



[SPECIAL EDITION]

15 Years of New Product Pacesetters:

Excellence in Innovation Drives CPG to the Next Level

IRI Times & Trends: January 2010



Executive Summary



INSIGHT

- » Competition for consumer attention and spending has intensified, as evidenced by an escalation of new product activity over the past several years
- » Innovation generally takes one of three forms: brand extension, net-new brand, or cross-over CPG introduction; brand extension is the most common, though generally less lucrative, path to new product introduction
- » Top food and beverage product introductions have capitalized on consumers' strong and growing demand for more nutritious, but still exciting, eating occasions

ACTION

- » To maximize new product relevance and impact, base new product initiatives on pervasive and/or emerging consumer trends and high-potential consumer markets; heavily market new products to build awareness and understanding of offering(s)
- » Evaluate the risk versus return associated with choosing one innovation method over the others; balance innovation efforts to bring to market a mix of smaller, more consistent launches as well as groundbreaking new brands, as warranted by opportunity and corporate growth strategies
- » Closely monitor existing and emerging sensory-related and wellness-related technologies; investigate feasibility and means of integrating these features into key existing and future categories/products/brands

Executive Summary



INSIGHT

- » Advances in technology, processes and formulas have contributed heavily to the ability of non-food CPG offerings to simplify and bring excitement to day-to-day tasks, and to raise the bar on healthy living
- » While convenience will continue to play a secondary (but expected) role in the CPG industry of tomorrow, primary drivers of growth include the growing desire for experiential living, an increased focus on the environment and sustainability, a continued focus on self-administered care

ACTION

- » Invest to understand the rapidly changing technological landscape vis-à-vis packaged goods; be vigilant for opportunities to incorporate new capabilities into existing and developing product offerings
- » Integrate up-and-coming attributes into all new product development efforts; heavily market new product/packaging features across all media and in in-store marketing efforts

IRI New Product Pacesetters Criteria

- At least \$7.5 million in year-one sales across food, drug and mass channels (excluding Walmart)
- Begin tracking sales after 30% ACV weighted distribution achieved
- Must complete a full year of sales (Brands that do not are considered Rising Stars for the following year)

Innovating Growth



In-depth analysis of 15 years of CPG's most successful product endeavors has provided an invaluable roadmap to sustainable new product success.

Analysis of 15 years of CPG's most successful new product endeavors provides a roadmap ...

- ✓ Understand key brand benefits and their value to core users
- ✓ Determine level of satisfaction with current offerings/benefits within the category
- ✓ Understand what the core brand stands for- why, its assets & its weaknesses
- ✓ Analyze competitive offerings to identify distinctive competencies/weaknesses versus our brand
- ✓ Identify opportunities to improve usage experience or occasion
- ✓ Determine if "hot" benefits outside the category can be engineered to fit our category

**...which
will
maximize
odds for
short and
long term
success**

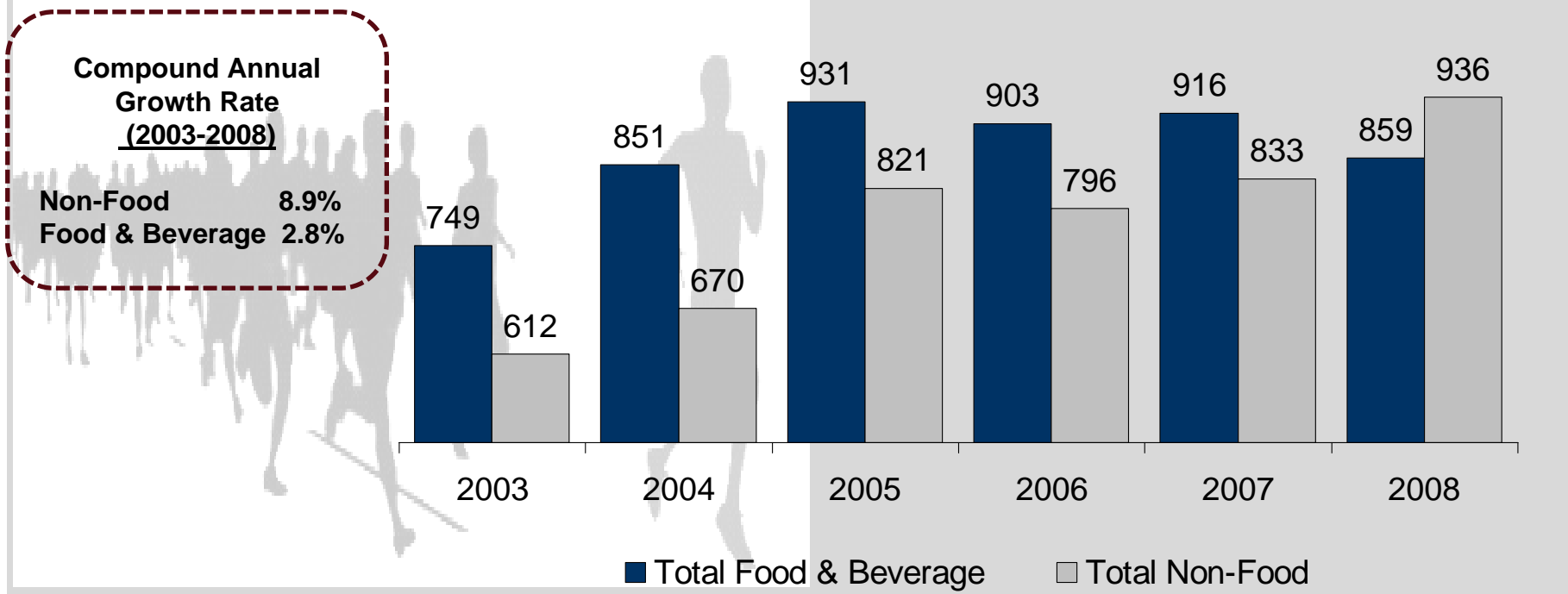
Adapted from IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

New Product Activity



A healthy upward march in CPG innovation activity clearly reinforces the notion that competition for consumer attention and spending is quickly escalating.

