

# WHAT'S NEXT IN INNOVATION

KEY LEARNINGS FOR NEW PRODUCT SUCCESS  
IN LATIN AMERICA

# WHY IS INNOVATION SO CRITICAL?

## REQUIREMENTS FOR LATIN AMERICA

Fast-moving consumer goods (FMCG) companies in Latin America have been operating in a muted growth environment, where FMCG sales are flat (2017 volume sales average growth +0.2%). Last year, consumers were cautious with their purchasing habits and have shown high sensitivity to price increases. As a result, they have adopted more of a savings mindset, and they actively seek deals and value for their money.

The region faces a challenging 2018, with many consumers sharing the belief that they are experiencing recessionary times (according to the fourth-quarter 2017 Conference Board® Global Consumer Confidence Survey, which is produced in collaboration with Nielsen, 73% think that their country is in an economic recession at the moment). This sentiment will continue to affect their spending behavior, and we expect them to remain focused on saving and making increased purchases at discount stores and less-expensive formats. This is why innovation will be a key factor for making businesses more resilient in a slower-growth environment. Innovation is not just a growth engine. It has become one of the most important development platforms of any company in the region that is willing to understand current consumer behaviors, needs and trends that are driving growth of new product proposals.

History has demonstrated that consumers are more willing to buy new innovations in more confident environments. In 2018, consumers are finally feeling better about the economy and are starting to have positive perceptions of their personal finances. In fact, Latin American are among the most willing globally to switch to a new brand. They also are willing to pay premium prices for innovative products. At the same time, however, they don't believe there is enough innovation in the market. They desire new products in the market, particularly those that truly solve unmet needs.

Organizations seeking growth should strive to innovate to engage new and existing customers. Without innovation, they risk loss of market share and brand sales.

Innovation is not easy. In fact, a recent Nielsen analysis found that more than 20,000 new products are released in Latin America each year, and half of them will experience decreased sales in their second year. Additionally, more than 30% will not be in the store for more than one year because they don't meet expectations.

## WHY INNOVATION FAILS?

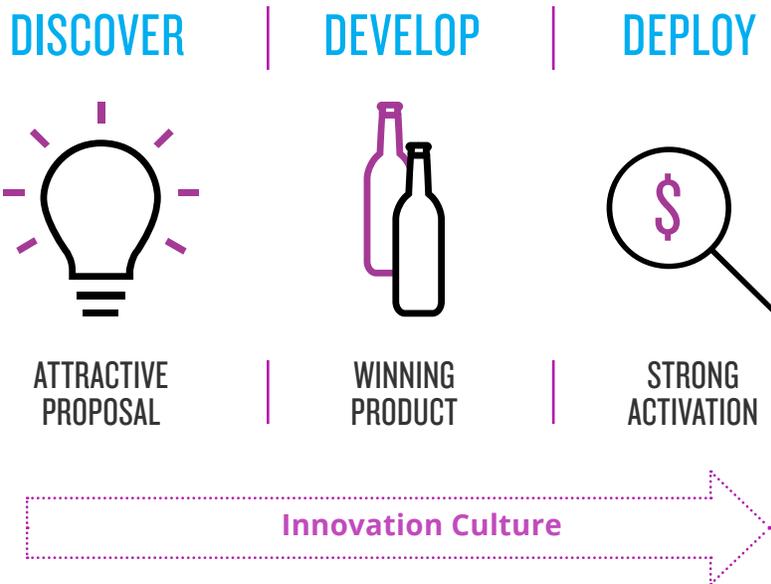
- 1. WEAK PROPOSAL: THE PRODUCT CONCEPT DOES NOT ADDRESS A REAL CONSUMER NEED**
- 2. THE IDEA IS AMAZING BUT THE PRODUCT DESIGN IS WRONG**
- 3. POOR MEDIA AND STORE ACTIVATION**

Many companies struggle with their innovation processes. They spend large amounts of money to develop disruptive innovations and activate expensive marketing campaigns, but find their products are met with lackluster consumer response at launch.

