in my corporate career, starting out with no training in business, and ending up with two amazing companies, Quaker Oats and Oscar Mayer, both dedicated not only to delivering profits to shareholders, but also to taking care of their employees and local communities. At Oscar, the tone was set by the principled Mayer family, who also encouraged everyone to “give something back” to society along the way.

I joined the company in 1979 after a call “out of the blue” from Pat Richter who was Oscar’s personnel manager at the time, after many years in the NFL and earning his law degree. Pat told me he was recruiting for a General Manager of Marketing Research, and would I be interested in learning more. My wife and I had lived in Madison back in 1965 when I was getting a Master’s degree at UW in English Lit, so we decided to make a visit to scope it out. Oscar was very cautious about “hiring from outside,” so many return trips took place before I was offered the job. One generous part of the deal was that I was allowed to follow through on a prior commitment to teach marketing at the University of Iowa Business School, one day a week for a full semester. From there on, teaching became an integral part of my business career and personal aspirations.

My first boss at Oscar was Jim McVey, a wonderful guy, who proceeded to support and mentor me over the next fifteen years, and eventually push me far beyond my original career ambitions.

I started at a time when Oscar was transitioning from its history as a manufacturing and sales force-driven company to one in need of added skills around consumer marketing, information management, and new product development. All three were in my wheelhouse from my Quaker years, so I was able to add value right away. And I quickly learned that if you did good work at Oscar, they threw more at you in a hurry, along with rewards and promotions. I also found that while the official hours were 7:30am to 4:30pm, anyone showing up after 6:30 in the morning was considered late, and that I was typically still on the job at 7:00pm. “Workaholics need apply!”

In my first year I had two surprises. For the first time in history, our terrific union workers went on strike, and I got to experience my car getting rocked on the way into the office. And second, the “family company” I was so delighted to join had just been acquired by a publicly held giant, General Foods in New York. This became the first of three “mergers” I lived through at Oscar, with Philip Morris (1985) and Kraft (1989) following down the road. Adjusting to different corporate cultures became a necessity.

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

General Foods of course was a super-star in the food industry and a comfortable fit for me. I found it to be a very "intellectual" company and loaded with the same MBA types, from "all the right schools," I was accustomed to at Quaker. They were also quite astute at giving Oscar plenty of latitude about running our own business. Some attributed this to the "political infighting" skills of our CEO, Jerry Hiegel. Others simply concluded that the GF guys were always a bit squeamish about meatpacking per se.

After the acquisition, my duties expanded to include Strategic Planning, and I was able to fill in many of my business gaps from the new GF contacts and from Lee Scheele, an ex-McKinsey employee, who joined Oscar at the time. The result were major upgrades in the company's strategic thinking and the quality of our Marketing Plans and execution. The transition toward understanding and responding to the ever-changing wishes of consumers was now under way – and I was able to start up a little internal training program called the "OM Marketing University" to accelerate the pace.

While I got teased as "the professor" from that time forth, the effort became my ticket to international travel to share our "best practices" with a string of overseas partners that Oscar had acquired over time. I went to Tokyo to put on a one-week seminar for executives of the Prima Meat firm. As serendipity would have it, I arrived during the height of the cherry blossom season and was treated to a grand tour of the city. The "classes" were another thing, with several attendees sitting with arms folded across their chests and occasionally with eyes closed. The claim was that this posture signaled great concentration, but I'm still not sure I ever fell for that.

Caracas was next, where the number one brand across Venezuela was none other than Oscar Mayer. My hosts lived in great luxury in their gated communities, surrounded by the rest of the impoverished population housed in their tin or cardboard shacks. My most vivid memory was a grocery store visit accompanied by an OM salesman touting a pistole in his belt. As I walked around, little kids would follow me, intrigued by the gringo with the blond hair. After a week there, I was glad to get back home.

Then there was Milan and our Negroni partner, headquartered south of the city in Cremona, home to the Stradivarius violin makers. I found that the Italians treated sausage making like an art form and wandered through row on row of Parma Hams, the tutto di capo tutti of the trade. I also zipped around the circular streets of Milan with salesman Jack Kelly who took me to La Strada for the opera, Via Montenapoleone for a Susie shopping present, Santa Maria Della Grazie to see The Last Supper and a string of restaurants to experience risotto, a very different form of pizza, and other first-time for me cuisines.

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

During these trips the old admonition from the famous adman David Olgivy struck home: "know the world and steal the best." If Oscar was to be successful at new product innovations, it needed to stay in touch with the latest products and technologies from across the globe. This led me to connect with a UK associate named Dick Payne, who became my roving eyes and ears in this regard. Dick was a very successful engineer, who worked on record-breaking speedboats before turning to a range of meat-slicing machines used by many meatpackers including Oscar Mayer. Eventually I would take a cross-functional innovations team to Europe every two years to join Dick on a tour of the giant SIAL food show in Paris and the leading retail stores in the surrounding countries. During the days we would all sponge up impressions; in the evening we would drink wine and generate new product ideas. Then our team "visualizer-in-chief," Yolanda Launder (nee Reifein), would create "concept boards" which we'd subsequently present to management back in Madison. Over the years, many advances fell out of these very useful and fun trips abroad.

In 1985 another transition materialized as Philip Morris acquired General Foods. The motive was diversification, with Big Tobacco feeling threatened by litigation, and the food industry looking like a safe haven for long-term growth. Needless to say, the GF execs were not at all happy about the outcome, and rumor had it that they removed all ash trays from their conference rooms as a small sign of protest. On the other hand, Oscar accommodated immediately to our new bosses. At the time, PM was run by a group of Aussies, men like Hamish Maxwell and Geoff Bible, whose straight-on and jocular personalities seemed to fit perfectly with their new Madison cousins. Bible always said, "you can't cost-reduce your way to greatness," and was a big supporter of innovation and of me.

Philip Morris was also cash-heavy and charged us with going full out after break-through new product introductions. This led to the simultaneous start-up of three major projects, all aimed at "broadening and contemporizing Oscar's product portfolio." One involved the acquisition of Louis Kemp, a leading producer of surimi (faux crabmeat) which was soon tagged inside as "the boloney of the sea." The second venture was "Zappetites," a clever line of meat-based microwavable snacks, designed to compete against a popular competitor called Hot Pockets. The Kemp project was led by Roland Chambers, while Bob Tuckis was in charge of the "Zap your Appetite" initiative. The third idea started out as a meat and cheese combo called "Oscar's Lunch Fixin's" before morphing into "Oscar Mayer Lunchables."

How ironic at the time that I had no interest in leading this third project! I had been promoted to Vice-President of Marketing Services and Strategic Planning, loved working for my boss, Tom Duesler, and was perfectly content to stay in that job for good. Then came a boat ride on Lake Mendota where Tom essentially ordered me to sign up for duty – and, as they say, the rest is history.

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

Thankfully help was coming my way from General Foods who had gradually been importing a series of talented marketing experts from White Plains to the hinterlands of Wisconsin. Among them were several who really impacted what was to come. The first was ***Jim Kilts***, a remarkable talent who was one of only a handful of business leaders I ever knew that understood the critical importance of new product development, the risks involved, and the need for disciplined "systems" to succeed. Unfortunately, Jim soon left Oscar for greener pastures, including later duties as CEO at Kraft Foods, Nabisco and Gillette. But before exiting, **Jim connected me with a genuine mentor in *Peter Klein*, a management consultant at the MCA firm in Connecticut. Over the next decade, Peter helped me with a host of NPD projects, including Lunchables.**

Two other GF-ers were also pivotal along the way. One was Peter Dunn, a young Product Manager who became my right-hand man throughout the creation and launch of Lunchables. Peter too had a remarkable follow-up career as CEO at Steak 'n Shake, before founding Activate Healthcare, a firm dedicated to driving down medical costs in America. The other was Joel Johnson, another great boss over five years before he moved on to become CEO and Chairman of Hormel Foods.

Now that I look back, I find that over my twenty years at Oscar, I reported to a total of seven people who went on to reach the very pinnacle of their Fortune 500 Companies, including one, Bryan Stockton, who started out in my original Marketing Research Department as an analyst, and was later CEO of the Mattel Corporation.

Given that, one might fairly ask how, with all those stars around, it would be possible to screw up the projects Oscar was initiating back in 1985? The answer was that it was not only possible, but almost a certainty. The published hit-rate statistics on New Grocery Product introductions proved that. On average, 14,000 new sku's made it to the grocery shelves each year, with 64% losing distribution in the first six months and only 2% achieving $75 million in sales over their first two years. This at a time when the cost of R&D, capital, manufacture and promotion was often running well in excess of $25 million.

Thus "caveat emptor" was writ large across all three of the projects Oscar was being asked to tackle. While I was well-aware of this at the time, I was also drawn to the challenge of figuring out how to beat the odds. This began with something quite rare: sustained top management support behind the effort, an adequate budget, and access to a great cross-functional team. Given all the often-false claims about "who invented Lunchables" (as in Wikepedia), I need to set the record straight here based on sorting through old files for the names of those who were active in the early 1985 to 1988 timeframe. Here goes:

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

* The hands-on "core team:" Bob Becker, Mary Boeding, Jim Borling, Darrell Cornish, Bob Drane, Peter Dunn, Charlie Etmekjian, Ray Griesbach, Irene Huber, Gary Hustad, George Kwasniak, John LaBella, Brian Lawless, Don Levy, Ann Noppe, Yolanda Reifein, Donna Rentschler, Dave Rizzo, Willi Sinderman and Cindi Wells. With admin support especially from Roxane O'Keefe and later Audrey Herwig.

* Executive management: Tom Duesler, Ron Kelly, Joel Johnson, Hal Mayer, Jim McVey, Paul Roehrig, Red Thompson, Paul Tiller, Dick Waldrop and Ray Winburn.

So here was a chance to put into action the New Product Development System I had been building for years. To succeed I knew what was required strategically: a new product design that not only addressed a consumer need but also "fit" with our brand reputation and our operational know-how. Given that Oscar Mayer was famous for delivering meat-based lunches especially for kids, that became our primary dig-site. Then, however, came the hard part: spotting the consumer need or "gap." Which potential targets were disappointed with their currently available lunch options, at what moments in their daily lives?

We hit pay-dirt here when we started talking to "working moms" about what it was like, day after day at 7am, to prepare brown bag school lunches for their kids? The mantra we heard back was: "pain for me to pack; boring for them to eat; and hearing constant complaints." Voila, we had identified our "important consumer problem!"

But what would a "demonstrably superior solution" look like? To figure this out was going to take "super-charged creativity" and my NP System had a component here that seemed worth a try. I called it "Montessori School," an approach which seemed to work with kids, so why not with adults. Three elements were required: a diverse cross-function team of inventors; exposure to "stimulus materials" – unique products, packages, graphics, advertising gathered globally -- to facilitate out-of-the-box thinking; and completion of a series of "fun excursions" whereby people in pairs were asked to create and then present their superior lunch alternative. The stalking horse here being the standard boloney or tuna fish sandwich on white bread. The results were amazing! The process took a roomful of adults back to their creative roots as children, required them to use their intuitive hands more than their censoring minds, and led to a tentative design.

"A ready-to-eat lunch in a tray that was easy to pack, fun to eat, and turned complaints into praise." Thanks, mom!

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

Finalizing the exact components for "Oscar Mayer Lunch Fixin's" came next. Few people now recall this, but the original product line-up included two versions – a simple meat-cheese-crackers version for $1.29 aimed at children and a Deluxe line for adults priced at $1.49, with each package including two shaved meats, two kinds of crackers and cheeses, a sauce packet and a dessert mint.

The easy calls here were the combinations of meats and cheeses. Bread, however, would never hold up for the 60-day shelf life demanded by grocers, so crackers became the stand-in. Finally, the team decided to place the tray itself inside an outer carton, created by our graphics guru, Yolanda Reifein, to simulate the feeling of a "special gift." We also settled on a name from a long list: "Lunchables." The rationale here was simple: we wanted consumers to regard the product as a credible lunch, not a flimsy snack. Thus, the assertion that we were "able to be a lunch." And so, a catchy name was born.

"Attention to design details" was important from start to finish, and we were constantly testing out our latest ideas, mainly through Focus Groups with moms and kids, moderated by Sharon Seidler from C&R Research -- our go-to expert at cat-scanning both groups. Attendance at these Groups was mandatory for our entire team so that everyone could "see with their own eyes" what was working or not working and gain on-the-spot consensus about what to try next.

At our first Group with moms, we witnessed something we had never seen before or since. When we put our Lunchables prototype in the middle of the table, all eight moms stood up in unison and uttered the same word, "neat." While lots of more scientifically sound marketing research followed, none of it bolstered our confidence more than that first spontaneous response.

Once we'd settled on our final product designs, our team turned its focus to manufacturing which was particularly challenging, since sourcing meat, cheese and crackers and then putting each into the trays was more akin to a car assembly operation than traditional sausage-making. With the help of a new "fill and seal" machine called a Mahaffey-Harder, R&D and Engineering were able to get the job done and with the code life needed. But still the exact production throughput remained uncertain, and the plant line was very labor-intensive -- which meant that profit margins remained uncertain. At the same time, we also put together our introductory marketing plan, including advertising ("Lunch is what you make of it"), consumer promotions and trade deals. One element here that really paid off down the road was a unique "shelf merchandising unit" that mimicked our "lunch meat peg system" and created a powerful billboard effect in the refrigerated aisle.

In October 1987, almost two years from our initial kick-off meeting, we began test marketing Lunchables in Eau Claire, Wisconsin and Grand Junction, Colorado. Trial built rapidly as did Repeat Purchasing, and the result was an overnight success. An initial forecast predicted that in Year 1, unit sales of Lunchables would be equal to those for Oscar Mayer Hot Dogs!

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

So, the race was on to "go national" asap before competitors could do a knock-off and beat us to the punch. By August 1988 our capital was installed, and we began what was planned as a "three phase roll-out," given uncertainty about our true manufacturing capacity.

The result was 18 months of daily chaos for the entire team.

For years Oscar had been famous for its powerful Sales Force which was now under ex-Marine, Phil Pellegrino, whose favorite movie was "Patton." For these Sales pros, Lunchables was exactly the kind of breakthrough new product that had been hoping for, and they sold it in with a vengeance. By the time our advertising broke we had over 80% distribution in the Phase I markets, including a full 8 feet of precious shelf space in most stores. Our Regional Sales Managers at the time were: Chuck Emerson, Paul Harp, Gene Sterling and Dick Turici.

A large part of this success also traced to the Sales Planner on our Lunchables team, Mary Boeding. Over her time in the field, Mary almost single-handedly broke the gender barrier within the Sales Force. She was an excellent athlete who could "whip the boys" at hoops, dismiss whatever occasional hazing came her way from buyers, work harder and longer than her colleagues and always "make her quotas." She proved to be exactly the right person on the project to align the consumer marketing types in Madison with the retailer-centric sales force.

Almost immediately it became clear that "demand" for our new product sensation far outstripped our capacity to "supply it." As fast as a new Lunchables shipment reached the stores it was sold out, and our long-term customers were on the phones demanding more, and right now. The word around Roman Maier's Madison plant became "who are we going to short today?" This was a test for the entire supply chain, but especially for those in production and inventory control. The good news was that we had a hit on our hands; the bad news was that we couldn't keep up with the orders.

One of my duties at the time was to provide weekly progress reports (aka, "decks") to management, a fate which earned me the moniker "Deck-A-Day Drane." These updates were made possible through two very special analysts in my Marketing Research group: Charlie Etmekjian and Bob Becker, both of whom later graduated to senior management jobs at Kraft HQ. With facts in hand, trips to Philip Morris in NYC followed in search of more investments in manufacturing capital. Despite nagging uncertainties about our internal cost structure and profitability on the project, "our Aussies" continued to sign one check after another. Their message to us was always the same: "you've already done the hard part in creating great demand, so now go on to work on automation and productivity."

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

As the new lines started up, we were gradually able to make enough product to continue with our Three Phase national launch. And when we added up the retail sales in the first year across all three geographies, the total came to a staggering $215 million. This led our customers to laud Lunchables in industry publications, and, in turn, to a very fun experience for several members of our team – a trip to the SIAL Show in Paris to go on stage and accept the award as "Best New Product from the US in 1989." As usual, nobody beat the French when it came to over-the-top ceremony.

About the same time, we were in celebration mode, a new re-organization came our way when Philip Morris acquired its second major food company, Kraft, and merged it together with General Foods under the new title "KGF," with Oscar going along for the ride. Unlike the more laissez faire cultures at GF and Philip Morris, Kraft was into micro-management, including intense concentration on short-term financial management. Quickly enough the Lunchables project was under the microscope, with the new Kraft CEO concluding that Lunchables was nothing more than "an extended fad" and what he called a "bleeder" financially. By 1991 he appeared dead-set on shooting the entire project, and me along with it.

Three things saved the day. First was pushback from OM leadership who still believed in Lunchables; second was inch by inch progress on reducing ingredient and manufacturing costs and improving margins; and third was a next-generation product called "Lunchables Fun Packs," which provided another big jump in sales and put an end to the "fad theory" for good.

For me, "Fun Packs" also revealed a fundamental truth about innovation: "even when you think you understand why a new product succeeds, you are probably missing half the story." In this case the "aha" lay in recognition that the Lunchables "platform" was a packaging breakthrough first and foremost, and that re-imagining the potential components for the Tray could lead to exponential sales growth.

Prior to "Fun Packs," our core team had a sense of this, when it tried out "Lunchables with Dessert," including chocolate pudding cups. But real magic followed when a Meijer's retailer in Detroit suggested "attaching" a Capri Sun drink-box and a miniature Snickers bar to the Lunchables tray. This worked and set the stage for what we called a "second burst of recipe creativity" by our internal team. Which soon led to "Pizza Lunchables," with its intriguing development history.

From the beginning, a challenge for Lunchables was trying to figure out how to do marketing research with kids – who tended to express kneejerk "love" every new idea they ever saw -- and how to sort their responses out from their more rational and critical moms. Progress was made when we began asking kids "what food favorites they'd like to share if they could go to lunch with superstar, Michael Jordan?" Pizza immediately jumped to the top of the list, and our team went to work on a tray containing three mini-crusts and tomato sauce, along with "co-branded" OM pepperoni and Kraft mozzarella cheese.

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

We showed our prototype here first to moms whose response was "cold, raw pizza, yuck and what a mess, no way." But before giving up, we asked kids to take a look and respond on what we called our "cooler-ruler," which extended around our focus group room on a railing from a "smiley face to a frowny face." When they picked up the product and marched around the room three times – or "three cooler-rulers worth" – we decided to go with the kid's opinion and not the moms. While this flew in the face of the industry's best new product forecasting models, the market results affirmed our intuition. Kids wanted to have the fun and control over building their own pizzas and moms finally surrendered their vetoes. Pizza became Lunchables most popular variety, and it was followed by Tacos and Nachos and other kid favorites.

Year after year efforts were made to address a significant concern coming from moms and shared inside about our "nutritional profile." We scouted out ingredients that were lower in fat and sodium and launched a series of "better-for-you" products. But year after year these sat on the shelf before we had to admit defeat. This remains a puzzle worth solving and someday, hopefully, it may still happen.

Around this same time, I also decided to resume teaching at UW-Madison's Graduate School of Business. Not in Shakespeare as I had imagined way back in 1965, but in "Creating Breakthrough New Products." My class met from 4:30-7:30 every Monday and offered students a fun challenge: invent next year's new product from the Lunchables via the same "systems" I was using at Oscar. Enrollment was limited to 15 students, hand-picked by my UW coordinator and pal, Janet Christopher, and broken into three teams. Each started with an elaborate briefing document and blank piece of paper, and over sixteen weeks came up with a 3D product/package/label prototype plus a marketing plan and a P&L. At the end of the semester, they got to present to a live Lunchables Product Manager who visited to judge their work and provide "real-world" feedback. I continued this course for eight years, and also was able to publish a Harvard Business Case on Lunchables for use in the classroom.

By the mid-90's, Lunchables was out of the Kraft doghouse and on its way to becoming a stand-alone Power Brand with consumers. Annual retail sales were approaching $750 million, market share stood at 80%, and profits ranked second within Oscar, trailing only the lunch meats line. Imagine an outcome whereby a company famous for selling meat products was suddenly able to make money by also selling cheese, crackers, drink-boxes, and desserts, all carrying famous co-brands! On top of that, Lunchables was able to automate its manufacturing lines and use its scale to end up with an unmatched business system. We had finally achieved what every business was after: "sustainable competitive advantage."

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

At this point, I was back in good stead with the next generation of leaders at Kraft, with a "Jade Ring" and a "Chairman's Award" to show for it, and two more bosses – Bob Eckert and Rick Searer – that I really admired. Sharing the Lunchables story and Innovation Systems then became a sizable part of my duties. This included parachuting into the UK, Spain and Germany, accompanied by an OM team, and attempting to transform Lunchables into a Global Brand-name. These trips involved what is known today as "Agile Innovation" with fast-forward prototyping of localized product designs using our Montessori School methods. Each foreign visit was both fascinating and intense, and after one-week bursts, we would all be exhausted upon returning home. The effort paid off in the UK with a line of "dairylea Lunchables" that continues to thrive in 2020. But in both Spain and Germany most kids were not carrying lunches to school, and, in fact, the typical fare was a hearty hot meal. That ended the global search.

My other "sharing assignment" was to set up and lead a week-long training program for all of Kraft's cross-functional innovation teams. In addition to the Lunchables case, other "experts" inside and outside of Kraft showed up to present their favorite success stories and the underlying "how-to's," making this course a big hit.

Back home at Oscar, I made a final stab at "another Lunchables" on a line called Oscar Toastwiches, code named "Project Houston." After coming very close to a launch, a potential acquisition in the same space brought our internal efforts to a close. The parting declaration among our team was "Houston, we have a problem," per Ann Dencker.

With that my corporate "use by" date was running down, and I was surrounded by "successors" like Bob Becker who were fully prepared to pick up the Innovation baton. Bob was with me from the beginning on Lunchables and had mastered the full tool-kit needed to succeed. And he did, eventually heading the entire New Business Development group at the Chicago headquarters, reporting directly to the Kraft CEO.

After retiring from Oscar in 1999, I continued my UW teaching and opened a small management consulting practice under the name of "Growth Catalysts LLC." Over the next decade we completed new product engagements for several Fortune 500 companies in the US and Europe. The Lunchables story was always an entrée into new clients and, in 2014, it came around again in unexpected fashion. A call from one Michael Moss, a Pulitzer Prize-winning investigative reporter for the Wall St. Journal and the New York Times asking, "would I be willing to provide input to a book he was writing on the food industry?" Of course, all my alarm bells went off until I learned that many other PM and Kraft execs had already signed on. The result was a best-seller called "Sugar, Fat, Salt" which devoted a 50-page chapter to recounting the Lunchables history.

Lunchables History Through the Eyes of Bob Drane at Oscar Mayer (Retired 1999) – *Cont'd*

Today in 2020, as an ancient mariner, I look back on my two decades at Oscar Mayer with great fondness and some amazement at what we were able to achieve in that period. To have simply survived three acquisitions (GF, PM and KGF/Kraft) was something on its own, but then to have come up with the Lunchables line which created hundreds of good paying jobs and helped us meet our annual profit goals was another memorable feat. I have often believed that the key to both outcomes lay in our dogged commitment to the "Old Oscar" culture that sustained us through thick and thin. As the old U Michigan coach, Bo Schembechler, said about the three keys to victory – "The Team and the Team and the Team."

In the end it seems fitting to close here with one other fun memory – my assignment at the annual Sales and Marketing Conference to lead the attendees in singing another of Oscar's famous tunes:

"Here's a toast to Oscar Mayer, to Oscar brave and true.
Here's a toast to Oscar Mayer, we drink it down to you.
Ever may our hearts be loyal, without a fear we stand,
Here's a toast to Oscar Mayer, the best packer in the land!

The 30-Year Reign of Lunchables

The Atlantic / NOV 17, 2018

The overwhelmingly successful “compartment-based snack” has thrived by, for the most part, staying the same.

Lunchables have existed on this Earth for far longer than the young children who devour them. In fact, if Lunchables were people, they would be old enough to be those children’s parents.

This year, Lunchables turns 30, and the widely beloved (if sub-optimally nutritious) compartmentalized meals are as popular as ever.

Though the brand started as a clever way to repurpose bologna, which began losing popularity in the mid-1980s, Lunchables created a new category of American foodstuff that it continues to dominate.

The brand has had its shifts—introducing and later phasing out hot dogs and hamburgers, as well as dabbling in breakfast—but its core selling points of convenience (for parents) and fun (for kids) have remained constant since its early days. At a time when many parents are attuned to shifting nutritional advice and want to avoid wasteful consumer products, there is still ample appetite for a sugary, fatty prepared lunch that comes in a disposable plastic tray.

“It’s been that fun lunch … and I think that’s what kept it evergreen,” says Greg Guidotti, the head of marketing at Oscar Mayer, which makes Lunchables and is owned by the enormous food company Kraft Heinz. “There’s a ritual involved with opening it, and stacking it, and building it,” he told me, in describing the enduring appeal to kids of assembling the components in a Lunchables tray.

The 30-Year Reign of Lunchables – *Cont'd*

Lunchables currently has an 84 percent share of the market for kids' "combination lunches," and its dominance, Guidotti said, is sustained by its meat-cheese-and-cracker boxes, which remain the best-selling and longest-running Lunchables product. (Its pizza meals are popular as well.) In the past few years, the brand has made forays into trendier realms, launching some organic options and, more recently, an "Around the World" line that includes an Asian Style BBQ Chicken box and Mexican Style Chicken Tacos.
Last year, Kraft Heinz sold $1.36 billion of Lunchables, according to Robert Moskow, a senior equity analyst at the investment bank Credit Suisse who follows the food industry closely. "That is up 19 percent over a three-year time horizon," Moskow told me. "In the packaged-food world, that's a home run, especially for an established business."

Moskow attributes some of this recent success to how Kraft Heinz has positioned Lunchables lately. "If you think about the last 10 years, I think Lunchables had some fallow periods when it was trying to create a healthier version of itself," he told me, adding, "I think lately it has gone back to its indulgent positioning, which, for better or for worse, that's what the consumer wants."

Lunchables has tried healthier options in the past, with occasionally disappointing results. In the mid-2000s, a line that substituted yogurt for candy was introduced and then discontinued due to weak sales. And in 2011, the company started selling ***Lunchables With Fruit***, but that is now defunct too. In Lunchables' earliest days, its product development team experimented with including apple slices and carrots but scrapped the idea after seeing that the produce did not ship and store well.

When I asked Guidotti whether sales of Lunchables lagged as the company made its offerings healthier, he said, "We are not seeing this. Lunchables continues to grow household penetration and dollar sales."

The 30-Year Reign of Lunchables – *Cont'd*

Whatever the effect of Lunchables' nutrition experiments, the brand's reign remains unchallenged. Andrew Ruis, a researcher at the University of Wisconsin at Madison and the author of *Eating to Learn, Learning to Eat: The Origins of School Lunch in the United States*, thinks the product has done so well because of how it fits into families' days. "From a parent's standpoint, you're trying to assume all these different roles when you're putting together a kid's lunch," he says. "You're trying to assume the role of nutritionist; and the role of a chef; and the role of an entertainer, almost; or a psychologist, someone who can get into the head of your kid and know what they want and like." Ruis says the idea that "it's everything in one package, that all you have to do is purchase this thing" is powerful for parents who can spare a couple of extra dollars.

Lunchables, though, was originally born out of an urgency to solve an entirely different problem, as the journalist Michael Moss details in his 2013 book, *Salt Sugar Fat: How the Food Giants Hooked Us*. In the mid-'80s, executives at Oscar Mayer noticed that consumers' interest in bologna, one of its key products, was beginning to wane. So, the company's product developers set out to find a way to get people interested in bologna again, to dream up something that was livelier than sliced, sandwich-ready meat sealed in plastic. After brainstorms and focus groups, a team of about 15 people conceived a bologna-centric lunch product that was portable and—because people generally preferred the meat with some accompaniments—included crackers (which kept better than bread) and slices of cheese. The plastic tray that they settled on for the packaging, which sectioned off each ingredient, was inspired by frozen TV dinners.

Guidotti (who wasn't with the company at the time) told me that Lunchables was originally developed with adult eaters in mind, not kids. "It was seen as a convenience solution to lunch for working mothers, working dads, and the like," he says. But the creators of Lunchables aimed younger when they discovered in market research how much fun kids had assembling their meals. Oscar Mayer shifted its marketing, detecting in focus groups that time-starved working moms might feel guilty about not doing enough for their kids.

The 30-Year Reign of Lunchables – *Cont'd*

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Last year, Kraft Heinz sold $1.36 billion of Lunchables, according to Robert Moskow, a senior equity analyst at the investment bank Credit Suisse who follows the food industry closely. "That is up 19 percent over a three-year time horizon," Moskow told me. "In the packaged-food world, that's a home run, especially for an established business."

Moskow attributes some of this recent success to how Kraft Heinz has positioned Lunchables lately. "If you think about the last 10 years, I think Lunchables had some fallow periods when it was trying to create a healthier version of itself," he told me, adding, "I think lately it has gone back to its indulgent positioning, which, for better or for worse, that's what the consumer wants."

Lunchables has tried healthier options in the past, with occasionally disappointing results. In the mid-2000s, a line that substituted yogurt for candy was introduced and then discontinued due to weak sales. And in 2011, the company started selling Lunchables With Fruit, but that is now defunct too. In Lunchables' earliest days, its product-development team experimented with including apple slices and carrots but scrapped the idea after seeing that the produce did not ship and store well.

When I asked Guidotti whether sales of Lunchables lagged as the company made its offerings healthier, he said, "We are not seeing this. Lunchables continues to grow household penetration and dollar sales."

The 30-Year Reign of Lunchables – *Cont'd*

Guidotti (who wasn't with the company at the time) told me that Lunchables was originally developed with adult eaters in mind, not kids. "It was seen as a convenience solution to lunch for working mothers, working dads, and the like," he says. But the creators of Lunchables aimed younger when they discovered in market research how much fun kids had assembling their meals. Oscar Mayer shifted its marketing, accordingly, detecting in focus groups that time-starved working moms might feel guilty about not doing enough for their kids.

This was the impetus for the lively yellow box that Lunchables came in—originally conceived of as a sort of wrapping paper, it was designed to feel like a gift to give to children as they went off to school.

The product, whose rejected names included included On-Trays, Crackerwiches, Snackables, and Fun Mealz, launched in 1988. It was an instant hit: Sales exceeded $200 million in the first 12 months. No company has been able to meaningfully challenge Lunchables since, and the brand's advantage was cemented by the introduction in the mid-'90s of its pizzas, which initially grossed out moms in focus groups—they are typically eaten cold, with unmelted cheese—but thrilled children, who were excited by the prospect of building their own lunch, hot or cold. (As it turns out, Guidotti told me that historically, somewhere between a quarter and a third of Lunchables have been consumed by adults.)

But Lunchables hadn't been on the market for long before the product began to be criticized as unhealthy. In 1994, after a pediatrician called it a "nutritional disaster," a Kraft spokesperson responded, "This is not some big corporate plot to fatten up kids. This is what kids want. There are very few kids out there who will eat rice cakes and tofu." The company has stood by Lunchables, though a decade later it did abandon a higher-calorie Lunchables varietal called Maxed Out (with foods like deep-dish pizza and "double stacked" tacos) that had drawn criticism for its elevated levels of salt, sugar, and fat.

The 30-Year Reign of Lunchables – *Cont'd*

Bob Drane, who led the team that created Lunchables, said*: "I wish the nutritional profile of the thing could have been better, but I don't view the entire project as anything but a positive contribution to people's lives."*

And when I asked Kraft Heinz how it would respond to nutritional criticisms today, a spokesperson wrote in an email, "Lunchables is a great lunch solution for kids and is a good/excellent source of protein based on the variety." (Guidotti noted that many parents' recent interest in making sure their kids get enough protein has been "a tailwind for Lunchables," some boxes of which note how many grams of protein are inside.)

Ruis, the school-lunch researcher, told me that in the past couple of decades, parents have been paying more attention to the nutritional elements of what they feed their kids, not least because of concerns about obesity. And there have been other related food trends as well. "Clearly there's been a move toward foods that are more organic, more locally sourced," he says. "But that doesn't necessarily mean that that's evenly distributed."

Clearly: After 30 years, Lunchables—which, as a processed, nationally shippable lunchtime fixture, is anything but locally sourced—is doing just fine.

Commercial:

- https://mail.google.com/mail/u/0/#inbox/FMfcgxwBVWHJxcsqjxmqQVNQvBrLZhxK?projector=1

Kraft Heinz Builds Momentum for Oscar Mayer's Lunchables Brand

CPGMatters.com / By Dale Buss
SHOPPER MARKETING / October 2018

With the American school year back in full swing, Oscar Mayer's Lunchables has enjoyed its biggest season once again – just like the iconic brand of refrigerated meal kits for kids has been doing for 30 years. And a finely tuned shopper-marketing program has been key to alerting parents about the latest innovations in the brand.

The idea of Lunchables was to deliver familiar packaged-foods brands for kids and parents, the convenience of bundling them in one container for moms, and the experience of customizing their meal consumption for kids. And today, that original proposition is still working for Kraft Heinz, which now offers 36 SKUs of Lunchables that pretty much follow the original business model. After the first two years of the brand when Oscar Mayer aimed Lunchables at adults, the brand quickly pivoted to focus on kids' lunching needs.

Oscar Mayer has added wrinkles such as introducing "international" tastes like Italian-style chicken, putting Kraft Heinz's Capri Sun drinks in many varieties of Lunchables, and launching the line's first organic products. And the brand is finding other ways to align Lunchables and their components with millennial moms' penchant for all-natural products and simple ingredients.

But the old inspiration for the Lunchables product format and execution has remained unaltered, and so have both the target market – kids only, please – and consumption occasions – school lunch, and maybe some early-afternoon or even after-school snacking.

"The thing is that Lunchables really has become an iconic and universally loved brand," Greg Giudotti, head of marketing for meats for Kraft Heinz, told CPGmatters. "The overall promise to kids and parents has really remained same through the years. There hasn't been an evolution in the promise for kids: We're there to deliver mixed-up fun in every box and to allow kids to enjoy lunch in their own way. And for parents, it's to deliver a convenient lunch that kids love."

After so many years of delivering on that promise, Lunchables sales have fallen into a highly predictable pattern in which the back-to-school season is determinative – and so are Kraft Heinz shopper-marketing programs.

Kraft Heinz Builds Momentum for Oscar Mayer's Lunchables Brand – *Cont'd*

"Our key Lunchables season is August and September when kids are returning to school," Guidotti said. "We partner with our customers to drive relevant programming as parents prepare for their kids to go back to school." These efforts include traditional tactics such as promotional price points, circular ads and in-store displays to bring consumers to stores and drive incremental purchases. "We also partner with [retailer] customers to drive in-store themed communications."

During the rest of the year, Guidotti said, "and with our new-product entries, Lunchables leverages trial-drivers in-store to encourage adoption."

Over the years, Lunchables' new-product entries have been considerable, and now the brand's product roster is like a kid's culinary dream come true. A typical SKU is Extra Cheesy Pizza, which consists of a pizza crust made with whole grain, Kraft mozzarella cheese and pizza sauce, and Airhead's candy and a Capri Sun drink.

Another Lunchables staple is Ham + American Cracker Stackers, which consists of lean ham, American cheese and crackers, a Capri Sun Roarin' Waters and Chips Ahoy! Cookies. Another Lunchables variety includes mini-hot dogs with mini-hot dog buns, ketchup and mustard, as well as a Roarin' Waters and a Hershey's chocolate bar.

"One of our core tenets is to allow kids to be kids," Guidotti said. "So, Lunchables is a compartment lunch of sorts, but kids can put it together themselves, so there's an element of dreaming and imagining and of customization and creativity. The way I make my Lunchables pizza is way different from how my friend does it, and it's my own way.

"Each product is designed with kids in mind and allows them the ability to stack it up, build it up and mix it up … And we provide the variety so that kids can vary their experience … What kids are looking for really hasn't changed: that wow factor, and customization, and mixed-up fun."

Recently, Oscar Mayer added Lunchables Around the World, consisting of a handful of SKUs with international touches, built around Mexican-style chicken tacos, Italian-style chicken tenders, and Asian-style barbecued chicken. "Kids' palates are expanding," Guidotti noted.

Kraft Heinz Builds Momentum for Oscar Mayer's Lunchables Brand – *Cont'd*

And the brand continues to work on the experiential aspect of things as well as the non-Kraft Heinz brand partnerships that long have fueled Lunchables' success formula. It is adding games from Hasbro to some Lunchables SKUs. And in the fourth quarter, it planned to partner with Nintendo to provide instant-win video-game prizes in some Lunchables.

Lunchables sub-lines include one that features 100-percent-juice drinks instead of Capri Sun; another without drinks; the organic line; some snacks; and Uploaded with Drinks, which is aimed at tweeners rather than younger children. Typical Uploaded fare is one SKU with a six-inch whole-grain sub bun, lean turkey, cheddar cheese and mayo, with Pringle's potato crisps, Absopure spring water, Kool-Aid Tropical Punch and Hershey's Kisses. There's also a deep-dish pizza variety of Lunchables Uploaded.

"Uploaded has allowed us to age up the brand," Guidotti explained. "Plus, bigger kids need a bigger lunch. And yet we're sticking to the brand's foundations."

Interestingly, Lunchables hasn't expanded much over three decades from its early consumption almost entirely over lunchtime in schools and day-care centers, with a little bit of afternoon snacking. Still, Guidotti sees "many opportunities" to expand occasions for Lunchables consumption.

For the most part, Oscar Mayer has resisted the considerable pressures to overhaul Lunchables into a better-for-you proposition. One reason, of course, is that Kraft Heinz hasn't had a broad enough stable of better-for-you brands that could credibly populate a better-for-you Lunchables. Plus, Guidotti testified, Lunchables buyers haven't been demanding such a shift.

"We haven't seen that kind of scrutiny for our brand," he said. "One reason is that parents feel a connection to a product that they grew up eating, as they're raising kids now. However, we always want to improve [healthfulness] and that will always be on our agenda."

As Kraft Heinz legacy brands make better-for-you progress, so is Lunchables; for example, Oscar Mayer has removed nitrates, nitrites and other preservatives from its hot dogs.

Also, Lunchables did come out with an Organic line in 2017, consisting of two varieties of assemble-it-yourself pizza. "It's a small portion of our portfolio," Guidotti said. "We need to deliver all the kid fun of Lunchables with that 'wow-worthy' element, but some parents are more discreet about what they allow their kids to eat."

June 2015

Lunchables Case

Nielsen Breakthrough Innovation Report (June 2015)

SPOTLIGHT #3

LUNCHABLES UPLOADED

REDEFINING A BRAND TO WIN WITH OLDER KIDS – AND EXPAND THE CATEGORY

AT THE END OF 2012, THE LUNCHABLES LUNCH Combinations brand team reflected on where they were and where they wanted to go. The brand had experienced a very successful 2012, growing retail dollar sales by 6%. However, all the team members felt they were leaving money on the table. They had been wildly successful at helping elementary-age kids bring something awesome to the lunchroom table, but most of those same kids would leave the franchise a few years later when they became teenagers. Was it possible to win with this cohort, or was the brand the antithesis of what was trendy with teens? Marketing vice president Joe Fragnito challenged the team to find a way to win with teens.

There were a lot of theories on why the brand had not yet been able to win with this older group, and the team embarked on a research journey to determine which were fact and which were fiction. "The first myth the team debunked was that teens were 'too cool for school' when it came to Lunchables," said the director of marketing, Geoffrey Feil. "The Lunchables brand still resonated with teens. They actually have very favorable opinions of the

Lunchables Case

brand, and despite being only a few years out of elementary school, they are a bit nostalgic about the brand and the excitement they felt when they realized their moms had packed them a Lunchables." However, the product itself was no longer relevant, as their appetites had grown, and their tastes had matured. "As is often the case, the simplest insights result in the biggest breakthroughs," remembered Feil.

With a clear set of objectives, Corey Rudd, senior associate brand manager and a former army officer, embarked on the impossible: get a new product platform out the door quickly enough to secure distribution and support with advertising prior to the ultimate litmus test, the back-to-school season.

Armed with consumer insights, the team pushed hard for a quick breakthrough launch. "We decided to accelerate the launch, and the only way to do so was to develop a cross-functional team dedicated to the project," said Rudd. The team aligned on new components in record time. In addition, new manufacturing processes and schedules were devised. "R&D and operations enabled this innovation through creative thinking that included utilizing plants during scheduled downtime and accelerating approvals for new suppliers. It was a true team effort."

And while the Lunchables brand still resonated with teens, Rudd and his team realized it was important to distinguish the new line from its elementary-school version. This was not your everyday Lunchables. It was uploaded. In addition to branding and food changes, the team also changed the packaging graphics. The traditional Lunchables yellow and red were replaced with more aged-up and bold graphics featuring silver and black as dominant hues.

For readers of the Breakthrough Innovation Report, these thoughts will echo a recurring refrain. Demand Driven Innovation is lean innovation. It is more efficient and more effective because the objective is clear and compelling. It is rarely easy, but it's not complicated. Risk is not a function of the size of the prize: Uploaded sold more in year one than 99% of evaluated initiatives. Instead, risk—like waste—is the predictable if unintended consequence of any activity that deviates from the "North Star," as Rudd called it, of the insight.

Retailers also were anxious for a teen solution. They, too, lamented that formerly brand-loyal parents left the brand's shelves when their children became teenagers. The brand team shared its research and insights with retailers early on, and as a result, distribution ramp-up was accelerated.

With distribution in place, the brand was in a position to roll out its national advertising campaign. But once again, the team recognized that it needed to do things differently. To gain credibility with the teen cohort, Lunchables Uploaded formed a partnership with Rob Dyrdek, former professional skateboarder and host

"AS IS OFTEN THE CASE, THE SIMPLEST INSIGHTS RESULT IN THE BIGGEST BREAKTHROUGHS."

Nielsen Breakthrough Innovation Report (June 2015)

Articles - Lunchables

WSJ

Sometimes innovations within the food industry happen in the lab, with scientists dialing in specific ingredients to achieve the greatest allure. And sometimes, as in the case of Oscar Mayer's bologna crisis, the innovation involves putting old products in new packages.

The 1980s were tough times for Oscar Mayer. Red-meat consumption fell more than 10 percent as fat became synonymous with cholesterol, clogged arteries, heart attacks and strokes. Anxiety set in at the company's headquarters in Madison, Wis., where executives worried about their future and the pressure they faced from their new bosses at Philip Morris.

Bob Drane was the company's vice president for new business strategy and development when Oscar Mayer tapped him to try to find some way to reposition bologna and other troubled meats that were declining in popularity and sales. I met Drane at his home in Madison and went through the records he had kept on the birth of what would become much more than his solution to the company's meat problem. In 1985, when Drane began working on the project, his orders were to "figure out how to contemporize what we've got." Drane's first move was to try to zero in not on what Americans felt about processed meat but on what Americans felt about lunch. He organized focus-group sessions with the people most responsible for buying bologna — mothers — and as they talked, he realized the most pressing issue for them was time. Working moms strove to provide healthful food, of course, but they spoke with real passion and at length about the morning crush, that nightmarish dash to get breakfast on the table and lunch packed and kids out the door. He summed up their remarks for me like this: "It's awful. I am scrambling around. My kids are asking me for stuff. I'm trying to get myself ready to go to the office. I go to pack these lunches, and I don't know what I've got." What the moms revealed to him, Drane said, was "a gold mine of disappointments and problems."

Articles - Lunchables

WSJ – Cont'd

He assembled a team of about 15 people with varied skills, from design to food science to advertising, to create something completely new — a convenient prepackaged lunch that would have as its main building block the company's sliced bologna and ham. They wanted to add bread, naturally, because who ate bologna without it? But this presented a problem: There was no way bread could stay fresh for the two months their product needed to sit in warehouses or in grocery coolers. Crackers, however, could — so they added a handful of cracker rounds to the package. Using cheese was the next obvious move, given its increased presence in processed foods. But what kind of cheese would work? Natural Cheddar, which they started off with, crumbled and didn't slice very well, so they moved on to processed varieties, which could bend and be sliced and would last forever, or they could knock another two cents off per unit by using an even lesser product called "cheese food," which had lower scores than processed cheese in taste tests. The cost dilemma was solved when Oscar Mayer merged with Kraft in 1989 and the company didn't have to shop for cheese anymore; it got all the processed cheese it wanted from its new sister company, and at cost.

Drane's team moved into a nearby hotel, where they set out to find the right mix of components and container. They gathered around tables where bagfuls of meat, cheese, crackers and all sorts of wrapping material had been dumped, and they let their imaginations run. After snipping and taping their way through a host of failures, the model they fell back on was the American TV dinner — and after some brainstorming about names (Lunch Kits? Go-Packs? Fun Mealz?), Lunchables were born.

The trays flew off the grocery-store shelves. Sales hit a phenomenal $218 million in the first 12 months, more than anyone was prepared for. This only brought Drane his next crisis. The production costs were so high that they were losing money with each tray they produced. So Drane flew to New York, where he met with Philip Morris officials who promised to give him the money needed to keep it going. "The hard thing is to figure out something that will sell," he was told. "You'll figure out how to get the cost right." Projected to lose $6 million in 1991, the trays instead broke even; the next year, they earned $8 million.

Articles - Lunchables

WSJ – Cont'd

With production costs trimmed and profits coming in, the next question was how to expand the franchise, which they did by turning to one of the cardinal rules in processed food: When in doubt, add sugar. "Lunchables With Dessert is a logical extension," an Oscar Mayer official reported to Philip Morris executives in early 1991. The "target" remained the same as it was for regular Lunchables — "busy mothers" and "working women," ages 25 to 49 — and the "enhanced taste" would attract shoppers who had grown bored with the current trays. A year later, the dessert Lunchables morphed into the Fun Pack, which would come with a Snickers bar, a package of M&M's or a Reese's Peanut Butter Cup, as well as a sugary drink. The Lunchables team started by using Kool-Aid and cola and then Capri Sun after Philip Morris added that drink to its stable of brands.

Eventually, a line of the trays, appropriately called Maxed Out, was released that had as many as nine grams of saturated fat, or nearly an entire day's recommended maximum for kids, with up to two-thirds of the max for sodium and 13 teaspoons of sugar.

When I asked Geoffrey Bible, former C.E.O. of Philip Morris, about this shift toward more salt, sugar and fat in meals for kids, he smiled and noted that even in its earliest incarnation, Lunchables was held up for criticism. "One article said something like, 'If you take Lunchables apart, the healthiest item in it is the napkin.' "
Well, they did have a good bit of fat, I offered. "You bet," he said. "Plus, cookies."

The prevailing attitude among the company's food managers — through the 1990s, at least, before obesity became a more pressing concern — was one of supply and demand. "People could point to these things and say, 'They've got too much sugar, they've got too much salt,' " Bible said. "Well, that's what the consumer wants, and we're not putting a gun to their head to eat it. That's what they want. If we give them less, they'll buy less, and the competitor will get our market. So, you're sort of trapped." (Bible would later press Kraft to reconsider its reliance on salt, sugar and fat.)

Articles - Lunchables

WSJ – Cont'd

When it came to Lunchables, they did try to add more healthful ingredients. Back at the start, Drane experimented with fresh carrots but quickly gave up on that, since fresh components didn't work within the constraints of the processed-food system, which typically required weeks or months of transport and storage before the food arrived at the grocery store. Later, a low-fat version of the trays was developed, using meats and cheese and crackers that were formulated with less fat, but it tasted inferior, sold poorly and was quickly scrapped.

When I met with Kraft officials in 2011 to discuss their products and policies on nutrition, they had dropped the Maxed-Out line and were trying to improve the nutritional profile of Lunchables through smaller, incremental changes that were less noticeable to consumers. Across the Lunchables line, they said they had reduced the salt, sugar and fat by about 10 percent, and new versions, featuring mandarin-orange and pineapple slices, were in development. These would be promoted as more healthful versions, with "fresh fruit," but their list of ingredients — containing upward of 70 items, with sucrose, corn syrup, high-fructose corn syrup and fruit concentrate all in the same tray — have been met with intense criticism from outside the industry.

One of the company's responses to criticism is that kids don't eat the Lunchables every day — on top of which, when it came to trying to feed them more healthful foods, kids themselves were unreliable. When their parents packed fresh carrots, apples and water, they couldn't be trusted to eat them. Once in school, they often trashed the healthful stuff in their brown bags to get right to the sweets.

This idea — that kids are in control — would become a key concept in the evolving marketing campaigns for the trays. In what would prove to be their greatest achievement of all, the Lunchables team would delve into adolescent psychology to discover that it wasn't the food in the trays that excited the kids; it was the feeling of power it brought to their lives. As Bob Eckert, then the President of Kraft's Oscar Meyer Division, put it in 1999: "Lunchables aren't about lunch. It's about kids being able to put together what they want to eat, anytime, anywhere."

Articles - Lunchables

WSJ – Cont'd

Kraft's early Lunchables campaign targeted mothers. They might be too distracted by work to make a lunch, but they loved their kids enough to offer them this prepackaged gift. But as the focus swung toward kids, Saturday-morning cartoons started carrying an ad that offered a different message: "All day, you gotta do what they say," the ads said. "But lunchtime is all yours."

With this marketing strategy in place and pizza Lunchables — the crust in one compartment, the cheese, pepperoni and sauce in others — proving to be a runaway success, the entire world of fast food suddenly opened up for Kraft to pursue. They came out with a Mexican-themed Lunchables called Beef Taco Wraps; a Mini Burgers Lunchables; a Mini Hot Dog Lunchables, which also happened to provide a way for Oscar Mayer to sell its wieners. By 1999, pancakes — which included syrup, icing, Lifesaver's candy and Tang, for a whopping 76 grams of sugar — and waffles were, for a time, part of the Lunchables franchise as well. Annual sales kept climbing, past $500 million, past $800 million; at last count, including sales in Britain, they were approaching the $1 billion mark. Lunchables was more than a hit; it was now its own category.

Eventually, more than 60 varieties of Lunchables and other brands of trays would show up in the grocery stores. In 2007, Kraft even tried a Lunchables Jr. for 3- to 5-year-olds.

In the trove of records that document the rise of the Lunchables and the sweeping change it brought to lunchtime habits, I came across a photograph of Bob Drane's daughter, which he had slipped into the Lunchables presentation he showed to food developers. The picture was taken on Monica Drane's wedding day in 1989, and she was standing outside the family's home in Madison, a beautiful bride in a white wedding dress, holding one of the brand-new yellow trays.

Articles - Lunchables

WSJ – Cont'd

During the course of reporting, I finally had a chance to ask her about it. Was she really that much of a fan? "There must have been some in the fridge," she told me. "I probably just took one out before we went to the church. My mom had joked that it was really like their fourth child, my dad invested so much time and energy on it."

Monica Drane had three of her own children by the time we spoke, ages 10, 14 and 17. "I don't think my kids have ever eaten a Lunchables," she told me. "They know they exist, and that Grandpa Bob invented them. But we eat very healthfully."

Drane himself paused only briefly when I asked him if, looking back, he was proud of creating the trays. "Lots of things are trade-offs," he said. "And I do believe it's easy to rationalize anything. In the end, I wish that the nutritional profile of the thing could have been better, but I don't view the entire project as anything but a positive contribution to people's lives."

Today Bob Drane is still talking to kids about what they like to eat, but his approach has changed. He volunteers with a nonprofit organization that seeks to build better communications between school kids and their parents, and right in the mix of their problems, alongside the academic struggles, is childhood obesity. Drane has also prepared a précis on the food industry that he used with medical students at the University of Wisconsin. And while he does not name his Lunchables in this document, and cites numerous causes for the obesity epidemic, he holds the entire industry accountable. "What do University of Wisconsin M.B.A.'s learn about how to succeed in marketing?" his presentation to the med students asks. "Discover what consumers want to buy and give it to them with both barrels. Sell more, keep your job! How do marketers often translate these 'rules' into action on food? Our limbic brains love sugar, fat, salt… So, formulate products to deliver these. Perhaps add low-cost ingredients to boost profit margins. Then 'supersize' to sell more… And advertise/promote to lock in 'heavy users.' Plenty of guilt to go around here!"

Articles - Lunchables

Lunchables, the Lunchbox King, Faces a Rival Vowing Higher-Quality Fare

By STEPHANIE STROM / NY TIMES / August 21, 2013

Until now, there have been Lunchables and, well, Lunchables.

Revolution Foods Meal Kits will take on Oscar Mayer's Lunchables in the market for prepackaged lunch meals for children.

The Kraft Food Group's Oscar Mayer brand created the concept of prepackaged lunch meals for children in 1988 and has effectively owned that business ever since, with sales accounting for 76 percent of the small but lucrative $1.35 billion niche product category, according to IRI, a market research firm in Chicago.

But starting this month, some grocery refrigerator cases will be adding a new competitor, Revolution Foods Meal Kits.

The kits are the first foray into the grocery store by Revolution Foods, an Oakland, Calif., company founded by two women seven years ago to supply school cafeterias with healthier prepared foods. "We felt like now was the right time," said Kirsten Saenz Tobey, co-founder and chief innovation officer. "Consumer awareness of food nutrition and demand for healthier, natural products is high and especially in this category of convenient, grab-and-go foods."

The new products will show up this month in Safeway stores in Northern California, H-E-B and Central Market stores in Texas and King Soopers in Colorado. Introduction of the four products — Peanut Butter and Jelly, Cheese Pizza, Turkey and Cheddar and Ham and Cheese — will continue in September in Whole Foods in the Bay Area and the following month in Target stores in the Northeast and Southwest.

Articles - Lunchables

Lunchables, the Lunchbox King, Faces a Rival Vowing Higher-Quality Fare - Cont'd

"There's good potential for new brands to come in and establish themselves in this category," said Rick Shea, a former Kraft manager who owns Shea Marketing, a consulting firm. "Portable foods are still very relevant to dual-income households with kids on the go, and products like these suit their needs."

Lunchables has long been a favorite target of food critics, who contend that the product has too much fat, sugar and preservatives. Sales stagnated in the mid-2000s, as childhood obesity began reaching a national crisis and before Michelle Obama made children's nutrition her cause.

In 2003, Kraft tried addressing the criticism with a line called Lunchables Fun Fuel that replaced candy with yogurt and used a better quality of fruit juice but dropped the line after two years because of weak sales. A few years later, the company scrapped its Maxed-Out line of Lunchables, one of which had landed on the Cancer Project's list of Five Worst Packaged Lunchbox Meals. It had 660 calories — more than a Big Mac — and 22 grams of fat.

Then in 2011, Kraft introduced Lunchables With Fruit with a $20 million advertising campaign that featured a fruit cup.

The change drove sales to new heights, and last summer Kraft added Lunchables With Smoothie. "These two products are definitely meeting a specific consumer need by providing a full serving of fruit," said Sydney Lindner, a spokeswoman for the brand. "Smoothies has also proved to be very popular, and we've just added a new ham sub sandwich to the line."

Articles - Lunchables

Lunchables, the Lunchbox King, Faces a Rival Vowing Higher-Quality Fare - Cont'd

In the 52 weeks that ended July 14, sales of Lunchables exceeded $1 billion, according to IRI, a 7 percent increase over the comparable period a year earlier. The brand has continued to win share from Armour LunchMakers, a competing product from Smithfield Foods whose sales slipped 3.5 percent, to $161.5 million, in the same period.

"We really feel that as new competition enters the market, we're going to continue winning by listening to our customers and continuing to innovate," Ms. Lindner said.

Margo Wootan, a registered dietitian who is director of nutrition policy at the Center for Science in the Public Interest, has long watched the evolution of Lunchables. "Most Lunchables are terrible," Ms. Wootan said. "If a parent goes to the Lunchables section in the refrigerated case and just picks one out, chances are extremely high that she will get a lunch that is high in sodium, sugar and fat. Out of many options maybe four or five offer somewhat better nutrition."

But she was not much more complimentary to the Revolution Foods Meal Kits. "You have a little better odds of getting something better than Lunchables," Ms. Wootan said. "I wouldn't call it healthy, though it is nutritionally improved."

Watch out Lunchables! Organic lunch kit on tap

Jul. 23, 2014 / by Bruce Horovitz, USA TODAY

Lunchables Case

Halftime Lunch Kit is a pre-packed lunch kit that brings together three brands, Applegate, Stonyfield and Annie's in the first ***pre-packed lunch kit with natural and organic ingredients*** available nationwide. The product hits store refrigerator cases in early August in time for back to school and will be sold at Target, Safeway and BJ's. [Via MerlinFTP Drop] / None Halftime Lunch Kit USA Today

Put up your dukes, Lunchables.

The lunch kit world is about to get a better-for-you competitor. With concern over food ingredients changing the way parents pack lunches for their kids, three top organic and natural foods brands have banded together to take on industry behemoth Lunchables. Lunchables, an Oscar Mayer brand owned by Kraft, owns the lion's share of the $1.36 billion lunch kit industry.

Watch out Lunchables! Organic lunch kit on tap - *Cont'd*.

Lunchables Case

Eager to nibble away at that market, natural meat maker Applegate has teamed up with organic yogurt producer Stonyfield and organic cracker and snack maker Annie's for a lunch kit dubbed Half Time that will roll out nationally in late August. At $4.99, the kits which include crackers with meat and cheese, yogurt and fruit snacks will typically cost at least $1 more than Lunchables. But Applegate, which has bundled together the three brands, is certain many consumers will be willing to pay more.

"In some categories, value goes well beyond price," says Neil Leinwand, senior vice president of marketing at Applegate. Quality often moves to the front, he says, when it's about the food that parents are purchasing to have their kids put into their stomachs.

The healthfulness of food ranks as a hot-button issue for consumers — particularly parents, says Jonna Parker, director of Nielsen Perishables Group. "It's bigger than one category," she says, noting it's spreading across the grocery store aisles, particularly into the produce aisle. Earlier this week, baby carrot giant Bolthouse Farms announced plans to expand into new categories including smoothies for kids and fruit snacks.

Now, better-for-you offerings could certainly be a growth area in the combo lunch sector, which already has been growing for the past five years in a row, Parker says.

Perhaps that's why Kraft has pushed hard in recent years to improve nutritionals in Lunchables. Over the past 10 years, it has reduced sodium by 26%; fat by 20%; saturated fat by 26% and calories by 14%, says spokesman Syd Lindner. "It's a continual process," he says.

Applegate hopes it has its timing right this go-round. Nearly a dozen years ago, it tried a smaller version dubbed Applegate Farms Lunch Box, which was yanked after about a year on the market. But this time, it's added familiar, organic partners Stonyfield and Annie's. And unlike last time, says Leinwand, consumers are asking for it.

If sales take off, Leinwand said, the company will consider a fully organic version of the lunch kit, but that would have to cost more. The "natural" meats in it have no added chemicals, artificial ingredients or preservatives. And the animals do not receive any antibiotics or growth hormones.

"For millions of parents," says Leinwand, "this eliminates the compromise between convenience and quality."

Nabisco 100 Calorie Pack®
<u>SGOA Case Study</u>

NOTE: Peter Klein/PKA had an active role on this new product

Nabisco 100-Calorie Packs® SGOA Example / Summary

Objective: To grow the category

Strategy: Regain lapsed users

SGOA: ***Harvest "white space" around unmet needs***

Tactic: ***Provide assurance that it's 'safe' to walk down the aisle***

Foundational Consumer Insight: ***Sweet baked goods sit on the archetype of "mother's love" and provide a psychologically complex "safe/danger" paradigm that consumers were learning to avoid in their shopping behavior***

Enabling Company Core Competence: ***Nabisco had major, trusted brands and consumer/retailer credibility to lead on the potential of portion control as a lever to regain consumer acceptance***

Foundational Retail Partner Insight: ***Nabisco's trade partners (as well as its own shopper insights) were tracking "aisle avoidance" as a serious barrier to category and brand growth***

Year Launched: ***2003***

Evolutionary Path: ***Initial work to identify the archetype (code: Mother's Love; cue: 'melts in my mouth') as well as barriers to growth (personal behavior cynicism and fear of product "binge" consumption). Development of platforms for consumer testing, based on Nabisco product development and R&D, e.g., 100 calorie promise; branding architecture development (Snack Well's relaunch vs. sub-branding across the Nabisco sweet baked good portfolio vs. co-branding with external partner, such as Weightwatchers, South Beach Diet, etc.). Launch quickly achieved $100 million sub-brand status across multiple Nabisco Brands, growing into $1 billion proposition.***

Competitive Response: ***Matching the 100-calorie definition set by Nabisco***

Business Impact: ***Powerful new platform for Nabisco and its trade partners; tremendously profitable segment***

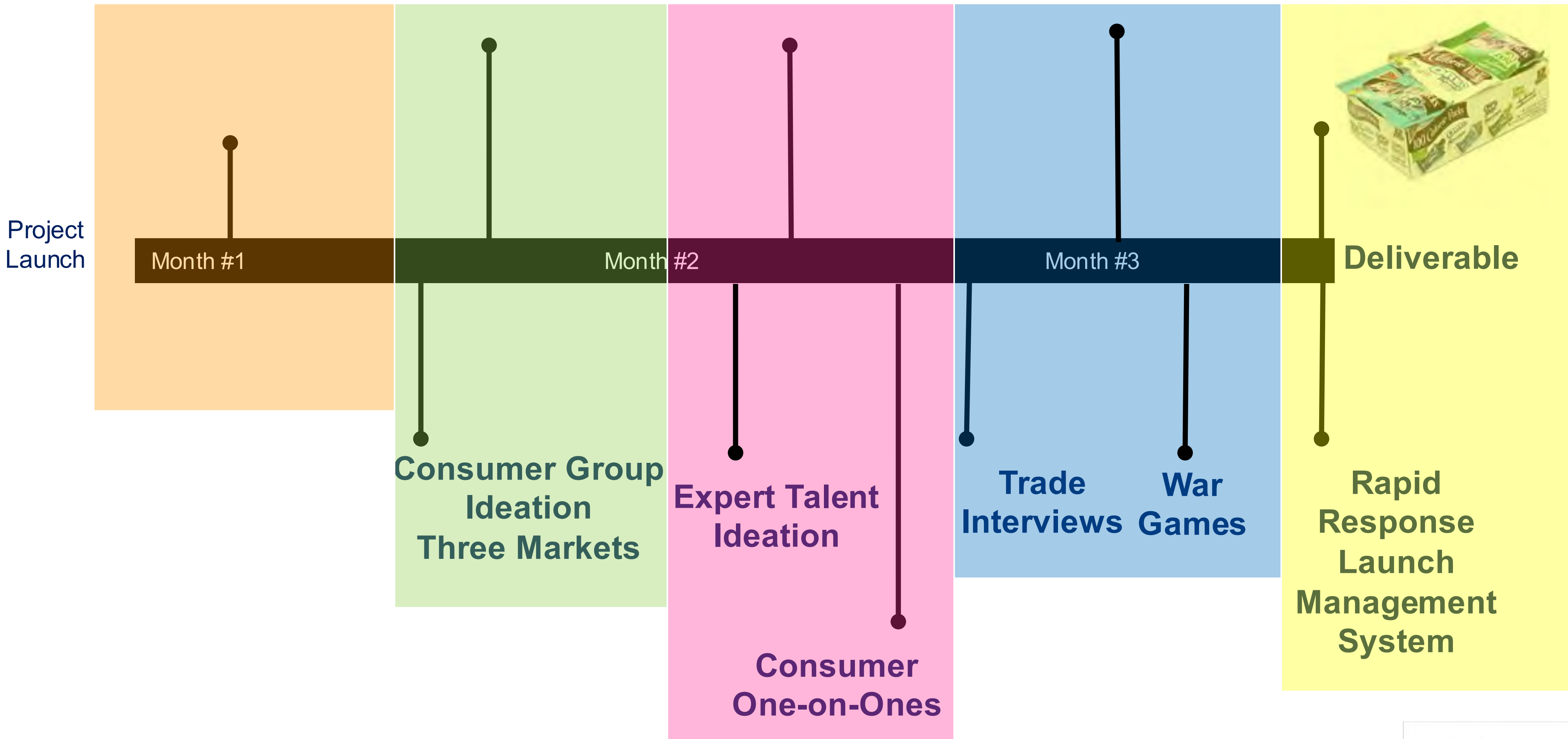
Consumer Insights: 100 Calorie Pack

100 Calorie Pack Case

See Pages 590 – 592 for INSIGHT on this New Product and how developed

The Process

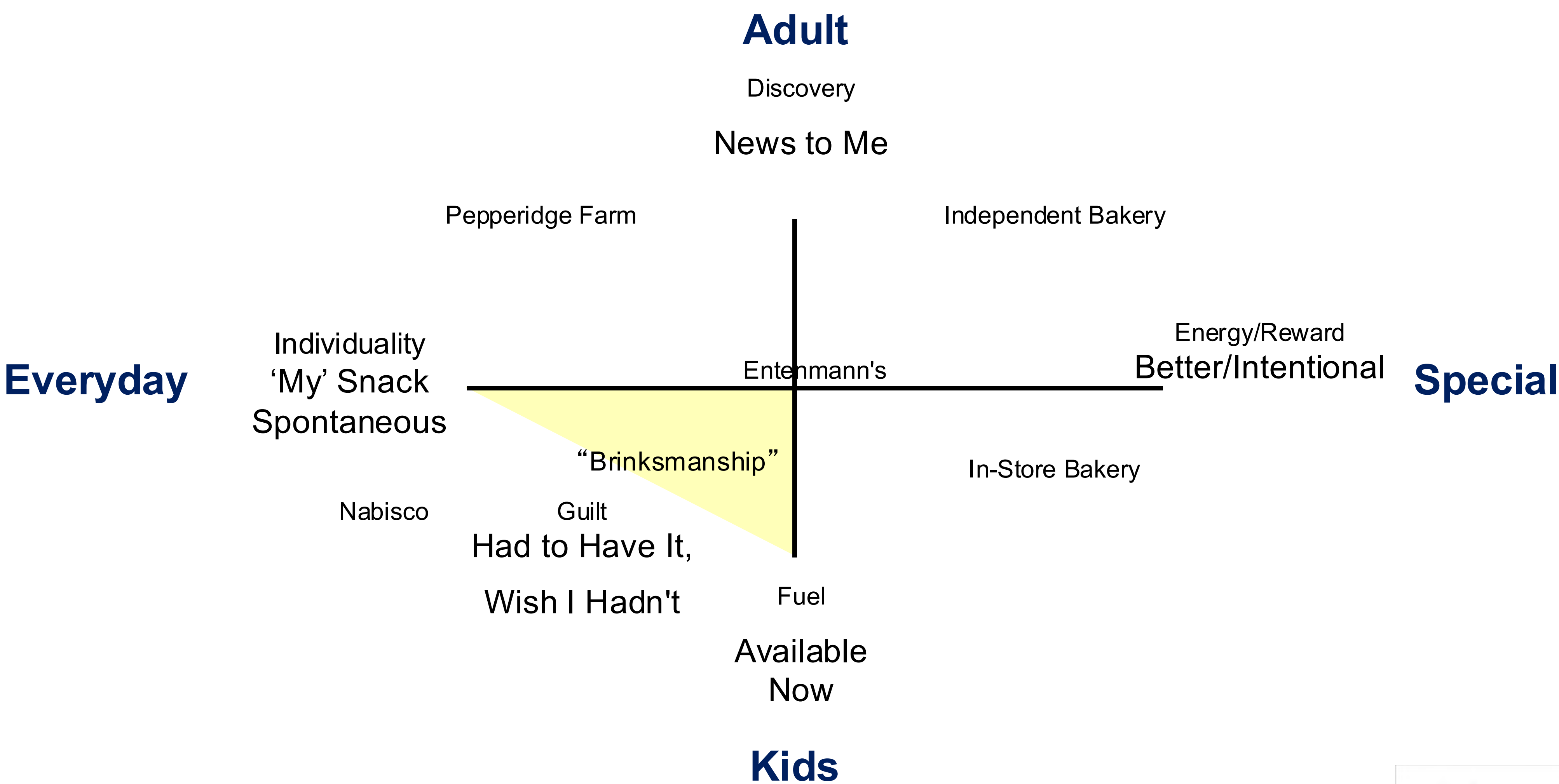
1. Company Research Review & Executive Interviews	2. Consumer Assessment Report & Ideation	3. Expert Hypotheses Report & Ideation	4. Trade Partner Interviews & Collaboration	5. Presentation & Next Steps



Consumer Insights: 100 Calorie Pack

1. Experienced Assessment

The Sweet Treat Category Overview



Consumer Insights: 100 Calorie Pack

100 Calorie Pack Case

2. Consumer-Centric

The Category Archetype: Sweet Baked Goods

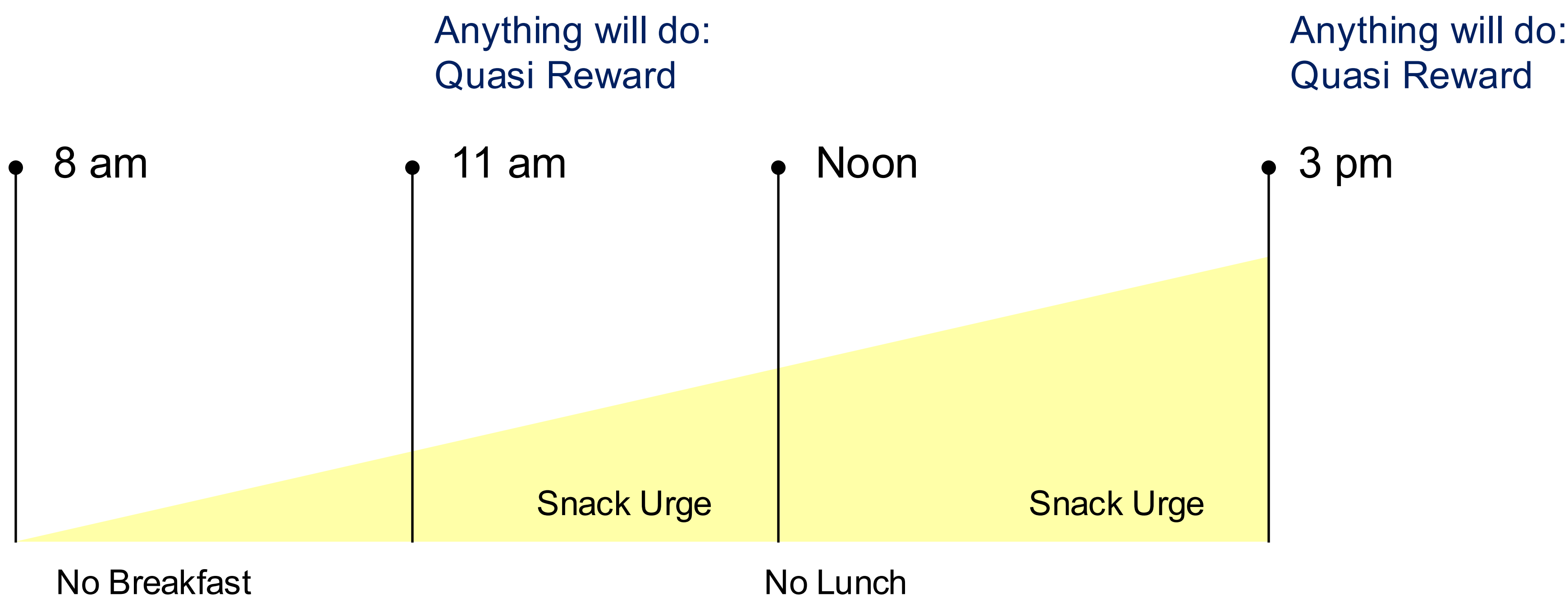
The “need behind the need”

Cue

Code

Consumer Insights: 100 Calorie Pack

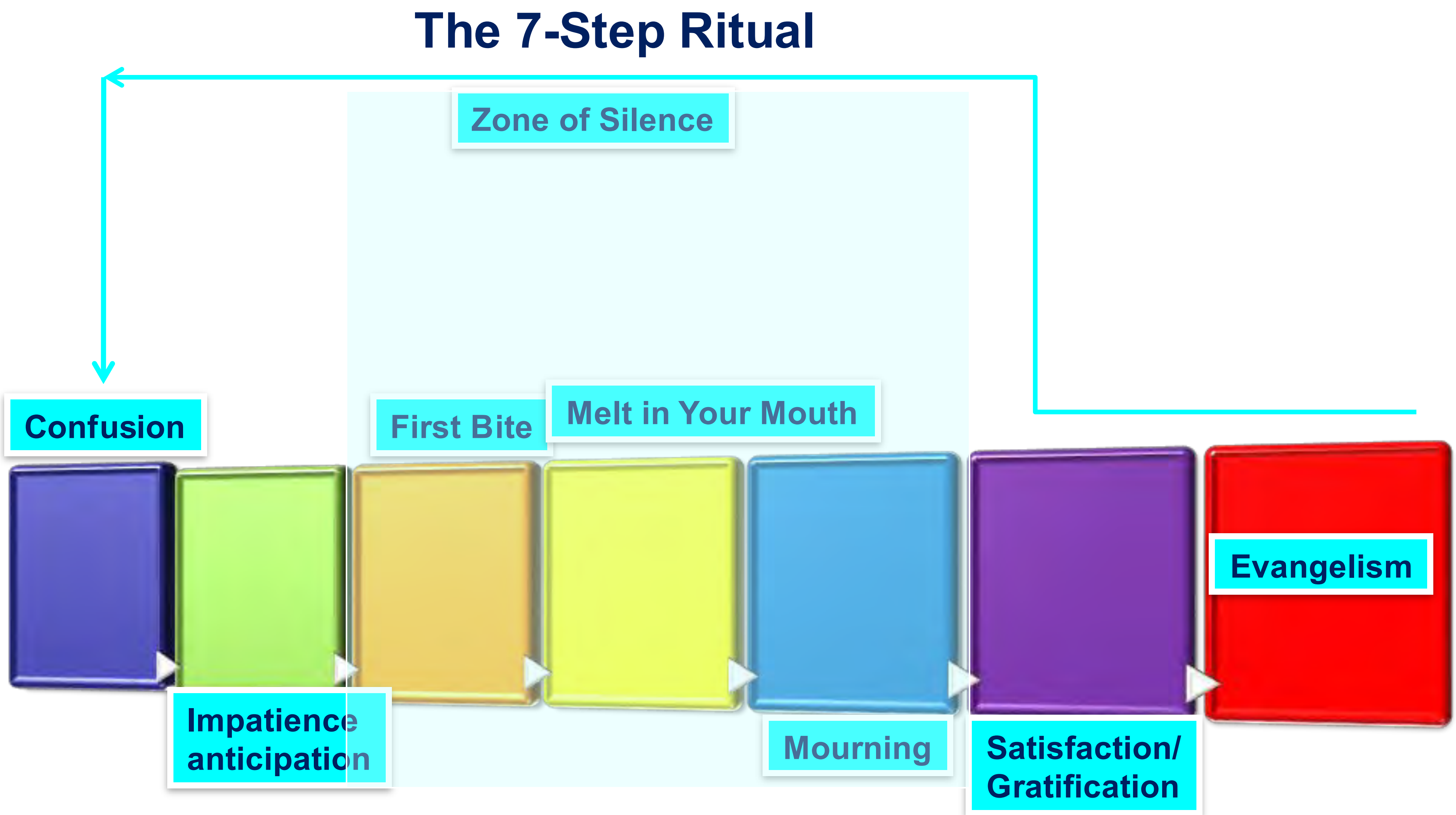
The "Brinksmanship" women put themselves through



Three hours after "should have" they get a "hall pass" if both meals missed: need food, not snack

Consumer Insights: 100 Calorie Pack

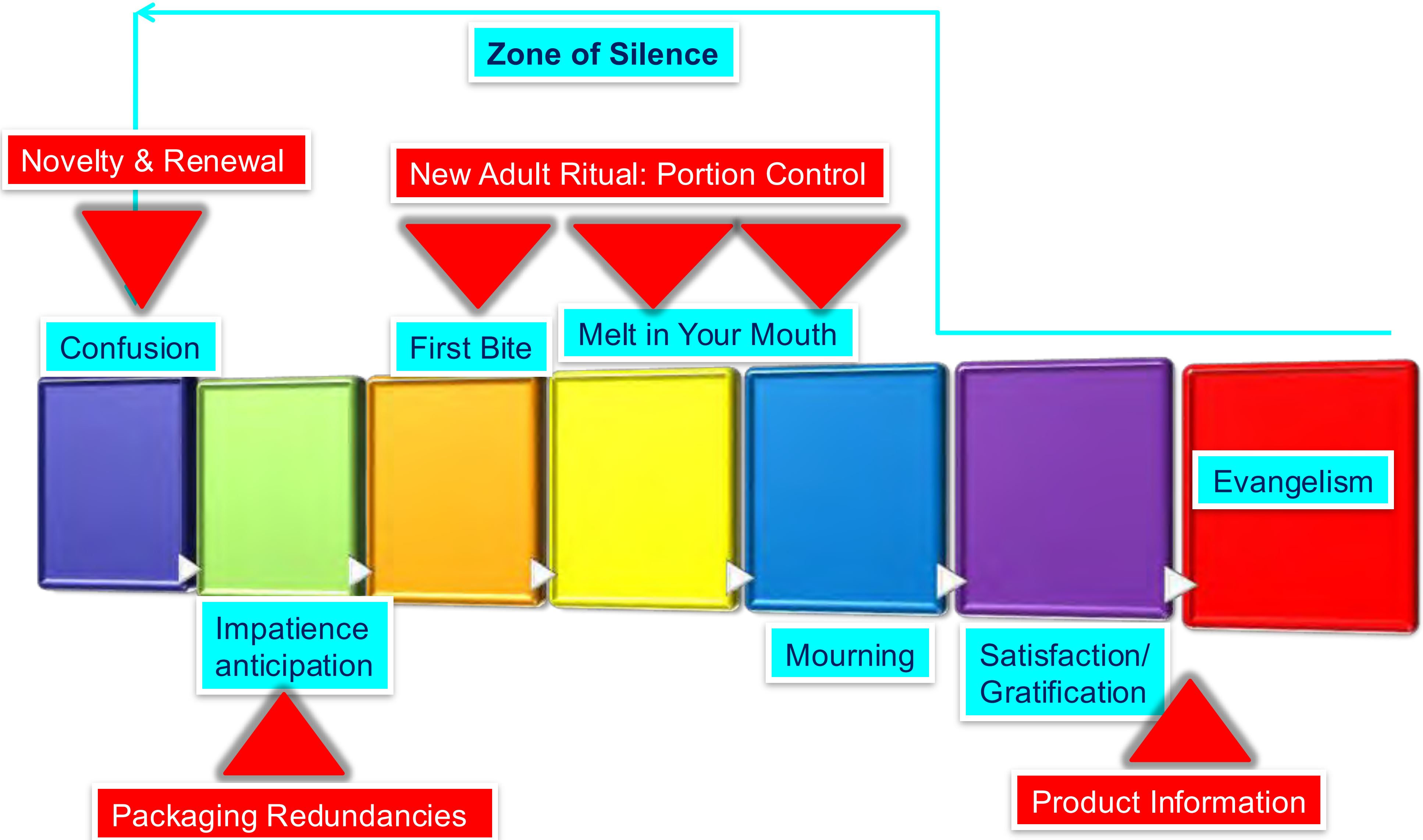
100 Calorie Pack Case



Consumer Insights: 100 Calorie Pack

100 Calorie Pack Case

The Implications of the Ritual



Consumer Insights: 100 Calorie Pack

3. Informed by Expert Wisdom

What the experts told us

"It takes 20 minutes to know that you've had enough: Slow it down"

"It can't feel like less: Deprivation doesn't work"

"The world doesn't need another brand of cookies"

Consumer Insights: 100 Calorie Pack

4. Engaged with trade realities

What the trade told us

"They are avoiding the aisle"

"They'd rather have a Starbucks"

"They've tried everything
and they are cynical"

Consumer Insights: 100 Calorie Pack

5. Internally Relevant and Rewarded: Commercialized by Internal Know-How

Tethered to Big Brand indulgence (and Credibility)

- Oreo
- Chips Ahoy!
- Lorna Doone
- Planters
- Ritz

Powerful New Platform: 100 calories

- Telegraphic to consumers
- Able to use current manufacturing capabilities
- Set the category standard
- Galvanized the trade: shoppers back in the aisles and new source of on-trend category growth

Able to grow over time

- New "smart sizes" of core brands cycled into category
- New corporate "sensible snacking" proposition – tagged purple for consumers
- Powerful sub-brand to Kraft/Nabisco "mega brands" to excite consumer without radical costs required for new brand launches: Chocolate covered pretzels

See Pages 590 – 592 for INSIGHT on this New Product and how developed

Green Mountain Coffee Roasters®
SGOA Case Study

Prior to Being Acquired by JAB

GMCR

#2 on Fortune Magazine's 2010 List of Fastest Growing Companies

FORTUNE

GMCR Is Leading A Single-Cup Brewing Revolution and Generating Amazing Results!

GREEN MOUNTAIN COFFEE®

KEURIG®

NOTE: PKA team member had active role on this

The Story

Keurig-Green Mtn Case

How a small regional coffee company became a beverage powerhouse and Wall Street darling (over night)

Flow

- Vision and Growth Strategy
- Keurig System Benefits
- Strategic Platform Expansion
- Marketplace Results
- Strategic Innovations Drive Explosive Growth
- Wall Street Has Responded Dramatically
- Numerous Big Opportunities Illuminate a Bright Future

Public Domain Information

GMCR Vision and Growth Strategy Summary

Keurig-Green Mtn Case

Vision

- Global leaders in single-cup brewed beverages transforming the way the world views business

Key Strategies

- Apply razor and blades business model

  "A brewer on every countertop;
  a beverage for every occasion"

- Build high at-home and away-from-home penetration of Keurig single-cup brewers
- Drive daily usage of K-cups by providing a variety of delicious and innovative hot and cold beverages for different occasions
- Establish strong brands and consumer/customer relationships through effective marketing, sales and superior service
- Leverage CSR as a cornerstone

Keurig / Green Mountain Coffee – *Cont'd*

Keurig-Green Mtn Case

Background

Foundational Consumer Insights

1) Automatic Drip Batch Brewers are inconvenient and product quality is inconsistent

2) I want a different beverage than you

3) Starbucks is bad value (highlighted by recession)

4) Batch Brewers waste a lot of coffee

5) Single serve generation of consumers

Enabling Core Competencies: ***State-of-the-art brewer engineering and design; proprietary "razor/blade" single-cup business model; portfolio of specialty coffee brands; beverage innovation***

Competitive Response: ***Kraft Tassimo Brewer was an inferior "me too" and violated Keurig patent***

Business Impact: ***Amazing revenue/profit growth… 11 consecutive quarters at +40% vs YAG***

	2005	2008	2009	2010	2011
Corporate Revenue ($000):	$161	$500	$803	$1,350	$2,100

The Keurig System Delivers 4 Major Benefits

Keurig-Green Mtn Case

Convenience

- Less than a minute
- No prep, mess or cleanup

+

Consistent quality… every cup the same

+

Choice

- Over 10 leading brands of K-Cups, hundreds of varieties
- Coffee, tea, hot cocoa, cider and now cold brewed over iced (BOI) flavored ice teas and vitamin waters

+

Great value

- 60¢ - 70¢ per cup versus $3.50+ for Starbucks
- Multiple machine price points… $79, $99, $109, $139, $169, $199, $249
- No wasted coffee

The Keurig Single-Cup Platform Has Been Strategically Expanded Over Time

Beverage Types

Hot
- Coffee
- Tea
- Cocoa
- Cider

+

Cold Brewed Over ice
- Iced Coffee
- Flavored Iced Tea
- Iced Cider
- Vitamin Water

Brewer Types

Keurig Branded
- Mini Plus ($99)
- Elite ($109)
- Special Edition ($139)
- Platinum ($169)

Co-Branded
- Mr. Coffee ($79)
- Cuisinart ($199)
- Breville ($249)

Brands

Generating Explosive Growth On All Fronts

Brewers Sold

- 2010 was +100% vs. YAG; about the same in years following

Retail Store Distribution

- Brewers and K-cups are sold in 25,000 stores including BB&B, Macy's, WalMart, Target, etc.
- K-Cups also sold in 20,000 supermarkets

HH Penetration

- 10% of target households and growing rapidly

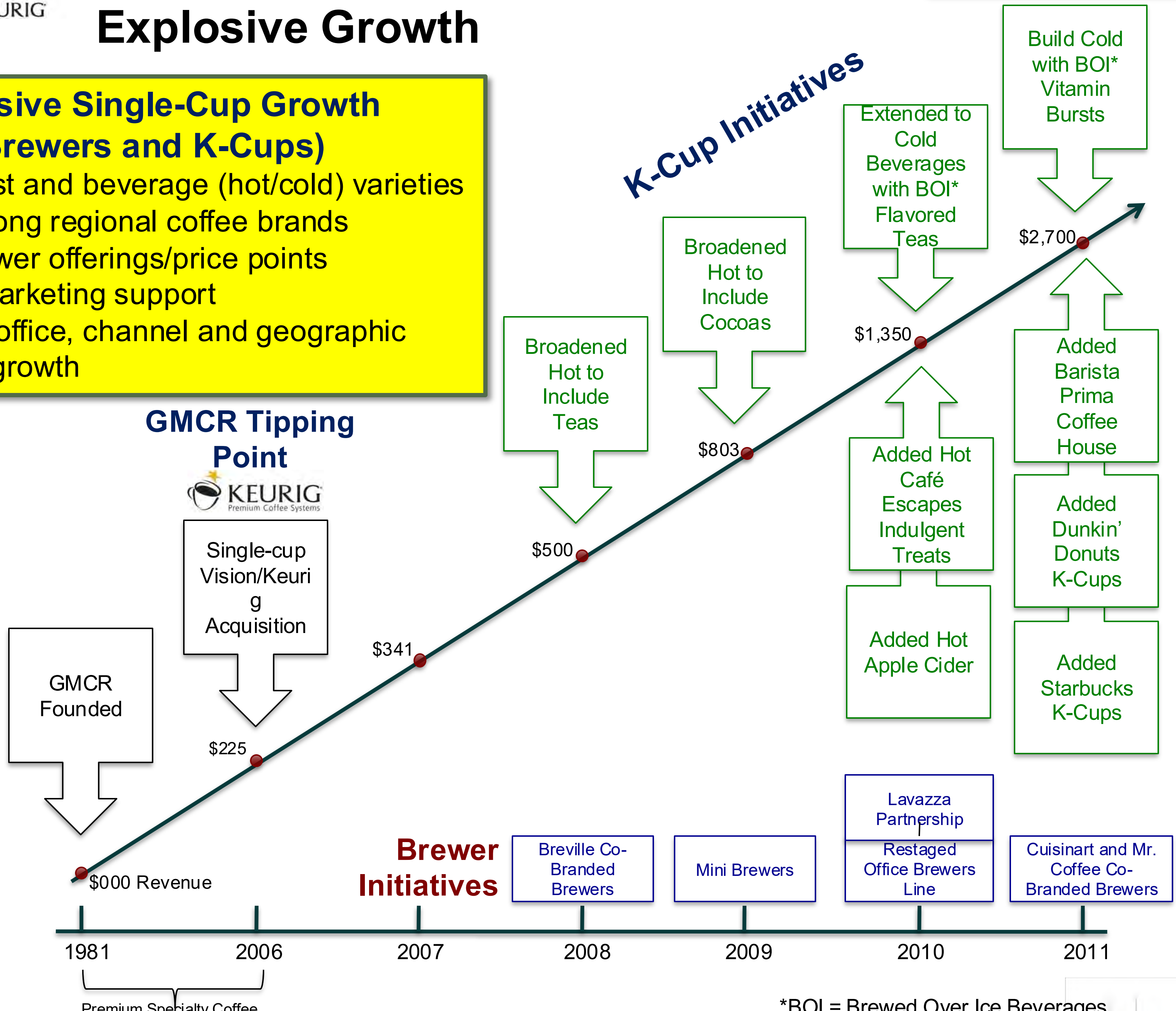
Keurig Market Share ($)

- #1 selling coffee brewer brand!
- Share of single-cup brewers is +85%
- Share of all coffee brewers is +45% (OND' 10); data not updated since

Strategic Innovation Drives Explosive Growth

Explosive Single-Cup Growth (Brewers and K-Cups)

- Broader roast and beverage (hot/cold) varieties
- Acquired strong regional coffee brands
- Broader brewer offerings/price points
- Increased marketing support
- Driving HH, office, channel and geographic penetration growth



*BOI = Brewed Over Ice Beverages

Wall Street Responded Dramatically

Keurig-Green Mtn Case

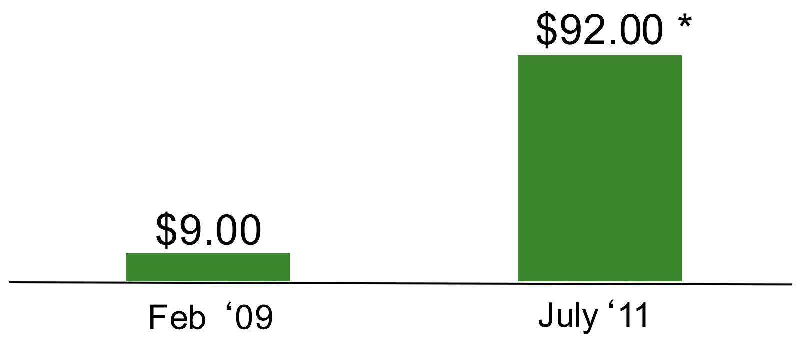
Market Cap

- $13.3 B, #10 among all US Food/Bev companies

EPS (Split Adjusted)

2009	2010	2011
$.38	$.77	$1.77

Share Price



Recognition

- Named “Top 10 Stocks of the Last Decade”… Forbes
- Named “Best Performing Stock and CEO during Financial Crisis” …Bloomberg Financial
- Named to “Nasdaq 100” … Nasdaq
- Named “#2 Fastest Growing Company” …Fortune

* Since declined mostly driven by a notorious sell-side Einhorn fund who lost a lot of $ on short sales and made an 11/11 NYC presentation using 1-3-year-old information already known! He was able to get the SEC to conduct a 5 year daily on-premise audit at KGM, and after 5 years the SEC announced they found nothing irregular! KGM has since been acquired by JAB

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* **SKIM** what articles are included and decide **which ones, if any, to read!**

Typical Core Concept Evaluative Criteria

It is useful to frame the emerging ideas relative to useful criteria that is relevant to the client and the category

CRITICAL SUCCESS FACTORS: INTERNAL + EXTERNAL
~ ILLUSTRATIVE ~

1. **Be Market, Consumer-Driven Idea**
   - Proprietary Insights
2. **Unique and Meaningful**
3. **Preferably First in Marketplace***
4. **Excellent Marketing Execution**
5. **Quality Product Image**
6. **Cost of Entry**

* Or strong #2 if offering a differentiated and sustainable, insulatable competitive advantage

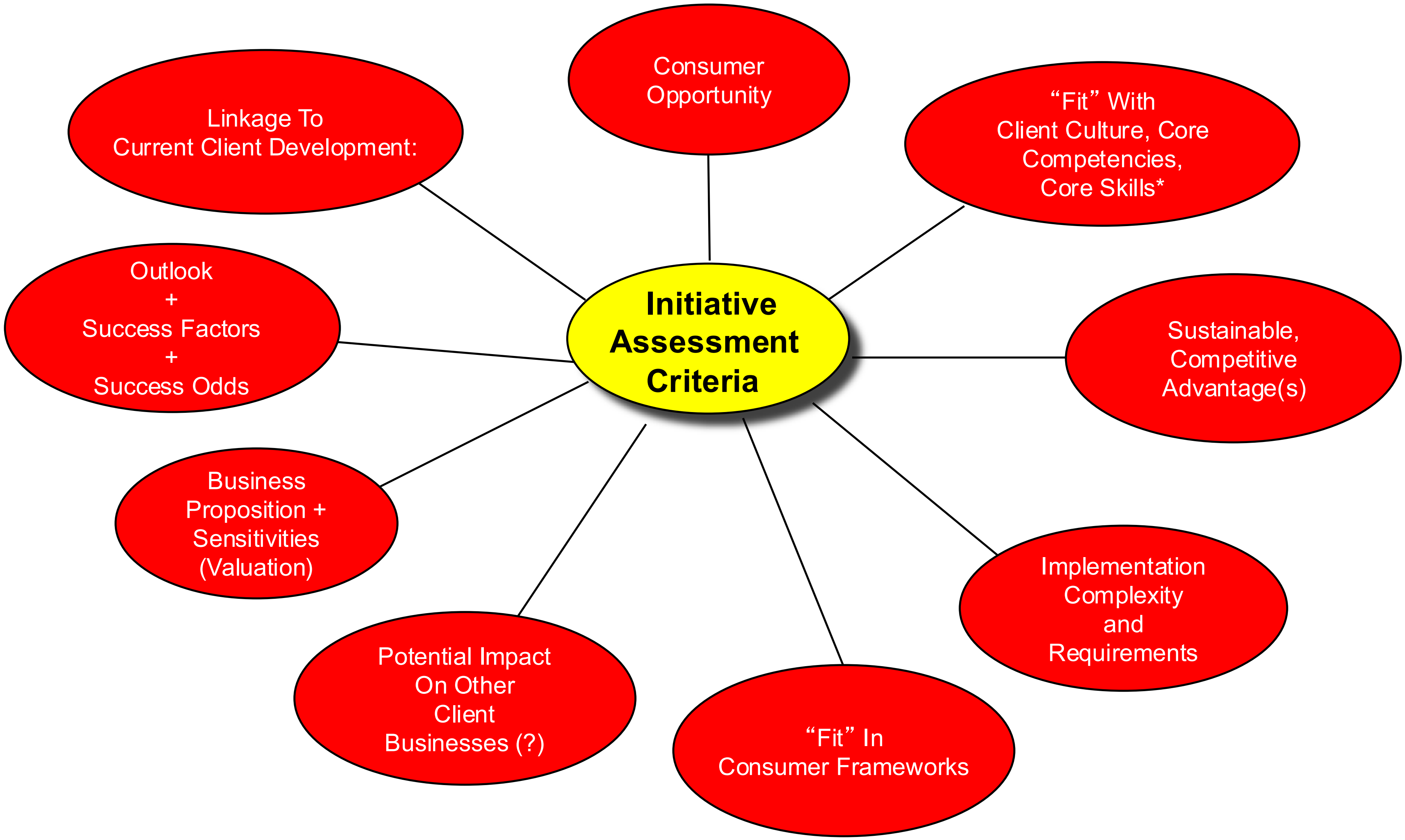
Typical Core Concept Evaluative Criteria *(Cont'd)*

OVERALL EVALUATIVE CRITERIA

1. Size
2. Outlook
3. Business Proposition, Valuation
4. Sustainable, Insulatable Competitive Advantage
5. Fit” With Core Skills , Management Comfort Level
6. Feasibility

Typical Core Concept Evaluative Criteria *(Cont'd)*

The below “evaluators” link to the overall new product evaluative criteria



Typical Core Concept Evaluative Criteria *(Cont'd)*

Criteria	**Some Key Elements**
Linkage To Development Vision *	• Strategic imperative/necessity or opp'y. • Role/fit
Judged Consumer Opportunity	• Target (size, benefit desired) • Consumer *insight* platform • Benefit versus current Category offering(s)
"Fit" With Core Competencies, Core Skills	• Trademark(s) • Selling/Distribution • Other
Sustainable Competitive Advantage(s)	• Cost structure • Distribution system • Technology • Lead time
Outlook + Success Factors/ Success Odds	• Product offering • Positioning • Pricing (price/value) • Operational requirements
Business Proposition Attractiveness + Sensitivities (Order-of-Magnitude)	• Revenue potential (probabilized/handicapped) • Operating Profit potential • Key assumptions/reasonableness • ROI/IRR, etc. • Investment required
Implementation Complexity	• Development • Testing/rollout
Impact: Other Businesses	• Possible impact on other offerings

* Current and/or emerging

Flow

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NPD Forecasting

Having both a top-down and bottoms-up approach to an early volume potential estimation protocol is very prudent.

This note may provide a better idea of what can be done and how to deliver it (overall). Tools are usually customized to each client and each product or service category; and without really knowing a company's specific situation, processes used, and issues/needs makes it more difficult in providing a more general description.

What Can Be Done

An easy-to-use volume estimator can be used; using a classic household panel methodology, which takes consumer level input and requires absolutely no customization. The methodology has been around for a very long time and is very sound. It can be provided to a company quickly at a modest cost. It uses a universal methodology. No category, sub-category or country level customization is required. A common use of this methodology:

- You are looking at a new product idea (at Stage 0) that the team is sizing at $50MM Net Sales -- but that number seems high
- This tool can be used to create some "what if" scenarios
- One conclusion might be that for the idea to generate $50MM in Year 1, the Year 1 trial rate has to be 8-9%
- If you know that recent category entries have never achieved a trial rate over 6%, you can reassess whether $50MM is a reasonable target
- There is no doubt that this can be a useful tool for many early ideas

What is usually done is more customized.

Typically, CPG companies determine what input measures they would like to feed into a tool and what output measures they would like it to output/delver. Examples are a Year 1 volume forecast, an assessment of a launch in progress, an in-market year-end forecast a few months after launch so course corrections can be made or expectations reset, likely impact to parent brand profitability, etc. Within limits, many or as few input measures as are desired can be worked with.

NPD Forecasting - *Cont'd*

Companies then take as much relevant data as they can provide from their Insights/Market Research & Analytics group(s), such as POS, Panel and spending information, analyze those data, and create the tool that provides the best estimates the data allows. They then calibrate the behind-the-scene models on a category-by-category basis, or sometimes even a subcategory-by-subcategory basis. In that way, the model's parameters are category (or sub-category) specific. That provides the companies with more robust estimates. Further, they calibrate the models to a specific country or block of countries – again depending on what the data allows.

Tools can easily be built in Microsoft Excel so they can run on any device and can be used anywhere in the world. Once installed, they do not require Internet access.

Input screens are generally simple and quick.

- See what follows on subsequent pages for an example of an input screen for a different tool that is still indicative of what can be developed/built.
- The white boxes are for input; the gray boxes are modeled output.

How This Approach Usually Works

First, the categories of interest, their desired input variables, their desired output measures, how the firm intends to use the subsequent tool, and what data is/will be available to analyze is determined.

Second, the firm analyzes the data (one category at a time) and summarizes their findings. Sometimes the data available won't support what they are trying to accomplish.

- If that's the case, they work to find an alternative approach if one exists.
- Usually, however, the data does support what they are trying to accomplish.

Third, they build the tool for the first category and use it while starting to work on the second product category.

Fourth, they incorporate any feedback from the early users in what will become the final version.

NPD Forecasting - *Cont’d*

Finally, after all the product categories of interest have been built into the tool, the output delivers a data form with the intended purpose being to collect a history of the tool’s use over time; always recommending that after a year or two that the company uses the most up-to-date data to recalibrate the tool so that it remains current and useful. That usage history is important information in recalibrating the tool.
The data analysis phases take the most time; the other steps occur more quickly.

New Product Planning Tools

This is to outline service ideas for CPG companies related to easy-to-use New Product planning and software tools that allow them to better understand the potential of new product offerings prior to a significant commitment of money, time, development resources and testing. It can also be used later to optimize plans and improve the launch.

How it can be applied to different stages of a company’s NPD process depends on organizational needs: in the early exploratory stage once a category or competitive frame has been identified (e.g., via a Hendry Market Structure model… a 5-6 decades old CPG Industry best-in-class model) -- in order to put parameters around business potential; after a concept has been clarified -- to allow prioritization, and provide support for preliminary sales objectives; and during the launch planning phase -- to help set specific in-market objectives for the marketing and sales organizations.

Background
The new product development process is time-consuming and costly in terms of dollars spent and resources involved. Brand groups and business units spend enormous resources developing small ideas that often do not have a meaningful impact on their company’s growth beyond ‘treading water’ volume and dollar sales-wise (they basically replace SKUs coming out of the market!).. Potential products that do gain approval often have unrealistic sales expectations. Tools accessible throughout a marketing organization that can help reduce the unproductive allocation of dollars and resources can help that organization do more with less.

NPD Forecasting - *Cont'd*

Most companies work with vendors to help acquire a better understanding of the likelihood of success or the volume potential for their new product ideas. While this helps marketers eliminate some of the risk associated with making a bad decision, there are ways with existing information that ideas can be screened internally as either "very likely to succeed" or "very likely to fail" before all the time and expense to set up and execute consumer research, as well as the commitment of cross-functional resources is incurred if the marketing organizations had the right tools. With easy-to-use tools, marketers can act as their own screening function. They can save the outside expense of testing product ideas that have little likelihood of succeeding in today's marketplace. They can also speed up the development process of those products that seem likely to have a significant market impact.

The money saved from testing, allocation of company resources, as well as the potential to speed up ideas that are more likely to meet objectives can be applied to better developing effective marketing plans for those products that do go to market.

NPD Planning/Forecasting Projects
Projects typically consist of two stages: (1) data modeling and analysis; and (2) software development, delivery, and support. Work is done on a product category basis. The first stage involves analyzing new product introduction data (including line extensions, sub-lines and major launches) in order to understand the consumer purchasing dynamics surrounding new product entries. Model parameters that can be embedded in software in the second stage are developed. The second stage involves taking the learning from the data analysis and calibration and creating the software tools for desktop use.

New Product Planning/Forecasting Tools
There are two ways to approach addressing a need for a new product planning/forecasting process.

The first approach is to develop and deliver two different tools. Both will run in Microsoft Excel. One takes household panel dynamics for the appropriate category as input and forecasts volume. It is used to identify new product ideas that are both too ambitious and not ambitious enough relative to their potential

NPD Forecasting - *Cont'd*

The tool can also provide a reasonableness check against other new product forecasting approaches (e.g., Hendry Model's 'market structure' and where a new product sources its volume), and or preliminary company thinking, to give the organization greater confidence in their decision-making.

The data needed to develop these tools is usually available but may have not been analyzed or used in a way that allows them to help in future planning.

The second tool estimates the trial rate needed to meet planned volume expectations. It takes planned for Year One volume and provides the trial rate needed to achieve that volume level. Being able to put a context around what trial rate you would have to achieve in order to meet your volume objectives can be very illuminating and can sometimes identify unreasonable expectations.

Both tools are reflections of what has transpired in-market for new product introductions in the product categories of interest. Each tool is calibrated for each specific product category, or if needed, sub-category (data permitting). Both tools can be used as frequently as needed and by as many people within an organization as necessary - with no incremental costs. These tools allow you to use facts and real in-market experiences as part of the planning/forecasting process so that you avoid unrealistic scenarios and have common metrics that can be examined across brands.

The second approach is a very in-depth new product forecasting tool that incudes many more marketing variables (i.e., merchandising, advertising, couponing, etc.) and rely on a more thorough examination of the data. This tool is usually appropriate for only a handful of individuals within a company. Its best use is an in-market tracker for new product launches.

Either approach can be adapted based on data and tools that might already be in-place to make existing applications better, faster, more scalable and/or easier to use.

NPD Forecasting - *Cont'd*

Data Requirements
The first approach requires consumer panel data and POS data from the present, going back far enough to incorporate as many new product introductions as is reasonable in each product category of interest. In addition, if available, retail execution assumptions, historical advertising spending, and some measure of merchandising activity is also helpful (since they will likely improve the quality of the estimates, though they are not required).

Any additional, even anecdotal data, about recent new product introductions is also useable and helpful.

The second approach requires all of the data needed in the first approach plus whatever advertising, merchandising and promotion data are available for the products in the data set.

Summary

With the right data and support tools can be developed providing reliable planning/forecasting estimates, with the ability to make faster and less costly decisions during the early stages of the product development process, as well as provide support for and greater confidence in the prioritization of initiatives within and across product categories.
Some of these tools can be leveraged during later stages of the development and launch process as well as function as a training tool for the organization.
Below are illustrative/example screen shots of what the software might look like for some companies/users.

Examples of Software Outputs/Deliverables follow on the next page and beyond.

NPD Forecasting - *Cont'd*

Examples of Software Outputs/Deliverables

Trial Estimator (Example Only) 'A':

Trial Rate Estimator

Product or Concept Name:	Late Great New Product Idea	
Date:	January 3, 2016	
Analyst:	Kopp	
Product Category:	Product Category #2	
Time Period Specified:	One Year	
Forecast Population (Households):	123,400,000	
Volume for Time Period Specified:	500,000,000	
Volume Metric:	Pounds	
Average Price per Volume Metric:		
Dollar Volume for Specified Period:		
Average Volume per Unit:	16.00	
	Default (1 Yr)	**Override**
Average Volume at Trial (in Units):	1.12	
Average Volume at Repeat (in Units):	2.22	
Average Repeats per Repeater:	2.92	

Trial Required at Repeat Level to Achieve Volume	
Repeat Rate	**Trial Est.**
20%	10.48%
25%	9.24%
30%	8.26%
35%	7.47%
40%	6.82%
45%	6.27%
50%	5.81%
55%	5.40%
60%	5.06%
65%	4.75%
70%	4.48%

Average Ctg Repeat Rate	Average Ctg Trial Rate
42.0%	2.22%
N = 12	

Choose a Repeat Rate	Trial Rate Estimate
43.5%	**6.43%**

NPD Forecasting - *Cont'd*

Examples of Software Outputs/Deliverables

One-Year Volume Estimator (Example Only):

Volume Calculator

Product or Concept Name:	Great Idea #32
Date:	January 3, 2016
Analyst:	Kopp
Product Category:	Product Category #3
Time Period Specified:	One Year
Forecast Population (Households):	123,456,789
Volume Metric (e.g. Units):	Quarts
Average Price per Volume Metric:	$2.39

		Category Ranges (Mean) [N=23]
Trial Rate:	4.50%	0.93% - 6.33% (3.23%)
Average Volume at Trial:	1.05	1.03 - 1.13 (1.08)
Repeat Rate:	37.00%	22.3% - 43.0% (33.0%)
Average Volume on First Repeat:	1.20	1.23 - 3.43 (3.33)
Repeats per Repeater:	3.10	2.13 - 2.53 (2.33)
Average Volume on Additional Repeats:	1.25	1.43 - 1.83 (3.63)

	Trial	Repeat
Households:	5,555,556	2,055,556
Volume (Quarts):	5,833,333	7,646,667
Dollar Volume:	$13,941,667	$18,275,533
Allocation:	43%	57%

	Total
Volume (Quarts):	13,480,000
Dollar Volume:	$32,217,200

NPD Forecasting - *Cont'd*

Examples of Software Outputs/Deliverables

Two-Year Volume Estimator (Example Only):

Volume Calculator

Product or Concept Name:	Great Idea #33
Date:	January 15, 2016
Analyst:	Kopp
Product Category:	Product Category #1
Volume for Time Period Specified:	Two Years

Input Data for First Year of New Product Introduction

	Year One	Year Two	Year 2 Override
Forecast Population (Households):	123,456,789	124,691,357	
Volume Metric (e.g. Units):	Units	Units	
Average Price per Volume Metric:	$3.99	$4.03	

	Year One	Two-Year	2-Year Override
Trial Rate:	3.50%	5.99%	
Average Volume at Trial:	1.10	1.07	
Repeat Rate:	40.00%	44.40%	50.00%
Average Volume on First Repeat:	1.20	1.19	
Repeats per Repeater:	3.00	5.49	
Avg Volume on Add'l Repeats:	1.25	1.26	

	Year One		Year Two	
	Trial	Repeat	Trial	Repeat
Households:	4,320,988	1,728,395	3,141,790	2,002,994
Volume (Units):	4,753,086	8,555,555	3,209,697	21,740,057
Dollar Volume:	$18,964,815	$34,136,666	$12,934,760	$87,610,256
Allocation:	35.7%	64.3%	12.9%	87.1%

	Total: Year One	Total: Year Two
Volume (Units):	13,308,642	24,949,754
Dollar Volume:	$53,101,481	$99,549,520
Two-Year Volume:	38,258,396	$152,651,001

NPD Forecasting - *Cont'd*

Examples of Software Outputs/Deliverables

(Bonus) Quad Week-to-Month and Month-to Quad Week Sales Converters

Quadweek to Month Sales Converter

Product:		Analyst:		Date:	

	Volume by Quadweek													
	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12	#13	Total
Sales														

	Volume by Month												Total
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	
Sales													

Note
Enter data only in cells with a white background. This converter doesn't work on specific dates. Rather, it proportions the quadweek volumes equally across the months. Thus, Quadweek #1 need not be the first quadweek in a calendar year.

