Driving growth in consumer goods

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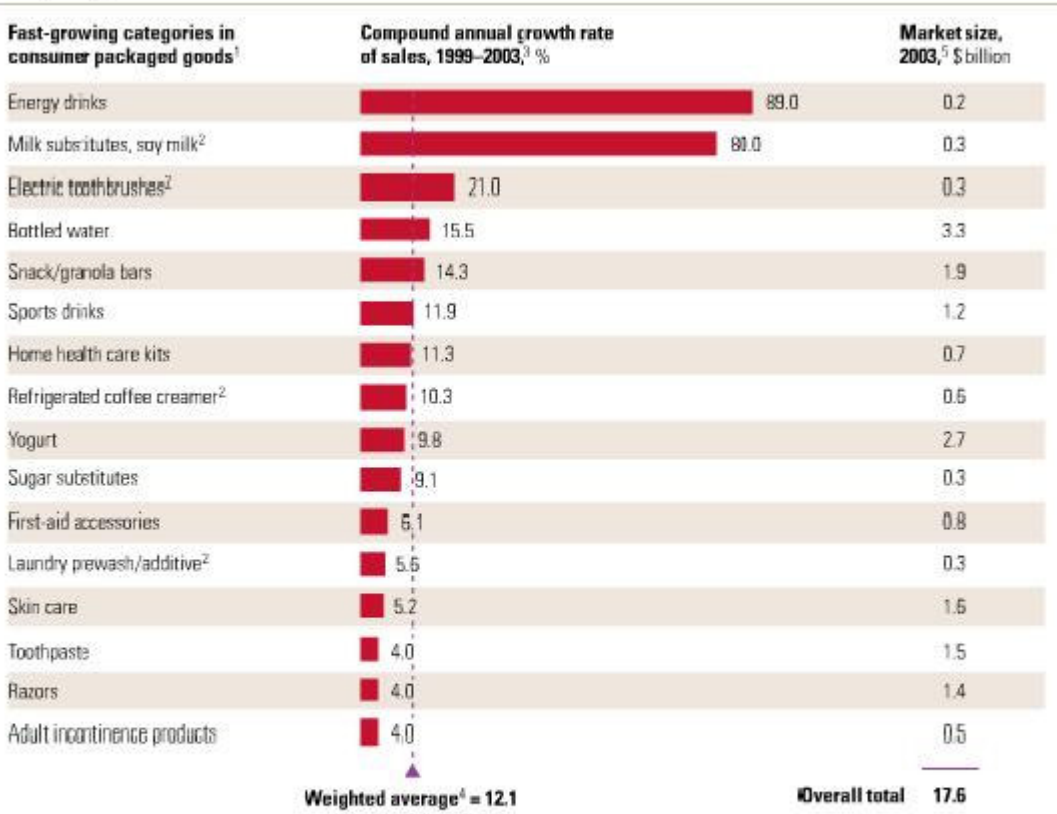
Fast-growing consumer goods categories hold clues for ways to spur growth in this mature industry.

A study of 480 product launches by North American consumer goods makers highlights the ability of certain marketing tactics to help spur revenue growth. The findings suggest that manufacturers should take a harder look at repositioning products toward new consumer segments, uses, and occasions—particularly at times when truly innovative, or breakthrough, products seem few and far between.

To understand the sources of revenue growth in the sector, we reviewed the growth rates of 290 categories of consumer products (such as bottled water, soap, and yogurt) over a five-year period.1 Although the categories grew, on average, by 2.3 percent a year, 16 of them increased some five times faster (Exhibit 1). We looked to see if structural differences among these categories—their size, for example, or the level of competitive intensity within them—might explain their more rapid growth and found none.

EXHIBIT 1

Rapid growth for some



[1]16 categories (5.9% of sample) represented 5.6% of total revenues of $316 billion; excludes large categories in which all product launches benefited from universal trends, eg, rapid growth of health food.
[2]Technically classified by Information Resources (IRI) as subcategory.
[3]Latest available data at time of study; excludes data from Wal-Mart Stores.
[4]Weighted for market size of each category.
[5]Size in channels measured by IRI.

