THE BREAKTHROUGH INNOVATION REPORT • JUNE 2012
Nielsen Breakthrough Innovation Report

Introduction

Innovation holds a near-mythical status in the marketing world. Rare, elusive, unpredictable — innovation nevertheless remains an engine of sustained profitable growth. Innovation is mission-critical and difficult; it is also expensive. In the US, first-year marketing expenditures alone average $15 million per initiative.

Given these baseline conditions, figuring out how to improve the odds of success is both a strategic and financial imperative.

For decades, Nielsen has served as a partner and advisor to many of the world’s best consumer-facing firms. It is our job to arm companies with information, insights and expertise to launch successful new products. If there is one overarching lesson in this work, it is that successful innovation defies quick fixes, simple solutions, or formulaic reduction. Successful innovation is a journey of learning and ongoing improvement. The Breakthrough Innovation Report reflects our desire to share our experience and enhance the quest for successful innovation and profitable growth.

Objectives and Approach

We have three explicit objectives with this report:

- Propose a robust set of criteria for evaluating consumer product innovation
- Recognize and celebrate successful innovation
- Contribute to the state of innovation knowledge and practice

Many innovation reports are either one-off snapshots or narrowly-focused on short-term metrics such as first-year sales. The data make clear that a longer-term view is essential to assessing innovation success. More than 21,000 new consumer products were launched in the U.S. between 2004 and 2008. Over one-half failed to sustain their year-one sales performance in year two, and only one-in-three sustained their launch year sales rate through their third year in-market. Clearly, a single-year perspective is myopic and insufficient for determining success.

Methodology

Nielsen analyzed more than 11,000 new consumer product introductions in the U.S. between 2008 and 2010 to determine which products demonstrated truly breakthrough results in their categories. The winners serve as an industry yardstick for evaluating success along multiple dimensions. To earn the title of Breakthrough Innovation Leader, a product needs to satisfy four requirements:

1. **Distinctiveness**: a Breakthrough Innovation Leader must deliver a new value proposition. We exclude brand restages, ingredient reformulations, re-packaging, size changes, and close-in line extensions.

2. **Relevance**: a Breakthrough Innovation Leader must generate year-one sales of $25 million or greater in the channels Nielsen historically measured.

3. **Category Impact**: a Breakthrough Innovation Leader must outperform the average product in its category on sales velocity, as measured by sales per distribution point. High sales velocity brands help grow the overall category and/or transform the established basis of competition of the category.

4. **Endurance**: a Breakthrough Innovation Leader must achieve at least 90 percent of its year-one sales in year two. This measure ensures a sustained level of consumer demand while allowing for some revenue consolidation during the transition from trial to repeat.
The Breakthrough Innovation Leaders

Of the 11,000+ new products evaluated over three years, only thirty-four products fulfilled all four evaluation criteria and earned distinction as a Breakthrough Innovation Leader. These products comprise less than 0.5% of all new product introductions during this period. The Breakthrough Innovation Leaders were stratified into Platinum, Gold and Silver tiers based on cumulative sales performance over their first two years in-market.

It is worth noting that these Leaders persevered during a period of prolonged macroeconomic malaise. Since 2008, overall innovation activity in the U.S. consumer packaged goods sector has declined six percent annually. The number of Breakthrough Innovation Leaders was highest in 2009, before declining sharply by one-third in 2010. Manufacturers appeared to have responded to the decline in consumer receptivity by reducing prices of new products launched in 2011 an average of 10 percent. Time will tell if this pricing action will re-invigorate consumer demand for new products.

Nielsen Breakthrough Innovation Tiers

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<td>PLATINUM</td>
<td>Two-year cumulative sales &gt;$200MM</td>
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<tr>
<td>GOLD</td>
<td>Two-year cumulative sales between $100-$200MM</td>
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<td>SILVER</td>
<td>Two-year cumulative sales between $50-$100MM</td>
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Although we conducted our study at the product level, there were companies whose successes underscored an organization-wide commitment to ongoing product innovation. Procter & Gamble led the way with five initiatives making the list. Anheuser-Busch, Bimbo Bakeries USA, Coca-Cola, Johnson & Johnson, Kellogg, Nestlé, PepsiCo, and Unilever each had two initiatives that achieved Breakthrough Innovation Leader status. But innovation success is not solely the domain for large companies with big R&D and marketing budgets: five Breakthrough Innovation Leaders had annual sales of less than $150 million prior to launching their winners.

