

EFFICIENT PRODUCT INTRODUCTIONS

*The development
of value-creating
relationships*



ECR *Europe*
Efficient Consumer Response

ERNST & YOUNG
GLOBAL CLIENT CONSULTING

ACNielsen

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Indicative recommended selling price 70 Euros



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with the support of ACNielsen



Acknowledgements

The preparation of this research report has involved the contributions of many individuals over a period of more than one year. Gratitude is owed to the ECR Steering Committee, ECR Europe, particularly our sponsoring member Jean-Jacques Jarrosson, Global ECR Director, Groupe Danone, who offered his guidance and support through numerous related events and presentations.

The work involved could not have been completed without the ongoing interest of the Core Team, who, in addition to attending the regularly scheduled meetings of the Efficient Product Introductions Team, gave hours of time to special sub-team meetings and preparation of reports.

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In June 1998, under the sponsorship of Ernst & Young Consultants, ECR representatives were invited to attend an Accelerated Solution Environment workshop in Luton, England. This two-day session provided an extended team with the opportunity to pull together much of the thinking and analysis done to that point, and to set the compass toward the creation of this report. Special thanks go to the attendants mentioned in Appendix.

Of course the true value of the report is to be determined by the marketplace, so it is with this in mind that thanks are given to the following sponsoring companies of the pilot projects:

Colgate Palmolive Italy
Gruppo PAM Italy

Johnson & Johnson Sweden
ICA Sweden

The work has been jointly sponsored by Ernst & Young, ACNielsen-BASES, and of course, ECR Europe. Special thanks are due to Roberto Iorio, Partner, Ernst & Young Global Client Consulting for his ongoing support and confidence in the importance of this work as well as to Jean-Jacques Vandenheede, Vice-President, ACNielsen Belgium.

In addition to the people mentioned already, we thank the Ernst & Young co-leaders Phillip Cartwright and Francesco Percopo and the support team composed by Léone Aardse, Emanuela Corghi, Bettina Hoffmann, Alessio Molina, Raffaella Poggio, Stéphane Timpano and Samantha Van Rooij who deserve special notice. Emanuela, Samantha and Alessio spent the better part of 1998 travelling from site-to-site analysing volumes of data. Léone wrote much of the Part 2 of the document (WHY change is afoot); Bettina developed Part 3 (WHAT is current market performance in NPI) and Stéphane implemented the Efficient Product Introductions process following the Pilot Projects explained in Part 4 (HOW to develop value-creating relationships). Raffaella analysed available data extracting current state best practices and spent time to give consistency and homogeneity to the document, ushering the study into production.

Thanks are also owed to Joseph Willke from ACNielsen-BASES and to William Klumb, Ernst & Young LLP, whose expertise and knowledge of the US-based ECR project on New Product Introductions provided insights and guidance at various points during the course of the study.

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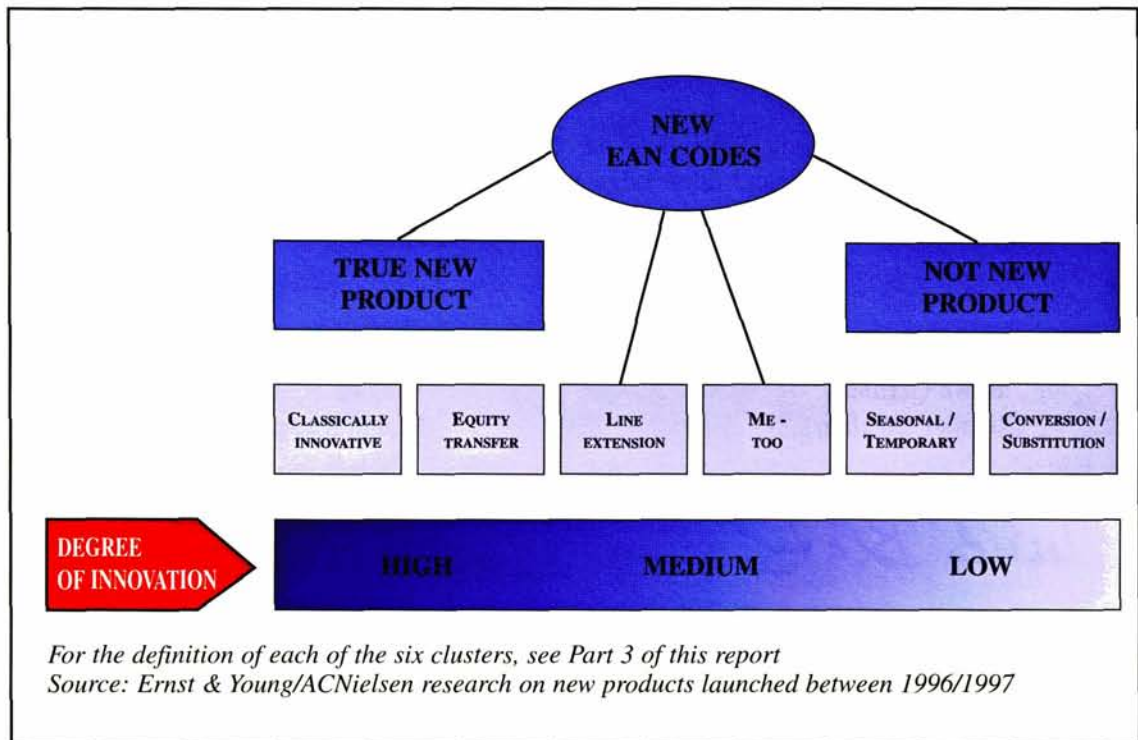
Executive Summary

According to our research, manufacturers spend as much as 8% to 16% of net revenues on innovation. Enormous numbers of new products are introduced to the market each year, yet within 12 months most have failed. The challenge, and a key aim of this study, lies in knowing how to translate good ideas into successful new products.

The report, therefore reviews current practices in new product introductions in the European consumer goods industry, and recommends a new process for Efficient Product Introductions (EPI). Our findings are based on a number of sources, including extensive data analysis made possible by the participation of ACNielsen-BASES, interview-based field work, and the involvement of an EPI Core Team representing major manufacturers and retailers across Europe. This is one of the most extensive projects of its kind to date.

Given the range of views as to when a product is new, we put considerable effort into developing a classification of new products, known as the Innovation Based Clustering or IBC model.

Innovation Based Clustering Model



WHY change is afoot

Of the thousands of new items introduced each year, the majority fail, despite the considerable resources invested in them. While some failures will always be inevitable, in our view there is an opportunity for manufacturers and retailers to work together to increase the success rate of new products and thus achieve sizeable savings. We provide a framework for calculating the unavoidable or "minimum" costs and the "additional" costs (e.g., advertising and promotion) of new product introductions.

The cost savings are worth pursuing in their own right, but the biggest benefit of improving new product introductions is the impact on long-term brand and category value. In other words, retailers, manufacturers and consumers all stand to gain.

Companies can and are increasingly willing to make improvements by working together at various stages of the product introduction process. We briefly evaluate six opportunities for such collaboration, ranging from "Planning product promotions jointly" (relatively easy to achieve) to "Developing products jointly" (much harder to achieve). Each of the six opportunities can be shown to bring revenue increases, cost savings and/or working capital reductions.

WHAT is current market performance in NPI

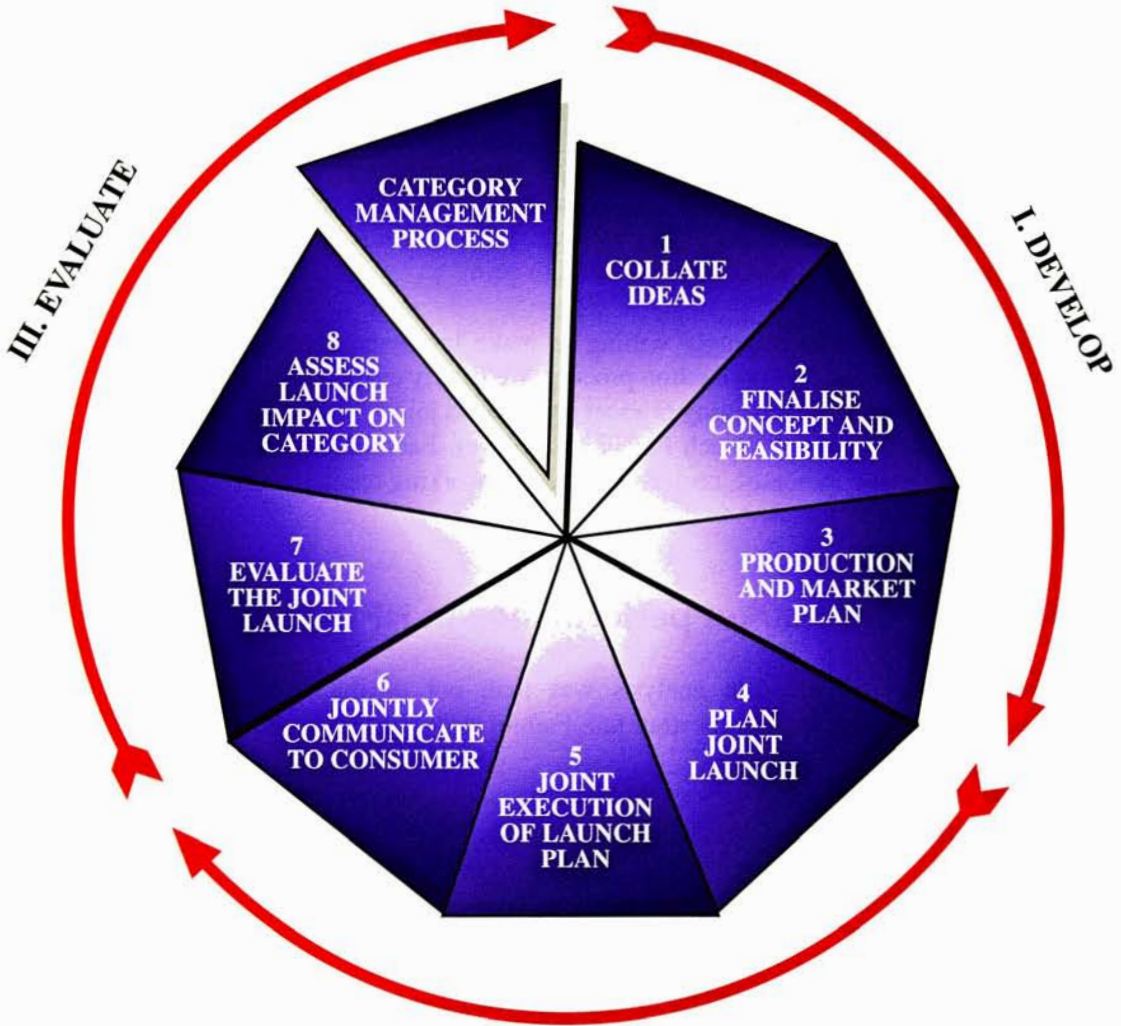
The central finding of the data analysis was that, out of the huge number of product introductions each year, a high proportion fail. Failure rates vary by product cluster:

- *True new products* are rare (2.2% of all new items), and 43% of these are "dead" or "almost dead" within one year.
- *Line extensions* represent 6.1% of all new items, and 51% of these are "dead" or "almost dead" within one year.
- *Me-toos* are the biggest cluster (77% of all new items) and have the highest mortality rate: for example, in France 78% are "dead" or "almost dead" within one year. The vast majority are introduced by retailers (private label) or by minor/niche players.

HOW to put EPI into practice and develop value-creating relationships

Finally, we present an improved eight-step process for Efficient Product Introductions – EPI. This process is represented in a diagram called the EPI Wheel and we provide a detailed and practical explanation of all the steps and measurement tools involved. There are close links to the category management process throughout.

Efficient Product Introductions – the EPI wheel



Courtesy of Ernst & Young

II. LAUNCH

The EPI process is not a "one size fits all" tool. Companies can choose to apply it either selectively or comprehensively. A comprehensive approach has the greatest potential to create brand and category value as well as cost savings, but it involves close collaboration between the trade partners which may or may not be realistic. A selective approach typically involves co-operation in step 4 (Plan joint launch) and this alone can bring both retailers and manufacturers considerable benefits.

We have tested the EPI Wheel in two pilot projects with European manufacturers and retailers in Italy and Sweden. These projects demonstrate that the EPI process requires some investments in terms of people and time – especially when it is applied for the first time – and therefore requires full support from top management. But after the retailer and manufacturer teams involved have done it once, the lessons learned allow them to repeat the process more swiftly and efficiently in future cycles.

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Part 1: Introduction

Overview

- When is a product new?
- ECR Europe and project history
- How the report is organised

Part 1: Introduction

According to our research, manufacturers spend between 8% and 16% of net revenues on innovation (i.e., creating new product ideas as well as introducing them to the market). Enormous numbers of new products are introduced to the market each year yet, as we shall see, within 12 months most have failed. The challenge, and one of the aims of this study, lies in knowing how to translate good ideas into successful new products.

With this in mind, we set out to review current practices in new product introductions – NPI – in the European consumer goods industry, and then to recommend changes to the process and develop new tools where appropriate. We call the newly developed process Efficient Product Introductions or EPI.

Our findings are based on a number of sources (see Appendix), including extensive data collection and analysis made possible by the participation of ACNielsen-BASES, a series of interview-based field work, and the involvement of an EPI Core Team representing major manufacturers and retailers across Europe. To the best of our knowledge the several months that have gone into collecting and analysing the data represent one of the most extensive projects of this kind.

It is worth clarifying what this report is not about. It is not concerned with creativity as manifested for example in the Walkman, the establishment of FedEx or the invention of the Post-It. Many books have been written about the importance of creativity¹. Nor is it about "incremental innovation" whereby products or brands that have been on the market for a long time evolve bit-by-bit – such products are rarely identified as "new".

When is a product new?

New product introduction involves bringing an idea to practical use², or taking an invention to production and eventually to the market. Why is it, though, that a product which is said to be innovative from one organisation's perspective may be regarded as an imitation product or Me-too from another viewpoint?

One reason is that innovation is multi-dimensional – it can have an impact on a range of product attributes. But which attributes make a product innovative? That depends on your perspective. If you are a manufacturer, for example, you might see it like this:

- new features, changed features and new technology;
- new target users;
- new concept, new marketing mix, new answer to an existing need or to a latent need;
- cost efficiency and new organisation/management.

¹ See, for example, *Built to Last* by James C. Collins and Jerry I. Porras.

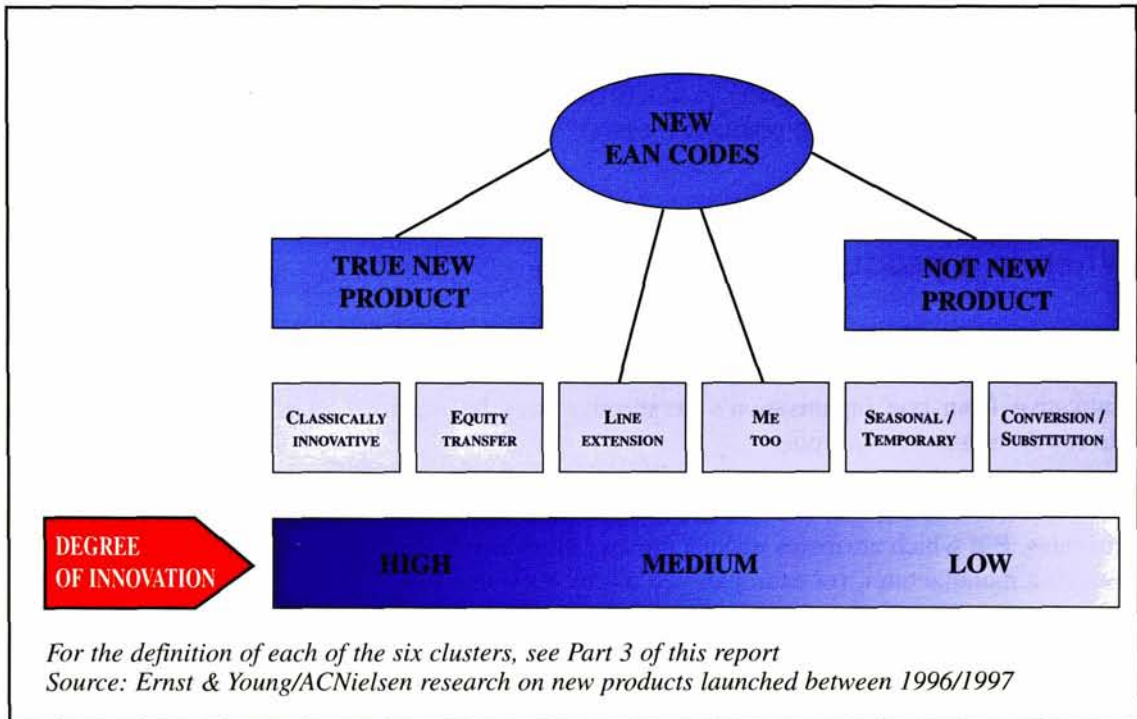
² *The Economics of Industrial Organisation* by William G. Shepherd, Second Edition (Englewood Cliffs : Prentice- Hall, 1985), page 142.

