Distinctive Innovations in the UK

An analysis for the year 2019

Connecting Globally,
Inspiring Activation

AGENDA

- Intro & Purpose of the Study
- Distinctive Innovations – Methodology
- Examples & Snapshot of the Market
- Performance of Distinctive Innovations
- Key Learnings and Recommendations

What is BG20?

It aims to understand FMCG brand growth cross-country and cross-category and how marketers can influence it

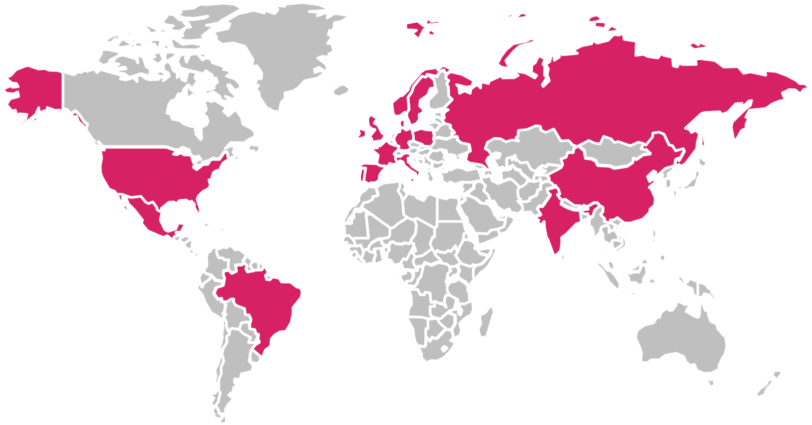
The biggest FMCG purchase panel database worldwide

36 countries in Europe, Americas and Asia

86 categories of Foods, Beverages, Household, Personal Care and Pet food

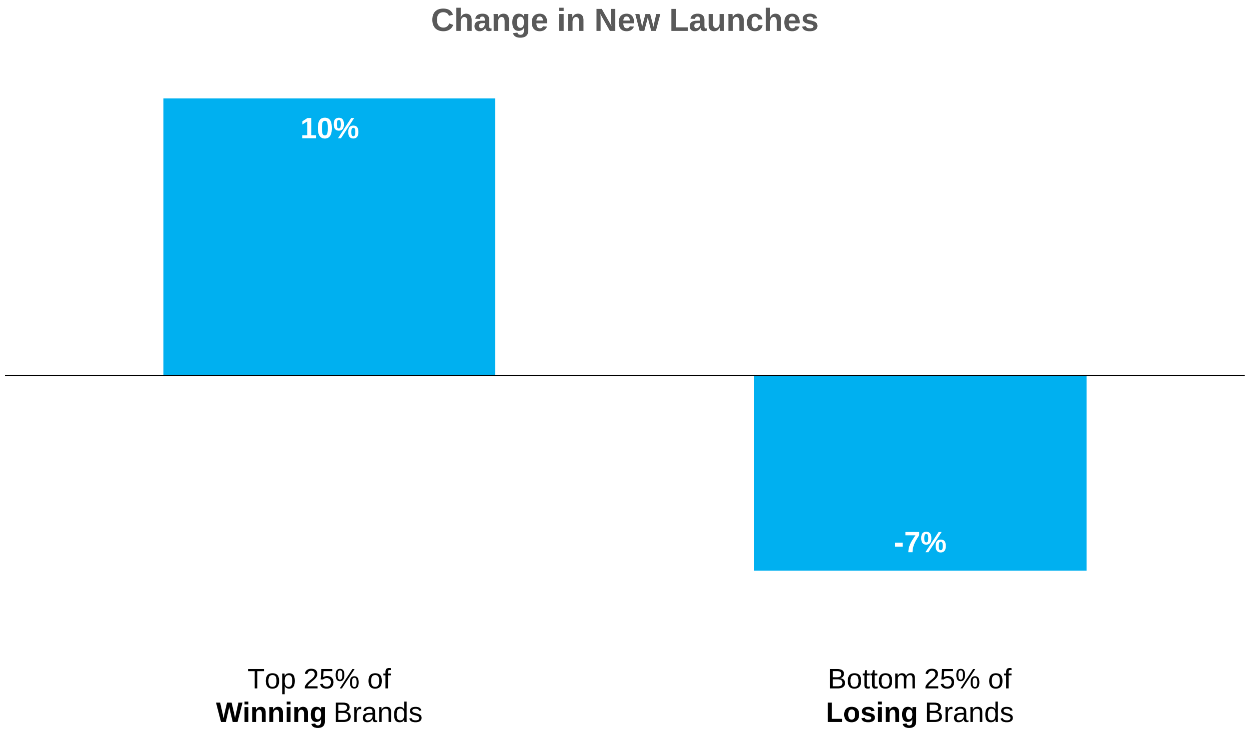
> 25,000 brands

Up to 20 years of back-data



The importance of innovation is well known

On average roughly 1/4th of all SKUs are new launches (although most are renovations) – and new launches represent $1 in $7 spent on brands



Source: BG20 for 11,600 brands in 89 categories and 33 countries | 2020 - 2015

Purpose of this study

This study aims to identify and track the success of distinctive innovations in the UK

Performance

How does the **performance** of Distinctive Innovations, stack up against the performance of everyday launches (i.e. “average” launch)?

