CONVINCING ASIAN CONSUMERS TO TRY YOUR INNOVATION

FIVE WINNING WAYS TO BEAT THE ODDS

AUGUST 2013
ASIAN CONSUMERS ARE DISCERNING

They want ‘proof of concept’ before trying a new product. In a recent online survey 62 percent in Asia Pacific said they would rather ‘wait’ for an innovation to prove itself before purchasing it, compared to 54 percent in Latin America - another emerging region.

What makes Asian consumers so demanding? We often see a tendency amongst Asian cultures towards risk aversion and conservatism. For the average Asian consumer, a brand relationship is viewed as a long-term investment. They will therefore think deeply about a newly introduced brand or product and spend time evaluating its tangible benefits (“is it good for me?”), making them less prone to picking up a new introduction as soon as it hits the shelves. The path to purchase for innovation is therefore long as the brand or category needs to be understood and evaluated through research and opinion gathering before it is tried.

This ‘wait and watch’ sentiment appears to hold for several Southeast Asia markets, particularly in lower GDP countries such as the Philippines, Indonesia and Vietnam. Given these are our future ‘growth engine’ markets, companies need to ensure innovations for these consumers are compelling enough to risk trial.

What can companies do to succeed in Asia?
WHO IS WAITING AND WATCHING IN ASIA
For new innovations to prove themselves before purchasing?

- 76% in VIETNAM
- 75% in INDONESIA
- 74% in PHILIPPINES
- 67% in SOUTH KOREA
- 66% in THAILAND
- 65% in MALAYSIA
- 61% in SINGAPORE
- 61% in HONG KONG
- 61% in TAIWAN
- 60% in CHINA
- 52% in JAPAN

Source: Nielsen Online Survey Q3 2012 and World Bank
INNOVATION SUCCESS:
FIVE WINNING WAYS
TO BEAT THE ODDS
Nielsen analysed new product introductions across four categories in five Asian markets, benchmarking findings with the US, an acknowledged innovation leader. ‘Innovation’ was defined as any new variants in the current year not present 12 months ago. This included brand re-launches, line extensions, new pack introductions or new brand entrants.

Based on this analysis, Nielsen identifies five winning ways when it comes to innovating in Asia.
ENSURE INNOVATION PLANS LINE UP WITH MARKET OPPORTUNITY

The prospects for growth in Asia are exciting and constantly attracting new players and launches. We found ‘Innovation intensity’* in the region on par or higher than our benchmark market - the US. Korea and Vietnam in particular showed high intensity across all four categories.

2013 INNOVATION INTENSITY
(Percentage new variants on total variants)

*measured as the percentage share of new variants to total variants in a category

Source: Nielsen Retail Audit 2013
However, experience tells us for every successful introduction, there are plenty that don’t make it and historical failure rates range from 60 to 90 percent depending on market and category.

To understand what’s happening in Asia we crossed category innovation intensity with sales contribution and grouped them in four category types:

- **Low Activity-High Impact categories (Quadrant 1)** - where innovation intensity was relatively low but well noticed by consumers and contributing to sales.

- **Dynamic categories (Q2)** - where innovation intensity was high and consumers were again noticing these and contributing to sales.

- **Strong Activity-Low Impact categories (Q3)** - where innovation intensity was high but sales impact was low either because consumers were not noticing them or they are not seen as being innovative enough to encourage trial.

- **Sluggish categories (Q4)** - where innovation intensity was low and accompanied by low impact on sales.

Whilst in an ideal world, all innovating companies would be in quadrants one and two, Nielsen data on Asia shows otherwise.

**NEW INTRODUCTION ACTIVATION 2013**

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Source: Nielsen Retail Audit 2013
• First, we see a large number of new variants not creating impact with the consumer - as reflected in the high concentration of categories in quadrant three (Strong Activity-Low Impact)

• Shampoo activations are doing well regardless of country. This is clearly a reflection of real category growth in response to new/unmet needs of consumers.

• A consistently poor performance for carbonated soft drinks (CSD) reflects either lack of innovation in this category or poor impact of new variants. The latter can happen if companies constantly pump in incremental innovation to retain market share in a very competitive environment, and consumers do not notice or are not excited by the incremental offers.

This highlights the real danger of ‘wasted innovation’ and the need to minimise this waste by ensuring a deep understanding of unmet consumer needs and local market dynamics. The nature and pace of innovation has to be in line with real market opportunity and to this end companies must ask themselves the following:

• Is there high innovation activity in my category?
• Is this in response to real consumer demand or does it reflect tactical efforts by companies to retain market share?
• If the category is growing, what are the white space opportunities for me, and will this generate sufficient sales revenue?
• If I have to introduce incremental innovation to retain market share, is it distinctive enough and contributing sufficiently to sales revenue, or is it cannibalising my other variants?
We know from prior experience ‘value’ is a strong driver and ‘affordability’ is predicted to be an important guiding principal for innovation in Asia. However focusing only on absolute low price as a way to attract consumers is risky for a number of reasons. First, there can only be one cost leader, implying other players will need to find alternate positionings to demonstrate value. Also, constant play for lowest price through promotional efforts can slowly erode brand image and quality perceptions. Companies that focus on proving value through compelling propositions will gain in the long run.

