



NEW PRODUCT PACESETTERS

Innovation Before the “New Normal”

MAY 2020

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The 2019 new product development story continues to be one with strong characters, plot twists, surprise beginnings – and endings – and undoubtedly, a story worth following. The pre-COVID-19 world of new product development and successes showcases two diametric themes: Successful new products came to market from large and small companies, as well as from well-known and upstart brands. Consumers don’t necessarily think about the stories behind such themes, but we see that they showed a big willingness to embrace a range of product types and attributes.

2019 New Product Pacesetters highlight launches throughout the entire CPG spectrum, some greater than \$100 million in multi-outlet sales, and even a couple topping a billion dollars (where we looked at sales across total multi-outlet and convenience channels). While at the same time, small companies delivered booming brands in the \$10-20 million in sales neighborhood, also achieving New Product Pacesetter status. In food and beverage, some would have argued that \$100 million launches were a thing of the past – and not necessarily the goal. But compared with last year’s four behemoth New Product Pacesetters, 2019’s list delivers six food and beverage launches in the \$100 million club, as well as four in non-food categories. With 10 \$100 million launches, the return of blockbusters is a valuable new chapter.

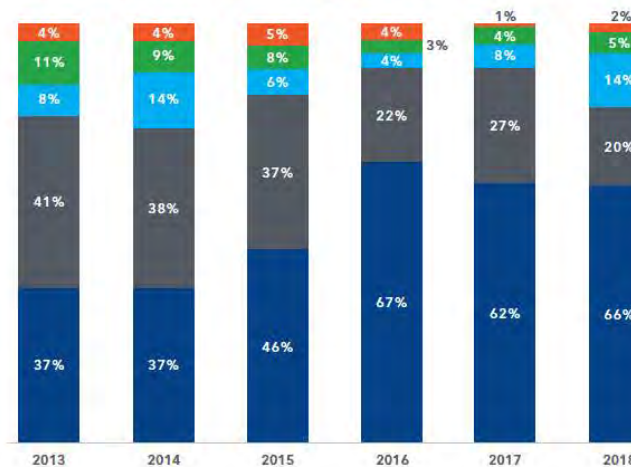
Blockbuster products as observed by IRI are rebounding, even though they’re small relative to the overall number of products (and even though their parent companies might have vastly different performance expectations). For our purposes, the median food and beverage New Product Pacesetter earned \$19 million in 2019, compared with \$11 million in 2018. That \$8 million bump is notable and considerable.

The non-food segment also saw gains in total Pacesetter sales. The beauty segment, which had 50 Pacesetter launches, reported an average of \$18

million in sales. By removing razors’ \$169 million in sales to \$15 million, a still significant space. With non-food launches, products that deliver the right consumer, these sales

Big is back is clearly different. In 2018, \$100 million launches accounted for 5% of launches and 11% of dollars, but in 2019, they accounted for 5% of launches and 33% of dollars.

The Trend Somewhat Interrupted – With a Shift in Mid-



Source: New Product Pacesetters 2019 and historical data. Note: Numbers may not add to 100%.

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Yet, successful innovation is not defined only by the dollars achieved, but also by the success rate with which products reach the intended audience. For products and brands big and small, understanding who buys what and why, and which products succeed and why is imperative. IRI's 2019 New Product Pacesetters and consumer attitudes survey about new products tell an exciting and complex story. The absolute dollar of Pacesetter revenue between food and non-food is up marginally year on year, but the mix of dollars shows change. Absolute dollars tell a critical and different story.

The observations here are derived from 2019 performance, in a pre-COVID-19 world. In this short space of time, consumer behavior has radically changed, but only time will tell if the penchant for new products among certain groups will waver, or if new groups will become more inclined to explore new products.

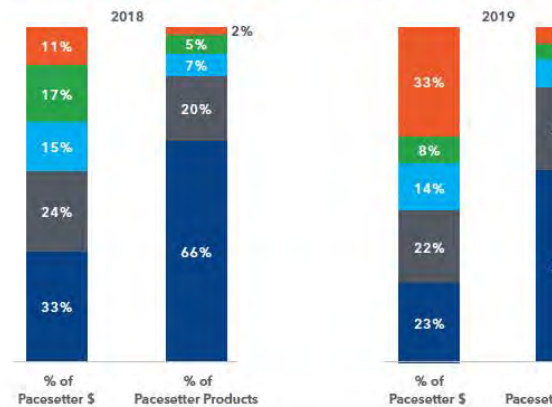
Quarantine retail therapy via e-commerce is real, yet so, too, is a potential recession where unemployment figures are historic and consumers' incomes plummet and are unpredictable. Only time will tell that New Product Pacesetters chapter, but 2019 and years past continue to reflect a common and unflappable theme: right products, right place, right time for the right consumer is the formula for winning in new products.

