HOW TO LAUNCH MORE INCREMENTAL INNOVATIONS

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INTRODUCTION

While much has been written about how to grow brands, the incrementality of new product launches is one area that deserves greater attention. Incrementality refers to the net volume growth of the entire brand franchise—accounting for both the innovation and the parent brand—once cannibalization, marketing support allocations and other interaction effects have been factored in.

Despite the importance of looking at brand growth through the lens of incremental sales, many brands don't emphasize this approach early enough in the innovation process. In a recent Nielsen survey of fast-moving consumer goods (FMCG) professionals, only 22% ranked incrementality as the number one metric to consider when prioritizing innovations for development, while 31% did not even rank incrementality among the top three.1

ONE IN FOUR NEW PRODUCT LAUNCHES ACTUALLY SHRINKS TOTAL SALES FOR THE BRAND FRANCHISE.

While it's true that not all new product launches are designed to be incremental—such as line extensions that satisfy retailers' demands for new offerings or help to defend against encroaching competitors—it's still risky to overlook their cannibalization potential. In fact, multiple analyses by Nielsen BASES have confirmed that one in four new product launches actually shrinks total sales for the brand franchise.2 This is the result of potentially replacing parent brand purchases, as well as sourcing marketing support from the parent brand and thereby reducing sales.

Some cannibalization and marketing plan reallocation is expected when launching line extensions, but the key to incremental volume is to minimize the effects so that growth can be achieved. For these reasons, brands should understand the incrementality potential of their new product launches early in the innovation process. This is true even for “small” innovations, such as new flavors, varieties and package sizes, which are frequently overlooked for incrementality assessment because marketers underestimate their potential to impact the parent brand negatively.
WHY DO INNOVATIONS SO OFTEN FAIL TO DELIVER INCREMENTAL GROWTH?

Drawing from Nielsen BASES’s history of testing over 200,000 new product concepts over the past 40 years, a few consistent patterns have emerged:

1. **Lack of action standards for incrementality.** Many innovation qualification and validation processes don’t effectively identify the initiatives with the highest incrementality potential until it is too late or too costly to change course. Early in the development process, emphasis is placed on trial or revenue potential—regardless of whether this is ultimately cannibalistic to the parent franchise. In fact, a recent survey of Nielsen BASES client leaders globally revealed that only one in five FMCG manufacturers uses incrementality as a firm stage-gate action standard. As a result, absolute revenue potential is often the yardstick by which innovations are measured and eventually abandoned or advanced through the innovation process.

   **ONLY 20% OF FMCG MANUFACTURERS USE INCREMENTALITY AS A FIRM STAGE-GATE ACTION STANDARD.**

   **ABSOLUTE REVENUE POTENTIAL IS OFTEN THE YARDSTICK BY WHICH INNOVATIONS ARE MEASURED AND EVENTUALLY ABANDONED OR ADVANCED THROUGH THE INNOVATION PROCESS.**

2. **Underestimating cannibalization from line extensions.** These initiatives—particularly new flavors, formats and package sizes—often have the greatest sales potential because they offer familiar propositions to consumers. They seem like a sure path to brand growth, and so brands often bypass incrementality assessment for these innovations. However, closer-in line extensions are, by nature, highly cannibalistic to the brand they’re trying to build upon because they’re so similar to existing products. Flavor and size extensions are approximately twice as likely to source volume from the parent brand than extensions into new categories or new brands.
3. **Failure to account for marketing support trade-offs.** In most cases, new product launches draw their funding from the parent brand’s marketing budget. They also typically require the brand to remove some existing products from retailers’ shelves in order to make room for the new items. There are significant costs to this that may not be considered when thinking about new product launches in isolation; in other words, new products are not “additional” or automatically incremental. The most promising launches will deliver return on this investment, but there are very real performance bars that must be met in order to justify redirecting support away from the parent brand.

Comparing draw levels (i.e., consumer-claimed sourcing) for different types of innovations: the closer-in the innovation, the more cannibalistic it is.
HOW TO IDENTIFY LAUNCHES THAT ARE LIKELY TO BE INCREMENTAL

STRATEGIES FOR DISCOVERING AND DEVELOPING INCREMENTAL INNOVATIONS

How can companies set themselves up for successful incremental launches? At a high level, the recipe is simple: identify initiatives that have the greatest incrementality potential early in the innovation process, then execute with an eye toward actualizing that potential.