A retailer's list is more likely to include formats, loyalty cards, electronic commerce and category growth as possible attributes. A consumer would come up with yet another list.

Given the wide variation in views about product innovativeness, we put considerable effort into developing a robust classification of new product types, known as the Innovation Based Clustering or IBC model. An earlier variant of this model was introduced in 1997 in a US study (see below – ECR Europe and project history), but since then the model has been revised to make it more relevant to the European market and to reflect recent discussion around definitions.

The current version of the IBC model features six product clusters. Two – Classically innovative and Equity transfer – are regarded as true new products. Another two – Seasonal/Temporary and Conversion/Substitution – are viewed as not new products. There are often grey areas, especially in the zone between Line extensions and Me-toos. However, the team firmly believes that the model is sufficiently robust for the purposes of this analysis.

Figure 1.1
Innovation Based Clustering Model

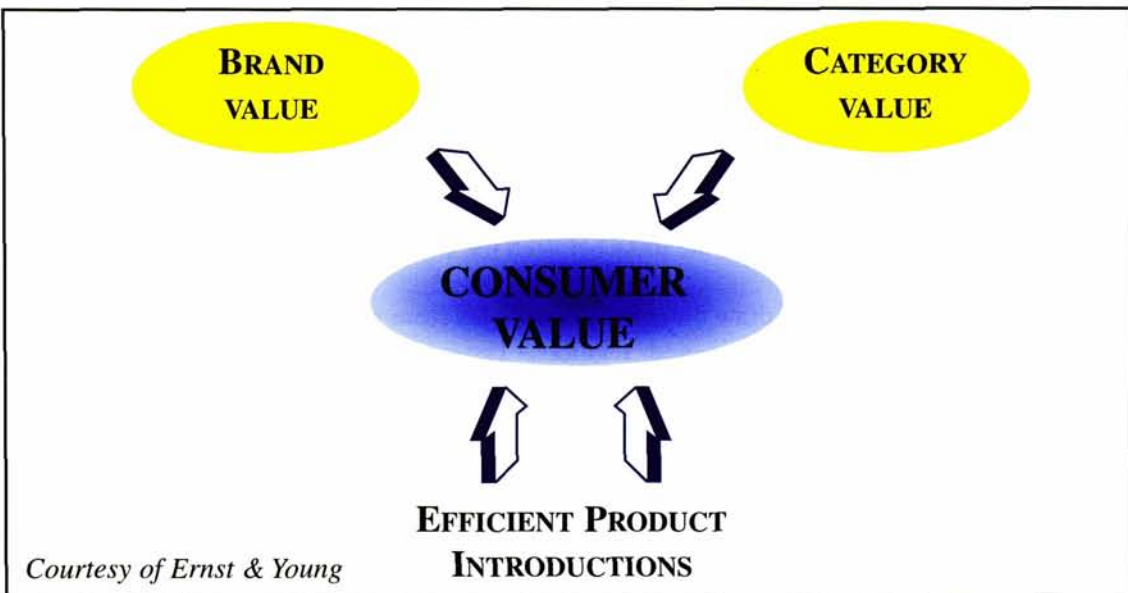


ECR Europe and project history

Going back to 1993, ECR identified Efficient Product Introductions as one of the four Efficient Consumer Response strategies. The other three pivotal consumer response strategies are: Efficient Store Assortment, Efficient Replenishment and Efficient Promotion. Consumer value has been recognised as the key measure of successful introduction. For the purpose of this report, we follow the ECR report, *CEO Overview Efficient Consumer Response*, which captures the concept of consumer value in the formula:

$$\text{CONSUMER VALUE} = \frac{(\text{Quality}) \times (\text{Trust}) \times (\text{Variety}) \times (\text{Service})}{(\text{Response Time}) \times (\text{Price})}$$

Figure 1.2
Consumer Value is the Key Measure of Success



Nearly two years ago, Ernst & Young was involved in a US-based project on new product introductions, involving several food industry thought leaders. The project report "*Efficient New Product Introduction, Myths Facts and Opportunities*"³ provided a milestone in the new product introduction debate.

In 1997, it was agreed that there was a need to take the focus of new product introductions to Europe. In December 1997, at a meeting between Ernst & Young, ECR Europe, industry and company representatives, consultants and academics, a project was proposed to develop a methodology for analysing efficient new product introductions in Europe.

³ *Efficient New Product Introduction, Myths Facts and Opportunities*, Ernst & Young LLP Grocery Manufacturers of America and Progressive Grocer, July 1997.

While this report has been in development, there have been numerous important meetings on the subject. Two deserve special mention. First, the group's work was presented at the 3rd official ECR Conference on 1-2 April 1998 in Hamburg. Second, in June 1998, under the sponsorship of Ernst & Young, ECR representatives were invited to attend an Accelerated Solution Environment workshop⁴ in Luton, England. This two-day session provided an extended team the opportunity to pull together much of the thinking and analysis done to that point, and to set the compass toward the creation of this report.

How the report is organised

After the introduction, in Part 2, we explain why change is afoot in new product introductions: while companies are losing money through failed product introductions, there are real opportunities and a real willingness to make new product introductions more effective and efficient through increased collaboration between retailer and manufacturer.

In Part 3, we describe current NPI practice in the European FMCG industry by summarising the findings of the pan-European study carried out by Ernst & Young and ACNielsen-BASES⁵.

Finally, in Part 4, we present an improved eight-step process for Efficient Product Introductions, represented by the EPI Wheel (see Figure 1.3). This provides a guide to the practical implementation of EPI, including an explanation of all steps and tools required.

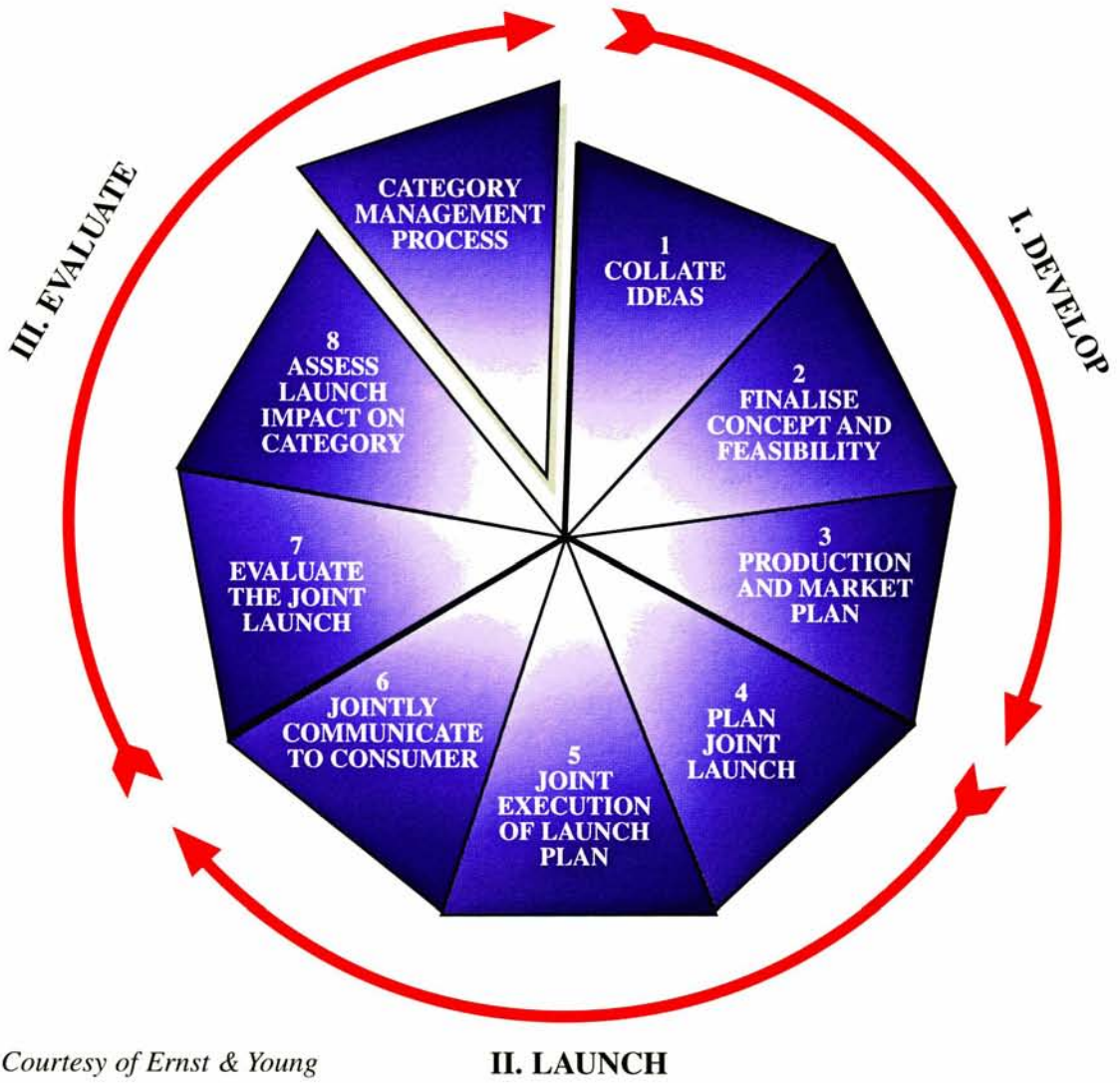
Since the launch of a new product may have a significant impact on a category (or even create a new category), we have designed the EPI process to go hand-in-hand with category management, and throughout Part 4 we point out the links between the two processes.

Finally, from time to time we draw on real-life examples from two joint pilot projects and two selective tests with manufacturers and retailers. These projects were set up to test the effectiveness and ease-of-use of the EPI Wheel. The participating companies are: Colgate Palmolive with Gruppo PAM in Italy and Johnson & Johnson with ICA in Sweden. In addition, we carried out selective tests with Unilever, Fazer and Tradeka in Finland, and Procter & Gamble in the UK.

⁴ See Appendix.

⁵ This research is documented fully in a separate report, New Product Introduction – Successful Innovation/Failure: A Fragile Boundary, published by Ernst & Young and ACNielsen-BASES, 1999.

Figure 1.3
Efficient Product Introductions – the EPI Wheel



Part 2: WHY change is afoot

Overview

- Money being lost on new product introductions
- The long-term value argument
- Opportunities to develop value-creating relationships

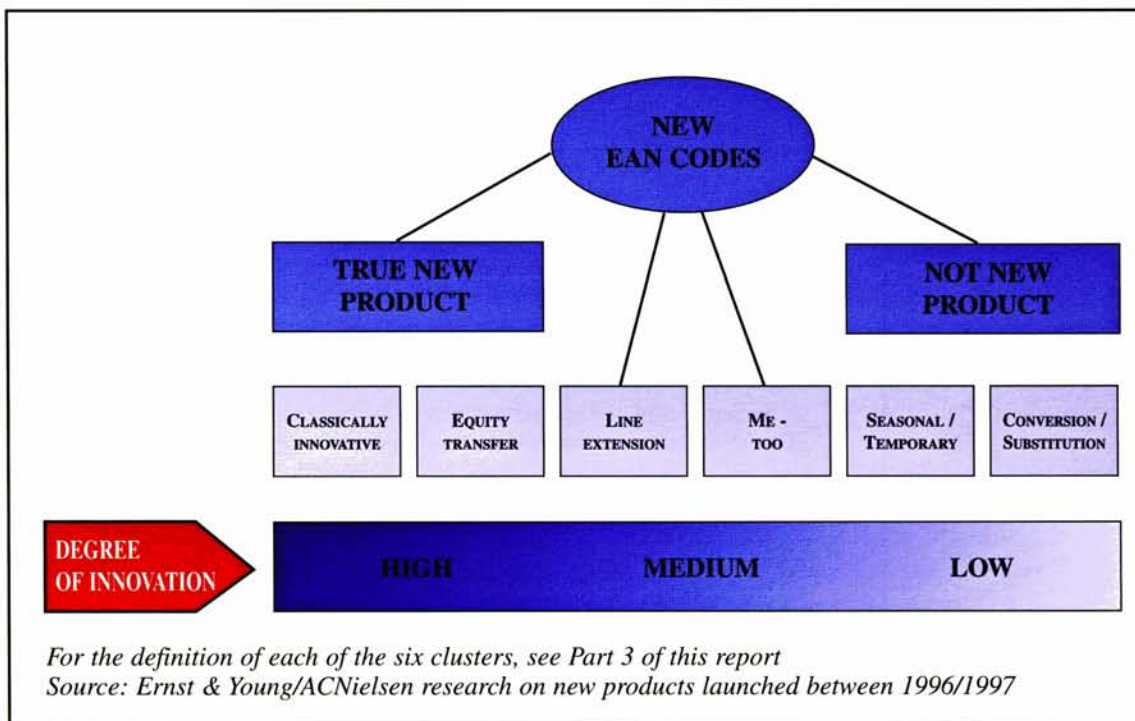
Part 2: WHY change is afoot

Thousands of new items are introduced each year as companies seek ways to gain competitive advantage and grow. The pressures of competition, increasingly demanding consumers and shortening product life cycles all combine to push up the volume of new introductions.

As we will see in Part 3 of this report, the research undertaken for ECR by Ernst & Young and ACNielsen indicates that a very high percentage of new product introductions fail.

If we look at the different clusters defined in the IBC model (Figure 2.1), failure is particularly common among the me-toos – the largest group of new products. But even among the more innovative product introductions, the failure rate is 47%.

Figure 2.1
Innovation Based Clustering Model



While some failures are inevitable as long as companies are innovating, in our view the proportion of new product introductions that fail could be reduced and this would bring considerable savings to both manufacturers and retailers.

Money being lost on new product introductions

The cost of these failures is high⁶. We distinguish two types:

- **"Minimum costs"**: this is money that must be spent on any product introduction. Regardless of the type of product or size of company, certain minimum activities will have to be performed. Most costs incurred by retailers result from these minimum activities, e.g., discussions with manufacturers about pricing and in-store activities.
- **"Additional costs"**: On top of these minimum activities, companies may choose to invest in additional activities. Many of the costs thus incurred involve money spent on communicating to the consumer, including advertising and promotion. For manufacturers such costs normally represent a major share of the total cost of new product introduction.