Number of CPG New Product Introductions*
Brand Level: 2003-2008



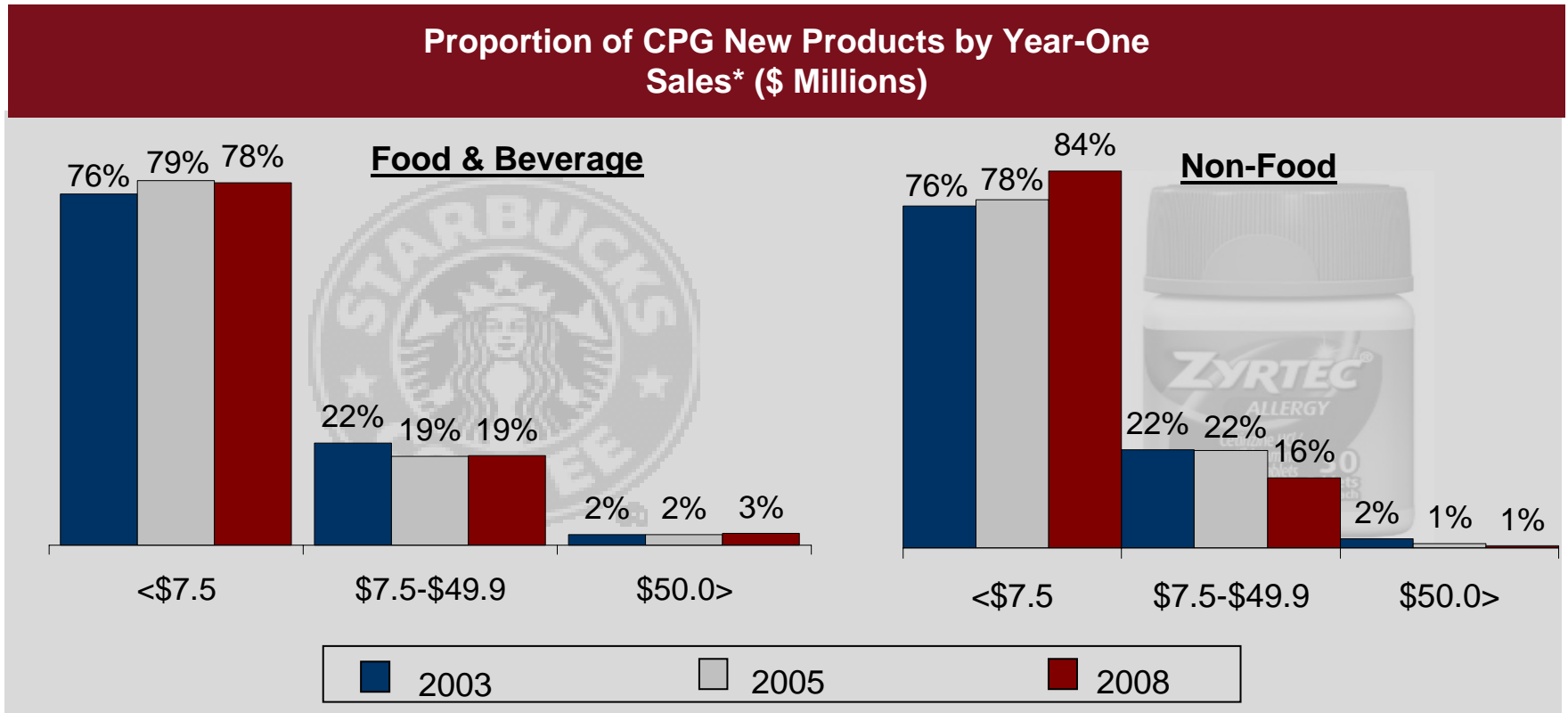
Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

*Across Food, Drug & Mass Channels (excluding Walmart)

New Product Activity



New CPG product launches are increasingly targeted in nature, lowering year-one sales potential, and prompting the industry to redefine the threshold for efforts deemed “successful.”



Source: IRI, “Innovation Highlights from 15 Years of New Product Pacesetters”

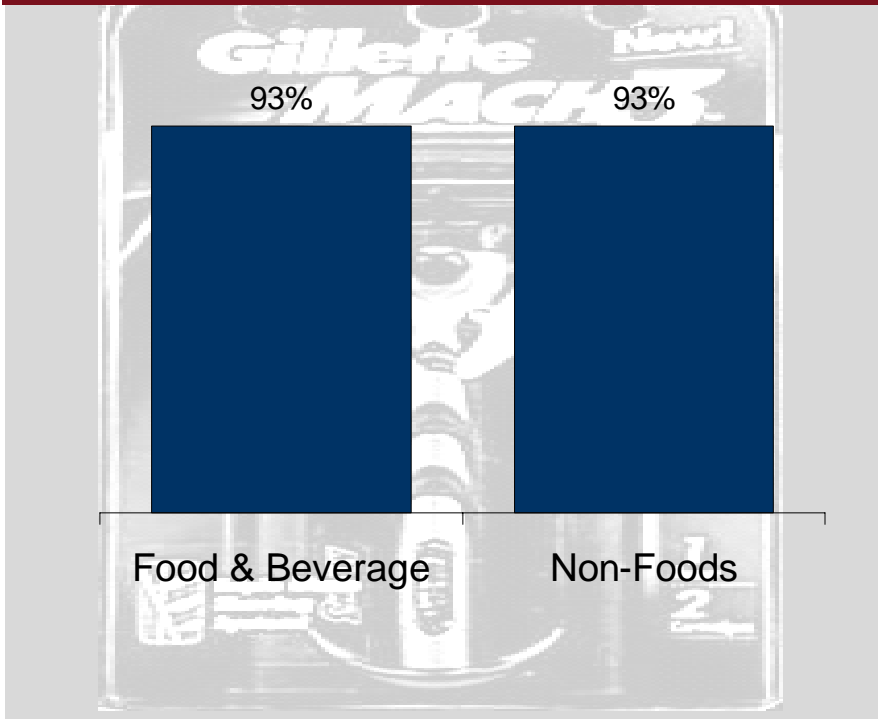
*Across Food, Drug & Mass Channels (excluding Walmart)

New Brands vs Extensions



Brand extension is the most common, though generally less lucrative, path to new product introduction.