Some companies base their future innovations on flawed research or unsuccessful efforts of other companies, oftentimes disregarding the need to assess if the innovation is really something that consumers need. Additionally, some innovations are not properly developed. In fact, 50% of product initiatives are not appropriately translated into products (original idea vs. final product). And some of the lucky ones that are properly developed and produced fail because companies don't provide adequate support or suitable marketing investment.

# TURNING BARRIERS INTO OPPORTUNITIES

Companies need to think about innovation as an end-to-end process. Successful innovation comes from organized and structured innovation cycles. In that way, the areas responsible for innovation must have enough time to plan the innovation, starting with the discovery of an attractive proposal for consumers, followed by a product development that truly represents the original idea, and finally providing the adequate in-store and media outreach support.



## FIRST STEP:

# IDENTIFY

## ATTRACTIVE PROPOSALS

Identifying an attractive proposal isn't always easy. The pace of change is accelerating, and we are more globally connected. This helps brands from all over the world share their innovations with new markets. All markets are different, however, and companies should avoid the temptation to simply replicate products for Latin American markets. All products should be developed to meet local needs and preferences.

To develop winning concepts, companies should be open to trends and signals of change, using the marketing research and data to understand where consumer and business environments might be heading. That way they can place educated bets on emerging pockets of opportunity with winning proposals that have a competitive advantage because they offer something that consumers truly want.

The first step in the process is to identify challenges that consumers face in their daily routines that need solutions. Changing demographics, lifestyle shifts, urbanization and the digital evolution are global trends that affect us all. If we pay attention to them and their implications, we will open opportunities to resolve current and future consumer needs. Successful innovations will emerge from a deep understanding of how consumers react to these trends today and tomorrow.

Despite the diversity of Latin American consumers, we have identified common needs that are present throughout most regional consumers.

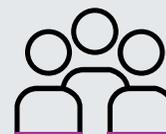
The most relevant demand throughout Latin America is related to the need for convenience and ease. True innovations should be able to save consumers' time to resolve a concrete need for different consumption moments. One of the most successful innovations in Colombia was launched in the toilet paper category. The innovation offers a regular roll of toilet paper with a small roll inside for use away from the home, capitalizing on the need for toilet paper among consumers who spend a lot of time away from home.

Opportunities throughout the region are available to those brands that better understand why consumers are willing to pay more for premium products, not just expensive products. And brands should support premium innovation with a demonstrated superior function, better flavor, best ingredients, experiences, etc.

## DRIVERS OF CHANGE

# LATAM

# 2025



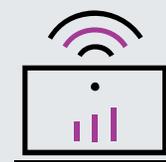
## WHO WILL BE THE FUTURE CONSUMERS?

Population Shifts Changing  
Demographics Household Size  
and Structure



## WHERE WILL THEY LIVE?

Urbanization and  
City Size Convenience



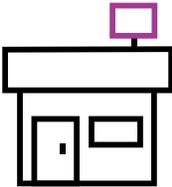
## HOW WILL ACCESS TO TECHNOLOGY AFFECT CONSUMPTION?

Infrastructure Digital  
Strategy E-Commerce

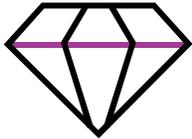
Latin American consumers have demonstrated that they are confident about well-known brands, so successful innovations should take advantage of their mother-brand positioning. Also, novelty is a huge driver of new product trials. In the region, you can find consumers who are willing to adopt new products because they are newfangled or different, both of which appeal to consumers' sense of curiosity. Latin American consumers have demonstrated that they are confident about well-known brands, so successful innovations should take advantage of their mother-brand positioning. Also, novelty is a huge driver of new product trials. In the region, you can find consumers who are willing to adopt new products because they are newfangled or different, both of which appeal to consumers' sense of curiosity.

# WHICH TYPE OF PRODUCT INNOVATION ARE LATINOS LOOKING FOR?

## CONVENIENCE AND EASE



## PREMIUMIZATION



## BRAND POWER



## NOVELTY AND VISIBILITY



As we mentioned, success comes from structured process of innovation. That's why it's important to discover the right space first, create a concept and then move to physical product development. Creating a product concept helps make the idea more concrete, clear and tangible, and developing a concept sheet will clearly explain the innovation's purpose and benefit, as well as how it should look.