While the basic principle may be simple, the reality of identifying and developing incremental innovations is more difficult. There are several tried-and-true strategies that provide an excellent starting point:

- **Identify consumer needs that are currently unmet or not met to consumers’ satisfaction.** The original Swiffer is a commonly cited illustration of identifying an unmet need, but many closer-in extensions have also been successful. For example, the Bud Light team identified a fundamental consumer shift toward sweeter beers, especially among 21-34 year-olds, that was not being adequately addressed by current offerings. Their solution, Bud Light Lime, turned out to be highly incremental; half of the consumers of Bud Light Lime were either new beer drinkers or current buyers that purchased it in addition to their regular brands.4

- **Expand usage occasions.** Many brands have successfully attracted new buyers and encouraged their current buyers to purchase more by targeting new usage occasions. Apple’s iPad provides the classic example: its larger screen offered a better experience when watching movies or surfing the internet without replacing consumers’ need for pocket-sized smartphones. In the FMCG space, Britvic discovered that consumers lacked a convenient, highly portable way to enjoy their favorite flavored drinks on the go. To address this need, Britvic introduced Robinsons Squash’d, a compact, mess-free pouch containing concentrated, flavored water enhancer. This new offering instantly unlocked a wide range of new usage occasions.5
• **Trade consumers up to a more premium offering.** Pricier products that provide a unique benefit or a superior product experience can be highly incremental. Moreover, encouraging consumers to trade up can actually turn cannibalization into a win. For example, in addition to its mainstream ice cream line, Breyers launched Gelato Indulgences which both encouraged current buyers to trade up and attracted new buyers from the super-premium gelato segment. Through pricing research, the brand found that Gelato Indulgences could be priced 1.7 times higher than typical mainstream ice creams—a dramatic increase over the team’s initial expectations. The launch generated $62 million in first-year sales and, in combination with renewed support for the brand base, helped drive core brand growth of 7%—far outpacing the overall category growth rate.6

• **Change the way consumers engage with a category.** Sometimes it takes a more drastic approach to break the deadlock of market stagnation. While each category has its own recipe for “revolution,” the ideas below have been successful in driving incrementality by carrying a slight price premium, driving loyalty or increasing purchase frequency.

  - **Subscription models** to establish a purchase routine and remove competition from the consideration set, such as meal kit subscriptions and monthly “coffee clubs.”

  - **Extreme customization** where buyers can create their own version of a product such as coffee pods, sneakers and fragrances.

  - **Brand experiences that blend the digital and physical worlds** to enrich the customers’ experience, facilitate discovery of the brand’s products, or suggest new use cases. For example, Cover Girl and Sephora offer virtual makeover applications that allow consumers to “try on” different cosmetics products in a wide range of shades, encouraging more consumers to purchase online without needing to see or try the products in person.
• **Leverage existing equities to enter adjacent categories.** Entering adjacent categories is a promising strategy for incremental growth, as there is much less potential for cannibalization. Many brands are well-known for certain ingredients, benefits or personality traits in a particular category, which can provide a significant advantage when entering new categories. In the case of Arm & Hammer, consumers had come to associate the baking soda brand with powerful cleaning and deodorization benefits, so applying this equity to categories such as toothpaste and cat litter wasn’t an enormous leap. Moreover, this ingredient was capable of bringing new, premium benefits to these other categories. For example, in the cat litter category—which is notoriously resistant to price increases—the brand found that the odor-killing benefits of baking soda could command a 30% price premium.⁷

**MANY BRANDS ARE WELL-KNOWN FOR CERTAIN INGREDIENTS, BENEFITS OR PERSONALITY TRAITS IN A PARTICULAR CATEGORY, WHICH CAN PROVIDE A SIGNIFICANT ADVANTAGE WHEN ENTERING NEW CATEGORIES.**