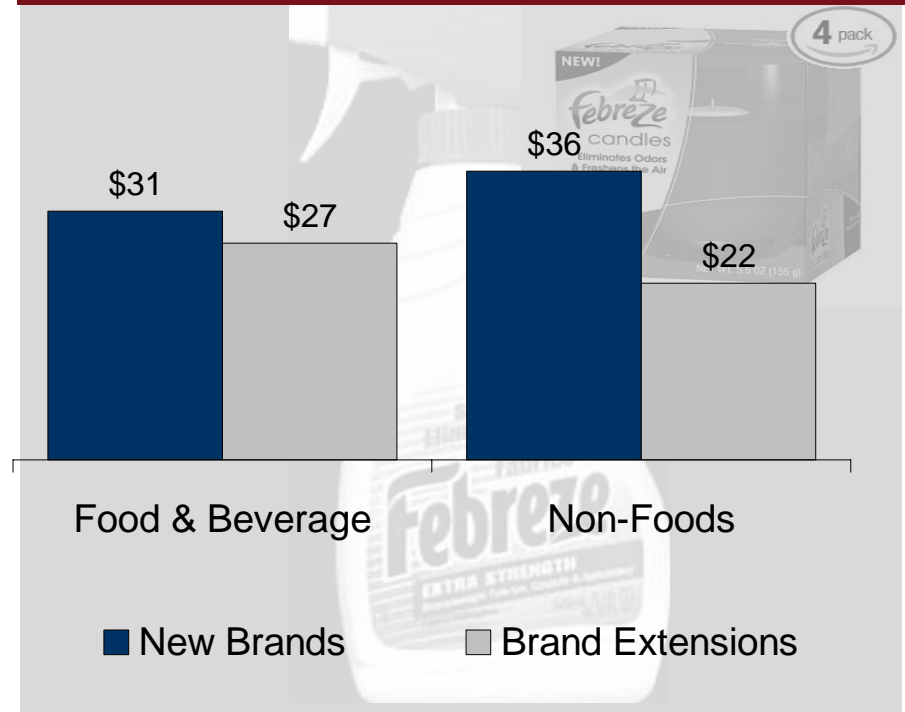
**% of New Product Pacesetters*
That Are Brand Extensions
2002-2008**



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

*Across Food, Drug & Mass Channels (excluding Walmart)

**New Brands v Brand Extensions
Average Year-One Sales (\$ Millions)
2002-2008**



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

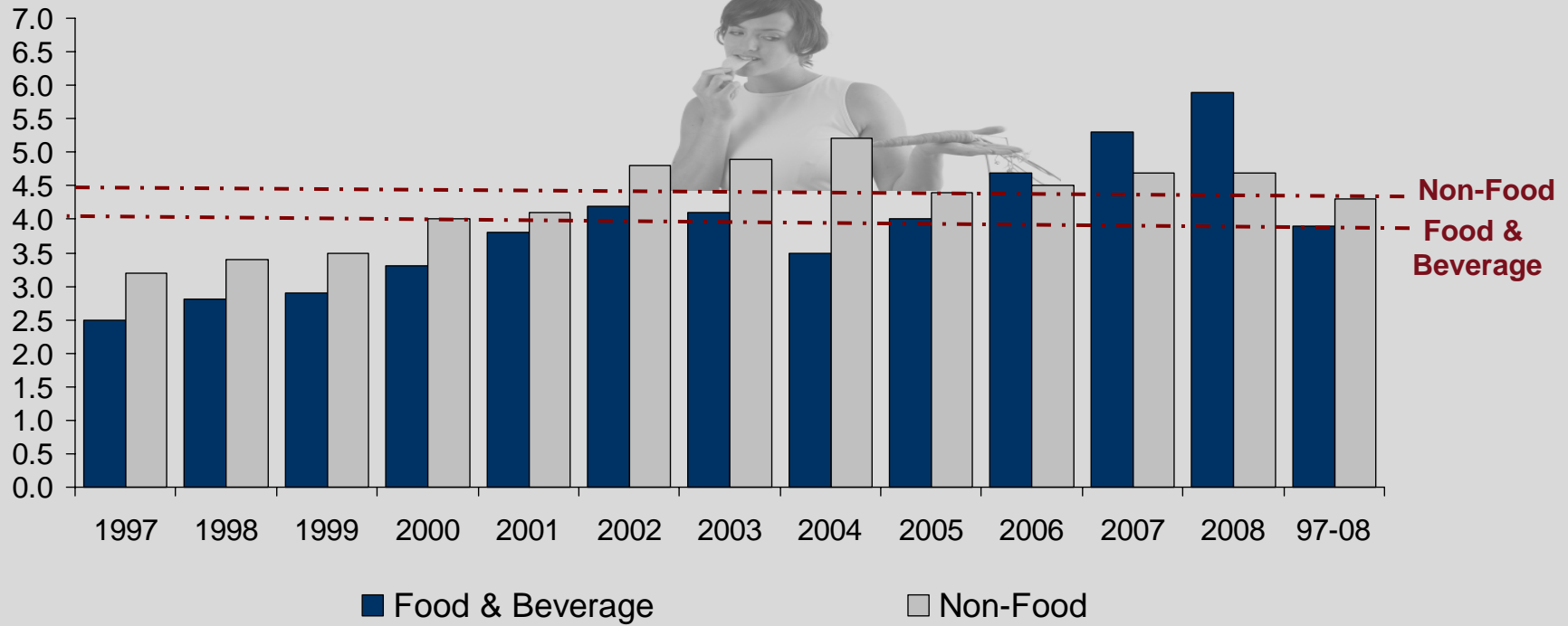
*Across Food, Drug & Mass Channels (excluding Walmart)

Benefit Trends



Product benefits are proliferating in response to rapid increases in technology and the steady rate of discovery of new product ingredients and ingredient combinations.