Figure 2.2
Activities linked to new product introductions - example

| Main Phases | Main Activities/Costs | Minimum activities | Additional activities |
|--------------------------------------|--|--|-----------------------|
| DEVELOP | Market potential analysis | ✓ | |
| | Develop prototype for testing Market concept test / Product positioning Refined market potential analysis / Financial assessment | ✓ ✓ ✓ | |
| | Marketing plan / Trade marketing plan / Merchandising plan Pilot production run and quality testing Financial assessment | ✓ ✓ ✓ | |
| | Discuss high level category plan elements | | ✓ |
| LAUNCH | Presentation of new product and internal validations Discuss and agree on new product introduction elements: - Pricing, Distribution, Advertising, ... - Determine joint promotional plan | ✓ ✓ | |
| | Implement coding within systems (EAN) In store handling activities Store visits | ✓ ✓ | ✓ |
| | Advertising & promotion development Actual advertising Actual promotion Actual sampling, etc. | | ✓ ✓ ✓ |
| EVALUATE | Assess new product launch (internal) Discuss evaluation | ✓ | ✓ |
| <i>Courtesy of Ernst & Young</i> | | <i>Total Costs split into Minimum and Additional</i> | |
| | | € | € |

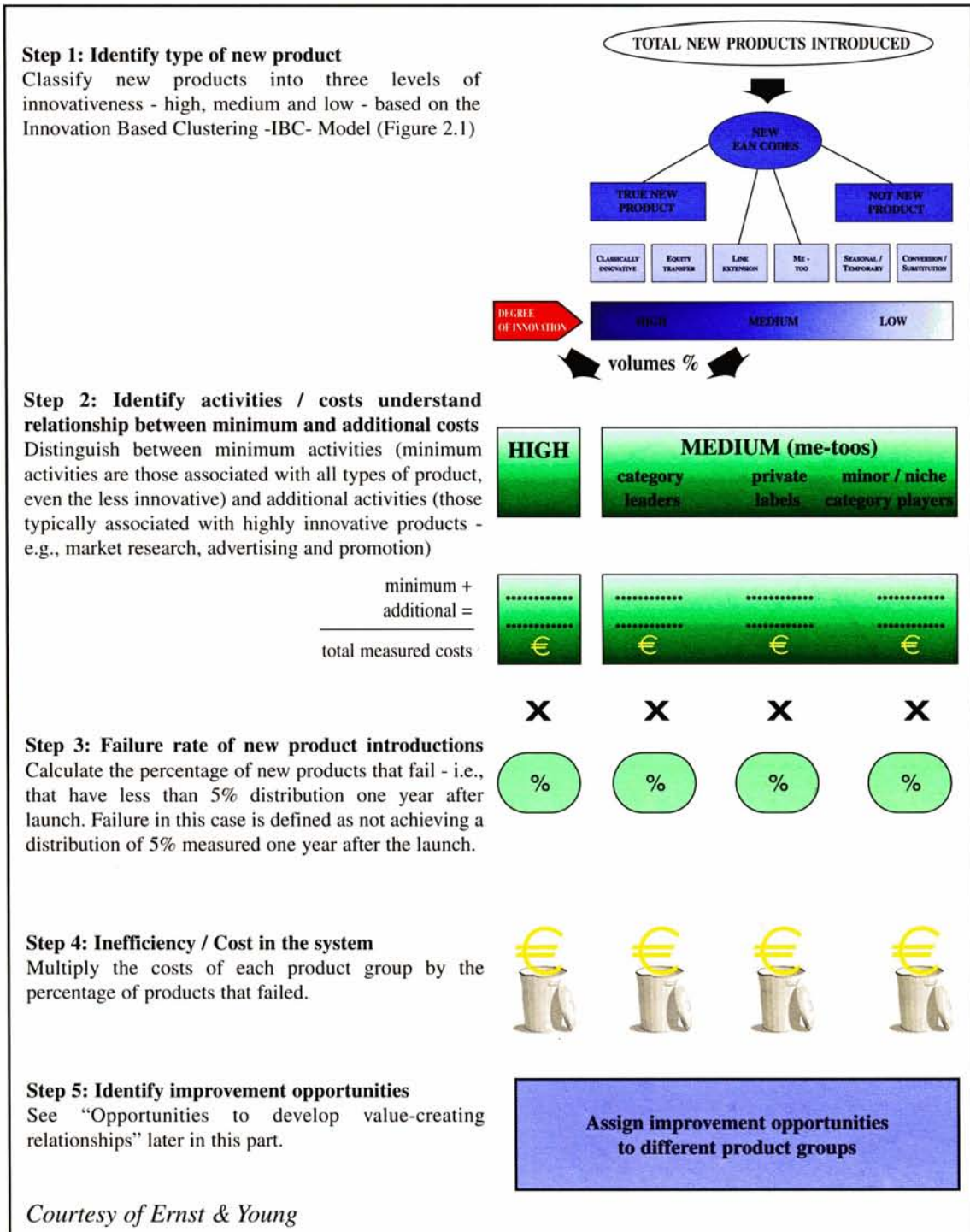
Note: R&D activities are excluded from this list. The supply chain is defined from the Manufacturer's end of the production line to the Retailer's check-out.

⁶ See Figure 2.3 "Measuring the costs of failure".

Some types of new products generate greater costs than others: for example, highly innovative products, which are often launched by market leaders, are generally supported by higher investments (in the form of market research, advertising and promotion) relative to most me-too launches.

Below is a step-by-step method for calculating the costs of new product failure.

Figure 2.3
Measuring the costs of failure

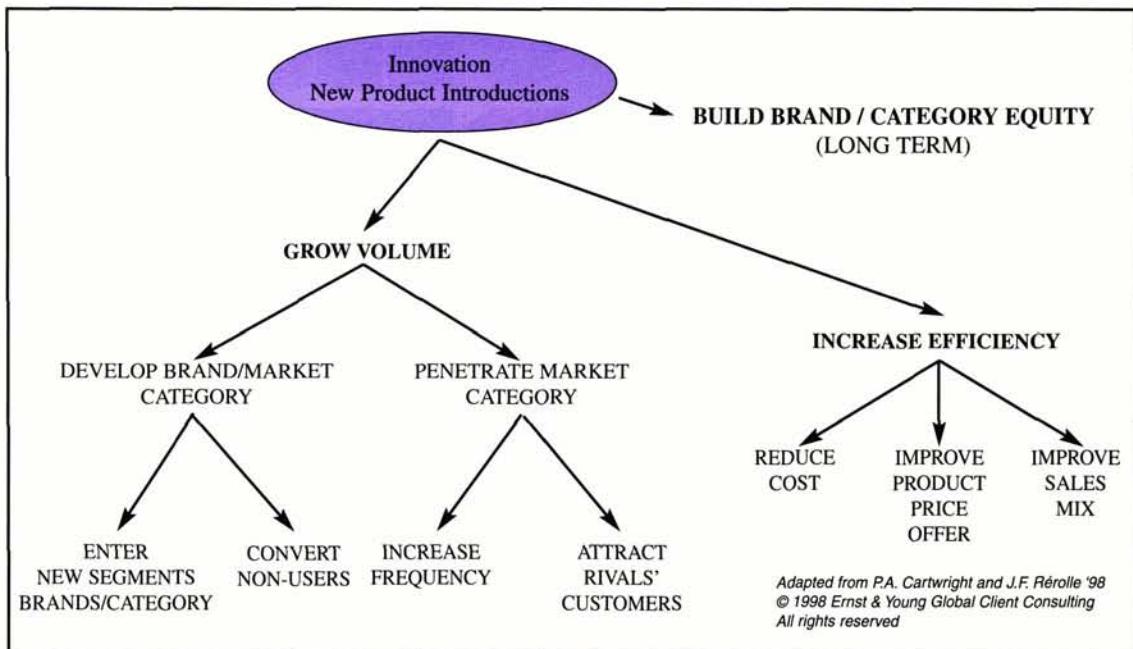


The long-term value argument

We have seen that there are considerable costs associated with failed new product introductions. Later in this report we suggest a step-by-step process for Efficient Product Introductions, which can be used to increase the chances of success, thus minimising costs of failure.

The positive attraction of new product introductions in the short term is of course that they can increase sales volume. But, while this is desirable, the ultimate goal is to build long-term brand and/or category value. By introducing innovative products efficiently, companies increase consumer satisfaction, which ultimately helps to build brand and category equity. These last goals are less tangible than volume, but they are vital factors in creating sustainable competitive advantage. This is what makes new product introductions central to any company's strategy for long-term survival and business growth.

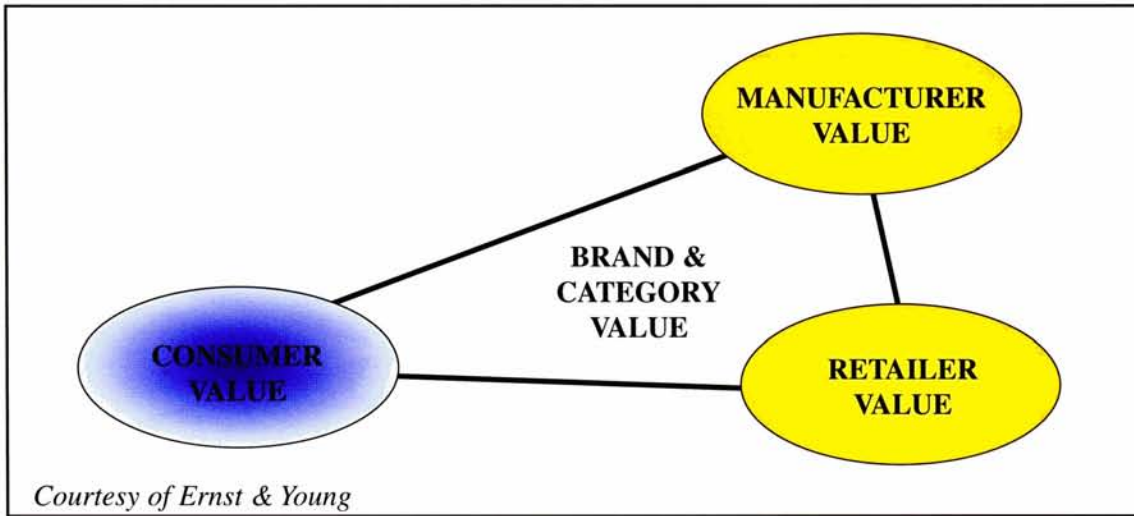
Figure 2.4
Brand/category value generation



The components of brand and category value

Long-term brand and category value is strongly inter-related with consumer value, retailer value and manufacturer value. This is one of the fundamental premises of ECR. Taking new product introductions as an example: it is crucial to reach the market in a fast and effective way in order to win the battle for the customer and offer consumer value. The Efficient Product Introduction process outlined in Part 4 of this report takes these long-term, intangible measures of value into account.

Figure 2.5
The value mindset of ECR



Finally, it is worth pointing out that brand and category value are two areas where manufacturers and retailers can achieve real impact. It is impossible for them to control the wider context (e.g., the increasingly competitive climate and the concentrated structure of the pan-European grocery industry), but these industry trends further underline the importance of successful and efficient new product introductions.

Opportunities to develop value-creating relationships

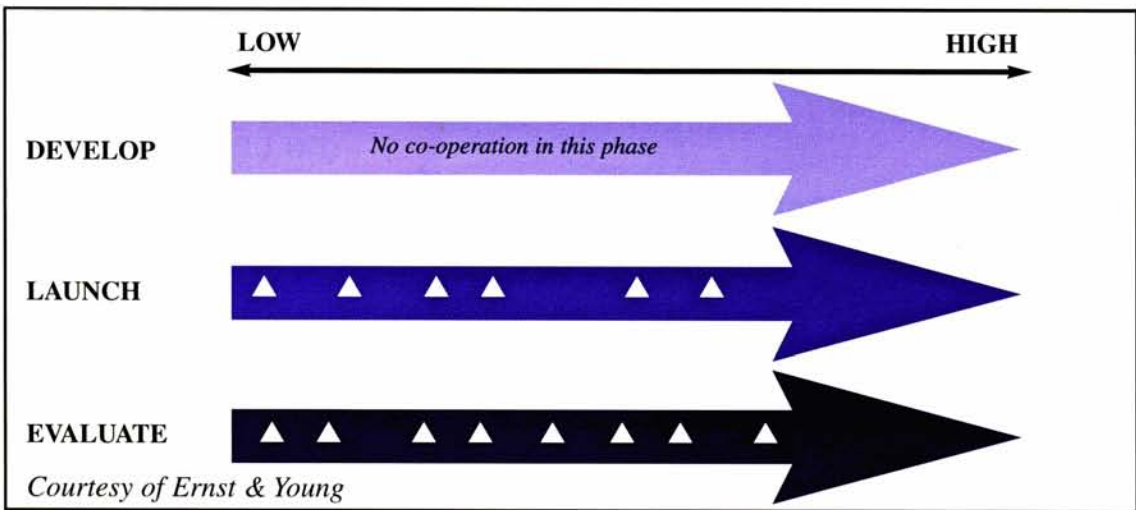
Given all the arguments in favour of efficient new product introductions, how can greater collaboration help deliver the benefits? Today, some manufacturers and retailers have already started to work more closely together to improve the process of new product introductions, but there is still some way to go. Understandably, manufacturers in general are very much focused on brand value - especially being first to market and achieving short-term results - while retailers tend to put their energy into category value. With limited alignment between the two strategies, there is a risk that they operate counter-productively and fail to maximise consumer value.

There are many reasons, apart from traditional manufacturer-retailer rivalry, for the inability or reluctance to share information and work together. These include organisational, cultural and technological factors. Further, co-operation between retailers and manufacturers depends on a degree of trust which is hard to build up, especially when many retailers are playing the part of manufacturers by launching their own private label products.

Nonetheless, our research indicates that companies can make improvements by working together on the new product introduction process. Indeed, the opportunities for improvement may be even greater than they at first appear, since the examples of co-operation we investigated may well represent "best cases".

In Figure 2.6 we have placed the companies (represented by ▲) included in our field work on a scale ranging from a low to a high level of co-operation.

Figure 2.6
Level of co-operation between manufacturers and retailers in each NPI phase



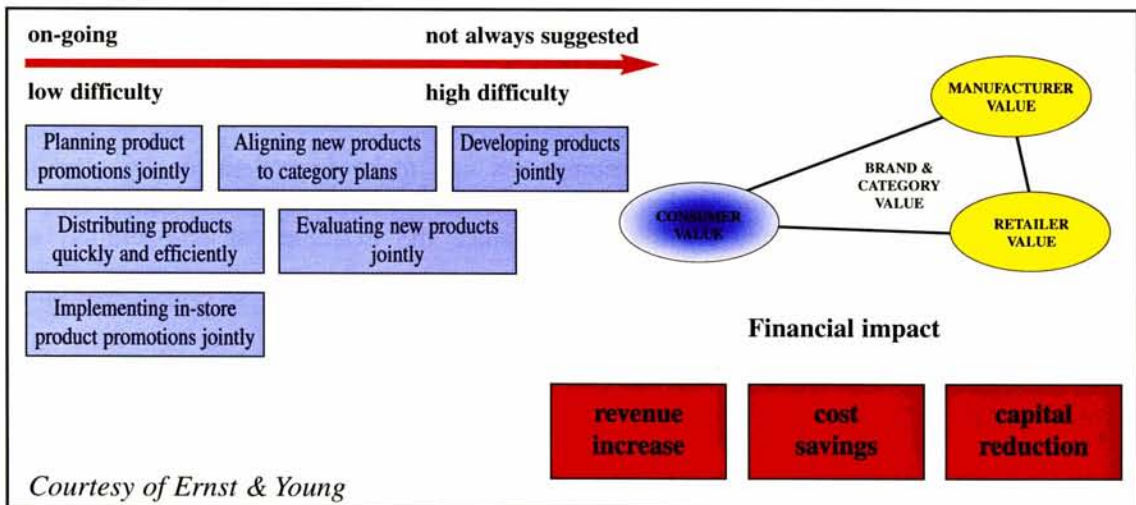
Note: Companies analysed during the field work are represented by triangles.

Co-operation varies according to the phase in the new product introduction process:

- In the "develop" phase, co-operation is not evident for the companies included in our field work. The main reason for this is the competitive sensitivity associated with this activity.
- Co-operation is common during the "launch" phase.
- During the "evaluate" phase, retailers and manufacturers tend to work separately again, but in this case the reason is lack of common objectives and tools.

To provide some ideas of the opportunity offered by co-operation, we took six specific improvement areas and first grouped them according to the degree of difficulty normally encountered during implementation. Then we identified which type of benefits each improvement area is likely to deliver: additional revenue, cost savings or reduction in working capital.