Another example comes from Dove Men+Care, which used its existing equity in personal care for women to expand into the men's personal care category—with little risk that women would abandon their existing Dove products. Moreover, by taking the time to build a "platform" that emphasized premium personal care for men, Dove Men+Care was able to expand into additional men's personal care categories, such as deodorant and shaving cream, quickly and efficiently.
SMALL CHANGES THAT CAN BE HIGHLY INCREMENTAL

Marketers often think about high-incrementality innovations in terms of new-to-the-world products. However, less labor-intensive launches, such as new package formats and reformulated products, can also deliver significant incrementality gains when the right opportunities are identified early in the process. Additionally, changes to other executional factors, such as product positioning and promotion strategy, can achieve the same end. In order to identify the path that will deliver the most incremental gains, brands need to simulate and directly compare the expected outcomes for different scenarios.

IN ORDER TO IDENTIFY THE PATH THAT WILL DELIVER THE MOST INCREMENTAL GAINS, BRANDS NEED TO SIMULATE AND DIRECTLY COMPARE THE EXPECTED OUTCOMES FOR DIFFERENT SCENARIOS.

“Small” but impactful changes that brands can make include:

• **Redesigned packaging.** As times change, most brands find that they need to refresh their packaging to stand out at the shelf and appeal to new segments of consumers. After more than two decades without a packaging change, Buchanan’s Whisky noticed that Millennials perceived the brand to be a little dated. To remedy this, they updated the look of their bottle to appear more modern and premium, while still reassuring current buyers that the liquid inside hadn’t changed at all. The new design managed to attract new buyers while also justifying a slight price increase, bringing the brand’s average value growth across markets to 20%.8
• **Alternative package formats.** Some brands have increased purchases from existing buyers and attracted new buyers by simply changing their packaging formats. For example, Perdue changed its package for Short Cuts, strips of fully-cooked chicken breast, from a box to a bag. This created more space in the often-packed deli drawers of consumers’ refrigerators. As a result, Perdue found that current buyers began purchasing more packages of Short Cuts on their shopping trips, resulting in incremental gains.9

![Before and after images of Perdue's Short Cuts packaging](image)

Alternative package formats can be particularly instrumental in targeting new usage occasions and audiences. For example, canned wine has seen a burst in popularity recently in the United States; because cans don’t require a corkscrew or glass, they're better suited to outdoor occasions such as visiting the beach or going camping. In the past year, sales of canned wine have grown nearly 60% as more brands add this new package format to their existing portfolios.10

• **Alternative package sizes.** Offering different package sizes can deliver incremental sales when aligned with current trends or specific usage occasions. For example, Coca-Cola created mini-cans to attract health-conscious consumers who wanted to enjoy the beverage in a smaller portion size. The brand reported increased sales despite some anticipated cannibalization of its standard can size.11 Another example comes from Wrigley, who launched its Eclipse gum in a 60-pellet bottle as an alternative to pocket-sized packaging. It was designed to be placed in locations where consumers routinely consumed the product, such as on their desks at work or in their cars. By making it more convenient for buyers to consume more of the product in these situations, the brand grew equivalized unit sales by 7% overall.

![Wrigley Eclipse gum](image)
• **New promotional strategies.** Testing multiple promotional strategies, such as “buy one, get one free” and multi-buy offers, can reveal opportunities to increase sales dramatically. For example, a leading snack manufacturer explored the possibility of combining a multi-buy promotion with a reduction in the number of snacks included in each package (which raised the price of an individual snack). These pricing changes effectively cancelled each other out, allowing the brand to increase unit share while still maintaining its original price per snack. In fact, unit share increased by more than 50% for the brand and more than 20% for the parent franchise—compared to 10% and 5%, respectively, when the packaging change was not accompanied by a promotional offer.