Trend in Average Number of Benefits per Pacesetter
1997-2008



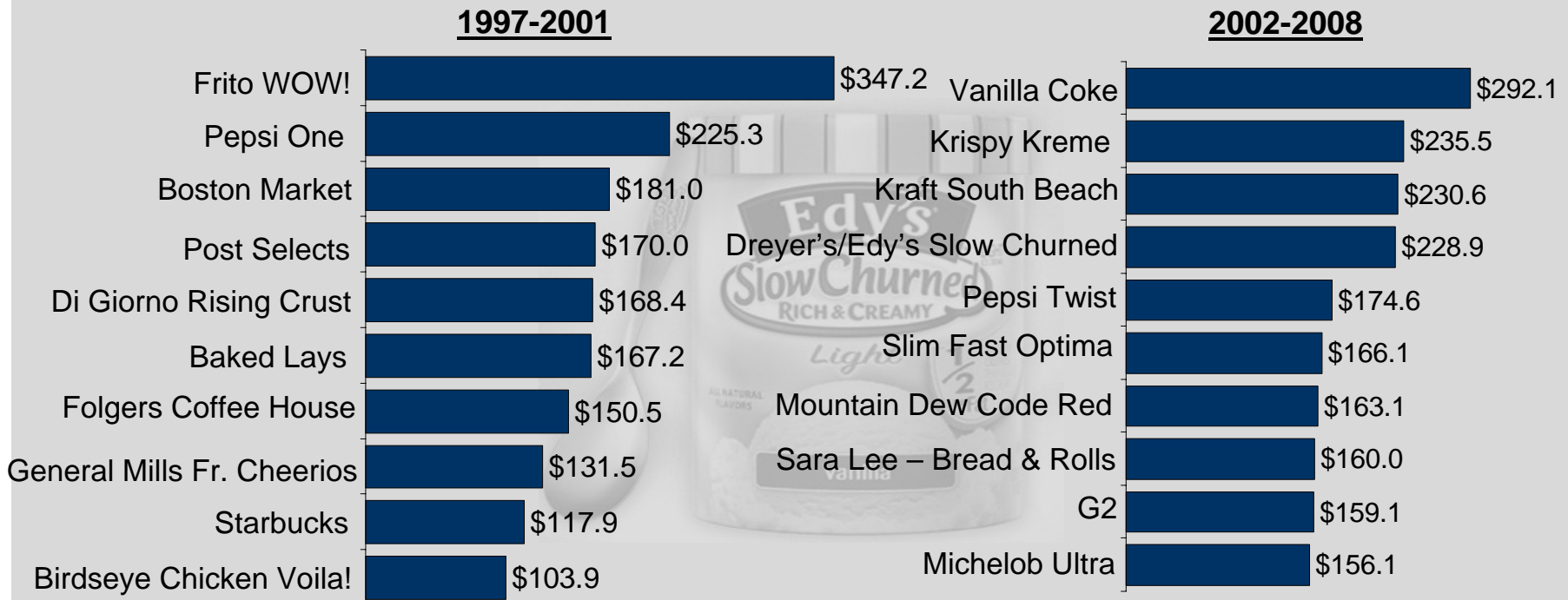
Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"
*Across Food, Drug & Mass Channels (excluding Walmart)

F&B Top New Product Pacesetters



The most successful food and beverage introductions over the past decade are illustrative of consumers' quest for healthier fare and more exciting eating occasions.

Largest Food & Beverage Pacesetters: 1997-2008 \$ Millions



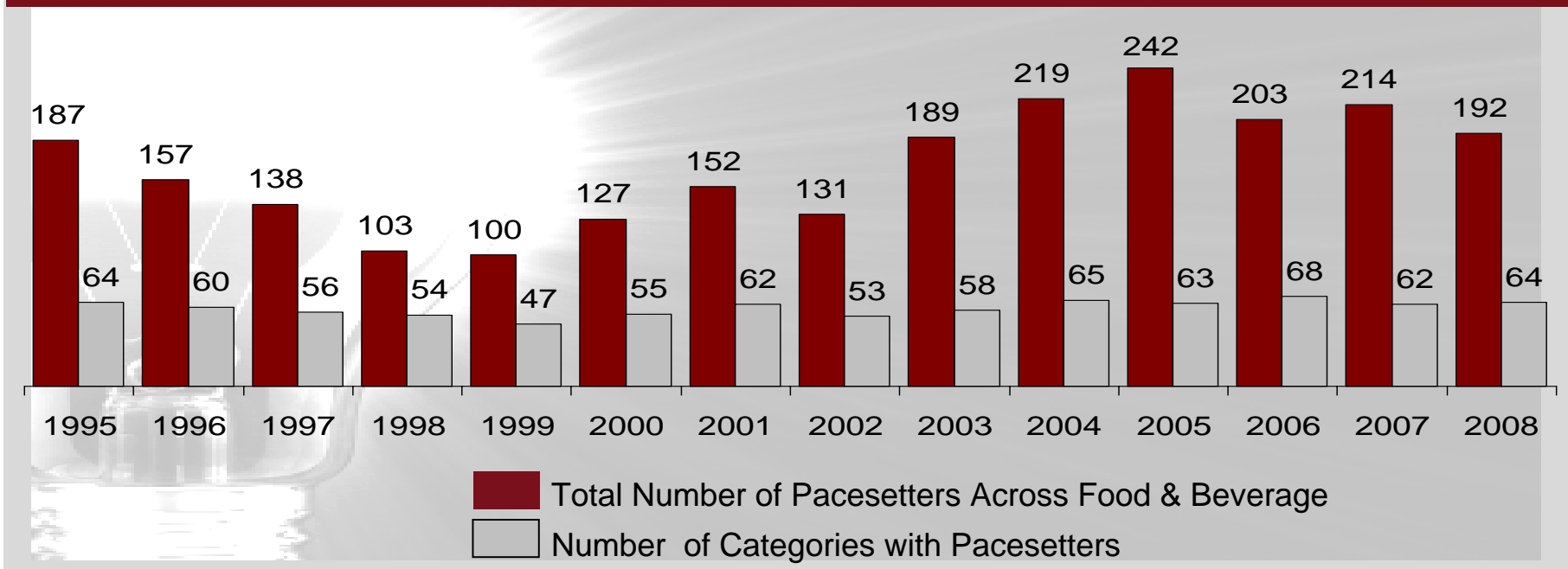
Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters". *Across Food, Drug & Mass Channels (1997-2001 Rankings Include Walmart; 2002-2008 Rankings Exclude Walmart). ** Carbonated beverage brand rankings include regular and diet formulas.