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
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* **SKIM** what articles are included and decide **which ones, if any, to read!**

Lessons on creating successful in-house incubations

Nitin Chaturvedi,
Head of Retail Strategy and Operations

Google

Context for today

What today's presentation is	What it is not
▪ Select themes on incubating new business in big companies	▪ A one-size fits- all approach for incubation
▪ Examples based on learnings drawn from professional/ personal sources	▪ A comprehensive view on capabilities required to incubate
▪ My perspectives on what works/ what doesn't	▪ *Reflective of any one company's approach (to maintain confidentiality)*

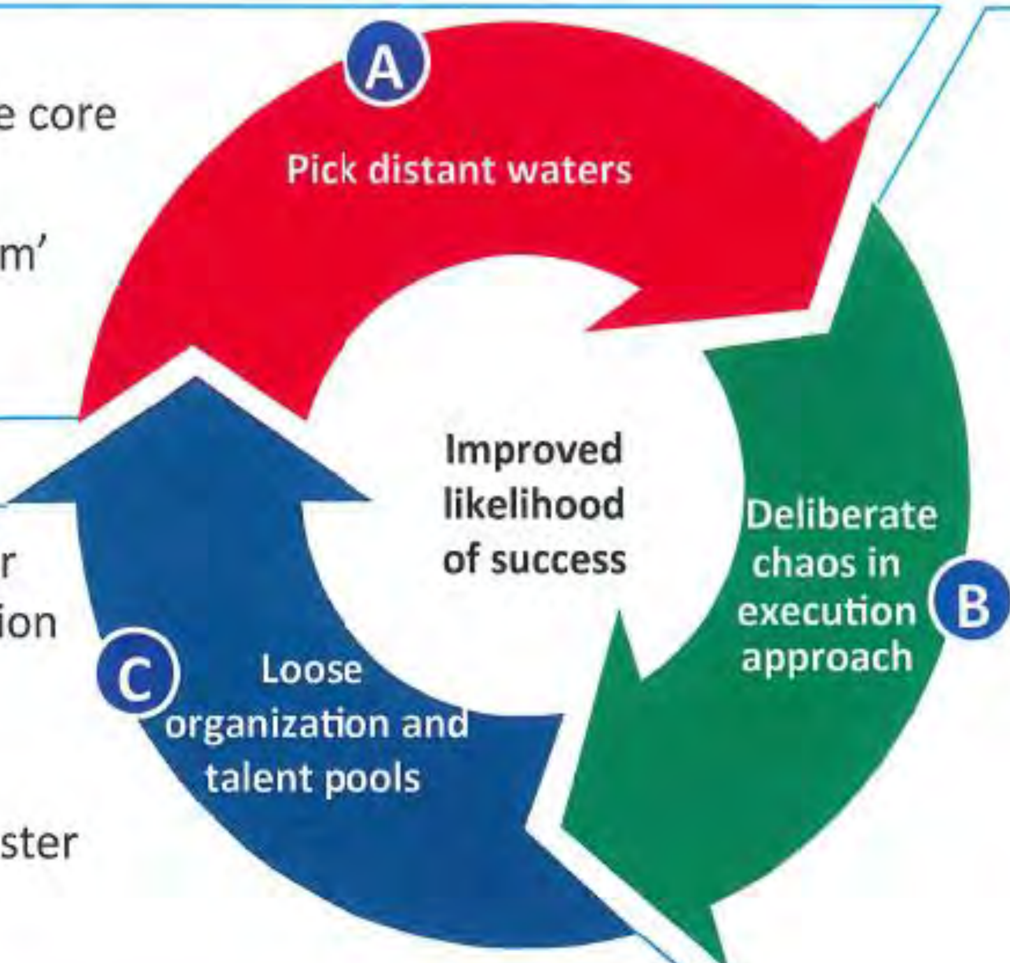
A few reasons why in-house incubations fail

Typical reasons

- Corporate funding models don't allow bets without clear ROI
- Low risk appetite given short-term investor pressures
- Innovation culture is counter to typical big company DNA
- Why bother mindset –M&A offers a faster route

3 key success factors for in-house incubations

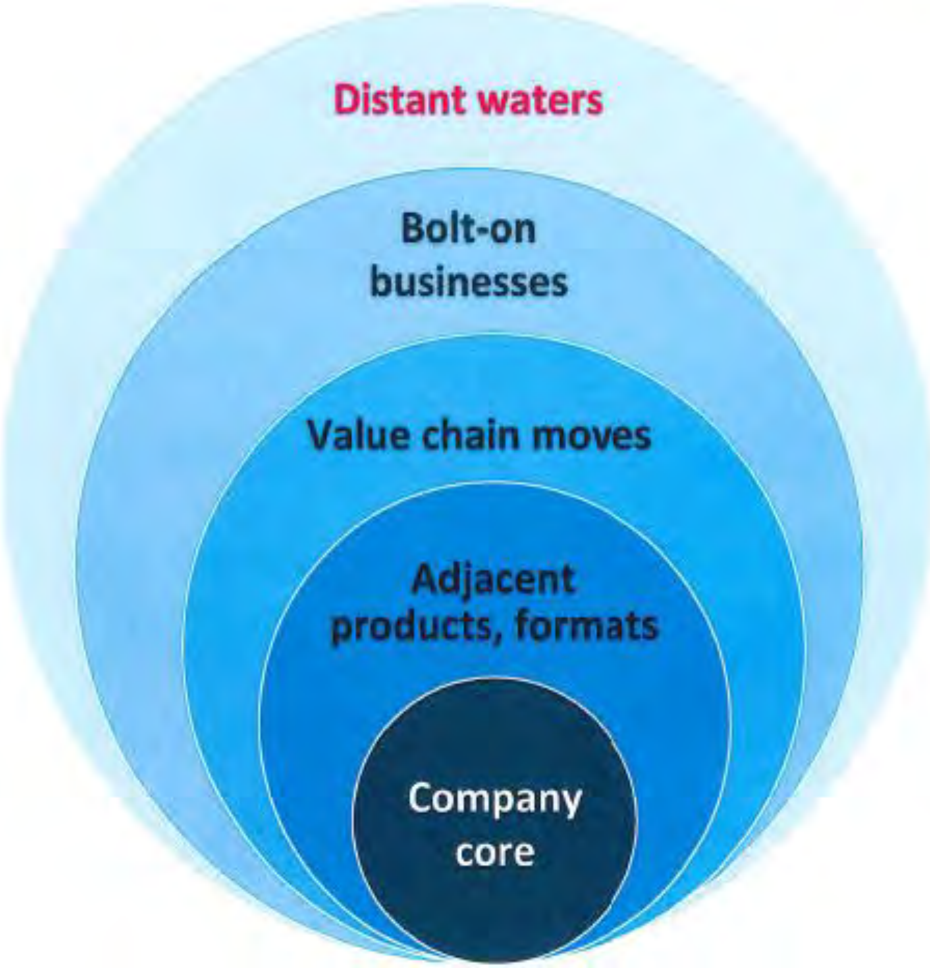
- Bet far from the core
- Allow 'A 1000 flowers to bloom'



- Effectiveness before efficiency
- No linearity in execution
- Tie success to activity goals

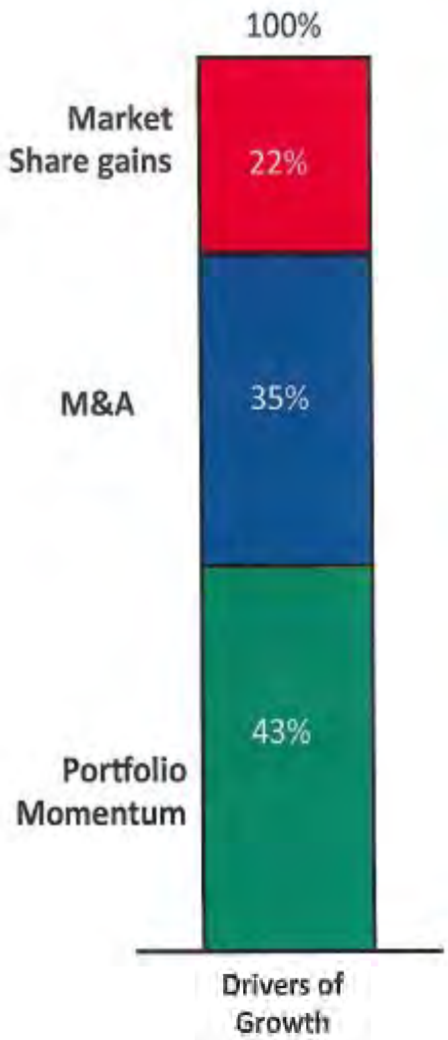
- De-centralize or spinoff incubation
- Over-hire generalists
- Organize as cluster of initiatives

Ⓐ Companies tend to play close to their core



To leverage operating capabilities for superior execution, companies prefer to stay close to their core. However, its distant waters that are often less crowded and faster-growing

Ⓐ But where to play matters more than how to play



The results indicate that a company's growth is driven largely by market growth in the industry segments where it competes and by the revenues it gains through mergers and acquisitions. These two elements explain nearly ~80 percent of the growth differences among the companies we studied"

Granularity of growth (McKinsey & Co. study, 2007)

Examples of bets on 'distant waters' that intensified portfolio momentum

amazon webservices™

Google

B C Execution & organization choices make or break the incubation (1/2)

Case example: Failed incubation

Retailer launching a new-to-market discount business

Execution choices — **High discipline**

Tied success to Year 1 sales (reverse engineered P&L)
Investments conditional on meeting growth thresholds

Focused on perfecting store operations for a few stores
Vs. rapid scaling of format (and iterating along the way)

Organization choices — **Similar to parent**

Imported leadership and working team from the parent
Qualified but with an 'at scale business' mindset

Organized the incubation like a typical retail business
By function and by region

B C Execution & organization choices make or break the incubation (2/2)

Case example: Successful incubation

Multi-national launching a consumer business

No revenue/ROI targets for 3 years

50 MM+ seed investment with no line of sight to break-even

Success tied to # of hires and capability milestones

Multiple parallel (even competing) efforts

Competing efforts within non-incubation teams

Multiple parallel strategic initiatives tied to scaling priorities

Organized as a mix of a few horizontals and many verticals

Horizontals for mature functions

Verticals by grouping strategic initiatives

Hired 80% generalists in the working teams

Can (or should) big companies go after in-house incubations?

What the detractors say?

- **Factors are structural in nature hence harder to pull off**
  - Counter to how big companies think and operate
- **Less incentive to incubate per se**
  - More M&A options available today as barriers to entry for startups are lower
- **Better incubation alternatives available in the market**
  - Partner models that bring the best of both worlds- big company resources + startup operating model

Your perspective?

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
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NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	**198**
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
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Financial Management of New Products

NPD PK/PKA Financial Management Approach

New product results fall in to 3 categories

- ***Success***
- ***Moderate Success***
- ***Failure***

The key to effectively managing the financial profile of a new product is to identify which category a new product is going to fall in as quickly as possible, to 'manage the expectations' of seniors <u>and</u> in order to either:

- Maximize trial/potential by investing behind the introduction
- Refine the financial profile (cost reduce, cut A&P) to generate an acceptable ongoing profile for a moderate success
- Maximize cash in case of a failure (i.e., cut your losses)

By benchmarking historical new products in a particular category, a determination can be made regarding which performance measures/ results translate in to a successful, moderately successful or failed new product introduction

New Product PK/PKA's Financial *Principles*

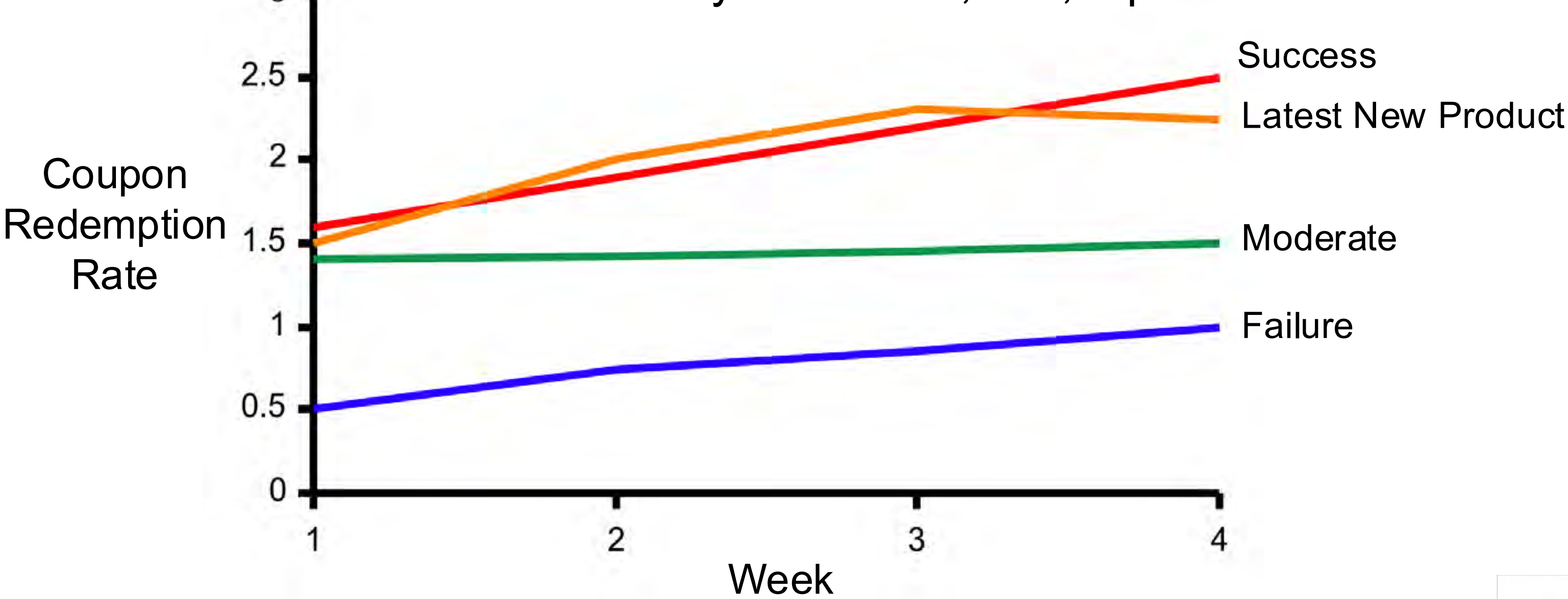
- New product success (defined as both marketing <u>and</u> financial) is a combination of franchise (SOM, sales) and financial (OP, NPV)… *nothing else counts!*
- Financial discipline is a critical element of the NP process as it provides insight into the projected long-term franchise and financial health of the new product and allows management to make timely decisions on the business
- Moderate successes and failures have to be managed to deliver business proposition financial targets… failures must be managed to minimize the "damage"
- New product tracking measurements are critical to determine level of success and thereby be able to adjust thinking early into the introduction
- Contingency plans must be established early… relating to the degree of success/failure as well as competitive reaction
- A continuous feedback loop must be established to improve future new product launches

New Product Measurement

- Each one of the agreed upon measures can be summarized in a graph or table, which reflects the composite results of recent category new items which were successful, moderately successful or failed with the "actual" results of our new item over-laid for trending/comparison

Example: Coupon redemptions from Intro Event

Other key measure to focus on could include distribution/velocity, performance of initial/secondary CP events, trial, repeat ...



New Products Financial Evaluation

In addition to standard financial returns (where detailed cash flow numbers and assumptions should be provided), it is critical to understand:

- Cash contribution vs. existing products
- Ongoing financial profile both on an incremental basis as well as reported
- Level of A&P as well as an exposure schedule

New Product Financials: Summary/Conclusion

By closely monitoring and reporting new product performance management can adjust programming to match the business opportunity

By understanding the financial model in detail, management can ensure the ongoing profile is attractive by evaluation of

- Pricing
- Product cost
- A&P spending
- Incremental FMC's (fixed mfg'ing cost) and overhead
- Cannibalization impact
- Base business financial profile

The following templates are for each SBU and individual major new products… they then can be synthesized into the total company Development Plan financial summary & timing

New Product Financial Objectives 2023-2025

ILLUSTRATIVE SBU EXAMPLE

GBU #1 New Product Development Plan Roadmap

New Product Grid

2023		2024		2025	
1H	*2H*	*1H*	*2H*	*1H*	*2H*

By Type of NP Project

1. *Line Extensions*
2. *Flankers*
3. *New Segmenters*
4. *'New' New Products*

By Category Segment

Consumer Benefit

1.
2.
3.

Insert names and best estimate of Sales and OP

New product name/ code

Financial Evaluation Template for Each SBU and Major Products

	New Product				Cannibalization Impact				NET Incremental			
	Calendar Year of Intro	Year 1	Year 2	Ongoing	Calendar Year of Intro	Year 1	Year 2	Ongoing	Calendar Year of Intro	Year 1	Year 2	Ongoing
Units												
Sales - Gross												
Net												
% of Gross												
COGS												
% Sales												
Rate per unit												
Gross Profit												
% Sales												
Rate per unit												
Advertising												
CP												
Trade												
Total A&P												
% Sales												
Rate per unit												
Incremental Overhead												
Incremental OP												
% Sales												
Rate per unit												
Allocations												
Advertising												
CP												
OH												
Reported OP												
% Sales												
Rate per unit												

"Total" A&P Exposure Template for Each SBU and Major New Products

	Total Launch $ 1st 6 mo	Launch Weeks -6	-5	-4	-3	-2	-1	Launch	1	2	3	4	5	6	Net
Advertising															
Production															
TV															
Radio															
Sampling															
CP															
FSI															
In-store															
Sales Promotion															
Total															

New Product Sales: GBU #1 Expects to Generate Incremental Sales of 54% and OP of 66%

($ in millions)	2023	2024	2025	Cumulative
GBU 1 Net Sales	1,057	1,113	1,162	3,332
% Change	2.7	5.4	4.4	
New Products				
Total Sales	280	554	803	1,637
Draw ($)	(141)	(253)	(367)	(761)
(%)	(50)	(46)	(46)	(46)
Incremental	139	302	436	877
GBU 1 O.P.	110	125	144	379
% Change	(6.0)	13.8	14.7	
New Products				
Total O.P.	96	223	333	653
Draw ($)	(38)	(81)	(101)	(220)
(%)	(39)	(36)	(30)	(34)
Incremental	58	142	232	433
Total Capital:				95

New Products: (Insert the major ones' names and when here)

By Major New Product

ILLUSTRATIVE EXAMPLE - GBU #1

NEW PRODUCT ‘M’ from SBU #1…
Total Capital Invested is Expected to be $10 Million with an Estimated 3 Year OP Level of $48 Million Incremental

($ in millions)	**2023**	**2024**	**2025**	**Cumulative**
GBU #1 Net Sales	1,057	1,113	1,162	3,332
% Change	2.7	5.4	4.4	
New Prdt ‘M’				
Total Sales	--	47	129	176
Draw ($)	--	(29)	(81)	(110)
(%)	--	(63)	(63)	(63)
Incremental	--	18	48	66
GBU #1 OP (Op Profit)	110	125	144	379
% Change	(6.0)	13.8	14.7	
New Prdt ‘M’				
Total OP (Op Profit)	--	36	66	102
Draw ($)	--	(22)	(32)	(54)
(%)	--	(61)	(49)	(53)
Incremental	--	14	34	48
Total Capital:				10

Illustrative Concept -- Business Case Pro Forma

A Pro Forma model created at this stage has multiple uses

- Raises red flags that can be addressed through concept revision prior to program initiation
- Provides some of the raw material for completing the Program Charter
- Enables sensitivity analysis that can provide early guidance on acceptable tolerance levels during program development

Pro Forma Example

Total Market Size: $MM	$1,900 MM				
Units	1,000 MM				
Consumer Appeal	% pop				
Cap Ex Amortization Time	10 years				
Revenue Potential	Y1	Y2	Y3	Y4	Y5
# of units (MM)	0	75	150	200	250
Trial	*0*	*50*	*75*	*75*	*75*
Repeat	*0*	*25*	*75*	*125*	*175*
Unit Market Share	0%	8%	15%	20%	25%
Price/unit	$2.90	$2.90	$2.90	$2.90	$2.75
Revenue Potential ($MM)	**$0**	**$218**	**$435**	**$580**	**$688**
% of Revenue Incremental	100%	100%	100%	100%	100%
Margin estimate	25%	25%	25%	25%	25%
Margin Contribution ($MM)	**$0**	**$54**	**$109**	**$145**	**$172**
Program Costs ($MM)					
Incremental R&D	$25	$10	$5	$5	$5
Sales & Marketing	$0	$45	$30	$20	$20
Other resources	$15	$10	$2	$2	$2
Total Investment Costs	**$40**	**$65**	**$37**	**$27**	**$27**
Capital Expenditures ($MM)	$20	$20	$0	$0	$0
Cap Ex Amortized ($MM)	$2	$4	$4	$4	$4
Net Cash Flow	($60)	($31)	$72	$118	$145
Cummulative Cash Flow	($60)	($91)	($19)	$99	$244
Net Income	**($42)**	**($15)**	**$68**	**$114**	**$141**

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
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Successful In-House Incubations (Google)	188
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Profitability and Impact Are Two Dimensions Used to Measure New Product Performance

NPD Benchmark Research*

Two Performance Dimensions

- **Profitability of business' total new product efforts**
  - — Profitability versus competitors
  - — Overall success rating of the business' total new product effort
  - — Whether total initiative met product objectives
  - — Profitability relative to spending
  - — Impact of total effort on business unit's profits
- **Impact the total new product efforts have on the business**
  - — Percentage of sales by new products achieved by the business unit
  - — Impact of new products on both sales and profits of the unit
  - — Success rate achieved
  - — Technical success rating

* Canadian sponsored study across N.A.

There are Three Factors That Have the Biggest Effect on Performance of New Products at the Business Unit Level

NPD Benchmark Research

New Product Process

- **A high-quality new product process that demands:**
  - Upfront homework
  - Sharp and early product definition
  - Tough Go/Kill decision points
  - Quality of execution and thoroughness

… yet provides flexibility from idea to launch and beyond

New Product Strategy

- **A defined new product strategy for the business unit**
  - With new product goals
  - Clearly defined and communicated roles of new products
  - Areas of focus delineated with a longer-term thrust

Adequate Resources

- **Adequate resources of people and money**
  - R&D spending for new product development as a percentage of sales

Other Factors Have a More Modest Effect on Performance

NPD
Benchmark Research

- High quality new product project teams
- Senior management commitment to and involved in new products
- An innovative climate and culture
- The use of cross-functional project teams
- Senior management accountability for new product results

A High-Quality New Product Process is an Important Factor That Drives New Product Performance

NPD Benchmark Research

- Emphasis on upfront homework: both market and technical assessments
  - Conducted before projects move into development phase
  - Included in upfront assessments is a Financial and Business analysis
- Sharp, early product definition before development work begins, including definition of target market, concept, benefits and positioning, features and specs
- Tough *Go/Kill* decision points in process to ensure projects are not moved too far into development without serious scrutiny
  - Example: Rohm & Haas WIN Process — Five gates where senior management reviews the deliverables, evaluates the project against pre-set criteria, and approves the action plan and resources for the next stage
  - Focus on quality of execution by specifying the key deliverables at each decision point and by conducting a thorough review of the quality of work done at each stage
  - Complete and thorough process including key tasks such as market analysis, business assessment, and customer research
- Flexibility built into the process so certain steps and activities can be skipped or combined as dictated by the nature of the project

Clear and Visible New Product Strategy Also Drives Performance of Business' New Product Efforts

NPD
Benchmark Research

- Goals and objectives established and clearly defined for the business' total new product efforts
  - —Sales and profits that new products will contribute to the business
- Role of new products in achieving business goals clearly communicated to all
  - —Everyone involved in new products has a common purpose — something to work toward
- Areas of strategic focus is clearly defined to give direction to the business' total new product effort
  - —Strategy specifies types of products, markets, or technologies that the business unit will focus on
- New product effort has a long-term focus including some longer-term projects, as opposed to short term, incremental projects

Performance Is Also Linked to Resources of People and Money Devoted to the Business' New Product Development

NPD
Benchmark Research

- Senior management needs to make the necessary resource commitment to achieve the firm's new product objectives
- Resource commitment drives both profitability of the business' total new product effort as well as the impact of this effort on the business
- For positive results, the resource commitment must be aligned with the business' new product objectives and processes
  - —The process and the strategy should be properly resourced with people, time and money
- R&D spending, measured as a percentage of sales, has the highest impact on new product development
  - —Increasing R&D spending will result in a higher percentage of business unit sales from new products

A lack of resources is often the culprit underlying poor quality of execution

High Quality New Product Teams Also Affect the Performance of New Products

NPD
Benchmark Research

- Dedicated team leaders: A high quality team with a dedicated team leader is a fairly strong driver of performance
  - —Leader assigned full time on their one project
- Good internal team communications: The team interacts and communicates well and often with frequent project update meetings, progress reviews, and problem resolution sessions
- The ability to efficiently and quickly manage the external decision-making process

Senior Management Commitment to the New Product Development Process Results in More Profitable Total New Product Efforts

NPD Benchmark Research

- Senior management strongly committed to new products and product development
- Management commits the necessary resources to achieve the firm's new product goals
- Senior Management closely involved in the project Go/Kill and spending decisions
  - Central role in the new product project review process

An Innovative Climate and Culture Within a Firm Also Drives Successful New Product Development

NPD
Benchmark Research

- Although the effect of an innovative climate on new product development was not as strong as other factors, it does appear to contribute to the new product effort
- Positive climates solicit new product ideas from all employees
  - Technical people given free time, typically 10-20% of the work week, to work on projects of their choice
  - Resources including seed money for technical research made available to employees so they could informally advance their own projects or undertake creative work of their own choice

Cross-Functional Teams Have a Positive Influence on Performance of New Products

NPD Benchmark Research

- Cross-functional teams provide a positive influence when all projects have a defined and accountable team leader responsible for advancing the project
- Project leaders responsible for the project team from beginning to end versus for only one phase of the project
- All projects have an assigned team of players from various functions in the business, including R&D, Marketing, Manufacturing, Engineering, etc.
- Businesses that consistently used cross-functional teams were rewarded with a more profitable total new product effort

The mere use of cross-functional teams does not have a dramatic impact on profitability

Senior Management Accountability Helps Drive Profitability That the Business Unit Achieves on New Products But Does Not Have a Big Overall Effect on Performance

NPD Benchmark Research

- Management accountability captures the degree to which new product performance is measured and Senior Management is held accountable for program results
- Business unit's new product performance is rarely a factor in senior management's compensation scheme or annual performance objectives

PKA can provide ON REQUEST additional material on:

- **IIMI:** Innovative Integrated Market Intelligence
- **Development Plan:** What Is It, Why Have One, How Get One
- **Strategic Growth Action Plan(ning) 'Bible'**

How to take the measure of innovation

By combining two simple metrics, companies can gain valuable insights into their innovation performance.

OCTOBER 2018 / McKinsey

How to take the measure of innovation

In the latest episode of our Inside the Strategy Room podcast, senior partner Erik Roth and associate partners Guttorm Aase and Sri Swaminathan speak with Sean Brown about how companies can gain valuable insights into innovation performance from a pair of metrics that have been hiding seemingly in plain sight. Their core components—gross margin, R&D, and sales from new products—are not new, but combining them can shed new light on the relative innovation performance of business units within an organization and relative to external peers.

Podcast transcript

Sean Brown: From the McKinsey Strategy and Corporate Finance Practice, I'm Sean Brown. Welcome to Inside the Strategy Room. Today, we'll hear from the authors of the recent McKinsey article, "Taking the measure of innovation." Erik Roth is a senior partner in the Stamford office and is a global innovation leader in our Strategy Practice. He directs McKinsey's work in innovation globally and also coauthored the seminal article "The eight essentials of innovation." Guttorm Aase and Sri Swaminathan are associate partners who also focus on innovation.

To start off, Erik: often when people think about measuring innovation performance, they think of things like the number of patents the company has registered or the new-innovation pipeline. Your latest article focuses on a pair of innovation metrics. Can you say a little bit more about that?

Erik Roth: We get the question about innovation metrics quite often. And when a client asks us that question, they typically are concerned with the activity of R&D and innovation as opposed to the output and the impact of that output on performance. And so often when we address this with clients, they're interested in scorecards that are measuring the number of ideas, ROI [return on investment] on

a specific project, the number of projects, and any assorted metrics trying to look at how well their organization is performing. What's interesting is, we rarely see an organization taking a thoughtful approach to how it measures the outcome of its innovation in R&D performance over time. In this article, what we explored — on the back of a client question — was, what is a good, simple, and benchmarkable metric that can be used to both assess the performance of R&D innovation in an organization and compare it to other companies so that a CEO can understand whether their investments in R&D are productive relative to their competitive context, and are achieving their performance objectives over time?

How to take the measure of innovation

By combining two simple metrics, companies can gain valuable insights into their innovation performance.

Sean Brown: Why do you think no one has used these two metrics before?

Erik Roth: I think no one has used these particular metrics before because a lot of innovation- measurement activity or - measurement focus has been largely on what I'll describe as "upstream" activity. That's the inputs into what makes innovation happen. We see a lot of quantification

of the number of ideas and the size of the portfolio. Oftentimes an organization will get very caught up with patents and the number of patents that they are filing. While all of those are interesting inputs into innovation R&D, they don't necessarily understand or measure the monetization of those investments in your R&D and innovation activity.

And as companies have explored ways to try and understand how to measure the output, or the outcome of their R&D investments, they've struggled largely because there are not a lot of common metrics across industries or across organizations that capture what our two metrics capture, which is both the investment side and the outcome side in the form of profit margin for the resulting impact of what R&D investments and innovation investments may have.

Part of the reason we think that's the case is, one, companies don't typically release a lot of information about their R&D investments, so there are very few commonly described metrics. And wo, the belief has always been, if you really want to understand how to measure R&D and innovation activity, you have to have so much internal proprietary knowledge around what activities are going on, what capabilities are associated with those activities, and the nature of the projects themselves.
I think in many ways the reason why no one has used these is because the belief had been that it was just too complicated; it was just too hard to do.

Guttorm Aase: That's what we found really appealing about these metrics. This is really a methodology that allows you to benchmark using three simple metrics that are typically available from publicly reported data, which is quite unique in this context. It really only takes a view of R&D spending, of gross margins, and of the shares of sales of spend coming from new-product sales. And those are usually available. That makes it very easy to get a sense of how you're doing from a performance standpoint versus building these complex internal models that Erik mentioned.

Sean Brown: Thank you. Can you please share a brief overview of the two metrics and how they are constructed?

How to take the measure of innovation

By combining two simple metrics, companies can gain valuable insights into their innovation performance.

Guttorm Aase: There are essentially two conversion metrics that we look at. One is the ratio of how your R&D spending is converting into new- product sales. It's just the ratio of those two numbers. And we look at new product sales over a number of years, which can vary by industry. Typically, you'll see new-product sales measured over a five-year period or a three-year period. And we're looking at the ratio of those two numbers across each other. That gives you a number that says, for each dollar of R&D spending, how many new- product sales am I getting on average? So that's the first metric.

The second metric is our product-to-margin conversion metric, which looks at each dollar of new-product sales and asks, how many new dollars of gross margin am I generating? So that's, again, just the ratio of gross margin to new-product sales.
Erik Roth: I just want to highlight one thing about what Guttorm mentioned, which is the word "conversion." It's a very important aspect of these two metrics in the sense that we're really trying to look at a way to capture the ROI from these investments, not from a traditional net present value project- level analysis, but to really understand, does the investment convert into meaningful profit for the overall entity over time?

Sean Brown: So, you're really looking at the entity or the enterprise—more the portfolio of innovation— and what the productivity is in the portfolio or what's coming out of that portfolio.

Sri Swaminathan: Yes, that's right. We find these quite useful as portfolio measures. And they can provide really interesting insights for companies on how they're performing versus their peers in the same industry. We've tested this now in the chemicals industry. We've looked at the consumer- goods industry, in the industrial sector, and the pharmaceuticals industry, and we see these relationships holding across various sectors.

Erik Roth: This portfolio look is mportant, because what we find is that companies just get metrics wrong. They consistently measure at a project level instead of a portfolio level, even though they talk about portfolio. Having had so many of How to take the measure of innovation these conversations, what we really wanted to do is make sure the portfolio view is really embedded in what we're looking at.

This came out of a challenge question from a CEO. We were sitting in a client meeting one day, and the CEO turned to us and said, "You know, I've looked at this metrics thing so many times. There's nothing out there. Why don't you guys come back and try to prove that there is some simple way that we can measure innovation and R&D output that's reliable and benchmarkable. Because, you know what, I need to go to 'the Street' and understand and communicate to my investors that we're actually doing a better job relative to what we've done historically."

How to take the measure of innovation

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We came back—I'll never forget that meeting—and said, "We've got two metrics." There was a general sense of disbelief, because this particular CEO had looked at this many, many, many times. And he's well known for his activities across many companies. He was surprised that there was something so obvious and useful that was right in front of everybody's nose, so to speak.

And so, this notion of getting it wrong and trying to correct and get it right with simple ways of measuring is a little bit of what was underlying our approach or our intent.

Sean Brown: How did you come-up with the five- year rolling averages? Did you look at all the different time ranges? What makes five years special?

Guttorm Aase: The five years are in some ways tied to the innovation cycle of the industry. I think as we looked at different industries, we saw that in certain industries, like consumer goods, the innovation cycle is a little bit shorter and it's more common to look at innovations over a three-year period. For that industry, it fits to look at three-year averages across margins, across R&D spending, and across product innovation. Whereas if we go to the specialty- chemicals industry, or specialty materials, then, typically, a five-year number is more common. For that industry, it would be more appropriate to look at five-year averages, so you can get a sense of how your spending is evolving over a similar time period as the innovation activity is taking place and also translating into margin conversion over the same time period.

Sean Brown: So, these metrics work well across industries, and the only thing that you really need to think about is, what's the innovation timeline or the innovation cycle when you're looking at the time period over which you might do rolling averages? Is that right?

Erik Roth: Yes. There are two ways to answer that question. One is, if you're just doing it internally for yourself, you absolutely want to respect the time frames of your innovation and R&D cycles. If you want to do comparable [looks] across your industry or other industries, then you're in an outside-in, benchmarkable scenario, where you have to see what available data can be collected and then adjust accordingly. But ideally, if you're doing a like-for- like [comparison] within your own company, you'd pick the meaningful cycles of innovation and apply that number.

How to take the measure of innovation

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Sean Brown: If you're a CEO, and you want to implement these metrics, what are the key things that an organization needs to do to start using them? And is it a significant investment in order to do so?

Sri Swaminathan: The beauty of the metrics that we've developed is really in their simplicity. It is not a huge investment to benchmark yourself using these numbers to get a sense of how you place yourself relative to peers in the industry. We've tested this now with several clients, and it is extremely instructive to do a couple of things.

How to take the measure of innovation

One, the company needs to gather the data on its own new-product-development revenues and compare that as a percentage of sales. Most companies already track that as part of their innovation metrics, but if they haven't, then it's a relatively simple exercise to have a view of how much of their internal revenues is being generated by new products. The second step is then to compare that to the performance within the industry. This data is often published in annual reports, in investor day presentations, and in other formats.

What is particularly informative for CEOs is to look at your company's performance versus peers on two axes. The first is to say, "For every dollar of R&D that we are expending, how much new-product sales are we getting? And how does that compare, most critically, to peers in our industry?" If you have a high conversion rate of R&D into new products, that can be a good sign that you are effectively deploying your R&D resources into applications and areas that are ending up in new products.

The second thing that you would want to look at is, "For the new products that I'm generating, how am I doing on gross margin performance? And how do I compare against peers in my industry?" And here, we see a spectrum again. Some companies are highly effective at converting their new-product sales into margin. This indicates they have a healthy innovation pipeline and that their products are truly transformative and command a margin in the marketplace. For others, we have seen that they might be producing many new products, but those new products are not generating high gross margins, which can indicate that the new products are quite incremental compared to competitors. Or perhaps that the cost to produce those new products is higher than you would expect.

Erik Roth: And, Sean, if I could add to that, one of the things that we've observed as we've gotten into this— particularly as we look at the chemicals space and the materials-science space—is, we feel like companies are just way too inwardly focused. As Sri pointed out, the ability for a company to do two things—one, to look at the margin impact, and two, to think about that margin in the context of its commercial execution, specifically in terms of whether or not it's getting adequate pricing—is very powerful.

How to take the measure of innovation

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Too often we see the debate around innovation R&D portfolios resting on how much gets invested against each project and budget cycles as opposed to what kind of a return is going to be generated by those investments. And now the argument might be, well, the time cycle to development is too long; we don't know. That is all true; however, that's also why we're proposin g this metric, as a little bit of a look back over time to accommodate some of those nuances or realities around what it takes to develop a specific product [without moving] away from the reality that if a product that you're putting out in the market isn't generating sufficiently high enough profit-margin return, then why are you investing in it at all?

And too often we see these incremental projects that are out there that really won't meaningfully contribute to a company's bottom line but are absorbing so many resources for reasons that have nothing to do with performance.

Sean Brown: For the new-product-to-margin conversion, many folks will look at disruptive innovation as something that they might invest in. But often disruptive innovations can lead to a lower-margin product that could come in and undercut the existing players and incumbents. So how do you square the usage of new-product-to- margin conversion and the potential implications for investments in disruptive innovations that are coming out of a given organization?

Erik Roth: I think we need to separate the innovation strategy from the metrics of performance.

If the strategy for innovation is explicitly to do more disruptive innovation, then the portfolio must accommodate that. And how you evaluate the metrics also needs to be in line with those strategic decisions.

Sean Brown: Thank you. This makes perfect sense. And I appreciate the opportunity to really dig in on that. I think many of our disruptive innovators will pleased to hear how they can still leverage these metrics.

Did you look at how much these measures change over time? For the industries that you studied, did you see any wide variations in year-to-year performance? Especially given that this is a five- year rolling average, you would not expect them to not change that much, but were there any that stood out in terms of the leading performance indicators over time?

How to take the measure of innovation

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Guttorm Aase: We did see interesting examples of evolutions over time. As we started to look at performance across five- to ten-year periods, we would see that companies had the potential to improve on these metrics. And there were a handful of examples where low performers, say ten years ago, now were transformed into high performers either on both metrics or on one of the dimensions. And that was typically associated with a change in their innovation strategy that was publicly reported.

Erik Roth: One of the things that we hope comes out of this is that companies get more focused on the holistic view of their innovation and R&D activity. Because what we have seen across industries is a high degree of variability on what I'll call the "commercialization" side of R&D. This whole notion of consistently successful launch and scale is not pervasive across companies.

And if you think about these metrics, they encompass both the upstream activity and investment in the R&D but, more importantly, combine it with the downstream commercialization, realization, and monetization of that R&D and innovation investments. And we think there's a massive opportunity for companies to think about the "how" as opposed to overly focusing on the "what."

Sean Brown: Are there any pitfalls to implementing these metrics?

Erik Roth: For one, thinking that any two metrics are going to absolutely solve your innovation and R&D problems. If a company were just to take these two metrics and rely on them by themselves, I think we would say, "You're in trouble. You're not getting it."

We would say, this needs to be a part of a portfolio of metrics—not too many, you know, we shouldn't see 16, but it's not two—that help you understand how you're doing relative to your competitors so that you're getting better return and looking more positive in the eyes of investors. But also, more importantly, you're managing your organization appropriately so that you get higher-value output over time.

Sean Brown: Have you found clients use these to compare the productivity of portfolios amongst business units?

How to take the measure of innovation

By combining two simple metrics, companies can gain valuable insights into their innovation performance.

Guttorm Aase: Absolutely. And that's one of the ways that we've found that some of our clients actually find this most useful: not just to compare themselves against their peers but also within their enterprise to understand how the innovation spending is being used, how efficiently it's being translated into new products, and how efficiently these business units are generating margin uplift from them.

Sean Brown: On the new-products-to-margin conversion, how do you incorporate the notion of pricing strategy? In other words, when you unpack the outcome, the enterprise may be coming-up with some incredible innovation, but perhaps they're taking a beating on their new-product-to- margin conversion because they're not pricing it effectively?

Sri Swaminathan: I think that's one of the potential causes that this analysis can point to. If the company does this benchmarking and says, "Okay, our new-product-to-margin conversion appears to be lower than our peers are generating," it prompts the question, "Why?" One of the reasons could be, it's not pricing these products at a premium to the products that already exist in the market. And therefore, its new-product-to-margin ratio looks low. There could be a good reason behind that, a deliberate reason behind that, such as a price point that is designed to generate adoption. It may be an unintended consequence or a sign that pricing strategy hasn't fully been developed for those new products.

When we look at this at a portfolio level, what we do is take the conversation away from one or two individual projects. We're looking in aggregate of all the new products that a company is producing and of all the gross margin that a company is producing.

Sean Brown: Before we wrap up, one final question. Erik, earlier I alluded to "The eight essentials of innovation" article. Have you thought through how these routine metrics tie into that work?

Erik Roth: Measuring innovation performance is critical to understand if the investment—the time, all the activity, and all the capabilities being built to push innovation—is amounting to anything. If you think about the eight essentials, one of the core principles of the very first essential is, you need the aspiration. You need to be able to set a very clear destination, or "north star," that's bold and plausible and describe it in enough clarity and granularity so that you can measure not only when you've gotten there but how you're doing along the way.

How to take the measure of innovation

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And if we look at each one of the essentials, I know we would find there are metrics embedded in all of them. And what the eight essentials really are trying to do are help a company reflect on its current performance relative to innovation, and give it the opportunity to benchmark against others, and, more importantly, reorient the activity around innovation toward value creation.

At the end of the day, a company that performs well across the eight essentials is one that consistently creates new products, services, experiences, and business models over time that create substantial value relative to its performance. I can't think of two better metrics that would be indicators of exactly that than the two we've got in this article.

Peter Klein e-Mail to Eric & Sri at McKinsey (October 21, 2018)

Eric & Sri,

I 'get it' on the recommended measures and why, as they related to benchmarking a company vs peers in the same Industry. That said, what is POV on using **Gross Margin** when assessing a company's innovation 'success metric' over time, especially in the CPG/FMCG Industry which I am most familiar with (*aka*: a firm's R&D and marketing direct costs, including overheads against its Gross Margin for a 3-year period ... over time ... eg, comparing, say, the last 3 years versus the prior, say, 4-5 3-year periods)?

Given...

- *The graveyard of CPG/FMCG new products* over the last 7-8+ decades (food, beverages, OTCs, personal care/toiletries, household products, etc.), defined I suggest as not meeting <u>both criteria</u> of being a *'marketing and a 'financial' success*, and...
- The studies done by Nielsen (on its decades of data on its BASES I & II tests), Bain, BCG, and I recall even McKinsey a while back, that showed over the decades the same *70-80+% of new products fail* to meet their marketing and financial success criteria (*"...what's wrong with the NPD process 'model' over the decades*!!")

... <u>do you recommend</u> using Gross Margin as a measurement criteria across a firm's 'innovation/NPD' portfolio to help determine the extent to which its innovation/NPD results are *driving meaningful increases in its, say, Brand Marketing Contribution or Operating Profit* (say even at a business unit level if not also at a total company level) ... and even look at it at an EP/economic profit level (since EP, at least for many CPG/FMCG companies, is the #1 or #2 driver of TSRs)?

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* **SKIM** what articles are included and decide **which ones, if any, to read!**

20 Tips To Boost Your NPD Success Rate At *Example* Company X

Three Buckets

1. **Growth Strategy**
2. **Organization & Culture**
3. **Stage-Gate NPD System, Process**

Caveat

- We have worked with many foundation clients over many years – and know them in depth
- Not the case with Company X
- We knew a little bit about their culture and system, but not enough to speak with absolute certainty

Tip #1 To Boost NP Success Rates

Ensure that the CEO and Senior Leadership Team are committed to NPD, have a clear strategy, set realistic P&L expectations, and provide enough resources and time

Commentary

- We sensed a “wish for innovation” from the top
- Also, some frustration – *“does it ever work?”*
- We don’t know about “strategy”
- Are there more guidelines?
- Vacillation: home runs/new cores -- doubles/current cores
- Are “realistic P&L guidelines” in-place?
- Resourcing: Looks okay from a distance, but not sure

Tip #2 To Boost Success

Recognize that different skills are required to do NPD (blank page → design) vs. running an established business (design → promote/grow)

Tip 3 To Boost Success

Staff the function with a few people who are experienced Pro's around NPD…

and support them with "variable-time"

cross-functional experts who are devoted to innovation

Commentary

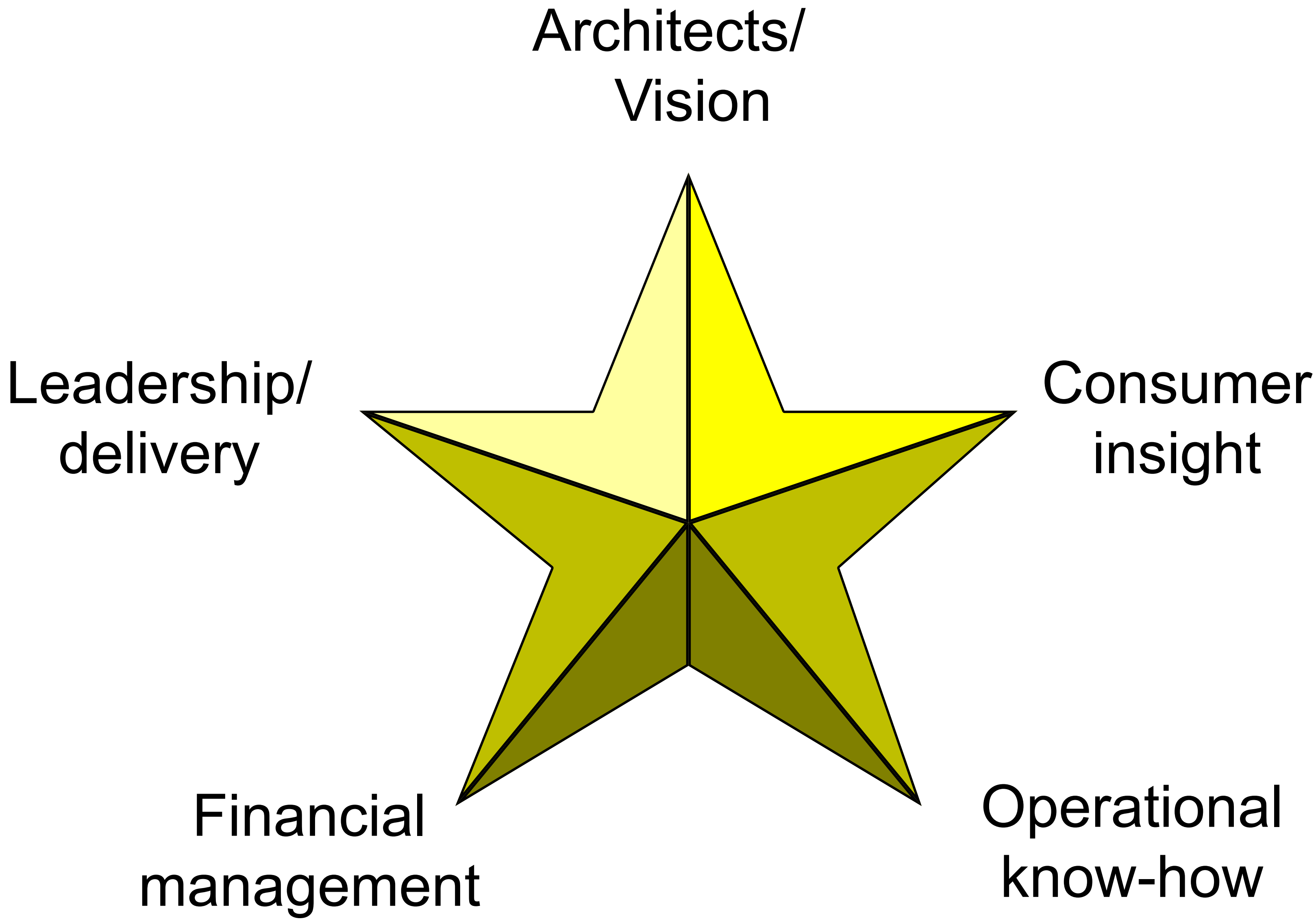
- "NPD experience" can be measured lots of ways

- The "ideal" Project Champion is someone who has led several projects through every "phase"

  Blank Page → Invent Bundle → Commercialize → Launch

- And someone with "entrepreneurial skills"

Five Skills For Ideal "Project Champions"



Where Find NPD Project Champions?

- Brand Managers who are drawn to thinking mainly about consumers and raise their hands to be in Innovation
- Market/Insight Researchers who want to "own" the conversion of their consumer insights into "action" and broaden their cross-functional mastery
- R&D Developers who want to invent better products by understanding what consumers want, and to also broaden their cross-functional skills

Note: everyone needs to keep adding "new skills"

Where Find the Rest of the NPD Team?

- NPD is a cross-functional team sport

  Marketing + MR + R&D + Ops + Agency + Sales + Finance

- People readily "define themselves"
- *"I would much rather work on inventing new products than on strengthening results on what we now sell"*

Top #4 To Boost Success

Have An "NPD System"* in-place reflecting current best practices and committed to continuous improvement, especially around *cat-scanning* consumers

* e.g., PKA's **SPEED PROCESS**; more available on this on request from peter@pkassoc.com

Commentary

- The "System"***** acts as a roadmap –
  that can guide even "first-time" NPD champions and teams
- Most big companies say that they have a "System"

  … It is typically shown as 8-10 chevrons, stages & gates
- But the "actual activities" within each stage may be elusive!
- And, for sure, "the devil is in the details" around Systems!
- Some are slaves to the System; others often ignore it

* See example of ***'control'*** on **Pages 707 – 712** (Consumer-Driven Development & Implementation Process/CDI ***Process Reference Documentation*** – *SUMMARY)*

Commentary

- Company X clearly had been using a "stage-gate system/process"* – but we were unaware of the detailed methods
- Our one project together started downstream, and was limited to ***inventing and testing Concept Boards***
- We thought an approach to "spotting opportunity areas, prototyping 3D designs, refining and testing them" differs from what had been done before

* See example of ***'control'*** on **Pages 707 – 712** (Consumer-Driven Development & Implementation Process/CDI ***Process Reference Documentation*** – *SUMMARY)*

Tip #5 To Boost Success

Focus the NPD charter on delivering growth in the "core categories and adjacencies" in service to Divisional goals – and carefully limit attempts at "grand slam home runs" that wander far beyond current know-how and assets

Commentary

- It sounded like Company X tried the “home runs” approach, and encountered disappointments
- The focus then seemed to be more on *“hitting singles and maybe solid doubles closer to the current cores*
- We thought that’s smart… ***“always begin from your cores!***”
- We also thought it supported much better linkage between NPD and the “established” business units

Tip #6 To Boost Success

The measure of success for the NPD function needs to be getting new initiatives into the market each year – not just grinding out and re-working concept boards…

One proven way to "encourage this" is to include NP volumes in the annual sales budgets (not simply in an A&P slush fund!)

Commentary

- Our impression was that not many NP initiatives had cleared the “hurdles” set and made it into the market
- Also, some which got there fell short of their goals
- This made it scary to include NP volumes in the Plan!
- But it also seemed to beg for an objective re-appraisal of the “hurdles/gates”***** currently in place
- This issue was NOT unique to Company X

* See example of ***‘control’*** on **Pages 707 – 712** (Consumer-Driven Development & Implementation Process/CDI ***Process Reference Documentation*** – *SUMMARY)*

Tip #7 To Boost Success

Nothing is more important to NPD success than a strong Market Research/Insights Function that knows and provides the kind of information needed for successful innovation

Some Things We Look For In MR/Insights

- Re-framing categories based on total user experience and both direct and broader/adjacent competition

  Not "just ______" but "total __________"

- Commitment to situational (usage-based) segmentation

  The job of the product within the specific moment

- A rigorous definition of what constitutes a "good dig site"

  A strategic growth opportunity area (SGOA)

  A target user in a given situation…

  signaling disappointment with their current option

Example of a "Dig Site" (SGOA) For Carried Lunches – Led to Lunchables!

3. Wishes/Ideals
- Fast & easy to prep
- Satisfying
- Wholesome
- Inexpensive
- Fun/cool
- Show I care
- Win applause

5. Disappointments

Known/rational
- Pain to pack
- Boring to eat

Sub-Conscious
- Feel gypped/guilty

4. Current Options
- Spartan sandwich
- Special sandwich
- Salty snacks
- Cokes, Twinkies, etc.
- Cafeteria fare

1.. Targets: Working Mom + Kids
2. Situations: 7AM + Noon Away

Helpful MR/Insights Things

- Do every 3 years an "Environmental Change Study" capturing how the consumer landscape is shifting within the specific category (target users/situations/wishes/options/frictions)
- High-powered qualitative research using stimulus-response methods that stop weak ideas early on and facilitate fast-forward optimization of surviving Best Bets
  - Stimulus is quite finished to enable "real reactions"
  - It's assessed within a target moment vs. exiting options
  - Teams are present to see consumers & make decisions

Helpful MR/Insights Things

- Commitment to refining Concepts before Quant testing
  - Boards that are written from “switching logic”
  - Checked first for simple “comprehension”
- A new approach to analyzing BASES I results
  - Not 1 number, quintiles/quartiles,12 factors, mktg model
  - Focusing away from “averages among gen pop”
  - Geared to searching for “powerful niches”
  - More on this later

Helpful MR/Insights Things

- Integrating data from various MR studies into one cohesive storyline that captures the NP “consumer proposition”
- The objectivity and courage to be outspoken in support of good ideas, while still able to deliver bad news as needed
- Willingness to constantly challenge traditional MR methods in light of high NP failure rates in market

Tip #8 To Boost Success

Use a "fuzzy front-end" approach that leverages both paths to arriving at breakthrough NP designs

* Left-brain data analysis, logic, deduction

* Right-brain creativity, intuition, induction

Two Broad Approaches To Fuzzy Front-End

- ***"Run and Gun"***
  - It's all about creativity and intuition
  - Assemble roomful of right-brainers
  - Generate 50 topline ideas in an afternoon

  Sketch them up → run Quant test → hope for winners

- ***"Aim Before Firing"***
  - Left-brainers analyzing data to spot solid dig sites
  - Inventing ideas within "problem-solution" framework
  - Carefully crafting "full-up" Concepts prior to Quant tests

Both Approaches Have Pluses & Minuses

- ***"Run and Gun"***

  +'s: fast + lots of ideas cheap to generate + may win the lottery

  -'s: probably "one offs" + "sketch concepts" often flawed (lack of targeting/on clear promise or over-promises + lots to test/$ + often don't know what was learned/the whys)

- ***"Aim Before Firing"***

  +'s: concrete dig sites +search for platforms + clear positioning/ writing product/packaging looks real (for valid reactions) + fewer tests/$

  "took our best shot" in the end

  -'s: slower + fewer ideas pursued + more refinement costs

A Good NPD System Tries To Leverage Both Approaches

- Take markets apart in structured ways in search of dig sites (SGOA's) that capture "disappointments" with existing options
- Rely on wide-open creativity and intuition in fast-forward 3D prototyping to arrive at early "solutions"
- Cycle back to "logic" to search for platforms and build positioning statements to guide Concept Board copy
- Count on creativity to get to "names/graphics/clothing" ASAP
- Goal is always the "best of both" – a final NP bundle that connects both rationally <u>and</u> emotionally with consumers
- NPD process similar to Advertising process (logic/intuition)

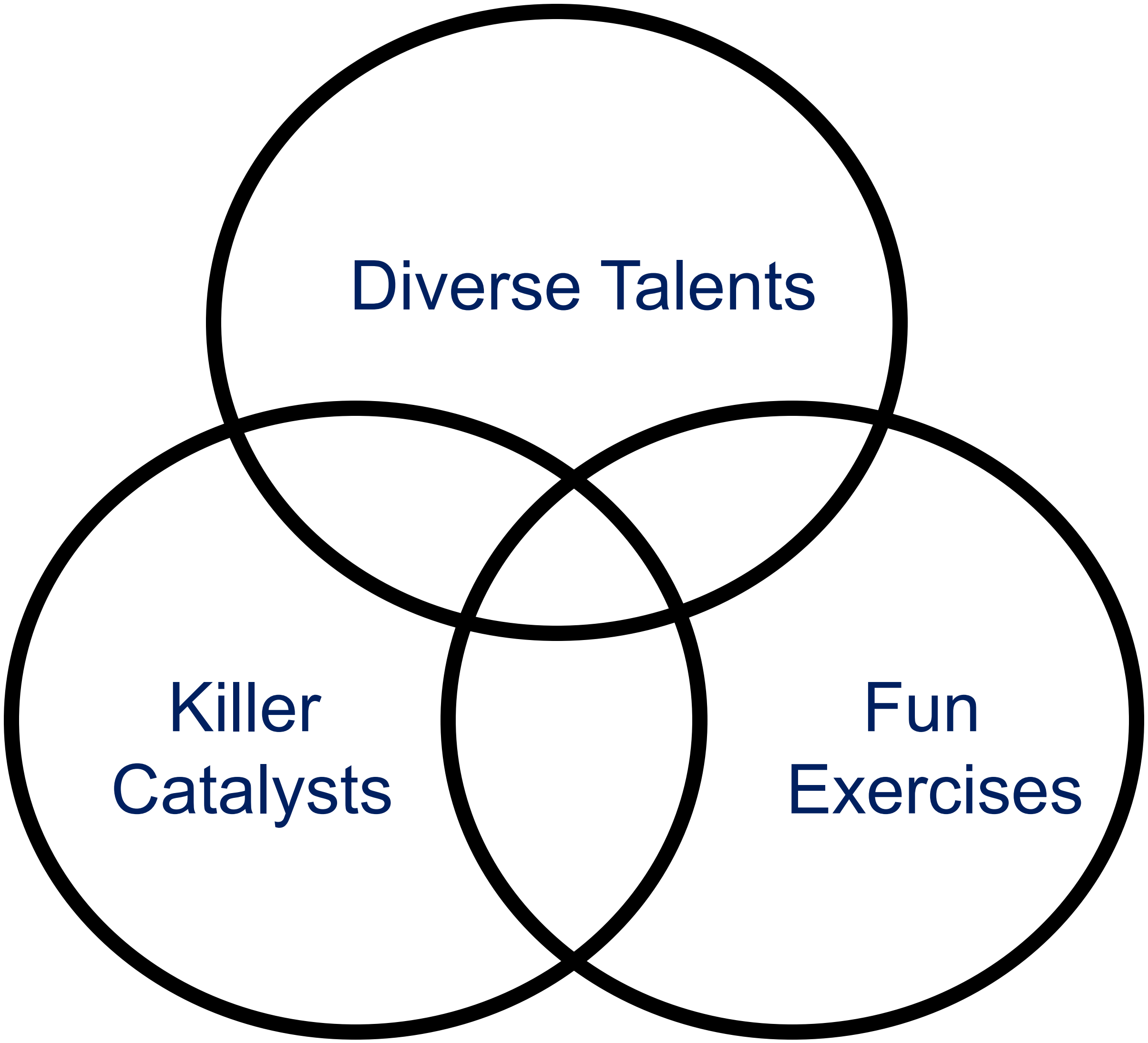
Tip #9 To Boost Success

Use a "creativity model" – built around lateral thinking and fast-forward 3D prototyping – to boost a team's innovation power and force breakthrough designs

Commentary

- Internal team creativity is one of the most under-utilized assets, particularly in big organizations!
- Example: It was greatly refined over the years during the development of the ***Lunchables platform*** for Oscar Mayer
- This can also be viewed as a magical process lift!

Recipe For Breakthroughs



Turning On Internal Creativity

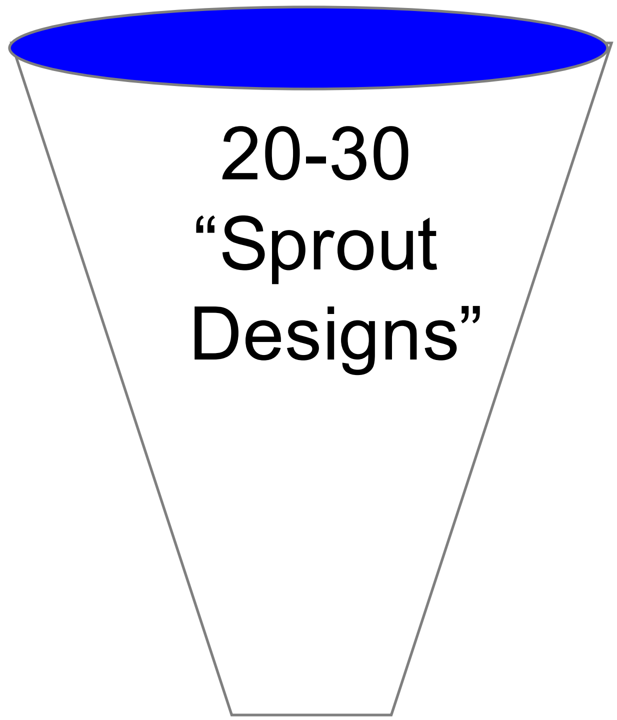
Left brain logic → Right brain intuition

Use your mind → Use your hands

Work in words → Make 3D products


FUN
MEalz
22090VBD
31

“Team Voting”



Top 2-4 Best Bets

Back To The Office

Evaluate “what you just invented”

What seems exciting + maybe doable

Anything that feels “platformable?”

“Aha – pre-packed food in a tray!”


Little Oscar's
Lunch Fixings

Tip 10 To Boost Success

Test the power of every NP idea being considered by writing a Switching Logic Statement… expressed as follows:

This target user:

In this usage situation:

Relying on this competitive product/service:

And experiencing these disappointments:
(voiced/sub-conscious)

Will switch to our NP branded/named:

Because of this promised advantage:

Backed up by these design features:

Commentary

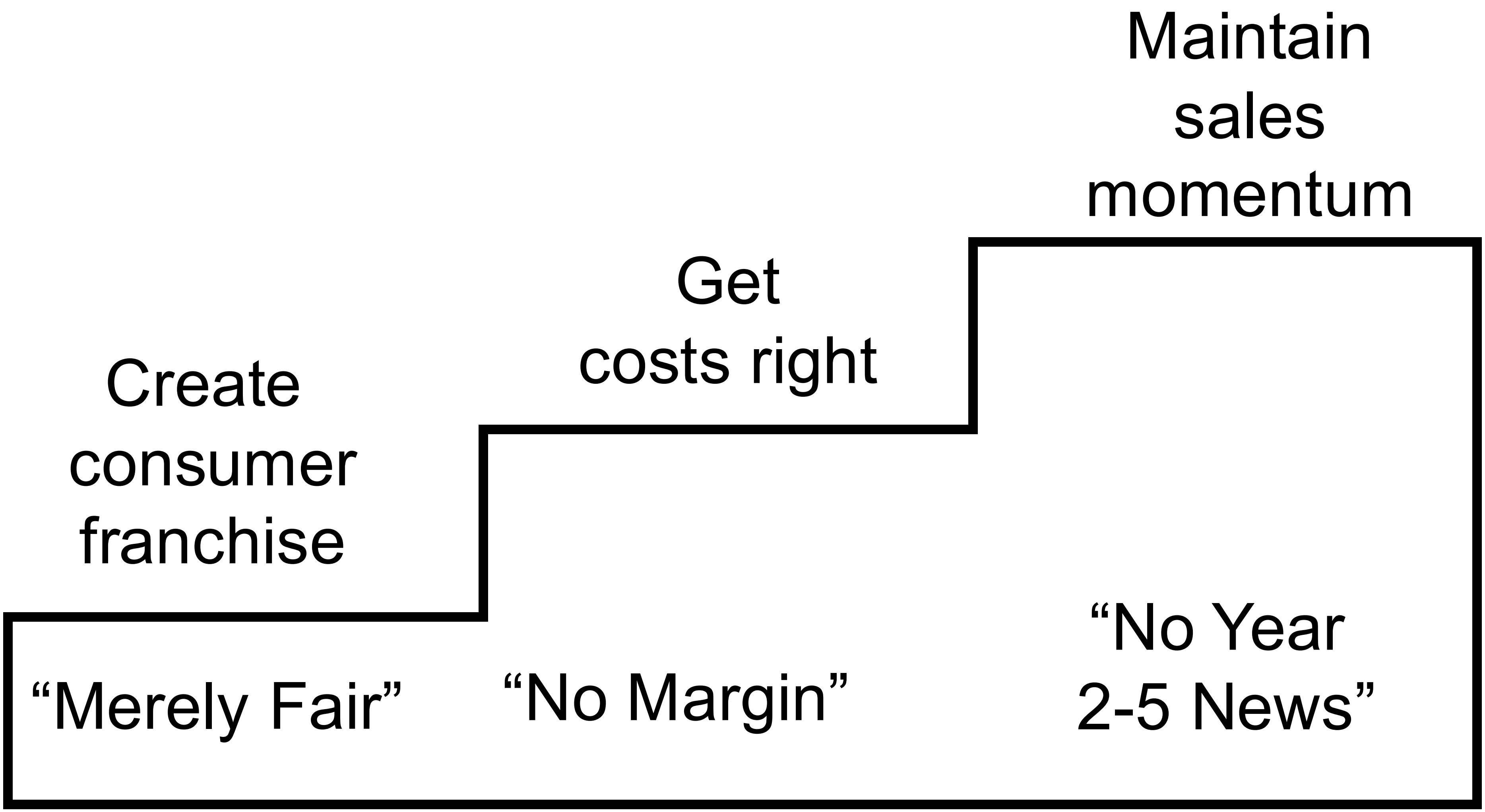
- The root cause of most NP failures lies in the absence of any clear and compelling ***reason-why*** auto-pilot consumers should try something new… and to be both ***relevant AND differentiated*** through their eyes
- Build in an **"electrified gate"** to the upfront part of your NPD System -- much earlier than any BASES-like test
- And use a Switching Logic gate to **"torture" every idea** you work on
- While it does demand some "judgment," it is often a tougher test than the BASES I scores

Tip #10 To Boost Success

Search from the beginning for "platform-able concepts", the next generation ideas that leverage the same branding, capital and supply chain assets, as opposed to dead-end one-offs

(AVOID: a tactic in search of an enduring strategy!)

Why New Products Fail



A Major New Platform

Invincible Business System

Mfr. Economies of Scale	Promotion Economies of Scale

Year 1 Consumer Franchise	Viable Costs/ Margins	Sustained Product News (QI, LE, Segmt's)

Tip 11 To Boost Success

Install an "upfront gate" that balances multiple inputs (not "one number") and hinges on spotting "powerful consumer niches" to decide go/no go…

Get everyone aligned behind the hard truth that Year 1 volume cannot be forecasted from a concept test

Upfront Gating is Still a Hot Issue With CPG Firms!

- All need NPD successes to meet topline growth goals
- All have limited resources to devote to NPD
- All know that the "**hit rate" for NPD is not good… never was!**
- A few are beginning to question their own stage-gate systems*
- Many of these suspect that they "go wrong early on"
- Many are questioning the BASES I model
- CFOs are 'always' asking for accurate upfront NP forecasts

* e.g., PKA's **SPEED PROCESS**; more available on this on request from peter@pkassoc.com

Upfront Gating Is Also A Contentious Issue!

If BASES I is not the single litmus test, what is?

Do you now use Nielsen's BASES tools within the development process?

… e.g., BASES I, II, Snapshot, Advisor

Commentary

Nielsen's BASES goes all the way back to its origin as the *<u>B</u>ooz-<u>A</u>llen <u>S</u>ales <u>E</u>stimation <u>S</u>ystem*

- They set out to do the unthinkable: Forecast NP volume by using a survey + a series of "adjustment factors" related to a company's ability to achieve distribution and awareness
- Their system was built in the 1970-80's, during the era of mass marketing, big ad budgets and manufacturer dominance (versus retailer dominance!)
- It became <u>the</u> Gold Standard for volumetric forecasts

Commentary

- Over time, the **BASES** system has tried to evolve to keep up with the radically new marketplace
- One of its efforts – ***"12 Factors To Global Success"*** – was one more move in this direction
- **But "tales abound" about sizable "forecasting misses on major NP intro" throughout the CPG world….**
  most CPG firms experienced many "unexplained misses" over the years
- **ALWAYS BE SKEPTICAL** when **BASES** folks say their measures are *"good for volume, but not for success"*

Commentary

- **BASES** is quite forthcoming about the predictive power of their Concept Tests vs. IHUT's (in-house use tests)
- But clients seem to have difficulty believing that **BASES I is mostly a "disaster check"** – ***stop if you are in Quintile 5!***
- It is understandable that Quintile 3-4 outcomes do not feel quite "ambitious enough" for most clients, despite the facts
- And this can lead to endless rounds of "re-testing," with low odds of changing the outcomes

Commentary

- ***BASES I <u>is still worth doing</u> –***
  and the BASES II IHUT is critical to go/no go decisions
- ***Do your own analyses***
- ***"Gating" at the Concept Test stage focuses on:***

  The presence of a credible switching logic statement

  Affirmation of switching in qualitative research with 3D prototypes

  BASES I scores that avoid Q5 – *the kill zone*

  Identifying a clearly delineated "niche" within the test data

  Sizing likely Trial via common sense adjustments to Buying Intent numbers

Commentary

- ***When it comes to BASES II:***
  - ✓ Be careful, as always, about what's in the "benchmarks"
  - ✓ Pay much more attention to the Quintiles
  - ✓ Make sure your "target" is confirmed in the data
  - ✓ Be suspicious of the Marketing Model
  - ✓ Try your own "common sense" T/R/V forecast
- Always recognize that the ***stimulus used in both BASES tests ignores several crucial determinants of actual in-market success: final names/graphics/advertising/etc.***
- On high-risk projects, always (except under rare conditions) execute some form of small-scale test markets before a national roll-out!

Commentary

Net

PKA likes BASES, but not necessarily all of their analytics

- BASES remains trapped in a "generation population" mindset (when powerful niches are the real action), with benchmarks that are probably shaky and not transparent, a marketing mix model that is still missing critical terms (e.g., TDP's, shelf impact, naming/graphics/ad quality, etc.), and is over-reliant on TV budgets plus cookie-cutter reports that often fail to examine niches and platforms
- Encourage you to arrive at a better ***Upfront Gate*** than what you can get out of a BASES I report

"An Inconvenient Truth"

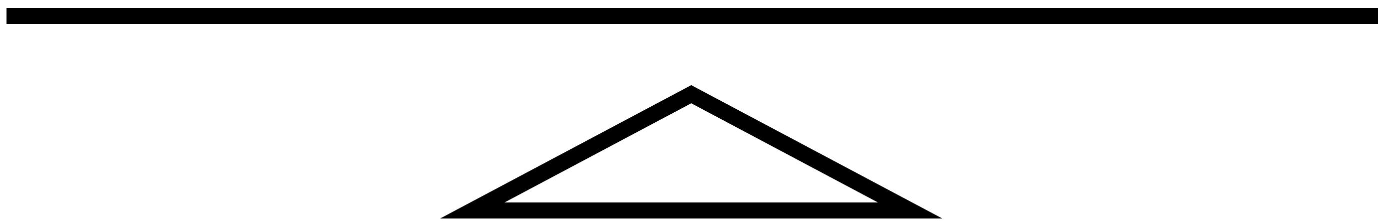
- We understand how uncomfortable it is to question the one Market Research thermometer (BASES) that has been used to judge New Product's for 50+ years in the CPG Industry
- But the Upfront Gate for NP concepts can be substantially strengthened by ***combining lots of inputs***
  - ✓ One of them is **avoiding Quintile 5 in a BASES I Test**
  - ✓ Others include **reactions to 3D prototypes vs. competitors in qualitative research**, the team's ability to make their case for "switching logic," and various tests of *platformability*

Tip #12 To Boost Success

Use of "experimental design-based experiments" to value-engineer a product that simultaneously "wins" for target consumers (features and price point) and for internal 'bankers' (costs and margins)

How To Think About Value Engineering

Consumer Wins	Company Wins
Features	Costs
Price Point	Returns



Commentary

- Many NP's fail because they don't break through at the shelf with consumers shopping on auto-pilot
- Others fail because pricing/costs/margins never pan out
- Start very early to get sustainable economics by running small scale experiments on "which features add value vs. which one are frills"
- This gets tackled both qualitatively and in quantitative

Tip #13 To Boost Success

A "second burst of creativity" applied to the development of final design elements (naming, graphics, communications, displays, etc.) – recognizing that "merely fair" fails in the store…

enough time and "attention to detail" to properly shake down new capital/OP's and deliver QA is critically needed

Breakthrough Designs

Existing Option	***Superior Solution***
Saccharine sweetener	NutraSweet
Boom box	Walkman
Kid's shoelaces	Velcro
Saran wrap	Ziplock bags
Exploratory surgery	MRI
Bank tellers	ATM's

Commentary

- The saddest outcomes occur when the Team itself knows that it has ended up with an NP design that is "merely fair" and not up to the "breakthrough level" required to win
- **This happens all the time** – most often because the culture deems it *"worse to be late, than to fail in the end"*
- Most projects benefit hugely from inserting a **"second burst of creativity"** phase into the process, where teams try to "lift and integrate" all final design elements
- Having realistic cycle times for NPD also helps here

Lunchables Brand Cycle Time – Example Only

	Date	Elapsed Time
Kick-off meeting	Nov. ‘85	---
Concept Test	May ‘86	6
BASES II Test	May ‘87	18
BehaviorScan Test Market	Oct. ‘87	23
Start Roll-Out	Aug. ‘88	33

Tip #14 To Boost Success

Base final decisions on whether and how to launch on:

- In-home use test scores among targeted consumers
- Common sense assumptions about availability and awareness applied to a standard trial/repeat/ conversion model
- Pro-forma financials that avoid common pitfalls (sandbagged costs, no productivity gains, same starting margins as base lines, no early red ink, impossible pay-back speed, etc.)
- The platform potential of the NP core idea
- Gaming around likely competitive reactions
- Project's risk profile and options to de-risk the launch

Commentary

Wish: That forecasting NP sales was as scientific as BASES might have us think!

- In addition to the usual “missing terms” (TDP’s, shelf impact, advertising quality), comes the uncertainty associated with “new media” and “social networking”
- The only solution lies in experienced people, who know enough about their categories and consumers, looking at final “consumer propositions/logic” and final “financial props,” and placing down prudent bets

Tip #15 To Boost Success

Run small scale in-store sales experiments as a final check on velocities, and a way to test upside potential

Commentary

- In this era of segmented/niched categories and intense risk aversion, **very few NP's get launched with the $30-40 million A&P budgets common to BASES benchmarks from the 1980s, early-mid 1990's**
- Instead, it often an intro trade deal, a coupon and a print ad! Plus, Digital/Social Media content
- This places great demand on the ability of the NP package and graphics to ***"jump off the shelf" at passing consumers***!
- It also runs the risk of "failure to spot" what could be very powerful ideas that go under-marketed!
- Many NP's have much to learn through a short burst of controlled store testing, prior to a national roll-out

Tip #16 To Boost Success

At the launch, set up Tracking Systems that trend expected vs. actual trial/repeat and enable fast in-market adjustments where needed

Commentary

- Live in-store selling is the only place to truly find out if auto-pilot shoppers spot your product in a competitive context and find it interesting enough to pay real money for trial
- The timeframe to achieve decent velocities is also short
- So, it becomes **imperative to try to measure how consumers are responding (awareness/trial/liking) early in the game**
- Unless Tracking Systems are in place, it's easy to find out that the game was lost before anyone had a chance to react

Tip #17 To Boost Success

If the early news from shipments, the sales force and retailers is that you "have a winner," get your Year II "news" ready while your competitors are still struggling to catch up

Commentary

- Winning NP's, defined as ***both Marketing + Financial success***, are few and far between and, once you have found one, "staying a step ahead" is drop-dead critical
- Here is where early strategic thinking and work on platforming really pays off
- Because while others are trying to copy-cat your original line-up, you are about to launch your Year 2 Platform Generation ideas
- **This only happens, however, if you plan for it from the start!**

"Even when you are on the right track, if all you do is sit still, you will get run over"

Tip #18 To Boost Success

The path to pay-back and ROI on NPD lies in achieving enough scale to support "leader levels" of A&CP and enjoy economies across the supply chain

Commentary

- If you find a “new platform,” the results can transform your P&L results for the next 5-10+ years!
- In today’s marketplace, big successes can develop from niche targets (consumers in specific usage moments) who become fiercely loyal to your breakthrough + plat-formable NP design
- This is a lot harder that the “good old mass market days” that drove the BASES models – but it’s still possible

Tip #19 To Boost Success

A well-run NPD function gradually builds a balanced and staged Pipeline that provides a roadmap for the next 3 years and results in 1-2-3 launches per year…

unless you're in toy business where 80% of your line turns every 6 months!

Tip 20 To Boost Success

"The Team and the Team and the Team!"

Commentary

- **In the end, nothing counts as much as a talented team pulling together to overcome obstacles & get to market**
- A Project Champion "style" is crucial: inclusiveness + humility
- Commitment to "target consumer as the final judge" – with all inventors given a chance to "see" reactions to their work
- "Rotating leadership" as the project progresses – content experts step up and "carry support" in their functions
- Attention to detail – "merely fair" → "true breakthrough"
- Post sponsors regularly, with inventors showing own work
- Start early → real timetable → hold to it → slow if should

Commentary

- Great team's bond like true entrepreneurs!
- Each person "visibly grows" as they surmount problems
- Senior managements says "this is in good hands"
- Success is celebrated (e.g., Lunchables issued stock certificates!)
- For many, NPD is the "most memorable part of my career"
- The team and the team and the team!

Additional Questions Asked PK/PKA By Company X

What is your overall approach to Defining Targets?

Defining Targets - Commentary

- See separate ***Targeting & Positioning document*** available on request from Peter Klein (peter@pkassoc.com); that said, a **Brand Value Proposition** should be clearly articulated and drives the Brand Positioning (and other success elements … material also available on request from Peter Klein on BVP)
- Always minimally use simple cross-tabs in surveys:
  - ✓ "Communications target" = Self-defined Company X Brand Lovers
  - ✓ "NP target" = DWB/PWB response to branded concept
- Always an issue: In many client NPD projects we came in to do a ***1,000-mile check*** of their defined segment cluster was derived from only x% of the Brand user base
- The fact that the Brand name is shown in the NP Concept Board should avoid an outcome where the "NP target" is somehow incompatible with the "communications target"

Additional Questions Asked PK/PKA By Company X

Switching logic –
how is it brought to life in a development process?
Methodology? Testing/validation?

Switching Logic - Commentary

- This starts with state-of-the-art Situational Segmentation* which identifies ***current, emerging and latent consumer demand by segment***… and spots known and hidden disappointments with existing options
- It's followed by a process using fast-forward 3D prototyping to arrive at preliminary superior NP solutions
- Switching logic discipline is then used as a "test" of whether the NP is superior to the existing option(s)… and must meet the breath test, among a well articulated, large enough and reachable Target of being **both Relevant <u>and</u> Differentiated at the right price/value**

* Peter Klein can recommend vendors to consider

Switching Logic - Commentary

- Part of the "testing" lies with the team's ability to write the "switching statement" and "torture its veracity" on their own
- The next "test" occurs at Focus Groups prior to a Concept Test where the "target" is asked in multiple ways to compare the NP against the existing competition … a "simulated store walk" is sometimes used as a "litmus test"
- Concept Test scores also inform switching logic
- Q: Can you show data linking switching logic to NP success?
  A: No more than "brand positioning statements" can be shown to make better advertising… *common sense is all we have*

Additional Questions Asked PK/PKA By Company X

How should an organization prioritize and allocate finite resources to a portfolio of NP's if only a few ideas are killed in the front-end?

NP Portfolio Resourcing - Commentary

- Chaos almost always follows if dumb NP ideas go too far and suck up all the resources!
- Try to "kill these" before BASES I
- Writing and testing the Switching Logic is one standard path*

* Using a Purchase/Market Structure Model (*aka* the **Hendry Model** developed over 5 decades ago by the Butler Brothers **goes a long way** in understanding the **right competitive frame, where new business is most likely to be sourced from and provides volumetric projections/ranges based on switching**; Peter Klein can introduce you to ***Art Christiani ('the best' at Hendry Model analysis in Peter Klein's experience)***

Additional Questions Asked PK/PKA By Company X

How should companies balance larger, long-term development projects with closer-in back-up projects?

Balancing NPD Projects - Commentary

- Always strive for a ***balanced NP portfolio***… versus 85-95+% of NPD activity focused on product improvements, line extensions and flankers*… have some singles/refreshers if needed
- Start early and have projects in all 3 stages: ***exploration, value-engineering, commercialization***
- Classify the projects: refreshers, improvers, segmenters, invaders, new-to-the-world… and their degree of difficulty
- Overweight put on "doubles" in current cores ("incremental")
- Be very careful about "reach outs/new assets" – probably limit to one at a time and think extendable platform and ROI

* Which help keep you *treading water*; basically, replacing SKUs coming out of the market!

Additional Questions Asked PK/PKA By Company X

What's your experience regarding "hand-offs" from the Innovation/NPD Team to the Established Business Team(s) –

when, how, and impact on success?

NPD Project Hand-Off Timing - Commentary

- The reason to do "hand-offs" is to always have your very scarce NPD experts searching for new dig sites / SGOAs + core new product ideas with legs
- The time to do hand-offs is after the BASES II gate (core concept + product/package with large sample including readable sub-sample among target market)
- **The risks associated with hand-offs are often *huge*** – e.g., 'NIH issue' and a lost "bill of rights"/principles around product requirements/graphics/ads/etc.
- Three things make hand-offs possible
  - ✓ Remarkable "trust" between NPD and the "recipient"
  - ✓ Great communications during the development process
  - ✓ Sheer competence in NPD and restraint by the recipient

NPD Project Hand-Off Timing - Commentary

- Two "bickering champions" is a recipe for disaster
  - ✓ Teams get confused; progress stops
- Agree upfront on the strategy, goals and timing
- Give NPD control of finding disappointments and converting them into prototype solutions
- Post the recipient when the Gate 1 hurdles are met
- Then gradually begin to run side by side – handing off leadership (but not involvement) after BASES II
- It takes the "right people" to ever make this work!

Additional Questions Asked PK/PKA By Company X

Any observations what we're doing

right and wrong at Example Company 'X'…

any opportunities to improve NPD overall?

NPD Opportunities - Commentary

- Do you have a deep understanding of what your NPD ***actually does*** "underneath" the headline Stage-Gate Banners*?
- Are you clear about how you try to spot fresh *dig sites / SGOA's* and consumer disappointments?

Having said that, there are many things we like

- The importance of "product design" is recognized and your R&D folks are real experts and *can-doers*
- You believe in NPD systems and are trying to use yours
- There is a clear Bill of Rights/NPD Principles for your company… and you *protect it ferociously*
- Close any "chasms" (if any) between your NPD group and the established business/brand group
- Always remember that your NPD focus should include "reach-outs" and plus contemporizing the current cores and extending them to appropriate adjacencies" – which will boost your success odds

* On request, Peter Klein can provide a **Stage-Gate process ('SPEED')** he has seen work over the decades (peter@pkassoc.com)

NPD Opportunities - Commentary

- The usual NPD upgrades clients require involve one or more of three areas: **strategies, organization/culture, and the stage-gate realities**
- *In regard to NP Strategies*
  - ✓ How do you “integrate MR data” into Brand Report Cards?
  - ✓ How do you track “macro environmental changes”?
  - ✓ How do you define your categories and segment them?
  - ✓ How you spot fresh “dig sites” / SGOA’s for growth?

NPD Opportunities - Commentary

- On Organization & Culture a few concerns
  - ✓ Challenging "orthodoxies" feels very difficult, and at times is almost forbidden
  - ✓ It's not always clear how much power *the "voice of the consumer"* has vs. the convictions of project sponsors!
  - ✓ Trust and alignment between NPD and the established brand group must be positive, healthy… not tenuous… *you all work for the same company!*

NPD Opportunities - Commentary

- Many times, a company's NPD stage-gate methods and beliefs can be elevated by past internal and external NPD process development learning

  - ✓ Taking markets apart to spot dig sites / SGOA's
  - ✓ Trying out strategic situational segmentation
  - ✓ Doing a shifting category landscape/segmentation study
  - ✓ Learning to fast forward 3D prototyping model
  - ✓ Trying "value engineering" experiments

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

* **SKIM** what articles are included and decide **which ones, if any, to read!**

A New Discussion and Call to Action On…

Innovation Pathway ©

NOTE: This section discusses PKA outside-in approach to NPD when working closely with a client… a separate PKA **NPD SPEED PROCESS** is available on request from peter@pkassoc.com

Key Messages

1. **The innovation / new product model is busted**
   - 70-80+% in market failure*
2. **The *innovation paradox*© is addressable**
   - Bridging the major disconnect between positive testing and disappointing in-market results
3. **New reality-driven *go-to-market* pathway solution**
4. **PKA bridges proven innovation and go-to-market expertise to the new realities**

* Bain and BCG (and others) over the decades; 52% according to Nielsen's BASES when measured only among new products tested in BASES 1 and/or BASES II (usually only medium-large, 'major' introductions)

Innovation Dilemma

"I hate to do it… it is a money losing proposition…

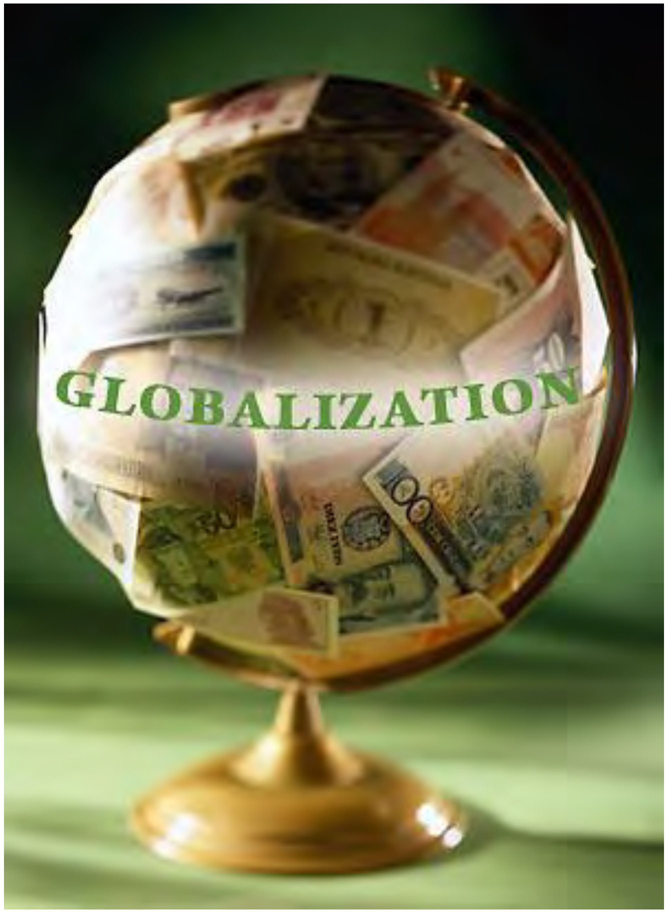
But I must do it to survive…

It is not clear what we need to do…

It feels like insanity, and it seems to be getting worse"

Companies Need Innovation More Than Ever

- Growth is stagnant
- Markets are maturing
- Consumers are changing
- We operate in a globalizing marketplace
- Technology is affecting everything!



The Innovation Model is Busted (New Products + Established Brands!)

- The in-market failure rate is very high
- The retailer wants innovation but has no patience
- Companies want growth but don't invest
- Consumers are increasingly difficult to reach
- IRI/Mintel/Schneider 2008 Study indicated consumer attention, interest and awareness of new products is at an all time low*
- Aging workforce/retirements/consolidations is causing a loss of business development experience and savvy
- Organization change, upheavals threaten established processes

Successful innovation is a strategic and financial growth imperative…
We Must Find A Better Way!

* 7th Annual Most Memorable New Product Launch Survey conducted by Schneider Associates, Mintel Intn'l and IRI…"; when asked about new products from 2008**, 69% of survey respondents** **<u>could not remember a single new product launched during the year</u>;** even the most memorable new product of 2008 -- the Wi Fi -- was recalled by only 22% of respondents in aided recall

The Innovation Paradox ©

Innovation Development

Most new products…
- Are developed with a disciplined stage-gate process
- Are thoroughly evaluated with qualitative, quantitative and simulated test market tools
- Test's project positive results

However

Innovation Results

Most new products…
FAIL IN MARKET*
…70-80+% !

This disconnect between quantitatively projected positive and very disappointing in-market results is the
Innovation Paradox©

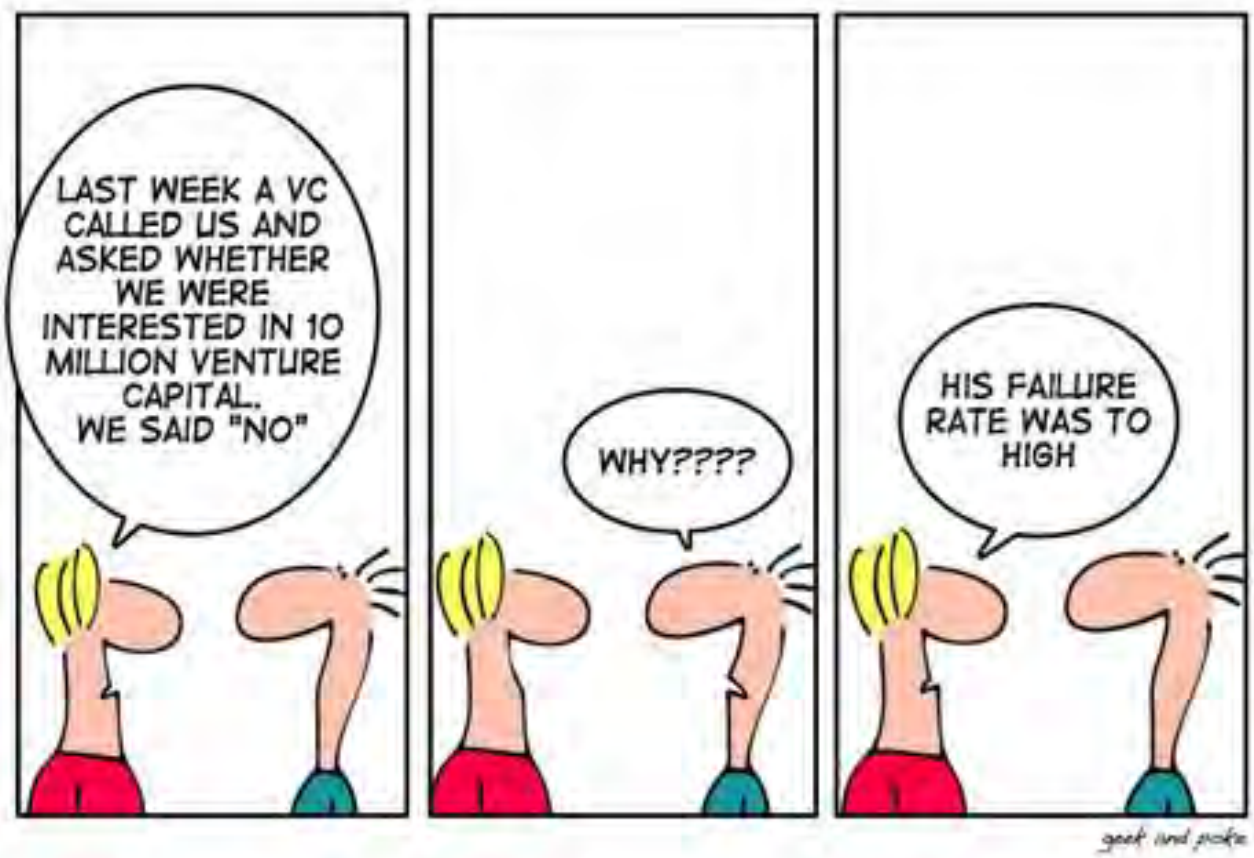
Innovation launches are delivering unacceptable results…
We Must Increase The Odds Of Success!

* 'All' new products (line extensions, flankers, brand extensions into adjacencies and 'new' new products), according to Bain and BCG (and others) surveys over the past 40+ years (defined as ***Marketing + Financial success*** … ***nothing else counts!***); recent Nielsen/BASES data shows 52% of major new products tested via BASES in the past 25+ years failed to meet their Year 1 marketing/sales objectives

The Dilemma With 'Process'!

In-market failure rate is off the charts…

despite being rigorously tested and going through extensive qualitative and quantitatively-driven development process

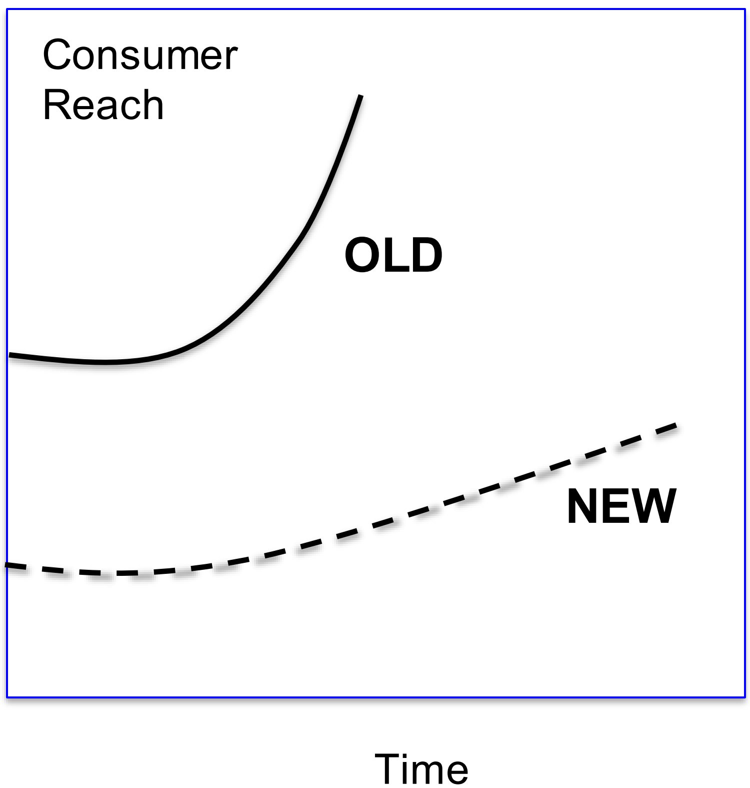


Understanding The Innovation Paradox©

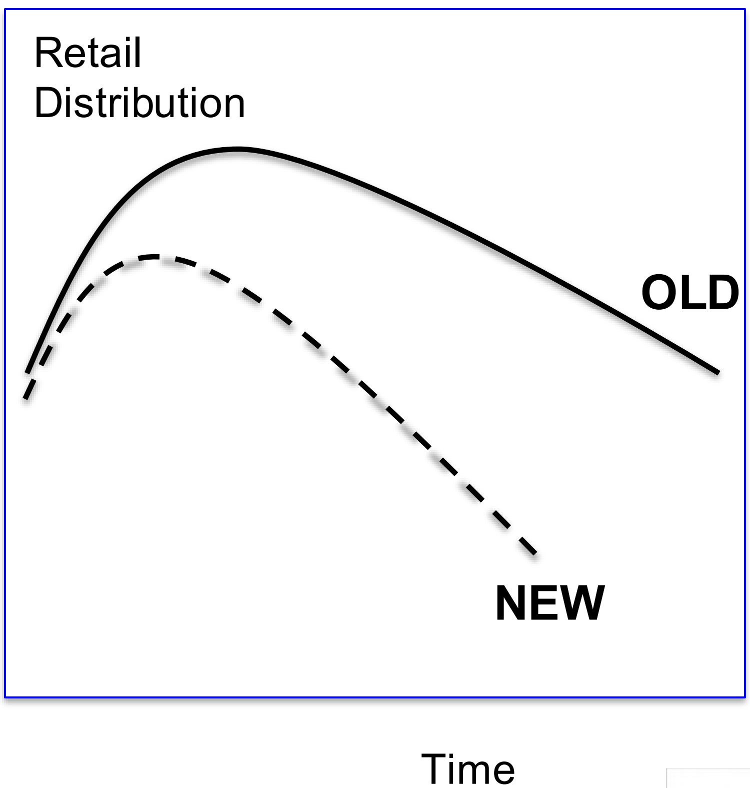
The major in-market issues are **fragmentation** and **saturation**

- Reaching target consumers is increasingly difficult due to media fragmentation and lower consumer interest in new products
- Obtaining and maintaining strong retail distribution is increasingly difficult due to increased retailer selectivity and impatience

Fragmentation

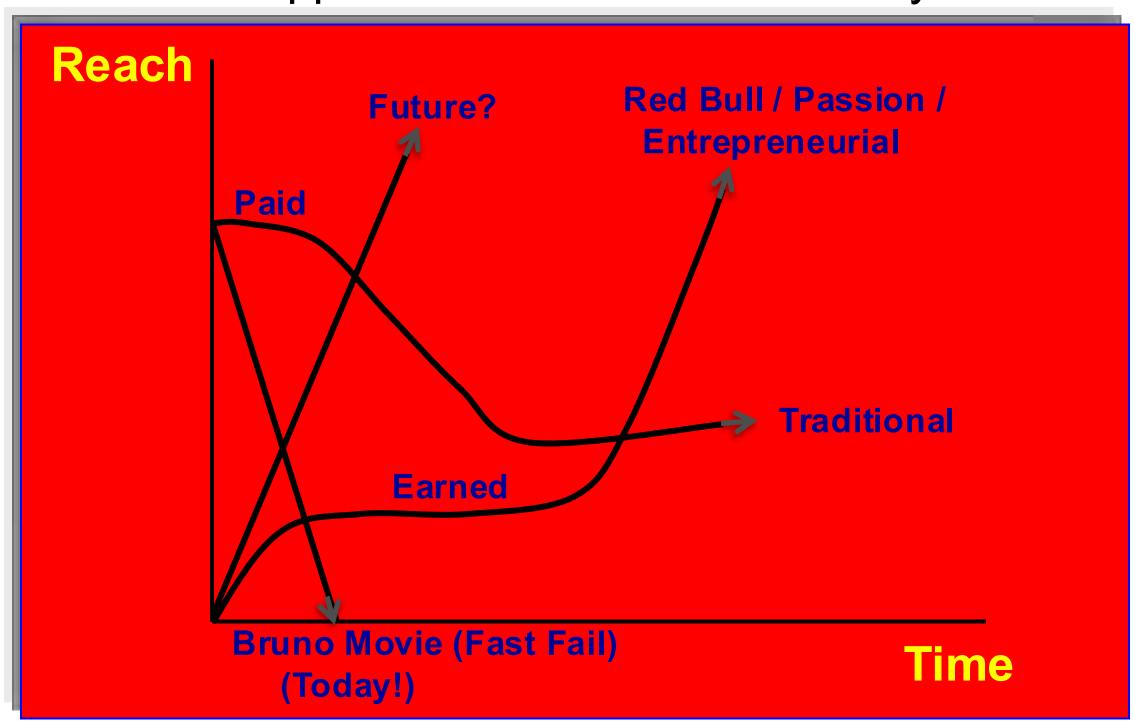


Saturation



Bringing Innovation To Market Is Challenging

- Traditional *"Launch 'em and Leave 'em"* mass marketing approach not working
- Successful innovation is coming from entrepreneurs, inside and outside the organization (example exception: P&G/Gillette)
- Beverages are prime example (Red Bull, Fuze, Honest, Vitamin Water, etc.)
- New model may be to start narrow, build deep and then expand
- There are new connective opportunities that are extremely broad and fast



The new model demands ***agility, flexibility, adaptability and iteration***

NET / NET
Innovation Landscape Has Changed Dramatically

The odds of marketing plus financial success are 20% or less… and now have even more challenges

Yesterday

"In control" with organization structure, media buying, analysis, captive consumer and alleged predictability

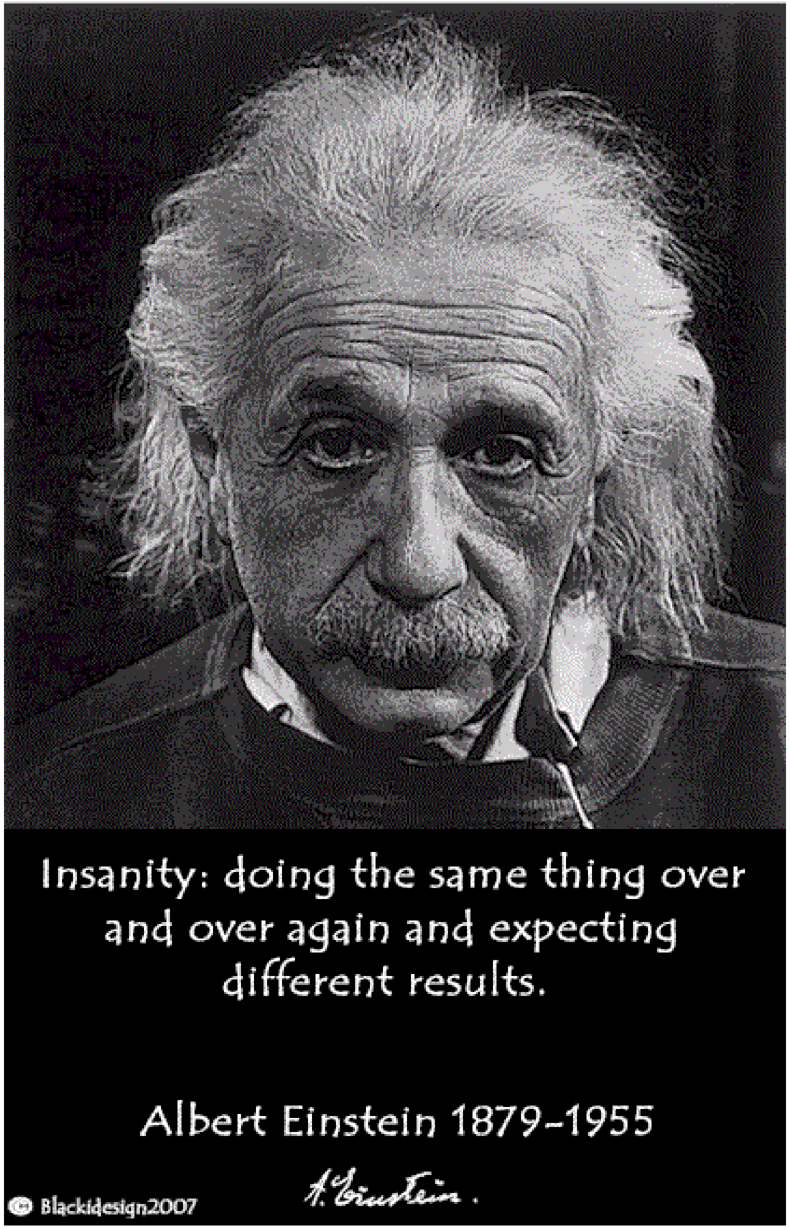
Today

"Chaos" with consumer choosing, retailer choosing, fragmented media…
+
COVID pandemic & inflation implications

Tomorrow

"Controlled Chaos and Connectivity" is the opportunity… embrace new marketplace realities and go with the flow

Is Your Approach To Innovation Insane… Especially the Go-To-Market Phase?

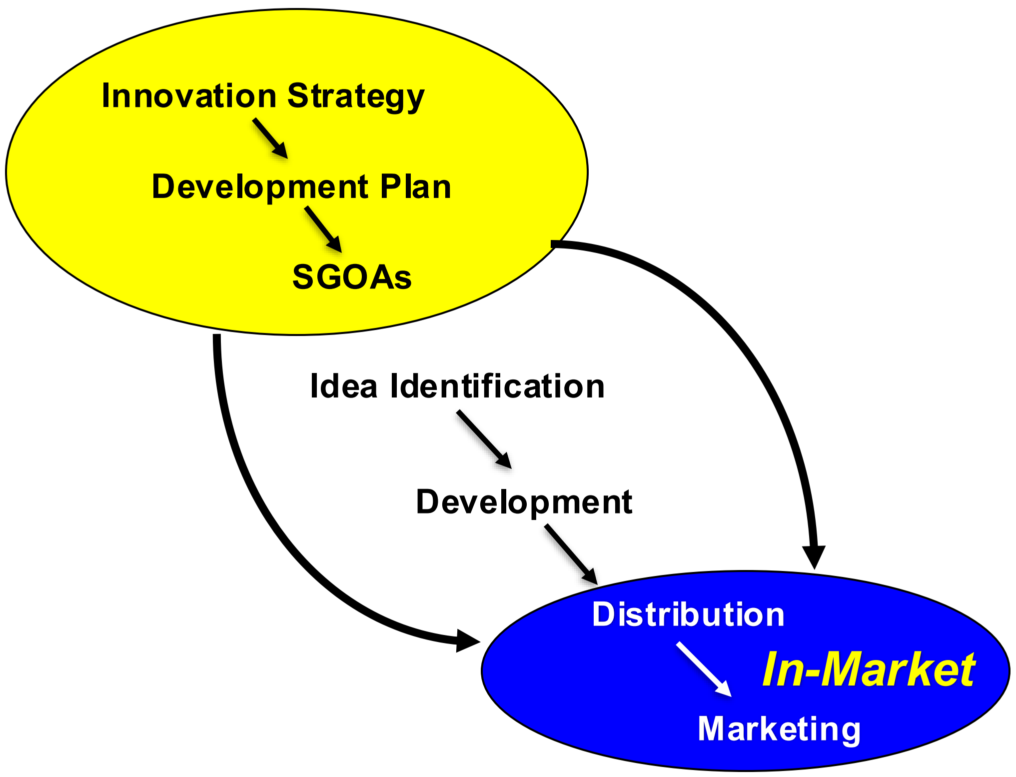


AVOID INSANITY!

There Must Be A Better Way!

So, What Is The Potential Path Forward?

There needs to be a ‘new’ NPD way



POV: *Route to Market* Is A Big Issue

- New Model may be to start narrow, build deep and expand
- Is there an opportunity to go broad, fast successfully?
- Buzz, viral, social marketing does <u>not</u> equal slow, low and unpredictable!

Today's Consumer Wants *Involvement*

- Consumer engagement during a *go-to-market* plan design builds attachment and affinity
- Consumers are not bystanders anymore, they are active in communication and creation
- This requires *new marketing* + *route to market* applied to NPD… and to managing current Brands…

dabbling in this territory won't cut it…

you'll always be playing catch-up!

So, What Is The Potential Path Forward?