After analyzing more than 500 concept proposals in Latin America during 2016, our innovation team has observed some elements that are working—or highly valued by consumers—throughout the region. They have increased new products' success probability and their potential to become viable products.

## WHAT TO CONSIDER WHEN CONCEPTUALIZING IN LATIN AMERICA?

### FOOD



An explicit problem should be solved

Communicate the ingredients and content

Nutritive approach

Highlight additional benefits compared to the standard of the category

Name the product in local language

Images of the product in the package

### BEVERAGES



Explicit and tangible benefits (Reflect product benefits, visual description of the content in the package)

Communicate the ingredients

Highlight additional benefits compared to the standard of the category

Strategies based on the ingredients

Reference to the natural origin of the product

### PERSONAL CARE



Explicit and comprehensive communications of the benefits and the problem to be solved

Positive and safe language, avoiding the "scary claims"

Processes without extra steps

Highlight additional benefits compared to the standard of the category

Not too much line extensions (less variety or sizes)

High level of value brand

### HOUSEHOLD CARE



Explicit benefits

High level of value brand

Line extensions

Avoid the mention of the origin

No celebrity support

Avoid the explanation of the ingredients usefulness (Not too much reasons to believe)

## IF YOU DON'T VALIDATE A CONCEPT AGAINST CONSUMER EXPECTATIONS, YOU RISK LOSING MONEY IN A FAILED INNOVATION

### SECOND STEP:

# DEVELOP

## A WINNING PRODUCT

A really successful innovation process should not continue to the identify stage without a concept test. That's where you will determine consumers true expectations about your product performance. Importantly, you will also uncover possible problems to correct before you go to market. During 2016, Nielsen calculated the success probability of more than 500 concepts in Latin America: only 23% of them were ready to be launched with high probabilities of success, which means that 77% of the concepts had strong probabilities to fail in the market if they were launched as they were conceptualized.

The most common issue with 77% of the concepts is that they didn't solve a real consumer need or struggle in a believable way, particularly when the value and cost were included. Notably, premium-priced products need to clearly do something that others cannot. At the very least, they need to do something better than others.

When we talk about new product development, we can't neglect package design. Products can have the best flavor or performance, but if they aren't well dressed, they may not appeal to anyone visually. Today, more than ever, Latin American consumers are increasingly influenced by packaging. In fact, 65% of consumers report that they've tried a new product based only on its packaging or visual appeal.

Not only does packaging drive trials, it drives repurchases. Forty-one percent of Latin American consumers say they are willing to repeat their product selections because they prefer its packaging. Globally, package design has demonstrated its ability to attract new customers more effectively than other marketing investments.

Throughout the world, Nielsen's Package Optimizer has generated recommendations to improve package images. When a brand optimizes its product packaging, it sees increases in sales that average 5.5%.

## THIRD STEP:

# DEPLOY

## EXECUTION EXCELLENCE

It may seem simple, but excellence in deployment is a huge challenge in Latin America. For effective launches, new products need adequate support. And that means developing the product fully and then maximizing the appropriate messaging across the right mix of channels. These efforts should all be connected to what consumers need.

In looking at previous product launches, brands with successful innovations spend almost as much on advertising in year two as they do in year one. Comparatively, brands with less-successful launches spend, on average, 20% of their initial media investment in year two. In Latin America, most innovations that die on the shelves fail because manufacturers fail to adequately support them over the long term, oftentimes after just six months.

## NIELSEN DESIGN IMPACT AWARD 2017

### Global Ranking Best Practices

- Know what works and what doesn't about the current design
- Clear, informed creative brief
- Know the competitive landscape
- Hire excellent creative talent
- Make decisions based on quantitative market feedback
- Broad creative exploration
- Have an in-house package design expert