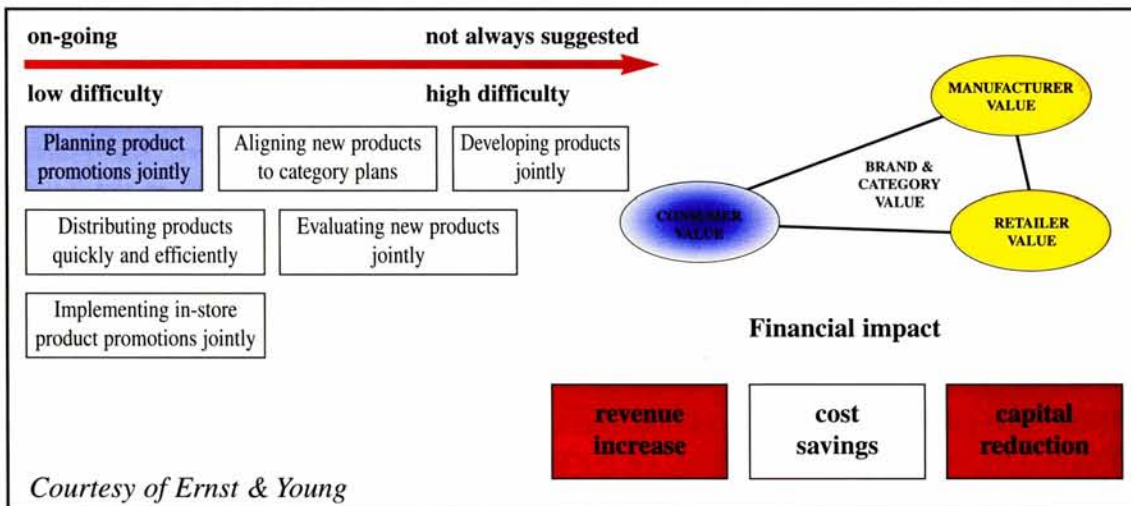
Figure 2.7
The six improvement areas evaluated



1. Planning product promotions jointly

It is worth focusing first on this opportunity, since a good deal of expenditure (e.g., on advertising and promotion) depends on decisions made here, and it is not difficult to make improvements in this area. Discussion currently tends to focus on “slot allowances” and margins, yet these are not the factors that create consumer value. If instead retailer and manufacturer discuss the components and timing of the promotional plan, including evaluation targets, they can achieve higher levels of consumer awareness and higher levels of trial, thus improving revenues. They can also improve the working capital situation by managing inventory more effectively. In the longer term, joint planning of product promotion will increase consumer value and loyalty, which is clearly good for the growth of both the brand and the category.

Figure 2.8
Planning product promotions jointly

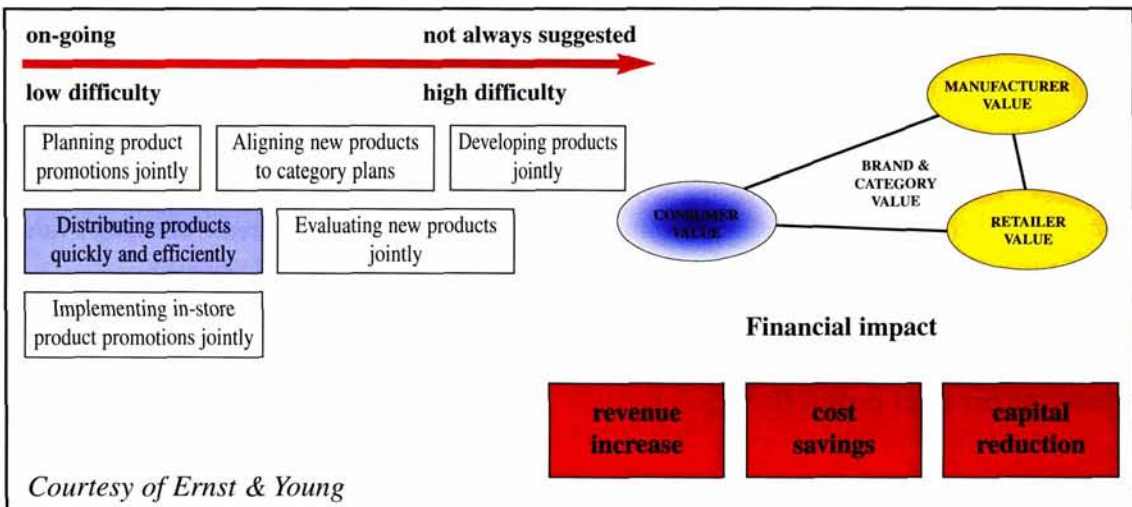


2. Distributing products quickly and efficiently

Speed-to-market is essential to the success of new product launches – especially when the product strategy is to be first to market. Many problems occurring during product launches stem from distribution difficulties between manufacturers and retailers. Since advertising is normally linked to certain levels of weighted distribution, both trading partners risk missing revenue opportunities when distribution fails. Delisted products can also give rise to problems, occupying space in stores and warehouses and increasing working capital.

By co-operation effectively over distribution, retailers and manufacturers can improve product availability for the consumer and achieve revenue, cost and working capital advantages.

Figure 2.9
Distributing products quickly and efficiently



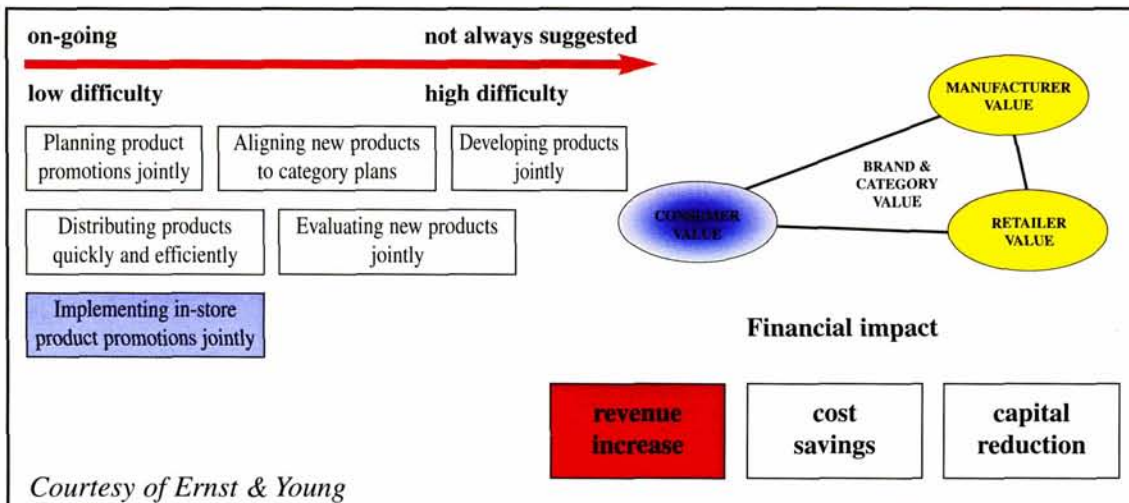
In Finland, Unilever and Tradeka Valintatalo Chain joined forces to launch Omo Sensitive and achieved 95% weighted distribution after just four months.

During our pilot projects, Colgate Palmolive and Gruppo PAM implemented the EPI process (see Part 4 of this report). The result of the launch of two new products in the Italian market was a better speed to shelf (+15%) and weighted distribution.

3. Implementing in-store product promotions jointly

If both trade partners are involved in implementing the promotional plan – and making rapid changes if necessary – they can improve the marketing mix and thus make consumers both more aware of new products and more likely to try them. This in turn will push up volumes and revenue.

Figure 2.10
Implementing in-store product promotions jointly



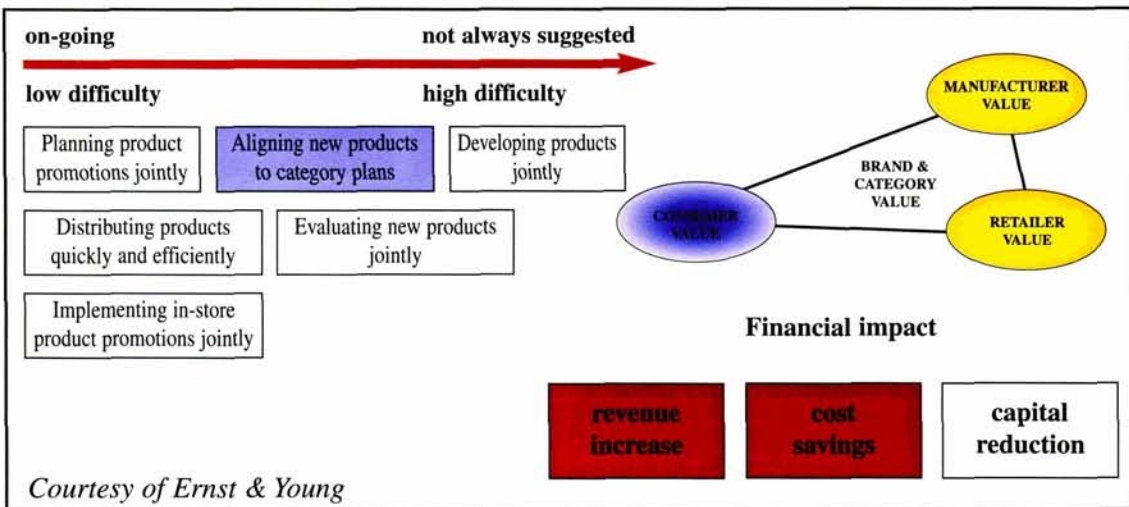
Thanks to close co-operation with retailers, the new product Lurpak Spreadable from MD Foods UK reached its target weighted distribution after the company invested 10% of net revenue on advertising and 5% on promotion.

A critical factor in this success was a special MD Foods team, set up in the field, responsible for communicating and implementing the product launch in-store, delivering a maximum availability and visibility of products.

4. Aligning new products to category plans

Where a category management process already exists, companies can achieve both revenue and cost advantages by linking new product introductions into the process. This requires early agreement between manufacturer and retailer on category definitions, roles and strategies. The outcome for the consumer will be less product proliferation. Our research suggests that, while manufacturers are already thinking in terms of category and category planning, they are not necessarily sharing their thoughts or aligning their plans with those of retailers. This, the fourth, opportunity area is associated with medium difficulty.

Figure 2.11
Aligning new products to category plans



Pril Balsam, an innovative handwashing product launched by Henkel, is a good example of a jointly launched plan. The product reached the target weighted distribution within six months. From the beginning, Henkel worked together with

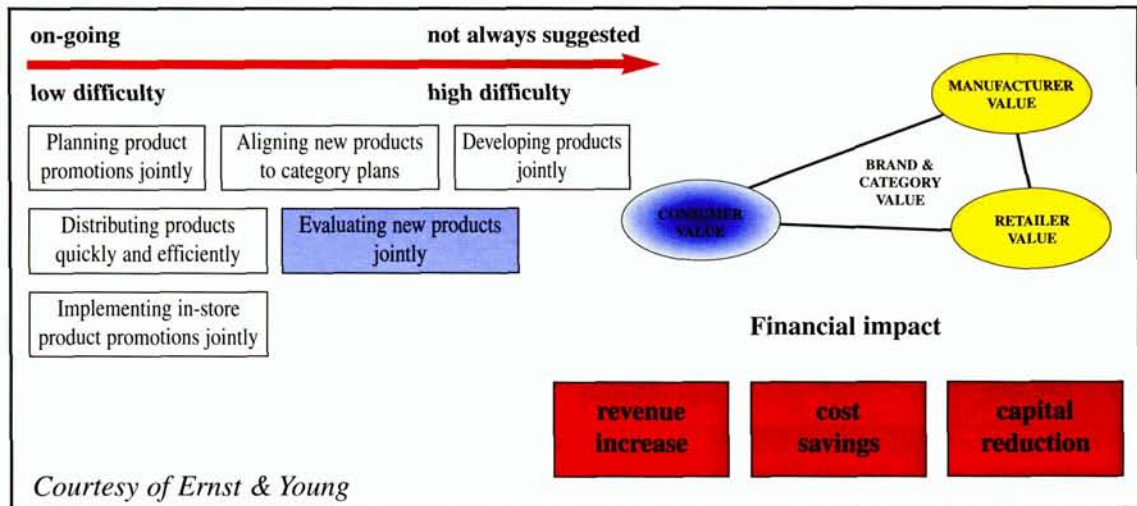
retailers using a model that analyses (at the SKU level) the category to which the new product belongs. They investigated the impact of the new product on the category, including the substitution effects to other products within the category.

5. Evaluating new products jointly

By sharing information at the evaluation stage, the trade partners can do a much better job of evaluating new products. Rather than simply looking at sales volumes (i.e., results) they can jointly analyse the influence of underlying factors – including the role of advertising, promotion, packaging, and positioning of the product on the shelf and in the store. This information in turn allows them to respond more quickly to the market – either by withdrawing the product quickly or by adjusting the marketing mix. Successful co-operation at this stage depends on the trade partners having agreed launch objectives earlier on in the process.

By being better informed and responding quickly in this way, companies can define opportunities which may increase revenue, save costs and working capital. They also provide the consumer with a better product availability/offer. Again, this is a "medium difficulty" opportunity.

Figure 2.12
Evaluating new products jointly



Procter & Gamble Germany and Fegro / Selgros adopted a joint introduction approach for the launch of Pringles. The companies set target objectives and evaluated results through

a specific scorecard based on potential category impact and client needs. The common tool allowed measurement of category turnover (+12%) and category profit (+8%).

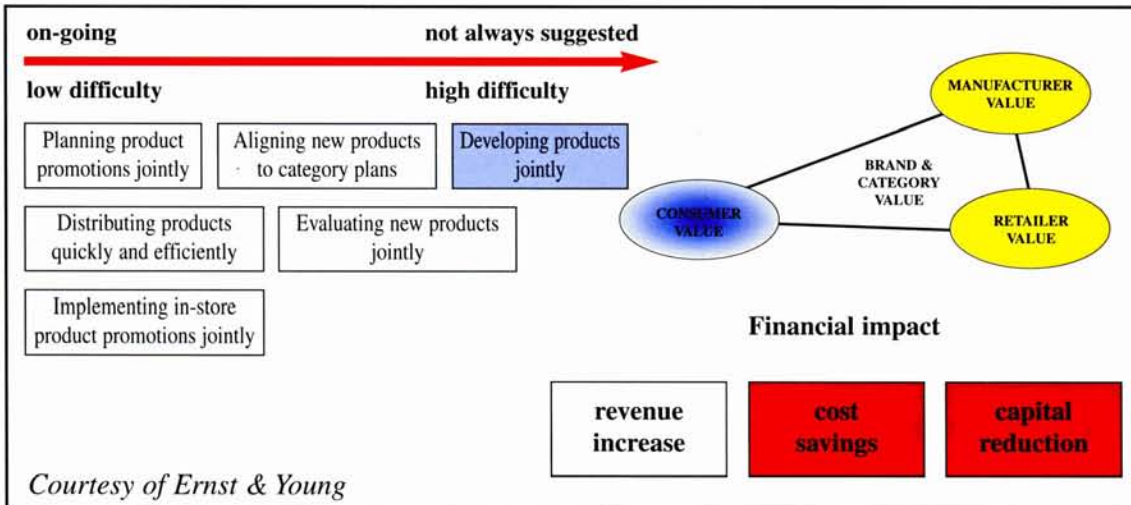
6. Developing products jointly

The sixth opportunity is the hardest to implement. Traditionally it is manufacturers who develop new products, often through a central R&D function. Given the competitive sensitivity of this activity and the scale of investment often involved, manufacturers are understandably reluctant to share information with any outsiders at this stage. Retailer involvement in product development is therefore often not realistic.

However, there are situations where retailers and manufacturers can work together during this phase. In particular, niche manufacturers who do not have large R&D departments may value retailer suggestions concerning non-strategic product elements such as packaging.

The advantage of such co-operation to both manufacturer and retailer is lower risk of new product failure and thus lower associated costs and capital. The benefit is increased consumer satisfaction, and in some cases, improved product quality.

Figure 2.13
Developing products jointly



Many retailers, such as the international retail organisation SPAR, develop private label products closely together with the manufacturers to ensure that launch objectives are achieved.

* * *

In short, an efficient and co-operative new product introduction process promises to deliver both short-term financial benefits and long-term brand and category value. Granted, greater co-operation will push up costs in the short-term, e.g., time spent in meetings with trade partners. But if the common goal is long-term value and competitive advantage, these short-term costs will be justified.

Part 3: WHAT is current market performance in NPI

Overview

- Key findings of the Pan-European study
- Facts and figures
 - True new products – a rarity
 - Line extensions
 - Me-toos – the largest cluster
 - Seasonal / Temporary products
- Scope and methodology
 - Countries covered
 - Product categories covered
 - Definitions of success and failure

Part 3: WHAT is current market performance in NPI

To underpin the Efficient Product Introduction process (described in Part 4), Ernst & Young co-operated with ACNielsen during 1998 on an extensive survey of new product introductions in the consumer goods industry in six major European countries. The research benefited from the help of a team of experts from participating consumer goods companies.

Each year more than 500,000 new EAN codes are recorded by ACNielsen in the FMCG area. The survey investigated nearly 25,000 new product codes introduced during a 13-month period – from 1 June 1996 until 30 June 1997 – in 32 FMCG product categories. The aim was to draw conclusions about both the type of new product introductions and their success rate.

