HOW TO INCREASE YOUR INNOVATION SUCCESS RATE IN GREATER CHINA
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No one ever said that innovation was easy. Nielsen research suggests that about two out of every three new products are destined to fail. And innovation is especially difficult in China, where the probability of success is even lower—only 2 percent of ideas are actually sustainable in this market. However, this challenge can be overcome. Because new products are key sources to stimulate growth and profitability for manufacturers, the CPO (Consumers-Products-Online) framework studies innovation from a holistic perspective and helps marketers increase their odds for success in Greater China (namely China, Hong Kong, and Taiwan).
PUT CONSUMERS BEFORE PRODUCTS

In the past few decades, technological advancements have drastically transformed the world we live in and accelerated the growth of emerging economies. Free flow of information via the Internet has also facilitated the process of globalization and fostered greater demand from consumers for products that provide more personalized experiences and better-quality lifestyles. Therefore, understanding consumers’ changing profiles is important when providing new products that address their unmet desires and increasing needs.

Among the Greater China markets, China has the fastest growing economy. The compound annual growth rate (CAGR) of the country’s per capita gross domestic product at purchasing power parity has remained steady at 10 percent over the past four years amid the recent world recession. As a result, China is experiencing much stronger growth and expansion than its developed Greater China counterparts (i.e., approximately 10% growth in China vs. approximately 3%-5% in Hong Kong and Taiwan).

PER CAPITA GDP AT PPP

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA</td>
<td>6,185</td>
<td>6,781</td>
<td>7,553</td>
<td>8,391</td>
<td>9,162</td>
<td>10.3%</td>
</tr>
<tr>
<td>HONG KONG</td>
<td>45,051</td>
<td>44,120</td>
<td>47,370</td>
<td>50,296</td>
<td>51,494</td>
<td>3.4%</td>
</tr>
<tr>
<td>TAIWAN</td>
<td>32,204</td>
<td>31,782</td>
<td>35,607</td>
<td>37,743</td>
<td>38,749</td>
<td>4.7%</td>
</tr>
<tr>
<td>US</td>
<td>46,901</td>
<td>45,461</td>
<td>46,811</td>
<td>48,328</td>
<td>49,922</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook Database, April 2013 (scale in units)

According to the Q1 2014 Global Consumer Confidence Report: Concerns and Spending Intentions Around the World, Greater China’s consumers exhibit confidence about the future and remain optimistic in personal finances and willingness to spend on desired items. In particular for mainland China, consumer confidence in the first quarter of 2014 was measured at the same record high level of 111 points as in the previous quarter, ranked the fifth highest index scores, together with HK region, among 60 countries measured in Nielsen’s Global Survey of Consumer Confidence. In addition, China’s consumers generally believe that their aspirations for better and quality lives will prevail, as the government pushes further on nationwide urbanization policies to drive domestic consumption and economic growth. With improved
economic situations, growing disposable incomes, and higher levels of education, China's consumers are becoming increasingly sophisticated and particularly look for “paradigm-shifting” innovations that offer unique product experiences and convenience for their busy and stressful lives. Nielsen’s Global Survey of New Product Purchase Sentiment (January 2013) shows that China’s consumers, compared with Hong Kong’s or Taiwan’s consumers, are more open to experimentation (42% in China vs. 24% in Hong Kong and 19% in Taiwan) and discussions about new products (71% in China vs. 42% in Hong Kong and 58% in Taiwan). Expanded access and greater transparency of information have allowed Chinese consumers to gradually catch up with the trend of modernization and the world’s standard of living—now, they’re willing to try out less-familiar brands/products and still find excitement and satisfaction in them. However, this doesn’t mean that Hong Kong and Taiwan consumers aren’t open to innovations. Rather, Hong Kong and Taiwan are very developed markets and are well-saturated by entrenched brands with strong and historical presence. Consumers there are more difficult to please because they have had greater exposures to the world’s newest and finest innovations. Expectedly, consumers in Hong Kong and Taiwan value brand familiarity more (68% in Hong Kong and 65% in Taiwan vs. 46% in China). In Hong Kong especially, only 1 or 2 percent of new product items are coming from new brands.