F&B Category Trends



Though the actual top-selling products and the most innovation-intensive categories change from year to year, the range of categories launching successful new products has remained largely unchanged over the past decade.

**Total Number of Food & Beverage Pacesetters
And Number of Categories with Pacesetter Products
1995-2008**

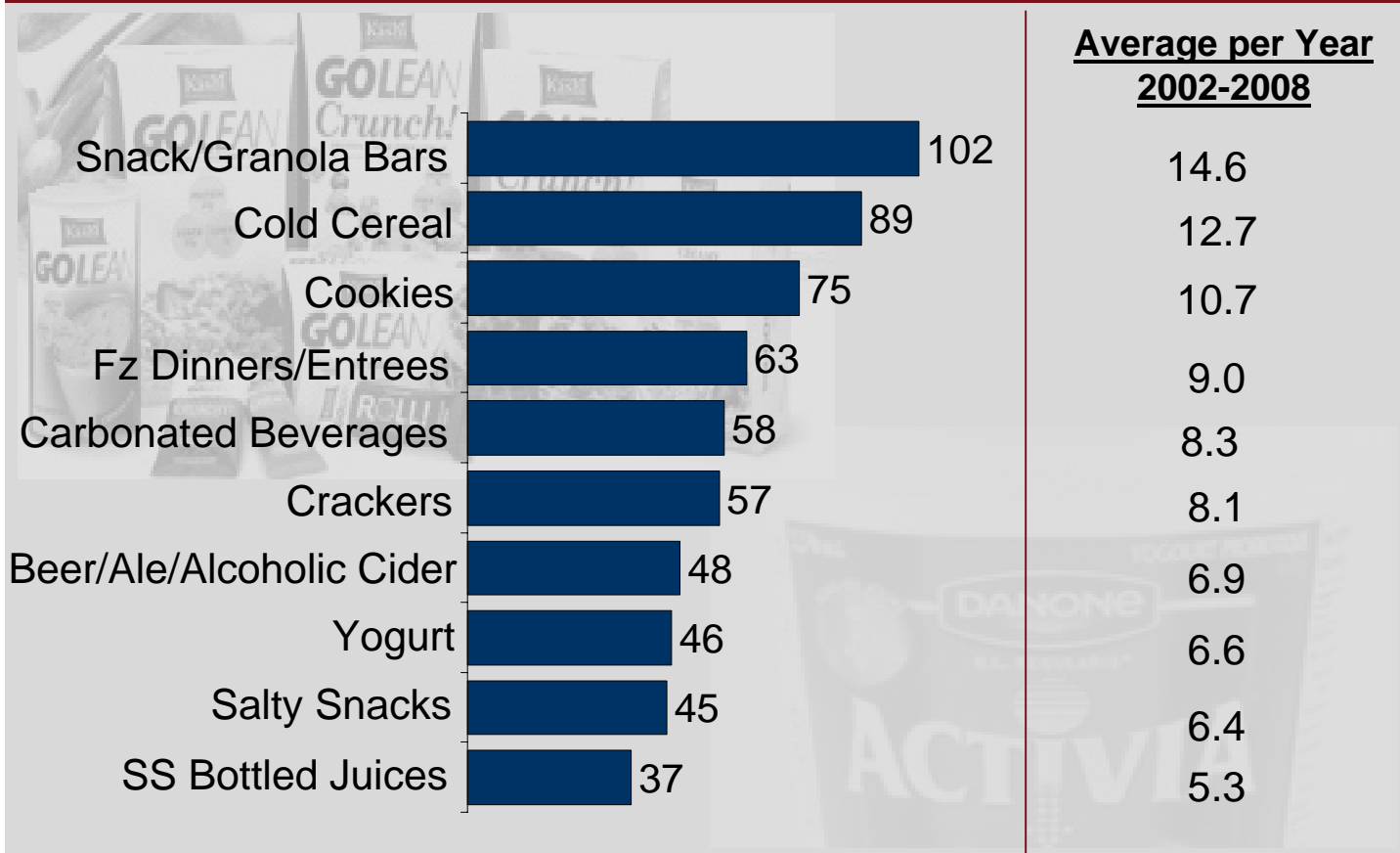


Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

F&B Category Trends



Food & Beverage Most Active Categories Ranked by Number of New Product Pacesetters by Category 2002-2008



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

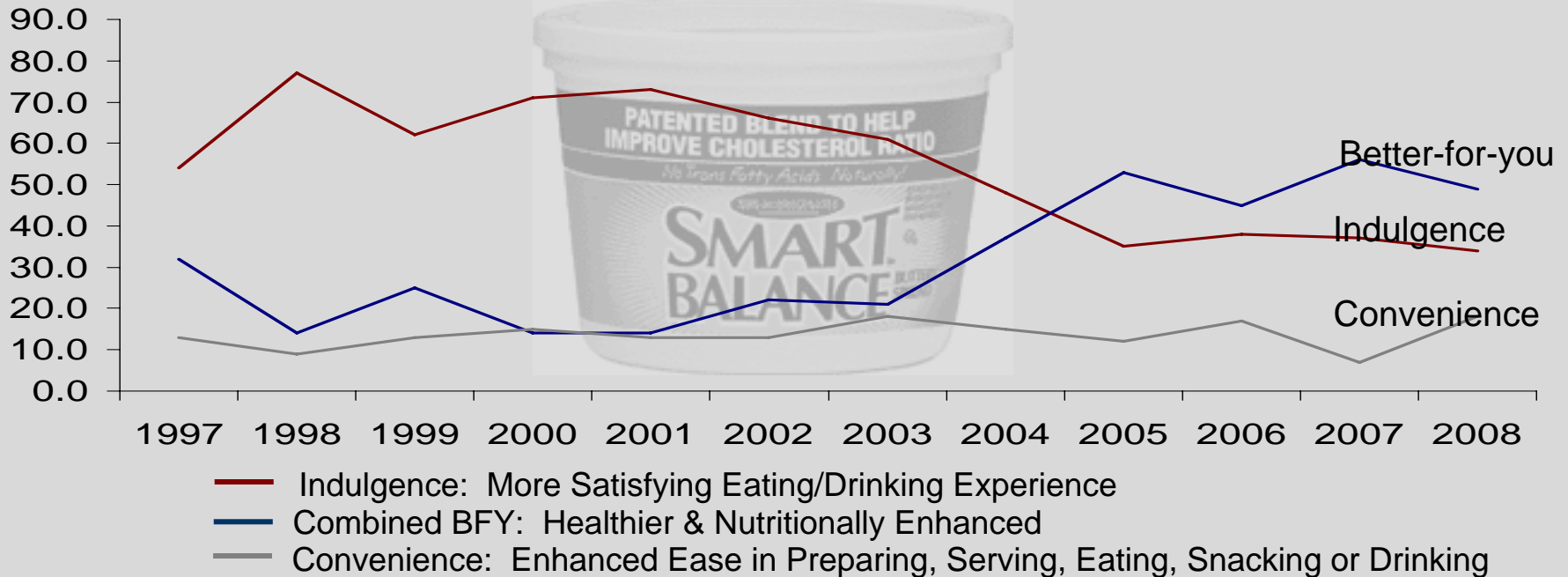
Mature center store categories have been among the most active area for new product innovation over the past several years.