This section gives a brief overview of the findings and conclusions – there is a separate document reporting the survey in full⁷. The survey scope and methodology are explained at the end of this section.

Key findings of the Pan-European study

The central finding is that, out of the huge number of product introductions each year, a high proportion fail⁸. Performance varies by product type (these are referred to as clusters throughout this study)⁹:

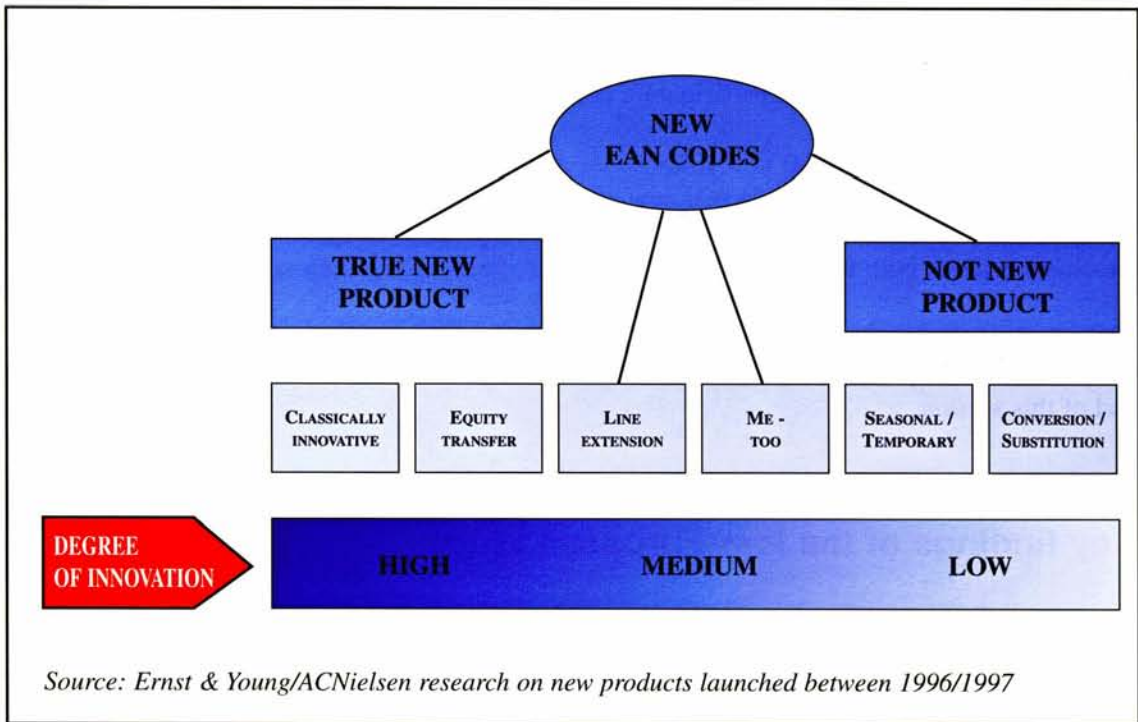
- *True new products* are rare (2.2% of all new items), and just 6% of these are considered as "stars" (defined as more than 90% distribution after one year).
- *Line extensions* represent 6.1% of all new items, and only 3% of these are "stars".
- *Me-toos* are the biggest cluster (76.7% of new items) and have the highest mortality rate: less than 1% are "stars". The vast majority of me-toos are introduced by retailers (private label) or by minor/niche players following brand leaders.
- *Seasonal/Temporary products*: France and UK are the only countries that use these extensively.

⁷ This research is documented fully in a separate report, *New Product Introduction – Successful Innovation/Failure: A Fragile Boundary*, published by Ernst & Young and ACNielsen-BASES, 1999.

⁸ For definitions of success and failure, see "Scope and methodology" at the end of this section.

⁹ For an explanation of the product clusters, see next page.

Figure 3.1
Innovation Based Clustering Model



The new product clusters

- **Classically innovative products.** These are breakthrough products that appear to the consumer to bring true innovation to a category, or that create new categories. Examples include Gillette Sensor razors or Mach3.
 - **Equity transfer products.** These are products that are new to the category but recognised by the consumer. An example is Mars ice cream.
 - **Line extension products.** A line extension is a new version of a product within the same category. An example would be the first yoghurt with coconut flavour.
 - **Me-too products.** These are products that are substantially the same as existing ones. An example might be a retailer's private label or the second coconut flavour yoghurt.
 - **Seasonal/Temporary products.** These products have a short life cycle. Examples are Easter eggs or bonus packs.
 - **Conversion/Substitution products.** These products replace ones already marketed without adding new value for the consumer. An example would be a detergent packaging size raised from 4.5 to 5 kg.
- Source: Ernst & Young/ACNielsen*

The first three clusters contain what consumers usually recognise as "new products". For the rest of this section, the first two are combined under the heading "true new products". We did not analyse the last cluster (conversion/substitution items) in detail.

Facts and figures¹⁰

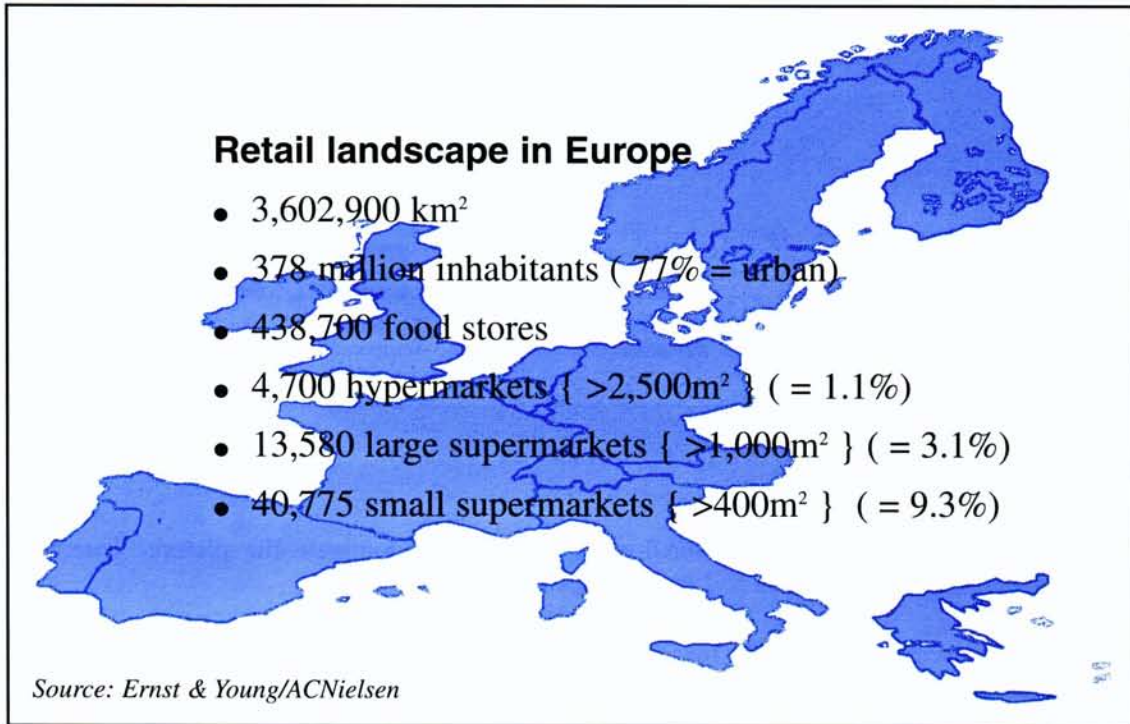


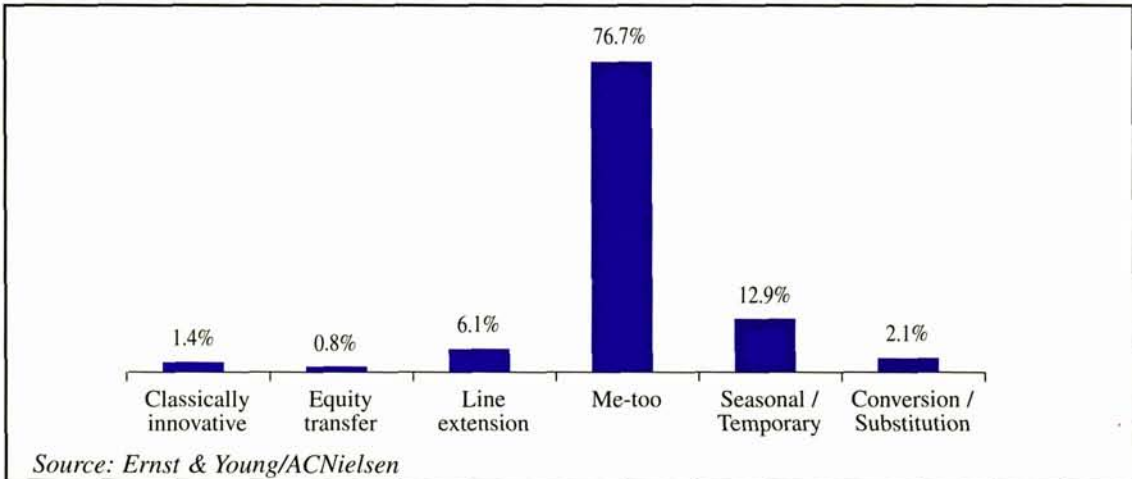
Figure 3.2
Number of new codes registered by country and by cluster

| | Classically innovative | Equity transfer | Line extension | Me-too | Seasonal/ Temporary | Conversion / Substitution | Total |
|-------------------------|------------------------|-----------------|----------------|---------------|---------------------|---------------------------|---------------|
| Finland | 9 | 16 | 54 | 888 | 113 | 68 | 1,148 |
| France | 153 | 88 | 565 | 2,977 | 1,872 | 0 | 5,655 |
| Germany | 64 | 23 | 240 | 1,908 | 143 | 0 | 2,378 |
| Italy | 15 | 25 | 239 | 1,419 | 162 | 259 | 2,119 |
| Spain | 21 | 0 | 99 | 5,337 | 78 | 26 | 5,561 |
| UK | 72 | 53 | 303 | 6,285 | 804 | 165 | 7,682 |
| Total by cluster | 334 | 205 | 1,500 | 18,814 | 3,172 | 518 | 24,543 |

Source: Ernst & Young/ACNielsen

¹⁰ Adapted from *New Product Introduction – Successful Innovation / Failure: A Fragile Boundary*, published by Ernst & Young and ACNielsen-BASES, 1999.

Figure 3.3
Breakdown by cluster



100% = Total EAN codes analysed for the 6 countries (24,543)

In volume terms, me-toos and seasonal products together dominate the picture. True new products – classically innovative and equity transfer – are few.

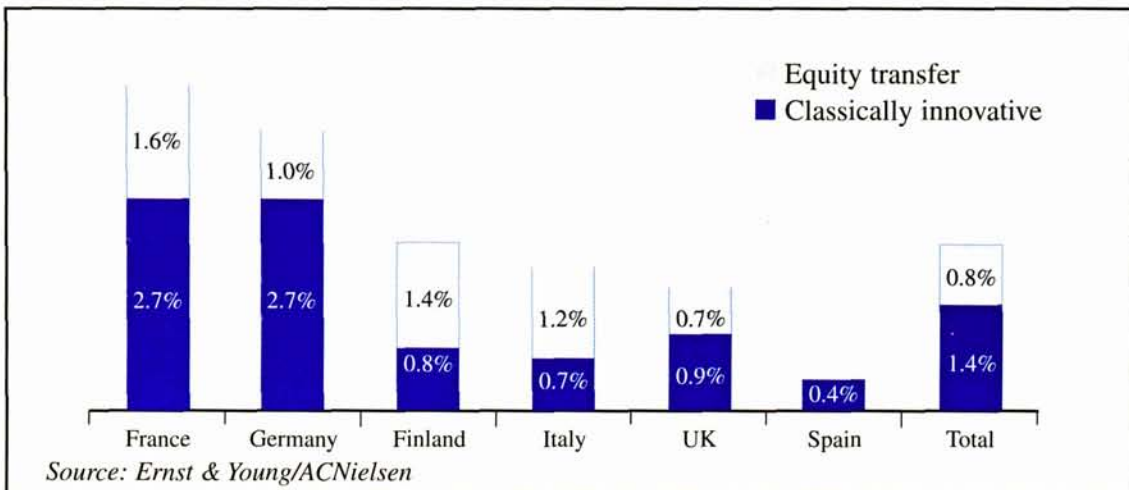
Below we present the findings for each of the clusters analysed, highlighting country differences and success/failure rates.

True new products – a rarity

Only about 2.2% of the 24,543 new EAN codes we studied represent true new products.

- *Country variations.* The share of true new products varies widely from country-to-country. The highest percentage of classically innovative products is found in France and Germany, with 2.7% of the total items registered in each of these countries (in the other countries the figure is below 1%).

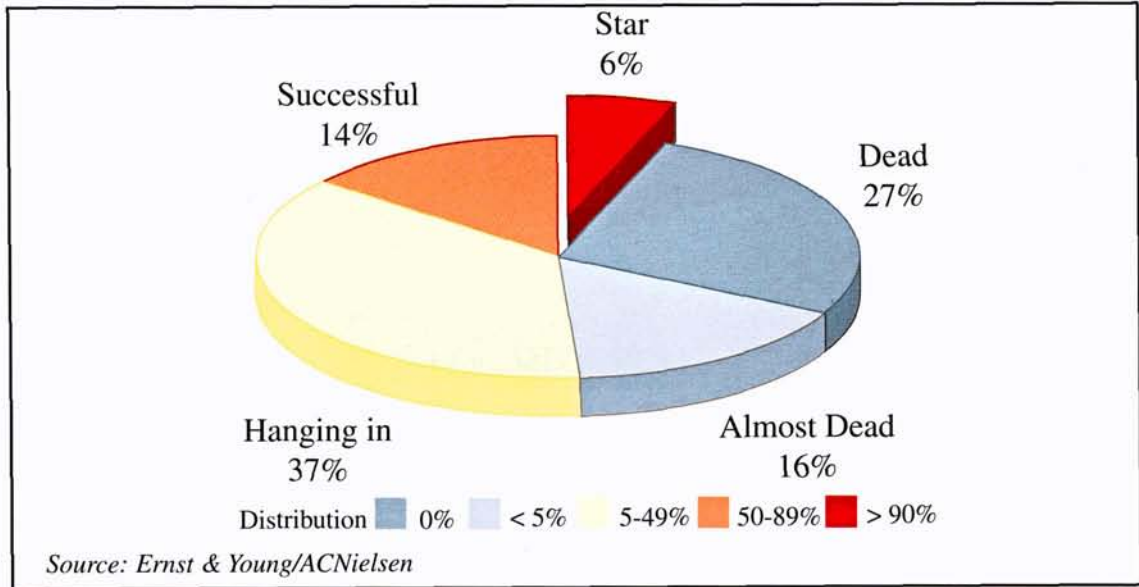
Figure 3.4
Breakdown of true new products by country



100% = Total new EAN codes in the country

- *Success/failure.* Just 6% of true new products (33 products) are "stars" (more than 90% distribution after one year), while 43% of true new products are technically "dead" or "almost dead" within one year (less than 5% distribution).