PL or Branded

Are distinctive innovations more likely to come from **Brands** or **Private Labels?**

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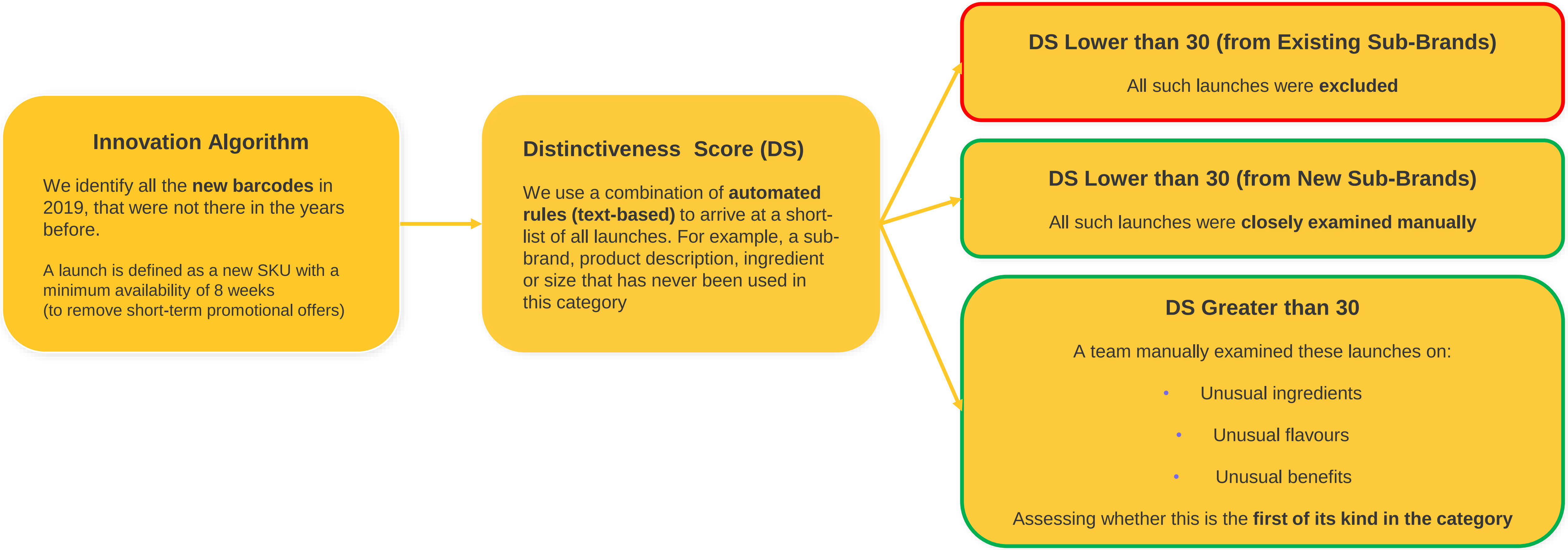
A combination of an automated and manual process was adopted to identify Distinctive new SKUs



Innovation Algorithm

We identify all the **new barcodes** in 2019, that were not there in the years before.

A launch is defined as a new SKU with a minimum availability of 8 weeks
(to remove short-term promotional offers)

Distinctiveness Score (DS)

We use a combination of **automated rules (text-based)** to arrive at a short-list of all launches. For example, a sub-brand, product description, ingredient or size that has never been used in this category

DS Lower than 30 (from Existing Sub-Brands)

All such launches were **excluded**

DS Lower than 30 (from New Sub-Brands)

All such launches were **closely examined manually**

DS Greater than 30

A team manually examined these launches on:

- Unusual ingredients
- Unusual flavours
- Unusual benefits

Assessing whether this is the **first of its kind in the category**

Examples of products with high Distinctiveness Score

Distinctiveness Score (DS)

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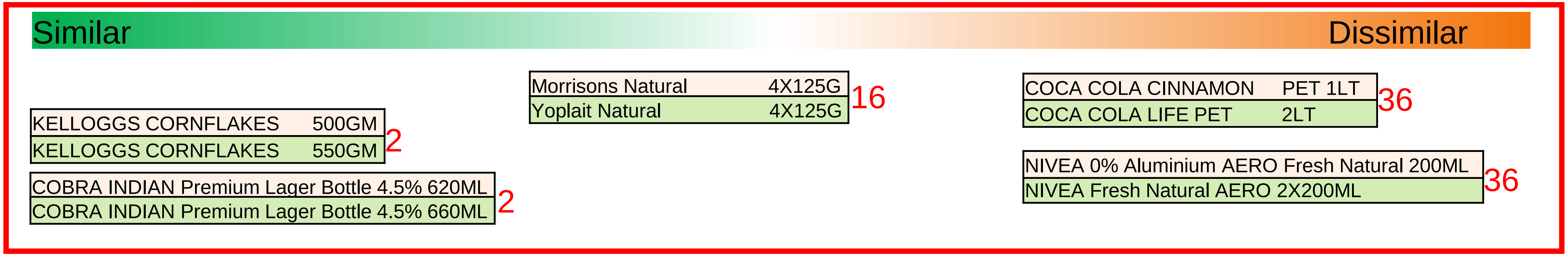
An innovation that a supplier considers to be "really new " is likely to **signal** its **newness via a name that is unique** – whereas a launch that simply boasts a new flavour may want to be closely linked to the existing range of the brand.