A New Marketing Paradigm

Driven by Marketplace Conditions and Marketers

Need for Greater Impact and Efficiency

A Rapidly Changing World

Media Fragmentation

Retailer Consolidation

Product Proliferation

Continuing Marketing Budget Pressure

Eroding Impact of Traditional Marketing

New Consumer Landscape

Technology Acceleration

Facebook – Twitter – Instagram – etc. – etc.!

Requires A New Marketing Paradigm

A New Marketing Paradigm

Emerging Trend…
Industry leaders are redeploying advertising spending to other marketing weapons

Amazon.com cancelled plans for any television or general-purpose print advertising.

"Word of mouth is very powerful."

– *Jeff Bezos, Founder/CEO*

A New Marketing Paradigm

“***Where will Coke go?*** We will not reflexively turn to TV advertising when what we need is powerful communication and consumer connection.

It's not the property, the TV show, the movie, the music or the brand. It's why, where and how we bring them together.

And it is, as ever, about the consumer, all glued together by a powerful idea.

It's the ***insight about people's passions and connections*** we create, naturally and uniquely — between them and the equity in our brands.”

– Steven Heyer, ex-President & COO
AdAge, Madison & Vine Conference

A New Marketing Paradigm

360° "Passion-Based Connectivity"

Consumer-centric, not media-centric

Music

Fashion

Sports

Entertainment

Technology

Family

Home

Passion is the main artery to the heart of the consumer

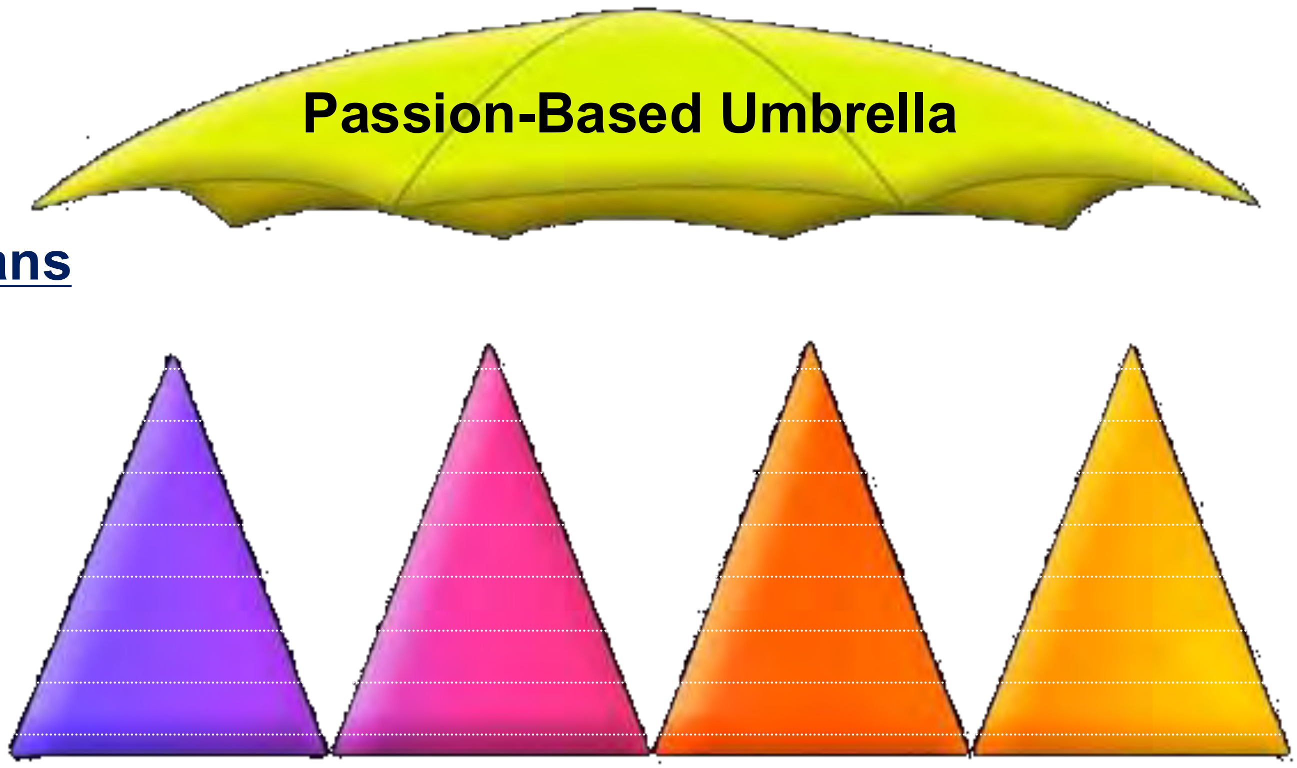
Episodic Marketing Plans

Drive ‘Passion-Based Connectivity’ through…

… ***integrated episodes*** which continually intrigue, discover and delight

It builds brands, loyalty, and sells product!

Episodic Marketing Construct



Brand Activation Plans

Advertising
Promotion
Events
Retail
Internet
PR
CRM
Alliances
Product News

Passion Point-Driven Marketing Episodes

- Evolving and unfolding brand story
- Surrounding the consumer 360˚
- Connecting through passions
- Creates discovery, intrigue and buzz

Each Element Delivers Buzz

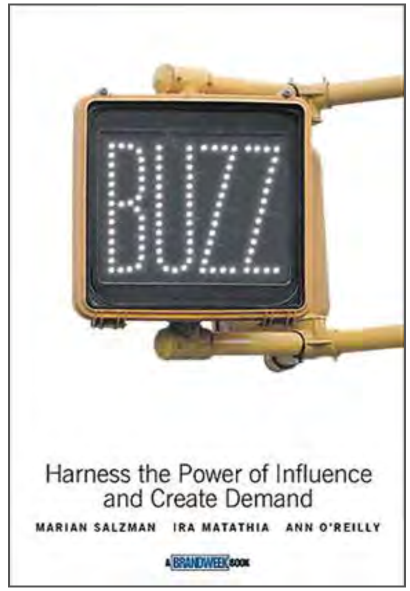
"If they won't talk about it, don't do it"...

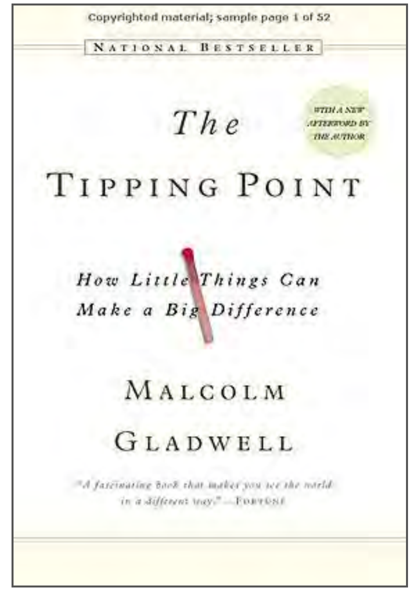
Even traditional elements done in unique, buzzable ways

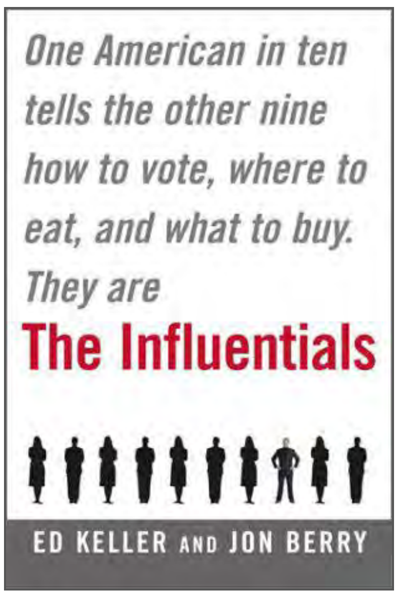
Total Marketing Plan
= Buzz Plan

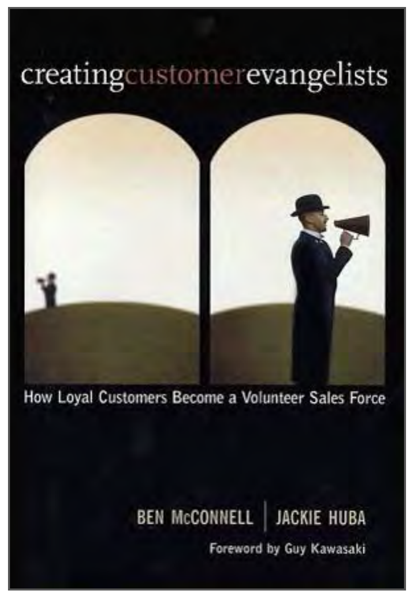
WOM is most compelling media to drive growth

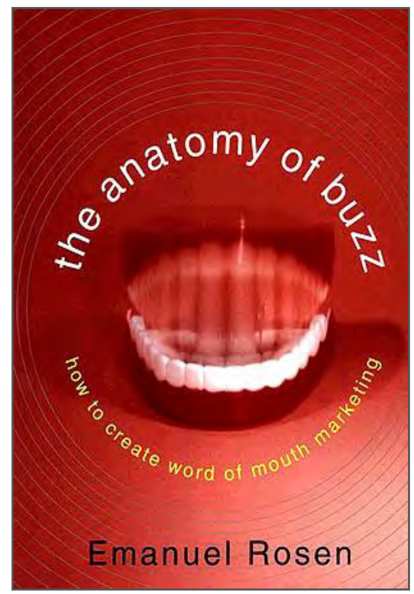
Everybody's Talking About It…











Buzz: Reality vs. Myth

- ***Myth:*** One can measure, track, predict TV and mass marketing much easier than buzz and viral marketing… *is this true?*
- Can buzz be predicted before hand?
- Does buzz = real information… *or* does buzz = perception?
- Is buzz authentic and accurate?
- Can buzz provide the scale and performance, delivery metrics needed?

Here's the Truth

Today's younger consumers are engaged

'in' the internet… <u>not</u> in TV!

And older consumers have also moved

into communicating by internet

A 2011 study (10 years ago!) of consumers under age 25

<u>showed the shockingly large percent, 30%, of</u> …

First time renters/buyers in NYC are <u>not</u> buying cable TV;

They are just getting internet / streaming access!

Buzz Is Real

- Facebook could be (‘is already’?) the future *face of marketing*… **think of it for the Internet as what Microsoft Windows is to the PC industry** (***the underlying operating system***)!
- Who you are on Facebook is authenticated
- It has scale, is trackable and low(er) cost!
- Today‘s consumers don't want to be marketed 'to’ …
  they want to be marketed ‘with’…
  and want to be ‘engaged’
- Must have passion and be transparent

Social Networking Sites Growing Dramatically

(Data Not Updated, Available on Request from PKA)

	Launch Date	Users Now*
myspace.com	2003	165 million
LinkedIn	2003	45 million
facebook	2004	300+ million (active) users confirmed
YouTube	2005	+1 billion views per day
twitter	2006	23 million uniques/month 16 – 18 million users (est.)
wine library tv CHANGING THE WINE WORLD	2006	80,000 – 100,000 viewers daily
cork'd	2006	65,000 total users
tumblr.	2007	2+ million publishers

* Need to update #'s

Journalists' Use of Social Media Is Surging

Almost 70% of journalists in a survey ‘over 12 years ago’ used social networking sites to assist in their reporting…
imagine what it is today!

Use of social media tools by journalists is growing in double-digit percentages in some cases

Major objectives of the study included an examination of:

- The impact of new media and communications tools on the way journalists work
- Online resources and social media that are considered the most valuable tools and how they are being used by journalists
- The frequency of use and preferences for a variety new media and communications tools and technologies
- Attitudes of journalists toward the impact and value of these new tools and trends in journalism
- Provide insights as to how public relations professionals can understand these changes in order to work more effectively with journalists, and provide more value to the journalistic community

Source: 2nd Annual Middleberg/SNCR Survey of Media in the Wired World (Feb 19, 2010); conducted by the Society for New Communications Research team of Jen McClure, SNCR founder and president, and SNCR Senior Fellow, Don Middleberg; the study was made possible in part by Marketwire; 341journalists participated in the survey

Journalists' Use of Social Media Is Surging

Key findings

Nearly 70% of journalists surveyed were using social networking sites over 12 years ago!

- 48% are using Twitter or other micro-blogging sites and tools, +25% since 2008
- 66% are reading blogs
- 48% are viewing videos online
- 25% are listening to podcasts
- Nearly 80% of journalists believe that bloggers have become important opinion-shapers in recent years
- 91% of journalists agree that new media and communications tools and technologies are enhancing journalism to some extent
- When asked to share their thoughts about how social media is changing the profession of journalism, participating journalists provided a wide range of responses
  - One respondent answered, "Social media is changing the profession. It has enhanced the dialog between audience and writer and expanded the scope of those who can participate in disseminating news."
  - Another commented, "It is full of peril and promise."

Source: 2nd Annual Middleberg/SNCR Survey of Media in the Wired World (Feb 19, 2010); conducted by the Society for New Communications Research team of Jen McClure, SNCR founder and president, and SNCR Senior Fellow, Don Middleberg; the study was made possible in part by Marketwire; 341journalists participated in the survey

Journalists' Use of Social Media Is Surging

"This study indicates that there is now a large and growing percentage of journalists who view social media and the participation by the public in the journalistic process to be a necessary, and in most cases, positive step in the evolution of journalism," said Jen McClure, founder and president, Society for New Communications Research…

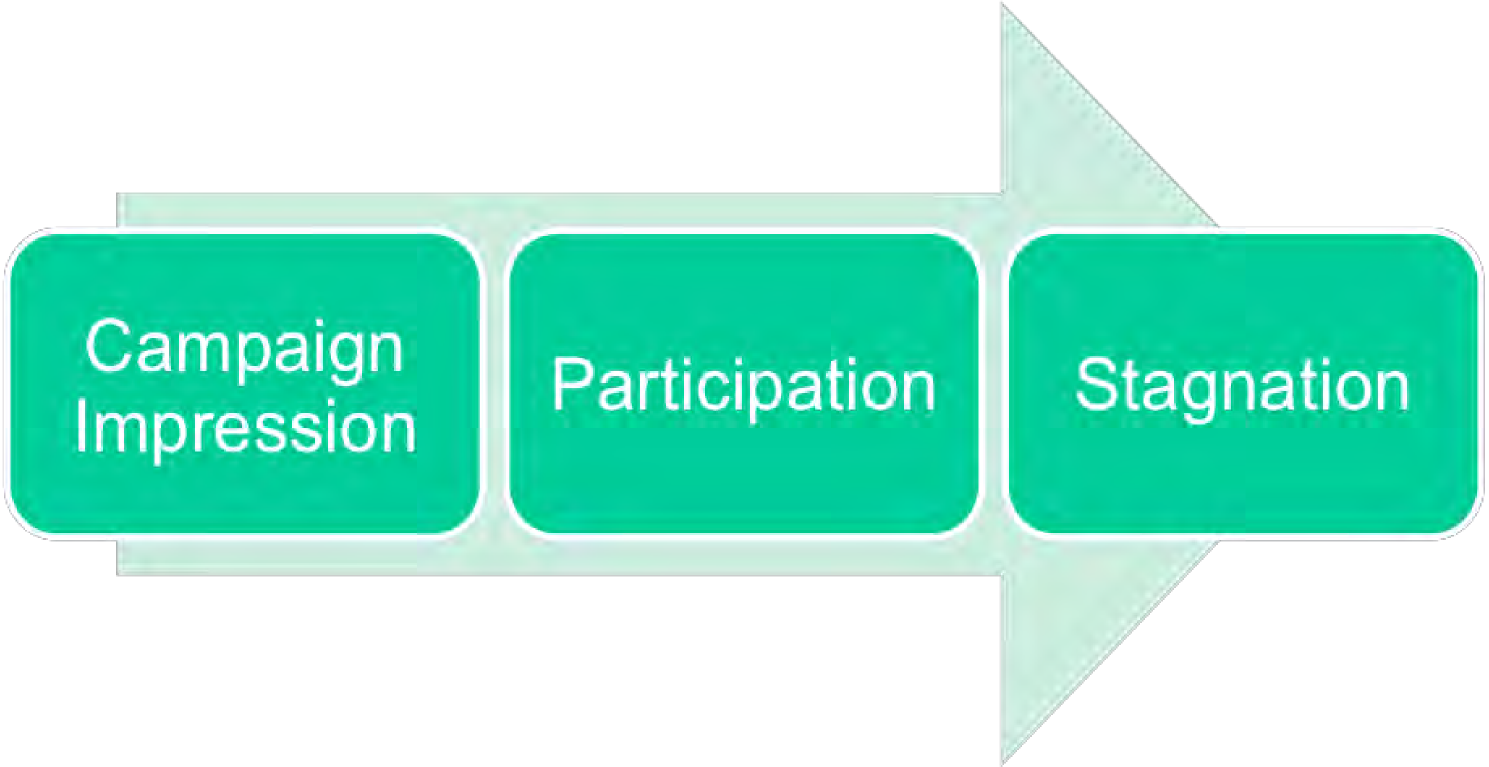
"They understand the future of journalism to be a highly participatory, collaborative and dynamic process"

While companies are increasingly paying more attention to social media for revenue generation, employee productivity and enhanced consumer loyalty, many do not yet understand the true scope and depth of these new communications tools for journalistic usage

- As a result, some companies are losing share of voice among journalists to their competitors
- Social media presents a new opportunity to communicate and develop relationships with a whole new generation of journalists through these new channels of choice
- The definitions and roles of journalists and public relations practitioners have changed significantly over the past few years… social media is immediate, it is accessible, and it has irrevocably changed the relationship between makers, reporters and consumers of news

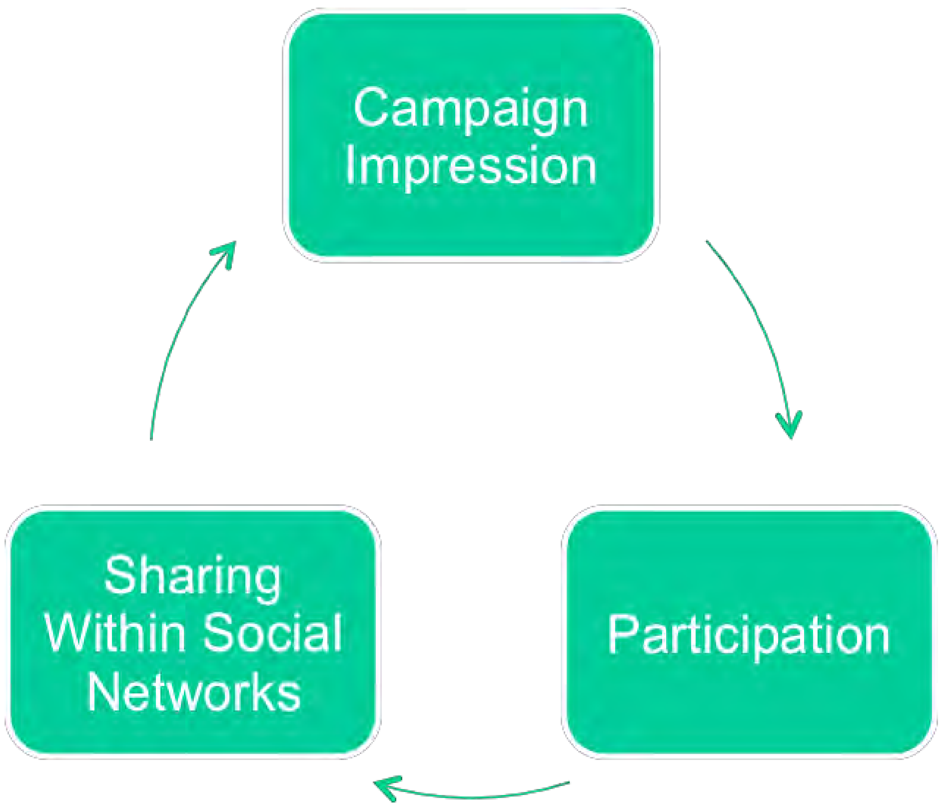
Source: 2nd Annual Middleberg/SNCR Survey of Media in the Wired World (Feb 19, 2010); conducted by the Society for New Communications Research team of Jen McClure, SNCR founder and president, and SNCR Senior Fellow, Don Middleberg; the study was made possible in part by Marketwire; 341journalists participated in the survey

Traditional Media



Traditional Media Leads to an Insular Product Interaction

Social Media



Social Media Perpetuates a Cycle of Brand Impressions

Today's Agencies Are Not Succeeding

- Many agencies are buying internet media like TV!
- Economic model for internet and viral is <u>not</u> appropriate for traditional agencies
  - UK: internet advertising is higher vs TV since 2009!
- POV: Agencies are ‘going through the motions’ of being *on-trend*

Embracing Social Media Platforms Is Newsworthy in Itself

"Dell Sells Three Million Through Twitter"	- Wall Street Journal
"Zappos Gets Savvy With Social Media"	- San Francisco Chronicle
"Best Buy Tries AR in Twitter Promo"	- Adweek
"Jet Blue Promo is a Social Media Hit"	- Business Week
"Inside H&R Block's Social Media Marketing Blitz"	- AdAge
"Comcast: Twitter Has Changed the Culture of Our Company"	- TechCrunch
"Pepsi Drops Super Bowl Ads, Emphasizes Internet Advertising"	- Examiner
"Starbucks Social Outreach Stirs The Pot"	- Adweek

Key Message: The Innovation PATHWAY©

- ***PKA*** in conjunction with ***Kate Newlin*** enables clients to navigate the increasingly complex, crowded and changing marketplace by developing a relevant, on-trend and efficient Innovation Pathway© to successfully launch innovation

Yesterday

… Busted Model

Today + Tomorrow

Connectivity
+
Controlled Chaos

How Does PKA Capitalize On This?

Where is the opportunity?

Where is the gap?

Where can you make a difference?

Awareness **Availability** **Affordability***

(Go-to-Mkt + Trial/Penetration + Repeat) (Distribution)

(Development + In-Mkt Spend)

* We assume you can handle this with no external help

We Will Break the Slow Awareness Build Vs. Dramatic Customer Impatience Paradigm

Including But Not Limited To…

Invent New Awareness and Adoption Mechanisms

- Viral
- Internet
- Direct to Consumer
- Pre-Launch Hype
- New Non-Traditional Channels
- Etc.

Will a ‘New’ NPD Way Be Accepted Internally?

Here is the barrier to acceptance and potential fatal flaw…

"Yes, I agree, it is broken, or at least not working well… <u>but</u> it is too hard to change my organization!"

PKA provides customized and turnkey solutions,

working with proven experts that will overcome organizational inertia

<u>and</u>

get organizational buy-in, ownership

PKA Bridges The Old With The New

- NPD process is alive and necessary today as it ever was…
  we have seen them all!

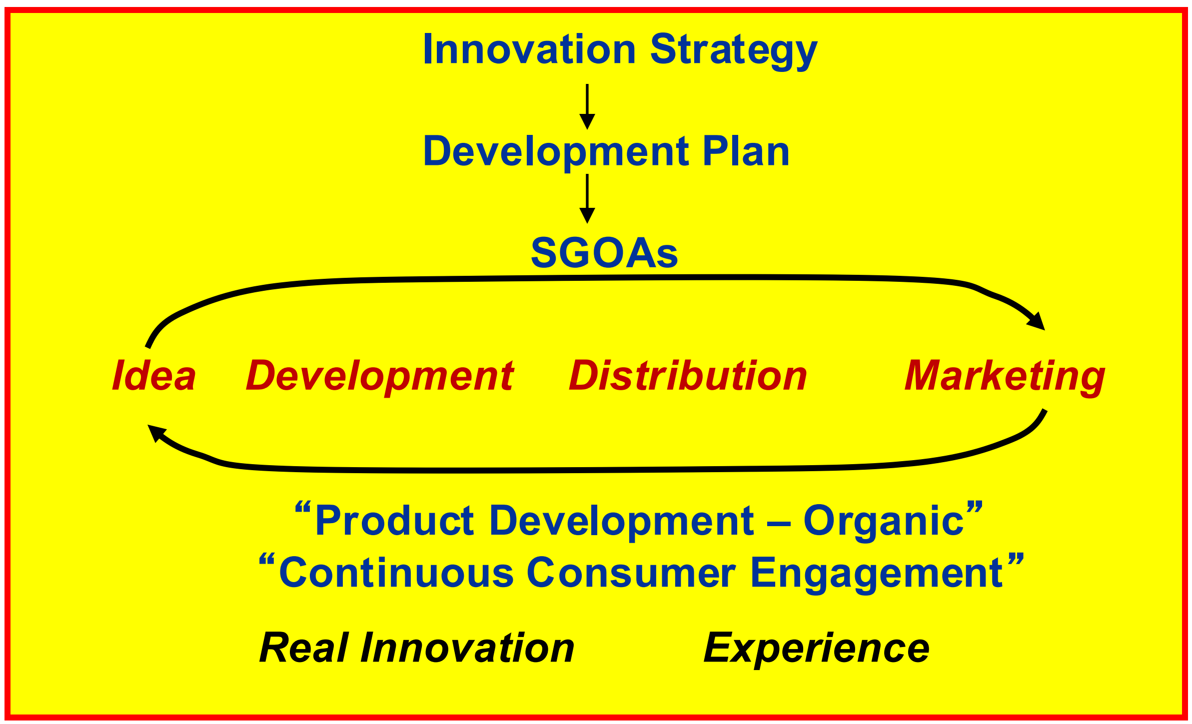
- PKA brings 5 decades of innovation expertise and success…
  'been there, done it' on client and consulting side in senior positions

- PKA can bridge the *tried 'n true* innovation expertise to the new marketplace realities

- We offer new and fresh ways to reach consumers and new *routes to market*

Our Approach Is Iterative

- There is a continuous learning and growth approach
- Consumer and marketplace feedback into the right development stage
- Most entrepreneurs gain marketplace feedback and modify as they go
- This is especially true today as consumers want to be involved in development



Ford Focus: Key Influencer Pre-Launch Product Seeding And Buzz

Famous DJs

Queen Latifa

Extreme Sports Athletes

Program Description

- Gave tricked out Ford Focuses to 120 young key influencers in 5 markets
- Drive free for 6 months
- Option to purchase
- Record where they took car and what they did

Results

- Key influencers buzzed about it to friends, online and on air
- Generated estimated media value of $12-15m for total program cost of only $300k
- Connected Focus car/brand to young adult
- Voted New Car of the Year
- 75% of the key influencers purchased the vehicle

PKA Team Will Make A Difference

We provide a new route to market expertise… not just an NPD boutique or advertising or digital agency

PKA's *Customized* Innovation Pathway© Team Can Work Across the Below Example Areas

Example Project/Program Areas

1. **<u>Paint On A Big Blank Canvas</u>**
   Do a New World Launch Plan on a "big one" on an established brand (revitalization/total make-over) or on a new product area on or an adjacency… "show us the way with a turnkey go-to-market approach using linkage"

2. **<u>Unbiased Shootout vs Current New Product Launch Plan</u>**
   Develop a New World Launch Plan on a close-in new product innovation and compare/contrast versus an existing approach by the client to demonstrate differences, trade-offs, and implications…
   Analog: Turbo-charge an existing close-to-market (aka: traditional) Launch Plan fully leveraging new to the world tools and realities

3. **<u>Other/TBD</u>**

Typical PKA Project in SGOA Area

Forge a fundamental paradigm shift

Growth Through Acquisition

Growth through innovation, new products, executional excellence: volume and margin gain

Commodity Products

"Okay, Available & Cheap…

Usually End-Up With Excess Capacity + Supply/Operations-Driven Company"

Branded Platform

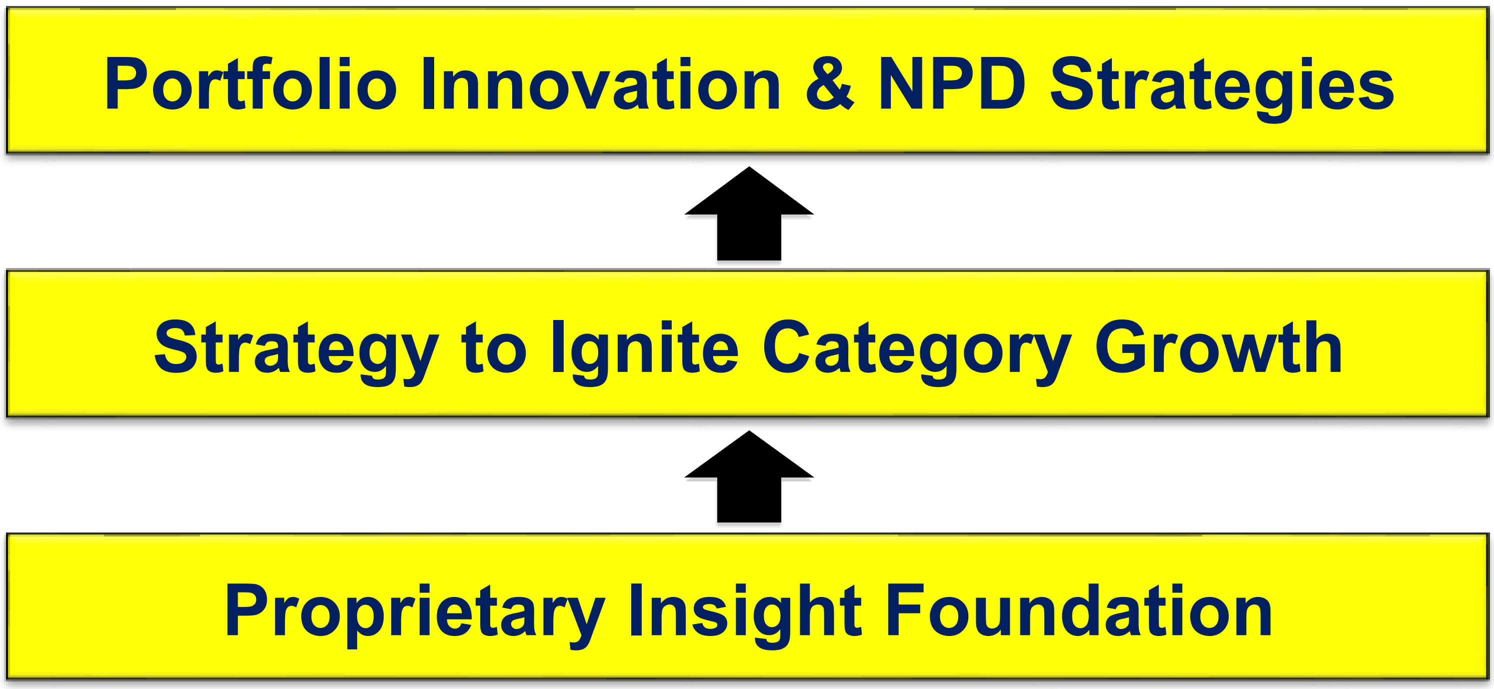
"Relevant & differentiated consumer propositions compellingly articulated and operationally manageable"

Today → Tomorrow → 2023

Our Usual Approach*

Bottom-Up Strategies

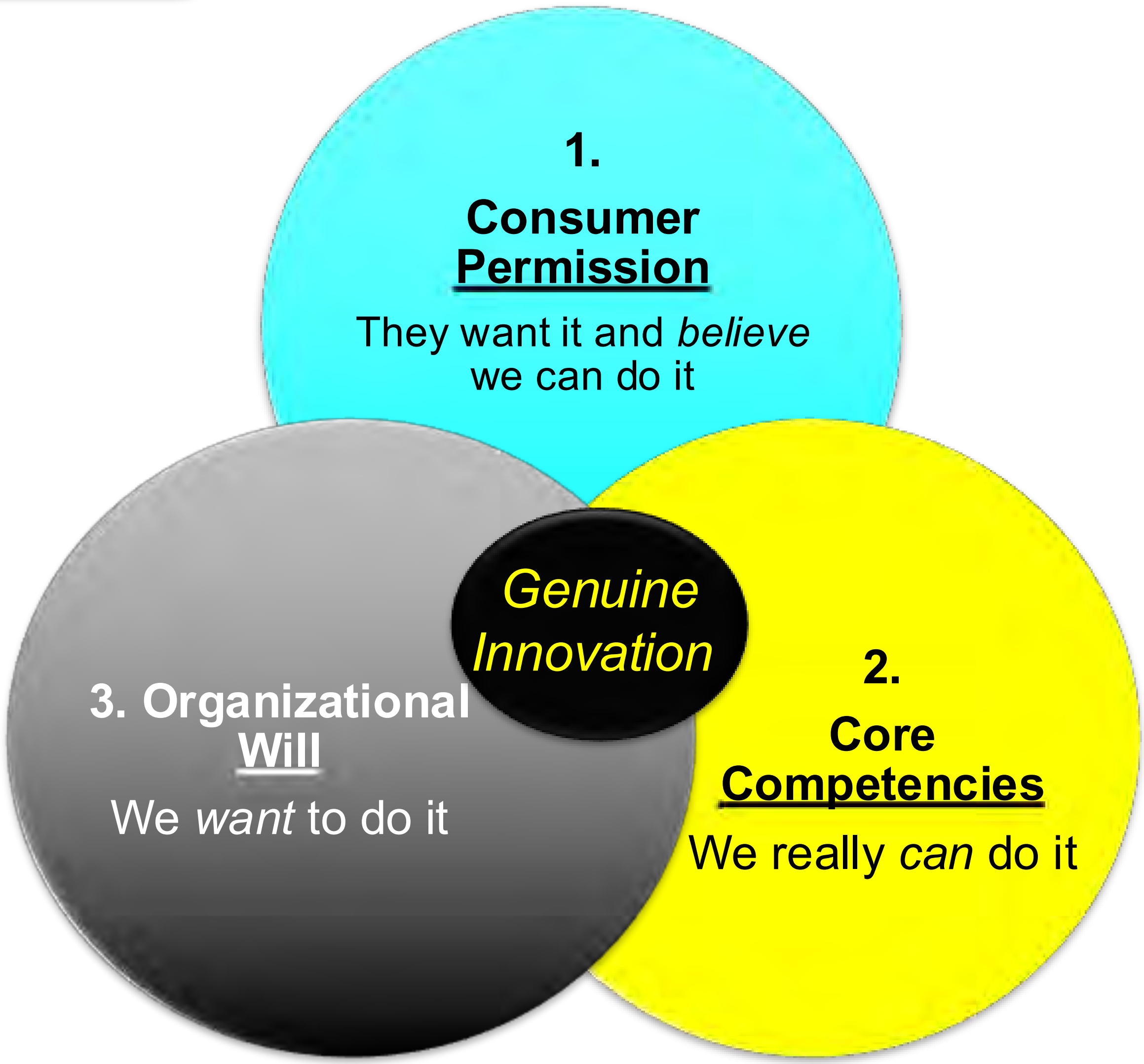
- Develop a market-driven near, medium and long-term innovation strategies for to stimulate/drive category growth via new product momentum
- Lead ignition of category growth and capture disproportionate share due to laser sharp portfolio and new product strategies articulation



* Varies by client situation and need; no cookie-cutter approach

Our POV

Genuine Category and Brand Innovation is created at the intersection of…



Our Usual Role

Senior, seasoned expertise to speed opportunities to market

1. Begin with the End in Mind

Analysis, research for optimal marketspace impact
Surface emotional content of category and forms

2. Move Data into Action

- White space definition
- SGOA sizing and optimization
- Platform/concept hypotheses development

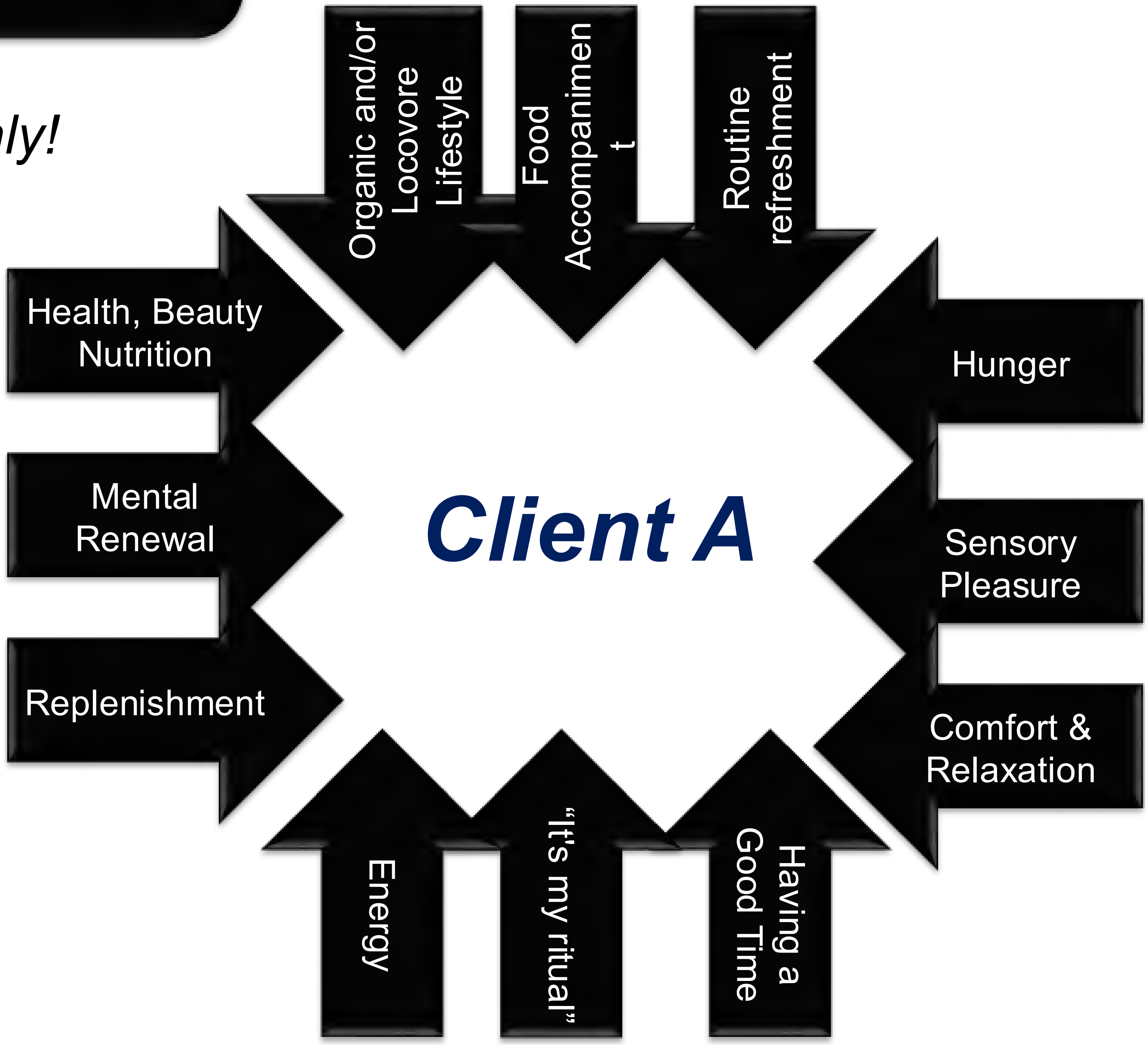
3. Validate the power of the proposition

- Platform/concept triage through ratification with consumers
- Articulate the SGOA, basis of interest, requirements
- Business proposition / pro forma's
- New product and communication refinements, to do's

1. Begin With the End in Mind

What's the need behind the need? What's the higher priority?

Example Only!



2. Move Data Into Action

Bring other great minds to bear on the issues at key moments… Via Expert Ideation *(Examples Below)*

Our Rolodex is Vast!

Diane Podrasky
Fashion Retail

Wendy Diamond
Fragrance & Flavor Design

Kate Newlin
Marketer, Writer

Tim Bird
Pharmaceutical Marketing

Eve Elliott
Food Psychologist

Kathy Keller
Religion & Culture

Sydney Ludvigson
Economist

Margaret Walch
Founder, Color Association of America

Shari Hershorn
Fashion Designer

Jan Abruzzo
Psychologist

Lisa Lefebvre
Advertising, Marketing, Prestige Markets

Traci Godfrey
Actress

John Kneapler
Graphic Designer

Linda Pollio
Holistic Health

Dave Moran
Superior Marketer

Elizabeth Houlihan
Packaged Goods & Pets

Debbie Barnes
Catering & Entertainment

Julia May
Art Historian and
Private Collection Curator

Lisa Arongino
Media Strategist

Sherry Baker
Bath & Body

Daryl Brewster
Food, confections

Nancy Kim Parsons
Documentary Film Producer

Amy Marcus
Consumer Insights

Isabelle Kellogg
Luxury Products

Brian Craig
Retail Strategist

Jayne Baron Sherman
Broadway Producer

Jill Simonson
Social Services

Nancy Smith
Creative Director

Robert Gee
Consumer Electronics

Tim Harper
Journalism Professor

Nancy Babowitz
University Fund Raiser

Robin Waxenberg
Cause Related Marketing

Tracy Chapman
Marketing to Women

Christina Campasi
Beauty & Cosmetics

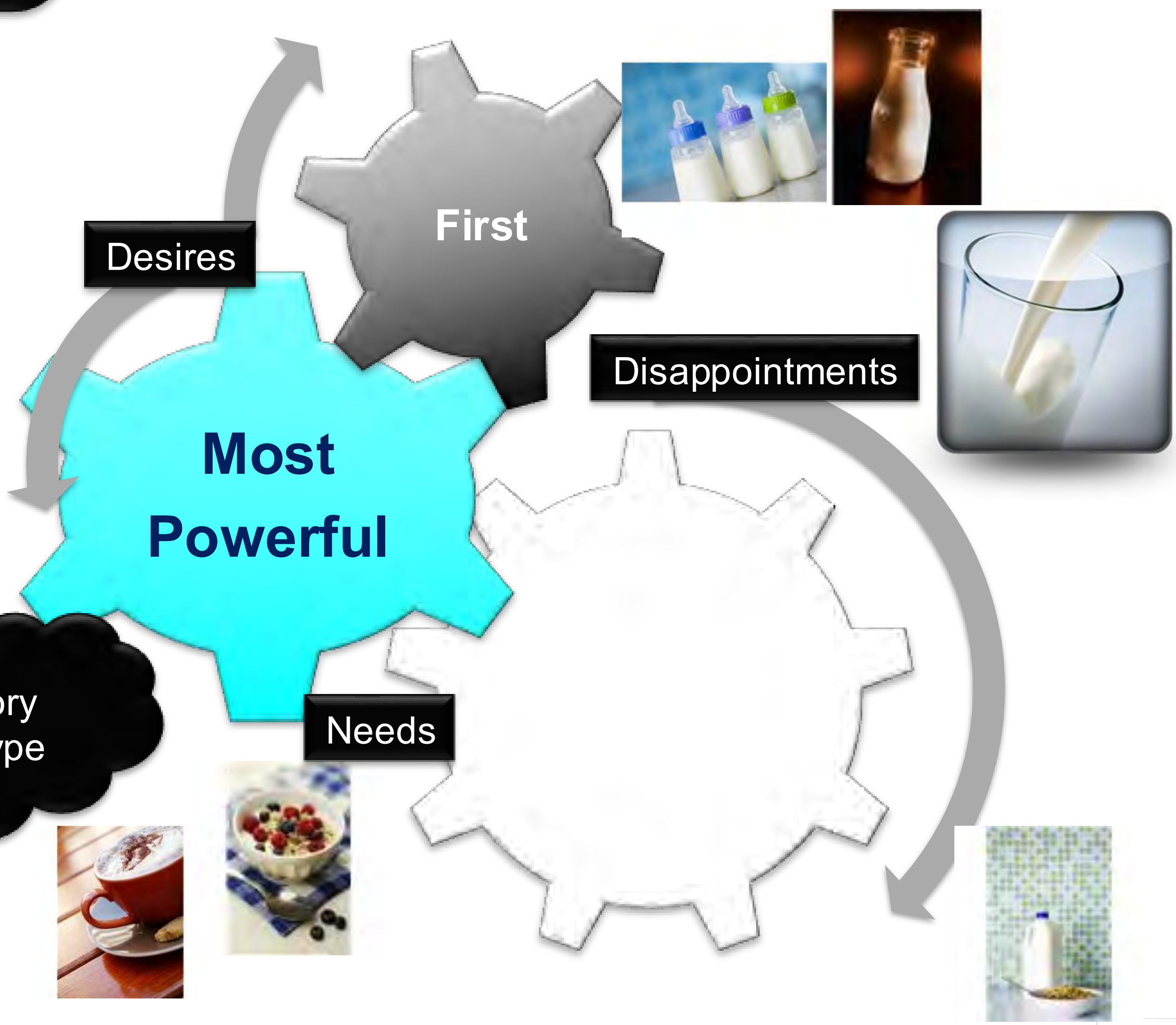
Carl Johnson
Corporate Officer &
Superior marketer

3. Consumer Insight Validation

What's the emotional content of the category? The forms?

Surface the consumer's unguarded perspectives, discontents & hopes via **Hypnosis Groups**

Frame-up all the insights relative to Frame-of-Reference & Targets; not broad but actionable



Why PKA

Seasoned, senior strategists & hands-on executional expertise

Seniors-only, proven, results-driven team, with relevant growth management, food, beverage, snacking and the Consumer Products Industry…

Focusing on *need-to-do* fact-based assessment, documentation and market-driven insight creativity working on an agreed-upon work plan, will best deliver against client needs and goals

Good People
Working a Plan…

Experienced, Customized
Total Proven Seniors-Only Team

- Business Development, Marketing, New Products, Mkt Research, Communications, Trade/Channel
- Executive & General Management Experience, Perspective

…and Holding to
An Important Philosophy

- Reverence for *Facts + Creativity*
- Diligent Approach & Work Plan
- Re-Plan Project if Conditions Warrant
- Unique, Implementable Solutions for client's situation
- *Client MUST OWN* the outputs

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768

* SKIM what articles are included and decide **which ones, if any, to read!**

NPD Perspective Back in the 1990's

(Notes from a Brief Talk)

- New product observations, issues
- Why are new products important to have now?
- What's really happening and why
- Why so few big ideas?
- Things to work on

Four NPD-related issues, topics…

- Breakthrough new products
- Why needed
- Barriers
- How to execute

Historical Perspective

1970: Acquisition -- scarcity/mistakes
1980: Pricing -- Marlboro Friday
1990: Characterized by cost reductions, parity products, productivity culture
2000: Survivor management mentality… lot of churn/activity

Hegelian Outcomes

- Flat/declining categories (many, not all)
- Smoke and mirrors ads
- Price discounts for volume
- Escalating consumer complaints
- Essentially stagnant share
- High anxiety about job retention

The Late 1990's

"We cannot cost reduce our way to greatness," (Chairman – major U.S. corporation)
"In the end you must survive" (Managing Director, large institutional consultancy)

New Product Innovations CEO Wish List

Next Generation "Platforms"	**Growth Engines (examples)**
Breakthrough inside	Huggies
Immediate scale	Snackwells
Efficient line extensions	Gatorade
Productivity plays	Healthy Choice
Sustained advantage	Tostitos

Oscar Mayer Lunchables*: The Michael Jordan of Category Growth*

Current Reality for New Food/Beverage Products

- Roughly 13,000 launched each year
- 64% quickly lose distribution
- Only 12% achieve $50 mil. over two years
- Mindless activity and churn

Data source: IRI Pacesetters Studies

Why aren't we getting more breakthrough NP's/engines?

Discussion

Strategy is about new products, not only platforms; maybe too much focus on specific ideas vs. big platform
What is the scale of financial resources that must be made available?
New products come from identification of unmet needs, new needs based on trends
There's a desire to quickly ideate, quantify and introduce
Organizational barriers – risk aversion, cultural problems, folks with creative minds tend not to survive
Marketplace is extremely competitive
Tough to pay out Advertising and Marketing on small ideas
Barriers to look at, competitive frame of reference
Conservative growth goals
don't really need new products to get to only a 1-to-2% growth
We can do a better job of strongly supporting why new products are essential
Right risk profile for client
Takeaways: 70+% familiar characteristics of new products
Focus on one benefit but build in multi-benefits for multi-targets
Increase odds of success

Shakespeare on New Products

"As flies to wanton boys are we to the gods. They kill us for their sport", Victim
"The gods are just, and of our petty vices make instruments to plague us," Perpetrators of failure

Much Tougher Marketplace

Shifting channels
Concentrated retailers
Deep-pocket competitors

Continued . . .

Sliced and diced categories
Ralph Nader shoppers
Huge up-front antes
Shelf clutter/TV roulette
Short time-fuse
Whine Whine Whine

"David Letterman's" Top 10 Reasons Why New Products Fail!

1. One quarter horizons
   Checkers vs. chess
   Major vs. Thatcher
   Is it safe?

2. Productivity culture
   Leverage unit margins -- pricing and cost relative to volume
   Cost Reductions vs. Quality Improvements
   Weed - outsource -- competitive advantage by modeling
   Standardize - automate
   Burn the furniture

3. Shifting agenda for Market Research experts
   Tracking over generating
   Behavior over attitudes
   Ascendant modelers
   Pricing/spending/space management
   Rearview mirror

4. Eroding “feel” for consumers
Tons of data, but few ...
Integrating frameworks (how to put together and simplify, few have models to do this)
Eureka insights
Concrete initiatives
Trial balloon experimentation

5. Stop-start mission for NPD
Do I really need these
Do they every pay out
How many ditches to dig
Where to start digging
How long will it take
How much might I lose
Do I really need these

6. Picking the wrong surgeon
Send me in, coach
Asst. PM's/Part-Timers/folks who have fallen from GM track
Contractors vs. architects (companies need architect to see things at a different angle)
Finding impassioned entrepreneurs
Nurturing -- retaining them
Clueless in Human Resources (where do they fit in)

7. Not properly category-scanning consumers
Softball, non-competitive inquiry
Unreal stimulus out of content
Passive listeners eating pizza
Arrogant, unwarranted optimum

8. Not thinking across the business systems
The province of marketing
Ignoring operations, retailers, etc.
Tripping into knock-outs
Hopeless financial props

9. Broken thermometers
Once I build a model !!!
Environment of 1960-70's
Missing wildly, especially “really new” --
Moses tablets denial

10. Speed up - screw up (Cover up... move up)
Accelerate the launch date (start up is screw up, chaos)
Half the wheels loose
Challenger is off the pad

Boosting the odds of NP success… various hits and misses

1. Clarion call for Innovation -- *"Broaden and contemporize the product portfolio"*

Need more folks at the top that will …

You can't hype a stiff

How do you get around that mindset, how do you know it's a stiff?

POV: sheer desperation, thru pricing, consumer research, when it runs out, top of P&L, drive revenue)

2. Quantified 3-year targets

(Illustration) "New Product Volume" bucket poured into "Current Line Volume" bucket

(Not growth categories, but declining categories)

How much product volume do we need to get to make baseline, long range plan?

3. Drive from Divisional Plans

Build your NP agenda out of reality, where do you need help or defend against competitor, how to be leader in industry/territory:

Annual Bus. Plan/LRP	New Products Agenda
Strengths	#1
Weaknesses	#2
Opportunity threats	#3

4. Articulate paths to success

What changing consumers want intersects, overlaps with what we do particularly well — these are the best NP bets

(E.g., Oscar Mayer's mid-1980's ***frozen Stuff 'N Burgers****: found product was pretty good, OM ability to sell/distribute/never materialized since* *<u>OM was a refrigerated business system</u>*

<u>Important Problem</u>	**<u>Superior Solution</u> (examples)**
Saccharine aftertaste	Nutrasweet
No ready cash	ATM's
Lousy backhand	Prince Racquet
Storing leftovers	Ziplock bags

Find it and put your hands around it, wish someone could solve it for me

What Success Looks Like in Years 1-3

Volume	Revenue
Rate of return	Mfg'r costs
Sensitivities	Promotion costs (consumer + trade)
Payback	

Lines of retreat: Earnings!

5. Have a roadmap

"New Product Playbook" illus., NOTE: Not an Army manual!

Huge differences at the front — are you starting down a good path?
Do you have a chance at succeeding?
What is right platform?

6. Find experienced architects

Idea champion internally is critical (can be impassioned without losing productivity)
Leadership style (empower them)
Management trust

7. Organize around *cross-functional team*

(chart in circles, top clockwise)

Project Champion
Marketing Research
R&D
Packaging Graphics
Engineering
Operations
Purchasing
Sales Planning
Advtg/Consumer Promotion/PR Agency(ies)
Finance

Results: Superior Customer Satisfaction and ROI

8. Arm team with relevant factbases

i.e., *"My Life"*, not: *"My life with Bologna"!*

9. Transform upfront Market Research work: interviewing-listening-headlining

(house of quality picture)

1. Target: Working mom making carried lunch for kids
2. Essential Values (I want to...")
3 Competitive frame(Existing consumer options)
4. Important and widely shared problems among target

Rational (think)….and ... Emotional (feel) ....

10. Strengthen translation from insights to 3-D prototypes

(Illus.) *Montessori School (use imagination and show us the answer)*

(Illus.) Diverse teams, creativity exercises, stimulating environment link together and are built through prototypes

Nike, Disney -- touch, feel -- very different from other companies, you KNOW what their product is

11. Unite "2 cultures" around optimizing blueprint

Tech/Ops	Your superior solution	Marketing
	Product delivery (mouth)	*build imagery*
	Brand imagery (mind)	

12. Design with cost targets in mind (P&L example)

Value engineer trade-offs as you go

(see-saw illustration of various Consumer Wins: Features, price points vs. …)

13. Demand breakthrough executions in the end (stair step illus.)

14. Use electrified hurdles to manage risk (stop dumb things early while you have resources)

Phases	
1. Consumer insight	Positioning
2. Prototype ideas	Concept test
3. Optimized executions	IHUT / biz prop
4. Ready Mfr/A&P	First production

Stop things at Phase 1 (lose $10 million instead of $30+ million!)

15. Experiment and adjust locally as you go (not one size fits all in different markets, be flexible, learn local markets

16. Stay one step ahead of competitors

Create consumer franchise (bottom)	"Merely fair"
Gets costs rights	"No margins"
Maintain sales momentum (top)	"No Year 2"

17. Repeat your mantras
Why will they switch to me?
Show me the money!

18. Keep learning and celebrating
The real inventors: they have the insights, but don't communicate it to top management (ie. Howard Gardner, creative thinking, "The 7 Intelligences" *(necessity to embrace these folks)*

19. Maintain perspective and have "The best hitters"

HELP WANTED!
Consumer frameworks leading to opportunity areas
Value engineering methods -- how to do experiments to optimize
Thermometers that predict -- measurement tools, forecasting
Low-cost sales experiments learning labs for 'speed' - what are they, how to use/learn
Guerrilla marketing intro's -- how do we change tactics for intro's (eg, not always necessarily use network prime time vs. spot TV)?

Other notes and discussion

Improvement opportunity for us is to take Safari reports and turn into bigger business building idea

Insights can come from having target consumers compare and contrast the alternatives

Show the physical product

Sometimes insights are the most obvious things

In hindsight, innovations were so obvious

Go to homes, take photos of what life's like, get consumers to talk fancifully and emotionally and interpret properly, takes psychiatric skill, use observation methods that shakes them out of the norm

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Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway© – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768

* **SKIM** what articles are included and decide **which ones, if any, to read!**

New Product Development
Process Management Benchmarking

Industry Best Practices - Executive Summary

For an SBU/GBU seeking to redesign or improve its New Product Development (NPD) process, I suggest looking at recognized leaders in NPD (in addition to a benchmarking study conducted by Canadian academics, as well as specific NPD Processes… for example, Nabisco spent about 18 months re-designing its NPD process, and another 6-12 months inculcating it across the company)

After viewing many CPG companies which excel in NPD there are several themes common to almost all of them

Findings from these NPD leaders fall into five general areas:

- ***Consumer and customer insights***
- ***Strategy and planning***
- ***Thinking commercially***
- ***Championship and teaming***
- ***Enabling culture***

Executive Summary - Cont'd

Findings are summarized below plus other material on NPD (e.g., NPD lessons learned and what it takes to win, NPD principles, development process, numerous case studies, etc.)

Consumer and Customer Insights

- First and foremost, every leading NPD company is single-mindedly devoted to <u>discovering customer and consumer insights</u> which, in turn, drive all NPD strategy and decision-making

- These companies make it a policy to evaluate consumer wants, needs and satisfaction/dissatisfaction, regularly
  - Johnson & Johnson always comes back to "customer-relevant differentiation" - that is, regardless of all the bells and whistles put into the product, if the consumer doesn't perceive any improvement in performance, they will see no reason to: a) pay more, b) switch brands, or c) use it more often
  - At both Gillette and P&G, many new product employees *'eat, breathe and sleep'* their consumer brands - investigating how consumers use them today and want to use them: from how they hold the product in-use, to how many steps it takes to clean a kitchen floor thoroughly

- All of the companies de-briefed have a <u>disciplined process</u> of collecting, analyzing, reporting and databasing these research insights
  - NPD managers "live" with this data-both quantitative and qualitative-and use it to drive superior NPD performance

Strategy and Planning

- Many of these leading companies have a strategic plan in which new product development holds a fundamental position . . .
  In other words, NPD is not an afterthought to the strategic growth plan – rather, it is an essential element of the operating plan, holding as much importance as growing the 'base business'
  - Hewlett Packard's strategy is to derive more than half of its revenues from new products (defined as products introduced in the last three years)
  - This strategy reflects the reality of its business in which products that are more than one generation old are considered obsolete
  - To keep up with this demand for revenues from new products, H-P introduces new products and/or upgrades on a very tight schedule - as many as 4 per year per product

Executive Summary & Findings - Cont'd

Strategy and Planning – Cont'd

- A second aspect of the strategy and planning theme is the discipline each company demonstrates when it comes to evaluating ongoing NPD initiatives
  - Most executives were quick to emphasize that while taking on an NPD project is a great endeavor, equally important is the ability and courage to 'kill' the project if necessary
  - All of these companies have mechanisms that allow them to recognize that an NPD initiative has lost its urgency, veered off strategy, or that another project has better odds of success
  - A prime example of this discipline can be found at Iams, which has identified dog and cat nutrition as its central strategic focus…
    new product development, therefore, will always be focused against this strategy - no bird food, no dog toys…
    This gives Iams an excellent screening mechanism for killing inappropriate NPD projects

Executive Summary & Findings - Cont'd

Thinking Commercially

- Leading companies develop new products with a goal of rapid commercialization

- The implication of this commercial mindset is that, in these companies, only limited resources (e.g., no more than 10 - 20% of research efforts) are devoted to investigating opportunities that are not explicitly directed at a foreseeable commercial use

- Thinking commercially in NPD also means focusing on the market and consumer rather than the science behind the product . . .
  Therefore, any new product must be perceptibly valuable to the consumer – regardless of the scientific or technological innovation embedded in it

Executive Summary & Findings - Cont'd

***Thinking Commercially** - Cont'd*

- Leading NPD companies prefer to abandon a project if it does not represent a compelling alternative to products used in the market today
  - Gillette Grooming GBU, fully aware that every new razor brand introduced will cannibalize an earlier generation of its razors, will ***only introduce its newest razor if they know the benefits to the consumer, in the eyes of the consumer if it can justify a price premium vs. its old razor***… if the benefits are not discernable to their audience as measured in quantitative research data, Gillette management will regard that new product as a failure

- Thinking commercially also refers to supporting big brands --- using NPD to extend, improve and innovate under the umbrella of an existing product line … this also counts as NPD
  - P&G believes in the mantra of "new and improved" and allocates its NPD resources accordingly… in each of its core franchises - whether Tide, Mr. Clean, or Pert - P&G managers are expected to introduce upgrades in their relentless quest for higher market share, volume and increased consumer usage

Executive Summary & Findings - Cont'd

Championship and Teaming

- The fourth theme across our study was the emphasis on cross-functional teaming --- with guaranteed budgetary and manpower resources granted to the new product teams
- A vital part of the team is a new product 'champion', usually a senior executive or manager with extensive NPD experience who has the resources and experience to oversee the development process
- This role is critical to maintaining a project's visibility within the rest of the company

Executive Summary & Findings - Cont'd

Championship and Teaming - Cont'd

- In addition to a project 'champion', leading NPD companies often include a project manager on their NPD teams --- a team member with the technical skills needed to shepherd complex projects through the company's NPD process
  - At Iams, a key top management individual took on the role of champion
  - Key targets and launch dates were mandated from his office, but at the same time, the details of implementation came together somewhat informally, and usually at lower levels
  - Iams therefore balanced top management direction with middle management "ownership" of a project

- This focus on teaming is reflected in many best practice companies, but perhaps most interestingly at Hewlett-Packard, where teams are rarely 'assigned' --- rather, everyone seems to fall into place intuitively when it comes to new projects
  - To use their words, teams form 'organically' whenever there is a need, thanks to H-P's unique atmosphere of camaraderie and teamwork

Executive Summary & Findings - Cont'd

Enabling Culture

- Teamwork would not exist were it not supported by the fifth vital characteristic –- a culture which enables, encourages and rewards innovation and risk-taking
- Perhaps just as important, leading NPD companies avoid singling out individuals in the event of project failure that results from marketplace, technology or other uncontrollable factors
- This willingness to tolerate failure in the quest for product innovation permeates all facets of the organization, not only the new product areas
  - Executives from Johnson & Johnson could not over-emphasize the importance of both team and individual recognition during and after a project
  - Whether through an 'awards dinner' for a project team, or corporate recognition for an R&D breakthrough, J&J's individual companies find meaningful ways to celebrate market- focused innovation and risk-taking
  - As an example, Kraft's Oscar Mayer division would not have pursued the costly, high-risk Lunchables line of packaged lunch combinations had there not been an entrepreneurial culture supporting the NPD team and employees… and Lunchables is now about $1bn in (profitable) sales (15-18% OP margin)

In Benchmarking NPD, The Following Principles Were Used

- Consumer-focused companies
- Don't focus on only the "highest growth" or "most innovative" companies
  - We can also learn a lot from specific process elements at less dynamic companies
- Collect examples that *could* be applicable, but likely require further validation

~30 companies benchmarked

Company	Type of research	Company	Type of research
3M	S	Insurance Co.	P/S
Apple	P/S	Kraft	P/S
Auto Co.	P/S	L'Oreal	S
Aventis	S	Lucent	P/S
Candy Co.	P/S	Mattress Co.	P/S
Cisco	P/S	Microsoft	P/S
Clothing Co.	P/S	Nokia	P/S
Diageo	P/S	P&G	P/S
Dow Corning	S	PepsiCo	P/S
Ericsson	P/S	Pfizer	S
Euro Cell Co.	P/S	Quicken	S
Fast Food Co.	P/S	Royal Bank of Canada	S
GE	P/S	Staples	P/S
GTE Networks	S	Starbucks	P/S
Guinness	S	Toshiba	S
HP	P/S	Volkswagen	S
Honeywell	P/S		

Note: P = primary research (company interviews); S = secondary research

Companies were selected based on industry, NPD processes, and recent growth

Company	Rationale for selection
3M	• Frequently cited in literature as innovative company with emphasis on consumer-focused idea generation, cross-business collaboration, and risk-taking culture
Apple	• Consumer-focused high-tech company with long history of innovation, e.g., iPod
Auto Co	• Strong recent growth, emphasis on new platforms, recent redesign of NPD process
Aventis/Hoechst	• Rigorous idea/project prioritization scoring model highlighted in NPD literature
Candy Co.	• Redesigned NPD process to improve organizational structure and decision-making
Cisco	• High-growth technology company
Diageo	• Redesigned NPD process to include rigorous stage-gates
Dow Corning	• Cited in literature, particularly related to product development management
Ericsson	• Consumer-focused technology company
Euro Cell Co.	• High-profile, high-growth European technology company
Fast Food Co.	• Major fast food chain that uses specific metrics to track new product success

Companies were selected based on industry, NPD processes, and recent growth *(Cont'd)*

Company	Rationale for selection
GE	• Hi-profile, high-growth company with strong NPD process focused on innovation
GTE Networks	• Cited in literature, particularly related to flexible process
Guinness	• Cited in literature as having strong NPD process, especially a clear system for idea generation/collection
HP	• Cited in literature, particularly related to Idea Gen
Honeywell Stage Gate	• Redesigned NPD process to improve consumer focus
Insurance Co.	• Redesigned NPD process
Kraft	• Innovative company with strong senior management participation in rigorous NPD process
L'Oreal	• Innovative, high-growth cosmetics company with a risk-taking culture and history of numerous product launches per year
Lucent	• Consumer-focused technology company with common NPD stage-gate process
Mattress Co.	• Redesigned NPD process and improved decision making
Microsoft	• Market-leading consumer-focused technology company with emphasis on new platforms and cross-business unit resource/technology sharing

Companies were selected based on industry, NPD processes, and recent growth *(Cont'd)*

Company	Rationale for selection
Nokia	• Leading telecommunications company with extremely strong growth and 3-5 year product roadmap to guide idea generation
P&G	• Innovative company with creative sources for idea generation, strong R&D, and rigorous NPD processes; often cited in NPD literature
PepsiCo	• Redesigned stage gate process in Frito Lay division to improve speed-to-market
Pfizer	• Leading pharmaceutical company. Cited in literature, particularly re: project prioritization
Quicken	• Creative, consumer-focused idea generation processes
Royal Bank of Canada	• Cited in literature, particularly related to flexible process
Staples	• High-growth company with creative, consumer-focused idea generation processes
Starbucks	• High-profile, fast-growing company with rigorous NPD process
Toshiba	• Cited in literature, particularly related to common stage gate process with emphasis on product/system design and testing
Volkswagen	• Innovative, high-growth auto company that employs platform model for NPD

Key Benchmarking Takeaways

Process, organization, and metrics

Basic process architecture

- Common, stage/gate processes used across organizations
- Specific analyses and outputs are tied to each stage or gate; strict go/no-go decisions

Organization and team

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Metrics

- NPD project and pipeline status is tracked and easily available
- In-market tracking is performed post-launch

Idea generation → Concept assessment → Product development → Production prep → Ramp up → Launch and audit

Project specs

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Prioritization

- Rigorous criteria and scoring mechanisms are used for idea evaluation, prioritization, and resource allocation

Decision-making and risk

- Roles are clearly defined, often using RAID process
- Decision maker is involved in the process early on
- Companies for which risk-taking is acceptable view failures as learning opportunities
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Flexible processes

- "Fast-track" NPD processes are employed for certain types of projects

Platform development

- Product platforms are employed to streamline the NPD process and provide a base for future product development

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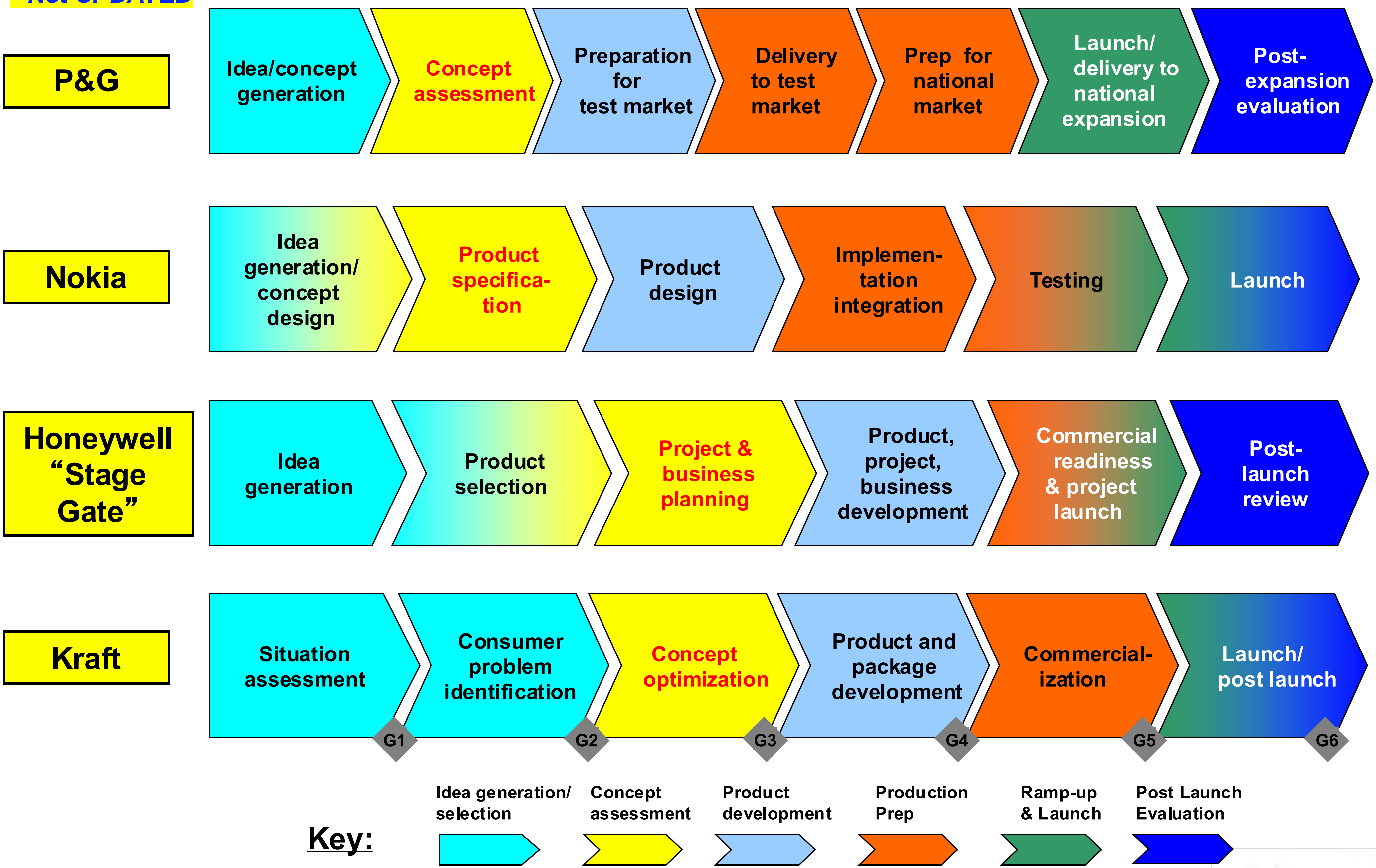
Leading Firms Have Adopted Stage Gate Processes

Source: www.stage-gate.com

Common, Stage Gate Processes Are Used Across Organizations*

** Not UPDATED*



Specific Analyses and Outputs Are Tied To Each Stage Gate*

**** Not UPDATED***

Kraft

Situation assessment (G1) → Consumer problem identification (G2) → Concept optimization (G3) → Product and package development (G4) → Commercial-ization (G5) → Launch/ post launch (G6)

Output

Situation assessment
- External marketplace assessment
- Internal strategic fit assessment
- Basis of interest proposal

Consumer problem identification
- Identification of consumer problems/ solutions
- Prelim. financial/ technical feasibility
- Ranked concepts
- Team resources identified

Concept optimization
- Testing
- Prelim. volume estimates
- Financials
- Resources allocated
- Volume forecasts
- Business proposition

Product and package development
- Engineering plan
- Business proposition
- Agreement to capital, mfg'ing, financials
- Final products, packaging, volumes

Commercial-ization
- Final engineering/ manufacturing/ logistics/ go-to-market/ financials
- Final launch timing
- Presentation to Kraft sales force

Launch/ post launch
- First production approval
- Tracked ACV, volume, shares
- Year 1 in-market performance
- Lessons learned

Nokia

Idea generation/ concept design → Product specifica-tion → Product design → Implemen-tation integration → Testing → Launch

Output

Idea generation/ concept design
- User requirement analysis
- Concept creation and evaluation
- Targets to be achieved by product

Product specification
- Product specs complete
  - Size, weight
  - Functions
  - Network
  - Customers
  - Time-to-market
  - Unit cost

Product design
- Product design frozen
- Product externals design frozen
  - User guide
  - Package
  - Accessories

Implementation integration
- Working product prototype with full functionality

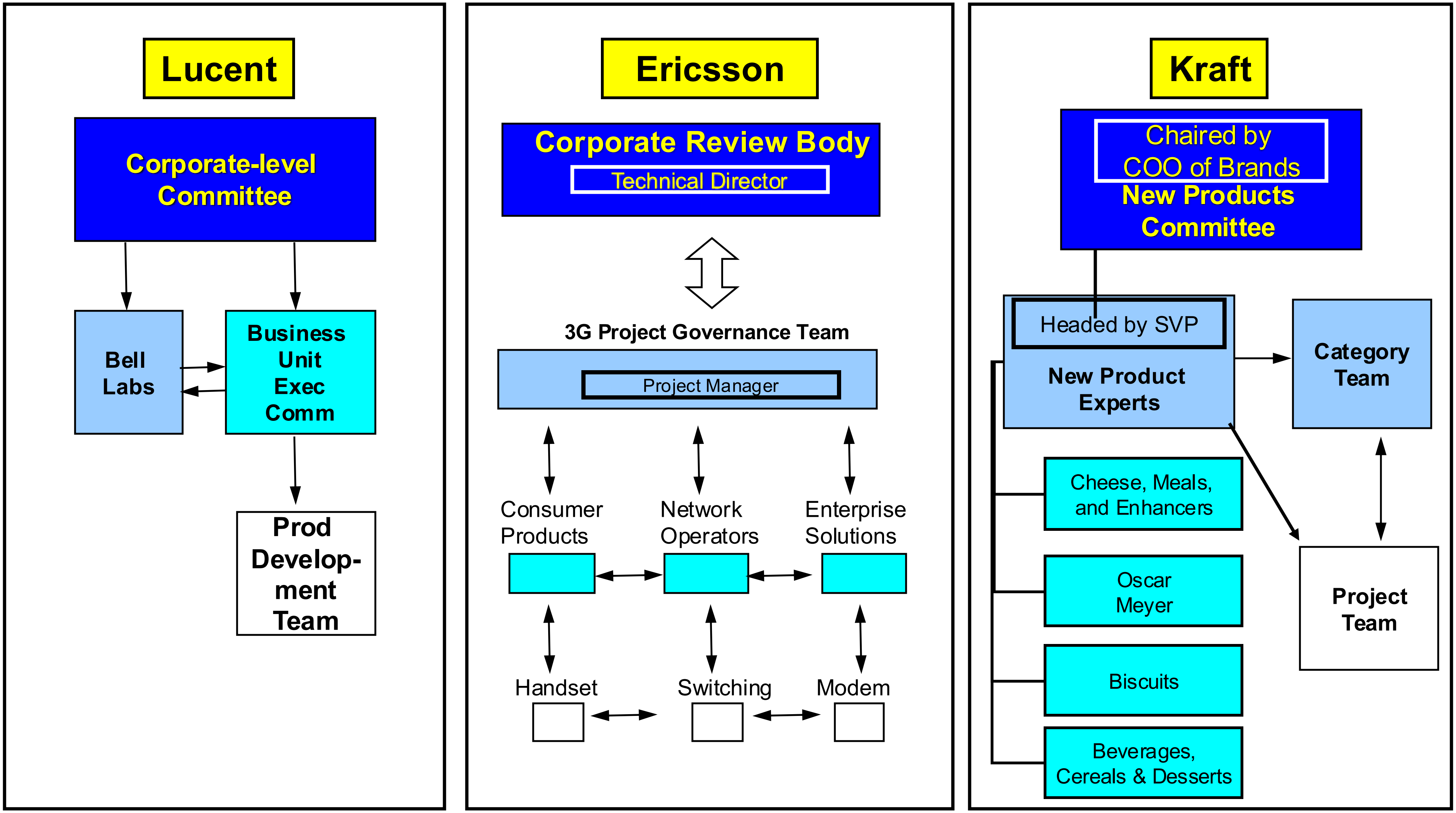
Testing
- Module, system, market, and user tests complete
- Working product with full functionality

Launch
- Product launched in key markets

**** Not UPDATED since 2010***

Multi-Tiered, Cross-Functional Teams Oversee NPD Processes*

** Not UPDATED*



Each Team Has Well-Defined Roles and Responsibilities

*** Not UPDATED***

Company	NPD team structure	Responsibility
Lucent	Corporate Committee	• Set product objectives for research done at Bell Labs • Set general product strategy for Business Units
	Business Unit Executive Committee	• Generate & evaluate internal concepts and those from Bell Labs • Establish Product Development Teams for promising concepts • Review products under development
	Bell Labs	• Research product concepts developed by BUs & alternatives • Establish schedule for concept to move through stage gates
	Product Development Team	• Develop product business plan • Design and engineer product based on current platforms • Test and launch product
Ericsson	Corporate Review Body	• Identify initial opportunity • Perform quarterly review of project progress
	Project Management Team	• Consists of members from all business units • Day-to-day responsibility for entire project across all BUs and PUs • Coordinate technology development across BUs
	• Consumer Product BU Mgr	• Coordinate simultaneous product development of components
	Product Unit Manager	• Coordinate and share resources across products in/across the product units
Kraft	New Products Committee	• Evaluate new product ideas at quarterly meetings. Head of each function sits on committee
	Category Team	• In conjunction with NPD experts, develop new product ideas
	New Product Team	• Headed by SVP of New Products. Meets monthly to discuss ongoing new products. Works with category and project teams
	• Project Team	• Responsible for day-to-day product development

Key Benchmarking Takeaways

Process, organization, and metrics

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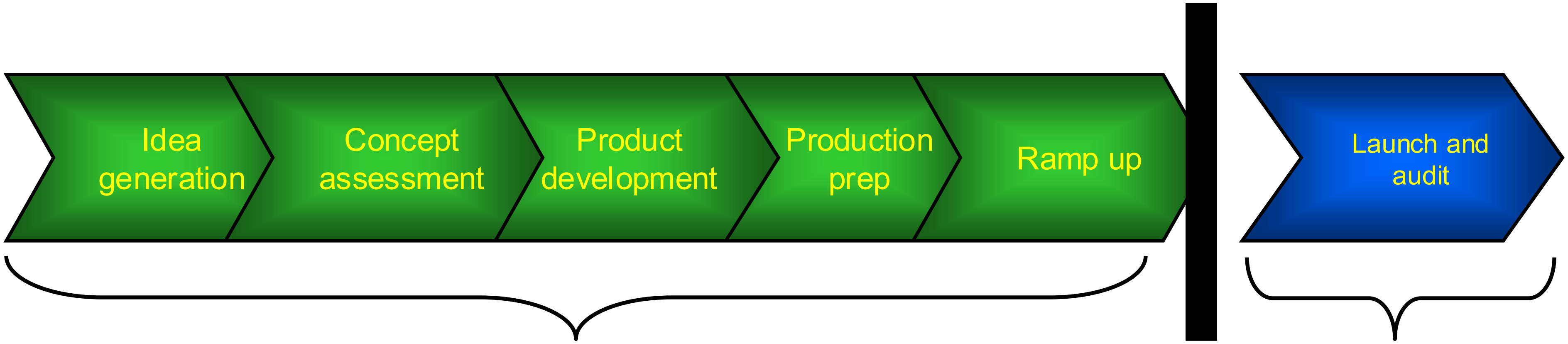
Metrics Are Measured Both During and After The NPD Process



	In-process metrics	**Post-process metrics**
Description	• Can be measured almost immediately, throughout the NPD process • Includes both process and project dimensions	• Can only be measured after the product is launched • Includes both short-term and long-term metrics across project, process, and portfolio dimensions • Are collected on individual projects, but are often reported in aggregate
Examples	• Extent to which projects are on time to gates and deliverables are completed • Degree to which product meets agreed-to specs	• Revenue from new products as a percent of total products • Customer satisfaction with new products • Manufacturing yields

Both In- and Post-Process Metrics Measure Project, Process, and Portfolio Dimensions

Metric type	Description	Examples
Project	• Tracks planning accuracy and project success relative to initial targets • Includes product and financial information	• Planned vs. actual: - Product design and other specs - Budget - ROI - Launch date
Process	• Monitors effectiveness of stage-gate process, including meetings, decision-making, and timing	• Cycle time for each stage • # cancelled review meetings • # of go/no-go/redirect decisions

Roll-up of project and process metrics

Portfolio	• Measures performance of the new product portfolio within and across business units • Aggregate analysis of project and process metrics	• Revenue from new products - New innovations vs. line extensions • Return on R&D investment • Resource allocation across projects

In-Process Metrics Measure How Well The NPD Process Is Working Real Time

Process metrics

- Quality of gate **meetings** and deliverables
  - Rating cards filled out at gate meetings assessing meeting effectiveness
- Degree of deviation from NPD **process** rules
  - Number of changes in product specs
  - Number of cancelled gate meetings
  - Degree of incomplete documentation at each gate
- **Timeliness** of projects reaching gates:
  - Percent of projects at each gate that are on time (i.e., when scheduled)
  - Mean time variance (actual arrival at gates vs. scheduled time; in months or percent)

Project metrics

- **Performance relative to goals** for key product specifications
  - Product/package design
  - Product/package quality
  - Manufacturing yields
- **On-budget** project performance
  - Target vs. actual by stage
  - Projected revenues, ROI, share relative to goals

Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

How One US-Based Global Confections Company Organized to Assure Senior Management Engagement

Have separate Innovation/NPD group, apart from managing the current brand(s)

Line Marketing (base business Brand Management) reports into the Region P&L leadership (Country General Manager or Region President)

Innovation/NPD falls under the CMO

Category specific Innovation (i.e., Chocolate, Sweets or Adjacencies) reports to respective SBU leader (so Director of Global Chocolate Innovation reports to VP of Chocolate SBU who reports to CMO)

The SBUs focus 3-5 years out --- innovation and global expansion of brands into new markets

"We found that separating Innovation/ NPD, especially medium-longer term, from day-to-day Line Marketing brand management (shorter term easy line extension focus) is the winning formula."

Dow Corning Actively Identifies Projects and Stages That Have Missed Key Dates

Dow Corning's "Red-Green" In-Process Monitoring Chart

	Gate 2	Gate 3	Gate 4	Gate 5	Post-launch
Project A	• 8/02 • 9/03	• 12/02 • 2/03	• 9/02 • 9/02	• 12/02 • 1/02	• 1/03
Project B	• 7/02 • 9/02	• 8/02 • 11/02	• 12/02 • 2/03	• 3/03 • 6/03	• --
Project C	• 2/02 • 4/02	• 6/02 • 8/03	• 12/02 • 2/03	• 6/03 • 7/03	• --
Project D	• 6/02 • 6/02	• 7/02 • 11/03	• 2/03 • 3/03	• 7/03 • 8/03	• --
Project E	• 9/02 • 9/02	• 11/02 • 12/02	• 8/03 • 9/03	• 12/03 • 1/04	• --

Key

On time at gate

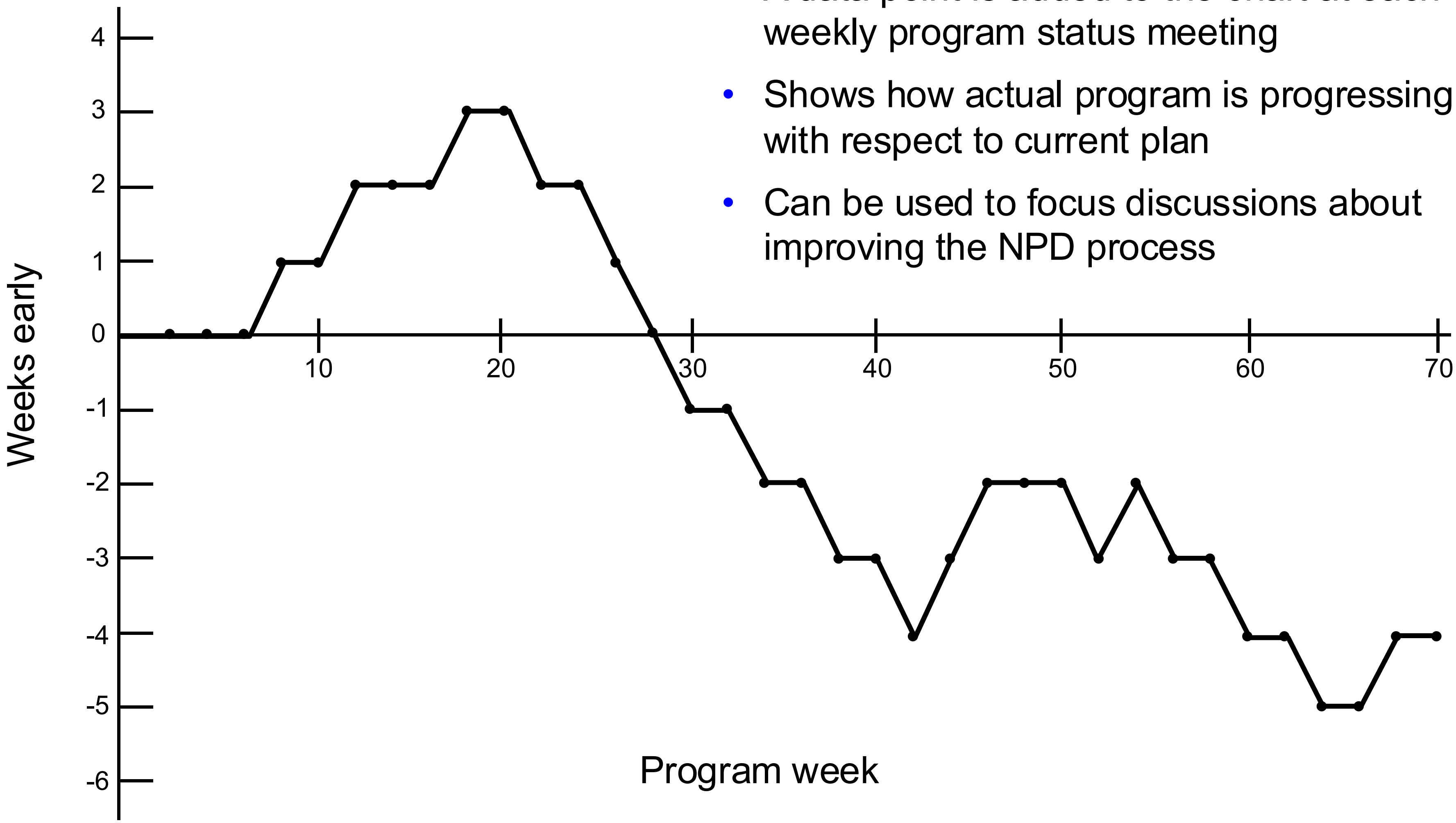
Late to gate by > 1 month

- Enters gate
- Leaves gate

Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

Some Companies Use A "Slip Chart" To Track Project Progress Against The Current Plan

In-Process "Slip Chart"

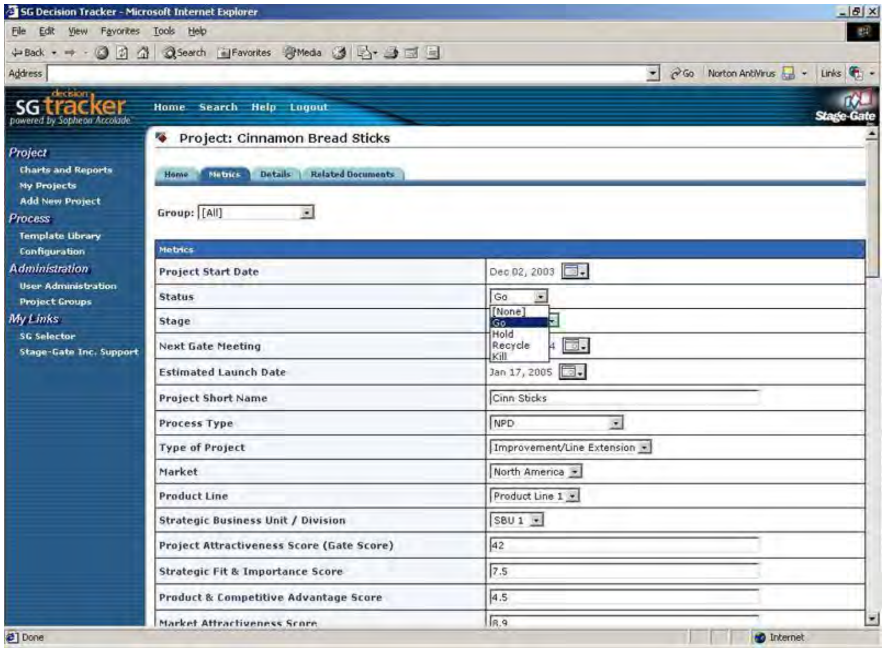


- A data point is added to the chart at each weekly program status meeting
- Shows how actual program is progressing with respect to current plan
- Can be used to focus discussions about improving the NPD process

Source: Rosenau, "The PDMA Handbook of New Product Development"

Best-in-class Companies Employ Online Tools To Track In-process Metrics

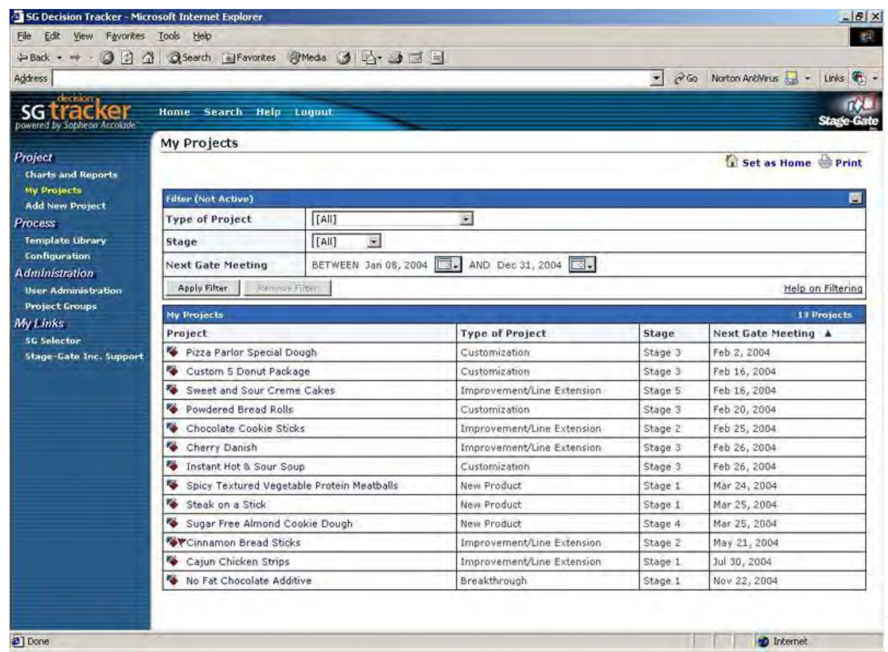
Project-level report



Contains key information about selected project:

- Key dates (e.g., next gate meeting, projected launch)
- Current go/no-go status and stage
- Project type (e.g., line extension)
- Evaluation scores (e.g., strategic fit, market attractiveness, etc.)

Portfolio-level report



Contains key information about overall project portfolio:

- List of current projects in pipeline
- Project type (e.g., line extension)
- Current stage
- Next meeting date

Post-process metrics track projects after they have been launched (master list)

Financial performance

- Short- and long- term revenue, profit, growth
- Revenue, profit, growth from new products
- Growth in market share, revenue, profitability
- ROI, economic value added, break-even time
- Development/ product/ service/ warranty cost
- Financial risk

Customer satisfaction

- Customer satisfaction
- Product functionality, usability, reliability, performance, serviceability, ergonomics, aesthetics
- Timeliness of product availability
- Product return rates, customer complaint levels
- Capture and loss of new customers, customer loyalty

Employee satisfaction

- Satisfaction, by employee group or job classification
- Recruitment rates, turnover rates, employee complaints, and employee suggestions

Innovation and learning

- Patents, copyrights, licenses, proprietary products
- Learning, teaching, innovation activity levels & results
- Rate of progress in cycle-time reduction, defect reduction, cost reduction, process capability prediction, and customer satisfaction

Process capability prediction

- Accuracy of cost, development schedule, manufacturing schedule, product reliability, product performance, and sales forecasts
- Variation from program to program/ quarter to quarter

Productivity and resource consumption

- Indicators of effective use of staffing, materials, energy, capital, and equipment
- Waste creation levels
- Expense/revenue ratios by function and by product
- Staffing levels, task volumes, equipment use

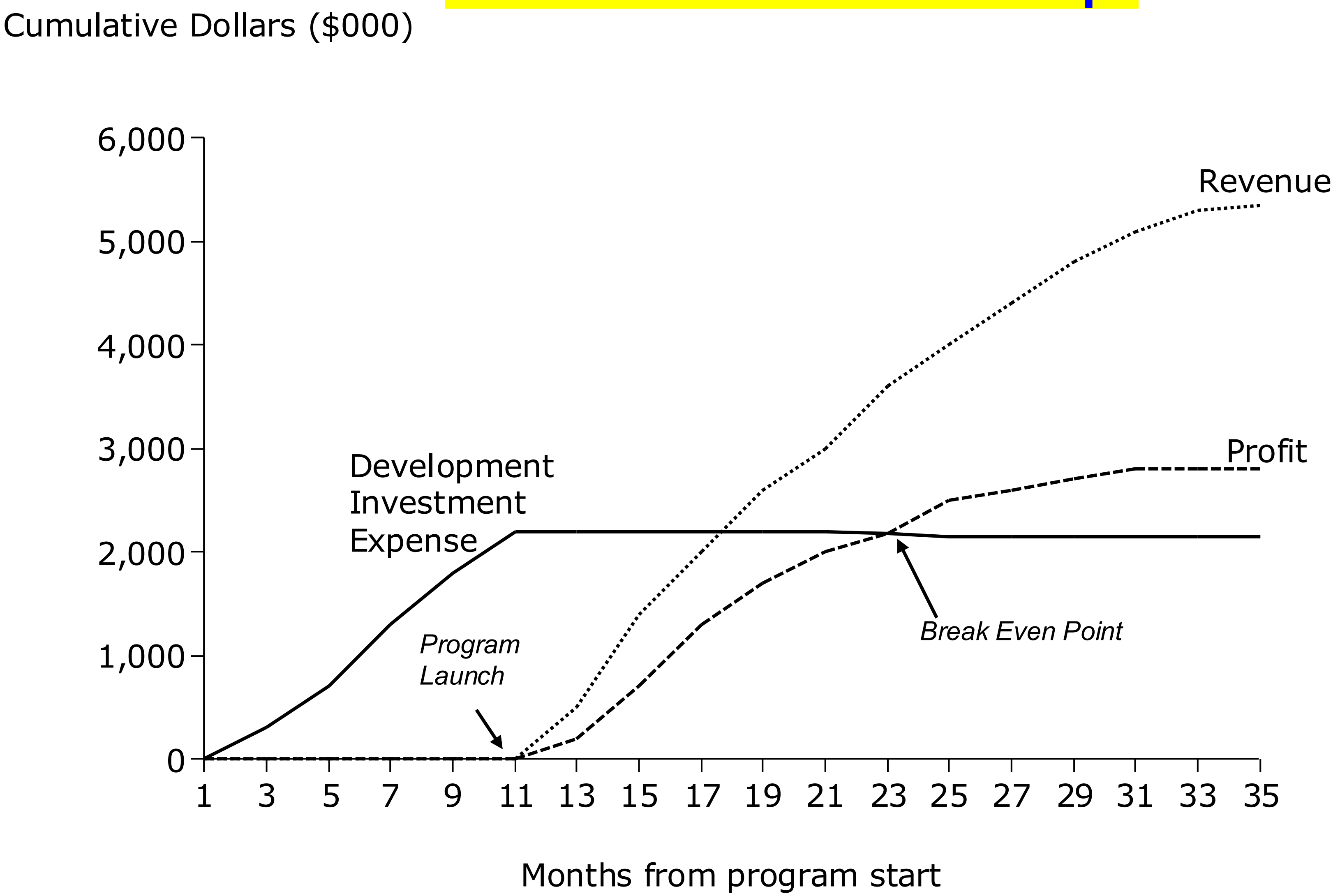
Process control

- Manufacturing yields, scrap rates, line rejects, defects, rework levels, cycle times, order intervals, inventory levels, inventory turnover, and assets
- Design change activity rates
- Sales order cycle time, on-time delivery, and defects
- Supplier performance
- Speed of customer call answer and response
- Service call response times, effectiveness
- Financial reporting accuracy, timeliness, usability
- Advertising activity levels and response rates
- Information systems availability, capacity
- Safety, absenteeism, turnover, sickness, accident rates

Source: Rosenau, "The PDMA Handbook of New Product Development"

Companies Use “Return Maps” To Track Product Financial Success Post-launch

Post-Process “Return Map”



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Best-in-class companies employ a number of key inputs to develop product specs

Input	Description
Consumer needs	Define product concept from consumer perspective. Probe needs, preferences, and trade-offs re: product requirements and design. Employ focus groups, one-on-one interviews, etc.
Customer preferences	Solicit input on product design from key customers, e.g., key Club and retail accounts
Competitive analysis	Understand key competitors, product strengths/weaknesses, anticipated future products, pricing, and performance
Market analysis	Validate market size, trends, and segments
Technical assessment	Translate market inputs into technically feasible product concept. Highlight risks and solutions; assess potential partners, manufacturability, costs and capital requirements
Concept testing	Gauge consumer interest in specific concept via interviews (re: preferences, purchase intent, price sensitivity, etc.)
Financial analysis	Refine business rationale for product, including strategic assessment and detailed financial analysis (i.e., NPV, IRR)

Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

Kraft's *Project on a Page* contains the bare minimum info (like an idea sheet)…

Project Silk: Jell-O Smoothies

	(DATE) (B-Scan)	Ongoing
Dollar sales/volume:	NA/3M	$33M/2.1M
Margin target:	NA	54%
Capital:	$3.8M	--
NPV/IRR:	NA	$7.1M/25% (National)
Incremental OCI:	($2.0M)	$5.2M
Size/pricing:	$2.69/6-pk, 4oz. cups	--
Shelf location:	Jell-O RRTE section	--
Timing:	Q2 (Year) (test); (Year) (national)	--

Platform description

- Smooth and creamy all-family snack made with real fruit and milk
- Extends the $267M RRTE cup platform beyond gelatin and pudding to fruit
- Fruit identified as a highly incremental platform for Jell-O per Line Optimization Test (Jan '00)
- Leverages booming "Smoothie" trend

Consumer target/insight

- All family…consistent with Jell-O franchise demographics (adults account for 74% & 67% of RTE gelatin & pudding eatings, respectively)
- Insight: While ubiquitous, fruit is inconvenient and boring. Consumers crave a delicious fruit-based snack that is truly satisfying

Frame of reference/source of business

- Sweet snacks (bakery items, granola bars, fruit) in general and other Cool & Creamy snacks in particular (yogurt, pudding/gelatin, ice cream/sorbet)
- Smoothie Snacks address consumers' diverse snacking needs
- Refrigerated yogurt represents the largest source of volume, with pudding and gelatin as a secondary source

Key benefit

- Offers consumers a more "healthful" real fruit snack option (100 calories, low fat), that requires no taste tradeoff

How will Kraft win

- Delivers wholesome indulgent taste…allows consumers to satisfy their desire for something sweet without overindulging
- "Smoothie" positioning provides the critical sensory benefit while product profile provides the wholesomeness (made with real fruit, 100 calories & low fat)

Research findings

- 31% and 25% DWB in BASES HUT (top 20%) and Pre-BASES, respectively
- Silk after use at 49% DWB passing hurdle (56% among Strawberry-Banana requestors)

Future legs

- Other fruit-based initiatives include Smoothie Stix, Crème Savers snacks, gelatin molds with fruit, and cobblers/crisps

…and P&G establishes specific success criteria and tolerances early in the process

Element	Qualification	Objective	Minimum
Product	Clinical mildness	• Equal to Dove for redness and dryness	• Same
	Technical performance	• Lather at least as well as Lever 2000 in all temperatures • Bar breakage equal to Dove • Melt smear better than Dove • No significant negatives vs. current ivory	• Lather at least equal to Dove in all temperatures • Bar breakage better than Ivory • Melt smear better than Dove
	Consumer acceptance	• Better overall with no key negatives vs. Olay and Dove	• Equal overall with no key negatives vs. Olay and Dove
Name and copy	Copy quality	• 40% recall of skin benefits	• 25% recall of skin benefits
	Improved name	• Overall stronger name than "New Ivory"	• Equal name as "New Ivory"
Packaging	Improved graphics	• Overall preference vs. current execution	• Equal overall preference vs. current execution
Sourcing	Finished product quality	• Design rate/reliability of 75% during trials	• Same
Marketing plan	Successful introduction	• 34% trial • 25% purchase • 100% ACV distribution for 2-bar pack	• 25% trial • 18% purchase • 80% ACV distribution for 2-bar pack
Economics	Volume Profit margin ROI	• x% share • x% • x%	• y% share • y% • y%

More Detailed Product Specs Are Developed Throughout The Process

Product specification form for consumer package goods company

I. Project Number:________________
Title:___________________

II. Objectives (Define consumer need/ problem to be solved)

III. Market and financial analysis

1. Market size:
2. Market growth rate:
3. Major segments:
4. Competitive brands:
5. Sales volume expected
6. Capital investment expected:

IV. Characteristics desired

A. *Product* (define in detail)
1. Appearance:
2. Taste:
3. Texture:
4. Competitive uniqueness:
5. Mode of preservation (i.e., canned, frozen):
6. Other:

B. *Storage*
1. Storage conditions:
2. Shelf-life:
3. Shelf-life relative to competition:

C. *Usage* (describe primary use and any other occasions for use)

D. *Packaging/Preparation*
1. Servings (include number, and ways to serve):
2. Packaging features (include size):
3. Methods of preparation (i.e., oven, microwave, etc.):

V. Timetable

Prototype developed & shown with competitive product:

Product tested – internal:

Product tested – external:

Test marketing:

National rollout:

IV. Facilities/Location
1. Development and testing:
2. Full-scale production:

Approval

____

____

Source: Rosenau, "The PDMA Handbook of New Product Development"

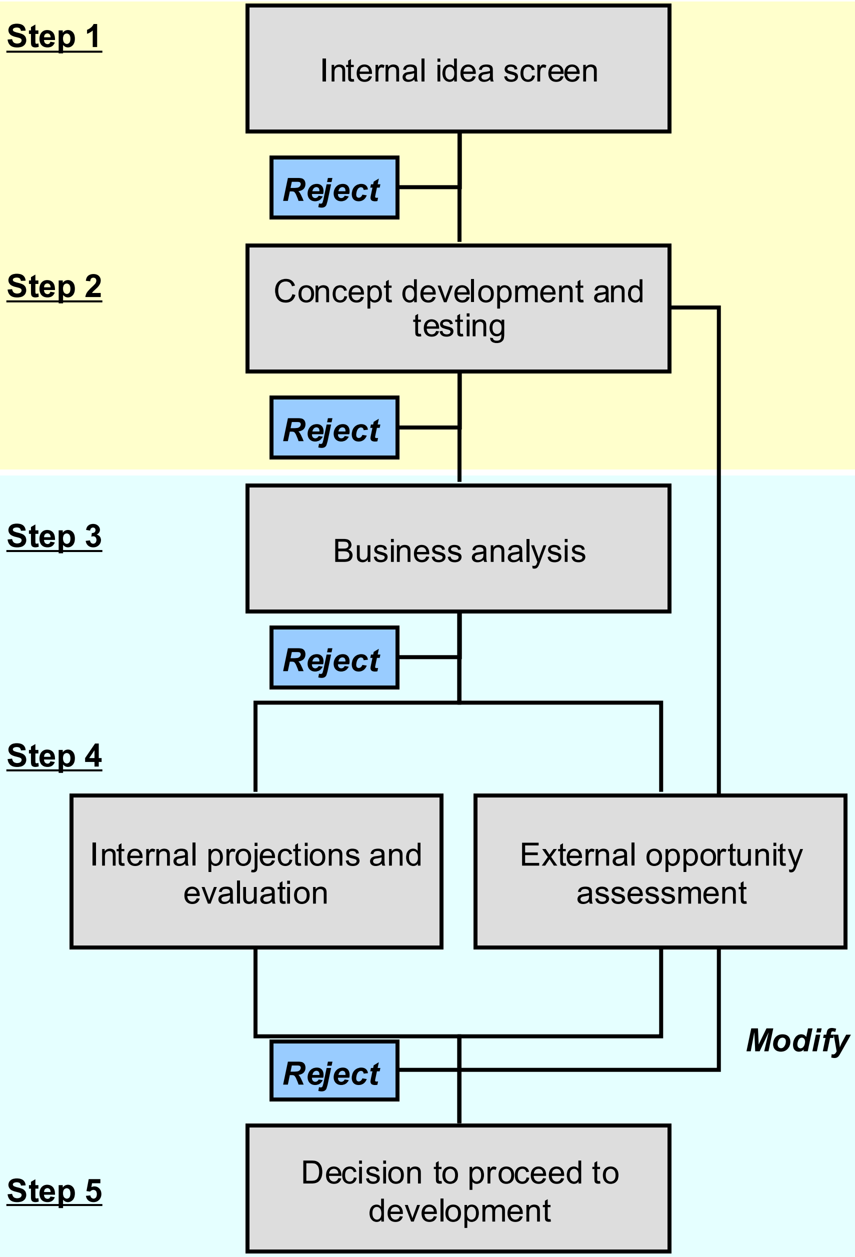
Best-in-class companies manage project portfolios using four primary criteria

Criteria	Description
Value maximization	• Allocate resources to maximize the value of the portfolio, e.g., ROI, IRR, etc.
Balance	• Achieve a balance of projects vis-a-vis several parameters, e.g., long-term vs. short-term, high-risk vs. low-risk, product categories/types, etc.
Strategic direction	• Ensure that the final project portfolio reflects the overall business strategy
Right number of projects	• Avoid having too many projects relative to available resources

Potential conflicts across these goals necessitate thoughtful trade-offs

Source: Belliveau, Griffin, & Somermeyer, "The PDMA Toolbox for New Product Development"

Project and portfolio evaluation should occur at multiple points in the NPD process



- Fit with company
- Perceived market attractiveness
- Technical feasibility

- Convert ideas to concepts
- Preliminary internal data-gathering
- Initial customer research

Stage 1

- Obtain customer/market competitive data
- Detailed market research
- Cost/income/investment projections
- Preliminary market plan
- Preliminary development plan

Stage 2

Source: Rosenau, “The PDMA Handbook of New Product Development”

Companies employ a variety of tools to manage product portfolios

Project-level scoring model

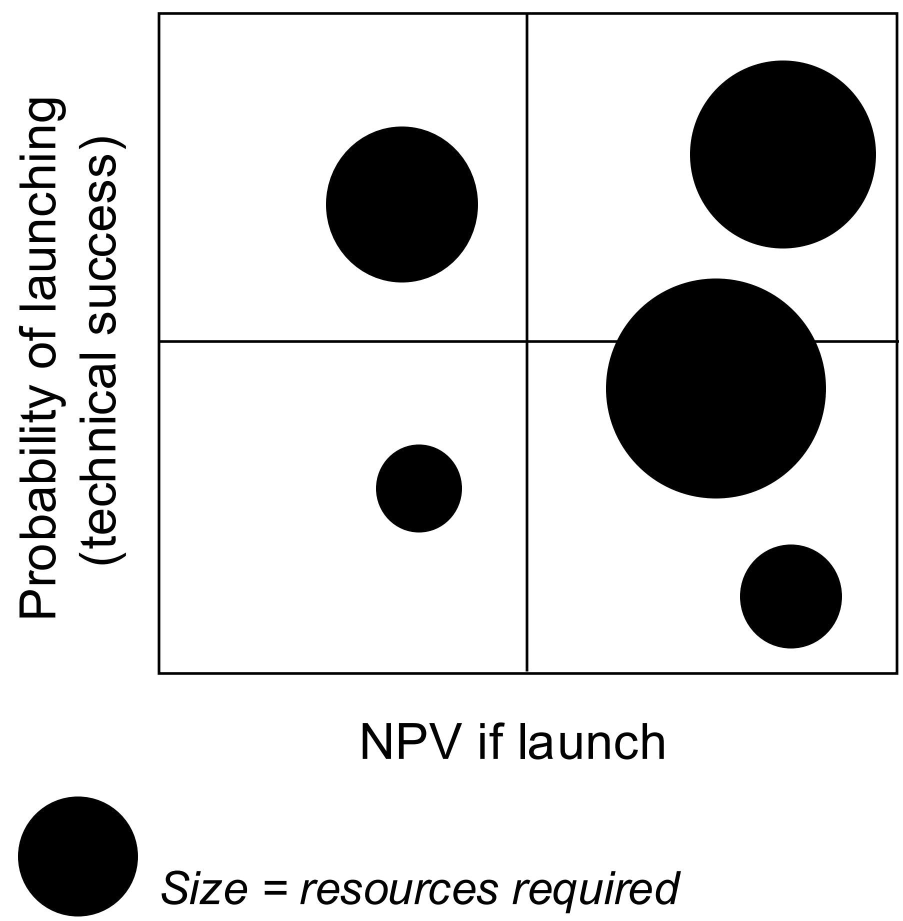
"Must Meet" criteria (Yes/No)

- Fits BU strategy
- Reasonable likelihood of technical success
- Legal
- Positive risk/return profile
- No show-stopper variables

" Should Meet" criteria (0-10 scale)

- Strategic
  - Degree of alignment with BU strategy
- Product advantage
  - Unique benefits
  - Meets customer needs better
  - Value for money
- Market attractiveness
  - Size, growth
  - Competitive situation
- Fits with competencies
  - Marketing and technical synergies
  - Manufacturing synergies
- Risk/Return
  - NPV and IRR
  - Payback period

Portfolio-level bubble matrix



Source: Cooper, Edgett and Kleinschmidt, "Optimizing the Stage-Gate Process", 2002

Aventis evaluates projects across 19 success factors that span five criteria*

Reward	Business strategy fit	Strategic leverage	Probability of commercial success	Probability of technical success
• Absolute contribution to profitability (5 year cash flow) • Payback period • Time to commercial start-up	• Congruence - Program fit with strategy for product line, business or company • Impact - Financial and strategic impact of program from “minimal” to “critical”	• Proprietary position • Platform for growth - Rated from “one of a kind” to “opens up new tech. or commercial fields” • Durability - Product lifecycle • Synergy with other internal businesses	• Existence of a market need • Market maturity • Competitive intensity • Existence of commercial application development skills • Commercial assumptions - From “low probability” to “highly predictable” • Regulatory/ social/ political impact	• Technical gap • Program complexity • Existence of skill base • Availability of people and facilities

Selection Process:

1. Each question is scored 1-10
2. Factors are weighted and added to yield a project score
3. Projects are funded by score until resources run out

**** Not UPDATED since 2010***

Source: Cooper, Edgett and Kleinschmidt, “Portfolio management in new product development”, 11/1997

Nabisco's scoring and prioritization model rated each project across four dimensions

Overall Scoring

Consumer	30%
Technical	10%
Financial	40%
Competitive Impact	20%
	100%

Consumer (Quantitative Concept Test) - 30 pts.