Figure 3.5
Success rate of true new products



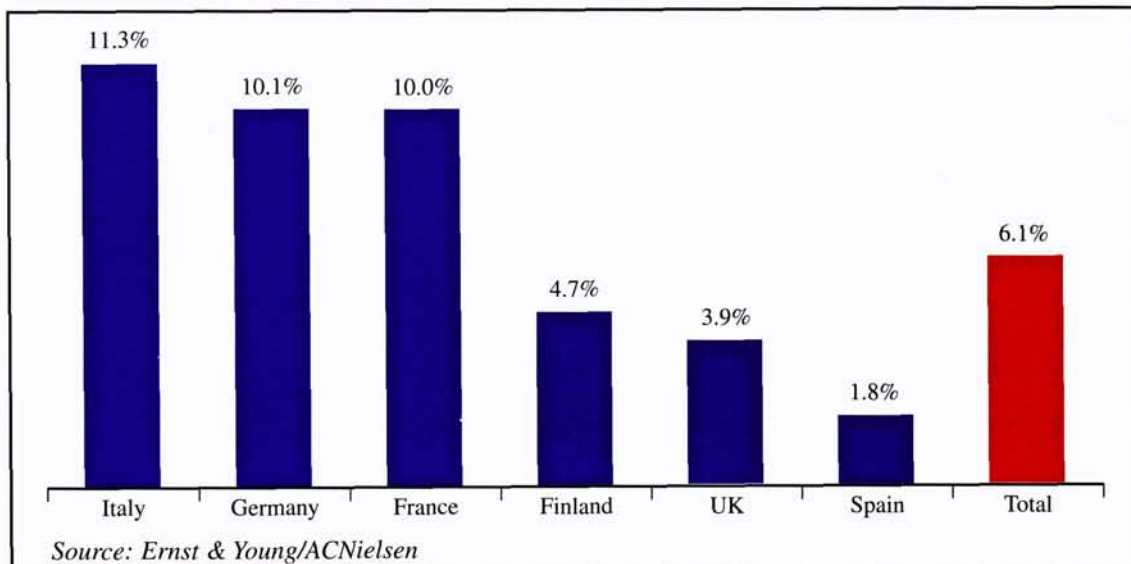
100% = Total EAN codes for true new products analysed for the 6 countries (539)

Line extensions

6.1% (1500 products) of the 24,543 new EAN codes we studied fit the definition of line extension.

- *Country variations.* The highest incidence of line extensions is in Italy, Germany and France.

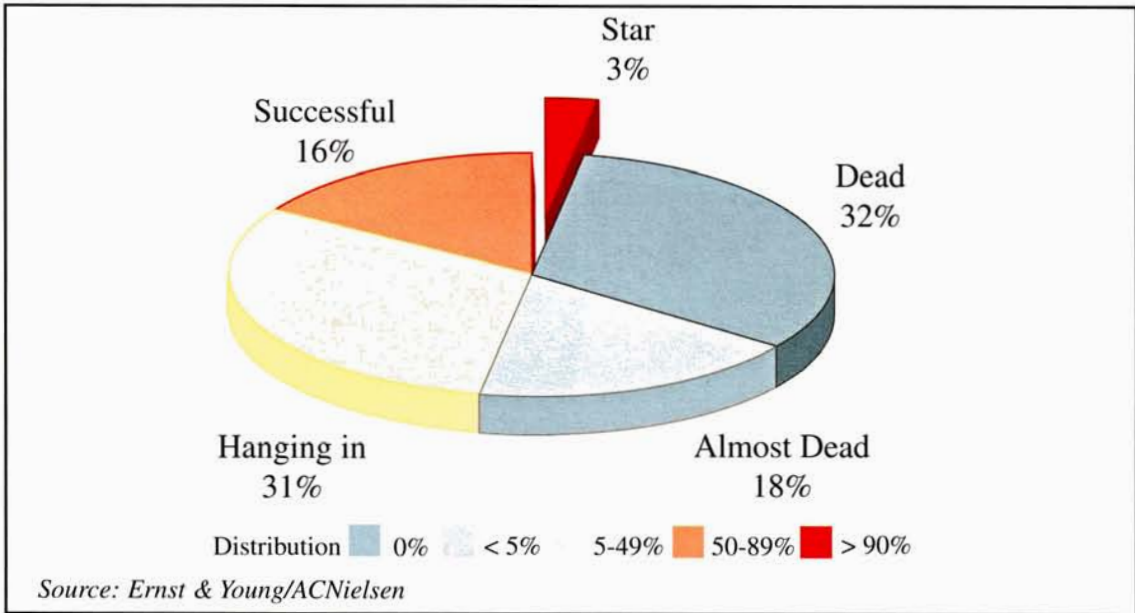
Figure 3.6
Breakdown of line extensions by country



100% = Total new EAN codes in the country

- *Success/failure.* Only 19% of line extensions are successful (at least 50% distribution after one year), and 31 % are "hanging in". About 50% fail (less than 5% distribution after one year).

Figure 3.7
Success rates of line extensions



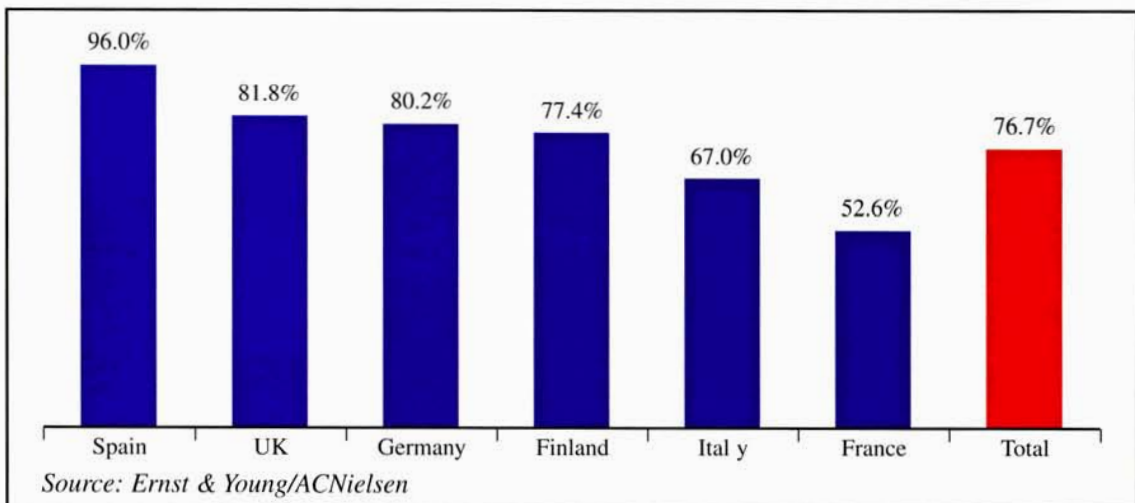
100% = Total EAN codes for line extensions analysed for the 6 countries (1,500)

Me-toos - the largest cluster

Companies develop me-too products by observing trends in the marketplace and then imitating a product, often a brand leader. Me-too products represent 77% of all newly introduced products, the largest cluster.

- *Country variations.* The percentage of me-toos varies from a very high 96% in Spain to 53% in France.

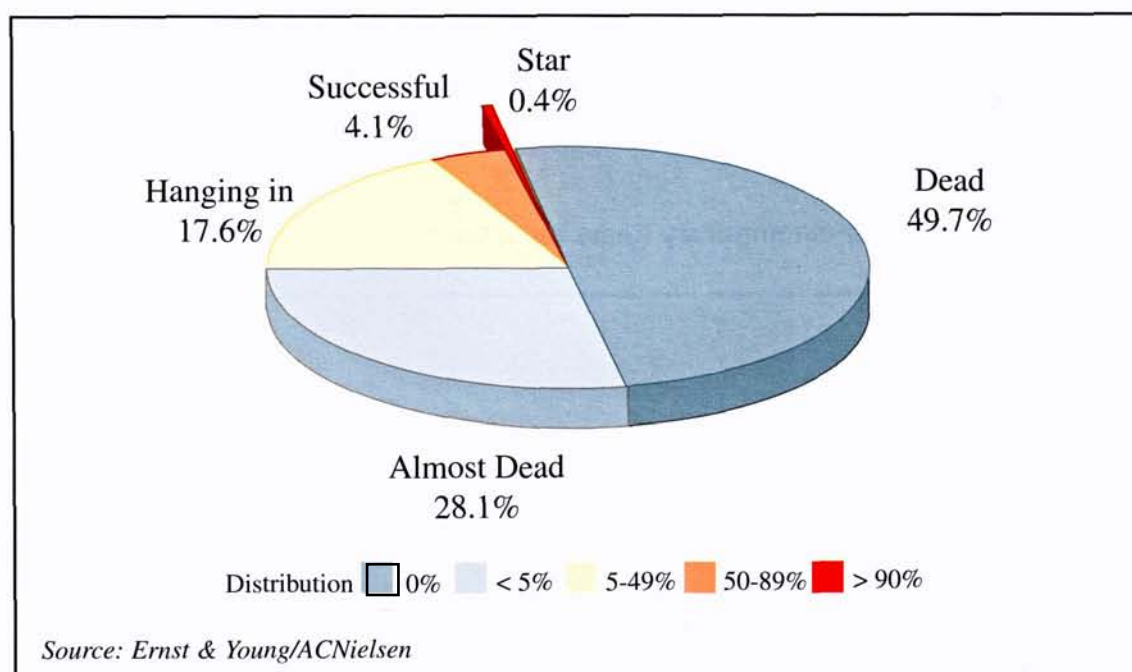
Figure 3.8
Breakdown of me-toos by country



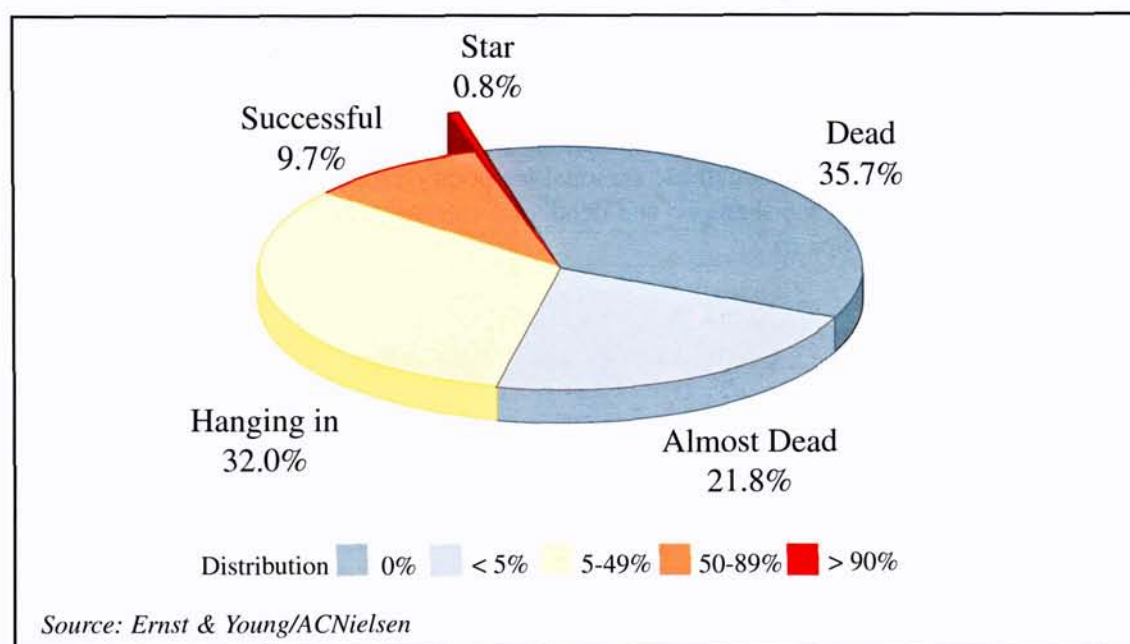
100% = Total new EAN codes in the country

- *Private label.* The proportion of private label items among the me-toos varies from 10% in Finland to 49% in the United Kingdom. The other major chunk within the me-too cluster consists of items introduced by minor/niche category players.
- *Success/failure.* In France, only 4.5% of me-too products are successful (at least 50% distribution), and almost 78% are "dead" or "almost dead" (less than 5% distribution after one year). Finland presents a similar picture. There are few "stars" (0.8%) and a high proportion of failures.

Figure 3.9
The high failure rate among me-toos (France and Finland)



100% = Total EAN codes for me-toos in France



100% = Total EAN codes for me-toos in Finland

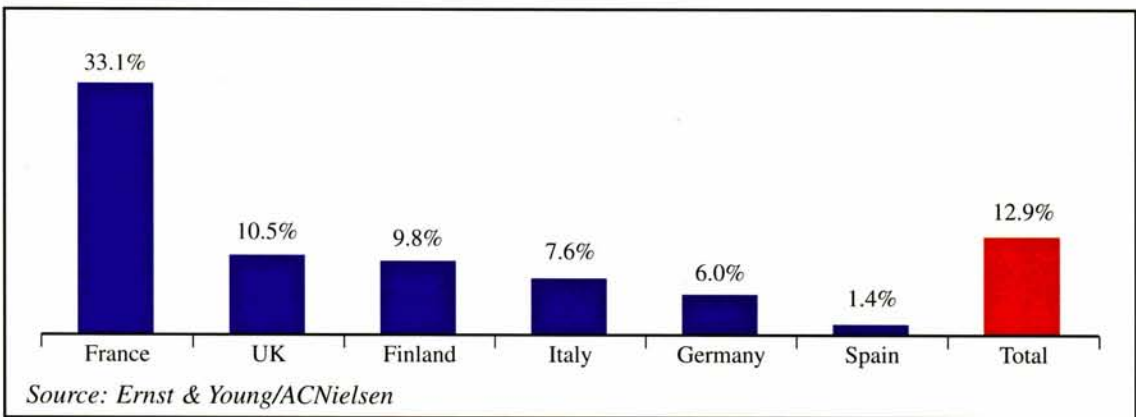
- *Reasons for failure.* We identified three reasons for the high mortality rate among me-toos. First, private label items are only distributed within the parent retailer. Second, minor/niche players generally lack the sales and marketing resources needed to achieve significant distribution levels. And third, me-too items do not, by definition, have the advantage of being first to market.

Seasonal / Temporary products

This cluster makes up 12.9% of all new items.

- *Country variations.* There are large differences across countries. France, for example, has by far the highest percentage of seasonal/temporary products among all new items introduced in the country.

Figure 3.10
Breakdown of seasonal/temporary items by country



100% = Total new EAN codes in the country

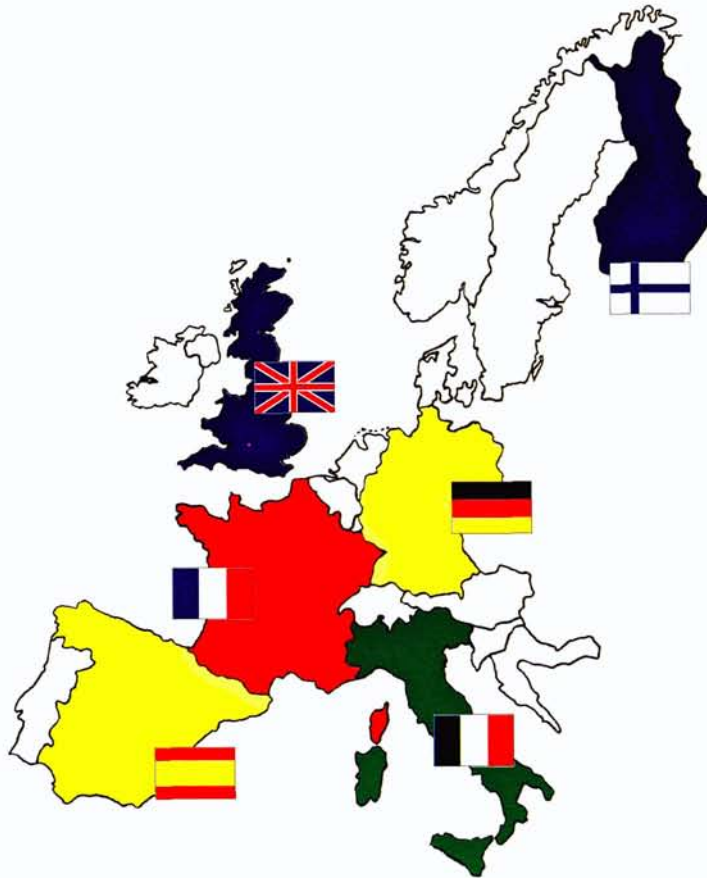
- *Variations by category.* There are also differences across product categories¹¹. In France and in UK seasonal/temporary products are common in all the product categories we studied. In contrast, in the other four countries, seasonal/temporary products were only observed in certain categories (e.g., the shampoo and deodorant categories in three countries, the coffee category in Italy and Spain).

¹¹ For product categories studied, see “Scope and methodology” at the end of this section.