Filtering process and illustration of logic applied – examples of rules we followed

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All such launches were **closely examined manually**

DS Greater than 30

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Assessing whether this is the **first of its kind in the category**

Combination of Flavours/Scents	A new flavour or scent combination (e.g. elderberry and apple) is not sufficient if either flavour has been around before
Heaps of Flavours	In categories where introducing new flavours is the norm and happens in heaps (crisps, yoghurt, juice), new flavours were not sufficient
Atypical Flavours/Scents	A new flavour or scent which is atypical for the category is considered a “distinctive” innovation (e.g. toffee beer, cola cinnamon)
New Ingredients	A new ingredient is sufficient if new to the category (Electrolytes in Water, Proteins in chocolate spread)
New Functionality	A change in the benefits derived from using the product will suffice for it to be classified as a distinctive innovation (e.g. more flexible femcare material)
New Process	A new process of how a product is used is enough to classify a product as a distinctive innovation, as long as it hasn’t been around before (e.g. faster time to cook)

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Examples – Distinctive Vs Non-Distinctive Innovations

Non-Distinctive Innovations

Nespresso *Kazaar*

Stormtrooper Galactic Pale Ale (500ml)

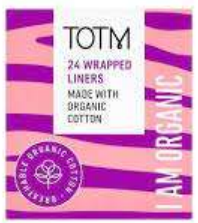
Rich & Malty Ale

Walkers Pigs In Blankets Flavour

Distinctive Innovations

Kettle Hand Cooked Potato Chips **Feta & Olive Tapenade Gluten Free** (150g)

Black Sheep **Pineapple Milkshake** IPA (330ml)



Totm Made With **Organic Cotton**

More examples of Distinctive Innovations

Distinctive Innovations

Healthyco **Proteinella** Smooth Hazelnut & Cocoa Spread (400g)

Kelloggs **Coco Pops White Chocolate 30% Less Sugar** (480g)

Birds Eye Chunky Croquettes 6 **Cod & Chorizo** In Cracked Black Pepper (288g)

ALDI **Argan Oil** Toilet Paper

Walkers **Hint Of Salt** Olive Oil & Herb Flavour (6X25g)

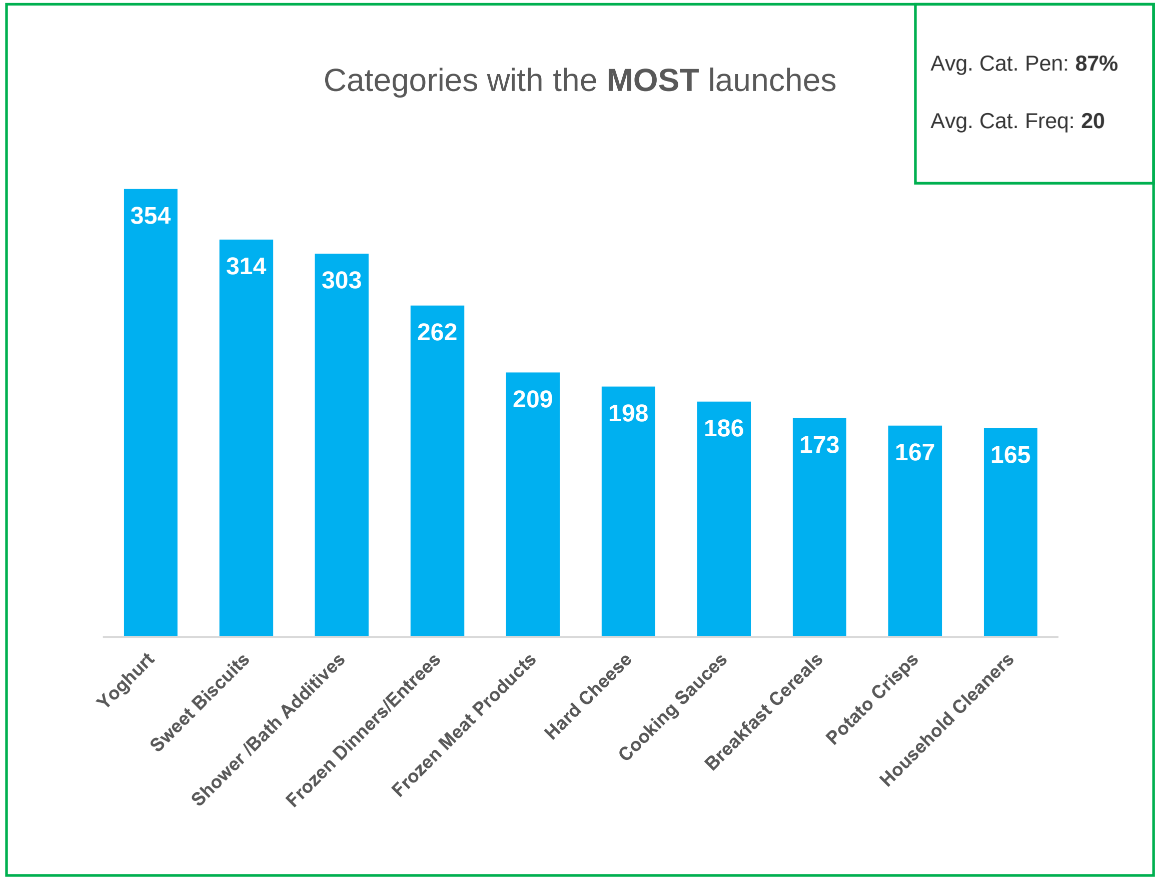
Actiph **Alkaline Ionised** Water (600Ml)