<table>
<thead>
<tr>
<th></th>
<th>CHINA</th>
<th>HONG KONG</th>
<th>TAIWAN</th>
<th>APAC</th>
<th>GLOBAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am an early purchaser of new product innovation</td>
<td>42%</td>
<td>24%</td>
<td>19%</td>
<td>32%</td>
<td>33%</td>
</tr>
<tr>
<td>I like to tell others about new products I have purchased</td>
<td>71%</td>
<td>42%</td>
<td>58%</td>
<td>65%</td>
<td>59%</td>
</tr>
<tr>
<td>I prefer to buy new products from brands familiar to me</td>
<td>46%</td>
<td>68%</td>
<td>65%</td>
<td>56%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Nielsen Global Survey of New Product Purchase Sentiment, Q3 2012
Based on respondents with online access only. New products are defined as any product not purchased in the past.
Despite the differences, consumers across the Greater China region feel similarly about purchasing innovations: They are very concerned with a product value, and they want proof of a new product’s feasibility before trying it.

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<th>CHINA</th>
<th>HONG KONG</th>
<th>TAIWAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>I will purchase a store brand or value option when available</td>
<td>64%</td>
<td>62%</td>
<td>53%</td>
</tr>
<tr>
<td>I wait until a new innovation has proven itself before purchasing</td>
<td>60%</td>
<td>61%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Nielsen Global Survey of New Product Purchase Sentiment, Q3 2012
Based on respondents with online access only. New products are defined as any product not purchased in the past.

SUMMARY OF MARKETS AND CONSUMERS

CHINA
• Fast and stable economic growth
• Open and seek novelty in products
• Strong consumer buzz
• DEMAND VALUE IN PRODUCTS (BENEFITS THAT JUSTIFY COSTS)
• DESIRE CONCEPTS WITH PROOF OF EXCELLENCE

HONG KONG AND TAIWAN
• Steady and single-digit growth
• Value familiar brands

While this is a general summary of Greater China’s consumers*, integrating these consumers’ attitudes in innovation strategies is crucial to success for new products. And several strategies can help capture the attention of these consumers.

*In particular, while we recognize the differing development trends and consumer behaviors within China’s market, here we focus more on Chinese consumers as a broad, collective group.
GAIN ADVANTAGE OVER PRICE

We know from previous research that “value” is a primary driver in Greater China at large, and “affordability” is generally an important guiding principal for innovation in the region. However, focusing only on the absolute lowest price as a way to attract consumers is risky for a number of reasons. First, there can only be one cost leader, which means other players will need to find different ways to demonstrate value. Also, constant competition to offer the lowest price through promotions or low price-pack combinations can slowly erode brand image and perceptions of quality. Conversely, companies that focus on proving value through compelling propositions will gain in the long run.

BUT HOW CAN MARKETERS MAKE THEIR PROPOSITIONS VALUE-COMPELLING IN GREATER CHINA?

We analyzed about 700 concept tests across the U.S. and Greater China and consolidated consumer ratings by subsets of Nielsen’s Factors for Success™ (Value, Relevance, Advantage, Having Alternatives, Uniqueness and Believability). We studied how value compared with the other factors to understand the strength of these relationships versus the U.S. benchmark. We found that a product’s benefits are a strong driver in value perception in the Greater China market, with a three times higher correlation in China than the U.S. and a two times higher correlation in Hong Kong and Taiwan than the U.S.

ADVANTAGE IS KEY DRIVER IN VALUE PERCEPTION

ADVANTAGE IS KEY DRIVER IN VALUE PERCEPTION” AS “ADVANTAGE CORRELATES WITH VALUE

<table>
<thead>
<tr>
<th>Location</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong &amp; Taiwan</td>
<td>0.46</td>
</tr>
<tr>
<td>China</td>
<td>0.70</td>
</tr>
<tr>
<td>U.S.</td>
<td>0.26</td>
</tr>
</tbody>
</table>
Consumers nowadays are more demanding than ever, and products must offer more than just mediocre and basic benefits. Even during economic downturns, consumers continue to look for quality lifestyles despite limited budgets. Luxury is no longer an aspiration exclusively for the upper class—the masses also desire premium products and experiences. This notion represents a massive untapped opportunity, as most of Greater China’s population is middle class. Some avant-garde marketers have already identified this potential market and have started providing trade-up or “masstige” (short for prestige for the masses) solutions to fulfill the general populace’s hunger for premium experiences at affordable prices.

In short, the key to success is not about making innovation cheap. Instead, demonstrate advantage over existing offerings. This is also particularly true for China, where the more sophisticated consumers are no longer choosing global brands purely for reputation or social trends; more precisely, they are fully open to local brands with better offerings. In fact, Nielsen retail information shows that local brands are growing faster than multi-national brands in several fast-moving consumer goods categories, including skin care products, toothpaste, etc.