Scope and methodology

Countries covered

- France
- Finland
- Germany
- Italy
- Spain
- United Kingdom



Product categories covered

BEVERAGES

Various

- Beer
- Whisky
- Coffee/Decaff. coffee
- Energy drinks (Isotonic)

FOOD

Ambient

- Salted snacks
- Chocolate snacks
- Chocolate spread
- Mayonnaise
- Rice
- Canned dog food

Chilled

- Butter/Spreads
- Yoghurts
- Fresh desserts
- Ice cream
- Frozen ready meals
- Cheese snacks

NON-FOOD

Household

- Household cleaners
- Household paper rolls
- Detergents
- Dishwashing liquids (hand)
- Softeners
- Nappies

Toiletries

- Feminine hygiene
- Toothpaste
- Toothbrushes
- Hair colours
- Shampoo
- Razor blades
- Deodorants

Health

- Cough syrup/Lozenges
- Multi-vitamins
- Skincare

Definitions of success and failure

After preliminary analysis we came to the conclusion that distribution was the single most relevant variable for evaluating success. Accordingly, we defined five groups based on the distribution level achieved after one year¹²:

- 0% Dead
- 0 - 5% Almost / Technically dead
- 5 - 49% Hanging in
- 50 - 89% Successful
- > 90% Very successful / Stars

For the purpose of this report, a new product was considered a success if it achieved at least 50% distribution after one year, and a star if it achieved more than 90%.

¹² Weighted distribution is defined by ACNielsen as the category share of the stores selling/handling the specific item.

Part 4: HOW to develop value-creating relationships

Overview

- Context
 - A practical guide
 - Selective versus comprehensive implementation
 - Integration with category management
 - Top management support and organisational requirements

- The EPI Wheel: a step-by-step process
 - DEVELOP
 1. Collate ideas
 2. Finalise concept and feasibility
 3. Production and market plan

 - LAUNCH
 4. Plan joint launch
 5. Joint execution of launch plan
 6. Jointly communicate to consumer

 - EVALUATE
 7. Evaluate the joint launch
 8. Assess launch impact on category

- How to make it work

Part 4: HOW to develop value-creating relationships

Levels of manufacturer-retailer co-operation vary in Europe, according to cultural differences, diverse retail environments, specific product categories and degree of product originality. In some cases, the only time companies meet face-to-face is at the sales presentation when the manufacturer is planning a product launch. These meetings can be intense, with manufacturers battling for shelf space for their innovative products, and retailers feeling that too many products (not all of them innovative or profitable) are introduced each year.

On the positive side, our research reveals an increasing readiness on both sides to share information about new product introductions – especially non-financial aspects such as consumer needs, logistics and category measures. This reflects a general eagerness to make new product launches more effective and efficient.

Context

A practical guide

To offer a practical guide to companies wishing to develop closer co-operation and master Efficient Product Introductions (EPI), we have created a step-by-step process (the EPI Wheel) which guides managers through the product development, launch and evaluation phases.

The EPI Wheel is made up of eight steps incorporating a range of measurement tools. It is the product of almost a year's work by Ernst & Young and the EPI Core Team, representing both manufacturers and retailers. Managers who are familiar with category management will be particularly well placed to make full use of the EPI process.

Ernst & Young has been able to test the EPI process in two pilot projects with the following companies:

- Gruppo PAM and Colgate Palmolive in Italy, introducing two Palmolive SKUs in the personal care category;
- ICA and Johnson & Johnson in Sweden, introducing eight Natusan pH 5.5 SKUs in the face care category.

We refer to these pilot projects from time to time in this section to illustrate and clarify the EPI process. In addition, we carried out selective tests with Unilever, Fazer and Tradeka in Finland, and Procter & Gamble in the UK.

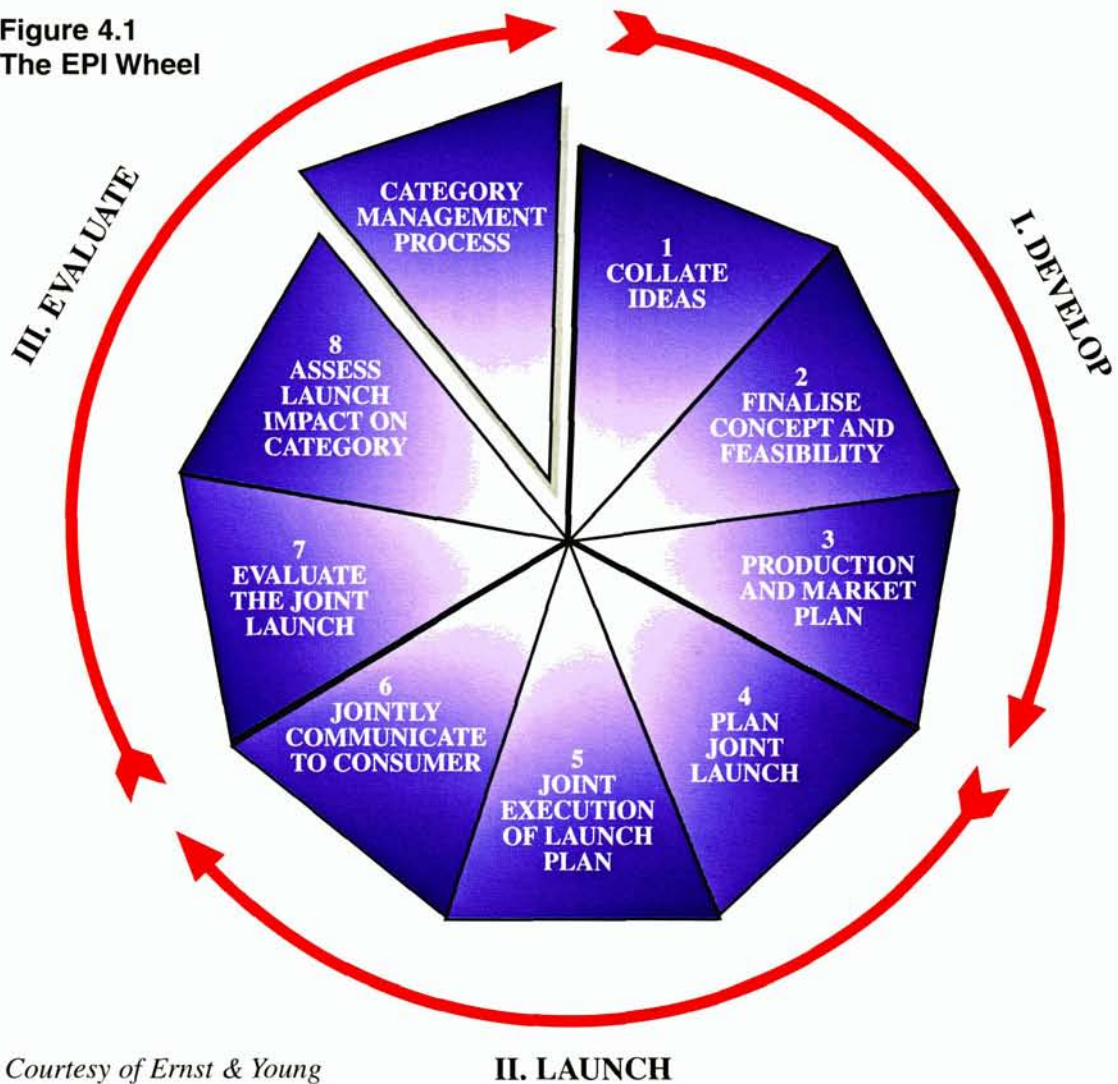
Johnson & Johnson products



Colgate Palmolive products



Figure 4.1
The EPI Wheel



Courtesy of Ernst & Young

Selective versus comprehensive implementation

The EPI process is not a "one size fits all" tool. Companies can choose to adopt either a comprehensive or a selective approach:

- **Comprehensive approach.** Companies that have both the necessary top management commitment and the organisational prerequisites (people, information technology, etc.) can choose to "go the full hog" by implementing every step and making use of all the tools. The process is truly circular in that each step produces input into the next, and final steps (step 8, Assess launch impact on category and the Category management process) generate a new wave of ideas for the following EPI cycle. Two of the pilot projects – PAM-Colgate Palmolive and ICA-Johnson & Johnson – followed this approach.
- **Selective approach.** For companies not able or not keen to implement the whole process, we recommend focusing co-operation on the product launch phase, using the tools selectively. One key tool is the EPI Scorecard (described in step 4 of the EPI Wheel), which enables manufacturers and retailers to evaluate a new product jointly before deciding what to do with it (e.g., to launch immediately, to rethink it or to abandon it). It may also serve as a convenient starting place for companies wishing to make a gradual transition towards Efficient Product Introductions and closer co-operation. In Finland, Unilever, Fazer and Tradeka used the EPI Scorecard on a softener (Unilever) and a confectionery product (Fazer). Procter & Gamble has used the EPI Scorecard internally.

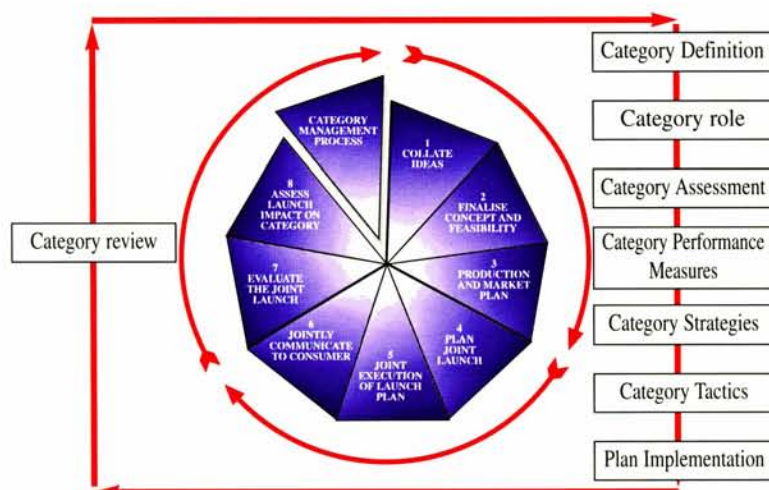
When choosing between these two approaches, companies must assess the readiness of their organisation. To help with this assessment, we have outlined four key "enablers" under the heading "Top management support and organisational requirements" later in this section.

Integration with category management

While manufacturers are typically focused on managing their brands, a growing number of retailers these days pursue active category management. Until now, the two activities have generally been independent and unaligned. The EPI Wheel can help create closer links between product introduction and category management, which will clearly benefit both manufacturers and retailers.

EPI and category management will not normally be fully synchronised, since product launches may occur many times a year, whereas retailers typically only undertake a category review about once or twice a year. However, the two sets of activities are strongly interlinked, as shown in Figure 4.2, and detailed later in the report.

Figure 4.2
Relationships between EPI and category management



Courtesy of Ernst & Young

For example, the first two steps in category management - definition of the category and its role (convenience, seasonal, routine or destination) - may influence and be influenced by the new product introduction process. In some cases, the introduction of a full range of new products could create a new segment, sub-category or even a new category. For example, by redefining the face care category (including the sub-categories, segments and sub-segments within it, see Figure 4.9), ICA and Johnson & Johnson jointly identified eight product introduction opportunities within the personal care category.

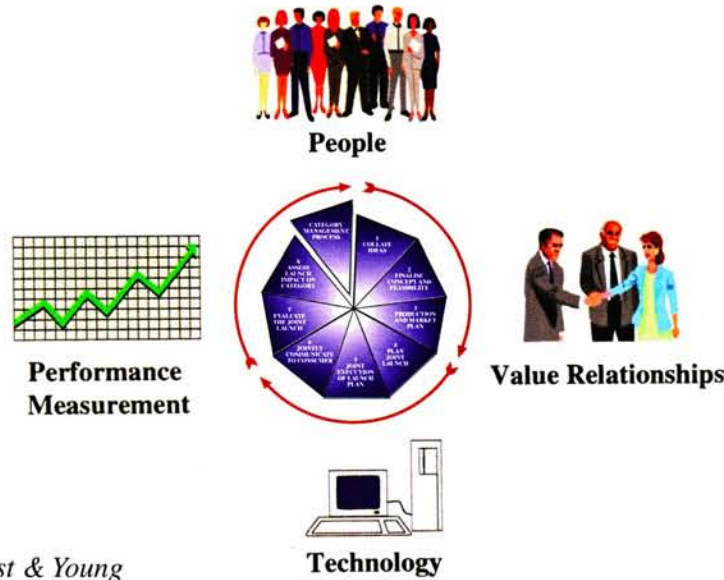
In any case, once step 8 (Assess launch impact on category) of the EPI process has been completed for a number of new products in a category, it becomes necessary to undertake a category review through the category management process.

Top management support and organisational requirements

As argued in Part 2 of this report, Efficient Product Introductions give manufacturers and retailers an opportunity to create long-term value for the consumer, which will ultimately increase the company's chances of survival and growth. For top management it is important to recognise that, if the more ambitious of the two approaches referred to here is chosen, this has a number of costs and organisational implications. This makes top management support essential, including a readiness to provide the necessary resources.

In our experience, any major organisational change requires attention to four "enablers" to the EPI process: people, value-relationships, performance measurement and technology (see Figure 4.3). We say a few words about each of these enablers below.

Figure 4.3
Enablers for the EPI process



Courtesy of Ernst & Young

- *People.* It is important to organise people around cross-functional processes and also to ensure that training, appraisal and reward systems are adjusted where necessary to support EPI and encourage co-operation between companies. A shift may be needed away from a cost-cutting mindset towards a growth one. The pilot projects also indicate that considerable investment is needed, in terms of people and time, to create and manage a special team responsible for the EPI process. However, after the process has been implemented once, lessons will have been learned so the same team can go through the steps more speedily and efficiently a second time.

- *Value relationships.* Top management needs to make the choice between the two main EPI approaches: the comprehensive approach, which implies full value-creating relationships with business partners; or the less ambitious approach, focused on joint evaluation of products. The approach chosen depends on numerous factors, including the level of product innovation. Whichever the approach, effective implementation requires a strong relationship between manufacturer and retailer.
- *Performance measurement.* The managers implementing the new process need to develop the discipline of using a number of tools and measures. For example, two of the tools – the Manufacturer and Retailer Target Setting Tool (in step 4, see Figure 4.14) and the Manufacturer and Retailer Target Check (in step 7, see Figure 4.20) – offer a method for jointly setting targets and evaluating each product after launch.
- *Technology.* The EPI process may require investments in information technology such as a data warehouse, as well as close co-operation with market research companies.

The EPI Wheel: a step-by-step process

Once top management has assessed the readiness of the organisation and chosen between the selective and the comprehensive approach to Efficient Product Introductions, the "real work" can begin.

In this section, we describe each step in the EPI process, in each case highlighting the inputs, who "owns" the step (manufacturer, retailer or both), objectives, tools and outputs. The EPI Wheel incorporates a number of evaluation and measurement tools listed in the Figure 4.4.

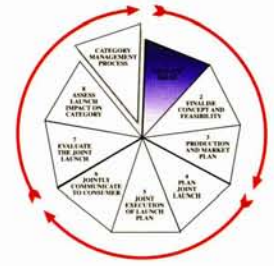
Figure 4.4
The EPI process and tools

| Steps | Tools | Responsibility |
|-------------------------------------|--|----------------|
| 1. Collate ideas | | M |
| 2. Finalise concept and feasibility | | M |
| 3. Production and market plan | · Category Plan Fit | M/R |
| 4. Plan joint launch | · EPI Scorecard · Manufacturer and Retailer Target Setting Tool · Joint Execution Check List | M/R |
| 5. Joint execution of launch plan | · Joint Execution Check List (application) | M/R |
| 6. Jointly communicate to consumer | · Joint Execution Check List (application) | M/R |
| 7. Evaluate the joint launch | · Manufacturer and Retailer Target Check | M/R |
| 8. Assess launch impact on category | · Category Review (Category Management Best Practice Tool) | R |

Courtesy of Ernst & Young

Legend: *M = manufacturer*
 R = retailer

Note: Steps 3-7 are always carried out jointly. Steps 1 and 2 may be owned by the retailer in certain situations, such as private label development (where the retailer is acting as a manufacturer). Step 8 can involve the manufacturer (where there is a strong relationship between manufacturer and retailer).



DEVELOP

1. Collate ideas

The aim of this step is to collect and compare ideas about the marketplace, including consumer needs and business opportunities.