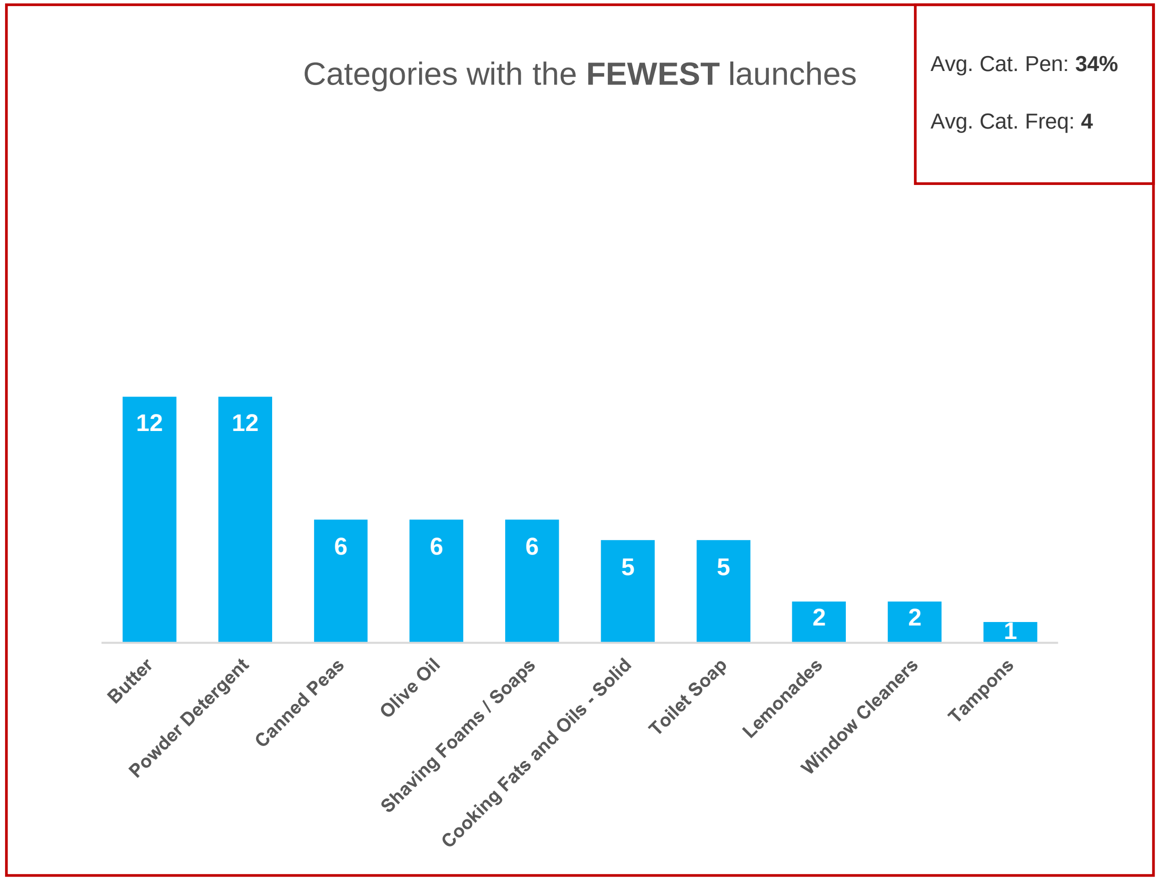
Fallen Brewery Chew Chew **Salted Caramel Milk** Stout (330ml)

Oceans Halo Organic **Gluten Free Ramen Broth** (946ml)

There were 6,244 new launches in 2019 – 30% less than in 2018

There is a higher innovation activity in categories with both a wider reach, and a higher purchase frequency