F&B Category Trends



The full range of food and beverage benefits brought to market over the past decade has been rather broad, but can be summarized into three broad benefit groupings: better-for-you, indulgence or convenience benefits.

Key Food and Beverage Benefit Trends
Index = % New Product Pacesetters
1997-2008



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

F&B Trends to Watch



Food and beverage innovation will continue to run broad and deep, with convenience remaining an expected, yet secondary, attribute of most successful new products. Other key influencers of food and beverage innovation include:

Sensory

Sustainability

Self-Care



NF Top New Product Pacesetters

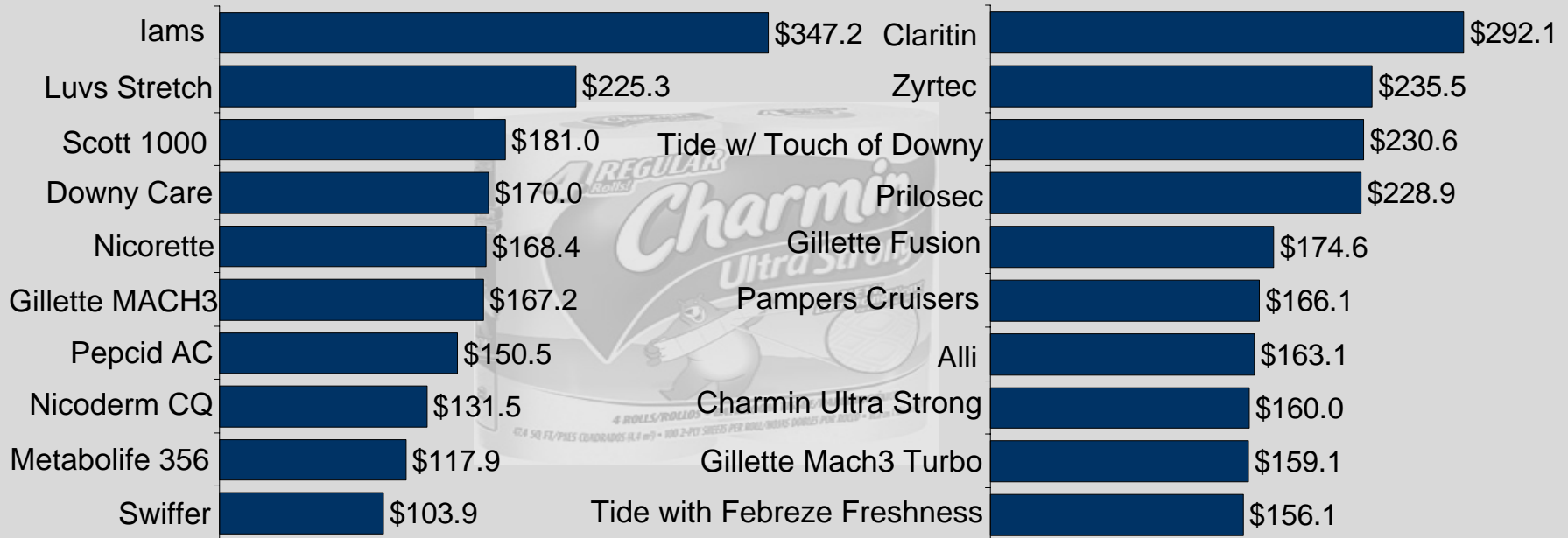


The most successful non-food Pacesetters illustrate the nation's shift toward self-administered health care and a focus on experiential living.

Largest Non-Food Pacesetters: 1997-2008
\$ Millions

1997-2001

2002-2008



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters".