**SALES IMPACT: WITHOUT PROMOTION VS. WITH PROMOTION**

<table>
<thead>
<tr>
<th>Package Size Change Only</th>
<th>Package Size Change + Promotion</th>
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</thead>
<tbody>
<tr>
<td>+10%</td>
<td>+50%</td>
</tr>
<tr>
<td>+5%</td>
<td>+20%</td>
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</table>

- **Brand Sales**
- **Parent Franchise Sales**

• **New formulations.** New product formulations can also be an avenue for established brands to update their positioning and attract new buyers. For example, as consumers’ interest in healthy living has increased, many manufacturers have begun eliminating artificial ingredients from their products to capitalize on this trend. In fact, “clean label” products drove nearly all of the FMCG growth in the United States over the past couple of years. Other successful reformulations have included highly concentrated versions of the original product, such as iced coffee concentrate. This strategy has been particularly successful in the laundry category where highly concentrated detergents can accommodate the same load count as traditional detergents using much smaller, lighter packages. Not surprisingly, these concentrated formulas appeal to urban dwellers who prefer to avoid lugging heavy containers home from the grocery store or to the laundromat and who may have limited space at home to store laundry supplies.
THE ROLE OF NICHE INITIATIVES IN INCREMENTAL GROWTH

“Niche” can be an ambiguous term in the context of innovation. As such, it’s worth defining what it means before discussing its role in incrementality. Niche is often synonymous with “small” but, more accurately, it refers to initiatives that are specifically targeted to a particular, well-defined consumer segment that is not well-served by other offerings. Niche is a misnomer for initiatives that are small simply because the product generates little interest across consumer segments. For example, a brand of over-the-counter pain medication may launch a niche extension targeted at individuals who suffer from arthritis—a specific, yet captive, audience. By contrast, there may simply be little demand overall for products such as sriracha-flavored gum or gourmet pet hamster food.

Products that are truly niche can be incremental, as they target consumers and needs that aren’t being addressed by more broadly targeted offerings. However, revenue contribution is likely to be limited given that they cater to a smaller pool of interested buyers. Moreover, a smaller audience target demands near-flawless execution in market in order to be successful. To make matters worse, niche launches can actually be counterproductive for brand growth depending on how much support is diverted away from other promising initiatives to launch them.

REVENUE CONTRIBUTION IS LIKELY TO BE LIMITED GIVEN THAT NICHE PRODUCTS CATER TO A SMALLER POOL OF INTERESTED BUYERS.

As a result, companies should carefully consider which niche initiatives are worth the investment. In particular, initiatives which are only niche today but may become mainstream in the future tend to be worth pursuing. For example, “gluten-free” and “organic” were once niche claims. Similarly, vegan products, such as plant-based dairy and meat alternatives, are currently experiencing double-digit growth annually in the United States as they transition from niche to mainstream. Therefore, it’s crucial to understand the consumer landscape and to identify the intended audience clearly to ensure that relevance among this group is sufficiently high.
HOW TO EXECUTE MORE INCREMENTAL INNOVATIONS IN MARKET

Once an innovation has been tasked to generate incrementality, it is critical to support it with strong execution—including smart assortment decisions and adequate marketing support.

- **Make assortment decisions at the portfolio level—and use the right data to do it.** Because retailers have limited shelf space, brands are often required to retire SKUs to make room for new innovations. This is especially true for large manufacturers, who have received only 2% of incremental shelf space in recent years, despite the fact that they supply 28% of the items on shelf. Retiring some items is unavoidable for many brands, so it’s crucial to review assortment at the portfolio level, not the brand level, in order to limit losses due to delistment.

### Average Share per Point of Distribution by Manufacturer Size

<table>
<thead>
<tr>
<th>Manufacturer Size</th>
<th>Share of Current Items</th>
<th>Share of Additional Items</th>
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<tbody>
<tr>
<td>Smallest</td>
<td>41%</td>
<td>21%</td>
</tr>
<tr>
<td>Medium</td>
<td>39%</td>
<td>36%</td>
</tr>
<tr>
<td>Largest</td>
<td>28%</td>
<td>2%</td>
</tr>
<tr>
<td>Private Label</td>
<td>18%</td>
<td>15%</td>
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To decide which existing items to remove from the shelf, many brands rely on a simple construct: delist the lowest-velocity products for the most favorable financial outcome. However, this strategy often doesn’t yield the intended result; in fact, two-thirds of the time, the slowest-moving SKUs are not the least incremental, according to a
recent Nielsen analysis. Because of this, it’s important to consider how different products interact—not just their individual sales performance or velocity—to arrive at the most profitable line-up.