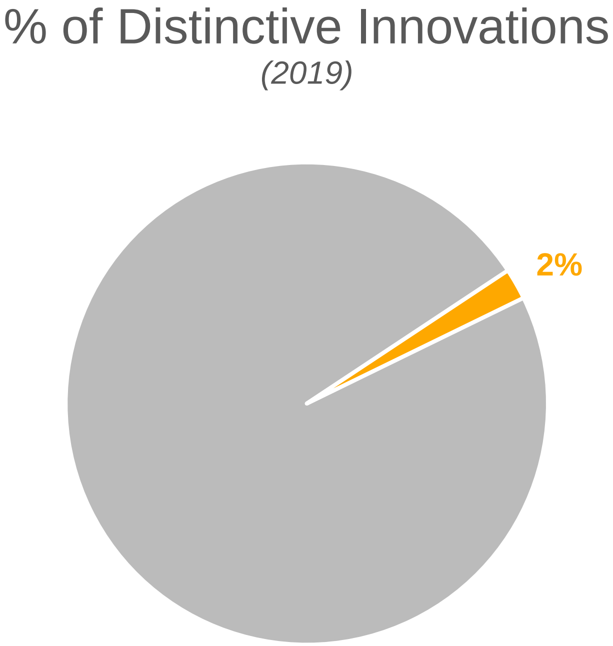


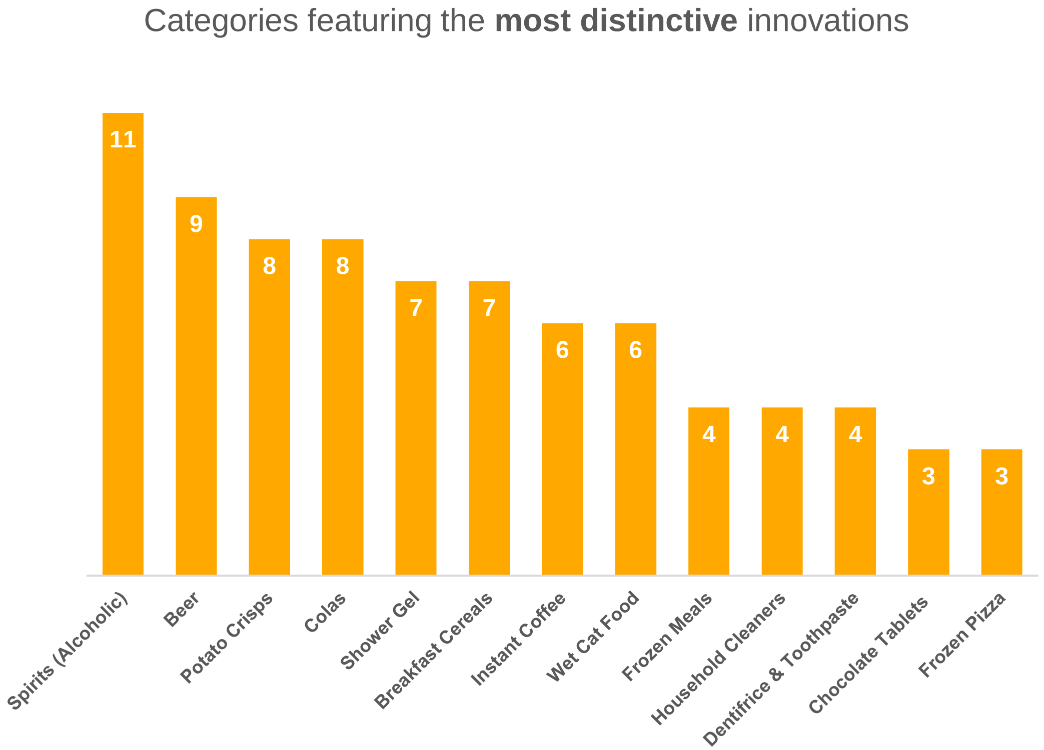


Source: BG20 dataset covering 89 major FMCG categories

Out of 6,244 new launches only 130 of them are classified as Distinctive Innovations

When it comes to categories with the most distinctive innovations, there is an equal mix of high and low penetration/frequency categories



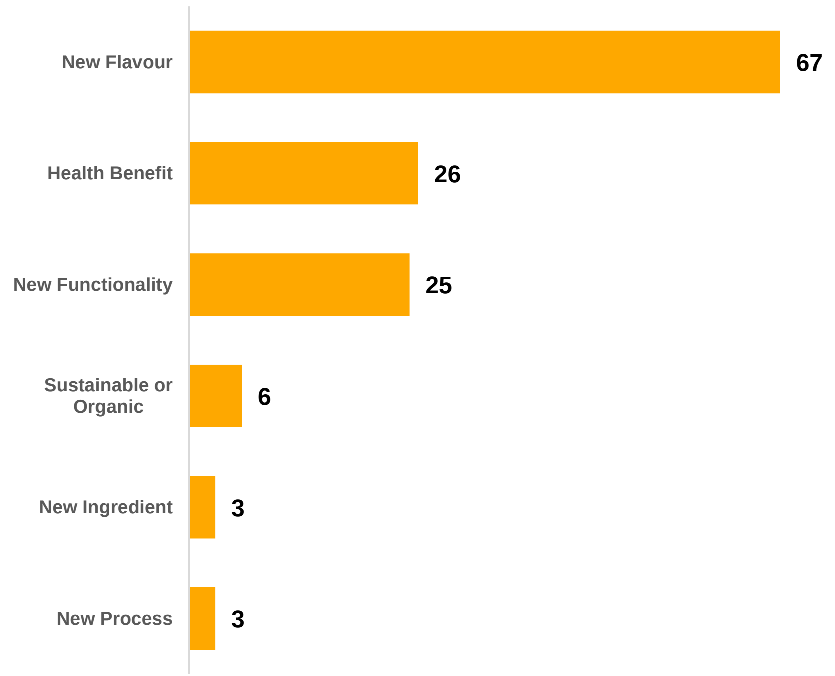


Spirits (Alcoholic)	11
Beer	9
Potato Crisps	8
Colas	8
Shower Gel	7
Breakfast Cereals	7
Instant Coffee	6
Wet Cat Food	6
Frozen Meals	4
Household Cleaners	4
Dentifrice & Toothpaste	4
Chocolate Tablets	3
Frozen Pizza	3