- Top Third
- Middle Third
- Lower Third

30
20
Stop

Technical/Operations – 10 pts.

- 1-2
- 3-5
- 6-9

10
5
0

Financial- 40 pts.

NPV

- +$3M & above
- +$1M to $3M
- -$1M to +$1M
- -$1M to -$3M
- -$3M & below

30
25
15
10

Margin

- Above Category Average
- Category Average
- Within 5% Category Average
- Below Category Average

Stop/Re-scope

Competitive Impact- 20 pts.

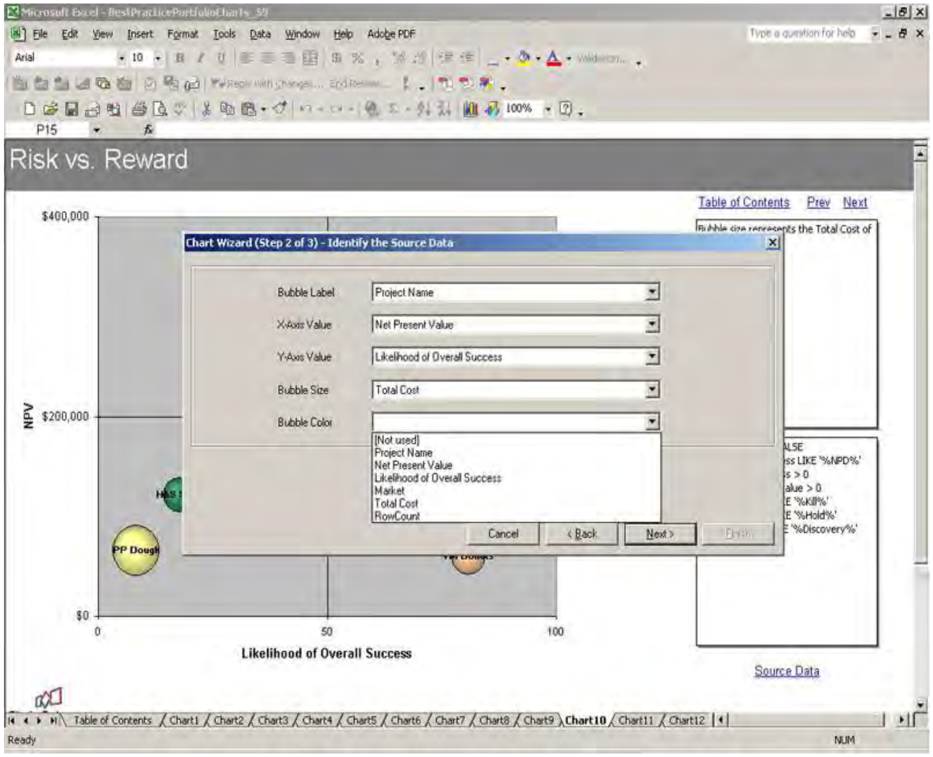
- Highly innovation/preemptive/addresses immediate threat
- Maintains current competitive position
- Low Vulnerability

10
7
3
0

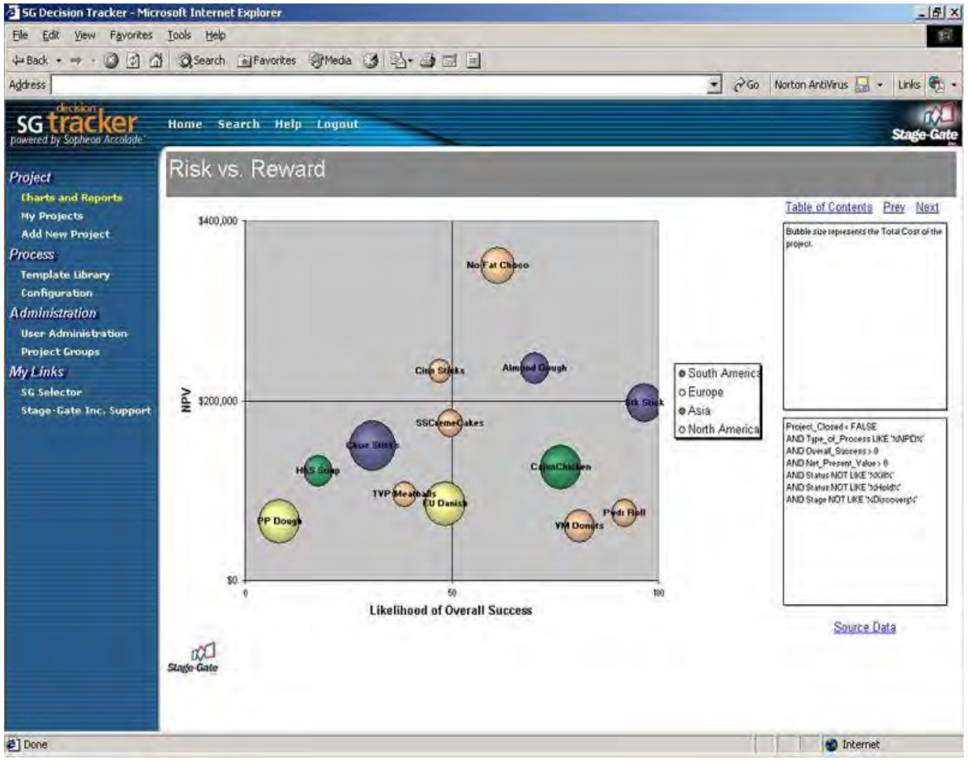
Source: Nabisco product development process materials

Best-in-class companies use online tools to roll-up individual project scores into a portfolio view

Menu containing key information about each project

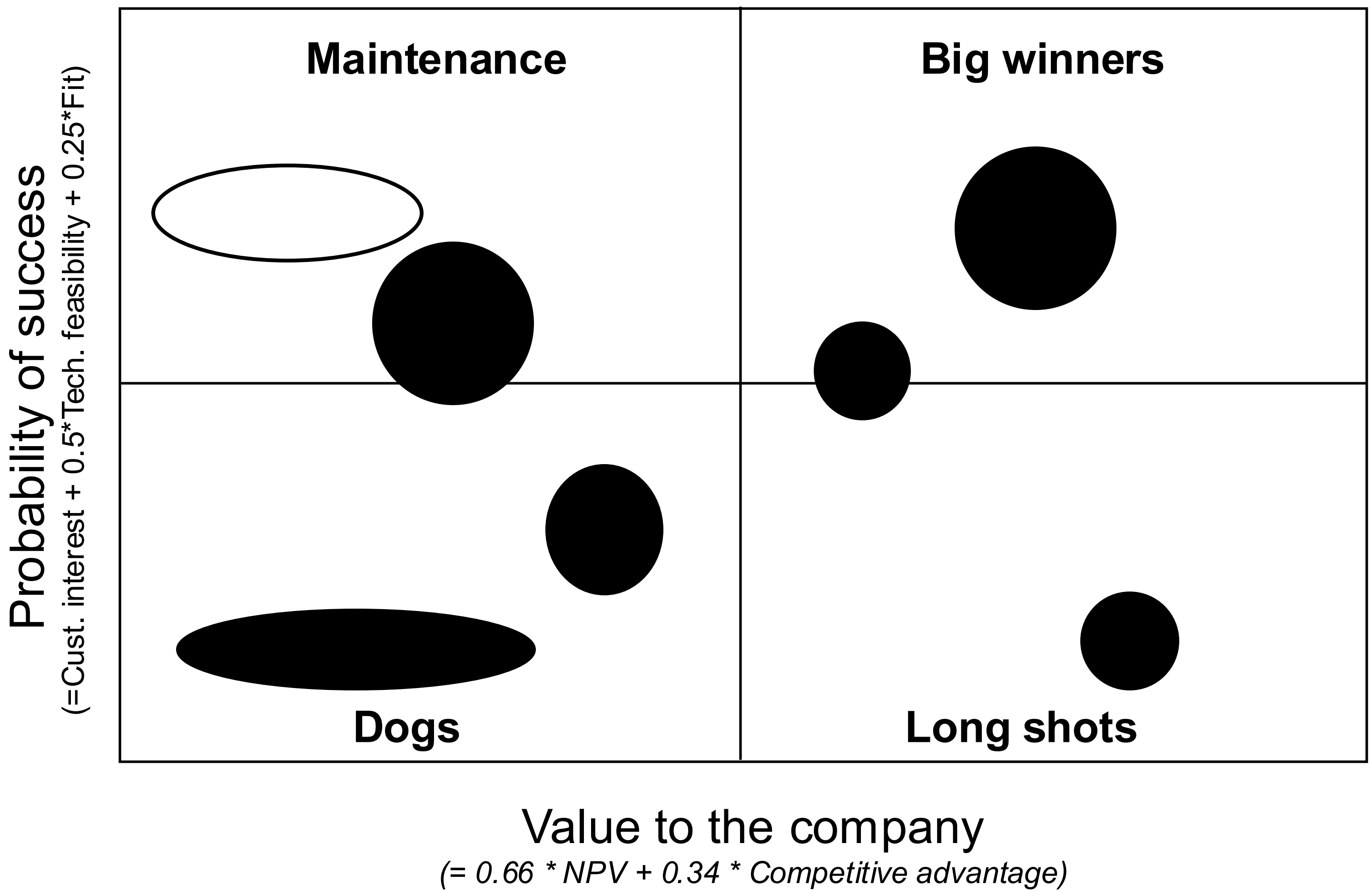


Risk-reward bubble matrix



A division of Pfizer rigorously translates project-level scores into a portfolio matrix

Specialty Mineral's risk/reward matrix



A scoring model is used to make go/no go decisions:

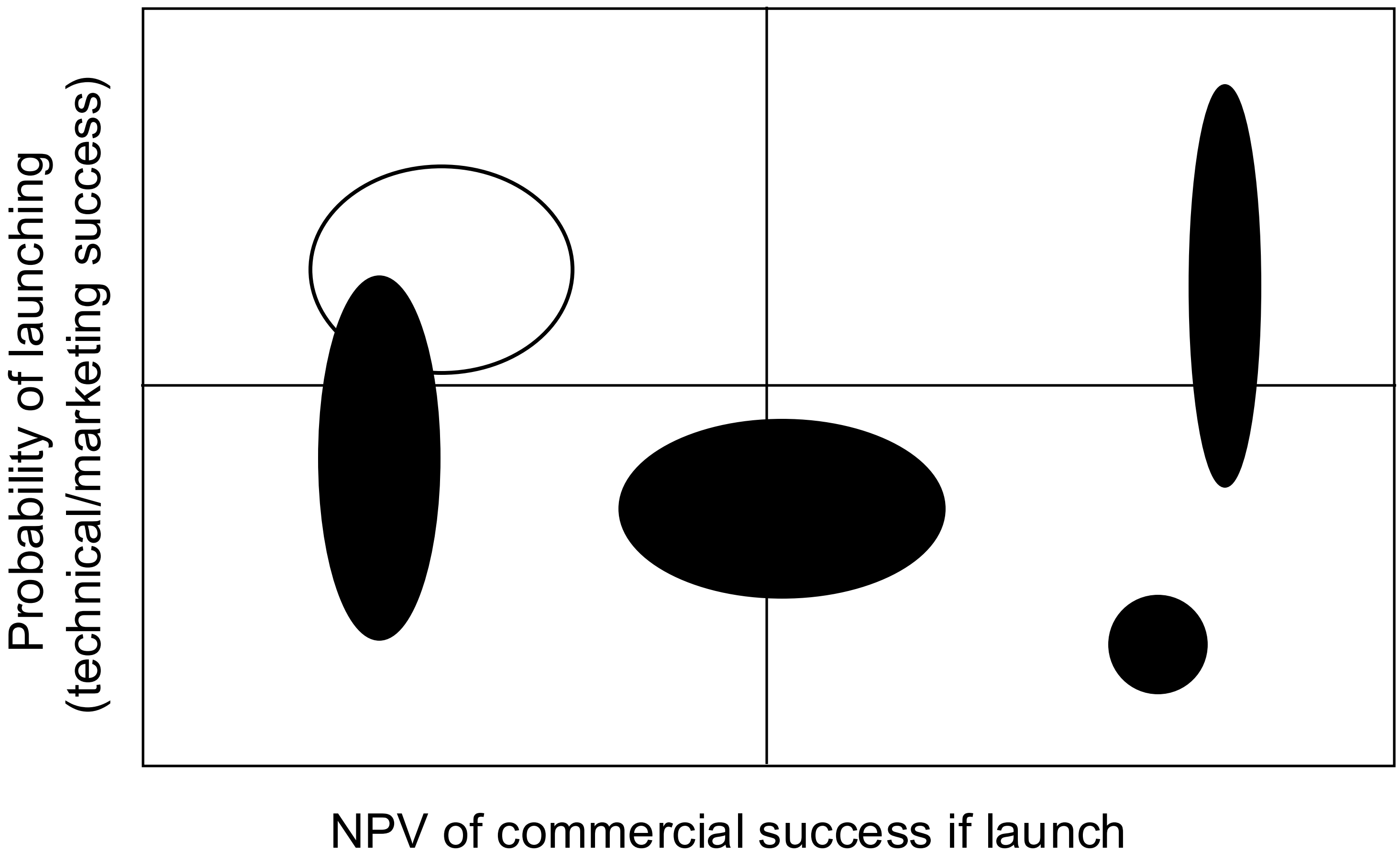
1. Competitive advantage
2. Customer interest
3. Business unit interest
4. Fit with company strengths
5. Probability of technical feasibility
6. Credibility of business case
7. NPV

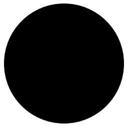
Projects are scored from 0–10 on each factor

Note: Process for Specialty Minerals division of Pfizer
Source: Belliveau, Griffin, & Somermeyer, “The PDMA Toolbox for New Product Development”

3M captures uncertainty in its risk/reward matrix

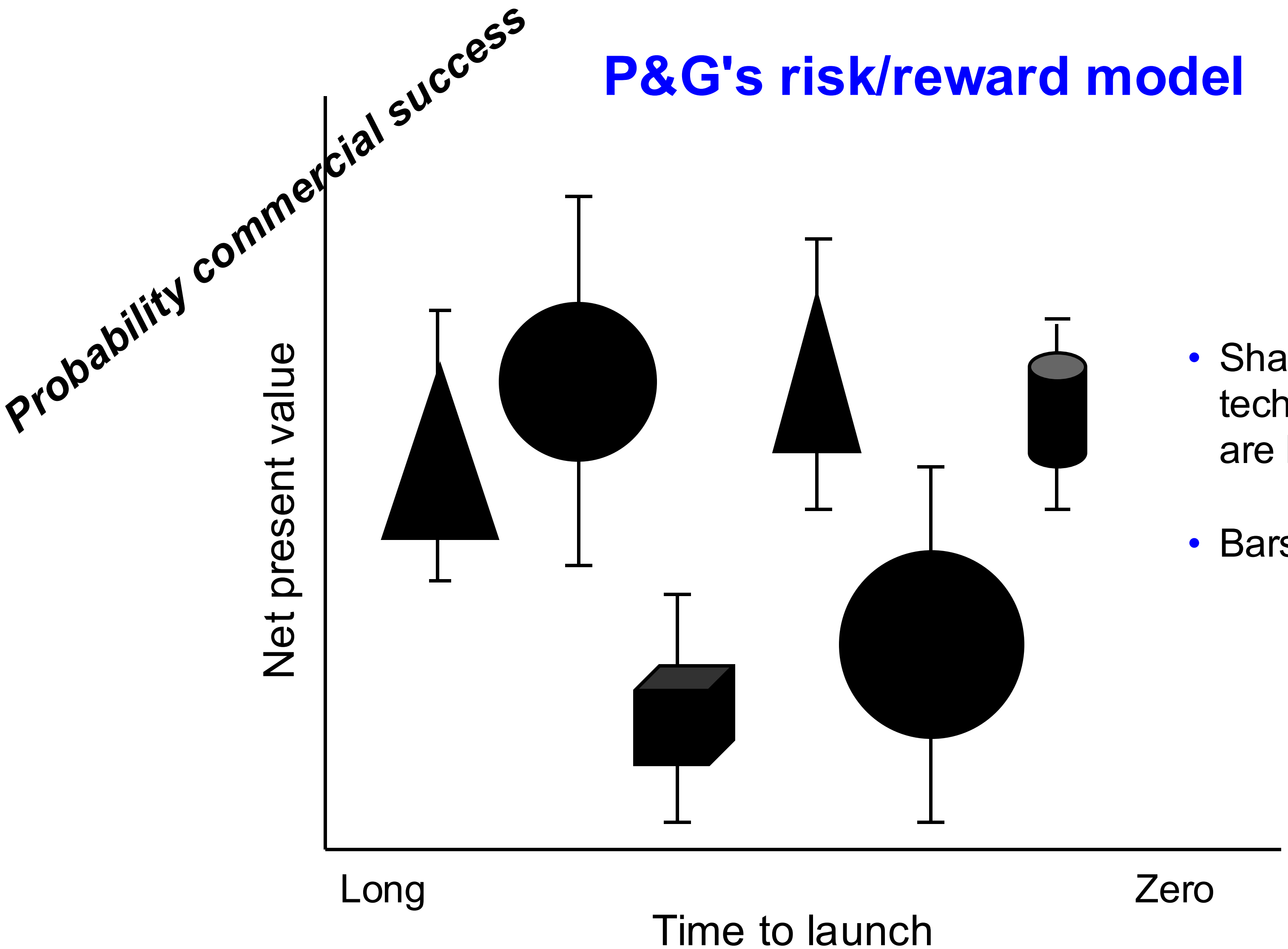
3M's risk/reward matrix




Larger size = more uncertainty

Source: Cooper, Edgett and Kleinschmidt, “Portfolio Management for New Products”

P&G plots each project on three dimensions



- Shape denotes degree of technological fit (spheres are high fit; cubes low fit)
- Bars denote range of NPV

Source: Belliveau, Griffin, & Somermeyer, “The PDMA Toolbook for New Product Development”

Periodic reprioritization allows companies to kill projects throughout the NPD pipeline…

	Kellogg	**Nabisco**
Idea Generation and Concept Evaluation	10-20% of ideas accepted	20-25% of ideas accepted
Product Testing	20-30% of tested ideas accepted	50% of new products and 75% of line extensions accepted
Product Refinement and Feasibility	50-75% of products accepted	
Launch	**2 - 5%** of initial ideas launched as products	**10 - 15%** of initial ideas launched as products

	Kellogg	Nabisco
New Products >$50M:	5	2
Sales from new products:	16%	11%
- New Products	42%	29%
- Extensions	58%	71%

…and allocate resources to the highest priority projects

Initial Resource Allocation (Illustrative)

	Project						
Person	**A**	**B**	**C**	**D**	**E**	**F**	**G**
Allison			0.3		0.2	0.5	
Micah				0.2			0.8
Alana	1.0						
Jeremy		0.5			0.5		
Les			0.4				0.6
Lisa		0.6	0.2				0.2

- Each box contains the fraction of each person's time devoted to each project
- If any box has a number less than 0.5, resources are likely spread too thin
- Here, projects A, B, and G appear important enough to have full-time hours assigned to them
- C, D, G should likely be killed or postponed

Revised Resource Allocation

	A	**B**	**E**	**G**
Allison			1.0	
Micah				1.0
Alana	1.0			
Jeremy		0.5	0.5	
Les				1.0
Lisa		1.0		

- 3 projects have been eliminated
- Resources are concentrated within projects that initially had the highest fraction of time assigned
- A concentration of resources on these projects increases the likelihood that they will be completed on schedule

Source: Rosenau, “The PDMA Handbook of New Product Development”

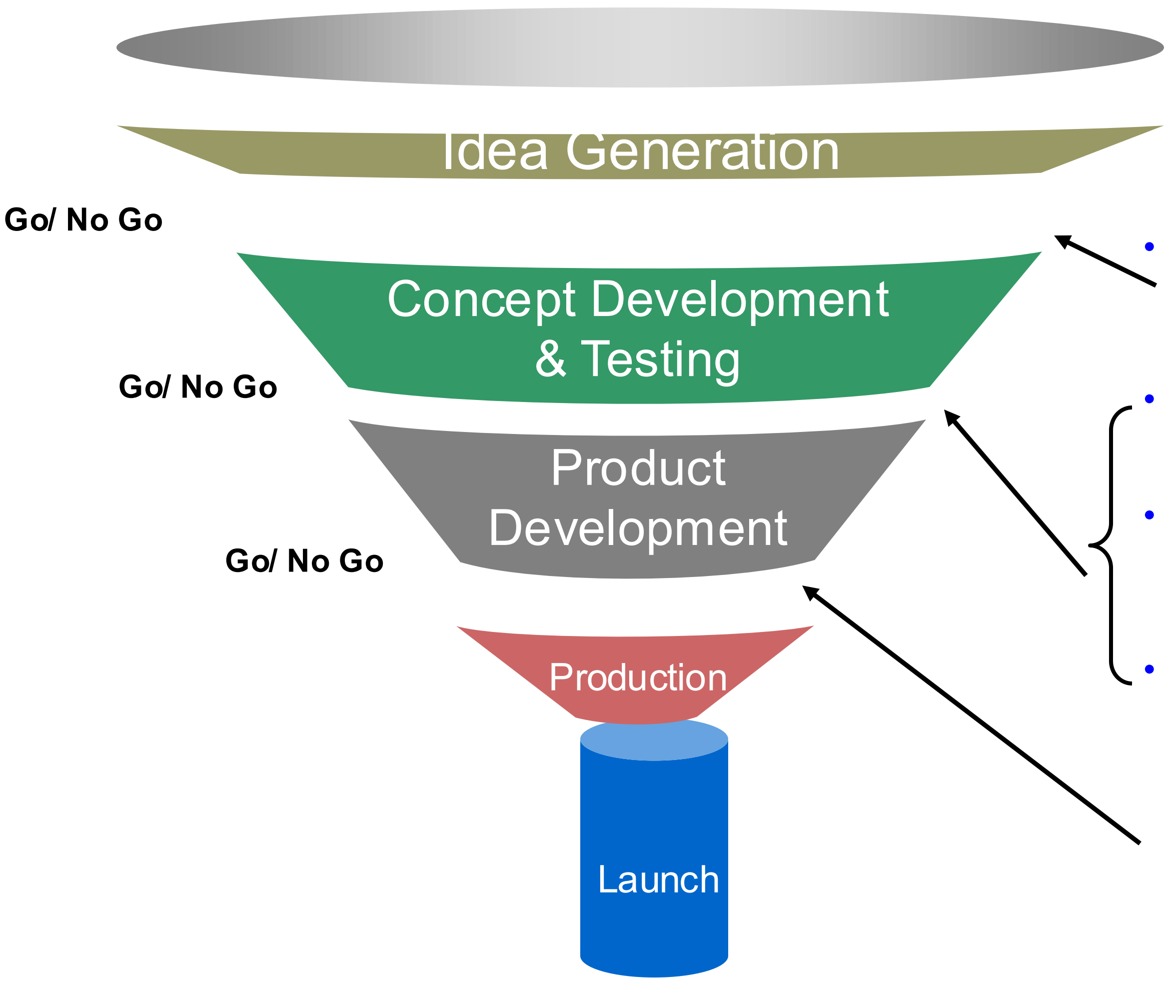
Measuring resource utilization within each function also facilitates go/no go decisions

Resource demand vs. capacity

Project	Product mgmt		Marketing		Research Group A		Research Group B	
	Person days	Cumulative	Person days	Cumulative	Person days	Cumulative	Person days	Cumulative
Alpha	3	3	2	2	10	10	5	5
Beta	4	7	2	4	10	20	5	10
Gamma	3	10	2	6	15	35	5	15
Delta	5	15	3	9	15	50	8	23
Epsilon	6	***21***	3	***12***	5	55	8	31
Foxtrot	6	***27***	2	***14***	5	60	5	36
Available person days		20		10		60		40
% utilization		**135%**		**140%**		100%		90%

Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

At Frito Lay, projects are killed throughout the NPD process…



Projects killed at each stage

Product	Description	Rationale for No-go decision
Cracker Jack bar	Cracker Jacks in snack bar form	Low consumer demand
Incredibles	Fortified wheat snacks	Market for wheat snacks changed
Mall microwave kiosks	Used to heat chips and dip	Did not want to enter real estate business
Snack cake w/ Sara Lee	Small dessert cake	Testing revealed that product became stale too quickly

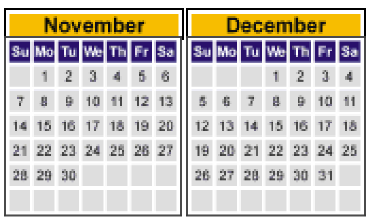
Source: Kevin Barry, formerly part of strategic planning group of Frito Lay

…while high-priority projects are clearly identified and resourced accordingly

Project priority	Project	Description	Idea source	Impact on NPD process
High	Lays Stacks	New packaging (stacked, air-tight)	P&G's Pringles	• CEO deemed high-priority • Large project team formed (~40 people) • Additional capital resources allocated • Rapid decision-making introduced: increased access to senior decision team
	Baked Lays	Healthier potato chips	Guiltless Gourmet's baked chips	
Low	Cracker Jack Snack Bars	Cracker jacks in bar form	Internal	• Projects below a threshold priority are killed

Responses to competitor launches typically receive additional resources and are "fast-tracked" through the NPD process

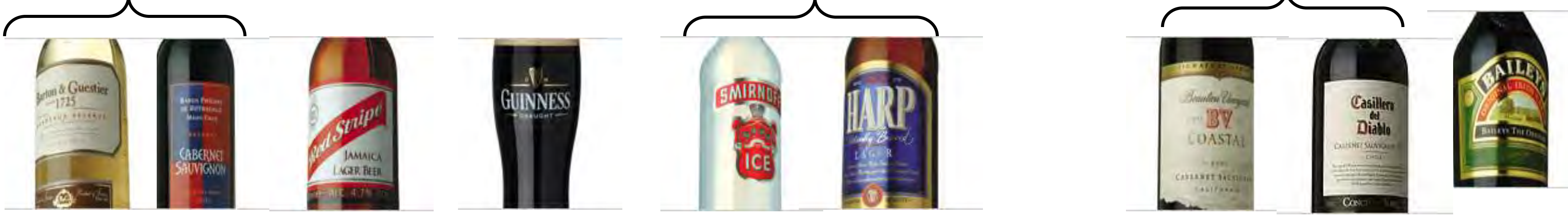
At Diageo, rigorous criteria are employed to make go/no-go decisions



NPD Category	Criteria
• Product development	• Improved taste and packaging
• Business case financials	• 18-month pay-out
• Launch timing	• Launch dates for new products often dictated by specific times of year associated with key brands

Year

New Years'	*Super Bowl*	*St. Patrick's Day*	*Start of Summer* →	*Holidays* →	*Christmas*
Wine & Champagne	Beer	Guinness	Beer & Chilled Drinks	Wine & Champagne	Baileys



Source: Julia Brown, former procurement manager at Diageo

Key benchmarking takeaways

Process, organization, and metrics

Basic process architecture

- Common, stage/gate processes used across organizations
- Specific analyses and outputs are tied to each stage or gate; strict go/no-go decisions

Organization and team

- Multi-tiered, cross-functional teams oversee NPD process
- Each team has well-defined roles and responsibilities
- Never put NPD into established Brand mktg org, except potentially close-in LE's/Flankers

Metrics

- NPD project and pipeline status is tracked and easily available
- In-market tracking is performed post-launch

Idea generation → Concept assessment → Product developmen t → Production prep → Ramp up → Launch and audit

Project specs

- Project specs (success criteria and tolerances) are clearly defined early in the process
- Large focus on collaboration with groups outside the project team, resulting in better product and more accurate forecasts

Prioritization

- Rigorous criteria and scoring mechanisms are used for idea evaluation, prioritization, and resource allocation

Decision-making and risk

- Roles are clearly defined
- Decision maker is involved in the process early on
- Companies for which risk-taking is acceptable view failures as learning opportunities
- The level of acceptable risk depends on the type of product and the company culture

Flexible processes

- "Fast-track" NPD processes are employed for certain types of projects

Platform development

- Product platforms are employed to streamline the NPD process and provide a base for future product development

Companies have improved decision-making processes in different ways

Principle	Examples
Assign clear roles and responsibilities via RAID analysis	Euro Cell Co, Candy Co, Diageo
Allow participants to recommend, agree, input, and decide via on-line system instead of waiting for in-person meetings	Diageo
Push decision-making downstream/give high degree of autonomy and authority to project teams	P&G, Candy Co

Many companies use the “RAID” tool to assign a specific role to each individual

R	A	I	D
Recommend	**Agree**	**Input**	**Decide**

Recommend

- Primary responsibility for making a proposal
- 80% of the work happens here
- Proposals usually approved at least in part

Agree

- Sign off, potentially fulfilling legal or similar duty
- Would only intervene in process in exceptional circumstances
- A veto requires resolution by the decider

Input

- Consulted on the decision, with no obligation for decision maker to act on advice
- Challenge and drive excellence

Decide

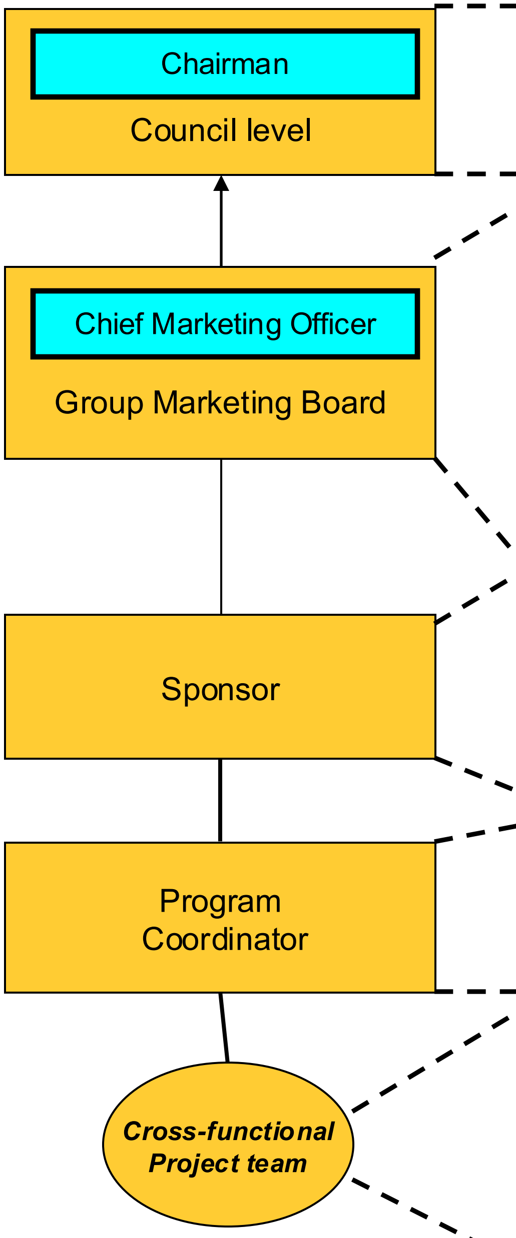
- Formal decision-maker, with power of veto
- Resolves conflicts between other parties with “recommend/agree” roles

In RAID, participants are mapped to decisions to clarify roles

Decisions \ Group	Selection Group	Project Team	Project Steering Team	Board of Directors
1. Select ideas	Decide			
2. Approve preclarification project for Phase 2	Recommend	Input	Decide	
3. Agree to continuation in Phase 3		Recommend	Decide	
4. Decide to continue project into Phase 4		Recommend	Decide	
5. Finalize capital request		Recommend	Input	Decide
6. Approve changes to Project Order		Recommend	Decide	
7. Decide how to go to trade		Recommend	Decide	
8. Incorporate changes to PG&I handbook			Recommend	Decide

Euro Cell Co. clearly defined roles for each group involved in the NPD process…

Key roles and responsibilities



- 2 councils: Brand Council and Product Development Council
- Make decisions on group marketing strategy and key milestones in NPD
- Chairman has ultimate decision rights

- Defines project objectives and scope as basis for project plan
- Ensures communication between marketing and technology
- Resource allocation decisions and trade-offs, including approving financial spend and significant budget changes
- Ensures that global proposition developments do not overlap or clash
- Red light monitoring, escalating issues to Council level where required
- Appoints sponsor and program coordinator

- Champions development of global proposition
- Ultimate accountability for managing through entire life cycle
- Champions customer viewpoint in development
- Key interface between the Board, program coordinator, and project team

- Coordinate delivery of the proposition by the cross-functional team
- Development, coordination, and updating of overall project plan
- Project status reports to Sponsor, Board, and Councils

- Ensures implementation of all activities
  - Segment teams lead implementation of propositions and programs not requiring new innovation
  - Product team leads implementation of propositions and programs requiring significant innovation
- Develops and implements launch plan
- Acts as key recommender throughout the process

…as well as key decisions for each stage

Key Decisions

A) Develop global proposition roadmap

- Should an idea be developed into a high level proposition concept?
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?
- Who is the global proposition sponsor?

B) Develop and build priority global propositions

- What is the project team?
- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?
- What is the overall project plan?
- How should obstacles be resolved?

C) Deploy and prepare proposition launch

- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D) Launch and manage proposition through lifecycle

- Proposition management
- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?
- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

For example, the Council makes all key decisions one a project is underway

Council Decisions

A) Develop global proposition roadmap

- Should an idea be developed into a high level proposition concept?
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?
- Who is the global proposition sponsor?

D

B) Develop and build priority global propositions

- What is the project team?

D

- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?
- What is the overall project plan?
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C) Deploy and prepare proposition launch

D

- What is the test market plan?
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- Does the proposition meet commercial plans?
- How can usage / penetration be increased?
- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

D

R	Recommend
A	Agree
I	Input
D	Decide

The Group Marketing Board controls the front of the NPD funnel and has input thereafter

Group Marketing Board Decisions

A) Develop global proposition roadmap

B) Develop and build priority global propositions

C) Deploy and prepare proposition launch

D) Launch and manage proposition through lifecycle

A) Develop global proposition roadmap

A
- Should an idea be developed into a high level proposition concept?

D
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?

R
- Who is the global proposition sponsor?

D

B) Develop and build priority global propositions

D
- What is the project team?

- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?
- What is the overall project plan?

D
- How should obstacles be resolved?

(key milestone decisions)

C) Deploy and prepare proposition launch

I
- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D) Launch and manage proposition through lifecycle

I
Proposition management

A
- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?

- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

R	Recommend
A	Agree
I	Input
D	Decide

The 65 decisions within Candy Co.'s marketing organization are grouped into 9 categories

Compile forecasts for product portfolio:
1. Set income targets and develop product forecasts
2. Determine pricing for array of products by brand, packtype and channel
3. Set financial budgets and controls
4. Interpret and respond to competitor initiatives

Develop strategic platforms:
5. Segment consumer market
6. Allocate resource among brands/packtypes/seasons
7. Assess trade-offs among product introductions and promotions within portfolio strategy

New products development:
8. Market analysis to understand new product opportunities
9. Identify major strategic platforms (i.e. health and nutrition)
10. Develop concepts around platforms
11. Test concepts with consumers
12. Perform central location testing
13. Determine sales feasibility
14. Plan production
15. Hand off to brand manager

Develop marketing plan:
16. Develop ideas for promotional programming
17. Develop brand image
18. Determine unmet consumer needs
19. Build brand budgets and trade support plan
20. Determine marketing plan by brand
21. Drive plan to approval by marketing leadership
22. Decide on and execute weight and price changes

Develop brand promotions:
23. Create brand-specific programs to promote brand
24. Create promotional calendar
25. Approve portfolio image objectives at retail
26. Ensure brand growth through portfolio-scale promotions
27. Gather input from field to develop customer-specific programs
28. Develop creative briefs for guidance to agency and teams
29. Manage agency, providing direction and approvals to agency
30. Drive plan to approval by marketing leadership
31. Execute events

Develop seasonal/pack type promotions:\\
32. Create promotional calendar
33. Approve portfolio image objectives at retail
34. Ensure brand growth through portfolio-scale promotions
35. Gather input from field to develop customer-specific programs
36. Develop creative briefs for guidance to agency and team
37. Manage agency, providing direction and approvals to agency
38. Drive plan to approvals marketing leadership
39. Execute events

Trade management:
40. Approve merchandising spend allocation
41. Design trade promotion structure for deployment to field
42. Define and implement trade spend evaluation metrics
43. Project manage customer-specific requests
44. Customize trade plan by customer
45. Customize trade spend by channel
46. Approve sales logistics management
47. Develop platforms and sales communication
48. Ensure execution with trade
49. Report trade results

Item production:
50. Project manage product development
51. Start PCM
52. Forecast demand for budgeting and schedules
53. Set productions schedules
54. Determine manufacturing process configuration
55. Approval capital and capacity plans
56. Allocate technical support resources
57. Approve production flow changes
58. Determine suppliers and procure net requirements
59. Set quality standards

People management:
60. Develop management recruiting
61. Approve HR policies
62. Ensure personal development
63. Provide and create mentoring opportunities
64. Offer periodic training
65. Create a system for role changes throughout the company, within and outside of the marketing organizational

RAID was employed to assign explicit roles and responsibilities for each decision

Candy Co.'s key NPD decisions	CMO	New products	HR	Finance	Snack food	Brands	Season	Take home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
• Market analysis to understand new product opportunities	I	D			I	I	I	I	I	I	R							
• Identify major strategic platforms	D	R			R	I	I	I	I	I								
• Develop concepts around platforms	I	R/D			R/D	I	I	I	I									
• Test concepts with consumers		D			D	I					R							
• Perform central location testing		D			D						R							
• Determine sales feasibility	I	D		I	D	I	I	I	I	I	R	I	I	I	I	I		
• Plan production				I		I	I	I	I	I	I	I	I	I	R/D	I		
• Hand off to brand manager	I	I	I		I	D					R							

Note: R= Recommend, A = Agree, I = Input; D = Decide

Mattress Co. also uses RAID to clarify roles for each decision in its 5-stage NPD process

	Stage 3 decisions	CEO (DM)	EVP, Mktg (MH)	Mgr, Mktg (JR, MW, MA)	Mktg Comm (DE)	VP, Components (JP)	VP, Engineering (JS)	VP, Operations (DH, KH)	VP, Finance	Mgr, Accounting	EVP, R&D (BB)	Purchasing (TM)	EVP, Sales (AB, CD)	VP, Training (NB)	Mfrg Services (JP)
Spec finalization	• Select final tick options			D							I	I	I		
	• Determine process/equipment changes for manufacturing		A	I		A	R	A	A	I	A				D
	• Determine plant training method/ schedule					I	D	A			I				I
	• Finalize sourcing relationships/ contracts			I							I	D			
	• Finalize marketing message		D	A	R								I	I	
	• Decide final specs		D	R		A	I	I	A	I	A	I	A		I

The culture at GE encourages innovation and thoughtful risk-taking

- Strong **leadership** at top levels encouraged innovative behaviors
  - CEO provided clear direction for risk-taking via key themes, e.g., globalization, digitization
  - Key programs were dedicated to idea generation and innovation, e.g., “ready, aim, fire” program encouraged idea submissions
  - Employees always encouraged to submit out-of-box ideas via online system
- Resource and **knowledge sharing** across business units facilitated innovative culture
  - Online communication tool provided forum for idea sharing and implementation planning
- Manager **evaluations** based in part on openness to new ideas
  - Risk-aversion perceived as negative manager trait that could be penalized
- **Rewards** and **recognition** reinforced importance of risk-taking
  - Idea originators publicly recognized and often received monetary rewards for their ideas (if implemented)

Risk-taking consistently reinforced and encouraged at all levels of the organization

Source: Sally Wilbur, former VP, Operations, Mortgage Insurance, GE

Key benchmarking takeaways

Process, organization, and metrics

Basic process architecture

- Common, stage/gate processes used across organizations
- Specific analyses and outputs are tied to each stage or gate; strict go/no-go decisions

Organization and team

- Multi-tiered, cross-functional teams oversee NPD process
- Each team has well-defined roles and responsibilities
- Never put NPD into established Brand mktg org, except potentially close-in LE's/Flankers

Metrics

- NPD project and pipeline status is tracked and easily available
- In-market tracking is performed post-launch

Idea generation → Concept assessment → Product developmen t → Production prep → Ramp up → Launch and audit

Project specs

- Project specs (success criteria and tolerances) are clearly defined early in the process
- Large focus on collaboration with groups outside the project team, resulting in better product and more accurate forecasts

Prioritization

- Rigorous criteria and scoring mechanisms are used for idea evaluation, prioritization, and resource allocation

Decision-making and risk

- Roles are clearly defined
- Decision maker is involved in the process early on
- Companies for which risk-taking is acceptable view failures as learning opportunities
- The level of acceptable risk depends on the type of product and the company culture

Flexible processes

- "Fast-track" NPD processes are employed for certain types of projects

Platform development

- Product platforms are employed to streamline the NPD process and provide a base for future product development

New products have varying degrees of "newness" and urgency

New product type	Description	Gillette examples
• **New-to-the-world**	• First of their kind products that create an entirely new market	• Syncro
• **New-to-the-company**	• New platforms or major launches for the company, but the product is not new to the market. Can also include adjacencies	• B1 • Gillette Series Invisible Solid Deodorant
• **Line Extensions**	• New products within an existing line that company already produces	• Mach 3 Turbo • Cross Action Vitalizer
• **Updates/ Refreshments**	• Functional performance improvements to existing products. Also includes color or packaging changes.	• Venus Pink • Duracell Ultra
• **Repositioning/ New Market entry**	• New applications of, or new markets for, existing products. May require packaging or other minor changes to adapt product. Includes international launches.	• Sensor 2 in Latin America
• **Cost reductions**	• New products designed at lower cost to replace existing products. Often include design and production changes.	• TBD

Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

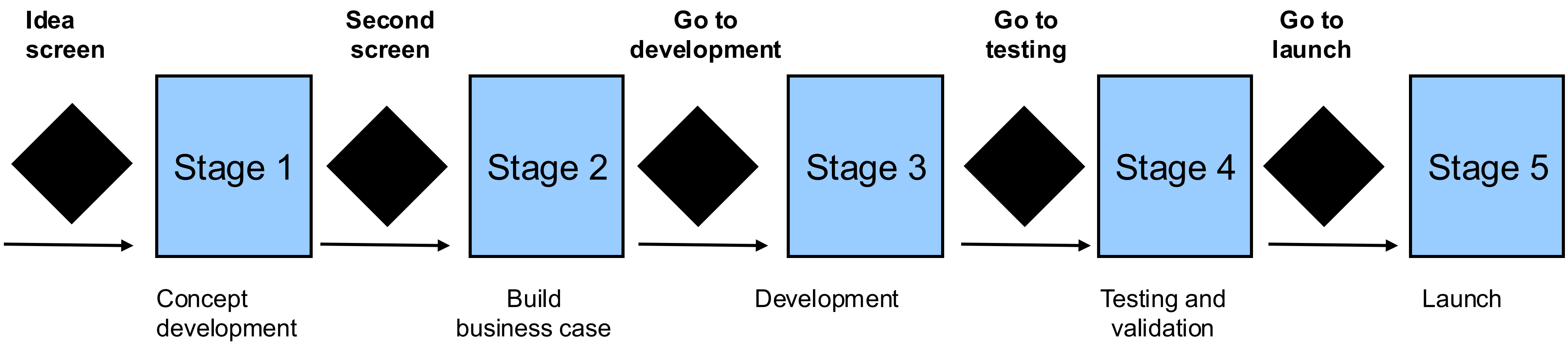
Best-in-class companies employ "fast-track" processes for certain project types

Type of "fast track" process	Description	Example companies
Flexible process	• Abbreviate stage-gate process for low-risk projects, e.g., extensions, upgrades, etc.	• Royal Bank of Canada • European Cell Phone Company
"Fuzzy" gates	• Gates are no longer binary (i.e., open or closed), but have various states in between • Projects may receive a "conditional go" to proceed to the next stage even if the current stage is not complete • The current stage must eventually be completed to receive a "full go"	• AtoFina (formerly Ato-Hass at Rohm and Haas) • Nortel Networks • Diageo
Overlapping stages	• Activities are not tied to specific stages • Stages may overlap • Activities with long lead times may be brought forward from one stage to an earlier one	• GTE Networks

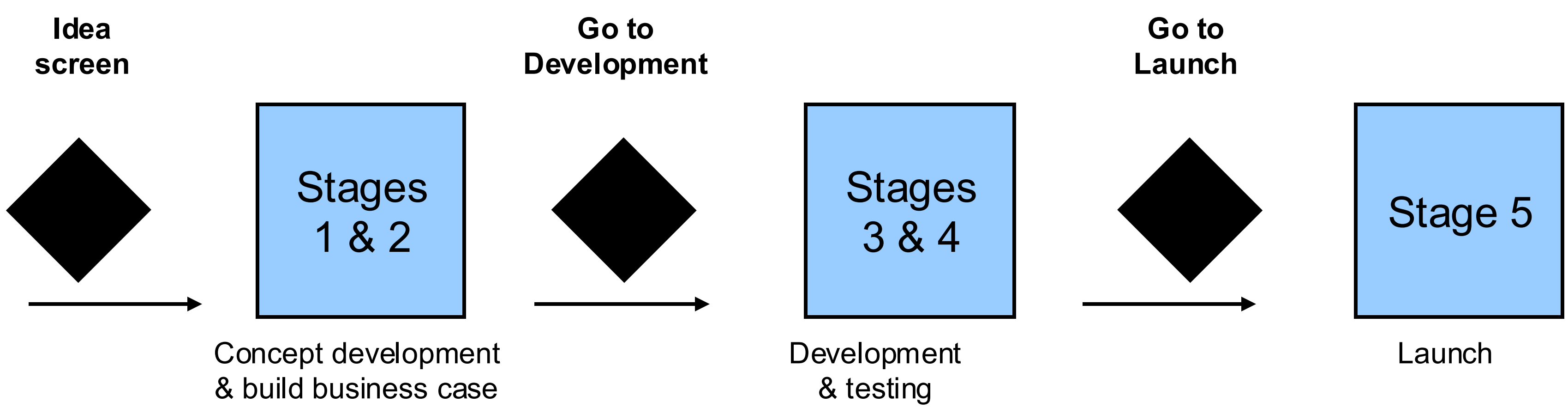
Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

RBC uses a 3-stage version of its 5-stage process for lower risk, smaller projects

Royal Bank of Canada's 5-stage NPD process



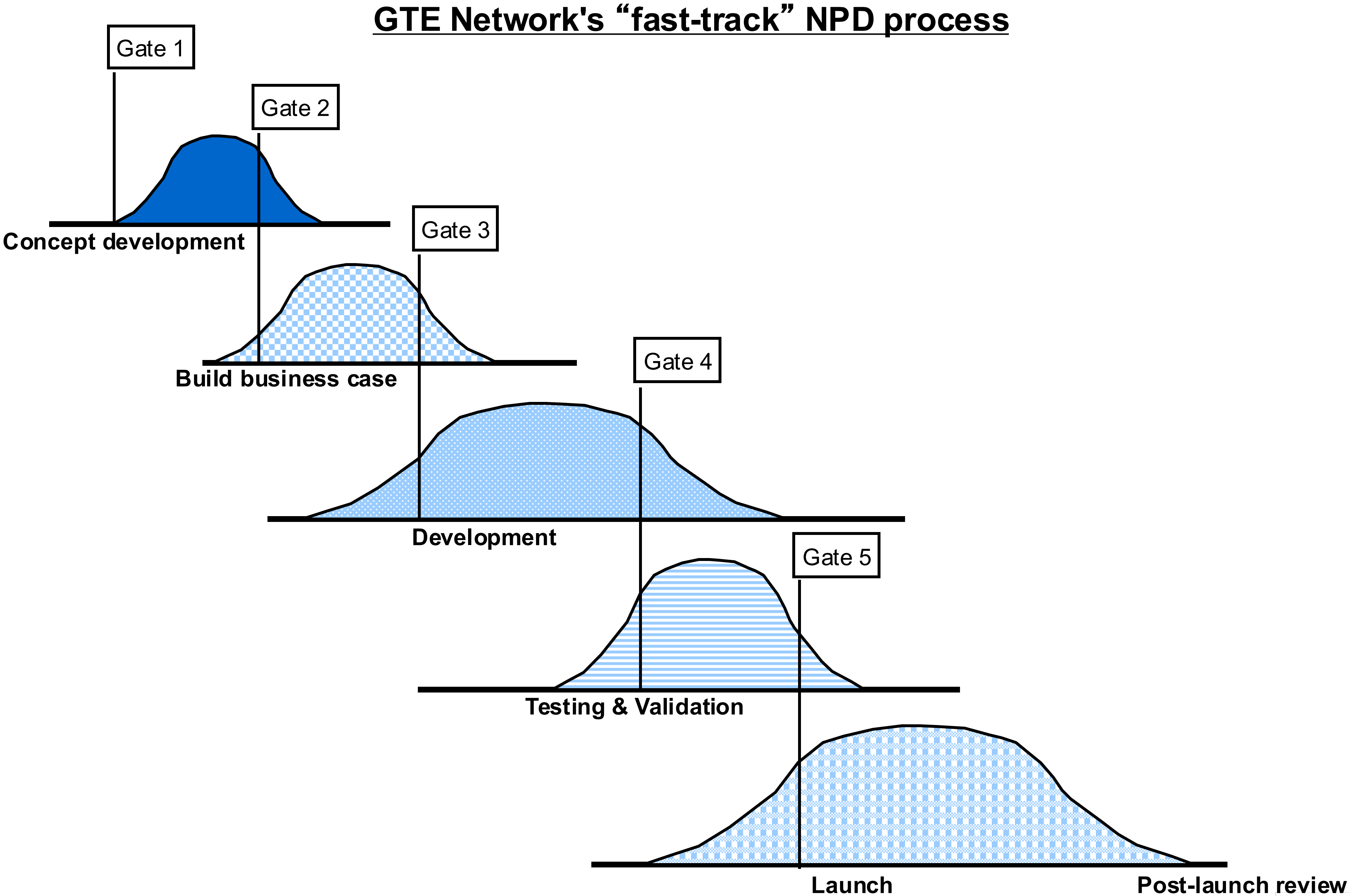
RBC's 3-stage "fast-track" process



Note: RBC also employs a 2- and 4-stage process for different types of projects

Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

For certain project types, GTE Networks employs a process with overlapping stages



Source: Cooper, "Winning at New Products: Accelerating the Process from Idea to Launch"

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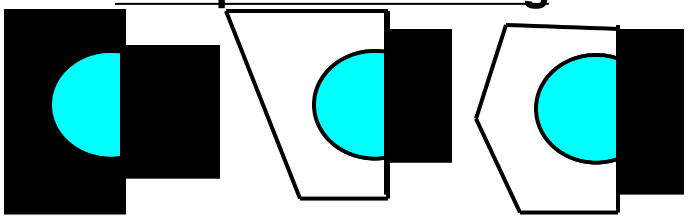
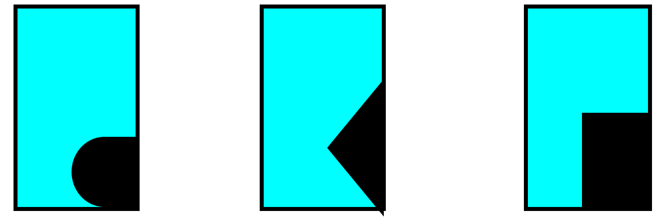
Platform development can be achieved to suit different needs

Component Sharing



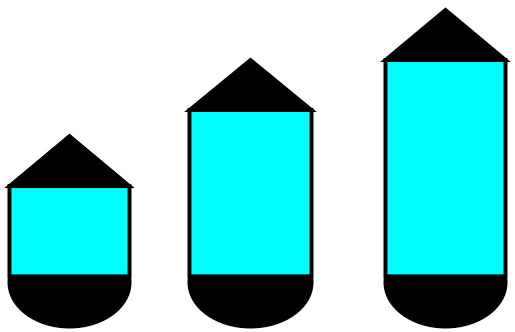
Same component used across many different products
Example: Black & Decker power tools

Component Swapping



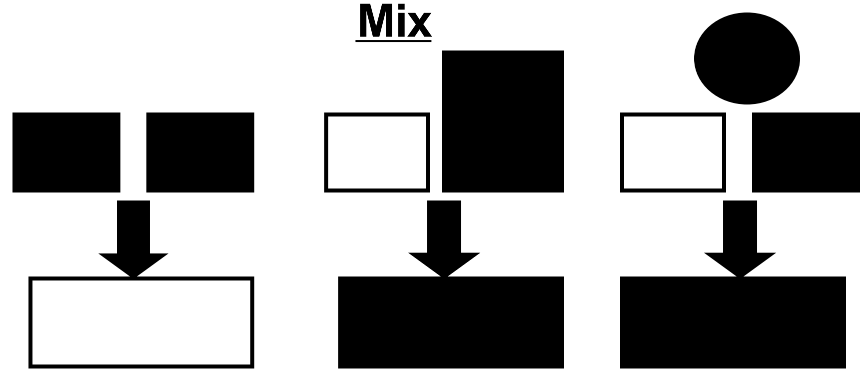
Different components used with the same basic product
Example: Swatch watch

Fabricate to Fit



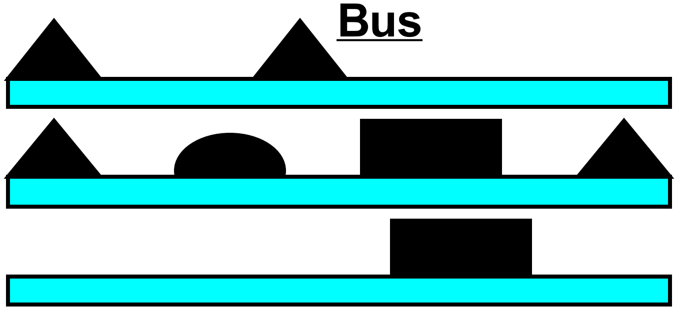
One of more of the component is variable in size of shape
Example: PVC piping

Mix



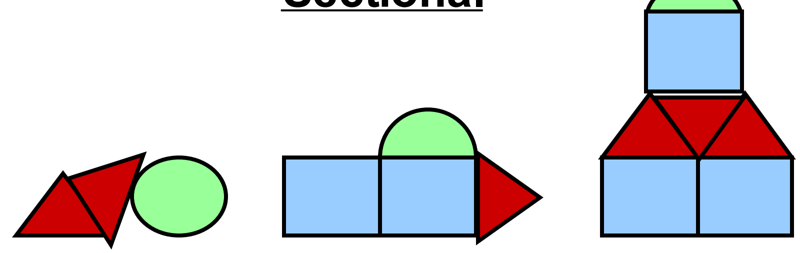
Several standard components mixed together to make a new product. Example: Paint colors

Bus



Different types of components attach to a common structure through standard interface. Example: Track lighting

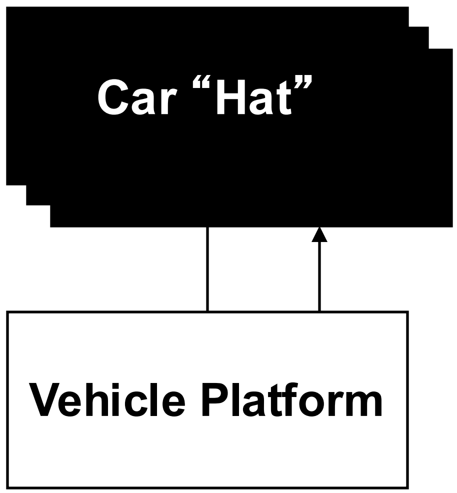
Sectional



Sections of product configured in a variety of ways through standard interface. Example: Office furniture

Source: Rosenau, "The PDMA Handbook of New Product Development"

VW uses common platforms to share basic components across its vehicles



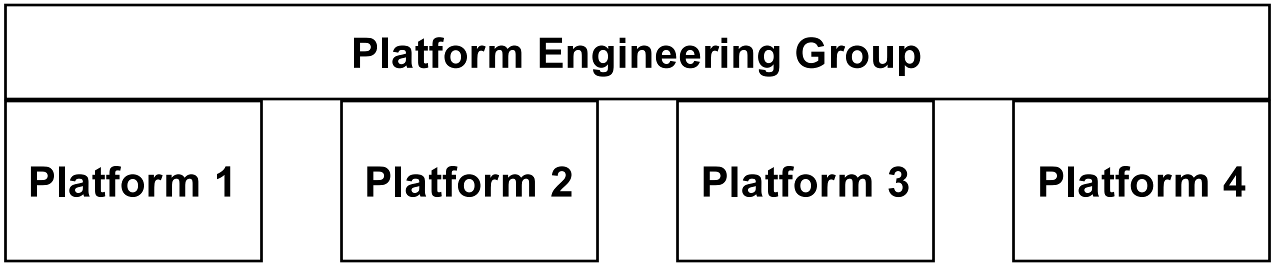
- 40% of components
- Designed for individual nameplates

- 60% of components
- Drive train, engine, and engine mountings
- Fuel lines, gearbox, clutch and shifter, steering columns, brakes and cables, fuel tank, exhaust system, front and rear axles, foot controls, wheels, seat frames, floor
- Flexibility in terms of length, width and wheelbase
- Multiple nameplates are developed from the same platform (e.g., 7 nameplates from platform A)

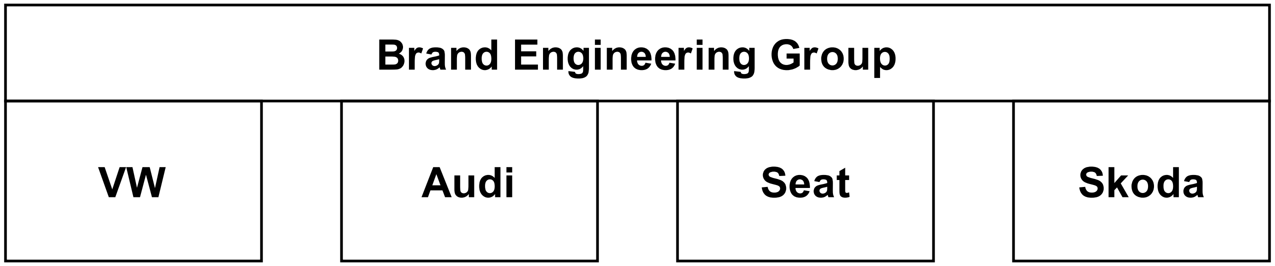
Drives commonality of systems and parts within a platform (i.e., same horn and same sensors in all nameplates of the same platform)

Note: Nameplate in the specific model of the car
Source: Interviews; Literature Search

VW's organization structure supports the platform strategy



- Platform-based organization leads to commonality within a platform
  - Individual brand engineering subordinate to the platform organization
- Inter-platform commonality driven by senior management
  - Commodity group that reports directly to the CEO monitors inter- platform commonality



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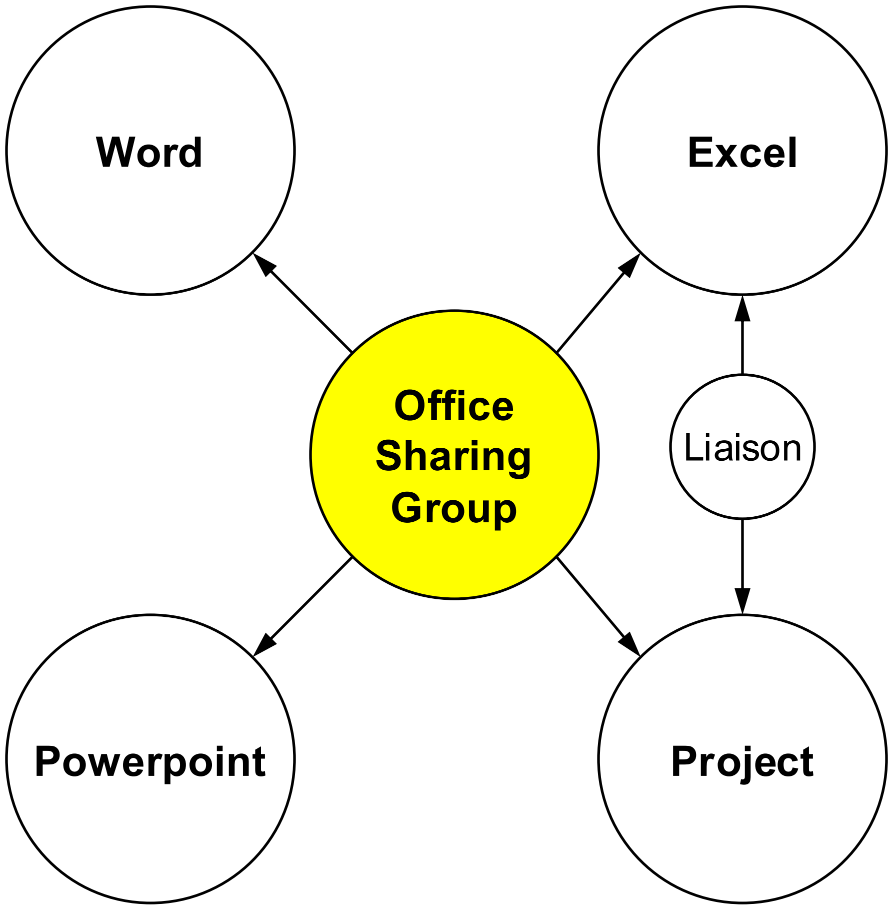
Source: Interviews; Literature Search

At Microsoft, components employed by more than one division are developed only once

Office Development Teams



Sharing Practices

- Features common to all products are developed centrally by the Office Sharing Group
- Features common to a subset of products are developed jointly by the relevant product groups
  - A liaison communicates between these groups on a daily basis to coordinate the work
- Features used only in one product group are developed within that group

Source: Microsoft Secrets; Microsoft Interviews

BENCHMARKING Back-Up

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Microsoft employs a common NPD process with rigorously defined stages

Microsoft's product development process

Feature Selection
Program Managers

- All features for the next product version compiled
  - Post-mortem document from previous version
  - Customer requests
  - Executive directives
- High-level specs are written for all features proposed for the next version

Scheduling
Development Team

- Prepare an estimated schedule for each proposed feature
  - Man-hours
  - Dependencies

Prioritization
Program Managers

- Assemble schedules from development teams
- Write a detailed 18-month schedule synchronized across all product groups
  - Iterate between feature content and timing
  - Create 10 development milestones

Development
Development Team

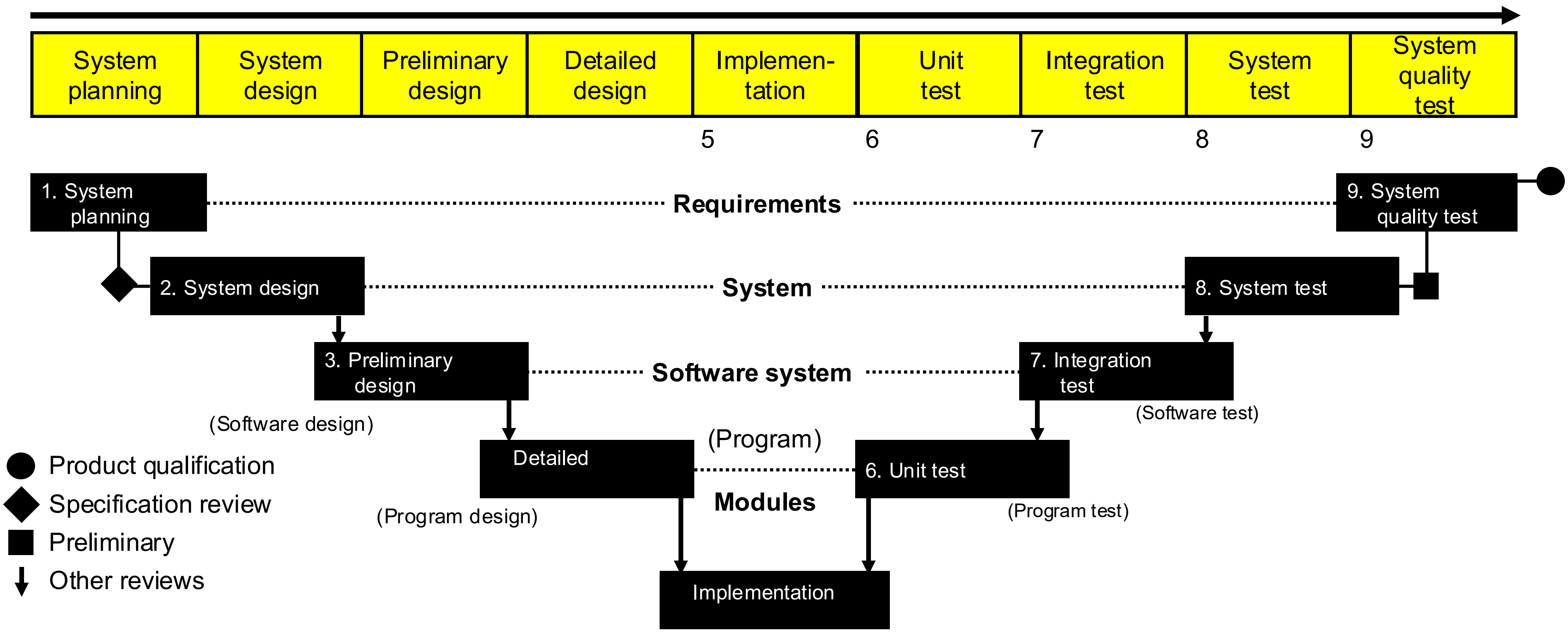
- Write code for product features
- Measure progress against the pre-designated milestones
  - Communicate slippages to dependent groups
  - Readjust milestones
- Make content and launch date trade-offs for major slippages
  - VP decision

Test and Launch
Product Managers

- Coordinate pre-launch work
  - Testing
  - Documentation
  - Marketing
  - Manufacturing
- Oversee product launch

Source: Microsoft Secrets; Company Interviews

Toshiba's product development process is centered around design and testing



Output

- System (user's) require-ments speci-fication

- Software require-ments specfi-fication
- Software develop-ment plan
- Software quality plan

- Program require-ments speci-fication

- Module require-ments speci-fication
- Unit test speci-fication

- Modules

- Programs
- Integ-ration test speci-fication
- Unit test report

- Software system
- Software user manual
- System test speci-fication
- Integ-ration test report

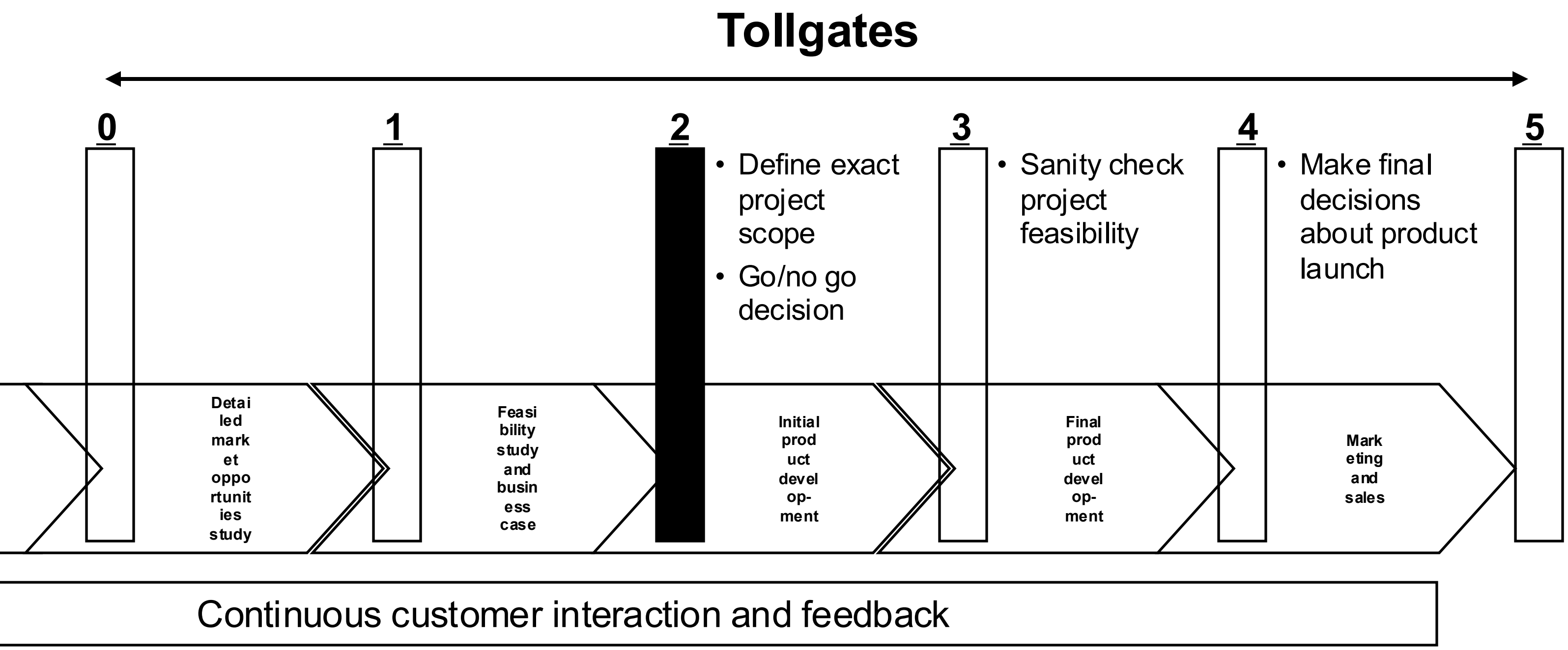
- System
- System opera-tions manual
- System test report

- Quality system
- System maint-enance manual
- Software release notice

Ericsson follows a formalized NPD process with standard stage/decision gates

Decision points:

- Steering committee meeting every 1-3 months
- Includes project manager, outside experts, and corporate members (depending on project importance)



Team:
- Cross-functional team from business units and product divisions assembled by product manager

Process:

- Broad investigation of market opportunities and trends

- Rough study of technical needs
- Feasibility study

- Business case development
  - Description of technical features & project scope
- Prepare for steering committee meeting to determine:
  - Go/no go decision
  - Launch roadmap

- Start product develop-ment

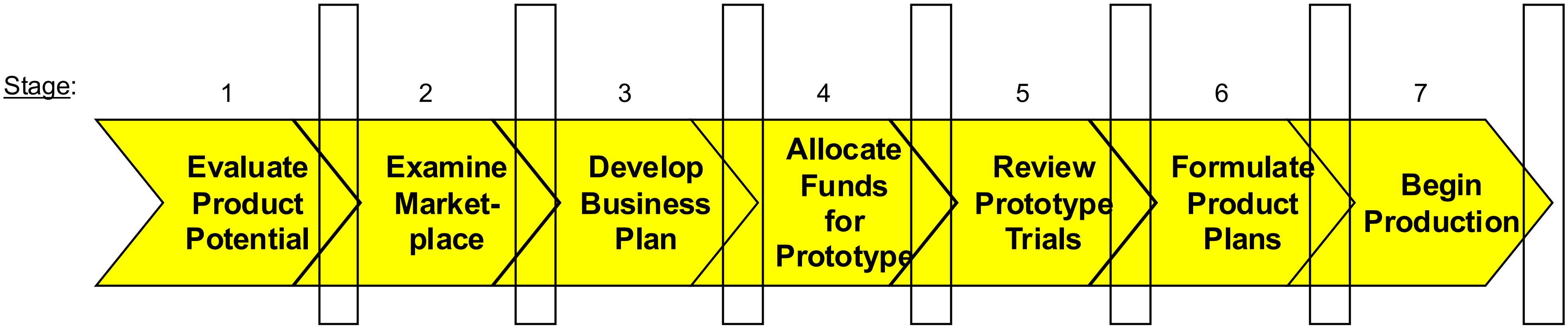
- Complete product develop-ment
- Make final decisions on launch strategy

- Develop and execute on marketing and launch plan

Source: Company Interviews

Lucent's process consists of 7-stages that are common throughout the organization

Formal gate reviews at end of each milestone: "kill" or continue decision



- Examine general product concept

- Conduct customer research
- Project market trends
- Forecast sales

- Formalize plan on "5 P's"
  - Product
  - Price
  - Placement
  - Promotion
  - Profitability

- Design & engineer product

- Test prototype
  - Quality
  - Compat-ibility

- Set production budgets
  - Tools
  - Labor
  - Materials

- Purchase raw materials
- Launch product
- Receive ongoing feedback
  - Meet with customers

Source: Company Interviews

Nokia's 6-module NPD process defines specific outputs for each stage

Nokia's product creation process

Concept design → M0 → Product specific-ation → M1 → Product Design → M2 → Implemen-tation Integration → M3 → Testing → M4 → Launch → M5

Activities

Concept design
- User Study / Requirements analysis
- Concept creation (Multiple sources, strong R&D input) and evaluation

Product specification
- Product specification
  - Size, weight
  - Functions
  - Network
  - Customers
  - Time-to-market
  - Unit cost

Product Design
- Product design
  - Industrial
  - Mechanical
  - HW, SW, UI
- Product externals design (external interface)
  - User guide
  - Package
  - Accessories
- Service design together with service provider

Implementation Integration
- Engineering and implementation of design concepts
- Integration of parallel workstreams
  - Industrial
  - Mechanical
  - HW, SW

Testing
- Module testing
- System testing
- Interoperability
- Market testing
- User acceptance
- Error correction

Launch
- Ramp up volume production

Output

- Targets to be achieved (M0)
- Specification document (M1)
- Design / Design freeze (M2)
- Working product prototype with full functionality (M3)
- Working product with full functionality (M4)
- End of development project

Source: Nokia presentation, Company literature

Clothing Co.'s NPD process has specific time frames associated with each stage

Product design and validation → Sourcing and planning → Production → Distribution to stores

Product design and validation
- Business and creative process (9 weeks)
- Customer line review (2 weeks)

Sourcing and planning
- Create product specifications and samples (8 weeks)
- Complete sourcing and costing (3 weeks)

Production
- Manufacture and ship the product (19 weeks)

Distribution to stores
- Hold and distribute the product (2 weeks)

43 weeks from beginning of design to delivery to store

Kraft's process had (still has?) common activities that focus on frequent testing and analysis

Situation Assessment → Consumer Problem Identification → Concept Optimization → Product and Package Development → Commercial-ization → Launch/ Post Launch

Activities

Situation Assessment

- External Marketplace Assessment
  - Competition
  - Consumer trends
  - Technology trends
  - Regulatory
- Internal Strategic Fit
  - How Kraft can win?
  - Portfolio fit/gaps
  - Gain Management agreement

Consumer Problem Identification

- Identify relevant consumer problem
  - Kraft House of Quality tool
- Generates unique solutions
  - Idea Generation
  - Market place exploratory
- Preliminary financial feasibility
- Technical feasibility
- Validate early concepts/ Rank top
  - Research on the internet
  - Concept & Bases test

Concept Optimization

- Concept Engineering
  - Ethnographies/ Qualitative Research
  - Prototype exploration
- Quantitatively test concepts
  - Prelim. Volume est.
  - Prelim. Financials reworked
  - Product quality
  - Gain management commitment to cross functional resources

Product and Package Development

- Product development
- Process engineering plan
- Packaging development
- Packaging graphics
- Prelim. Marketing Plan
  - Home-use test of first bundle
  - Revised business proposition
  - Agreement to capital, manufacturing plan and financials

Commercial-ization

- Final engineering/ Plant start-up
- Final logistics/ Distribution plans
- Approval Marketing plan
  - Consumer ACT plans
  - Sales plans
  - Final advertising ICP
- Final financials
  - Volume
  - Pack sizes
  - Variable costs
  - Direct contribution

Launch/ Post Launch

- Sell-in authorization
- First production approval
- "On Store Shelf" placement
- Track ACV, volume, and shares

Output

Situation Assessment

- Basis of Interest Proposal
- Compelling Strategic Fit

Consumer Problem Identification

- Rank spectrum of ideas
- Understand financial feasibility
- Gain agreement of project priority
- Identified team resources

Concept Optimization

- Gain volume forecasts
- Tighten business proposition
- TR evaluation of idea

Product and Package Development

- Optimized products, packaging
- Final packaging graphics
- Final volumes
- Sales review of project

Commercial-ization

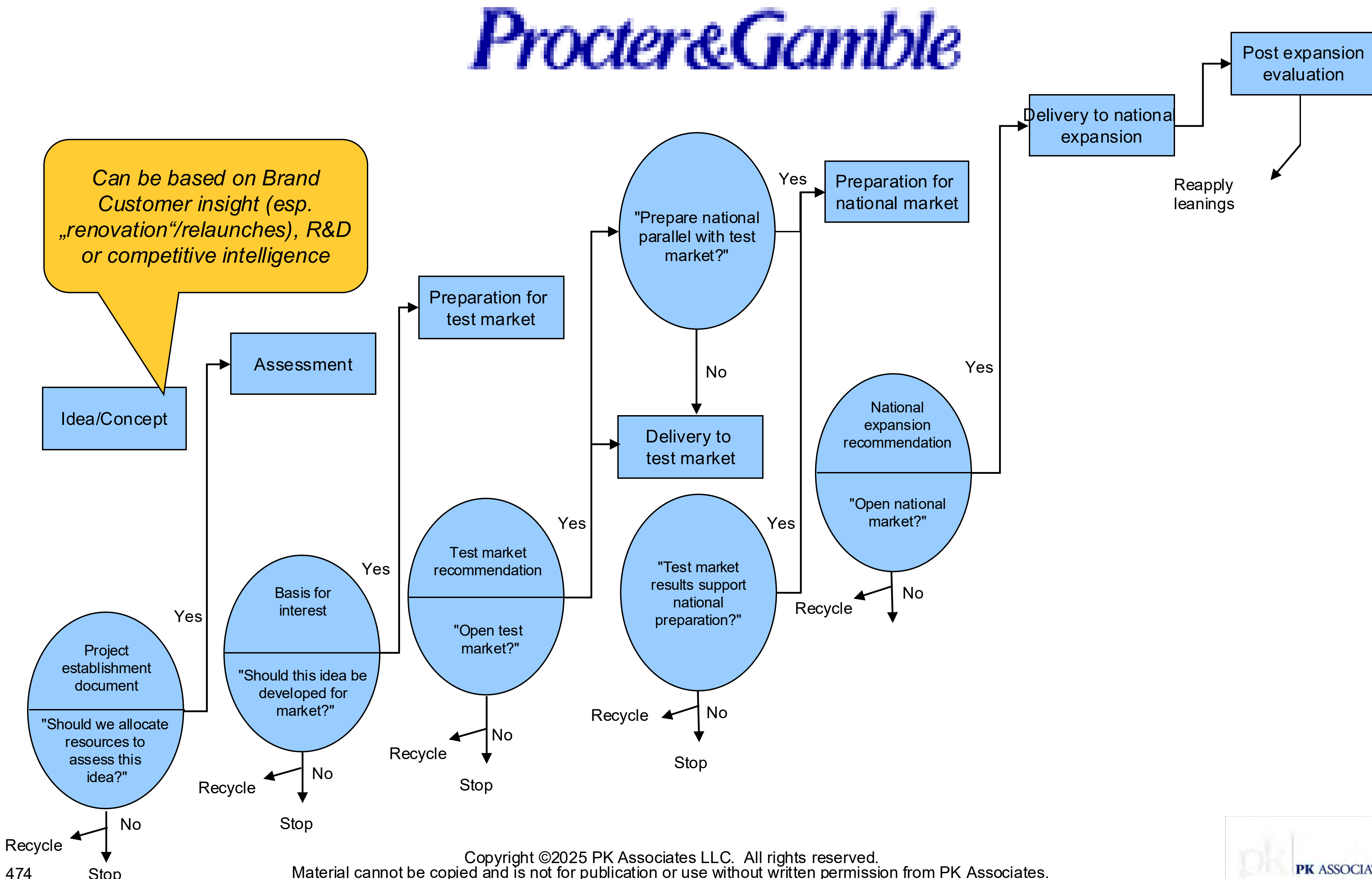
- Present final bundle to Kraft sales force
- Final go-to-market plan
- Final manufacturing plan
- Final launch timing

Launch/ Post Launch

- Year 1 in-market performance
- Lessons learned

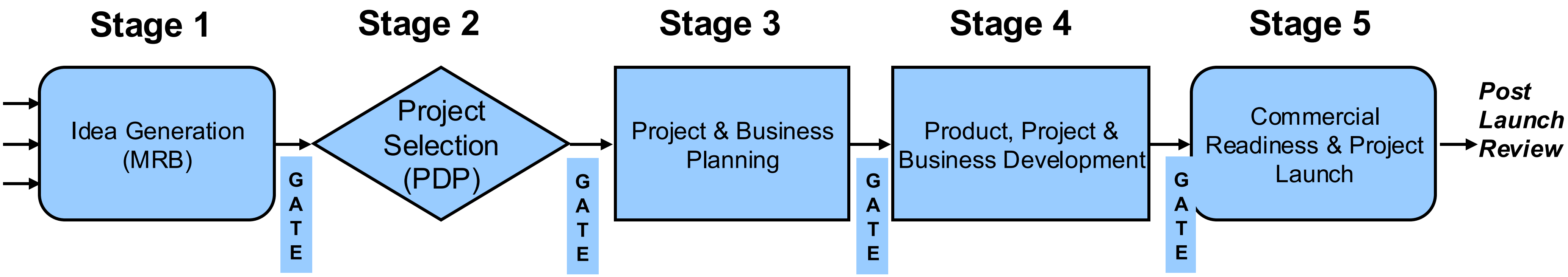
Source: Kraft interview

P&G's “Product Launch System” consisted of eight major activities resulting from key decisions



The CLC process used by Ansell and Honeywell has 5 main stages

Customer Linked Commercialization process

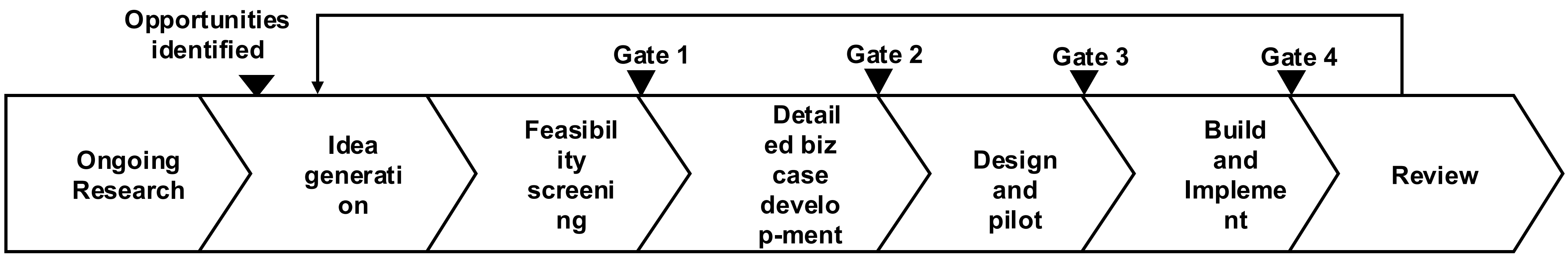


Input:
- Customer needs
- Core capabilities
- Market needs
- Strategic plan

Output:
- New products that delight the customer

Customer linked commercialization (CLC) is a tool consisting of defined, measurable processes and decision points.

Insurance Co.'s NPD process is similar to the NPD process used for consumer products



Key activities:

Ongoing Research

- Ideas generated throughout business as well as research team
- Research undertaken on an ongoing basis to determine gaps if product offerings
  - -Market
  - -Competitor
  - -Industry
  - -Consumer
  - -Adviser
  - -Regulator
  - -Technology
- Monitor existing product range
  - -Relevance
  - -Projections
  - -Competitivenes s of features

Idea generation

- Capture and collate ideas from all sources
  - -Research
  - -Distribution
  - -Customer service
  - -Advisers
  - -Clients
- Research determines if there is any merit on developing product concept offer to fill gaps

Feasibility screening

- Process team evaluates internal organization on "fit"
- Compile stakeholder list
- Articulate concept
- Design value proposition
- Filter based on strategic fit and launch window
- High level cost/ benefit/risk analysis
- Create overall project plan
- Process team get all stakeholder buy-in to moving concept forward
- Coms team develop features of offer

Detailed biz case development

- Assemble project team
- Gather input from stakeholders
- Design first round of product specs
- Design gate 2 IT BRS (prelim)
- Perform detailed cost/benefit analysis
- Plan project

Design and pilot

- Detailed implementation planning
- All other groups develop processes etc as determined by the process team
- Brand & Coms develop product positioning strategy and launch strategy
- Refine product specs (full detail) and resolve issues
- Design gate 3 IT BRS (detailed)
- Design detailed service offer
- Plan/design launch
- Run pilot if needed
- Product enhanced to meet outcomes of the trial

Build and Implement

- Design, build and test IT system
- Develop and deliver training
- Run launch campaign
- Product launched- supported by ongoing Brand perception build

Review

- Short and long term post implementation review at specified intervals
- Continuous ongoing review of product
  - -Competitiveness
  - -Customer relevance
  - -Adviser relevance
- Feed ideas into idea generation phase

Key Document Outputs:

Concept paper	Gate 2 BRS	Gate 3 BRS

Medical Products Co provides example of integrated end-to-end process

	Strategy & Process definition	Portfolio management	Product definition & project planning	Development & testing
Main activities	• Form & periodically update strategic vision - Customer priorities - Competitive goals - Competencies • Define customer and market-facing guidelines • **Create process framework** - Idea phase go/no-go decision guidelines - Project core team structure and resource allocation	• **Allocate development capacity according to business strategy** - Risk v. return balance - Dev'l time horizon - Mature v. emerging markets • Monitor distrib. of projects against allocation • Progress reporting using portfolio eval'tn metrics	• Fund and staff prioritized project • Design and staff development process • **Set development milestones and decision-making guidelines** • Define team roles and responsibilities	• Manage and report upwards on dev'l process • **Facilitate horizontal and vertical communication on project** • **Project advocate** - Resources - Org'l support • Team executes development plan - Design & test - Value chain assessments
Role distribution				
Executive committee	• Set broad strategic vision	• NPD resource allocation	• N/a	• N/a
NPD senior leadership	• Own process and application of strategy	• Lead responsibility	• Project plan approval & funding	• N/a
Project leader(s)	• N/a	• Progress reporting	• Drive process	• Project mgmt & advocacy
Project team	• N/a	• N/a	• Support process (lead members only)	• Execution

Source: Sloan Business Review

Diageo used a 7-stage NPD process called "Navigate"

"Navigate"

Opportunities	G1	*Innovation Opportunity Approval*
Preliminary Investigation	G2	*Project Scope/ Resource Approval*
Product/ Concept Development	G3	*Concept Approval*
Commercial Development	G4	*Test Market Approval*
Test Market	G5	*Launch Approval*
Launch	G6	*Quarterly Innovation Review*
Post-launch evaluation		

Objectives:

Opportunities
- Set the strategic framework for innovation in the context of overall business objectives
  - In-bound/out-of-bounds areas
  - Entry strategies
- Understand were consumer needs are being met

Preliminary Investigation
- Identify and access
  - Consumer needs
  - Business opportunities
  - Platforms
  - Project scope
  - In-bound/out-of-bounds areas
  - Entry strategies

Product/ Concept Development
- Explore and develop the levers that lead to consumer acceptance
- Develop concept
- Evaluate feasibility
- Develop business case

Commercial Development
- Develop optimized final production
- Finalize marketing and sale plans
- Validate business case

Test Market
- Further validate business case through test market (optional)

Launch
- Implement supply and production plans
- Implement marketing and sales plan
- Rollout or full regional launch
- Finalize marketing and sale plans
- Validate business case

Post-launch evaluation
- Quarterly reviews of innovations
- Continuous measurement, evaluation, and improvement of new product

Key benchmarking takeaways

Process, organization, and metrics

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Organization and team

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Metrics

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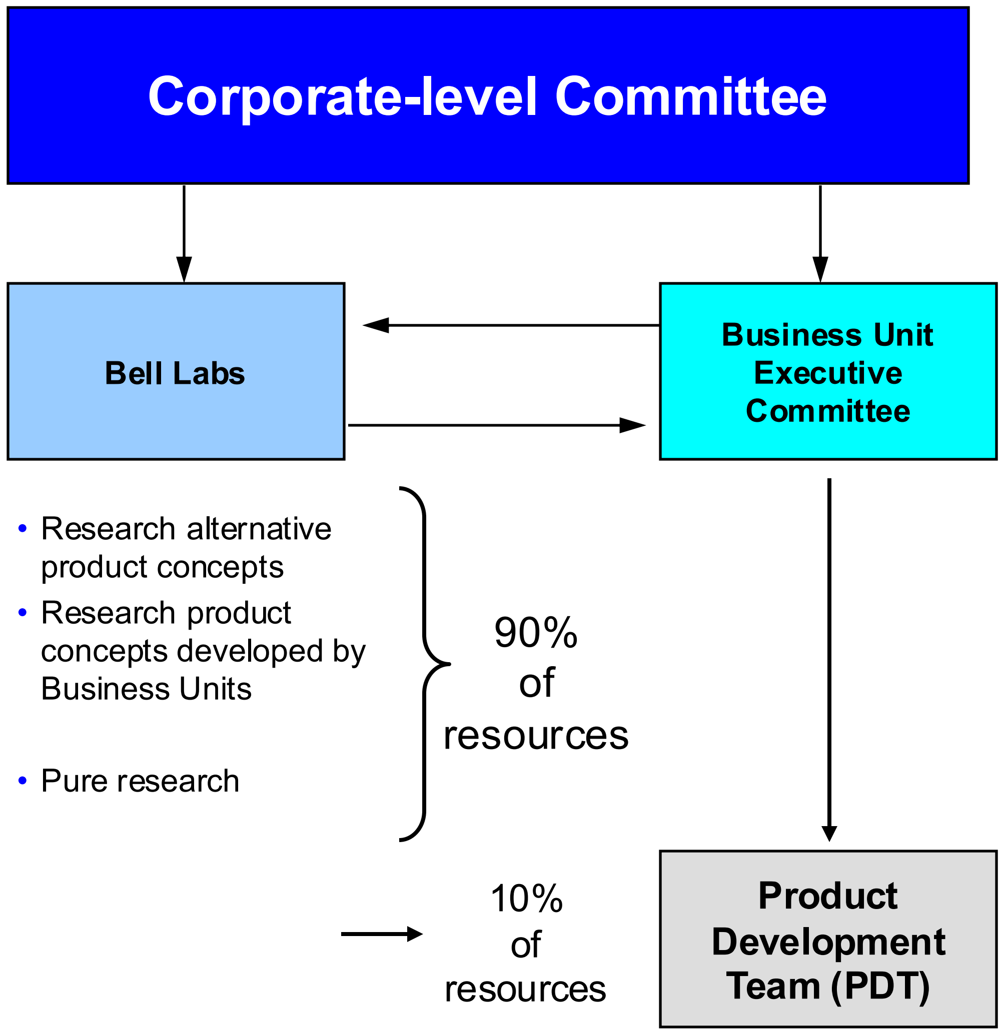
Flexible processes

- "Fast-track" NPD processes are employed for certain types of projects

Platform development

- Product platforms are employed to streamline the NPD process and provide a base for future product development

At Lucent, 3 layers of management oversaw product development and planning



Key responsibilities

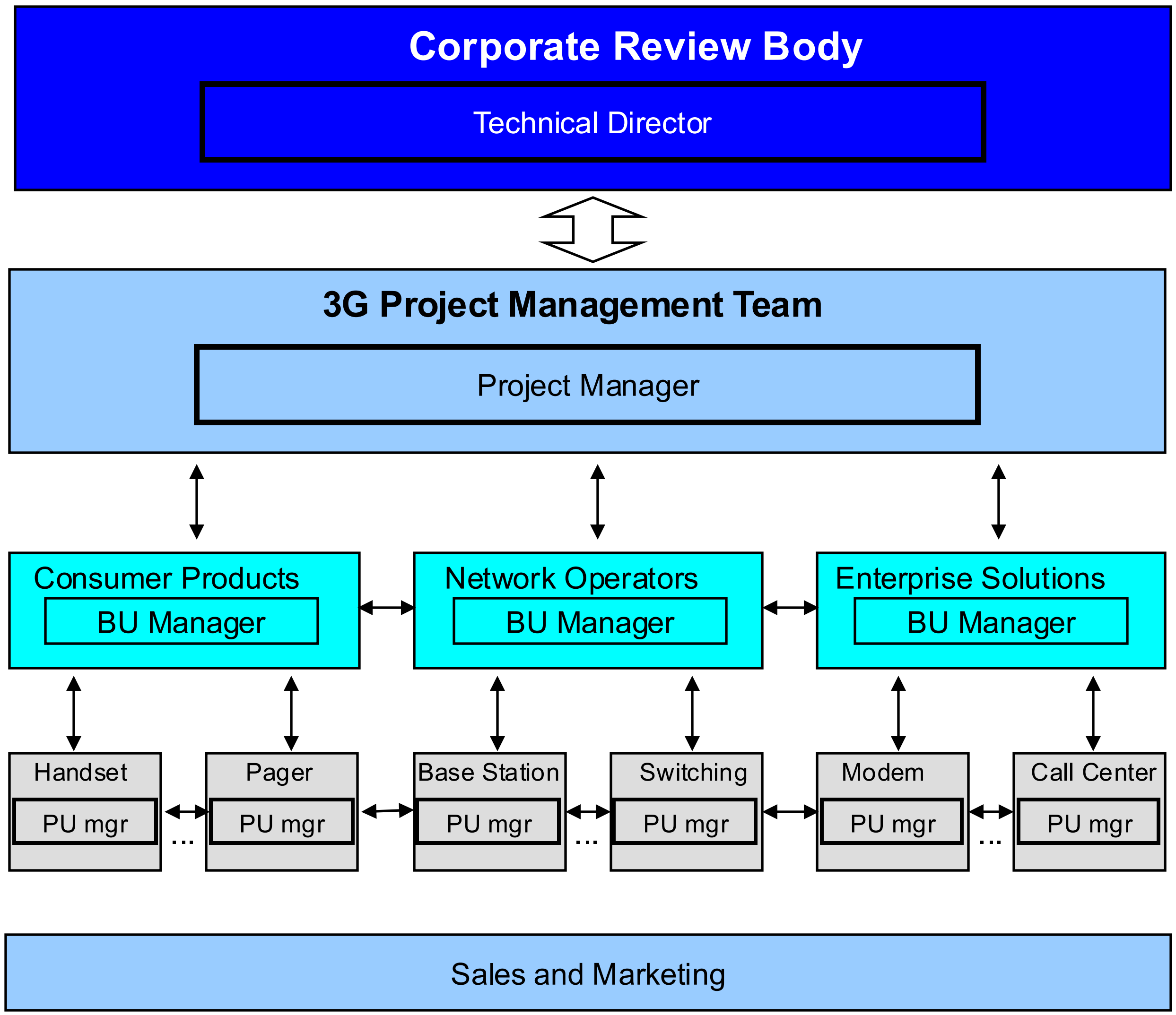
- Set general product objectives for research done at Bell Labs
- Set general product strategy for Business Units

- Generate new product concepts
- Set detailed research objectives for Bell Labs
- Evaluate internal product concepts and those from Bell Labs
- Establish Product Development Teams for promising concepts
- Review products under development

- Establish schedule for concept to move through Lucent's product development gates
- Develop product's business plan
- Design and engineer product based on current platforms
- Test and launch product

Source: Lucent Interviews

Ericsson maintained a similar 3-tiered team structure



Key responsibilities

Corporate Level:

- Identify initial 3G opportunity
- Perform quarterly review of project progress

Project Level:

- Consists of members from all business units
- Day-to-day responsibility for entire 3G project across all BUs and PUs
- Coordinate technology development across BUs

Business Unit Level:

- Coordinate simultaneous product development of 3G components

Product Unit Level:

- Coordinate and share resources across products in/across the product units

Sales and Marketing:

- Centralized sales and marketing for 3G end-to-end solution

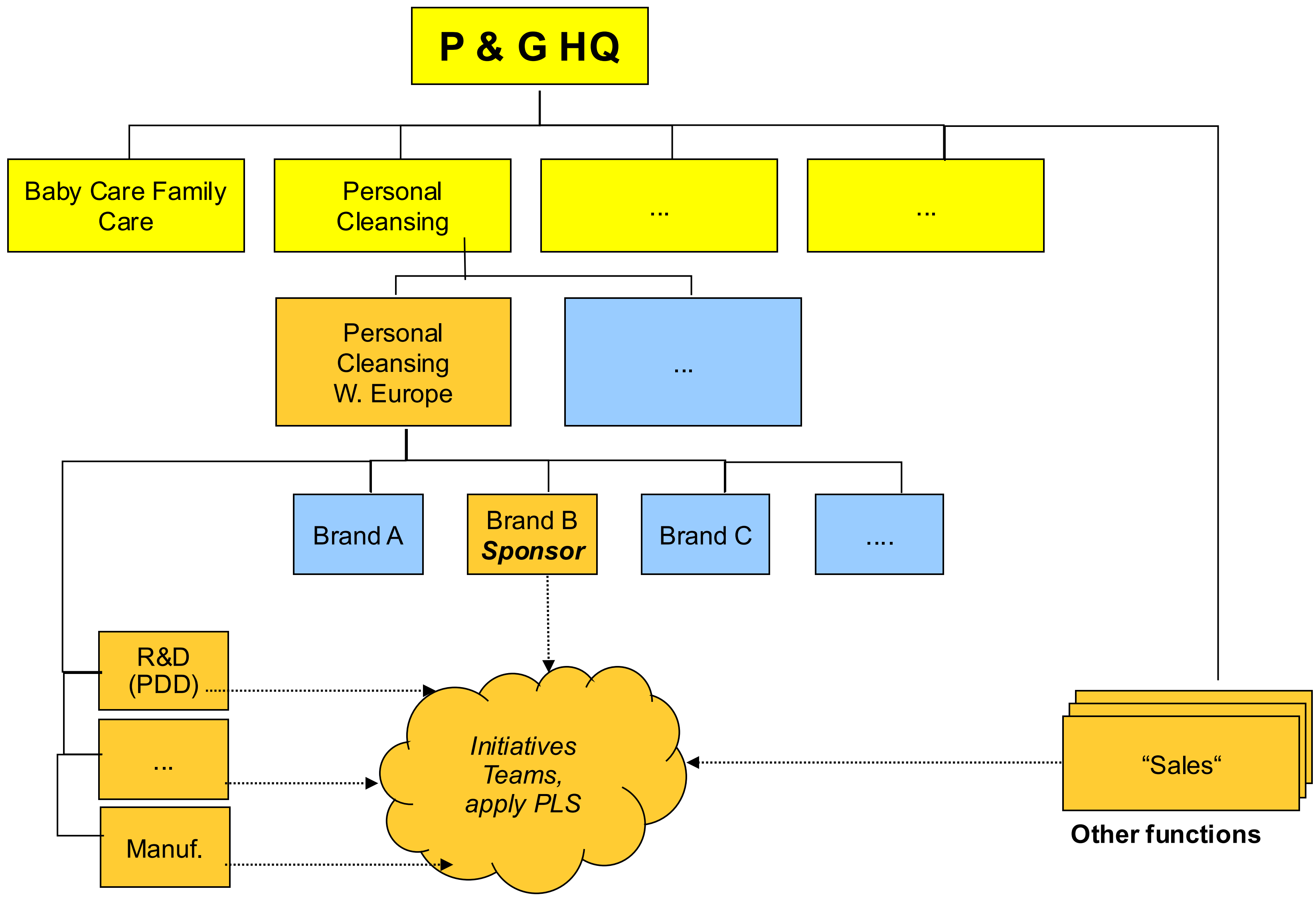
Source: Ericsson Interviews

At Cisco, each cross-functional NPD team had distinct responsibilities

	Prioritize Customer Segments	Set Budgets for Divisions	Prioritize Projects	Allocate Resources	Periodic Reviews
Respon-sibility:	• Cross-functional executive team	• Cross-functional executive team	• Cross-functional business unit team	• Cross-functional executive team • Cross-functional BU team	• Cross-functional executive team • Cross-functional BU team
Actions:	• Gather data and input from marketing and external sources • Examine market growth trends by customer segment • Identify high-priority markets based on revenue potential	• Create divisions based on customer segments • Separate core technologies into central divisions (e.g., software) • Allocate budget levels based on prioritization and corporate priority	• Review business cases of all existing and proposed projects • Determine revenue and profit potential of all projects - Market outlook - Internal capabilities - Development costs	• Executive team allocates corporate level resources to priority projects (core strategy) • Business unit team allocates resources to individual projects	• Review prioritizations on a regular basis at the business unit level - Monthly meetings of product line managers • Review corporate prioritizations less frequently

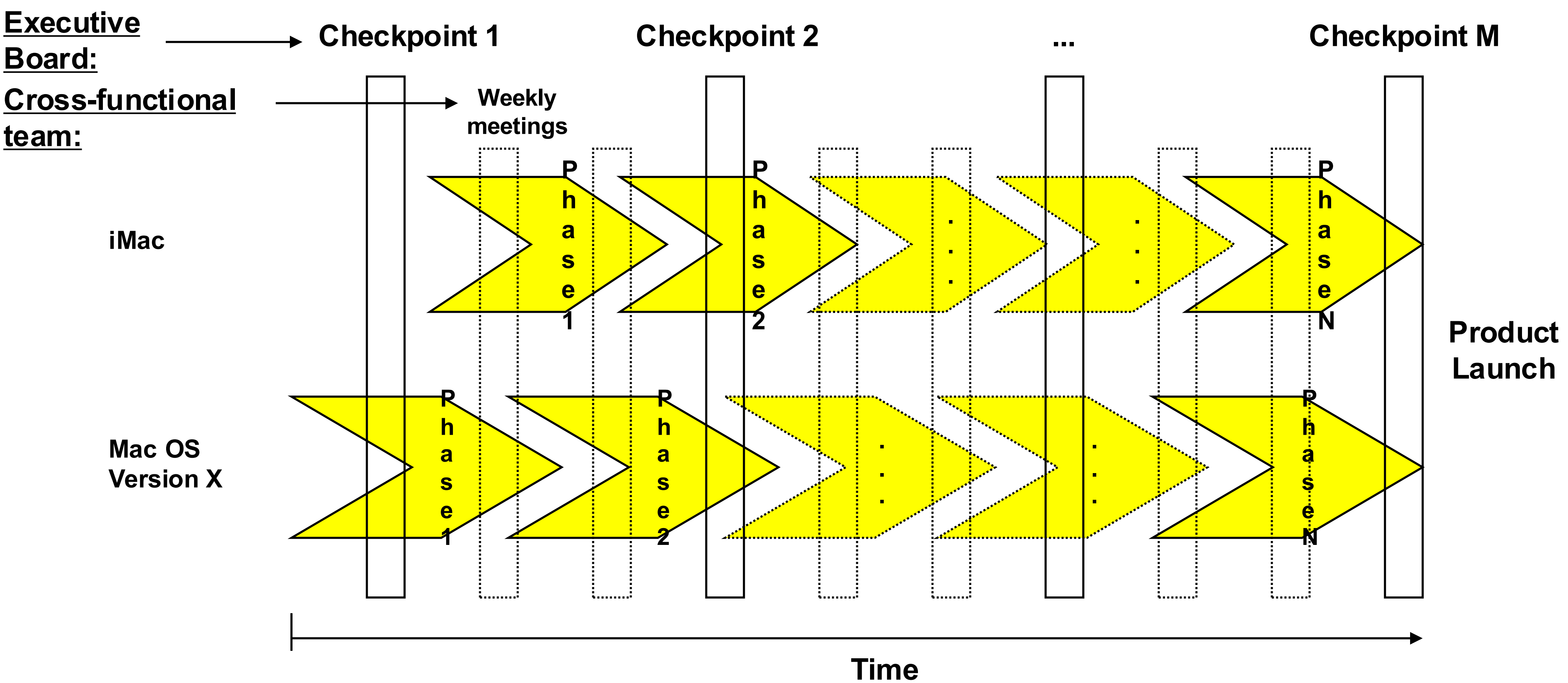
Source: Cisco Interviews

P&G's cross-functional initiative teams were (still are?) led by brand managers



At Apple, teams meet weekly to monitor the progress of checkpoint deliverables

Apple's product conceptualization and development process

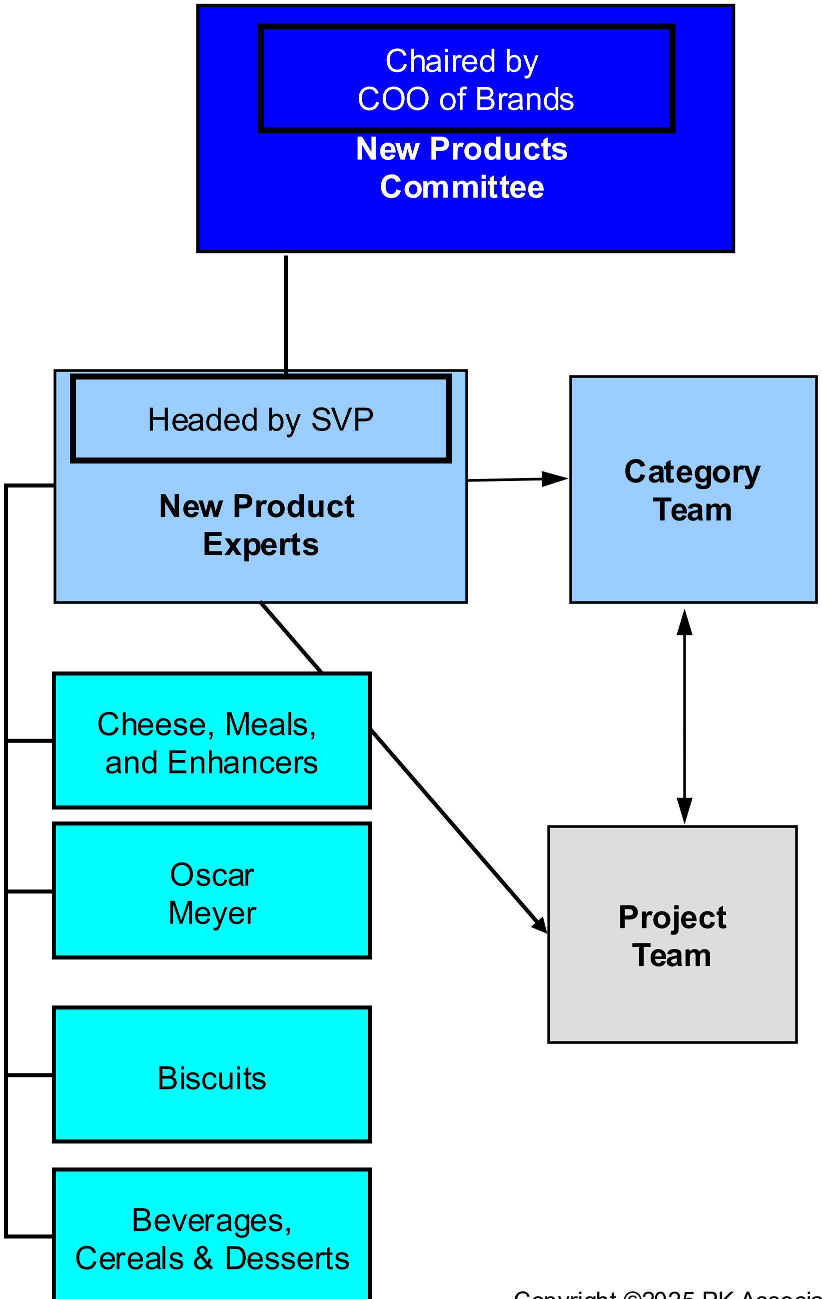


Source: Apple Interviews

Note: The executive board consists of upper level managers from all business units and often includes the CEO of Apple

Solid line checkpoints are done on the iMac and MacOS projects, dashed checkpoints are done on other corporate projects

At Kraft, a New Products Committee oversaw idea selection and the overall NPD process



New Product Committee

- Evaluate new product ideas at quarterly meetings
- Head of each function sits on cross functional committee

Category Team

- In conjunction with NPD experts, develop new product ideas
- Representatives from each function on team that manages the category

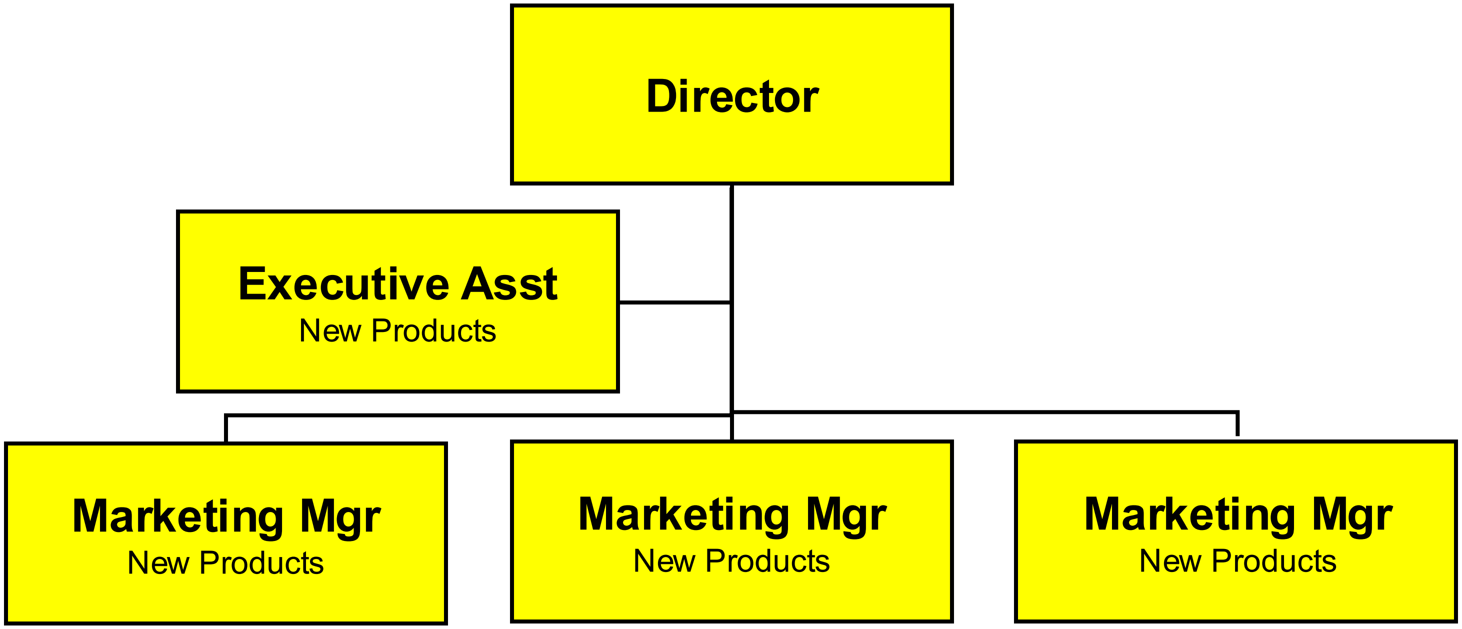
New Product Team

- Headed by SVP of New Products
- New Product Expert from each business unit
- Meets monthly to discuss ongoing new products.
- Works with category and project teams

Project Team

- Responsible for day-to-day product development

Candy Co. New Product Development organization

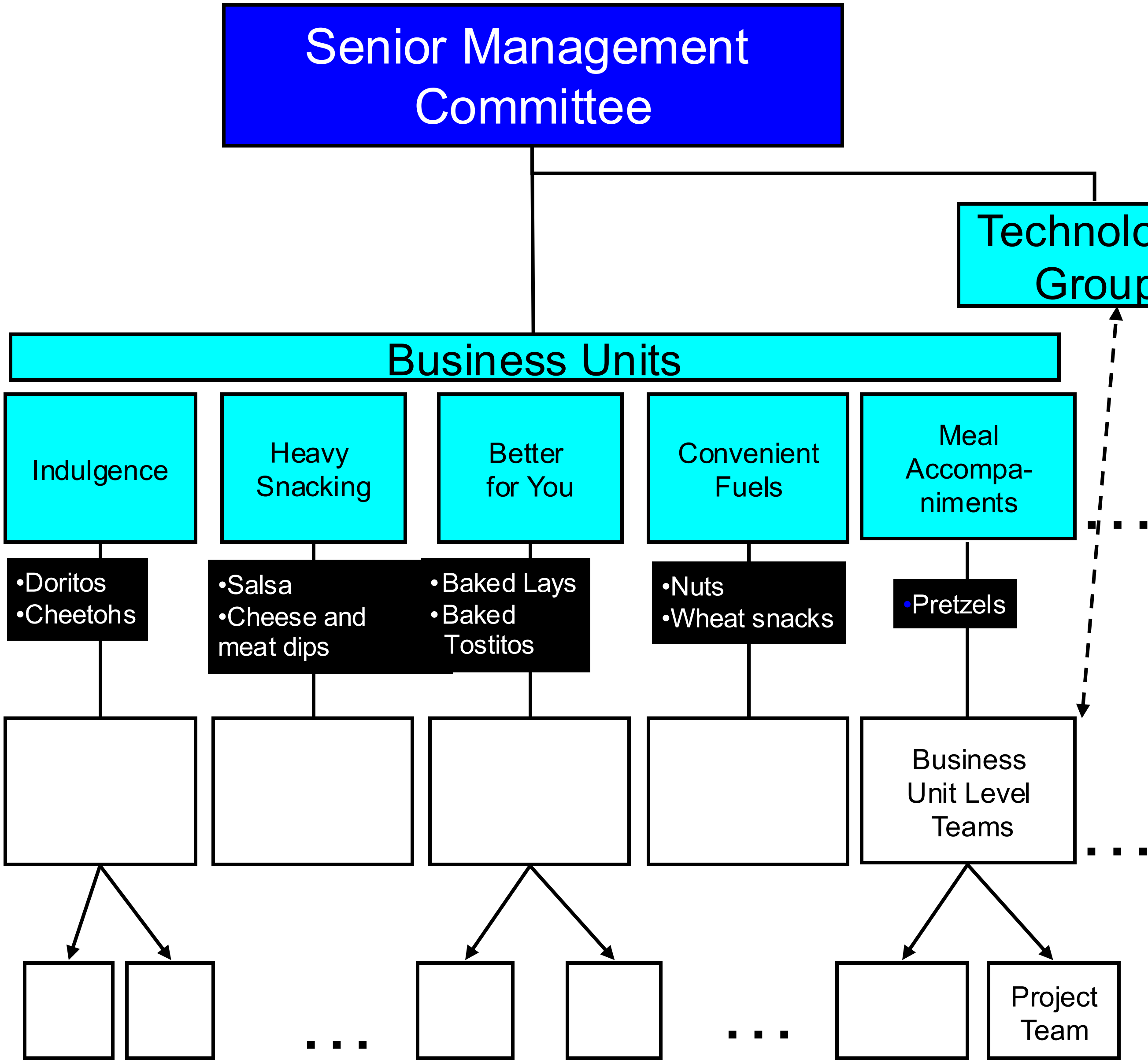


Key changes/questions:

- Should incremental resources be added to "execute" new brand introductions?

