UNDERSTANDING ASSORTMENT EXPANDABILITY AND SATURATION FOR REVENUE GROWTH
Perhaps the only thing more staggering than the large number of new products each year is the small number that succeeds. Almost by definition, new products are expected to be expandable; they are expected to grow, either by motivating consumers to try a product for the first time and/or to increase buy rate among current consumers. But what makes a product expandable? And which factors are most important to consider when launching a new product? What is critical here is that expandable products drive retailer and manufacturer revenue, whereas contracted products do not.

We took out the guesswork and analyzed a variety of dimensions to see how they influence expandability:

- **Product trends – All about the new.** New benefits, need states, consumers, dayparts, and occasions tend to be expandable at first. But watch the market because these can quickly become overcrowded if supply exceeds demand.

- **Size of the brand – Larger isn’t always better.** While large brands can leverage their clout, small brands fit nicely into a niche and may represent a new benefit.

- **Pack size – Mix it up.** Varying pack size can reach a new consumer.

- **Price-tier variation – Both value and premium products have their benefits.** Value products are often expandable despite low marketing and sales support, while premium products may be in a crowded space.

- **Innovation – Aim high.** High impact innovation is expandability gold, reaching new consumers with new benefits.

- **Department - Ride the trend wave.** Leverage macro factors and keep your product in the spotlight.

So, what’s next? Expandability depends on the relationship between consumer demand and product supply. High demand spaces call for greater assortment, but it’s important for marketers and retailers to be mindful of overcrowding the space, even if trends are strong. The most expandable products will be those that deliver new benefits or needs, or reach new consumers. Enhancing value in any of these ways is where innovation practitioners should focus.
Understanding Assortment Expandability and Saturation for Revenue Growth

The market for new products is always growing, but the majority of them fail in a relatively short amount of time. A recent study by the Advanced Solutions team at Nielsen (2014 and 2015) uncovered that there are nearly 9,000 new products offered in the CPG industry each year but only 15% of those products remain on the market after two years. Revenue growth follows expandable and winning products, but eludes saturated and losing products.

These new products are developed in spaces that are believed to have potential, but not all of them succeed. In other words, marketers believe their new offerings will drive more volume to a category, which is to say that the new products are competing in an expandable space (of course, some products are designed merely to steal share, but best practice innovation aspires higher). What influences a product’s expandability? And more importantly, how do we spot the gaps in identifying which products are truly expandable so we can drive category and manufacturer sales.

First, we must understand how expandability and saturation work. A product can be highly expandable, but still not succeed in the market if the percent expandability is off a small base. For example, if my product is 100% incremental to a category, but sells only one unit, it is not viable. Take this hypothetical milk example. Here we see that 1% milk has a high market share (reflected in the large circle) but sales of 1% milk are highly cannibalistic and eat into the sales of 2% milk (reflected in the high overlap). In contrast, chocolate milk has a much smaller market share but chocolate milk sales are not a large competitor for other milk sales (small overlap). Strawberry milk is an extra in the category, but sales are so low that they do not greatly contribute to the category. In this example, the top three products that drive the category are non-fat, 2% or 1%, and chocolate.
Here we'll discuss expandability to the category and which factors are associated with expandability. We've found that product trends, strength of brands, pack size variation, price-tier stratification, product innovation, and department expandability are key factors in category expandability.
STRONG TRENDING PRODUCTS

Most people believe that strong trending products are expandable and products that are trending unfavorably are saturated. It seems intuitive that as products are generating extra revenue (trending well), their assortment should be increased to drive even more revenue. This seems obvious in many ways, however research shows that this is often untrue.

Strong trends, especially those brought on by innovation, do attract the most attention in the marketplace. This increased attention and innovation may generate a surplus of activity in this category, oftentimes more than the category can handle. Suddenly, the space is too crowded and supply exceeds the demand with too many products in the favorably trending category.

Another reason why researchers and practitioners believe that strong trending products are expandable reflects a halo effect. This implies that we implicitly believe that favorable metrics go hand-in-hand, such that a product trending well also would be expandable (two favorable metrics). Again, even though there is some correlation between these two, there are other factors that override here, resulting in these metrics going in different directions (a favorably trending product that is low on expandability).

How do you take advantage of trends while still accounting for expandability? Try to make investments and priorities proportional. If the favorably trending space is generating high competition, be more discriminating with new products, as the space may already be overloaded, making it hard for your product to stand out. In fact, sometimes segments with unfavorable volume trends can offer the biggest opportunities for new products. These spaces are less crowded and consumers might be receptive to innovation.
BRAND STRENGTH

Just as there is a belief that favorably trending products are expandable, there is also a belief that strong brands are the most expandable. Many powerhouse brands even recommend retailers to carry only these dominant brands along with the retail brand; an example of the clout strong brands carry.

But this often applies only to larger brands that use their offerings to reach different need states, benefits, and consumers. What about smaller brands? How can they be expandable? In short, judicious management of large and small brands often leads to revenue increases.

First, small brands that drive real innovation are highly expandable. If the product offers new benefits to the consumer, it will be expandable, regardless of the size of the brand. Small brands can also increase expandability because they make the promotion pool larger. Retailers generally like to encourage competition and may give smaller brands the benefit of the doubt.