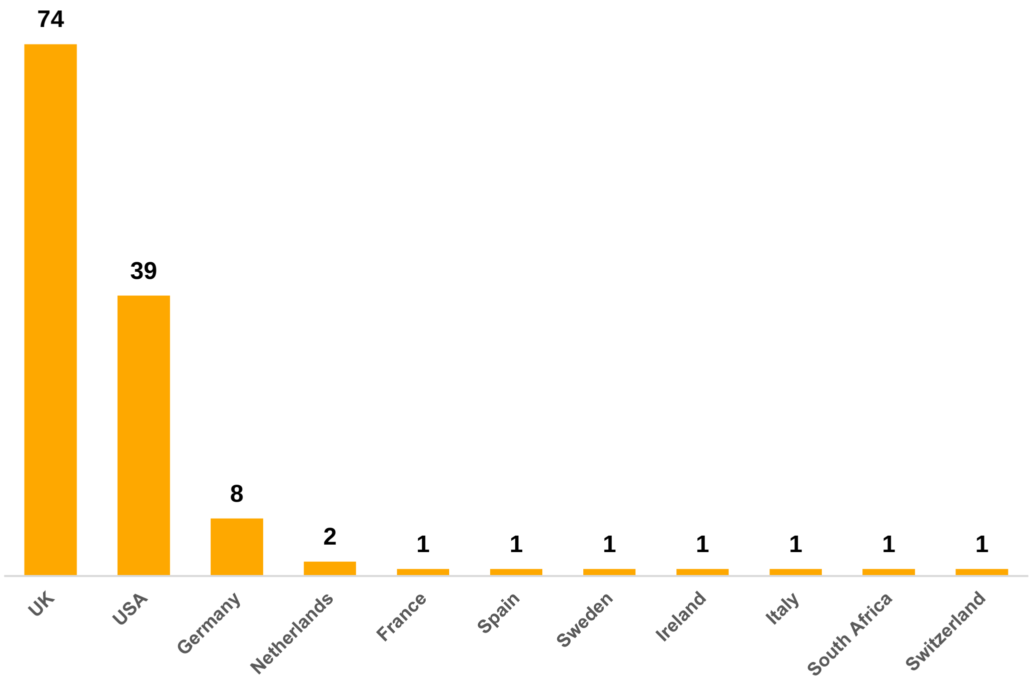
Source: BG20 dataset covering 89 major FMCG categories

The majority of Distinctive Innovations are flavour related, with health benefits and new functionality also being prominent – Usually come from UK-based manufacturers

Type of Distinctive Innovations



Brand Owners of Distinctive Innovations



Source: BG20 dataset covering 89 major FMCG categories

There are 72 manufacturers in total (including retailers), that launched the 130 Distinctive Innovations

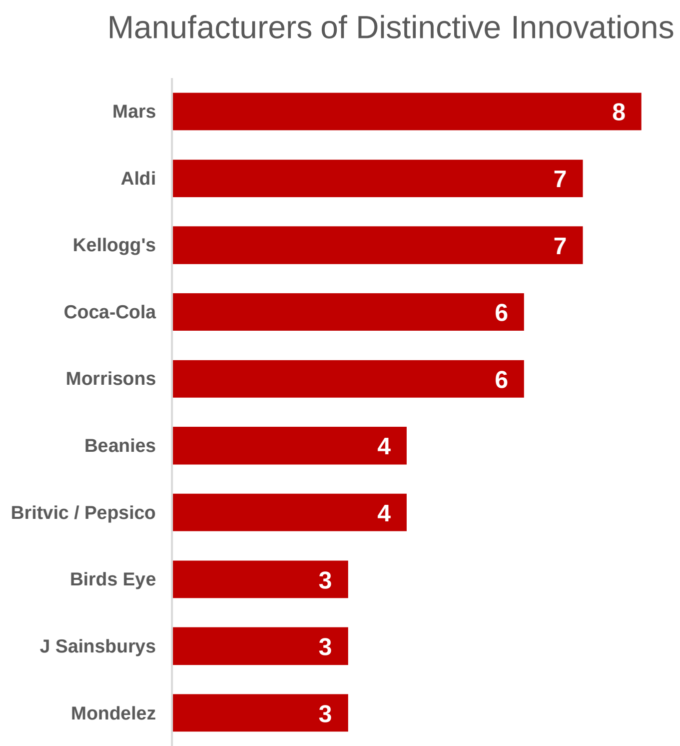
Brands Vs PL

Only **16% of Distinctive Innovations** come from **Private Label brands** – which is **considerably different** when we look at all launches, where **42%** of them come from Private Labels

Retailer Activity

Across all launches **retailers launch the highest number of SKUs:**
Aldi (#1), Asda (#2), Tesco (#3), Lidl (#4), Sainsbury (#5), Morrisons (#6) and Iceland (#7)

But only Aldi features in the top 10 manufacturers with the most **distinctive Innovations**