WHAT CONSTITUTES A COMPELLING PROPOSITION IN ASIA?

We analysed over five hundred concept tests across US and Asian markets and consolidated consumer ratings on a subset of Nielsen’s Factors for Success™ namely:

• **Value** (acceptable costs)

• **Relevance** (fulfilling a consumer need or desire)

• **Advantage** (meeting the consumer needs in a way other products do not or solving a consumer ‘problem’)

• **Believability** (giving consumers sufficient reason to believe you will deliver on your promises).

We looked at cross-correlations of ‘value’ with the other factors to understand the strength of these relationships and gauge what will work in Asia.
The findings were interesting, and gave us important takeaways to think about:

- We found Nielsen Factors for Success™ like ‘advantage’, ‘relevance’ and ‘believability’ had a stronger correlation with ‘value’ in Asia than the US, implying ‘value creation’ through strong propositions has a higher threshold in Asia. This supports our earlier finding that Asian consumers are more discerning.

- Low income markets like Indonesia, Vietnam, Philippines showed stronger correlation of ‘advantage’ with ‘value’. Companies should leverage this fact and stridently communicate and demonstrate the advantage of their innovation over existing offers. This will resonate well with consumers in these growth engine markets.

WIN ASIAN CONSUMERS WHEN YOUR NEW PRODUCT DELIVERS ON YOUR BRAND PROMISE.
LEVERAGE BRAND
ATTRIBUTES THAT
CUE ‘ASSURANCE’

Large global brands have an opportunity to leverage their brand heritage for new launches. On average, just 38 percent of Asia Pacific consumers said they prefer local over large global brands for new product trial. Asian consumers have a healthy respect for ‘foreign brands’, historically seen as superior to local brands on quality, durability and status. Introducing line extensions under an established parent brand or highlighting country of origin on packaging or in communication will give consumers confidence to try new introductions.

While true for several markets in Southeast Asia, multinational companies should not take this edge for granted. We found some interesting contrasts in Philippines and Indonesia where consumers showed stronger preference to try innovation from ‘local brands’. This could be a sign that large global brands need to work harder to connect with local consumers as they may be viewed as too aspirational or not addressing local needs. More R&D efforts to understand local needs and localization of marketing efforts to build brand connections will be needed if foreign brands want to enter consumers’ ‘circle of trust’.
FOR NEW PRODUCTS I PREFER TO PURCHASE LOCAL BRANDS OVER LARGE GLOBAL BRANDS
(Agree percentage)

Not very far into the future we predict being ‘MNC’ or ‘Local’ will matter less and less, and all companies will need to rely on other attributes to build assurance and credibility, such as wide presence and availability, innovative product benefits, superior technology, quality packaging, online presence and after sales support.
Television, in-store sampling and word of mouth are important ways consumers have traditionally come to know about new products in the developed world and Asia is no different. However the rise of digital media is opening up new and exciting ways to influence Asian consumers who are ahead of the curve.

**KEY SOURCES OF INFLUENCE FOR NEW PRODUCT PURCHASE**
(Likely to buy percentage)

Source: Nielsen Global Online Survey Q3 2012
Close to two thirds (63 percent) of online consumers in Asia Pacific said website articles influence their new product purchasing decisions, compared to 38 percent in the US. Again, nearly 60 percent report being influenced by brand websites against 45 percent in the US. Smartphone penetration in the region was already 37 percent in 2012 (based on Nielsen’s 2012 Mobile Insights Survey), and is expected to grow rapidly, giving consumers access to new product information ‘any place’ and ‘anytime’.

Given Asia’s need for information support in the brave new world of emerging brands and categories, companies who fast track online inclusion into their media plans will have an edge.
Past research within Nielsen has demonstrated time and again the need for sustained distribution support for at least two years to ensure new launch success.

For new launches to be tried, they must be widely available. Emerging markets still have a big share of Traditional trade and this is likely to remain significant for the next 15 years. While new brand launches are easier to support in Modern trade through point of purchase displays and promotional staff support, if the new variant is a brand re-launch or a line extension, then wide reach is more important and companies should be more aggressive in Traditional trade.

**CHANNEL PROFILE FOR TOP 20 NEW VARIANTS**
(Value Share Percentage)
Manufacturers are realising this and our data shows evidence of simultaneous launches in Modern and Traditional trade across the region for most categories (except Ice Cream). In some instances new variant contribution to value sales is stronger in Traditional trade (CSD in Philippines, Thailand and Vietnam, Indonesia dish detergents and shampoo).
CONCLUSION

Innovation success in Asia requires delivery against several critical factors. Having the appropriate strategic intent by understanding what works in Asia, finding the right consumer insights to communicate strongly, and activating your proposition will ensure a strong and sustainable innovation eco-system to break-through in this important growth region and become a market leader.

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