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<tr>
<th></th>
<th>CHINA</th>
<th>HONG KONG</th>
<th>TAIWAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>I prefer to purchase local brands over large global brands</td>
<td>30%</td>
<td>27%</td>
<td>35%</td>
</tr>
<tr>
<td>I am willing to pay a premium price for innovative new products</td>
<td>42%</td>
<td>29%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Nielsen Global Survey of New Product Purchase Sentiment, Q3 2012
Based on respondents with online access only. New products are defined as any product not purchased in the past.

In recent years, local Chinese facial care brands have acquired more and more market share from their international counterparts by offering high-quality natural/herbal products (value sales grew 37% for local brands, surpassing the total category growth of 26%, and compared with 7% for multinational corporations). This demonstrates a successful change of consumer attitudes to adopting new products. Coupled with better distribution and consumers’ rising confidence in domestic brands, local players are able to win wallet share by repositioning themselves as premium brands. With Chinese consumers becoming more discerning and affluent, it’s imperative for businesses to deliver quality innovations that differentiate themselves from competitions and provide value-adding benefits.
MAKE A BRAND WORK FOR YOU

In Hong Kong and Taiwan, where products from familiar brands resonate better with consumers than in China, manufacturers could consider “megabranding” strategies to produce greater financial and operational efficiencies and grow stronger franchises with fewer brands. Megabranding applies a single brandmark across multiple products or needs that are not a category norm, which extends product range by transcending categories and functions.

This “umbrella branding” strategy can promote brand growth and cut costs across a number of marketing and operational fronts, including media support, copy development, trade line promotion, consumer promotion, leveraging transaction size vs. penetration, brand assurance and credibility, etc. In order to realize these advantages, companies must navigate this strategy carefully. This involves three critical steps: (1) Understanding brand value in consumers’ eyes, (2) choosing specific and ownable aspects of a brand to leverage for their similarities and competitive advantage, and (3) corporate-wide commitment to support the brand throughout the category expansion. If a megabranding’s execution misses its mark, the results can be disastrous and potentially jeopardize an existing brand’s value.

Note: Facial Care consists of facial moisturizers and cleansers. Growth rate calculated from retail measurement sales data in value (Jul 2010 - Jun 2013)
However, by capitalizing on its economic opportunities and unique consumer relevance, a megabrand can turn into a “mega-success.”

Panadol is a household name for cold/flu cure and analgesic medications in Hong Kong. Since its entry to the market, it has built up a strong and encompassing reputation on the painkilling front. In June 2008, leveraging its dominating and well-known brand in analgesics, Panadol introduced a medicated plaster for muscle pain relief, and both sales and popularity have grown since. While the medicated plaster segment has grown 13 percent CAGR (based on value sales) on average throughout the past five years, Panadol plaster growth surpasses the category average, at 19 percent year-over-year. This puts the brand among the top four market leaders and has added substantial incremental growth to the total Panadol portfolio.

**SUMMARY OF POSSIBLE STRATEGIES**

**CHINA**
- Fast and stable economic growth
- Open and seek novelty in products ➤ Local brands are emerging but need to differentiate with better quality
- Strong consumer buzz
- Demand value in products (benefits that justify costs) ➤ Need to highlight advantage
- Desire concepts with proof of excellence

**HONG KONG AND TAIWAN**
- Steady and single-digit growth
- Value familiar brands ➤ Megabranding strategy
DELIVER ON PRODUCTS

Even best ideas can fail in the market if they fail to deliver their products’ promises. To sustain consumers’ adoption and repeat their purchases, product delivery must be strong. BASES’ Factors for Success show that, if new products fail on product delivery, they have an 80% chance of the entire initiative failing.

As the famous Chinese saying goes, “Good news stays home, bad news travels fast (好事不出门, 坏事传千里).” Delivering on promises is especially critical in the Internet age, where any news could go viral overnight. Findings from the Nielsen Hong Kong’s Connecting the Dots: Clicks and Bricks online survey (July 2013) also echo that while positive word of mouth contributes little to conversion, negative word of mouth has the power to deter purchases. Consumers are also more likely to spontaneously express dissatisfaction (57%) on product experiences than positive sentiments (51%). As such, it is crucial to get things right the first time.