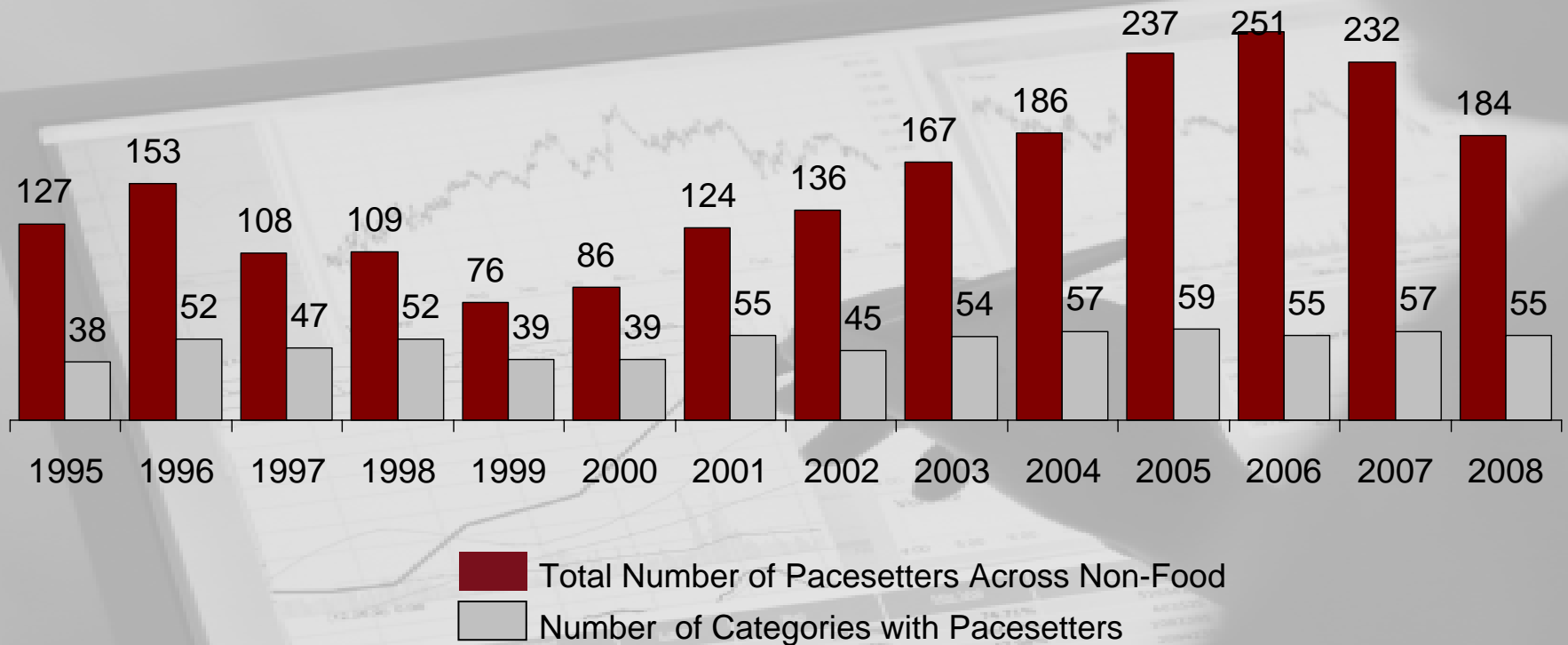
*Across Food, Drug & Mass Channels (1997-2001 Rankings Include Walmart; 2002-2008 Rankings Exclude Walmart).

NF Category Trends



The pace of non-food innovation escalated sharply for over a decade before slowing slightly in 2007 and 2008.

**Total Number of Non- Food Pacesetters
And Number of Categories with Pacesetter Products
1995-2008**

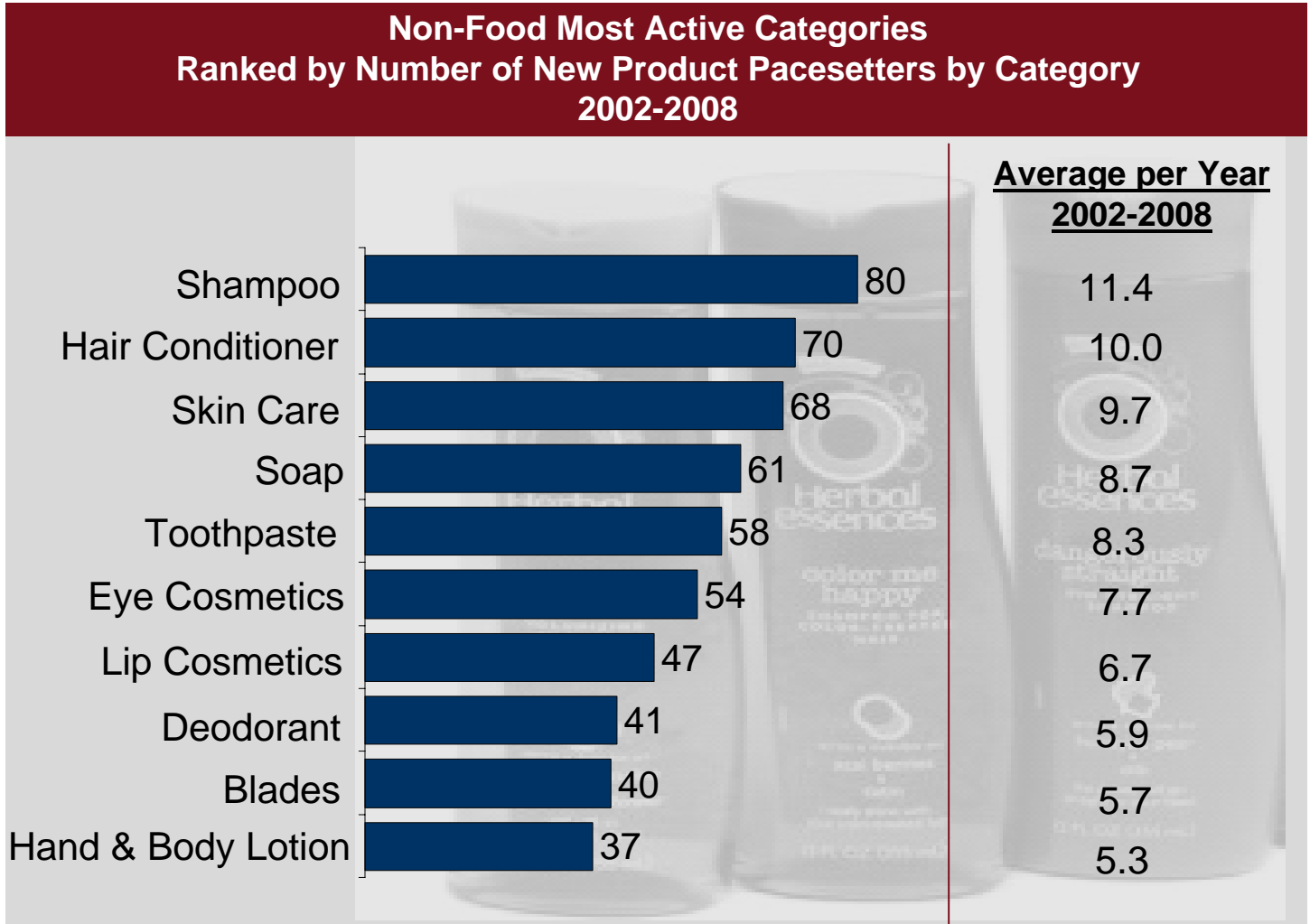


Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

NF Category Trends



CPG innovators are deftly bringing to market a range of health and personal care products made possible by technological advances and a range of plant and science-based ingredients.