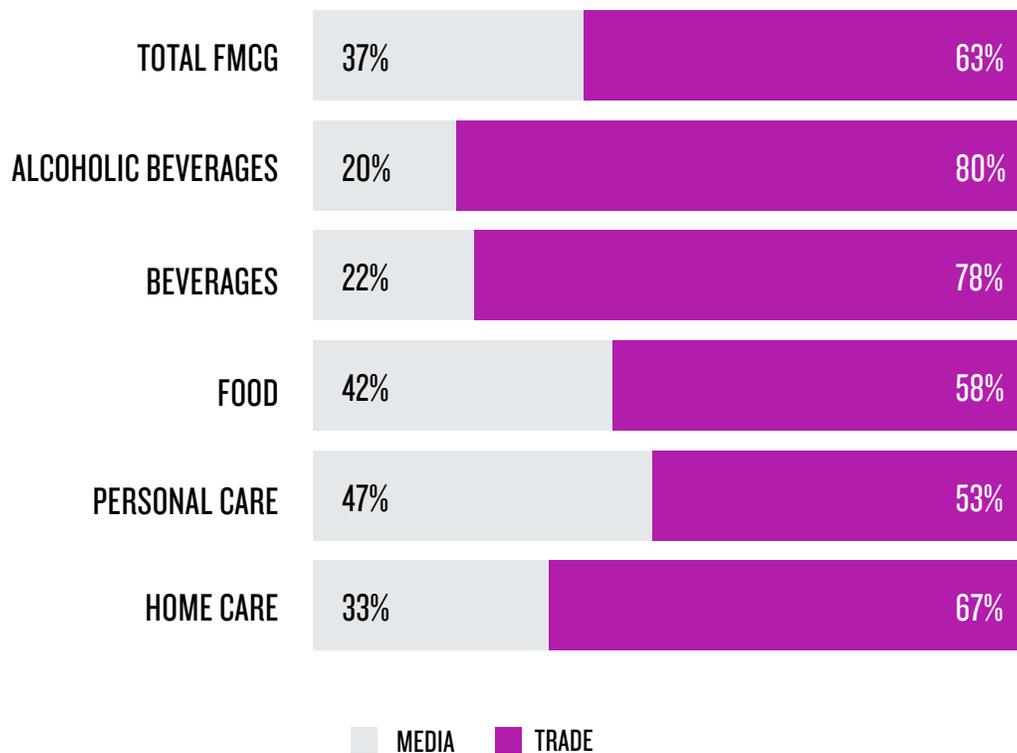


# 1/3 OF INNOVATIONS DON'T RECEIVE ENOUGH MARKETING SUPPORT, AND THEREFORE DON'T REACH THEIR SALES TARGETS

Traditional mindsets could be tempted to estimate an average investment to launch. Doing this, however, ignores the fact that each new product needs a unique marketing mix, specific multichannel strategy and the right balance between in-store and media investment. For example, the beverage industry benefits from a strong in-store experience.