Team	Size	Change
VP	0	-
Director	1	-
Manager	3	-
Associate/Analyst	0	-
Assistant	1	-
Total	5	-

Frito Lay's organizational structure emphasizes cross-functional collaboration



Roles & responsibilities

- Holds monthly meetings dedicated to strategies and new product ideas
- Reviews and prioritize ideas

- Works with business-unit teams to generate new ideas

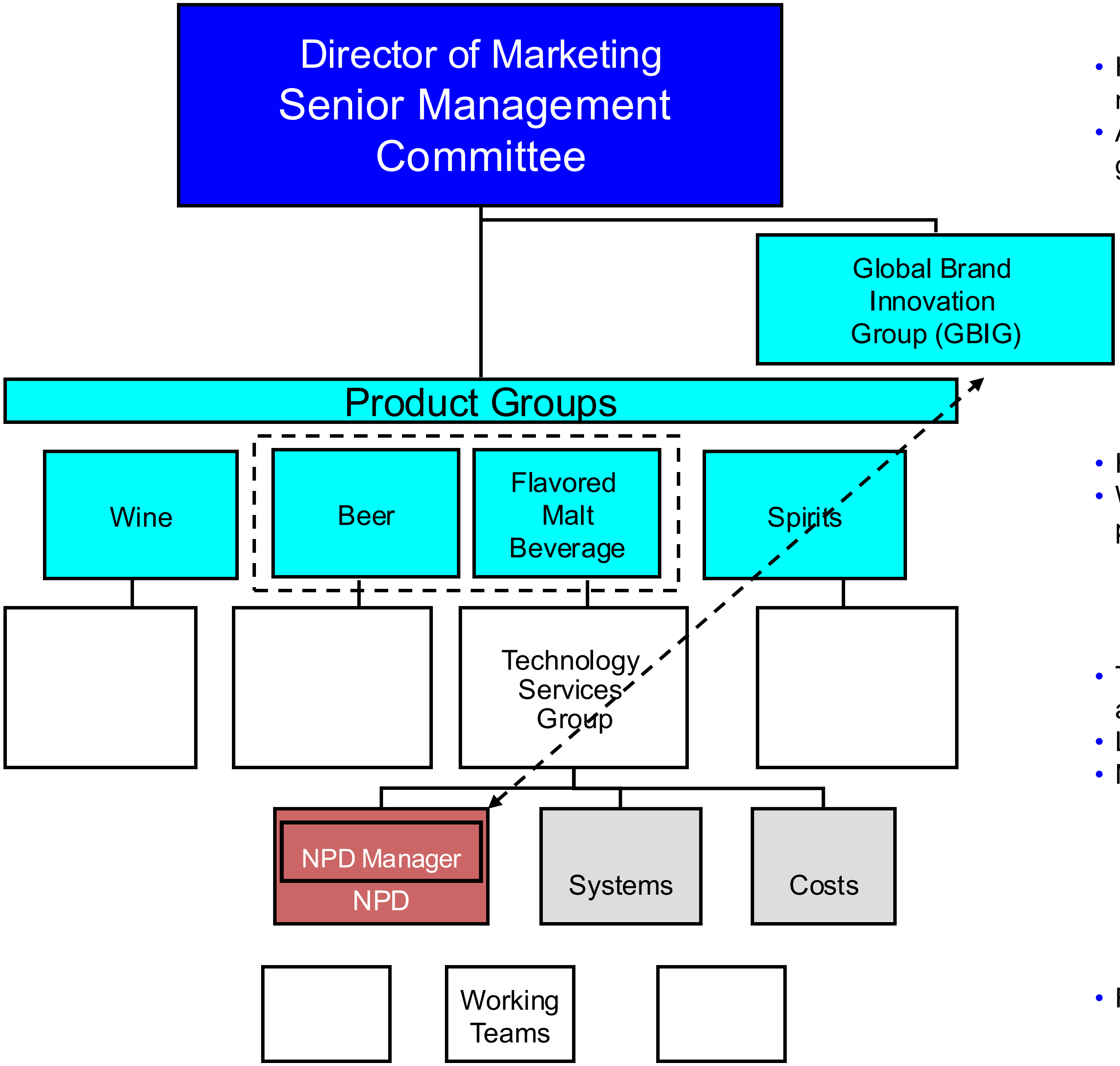
- Develops and implements business unit strategy
- Focuses on marketing aspect of NPD

- Cross functional teams include brand managers, directors, and market researchers
- Collaborate with technology group to develop new ideas

- Responsible for day-to-day product development

Source: Kevin Barry, formerly part of Frito Lay's strategic planning group

At Diageo, an NPD function is responsible for new products within each product group



Roles & responsibilities

- Holds gate meetings dedicated to strategies and new product ideas
- Acts as NPD process key decision–maker and gatekeeper

- UK-based group that analyzes trends to generate NPD ideas

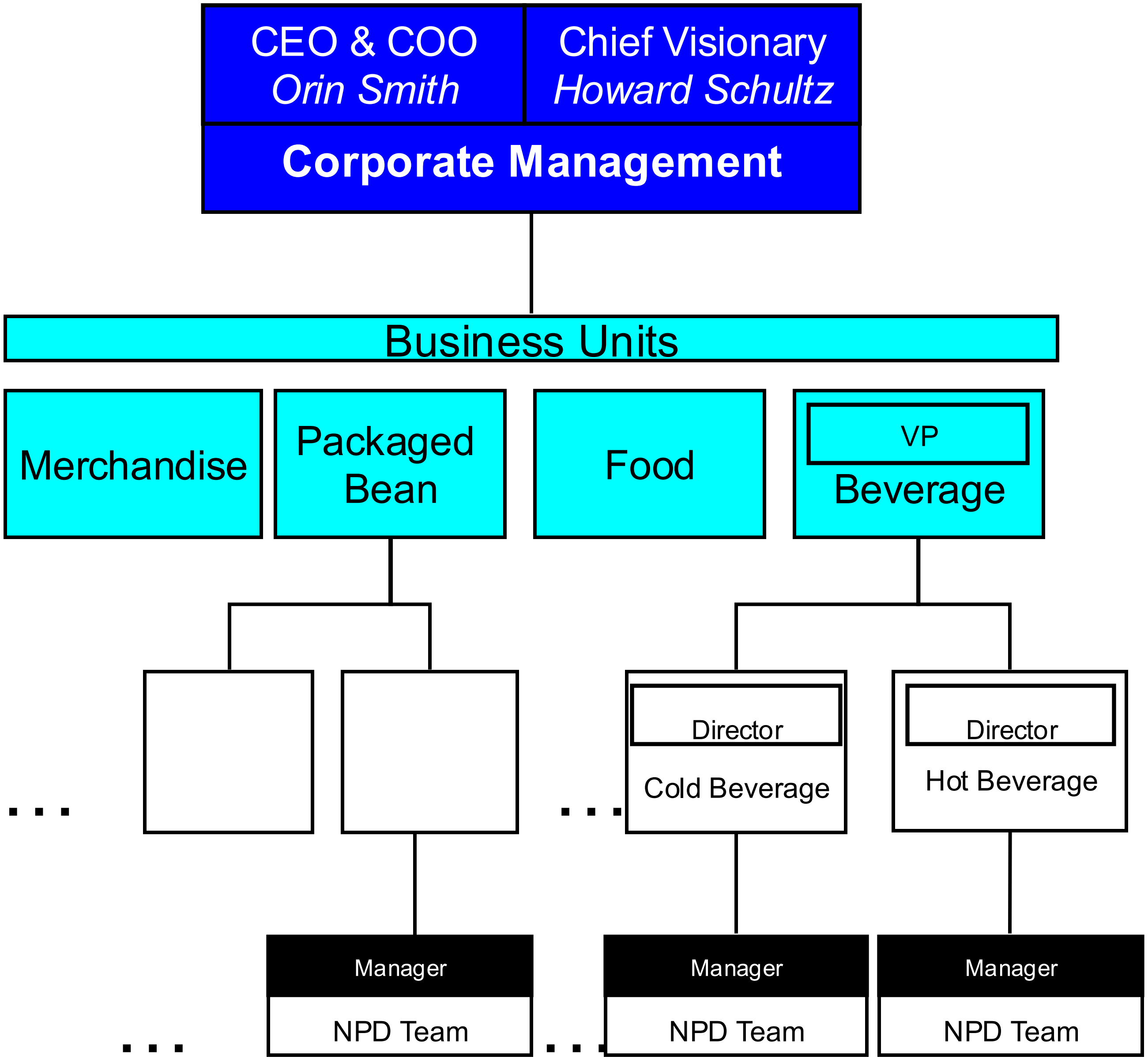
- Headed by manufacturing
- Work in conjunction with NPD Manager and cross-product group brand managers

- Technology Service group includes NPD, systems, and cost engineering
- Leads innovation and NPD process
- NPD Manager oversees cross-functional staff

- Responsible for day-to-day product development

Source: Julia Brown, former procurement manager at Diageo

At Starbucks, NPD teams within each category drive the new products process



Roles & responsibilities

- Final decision-maker in NPD process
- Ensure that new products are in line with the true mission and the "Starbucks experience"

- Make go/no go decision on concepts after screening and approval by subgroup Director

- Meet with NPD manager every few months to review concepts

- Cross-functional team that includes operations, sales, and marketing
- Manager and team work on all new products for that subgroup
- Work in conjunction with R&D to collect new ideas and refine concepts

Source: Mark Covas, Former Director of Sales Planning, Starbucks

Mattress Co.'s NPD organizational structure is divided by function

Product development leader

Marketing/R&D	Finance/Costing	Sales	Manufacturing

Role:

Marketing/R&D

- Product development
  - Concept generation
  - Stakeholder input
- Marketing message
  - Concept
  - Medium
- Exclusivity strategy (w/ sales)
- Material menu (DFP)

Finance/Costing

- Product costing/BOM
  - Prioritization
  - Process facilitation
- Cost/ margin targets

Sales

- Product rollout
  - Sequencing
  - RSA training
  - Communication execution
  - Forecasting
- Exclusivity strategy (with marketing)
- Closeout strategy

Manufacturing

- Manufacturing strategy (DFM)
  - New process
  - Floor config
  - Standardization (where relevant)
- Manufacturing ramp up/roll out
  - Training
  - Roll out plan
  - Patterson

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Program and system metrics allow team to track progress against specifications or targets

	Program Metrics	System Metrics		
		Pipeline	Portfolio Results	Process Adherence
Purpose:	• *Are programs meeting their specifications or targets?* • *Track actual vs planned*	• *How healthy is our pipeline?* • *Monitor which program is in which phase and what is the progress*	• *How are we doing as a business?* • *Monitor overall new product development performance*	• *Are we following the process?* • *Evaluate effectiveness of teams and execution*
Example:	• time to market • phase cycle time • # of iterations phase wise • time per iteration • budget (project expense, capital, resources) • product cost • margin contribution • market share/ACV	• Number of programs by phase • Average estimated time phase wise	• Contribution by Program type (innovation, RDP, technology) • Avg. ROI, margin contribution of all current programs in development • Revenue from new products as % of total • Avg. time to market for all current programs	• Avg. # of people on core team • Avg. lead time in sending out program documentation in advance of review • % of programs with up to date charter • Number of go/no go/redirect phase review decisions

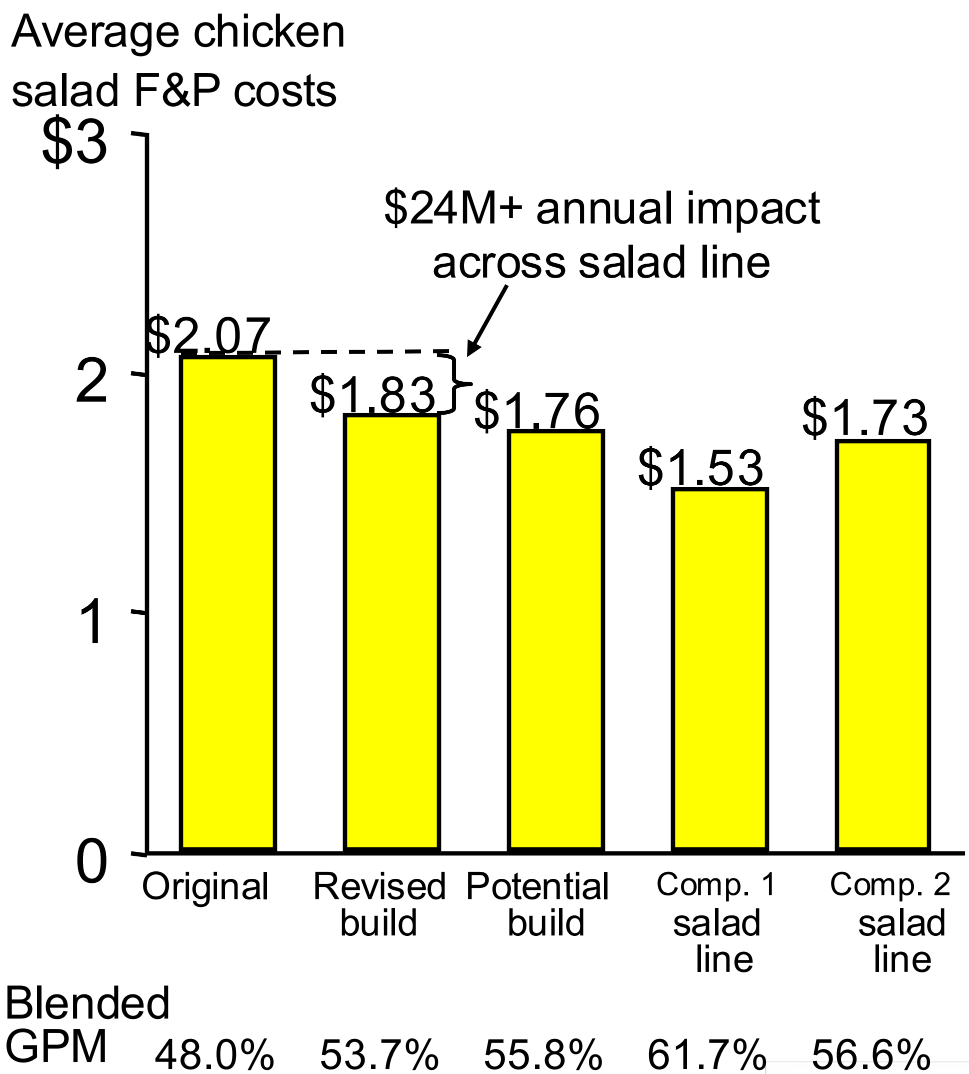
Note: Program Specifications feed into program metrics
System Metrics is a roll up of program data

Fast Food Co. tracked NPD against key targets

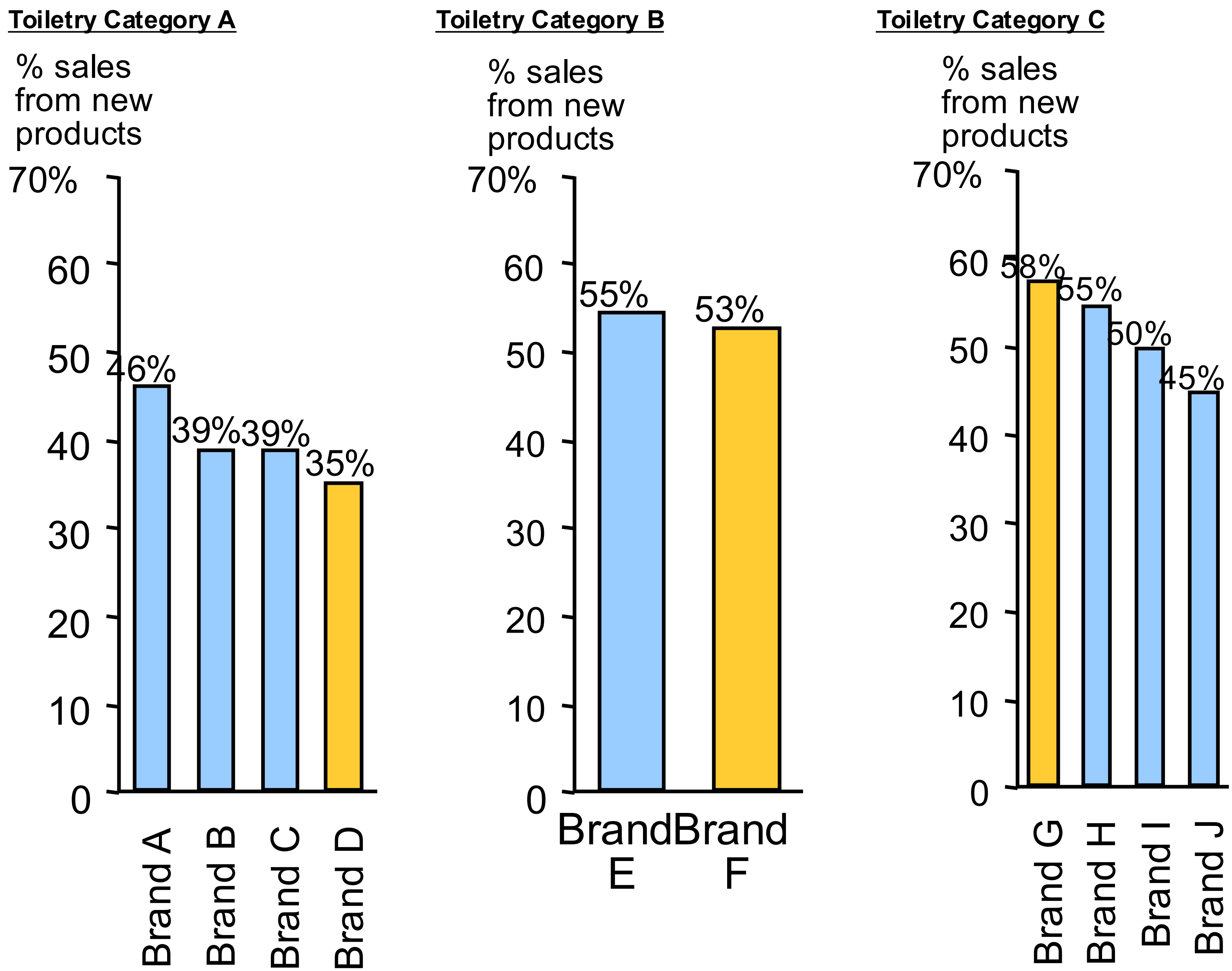
Quality product with solid consumer and operator metrics…

Metric	Rating/Benchmark
% parity or better than competition	79%
% special trip	67% / 49%
% excellent overall	40% / 40%
% excellent taste	41% / 41%
% excellent value for $	32% / 35%
% operator satisfaction	46% / 21%

…while maintaining focus on cost avoidance and ROP



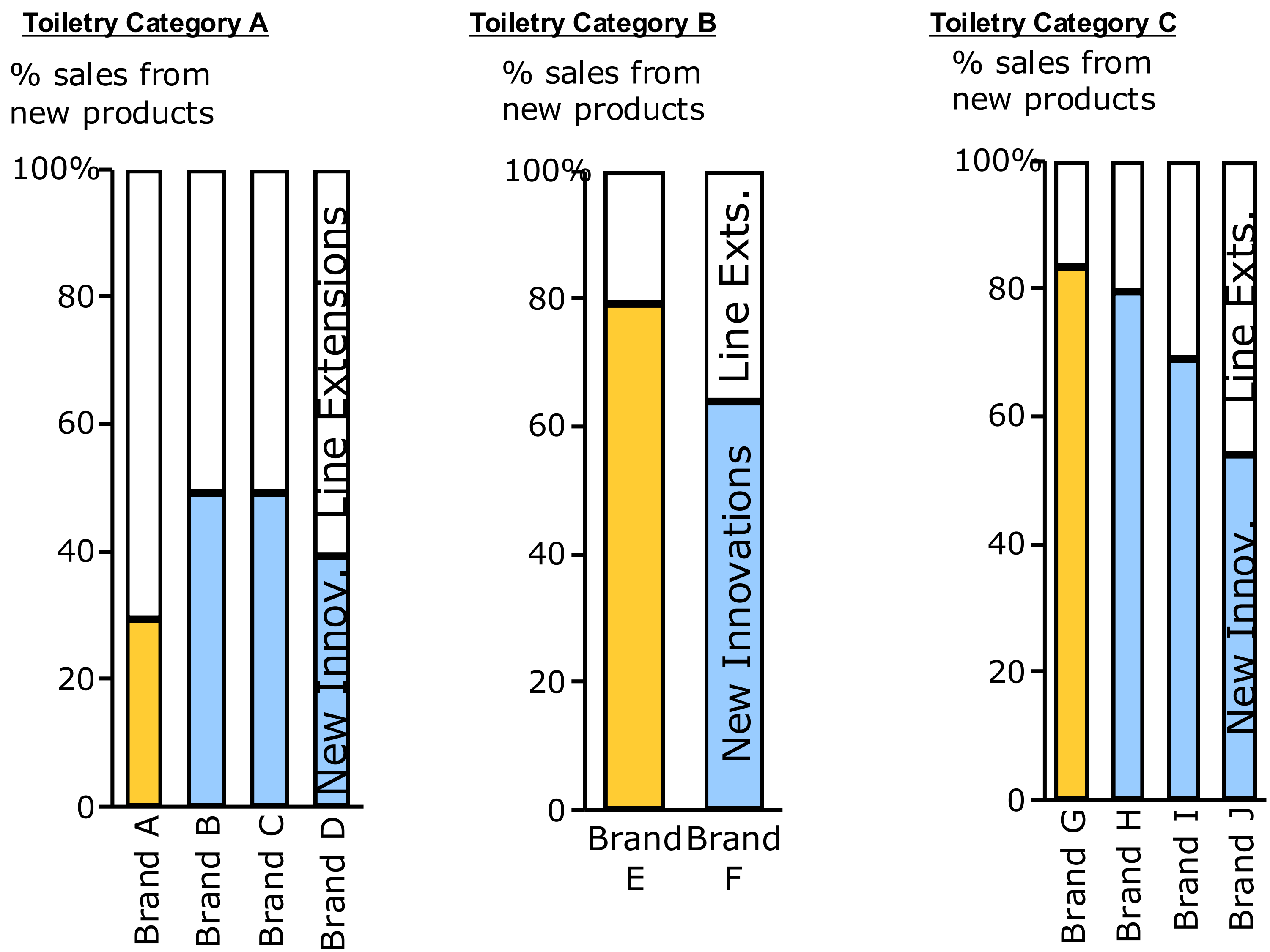
Example of metrics: New products as a % of revenue in key personal care categories



Note: US only; 2002; new products are brands or line extensions, but not package size changes, introduced in or after 1998

Source: Nielsen Food, Drug, Mass (not WalMart); BAIN

Example of metrics: Type of new products in key personal care categories



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Procter & Gamble establishes success criteria early in the process

Idea/ Concept (first 3-9 months)	**Assessment (next 3-9 months)**

- Objective to determine whether to allocate resources for assessment:
  - Statement of intent filed
    - Describes rationale for preliminary investigation
  - Category sponsor identified
  - Establish success criteria

- Objective to determine if the idea should be developed for market:
  - Appoint assessment leader
  - Develop product/package/concept
  - Gain basic process understanding
  - Preliminary financial analysis
  - Check against and refine success criteria

Minimum success criteria needed to proceed

- Established process feasibility plan including strategy for scalability and numerical targets
- Consistent with internal capabilities
- Initial manufacturing flow sheet
- Preliminary decision on suppliers/outsourcing
- Plan to reach revenue and profit targets

P&G establishes specific success criteria and tolerances early in the process

Element	Qualification	Objective	Minimum
Product	Clinical mildness	• Equal to Dove for redness and dryness	• Same
	Technical performance	• Lather at least as well as Lever 2000 in all temperatures • Bar breakage equal to Dove • Melt smear better than Dove • No significant negatives vs. current ivory	• Lather at least equal to Dove in all temperatures • Bar breakage better than Ivory • Melt smear better than Dove
	Consumer acceptance	• Better overall with no key negatives vs. Olay and Dove	• Equal overall with no key negatives vs. Olay and Dove
Name and copy	Copy quality	• 40% recall of skin benefits	• 25% recall of skin benefits
	Improved name	• Overall stronger name than "New Ivory"	• Equal name as "New Ivory"
Packaging	Improved graphics	• Overall preference vs. current execution	• Equal overall preference vs. current execution
Sourcing	Finished product quality	• Design rate/reliability of 75% during trials	• Same
Marketing plan	Successful introduction	• 34% trial • 25% purchase • 100% ACV distribution for 2-bar pack	• 25% trial • 18% purchase • 80% ACV distribution for 2-bar pack
Economics	Volume Profit margin ROI	• x% share • x% • x%	• y% share • y% • y%

At Auto Co., the product specifications must be detailed in "Cycle Plan Input Form"

The work of the Portfolio, Brand and Product strategy process will be summarized into a Cycle Plan Input Form for each vehicle concept to provide more useful information for cycle plan discussions

Cycle Plan Input Form

Strategic Rationale

Overall Rating: _______________

Target customer segment:

Role in portfolio, brand & product strategy:

Product Concept		Preliminary Financial Review
Overall	Active lifestyle vehicle	Volume Pricing/Revenue Var. Marketing Variable Cost Investment Other Fixed Costs Other Profit Vehicle Profit ROS Asset Charge Shareholder Value
Product	• Base platform • Number of bodystyles • Engine family • Displacement range • etc...	
Positioning	• Style (L) • Package (C) • Vehicle Dynamics (A) • etc...	

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Evaluation criteria are clearly defined across multiple dimensions

Factors	Specific issues	Attractive	Unattractive
Market	• Market size • Market growth • Market drivers • Market access • Potential market share	• > $100M • > 20% • Satisfy all • Existing business • > 20%	• <$10M • <5% • Meets at least one • Needed • <5%
Competency	• Business infrastructure • Customer familiarity • Core competency	• In place • Current base • Recognized	• Needed • Few • None
Competitive issues	• Proprietary position • Leadership position • Cost position • Key competitive advantage • Sustainability of position	• Yes • #1 by year 5 • Lowest • Proprietary • High	• No • No lead • Highest • None • Low
Time factors	• Time to sales • Full commercialization • Competitive time advantage • Operating at breakeven	• < 2 years • < 5 years • > 2 years • < 3 years	• > 5 years • > 5 years • < 1 year • > 5 years
Technology	• Technology availability • Technology readiness • Technology skill base (people and time)	• In place • Proven • Available	• Needed • Discovery still needed • Needed
Financial	• After-tax operating income • Maximum cash hole • Revenue stream • Business potential	• > 12% • < $20M • > 1 product line • > $100M	• < 8% • > $50M • 1 product • < $20M

Source: Rosenau, "The PDMA Handbook of New Product Development"

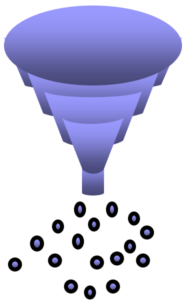
L'Oreal and P&G have two distinct funnel philosophies for cosmetics

L’Oréal

Type of markets:

- Mix mass/niche markets
- Mix low/high margin

Funnel philosophy:



- Launch of many new products each year, most of them being **incremental**
- **Minimal testing** to test market potential for new product
- Conscious **risk of product vanishing** after stop of initial support

Rationale:

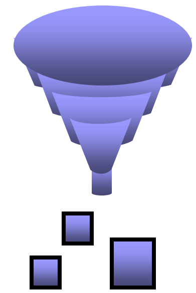
- Support of innovative **image**
- Continuous **replenishment of shelf space** to prevent substitution by competitive products
- Reinforcement of **impulsive** purchases
- **Halo effect** on brand's other products
- Cannibalisation of existing products with **slightly higher price**

Procter & Gamble

Type of markets:

- Mass markets
- Low margin

Funnel philosophy:



- Launch of few new products each year, most of them being breakthrough (market/need not addressed yet)
- **In-depth testing** to guarantee answer to consumer need
- **Massive marketing** investment (initially and on-going)

Rationale:

- **First mover advantage** when creating a new market segment
- **Cost efficiency** (standardised products)

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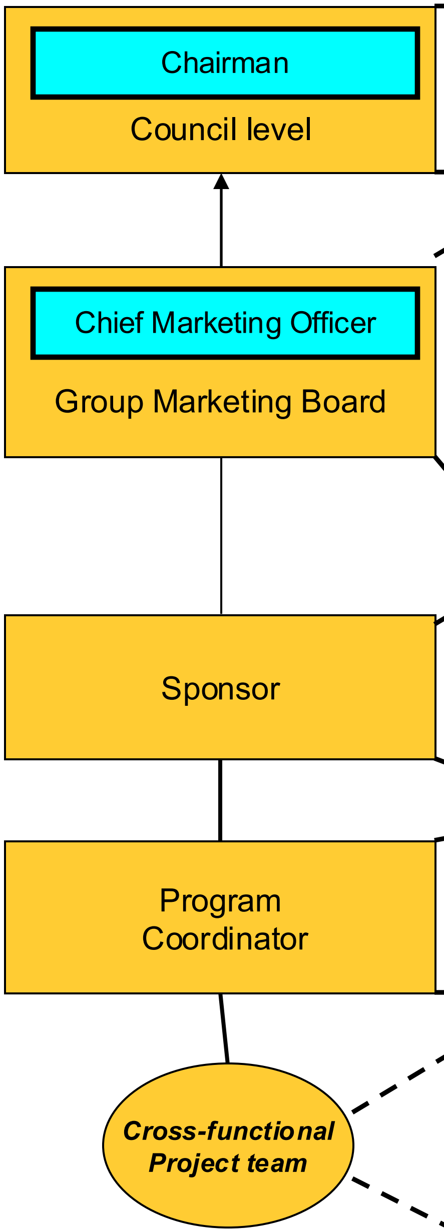
Euro Cell Co. has clearly defined roles for each step in the NPD process



Key roles and responsibilities

- 2 councils: Brand Council and GPM Council
- Make decisions on group marketing strategy and key milestones in GPM
- Chairman has ultimate decision rights

- Defines project objectives and scope as basis for project plan
- Ensures communication between marketing and technology
- Resource allocation decisions and trade-offs, including approving financial spend and significant budget changes
- Ensures that global proposition developments do not overlap or clash
- Red light monitoring, escalating issues to Council level where required
- Appoints sponsor and program coordinator

- Champions development of global proposition
- Ultimate accountability for managing through entire life cycle
- Champions customer viewpoint in development
- Key interface between the Board, program coordinator, and project team

- Coordinate delivery of the proposition by the cross-functional team
- Development, coordination, and updating of overall project plan
- Project status reports to Sponsor, Board, and Councils

- Ensures implementation of all activities
  - Segment teams lead implementation of propositions and programs not requiring new innovation
  - Product team leads implementation of propositions and programs requiring significant innovation
- Develops and implements launch plan
- Acts as key recommender throughout the process

For example, the Council makes all key decisions one a project is underway

Council Decisions

A) Develop global proposition roadmap

- Should an idea be developed into a high level proposition concept?
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?

D

- What is the Global proposition roadmap?
- Who is the global proposition sponsor?

B) Develop and build priority global propositions

- What is the project team?

D

- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?
- What is the overall project plan?
- How should obstacles be resolved?

C) Deploy and prepare proposition launch

D

- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D) Launch and manage proposition through lifecycle

- Proposition management (OpCos)

D

- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?
- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

R	Recommend
A	Agree
I	Input
D	Decide

The Group Marketing Board controls the front of the NPD funnel and has input thereafter

Group Marketing Board Decisions

A) Develop global proposition roadmap → B) Develop and build priority global propositions → C) Deploy and prepare proposition launch → D) Launch and manage proposition through lifecycle

A) Develop global proposition roadmap

A
- Should an idea be developed into a high level proposition concept?

D
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?

R
- Who is the global proposition sponsor?

D

B) Develop and build priority global propositions

D
- What is the project team?

- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?
- What is the overall project plan?

D
- How should obstacles be resolved?

C) Deploy and prepare proposition launch

I
- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D) Launch and manage proposition through lifecycle

I
Proposition management (OpCos)

A
- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?

- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

(key milestone decisions)

R	Recommend
A	Agree
I	Input
D	Decide

The Project Sponsor agrees to key decisions and gives input once development begins

Project Sponsor role

A) Develop global proposition roadmap

- Should an idea be developed into a high level proposition concept?
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?
- Who is the global proposition sponsor?

B) Develop and build priority global propositions

A

- What is the project team?
- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?
- What is the overall project plan?
- How should obstacles be resolved?

C) Deploy and prepare proposition launch

A

- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D) Launch and manage proposition through lifecycle

I

- Proposition management (OpCos)
- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?

R

- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

Role of Proposition Manager reporting to Proposition Director (Sponsor)

R Recommend
A Agree
I Input
D Decide

The Program Coordinator recommends and provides input in the middle phases

Program Coordinator role

A) Develop global proposition roadmap	B) Develop and build priority global propositions	C) Deploy and prepare proposition launch	D) Launch and manage proposition through lifecycle

A)

- Should an idea be developed into a high level proposition concept?
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?
- Who is the global proposition sponsor?

B) I/R

- What is the project team?
- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?

R

- What is the overall project plan?

D

- How should obstacles be resolved?

C) I/R

- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D)

- Proposition management (OpCos)
- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?
- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

R Recommend
A Agree
I Input
D Decide

The Program Coordinator recommends and provides input in the middle phases

Program Coordinator role

A) Develop global proposition roadmap

B) Develop and build priority global propositions

C) Deploy and prepare proposition launch

D) Launch and manage proposition through lifecycle

A)

- Should an idea be developed into a high level proposition concept?
- Is the high level business case viable?
- Should the high level proposition concept be pursued, based on testing / prototyping?
- Are the enablers for the proposition concept technically feasible?
- What is the Global proposition roadmap?
- Who is the global proposition sponsor?

B) I/R

- What is the project team?
- What is the detailed proposition concept?
- Is the proposition technically feasible?
- Will the proposition achieve market acceptance? Are forecasts acceptable?
- Should the proposition be implemented?
- What are the detailed product specifications?
- What revisions should be made, based on proposition testing?

R

- What is the overall project plan?

D

- How should obstacles be resolved?

C) I/R

- What is the test market plan?
- What are the launch details?
- What is the Global advertising campaign?
- How should the proposition be monitored?
- Is the proposition cleared for sale?

D)

- Proposition management (OpCos)
- How to address shortfalls in technical performance?
- Does the proposition meet commercial plans?
- How can usage / penetration be increased?
- Should the proposition be modified / upgraded?
- Should the proposition be discontinued?

R	Recommend
A	Agree
I	Input
D	Decide

The Cross Functional Team recommends during the development and launch phases

Cross Functional Team role

A) Develop global proposition roadmap	B) Develop priority global propositions	C) Launch proposition in market	D) Manage proposition through lifecycle
• Should an idea be developed into a high level proposition concept? • Is the high level business case viable? • Should the high level proposition concept be pursued, based on testing / prototyping? • Are the enablers for the proposition concept technically feasible? • What is the Global proposition roadmap? • Who is the global proposition sponsor?	R • What is the project team? • What is the detailed proposition concept? • Is the proposition technically feasible? • Will the proposition achieve market acceptance? Are forecasts acceptable? • Should the proposition be implemented? • What are the detailed product specifications? • What revisions should be made, based on proposition testing? I • What is the overall project plan? • What is the project status?	R • What is the test market plan? • What are the launch details? • What is the Global advertising campaign? • How should the proposition be monitored? • Is the proposition cleared for sale?	• Proposition management (OpCos) • How to address shortfalls in technical performance? • Does the proposition meet commercial plans? • How can usage / penetration be increased? • Should the proposition be modified / upgraded? • Should the proposition be discontinued?

R Recommend
A Agree
I Input
D Decide

The 65 decisions in Candy Co.'s marketing organization are grouped into 9 categories

Compile forecasts for product portfolio:

1. Set income targets and develop product forecasts
2. Determine pricing for array of products by brand, packtype and channel
3. Set financial budgets and controls
4. Interpret and respond to competitor initiatives

Develop strategic platforms:

5. Segment consumer market
6. Allocate resource among brands/packtypes/seasons
7. Assess trade-offs among product introductions and promotions within portfolio strategy

New products development:

8. Market analysis to understand new product opportunities
9. Identify major strategic platforms (i.e. health and nutrition)
10. Develop concepts around platforms
11. Test concepts with consumers
12. Perform central location testing
13. Determine sales feasibility
14. Plan production
15. Hand off to brand manager

Develop marketing plan:

16. Develop ideas for promotional programming
17. Develop brand image
18. Determine unmet consumer needs
19. Build brand budgets and trade support plan
20. Determine marketing plan by brand
21. Drive plan to approval by marketing leadership
22. Decide on and execute weight and price changes

Develop brand promotions:

23. Create brand-specific programs to promote brand
24. Create promotional calendar
25. Approve portfolio image objectives at retail
26. Ensure brand growth through portfolio-scale promotions
27. Gather input from field to develop customer-specific programs
28. Develop creative briefs for guidance to agency and teams
29. Manage agency, providing direction and approvals to agency
30. Drive plan to approval by marketing leadership
31. Execute events

Develop seasonal/pack type promotions:

32. Create promotional calendar
33. Approve portfolio image objectives at retail
34. Ensure brand growth through portfolio-scale promotions
35. Gather input from field to develop customer-specific programs
36. Develop creative briefs for guidance to agency and team
37. Manage agency, providing direction and approvals to agency
38. Drive plan to approvals marketing leadership
39. Execute events

Trade management:

40. Approve merchandising spend allocation
41. Design trade promotion structure for deployment to field
42. Define and implement trade spend evaluation metrics
43. Project manage customer-specific requests
44. Customize trade plan by customer
45. Customize trade spend by channel
46. Approve sales logistics management
47. Develop platforms and sales communication
48. Ensure execution with trade
49. Report trade results

Item production:

50. Project manage product development
51. Start PCM
52. Forecast demand for budgeting and schedules
53. Set productions schedules
54. Determine manufacturing process configuration
55. Approval capital and capacity plans
56. Allocate technical support resources
57. Approve production flow changes
58. Determine suppliers and procure net requirements
59. Set quality standards

People management:

60. Develop management recruiting
61. Approve HR policies
62. Ensure personal development
63. Provide and create mentoring opportunities
64. Offer periodic training
65. Create a system for role changes throughout the company, within and outside of the marketing organizational

Candy Co.'s marketing roles and responsibilities

	CMO	New products	HR	Finance	Snack food	Brands	Season	Take home	Instant consumable	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
Compile forecasts for product portfolio:																		
• Set income targets and develop product forecasts	D	I		I	I	I	I	I	I	I	R	I	I	I	I	I		
• Determine pricing for array of products by brand, pack type and channel	D			I		I	I	I	I	I	R	I	I	I	I			
• Set financial budgets and controls	D			R							I							
• Interpret and respond to competitor initiatives	D					D	D	D	D	D	R		I	I				
Develop strategic platforms:																		
• Segment consumer market	I	I			I	I	I	I	I	R/D	I							
• Allocate resource among brands/ packtypes/seasons	D					I	I	I	I	I	R							
• Assess trade-offs among product introductions and promotions within portfolio strategy	D	I		I	I	I	I	I	I	I	R	I	I	I	I			

Candy Co.'s marketing roles and responsibilities

	CMO	New products	HR	Finance	Snack food	Brands	Season	Take home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
New product development:																		
• Market analysis to understand new product opportunities	I	D			I	I	I	I	I	I	R							
• Identify major strategic platforms (i.e. health and nutrition)	D	R			R	I	I	I	I	I								
• Develop concepts around platforms	I	R/D			R/D	I	I	I	I									
• Test concepts with consumers		D			D	I					R							
• Perform central location testing		D			D						R							
• Determine sales feasibility	I	D		I	D	I	I	I	I	I	R	I	I	I	I	I		
• Plan production				I		I	I	I	I	I	I	I	I	I	R/D	I		
• Hand off to brand manager	I	I	I		I	D					R							

Candy Co.'s marketing roles and responsibilities

Develop marketing plan:

	CMO	New products	HR	Finance	Snack food	Brands	Season	Take Home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
• Develop ideas for promotional programming	I					R/D	R/D	R/D	R/D	I	I	I	I					
• Develop brand image	I					R/D												
• Determine unmet consumer needs	I					D	D	D	D		R							
• Build brand budgets and trade support plan				I		R/D	R/D	R/D	R/D	I	I			I				
• Determine marketing plan by brand	I					R/D												
• Drive plan to approval by marketing leadership	D					R												
• Decide on and execute weight and price changes	D					I	I	I	I	I	R	I	I	I	I	I	I	I

Candy Co.'s marketing roles and responsibilities

	CMO	New products	HR	Finance	Snack food	Brands	Season	Take home	Instant consumable	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
Develop brand promotions:																		
• Create brand-specific programs to promote brand	I					R/D	I	I	I	I		I	I	I				
• Create promotional calendar	D			I		R				I	I	I	I	I	I			
• Approve portfolio image objectives at retail	I					D				I	R	I	I	I				
• Ensure brand growth through portfolio-scale promotions	D					R				I	I	I	I	I				
• Gather input from field to develop customer-specific programs										R/D	I	I	I	I				
• Develop creative briefs for guidance to agency and teams	D					R				R								
• Manage agency, providing direction and approvals to agency						D				D	R							
• Drive plan to approval by marketing leadership	D					R				R								
• Execute events										R		D						

Candy Co.'s marketing roles and responsibilities

Develop seasonal/pack type promotions:	CMO	New products	HR	Finance	Snack foods	Brand	Season	Take home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
• Create promotional calendar	D						R	R	R	I	I	I	I	I	I			
• Approve portfolio image objectives at retail							D	D	D		R	I	I	I				
• Ensure brand growth through portfolio-scale promotions	D						R	R	R	I	I	I	I	I				
• Gather input from field to develop customer-specific programs										R/D	I	I	I	I				
• Develop creative briefs for guidance to agency and team	D							R	R	R								
• Manage agency, providing direction and approvals to agency								D	D	D	R							
• Drive plan to approvals marketing leadership	D							R	R	R								
• Execute events										R		D						

Candy Co.'s marketing roles and responsibilities

	CMO	New products	HR	Finance	Snack foods	Brand	Season	Take home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
Trade management:																		
• Approve merchandising spend allocation	D									I	R							
• Design trade promotion structure for deployment to field	D						R	R	R	I								
• Define and implement trade spend evaluation metrics										R/D								
• Project manage customer-specific requests										R/D								
• Customize trade plan by customer										R			D					
• Customize trade spend by channel										R				D				
• Approve sales logistics management										R				D				
• Develop platforms and sales communication												R		D				
• Ensure execution with trade													R	D				
• Report trade results			R										D					

Candy Co.'s marketing roles and responsibilities

	CMO	New products	HR	Finance	Snack foods	Brand	Season	Take home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
Item production:																		
• Project manage product development						R	R	R	R									
• Start PCM						R	R	R	R									
• Forecast demand for budgeting and schedules						D	D	D	D		R							
• Set productions schedules															R/D			
• Determine manufacturing process configuration															R/D			
• Approve capital and capacity plans	D														R			
• Allocate technical support resources															R/D			
• Approve production flow changes															R/D			
• Determine suppliers and procure net requirements															R/D			
• Set quality standards															D			R

Candy Co.'s marketing roles and responsibilities

	CMO	New products	HR	Finance	Snack foods	Brand	Season	Take home	Instant consumables	Customer marketing	Marketing services	Sales development	Sales (CSE)	Sales VP	Manufacturing	Packaging	Legal	QRC
People management: • Develop management recruiting	D		R															
• Approve HR policies			R/D															
• Ensure personal development	D		R															
• Provide and create mentoring opportunities	D		R															
• Offer periodic training	D		R															
• Create a system for role changes throughout the company, within and outside of the marketing organization	D		R															

Mattress Co. utilizes RAID analysis to clarify roles for decisions in its 5-stage NPD process

Stage	Decision	CEO (DM)	EVP, Mktg (MH)	Mgr, Mktg (JR, MW, MA)	Mktg Comm (DE)	VP, Components (JP)	VP, Engineering (JS)	VP, Operations (DH, KH)	VP, Finance	Mgr, Accounting	EVP, R&D (BB)	Purchasing (TM)	EVP, Sales (AB, CD)	VP, Training (NB)	Mfrg Services (JP)
Concept generation	• Determine choice of line changeovers		D	R						I	I		I		
	• Approve the product concept and message		D	R	I		I		A		I	I	I	I	I
	• Sourcing decisions made for new materials		A	I							R	D			I
	• Sourcing decisions made for components														
	(Major)	D		I		R					I	I			
	(Minor)	I		I		D					I	I			
	• Cost targets finalized	D	A	R		I			A	I	I				
	• Determine material menu			D		I	I				I	I			I
	• Initial sequencing of all customer roll-out issues		A	I	I	I		A					D		
Spec development/ prototyping	• Decide on exclusivity options (Which customers)		A	I				I	A				D		
	(What options)			D		I	A		A	I	I	I	A		A
	• Select tick options for stakeholder review			D							I	I	I		
	• Determine final specs (core bed-levels) for stakeholder review		I	D			I		A		I	I	I		I
	• Finalize field draft of marketing message		D	A	R						I		I	I	

Mattress Co. utilizes RAID analysis to clarify roles for decisions in its 5-stage NPD process

Stage	Decision	CEO (DM)	EVP, Mktg (MH)	Mgr, Mktg (JR, MW, MA)	Mktg Comm (DE)	VP, Components (JP)	VP, Engineering (JS)	VP, Operations (DH, KH)	VP, Finance	Mgr, Accounting	EVP, R&D (BB)	Purchasing (TM)	EVP, Sales (AB, CD)	VP, Training (NB)	Mfrg Services (JP)
Spec finalization	• Select final tick options			D							I	I	I		
	• Determine process/equipment changes for manufacturing		A	I		A	R	A	A	I	A				D
	• Determine plant training method/ schedule					I	D	A			I				I
	• Finalize sourcing relationships/ contracts			I							I	D			
	• Finalize marketing message		D	A	R								I	I	
	• Decide final specs		D	R		A	I	I	A	I	A	I	A		I

Mattress Co. utilizes RAID analysis to clarify roles for decisions in its 5-stage NPD process

Stage	Decision	CEO (DM)	EVP, Mktg (MH)	Mgr, Mktg (JR, MW, MA)	Mktg Comm (DE)	VP, Components (JP)	VP, Engineering (JS)	VP, Operations (DH, KH)	VP, Finance	Mgr, Accounting	EVP, R&D (BB)	Purchasing (TM)	EVP, Sales (AB, CD)	VP, Training (JP)	Mfrg Services (JP)
Initial manufacturing	Update final order quantities			I					I		R	D	I		
	Finalize prod. schedule for showroom samples			I	I		I	D					I		I
	Finalize sequencing of customer roll-out/product dist.			I	I			I					D		
	Channel clearing of old product planned	D	I	I					A	I			R		
	Resource allocation initial mfr. decided			I				D				R	I		
Roll-out Manufacturing	Customer new product comm. planned	D	A	I	R								I	I	
	Plant forecasts		D	I				A	I	I		I	R		
	Modifications/ standardization of mfr.						R	I			I				D
	Finalize prod. schedule for floor samples			I			I	D				I	I		
	Resource allocation for roll-out mfr. Decided						I	D				R	I		I

Key benchmarking takeaways

Process, organization, and metrics

Basic process architecture

- Common, stage/gate processes used across organizations
- Specific analyses and outputs are tied to each stage or gate; strict go/no-go decisions

Organization and team

- Multi-tiered, cross-functional teams oversee NPD process
- Each team has well-defined roles and responsibilities
- Never put NPD into established Brand mktg org, except potentially close-in LE's/Flankers

Metrics

- NPD project and pipeline status is tracked and easily available
- In-market tracking is performed post-launch

Idea generation → Concept assessment → Product development → Production prep → Ramp up → Launch and audit

Project specs

- Project specs (success criteria and tolerances) are clearly defined early in the process
- Large focus on collaboration with groups outside the project team, resulting in better product and more accurate forecasts

Prioritization

- Rigorous criteria and scoring mechanisms are used for idea evaluation, prioritization, and resource allocation

Decision-making and risk

- Roles are clearly defined
- Decision maker is involved in the process early on
- Companies for which risk-taking is acceptable view failures as learning opportunities
- The level of acceptable risk depends on the type of product and the company culture

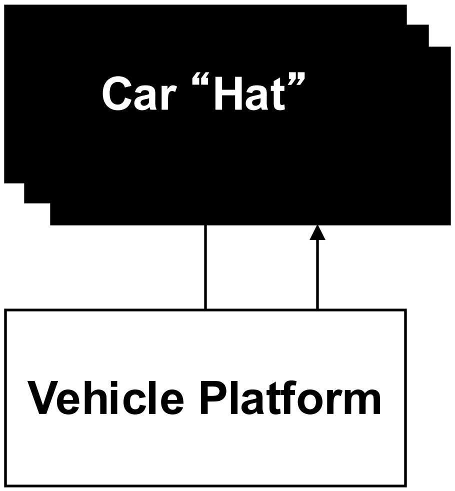
Flexible processes

- "Fast-track" NPD processes are employed for certain types of projects

Platform development

- Product platforms are employed to streamline the NPD process and provide a base for future product development

VW uses common platforms



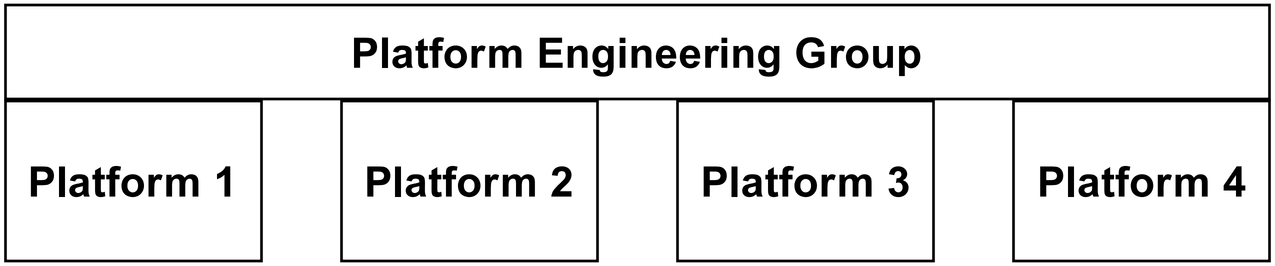
- 40% of components
- Designed for individual nameplates

- 60% of components
- Drive train, engine, and engine mountings
- Fuel lines, gearbox, clutch and shifter, steering columns, brakes and cables, fuel tank, exhaust system, front and rear axles, foot controls, wheels, seat frames, floor
- Flexibility in terms of length, width and wheelbase
- Multiple nameplates are developed from the same platform (e.g., 7 nameplates from platform A)

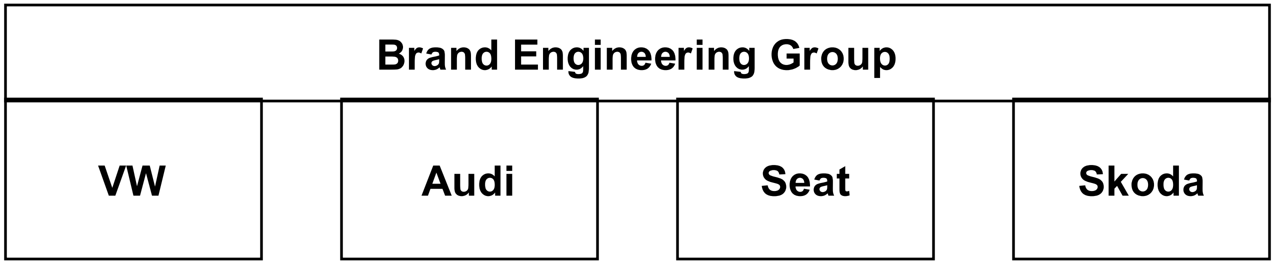
Drives commonality of systems and parts within a platform (i.e., same horn and same sensors in all nameplates of the same platform)

Note: Nameplate in the specific model of the car
Source: Interviews; Literature Search

VW's organization structure supports the platform strategy



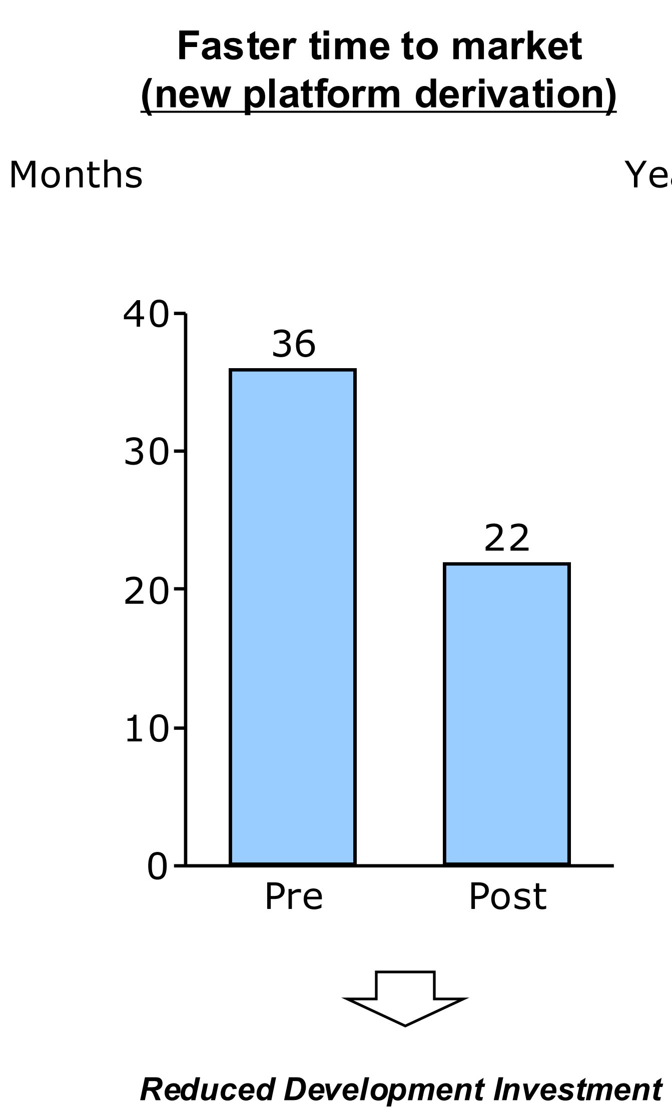
- Platform based organization leads to commonality within a platform
  - individual brand engineering subordinate to the platform organization
- Inter platform commonality driven by senior management
  - commodity group that reports directly to the CEO monitors inter platform commonality

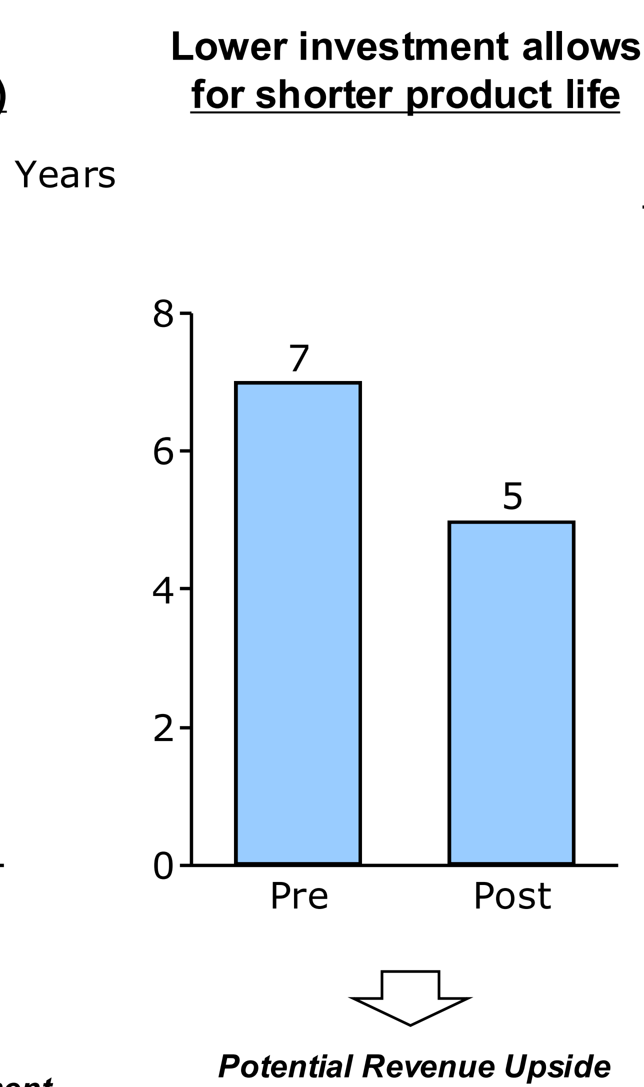


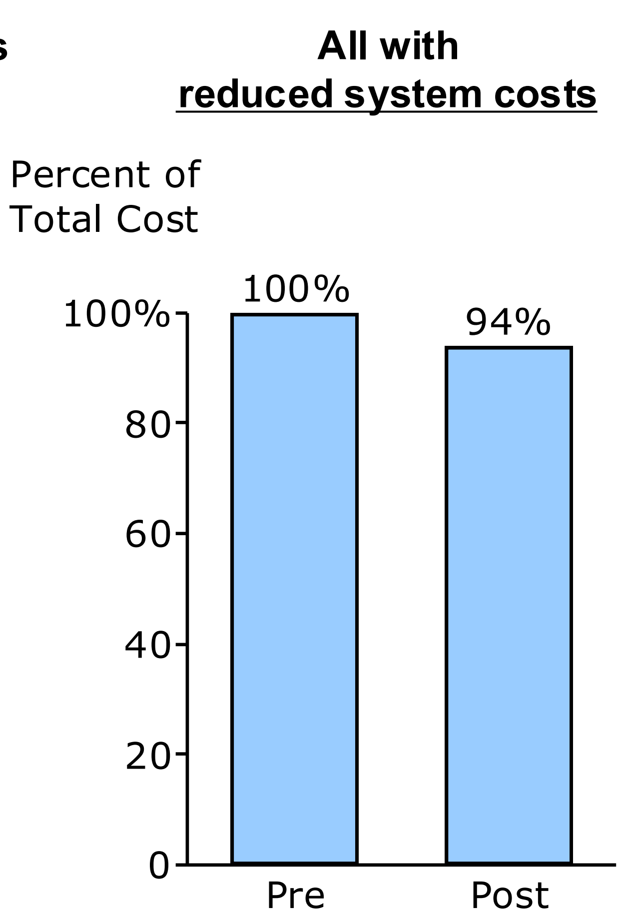
- Platform based organization leads to commonality within a platform
  - individual brand engineering subordinate to the platform organization

Source: Interviews; Literature Search

VW improvements driven by platforming



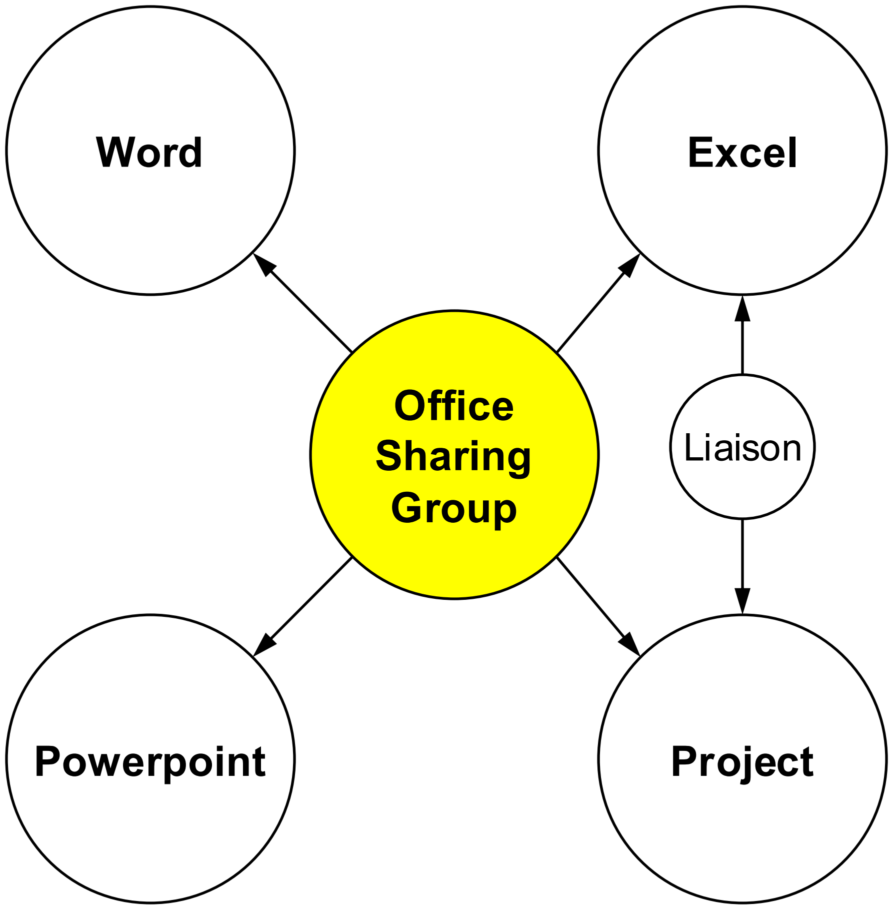




Note: Quoted savings estimates at VW range from 6-15%
Source: Morgan Stanley Dean Witter; Credit Suisse First Boston; Interviews; Literature Search

At Microsoft, components employed by more than one division are developed only once

Office Development Teams



Sharing Practices

- Features common to all products are developed centrally by the Office Sharing Group
- Features common to a subset of products are developed jointly by the relevant product groups
  - A liaison communicates between these groups on a daily basis to coordinate the work
- Features used only in one product group are developed within that group

Source: Microsoft Secrets; Microsoft Interviews

Key benchmarking takeaways

Idea generation and selection

Idea generation

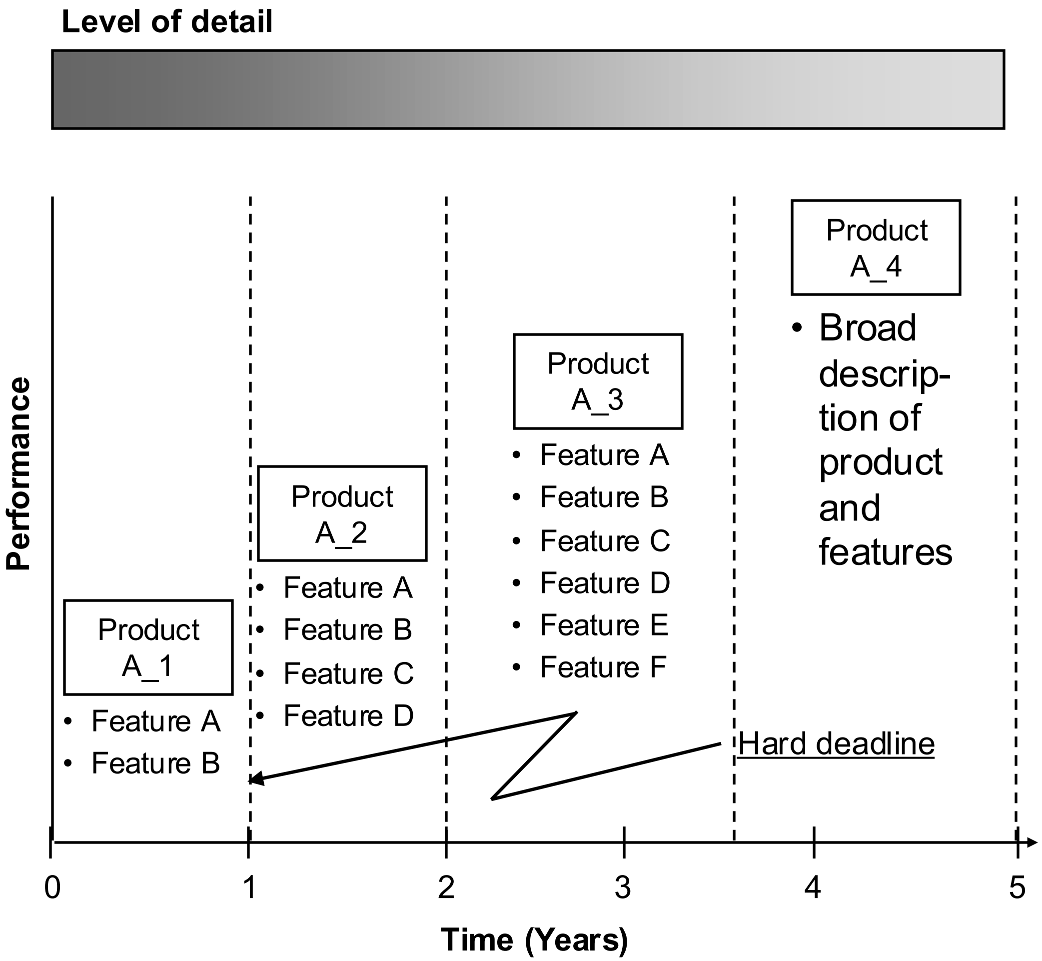
- Multiple sources for ideas include R&D labs, new ventures groups, business units, and consumers
- 3-5 year product roadmaps guide idea generation by outlining timing of product releases
- Focus on increasing number of ideas generated

Idea collection/evaluation

- Processes for collecting/tracking ideas include passing all ideas through a gatekeeper and/or storing them in a "bank"
- Rigorous criteria and scoring mechanisms are used for idea evaluation and prioritization
- Companies have different funnel methodologies

At HP, product roadmaps map out product specs and timing for all releases over the next 3-5 years

HP Illustrative Product Roadmap



Description

- Define detailed product roadmap over the next 3-5 years
  - Time frame for subsequent product releases
  - Projected future customer and market needs
  - Preliminary specification of key product features for each release
  - Estimated potential competitive offerings
- The product roadmap is the guideline for downstream planning and development
  - Input to business plan
  - Employed by project management
    - Resource allocation
    - Technical feature development
    - Basis for platform roadmaps

Note: Subsequent versions of Product A may target different market segments.
Source: HP Interviews

HP's product roadmaps are updated via detailed market and competitive analyses

<u>Key analytical steps to create HP product roadmap</u>

Strategic Roadmap

Project Market Trends	Analyze Competitive Landscape	Prioritize Market Opportunities	Assess Feasibility/ Resources	Update Product Road map	Develop-ment Process
Business Team					Project Team
• Conduct external research - Industry experts - Customer interviews • Interview in-house experts • Analyze comparable industries • Event mapping - New regulatory decision - Patents - M&A	• Project competitor moves within the industry - Strategic intent - Customer focus - Technical capabilities - Timing of release - Product features	• Segment the market - industry • Identify specific market segment needs - Customer interviews - Industry experts • Prioritize and select segments to target	• Verify resource availability across all functions • Evaluate internal and external capabilities • Achieve consensus between chief architect and product manager on features and resource requirements	• Quarterly review of parameters to continually update: - Market changes - Resource availability - Technical changes	• Execute the development of products consistent with the roadmap

Note: Teams for roadmap building steps1-3 are cross-functional, consisting of engineers, sales and marketing individuals, and architects
Source: HP Interviews

Nokia's idea generation process is also based on a 3-5 year product road map

3-5 year product road map

- Define specific products to be launched
  - Functionalities
  - Timing
  - Life spans of products
- Multiple inputs:
  - BU/Corporate R&D
  - Market intelligence
  - Standards, operators

Product creation process

- Concept design
- Specification
- Design
- Implementation & Integration
- Test
- Launch

P&G tapped (still does?) into three different sources of R&D to generate innovative ideas

P&G: key idea sources

Corporate New Ventures	Group Level R&D	Business Unit R&D (PDD)
• Focused on delivering breakthrough business ideas to GBUs, based on assessment of group-wide R&D capabilities and (unarticulated) consumer needs • Organised around core of 5 P&G managers with proven track records in new products (Brand, R&D, Product supply, Finance, Manufacturing) • 6 stage disciplined process to create and refine ideas to a point that prioritised ideas can be presented to management	• 18 Corporate Research centres focused on specific areas (e. g., Rusham Park, Egham – Health and Beauty Care products) • “Blue sky thinking”	• Technologist profile • Act as bridge with brand organisation • Develop consumer applications (e.g., color safe bleach) • Create technical business cases

The Corporate New Ventures group has three major activities during the concept phase

Objective

- Identify and promote new businesses and market opportunities that cross divisional capabilities

Generate ideas	Evaluate ideas	Scope project and hand off to business unit

Generate ideas

- Regular review of publications selected to generate ideas about science and consumers
- Selective convention and trade show attendance
- Informational meetings with industry observers, personalities
- Full technical capabilities review
  - "How could we use it?
- Review macro consumer trends

Evaluate ideas

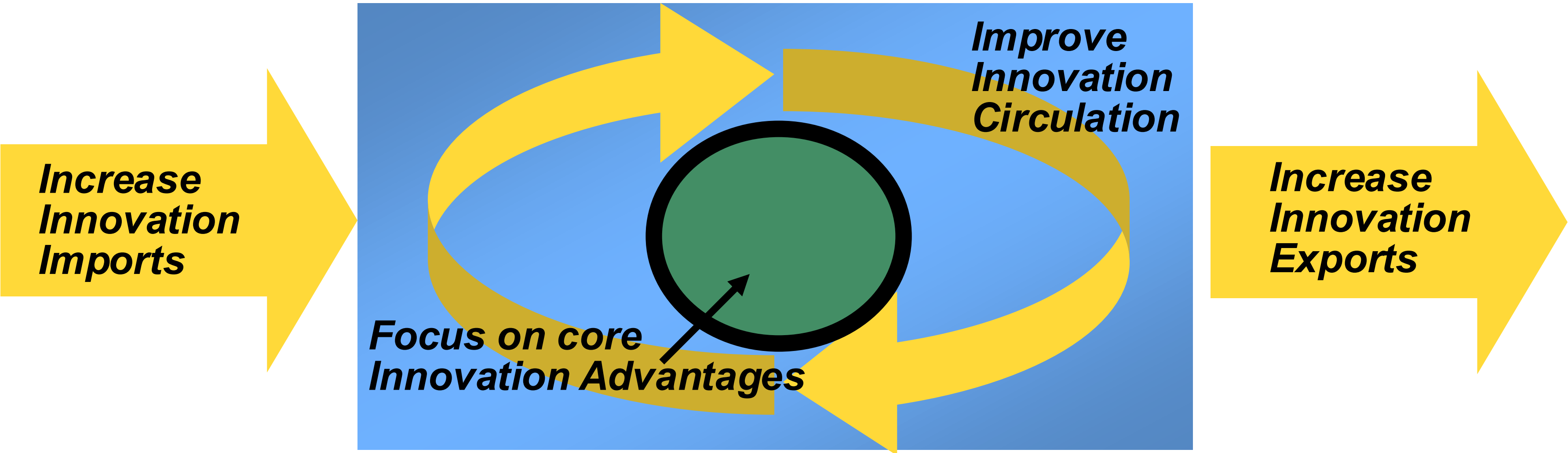
- Is there a basic consumer need?
- Does P&G have the technology required?
  - How difficult to develop or acquire the technology?
  - Will consumers understand and value the technology?
- Can P&G be profitable in product category?
  - E.g. prospective position in category profit pool
- Does past brand experience suggest project success?

Scope project and hand off to business unit

- Project definition
  - Product specs
  - Strategic goals
  - Monetary and human resource investment
- Decision making
  - Key milestones
  - Decision ownership
  - End to end go/no go criterion

Source: Harvard Business Review

P&G also employed "Open-Market Innovation" to identify outside technologies



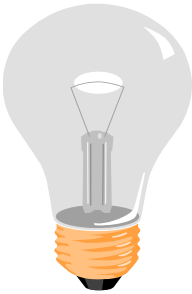
Objective

- Provides access to world class ideas
- Focuses resources on comparative advantage
- Identifies gaps more quickly
- Avoids duplication of efforts
- Raises cash for reinvestment

Structure

- Technology entrepreneurs
- Technology Acquisition Group
- InnovationNet
- Global Technology council
- Innovation expos

In addition, P&G observes consumers at home to develop new product ideas



Creative idea generation techniques

+

Consumer-focused research

=

Breakthrough products

Observing consumers doing laundry, researchers found that people had to add fabric softener during rinse cycle, but often missed it

Observing consumers clean their homes, researchers found that mopping and dusting was often very cumbersome, time consuming, and inefficient

Consumer research found that people were frustrated with their colored clothes fading and polluting wash water

Consumers wanted dish washing liquid that killed germs without drying their hands

Consumer research identified need for product that eliminates, and not just masks, odors in household fabrics

Source: Julia Brown, ex-former procurement manager at P&G

P&G then evaluates all ideas vis-à-vis consumer needs and technology requirements

P&G Technology capabilities

- Which (overarching) technological capabilities does P&G have?
- How can these be leveraged?

(Unarticulated) Consumer needs

- Trend analysis
- Consumer data gathering from wide range of sources ("Field," experts, literature, etc.)

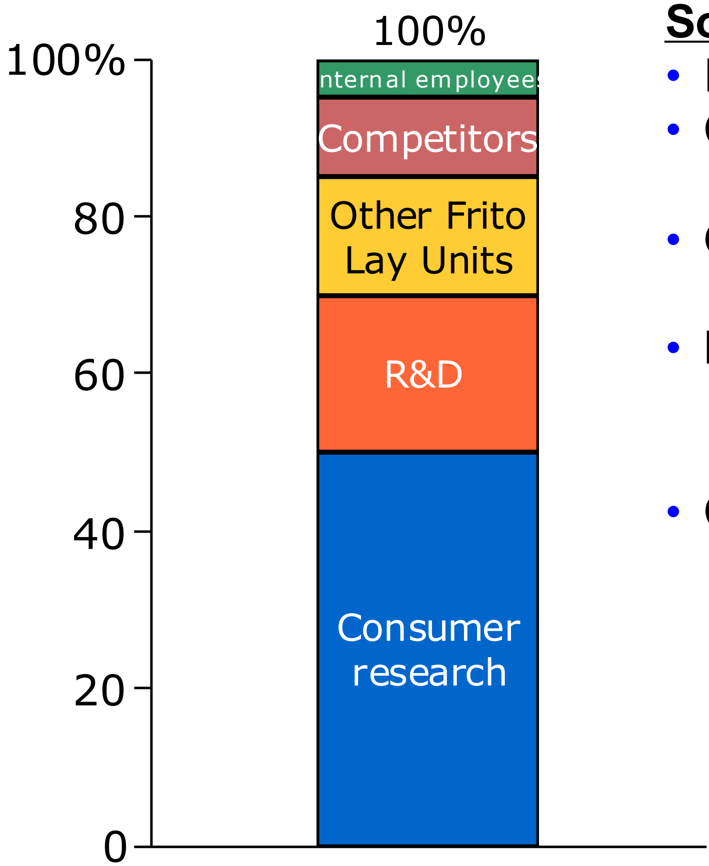
Idea evaluation

[redacted]

Hand off to BUs / Brand
Full commercialization

At Frito Lay, the consumer is a key source of new ideas

Frito Lay source of new ideas



Source	**Product Examples**
• Internal employees	• Cracker Jack Snack Bars
• Competitors	• Baked Tostitos
	• Stacked Lays
• Other Frito Lay Units	• Munchie snack mix
• R&D	• Sun Chips
• Consumer research	• Rold Gold Fat Free pretzels

Source: Kevin Barry, formerly part of strategic planning group of Frito Lay

Staples hopes to find its next blockbuster from consumers via an innovation contest

- Staples partnered with Big Idea Group, a concepts and invention brokerage
- Contest parameters aim to manage the size and scope of ideas
  - Excludes non-relevant product categories (e.g., books, business machines, furniture, etc.)
  - 2-month time frame
  - Maximum # of words and documents to describe the invention
  - No physical prototypes
- 1st prize: $25K plus royalties; additional 11 finalists: $5K

"The best innovations at Staples… have come from stores and our customers."

Thomas Stemberg, Staples Founding Chairman

Quicken was a pioneer in consumer research with its "Follow Me Home" method

Follow Me Home program:

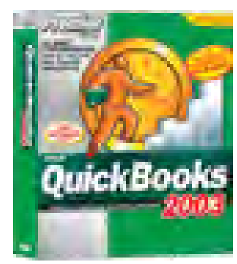
- Product development teams follow users into their homes to observe how they learn and use software
- Initial findings included:
  - Small business owners were using the personal finance software to manage their **business books** => developed **QuickBooks**
  - Customers used their financial data to report their **taxes** => launched **TurboTax**
  - Customers wanted to **be told how to** install the software => provided **audio instructions**
- Today, Quicken continues its customer focused innovations
  - Online shop for insurance and mortgages
  - Information on investing, planning, and taxes

Personal Finance

Quicken software was first introduced to help customers manage personal finances

Today's Quicken
- Dozens of added features
- Post sales support
- Online banking and bill payment

Small business owners

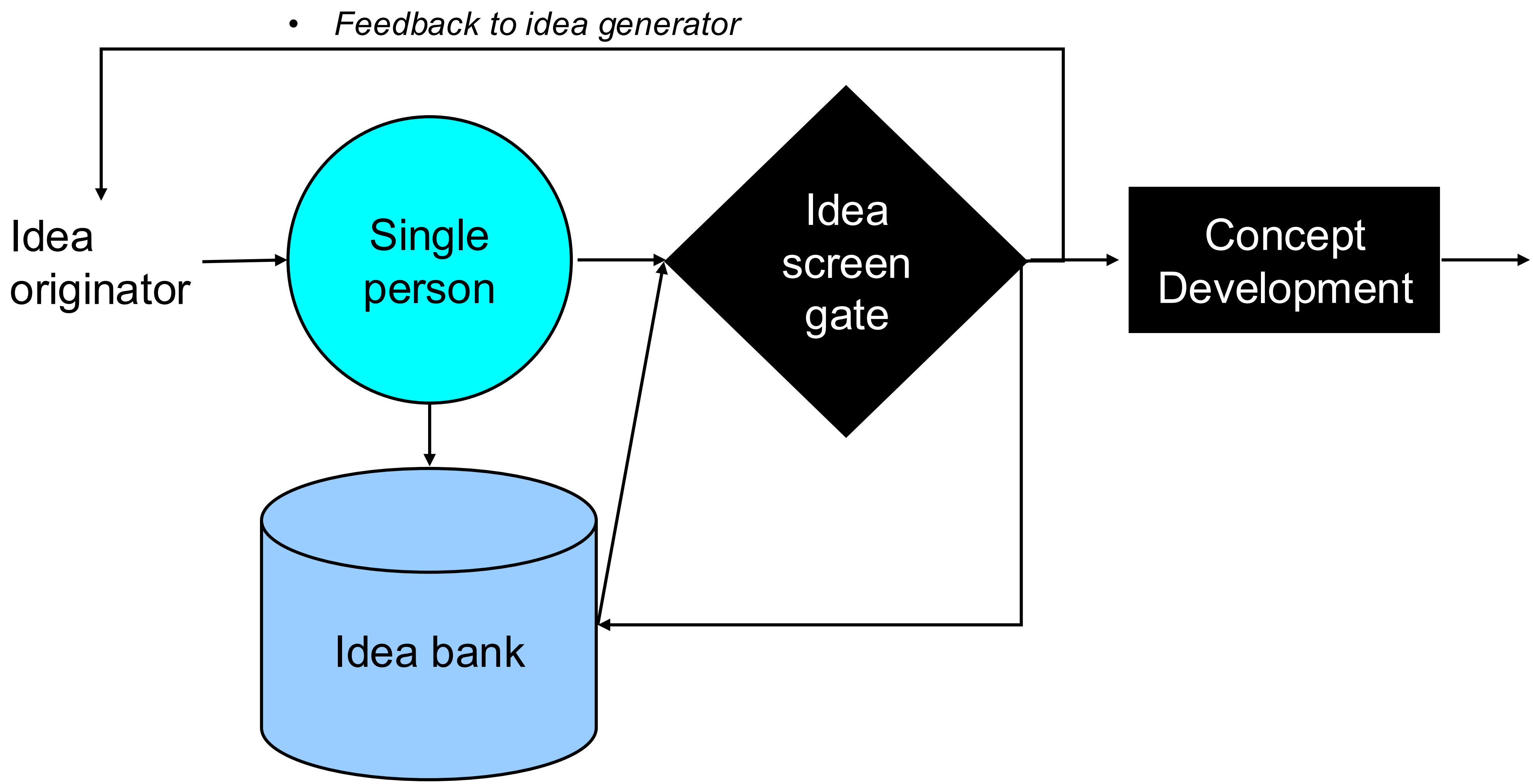


- Customized QuickBooks
  - Healthcare, non-profits, contractors, etc.
- Add-on software
  - Payroll, legal forms, credit card payments, online sales, etc.

Tax time

- Tax-related products and services
  - Its deductible software
  - Tax advice and review
  - Audit defense

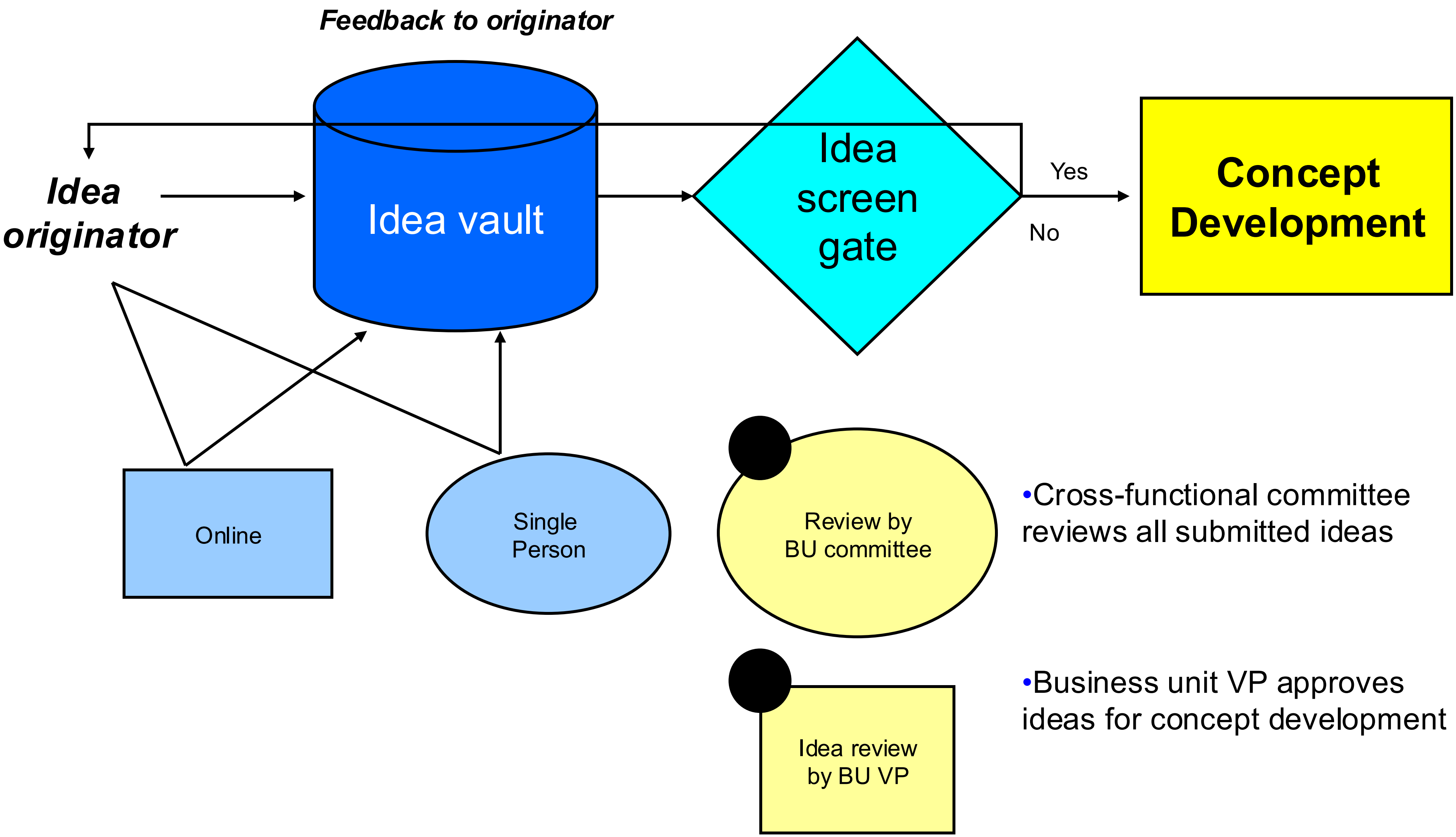
Guinness employs a clear process for collecting ideas in a "bank"



- *Capture all SGOAs and specific ideas*
  - *New*
  - *On-hold*
  - *Dead*

Source: Cooper, Edgett and Kleinschmidt, "Optimizing the Stage-Gate Process", 2002

At GE, submitted ideas are rigorously reviewed within the business unit



- Cross-functional committee reviews all submitted ideas
- Business unit VP approves ideas for concept development

Source: Sally Wilbur, former VP, Operations, Mortgage Insurance, GE

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway© – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768

* SKIM what articles are included and decide **which ones, if any, to read!**

NIELSEN: Beating the New Product Failure Odds: The Critical Steps to Innovation Success … 2011

Overview

The four-minute mile. The two-hour marathon. Records exist to be broken. But one record that remains a challenge is the meager ten percent probability of achieving new product success. Consumer packaged goods [CPG] companies spend an average of $15 million per product per year guiding some 30,000 concepts to the shelf, knowing full well they are likely to fail.

This paper explores a new methodology that identifies innovation success factors, quantifies performance on each and provides focused and actionable feedback at critical junctures throughout the development pipeline designed to raise the new product success rate.

Highlights

Following a rigorous four-year exploration of the new product development process encompassing 600 product launches and 20,000 initiatives, Nielsen discovered a number of truths about what influences launch success.

Twelve critical success factors fall into five macro areas determining new product performance: salience, communication, attraction, point of purchase and endurance.

Good enough is good enough. A product doesn't need to be above average on each factor; sometimes the critical bar is low. Meeting the nominal performance threshold on each success factor will increase the likelihood of market success.

Outstanding performance on just a few relevant factors does not lead to success.

Any new product is only as strong as its weakest link. Failing on any of the success factors can spell disaster for a new entry.

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The Critical Steps to Innovation Success … 2011

Informed, mid-course corrections make it possible to resuscitate a failing initiative, getting it back on the track to success.

Discussion

Traditional product performance metrics such as purchase intent, value and likability—while still very valuable for forecasting sales—have fallen short when it comes to predicting new product success. The proof is in the probability that nine out of every ten new products launched will fail. Even products subjected to extensive pre-launch testing and optimization rarely enjoy odds beyond 50/50.

Determined to address this industry Achilles heel, Nielsen devoted five years to building a consumer adoption framework and measurement system that would dramatically change the odds in favor of marketers.

The undertaking began with two additional goals in mind: understanding what matters most in consumer adoption and determining the minimum performance boundary for each identified success factor.

Weighing the Odds

As part of the exploratory process, researchers conducted a series of interviews with marketers to better understand how they filter and evaluate new products internally. Respondents said they generally proceed without hesitation with a new product idea if the odds of success were roughly 2:1. This ratio became an important litmus test for a rough cut at assigning baseline thresholds to the different success factors.

From a starter set numbering hundreds of questions long, the search began to identify those questions and related factors that were differentiating. The idea was to use a model of the actual consumer adoption process to ensure that all aspects of success innovation were covered. The model would reflect how people engage with and evaluate new market entries and assign value to those variables.

The team found all existing models of consumer adoption flawed in some key way, and ultimately derived its own consumer adoption model through empirical research. This proved critical in delivering a robust prediction of success. Some of the important new product assessment questions included:

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The Critical Steps to Innovation Success … 2011

Did it break through the clutter?
Did users find it relevant?
Did it generate online buzz?
Did it win at the first "moment of truth"?
Did it offer true innovation?

After empirically testing the exhaustive list, a manageable sub-set of questions surfaced and was put to the test in real world explorations more than 20,000 times to determine which factors were most predictive. Research activities encompassed multiple countries and multiple categories at multiple stages in the product pipeline. The resulting model yielded a hit rate averaging 75 percent, a significant improvement over traditional approaches. One aspect of the methodology that contributes to the higher success rate is its ability to flex to any point in the development process, providing earlier diagnostics, when changes are less expensive to implement.

Factoring-In Success

Predicting new product success draws on a master set of twelve factors that cluster into five macro areas: Salience, communication, attraction, point of purchase and endurance.

Every winning new product studied incorporated all twelve factors, varying only in the degree of each required for success, based on the nature of the product and target audience.

Salience, the first macro area, is all about "standing out". Successful new products do that in two key ways… by bringing true innovation to the market and by breaking through the clutter with attention-catching marketing that helps them stand out on shelf.

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The Critical Steps to Innovation Success … 2011

Communication represents the second phase of the consumer adoption process. Successful product launches accomplish two key innovation tasks: imprinting a message with consumers through strong comprehension and delivering resonant messaging.

Attraction, the third phase of innovation, serves as the first consumer evaluation point for the product proposition. It begins with a classic marketing "problem/solution" setup: is there a consumer problem (need or desire) for this type of product, and does the test product solve that problem in an original way?

The combination of problem and solution, of need/desire and advantage, is critical. If both exist, consumers will be interested.

Successful innovations also need to be credible and free of downsides such as the side effects often associated with over- the-counter products.

Point of purchase is where consumers convert attraction into action. Purchase encompasses the findability factor (whether consumers can find the product in the right outlets, the right aisles, and on the shelf) and the value equation (whether product advantages offset price and other costs).

Endurance, the fifth and final phase of consumer adoption, incorporates aspects of product delivery (providing the consumer benefits and experience as promised) and product loyalty (remaining differentiated from competition over time).

Early Detection Eliminates Failure

After discovering the 12 factors most meaningful to consumer adoption, the next step was determining the relationship between performance on those factors and four predictive categories: outstanding, ready, risky or failure:

- Outstanding: product demonstrates a significant, meaningful advantage over other successful products—a strength to leverage in market
- Ready: product would succeed in market at least two out of three times (probability > .67)

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The Critical Steps to Innovation Success … 2011

Risky: product requires discussion to assess whether risk is acceptable or can be mitigated to acceptable levels

… Failure: product performance below par, so poor at one or more factors that failure is likely two out of three times (probability of success < .33)

Percentile requirements shift with each factor. In essence, each factor has its own "elasticity" [the ratio of percentage change in one variable to the percentage change in another variable] for success, providing marketers with a clear view of what must be accomplished to be ready.

For example, a new product must outperform more than 80 percent of its competition on the product delivery factor to succeed. The bar is significantly lower for many of the other factors such as distinct proposition, which only requires outperforming 20% of the competition.

One Weak Link Can Sink A Prospect

The saying that a chain is "only as strong as its weakest link" holds true for the interlinked success factors that determine new product launch prospects. A single step into the failure range on any of the 12 success factors can overwhelm the combined positive effects of the other 11 attributes. While substantiating the model and tracking tens of thousands of development iterations, the Nielsen research underscored the fact that new product success relies more on doing everything reasonably well, rather than doing a few things extremely well.

This finding represents a significant shift from conventional thinking on innovation success, where it was generally assumed that weaknesses could be 'averaged out' with strengths in other areas. In actuality, innovation success is more about making sure everything is done 'well enough'.

From a practical perspective, the strength of this innovative approach lies in the ability to pinpoint problem areas early on, providing prescriptive and actionable detail to the brand team in time to address prior to launch, greatly increasing the odds of success.

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The Critical Steps to Innovation Success … 2011

"At Kraft Foods, our growth strategy includes a stepped-up emphasis on great brand marketing and great innovation", said Barry Calpino, vice president, Innovation, Kraft Foods North America. *"We feel Nielsen's new method gives us a much richer and more in-depth assessment of our initiatives. And importantly, it's designed to suit the needs and realities of being an innovation project leader – the person who uses the tool to help make our ideas bigger and better when we go to market."*

A report card shows how findability alone dragged the product concept into failure territory, despite earning an outstanding score on the attention-catching criterion, market-ready grades on nine factors and a risky rating on need/desire.

Further investigation suggested that consumers didn't know where to find the product in-store. Fully one-third of consumers would look in the wrong spot, even though the concept board clearly stated product location.

This proved troubling on two fronts: low findability leads to low SKU velocity and the danger of de-listing. Further, if initial findability was linked to a special display like an end cap, consumers might not be able to locate the product when shelved normally. To fix this problem, marketers made sure that copy prominently cited the in-store product location, while incorporating floor graphics and shelf talkers into the promotional mix.

Scenario Modeling Simulates Options

Rather than re-testing constantly during the development cycle, the new methodology enables scenario modeling to gauge the impact of achieving baseline levels on weak factors in a controlled setting. Think of it as a music studio control board, where the levels for each success factor function independently and can be fine-tuned to achieve the desired effect.

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The Critical Steps to Innovation Success … 2011

Improving just product loyalty from risky to ready was simulated, and despite the significant changes, the overall probability improves little due to the presence of two other weak links. Ultimately, making the prescribed improvements to all three not-ready factors results in a market-ready product.

Conclusion

There's a clear need to change the innovation odds, improving the likelihood of success for new products. Before, marketers were asked to make a call about spending millions based on pretty iffy odds. The new product evaluation methodology developed by Nielsen reduces the amount of the wager and increases the probability for success by providing reliable, precise diagnostic advice much earlier in the process, when the downside represents mere thousands, not millions, of dollars.

A revelation that emerged from the years of research behind the model is the **fact that it is more important to do well on all 12 consumer-relevant success factors than to do an outstanding job on a few.** Running alternative scenarios will help marketers visualize the outcomes associated with re-balancing success factors as the probability of success rises to certainty.

This methodology represents a significant advancement for the product development discipline and a welcome shift in the risk/ reward ratio associated with true innovation.

Millions of dollars are spent on developing and launching new products each year but the vast majority fail. A new approach by Nielsen, unveiled today at the company's Consumer 360 conference in the U.S., revolutionizes the traditional method and can improve the likelihood of new product success to 75 percent. For the first time, companies have a clear determination of whether new products will succeed and how to increase their odds of success.

Nielsen has identified 12 criteria every new product must meet in order to succeed, with specific recommendations on what companies should change before the new product launch to increase chances of success. Companies spend on average $15 million on marketing for a new product launch, with some companies spending more than $60 million and generally, new products have a 10 percent chance of succeeding. With Nielsen's new approach based on tracking 600 product launches and testing 20,000 initiatives the success rate can improve to 75 percent.

NIELSEN: Beating the New Product Failure Odds:
The Critical Steps to Innovation Success … 2011

"Nielsen is changing the innovation game," said Vicki Gardner, senior vice president, Product Innovation North America, Nielsen. *"By identifying key criteria every successful new product must meet, we're helping marketers know where to focus their efforts in new product development and in-market execution. As a result, companies gain a huge leap forward with more actionable advice and better decision-making, and that means better investment of new product marketing dollars."*

In the consume-packaged goods (CPG) industry, when deciding which new products to pursue, many companies rely on the same core measures from the 'pencil and paper' days of research. While these key dimensions provide a good measure of likely sales, Nielsen's approach goes beyond sales forecasts and provides an understanding of success on consumer benchmark areas, such as 'findability' and advantage over others, for an improved prediction of new product success.

NIELSEN: Beating the New Product Failure Odds:

The Critical Steps to Innovation Success … 2011

Twelve Steps to Innovation

Nielsen's twelve success factors encompass five main areas:

Salience

1) Distinct Proposition - Does the product offer a true innovation?
2) Attention- Catching – Will the product be noticed?

Communication

3) Message Connection - Is your message conveyed in a simple, persuasive way?
4) Do you have a Clear and Concise Message? Is it conveyed without clutter?

Attraction

5) Does your product have a substantial Need/Desire? Is it solving a problem or meeting consumers' needs?
6) What is your product's Advantage? Is it better than others currently in the marketplace?
7) Credibility - Are your product claims believable?
8) Acceptable Downsides - (Typically related to side effects for over-the-counter (OTC) products)

Point of Purchase

9) Findability - Is the product where consumers expect it to be? Can shoppers find it easily among the competition?
10) Acceptable Costs - What are the cost/benefit trade-offs at the shelf? This could be price, calorie content, usage instructions, among other factors.

Endurance

11) Product Delivery - Did you meet or exceed consumers' expectations? Are you delivering on your product's promise?
12) Product Loyalty – Will consumers continue to purchase your product in the future?

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"You are only as strong as your weakest link," said Gardner. "Take a triathlon as an example. You don't need to be the fastest swimmer, biker or runner, but in order to win you need to do well in each event. You can't win in the swim but get off the bike and push it up the hill. New product success is not about doing one thing really, really well; it's about doing everything you need to do well."