Making Winners: The Anatomy of Success

Successful innovation is not formulaic, but there are patterns and behaviors that winners share. By the same token, there are proven pitfalls that continue to attract many ill-fated launches. While innovation will defy any attempt to be reduced to a “how to” checklist, applying available knowledge can dramatically improve results.

A high-level review of Breakthrough Innovations reveals insights into four key phases. Together, these phases provide a framework for navigating the formidable waters to innovation success.
1. Identifying Unmet Demand

The successes we’ve studied have a common feel to them: they are the product of focusing, first and foremost, on the circumstances of customer need. Echoing the words of marketing legend Ted Levitt (“customers don’t want a ¼-inch drill, they want a ¼-inch hole”), consumers do not buy products so much as they hire brands to perform jobs in their lives. This may not sound like a big deal, but a flawed initial frame of reference – such as focusing on product features, demographically-defined segments, or competition – compromises the effectiveness of all subsequent steps. Mapping to the circumstance of need can surface remarkable features, demographically-defined segments, or competition.

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A Case in Point: Identifying Unmet Demand

Bud Light Lime achieved Platinum status by discovering a new need state and tapping into an emerging opportunity within its core consumer segment. When the product launched in 2008, premium-priced beers were losing share. Anheuser-Busch took a step back and identified a subtle but fundamental consumer taste shift toward a sweeter palate across the entire alcoholic beverage category. Even some of the most valuable Anheuser-Busch consumers were opting for a sweeter-tasting beer during certain occasions.

Using the success of flavored vodkas as an analogous example, the team at Anheuser-Busch wondered if a new, slightly sweeter beer could break through to the current generation of 21–34 year olds. By developing a deep understanding of these high-value consumers, and formulating a beer that was true to that demand insight, Anheuser-Busch was able to stimulate incremental growth with Bud Light Lime. Half of the consumers of this sweeter-tasting beer were either new beer drinkers or purchased it in addition to their regular brands.

2. Creating a Distinctive Concept

Having identified the market opportunity residing in unmet consumer demand, Breakthrough Innovation Leaders convert that insight into a distinctive concept. While this exercise may sound straightforward, in practice it can prove deceptively challenging. Over the years, we have seen many companies approach the task with a supply-driven mindset: focus strays from the core consumer circumstances of need that define the innovation opportunity, and is drawn toward seemingly laudable goals such as leveraging existing assets and conforming to established paradigms. Such drift results in a concept that fails to nail the consumers’ core need, and oftentimes acquires non-essential features that consumers don’t value.

Techniques for developing a distinctive concept

- **Benefit Importing**: Combining benefits from often-unrelated categories to deliver a new value proposition
  - Example: Glacéau Vitaminwater Zero
- **Breaking Historic Tradeoffs**: Eliminating frustration caused by the “either-or” compromise in existing products
  - Example: Chobani
- **Shifting the Economic Equation**: Making benefits more affordable – and more accessible – to a broader market
  - Example: Glade Professional Pro-X
- **Reconfiguring the Means of Delivery**: New forms or packaging to address unmet needs
  - Example: U by Kotex
- **Leveraging Brand Platforms**: Using existing equities to bridge into new categories and uses
  - Example: Dove Men+Care
A Case in Point: Getting it Right

vitaminwater owner Coca-Cola had both carrot and stick motivations to innovate:

- Critics complained that vitaminwater professed healthfulness but failed to deliver.
- Consumer interest in low-calorie beverages. As one Yahoo! Lifestyle contributor noted, “I did not want to consume a large amount of calories drinking flavored water.”

Coke’s persistence provides an instructive case of the importance of – over time – getting right both the consumer circumstance of need, and the branding, in order to deliver success.

Coke initially launched vitaminwater 10 in 2009, but in-market response was tepid. In 2010 Coke launched vitaminwater zero, boasting three essential adjustments to the initial vitaminwater 10 concept:

- The unfamiliar “10” branding was replaced with the well-understood “zero” branding. Additionally, the “zero” wording was the dominant copy on the packaging rather than an add-on to the already lengthy “vitaminwater.”
- Truvia was introduced, and zero could then claim “naturally sweetened” and appeal to consumers looking to avoid artificial sweeteners;
- A high-profile national campaign was launched with Ellen DeGeneres as spokesperson to clearly communicate the new value proposition.

Through a process of learning and adaptation, vitaminwater created a Platinum Breakthrough Innovation Leader and a dominant category brand.