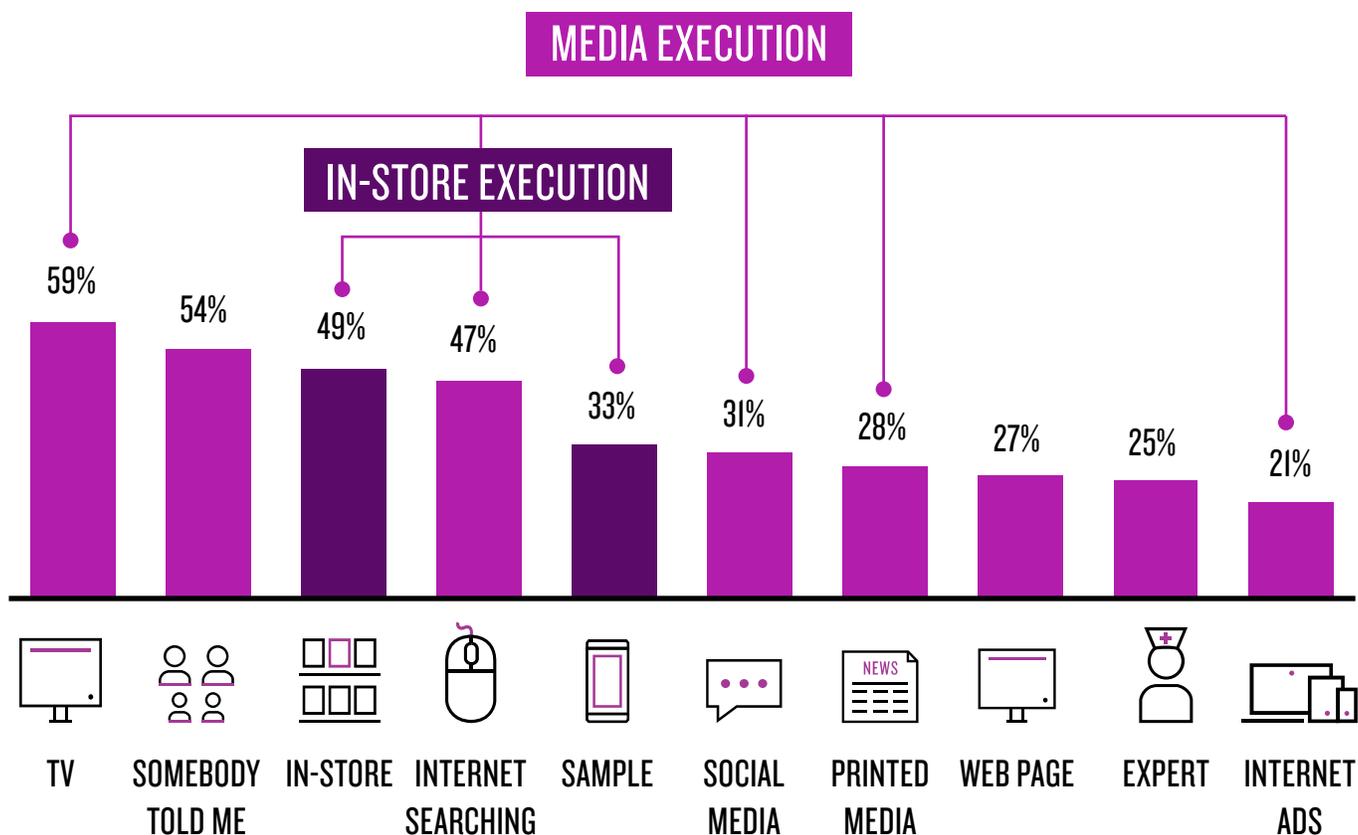
## MEDIA AND TRADE IMPACT IN VOLUME SALES

Nielsen Marketing Mix, Mix of Incremental Volume, Latin America



The right media investment can also be deceptive. Digital spread is moving the advertising investment quickly from Traditional to Digital Ads – today 22% of total advertising expenditure in Latin America is dedicated to Digital Ads and the forecast for 2020 is close to 30% - and also presenting seductive levels of return of investment (Media ROI Index 140% - Nielsen Marketing Mix Metrics & Benchmarks). However, Television is still the “Media King”, the trial of new products in Latin America still depends in T.V. advertising followed by in-store availability and exhibitions.