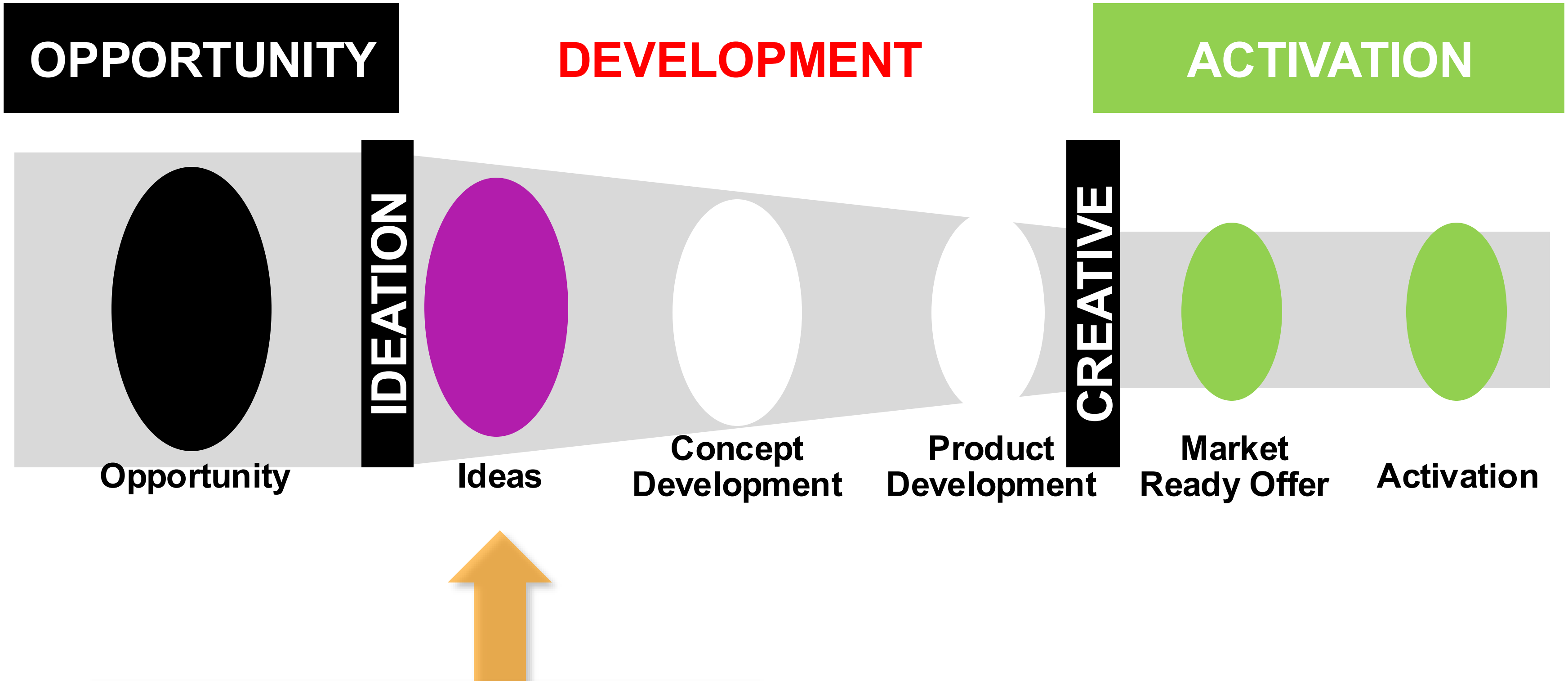
nielsen

NIELSEN IDEASCREEN™

SAVE TIME & MONEY BY EVALUATING POTENTIAL OF IDEAS EARLY IN THE PROCESS

July 2015

Where Does Nielsen's BASES IdeaScreen fit?



PRIMARY USE CASE
Fast, simple, lower-cost to screen multiple ideas. BASES IdeaScreen helps you prioritize the ideas with the most potential to advance for further development.

BASES Ideascreen™

What Nielsen claims is a faster, simpler, lower-cost evaluation for early screening, their BASES IdeaScreen allows you to screen early consumer ideas with confidence

CONSUMER ADOPTION. Which ideas are ready for success; which need improvement – where, and how?

- Examines 4 core consumer adoption touch points; the most relevant Factors for Success that are highly predictive of future success at this early stage

STRATEGIC INTENT (optional). Focused diagnostic evaluation of idea performance

- BASES analysis and consultation to refine your ideas

At this stage of development, the <u>key question</u> to answer is: ***Do I have an idea worth pursuing?*** This is what BASES IdeaScreen is designed to address, hence focusing on Consumer Adoption through the Factors for Success framework.

Consistent System

Innovations are evaluated against the same predictive metrics throughout the funnel.

IDEA SCREEN PERFORMANCE IS PREDICTIVE OF CONCEPT PERFORMANCE

NIELSEN BASES FACTORS FOR SUCCESS™ : THE 12 THINGS EVERY NEW PRODUCT MUST DO TO SUCCEED

FOUNDATIONAL FOCUS

CONSUMER INSIGHT ON WHAT MATTERS

“KNOW THAT your innovations have foundational strength before you build them further. Failing later in the funnel is costly, time consuming, and critical to avoid.”

THE BIGGEST INNOVATIONS HAVE THE STRONGEST FOUNDATIONS.

DISTINCT PROPOSITION

ATTENTION CATCHING

NEED/DESIRE

ADVANTAGE

OUR EARLY SCREENING SOLUTIONS FOCUS ON AN ASSESSMENT OF THE FACTORS THAT UNDERPIN THE FOUNDATIONAL STRENGTH OF AN INITIATIVE

Robust Prediction ability

Idea vs. Concept on Interest*

Direct Hits = 75% of R&D cases

		IDEA			
		STRONG		WEAK	
CONCEPT	STRONG	DIRECT HIT	43%	MISS	5%
	WEAK	Indirect HIT	20%	DIRECT HIT	32%

Indirect Hits = 20% of R&D cases - Although the ideas tested well, the actual concepts were not strong for reasons unrelated to Salience/Attraction (Communication, Price)

Misses = 5% of R&D cases - After further review of the original concepts (including open-ends), it was agreed that the ideas tested did not accurately reflect the concept.

*In this analysis, initiative strength is determined by purchase intent for **Concepts**, and overall attraction of **Ideas**

HOW DOES IT WORK?

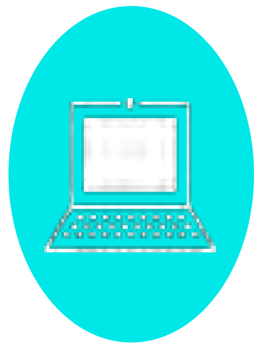
INPUT → METHODOLOGY → DELIVERABLES

INPUT

Introducing Green Clean with Nature's Nourishment. A line of personal cleansing products that uses the power of nature to effectively clean away daily dirt and grime with incredible gentleness, leaving behind fresh nourished skin. Perfect for everyday use.

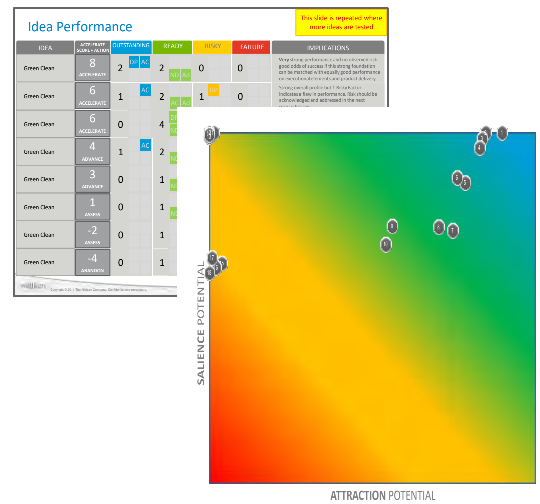
Straightforward description of the key product benefit;
not priced; no images;
branded or unbranded

METHODOLOGY



~200 respondents;
Sequential design (7-9 ideas per person) Standard closed ended questions

DELIVERABLES



Ideas worth progressing;
overall potential ranking based on the Factors for Success that matter to this early stage in the innovation funnel

No Need for **IMAGES**, or BRANDING

INSIGHT, but only in IMPLICITLY.

GOOD = SIMPLE

WHATS THE BIG IDEA??

No Need for DETAILED RTB

No Need for SALESY LANGUAGE

RELEVANT

STAND OUT

SUPERIOR

Idea Example

What is it?

the benefit

Introducing Green Clean with Nature's Nourishment. A line of personal cleansing products that uses the power of nature to effectively clean away daily dirt and grime with incredible gentleness, leaving behind fresh nourished skin. Perfect for everyday use.

Reassurance, Brings usage to life

The problem context

Flexible stimuli: 1-2 sentences to rough concept

	Short Idea - 1-2 sentences	Long Idea - 3-4 sentences	Rough Concept - with or without images, NO pricing
	A refrigerator cleaner that helps produce stay **fresh for longer because it attacks malodours** and **germs that cause food to go off faster. Safe to use around food, simply spray in a full refrigerator.**	A refrigerator cleaner that helps produce stay **fresh for longer because it attacks malodours** and **germs that cause food to go off faster. Safe to use around food, the natural active ingredients actually** work at their best at **refrigerator temperatures to leave your fridge clean and your produce fresh for longer. Simply spray in a full refrigerator.**	You spend a fortune on food every month. You want to make sure you eat it, but did it ever occur to you that **your refrigerator may be causing your food to go off faster** because it **harbours germs and malodours**? New Green Cleen Chill Refrigerator Power Cleaner – **keeps your fridge fresh** and **odour free**, keeps your refrigerated produce **fresher and at its best for longer.** Green Cleen Chill is super cool, literally! Its fine blend of **naturally occurring active cleaning ingredients**, including **baking powder**, are **safe to use around food** and **work best at fridge temperatures** for optimum results leave your refrigerator smelling of roses (or **lemon**, or fruit salad). **Simply spray in a full refrigerator.** Store in the refrigerator for best results.
Text	1-2 sentence (Max ~50 words)	3-4 sentence (Max ~100 words)	**Rough Concept** - messages are near final, with or without images, NO price
Benefit	YES, described in context of Insight	YES, described in context of Insight	YES, described in context of Insight
Insight	NO	SOME Detail, focus remains on benefit	YES - connected to the central benefit
RTB	NO	VERY Limited	YES
Branding	EITHER	EITHER	EITHER
Price	NO	NO	NO
Images	Not Necessary	Not Necessary	With or Without Images
Varieties	Acceptable, as required	Acceptable, as required	Acceptable, as required
Ideas/Pod	9	7-8	6

The number of exposure/pod influences pricing.

Deliverables and Optional add-ons

BASES IdeaScreen: 200 (sequential monadic) General Population Consumers

CONSUMER ADOPTION: Measures the core idea

- BASES Accelerate Score: A composite metric that provides a holistic understanding of idea performance
    - Helps identify potential in ideas, by crediting outstanding strengths but also allowing some soft spots
    - Weak links have time to be strengthened and thus shouldn't cause an otherwise strong idea to be cast aside at this early stage of development

- BASES Factors for Success: Need/Desire, Advantage, Distinct Proposition, Attention Catching compared against BASES database to diagnose strengths and opportunities

STRATEGIC INTENT: Assess fit with brand strategy & overall objectives
(Optional add-on)

- Add-on Heat Maps to measure fit vs strategic intent for your tested ideas

ACCELERATE SCORE

IDENTIFY POTENTIAL IN IDEAS, GO EASY ON ITS FLAWS

IDEA	SCORE	OUTSTANDING	READY	RISKY	FAILURE	IMPLICATIONS
Idea X	ADVANCE 4	2 Att. Catching Need/ Desire	1 Advantage	1 Distinct Prop.	0	Strong Potential - 2 Outstanding Factors with 1 Risky Factor indicating significant strength. Risk should be acknowledged and addressed in the next research stage

So this composite measure is more focused on POTENTIAL

THIS IS A FLAW

- This is a weak link that needs focus to be fixed.
- When evaluating the ODDS OF SUCCESS of this innovation, this flaw will *dramatically* impact success.

BUT, TOO MUCH FOCUS ON ODDS OF SUCCESS THIS EARLY COULD THROW OUT HIGH ODDS IDEAS

- So Accelerate Score gives these measures more credit, and goes easy on the flaw.
- This gives ideas with outstanding components time to germinate.

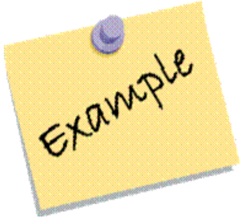
Example

Idea Screen Performance Summary

CONSUMER ADOPTION

IDEA	SCORE		OUTSTANDING	READY	RISKY	FAILURE	IMPLICATIONS
NATURAL BOOST BARS	ACCELERATE	8	DP	ND AC Ad			Very strong potential and no observed risk - good odds of success if matched by good performance on executional elements and product delivery
POWER SNACK CRACKERS	ACCELERATE	6	DP	AC Ad		ND	In spite of 1 Outstanding and 2 Ready Factor, overall potential is limited by 1 Failure Factor outcome that can derail this initiative without significant further work.
VITAMIN CHIPS	ADVANCE	4		DP AC Ad	ND		In spite of 3 Ready Factors, overall potential is limited by 1 Risky Factor outcome that can derail this innovation without significant further work.
POWER SNACK BARS	ADVANCE	2		DP AC	ND Ad		In spite of 2 Ready Factors, overall potential is limited by 2 Risky and Factor outcome that can derail this innovation without significant further work.
NATURAL BOOST BISCUITS	ASSESS	-2		DP AC	Ad	ND	In spite of 2 Ready Factors, overall potential is limited by 1 Risky and 1Failure Factor outcomes that can derail this initiative without significant further work.
VEGGIE CHIPS	ASSESS	-4		DP AC		ND Ad	In spite of 2 Ready Factors, overall potential is limited by several High Risk Factor outcomes that can derail this initiative without significant further work.
CRISPY PICK ME UPS	ABANDON	-5		DP	AC	ND Ad	In spite of1 Ready Factor, overall potential is limited by 1 Risky and several Failure Factor outcomes that can derail this initiative without significant further work.
LOW FAT CRACKERS	ABANDON	-7			DP AC	ND Ad	Overall potential is greatly limited by 2 Risky and 2 Failure Factor outcomes.

IDEA PERFORMANCE MATRIX



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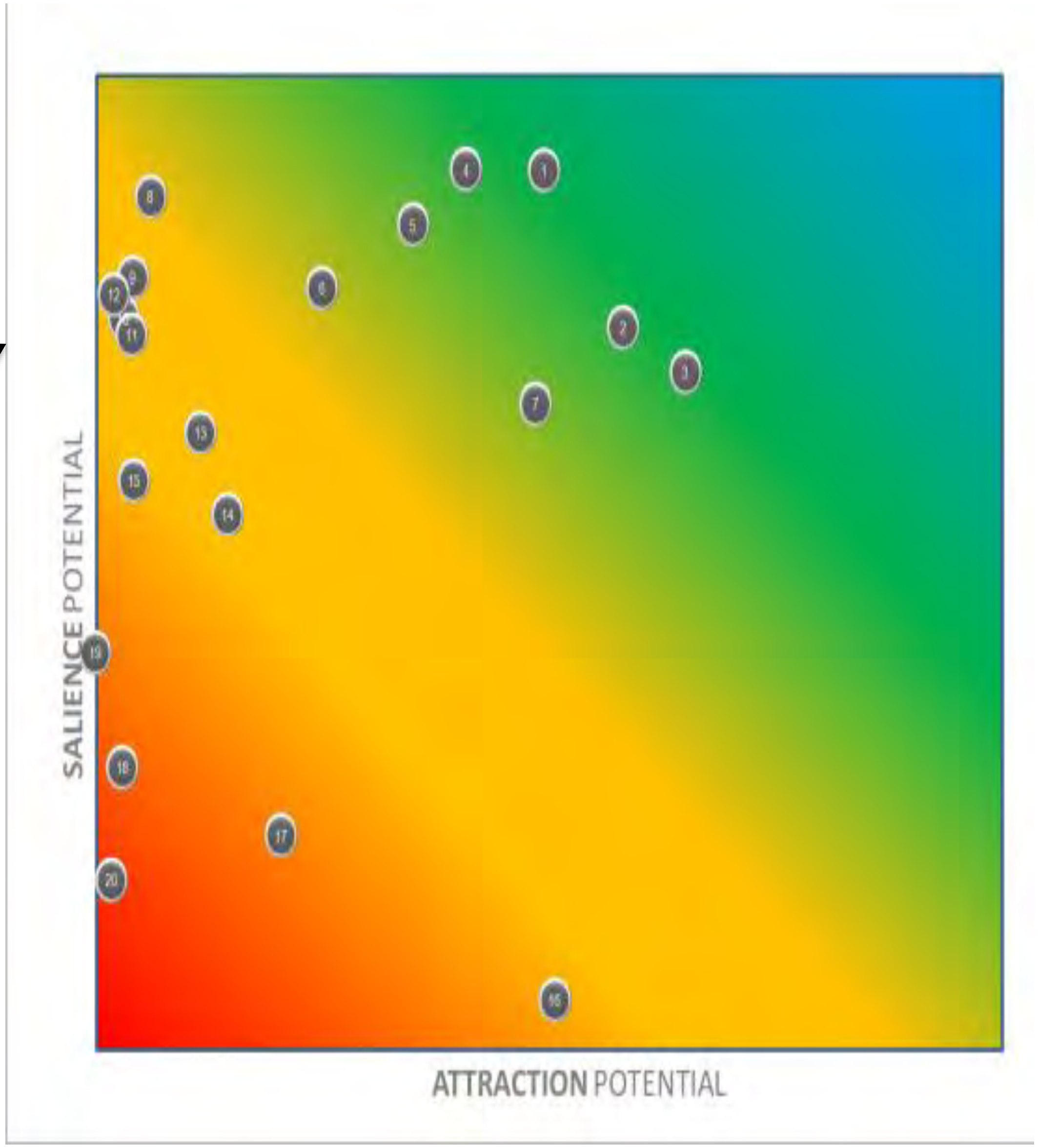
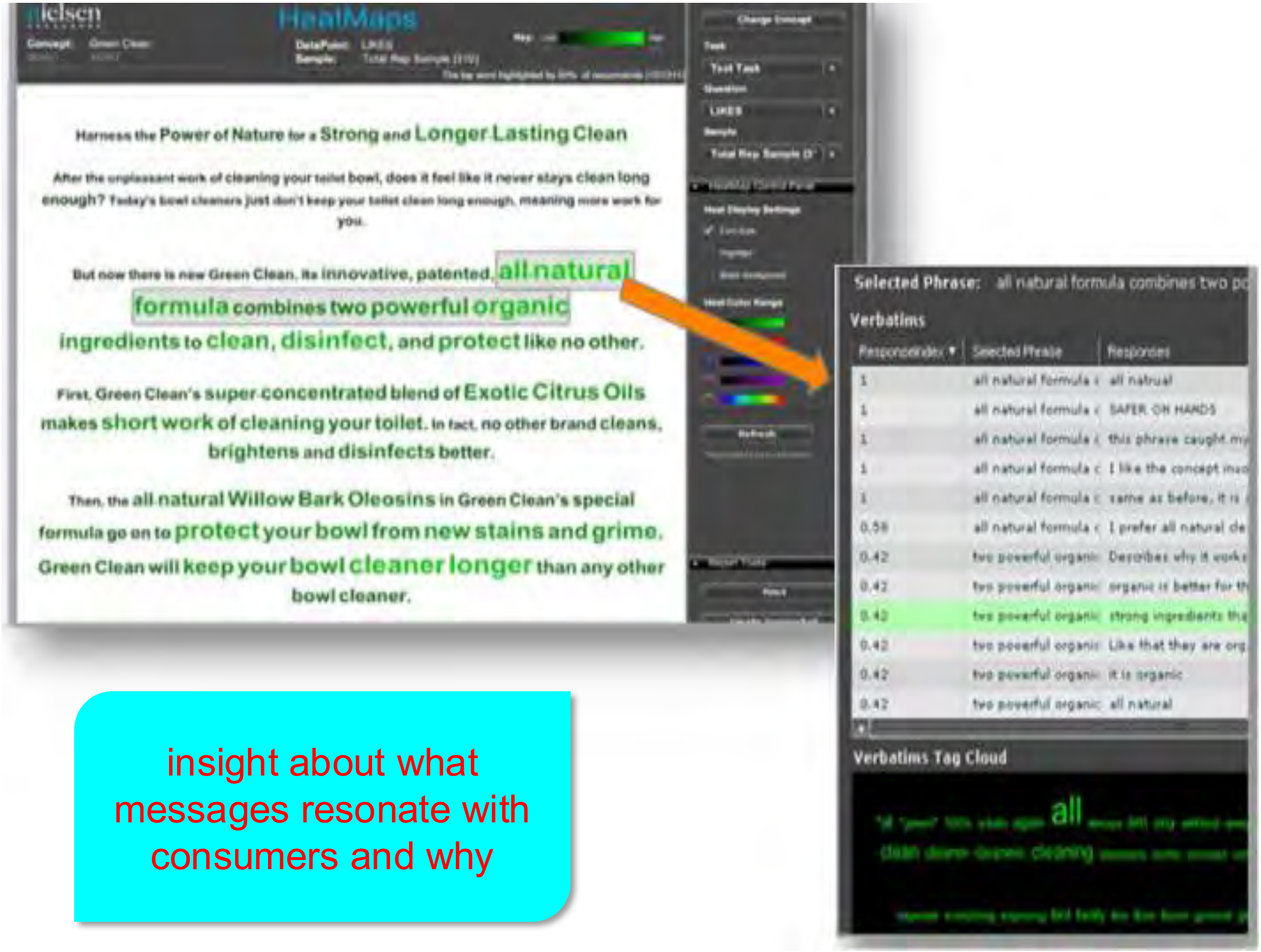


Idea's list

- Natural boost bars
- Powers snack crackers
- …

HEAT MAPS



insight about what messages resonate with consumers and why

Idea screen Recap

Evaluation based on 4 Factors for Success

1) Distinct Proposition
2) Attention Catching
3) Need/Desire
4) Advantage

Predictive of the results of the future concept

An alignment of ideas/concepts results in 75% of the cases

Save time & invest only on most promising ideas

Clear and action driven recommendation for each idea:

Accelerate/Advance/Assess/Abandon

Optimization route thanks to HeatMaps

Read on target if need be

Results 10 days
after field start[2]

[1] Without add-ons in epanel countries

BASES IdeaScreen

Working for better innovation outcomes

=

FOCUS ONLY ON WHAT IS NEEDED EARLY ON: CORE IDEA STRENGTH

FAST, LEAN, AND CONFIDENT APPROACH TO SCREENING

nielsen

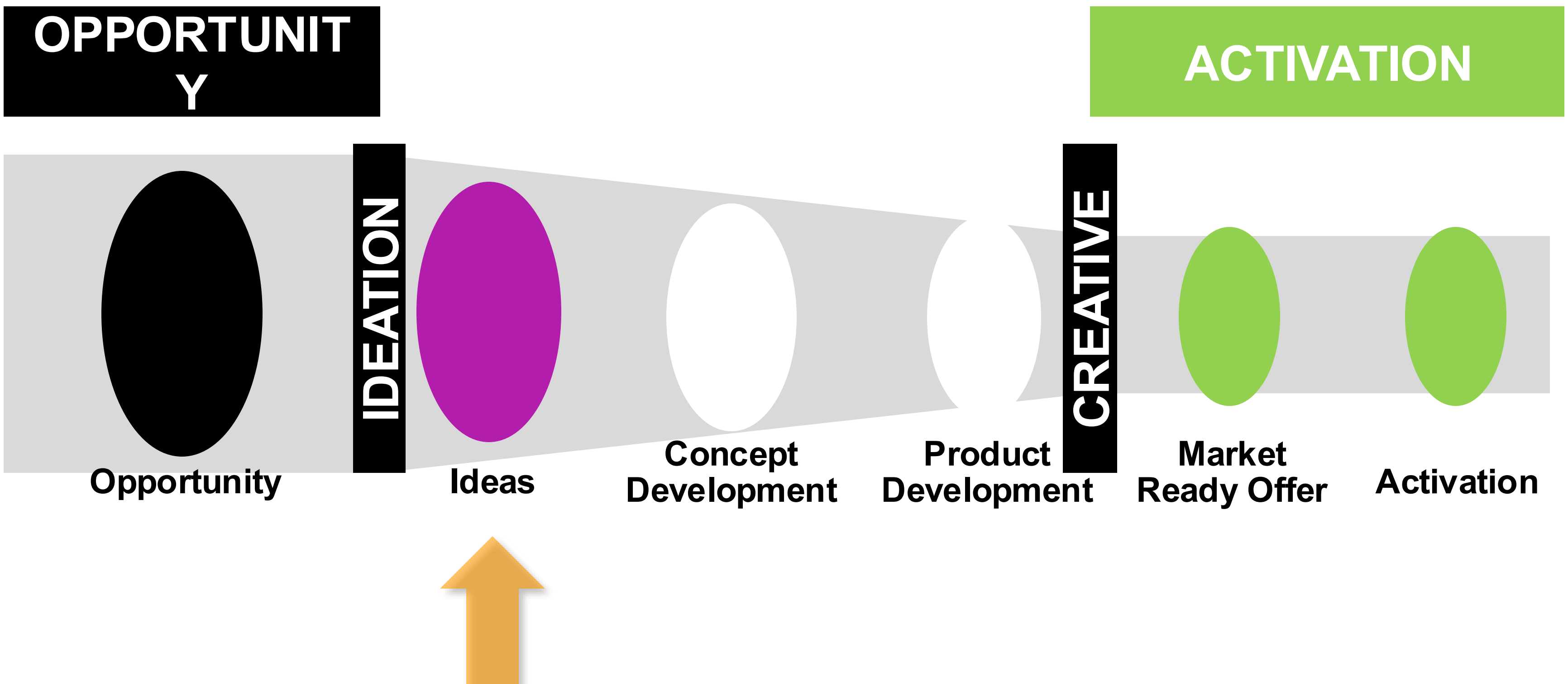
IDEA SCREEN

CAPABILITIES OVERVIEW

June 2014

Nielsen Can Help You Innovate At Each Stage

Where does BASES SnapShot for Ideas fit?



PRIMARY USE CASE

Fast, simple, lower-cost to screen multiple ideas. BASES SnapShot for Ideas helps you prioritize the ideas with the most potential to advance for further development.

Good decisions based on 3 consumer lenses

Strategic Intent	Consumer Adoption	Financial Potential
Building brand & portfolio strategies for in-market success today & tomorrow	Driving consumer adoption for short & long-term success	Understanding an initiative's performance vs. the financial case

Consumer

BASES Snapshot for Ideas

A ***faster, simpler, lower-cost evaluation for early screening*.** BASES SnapShot for Ideas allows you to screen early consumer ideas with confidence

CONSUMER ADOPTION. Which ideas are ready for success; which need improvement – where, and how?

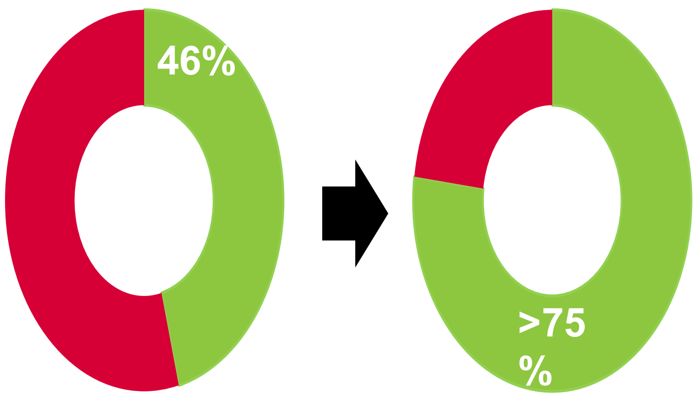
- Examines 4 core consumer adoption touch points; the most relevant Factors for Success that are highly predictive of future success at this early stage

STRATEGIC INTENT (optional). Focused diagnostic evaluation of idea performance

- BASES analysis and consultation to refine your ideas

At this stage of development, the key question to answer is: ***do I have an idea worth pursuing?*** This is what BASES SnapShot for Ideas is designed to address, hence focusing on Consumer Adoption through the Factors for Success framework.

Consumers at the center of decision making & initiative optimization increases success



BASES tested:
PI & Financial Potential Action Standards

Plus Consumer Adoption (BASES Factors for Success™)

In-market success

In-market failure

- ***Focusing on consumer adoption dramatically changes outcomes in terms of in-market success***
- ***Purchase intent and other key measures are great to assess the size of the initiative but do not reflect critical parts of consumer viability***
- ***Much more predictive of in-market success (defined any of 5 major ways) than purchase intent***

Factors for success

Measure what is appropriate and possible at each stage

Consistent measures across the innovation funnel: Start by focusing on Consumer Adoption Metrics that are core to the proposition, then build on the more executional ones

4 Factors	6 Factors	10 Factors	12 Factors
Core 4: Distinct Proposition, Attention Catching, Need/Desire, Advantage	Core 4, plus: Believability, Acceptable Costs,	6 Factors, plus: Message Connection, Clear Concise Message, Findability, Acceptable Downsides	10 Factors, plus Product Delivery, Product Loyalty

CORE MEASUREMENT

BASES FACTORS FOR SUCCESS

CORE + EXECUTIONAL MEASUREMENT

Consumer Adoption Measurement

4 Factors	6 Factors	10 Factors	12 Factors
Measures core idea strength regardless of expected executional	Measures core idea plus core executional elements of the initiative.	Measures core idea plus all executional elements of the initiative.	Measures core idea, executional elements, and product performance.

BASES SnapShot for Ideas

nielsen

SNAPSHOT FOR IDEAS: RESULTS

Deliverables and Optional add-ons

BASES SnapShot for Ideas: 200 (sequential monadic) General Population Consumers

CONSUMER ADOPTION: Measures the core idea

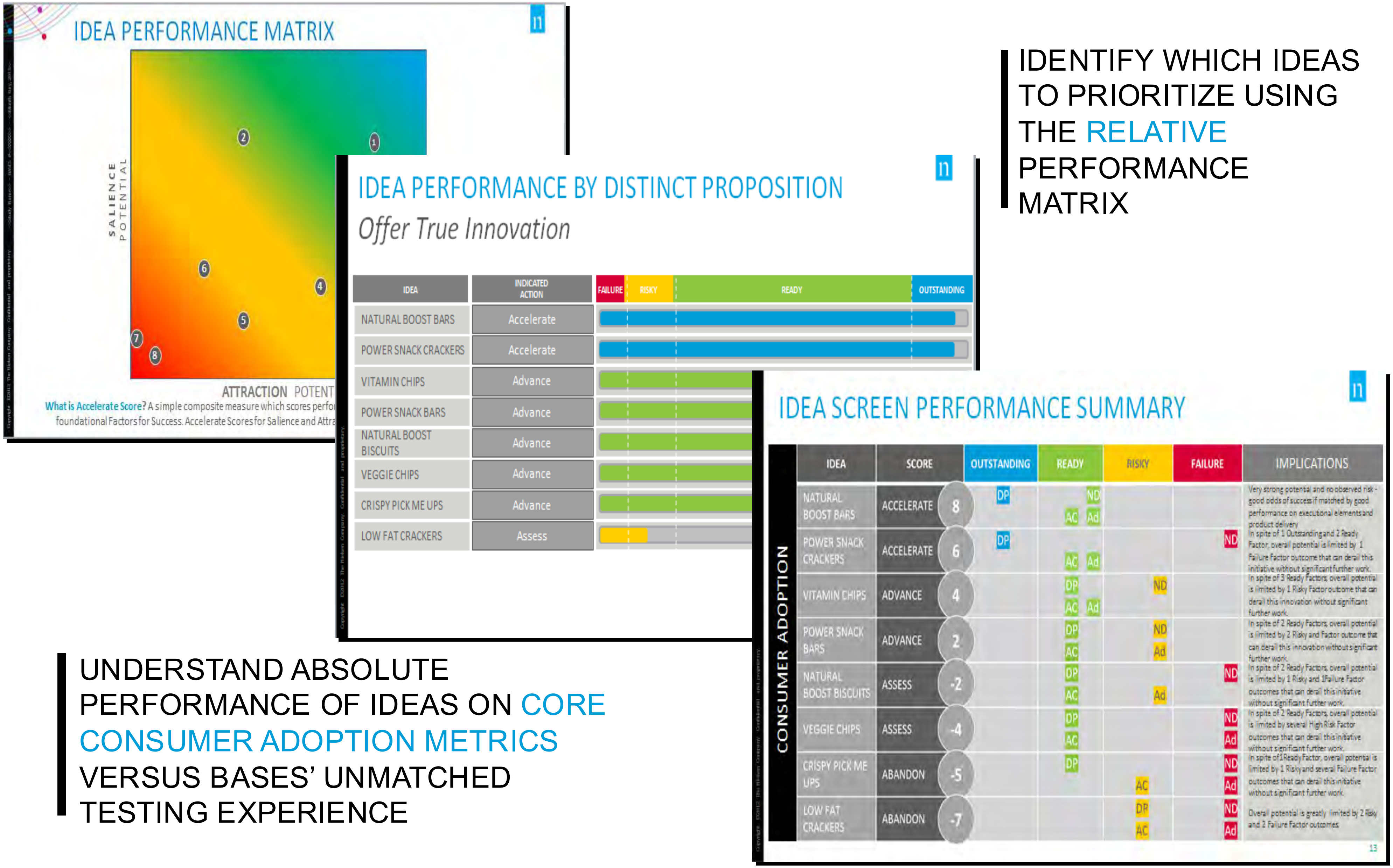
- BASES Accelerate Score: A composite metric that provides a holistic understanding of idea performance
    - Helps identify potential in ideas, by crediting outstanding strengths but also allowing some soft spots
    - Weak links have time to be strengthened and thus shouldn't cause an otherwise strong idea to be cast aside at this early stage of development
- BASES Factors for Success: Need/Desire, Advantage, Distinct Proposition, Attention Catching compared against BASES database to diagnose strengths and opportunities

STRATEGIC INTENT: Assess fit with brand strategy & overall objectives

(Optional add-on)

- Add-on Heat Maps to measure fit vs strategic intent for your tested ideas

ABSOLUTE AND RELATIVE CONSUMER INSIGHT DELIVERED



IDENTIFY WHICH IDEAS TO PRIORITIZE USING THE RELATIVE PERFORMANCE MATRIX

UNDERSTAND ABSOLUTE PERFORMANCE OF IDEAS ON CORE CONSUMER ADOPTION METRICS VERSUS BASES' UNMATCHED TESTING EXPERIENCE

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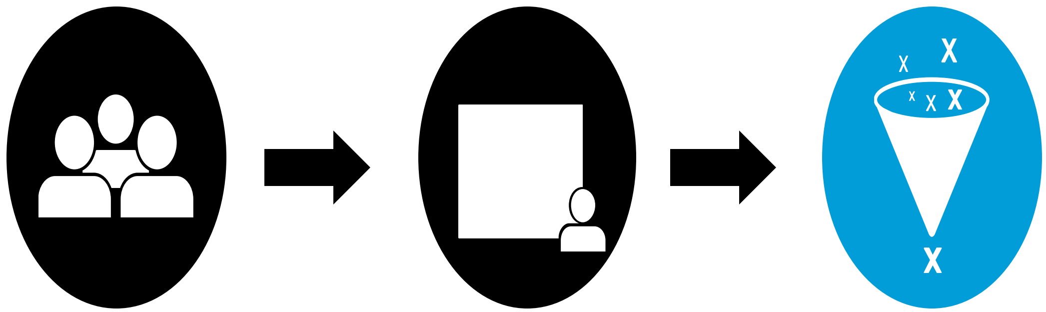
HOW TO GET STARTED

How it works

Methodology



Contact Respondents	Share Concept	Gather Interest
Sequential Monadic *200 respondents*	*Flexible stimuli: Short idea, Long idea, with pictures, without pictures (but no price)*	*Short questionnaire combining standard Consumer Adoption and optional yet custom Strategic Intent questions*

Flexible stimuli: 1-2 sentences to rough concept

	Short Idea - 1-2 sentences	Long Idea - 3-4 sentences	Rough Concept - with or without images, NO pricing
	A refrigerator cleaner that helps produce stay fresh for longer because it attacks malodours and germs that cause food to go off faster. Safe to use around food, simply spray in a full refrigerator.	A refrigerator cleaner that helps produce stay fresh for longer because it attacks malodours and germs that cause food to go off faster. Safe to use around food, the natural active ingredients actually work at their best at refrigerator temperatures to leave your fridge clean and your produce fresh for longer. Simply spray in a full refrigerator.	You spend a fortune on food every month. You want to make sure you eat it, but did it ever occur to you that your refrigerator may be causing your food to go off faster because it harbours germs and malodours? New Green Cleen Chill Refrigerator Power Cleaner – keeps your fridge fresh and odour free, keeps your refrigerated produce fresher and at its best for longer. Green Cleen Chill is super cool, literally! Its fine blend of naturally occurring active cleaning ingredients, including baking powder, are safe to use around food and work best at fridge temperatures for optimum results leave your refrigerator smelling of roses (or lemon, or fruit salad). Simply spray in a full refrigerator. Store in the refrigerator for best results.
Text	1-2 sentence (Max ~50 words)	3-4 sentence (Max ~100 words)	**Rough Concept** - messages are near final, with or without images, NO price
Benefit	YES, described in context of Insight	YES, described in context of Insight	YES, described in context of Insight
Insight	NO	SOME Detail, focus remains on benefit	YES - connected to the central benefit
RTB	NO	VERY Limited	YES
Branding	EITHER	EITHER	EITHER
Price	NO	NO	NO
Images	Not Necessary	Not Necessary	With or Without Images
Varieties	Acceptable, as required	Acceptable, as required	Acceptable, as required
Ideas/Pod	9	7-8	6

The number of exposure/pod influences pricing.

BASES SnapShot for Ideas

Working for better innovation outcomes

=

FOCUS ONLY ON WHAT IS NEEDED EARLY ON: CORE IDEA STRENGTH

FAST, LEAN, AND CONFIDENT APPROACH TO SCREENING

Why consider choosing Nielsen's Innovation practice?

Working for better innovation outcomes

One Global Partner

- Start-to-Finish partner
- End-to-End knowledge of your categories and innovation process
- Globally scalable offering
- Connected global teams

Single Consumer Adoption Currency

- A single Consumer Adoption framework – BASES Factors for Success – that is validated against in-market success
- Comparable results throughout the stage gate process
- Testing flexibility and efficiency

Best in Class BASES Forecasting

- Sophisticated forecasting model was developed via in-market analysis and is continuously validated.
- The average BASES forecast is within 9% of actual sales.

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway© – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768

* SKIM what articles are included and decide **which ones, if any, to read!**

NPD BOOK

New Products Management - Crawford & Benedetto 10th

FOR FREE DOWNLOAD OF BOOK, GO TO:
http://www.academia.edu/5390922/New_Products_Management_-_Crawford_and_Benedetto_10th

Innovation and Nabisco's100-Calorie Pack

By Kate Newlin / July 2022

One of the great accelerators of profound, transformative business strategy development is the crucial dictum: **separate execution from strategy development**.

In other words, don't even try to shoehorn future fresh thinking into the well-beloved loafers of now. And don't ask the people charged with doing the very important work of running a profitable, business-as-usual, if-it's-not-broken-don't-fix-it model with figuring out the-if-it's-not-broken-break-it competitive frame of tomorrow's marketplace. Sure enough.

When you ask knowledgeable and experienced experts to think new, gravity defying thoughts, you must remove them from the gravitational pull of manufacturing, packaging, pricing, finance and sales realities. Then bright, crisp strategic growth opportunity areas emerge, ready to be modified, refined and, like raw film in a darkroom, coaxed into awe-inspiring reality.

Even then though, another filtration system is required.

I've found three sieves are useful:

1. Core competency - meaning 'can we build, borrow, or buy the capability?'

2. Consumer permission - 'do they need or at least want it?'.

And perhaps, most importantly…

3. Organization will, which unearths the not-invented-here recalcitrance, faux barriers and intellectual alibis through which companies routinely sabotage their own opportunities.

Innovation and Nabisco's100-Calorie Pack

By Kate Newlin / July 2022

There's no reason to harangue against it. Far better to acknowledge the retention date limit expiration of millions of PowerPoints chock-a-block with product and brand advances. If this were Hollywood, we'd be right to term it the cutting room floor, but as we're in the world of consumer products, we can simply envision the Dickensian Chancery scenes from Bleak House. Or perhaps a ring of Dante's Inferno where good ideas go to bemoan their fate.

The question then for consultants and business leaders alike is how to chart the eddying shoals and treacherous undertows of organization will. If the worrying elements inherent in the execution of nascent strategic initiatives is to be rightly cordoned off from the first fragile moments of their inception and incubation, how then do we enhance survival rates in the harsh realities of corporate politics, sad 'we tried that before' doomsday rhetoric, and 'not my job' inertia.

Having confronted this stumbling block too often to admit, I attempted a work-around when I was challenged to create what became the **100-Calorie Pack platform** for (then) Nabisco (now Mondelez). We did the strategic growth opportunity area ideation sessions with functional and analogous experts. Check. We prioritized and refined the results with consumers (under hypnosis, but that's a story for another day). Check. We conducted the ROI due diligence, forecasts, and what-if scenario development. Check and double check. We presented to Nabisco and ultimately to its then-owner Kraft. Euphoria at every stage. Except of course, how to pay for it. New machines, new plant configurations, new branding architectures. Naysayers abounded. Organization will, not so much.

Innovation and Nabisco's100-Calorie Pack

By Kate Newlin / July 2022

Thus, we added a new step: Creative ideation with internal stakeholders. Why? Because we had to. To be clear, the 100-Calorie Pack concept was about to be DOA because of dueling death knells: Finance tolled because of projected capital costs to retool manufacturing lines, while category and brand managers sounded out over an internecine brand turf war. Was the 100-Calorie concept best deployed to resuscitate SnackWells? Or as its own mark? Or as a sub-brand varietal within each of the uber brands, Oreos, Lorne Doone, Chips Ahoy, Fig Newton?

Rather than attempt to bring to bear external, seasoned expertise to 'solve' the various dilemmas from the outside in, we brought together the various internal, executional factions to build the better mousetrap the future product line required. In short, to solve the problems they were raising. No more sighs and whispers in the cafeteria line.

At one session, we heard from a plant manager that a decade ago the company had acquired the requisite machinery to launch a different brand of small format treats – and then never used it. This came as a complete surprise to the entire organization. The equipment was sitting, gathering dust, and depreciating in a backroom. At another meeting, we honed the branding architecture argument, resulting in the sub-branding strategy which allowed the 100-Calorie Packs to be insinuated into each cookie brand's shelf-set.

It wasn't long before the line hit the shelves, becoming the most successful launch in the company's history and still encompassing the most profitable SKUs in the portfolio. Further proof that successful business strategy is a stepwise progression, requiring creativity at each inflection point, including, perhaps especially, execution.

A CEO's Lessons Learned on a New Product Failure

Mark Samuel, Founder & CEO / Founder & CEO IWON Organics / *7-19-22*

If you're in CPG, I hope hits home and helps in some way - and to know you're not alone!

1. We just DC'd a product that simply didn't work like we thought it would.

- launching our granola 8 months ago, 2 massive cost increases would have put our margin sub 30% and we had no more room to increase price, we were already more expensive than the leading premium brand
- that margin isn't sustainable
- the consistency never hit the way we intended, couldn't get it to finish properly on every run
- the reviews were not great, they were just ok

So, we pulled the plug. No whining. Took it on the chin. Lesson learned.

Biggest lesson, we are a snacking brand. We will only focus on snack products moving forward.

2. We have had a couple major cost increases across the board, and it compressed margin quite a bit over the last 6 months.

- we had applied our own price increase at store level because of it, and it's working in some areas, not in others
- being a premium brand, there is still price sensitivity among consumers, especially in some channels
- we are having to dive deep into inputs, really pushing to relieve the margin compression where we can, help stabilize on shelf price and adjust where it wasn't working

This is extremely important for any emerging brand, one still establishing themselves. Pay close attention to your turns at different price points. Pull levers that work, fix ones that don't. Make sure when you're done that the blended margin is workable.

Wait too long with any consistent downturn in sales and you'll get replaced. I see brands being DC'd all the time, fight hard not to be one of them.

3. The need for cash is ever so growing, for many of us.

- this is one I speak on a lot, the need for more cash than expected

A CEO's Lessons Learned on a New Product Failure

If your burn (losses) continue, coupled with flat or declining sales, the road ahead is going to get rough.

Plan your attack now.

While securing more capital is a must, focus on how else you'll improve the business' bottom line: fix the margin, cut every unnecessary expense, kill any product not working, hone-in on the ones that do, continue to innovate, have a plan.

Have a plan.

- That one, often forgotten as most go into defense in tough times. No matter how bleak things are right now. A roadmap for the next 2 to 3 years.

It's the ***"if I am in business, this is what we're doing and how we'll get there."***

It's all offense.

In sports it's said that defense wins games.
That's true.
But in business, if you don't put points on the board, playing defense for 4 straight quarters is often fatal!

5 things I've Learned About The Long View On Innovation When Doing Background Research For This Textbook

Eureka! Ranch, July 2022

I did some field work doing interviews with large company innovators with 20-30 years of experience. Here's what I found interesting:

1. WHAT DOESN'T WORK FOR YOU WORKS FOR SOMEONE ELSE.

Person from company A: "You MUST partner with start ups. It was the only way to get real innovation."
Person from company B: "Start-ups are a nightmare. Lots of hype, little payout. Never do it."

There were dozens more MUST/NEVER opposite pairs - the point is, your never might be someone else's must.

2 BELLBOTTOMS WILL BE IN AGAIN.

The lifespan of a Product Development approach is short lived. If you don't like how your company approaches it, just wait.

3 OLD SCHOOL SOMETIMES BEATS NEW SCHOOL.

Old school ways still have major merit. One leader cited the birth of an iconic tagline for a major brand using (at the time) new technology. Before online panels, brand leaders would actually go in person to all focus groups. In one round of consumer research, participants were read potential tag lines. All the tag lines rated similarly. However, when one tagline was read subjects would giggle just a little. He noticed when others didn't. The tag, "Once you pop, you can't stop." (Pringles)

4 IF YOU WANT TO DO MORE BIG THINGS, DO MORE SMALL THINGS.

Many innovators said getting really unique ideas to be successful was hard. Even when the market really wanted it, the organization would reject it. But when an organization encouraged and enabled everyone to innovate on more of the small things (problem solving, improving processes), they were more supportive of bigger, unique ideas.

5. IF YOU WANT WORK THAT CHANGES YOUR LIFE, WORK IN INNOVATION / NPD.

Most of the interviewees talked about their "NPD days" as some of the most impactful moments in their career. Not because they were easy, but because they were extreme - the biggest setbacks, the highest highs, the strongest relationships, the most challenging work.

New Products Management - Crawford & Benedetto 10th

Preface

New products have always been of interest to both academics and practitioners, and organized, college-level instruction on the subject of new products manage-ment traces to the 1950s. By the 1990s, a new products management discipline had evolved. Today, the Product Development & Management Association has flowered to over 3,500 members all around the world, over 300 colleges have courses on the subject of new products, and the field's journal, the Journal of Product Innovation Management, is now successfully into its 27th year of publication. The job title of new products manager or director is becoming much more common and is offering much earlier entry than 15 or 20 years ago; we also see the emergence of higher-level positions for careers to build to. The Association now offers a practitioner certification (New Product Development Professional, or NPDP), it has a strong international operation, and it has been able to do what those in many fields have not, that is, merge the thinking and activity of professors and practitioners.

How This Book Views the Field of New Products Management

Such exploding growth means that we still take a variety of approaches to the teaching of the new products subject—marketing, technical, creative, design, and so on. This book provides the management approach, with the perspective of marketing. In every organization (industry, retailing, government, churches, etc.) there is a person or group of persons who, knowingly or unknowingly, are charged with getting new goods and services (both are products) onto the market. Increasingly, those people are new products managers, or project man-agers, or team leaders. They lead a multifunctional group of people, with the perspective of a general manager, operating as a company within a company. They must deal with the total task—strategy, organization, concept generation, evaluation, technical development, marketing, and so on. They are not finished with their work until the new product has achieved the goals assigned to the team—this usually means some form of sales or profit, and certainly means the task is not finished when the new product is put onto the shipping dock. We try to avoid a functional myopia, and it is rare today to hear that, "Market-ing tells everyone what to do" or "R&D runs our new products activity." When a functional specialist is assigned leadership of a new products team, that person must learn the general manager viewpoint, but one usually has to succeed as a functional member of new products teams before getting a shot at being a team leader. Marketing people, working as team members or as team leaders, need the types of information in this book.

Some Basic Beliefs That Guided the Writing

People who have used the first nine editions of this book know its unique view-points on the subject. But for newcomers, and of course all students are newcomers, here are some of them. 1. Product innovation is one single operation in an organization. It has parts (strategy, teams, plans, etc.), but they are all just parts. Any operation that runs as separate pieces misses the strength of the whole. 2. The field is still new enough that it lacks a systematic language. This makes it very difficult for students, who are accustomed to studying subjects where a term means one thing, and only that one thing. We use all product terms consistently throughout the book, and we urge students to use them. Naturally, new terms come and go; some survive … and some don't. Because of the terminology problem in a rapidly growing field, every term that might require definition has been made bold the first time it is used, and the index directs the reader to that section. We agree with the past users who recommended this approach when they argued that a definition of a term should be presented in the context of its actual use in the text, not separately in a glossary. (A glossary is available at the Product Development & Management Association website, www.pdma.org.

New Products Management - Crawford & Benedetto 10th

Ideas learned without application are only temporary residents in your mind. To become yours, a concept must be applied, in little ways or in big ones. Thus, the book is peppered with applications, short cases, and other opportunities for using the concepts studied. Projects are encouraged in the Instructor's Manual. There are many examples from the business world, and up-to-date references on all important topics. 4. As much as we would like them and have diligently tried to find them, we believe there is no standard set of procedures for product innovators, nor particular sets for makers of consumer-packaged goods, or of consumer durables, industrial goods, services, and so on. Like a marketing plan, there is a best plan for any particular situation. A manager must look at a situation and then compile a set of tools and other operations appropriate to that situ-ation. All large firms use scores of different approaches, not one. 5. Next, there is the halo effect, which is a problem in the field of new products. The halo effect shows in the statement, "It must be a good thing for us to do—3M does it, or GE does it, or Hewlett-Packard does it." Those are excel-lent companies, but one reason they're good is that they spend lots of time and money studying, learning from others.

They have huge training pro-grams in product innovation and bring in every expert who appears on the scene with what looks like a good new products management idea. They assume everything they do is wrong and can be improved. You should too. This book does. Citations of their actions are given as examples, not recommendations. These well-known firms have many divisions and hundreds of new products under development at any one time. Managers there can't know what others are doing, nor do they care, in the prescriptive sense. Each group aims to optimize its situation, so they look around, see what others in comparable situations are doing (inside and outside their firm), and pick and choose to fit the situation. To the extent there are generalizations (e.g., there should be some form of strategy), these will stand out as you work your way through the course. But what strategy, and exactly how should one deter-mine it—that is situational. 6. An example of this lies in rejection of the belief that new products strategy should rest on the base of either technology or market. This choice has been argued for many years. But most firms seek to optimize on both, a dual-drive strategy. Of course, true to the previous point, firms will build on one or the other if the situation seems to fit—for example, DuPont's platform program to find applications for the super-strength fabric, Kevlar, or auto components firms that rely on process development engineering to better meet the needs of original equipment manufacturers.

And yet, DuPont works to advance that technology, and the components firms are evolving their own research and development operations! 7. We believe that students should be challenged to think about concepts they have been introduced to. This book contains lists of things from time to time, but such lists are just a resource for thinking. The above belief about the best approach being situational is based on the need to analyze, con-sider, discuss, apply. The great variety in approaches used by business-people is not a testimony to ignorance, but to thinking. On a majority of the issues facing us today, intelligent people can have different views. Decisions are the same—they are not necessarily right or wrong at the time they are made. Instead, the manager who makes a decision then has to work hard to make that decision turn out right. The quality of the work is more important than the quality of the decision. An example of this phenomenon is the sadness we feel when a manager says, "We're looking for the really great idea." Managers of product innovation make ideas great—they don't come that way. 8. Last, we have tried to implement the view that two things are being developed—the product and the marketing plan. There are two develop-ment processes going on in tandem. Marketing strategy begins at the very start and runs alongside the technical work and beyond it.

New Products Management - Crawford & Benedetto 10th

Online Resources

The instructor will find plenty of online support for this text at the companion website,

www.mhhe.com/crawford10e

Available on the website are an online Instructor's Manual, a set of PowerPoint slides, a test bank, and exercises and cases that can be used to accompany the text material. Some of these materials are also available to the students where appropriate.

Changes in the Tenth Edition

Past adopters of New Products Management will notice major changes in this edition. While there are some changes in virtually every chapter, some of the most substantial changes are as follows: 1. The first three chapters have undergone a major reorganization. Three key concepts from early chapters (new products process, product innovation charter, and product portfolio) are now introduced in Part I as the three strategic elements of product development.

This unites all the key strategies involved in new product development and serves as a foundation for all aspects of product development presented in later chapters. Chapter 1 is no longer a "menu" and has been retitled "The Strategic Elements of Product Development." The material from Chapter 2, which introduced the basic new products process, has been moved to Chapter 1, and that introduction is now presented here as the first of the three strategic elements. The new products process is introduced in Chapter 1 as it is indeed the framework on which the rest of the text is built. The new products process is expanded on in Chapter 2. The product innovation charter and product portfolio are de-tailed in Chapter 3. 2. Chapter 1 includes updated data on product success and failure from the new CPAS study and expanded coverage of globalization in new product development. This newly revised introductory chapter also goes much deeper into key topics such as fuzzy gates, overlapping phases, and the third-generation new products process. 3. Chapter 2 picks up the discussion of the new products process with a much fuller discussion of important issues such as new service development, amply illustrated with new examples such as JetBlue and FedEx. Importantly, the chapter now begins with a new extended example, the "P&G Cosmetics Saga," that illustrates all three strategic elements mentioned earlier as well as the importance of new product teams.

A very important addition to Chapter 2 is the increased discussion of the topic of breakthrough vs. incremental new products. We add coverage of discovery-driven planning and expand the discussion of the challenges of breakthrough innovation. 4. Chapter 4 has a new, more descriptive name ("Creativity and the Product Concept"), and it now features an expanded presentation of open innovation, one of the fastest-growing topics in product innovation, containing plenty of examples of all types of open innovation. 5. Chapter 5 is renamed simply "Finding and Solving Customers' Problems." A major improvement in this revised chapter is a new, lengthy section on online communities, illustrated with numerous successful examples. This was a critical update, felt to really bring this chapter into the 21st century as more firms adopt this as a routine way to find and solve customer problems. Other discussions, such as problem analysis and brainstorming, have been updated.

New Products Management - Crawford & Benedetto 10th

The discussion of A-T-A-R models in Chapter 8 has been improved in presentation and generally cleaned up; also, all commodity volume (ACV) is included as an alternate measure of availability. 7. Chapter 9 adds a new section on concept testing using BASES. This discussion- adds an understanding of practical concept testing that is very commonly used by large consumer product manufacturers. 8. In Chapter 11, we add real options pricing as a method for product managers to make early decisions on product concepts, showing how a decision can be delayed on taking a concept to the next phase. 9. In both the design chapter (Chapter 13) and the public policy chapter (Chapter 20), there is greater attention placed on designing for the environment. 10. Chapter 14 is greatly reworked. The discussion of projectization, matrix structures, and similar organizational concerns has been greatly shortened, and discussion of other concerns more relevant to the modern product team is increased. These concerns include virtual teams and global product development teams, and these sections have been expanded to reflect the newest thinking. 11. In Chapter 16, there is an expanded discussion of the Rogers diffusion process with many new illustrative examples, and we add a discussion of the newer Moore diffusion model (the crossing-the-chasm model), because of its importance in describing the diffusion of high-tech products. There is also much new material on branding. We give examples of firms such as P&G and Clorox and discuss why they do or do not use umbrella branding strategies. We also do an extended example of ConAgra and what motivated their recent move to a corporate brand identity complete with new logo. Given the increased importance of global brand manage-ment, we also add a lengthy section on global brand decisions and provide some examples of unexpected brand strategies by firms like Unilever. 12.

Finally, the reader will notice several new cases, such as the Honda Element, Aquafresh White Trays, Hulu, and Clorox Green Works; new examples worked in throughout; some general cleanup of text and tables; and other minor improvements. We still use the analytical models to integrate the stages of the new products process. As in previous editions, perceptual mapping is introduced early in the new products process, during concept generation, but its output may guide selection of attributes in a conjoint analysis task and may later be used in benefit segmentation and product positioning. Conjoint analysis results may be used in concept generation or evaluation and may provide a set of desired customer attributes for house-of-quality development. The sequence of three Dell Computer end-of-chapter cases illustrates how the analytical models bind the new products process together. As in previous editions, many other concepts—the product innovation charter, A-T-A-R models, evaluation techniques, the multifunctional nature of new products management—are also used to integrate topics horizontally throughout the text.

As always, effort has been aimed at making the book increasingly relevant to its users. We consider a text revision to be a "new product," and thus an opportunity for us to become even more customer-oriented. Academic colleagues have made many thoughtful suggestions based on their experiences with previous editions and have provided much of the driving force behind the changes you see in this edition. We gratefully acknowledge Geoff Lantos of Stonehill College, who once again provided extensive comments and suggestions that were extremely helpful in this revision. We also thank the anonymous reviewers who provided valuable comments on the previous edition and alerted us to many opportunities for improvement. We are very excited about the changes to this new edition and sincerely hope they fit your needs. A new Instructor's Manual, reflecting the changes in this edition, is available through your McGraw-Hill/Irwin representative.

New Products Management - Crawford & Benedetto 10th

To the Practitioner

Because this book takes a managerial focus and is updated extensively, it is useful to the practicing new products manager. It has been used in many executive education programs. Great pains have been taken to present the “best practices” of industry and offer footnote references to business literature.

The Applications

From the first edition, the ends of chapters do not have a list of questions. Rather, we have culled mainly from many conversations with students the questions and comments they received from business managers on their fly-backs. These com-ments are built into a conversation with the president of a conglomerate corpora-tion. Explanation of how to use them is given at the end of Chapter 1.

Naming – Names for New Products / What's in a Name?

Watkins: $100,000+ Expert Insights

May 23, 2021 / Sabir Semerkant

For many entrepreneurs, a brand name is one of the most frustrating parts of the branding process. It's something that they often rush, giving themselves a name that sounds decent, is somewhat relevant and offers some kind of marketing credibility.

Years down the line, when the business grows and is ready to expand, those entrepreneurs realize that they have made a mistake. Their name is either limiting their options, preventing expansion, or causing problems for their customers.

A good brand name is not something that can be created on a whim after a few minutes of boardroom brainstorming. It needs thought, care, and strategy, and that's where Alexandra Watkins comes in.

As the owner of the Eat My Words branding agency, Alexandra is one of the best in the business when it comes to branding and brand marketing.

Alexandra has some essential tips, such as:

What's in a Name?: What makes a good brand name? It's a question that I put to Alexandra several times during our discussion and one that she answered clearly. You might be surprised at what constitutes a good brand name and it could change your approach to naming your brand.

How to Brainstorm: The initial brainstorming session is an important part of any brand naming strategy, but it shouldn't take place in a boardroom with a whiteboard. That's not how the experts do it as it's an inherently flawed process. Alexandra discusses her methods and talks about the early steps involved with brand name creation.

The Things That Hold You Back: Are you wearing "Mom Goggles"? Are you focusing too much on Greek myths and legends? These are some of the biggest mistakes that entrepreneurs make when naming their brands, stopping them from finding the perfect name.

Tricks and Tips: We talk about some of the tricks and tools that you can use to help you find the perfect brand name. Most of these are very easy to do. As long as you have an internet connection and a little creativity, you can replicate the process that has helped Alexandra to create hundreds of game-changing brand names over the years.

Naming – Names for New Products / What's in a Name?

The Best and the Worst: In all of her brand naming strategies Alexandra uses the acronyms SMILE and SCRATCH to determine which brand names are ready to go and which ones need a re-think. The goal is to meet all of the points discussed in SMILE and to make sure you don't tick any of the boxes in SCRATCH. Both of these systems are described in full during this guide.

Examples: Throughout this article, you will find examples of good brand names and bad brand names; success stories and horror stories. There are cases are brands that were destroyed by their names as well as ones that made smart decisions early on and saved themselves millions. These examples will help you to understand Alexandra's brand naming strategy and the reasons that it is so effective.

At the end of my discussion with Alexandra, I asked for her $100,000 advice—the single piece of advice that can help entrepreneurs to generate more than 6-figures in revenue. It's advice that will open your eyes and change how you approach brand naming, so make sure you read this guide through to the end to see it.

The Best Brand Naming Strategy: A Complete How-To

You have a business idea. You know what you're going to sell and how you're going to sell it.

Now what?

Before you go any further, you need to think about the brand name. It should be something that sounds good, is relevant to your business, and makes sense. It should also have legs because if it doesn't, you're going to need an expensive rebranding further down the line.

In the following This Week with Sabir episode, branding expert Alexandra Watkins shares some thoughts on creating the perfect brand name, helping business owners and ambitious entrepreneurs to make better choices.

The following tips were all plucked from her brand naming strategy and can also be seen in the embedded video.

Your Name Has to Be Pronounced One Way
Pronunciation is important. A customer should know how to pronounce your brand name without you explaining it to them.

Adidas is a good example. In the United States, we say it with a stress on the "di" so that it becomes "ah-DEE-duss". In Europe, they say "Addy-dass" with the stress on the first syllable.

Naming – Names for New Products / What's in a Name?

The European way is the "correct" way. After all, it's a German company named for its founder Adolf Dassler who used his first name (or rather his nickname, "Adi") and surname to form the brand name.

There is a similar issue with Nike. Some people pronounce it so that it rhymes with "bike" and others so that it rhymes with "spikey". Many people will tell you that the latter is correct, and the brand has confirmed this. But the word actually comes from the ancient Greek word for "victory" ("νίκη"), which was pronounced more like "Nee-kay", so even that isn't clear.

It all makes for a confusing mess and it's something that you need to avoid when creating your brand name.

Obviously, some people will pronounce your name wrong even if it's relatively simple. You can't legislate for that, and nor should you try. It only becomes a problem when huge groups of people are pronouncing it wrong.

You won't always be there to explain your name to your customers and when it spreads by word of mouth, you want it to be as consistent as possible so that they're not mistaking you for another brand.

Your Brand Name Must be Rooted in the Familiar
A key part of any brand naming strategy is that it's based on the familiar. It'll make your marketing easier and more effective if the customer can understand what your company does from the name alone.

Alexandra used the example of a bike lock named Kryptonite. It's a name that people recognize from the Superman comics and films, and it also ties into what the company is trying to achieve.

It suggests that the lock is so strong that even Superman can't go near it or that it is a "criminal's kryptonite" and will keep them away.

You instantly know what it is. On the contrary, I could name a pair of running shoes "Talaria" after the winged shoes of Hermes, the Greek god. It would be very relevant and would make just as much sense as kryptonite, but only people who have studied Greek myths will know that.

It might have been a great brand name 2,000 years ago, but these days the general population isn't versed in ancient myths and legends!

Half the problem is that people are always trying to be clever when creating a brand name and if they have any kind of classical education or an obsession with myths and legends, they'll try to work that in.

Naming – Names for New Products / What's in a Name?

It's one of the reasons why pretty much every single Greek/Roman/Egyptian god and demi-god has been turned into a brand.

Entrepreneurs are desperate to show off their knowledge and do something clever, but what's the point in telling a joke to a room full of people if only 5 of them will get it?

Take Off Your Mom Goggles

It's easy to wear the "Mom Goggles" when you're creating a brand name.

You think of something that you really like, and you tell your friends, only for them to trash it.

But what do they know?

After you're rejected by your nearest and dearest, you start pitching it to colleagues and get the same response.

But they're not business owners, so who cares?

They might not be experts in branding and marketing, but they're potential customers and if that's how they react then your customers will probably react in the same way.

It's a point that many entrepreneurs miss. Rather than thinking, "These are exactly the people I will be selling to so I should listen to them" they start thinking about all the rich and successful people who overcame adversity and assume they will be one of them.

"People doubted J. K. Rowling as well and look what she did. Many so-called experts said that the Amazon business model was doomed and look how that turned out."

More often than not, if multiple people are telling you that you have a bad name or idea, it's because you have a bad name and idea and not because they're jealous or lack the insights that you have.

When you create a brand name with this mindset, you put on the blinkers and blind yourself to everything that's clearly bad about your name. You turn into the mother who can't imagine that their child has done anything wrong and is willing to go to war with teachers and police officers who suggest otherwise.

"My child couldn't possibly have done that."

Naming – Names for New Products / What's in a Name?

"Axe murderer, you say? No, I refuse to believe it. Jason is not like that. He's a sweet boy. He must have brutally murdered all those teenagers in self-defense."

The "No-Go" Nova: Culture Differences
You may have heard the story that Chevrolet took the Nova to Latin America and then discovered that the name "Nova" meant "No go" in Spanish, at which point everyone refused to buy it.

It's partially true, by which I mean about 1% of it is true.

"No va" does mean something like "doesn't run", but "Nova" does not, in the same way that "notable" doesn't translate into "no table" and "carpet" doesn't refer to a little dog or cat that you keep in your car.

If you saw a furniture store advertising a "Notable" collection, would you stay clear on the belief that there is "no table" in the collection? If they were advertising "carpets", would you grab your leash and puppy treats and prepare to greet a new furry friend?

Of course not.

The myth goes on to say that the car flopped, they were forced to change the name, etc., etc.,

It's not true. Chevrolet did better than expected in the Latin American market.

The myth continues to endure because it is amusing, and it sounds like something that could happen. It helps that if you type "nova" into Google Translate and convert it into Spanish, it will tell you that it means "no go" and that it's verified.

But it's assuming that you mean "no va", it doesn't know that it's pronounced completely differently, and let's be honest, Google Translate isn't very reliable.

Also, "nova" means "new" in Latin and Portuguese, and it has similar connotations in Spanish, which evolved from Latin and is in the same branch of the Indo-European Language tree as Portuguese.

You can read more about the "Nova" story on this blog.

There are similar myths about Nescafé and the Latin American market, as well as countless other popular brands and products.

Naming – Names for New Products / What's in a Name?

The truth is, these things do happen, but not with big brands, and only very rarely.

Big brands spend a lot of time and money researching their names. They don't just assume that their name will sound great in another language, nor do they rely on Google Translate to tell them.

More often than not, when these mistakes occur it's the result of small brands that didn't anticipate moving into another country, or with the names of individuals.

Take legendary actor Charlton Heston as an example. In Greece, he is credited as "Charlton Easton" because Heston (or rather "Χεστον") means… "shit on him" ("χεσ'τον") in Greek.

As a small brand, you don't need to worry too much about this. It's very rare. For every Heston story, there are dozens of urban myths. And even in Heston's case, there was an easy fix, as his name was just changed in the credits.

Don't worry about what your name means in other languages. If you expect to be targeting that language at some point, you should definitely make sure that it resonates with speakers of that language and that you're not accidentally offending them. But you don't need to check it against every major language.

In the future, if you decide to move into the Greek market and discover that your name is offensive or utterly ridiculous, you can tweak it and adapt your advertising accordingly. If you already have global acclaim to the point where you're scared of changing your name lest you lose your clout in that market, then leave it.

In large parts of the English-speaking world, "wee" is slang for urine. Did that stop the Nintendo Wii from selling out? Of course not. People knew they weren't buying urine, and while a few of them had a little giggle at the tills on launch day, it didn't remain humorous for very long.

You could argue that all bad PR is good PR, and this is something that I addressed in my discussion with Jamie Mustard, the author of The Iconist.

There was a time when that was true, but it's no longer the case. In the age of cancel culture, an age where one slip-up could cost a brand millions in reputational harm, there is definitely such a thing as bad PR.

Naming – Names for New Products / What's in a Name?

Alexandra used a few different examples in the show, one of which was Biggby Coffee, which used to be known as Beaner's Coffee. The word "Beaner" is a seriously insulting and derogatory term used to belittle people of Mexican descent. It was first used in print way back in 1965 and is believed to have been in use for at least a couple of decades before that.

Beaner's Coffee launched in 1995, so the information was out there if the founders did their research.

Beaner's Coffee changed its name in 2008 and continued its expansion. The fact that it had a racist name certainly got the chain a lot of attention online, but none of it was good. In the end, it escaped relatively unharmed, although the rebrand definitely wasn't cheap.

One of the brands that didn't escape and didn't benefit from the bad PR is Yellow Fever. The LA-based micro-chain restaurant received a lot of negative attention from the start.

Not only is Yellow Fever an infectious disease that causes death or serious illness for 15% of sufferers, but it's also slang for someone who is very attracted to people of Asian descent.

There was a massive backlash, and the company got a lot of publicity, but all of it was bad and it eventually led to the closure of the chain.

Even on a practical level, you must question why such a name would be chosen. Not only does it have negative connotations, but this is 2021, where everything you do is tied to an online presence.

If your customers are Googling you and finding your company amidst virus warnings, stories about epidemics, and CDC/WHO pages, then you clearly have the wrong name.

The owners said that their goal was to "reclaim the term", which makes sense, but it clearly didn't work, and you don't need to be a naming expert to understand why.

In their case, they didn't make a mistake. They didn't go the way of the Chevvy Nova myth and brought it on themselves.

The irony is that it would have probably worked if it had been handled correctly. The idea that they were reclaiming a term used in reference to Asian people was quite honorable and you could have almost seen it working in a different context.

But it also happened to be the name of a very deadly and highly infectious disease, and that ultimately hammered the final nail into the brand's coffin.

Naming – Names for New Products / What's in a Name?

I probably don't need to tell you this but naming your company after a disease is never a good idea.

How to Find the Right Name
For many companies, the go-to method of finding a new name is to get a few employees around the table, pull out the whiteboard, and start thinking of some ideas. But there are some inherent flaws with this method:

You are Limited: In a boardroom, you are limited to what's in your head, which means you're leaning more towards your preferences. You have nothing to stimulate you, nothing to spark your creativity.

Imbalance: The extroverts will always boss the meeting when it comes to boardroom discussions that involve any kind of group input. This is something that I discussed during previous episodes on creating new products and conducting qualitative research. The introverts might have great ideas but if the extroverts are bossing the meeting, you won't hear them.

The Boss Rules: If the boss puts a name forward, the others may be too scared to contradict them. In SCRATCH below, we discuss some of the ways you can show your boss that the idea doesn't work, but it's still difficult to tell your boss that their ideas are bad.

With a boardroom brainstorm, you don't always end up with the name that is perfect for the product or brand, you end up with the name that was met with the least resistance, the lowest common denominator.

It's the "sure, why not?" as opposed to "that's amazing!"

Alexandra argues that it is better to brainstorm on the internet, where you can tap into a world of information and ideas.

For example, if you're trying to name a new hot sauce based on the idea that it's hotter and thicker than anything else on the market, you can use Google Images to search for pictures that cover themes like, "Hot" and "Thick" and "Spicy". In the boardroom, on the other hand, you're limited to what you already have in your head.

As any writer, artist, and musician will tell you, creativity is rarely a forced process that just comes to you. That does happen, but if you're limiting yourself to "Sit here. Write this. Create this" you're going to be severely limited.

You need a spark. A catalyst. Once you have that catalyst, the creative process just does its thing, and you go from there. Without it, you're just desperately trying to get something out of nothing.

Naming – Names for New Products / What's in a Name?

As an example, one of the tricks that authors use is something known as "writing prompts". These prompts can be written phrases, or they can be images.

For instance, the phrase might say, "Andrew stood at the crossroads; certain death one way, opportunity the other. He knew what he had to do". It paints an image in your head, gives you something to build off, and fires that creativity.

It could also be a picture of someone standing at a crossroads, with moody imagery all around them. For a writer struggling with Blank Page Syndrome, that could be the trigger they need to get started.

When you're naming a company, it's important to adopt a similar mindset. The difference is that you're not framing your creative process with moody images and writing prompts. You're using imagery that is relevant to whatever you are doing.

In Alexandra's words, "Everything that you need to brainstorm is right in front of you. You just need to know where to look."

SMILE

SMILE is the acronym that Alexandra uses to determine whether a brand name is strong—whether it's right or wrong. It's an important part of any brand naming strategy and stands for:

Suggestive: You want your name to suggest something about what your product is or does. It can't be meaningless or empty. Amazon, for instance, suggests that it is large and all-encompassing. That's what Jeff Bezos was going for. If he had named it "Book Box" it would have been the opposite, indicating something small and limited, and likely necessitating a name change when Amazon stopped being all about books.

Memorable: Your name must be based on the familiar. That's what makes it memorable, as noted during our Kryptonite reference.

Imagery: People remember pictures better than letters or words. If you can tie your name into something that evokes imagery, it will last longer in their memories. Alexandra talks about an energy drink named Bloom as an example, as the idea was to create something that could help people to "bloom" in the afternoon, just like a flower.

Legs: Your name needs to connect to a theme, as that will help to extend the mileage. Alexandra's company, Eat My Words, uses a lot of food imagery to play off the name. Her fridge-bookshelf was visible throughout our discussion, and she also talked about blogs and other aspects of her company that use food-based names. You're giving your company more "legs" by associating it with a theme that connects throughout.

Naming – Names for New Products / What's in a Name?

Emotional: You want your name to make an emotional connection. For example, imagine you're conducting a desperate search for a mosquito zapper on Amazon at 2 in the morning when the buzzing and biting is keeping you awake. If all you see are pages of products with generic names that don't mean anything, you won't create an emotional connection. But if you see something playfully branded "The Executioner", your reaction is more positive, more emotional—that product knows what you need, and it understands what you're going through at that moment. In this sense, "emotional" doesn't mean melodramatic. It doesn't mean that you need to speak to that person's deep emotional trauma. It just means that you need to form a relevant connection.

SCRATCH

SCRATCH is another acronym that you can employ during your brand naming strategy. The difference is that it focuses on the things that you shouldn't do and the signs that your chosen brand name just isn't good enough.

Spelling Issues: Your name shouldn't look like a spelling mistake, as it means that you are constantly explaining it to people. You should be able to say, "My business is called Amazon" and not "My business is called Amazon, only we spell it without any vowels". Your name shouldn't need a clause!

Copycat: The above example also falls foul of this rule as it copies an existing brand. Contrary to what you think, it doesn't increase your chances of success by allowing you to capitalize on their fame. It just means that you end up blending into the background and getting lost in the noise.

Restrictive: Does your brand limit future growth? As noted already, Amazon began by selling books and if it had opted for a name like "Book Forest" it would have had very limited opportunities for growth.

Annoying: Does your name come across as forced, frustrating your customers as a result? It shouldn't be so bad that they get frustrated when trying to remember it or spell it. You want them on your side, not against you.

Tame: A tame name is one that is dull and uninspired; a name that does nothing to stand out from the crowd. The last thing that a brand wants is to blend in with the crowd.

Curse of Knowledge: Are you basing your name on ancient Greek myths or specific cultural beliefs that have nothing to do with your target audience? A few people might find it clever, but the majority will be confused.

Hard to Pronounce: This one should go without saying because when you create a name that is hard to pronounce, people will pronounce it differently. You could have two different people talking about the same brand and not even realizing it because of the differences in pronunciation.

Naming – Names for New Products / What's in a Name?

The SCRATCH principles can help you to determine whether your name is good or bad, but you can also use it to shoot down the names proffered by stubborn partners or bosses. If they won't listen to reason and insist that you don't know what you're talking about, show them the above.

What About the Domain Name?

According to Alexandra, the most common misconception about brand names is that you always need a full-match domain name. It certainly helps, but she suggests that it shouldn't be your main goal as you could be sacrificing the quality of your brand name for the sake of a domain.

There are very few (if any) common word domain names left and the opportunities are getting slimmer all the time. But there's no harm in using a modifier to make sure you have a domain that sticks.

For a long time, Tesla was "Tesla Motors", Facebook was "The Facebook", Basecamp was "Basecamp HQ", and Dropbox was "Get Dropbox". These are some of the biggest brands in the world right now and they made things work without an exact match.

When they expanded, and more people began searching for them using that exact match domain, they were able to acquire it.

The heavy metal band Slipknot comes to mind, as well. For a long time, the Slipknot.com domain was tied to scouting/campground activities and the band was forced to use Slipknot1.com. Arguably, it wasn't the best choice, but they were up-and-coming, and it was over 20 years ago, so it's forgivable.

As the brand grew, Slipknot1 became somewhat of an inside joke and every fan knew that was the real domain name. Even today, long after the original scouting domain has disappeared and been replaced by a placeholder, the band still uses Slipknot1.com.

As for alternative domain name extensions, you need to be very careful when using these.

You can make some creative domain names using extensions like '.ly' and '.co'. *But why would you want to?*

For the sake of argument, let's assume that you create a brand called "Bestly". Rather than opting for the .com, you decide to go for Bestly. It looks good in the URL bar, and it'll make for some interesting marketing as well, but the cons far outweigh the pros.

Firstly, it has very little SEO value, as I discussed when speaking with Neil Patel during an early episode of This Week With Sabir.

Naming – Names for New Products / What's in a Name?

Just because you have Card.io doesn't mean that you have a higher chance of ranking number 1 for "cardio" and related terms.

Google places very little emphasis (if any) on domain name keywords these days and it tends to value the .com extension more than any other.

It also means that you're constantly telling people how to find you online.

If you tell a potential customer that your address is "Card.io", they might assume that you mean "Card.io.com", which means you'll have to explain that .io is the domain extension.

Once you do that, you may find yourself explaining why you used it and what it means, before clarifying that you are in the United States.

And if there is no benefit for your overall marketing, no benefit for SEO and organic traffic, and a negative effect on word-of-mouth and customer loyalty, you must ask yourself why you would do something like this in the first place.

Is It Too Late to Change a Brand Name?

It is never too late to change a brand name providing you are changing it for the right reasons, and not just because you have grown tired of it or want to try something new.

It's important to remember that your business is going to be around for a long time and while it might feel like a major change now, it probably won't mean much in the grand scheme of things.

Even if your brand is 10 years old, it could last for the next 100 or 200 years, so while that decade feels very long right now, it'll mean nothing to your future customers.

Of course, the earlier you make these changes the easier they will be, because the bigger you are, the more expensive that name change will be.

Alexandra used the example of Canadian Tire, a famous Canadian store that sells much more than tires and is frequented by most people in the country. Everyone in Canada knows that Canadian Tire is more than just tires, and that's fine. Sure, the main question on Google is "Why is Canadian Tire called Canadian Tire?" but no one is going to mistake it for just a tire store.

Naming – Names for New Products / What's in a Name?

If they were to expand in the US, it would be a different story. They would need to rebrand and the rebrand would be astronomical.

You're essentially pumping millions of dollars into ads that say, "we're still here; this is still us" as opposed to spending that money on ads that say, "visit us for the first time" or "buy our new products".

It's a waste, and that's why it's important to view your crystal ball and predict what you will do in the future and where your journey will take you.

The $100,000 Question

Your name will last longer and get used more than any other investment that you will make in your lifetime. Every employee and every piece of equipment, just like every product, will come and go, but your name will remain.

Every advertisement, every word-of-mouth discussion, and every time that you tell people about your brand, you're using that name.

It's one of the most important parts of your business and it's essential that you get it right.

As noted above, there are several steps to a brand naming strategy, and it might feel like a bit of a headache when you're desperate to launch your business.

It is an exciting time, and you don't want to waste time on things that don't really matter all that much, but your brand name does matter and it's very important that you get it right.

Alexandra created a test to help you determine if your name is good or bad; right or wrong. You can find that test here and use it on your own ideas.

More from Alexandra

If you want to learn more about naming and understand how to create the perfect brand or product name, take a look at Alexandra's course. I recommend this video on **learning how to quickly create brand names**. Alexandra's **website is full of information about naming**, and you can find a wealth of great tips and ideas there. If you're still struggling to create a name or you just don't have the time, you can also hire Alexandra directly and she does all the hard work for you. Visit *Eat My Words* for more information. Her breakthrough book, **Hello, My Name is Awesome: How to Create Brand Names That Stick**, is considered ***"the brand name bible,"*** and was named a Top 10 Marketing Book by Inc. Magazine.

Can't Find A Steve Jobs?
Then Hire an Innovation Organizer Instead

HRB / Tom Agan

Improving innovation is one of the key competencies that companies often look for when replacing a CEO. Yet committees responsible for recommending candidates often grapple with finding the right person for the job when an innovation emperor like Steve Jobs isn't available.

A study of more than two dozen consumer packaged goods companies that I led while working as a senior executive at Nielsen reveals exactly what they should be looking for instead: an innovation organizer.

An innovation organizer creates an environment ripe for innovation. I'm not talking here about leaders with vague or feel-good principles like being open to new ideas; rather, those guided by a set of specific requirements, actions, and structures proven to drive innovation, which include the following:

• Personally, stay out of creating new products and services. While that might seem counterintuitive, the findings of the Nielsen study indicates that when CEOs and other high-level executives get involved in creating new products and services, revenue from the new products drops by 80%. While savvy about understanding and leading the organization, high level executives are often so far removed from the distinctive customer needs in their various lines that they are likely to make bad decisions about new products. Instead, an innovation organizer makes sure that those closest to the innovation are indeed making the decisions and are not being second-guessed.

• Ensure that clear and explicit decision-making criteria are created, constantly improved, and rigidly followed. In fact, leaders that make sure their organizations do this average 130% more revenue from new products, according to the Nielsen research. Today even when decision-making criteria exist, they are invariably incomplete. Informal understandings between individuals too often determine what moves forward, leaving the rest in the dark. Innovation organizers set the expectation that decision-making criteria will be documented, complete, and almost always followed. They review the process periodically and act forcefully when protocol is being ignored. And they watch for and stop the common problem of their team members or other senior leaders pushing pet projects through product development. There should be no elite privilege when it comes to innovation. The senior leadership team needs to respect and adhere to the same standards as everyone else.

• Never allow the organization to over-engineer the innovation process. As an example, consider stage-gates, decision points at which time new products are reviewed before moving forward in the development process. A widely accepted best practice among even the most admired companies is to have five to seven. And that's false when you look at the facts. Two to three are optimal. The study I led indicates that any more than that leads to revenue from new products dropping like a rock falling from 40% to 70%. Successful innovation requires a balance between analysis and structure versus the freedom to explore.

Can't Find A Steve Jobs? Then Hire an Innovation Organizer Instead *(Cont'd)*

• Find the truth. At 80% of CPG companies, when a new product succeeds everyone wants to be associated with it and few look closely at what didn't go right. On the other hand, when it fails just about everyone takes a big step back while ignoring what may have gone well. Although an entirely logical response, given that success advances a career and failure kills it, innovation organizers strive to unveil the truth about what really happened — something Pixar, for one, does. They make sure that each product launch includes a formal and structured debrief to identify what went well and what could have been gone better. Ideally an outside facilitator leads the discussion and analysis, and the findings are captured permanently into a knowledge management system. When debriefs are formal and mandatory, revenue from new products increases by around 100%. When all three are followed, revenue from new products conservatively jumps by 200%.

• Keep just about everyone away from breakthrough innovation. Companies with offsite breakthrough innovation teams tend to double their new product revenue compared to those that have them on-site. It's easy to guess the reason for this outcome — conventional thinking of the existing organization inhibits the development of breakthrough ideas. As one CEO asked me, "Is 1,000 miles away far enough?" Maybe not. Fifteen or so years ago most of the U.S. and Japanese automakers moved their design studios to California — about 2,300 miles away from Detroit and 5,500 miles from Tokyo.

Step back and consider that Steve Jobs pretty much followed the principles I've just outlined. He stayed very close to the innovation. He was very clear about what he wanted. He learned a great deal from 40 or so years of being obsessively focused on personal computing — succeeding and failing spectacularly. And since he was the breakthrough innovation team, there was no corporate campus to escape from. As a result, the company's financial returns were spectacular.

Of course, Steve Jobs was a rarity. The good news is it's not necessary to have a larger-than-life personality to drive your innovation. Instead, an innovation organizer is a decisive leader who embeds the most important principles for innovation in the enterprise — principles that Jobs himself followed. In other words, an innovation organizer makes the entire company behave like Jobs. And when that happens, revenue from innovation skyrockets.

Can't Find A Steve Jobs?
Then Hire an Innovation Organizer Instead *(Cont'd)*

PKA Commentary on This Article

Some of Egan's conclusions resonate with me, particularly:

• top management commitment

• keeping almost everyone away from breakthrough and other strategic innovation

• ensuring a loose-tight oversight

• not allowing rigid stage gate processes, and

• too tight resource planning and budget control to stifle the creative process.

PKA's NPD approach, which I learned often the hard way over4.5 decades, includes the above principles, and:

• a central strategic innovation/NPD group, led by a proven and inspiring pro with both an invention mindset and business hea d

• working on the big ideas and the future pipeline with an experienced mostly senior staff

• selective use of outside partners from the design and innovation world to contribute and build ideas

A ***Disciplined Entrepreneurship Innovation/NPD model works***, allows you to fast tract low risk close-in opportunities and do sufficient, need-to-have homework on the higher reward, higher risk ones. Over time, you can also migrate close-in line extensions and flankers (these are the 'bunt singles' where many firms literally have 80-90+% of their so-called Innovation/NPD efforts focused since they are easy to do, fast and low-risk… but basically replace SKUs coming off-market!) to the base brand marketing groups; freeing-up capacity for the central Innovation/NPD group to focus on the more strategic platforms and products (doubles-triples-possible home runs!). This structure ensures that the base brand and category groups remain focused on driving today's business and not get distracted with the strategic new products that need constant nurturing and iteration and it also protects the funding for the long term. As AG Lafley (P&G CEO) said publicly: "If you don't protect the strategic in novation in a walled off way, including R&D and some blue-sky exploration, you are eating your own seed corn." Not everyone in the base marketing groups necessarily agrees with this overall approach, but PKA is very reluctant to move away from what has worked so well over the decades for those firms that have 'won' in Innovation/NPD!.

How to Kill a Good Idea

Stanley Bing / FORTUNE Magazine / April 1, 2016

Who needs an innovative proposal that might disrupt the routine or, worse, make you look bad?

Corporations are complex entities. There are many people working for them, usually. And by "many" I mean more than two. This creates politics and conflicting agendas and fuels the constant battle between forward momentum and inertia—with proponents on both sides.

Somewhere in all of that, an idea is occasionally born. A little flower pops its delicate head up through the organizational macadam and, against all odds, succeeds in blossoming into a healthy plant. Most of the time, though, somebody comes along with a heavy vehicle and runs over it.

Given that reality, it's important to review why and how organizations kill ideas. I hope you find this exercise helpful the next time you want to be the one driving the truck. Or when your flower is about to get crushed. To begin, let's look at some ***reasons an idea might get killed.***

1. It's bad: 85.4% of all ideas are useless, time wasting, distracting, aggravating to too many people, dangerous, boneheaded, or just plain superfluous. Unless they come from a senior officer, they are easily squelched.

2. You didn't think of it: Other people's ideas are a drag, aren't they? You were doing something else. Now you have to think about this? Forget it.

3. It threatens your territory: Sure, it's an intriguing notion. But executing it would put Bob or Barbra into your meeting zone. Who needs them in there?

4. It conflicts with something you're doing: Like lunch. Or vacation. Or that trip to L.A. Or whatever, right?

5. Oswald thought of it: And you hate that preening little weasel.

6. You're an insecure weasel yourself: Other people may get the credit, and there's only so much credit to go around!

How to Kill a Good Idea *(Cont'd)*

7. It's inconsistent with prevailing culture: In the '80s, you had to be for excellence. In the '90s, you had to be for greed. Now you have to like disruption and open offices. Any contradictory notions must be terminated.

8. It's good: Good ideas are deeply threatening to the everyday run of business. They get in the way of all the other things people are doing.

That's the motivation side. **As for implementation?**

There are a host of ways that **even the best idea can be strangled** in its cradle. Here are some classics.

1. Meeting it to death: This is often referred to politely as a "Japanese no." Meeting after meeting is held to reach absolutely no conclusion, and even if one is reached, it's never communicated. Anybody who's ever had a movie script "in development" can relate.

2. Depositing it with the well-meaning but powerless: Earnest subordinates generally have a lot of good ideas of their own, but a limited ability to execute them. After a time, they will produce an excellent document that can be studied until it isn't.

3. Bigfooting it: You don't have to be a very big yeti to step on things. You must have a loud opinion. A strong view is relatively rare in corporate life. Those who have one often prevail.

4. Championing it to death: Hurray for this great idea! We'll get to it next Tuesday!

5. Shooting the messenger: There are many, many organizations that punish the bearer of an idea that's not generated by an ultra-senior executive. In such places it's best not to have ideas at all. But that doesn't stop people, does it?

Okay, I'll admit it. This wasn't a totally academic exercise. Last month a guy who works for me had a smart idea. I sent him to the proper part of the organization to get it underway. But now they've put it in a committee of some kind. I'm told that a report is coming soon.

Screw that. There's one thing that eradicates this kind of nonsense: an angry senior officer. That's me. I know who to talk to. Don't worry. It won't take them long to get the idea.

How CPG companies can dodge three common innovation traps

Implementing proper checks and balances throughout the innovation process can help you create long-term growth.

by PwC/Sharon Kao and Nicholas Hilgeman / August 2021

Today's consumer packaged goods (CPG) companies confront a strange market paradox: continued demand for new products but reduced shelf space in stores. Organizations have long used innovation as a tool to meet the shifting needs of consumers and to drive growth. In fact, in their 2020 annual reports, all ten of the highest-grossing publicly traded global CPG companies highlighted innovation as a key growth lever.

Product development is a highly capital- and labor-intensive process, and left unchecked, results in a questionable return on investment.

But the space to display this proliferation of new products is shrinking as retailers weigh costs and consumer experience, focusing on smaller storefronts with hyperlocal offerings and a less overwhelming array of choices. At wholesaler BJ's, for example, smaller, new-build stores house 16% fewer SKUs than regular stores. Similarly, British supermarket chain Asda recently revealed plans to cut SKUs by up to 40% as it shifts to a simpler discount model for its stores. Another reason retailers are reducing shelf space is to avoid being overstocked as consumers do more online shopping. In PwC's June 2021 Global Consumer Insights Pulse Survey, more than half of global consumers surveyed said they became more digital even in just the six-month period from October 2020 to March 2021.

How CPG companies can dodge three common innovation traps

The danger for a company in the paradox of more products and less space is that most new products don't even last in the marketplace for more than a year. So, companies rely on new products to replace a portion of their core volume, feeding an organizational "innovation addiction." Product development is a highly capital- and labor-intensive process, and left unchecked, results in a questionable return on investment. Market research firm Nielsen estimates that each year, US CPG companies introduce an average of 30,000 new products. In 2019, less than 0.1% of those products contributed to the lion's share of revenue from innovation revenue. The global pace of innovation is similar; Nielsen reports 40,000 innovations annually in five euro markets (France, Germany, Italy, Spain, and the UK).

The good news is that there are ways to curb hyperactive innovation and focus on long-term return on investment. We have identified three innovation traps, one in each stage of product development, and suggest pragmatic ways to steer clear of them.

Stage 1: Ideation

The trap: "new news" is the best news. The foil: be picky. Retailers reinforce CPG companies' innovation addiction, agitating for "new news" that will excite consumers, drive traffic to stores, and provide incremental sales. The result can be a vicious innovation cycle that taxes organizational resources.

If you're a CPG business leader and you find yourself approaching this trap:

• **Review your portfolio strategically.** You should define the role innovation will play for each brand in your portfolio. For example, it might make sense to avoid investment in new product launches for low-growth brands in stagnant categories and invest instead in medium-growth brands in growing categories.

How CPG companies can dodge three common innovation traps

• **Create a clear prioritization framework.** An objective method for evaluating innovation ideas can help you assess their quality, using factors such as commercial feasibility and manufacturing capability to determine where you're likely to see the most return on investment. You can also use your framework to decide which innovations provide the best fit across brands and channels.

• **Use other growth levers.** Innovation isn't the only way to grow. Other tools, such as price adjustments or distribution increases, can be equally effective (and less costly).

Stage 2: Development

The trap: one process fits all. The foil: tailor the development process. After companies select ideas to invest in, development processes begin to transform those ideas into reality. But many companies assume that all innovations require the same processes, timelines, cross-functional support, and granularity of planning and execution. R&D leaders often believe their company should develop a new product line in the same way as it would a major line extension or a packaging change. This mindset can encumber simpler projects and result in insufficient resources being given to more complex projects.

If you find yourself approaching this trap:

• **Evaluate projects' complexity.** Audit your innovation pipeline to understand what types of projects are flowing through the system. Take account of products' complexity drivers, such as the need for new ingredients or new suppliers, or products making new claims.

• **Create tailored processes.** Develop flexible development processes that make it easy to adjust timelines, stage deliverables in different ways, and assign cross-functional resources. For example, a change to the graphics on packaging might be able to move through a streamlined approval process, reducing time-to-market and limiting the resources required.

How CPG companies can dodge three common innovation traps

• **Boldly operate.** Trust your new processes, timelines, and requirements. Many innovation pipelines become tunnels instead of funnels, as innovation projects proceed along development paths regardless of performance. Don't be afraid to hit the accelerator when needed—or cancel projects when their sales forecasts no longer meet thresholds.

Stage 3: Post-launch

The trap: innovation fatigue. The foil: prioritize long-term success. Once a product is launched and on retailers' shelves, many CPG companies view the job as complete and move on to the next innovation. All too often, marketers who lead the charge on innovation are incentivized for short-term innovation performance and don't have an easy way to monitor product performance over the long term and make adjustments as needed. Failure to adequately support innovations post-launch, combined with a tendency to focus on the new shiny object, results in poor financial performance after a product's first year—and its subsequent removal from the market.

If you find yourself approaching this trap:

• Create robust, long-term launch plans.Design launch plans—including distribution, advertising and marketing, and supply chain and inventory forecasts—to ensure that resources are in place to support the initiative post-launch.

• Employ long-term tracking. Track innovation metrics (both financial and nonfinancial) closely for at least two to three years post-launch and develop a robust system for flagging and responding to performance deviations. Tie incentives to meeting or exceeding these metrics to foster accountability and strong ownership among those responsible for the launch.

How CPG companies can dodge three common innovation traps

More focused innovation supports long-term success

Without innovating, a company might quickly fall into the annals of business history. But by the same token, unfocused, unprofitable innovation might also lead to failure. Avoiding innovation traps at each phase of the innovation process can help you ensure that resources are allocated to those innovations best positioned to support the goals of the business.

The #1 Reason Why Products Fail From New Start-Up Firms

Start-ups today are building more products than ever before. The ill-fated reality however is that the success rate of these products hasn't changed much. The odds remain heavily stacked against starting a new business and most of these products unfortunately still fail.

Therein lies the crux of the problem: Start-ups pour way too much time, money and effort into these products. Especially for a first-time entrepreneur, these failures can be a real setback emotionally and financially.

You could have any number of reasons that can be attributed to failed ideas. The below ones are self-explanatory.

NO MONEY	POOR TEAM	POOR PRODUCT	BAD TIMING
NO CUSTOMERS	COMPETITION	LACK OF FOCUS	LACK OF PASSION
BAD LOCATION	NOT PROFITABLE	BURN OUT	LEGAL ISSUES

Source: Forbes (Jan 2015: 90% of Startups Fail…), Industry articles, PKA

The #1 Reason Why Products Fail From New Start-Up Firms – *Cont'd*

But the reasons shown on the prior page are not the #1 reason why new products fail. **The #1 reason why new products fail is because firms simply build something nobody wants!**

The other reasons are off-shoots and mediocre justifications to this reason!

The Number One Reason Why Products Fail

We simply build something nobody wants!

Why?

This largely happens because most times new entrepreneurs are fixated to their 'singular idea' and fall *madly in love* with that idea… and l*ove is blind!*

This is not discussing their "passion for making the start-up successful". This states that blind love for the product makes folks ignore what the market wants…
they're just not sufficiently market/consumer/customer demand-driven!

Source: Forbes (Jan 2015: 90% of Startups Fail…), Industry articles, PKA

WHY NEW USERS TRUMP NEW PRODUCTS *(Feb 2016)*

"Twitter fails to add any new users in US for second straight quarter."
"Stock plummets 10% after company releases third-quarter results revealing its number of US users has remained flat at 66 million since start of year."

--the guardian, October 27, 2015

It's hard to imagine an annual brand marketing plan without considerable investment and expected growth from new products—or, at least, from "product news" (a product improvement, a new size, or a new packaging format). Most marketers working as brand-builders for companies with leading brands rely on a constant stream of new products and product news to deliver the significant growth senior management demands each year. If nothing else, such news provides a guaranteed share of Sales attention and support.

But how often are we asked about the growth expected from "new user news?" While there's no denying the immediate attraction of a major line extension or product improvement, there's just no beating the longer-term rewards of new user acquisition… especially new users who have a high propensity for becoming loyal to the brand.

No doubt one of the reasons marketers are so rarely asked about their new user goals or plans is that, unlike a Twitter, most of their brands are among many in the company; plus, their brands' new user number isn't normally so directly linked to the company's Wall Street expectations. As the guardian article goes on to explain, "The number of US users—the most valuable to advertisers—has remained flat at 66 million…(and) while Twitter has remained popular with celebrities and media outlets it has so far failed to find the kind of mass market appeal that has made Facebook so ubiquitous. Instagram now has 400 million users and is growing at a faster pace than Twitter." In Twitter's, Facebook's, and Instagram's cases, revenue and profit growth—from social media advertisers--are directly/proportionally linked to new user growth. So, naturally, for such brands you would expect a major thrust of their annual marketing plans to be around new user acquisition.."

WHY NEW USERS TRUMP NEW PRODUCTS *(Feb 2016)*

Still, it seems that marketers everywhere, regardless of their product or service category, ought to be thinking and planning about new user acquisition a great deal more than they currently do. Along these lines, some thoughts follow about (1) why new users matter so much, and
(2) what new user acquisition principles make the most sense.

Why New Users Matter So Much

1. New users are pure incrementality; new products are not. Assuming that "new users" mean those who have not been using your brand before, then any one of these brings automatic incremental usage (sales and, at some point, profits) with them. Compare this to line extensions that, while they may add some incremental use occasions, almost always carry along with them some cannibalization—either of a previous brand item they now use less often or one they have "traded up or over" from. In light of this distinction, it seems even more compelling to include the degree of growth expected from "user news"—along with that expected from product news.

2. More than ever before, new users tend to bring others with them. The credibility power of celebrity and real user testimonials (which were so often used by marketers in the earlier days of TV advertising) has long been acknowledged. That's because, whether they're about to try out a new restaurant in their town, select a vacation hotel, or looking to switch from a Hoover vacuum to a Dyson, most folks want that little bit of "corroborating evidence" that assures them they're making a good choice. And with the added and immediate power of social media at your fingertips, serving as an advocate for potential new users has never been easier, or more prevalent. You could well argue that brands no longer acquire a new user, but rather multiple new users in a single move.

WHY NEW USERS TRUMP NEW PRODUCTS *(Feb 2016)*

3. At the very minimum, new users replace lost users. Whether through strong competitive actions, life-stage changes, or sheer mortality, every brand loses some users every year. The proverbial bucket always has, at least, a slow leak. Some brand managers measure this user loss and feature the critical importance of offsetting it in their annual marketing plans. That is, they feature it to emphasize the critical importance of full marketing support for their proposed product news… which is intended to increase frequency of brand use among current users, as well as to attract some new users to the brand. Actually, it's always a good idea to estimate the remainder of new user acquisition minus current user loss—and to specify exactly how this math is expected to work out.

3 Sure-Fire New User Acquisition Principles

1. Easy Access — For Fast Moving Consumer Goods this is typically a no-brainer: new users must be able to find and purchase the brand at places they frequent and at all places they would expect the brand to be. That usually translates to (a) high all-commodity volume distribution and (b) high impulse retail positions for the brand. But for Digital brands, easy access always means, first and foremost, quick and easy searching and simple, logical, and engaging navigation. Getting back to Twitter's recent new user dilemma, much of the on-line press has placed the blame squarely on Twitter's "uninviting, uninvolving, and boring" app for getting enrolled. There is even a 67-slide presentation on UserOnboard.com that sarcastically traipses through a Twitter sing-up—highlighting the many false starts a would-be new user faces in trying to get into tweeting. A good question for every brand to ask (at least every year) is "How might we make new user access even easier?"

WHY NEW USERS TRUMP NEW PRODUCTS *(Feb 2016)*

2. "Eye Candy" Design Appeal — We probably have Apple to thank for this relatively new principle for attracting new users to a brand. And it's important to emphasize that participle "attracting" because we have long since evolved from 1970's & 80's markets of "attention-generating" to today's "attraction-fostering" ones. Said very simply, we're talking about the "cool-drool" effect of seeing a brand with cool, beautifully designed products and just wanting some of that. Eye candy appeal comes in so many forms, shapes, colors, and tastes. Even the most mundane of FMCG brands has the opportunity today of creating some new delivery mechanism, or just some new super-standout packaging. Again, a great question to ask often is "What eye candy appeal does our brand offer a prospective new user… that makes her or him drool?"

3. Quality Trial — You don't hear this term much any more, but it is a long-accepted principle for getting new users to try and then to "stick" with the brand. And the notion is based upon common sense: how much of brand's product does it take for prospective new users to appreciate what it offers and to adopt it for on-going usage? When Pepsi was bedeviling Coke with its storied "Pepsi Challenge," there was nothing in the idea that reflected quality trial of Pepsi. It was all based on a one-time "sip test" that Pepsi could win due to its side-by-side sweeter formula than Coke's. But in all extended home-use tests, Pepsi could not win; those were true quality trial tests because they demonstrated that— especially for Coke users -- after several Pepsi drinking experiences with greater quantities, there was just too much extra sweetness in Pepsi to incent a Coke user to become a Pepsi new user.

Every brand needs product news to stay vital and to grow.
But, even more, every brand needs new users. Said another way, "user news beats product news."

A July 11, 2011 Bernstein Report Shows P&G's Product Expansion Success Rate At About 35%!

Procter & Gamble: When P&G Attacks...

Highlights

P&G's current strategy hinges on successfully "attacking" new category-country combinations, called "white spaces". 1 To gauge the probability of filling these white spaces going forward, we analyzed historical instances in which P&G attacked a particular category-country combination—in most cases within the emerging markets (as with current white space opportunities)—to determine whether or not such advances were generally "successful".

 We identified 15 and delved into 8 historical occasions in which P&G staged an "attack" of a particular category-country combination—i.e., instances in which P&G aggressively ramped up marketing/promotional activity and/or invested heavily in distribution/manufacturing capacity—
The 8 attacks we analyzed2 are: 1) the laundry care market in Argentina and Chile (2000); 2) the toothpaste market in Mexico (2000); 3) the laundry care market in India (2000); 4) the toothpaste market in China (2004); 5) the toothpaste market in Mexico (2010); 6) the laundry care market in India (2010); 7) the hair care market in India (2010); 8) the toothpaste market in Brazil (2010).

 63% of the time, P&G achieved some form of victory in penetrating category-country combinations through expanding volume growth and gaining share; however, 75% of P&G's attacks were followed by a decline or deceleration in category sales growth and pricing growth, resulting in only a 37.5% overall "success" rate (based on 7 criteria3)—Based on P&G's objective of supporting category growth while expanding its emerging market presence, we constructed an index of 7 criteria3 in order to determine the overall "success" of each attack. Through these criteria we find that 3 of the 8 attacks (37.5%) were "successful" overall while another 3 of the 8 attacks (37.5%) were "neutral", and 2 of the 8 attacks (25%) were "not successful”.

A July 11, 2011 Bernstein Report Shows P&G's Product Expansion Success Rate At About 35%! *(Cont'd)*

Procter & Gamble: When P&G Attacks... *Cont'd*

NOTES

1 Procter & Gamble's long-term organic sales growth guidance calls for growth 1-2% above its market growth—driven by entering category-country combinations where P&G currently has no presence – –i.e., "white space" opportunities.

2 We actually found 15 "attacks", but reliable market share data could only be captured for 8 of these attacks.

3 Our 7 criteria to judge the "success" of a market attack are: 1) whether or not P&G gained share; 2) whether or not the overall category experienced sales growth; 3) how category growth compared to that of previous years;

4) whether or not pricing growth occurred in the category;

5) how category pricing growth compared to that of previous years;

6) whether or not volume growth occurred in the category; 7) how category volume growth compared to that of previous years.

 P&G's attacks often (63% of the time) resulted in share gains as well as overall category volume growth—Of the 8 attacks we identified, P&G gained share in 5 and lost share in 3, thus achieving a 63% success rate. Moreover, in 6 of the 8 P&G attacks, category volume growth remained positive. In fact, of the 6 attacks with positive category volume growth, 5 demonstrated a positive "trajectory"—stated differently, volume growth in the year immediately following the P&G attack often outpaced that of previous years. This is likely indicative of P&G's attacks broadening a given category's reach to new consumers (one of P&G's stated goals in initiating such actions, and thus a partial positive).

A July 11, 2011 Bernstein Report Shows P&G's Product Expansion Success Rate At About 35%! *(Cont'd)*

Procter & Gamble: When P&G Attacks... *Cont'd*

 However, despite accelerating category volume growth, P&G's attacks often (75% of the time) resulted in declining or decelerating category sales growth—In 2 of the 8 instances, category sales growth declined outright following the attack. In another 4 of the 8 instances, category sales growth was lower than levels seen in previous years. Thus, category sales growth declined or decelerated in 6 of 8 instances, representing 75% of the attacks we identified.
 Slowing category sales growth was primarily attributable to pricing deceleration (75% of the time), providing evidence that these attacks likely came at a near-term cost to margins and overall profitability (both the category's and likely that of P&G itself)—Although the categories experienced positive pricing growth in all 8 attacks, the trajectory of this growth was negative in 6 of these 8 instances. In other words, intensified competition likely suppressed pricing growth, thus putting added pressure on category profitability.
 Despite some success at share gains and category volume growth, we believe P&G attacks come at an economic cost, as demonstrated by category pricing growth deceleration following most of the 8 attacks we identified, increased brand investment and margin pressures at incumbent competitors like Hindustan Unilever in India, and our simplified ROI calculation for P&G's attack on Brazil's toothpaste market in 2010.

A July 11, 2011 Bernstein Report Shows P&G's Product Expansion Success Rate At About 35%! *(Cont'd)*

Procter & Gamble: When P&G Attacks... *Cont'd*

 As previously mentioned, although the overall category experienced positive pricing growth in all 8 attacks we identified, the trajectory of this growth was negative in 6 of the 8 instances—In 6 of the 8 attacks pricing growth at the end of the year immediately following the attack was lower than that of the prior years. Even after factoring in benefits of increased scale stemming from accelerated volume trends, we think pricing deceleration has likely been a drag on P&G's margins in its most competitive category-country combinations. Note that the ultimate impact of pricing growth trends relative to inflation were largely negative 5 out of 8 times. It may also be sobering that in all but 2 instances, pricing in these HPP categories was systematically below inflation.

 Profitability pressure, resulting at least in part from P&G's attacks in India, can be seen in recent results from Hindustan Unilever ("HUL")—HUL's operating margins for the fiscal year ended March 2011 declined 190 bps. 60 bps of this margin degradation was directly attributable to brand investment, which we presume was intended to help the company defend its market position in categories such as those in which P&G is attempting to compete. The remainder was largely driven by higher input cost inflation that HUL was unable to offset with higher pricing—again, likely at least partially attributable to HUL being forced to keep prices low in order to help defend against P&G's Assault.