SUMMARY OF CONSUMERS AND PRODUCTS

CHINA
- Fast and stable economic growth
- Open and seek novelty in products ► Local brands are emerging but need to differentiate with better quality
- Strong consumer buzz ► Product excellence is vital and pressing
- DEMAND VALUE IN PRODUCTS (BENEFITS THAT JUSTIFY COSTS) ► NEED TO HIGHLIGHT ADVANTAGE
- DESIRE CONCEPCTS WITH PROOF OF EXCELLENCE ► PRODUCTS MUST DELIVER

HONG KONG AND TAIWAN
- Steady and single-digit growth
- Value familiar brands ► Megabranding strategy
LEVERAGE ONLINE DIALOGUE

A marketer’s job is never done. After a company launches an innovation, it must take steps to evaluate the innovation’s continued success by observing evolving consumer profiles, incorporating consumers’ attitudes in innovation offerings, and ensuring first-time-right products. With consumers’ increasing use of digital forums (which have gained consumers’ credibility and increasingly become an important source of information for new products according to Nielsen’s *Global Trust in Advertising And Brand Messages* survey), understanding online opinions is crucial to an innovation’s sustainability in the market.

### CONSUMER OPINIONS POSTED ONLINE

- China (Trust in Ads): 76%
- China (Take Actions): 77%
- Hong Kong (Trust in Ads): 53%
- Hong Kong (Take Actions): 71%
- Taiwan (Trust in Ads): 67%
- Taiwan (Take Actions): 74%

### RECOMMENDATIONS FROM PEOPLE I KNOW

- China (Trust in Ads): 86%
- China (Take Actions): 88%
- Hong Kong (Trust in Ads): 83%
- Hong Kong (Take Actions): 88%
- Taiwan (Trust in Ads): 86%
- Taiwan (Take Actions): 85%

Source: Nielsen Global Survey of Trust in Advertising, Q1 2013

On top of fast-tracking online inclusion in your marketing execution, it is also important to “close the innovation loop” by listening to consumers via the digital platform. The beauty of the Internet is that it is virtual and limitless. Not only does it provide a flexible platform for marketing and e-commerce activities, it also contains tons of valuable yet readily available information about products and consumers for marketers to take full advantage of.

As active search-and-share becomes the norm in today’s technology-driven society, passive receipt of information has grown obsolete. Today, consumers also participate actively in the process of value creation, emerging as influencers to other consumers, as well
as commentators and evaluators to marketers. The traditional shopping modality has been transformed by the concept of “co-creation”, where the consumer plays a part in the creation of value. Therefore, after a product launch, it is pivotal to listen to consumers’ voice and feedback on the product innovation and strive for continued improvement (through renovation). This is not limited to manufacturer-initiated campaigns; companies could also use business intelligence and various online/social media analytics to understand how consumers respond to different products.

As consumers these days are very expressive online about their views on the products, marketers can also actively engage with consumers in a more personal level via online media, listen attentively to their comments and opinions, and create loyal and influential brand advocates virally to boost trial confidence. Equally, manufacturers should continually seek to understand consumer attitudes and behaviors to identify any unarticulated demand/needs for their next innovations.

“BE INFLUENCED BY NOTHING BUT YOUR CUSTOMERS’ INTERESTS.” – A.C. Nielsen

SUMMARY OF THE CPO FRAMEWORK FOR GREATER CHINA

CHINA

• Fast and stable economic growth
• Open and seek novelty in products ➤ Local brands are emerging but need to differentiate with better quality
• Strong consumer buzz ➤ Product excellence is vital and pressing

• DEMAND VALUE IN PRODUCTS (BENEFITS THAT JUSTIFY COSTS) ➤ NEED TO HIGHLIGHT ADVANTAGE
• DESIRE CONCEPTS WITH PROOF OF EXCELLENCE ➤ PRODUCTS MUST DELIVER

HONG KONG AND TAIWAN

• Steady and single-digit growth
• Value familiar brands ➤ Mega-branding strategy

LEVERAGE ONLINE DIALOGUE
CERTAIN STRATEGIES CAN TIP THE SCALES FOR AN INNOVATION’S SUCCESS

To achieve innovation success in Greater China, it’s critical to (1) put consumers first—understand your consumers before thinking about your next innovation; (2) deliver the promised product at launch—and do it right the first time; and (3) leverage the online platform to create dialogue with consumers and to ensure efficient and cost-effective marketing plans, as well as a sustainable innovation eco-system with improved breakthroughs in this important growth region. This is a highly dynamic and fast-moving market that requires constant innovation in products to become a leader.

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ABOUT NIELSEN

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands.

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