Next, we analyzed the 480 product launches associated with the high-growth categories, examining the marketing tactics that the companies employed for each launch (Exhibit 2) and determining whether the product represented a breakthrough innovation. Then, using multivariate regression analysis, we measured the incremental contribution of each of these tactics—and combinations thereof—to the revenue growth of the relevant categories.

EXHIBIT 2

Tools for the launch

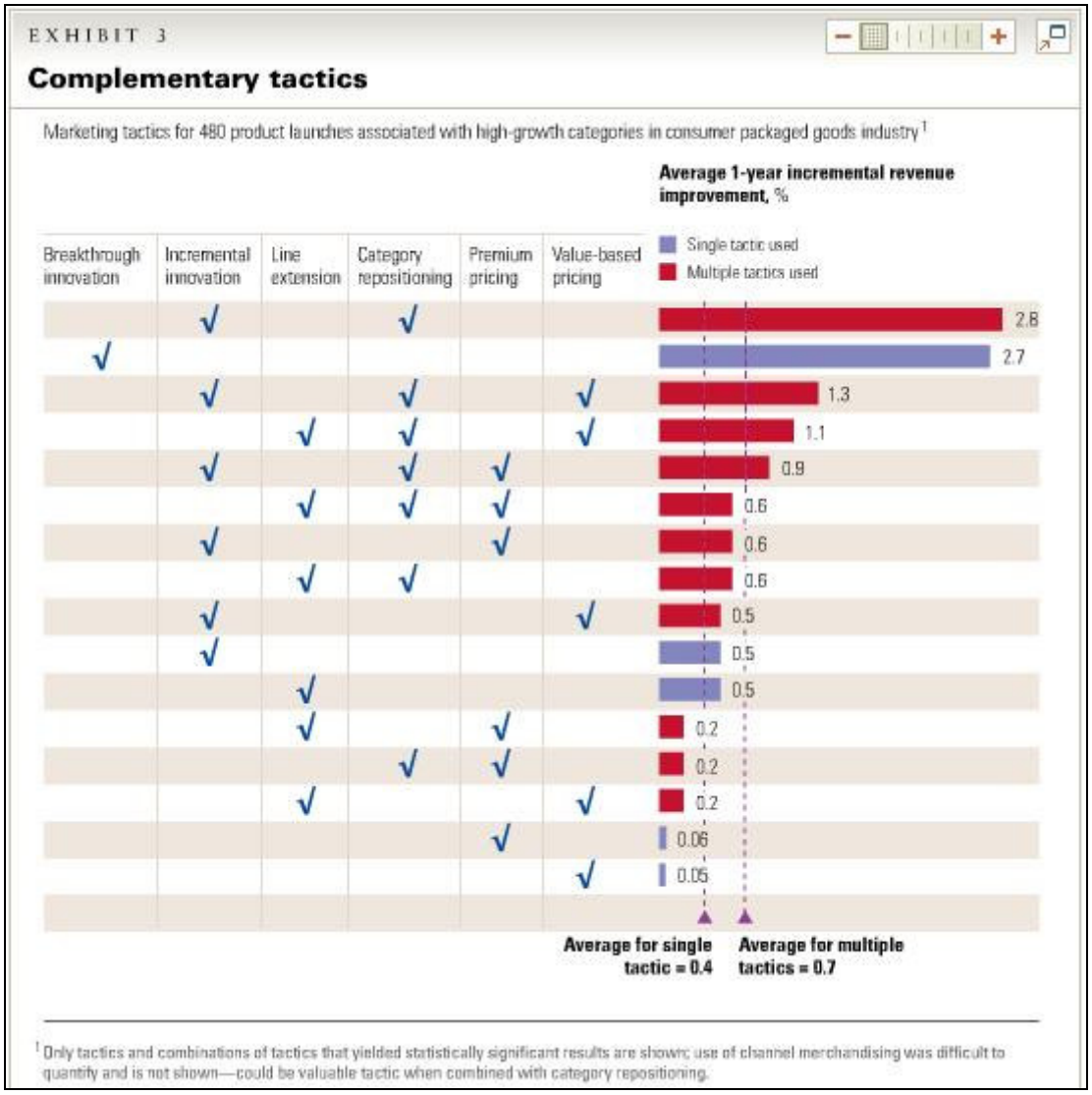
Marketing tactics for 480 product launches associated with high-growth categories in consumer packaged goods industry