## KEY DRIVERS OF NEW PRODUCT DISCOVERY

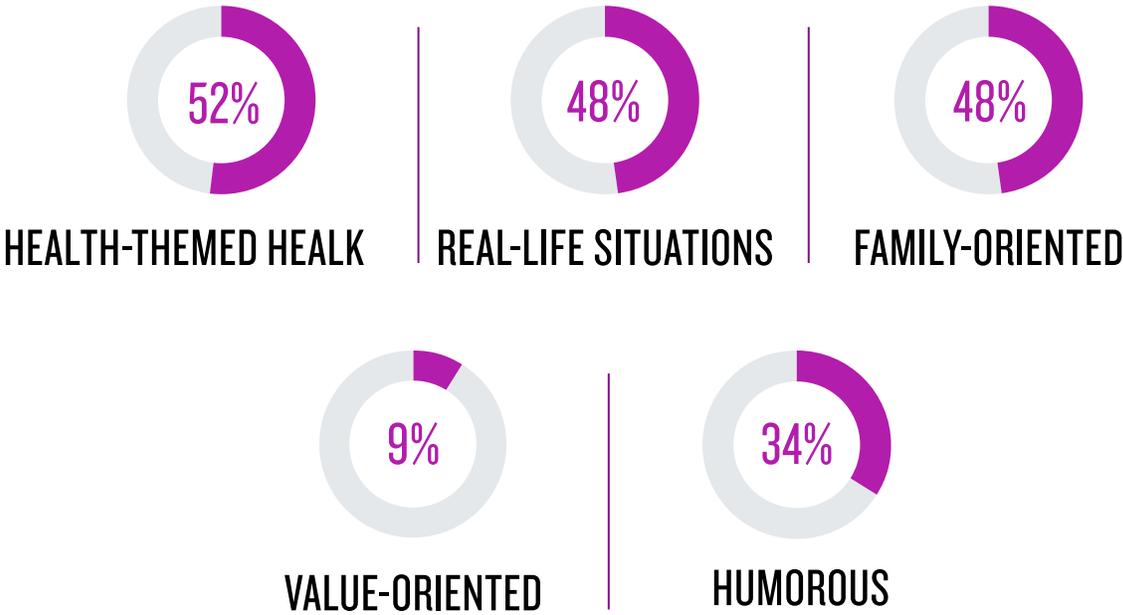


Additionally, brands should start their media advertising and distribution efforts at the same time. That’s because there’s little benefit in drumming up consumer interest in a product that’s not available for purchase yet. The same could be said for shipping a product to market without letting consumers know it is available or the benefits it delivers. In both scenarios, companies lose investment and opportunity.

## MEDIA SUPPORT SHOULD START AT THE SAME TIME AS DISTRIBUTION

Advertising should be customized for local consumers. Nielsen consumer neuroscience research shows that employing familiar themes is extremely useful in driving memorability. Globally, ads depicting real-life situations resonate most powerfully (44%). In Latin America, consumers value health-themed (52%), family and relatable situations (48%).

### TOP ADVERTISING THEMES FOR CONSUMERS



Source: Nielsen Global Trust in Advertising Survey, Q1 2015.

On the other hand, innovators need to understand what “store availability” really means. According to Nielsen research, successful new products launched in the region were quickly distributed and were replenished steadily over a two-year period. When products are not replenished quickly, brands can lose up to 30% of potential sales.

# GUIDELINES FOR DISCOVERING, DEVELOPING AND DEPLOYING PRODUCTS

- 1 Identify a real struggle

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- 2 Create an offer congruent with the problem

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- 3 Evaluate early its success probability

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- 4 Develop a bundle that lives up to the promise  
(Right product, package and price)

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- 5 Forecast your sales and plan accordingly

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- 6 Align the execution with the proposition

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- 7 Provide long term support

# HOW NIELSEN CAN HELP?



## DISCOVER

### A compelling proposition

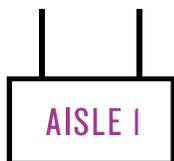
- Target the best growth ideas
- Explore and build propositions
- Measure and improve propositions



## DEVELOP

### A winning bundle

- Develop the product
- Develop or redesign the pack
- Develop communications



## DEPLOY

### With excellent in-market activation

- Execute a launch plan
- Optimize the portfolio and price
- Track and optimize the launch

## SOURCING

- Nielsen Consumer Packaging Trends Survey (United States: 2016).
- Nielsen Design Impact Award, The Design Awards (2017).
- Nielsen Global Consumer Confidence Index Survey (Q2, 2016) (Q2, 2017).
- Nielsen Global Database: Factors for Success and Factor Validation Study (2016).
- Nielsen Global Trust in Advertising Survey (Q1, 2015).
- Nielsen Innovation 3D Framework (2016).
- Nielsen Innovation Global Survey (Q2, 2015).
- Nielsen Innovation Test Learnings (2016).
- Nielsen Marketing Mix, Mix of Incremental Volume (Latin America:2016).
- Nielsen Packaging Sells (2015).
- Nielsen Retail Index, New SKUs per year (Mexico, Brazil, Colombia, Chile and Argentina: 2016).
- Nielsen Store Execution, Real forecasted case (Mexico: 2016).

## ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what's happening now, what's happening next, and how to best act on this knowledge. For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit [www.nielsen.com](http://www.nielsen.com).



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