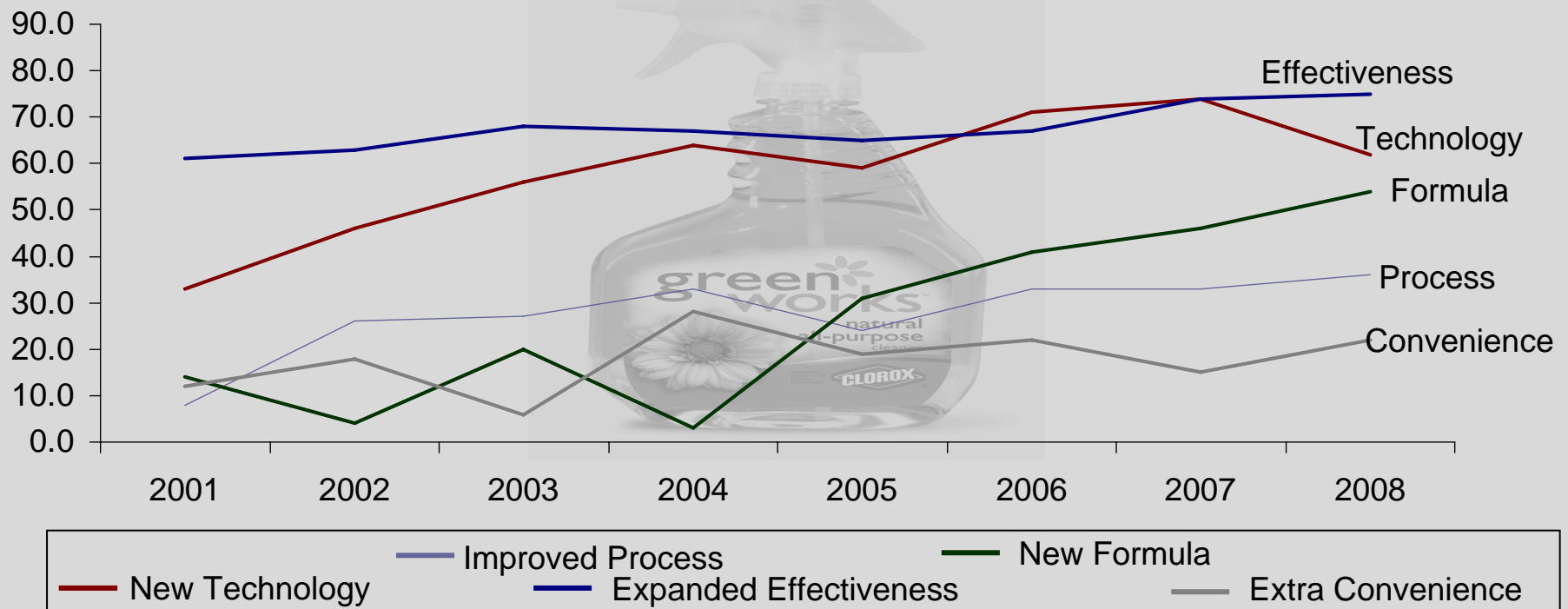
Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

NF Category Trends



Non-food innovators are rapidly developing new technologies, new processes and new formulas designed to bring added efficacy and excitement to everyday CPG solutions.

Benefits Supporting Non-Food Launches
Index = % New Product Pacesetters
2000-2008



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

NF Trends to Watch



Innovation in the non-food arena will be influenced by a number of factors over the next several years. Some of those factors are the same as those seen in the food and beverage arena, and some are unique to non-foods.

Sensory

Self-Care

Sustainability

Efficacy

Value v Premium

OLAY.
regenerist
perfecting cream

Gently Removes Callous, Dry Skin
Original Ped Egg™
For Smooth, Beautiful Feet
The Ultimate Foot File

- Over 100
- Fracture Mesh Film
- Safe for the Heels
- Ergonomic Design
- Clean Sharpening - No More

Manufacturer Action Items



New Product Development

- Establish a system to identify early indicators of emerging consumer trends, based on trend drivers (demographic, social, economic, lifestyle)
- Identify high-potential consumer markets, including niche and high-growth segments
- Leverage consumer research and advanced analytics to understand drivers of consumer attitudes and behaviors as well as unmet and emerging needs
- Conduct in-market tests prior to full roll-out

Marketing

- Identify stores with a consumer base that most closely aligns with the new product consumer target; reflect optimal store mix in distribution strategy
- Leverage an integrated marketing strategy which clearly identifies relevant brand attributes and value proposition
- Highlight multiple product benefits in messaging across marketing vehicles
- Seek tie-ins with existing store platforms such as “health and wellness” and “sustainability”

Merchandising

- Continually monitor actual versus projected sales growth in aggregate, across consumer segments and by store
- Identify and implement course correction in marketing, distribution and merchandising within the first several weeks of launch and at multiple checkpoints throughout the first year

Retailer Action Items



New Product Development

- Establish a system to identify early indicators of emerging consumer trends, based on trend drivers (demographic, social, economic, lifestyle)
- Identify high-potential consumer markets (including niche and high-growth segments) and trip missions
- Evaluate fit between new products and key consumer segments and trip missions, and heavily support those that are best-aligned

Marketing

- Work with manufacturers to identify optimal assortment at the store level
- Leverage localized assortment strategies that address the need for variety without creating an overly complicated shopping experience
- Support new products with cross-merchandising and cross-marketing programs, creating tie-ins and solutions-based programs, where appropriate

Merchandising

- Monitor current and projected sales by store, across target consumer segments and across target consumer shopping experiences
- Measure brand impact on total category sales
- Evaluate optimal shelf and display allocation based upon demonstrated and expected contribution