Manufacturers of Distinctive Innovations

Source: BG20 dataset covering 89 major FMCG categories

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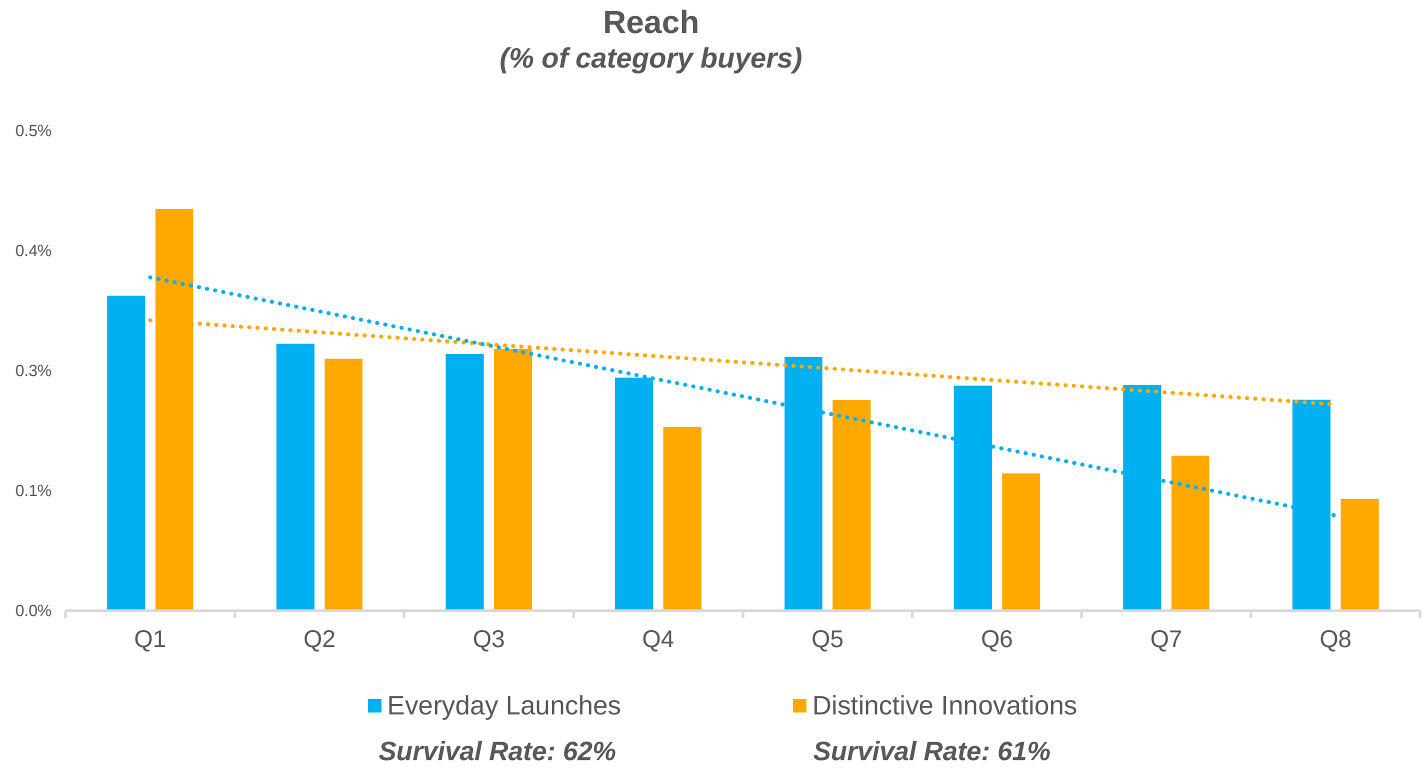
Distinctive Innovations start strong, but lose appeal rather quickly

The size of the parent brand plays an important role to the success of the innovation



Large Brands Lens

- Launches by **large brands** always do better than launches by small brands, irrespective if we are looking at distinctive or everyday innovations
- The performance difference between large and small brands' launches is **more pronounced for distinctive launches.**

  Distinctive launches from large brands have a **5x higher share** than Distinctive Innovations from small brands.

  Whereas everyday launches from large brands have a **3x higher share** compared to small brands' everyday launches.

  This could be the result of more support (communication, retailing) and/or "better" distinctive launches by bigger brands.

Source: BG20 dataset covering 89 major FMCG categories | Large Brands: +5% market share

Distinctive Innovations are listed in more retailers initially – support fades over time

Tesco and Sainsbury, followed by Aldi are more likely to list Distinctive Innovations – although it's important to note that discounters have much fewer listings of any type of branded innovation

Retailers more likely to list branded Distinctive Innovations

TESCO
Sainsbury's
Online TESCO
ALDI

Retailers less likely to list branded Distinctive Innovations

ASDA
LIDL
Morrisons
Iceland

Source: BG20 dataset covering 89 major FMCG categories

Distinctive Innovations tend to be sold at a higher price premium than everyday launches – and are also more likely to be launched by premium brands

- A **higher price premium** may explain the **drop** in performance over time of Distinctive Innovations – having a high price premium will be **difficult** for households **to sustain** a consistent buying behaviour

- When we look at Distinctive Innovations, **60% of them come from premium brands**.