Marketing tactics[1]	Description	Example
Breakthrough innovation	• Product based on truly novel breakthrough in science or technology	• Professional service (eg, teeth-whitening product) formulated for use at home
Incremental innovation	• Innovation to product or packaging built upon existing technology that provides incremental consumer benefit	• Adding health benefits (eg, vitamins) to existing product
Line extension	• Slight tweaks to existing products that provide no true incremental consumer benefit	• New size or flavor of existing product
Category repositioning	• Targeting new consumers, uses, and/or occasions by claiming benefits not previously associated with category	• Yogurt positioned as dessert
Premium or value-based pricing[2]	• Premium pricing to raise category value • Value-based pricing to increase demand	• Anti-aging facial cream priced 77% below category average

[1] Channel merchandising (eg, moving snack/granola bar to health section of store's pharmacy to communicate health benefits) could be valuable tactic for category repositioning but has not been assessed as a stand-alone tactic.
[2] Premium product is priced >20% above category average; value-based product is priced >20% below category average.

We found that the average product launch using two or more tactics was correlated with a mere 0.7 percent improvement on its category's underlying revenue growth. Yet the effect of truly novel products loomed larger: such breakthroughs were linked with a 2.7 percent improvement on the average revenue growth in their particular categories. The benefits to individual companies were significant. In 2002 P&G, for example, introduced ThermaCare, an inexpensive and portable heating pad. By 2003 the product had generated more than $60 million in revenue (in the channels we measured). Breakthrough products are rare, however: only 15 of the 480 launches we studied qualified.

Still, our research offers hope for manufacturers whose product pipelines aren't bursting with potential breakthroughs. Notably, we found that efforts to reposition products for new consumer segments, uses, or occasions correlated with impressive revenue growth if complemented by other marketing tactics. Indeed, when the repositioning of products in new categories was paired with incremental innovation—the use of an existing technology to enhance a current product—revenues improved upon their growth in the relevant categories as much as they did for breakthrough products (Exhibit 3).



Twenty-six product launches in our study followed this path. In 2002, for example, Yoplait modified an existing yogurt item (primarily by whipping air into it) and repositioned the resulting product, dubbed Whips, as a dessert. Likewise, the company also launched a vitamin-enriched yogurt drink, Nouriche, to attract health-conscious consumers. Sales of these two products grew four times faster than the yogurt category as a whole and accounted for nearly 20 percent of Yoplait's total sales in 2005.

What didn't spur growth? Line extensions (such as a new flavor for an existing product) and incremental innovations not supported by other marketing tactics were associated with additional revenue growth of just 0.5 percent. Our research also suggests that companies hoping to grow by cutting the price of their products to entice value-oriented retailers (and hence gain market share) are in for an unpleasant surprise. Although value pricing was the sole tactic used in 19 of the product launches we studied, it was associated with incremental revenue growth of just 0.05 percent—barely topping the underlying level of revenue growth for the relevant categories.3

Our findings suggest that consumer goods executives should look assiduously for opportunities to reposition their products. This effort will require big changes—in product-development priorities, objectives for new products, and even channel tactics. Creating links between a product and a new category often calls for changing the product's location in stores, for example. This requirement, in turn, places a premium on the marketing skills associated with understanding and influencing consumer shopping behavior.4 Achieving rapid growth will never be easy in a mature industry like consumer goods, but as the experience of the fast-growing categories suggests, it's not impossible.

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