The important insight here is that getting it exactly right on the first iteration is neither likely nor important. Very few concepts that have been vetted by experienced teams are truly terrible, but they are equally unlikely to be perfect. Winners are not necessarily smarter or luckier; they get the offer right through a learning process that incorporates testing and refining based on consumer feedback. Build the essential learning and adaptation into your innovation process, and success rates will improve.

Failure to internalize this truth and build its implications into innovation processes leads to two common, undesirable outcomes:

- Flawed ideas are pressed into market because of aggressive launch schedules or an overly-sanguine belief that the new product is “good enough.” Companies find themselves spending heavily on advertising and price promotions to keep the product on the shelf. But these new products never fulfill expectations nor deliver the desired investment returns. No wonder two out of three new product introductions fail to sustain their first-year sales performance over the next two years.

3. Developing a Market-Ready Offer

Next, success involves translating the demand-driven concept into a complete market-ready offer. Unfortunately, innovation effectiveness and returns often suffer at this stage because companies do not build sufficient learning and adaptation into their planning, and/or they do not impose sufficiently rigorous standards for what constitutes a market-ready launch.

Factors for Success Framework

Recently, Nielsen researched over 20,000 new product launches and identified twelve factors that collectively are predictive of in-market success. This predictive framework – called Nielsen BASES Factors for Success – has subsequently been validated on over 600 actual product launches. Over one-half of the Breakthrough Innovation Leaders leveraged this framework to refine their offer and improve their in-market sales rates. For a more detailed description of the Factors for Success framework, visit www.nielsen.com/factorsforsuccess.
4. Activating the Offer

The fourth area where Breakthrough Innovation Leaders excel is activating the new product to achieve sustained in-market success. Specifically, Breakthrough Innovation Leaders followed one of two activation models.

- **Sprinters** race out of the gate in year one, and then allow momentum to sustain their in-market performance in year two.
- **Marathoners**, on the other hand, deliberately start out at a slower pace, and then build on their success in subsequent years.

Forty percent of the Breakthrough Innovation Leaders followed the Sprinter model. The Sprinters tend to be larger companies who introduce products that are relatively close-in to their existing portfolio. These new products are typically priced at a substantial premium, both in relative and absolute terms—up to 1.8 times as expensive as the average product in their category, and 1.4 times as expensive as the Marathoners’ introductions. Breakthrough Innovation Leaders that followed this model included Bud Light Lime, Olay Pro-X, and Tide Total Care.

Sprinters build in-market trial aggressively. They achieve their maximum distribution levels shortly after their third month in-market, and support their launch with substantial media presence. Sprinters spent an average of nearly $50 million in traditional media during year one. In-store support is also high to stimulate trial, as both discounting and off-shelf display activity far outpace media during year one. In-store support is also high to stimulate trial, as both discounting and off-shelf display activity far outpace media during year one. In-store support is also high to stimulate trial, as both discounting and off-shelf display activity far outpace media during year one. In-store support is also high to stimulate trial, as both discounting and off-shelf display activity far outpace media during year one.

With the confidence gained from their year-one success, these breakthrough Innovation Leaders ratchet up their activation levels in year two. They broaden distribution, and their investment in both advertising and in-store support increase. They also deepen their penetration of middle- and lower-income shoppers, perhaps aided by their relatively lower price points. The result is a dramatic increase in sales in year two, by an average of 80%. By the end of their second year in-market, the slow-and-steady Marathoners achieve a higher level of sales on average than the Sprinters.

These two activation models—Sprinters and Marathoners—are driven in part by the characteristics of the new products, and in part by the market and financial objectives of the companies that launched them. The Marathoners’ activation plan is consistent with a “profitability-first” mindset, whereas the Sprinter’s actions appear to reflect a “growth-first” focus. As the data makes clear, though, both activation models can generate significant and sustained in-market success.

**Breakthrough Innovation Showcase: Chobani**

Greek yogurt has been one of the stellar success stories in recent years, with the category growing virtually from a tiny niche in 2007 to over $1 billion in sales by 2011. It now accounts for nearly 25% of total yogurt category sales in value terms, despite the fact that it is as much as twice as expensive as traditional yogurt. How did this happen?

Consumers of yogurt traditionally faced a trade-off between health and taste benefits: a healthy yogurt would have low fat and carbohydrates, in which case it sacrificed taste benefits. If taste was improved by using full-fat milk or adding sugar, it would not be particularly healthy.