A July 11, 2011 Bernstein Report Shows P&G's Product Expansion Success Rate At About 35%! *(Cont'd)*

Procter & Gamble: When P&G Attacks... *Cont'd*

 Moreover, we estimate that P&G's attack on Brazil's toothpaste market in 2010 has thus far been NPV negative, as it generated an ROI of 5.7% at year 1, below P&G's estimated cost of capital—Following our conversations with industry contacts, we estimate that P&G invested ~$100 million for its recent oral care push in Latin America and that ~60% of this investment was attributable to Brazil. This, combined with our 20% operating margin assumption on incremental sales, yields an ROI of 5.7% at year 1, approximately -130 bps lower than the estimated cost of capital of 7.0%—thereby suggesting this initiative has been somewhat value destructive, at least thus far. Over the U.S. Household & Personal Products medium to long-term it is certainly possible that such attack could generate positive economic returns as volume growth coupled with scale efficiencies are able to offset any pricing deceleration.

However, in the near-term, elevated cost pressures are likely to persist as P&G continue its advances, while Colgate vigorously defends.

Why New Products Fail - *ARTICLE*

Why do 75% of new products fail to meet $7.5 million in revenue during the first year of availability and less that one half of 1% never meet a $100 million dollar threshold?

One of the common threads through most new product failures is the lack of understanding of the true competitive frame of the product. The competitive frame defines where new items will source their volume relative to the other products in the marketplace and how incremental they will be, based on the associated benefits. Said another way: When the product is introduced, what existing products will consumers stop using when they start to use your new product? Even for the most spectacular new brand launches, consumers were meeting their needs with other products before the new brands were introduced.

At the early ideation stages, the reason-for-being often seems so clear. You have found a concept that consumers love because it fulfills their unmet needs. But on the way to developing the concept into a new product, two fundamental questions were never asked:

- What current behaviors will my new product replace?
- Why will consumers switch to my new product?

According to a recent survey, nearly one-third of consumers are going to the doctor less in order to save money. This could present a big opportunity for over-the-counter medicine manufacturers to develop self-treatment solutions. If you develop a concept for a new product positioned against the benefit of preventing a visit to the doctor, what is the precise behavior that your new product will replace? Will consumers use your new product in place of existing OTC medicines? Or will they now treat an ailment that otherwise might have gone untreated? Will they use your new remedy in place of the medicine they anticipate the doctor would have prescribed?

Knowing exactly what current behaviors the consumer will replace is a critical, fundamental element of success.

Why New Products Fail

The Hammer Looking for the Nail

Let's suppose that the product development team invents a new technology that addresses an unmet need. But the proposition fails because it is not grounded in benefits the consumer wants or understands. For example, the introduction of calcium-enriched orange juice in the 1980s seemed to address a key barrier to broader orange juice consumption. However, consumers who sought the benefit of calcium in the morning were (and still are) accustomed to drinking milk while also drinking orange juice. Even the benefits of superior calcium absorption from the type of calcium used in the new orange juice (Fruit Cal) were not enough to overcome consumers' desire for "natural" calcium from milk. Calcium-enriched orange juice still exists today, but the segment's volume is far smaller than once envisioned, as its primary competitive frame is other orange juices, not milk.

Fruit Cal is but one example of the legions of excellent technologies that have failed because the product's consumer benefit and the competitive frame were not well understood. Febreze is an example of a product that had great technology behind it, but failed to find success until its most recent re-positioning of its odor removal technology as "a breath of fresh air" in a broad range of air care products. The key point is to get the consumer promise and the product's technical performance working together. Just having great technology is almost never enough.

Carefully Sneak it Out

Say you have a great product. Consumer concept testing has told you the benefit is relevant and the reasons-to-believe resonate with consumers. And, of course, your product's competitive frame is well-defined. All of the elements of new product success are in-place.

Then the product launches and the spending on advertising and equity-building consumer promotion is woefully low. Product awareness and trial are well below forecasted levels and soon the product is viewed internally as a failure.

We've seen this syndrome happen far too many times. We recently witnessed a snack product launched in the U.S. that had been very successful in another country. The product brought a differentiated taste experience to its category in a benefit area that is primary to the category. The concept was sound and the product delivered on the promise. The manufacturer launched the product with virtually little to no dollars in advertising and consumer promotion. Not surprisingly, the product did not meet expectations. The nadir for us was seeing this delicious, premium-positioned and priced product on an end cap in a gas station convenience store in a "2-for-1" sale.

Why New Products Fail

Here is an obvious lesson that needs to be reiterated: If you believe in the new product, you have to spend to tell consumers your product's story.

Related to the "carefully sneak it out" problem is the "fire and fall back" issue. This happens when volume and share thresholds are not met in year one, so spending is reduced to fund the next big idea. Typically, new products continue to build trial in year two after launch. Failure to maintain adequate advertising in year two usually means you are inhibiting the product's potential. When equity-building spending is prematurely reduced, the Sales organization often has to prop up declining velocities to maintain the new product's shelf presence. This increases price-based promotional spending and serves to subsidize the product's every day price in order to drive volume.

Now your new product, which was founded on the premise of bringing a relevant new benefit to the market, is often bought on price and the entire proposition is watered down. Further, if you have multiple brands in the category, you are now likely cannibalizing sales from better moving items within the portfolio. This "death spiral" effect stems from inadequately supporting the new product.

Marketing and Sales Not on Same Page

Too often, the Marketing launch team and the Sales organization are not aligned on objectives and the right tactics for the new product. Clearly identifying where new products will compete and how they will source volume is a valuable part of the new product sell-in and must be communicated to the Sales force. In addition, the Sales force needs to be armed with specifics in these areas:

Where to place the products on the shelf for critical adjacencies

Which less-incremental brands and SKUs should be targeted as replacements for new items

How incremental the new products will be to category

The competitive frame understanding will give Sales much higher odds for success with retailers and avoid a "one-in-one-out" mentality for new item placement. Providing Sales with long-term spending plans for new products based on attainable retail distribution targets and sound retail pricing ensures that they are not the last line of defense to protect unsupported product innovation.

Why New Products Fail

Right Path Forward

New products are the keys to success for many organizations and the focus of much of the effort within company. For example, 3M has achieved volume and profit growth well above industry norms for many years by having the 30% Rule which states that business unit revenue must come from products introduced in the last four years. Many firms have sought to emulate the 3M model of new product-driven growth.

But other firms have taken a different approach – with far different results. One result is flavored water for pampered pets called Thirsty Cat! and Thirsty Dog! Were they snacks? Were they replacements for the water in your pet's bowls, thus fulfilling an unmet (and presumably unarticulated!) need?

Another poorly-conceived product is Gerber Singles, a jarred food for single young adults. What exactly was Creamed Beef in a jar meant to replace in the adult consumers' diet?

How can your new product avoid becoming one of these examples? Why do some new products succeed?

Transforming the new product development process begins by developing strategically grounded new products. Initiate the process with an integrated view of the consumer landscape which answers several key questions:

- How do consumers behave now and why?
- What benefits are consumers seeking when choosing among a competitive set of products at a given occasion?
- What attributes are critical to achieving the benefit?
- How satisfied are consumers with their current options?
- Where are consumers heading?

Why New Products Fail

With the consumer landscape in place, you will now have the foundation to create a relevant new product. As your new product heads to the launch phase, follow these key steps to ensure success:

- Understand the competitive frame for your new product and precisely identify the sources of volume
- Clearly articulate the consumer benefits in the product's positioning
- Determine the optimal spending levels on equity-building vehicles and commit to these spending levels in the first two years of launch
- Ensure Marketing and Sales are well-aligned on objectives and key tactics Identify the right items to replace on shelf (both yours and competitors)

New products are the lifeblood of any successful organization. Strategically grounding your new product ideas in consumer behavior is the right first step to ensuring success in this critical endeavor. Finally, developing a new product pipeline that has clearly defined revenue and profit hurdles with commitments to spending support for Year One and beyond will ensure against low value line extensions that rob organizational focus and resources.

Changing Consumer Behavior – New Products

Companies commonly behave as though the key to new product success is more creative ideas. According to a survey by A.T. Kearney for the Grocery Manufacturers Association (GMA), more CEOs identified increasing focus on innovation and creativity as the top means of improving growth rates than any other factor. Unfortunately, despite all this creative focus, the failure rate of new packaged goods products is about 95%. So the better growth rates and improved bottom lines that CEOs are looking for usually do not materialize.

Products don't fail because the ideas were not creative enough; they fail because the marketing strategy was unclear or imprecise about existing consumer behavior, what benefits consumers seek through this behavior, what attributes support the behavior, and what consumers are willing to change as well as what they will not change. Bringing new goods to market successfully calls for a new strategy to clearly identify how and why the new product will replace consumers' current behavior with a new behavior.

New products are routinely backed up by a clear Business Proposition that defines the financial expectations of the company, the degree of reward, and the amount of investment. But most Business Propositions are built on at least some subset of unvalidated assumptions and incomplete information about what consumers are willing to do …and these are often the <u>same</u> points that determine the success or failure of the Business Proposition. The only way to get these assumptions right is through an exact understanding of consumer behavior.

The answer is not to be more creative than the next guy. The true path to success is being more focused than the next guy about how consumers will benefit from changing their current behavior to your new product, and what it will take to get them to change.

Here are three different examples of new products that understand their consumers' behavior. When Swiffer tells consumers to "drop the mop," it is clearly defining the old behavior and source of business. When Kashi GoLean identifies its cereal benefits as a unique combination of protein, fiber and whole grains, both the source of business and Kashi's point of difference are obvious. The Toyota Prius, "so advanced it makes the future seem obsolete," describes its fuel economy and emissions reduction with "the performance of a conventional car."

Changing Consumer Behavior – New Products

The odds of developing a successful new product stream can be greatly increased through a process that begins with broad consumer understanding and then applies that learning in increasingly specific ways to products and concepts. Each step requires validation that the product and concept are clear, consistent, and aligned with consumer behavior. The company commits to increased resources only with such validation. Ideas that don't meet these criteria need to be weeded out early, saving time and resources for those that do.

The ideal innovation system consists of four main stages coordinated with the increasing need for resource commitment: Strategic Development, Early Development, Advanced Development, and Launch and Monitoring. Each stage provides different key inputs to the Business Proposition requirements of volume, revenue and profit. Key Decision Points should be in place to represent specific times for Management assessment of the new product concept as the Business Proposition is finalized.

The first stage, developing the Strategic Positioning, is the most critical. The Strategic Positioning defines exactly how and why specific target consumers will change their behavior. This definition can be precise only through detailed quantitative analyses of consumer usage and purchase behavior – what P&G calls the "two moments of truth." Preliminary simulations use the usage and purchase behavioral models to quantify the impact of the new benefit on existing consumer behavior. The first Decision Point then uses these simulations to ensure that the product can meet the company's volume and profit expectations. Stakeholders all must agree that the product benefit and attributes, the pricing, and the distribution specifications can be met.

This isn't a paper exercise. It's a blueprint that identifies what must be achieved in the final product delivery and marketing strategy in order for the new product to actually change consumer behavior.

During Early Development, ideas are developed into real product and concept positioning testing. The results are used to determine if the product is effective against its competitive set, if the positioning resonates with consumers the way it was expected, and if the product's overall development is on track. At Decision Point Two, concept and product test results are evaluated against the modeled results.

In Advanced Development, the product and marketing plans are finalized. BASES or similar testing confirms that all the elements work together. These results, along with the finalized marketing plan and Business Plan, are required for Decision Point Three.

Changing Consumer Behavior – New Products

Management then has a final opportunity to examine the new product idea and its Business Proposition in its entirety. The Business Proposition should be highly detailed in terms of what to expect regarding consumer response. This way, companies can measure performance against expectations with those data acting as an early warning system against issues. This process should run seamlessly because management has been apprised of the results of each preceding stage.

The new product is launched in Stage Four. Consumer awareness, trial and repeat are monitored against assumptions in the Business Proposition. Fast-reaction plans to correct any deficiencies should be in place.

Is creativity important? Of course it is, if it is used properly. The probability of success will increase when creativity is focused against a precise strategic understanding of consumer behavior, so that new product ideas execute against critical strategic levers. Planning is enhanced because goals are fact-based, allocating internal resources appropriately and anticipating competitive response. The management of product development is streamlined because effort is placed only against concepts that have been assessed against strict consumer criteria. Cumulative company expertise is built across project lines.

New product success depends on a focused process for developing a precise and quantified consumer understanding to support the Business Proposition's short- and long-term revenue and profit assumptions: Why will consumers switch to this product? What will it take to get them to switch? When we have hard-nosed answers to these questions, we have a blueprint for new product success

Innovation is Critical… But it *Ain't Easy*

(Nielsen / UBS - Jan 2013)

Nearly two-thirds of global brand name product launches within consumer staples end up failing.

While we suspect part of this poor success rate can be pinned down to little incremental differentiation (e.g., majority of innovations are simply line extensions) and the lack of investments post launch phase, we believe higher investments by private label manufacturers in the areas of new product development is also a contributing factor.

We note that McBride (Europe's largest private label manufacturer across household products) is set to launch about 60 new lines of private label products in 2013. Additionally, during its most recent results, Sainsbury pointed out how the sales of new, own-brand products are growing at three times the rate of new branded products, despite 3,000 new product launches in the U.K. during December alone.

Majority of Consumers in Key Markets Prefer Private Label Innovation
Interestingly, Nielsen's study found just under 60% of consumers prefer private label innovation to branded innovation in the UK. These numbers are actually even higher in the US, Asia and LatAm (64%), with the highest percentage of consumers preferring private label innovation in France (80%).

Excerpt From NYT Magazine / **February 20, 2013 / NYT** (By Michael Moss)

The Extraordinary Science of Addictive Junk Food

'Lunchtime Is All Yours'

Sometimes innovations within the food industry happen in the lab, with scientists dialing in specific ingredients to achieve the greatest allure. And sometimes, as in the case of Oscar Mayer's bologna crisis, the innovation involves putting old products in new packages.

The 1980s were tough times for Oscar Mayer. Red-meat consumption fell more than 10 percent as fat became synonymous with cholesterol, clogged arteries, heart attacks and strokes. Anxiety set in at the company's headquarters in Madison, Wis., where executives worried about their future and the pressure they faced from their new bosses at Philip Morris.

Bob Drane was the company's vice president for new business strategy and development when Oscar Mayer tapped him to try to find some way to reposition bologna and other troubled meats that were declining in popularity and sales. I met Drane at his home in Madison and went through the records he had kept on the birth of what would become much more than his solution to the company's meat problem. In 1985, when Drane began working on the project, his orders were to “figure out how to contemporize what we've got.”

Drane's first move was to try to zero in not on what Americans felt about processed meat but on what Americans felt about lunch. He organized focus-group sessions with the people most responsible for buying bologna — mothers — and as they talked, he realized the most pressing issue for them was time. Working moms strove to provide healthful food, of course, but they spoke with real passion and at length about the morning crush, that nightmarish dash to get breakfast on the table and lunch packed and kids out the door. He summed up their remarks for me like this: “It's awful. I am scrambling around. My kids are asking me for stuff. I'm trying to get myself ready to go to the office. I go to pack these lunches, and I don't know what I've got.” What the moms revealed to him, Drane said, was “a gold mine of disappointments and problems.”

The Extraordinary Science of Addictive Junk Food

He assembled a team of about 15 people with varied skills, from design to food science to advertising, to create something completely new — a convenient prepackaged lunch that would have as its main building block the company's sliced bologna and ham. They wanted to add bread, naturally, because who ate bologna without it? But this presented a problem: There was no way bread could stay fresh for the two months their product needed to sit in warehouses or in grocery coolers. Crackers, however, could — so they added a handful of cracker rounds to the package. Using cheese was the next obvious move, given its increased presence in processed foods. But what kind of cheese would work? Natural Cheddar, which they started off with, crumbled and didn't slice very well, so they moved on to processed varieties, which could bend and be sliced and would last forever, or they could knock another two cents off per unit by using an even lesser product called “cheese food,” which had lower scores than processed cheese in taste tests. The cost dilemma was solved when Oscar Mayer merged with Kraft in 1989 and the company didn't have to shop for cheese anymore; it got all the processed cheese it wanted from its new sister company, and at cost.

Drane's team moved into a nearby hotel, where they set out to find the right mix of components and container. They gathered around tables where bagfuls of meat, cheese, crackers and all sorts of wrapping material had been dumped, and they let their imaginations run. After snipping and taping their way through a host of failures, the model they fell back on was the American TV dinner — and after some brainstorming about names (Lunch Kits? Go-Packs? Fun Mealz?), Lunchables were born.

The trays flew off the grocery-store shelves. Sales hit a phenomenal $218 million in the first 12 months, more than anyone was prepared for. This only brought Drane his next crisis. The production costs were so high that they were losing money with each tray they produced. So Drane flew to New York, where he met with Philip Morris officials who promised to give him the money he needed to keep it going. “The hard thing is to figure out something that will sell,” he was told. “You’ll figure out how to get the cost right.” Projected to lose $6 million in 1991, the trays instead broke even; the next year, they earned $8 million.

The Extraordinary Science of Addictive Junk Food

With production costs trimmed and profits coming in, the next question was how to expand the franchise, which they did by turning to one of the cardinal rules in processed food: When in doubt, add sugar. “Lunchables With Dessert is a logical extension,” an Oscar Mayer official reported to Philip Morris executives in early 1991. The “target” remained the same as it was for regular Lunchables — “busy mothers” and “working women,” ages 25 to 49 — and the “enhanced taste” would attract shoppers who had grown bored with the current trays. A year later, the dessert Lunchables morphed into the Fun Pack, which would come with a Snickers bar, a package of M&M's or a Reese's Peanut Butter Cup, as well as a sugary drink. The Lunchables team started by using Kool-Aid and cola and then Capri Sun after Philip Morris added that drink to its stable of brands.

Eventually, a line of the trays, appropriately called Maxed Out, was released that had as many as nine grams of saturated fat, or nearly an entire day's recommended maximum for kids, with up to two-thirds of the max for sodium and 13 teaspoons of sugar.

When I asked Geoffrey Bible, former C.E.O. of Philip Morris, about this shift toward more salt, sugar and fat in meals for kids, he smiled and noted that even in its earliest incarnation, Lunchables was held up for criticism. “One article said something like, ‘If you take Lunchables apart, the most healthy item in it is the napkin.’ ”

Well, they did have a good bit of fat, I offered. “You bet,” he said. “Plus cookies.”

The prevailing attitude among the company's food managers — through the 1990s, at least, before obesity became a more pressing concern — was one of supply and demand. “People could point to these things and say, 'they’ve got too much sugar, they’ve got too much salt,’ ” Bible said. “Well, that's what the consumer wants, and we’re not putting a gun to their head to eat it. That's what they want. If we give them less, they’ll buy less, and the competitor will get our market. So you’re sort of trapped.” (Bible would later press Kraft to reconsider its reliance on salt, sugar and fat.)

The Extraordinary Science of Addictive Junk Food

When it came to Lunchables, they did try to add more healthful ingredients. Back at the start, Drane experimented with fresh carrots but quickly gave up on that, since fresh components didn't work within the constraints of the processed-food system, which typically required weeks or months of transport and storage before the food arrived at the grocery store. Later, a low-fat version of the trays was developed, using meats and cheese and crackers that were formulated with less fat, but it tasted inferior, sold poorly and was quickly scrapped.

When I met with Kraft officials in 2011 to discuss their products and policies on nutrition, they had dropped the Maxed-Out line and were trying to improve the nutritional profile of Lunchables through smaller, incremental changes that were less noticeable to consumers. Across the Lunchables line, they said they had reduced the salt, sugar and fat by about 10 percent, and new versions, featuring mandarin-orange and pineapple slices, were in development. These would be promoted as more healthful versions, with "fresh fruit," but their list of ingredients — containing upward of 70 items, with sucrose, corn syrup, high-fructose corn syrup and fruit concentrate all in the same tray — have been met with intense criticism from outside the industry.

One of the company's responses to criticism is that kids don't eat the Lunchables every day — on top of which, when it came to trying to feed them more healthful foods, kids themselves were unreliable. When their parents packed fresh carrots, apples and water, they couldn't be trusted to eat them. Once in school, they often trashed the healthful stuff in their brown bags to get right to the sweets.

This idea — that kids are in control — would become a key concept in the evolving marketing campaigns for the trays. In what would prove to be their greatest achievement of all, the Lunchables team would delve into adolescent psychology to discover that it wasn't the food in the trays that excited the kids; it was the feeling of power it brought to their lives. As Bob Eckert, then the C.E.O. of Kraft, put it in 1999: "Lunchables aren't about lunch. It's about kids being able to put together what they want to eat, anytime, anywhere."

Excerpt From NYT Magazine / **February 20, 2013 / NYT** (By Michael Moss)

The Extraordinary Science of Addictive Junk Food

Kraft's early Lunchables campaign targeted mothers. They might be too distracted by work to make a lunch, but they loved their kids enough to offer them this prepackaged gift. But as the focus swung toward kids, Saturday-morning cartoons started carrying an ad that offered a different message: "All day, you gotta do what they say," the ads said. "But lunchtime is all yours."

With this marketing strategy in place and pizza Lunchables — the crust in one compartment, the cheese, pepperoni and sauce in others — proving to be a runaway success, the entire world of fast food suddenly opened up for Kraft to pursue. They came out with a Mexican-themed Lunchables called Beef Taco Wraps; a Mini Burgers Lunchables; a Mini Hot Dog Lunchables, which also happened to provide a way for Oscar Mayer to sell its wieners. By 1999, pancakes — which included syrup, icing, Lifesavers candy and Tang, for a whopping 76 grams of sugar — and waffles were, for a time, part of the Lunchables franchise as well.

Annual sales kept climbing, past $500 million, past $800 million; at last count, including sales in Britain, they were approaching the $1 billion mark. Lunchables was more than a hit; it was now its own category. Eventually, more than 60 varieties of Lunchables and other brands of trays would show up in the grocery stores. In 2007, Kraft even tried a Lunchables Jr. for 3- to 5-year-olds.

In the trove of records that document the rise of the Lunchables and the sweeping change it brought to lunchtime habits, I came across a photograph of Bob Drane's daughter, which he had slipped into the Lunchables presentation he showed to food developers. The picture was taken on Monica Drane's wedding day in 1989, and she was standing outside the family's home in Madison, a beautiful bride in a white wedding dress, holding one of the brand-new yellow trays.

During the course of reporting, I finally had a chance to ask her about it. Was she really that much of a fan? "There must have been some in the fridge," she told me. "I probably just took one out before we went to the church. My mom had joked that it was really like their fourth child, my dad invested so much time and energy on it."

***Excerpt From NYT Magazine /* February 20, 2013 / NYT** (By Michael Moss)

The Extraordinary Science of Addictive Junk Food

Monica Drane had three of her own children by the time we spoke, ages 10, 14 and 17. “I don't think my kids have ever eaten a Lunchables,” she told me. “They know they exist, and that Grandpa Bob invented them. But we eat very healthfully.”

Drane himself paused only briefly when I asked him if, looking back, he was proud of creating the trays. “Lots of things are trade-offs,” he said. “And I do believe it's easy to rationalize anything. In the end, I wish that the nutritional profile of the thing could have been better, but I don't view the entire project as anything but a positive contribution to people's lives.”

Today Bob Drane is still talking to kids about what they like to eat, but his approach has changed. He volunteers with a nonprofit organization that seeks to build better communications between school kids and their parents, and right in the mix of their problems, alongside the academic struggles, is childhood obesity. Drane has also prepared a précis on the food industry that he used with medical students at the University of Wisconsin. And while he does not name his Lunchables in this document, and cites numerous causes for the obesity epidemic, he holds the entire industry accountable. “What do University of Wisconsin M.B.A’.s learn about how to succeed in marketing?” his presentation to the med students asks. “Discover what consumers want to buy and give it to them with both barrels. Sell more, keep your job! How do marketers often translate these ‘rules’ into action on food? Our limbic brains love sugar, fat, salt. . . . So, formulate products to deliver these. Perhaps add low-cost ingredients to boost profit margins. Then 'supersize’ to sell more … And advertise/promote to lock in ‘heavy users.’ Plenty of guilt to go around here!”

Best-Selling Brands of 2013 Delivered Health Benefits, Convenience

By Rose Anthony / CPGMatters.com - 3-17-14

Some 190,000 new UPCs and 9,500 new CPG brand launches were placed on store shelves in 2013 to tempt picky consumers to toss them into their shopping carts. So which ones were the most successful?

According to research by Information Resources, Inc., most of the winning products offered health benefits and convenience in both food and non-food categories. The top products ranged from Greek yogurts and energy drinks to conveniently-packaged laundry detergent and coffee.

IRI's 2013 New Product Pacesetters report is an industry-recognized benchmark analysis of exceptional first-year CPG sales success for newly launched products.

"Manufacturers are always striving to create breakthrough innovation. Our impressive list of the 2013 Pacesetters, which earned an average of $35 million in their first year, is no exception, as these products fuel accelerated growth and serve as catalysts for excitement in the CPG arena," said Larry Levin, executive vice president and practice leader, IRI.

Susan Viamari, editor, Thought Leadership, IRI, said, "Innovation in 2013 is all about healthier-for-you products. 'Healthy' is truly everywhere. From food and beverages to hair care, skin care, and even pet food and cleaning products, consumers not only want to look and feel their best, but they want improved wellness to extend to their homes and pets, too."

A whopping seven of the top 10, and 73 of the top100 food and beverage products launched in 2013 offered a healthier-for-you benefit.

Consumers are still seeking a healthy, convenient way to become or stay light and fit, so three yogurt lines made the "top10" ranking this year, with Dannon Light & Fit Greek capturing the top spot. Overall, the most prevalent "add" in 2013's Pacesetters brands was fiber and/or whole grains, which was/were found in 42% of the new launches. In addition, the report underscores that "dieting" has evolved into "nutritional management." Consumers are looking for products that remove or limit less desirable attributes, so products offering lower calories, less sugar and fewer ingredients are hitting just the right note.

Best-Selling Brands of 2013 Delivered Health Benefits, Convenience – *Cont'd*

By Rose Anthony / CPGMatters.com - 3-17-14

In the non-food arena, average year-one-dollar sales for the top100 brands were $34 million. The best-selling launches of 2013 demonstrated the power of promising healthier, worry-free expectations and experiences, as well as of providing economical options.

Earning $2 billion in aggregate year-one launch sales, 48 out of the top100, non-food Pacesetters deliver wellness. And, for the first time in recent Pacesetter history, three home-care products achieved top-10 status, including Tide Pods, Ajax Triple Action and Downy Infusions. Hair-care marketers are also "going big" with results, experiences and value, with L'Oreal's Advanced Haircare and Vidal Sassoon Pro Series securing top spots.

Here are the top ten: Tide Pods, L'Oréal Advanced Haircare, ZzzQuil, Vidal Sassoon Pro Series, Clear Scalp & Hair Therapy, Downy Infusions, Ajax Triple Action, Always/Tampax Radiant, Secret Outlast and Puffs Basic.

In the convenience-store arena, average year-one sales across the top10 IRI New Product Pacesetters were an astounding $94 million.

To IGNITE Innovation, return to THINKING BIG!

October 2018

5 Reasons Organizations Don't Pursue Big Ideas (e.g., Big Bang Ideas)

During the financial crises of 2008, organizations pulled back from "thinking big" and embraced small, incremental ideas. The problem with this is these ideas still require investment of time, energy and money but with very little financial and emotional return. The result is a lot of "talk but no action" on bigger ideas.

To IGNITE Innovation, return to THINKING BIG!

Top 5 reasons why CEOs say their organization does not THINK BIG:

1. ***"Our Success Standards are just too LOW."*** *Research on $17 Billion worth of innovations shows that successful companies success standards are much higher than unsuccessful companies. Most companies testing standards for "go" decisions on innovations were fine in the 80's, but today - with the more crowded marketplace - they are are 2 standard deviations too low.* ***Quite simply - what was good enough yesterday is not today.***

2. ***"We don't trust our development system, so we PLAY IT SAFE"*** *Most organizations only pursue ideas they already know how to execute. If an idea has serious technical, financial, manufacturing, sales or marketing challenges they "chicken out" and play it safe. They do this because they don't believe their people, teams, company, system, bureaucracy can problem solve the challenges. What's needed is* ***INNOVATION ON THE INNOVATION SYSTEM****. This means investing in education, tools and systems for innovating faster, smarter and more creatively. THINK - is your innovation system faster, more effective and successful than it was a year ago? If not, what are you waiting for?* ***It's time to take action.***

To IGNITE Innovation, return to THINKING BIG!

3. ***"The Aim of Our System is to CONTROL not ENABLE"*** *Most innovation/NPD systems are designed to **prevent failure as opposed to accelerate success**. THINK - does your system enable employees during development to experiment, explore, and discover ways to work smarter and create bigger and bolder ideas? OR, is it designed to prevent waste, mistakes and failure at all costs?*

4. ***"We have no ability to Fail FAST and Fail CHEAP" In Development.*** *When feedback loops during the development process are slow and expensive there will be **NO BIG IDEAS**. When it takes, say, two months to test a new product formulation then employees will play it safe. Alternatively, when during development, employees can prototype and test ideas fast and cheap they run bolder experiments - and in the process discover ways to upgrade their innovation making it **bigger, bolder and more successful.** It all starts with a <u>mindset</u> - is the aim of development to create bigger and more successful ideas or is the aim of development to simply find a way to get the idea as defined executed?*

5. ***"There is no Pride of Work".*** *Today's corporate structure has replaced pride of work with profit per case. Craftsmanship has been replaced with task completion. Personal passion with KPI bribery. What's needed is a transformation from Command and Control to the U.S. and Canadian military's method of enabling front line troops called <u>Commanders Intent</u>. Leaders move from being dictatorial managers to inspirational leaders. Leadership sets the mission, explaining what and why … and then the front line folks turn the mission into reality*

What You Might *Start – Stop – Continue*

Start

Placing the development of leaders and the nurturing of talent at the center of what you do

- Philosophy should include calibration sessions, career planning, providing coaching and development and training opportunities etc.

Increasing R&D capabilities and capacity

- Have you increased your investment the past 3 years in Innovation and Insights? If so, was it matched in R&D?
- R&D is usually significantly underfunded in many CPG/FMCP companies given their competitive set and many (most!) usually operate in a ***permanent fire-drill mode*** limiting their ability to look out beyond 6 months
  - This situation keeps R&D from devoting resources to longer term technology platforms

Developing a 3-year Strategic Plan, including a Development Plan, that cascades across and down from the Corporate level to each BU, Brand and appropriate functional group provides a framework, roadmap and specific initiatives plus accountabilities and timing for aligning priorities and allocating resources

- Historically, most CPG/FMCP firms only have an Annual Operating Plans, which leads to a series of tactical activity rather than strategic decisions and initiatives

Asserting your category / thought leadership in your key category(ies)

- Have you visited your top 10 customers in the past six months, and asked for more consumer + shopper insights and category leadership in a category ***they believe represents expandable / incremental consumption***

What You Might *Start – Stop – Continue*

Stop

Cutting investment in core long term growth areas such as innovation to make a quarter / year

- It is too easy to cut innovation/NPD budgets and very difficult to recover
- Do not believe give 'bonus' credit to senior leaders for cutting innovation that effectively mortgages the future to cover today
  - Do not view and operate Innovation/NPD like a **water faucet: off/on!** Unacceptable!

Continue

Support an entrepreneurial approach to innovation/NPD and how you go to market more generally as an organization

- While guided by a disciplined, insight-driven process, is your approach more entrepreneurial and creative, which enables you to move quickly and to leverage the passion of individuals and teams… in a start-up kind of way?

Invest in your research and insights capabilities

- Or *nothing big will happen!*

3 Principles of Innovation

By Marcel Corstjens and Gregory S. Carpenter | Jan 15, 2019

Leading consumer goods companies can revive their flagging innovation capacities by investing differently

Disruption in slow motion has been the theme of the consumer goods industry in recent years. Despite rising global demand, the biggest FMCG companies are being out-maneuvered in the marketplace by agile, digital-savvy upstarts. The little kids are stealing the big kids' lunch – between 2011 and 2016, US$22 billion in FMCG sales shifted from larger to smaller companies in North America alone, according to Boston Consulting Group.

Why isn't the enormous resource advantage enjoyed by industry leaders enough to propel them ahead of the trends? A large part of the answer resides in their poor innovation track record. Our recent, "The Promise of Targeted Innovation", presents original research showing that the larger brand owners are achieving no appreciable impact on sales and revenue through innovation, despite annual R&D spending in excess of US$1 billion on average. These leading firms' marketing investments, by contrast, have had a strong positive correlation with sales results.

Take for example FMCG heavyweight Procter & Gamble, the once-indomitable innovator that gave us such supermarket staples as Tide laundry detergent and Crest toothpaste. A tenet of the company used to be "Good science will win", and Cincinnati's conception of "good science" comprised R&D, market research and market testing. Since 1999, the year P&G introduced the Swiffer, the company has poured more than US$38 billion into R&D. Yet the long-in-the-tooth Swiffer remains its youngest blockbuster brand. P&G's innovation doldrums are doubtless a contributing factor to its slumping sales in recent years.

By contrast, many companies that have invested more modestly in innovation have seen far better sales results. This group includes German companies Henkel and Beiersdorf, L'Oréal in France – and the U.K.'s Reckitt Benckiser, maker of Strepsils lozenges, Dettol soap and other leading international consumer health brands.

3 Principles of Innovation

Reckitt's innovation philosophy

Reckitt's R&D outlay for the entire post-Swiffer period totals US$2 billion, a tiny fraction of Procter & Gamble's. Moreover, Reckitt's innovation investments for the same years represent just 1.53 percent of overall revenues – compared to 3.17 percent for P&G.

The Sloan article looks closely at Reckitt's R&D activity to explore how some firms in consumer goods are achieving more with less. We call this style of innovation investment "Lorenzian", as an homage to mathematician Edward Lorenz, a pioneer of chaos theory. Lorenz's insight was that small things can set momentous events in motion, like the proverbial butterfly's wings triggering a tornado. The opposite approach exemplified by companies like Unilever and P&G is what we term "Newtonian", based on Sir Isaac Newton's law that every action has an equal and opposite reaction – i.e. if you want big returns, invest hugely. (Or, as these large companies call it, "bigger, better, faster".) The numbers show that at least in the consumer goods sector, the neatness of the Newtonian symmetry no longer applies.

The answer for Newtonian companies may not be to shrink their investments to Lorenzian scale. But if they are going to continue their R&D extravagance, there are three possible ways they can start investing more wisely.

Three principles for targeted innovation
Make more small bets and fewer big ones. Reckitt's innovation emphasizes incremental tweaks to existing products carefully chosen to make big headway with consumers. The company plumbs consumer research to devise successive revisions to its best-sellers, such as adding a rinse agent, salt and a protective ingredient for ceramic glaze to its Finish dishwashing detergent.

3 Principles of Innovation

This judicious, data-driven approach may appear far removed from the glamour and glory associated with "disruptive innovation". But in reality, watershed innovations such as the iPhone would not have been possible without a constellation of minor technical breakthroughs behind the scenes. There are a host of instructive examples from the sports world as well. Consider the "moneyball" philosophy developed by baseball team the Oakland Athletics, or the U.K. cycling team's unexpectedly successful showing at the 2012 Olympics, partly powered by "marginal gains" such as the addition of muscle-restoring fish oil to athletes' diets. The sports parallel is not lost on Reckitt's former CEO Bart Becht, who has said, "Innovation is about getting many base hits and occasionally hitting the home run. You very rarely win a baseball game just by hitting home runs."

Buy in new ideas. Newtonian companies can maximize R&D returns by opting to purchase innovations originating from outside the organization, thereby outsourcing risky R&D to companies better suited for the job.

For example, Nestlé recently inked a deal for six-month exclusive access to Swiss private-label chocolate supplier Barry Callebaut's newly created ruby chocolate – marketed as the first new color of natural chocolate since white was introduced some 80 years ago. Barry Callebaut has kept the recipe for ruby chocolate a closely guarded secret, claiming only that it is an all-natural process involving "ruby cocoa beans" that have not undergone genetic modification. In early 2018, Nestlé launched a ruby chocolate KitKat bar in Japan and South Korea, just in time for Valentine's Day.

Alternatively, companies can redirect financial resources into acquisitions, as when Unilever bought Dollar Shave Club, or PepsiCo purchased SodaStream, a maker of home carbonated beverage devices.

Get marketing and R&D to cooperate. Fantastic innovations that are badly marketed will struggle undeservedly. Yet many big tech firms that are ploughing money into R&D expect their marketing departments to run on a comparable shoestring.

3 Principles of Innovation

Conversely, imbalance of power in the consumer goods industry works in favor of marketing, with R&D generally taking a backseat. This may help explain why the Newtonians' investments in innovation are not driving sales, while marketing outlays are paying off handsomely. Before they can increase their sales impact, then, R&D managers should seek a foothold nearer the summit of organizational influence. They should take the lead in finding external candidates for partnership and acquisition, in addition to embedding themselves in the ecosystems where new ideas are being generated. Once they have found the next big thing, they will require an expanded political skillset to ensure that they have the ear of key decision makers.

The big spenders of the consumer goods industry may do well to direct their considerable resources towards developing R&D managerial talents capable of being strong, enthusiastic innovation champions within large organizations – or sourcing such talent outside the firm.

The Promise of Targeted Innovation

Marcel Corstjens, Gregory S. Carpenter, and Tushmit M. Hasan / December 10, 2018

- https://sloanreview.mit.edu/article/the-promise-of-targeted-innovation/amp

Large players in the consumer goods industry might see better returns from their R&D if they copied their smaller competitors.

Who are the kings of R&D spending? High tech and health care, of course. These sectors each account for nearly one-quarter of global R&D.[1] Consumer goods companies? They're near the bottom, at just less than 3%.[2] But what they do spend is hardly trivial. The largest consumer goods companies each lay out more than $1 billion annually. Spending by one of the biggest, Procter & Gamble, has averaged about $2 billion per year for the past decade.[3]

What have these behemoths gotten in return for their hefty R&D outlays? Virtually nothing from a sales perspective. In an industry analysis, we found that the consumer-packaged goods sector's biggest R&D spenders saw no appreciable impact on revenue. That's troubling for companies whose growth has plateaued over the past five years, as new competitors have challenged established brands.

At the company level, however, the picture is more nuanced: Even though (true to the industry average) companies that spent heavily on R&D — such as P&G and Unilever — saw no measurable impact on sales, some outfits that spent less on R&D showed a significant positive correlation. For example, Henkel and Beiersdorf, both in Germany, enjoyed a revenue boost, as did L'Oreal of France and Reckitt Benckiser in the United Kingdom. We'd term Henkel and L'Oreal, which have roots in the chemical industry, as medium spenders and the others as modest spenders.

It turns out, as economist E.F. Schumacher wrote, small really can be beautiful.[4] Of course, incremental innovation — reaping healthy returns with small, iterative improvements — isn't a new idea. Apple has famously boosted sales of its iPhones with incremental tweaks in each product cycle, and brand-name prescription drugs sometimes offer modest upgrades over prior treatments or generic alternatives. But conventional management wisdom, based on years of research, still holds that R&D productivity depends on industrial might: Big companies can spend more on innovation, and as a result, they innovate more — and better.

- To see rest of article go to: https://sloanreview.mit.edu/article/the-promise-of-targeted-innovation/amp

NPD Forecasting: One Example Only from a Vendor

***What IF** ... you could estimate new product potential at the earliest stages of development? Now you CAN:*

INNOVATION FORECASTER / *for Future New Products*

Sizing the volume potential of new product ideas often occurs later in the development process than desired. It entails a variety of approaches including concept testing, market structure creation, data from previous introductions – and a fair dose of judgment and experience.

Brand teams and business units spend enormous resources developing ideas, only to have them deliver minimal impact in-market, risking compromise in the very resource investments that might potentially have delivered much larger ideas. That's why we developed Innovation Forecaster.

Need: Generate greater return.

- *Earlier volume potential estimate.*
- *Set proper expectations*
- *Better resource allocation*
- *Faster decision-making.*
- *Valuable learning prior to concept development, written project charters, and substantial research spending.*

Resources and Constraints:

Marketers may have access to prior new product introduction marketplace information or or can gain access to data for a fee, BUT - they don't have the resources to synthesize those data or write the software to turn prior learning into a reusable predictive tool.

Solution:

On a product category-by-product category basis, create an early prediction, category-specific, customized model using available data that will estimate the volume potential for new product ideas and deliver easy-to-use, portable software with just a handful of marketing assumptions.

Benefits:

Gain greater control and understanding of the early stages of the new product development process. Understand and set reasonable expectations in the discovery or exploration phases. Save time, money, and substantive internal and external resources on ideas with low probability of major marketplace impact

COMPLEMENTARY TOOLS:

Trial Estimator: Provides the estimated trial rate needed to achieve a year-one volume objective.

Year-Two Volume Estimator:

Year-one/year-two new product volumes (prior to launch) based on ingoing marketing assumptions, customizable to different product categories.

New Product Launch Tracker: Sequentially updates year-one volume forecast after each period of in-market data.

How to make sure your next product or service launch drives growth

McKinsey / October 2017

Fifty percent of launches don't hit their targets. Launch champions follow these four rules.

Any company looking to boost revenue growth needs to launch new products or services. More than 25 percent of total revenue and profits across industries comes from the launch of new products, according to a McKinsey survey (Exhibit 1). (1)

Recent research has also shown that companies that focus on creating new products and services while maintaining core competencies across functions grow faster than their peers. And as companies look to future growth, the overwhelming majority expect it to come from creating new products, services, or business models. (2)

In the search for growth, companies have been increasing R&D spend year-on-year since 2005, now totaling over $1.5 trillion globally (equivalent to the GDP of Canada).

Yet despite this investment and the importance of developing successful new products, our research has shown that more than 50 percent of all product launches fail to hit business targets.

Why is it so difficult to launch a product or service?

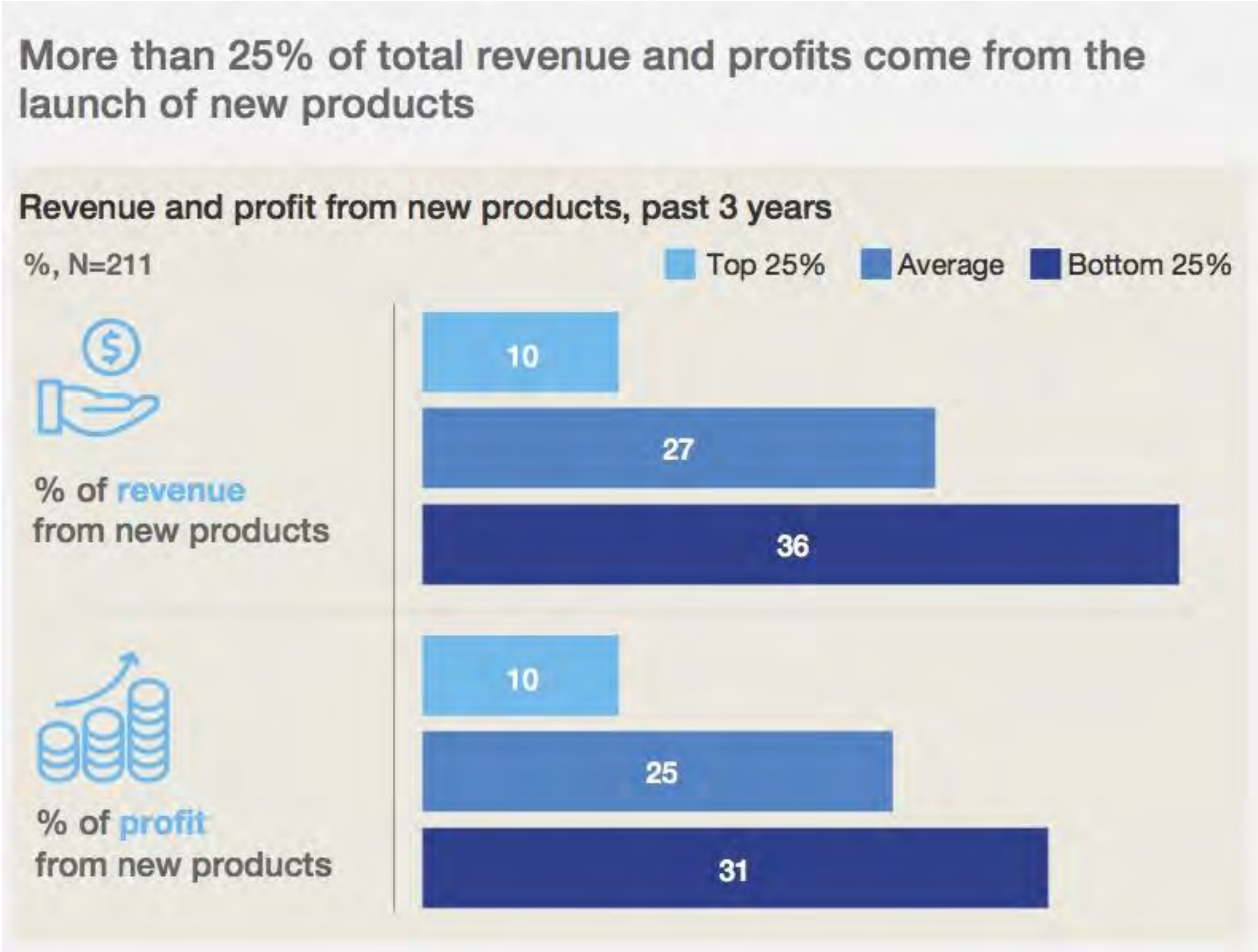
Technology has made good product launches more challenging. It has lowered the bar for product development, allowing companies and startups to roll out more launches more quickly and cheaply. Digital technologies in particular have allowed companies to rapidly pilot and scale new services, from loyalty programs to support for existing products.

On top of that, myriad digital platforms from email to Snapchat have led to a barrage of messaging and communications, making it harder for products to stand out. That fact might explain why American families repeatedly buy the same 150 products that make up some 85 percent of their household needs. (3)

1 McKinsey cross-industry launch survey with 50+ senior executives.
2 "Invest, Create, Perform: Mastering the three dimensions of growth in the digital age," March 2017, McKinsey.com.
3 "Why most product launches fail," Harvard Business Review, April 2011.

How to make sure your next product or service launch drives growth – *Cont'd*

Exhibit 1



Source: American Productivity & Quality Center (APQC) and Product Development Institute (PDI) study, 2011

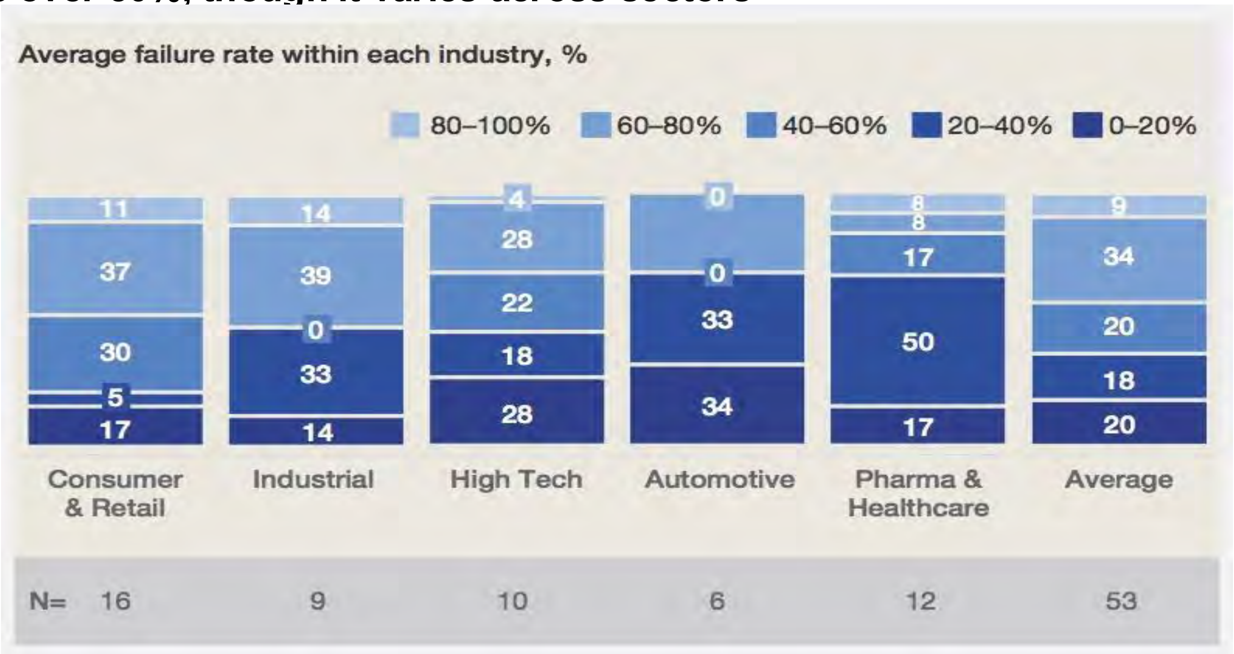
How to make sure your next product or service launch drives growth – *Cont'd*

In analyzing product and service launches across industries, we noted plenty of variation in terms of frequency, average spend, and launch type—especially between completely new products, which dominate in pharma, as opposed to just upgrades or line extensions, as is often the case in consumer companies. Despite the variation, failure rates are high across the board (Exhibit 2).

Interestingly, this failure rate holds across different launch types. While one might expect the launch of completely new products to be less successful because of the complexities of changing consumer perceptions and habits, their failure rate is comparable to the launch of incremental changes in familiar products. Clearly, the complexity of the product doesn't have much of an effect on the launch.

Neither does money, as it turns out. Our research showed no correlation between the amount invested in a launch and the rate of success. Nor is there a correlation with the average frequency of launches. Just because you do it more doesn't mean that you get any better at doing it, according to the data.

Exhibit 2
Failure rates are over 50%, though it varies across sectors



Source: McKinsey cross-industry launch survey, 2015

How to make sure your next product or service launch drives growth – *Cont'd*

Launch champions: What they do right

What turns out to really matter is having in place a specific set of core capabilities, the most important of which are team collaboration, incorporation of market insights, rigorous planning of upcoming launches, and growing talent (Exhibit 3).

However, most businesses do not have a clear sense of which launch capabilities really matter, nor do they have a systematic program for investing in them. Even executives seem to admit this shortfall. Most companies rate themselves as poor performers across the most crucial launch capabilities, with only a few rating themselves above average. As might be expected, performance varies per sector. For example, 50 percent of automotive executives rate their performance in "growing talent" as good, compared with only 24 percent in pharma.

Here is what the best companies do to win when it comes to product and service launches:

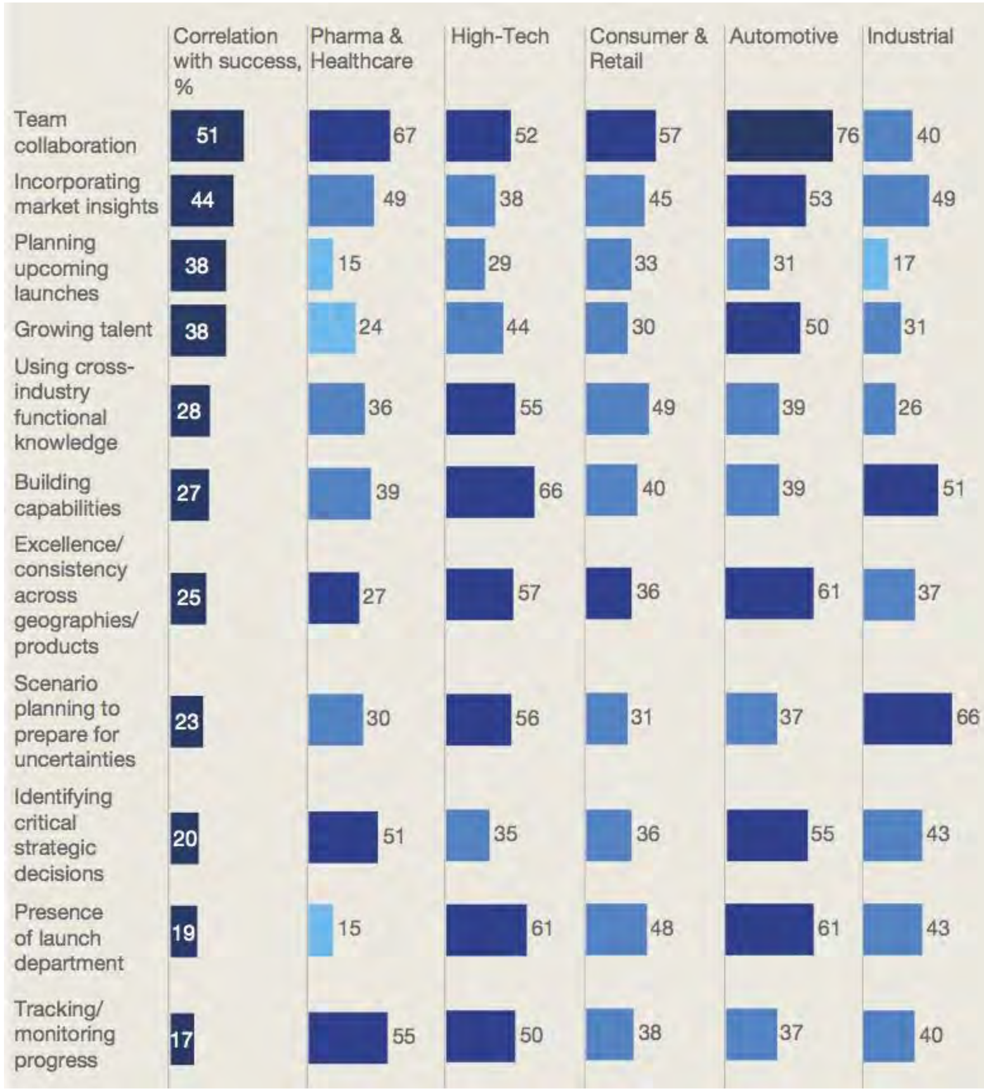
Build an organization for collaboration

In our survey, the single most important driving force behind successful commercial launches (averaged across sectors) was team collaboration, especially the ability to unite around one direction and to execute as a team. That level of collaboration is hard to achieve in most businesses, since different functions with different reporting structures and incentives are responsible for different elements of the product launch.

How to make sure your next product or service launch drives growth – *Cont'd*

Exhibit 3

Specific launch capabilities correlate with success



Source: McKinsey cross-industry launch survey, 2015

How to make sure your next product or service launch drives growth – *Cont'd*

To counter this issue, the best performers establish a cross-functional launch department to orchestrate and integrate activities across functions and geographies. This department operates like a center of excellence overseeing the full portfolio of launches and is the mechanism for bringing the right people together—marketers, social-media experts, developers, customer-service people, designers, etc.

For example, a German packaging company pulls together a launch team that combines technical, commercial, and regional stakeholders under a strong launch manager at the beginning of the product-development process. This greatly accelerates the process because the people who can make decisions are working together. This sort of collaboration and cross-pollination of ideas and expertise also often leads to better launch ideas.

The launch department allocates budgets, usually with the direct approval of the CMO or sometimes even the CEO and assigns managers to each launch who have end-to-end responsibility and are empowered to make decisions.

This group is also the keeper of all lessons learned about best practices in launching products and provides guidance, for example, on how to do a large launch as opposed to a smaller one. They develop comprehensive playbooks to standardize the best approaches, which then guide product-launch teams.

Excellence in strategy and planning

Product launches are often complicated and expensive, with costs spiraling out of control. A sound strategy and clear plan are indispensable. A strategy should articulate exactly what the business wants to achieve with the product or service, including which customers to target, what key message to communicate, and which three to five critical decisions will best drive those outcomes.

These strategic decisions have to be made early enough in the development process for the launch team to think through what they mean for the launch itself. When Fiat launched its Fiat 500, for example, it wanted to shift perceptions away from Fiat cars as merely "functional" and increase awareness of the car's style. The product-launch team decided to ask customers for their opinions about how to design the interior. The idea wasn't so much to get input on design — there was limited flexibility in what could be done—but to get people talking about style and associating it with Fiat. To do this, the launch team needed to be involved early on in the car's development process.

How to make sure your next product or service launch drives growth – *Cont’d*

A firm strategy is the basis for a detailed launch plan, which identifies critical paths, resources, and decisions needed for success. In developing the launch plan, the best companies have a laser focus on launch ROI (gross margin/launch investment) to determine if launch activities actually deliver value. Launch ROI shifts the emphasis to metrics that track outcomes, such as preorders, instead of inputs, such as number of launch events or number of walk-ins.

A good launch plan also provides transparency between headquarters and the responsible teams at the country level, who are responsible for both building on and implementing it. High levels of transparency and clarity are particularly important for large global launches, which often have 600 or 700 items associated with a launch, such as collateral, messaging, brochures, coupons, and web campaigns. A good plan should identify what activities need to happen when, and who has responsibility for each one.

The plan should also identify potential risk scenarios—what happens, for example, if a competitor launches a campaign for a competing product just before launch? — and develop risk-mitigation actions that enable rapid course correction.

The German packaging company cited above brings together strategy and planning by instituting a stringent launch tracking process, which measures commercial and technical progress. Commercial progress is tracked across big-idea generation, target- customer definition, use-case development, and go-to-market strategy. This process allows leadership to intervene quickly when issues or opportunities surface.

Invest in insights to tailor programs

A differentiated launch strategy relies on a solid understanding of the market, consumer, and competitive situation. Without that, companies often revert to just pushing out generic slogans and media messages that do little to convert customers. Basic demographic and online analysis is a good start, but the best companies go beyond that to uncover insights into behaviors of (meaningfully) narrow segments of target customers.

One large auto manufacturer, for example, was preparing to launch a new car in China and wanted to reach young families. The original launch plan allocated the vast majority of advertising spend to TV and newspapers, with little focused on the web. However, analysis revealed that young families were going to a set of websites more often than watching TV. The company then scaled back their TV and newspaper advertising and poured more spend into family-oriented websites.

How to make sure your next product or service launch drives growth – *Cont'd*

They also focused on tailoring in-person events to young families where their foot traffic was high. That meant, for example, putting child seats in cars they put on display in malls and developing programs to entertain kids while parents checked out the car.

Build up launch talent

Often hundreds of people are involved in delivering the commercial launch of a product. One mistake in the process can jeopardize the entire launch. Successful companies understand that to deliver on the strategy, they need to invest in training and developing their people. This starts with not just attracting good talent, but also making launch- team roles important and valued, not a career dead end. The best companies develop specific career paths for their launch leaders, with clear milestones for promotion and significant rewards for strong performance.

CEOs can raise the prestige of the launch of a product or service by being actively involved, from announcing launches to reviewing launch plans with the board. They also have a pivotal role in celebrating launch success by communicating it to the business and championing winning launch teams. In this way, they can even create role models for others.

The best companies also develop structured capability-building programs to develop the top 200+ employees involved in crucial commercial launch decisions and activities. At P&G, they have a launch department that pulls together all commercial launch managers into a center of excellence, which helps identify and reward top talent. This organization also becomes the place where up-and-coming leaders are trained

in product-launch excellence and fostering a culture of continuous improvement. Employees are shown how to capture learnings from each launch and use them to refine and improve future launch strategies and processes.

Getting started

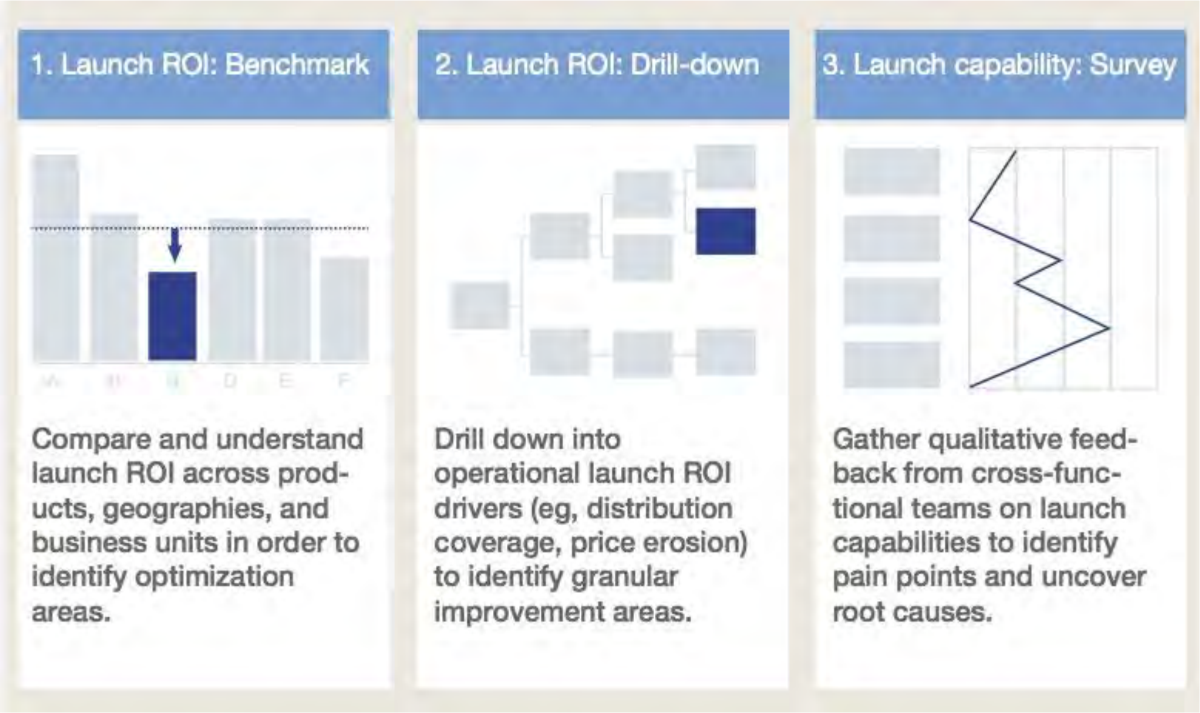
Building up top launch capability is a significant effort. It requires leadership commitment and investing in supporting capabilities. In our experience, developing a strong launch capability requires executives to answer three sets of questions:

How to make sure your next product or service launch drives growth – *Cont'd*

1. What role does the new product/service development play in my corporate strategy?
2. What levers can I pull to capture more value from my launches?
3. What is the return on investment of my product and service launches? Is it better or worse than my peers'? How does it vary by product group/region?

A crucial starting point is a clear and unbiased understanding of current launch capabilities. This analysis not only helps leadership understand where to focus its energies but also provides a source of common knowledge. This is particularly effective in providing a common focus and settling arguments at the leadership level based on different data sources (or, often, no data at all). A three-step launch diagnostic process is proven to provide senior marketers with useful benchmarking data (Exhibit 4).

Exhibit 4
Launch Diagnostic



Compare and understand launch ROI across products, geographies, and business units in order to identify optimization areas.

New Product Extension from Chef Boyardee

New Forms, Categories and Nutritional Benefits

Today, ConAgra's Chef Boyardee brand has expanded from its traditional base of beef ravioli in cans to new ingredients, additional flavors and new forms. The new product extensions include pasta made with cauliflower, pasta in butter sauce, chili mac, and microwaveable cups.

The Chef Boyardee brand is growing and poised for more growth.

Says *Conagra Brands CEO Sean Connolly*:

- *"Chef Boyardee was growing nicely before COVID. It's doing very well now…People are having flashbacks to their childhood."*

The brand was even in the news for a petition to replace the statue of Christopher Columbus in Cleveland with a statue of Chef Boyardee's founder, Clevelander Ettore "Hector" Boiardi.

New Product Extension Objectives: Questions to Address

New Product Extension from Chef Boyardee

In this case study, marketing examined the potential for expanding this brand's equity beyond canned pasta to new forms, new categories and new benefits. They were asked to address the following questions about Chef Boyardee:

- Can Chef go beyond current product forms (i.e., cans) to new product forms that leverage ConAgra in-house technology? (Note that ConAgra has capabilities in many different forms beyond cans)
- Can Chef be a bigger source of nutrition?
- Can Chef move into totally new categories?
- Can Chef offer other sauce/meat options?
- Can Chef move beyond the mini-meal occasion (to multi-serve)?
- Can Chef move from shelf stable to frozen?
- Can Chef expand beyond Italian?

Fast forward to today, and we can see that the Chef Boyardee brand has made a number of these brand extension moves and is capable of more. The line has evolved to address new product forms (cups) and nutrition (cauliflower).

The equity work also indicated that the brand has more extension potential, beyond shelf stable into frozen. Historically, ConAgra had managed its frozen foods business separately from its shelf stable brands, and so it was difficult for a shelf stable business to make the move into frozen. This has not happened to date, to our knowledge. Of course, there is a brand portfolio question for ConAgra, which may have elected to focus on other equities in frozen.

New Product Extension Research Approach

The work approach included three major research work steps to gain consumer perspective, and six management worksessions to ensure alignment. These are outlined below:

Immersion: review of existing information on the brand, management interviews, and understanding of target consumers

New Product Extension from Chef Boyardee

Qualitative focus groups with adult consumers, and kids ages 6 to 12

Robust quantitative research with 1,300 nationally representative consumers. Sample to include 200 teens ages 13-17, over 300 children ages 6-12 and paired responses with their moms, and adult consumers 18-65. Within this sample, there was a large readable sample of Chef Boyardee users, along with lapsed users and nonusers.

Worksessions with working team:

- Review of brand equity findings and first-cut brand pyramid and pillars
- Review quantitative information on extension categories, product forms, and category extension rings
- Due diligence on extension categories, forms, and extension rings
- Three senior management updates

New Product Extension Brand Strengths

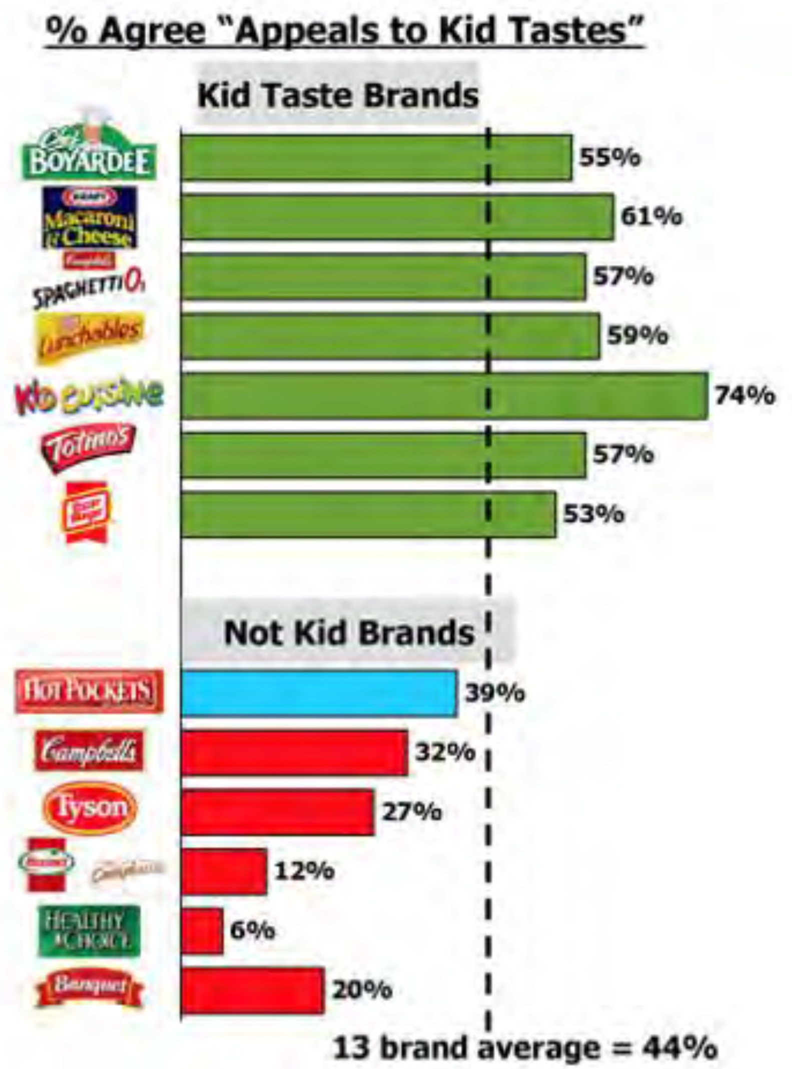
The brand set that is considered quantitatively has a major impact on the findings. After careful consideration, the Chef team chose 12 competitor brands with a mix of both all family and kid taste equities for evaluation. For instance, Campbell's, Hormel and Tyson were included for all family appeal, as well as frozen brands Hot Pockets, Healthy Choice and Banquet. Kid brands included Spaghetti O's, Kid Cuisine (frozen), and Kraft Macaroni and Cheese.

Brand imagery maps were also examined. The data was analyzed among households with and without kids. While some of these logos have evolved, historical logos are included in the chart below for purposes of the case study.

New Product Extension from Chef Boyardee

13 Brands- Broader Competitive Set | **Kid "Tastes" Brands**

Closer in Competitive Set



New Product Extension from Chef Boyardee

Qualitatively and quantitatively, the Chef brand had clear equity strengths

- Known for sauce, meat, taste, filling, affordability and convenience
- Personality of Chef: comforting, happy, cheerful
- Product Benefits: taste, satisfaction, kid happiness
- Product Attributes: filling, comforting, warm, meaty taste
- Nutrition: an area where Chef could improve, though performance was at parity among kid households. Recommendation was that nutrition should continue to be part of the brand

Chef Boyardee New Product Extension Testing Results from Illustrations

Both category assessment and product illustrations were used to test potential new product extensions for Chef. These included direct category associations, correlated associations and 47 new product illustrations that went head-to-head against competitor illustrations.

- The research found that new product forms like microwaveable cups and trays were appropriate and could also bring positive equity to Chef
- It also found that Chef can encompass All-American; e.g., cheesy burger mac)…in addition to Italian, but was not appropriate for other cuisines
- Frozen food options were viable for Chef; e.g., pizza rollers, frozen lasagna

The top performing extensions were in ***new forms with added nutrition and alternative meat*** (this was before plant-based meats) and ***Italian/pizza snacks with sauce***.

New Product Extension from Chef Boyardee

As Chef expands, Italian flavor profile and use of sauce is a closer in opportunity. Also, categories should be assessed from a shelf stable and frozen perspective

Core

Shelf stable pasta products

- New packaging forms (e.g. microwaveable cup or shelf stable tray)
- New flavors
- Added nutrition

Zone 2

Flexi/single occasions

- Warm/filling snacks and appetizers with sauce **(frozen and shelf stable)**
- Frozen single serve meals

Zone 3

All Family 2+ Occasions

- Multi serve Italian frozen
- Chili
- Expansion of kits

Don't Do

- Breakfast
- Beverages
- Bars
- Dry spaghetti
- Toddler foods/meals
- Refrigerated dinners
- Refrigerated pizza crust

The work also identified a number of ***new product extension danger zones***: beverages, breakfast, bars/granola bars, dry spaghetti, toddler foods/meals, refrigerated dinners or refrigerated pizza crust.

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation

McKinsey / September 2018

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In the era of “fast products” and digital disruption, delivering growth requires putting in place new predictive consumer-growth capabilities, including innovation, based on speed, agility, and scale.

Innovation is central to the mission, values, and agenda of most consumer-packaged-goods (CPG) companies. However, in the last several years, incumbent CPGs have struggled to keep pace with start-ups, which have reinvigorated and reinvented categories ranging from ice cream to diapers.

Our analysis of the food and beverage market from 2013–17 reveals that the top 25 manufacturers are responsible for 59 percent of sales but only 2 percent of category growth. Conversely, 44 percent of category growth has come from the next 400 manufacturers.[1] Our experience in working with large consumer companies suggests that they don’t suffer from a lack of ideas; where they struggle is in knowing where to make bets, moving products quickly to launch, and then nurturing them to scale. Effectively driving growth through innovation requires CPG companies to evolve many of the assets and capabilities already in place and adopt significantly different and new ways of working.

This change will not be easy. Many of the innovation systems that need to evolve are deeply entrenched. They have their own brand names, dedicated IT systems, firmly established management routines, and more. However, our work with CPG organizations has convinced us that these changes are necessary and can return significant value. Our analysis of ~350 CPG companies across 21 subcategories found that growth leaders excelled at harnessing commercial capabilities, including innovation. Additional McKinsey analysis has shown that CPG “Creator” companies—those that consistently develop new products or services—grow more than their peers.

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

How did we get here?
For the past two decades, CPG innovation models have been designed to maintain and steadily grow already at-scale brands. This meant that most innovations were largely incremental moves with the occasional one-off disruptive success. This slow and steady approach worked because CPGs didn't really need disruptive innovation to grow. Geographic expansion, pricing, and brand extensions were all successful strategies that kept the top line moving. As a result, most of the systems designed to manage these innovations were optimized for fairly predictable and low-volatility initiatives. They emphasized reliability and risk management.

That very success, however, led to calcified thinking as companies built large brands and poured resources into supporting and protecting them. In recent years, as they have tried to respond to new entrants and rapidly changing consumer needs, CPGs found their innovation systems tended to stifle and stall more disruptive efforts. As the returns from innovation dwindled, companies cut marketing, insights, and innovation budgets to cover profit shortfalls. This created a negative cycle. As a stopgap, many large consumer companies have turned to M&A to fill holes in the innovation portfolio—but on its own, M&A can be a very expensive path to growth with its own difficulties in scalability and cultural fit.

How new upstarts "do" innovation—speed, agility, consumer-first—is not exactly a secret. Many CPGs have made concerted efforts to embrace those attributes by setting up incubators, garages, or labs. They have tried to become agile and use test-and-learn programs. But while there have been notable successes, they tend to be episodic or fail to scale because they happen at the periphery of the main innovation system, or even as explicit "exemptions" from standard processes. Scaled success requires making disruptive innovation part of the normal course of business.

What to learn from today's innovators
Despite the many challenges, there are consumer companies winning in the market and driving profitable growth. Here are four shifts they're making:

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

1. Focus on targeted consumer needs.
All of us can think of innovative products that are competing head-to-head in established categories (some of our favorites include Halo Top, SkinnyPop, and Blue Buffalo). A common denominator for most of them is that they didn't start big but focused instead on a <u>targeted and unmet consumer need</u> that turned out to have broad reach.

That approach stands in stark contrast to the standard CPG model, where companies look for the products that satisfy the largest group ("gen pop"). An important reason for this focus is that many CPGs need an idea to be big enough to make a dent in their business. They also look to get the highest ROI for innovations to amortize the high costs historically required to launch (especially ad campaigns and capital expenditures for new manufacturing). But in a world where it is less expensive and easier than ever for companies to address more targeted needs, and where consumers have never had more choices at their fingertips, gen pop is becoming less and less viable as an objective or requirement.

This isn't to suggest that large CPG firms should stop looking for large and growing opportunities. But the evidence is clear that there are plenty of products that start small and would normally be killed off at a large CPG company, that explode once in the market.

All strong innovation begins with the ability to identify a consumer need that the marketplace isn't addressing. That happens by:

- ***Exploring granular consumer needs with advanced analytics.*** CPG leaders explore opportunities through highly granular, data-rich maps of product benefits, consumer needs, and usage occasions rather than just segments or categories (we call these Growth Maps). These can reveal how a seemingly niche and emerging trend could have surprisingly broad reach and applicability.
- ***Combining many data sources to quickly address tipping-point trends.*** Leaders combine various data sources (consumer, business, technology) to identify market trends that are hitting relevant tipping points. They understand where the most promising trends are, where they have existing capabilities to play, and where they might need to build new muscle. And they bring all this together to rapidly prioritize where to take-action.

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

Using design thinking. By using empathy to uncover unspoken and unmet needs, designing new solutions with consumers and channel partners, and rapidly prototyping and testing, design thinking produces distinctive answers. Importantly, true design thinking continues to incorporate consumer insights and iterate product designs even after initial product launch (see more below). Two leading consumer companies in Japan recently set up "innovation garages" to integrate design thinking into product development methods. They were excited by the power of integrating design into product development methods to produce better, more consumer-driven products radically faster.

2. Launch more "speedboats"—accepting that some of them will sink.

There is a prevailing myth that consumer companies need to do a few big launches a year. Even if that were once true, it no longer is. This approach required large R&D investments, extensive consumer testing to validate willingness to purchase, and massive resources (large advertising, promotion, and distribution budgets)—all in an attempt to predict success and perfect a product before a large, potentially multi-country launch. This mentality assumed the resulting product could not fail once it hit the open market.

However, our findings suggest that putting all this effort and funding to drive a successful launch has not actually provided the desired results. In packaged food, for example, a review of new brands and disruptive innovations launched in 2013 by large CPG companies found that only 25 percent were still around four years later. This success rate is no better than what start-ups and small CPGs achieved with much smaller budgets and programs (Exhibit 1).

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

Exhibit 1 **The 'few big bets' approach by large incumbents has not improved outcomes—winning requires getting more products successfully into market.**

Packaged food, US,
2013-17

[1] Based on brands available and fulfilled by Amazon in Aug 2017 and/or recognized by market reports as share leaders
Source: GNPD, Euromonitor, web search, McKinsey analysis

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

Winning innovators, in contrast, increasingly rely on speedboats: smaller launches where the product is tested and refined in-market.

Take the example of one global CPG that is extensively using "first-purchase testing" to understand why consumers are/are not purchasing a product, then integrating that feedback into further iterations (Exhibit 2). It has been testing real products in multiple nontraditional settings including office buildings, juice shops, and yoga studios. The insights gained from these live settings allow the company to rapidly iterate the product design. Once indicators of success are seen, it moves to rapidly scale the product via Amazon and traditional retailers. The approach works, because in today's ecosystem, there are many distribution channels and digital and social-media outlets to reach consumers less expensively, as well as external networks that can support efficient and productive discovery and development.

Exhibit 2 **Leaders work differently within and across four distinct phases for breakthrough success.**

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The Internet also provides an under-utilized testing ground for speedboats. Many disruptive brands start by marketing direct to consumers, which allows them to hone the product and messaging, while capturing detailed data on purchase behavior. Even without e-commerce, most start-ups are heavily using social media like Facebook to reach targeted audiences with lower cost and risk.

More speedboats, however, can mean more headaches for general managers who have to keep track of more projects and then nurture products to scale. CPG leaders address this through strong portfolio management. They make clear, prioritized choices about the categories and segments in which they will innovate and which ones they will maintain or exit from. They put in place clear processes for tracking performance and new allocation mechanisms to quickly get funds to promising programs. And when they need to scale new bets, they fund them by reinvesting initial proceeds from the speedboats.

3. Think (and act) like a venture investor.

Traditional stage gate processes are very efficient for managing a large pipeline of similar ideas through a relatively standard development pathway. However, when they are used for more disruptive initiatives, they tend to systematically smother or starve them. A different system is required for disruptive innovation.

Consider how venture-capital firms manage their portfolio of investments. They analyze each investment on its own merits, adapting as businesses evolve. They couple funding closely to the progress of the new business and meet at the speed of its progress versus on a predefined calendar. The hurdle rates and KPIs are also different, with emphasis on whether they are gaining consumer traction in addition to improving financials. And more than anything, they are relentless in pushing the pace and urgency of growth.

To deliver on this capability, we often recommend that companies establish their own venture board comprising their strongest leaders. Even though the scale may be small, this is some of the hardest work in the company and the most important to its future. Along with a few outsiders to inject a more objective perspective, this board is responsible for maximizing the return of the more aggressive portfolio—and has complete autonomy to quickly make decisions about it.

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

4. First to scale beats first to market.

Launching disruptive innovation doesn't mean a company always has to be the original inventor. Rather than focusing on first to market, we recommend focusing on first to scale. We found that leading CPG innovators who actively scan the market for high-potential ideas, watch for emerging consumer acceptance and new behaviors, and then jump in before the market landscape has fully evolved have reaped significant rewards. We evaluated 25 high-growth categories in four countries across North and South America, Asia, and Europe. In each, the players who took this approach are winning ~60 to 80 percent of the time; in the US, they win the highest market share 80 percent of the time.

Incumbent CPGs can turn to their ingrained advantages to identify and scale these ideas. Their wealth of consumer data can be used to spot trends earlier than others. Their significant financial and human resources can be disproportionately allocated to hot opportunities. The distribution and account relationships incumbents have across multiple retailers can be used to expand the market for new products more easily and quickly than new players with a smaller network of relationships. Large CPGs are also attractive partners for innovators with insightful ideas but insufficient resources to develop and scale them.

All of the above are incumbents' advantages that many smaller players would love to acquire. Using these advantages to their fullest requires CPGs to adopt a much stronger orientation toward speed, nurture more disruptive bets until they can be scaled, and reallocate resources to the strongest opportunities.

How to get started

Embracing the above shifts will require meaningful changes. In our experience, the changes are not only eminently achievable, but also reenergize the organization as they make innovation and delighting consumers more central and less cumbersome to accomplish. We recommend CPG leaders do five things now:

From lab to leader: How consumer companies can drive growth at scale with disruptive innovation *(Cont'd)*

1. Address the culture.
Business leaders understand how important culture is but tend to think of it as a vague byproduct of other activities. Building an innovation culture begins with making innovation essential to the day-to-day business, and it's critical that it start at the top, with the CEO and senior executive team. As one consumer executive—who grew her company to a billion-dollar valuation in less than 15 years—put it, "Innovation is simply everyone's job. . . . Everyone is expected to look for insights, to bring ideas, to be ready to help drive an initiative." Other ingredients include a near-maniacal focus on the consumer—by which we mean putting the consumer at the center of every decision; incentives to reward innovation; metrics that track innovation—consumer excitement, word of mouth, adoption rates; and a clear understanding of how each person's role adds value to the process. Reward learning and make learnings easily available and easy to share.

2. Create high aspirations and hard metrics.
"Let's increase growth by 2 to 3 percent!" That kind of aspiration won't motivate people and drive new thinking. Contrast that rather vague hope with this one from a mining (!) company: "Generate $150 million of incremental EBITDA over the next five years by discovering new applications for our products, moving closer to our end customers, and leading our industry in production processes." This is bold, actionable, measurable, and gives teams some sense of where and how they should innovate. To track progress against aspirations, metrics need to be specific, of course, but they also need to evolve. For example, metrics on market share or growth rate will be better in the earlier phase of a product's lifecycle. Shift the focus to value and margin as the project scales and matures. Metrics also must be in the business-unit (BU) leader's performance objectives.

3. Define the hunting grounds.
Make clear choices about where you will innovate. Be careful to define them by working backward from the consumers and markets you serve rather than the way you currently define your brand and category structures, particularly in multi-brand organizations. Too often we see outdated guardrails unnecessarily limit brands from exploring new spaces. As one CEO, whose company was acquired by a leading global CPG incumbent, put it, "If your consumers want your brand to move into a space and you don't, then rest assured someone else will."

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4. Reallocate resources.
In our experience, most incumbent CPGs have too many resources committed to initiatives that are unlikely to drive meaningful growth. The first step in liberating resources is to take a hard look at the portfolio and reallocate people to more aggressive growth opportunities. Crucially, this cannot be an annual or even quarterly exercise. Leading innovators continually and ruthlessly reallocate resources and make sure scarce people and dollars are put to the best use. As one innovative CPG leader in Asia Pacific said, "I established three simple mandates: bigger (more top-line potential), better (more differentiated), and faster (time to market)." These mandates drove top-line growth at four to five times the underlying category growth.

5. Put a new disruptive innovation "system" in place based on agile models.
Driving success at scale requires a new model. Innovative ideas can initially generate a lot of excitement and promise. But that drive often wilts when it needs to work with the full business to scale the idea. While there is a broad range of elements in a new innovation system, we find that the following are a few of the most important:

- ***Establish cross-functional teams with a complementary set of problem-solving skills,*** such as people from insights, marketing, personnel, sales, UX, and tech. The team should "live" together, using an agile development model, and ideally drive one to two initiatives at any given time.
- ***Focus on constant learning and de-risking throughout development.*** Rather than a standard checklist of activities and stages, teams should constantly identify and prioritize the greatest uncertainties in a concept and conduct quick tests to resolve them.
- ***Set up and prequalify your "speedboat" network.*** These can be factories, partners, agencies, and vendors who can support small-scale procurement and manufacturing, run first-purchase tests, and even support a riskier new product's first few years of manufacturing before committing the capital expenditure for scaled/global manufacturing.
- ***Hardwire points of contact between the innovation labs and the "mother ship."*** Embed people from the sponsor BU as a core part of the innovation team, and rotate people from the main business through the innovation labs. Assign respected leaders from the legacy business to manage innovation projects. Create a central innovation roadmap that business units agree on and track it on the CEO/COO agenda.

The growth game has changed, but that doesn't mean that CPG companies can't change with it. With a commitment to new mind-sets and approaches, CPG companies can harness speed and agility to move again to the forefront of innovation.

Three ways to turn ideas into profitable business

PwC U.S. / April 2, 2021

Great ideas are vital to all businesses — but they're not especially rare.

But making an idea a reality? Now that's rare: 95%1 of new products fail. And 90%2 of startup companies never make it. That's not for a lack of ideas. It's a lack of execution: the same reason why people dream of writing a novel, crafting a piece of music or learning a new language — but never actually do it.

Ideas are glamorous, and they're often the reason you start a journey. But reaching the destination where your idea becomes a reality is much more difficult. The road between ideas and reality is arduous, uphill and lined with potholes. It can only be overcome through consistent, disciplined steps. It requires commitment, alignment in direction, collaboration between disparate teams and honest assessments of your idea and how it can be improved.

When we created BXT Works, our motivator was to pave this road between ideas and reality. Rooted in BXT, this way of working blends business strategy, creative experiences and technology. It empowers teams to execute on ideas and efficiently bring them to market. This approach is how PwC is building a $500 million product business in fewer than three years. And now we're taking this process to our customers.

Committed companies can quickly turn ideas into high-performing products — even during these unprecedented times. Just look at Lowe's Innovation Labs3 and their in-home (socially distant) solution, DoorDash's4 salad robotics initiative or Mercedes-Benz's5 success in fast-tracking a breathing apparatus to combat the pandemic.

How do you make it happen?

Here are three factors that determine whether your innovative idea will become a groundbreaking reality.

Three ways to turn ideas into profitable business *(Cont'd)*

1. Put the user first

Invest in the right idea. It's human nature to become attached to your favorite brainchild. But to elevate the right idea, put yourself in the end user's shoes. Good product design is a combination of understanding people, translating data and predicting trends. Focus on problems first rather than solutions. A solution that's in search of a problem isn't often usable.

Take our work with AXS Lab, a company dedicated to building tools and telling the stories of disability through new media, innovation and documentary film. To help the 1.3 billion people living with mobility or vision-related disabilities, AXS Lab launched AXS Map, a crowdsourcing platform powered by Google Maps, allowing people to rate accessibility of locations like train stations, grocery stores, restaurants and coffee shops. This was a real problem that people encountered every day.

The map's concept was great, but AXS Lab needed help with the tech. That's when PwC stepped in. We listened to the people who know the problem best and worked side-by-side with the AXS team and volunteers with disabilities to re-create what can happen when a person with mobility challenges enters a venue. We discovered the rating system had to be objective, uniform and as simple as the map's usability. Is there a ramp? Room for a wheelchair at every table? Does the restroom door swing out?

AXS Lab was born out of a common problem. And its solution came directly from those who deal with that issue every day. If you can't envision someone else's experience and truly listen, you won't be able to create a solution that works for them.

2. Get on the same page — and don't overanalyze

The trick to product liftoff is gathering diverse perspectives and getting everyone on the same page. This includes stakeholders who represent different goals across the organization as well as individuals from all levels — from those who interact directly with customers to executives setting the strategic agenda.

Three ways to turn ideas into profitable business *(Cont'd)*

Once you have the right folks pulling in the same direction, keep the momentum rolling. The goal is to get buy-in and engagement from everyone. Analysis is good, but action must follow. Too many business leaders get caught in the "paralysis by analysis" stage. They want to make the perfect decision every time.

The truth is our decisions are going to be right or wrong based on factors that are unforeseen to us. That's what makes them difficult decisions. It's better to be decisive and start down a path. You can always adjust, shift or pivot later.

After you've made initial decisions, bring back the decision-makers throughout the process to reevaluate as you build your idea into a product. Ask your team: What decision do we need to make now? What problem are we solving and what does success look like? What will help bring this idea to life? How can we help ensure the product will keep pace with changing consumer behavior?

3. Design to scale — and to pivot

Designed for scale is a buzzy phrase. But it's also essential to any idea — as any brilliant idea is doomed if it only reaches a limited few.

The faster you can scale, the faster you can revamp your revenue model. With BXT Works, our goal is to go from idea to beta in ten weeks or fewer. The fuel for speed is team cohesion. As you kick off, make sure you facilitate cohesion by making your ideas clear from the start and align diverse teams, then make sure the teams are bought in and articulate your mission clearly to all stakeholders.

At PwC, we make sure what we're creating has flexibility — that it can accommodate shifts in customer demands. Things change fast in a COVID-19 and post-COVID-19 world, so you should make sure your product can evolve to cater to consumer needs without a massive overhaul. Designed to scale is great but designed to pivot is even better.

Three ways to turn ideas into profitable business *(Cont'd)*

Get comfortable letting go of what doesn't work instead of hanging on because you're attached. Evolution is where the magic lies.

To thrive, rally your teams around the same goal and be prepared to evolve rapidly. If you're able to solve problems faster, tap into your people's collective creativity and keep the end user at the heart of problem solving — you can be well on the path to joining the winning 5%.

95 Percent of New Products Fail.
Here Are 6 Steps to Make Sure Yours Don't

Inc. Magazine / 7-6-2018

Here's the tried-and-true formula for a successful product launch.

The future of your business may depend on it.

According to ***Harvard Business School professor Clayton Christensen, there are over 30,000 new products introduced every year, and 95 percent fail***. **According to University of Toronto Professor Inez Blackburn, the failure rate of new grocery store products is 70 to 80 percent.** This is incidentally about the same success rate I had dating girls in college (my process was clearly flawed).

This brings us to the matter at hand**. Why do products fail so frequently?** From New Coke in 1985 to Kohler's recent attempt at a $5,000 AI-enabled toilet that tracks "movements", history is riddled with poorly conceived and launched products.

To develop, launch and gain adoption of a successful product requires the perfect formula of innovation, perspiration, calculation and luck. So why is product development so difficult? It comes down to a lack of resources. To develop successful products requires investment. Many principles that apply to developing physical products also apply to the creation of new services and software.

Here are six keys to developing new products:

1. Solve real problems.

At its core, all innovation occurs as a result of solving the most fundamental problems. This requires reverse engineering of how people or businesses consume things. The most prolific product designers such as those at IDEO follow people around and watch how they brush their teeth and use shopping carts

95 Percent of New Products Fail.
Here Are 6 Steps to Make Sure Yours Don't *(Cont'd)*

Such is the level of understanding required to identify differentiated and valuable features. To identify the most relevant features, consider every step in the usage of a product or service. In the case of business services, it may be useful to conduct a value chain analysis.

Truly understanding the voice of the customer is critical. The most sophisticated marketers have user groups, customer advisory boards and other methods for gathering data before diving into concept design.

Study your buyers and their actual application of your product carefully.

2. Adopt a custom product development methodology.

There is a lot of debate about which product development methodology works best, but the answer varies by industry and company. Stage-gate approaches are structured and require careful deliberation before a product moves from one gate to the next. Agile is broadly utilized in software development but can be problematic in other industries that require more calibrated product releases.

For example, products sold at retail typically need to be approved six to 12 months in advance with no deviation on release dates, and other departments such as production may not be able to adapt as readily as a development team. Failure to set expectations can lead to a lot of corporate disruption.

Establish a product development methodology that works for your business and is embraced by the entire management team.

3. Nail down the key assumptions from the beginning.

Many product launches are late because decisions are made at the eleventh hour. This is because key assumptions about the product are often flawed, and not challenged until it's too late.

95 Percent of New Products Fail.
Here Are 6 Steps to Make Sure Yours Don't *(Cont'd)*

Be intentional about assessing materials and labor costs, legal implications such as trademarks, target price points and target channels from the beginning.

4. Insist on painstaking coordination with stakeholders.

Another flaw in product development is that most small companies only have one or two people involved with incubating an idea. There is often a lack of coordination across departments such as marketing, sales and production from the onset. Marketing is often introduced to an idea long after the development begins, though marketers may have had useful insight on everything from design to utility.

Regardless of your chosen process, it's important to gain the right stakeholders' input from the beginning and agree on the nonnegotiable tenants of the product, deployment of resources and timing of the project.

5. Take a long-range view of your product roadmap.

Too many companies think of product releases in one-year increments. By definition, if multiple products are in phases, they should be in various phases of development. Companies must pre-plan capacity, marketing spend and other variables. Establish a multiyear roadmap.

6. Have an appropriate cadence.

A dilemma for many marketers and developers is that they are rushing to release too many products at the same time. This dilutes the quality of their new products and product launches. Such dilution is a function of the following:

95 Percent of New Products Fail.
Here Are 6 Steps to Make Sure Yours Don't *(Cont'd)*

• Limited internal resources, leading to less focus on producing and launching the best possible product.

• Limited customer adoption, as customers can only absorb so many products at the same time.

• Less time to evaluate the success of products and what tweaks may be needed for future products.

Be thoughtful about product development.
Your company's future could be at stake.

The sky's the limit, or so the saying goes. And if you're a talented entrepreneur with a great new product, what can possibly go wrong?

Project Management / Mar 21, 2021

Apparently quite a lot: According to Harvard Business School professor Clayton Christensen, there are over 30,000 new products introduced every year, and 95% fail. Ouch.

No one's immune. Coca-Cola, Google, and Colgate all, at some point in their illustrious careers, launched products that monumentally flopped. For some, it was due to poor market research: There simply wasn't a need for the product. For others, it was attempting to venture too far out of their area of expertise. Others were just downright weird —lasagna from a toothpaste brand? Pass!

These products seem so obviously wrong, right? But at some point, somewhere, a marketing team, backed by (probably) millions of dollars, decided to give these bizarre ideas the go-ahead. This goes to show just how easy it is for even the most experienced people to flop.

While the above examples are notably bad, plenty of good products fail too. This could be for a multitude of reasons: insufficient funding, lack of promotion, and poor timing being just three. Product launches are notoriously difficult, but there are steps you can take to ensure your venture has the best shot possible.

How to plan a successful product launch

Getting each detail of a product launch right requires weeks of research and planning, but we wanted to make understanding the process as a whole quick and simple. That's why we decided to break things down into an easy-to-read infographic.

Ready to make your next product launch a success? Your first step is reading this fun infographic.

The sky's the limit, or so the saying goes.
And if you're a talented entrepreneur with a great new product, what can possibly go wrong?

infographic

HOW TO

launch a new product in

—— 14 STEPS ——

Most new products that will go to market this year will fail. And it's not because they're bad products. Great products, great ideas, and great people fail every day.

To launch a successful product, you need more than the right product. You need the right launch strategy that ensures success from every angle. These 14 steps will get you there.

According to Harvard Business School, there are over 30,000 new products introduced every year, and 95% fail.

STEP 1 // Research

Check out the competition. How can you improve on their offering? Can you learn from any of their mistakes? Is there a need in the market for a separate product?

Create a SWOT chart to honestly assess your strengths, weaknesses, opportunities, and threats.

STEP 2 // More research

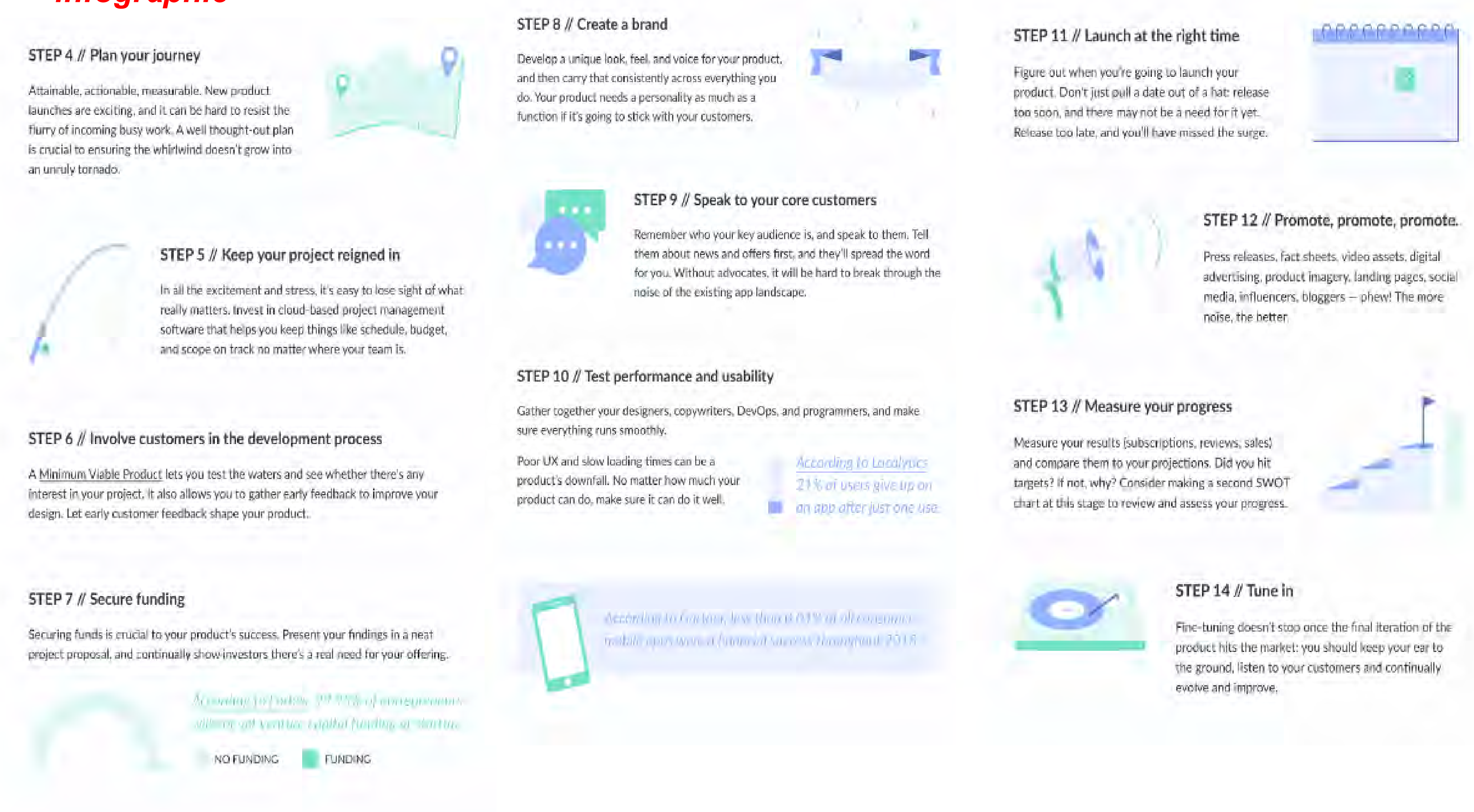
Get to know what makes your audience tick. Combine analytical research (attained via products like Google Analytics) with anecdotal research (interviews, focus groups and surveys).

STEP 3 // Define your vision

If you don't know why your product or service should exist, how will your audience? Define your product's purpose, and make sure your entire organization is on-board.

The sky's the limit, or so the saying goes.
And if you're a talented entrepreneur with a great new product, what can possibly go wrong?

infographic



The sky's the limit, or so the saying goes. And if you're a talented entrepreneur with a great new product, what can possibly go wrong?

The work doesn't stop

Clearly you have to be extremely passionate and believe undeniably in the product you're putting out to market. But even after you have a successful product out in the world, the work doesn't end there. You will continuously be fixing, revising, and reiterating steps of your process to ensure an even better product. Have you ever noticed how many updates the apps on your phone have every Monday? There's a reason for that! Even well-established products and services are constantly tweaking, adding to, and taking away aspects of their offering.

You sure you're ready for the long-term responsibility that comes with success?

Final thoughts

Proper planning is key to ensuring your product launch is a success. Investing in good project management software will help you plan launch dates, allocate resources, and keep all your schedules working together and on track. Not only that, but it'll help your team (and investors) collaborate in real-time from anywhere with the help of the cloud. In the whirlwind of activity that surrounds a product launch, the more organized you are, the better.

NPD STAGEGATE PROCESS BLOG – October 2015 (Kraft)

Some time ago the new product development process at Kraft Foods needed fixing. We call the fix to market process… i2m. The assignment came from the top of the house who was feeling tremendous pressure to accelerate innovation to fuel earnings growth.

The CEO was primarily concerned with accelerating the process – cycle time reduction - to get new products to market faster.

The EVP in charge of operations wanted fewer commercialization startup problems and demanded detailed, failsafe process rigor; the antithesis of what the front-end creatives wanted, by the way.

The EVP in charge of the business divisions and marketing was pushing for process simplification and less process for his marketing resources who felt mired in the minutia of forms and approvals and administrative details.

The EVP of R&D wanted a better process for setting priorities and allocating resources.

And the logistics and demand planning organization wanted more accurate volume projections.
Since it was a $45B global food company at the time and senior leaders owned over 1500 processes associated with i2m, their list of improvement needs was very long.

Do you know what a keystone is?

We started by solving a problem they all shared that cut across all the issues. A sort of “keystone” change that could help all the other changes hang together.

Not a single senior leader interviewed could speak to how many or what kinds of innovation projects were in the pipeline.

NPD STAGEGATE PROCESS BLOG – October 2015 (Kraft)

Turns out there were over 4000 projects consuming thousands of resources and very few of them were anything other than minor line extensions, flavor changes, or promotional initiatives.

Not much to move the earnings needle. Barely enough to slow the leaky revenue bucket.
Those 4000 mostly minor initiatives were the primary cause of slow cycle time, commercialization problems, process complexity and administrative minutia, resource allocation confusion, volume forecasting hassle, and poor earnings growth.

We focused on providing tools and setting up simple stageegates at three points to create the visibility necessary for senior leaders to manage the i2m process.

We realize the stage-gate process has come under fire and is considered an outdated, unnecessary approach. Others offer their ”new” approach that is supposedly unencumbered by stage-gates. This is all bogus mumbo-jumbo. All processes are stagegate processes since every process has checkpoints of some kind (Plan-Do-Check-Act). And that's all a stagegate process is… formalized checkpoints. No big deal. Just needs to be kept simple.

Admittedly, this new found visibility into the process became a love-hate solution for the organization. For example, it uncovered numerous unsanctioned projects that were absorbing scarce resources and adding complexity. You can imagine who loved and who hated in that scenario.

It also uncovered things like the fact it took 14 signatures across 8 departments and 7 layers of the organization to get a label approved. (Surprisingly, there were a few that didn't appreciate that revelation either.)

Improving your NPD process in your organization will always involve tradeoffs and conflict resolution. And some people will be happy with the changes while others will hate it. Fact of life.

NPD STAGEGATE PROCESS BLOG – October 2015 (Kraft)

There is almost always a 'keystone change' that can pull most everything else together. In some organizations like Kraft, it may be visibility. In others, simplification may be the keystone. Still others will hang their hat on quality or something else. Finding out what that keystone is in your organization is more than half the battle.

Brand Strategy Template for Launching a New Product

Oct 2022

5 Steps to Overcome the Odds & Launch with Success

Developing and marketing a new product is an exciting (and busy) time for any company. Following a brand strategy template will keep your product launch on track and your team focused on doing the right things.

This focus is critical, because launching a new product is risky. Harvard Business School professor Clayton Christensen estimates:

“Each year 30,000 new consumer products are launched—and many of them fail.”
That’s over 82 new products entering the market every single day. It’s popularly reported that up to 95% of those will fail. Insight to Action has a track record of helping clients bring new products to market, and we are sharing this brand strategy template to help more new products succeed.

Brand Strategy Template Step 1: Market & Category Analysis

Just how “new” is your product? Often, the most promising Strategic Growth Opportunity Areas (SGOAs) are closer to home.

When Chef Boyardee sought guidance on new product extensions, Insight to Action helped the brand define its core area of expansion, along with additional zones that consumers would welcome.

Brand Strategy Template for Launching a New Product
For this brand, research showed the market wasn’t ready for total innovation, but Chef Boyardee had plenty of opportunity to expand its kid-friendly Italian into new packaging forms and possibly frozen meals.

Brand Strategy Template for Launching a New Product

Launching a new product category that the world has never seen before requires educating the market about a new way of buying, consuming and possibly even living. Our Apple innovation strategy example shows how the launch of the iPhone was met with mixed reviews. Hardly anyone saw the potential of how smartphones would change the world.

Brand Strategy Template Step 2: Customer Segmentation

Here's a growth strategy chart that shows the relationships between existing customers, existing products, new customers and new products. Launching a new product is represented in the top half.

Brand Strategy Template for Launching a New Product
This step of the brand strategy template helps determine which customers you're going to target:
- Offerings expansion to existing customer segments
- All-new customer segmentation

Launching to your existing customer segments has several benefits:
- These customers are already aware of and (hopefully) loyal to your brand
- Your company's understanding of these segments should already be deep and nuanced
- Your marketing team likely already knows how to reach them
- It will take fewer resources

Launching to all-new customer segments requires deeper research, more lead time, and will likely need more budget. With careful planning, it can be done. In our new product ideas project for Scotts MiracleGro (see next page):

Brand Strategy Template for Launching a New Product

"After the initial new product exploratory research was complete, we held a focused ideation session. The commitment was to test at least eight starting positioning ideas and at least 10 starting new product ideas. All names underwent legal review by Scotts before they were tested. In the end, we tested 38 natural new product ideas and/or positioning alternatives in five overall benefit areas with target consumers in nine mini focus groups."

Brand Strategy Template Step 3: Competitor Analysis

Among your target customer segments, identify the reasonable substitutions for your new product. These are your competitors. If it's a new product category, consider that one "competitor" is buying nothing at all. Then, apply competitor analysis frameworks, such as:

- Side-by-side basic grounding
- SWOT analysis
- Blue ocean strategy

For Celebrity Cruises, employed a blue ocean strategy for competitor analysis. This intensely competitive industry has been hard hit by the pandemic. It's large, complex and can be segmented in many ways.

Get creative with your competitor analysis. In a competitor analysis case example, Insight to Action was tasked with developing a pipeline of "better for you" food innovation products in pasta. By looking at competitors in analogous categories, we identified five valuable takeaways for our client.

"We identified leading competitors in the analogous category of bread, and then conducted case study interviews with management at these firms, analyzed scanner and household panel data, and completed a marketing review."

Brand Strategy Template for Launching a New Product

Brand Strategy Template Step 4: Positioning for Launch

The big moment has arrived! You're confident in selling the right product to the right customer segments, and you have the competitive advantage. In a new products case study with Scotts Bird Seed, we identified these three segments:

- Avid Birders
- Casual Birders
- Sporadic Feeders

Once they understood these consumers' motivations and vocabulary surrounding feeding birds, they tested a new product positioning that met with a very favorable response:

"PLUMPER, RICHER SUNFLOWER SEEDS IN THE BLEND MEAN YOU'LL ATTRACT A WIDER VARIETY OF BIRDS"

"It's exciting to have a variety of birds at your feeder, especially when a new type of bird shows up. And studies show that sunflower seeds draw a wider variety of birds than any other single seed.

"With Scotts, you're providing 99.9% pure bird food…no fillers. We start with an excellent mix of seeds, designed to attract a wide variety of birds. Then we add the very best sunflower seed available. We work directly with growers in the Dakotas to get only plump premium Grade A sunflower seed, with more nutty nutrition inside each shell. So, you may see varieties of birds at your feeder you never saw before.

"It's amazing to see the variety…the colors…the different behavior patterns of birds. And Scotts Bird Food with premium sunflower seed help you attract that variety."

Brand Strategy Template for Launching a New Product

Launch of wild bird seed under the brand name Scotts Morning Song was a success.

Brand Strategy Template Step 5: Positioning after Launch

Introducing your new product to customers is only the beginning. For your new product to enjoy long-lasting success, your company needs to continue following the brand strategy template.