Smaller brands also tend to be more streamlined with power flavors and features that really resonate with a consumer. They may also have the benefit of regional exposure, being hometown favorites. Being a smaller product in the marketplace has its benefits and if your brand fulfills the needs of the consumer, expandability will not be a problem.

PACKAGE SIZE

Do different sizes promote expandability? Size variety is actually an excellent way to drive sales because different sizes satisfy the varying needs of your consumer. Small sizes are right for immediate consumption while a family size promotes everyday use. Size variety is a great way to keep the product competitive and attract new consumers. We have seen package size variety to be particularly important for carbonated beverages, breakfast foods, frozen prepared foods, pizza and snacks, to name a few.

Pack size variety isn’t quite as “sexy” as other ways to expand a product, but it’s definitely powerful. Because multiple size offerings do not frequently attract excessive marketing attention, size varieties are relatively inexpensive.

So what’s the best way to use pack size to your advantage? Focus on ways to differentiate your product with different sizes to fit different consumers’ needs. Additionally, while variability in pack size is essential, breakthrough packaging can generate even a larger reward. The caution here is that innovations can be expensive. The return can be high, but so is the risk. Therefore, it’s important to evaluate what’s right for the product.
PRICE-TIER SEGMENTS

How do lower price products, or value brands, fare when it comes to expandability? We find that value brands tend to have advantages because they operate in a less crowded price tier. Value-oriented products that were found to be expandable include snacks, baked goods, side dishes, and breakfast foods. Most new products tend to compete at a higher price, where supply can exceed demand. The Great Recession reset household finances, with value brands presenting an advantage for consumers seeking out lower price offerings.

However, value brands do tend to have less investment in terms of marketing and sales, which often translates to lower expandability. Premium products, on the other hand, tend to have a high investment for marketing and sales. Of course how investment in marketing translates to higher expandability is more complicated, and it depends on a number of other factors. Products that succeed tap into a new or specialty need, benefit, or consumer (see the next section). It also depends on whether the retailer’s demographic matches the targeted consumer for the product.

In short, don’t discount lower price products in terms of expandability. Value brands can have a strong foundation of expandability, depending on the space, the consumer need, and the number and quality of value-offerings.
INNOVATION

Innovation is a marketplace catalyst and high impact innovation is market gold. Like gold, successful innovation increases manufacturer and retailer revenue. So what constitutes high impact innovation? It must fulfill a new need state, provide a new benefit, or target a new consumer or occasion in addition to being executed with excellence. Or, it must do the above noticeably better than the competition.

Just that? Yes! Given the low success rate of new products, high impact innovation is incredibly rare. But when you hit it, the product is highly expandable.

Always aim for high impact innovation by satisfying a new or unknown need and providing an added benefit to a new consumer. Balance investment in these areas with the ability to execute, because execution is key for high impact innovation. Below is a sample of recent winners from Nielsen’s 2015 “Breakthrough Innovation Report”:

- Atkins Frozen Dinners (convenient, low carb, nutritious, tasteful frozen meal)
- L’Oréal Total Repairs (for faster and longer hair care improvement)
- Lunchables Uploaded (convenient tasty meal for adolescents)
- Monster Energy Ultra (energy drink targeting women)
- Mountain Dew Kickstart (brings fruity flavors to a combination of soft drinks and energy drinks)
- Redd’s Apple Ale (first beer for flavor-seeking consumers)

DEPARTMENT EXPANDABILITY

Are certain departments more expandable than others? Yes, strong trending departments tend to include products that are fresh and utilize premier products such as produce, meat, nuts, coffees, and prepared foods.

These categories tend to be more expandable because there is high impact innovation in this department. Retailers tend to double their efforts in these categories, trying to differentiate their value proposition. These categories also capitalize on the current “health” trend, making them especially appealing and expandable.

To make sure products are expandable in certain categories, determine how current trends work for the product. If fresh is expandable because it is healthy, use that to help the product succeed, be it through packaging, tie-ins, or partnerships. Position the product to fit in with category trends.
IMPERATIVES TO EXPAND

1. Leverage the new. Expandability depends largely on being able to leverage new need states, benefits, consumers, targets, and occasions. This is the most effective way to dial up expandability. In this new space, more demand will fuel greater capacity for supply.

2. Follow the growth. Tap into markets that are growing but be mindful that competitors are doing the same thing. An overcrowded market is not an expandable one.

3. Find the underdog; trend that is. Be open to spaces that may not be trending favorably, as these may represent opportunities for innovation and expandability. Make sure to differentiate between expandability based on a downward trending category having its assortment excessively stream-lined (lower opportunity) versus expandability from a space with untapped strength (higher opportunity).

4. Focus on high impact innovation. Breakthrough products don’t follow the same rules as established products and they are the most highly expandable.

5. Increase expandability, even in ways that may not be seen as exciting. Look at package size variation and value products.

6. Understand what makes a product successful. And emulate those attributes and benefits, and consider how other marketing vehicles can leverage these.

7. Don’t forget supply and demand. Expandability is affected by a variety of factors. Focus on the controllable variables and target expandability efforts on these. Always weigh supply and demand.

8. Finally, remember that expandability and saturation are fluid and what is saturated today, may not be tomorrow (and vice versa). Continue to look for ways to leverage new benefits and spaces where demand exceeds supply—here there is high expandability potential.
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