Pacesetter Sales Show the Impact of Larger Innovation in Food & Beverage



Source: IRI Market Advantage™

The Impact of \$100 Million+ Launches is Clearly Accentuated



Source: IRI Market Advantage™

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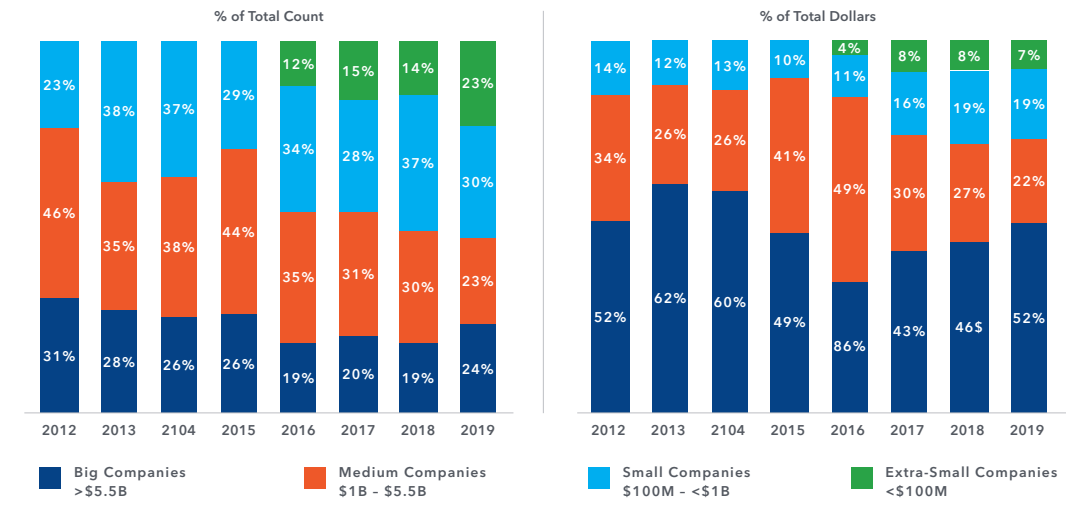
Big Is Back

Achieving top-10 New Product Pacesetter status takes a robust year, and always has. But products in 2019 had to work a little harder to achieve this status. In food and beverage this is especially poignant – No. 10 Pop-Tarts Bites generated more than \$68 million in multi-outlet sales compared with the \$50 million milestone of years past. In non-food, it is primarily the top four that show the fight to hold top spots. No. 4 Harry's generated nearly \$170 million, compared with No. 4 from 2018's ranking when Tide Pods Plus Downy brought in \$82 million.

Historically there had been a decline in the dollar threshold, until 2019, which reported a rebound. One outlet that played a considerable role in this movement was convenience stores, as they are home to niche innovations that capture broad appeal. The No. 1 c-store product Juul, for example, generated \$2.4 billion in sales. Electronic smoking devices boomed as consumers often perceived them as healthier or less conspicuous than cigarettes and found the flavors and options alluring.

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The Squeeze Continues for Medium-sized Companies Caught Amid Innovation from Big and Small Companies



Source: 2019 New Product Pacesetters

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Blockbusters in c-stores already address what does well in the channel, including e-cigs, tobacco and energy drinks. Convenience consumers have unique needs that are more focused than mass market outlets, and while c-stores are smaller outlets, distribution is broad and stores are easily accessible. For tobacco and smokeless products, distribution has grown more limited as other channels have limited availability of these products.

It remains critical, though, to consider new product distribution carefully – bigger does not mean everywhere. Blanketing the country with distribution typically doesn't work because prescriptive distribution puts the right products in front of the right consumers, regardless of the size of the overall market.

Bigger also isn't always better in evaluating the manufacturer behind new product success. Half of new product successes are coming from small manufacturers, emphasizing that size doesn't matter when a new product is done right, and distributed right.

When the product and its story strike consumers' hearts and minds, it succeeds. Blue Buffalo – the No. 1 Non-Food Pacesetter – generated more than \$313 million by striking a chord with high-end consumers laser focused on providing the best for their pets. On its own volition, Blue Buffalo began pressing into the larger food, drug, mass merchant



market in 2018 in advance of its acquisition by General Mills, which launched it full throttle into mass market outlets. However, the brand maintains its small-company feel by promoting the story of the brand's inception, even on its corporate website.

Further, trends point to a significant increase in extra-small manufacturer success – 23% of products and 7% of dollars come from these extra-small manufacturers, generating sales of less than \$100 million. Manufacturers across the size spectrum can succeed if and when they deliver consumers products that fit their needs. New product innovation never has been one-size-fits-all, and it won't ever be one-size-delivers-all, either.



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