Unfortunately, Scotts Morning Song later became *tainted with pesticides*, and the brand never recovered. ***Scotts ended up selling the brand to Global Harvest.***

A positive example of positioning after launch is LEGO AR-Studio, which has morphed into offerings like LEGO Hidden Side and the LEGO Technic AR app. This augmented reality app allows consumers to build virtual racetracks to race their real-world toy car creations. In 2017, LEGO was ranked as the world's 91st most valuable toy brand, and in 2022 has skyrocketed to #1, with a value of over six billion dollars.

If only one or two in every 10 new products succeeds in the marketplace (defined as BOTH a marketing and financial success, not just marketing!), it's clear how important it is to follow a *strategic brand strategy template*.

Consumer-Driven Development & Implementation Process (CDI)

Process Reference Documentation

SUMMARY

Global Consumer Products Business Unit (1 of 5)
NPD Process BEFORE the Company-Wide SPEED NPD Process Was Developed

INTENT: Click on a file title below to open the file documentation required.

In this example the links are not here

SECTION #	**PROCESS DOCUMENTATION**
1	Introduction
	• What is CDI?
	Organization of the CDI Process
2	• Roles in the CDI Process
3	• Relationship to Other Processes
4	Overview of the CDI Major Development Process
	• Process Overview Chart
	• Phases and Major Deliverables
5	Process Guidelines – Phase 1
	• Program Definition and Planning – Task Flow Charts – Task Descriptions
	• Technical Options Identification – Task Flow Charts – Task Descriptions
	• Development and Prototyping – Task Flow Charts – Task Descriptions
	• Concept / Product Test Definition and Planning – Task Flow Charts – Task Descriptions
	• Preliminary Concept / Product Screening – Task Flow Charts – Task Descriptions
	• Capacity and Sourcing Study – Task Flow Charts – Task Descriptions
	• Updated Business Case (Phase 1) – Task Flow Charts – Task Descriptions

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6 Process Guidelines – Phase 2

- Market and Sales Planning
  - Task Flow Charts
  - Task Descriptions
- Baseline Supply Plan
  - Task Flow Charts
  - Task Descriptions
- Artwork Design & Copy / Claims Development
  - Task Flow Charts
  - Task Descriptions
- Product / Process Optimization and Testing
  - Task Flow Charts
  - Task Descriptions
- Sample Tooling
  - Task Flow Charts
  - Task Descriptions
- Finalization of Action Standard
  - Task Flow Charts
  - Task Descriptions
- Define Capital Requirements & Ramp-Up Plan
  - Task Flow Charts
  - Task Descriptions
- Updated Business Case (Phase 2)
  - Task Flow Charts
  - Task Descriptions

7 Process Guidelines – Phase 3

- Ongoing Supply Plan Refinement (Phase 3)
  - Task Flow Charts
  - Task Descriptions
- New Product Presentation
  - Task Flow Charts
  - Task Descriptions
- Launch Materials Development
  - Task Flow Charts
  - Task Descriptions
- Total Artwork Management
  - Task Flow Charts
  - Task Descriptions
- Final Product Testing, Specification, & Design Approval
  - Task Flow Charts
  - Task Descriptions

INTENT: Click on a file title below to open the file documentation required.

In this example the links are not here

- Follow-Up Concept / Product Testing
  - Task Flow Charts
  - Task Descriptions
- Capital Procurement
  - Task Flow Charts
  - Task Descriptions
- Component Procurement
  - Task Flow Charts
  - Task Descriptions
- Quality Plan
  - Task Flow Charts
  - Task Descriptions
- Production Line Installation & Debug
  - Task Flow Charts
  - Task Descriptions
- Certification / Capability Run
  - Task Flow Charts
  - Task Descriptions
- Updated Business Case (Phase 3)
  - Task Flow Charts
  - Task Descriptions

8 Process Guidelines – Phase 4

- Ongoing Supply Plan Refinement (Phase 4)
  - Task Flow Charts
  - Task Descriptions
- Execute Market and Sales Plan
  - Task Flow Charts
  - Task Descriptions
- Product Refinements
  - Task Flow Charts
  - Task Descriptions
- Monitor Feedback and Plan Product Refinements
  - Task Flow Charts
  - Task Descriptions
- Manufacture and Ship
  - Task Flow Charts
  - Task Descriptions
- Updated Business Case (Phase 4)
  - Task Flow Charts
  - Task Descriptions

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	• Lessons Learned – Task Flow Charts – Task Descriptions
	Process Guidelines – by Functional Area
9	• Business Case & Planning – Task Flow Charts – Task Descriptions
10	• Marketing / Commercial / Supply Chain – Task Flow Charts – Task Descriptions
11	• Design / Development – Task Flow Charts – Task Descriptions
12	• Concept / Product Testing – Task Flow Charts – Task Descriptions
13	• Manufacturing / Procurement – Task Flow Charts – Task Descriptions
14	Category Strategic Planning Process • Category Roadmap Background • Category Attack Team Work Plan Template
15	Tools and Templates – Program Charter • Program Charter Background • Program Charter Template • Program Charter Review Presentation Template
16	Tools and Templates – Program Contract • Program Contract Background • Program Contract Template
17	Tools and Templates – Program Plan • Program Plan Background • MS Project Program Plan Template
18	Tools and Templates – Core Team Meeting Materials • Core Team Meeting Agenda Template • Core Team Minutes Template

INTENT: Click on a file title below to open the file documentation required.

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19	Tools and Templates – Phase Reviews
	• Phase Review Background
	• Phase Exit Criteria Checklist
	• Phase Review Presentation Template
20	Tools and Templates – Design Reviews
	• Design Review Background
	• Design Review Checklist
	• Design Review Presentation Template
21	Tools and Templates – Risk Assessment
	• Risk Assessment Background
	• Risk Assessment Template
22	Tools and Templates – Demand-Supply Trigger Tracker
	• Demand-Supply Trigger Tracker Background
	• Demand-Supply Trigger Tracker Template
23	Tools and Templates – Program Complexity Assessment
	• Program Complexity Assessment Background
	• Program Complexity Assessment Tool
	Training Materials
24	• CDI Process Overview Presentation
25	• Core Team Kickoff Presentation
26	Metrics and Continuous Improvement
	• Overview of CDI Metrics
	• Lessons Learned Template
	• CDI Process Revision Control
27	Where to Go for More Information
	• CDI Contact Information

Case Study

Gillette Fusion Razor/Blade Shaving System

FLOW

Key Messages

Situation Analysis

Product Overview

Financials

Summary

Key Messages

- **The Gillette Next Generation Shaving System strategy was planned for a 2-Phase launch**
  - Phase I: Manual in 2006
  - Phase II: Power in 2007

- **In October 2003, over $450MM in capital for Phase I was approved**

The Power launch required over $160MM in capital for Phase II

- **Increases cartridge capacity to 943MM units, meeting demand through 2010**

- **Prepared for a simultaneous launch of Power with Manual in 2006**

The completion of Phase II had a total investment of about $640MM in capital… and a 32% ROI and about $520MM in NPV

FLOW

Key Messages

Situation Analysis

Product Overview

Project Financials

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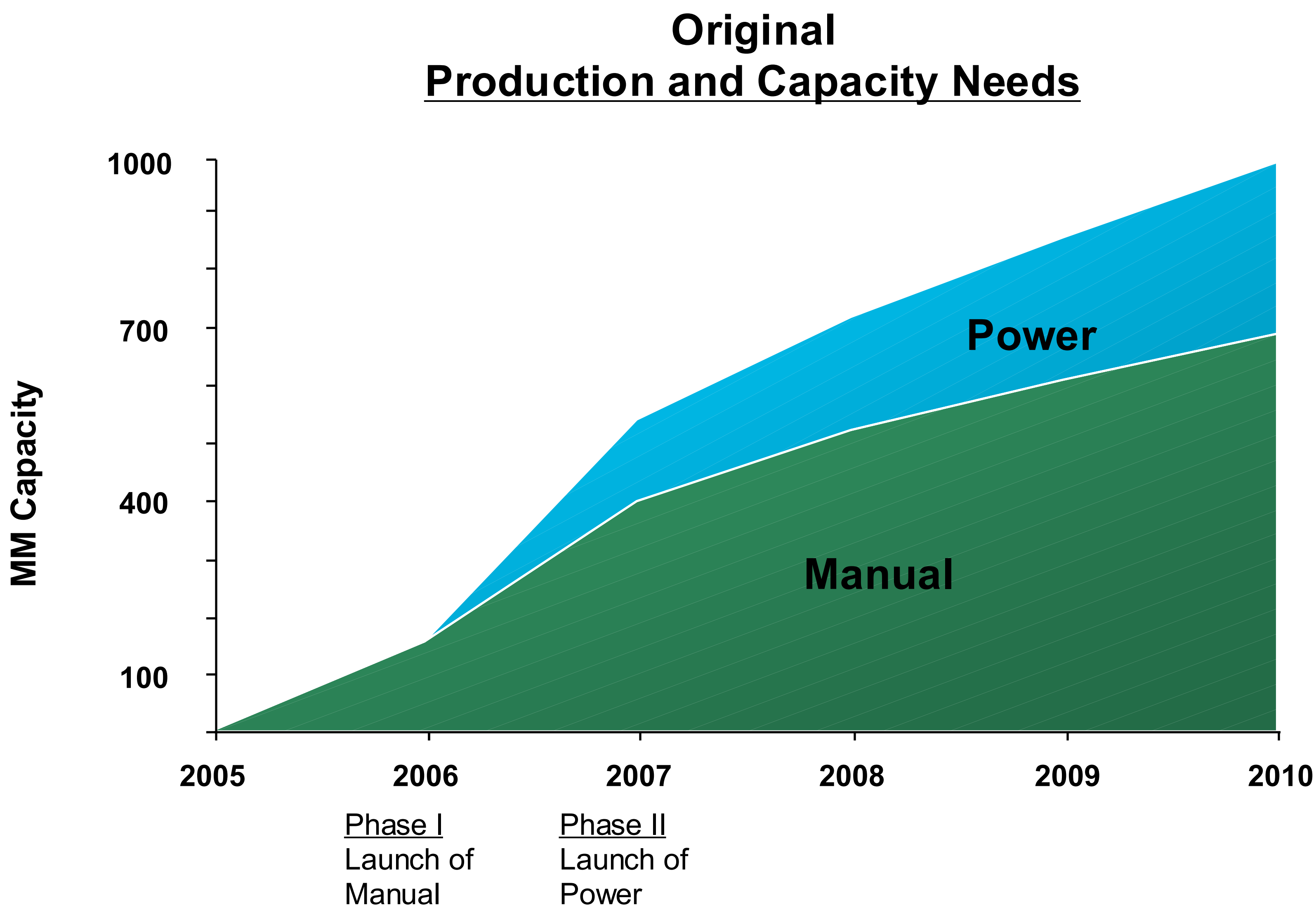
716

Situation Analysis

The New System, called Fusion, Required 1 Billion Units in Cartridge Capacity

The Launch was Planned in 2-Phases



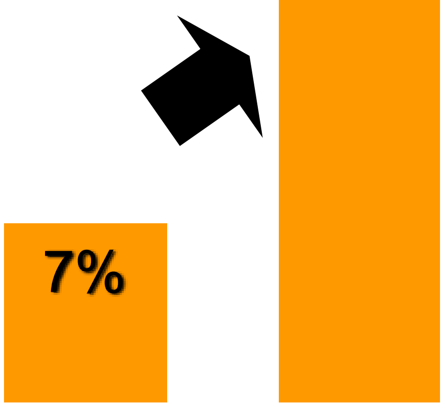
Situation Analysis *(cont'd)*

Total Investment of about $640MM in Capital Yielded a 32% ROI and about $520MM in NPV over Five Years

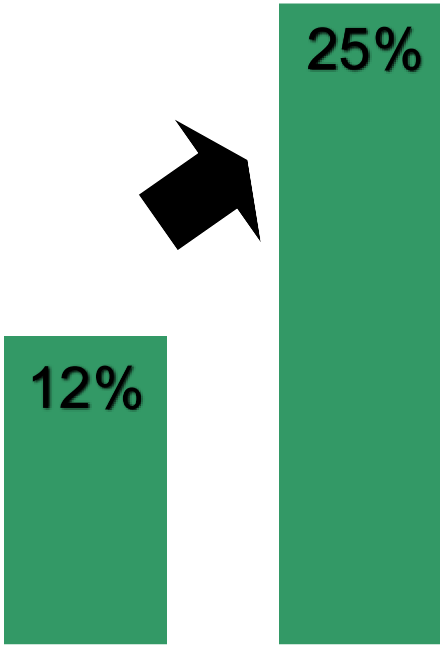
(MM)	Phase I	Phase II	Total Program
Capital Investment	$460	$180	$640
Capacity			
- Cartridges	700	300	1000
- Razors	40	18	58
ROI			
- 5 Year	34%	28%	32%
- 10 Year	44%	41%	44%
NPV			
- 5 Year	$485	$35	$520
- 10 Year	$1,351	$300	$1,651

Gillette Launched Mach3 Power in May 2004, Creating a New Growth Segment and Trade-up Opportunity

% Male Shavers Using Power *



Power % of B&R Retail Sales *



*** North America**

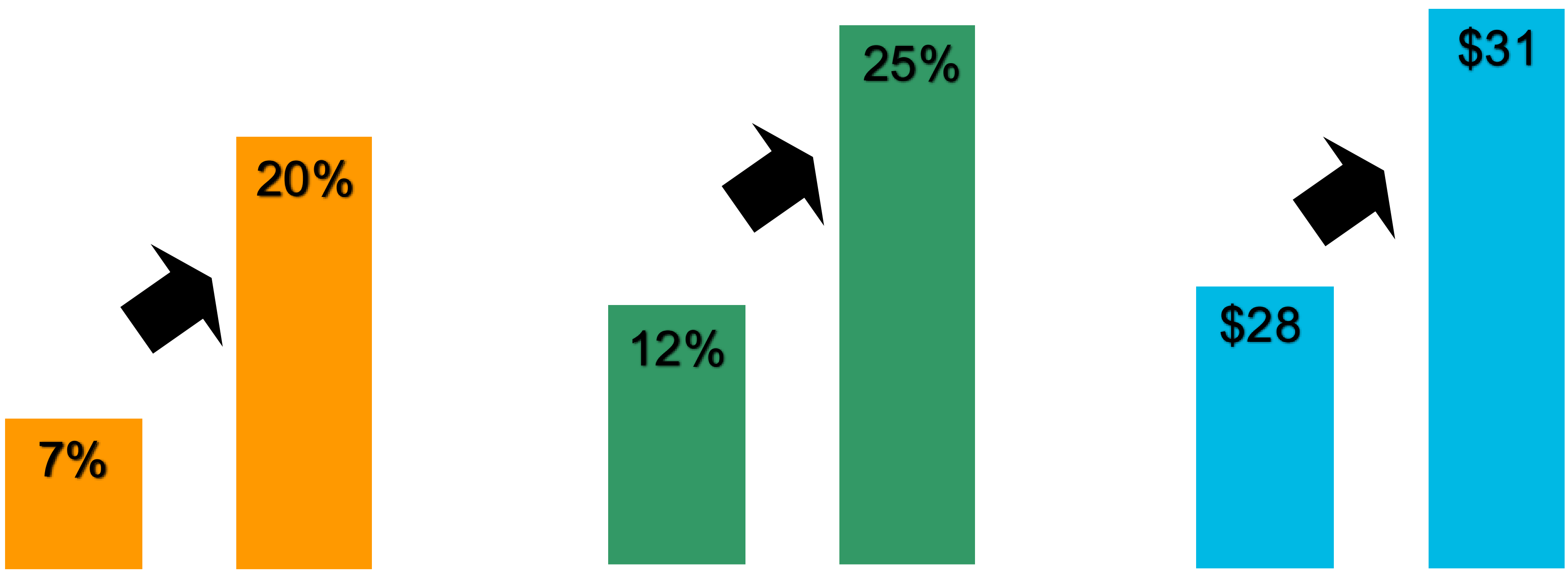
Situation Analysis (cont'd)

Gillette Launched Mach3 Power in May 2004, Creating a New Growth Segment and Trade-up Opportunity

% Male Shavers Using Power *

Power % of B&R Retail Sales *

Profit Per User Per Year - 2005 *



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*** North America**

Given the Power Segment Opportunity, Fusion Power Was Simultaneously Launched with Manual in 2006

- **Provides Power users a "Next Generation" trade-up destination in the Power segment**
- **Drives Power segment growth and Gillette leadership**
- **Widens the performance gap versus competition**
  - Including expected entry of Schick Quattro Power
- **Leverages cartridge platform against Manual and Power**
- **Increases overall Gillette B&R sales and profits**

Situation Analysis *(cont'd)*

Phase II Capital of about $160MM Was Required for the Launch of Fusion Power … Less than Originally Estimated

Phase II Capital Investment

($MM)	Original	Revised	Variance
Cartridge	136	126	(10)
Razor	38	33	(5)
All Other	6	4	(2)
Total Capital	$180	$163	($17)

Situation Analysis *(cont'd)*

Phase II Capital Increased Both Cartridge and Razor Capacity …

Satisfying Anticipated Cartridge Demand from 2008 through 2010

Total Fusion Capacity

(MM)	Cartridges	Razors
Phase I	700	40
Phase II	243	18
Total Program	943	58

FLOW

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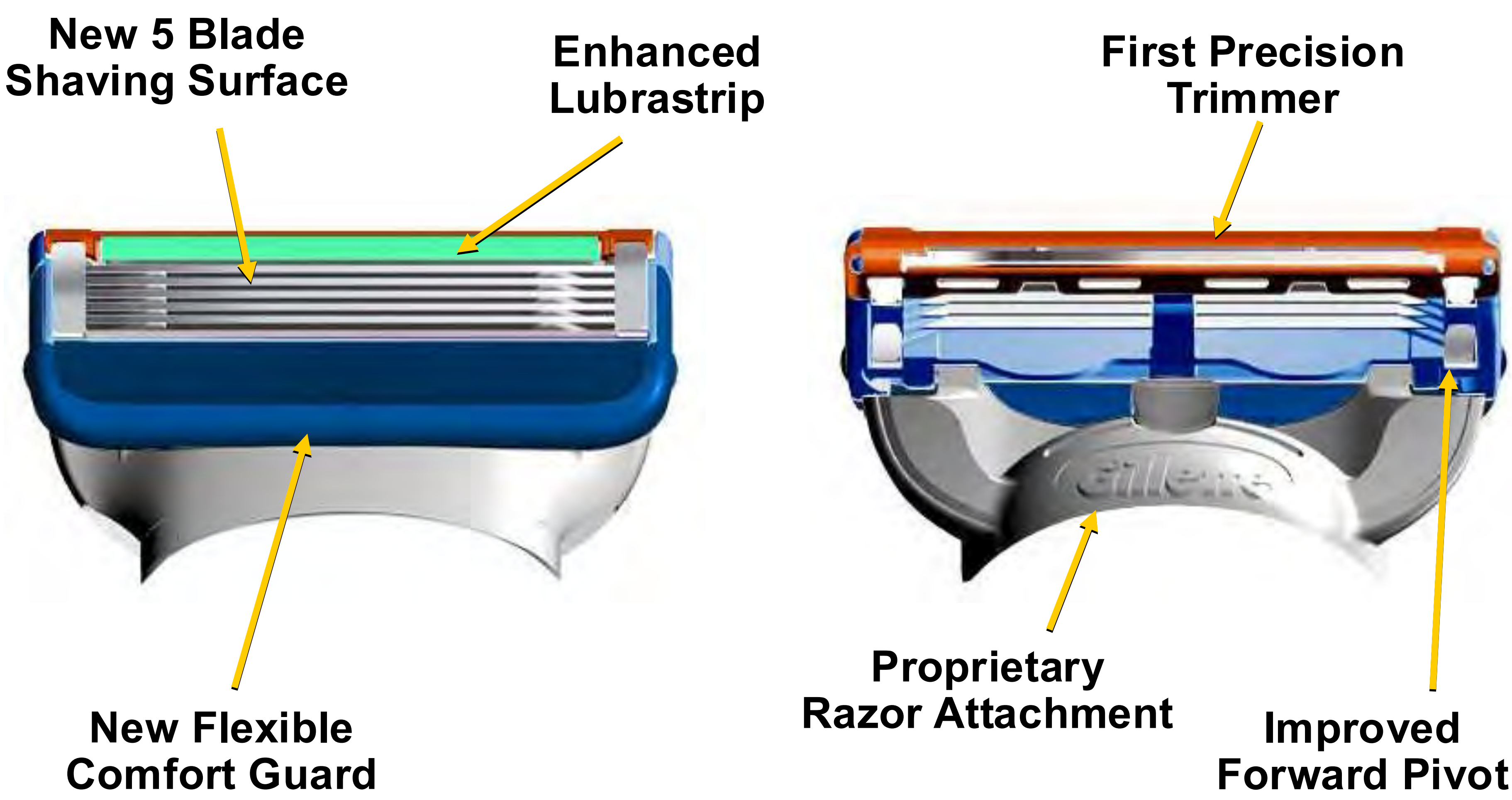
Product Overview

Financials

Summary

Fusion Manual Featured Technological Advancements on the Front and Back of the Cartridge



Power Featured Advanced Razor Electronics and an Advanced Blade Coating in addition to Base Technology

Power Featured Advanced Razor Electronics and an Advanced Blade Coating in addition to Base Technology

Fusion Power Razor

- Gillette Micro-Power Technology
- “Change Battery” Indicator Light
- Power Regulator
- Travel/Storage Shut-Off
- Integrated On/Off Switch

Power Featured Advanced Razor Electronics and an Advanced Blade Coating in addition to Base Technology

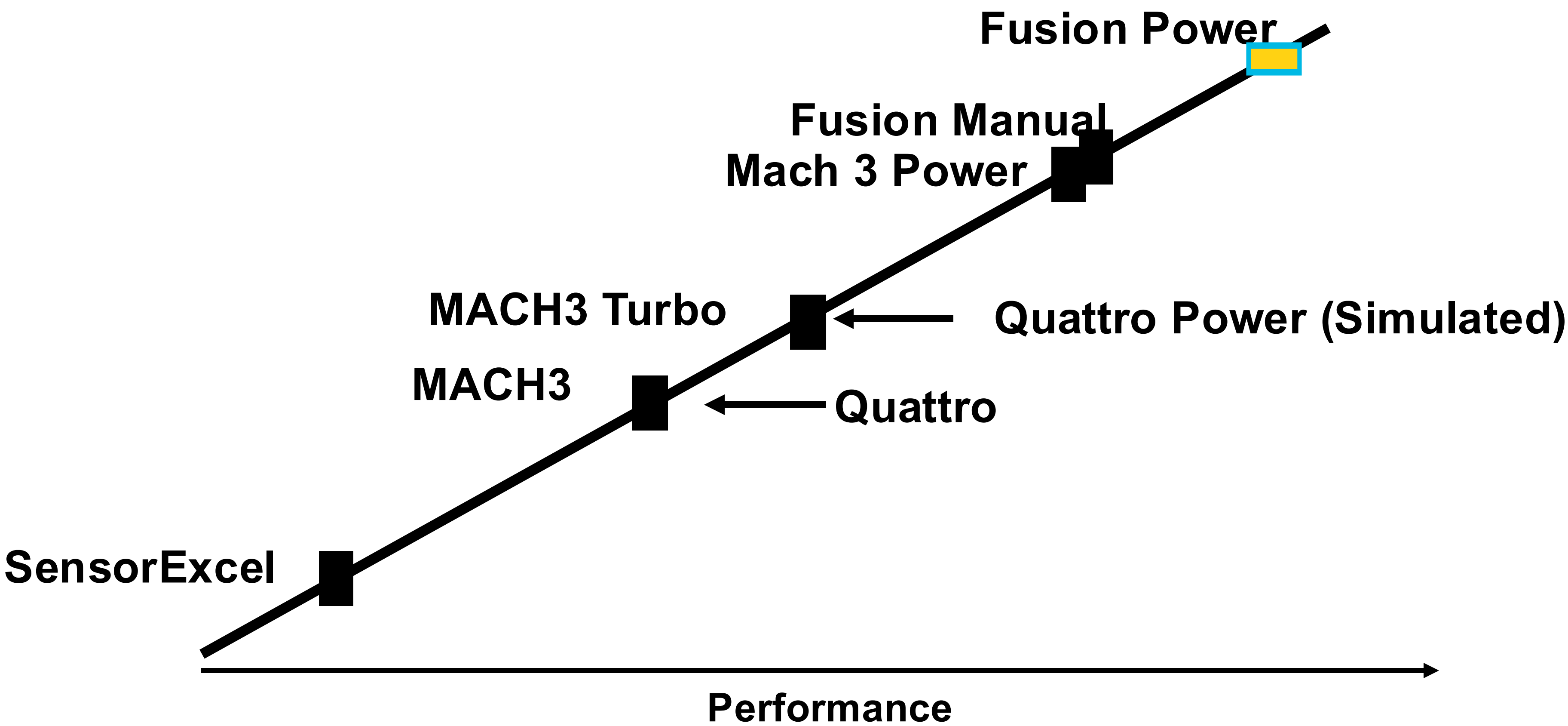
Fusion Power Razor

- Gillette Micro-Power Technology
- “Change Battery” Indicator Light
- Power Regulator
- Travel/Storage Shut-Off
- Integrated On/Off Switch

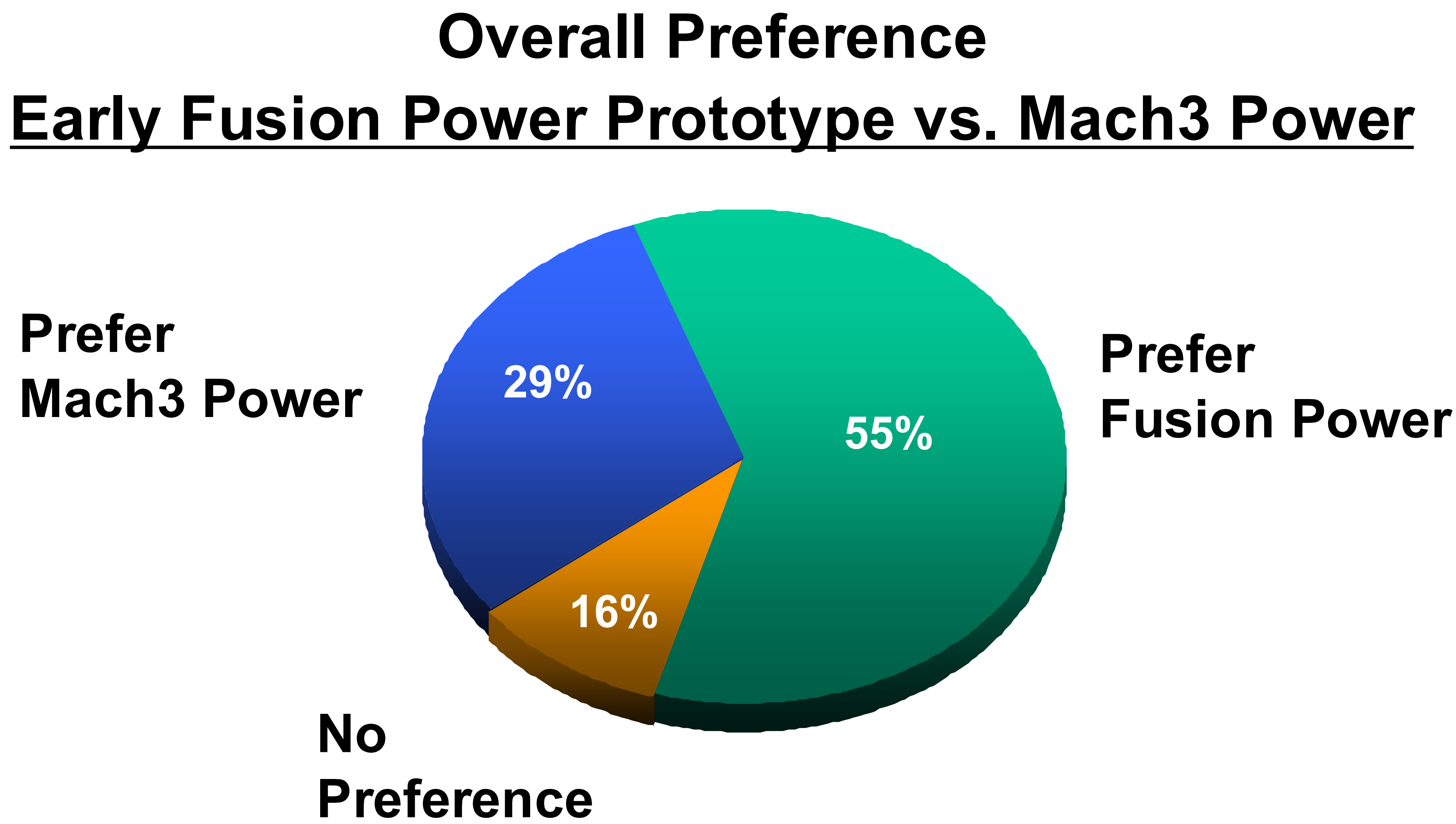
Fusion Power Cartridge

- Manual Cartridge
- Thin Uniform Telomer Blade Coating

Fusion Power Delivers Superior Performance … Providing a Trade-up Destination and Widening the Performance Gap to Competitors



Fusion Power was Significantly Preferred over Mach3 Power in Consumer Testing

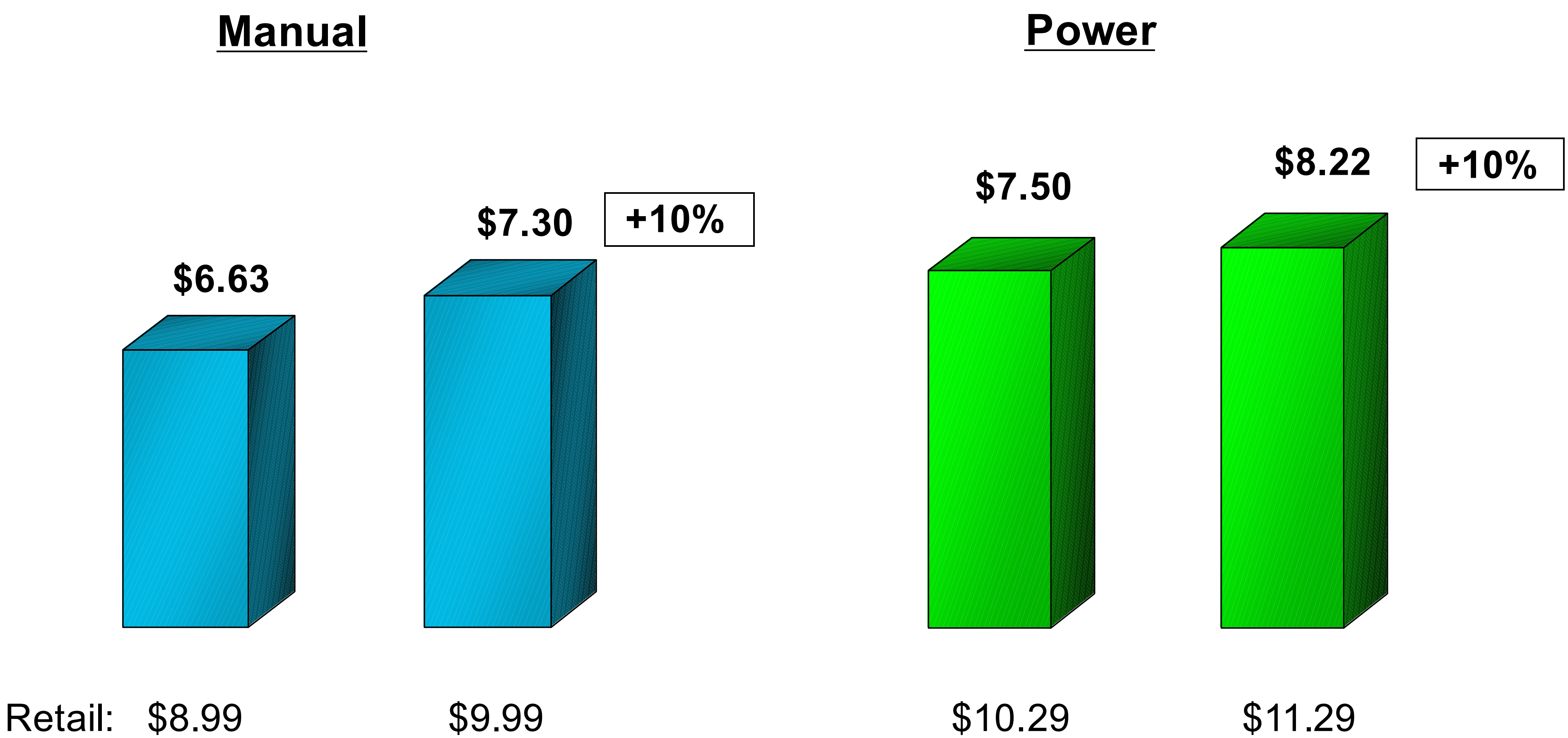


Cartridge Pricing for Fusion Was at a 30% Premium … Resulting in 10% Higher Profit per User per Year

	Mach3 Power	Fusion Power	Δ
Net Sales per Unit	$1.96	$2.56	30%
Direct Cost	0.12	0.20	(67%)
Profit Contribution	$1.84	$2.36	28%
Blade Consumption per Year	17.7	15.1	(15%)
Profit per User per Year	$32.40	$35.67	10%

Fusion Razors were Priced 10% Above MACH3 Turbo and Mach3 Power Respectively

Net Sales per Razor



FLOW

Key Messages

Situation Analysis

Product Overview

Financials

Summary

Financials - ROI and NPV

The Fusion Program (Manual and Power) Delivered an ROI of 32% and NPV of over $500MM over Five Years

Phases I and II

(MM

Capital	**$623**
Capacity	
Cartridges	**943**
Razors	**58**
ROI	
5 Year	**32%**
10 Year	**44%**
NPV	
5 Year	**$507**
10 Year	**$1,646**

Fusion Generated Incremental Sales and Op Profit of $2.7B and $1.5B Respectively through 2010

($MM)	2006	2007	2008	2009	2010	Total
Total Program	562	1,270	1,658	2,062	2,328	7,880
Draw	(311)	(788)	(1,102)	(1,373)	(1,561)	(5,135)
Incremental Sales	251	482	556	689	767	2,745
Operating Profit	76	223	324	427	500	1,549
% of Sales	*30.3%*	*46.3%*	*58.3%*	*62.0%*	*65.2%*	*56.4%*

Resulted in a 32% ROI and 3.2 Year Payback From Launch

Fusion Delivered an ROI of 32% …
Most Sensitive to Blade Price

ROI Sensitivity

Base Case 32%

	+10%	-10%
Volume	36%	28%
Product Cost	28%	35%
Blade Price	45%	17%
Razor Price	35%	28%
Capital	28%	36%
Direct Mktg Exp	28%	36%

FLOW

Key Messages

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Product Overview

Project Financials

Summary

Summary
Fusion Benefits

- **Leveraged Next Generation Gillette cartridge platform against Manual and Power**
- **Widened the performance gap versus competition**
- **Delivered incremental Gillette B&R Net Sales, Profits and Profit per User per Year**

Growth Strategy Template:
Energy Drink CELSIUS

Dec 2022

Consumer Target, Tagline, Benefits, Reason to Believe & Tactics

PepsiCo's Newest Energy Drink Investment Builds on Better-for-You Positioning

With annual revenues of $580 million as of September 30th, up 136% from the same period in 2021, CELSIUS is driving growth with its growth strategy template. The brand is profitable by industry standards, reporting 2021 gross margins at 43%.

There are many important contributors to the better-for-your energy drink's growth strategy, including distribution, brand positioning and marketing.

CELSIUS Growth Strategy Template: Distribution

In late 2022 store visits to grocery, club and specialty nutrition retailers, the CELSIUS brand stood out for strong shelf presence. While independent C-stores were not visited, CELSIUS is also well represented there, given this year's PepsiCo investment.

Growth Strategy Template:
Energy Drink CELSIUS- *Cont'd*

The brand recently identified *9 distribution channels at 147,000 locations*. These are:

1. Convenience (e.g., QT, 7-Eleven, RaceTrac, Speedway, CircleK, Sunoco, Casey's)
2. Vitamin, specialty & drug (e.g., CVS, The Vitamin Shoppe, RiteAid, Smoothie King, GNS)
3. Military (e.g., MCX, NEX, AAFES)
4. Vending (e.g., Vistar, FirstClassVending, Canteen)
5. Conventional grocery (e.g., Publix, Harris Teeter, Meijer, Kroger, Safeway, Ralph's, HEB, Stop & Shop, Giant Eagle, HyVee)
6. Fitness (e.g., Dick's, Anytime Fitness, Equinox, LA Fitness, In-Shape, 24 Hour Fitness, Barry's Bootcamp)
7. eCommerce (e.g., Amazon, Walmart.com)
8. Mass market and club (e.g., Target, Costco, Walmart, BJ's, Sam's Club)
9. Natural channel (e.g., Fresh Market, Sprouts)

In August 2022, CELSIUS announced a long-term distribution agreement with PepsiCo and a $550 million PepsiCo investment in CELSIUS.

An important part of CELSIUS growth strategy template is distribution, and the PepsiCo agreement is expected to bring many benefits. CELSIUS President, Chairman and CEO John Fieldly said,

Growth Strategy Template:
Energy Drink CELSIUS – *Cont'd*

"We believe the opportunity to partner with a global best-in-class distributor (PepsiCo) provides CELSIUS with significant near-term additional shelf space in both existing retailers as well as new expansion within the independent retailers that represent a significant portion of the U.S. convenience and gas channel where approximately 70% of energy drinks are sold. It also provides a strategic partnership that is expected to accelerate growth for both companies globally."

Distribution expansion has been a consistent focus behind CELSIUS growth strategy long prior to the PepsiCo deal. For instance, CELSIUS reported that distribution drove momentum in 2021, helping the brand achieve a: "record growth year of over $300 million in revenue."

Specific 2021 distribution growth strategy highlights included:
- "expanded convenience store locations, club channel revenue and Amazon to record levels."

Another distribution growth strategy example comes from the September 2020 conversion of:
- "more than 1,100 Target store locations to its Direct Store Delivery (DSD) distribution network."

In addition to distribution strategy, Ad Agehighlights "smart positioning" and "savvy e-commerce" as drivers of growth strategy success that allow CELSIUS to stand out from other energy drinks like Monster and Red Bull.

CELSIUS brand's consumer target is "health-conscious consumers ages 25-44."

Growth Strategy Template:
Energy Drink CELSIUS – *Cont'd*

CELSIUS reports that it is bringing more consumers into the energy drink category, rather than just stealing share, an attribute that retailers value highly. In 2021, CELSIUS was:

- "driving 20% of our sales from male and female sales new to the energy drink category."

In 2021, CELSIUS also reported specifically bringing 18-24-year-old female energy drink consumers into the category, while maintaining the brand's historical 50/50 male/female split.

The overall brand tagline is "Live Fit," and the brand promises "Essential Energy" as seen in this recent TV advertisement with highly active snowboarders and skiers.

The brand's primary benefit is "essential functional energy." Support points include the proprietary Metaplus blend, 7 essential vitamins and additional benefits of "burns body fat and calories, accelerates metabolism" and "is themogenic."

CELSIUS cites multiple published university clinical studies as reason to believe that the product has proven efficacy.

The CELSIUS brand promises a healthier source of energy, with "zero sugar, no preservatives, no aspartame, no high fructose corn syrup, no artificial flavors or colors." In addition, the brand is non-GMO, Certified Kosher and Vegan, soy and gluten-free and contains low sodium.

Growth Strategy Template:
Energy Drink CELSIUS – *Cont'd*

According to a registered dietician, "CELSIUS is a healthier option than commercial energy drinks like Red Bull and Monster." This doesn't make it a "health food", but rather a better choice.

The CELSIUS brand also incorporates five different product lines into its growth strategy template:

- CELSIUS Originals
- CELSIUS HEAT ("trainer-grade pre-workout)
- CELSIUS BCAA +ENERGY (recovery drink)
- CELSIUS On-the-Go (powder)
- CELSIUS Sweetened with Stevia

The brand's "proprietary Metaplus blend" has ingredients that combine to boost the body's metabolic rate, "resulting in a sustained calorie burn while promoting healthy energy." These ingredients are green tea with EGCC (epigallocatechin gallate), guarana seed, ginger, chromium, Vitamin C and B vitamins.

Packaging expansion may provide another opportunity for CELSIUS. At present, the powder comes in a different packaging form than the ready-to-drink can. There may be other packaging sizes or forms that can provide growth opportunities long term.

To date, CELSIUS has delivered strong results with its better-for-you growth strategy template. The brand has 447k Instagram followers and regularly receives thousands of reactions on each post.

Growth Strategy Template:
Energy Drink CELSIUS – *Cont'd*

Here are two sample executions:
1. The brand also has a presence on Facebook (182k followers), Twitter (17.3k followers), and
2. YouTube (one video in 2021 drew over a million views).

This success will inevitably draw competition from other brands that position themselves as BFY energy options. Some "clean" examples include:
- Zoa (pre workout)
- FitAid
- Kill Cliff Ignite
- Hiball Energy Seltzer
- All Phenoms Motivate
- Your Super Energy Bomb Mix
- G.O.A.T Fuel
- Nuun Energy
- Riff Energy + Immunity

CELSIUS will need to adjust its growth strategy template as other competitors seek to steal share with the new energy drink consumers the brand brought to market.

This time next year, will it still dominate?

Critical Processes and Pitfalls of New Product Development

INTRODUCTION

THE NEW PRODUCT DEVELOPMENT PROCESS

CRITICAL PITFALLS OF THE NEW PRODUCT DEVELOPMENT PROCESS

Running to Blue Sky Opportunities

Losing Sight of the Competition

Misreading Customer Needs

Skipping Ahead in the Product Development Process

Pushing Prematurely For a Full-Scale Sales Campaign

Missing the Post-Launch Review

NPD RESEARCH SOLUTIONS

SOURCE LIST

Critical Processes and Pitfalls of New Product Development

INTRODUCTION

Most executives understand instinctively the necessity of developing new products and offerings — organic growth is rewarded with a premium by senior management, governing boards, and the market. The new product development (NPD) process plays a pivotal role as the primary driver of corporate organic growth; yet executives frequently get it wrong. With 80% of product launches failing, executives are falling into disastrous pitfalls — costing valuable time, money, and resources.

The key to securing a solid new product pipeline lies in the rigor of the NPD process itself. There are many variations of new product development approaches, but the most common adheres to a stage-gate or waterfall design. The benefits of such a process are greatly evident.

While product development requires significant investments in time and money, effective and comprehensive product development is critical to generating value — increasing revenue and ROI for all products.

This guide will delve into the ways that executives may inadvertently risk precious NPD resources by falling into any number of critical process pitfalls and provide solutions to secure the NPD process.

$1.55M

Average revenue generated from product development

(n=210)

15X

Average return on product development investment

(n=210-241)

1.5 MONTHS

Time saved due to product development insights

(n=158)

Critical Processes and Pitfalls of New Product Development

THE NEW PRODUCT DEVELOPMENT PROCESS

There are many things that can go wrong in developing a product. To protect their investment, many companies use a stage-gate NPD process that requires executives to address key questions about their market and customer before proceeding with the creation of detailed product solutions. The table below provides an illustrative example of the process including critical questions that each phase should address.

STANDARD NPD PROCESS

PRELIMINARY: MARKET EVALUATION	CRITICAL QUESTIONS
Before developing a new product, organizations should first evaluate their current portfolio and ensure that they're maximizing their revenues in existing markets. A market evaluation provides insights into unmet customer needs, industry trends, market sizes, and competitors.	• What are our customers' needs? • What is the health of our current market? • What other markets are attractive for our products? • Where are our competitors?

PHASE 1: IDEA GENERATION	CRITICAL QUESTIONS
With a prioritization of the most attractive market opportunities, executives can brainstorm potential ideas, offerings, and concepts. Ideas can originate from internal employee insights, customer feedback, and formal market evaluations.	• What offerings would delight our customers? • What do our employees wish we would offer? • What new/different/enhanced offerings could we sell?

PHASE 2: CONCEPT TESTING	CRITICAL QUESTIONS
Product concepts are screened against criteria to assess feasibility, including ROI, production costs, customer affordability, and market potential.	• Which are the most promising concepts? • How well do potential customers understand the concept?

PHASE 3: PRODUCT REFINEMENT	CRITICAL QUESTIONS
Approved concepts undergo a repetitive loop of product development and improvement. Prototypes are quality tested and refined into fully functional products. Only the strongest concepts that address customer need, feasibility to produce, and potential to capture market share should proceed.	• Do customers want or need the product? • Can we profitably produce this product?

Critical Processes and Pitfalls of New Product Development

PHASE 4: MARKET WARMING

CRITICAL QUESTIONS

Through test marketing, potential customers can provide feedback on the product, its look and feel, and packaging. Critical pre-sales and early adopters can help build momentum for a new product before it hits the market.

- Which customer segments will buy this product first?
- What features are the most valuable?

PHASE 5: PRODUCT LAUNCH

CRITICAL QUESTIONS

Fully-vetted products can proceed to full commercialization, including communicating pricing, market positioning, and delivery decisions to the sales, marketing, and distribution teams.

- How is the product being consumed?
- Are we highlighting the product's strengths and key selling points?
- Which additional customer segments would buy this product?

PHASE 6: PRODUCT REVIEW

CRITICAL QUESTIONS

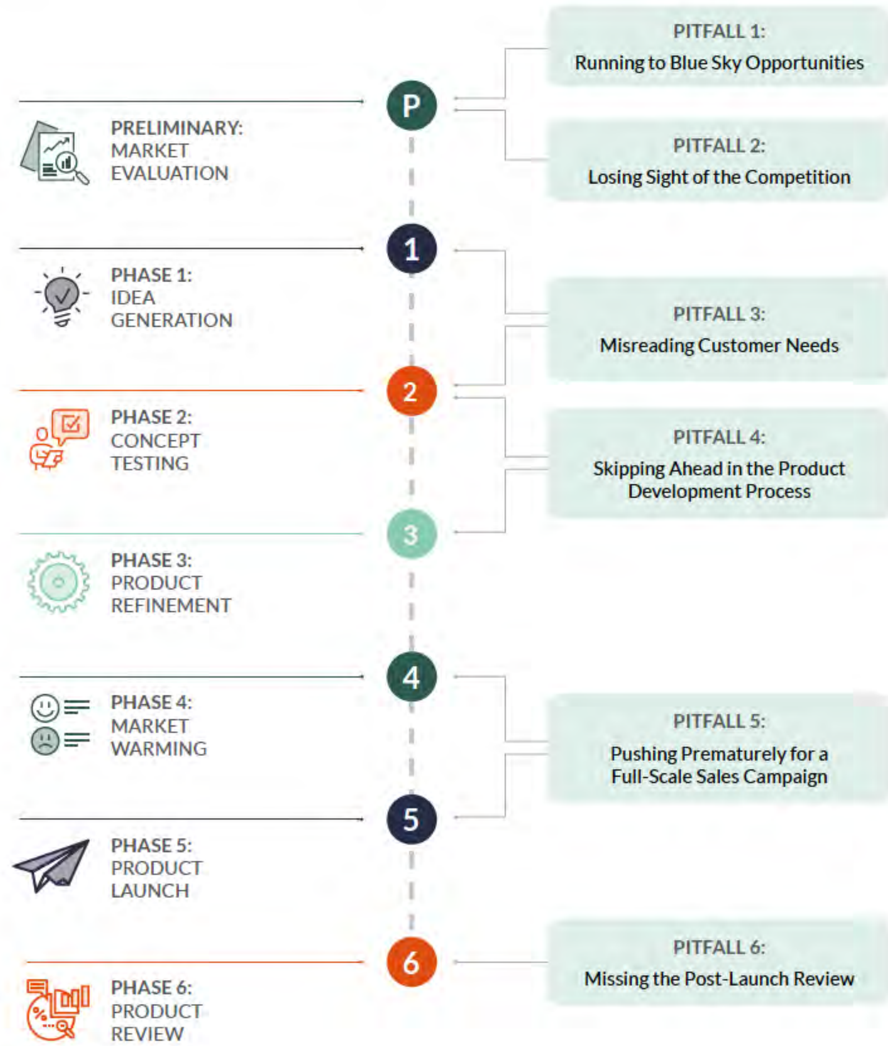
Following the launch, a review of product performance will help identify areas for continued improvement or potential problems. In addition, a review can identify future product concepts based on customer reactions and requests.

- What else can we do to support the product?
- Are there complimentary products we should add to our pipeline?
- How are customers and prospects reacting to the new product?

Critical Processes and Pitfalls of New Product Development

CRITICAL PITFALLS OF THE NEW PRODUCT DEVELOPMENT PROCESS

Despite the best of intentions, executives may find themselves mired in an NPD process pitfall. The good news is that each of these pitfalls is avoidable and executives can access a variety of research tools and methodologies to ensure their new product efforts stay on track.



Critical Processes and Pitfalls of New Product Development

Critical Pitfall 1: Running to Blue Sky Opportunities

NPD Stage: Market Evaluation

In the market evaluation phase, organizations are often attracted to blue sky ideas of entering new markets with new products and may miss low-hanging fruit available through cross-targeting adjacent industries or customers. Frequently missed adjacencies include:

- **Selling your current offerings or products to new markets or customers.**
  Organizations should understand all the ways in which their offerings deliver value and consider other markets that could benefit as well. This could include targeting new customer types.

- **Exploring new products/offerings for existing markets/customers.**
  Another market expansion involves evaluating existing customers to see what other products could be offered. These new offerings could include upgrades to current, adjacent, or new products that ideally would use the same manufacturing or delivery methods to produce.

Mistaken Opportunity:
Amazon's Fire Phone

Amazon's Fire Phone is a high profile example of how this can go wrong.

The project had extensive support from Amazon's founder, Jeff Bezos, who layered on expensive features in the hopes that the phone could compete with Apple's iPhone, but missed critical feedback from customers. While the Fire Phone was launched with a strong marketing push, it failed to take off and Amazon was forced to write-down $170 million in unsold inventory.

Step By Step Guide To Market Analysis:
Discover the five critical steps companies should follow to reduce risk and maximize returns through a market analysis.

Care should be taken when pursuing blue sky opportunities. Organizations may consider this strategy when they are seeking to wholly reinvent themselves and/or they see a pronounced flattening of the growth curve of the legacy business. Alternatively, blue sky opportunities may represent a way to deploy excess cash to secure an attractive new market and customer base. Executives should be clear in their expectations of a blue sky opportunity and balance these carefully with potentially easier-to-win opportunities in the core business.

SOLUTION: THOROUGH MARKET EVALUATION

Complete a thorough market evaluation before venturing into the development of new products. The market evaluation should examine adjacent markets across multiple factors such as market size, trends, barriers to entry, and level of competition. Each of these factors help prioritize NPD efforts and ensure the right product or offering is explored at the right time.

Critical Pitfall 2: Losing Sight of the Competition

NPD Stage: Market Evaluation

Even with a keen sense of customer need, organizations can be beaten out of the market and waste significant resources if they fail to recognize competitor activity. The saturation of a market with competitors directly (and negatively) impacts a product idea's attractiveness.

Tracking competitor movements can reveal areas where an organization will have to fight for market share or uncover opportunities where there is little competition but great unmet customer need. Organizations should also scan the environment for the game changer — a competitor who can enter and disrupt the entire market. Missing the game changers can be devastating.

Beat by the Competition: Jawbone vs. Fitbit, Nike, and Apple

One of the earliest products on the wearable fitness tracker market, Jawbone's fitness tracker, which launched in 2011, was riddled with issues. While they focused on developing improvements to their wearable, Fitbit and Nike came out with their own fitness trackers and quickly dominated the market. By the time Jawbone's new tracker was ready for launch in 2015, the Apple Watch had also launched and gained dominance. Finding itself in a saturated market with no foothold, Jawbone struggled not only to make profits but also to pay off the production costs. Two years later, the company went out of business.

Competitive Analysis:
Identify and evaluate your competitors to understand their market positioning and develop winning strategies.

SOLUTION: COMPETITIVE INTELLIGENCE TRACKING SYSTEM

Create a competitive intelligence tracking system and update it at least quarterly. An effective competitive intelligence tracking system includes competitor information such as an organizational overview, size, product offerings, markets, and customer segments. The tracking system should also include an analysis on current and potential competitor initiatives. Executives should regularly identify fringe competitors that could enter and disrupt the market, especially when exploring adjacent markets and products.

Critical Processes and Pitfalls of New Product Development

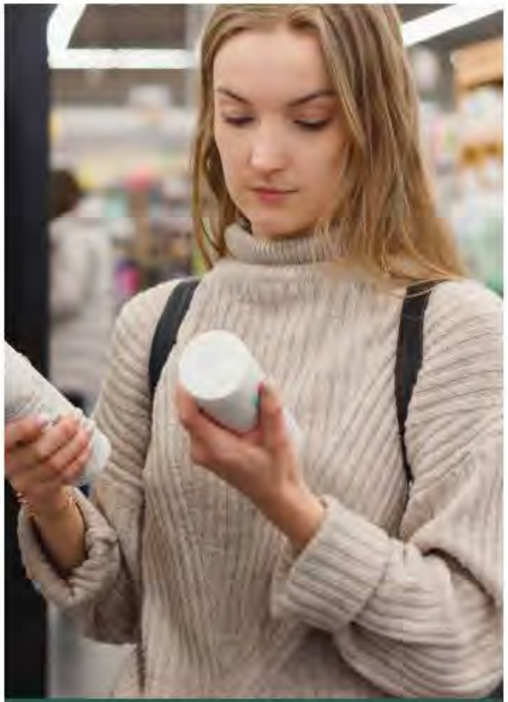
Critical Pitfall 3: Misreading Customer Needs

NPD Stages: Concept Testing and Product Refinement

In the NPD process, the leading voice must be that of the customer. Organizations should always ask:

- **What do customers need?**
- **How strongly do they feel this need?**
- **What problems are customers trying to solve by purchasing our product?**

Understanding customer voice is crucial—or else an organization risks creating products customers do not want, or do want, but only with lukewarm interest. One way in which an organization may misread customer voice is when they insufficiently interview customers. Too few interviews may not uncover all of the critical issues and unmet customer needs. In addition with small interview sets, organizations may end up probing only a portion of their customer market. This is most notable when organizations only interview current customers and not prospective buyers. Potential customers are especially important as they enable organizations to tap into new, untapped market segments.



Product Concept Testing: The Secret to Meeting Customer Needs:
Learn how product concept testing can help organizations understand customer needs and gauge reactions.

SOLUTION: TEST CUSTOMER NEEDS

Test for customer needs across a robust and representative sample of current and potential customers. Existing customers tend to be the early adopters and advocates, while potential customers are the market an organization needs to penetrate in order to grow. In addition to surveys, qualitative interviews with current and prospective customers are one of the most impactful research tools available to organizations. These interviews can reveal key motivators behind customer demand and expectations that can inform the NPD process.

Critical Processes and Pitfalls of New Product Development

Critical Pitfall 4: Skipping Ahead in the Product Development Process

NPD Stages: Concept Testing and Product Refinement

Product development is a discipline that can frequently be susceptible to gut feelings and emotional impulses. Executives can get excited at different stages of the NPD process and rush through steps to get a product to market. In haste, they not only skip key product vetting stages, but they also tend to turn a blind eye to important metrics and requirements that may signal the ultimate success or failure of a product.

Many times in the product testing phase, strong focus groups or customer testing feedback can lead organizations to skip product refinements or sales warming efforts and head straight to sales. While this may seem like a way to catalyze the launch process, spending the additional time on refining the product design, structuring sales and service, and warming the market are investments in ensuring the product has been well formed and the launch will be well executed.

Many times senior leadership may drop in on the product development process and pressure efforts to skip ahead. Holding the line is hard, but necessary.

Rushed Launch:
Samsung Galaxy Note 7

The now infamous Samsung Galaxy Note 7 used a chemically volatile lithium ion battery, which for some production runs was being compressed too tightly — leading to the phone smoking and catching fire. Samsung desperately needed this phone to shore up the entry-level base of their market, but by rushing through quality control, they may have caused a damning blow to the company's entire line of cell phones as a result.

The New Product Development Checklist:
A step-by-step guide to new product development to help you stay on track and avoid pitfalls.

One of the phases most frequently skipped is product refinement—specifically when it comes to quality control and reducing manufacturing and production costs. A rushed NDP process can have disastrous effects. Missing the game changers can be devastating.

SOLUTION: DEVELOP A STEP BY STEP NPD PROCESS

Lay out a clearly defined stage-gate process for NPD along with key metrics for product viability at each stage. It is as important to stop products from proceeding if they fail to meet certain thresholds as it is to move well-qualified products forward.

Critical Processes and Pitfalls of New Product Development

Critical Pitfall 5: Pushing Prematurely for a Full-Scale Sales Campaign

NPD Stage: Market Warming and Product Launch

With a well-conceived product that is ready to launch, organizations may be tempted to dive straight into a full-scale sales campaign. Such campaigns can run into serious obstacles quickly. Potential customers tend to be skeptical of new offerings and look for demonstrated product success and customer testimonials.

Achieving a critical mass of new sales is challenging, and a product's failure to grow quickly can lead to it being branded as "bad" or "unsellable". Products with negative reputations may be rejected or deprioritized by the sales team and create a self-fulfilling prophecy of a product that ultimately fails.

Product Development Reduces Risk and Increases ROI:
An assessment of COVID-19's impact on product development and how it has evolved since the onset of the pandemic.

Overshot Launch: Crystal Pepsi

One of the most public examples of a full-scale sales campaign that missed the opportunity to soft launch was Pepsi's introduction of Crystal Pepsi. The now former Yum Brands CEO loved the idea of Crystal Pepsi so passionately that he spared no expense on the sales rollout, including Super Bowl ads, billboards, and even a collaboration with rock group Van Halen to produce a theme song for the drink ("Right Now"). Had Pepsi employed a soft launch, the company would have quickly learned that customers did not intuitively latch on to the new drink's concept: a clear soda that was "clean" and "healthy."

SOLUTION: PERFORM A SOFT LAUNCH

Employ a soft launch for new products during the market warming period. During this period, the sales team should partner with the product development team to convert beta testing customers from the development process into early sales wins (or quickly pinpoint obstacles that could prevent product sales). Early adopters can be engaged with pricing discounts in exchange for product reviews which help to establish credibility within the market. Also important at this phase is incorporating the knowledge gained from concept testing and market warming feedback to create an effective brand strategy that calls attention to the product's strengths in the market and is cohesive with the overall organization brand and existing product portfolio.

Critical Processes and Pitfalls of New Product Development

Critical Pitfall 6: Missing the Post-Launch Review

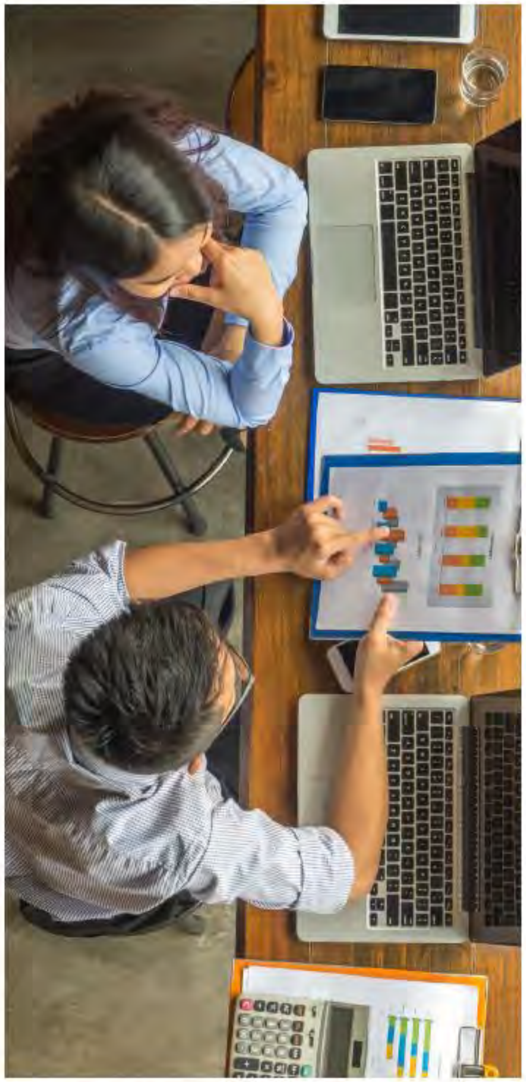
NPD Stage: Product Review

The NPD process does not end with a product launch. When organizations stop the NPD process after the launch, they miss two valuable opportunities to spot:

1. Improvements to the product
2. A new or complementary product for exploration and development.

In some ways, the stage of product refinement is a continuous cycle — the best products go through periodic upgrades and improvements. By constantly adapting the product, an organization increases the product's chances of long-term survival. Furthermore, soon after the launch, the development team may be able to channel early feedback from the market into additional products or services to offer.

The State of Product Development:
Understand how executives across industries effectively pursue product development.



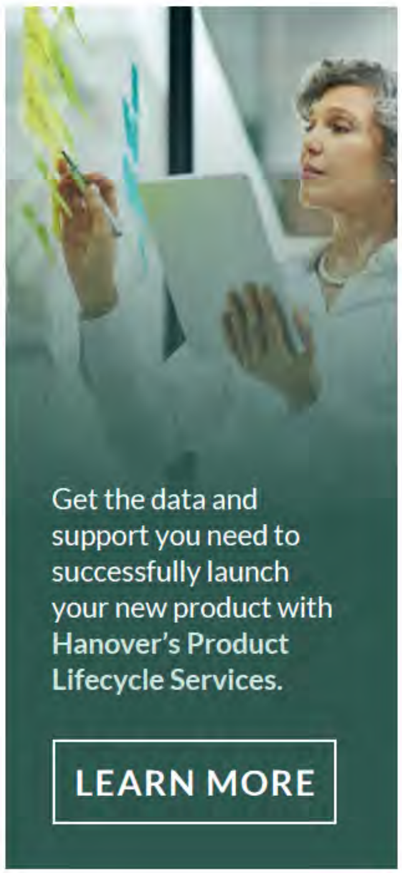
SOLUTION: SCHEDULE A REVIEW

Take time to review a product post launch with an eye towards consistently offering improvements and upgrades and to spot new and adjacent product offerings that could be up next for potential development.

Critical Processes and Pitfalls of New Product Development

NPD RESEARCH SOLUTIONS

While these pitfalls of the NPD process are frustrating and potentially damaging, all are avoidable. There are many research tools and methodologies that executives can employ at each phase of the NPD process to ensure the precious resources an organization invests in NPD are well stewarded.



	NPD PHASE	RESEARCH TOOLS AND METHODOLOGIES
P	PRELIMINARY: MARKET EVALUATION	• New and adjacent market evaluation • Competitor monitoring • Industry trend briefing • Market size modeling • Brand audit
1	PHASE 1: IDEA GENERATION	• Product portfolio review • Customer/employee survey • Market drivers analysis • Attitude and usage studies • Voice of the customer interviews
2	PHASE 2: CONCEPT TESTING	• Concept testing surveys • Customer segmentation • Customer satisfaction surveys • Focus groups • Voice of the customer interviews
3	PHASE 3: PRODUCT REFINEMENT	• Feature/concept conjoint analysis • Pricing optimization
4	PHASE 4: MARKET WARMING	• Brand message testing • Focus groups • Product testing • Go-to-market strategy
5	PHASE 5: PRODUCT LAUNCH	• Customer segmentation study/cluster analysis • Go-to-market strategy • Event database • Social media monitoring
6	PHASE 6: PRODUCT REVIEW	• Pre- and post-testing • Lost customer surveys • Win/loss analysis

Critical Processes and Pitfalls of New Product Development

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Page 746

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Page 754

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Five Reasons Why Innovation Decisions Succeed *2.5X More Often At Top Companies*

Forbes / Oct 25, 2023

Innovation is critical for business success. One McKinsey survey found that 84% of executives agree that innovation is the key to growth, and their 2021 global survey found that the top ten percent of companies earned almost twice as much revenue from products and services that didn't exist a year before. This importance drives enormous investments – US businesses spent $538 billion on innovation in 2020.

Innovation is also notoriously tricky. It's difficult to identify customer needs, design and launch products and predict how competitors will react. It's even difficult to find data about how often innovations succeed. While the late Harvard Business School innovation guru Clayton Christensen is widely quoted as saying that 95 percent of new products fail, it turns out that he never said such a thing and typical failure rates are in the 40 percent range. That still adds up to $215 billion in lost innovation expenses in the US annually, even without including forgone revenue from failed offerings.

The stakes are high, and companies need innovation benchmarks to compare their performance against and diagnose how to improve. Recent research I completed based on survey responses from attendees at the 2023 Consumer Goods and Marketing Summit provides a practical new perspective on the problem.

The survey of 21 companies used the Decision IQ framework to measure the effectiveness of innovation-related decisions and compare the results to broader business decision-making benchmarks.

Five Reasons Why Innovation Decisions Succeed
2.5X More Often At Top Companies

The comparison is stark. According to the survey analysis, innovation decisions are 2.5 times more likely to fail than typical business decisions, with outcomes missing expectations 50 percent of the time. That failure rate aligns with the previously mentioned research findings about innovation success rates, which is unsurprising since decision-making effectiveness is 95 percent correlated with business performance.

More importantly, the survey results show that successes and failures are not evenly distributed. Innovation decisions at the top half of companies succeed 76 percent of the time, compared to a 31 percent success rate for the bottom half and a miserable 15 percent success rate for the worst decile. In other words, the top companies are 2.5 times more likely to make successful innovation decisions.

Five Traits of Successful Innovation Decision-Making

The Decision IQ framework also diagnoses the decision-making behaviors most correlated with successful innovation decisions. These traits can serve as a roadmap for companies struggling to achieve greater innovation success and a benchmark for top companies to maintain their excellence. In order of importance based on the relative strength of each trait amongst top companies:

Five Reasons Why Innovation Decisions Succeed
2.5X More Often At Top Companies

People are empowered to make decisions, willing to take on the responsibility and motivated to follow a high-quality decision process. Innovation decisions demand more empowerment, motivation and discipline, given the relatively high likelihood of failure innovators face. Highly successful companies disproportionately foster these traits.

Organizational values, goals and priorities are well aligned. The combination of higher decision failure rates and longer timelines involved in innovation cycles places more pressure on organizational alignment. It’s hard for a toothpaste company focused on dental health to sell innovative beef lasagna, no matter how delicious.

Innovation decisions are executed as intended. Execution is essential for successful innovations since they often require go-to-market, manufacturing or business model strategies that differ from a company’s standard practices. Top-tier companies carefully consider these execution challenges when making innovation decisions and include associated investments in their calculus.

Innovation results are tracked and reviewed to fix deficiencies in the innovation process and incorporate lessons learned into future decisions. While innovation decisions are 2.5 times more likely to fail than typical business decisions, and failure is often the best teacher, learning can only happen if lessons are captured and fed back into the innovation process. Companies that consistently make post-mortem feedback a step in their innovation process reap the rewards by taking action to improve future innovations and adjusting in-flight innovations.

Five Reasons Why Innovation Decisions Succeed
2.5X More Often At Top Companies

Analysis and input from key stakeholders is given appropriate weight in the decision-making process. Individual intuition is much less reliable when making innovation decisions because such decisions involve combinations of ingredients, customers, distribution channels and other attributes beyond the decision-makers' experiences. To manage this, successfully innovative companies emphasize careful analysis and take a holistic view of innovation-related decisions, incorporating perspectives from all the stakeholders involved in bringing a new offering to market.

Performing well in these areas does not guarantee success for every innovation decision, but falling short in any area significantly increases the risk of failure. Innovation is complex, no one can predict the future and it is hard to overcome lousy luck. In the face of this uncertainty, top-performing companies must work hard to stack the deck in their favor.

Crafting Successful Products: A Strategic Approach to Consumer-Centric Innovation

Pre-launch Forecasting

Jan 4, 2024

In the dynamic landscape of product development, it is crucial to distinguish between consumer needs, disruptive marketing claims, and product attributes. These elements are distinct outputs arising from various stages in a product's evolution.

Understanding the Foundations: Unmet Needs vs Disruption Claims vs Product Attributes

The journey begins with identifying unmet consumer needs. This involves extensive research into emerging trends where the demand is positive, and current needs remain unfulfilled. Once identified, the next step is crafting a product value proposition that addresses these gaps. While product benefits are abstract and subjective, showcasing positive impacts on consumers' lives, product attributes are objective and specific.

For instance, consider the versatility of Vitamin D in yogurt, fulfilling multiple consumer needs related to bone health, immune support, skin health, mood regulation, and dietary supplementation.

Unmet consumer needs: Refer to desires or requirements that exist among target audiences but are not adequately addressed by current products or services in the market. Identifying and fulfilling these unmet needs is a key driver of successful product development.

Disruptive marketing product claims: Involve bold and innovative statements challenging conventional norms, positioning a product as revolutionary, and capturing consumer attention through unique value propositions.

Product attributes: Specific characteristics or features inherent to a product that define its qualities, functions, and benefits. Unlike abstract product benefits, attributes are objective and measurable, influencing consumers' perceptions and preferences.

Crafting Successful Products: A Strategic Approach to Consumer-Centric Innovation

Practical Example
Consider a mother seeking a healthy, tasty, convenient, and safe snack for her 5-year-old son with food allergies. The identified needs span taste preferences, nutritional content, convenience, and safety requirements.

Consumer Needs:
- A tasty snack for a 5-year-old boy.
- A healthy snack for a 5-year-old boy.
- A convenient snack for a 5-year-old boy.
- Safety for a 5-year-old boy with food allergies.

Related Product Attributes:
- Kid-friendly flavors like strawberry, vanilla, or berry blast.
- Texture and consistency that are suitable for children's taste preferences, like a creamy and smooth texture.
- Low sugar content or no added sugars.
- Essential nutrients like calcium and vitamin D.
- New revolutionary probiotics to support digestive health.
- Kid-friendly, single-serving pouches for easy snacking.
- Fun packaging and imagery with the Paw Patrol hero.
- Gluten-free.
- Lactose-free.
- Nuts-free.
- No artificial colors.
- No preservatives.

Crafting Successful Products: A Strategic Approach to Consumer-Centric Innovation

Disruptive Claim Example:

"Allergy-Safe Bliss Bites: Where Health Meets Happiness for Little Adventurers!"

This claim positions the snack as a holistic solution, addressing taste, health, convenience, and safety. It emphasizes kid-friendly flavors, a creamy texture, allergen-free composition, and essential nutrients, creating an irresistible option for both kids and parents.

The Iterative Process and Reverse Engineering for Strategic Discovery

Unmet needs result from thorough consumer and market research, serving as input for ideation. Disruption claims emerge during ideation, driven by innovation and marketing teams, incorporating consumer feedback on new concept ideas. Product attributes, in turn, are defined through detailed product specifications, aligning with company capabilities and anticipated consumer demand.

However, the product discovery path is not always a linear process, and reverse engineering is a viable approach. In some cases, discovering disruptive product attributes first and then linking them to unmet consumer needs can be a strategic and effective method. Here's how this reverse engineering approach might work:

1. Discovering Disruptive Product Attributes:
Start by identifying unique and innovative product attributes that set your product apart from others in the market. This could involve technological advancements, novel ingredients, or distinctive features that provide a clear competitive edge.

2. Linking Attributes to Unmet Consumer Needs:
Once you have a set of disruptive product attributes, analyze how each attribute can address specific unmet consumer needs. This requires a deep understanding of your target audience and market trends. For example, if your product has a new technology that enhances convenience, link it to the unmet need for a more time-efficient solution.

Crafting Successful Products: A Strategic Approach to Consumer-Centric Innovation

3. Crafting Disruptive Product Claims:

With the identified link between attributes and unmet needs, develop disruptive product claims that highlight the unique value proposition of your product. These claims should communicate how the product's attributes directly fulfill the identified consumer needs in a way that hasn't been done before.

Mitigating Risks through Advanced Analytics

Neglecting any aspect of consumer needs, product attributes, and the market landscape during analysis can lead to several pitfalls, hindering the success of product development. Here are some key pitfalls:

Solving the Wrong Consumer Problem:
Failing to accurately identify and understand the real problems and needs of the target consumers.

Consequence: Developing a product that doesn't effectively address the genuine pain points of the target audience, resulting in low market demand and potential product failure.

Undefined Target Consumer:
Insufficient understanding of the target consumer demographic.

Consequence: Launching a product without a clear understanding of who it is intended for, leads to ineffective marketing strategies and potential misalignment with consumer preferences.

Mismatched Marketing Claims:
Launching products with claims that don't resonate with the actual consumer needs.

Consequence: Miscommunication of the product's value proposition, resulting in reduced consumer trust, brand credibility, and potential negative reviews.

Crafting Successful Products: A Strategic Approach to Consumer-Centric Innovation

Wasted Resources on Ineffective Attributes:

Incorrectly identifying or prioritizing product attributes that don't align with consumer needs or market trends.

Consequence: Allocating resources, time, and effort into developing features that do not contribute to the product's success, leading to a suboptimal return on investment.

Incomplete Understanding of Consumer Sentiments:

Neglecting to gather comprehensive data on consumer sentiments toward specific products or product categories.

Consequence: Missing out on valuable insights that could inform product development strategies and marketing approaches.

Overlooking Market Trends:

Failing to stay updated on evolving market trends and consumer preferences.

Consequence: Developing products that may become outdated quickly, lacking the innovative elements that appeal to the current market.

7. Ignoring Competitor Landscape:

Neglecting to analyze competitor products and market dynamics.

Consequence: Missing opportunities for differentiation and innovation, and potentially replicating products already well-established in the market.

Crafting Successful Products: A Strategic Approach to Consumer-Centric Innovation

Lack of Flexibility in Adaptation:

Failing to adapt strategies based on real-time changes in consumer behavior or market conditions.

Consequence: Products may become irrelevant or miss out on emerging opportunities, leading to reduced competitiveness.

To avoid these pitfalls, a robust data collection and integration process supported by advanced AI technologies and analytical tools is imperative. Understanding the nuances of consumer needs, product attributes, and marketing claims requires tapping into a rich tapestry of data sources. From structured data like sell-in and sell-out sales data, product catalogs, consumer surveys, and market reports to unstructured data such as consumer reviews, feedback, and even product images, each data type provides a unique perspective. Online marketplaces act as treasure troves of real-time consumer interactions, while platforms like Google Trends offer insights into emerging market preferences.

To unravel the complexity within this data, advanced processing technologies such as web scraping, Natural Language Processing (NLP), Optical Character Recognition (OCR), Named Entity Recognition (NER), and sentiment analysis are indispensable. These technologies allow companies to extract meaningful information from diverse datasets, empowering innovation teams to make data-driven decisions throughout the product development journey.

A company's growth depends on the efficiency of its innovation teams, from identifying unmet consumer needs to formulating a comprehensive launch plan. Embracing new technologies and investing in analytical tools become essential for maintaining an endless loop of continuous innovation, ensuring both consumer satisfaction and cost-effective new launches. Adopting a holistic approach to product development allows companies to stay ahead of market trends, meet consumer needs, and deliver products with impactful marketing claims and attributes.

Flow

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway© – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768

* SKIM what articles are included and decide **which ones, if any, to read!**

AI-Driven NPD Example

Applying Upfront Part of Gillette's NPD 'SPEED' Process
Using Today's AI-Technology

SPEED
Successful Products Efficiently and Effectively Developed

AI-Driven Snack Bar* NP Concept Development – *Example*

Generate core concepts using AI, focused on thousands on products to produce concepts *specifically optimized to succeed within demand moments*

Illustrative Example-Only

Feature Extraction Across Snacking Universe

Comparison Universe

Candy. | Cookies | Salty Snacks | Pastries

Cereal | Jerky | Trail Mix | Diary

Captured Features

- Form
- Flavors, Ingredients
- Textures
- Benefits, Claims
- Packaging, Visuals,

Assessment of Optimal Feature Performance

Form	• Candy Bars • Cookies • Baked Goods
Flavors, Ingredients	• Peanut Butter • Dark Chocolate • Chocolate Chip
Textures	• Creamy • Crispy • Chewy
Benefits, Claims	• Organic • High Protein • Low Sugar
Pack Imagery	• Large Food Image • Red Color Scheme • Chocolate Chip

Cannot Copy Brands Now In Bars

Consumer-Driven, AI-Generated Concepts

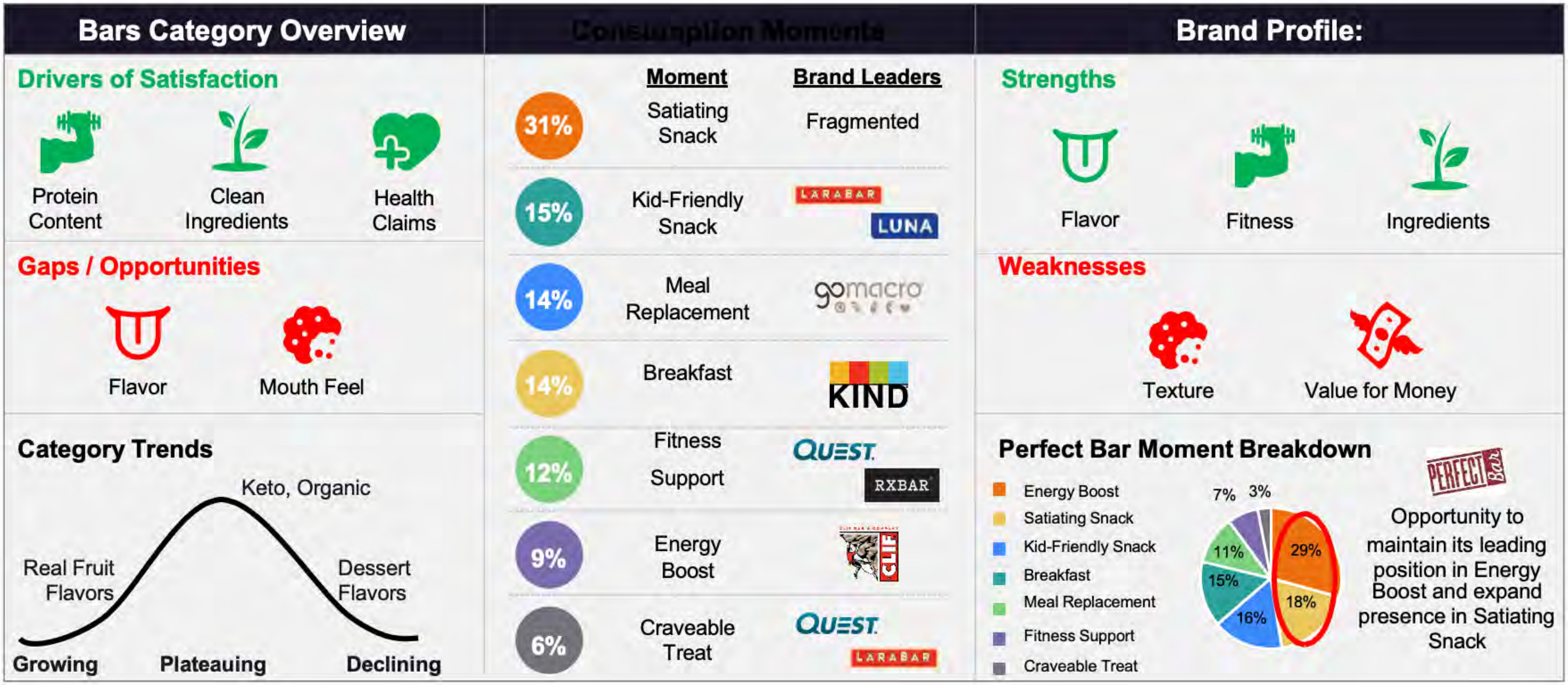
Key Concept Features

- Candy Bar-inspired
- Large, delicious food image emerging from package
- Ingredients like dark chocolate, almonds, salt
- High(er) protein content, low sugar, natural ingredients
- Smaller brand logo cut-out by contrasting it to blank space (see Pg 5 example)

Possible Nutritional Snack Bars Category Framework

Map out major demand drivers and how competitive brands deliver on key consumer needs

Illustrative Example-Only

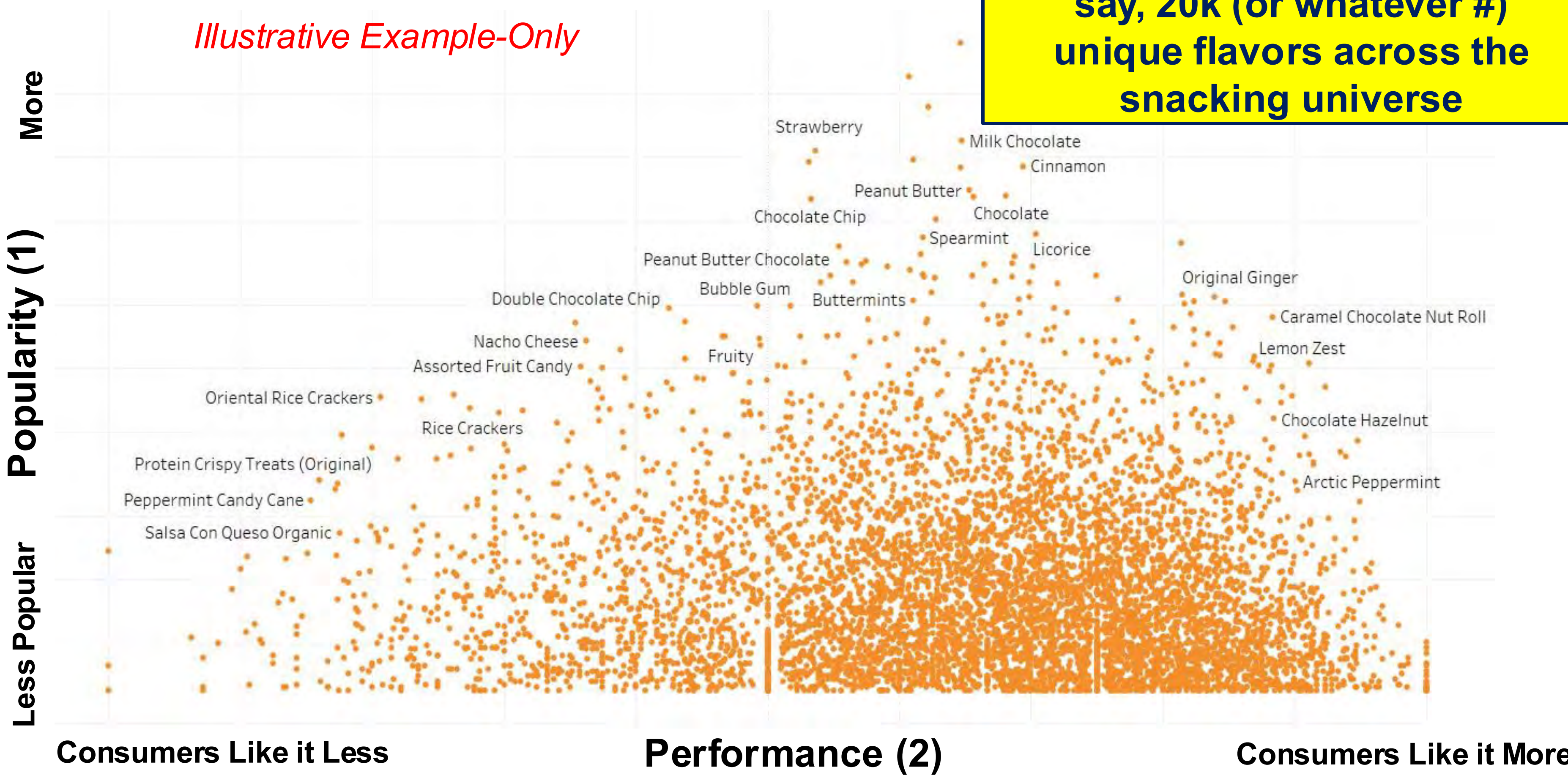


Source: 'Made-up' chart!

Possible Nutritional Snack Bars Category Framework

Judgment: Flavor suppliers have or can identify as many as 20k flavors from unstructured consumer feedback and identify gaps/white spaces forming the most optimal flavor-driven NP ideas for Bars

Can you use AI to tag up to, say, 20k (or whatever #) unique flavors across the snacking universe



1) Popularity-based, say, on volume of reviews for each product

2) Performance-based, say, on net sentiment score for "Flavor"; Net sentiment maybe calculated as % of reviews with positive sentiment towards concept vs % of reviews with negative sentiment towards concept

Cutting Through Consumer Noise

Maybe produce heuristics like brand vulnerability and, say, topic-level impact that help identify specific features that help enable Atkins (and Quest) future growth?

Illustrative Example-Only

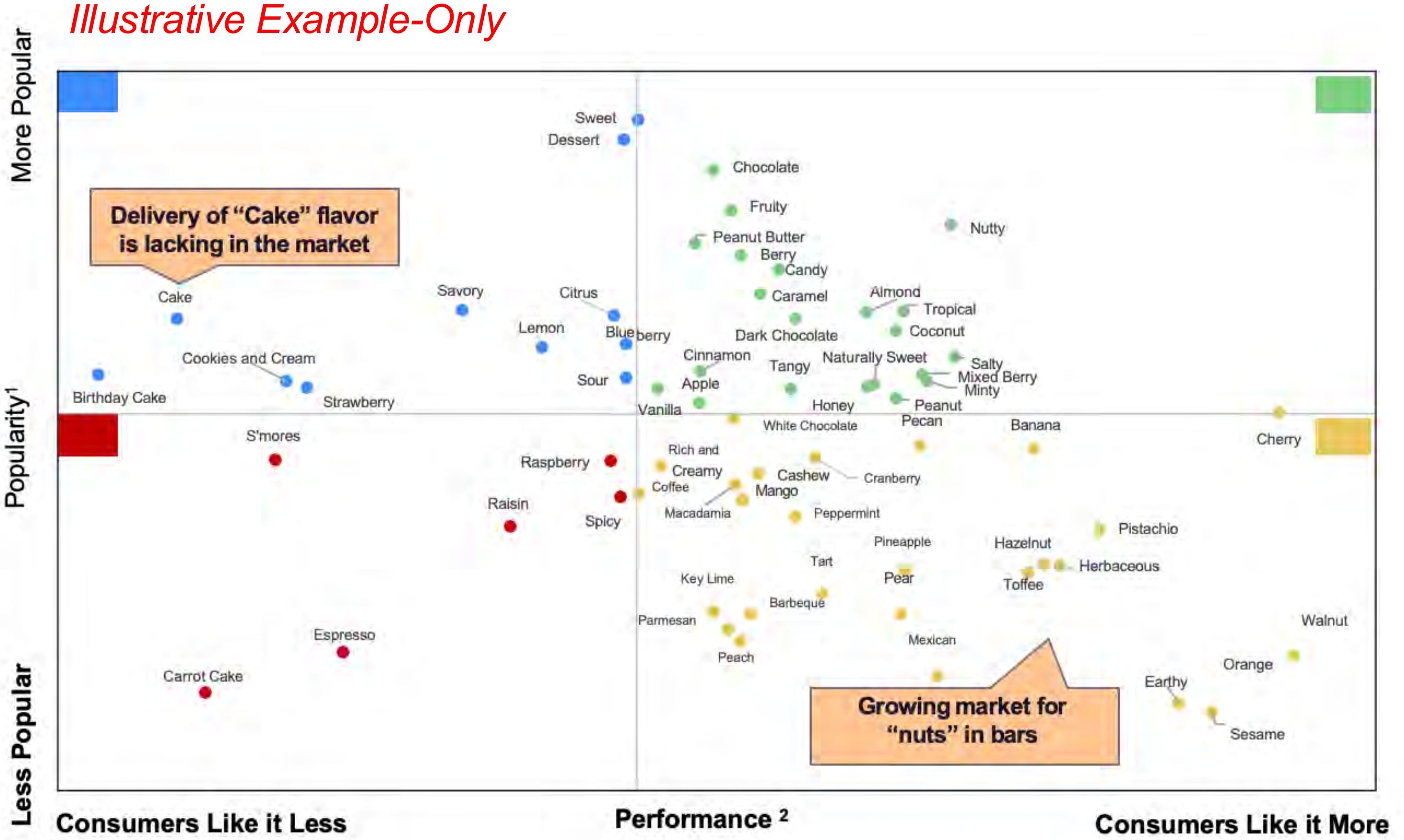


Table Stakes	**Must perform well**
	• Chocolate, Peanut Butter, Candy, Nutty, Salty, Fruity
Whitespace	**Popular flavors with room to improve**
	• Cake, Lemon, Blueberry, Strawberry, Cookies & Cream
Delighters	**Potential for growth opportunities**
	• Macadamia, Pistachio, Walnut, Mango, Cashew, Coffee, Pecan, Hazelnut, Cherry, Banana
De-Prioritize	**Unpopular Flavors**
	• S'mores, Raisin, Espresso, Carrot Cake, Raspberry, Spicy

1) Popularity-based, say, on volume of reviews for each product

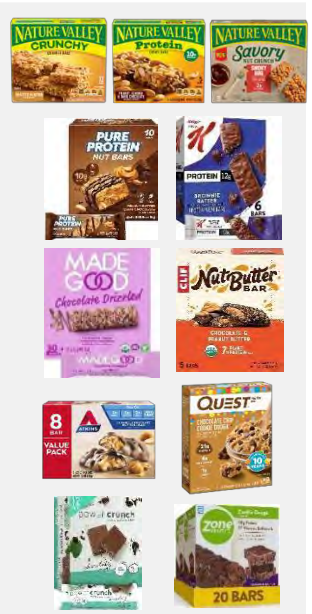
2) Performance-based, say, on net sentiment score for "Flavor"; Net sentiment maybe calculated as % of reviews with positive sentiment towards concept vs % of reviews with negative sentiment towards concept

Design Winning NP Concepts With AI Help

Beyond just flavors, identify features scoring highly with consumers and concepts to avoid

Illustrative Example-Only

Dessert / Delicious / Decadent Bars



Category Crash Oppy's

Key Concepts Dimensions	High Scoring Features from the AI Model		Concepts to Avoid (Lowest Scoring Features)	
Flavor	• Almond • Sea Salt • Honey • Caramel	• Chocolate • Hazelnut • Coconut • Peanut Butter	• Cake • Cherry • Pineapple • Watermelon	• Sour • Grape • Bubblegum
Texture	• Crunchy • Layers • Creamy • Coated	• Drizzled • Soft • Moist	• Chewy • Hard Candy • Flakey • Sticky	• Dry
Macros	• 100 calories • 150 Calories • <10g of protein	• <5g of sugar • 1-5g of fiber	• Excessive Protein Content >20g • >200 calories • >5g of sugar	
Imagery	• Saturated color • Medium-Large Image • Medium Logo • Show the Dessert • Show the Bar	• Pop-out imagery • Color match with flavor/food tone • Protein content • Calories content	• Monotone • Too much text • Small Image • Vitamin content	
Claims	• Low Calorie • Natural Ingredients • Made with Nuts • Non-GMO	• Simple Ingredients • Like a Cookie • On the go	• Weight loss • Filling • Glycemic index	

Design Winning NP Concepts With AI Help

Based, say, on features shown to have the highest consumer appeal

Illustrative Example-Only

Nuts-inspired flavor selected based on consumer desire

Prominently displayed food image highlights chocolate and almond flavors that consumers rate highly for flavor

Dessert promise focuses on connecting to the convenience of a candy bar vs. a more indulgent dessert experience

No Artificial Sweeteners called out

Brand Logo and Product Flavor in contrasting blank / negative space

Bold primary color connected to flavor experience

Easy-to-read nutritional value in complimentary colors to demonstrate permissibility to consumer

- **Calories:** Mid-size snack to maintain permissibility
- **Protein:** High content for full permissible indulgence consideration set
- **Sugar:** Low sugar amount to display sweetness

Brand logo rotated to allocate more pack real estate for sensory and benefit communication

Layered Texture with demonstrable depth of ingredients

Illustrative Example-Only

Concept: Chocolate Hazelnut Crunch	
Flavor / Ingredients / Inclusions:	Coated milk chocolate with fluffy hazelnut filling and rice crisps for crunch
Form / Size:	Bar / 60g
Occasion:	Permissible Indulgence
Colors Scheme:	

Inspired By

Visual Cues

- Crunchy hazelnuts and crispy bits set in delicious, creamy milk chocolate
- Deep brown primary color

Nutrient Callouts

- 200 calories and 14g* protein
- No artificial sweeteners
- Lower sugar than candy

Sensory Experience

- Reminiscent of a candy bar

* More if doable and deliver great taste

Illustrative Example-Only

Concept: Salted Caramel Cashew		
Flavor / Ingredients / Inclusions:	Soft texture with chunks of cashew and caramel	**Inspired By:** 
Form / Size:	Bar / 60g	
Occasion:	Permissible Indulgence	
Colors Scheme:		

Visual Cues

- Candy-inspired caramel bites topped with permissible cashews
- Caramel color scheme

Nutrient Callouts

- 200 calories and 14g* protein
- No artificial sweeteners

Sensory Experience

- Soft texture with sweet and salty combo

* More if doable and deliver great taste

Illustrative Example-Only

Concept: Chocolate Peanut Butter Pretzel Crunch

Flavor / Ingredients / Inclusions	Coated peanut buttery bar with pretzel bites for crunch
Form / Size	Bar / 60g
Occasion	Permissible Indulgence
Colors Scheme	

Inspired By:

Visual Cues

- Pretzels + coated chocolate
- Bright, warm color scheme

Nutrient Callouts

- 200 calories and 14g* protein
- No artificial sweeteners

Sensory Experience

- Crunchy texture with sweet and salty combo

* More if doable and deliver great taste

Illustrative Example-Only

Concept: Honey Pecan

Flavor / Ingredients / Inclusions	Honey sweetened, crunchy pecan bar
Form / Size:	Bar / 60g
Occasion	Permissible Indulgence
Colors Scheme	

Inspired By:

Visual Cues

- Dripping golden honey on bed of crunchy pecans
- Natural looking ingredients

Nutrient Callouts

- 150 calories; contains protein
- No artificial sweeteners

Sensory Experience

- Thin and sweet with crunch from pecans

FLOW

	Page
4 Headlines	2
Background	3
Lessons Learned, Principles, Enablers	16
NP Productivity	35
SGOAs (Strategic Growth Opportunity Areas)	57
Cases (e.g., *Lunchables®, Nabisco 100 Calories Pack®, Keurig® / Green Mountain®, Coffee)*	96
Core Concept Evaluative Criteria	172
NPD Forecasting	177
Successful In-House Incubations (Google)	188
Financial Management of New Products	198
Measuring and Impacting New Product Performance	213
20 Tips To Boost Your NPD Success Rate	234
Innovation Pathway – 1 Approach to NPD	324
NPD Perspective Back in the 1990's	376
NPD Process Benchmarking	391
Nielsen: Beating the NPD Success Odds	542
NPD Articles, Cases *	588 *
AI-Driven NPD – Example	768
Other Articles & PKA POV	780

PKA POV Re 'Innovation On Hold' Article

CPG firms must excel at innovation/NPD. In food & beverage, they must first and foremost be a food/bev tech and innovation company!

In the last 20-30 years the QUALITY of folks entering CPG marketing (and eventually the few that do well in mktg + in NPD/'innovation') has decreased significantly based on folks I see in CPG companies over the last 2-3 decades (Food/Bev, OTCs, Personal Care, HHP) and what recruiters tell me... too many other choices for MBAs offering 20-40% higher starting salaries for MBAs (consulting, financial services, entertainment, etc.).

The good news here for those that **excel in CPG mktg & NPD have far less 'relative competition' working their way up the mktg & NPD (and company) org ladder/pyramid** vs years ago.

What is unsaid in the below article is that these companies have deprioritized and or lost the talent to do innovation/NPD well. It massively accelerated during Covid when Big Food thought they could just execute the basics to succeed. Many factors led to some of the lowest levels of food & beverage innovation in decades, and in 2004 many are still experiencing them in some way or another, from supply chain challenges, high interest rates, and/or shifting consumer demand.

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Food Business News
07.29.2024By Russell Redman

Innovation on hold

CHICAGO — A dearth of new product launches this year — especially in food and beverages — has pulled innovation by consumer packaged goods companies worldwide to an all-time low, new research from market intelligence firm Mintel shows.

PKA POV Re ‘Innovation On Hold’ Article – *Cont’d*

Through the first five months of 2024, 35% of global CPG launches in the food, beverage, household, health, beauty, personal care and pet care categories were “genuinely new” products, while 65% were “renovation” launches such as line extensions, reformulations, new packaging or item relaunches, according to Mintel’s Global New Product Database.

The Chicago-based market researcher said the data marked the lowest level of CPG innovation it has recorded since beginning new product tracking in 1996. Genuinely new products for 2024 through May are down from 42% in 2019, before the pandemic, whereas renovation launches rose from 58% in 2019.

Food and beverages experienced the biggest decrease, with brand-new products representing 26% of launches from January through May 2024 versus 50% in 2007, or down by almost half, Mintel reported. That compares with brand-new products accounting for 33% of launches in that five-month span for the household category (51% in 2007), 37% for health (59% in 2007), and 46% in beauty and personal care (52% in 2007).

Mintel noted that food and beverage manufacturers have favored new varieties, range extensions and/or new packaging over brand-new offerings as ways to give consumers something different but also something familiar.

“Most of the innovation over the past two decades has come from the e-commerce channel,” Jonny Forsyth, director of food and drink at Mintel, said in the researcher’s “Role of Innovation in the Future of the CPG Industry” report. “However, food and drink manufacturers have to cope with complex supply chains, low margins and the need for temperature control when delivering fresh food and drink. The barriers to entry are therefore much greater than if you are starting a business in categories like beauty and personal care, household goods, or vitamins and supplements.”

PKA POV Re 'Innovation On Hold' Article – *Cont'd*

Geographically, North America and South America sit below the global innovation average of about 35% of CPG launches being genuinely new products. In North America, including the United States, just 29% of product launches are brand-new items, ahead of 28% for South America but less than 34% for Europe, 37% for Asia-Pacific and 46% for the Middle East and Africa, Mintel's data show. The researcher observed that this may be more of a reflection of faster economic growth in developing markets than mature markets, as the International Monetary Fund pegs 2025 growth at 4.2% for emerging market and developing economies versus 1.8% for advanced economies.

The COVID-19 pandemic disrupted CPG innovation but didn't trigger the decline in new product releases, Mintel pointed out. Though overall CPG innovation fell from 42% in 2019 to 35% in the first five months of 2023, that rate of decline was no worse than between 2013 and 2019, and the beginning of the decrease goes back further. In 2007, the year before the global financial crisis, just over half of global CPG launches were brand-new products, and that share dropped to 43% a decade later, according to Mintel.

"After the shock of the 2008-09 global financial crisis, larger CPG companies may have consciously decided to innovate less because of concerns about return on investment," the research firm said.

Along with factors such as higher ingredient costs and shortages in raw materials, CPG manufacturers also have had to adjust to changing shopper behavior.

"From a consumer perspective, anxious shoppers have also been more concerned about getting value for money than discovering new and exciting products," Mintel explained. "As

PKA POV Re ‘Innovation On Hold’ Article – *Cont’d*

More recently, the rapid emergence of artificial intelligence (AI) stands to level the innovation playing field for smaller CPG brands and private labels, Mintel said in its report. AI algorithms can make sense of a multitude of digital data points to spur innovations, create marketing campaigns, develop consumer insights and bolster customer service, shortening innovation cycles that once took years to just months.

“Supermarkets can — and surely will — use AI algorithms to harness this big data so they can create better private label products at more competitive prices,” Mintel said. “Innovation will be a central pillar for bigger CPG brands to survive and thrive against such challenges as we enter the second half of the 2020s.”

2017 CPG New Products/Brands 'Of-the-Future' – How Many Around in 2014?

The next page is a list from 2017 of the CPG brands of the future.

There may be one or may be two Billion-dollar brands!
~ 20% are out of business
~ 10% are strong private businesses
~ 10% have exited
Most of the rest are middling along!

CPG IS HARD!
Especially when you don't have a **huge disruptive vision, skillful strategy, immense creativity, relentless execution, serious product moats, top-tier talent, a Board that knows what it takes to win … and a little luck and serendipitous, unpredictable events along the way**.

The next page graphic would be more compelling if it highlighted those that had failed and those that had exited; and only a few of these brands are selling more than $100 million in retail dollars

FYI:
Siete, a brand with sales over $1 bn from Garza Food Ventures, is not shown on the next page chart since 2017 was still the early days for them; introduced in 2014 and in October 2014 PepsiCo announced it was acquiring Garza for $1.2bn).

2017 CPG New Products/Brands 'Of-the-Future' – How Many Around in 2014? – *Cont'd*

Read "Play to Win: Choosing Growth Over Fear in Work and Life," Larry Wilson and Hersch Wilson

They present several innovation-related concepts that emphasize embracing change, taking risks, and fostering a growth mindset.

Key takeaways:

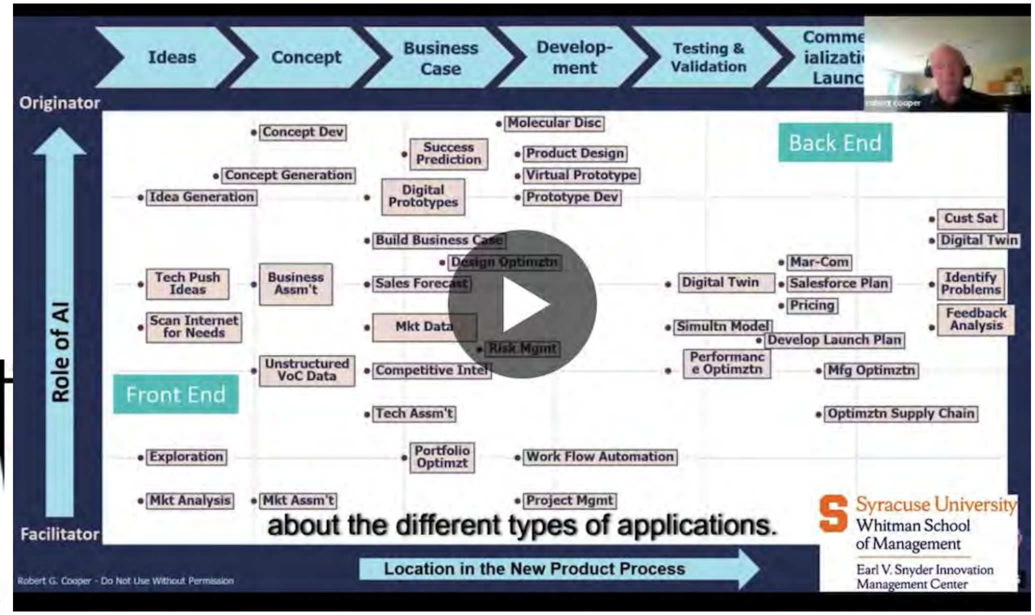
1. The "'Play to Win" Mindset for Innovation: Innovation happens when individuals and organizations choose growth over fear. A "play to win" approach encourages bold thinking, experimentation, and pushing boundaries to drive progress (try the power of “what if?” thinking).

2. Creating a Culture of Experimentation: Innovation requires a willingness to try new ideas, test assumptions, and iterate quickly. Leadership must model the "play to win" mindset by embracing risk, cultivating a psychologically safe environment, and promoting collaboration, curiosity, and bold decision-making.

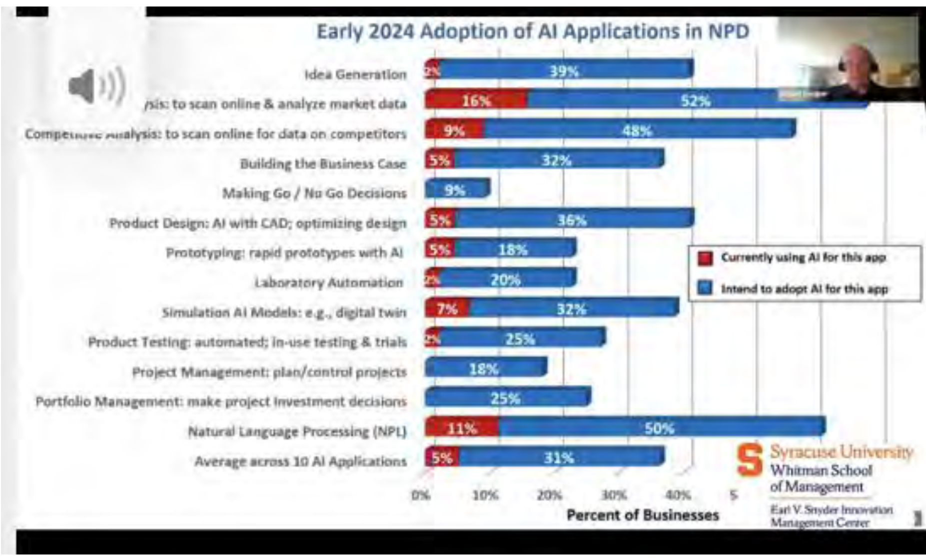
3. Personal Innovation & Growth: Innovation isn't just for businesses—it applies to personal development and leadership. Individuals who adopt a "play to win" mindset focus on continuous learning, adaptability, and seeking new challenges, which enables them to respond more effectively to market shifts and emerging trends. Here’s a link to the book on Amazon if you’d like to read it: https://lnkd.in/enb8YsQ6

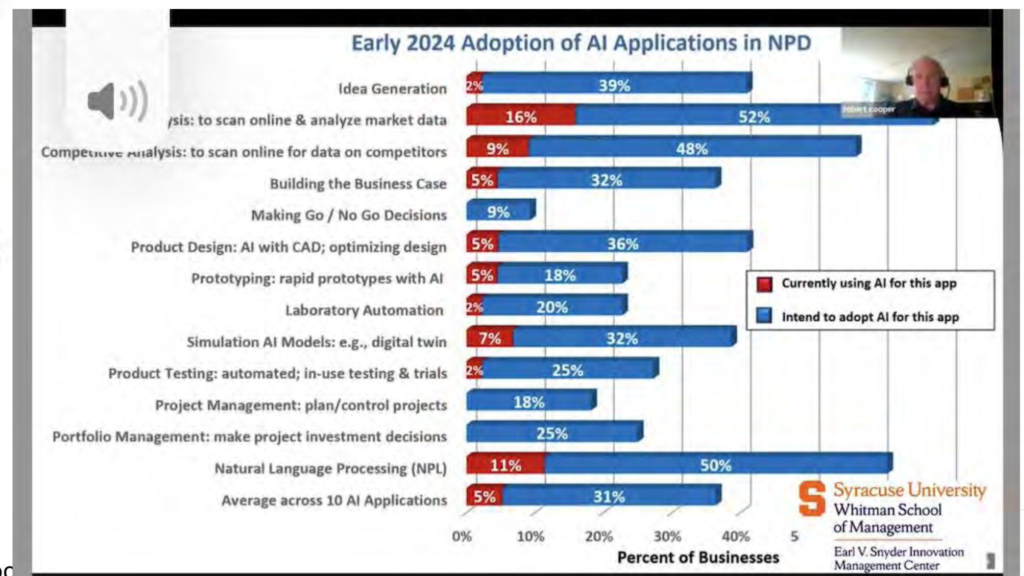
A.I. and the NPD StageGate Process

The Snyder Innovation Management Center at Syracuse University presents Dr. Robert G. Cooper …



visit: https://lnkd.in/eJpncamY on AI in the Stage Gate NPD Process.
hashtag#SnyderCenter
hashtag#ResearchAndInnovation
hashtag#InnovationLeadership
hashtag#Internationa





A.I. and the NPD StageGate Process