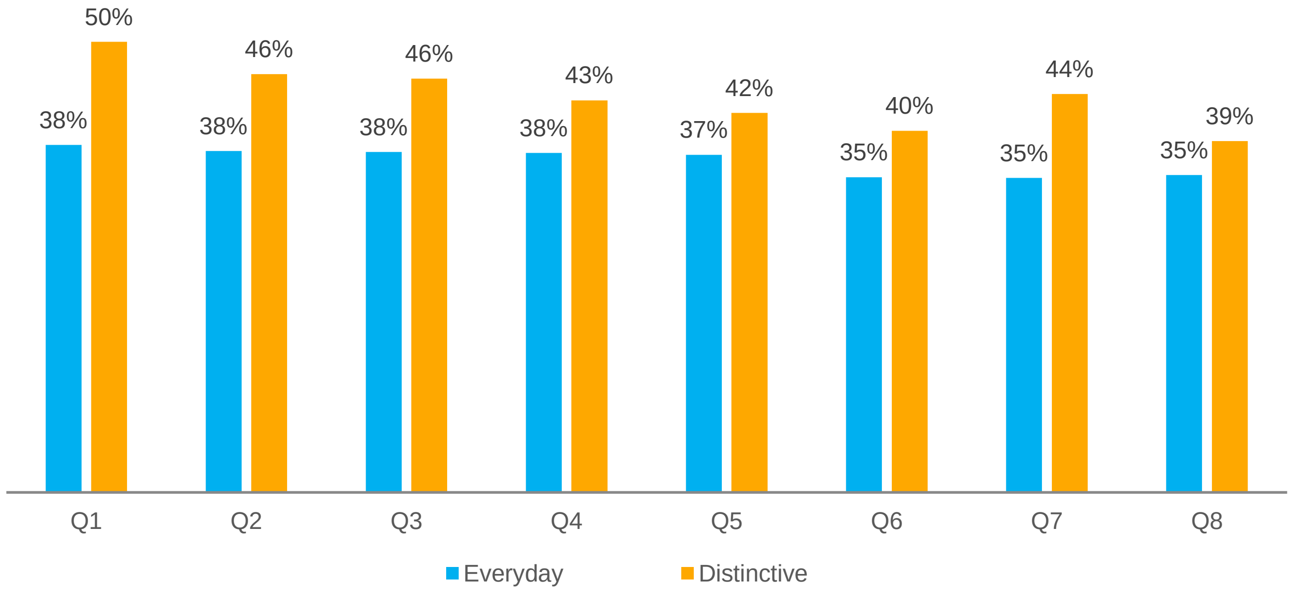
  Whereas when we look at everyday launches, **only 30%** of them come from premium brands

Source: BG20 dataset covering 89 major FMCG categories

Distinctive Innovations have a higher capacity to attract incremental brand buyers

New brand buyers are key for a brand’s growth

% of Buyers new for the brand



Why attracting new brand buyers is key

There is extensive evidence that a change in a brand’s market share is highly correlated with the number of people it reaches

In other words, **the higher the brand’s reach, the higher its market share** will become

A brand loses on average **50% of its buyers** from one year to the next.

So, before even thinking about growth, its **imperative to replenish its lost buyers**

50%
Churn Rate

Source: BG20 dataset covering 89 major FMCG categories | Large Brands: +5% market share

Brands tend to dominate the list of top Distinctive Innovations

The reason for that is likely because of the lower physical availability of PL Innovations – Innovations from brands can be listed in multiple stores of different retailers, whereas Innovations from Private Labels will only be listed on the stores of that particular retailer

Ranking of Distinctive Innovations
(by Value generated in Year 1)

#1	Branded
#2	Branded
#3	Branded
#4	Branded
#5	Branded
…	…
#12	Private Label

Ranking of Distinctive Innovations
(by reach of category buyers)

#1	Branded
#2	Branded
#3	Branded
#4	Branded
#5	Branded
…	…
#24	Private Label

Source: BG20 dataset covering 89 major FMCG categories | Large Brands: +5% market share

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Key Take-Outs – Are Distinctive Innovations worth it?

Their ability to attract new brand buyers is imperative – and under the right support from the parent brand they could outperform everyday launches

Performance

Distinctive Innovations **start strong**, but their performance fades away. That is likely due to **reduced support** from the parent brand i.e. retailer listings, and possibly due to the high premium.

Incrementality

Distinctive Innovations have a **higher capacity to attract buyers that have not bought the brand before** – this is imperative for the overall importance of a brand as brands grow by increasing their buyer base according to the laws of brand growth.

Brands Vs PL

Distinctive Innovations **primarily come from brands** rather than private label (84% of them come from brands) – and as a result the **most successful** Distinctive Innovations come from **brands**.

Distinctive Innovations – Other things to consider

Although not tested in this study, there are additional factors manufacturers should consider

Brand Reputation

Distinctive innovations help to **enhance a brand's reputation** as a dynamic leader of the category. It is unlikely that lesser innovations could create a comparable buzz. Such activities are also likely to **benefit the core brands** and the whole category.

Retailer Relationships

Retailers call for distinctive innovations. Distinctive innovations **provide a story to tell** and an opportunity to interact – and therefore are one means to **develop key account relationships.**

Expanding Horizons

Distinctive Innovations by definition are launches that are considerably different to the average product in the category. It is these kind of launches that **push a category's limits**, and sometimes end up **creating a new category** (look at Fevertree in tonic water, detergent capsules, vitamin water, anti-septic cleaning wet wipes, etc.).