To compare these two approaches—relying on velocity versus incrementality when making delistment decisions—consider this real example from a snack food manufacturer who had planned to launch four new varieties of snack chips. The existing line-up included 11 chip varieties, and the team needed to make some difficult decisions about which four items they would retire. Research revealed that, if the four lowest-velocity SKUs were replaced, the brand would not see any incremental gains. However, if they retired the four least-incremental SKUS—which ranked third, fourth, fifth and sixth on velocity—then they would see an 8.4% increase in unit share.

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### THE IMPACT OF REPLACING THE LOWEST VELOCITY VS. LEAST INCREMENTAL SKUS

**AN EXAMPLE FROM THE SNACK CATEGORY**

<table>
<thead>
<tr>
<th>Sales Velocity</th>
<th>+0% Increase in Unit Share When the Lowest Velocity SKUs Are Replaced</th>
<th>+8.4% Increase in Unit Share When the Least Incremental SKUs Are Replaced</th>
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- **Don’t forget to look down when trading consumers up.** While premiumization presents a promising path to incrementality, it can also create market gaps that allow competitors to gain footing. For example, Gillette has been extremely adept at continually encouraging consumers to trade in their current razors for the latest and greatest in shaving technology—often at a significant premium. In the early 2000s, the Mach 3 razor was Gillette’s premium offering for men, until the Fusion line was launched in 2006 at a 40% price increase, followed by the Fusion ProGlide in 2010 and the Fusion Proshield Flexball in 2016—to name a few of the brand’s major launches.
However, this strategy has limits; Gillette eventually shifted its brand so far toward the top of the price spectrum that it became vulnerable to lower-priced contenders such as Dollar Shave Club. To combat the risk of “over-premiumization,” many brands continue to offer “good,” “better” and “best” tiers to appeal to the broadest segment of consumers.

- **Aim to secure incremental distribution.** It’s a well-established fact that distribution and sales revenue have a near-linear relationship. As a result, brands who are able to claim more incremental shelf space will deliver more incremental growth. This additional shelf space may come from a few sources:
  - **Replacing a competitor’s SKUs.** Brands who can prove to retailers that their additional SKUs have greater sales potential than the competitors’ may succeed in securing additional facings.
  
  - **Justifying multiple aisle locations.** This strategy works especially well for innovations that blur category lines. For example, should a breakfast biscuit be placed in the cookie aisle or the breakfast aisle? If an argument can be made that the product is targeting different usage occasions or audiences by being in two different aisles, then retailers will consider dual placement.
  
  - **Promoting the brand with displays.** Brands who place their promotional displays strategically increase their chances of being seen by interested buyers. For example, Skinny Cow Candy—a shelf-stable treat—placed custom displays in the freezer aisle near healthy frozen entrees. The team rationalized that calorie-conscious consumers often avoid the candy aisle, but they frequently seek out healthy meal options in the freezer section.
  
  - **Borrow funds wisely.** While ideally a line extension would be launched with incremental funding, the more common reality is that some of the marketing support dollars need to be allocated away from the parent brand. It’s important to make those trade-offs wisely. There are no magic formulas because there are unique dynamics impacting the relationship of each line extension and parent brand, but there are a few common considerations that brands should keep in mind:

  - **Source funds from a parent brand’s advertising budget before its promotional budget.** Most large, highly established brands will be less sensitive to a reduction in advertising support than to a reduction in promotional spending. This is because most consumers are already aware of the brand and, while advertising keeps the brand top of mind and supports its equity, promotions often have a more direct role in driving sales.
• **Consider both the short and long-term ramifications of marketing support allocations.** It's not uncommon for brands to plan for a portion of the parent brand’s annual budget to go towards a new line extension. However, when the next extension is launched, these allocated funds are often redirected to support the new extension, leaving the prior extension with less support during its second year in market—which ultimately undercuts its ability to grow. When multiple line extensions are launched in succession, marketers need to carefully consider their support allocation decisions. It's true that recently launched innovations deserve the lion's share of the available budget to ensure a strong start, but withdrawing support from prior launches must be carefully timed—all while continuing to support the parent brand. In some cases, it may be prudent to delay the launch of the newest product in favor of providing longer-term support to previous launches.