Greek yogurt resolved this trade-off by removing the whey—making the yogurt thicker and creamier—while lowering the carbohydrate content and increasing the concentration of protein. Importantly, Greek yogurt retained much of its thick texture and creaminess even when low-fat or non-fat milk was used as an ingredient, thus enabling it to have a rich mouth-feel despite low or zero fat content. By adding fruits, taste and health could both be provided.

Fage first began to import Greek yogurt into the US in the late 1990s, and captured an 87% share of the Greek yogurt category. But while consumers desired the benefits of Greek yogurt, it was priced at a 150% premium and remained a niche segment of the overall category.

Chobani realized the market potential for Greek yogurt, in particular the fact that its core appeal lay with breaking the traditional compromise between taste and health. Believing that its appeal would span the entire socio-economic spectrum, Chobani began manufacturing a formulation in 2007 that enabled it to be profitable at a lower price point, thus aligning the value equation more closely with consumer demand. It provided a range of fruit flavors such as blueberry, peach, strawberry, raspberry and vanilla. While Fage also increased its assortment, it focused more on full-fat versions and did not expand its fruit offerings. Chobani aggressively promoted their product in-store, pricing an average of 25% below Fage. It built trial and dramatically increased repeat purchase rates, drawing consumers from the broader yogurt category. Rather than spend money directly on advertising, Chobani let its fans speak for themselves via social media while providing them rapid feedback and incorporating their ideas into its products. For example, its pomegranate and pineapple varieties came directly from consumer suggestions, helping customers build an emotive connection with the brand.

By raising both real (extensive flavor variety, low- and zero-fat SKUs) and perceived benefits (emotive connection to the brand via social media), and pricing well below Fage, Chobani dramatically improved the consumer’s value equation. By 2011, Chobani had captured a 53% share of the greatly expanded Greek yogurt market, while Fage’s share has fallen to 17%. Traditional yogurt manufacturers are responding by launching their own Greek yogurts, but will now face a formidable competitor in Chobani.

**Chobani**: Two-Year Revenue: $285-$295 million

Demand Driven Insight: “No compromise” consumers

Two-Year Revenue: $240-$250 million

Demand Driven Insight: “### Example Trajectories for Activating the Offer

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The Marathoners build in-market presence more slowly. By the third month after launch, they have reached only three-quarters of the distribution level they would ultimately achieve in year one. They rely less on traditional media presence, spending one-third as much on advertising as the Sprinters. However, we observed that several Marathoners supplemented traditional media with effective social marketing campaigns. Consumer trial is stimulated largely through in-store activity, as both discounting and off-shelf display activity are similar to that of the Sprinters. The result is first year sales levels that are solid but only slightly more than one-half of the levels achieved by the Sprinters—but at substantially lower cost.

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Conclusion

Despite macroeconomic uncertainty and an unrelenting competitive landscape, achieving breakthrough innovation success remains an achievable goal. For proof, look no further than the 34 new products launched between 2008 and 2010 whose performance met the rigorous requirements for Breakthrough Innovation Leaders.

Key learnings derived from the Breakthrough Innovation Leaders provide useful guidance to practitioners who seek higher levels of performance from their own innovation efforts.

- Innovation success must be earned over a multi-year time horizon. Plan accordingly.
- Demand-driven innovation is the first principle underlying successful new products.
- Even the best ideas require iteration and refinement before they are ready for market. The Factors for Success model offers one validated framework that increases the probability of in-market success.
- There are two paths to successful activation. The Sprinters and Marathoners take different approaches, but both end up achieving spectacular results. Determine which path is right for your next innovation.

In the final analysis, new product success begins and ends with a deep understanding of the lives of consumers, as well as mastery of the many marketing levers that drive trial and enduring relevance.

Methodology

A number of Nielsen professionals and data sources contributed to this report. The process began with Nielsen retail measurement data that computes sales and causal information such as price, discounting and in-store promotion across the food, drug and mass merchandise channels (with the exception of Walmart data which will be included in subsequent Breakthrough Innovation Leader programs). Every universal product code (UPC) scanned between January 2005 and March 2012 was aggregated into initiative-level data, then evaluated against the four Breakthrough Innovation Leader program criteria of distinctiveness, relevance, category impact and enduring impact.

Nielsen media information sets were examined to determine the amount of paid advertising support behind the winning Breakthrough Innovation Leader initiatives. Nielsen's online data showcased the volume of social media discussion or "buzz" that successful innovations generated and which consumer segments were most involved in the conversation.

References

2. Food, Drug and Mass Merchandise stores excluding Walmart

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