• **Simulate volume across multiple scenarios to find the ideal marketing balance.** This will help uncover the “sweet spot” that provides enough support to get line extensions off the ground, while minimizing the impact on the parent brand's volume. Identifying the ideal launch timing and marketing allocation requires evaluating a range of potential scenarios, but the pay-off almost always justifies the effort.
FINAL WORDS

Put simply, the key to incremental brand growth requires putting incrementality at the center of all innovation decisions instead of prioritizing short-term profit maximization.

Some key considerations and best practices include:

• **Use incrementality potential to prioritize innovations**—even "small" innovations—early in the innovation process, rather than waiting until it’s too late or too costly to pursue a different direction.

• **Leverage known strategies for identifying and developing high-incrementality innovations**—such as targeting new usage occasions and trading consumers up to more premium products—to guide you in the right direction.

• **Recognize that new-to-the-world products aren’t the only path to incrementality.** New packaging sizes and formats, refreshed package designs, new promotional strategies and reformulations have repeatedly delivered big wins for many brands.

• **Be thoughtful about when to pursue niche initiatives.** They’re often incremental but small by definition, so they’re unlikely to spur dramatic growth. When identifying niche initiatives worth the investment, ensure that your target audience views the offering as highly relevant. Ideally, choose an accelerating trend so that your pool of interested buyers continues to expand over time.

• **Don’t assume that the lowest-velocity SKUs are the best option** when deciding which products to delist in order to make room for new line extensions; this rule-of-thumb doesn’t account for important interactions within the line. In many cases, retiring the lowest-velocity SKUs results in no—or even negative—incremental growth.

• **When premiumizing products, offer multiple tiers** to maximize consumer reach and avoid creating a market gap that value-driven competitors can exploit.

• **Explore multiple scenarios to find the ideal marketing support balance** when drawing support away from the parent brand to launch a line extension.
HOW NIELSEN CAN HELP
COMMON QUESTIONS ANSWERED BY OUR SOLUTIONS

INNOVATION EVALUATION AND OPTIMIZATION
• Which innovations are likely to be most successful in market, individually and at the portfolio level? What are the estimated sales?
• How can we optimize our marketing allocation and launch plan to sell more?

Learn more about early idea screening, concept screening, portfolio optimization and volume forecasting.

PACKAGE DESIGN
• How can we improve our current design to better convey “premium” and other key equities that justify a higher price point?
• Which design resonates with consumers and best differentiates our new product line from our existing lines?

Learn more about package design solutions.

PRICING AND PRICE/PACK ARCHITECTURE
• How should we price our products to maximize volume, profit margins and incremental sales?
• Which new package size or format should we add?

Learn more about pricing individual products and optimizing price/pack architecture at the portfolio level.

ASSORTMENT
• How should we combine new and existing products, and how should we price them to maximize incremental sales at the portfolio level?
• Which existing products should we remove from shelf to make room for new ones?

Learn more about optimizing assortment.
SOURCES

1Nielsen Innovation Client Survey, June 2017 (n=376 FMCG professionals in North America and Europe). Sales volume outranked incrementality for the most important metric, while penetration and sales velocity also ranked highly. Not surprisingly, large companies (with annual revenue greater than $10 billion) were significantly more likely than small companies (with annual revenue less than $500 million) to prioritize penetration and incrementality among their top three metrics, while small companies were more likely to prioritize sales velocity.

2BASES R&D results, 2008.

3Nielsen BASES internal client survey, July 2018.


10Nielsen, scan data, total U.S., off-premise outlets, latest 52 weeks ending 9/30/2017.


13Nielsen scan data, U.S., latest 52 weeks ending 4/7/18.

14Nielsen scan data, total U.S., 52 weeks ending April 29, 2017, UPC-coded, all outlets including convenience. Manufacturer size determined by revenue: largest = rank 1-10; medium = rank 11-115, smallest = rank 116 and below.

15Based on 12 randomly selected line and price optimization studies.


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