Inputs from previous steps

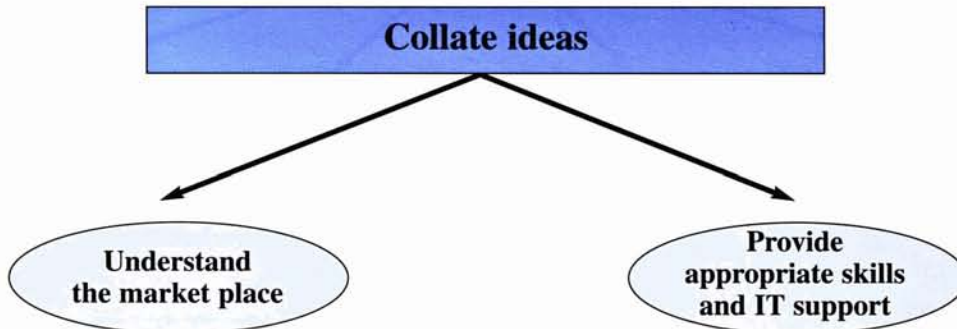
The manufacturer receives inputs from activities such as idea generation, market analysis, competitive intelligence or from the category management process (including experience from previous launches and the category review process).

Ownership

Information sharing at this stage varies widely, depending on existing practices and relationships between manufacturer and retailer. For example:

- If manufacturer and retailer co-operate here, they will be able to jointly analyse data and identify business opportunities. The benefits will be greatest where manufacturer and retailer share the category management process.
- If the retailer decides to develop private label and act as a manufacturer, the EPI process will still be doable. For example, PAM decided to apply the EPI process to private label development.

Figure 4.5
Step 1 – Collate ideas



Objectives

1. *Understand the marketplace.* The manufacturer, the retailer, or both, need to understand data, trends, strengths, weaknesses and market opportunities. The key sources of data are the marketplace itself, manufacturer and retailer expertise, and also the category management process. The aim is to compare and prioritise ideas for product development and introduction.
2. *Provide appropriate skills and IT support.* The manufacturer, the retailer, or both, need to create the right work environment and use the right people for the task. This means putting together skilled cross-functional teams (ideally these should be joint manufacturer-retailer teams) who will be able to understand the inputs from category management. Information technology support will also be necessary to provide and manage all the data.

Outputs and links with following steps

The following information collected during this step (e.g., market research) will feed step 2 (Finalise concept and feasibility).



DEVELOP

2. Finalise concept and feasibility

The aim of this step is to develop ideas and concepts, test them, and check product feasibility.

Inputs from previous steps

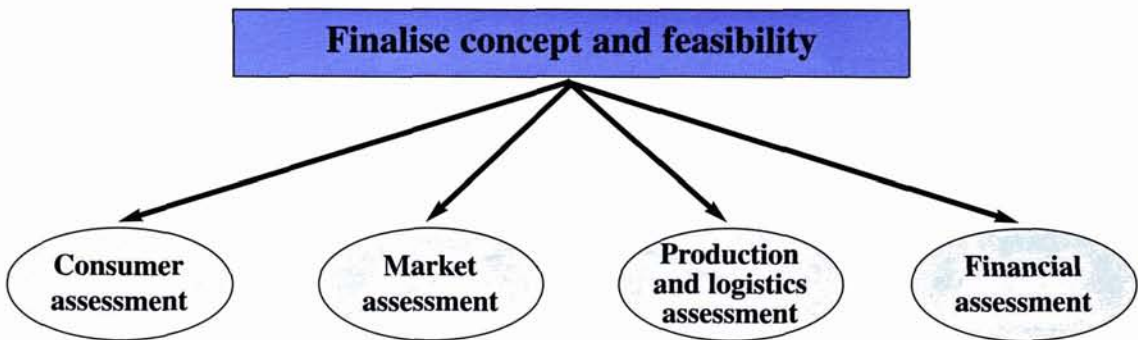
The key inputs from step 1 (Collate ideas) are market analysis reports and ideas about business opportunities.

Ownership

As with step 1, responsibility for this step depends on the existing relationship between manufacturer and retailer:

- In most cases the step is "owned" by the manufacturer alone.
- It can be owned by both manufacturer and retailer for specific products or private label products.

Figure 4.6
Step 2 – Finalise concept and feasibility



Objectives

The manufacturer evaluates the following issues for the product under development:

1. *Consumer assessment.*
2. *Market assessment.*
3. *Production and logistics assessment.*
4. *Financial assessment.* The manufacturer also links the financial analysis related to the product with company profitability objectives.

Output and links with following steps

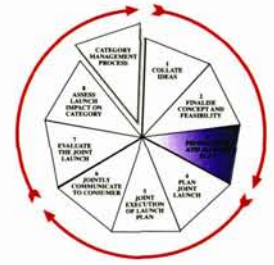
The information collected during this step will be critical for:

- Activities in step 3 such as the manufacturer's Route-to-Market Plan (which may incorporate a brand marketing plan and a trade marketing plan) and the Category Plan Fit completed jointly by manufacturer and retailer.
- Tools in step 4 such as the EPI Scorecard, the Manufacturer and Retailer Target Setting Tool and the Joint Execution Check List.

DEVELOP

3. Production and market plan

This step is focused on preparation for mass production and defining a common category plan (Category Plan Fit).



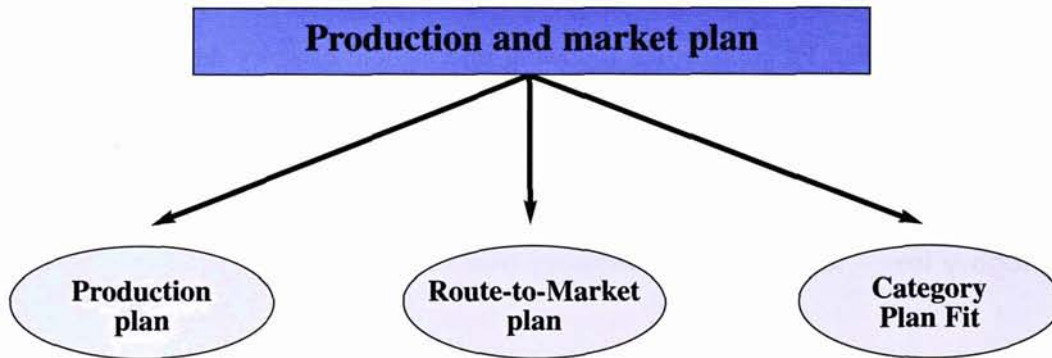
Inputs from previous steps

All the data collected by the manufacturer and/or the retailer during the first two steps and the category management process are inputs into this step.

Ownership

This step involves close co-operation between manufacturer and retailer. They will compare and integrate their information, with the manufacturer contributing plans for brand marketing and trade marketing (i.e., the market plan) and the retailer contributing a category plan.

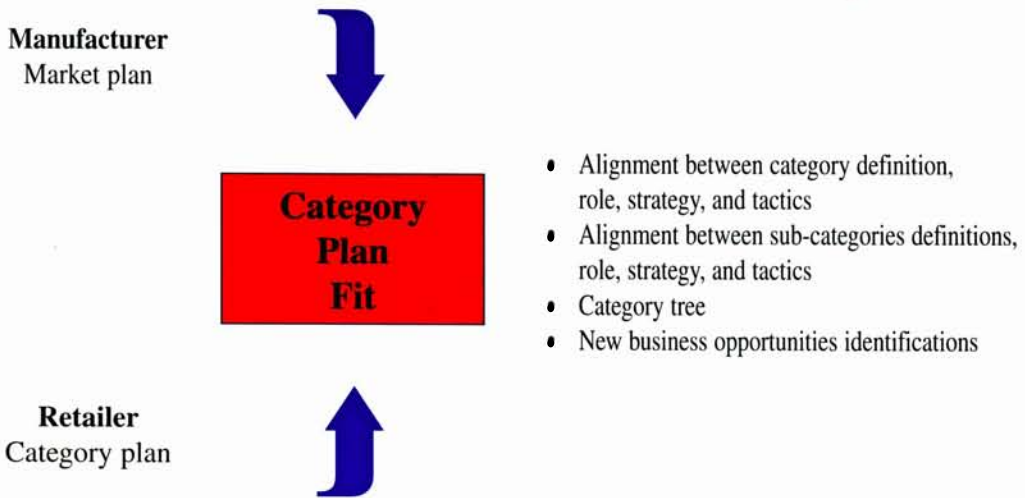
Figure 4.7
Step 3 – Production and market plan



Objectives and tools

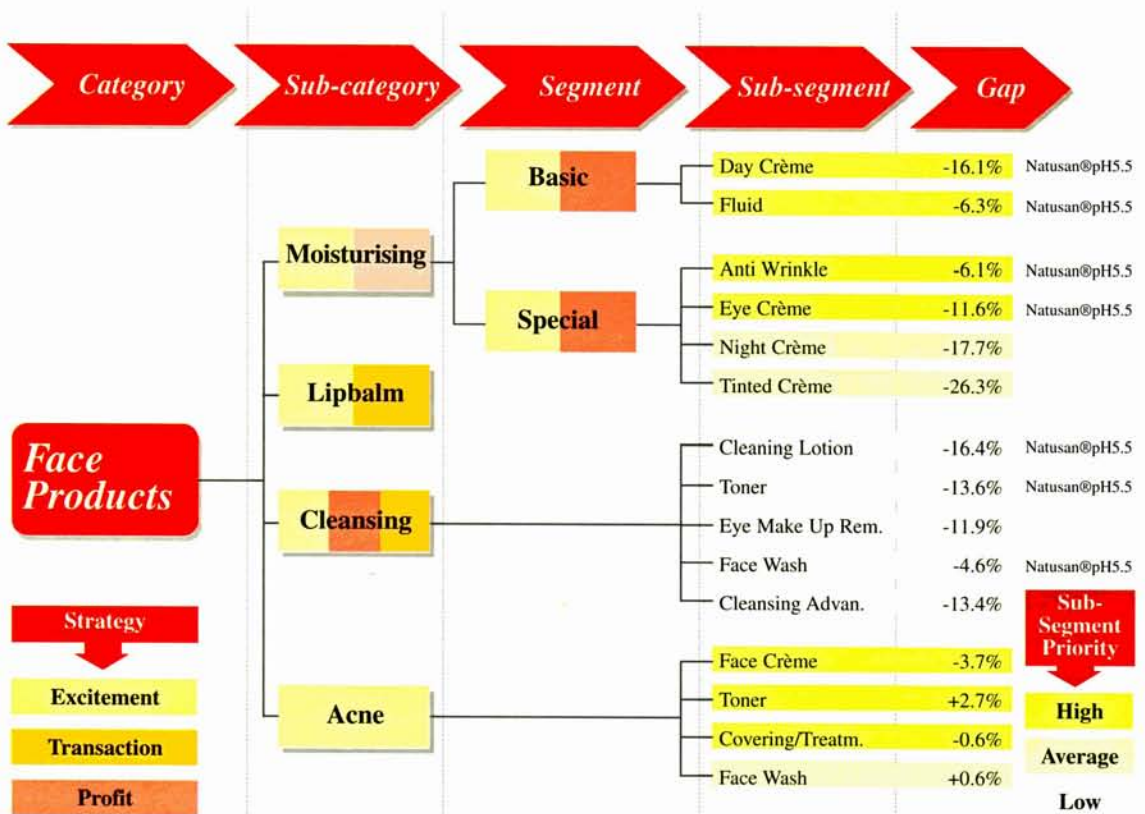
1. *Production plan.* The manufacturer defines the production process, making final adjustments for mass production.
2. *Route-to-Market plan.* Manufacturer and retailer prepare separate reports in order to define how they will penetrate the market. The manufacturer creates the brand marketing and the trade marketing plan, while the retailer contributes a category plan.
3. *Category Plan Fit.* Manufacturer and retailer jointly analyse category trends and business opportunities. The aim is to allow both sides to align their category approaches and identify business opportunities in specific categories. ***“The Category Plan Fit allows both manufacturer and retailer to understand and align their category management processes”***, says Francesco Mazzucato, PAM Category Manager. The manufacturer, based on information about the product and his understanding of the business, contributes a brand marketing plan, a trade marketing plan, and a sales policy for the new product. The retailer synthesises the information collected in the category management process from previous launches and defines a general category plan. With this input, manufacturer and retailer can compile the Category Plan Fit and begin to identify new business opportunities wherever possible (Figure 4.8). ***“The fact that we compare our Brand Marketing Plan and the ICA Category Plan allows us to discuss jointly new business opportunities”*** says Anette Helmertz, Johnson & Johnson, Sales Director Scandinavia.

Figure 4.8
The Category Plan Fit process



The Category Plan Fit contains the following information: category definitions (including sub-categories and segments), strategies, roles, sizes, fair share, turnover, and number of items. This is represented by a category tree (see Figure 4.9).

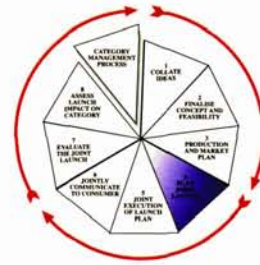
Figure 4.9
A category tree – ICA face care category tree



Once the categories and sub-categories have been redefined, the manufacturer and retailer can begin to identify business opportunities by means of category assessment and gap analysis, including new products to be introduced in the specific category. For example, through the Category Plan Fit, PAM and Colgate Palmolive in Italy identified an important gap in the personal care category. They responded to the need by introducing a new SKU. Similarly, in Sweden, Johnson & Johnson marketing and sales department representatives identified new business opportunities through the ICA category plan, and these opportunities were considered for communication to the Johnson & Johnson product development department for further investigation.

Outputs and links with following steps

This step is critical for the launch phase since it lays down a common vision and understanding of category definition, roles, strategies and tactics, which will help manufacturer and retailer optimise the product launch. In particular, all the information collected in the Category Plan Fit is essential for step 4, especially for the EPI Scorecard.



LAUNCH

4. Plan joint launch

Now that the "develop" phase has been completed, it is time to move on to the "launch" phase. The aim of step 4 (Plan joint launch) is to define product quality, launch objectives and support actions needed for the manufacturer and the retailer to perform the launch together.

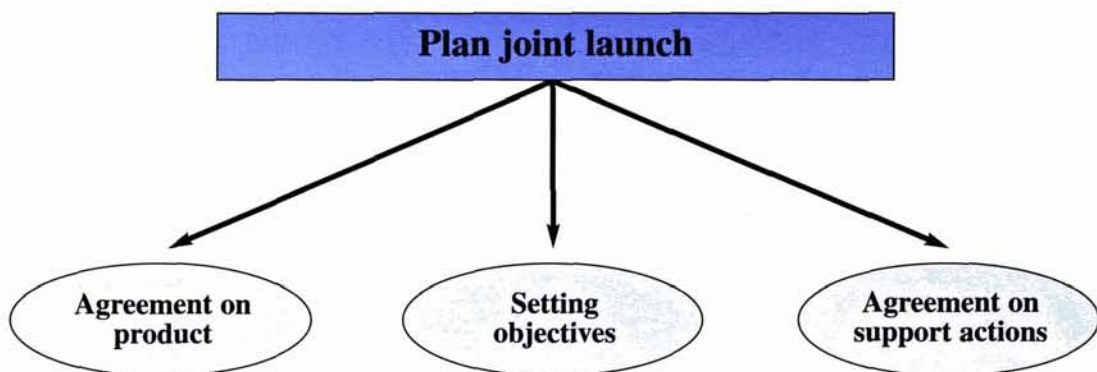
Inputs from previous steps

The manufacturer and the retailer use all information gathered in the "develop" phase (market analysis, consumer analysis, market plan, category plan and Category Plan Fit).

Ownership

This step is owned jointly by the manufacturer and the retailer, who work together on three tools: the EPI Scorecard, the Manufacturer and Retailer Target Setting Tool, the Joint Execution Check List.

Figure 4.10
Step 4 – Plan joint launch



Objectives and tools

The three objectives/tools that follow are closely linked. First, the trade partners evaluate the new product's likely success, then they set joint objectives for the new product introduction, and finally, they agree any support actions needed to make the launch a success.

1. *Agreement on product.* Manufacturer and retailer evaluate the product introduction (e.g., decide whether or not to launch) by using the EPI Scorecard (Figure 4.11.a). Initial work will have been done by the manufacturer and the retailer with the Category Plan Fit. Below we explain how the EPI Scorecard works by examining the following topics: what is measured, weights, score and implications.

- **What is measured.** The Scorecard evaluates three areas that are important for the launch of a new product: Importance of the category to the customer, Customer commercial proposition and Probability of launch success. For each of these three areas, it provides a full set of measures based on data (e.g., market share, position in the category) or tests (e.g., consumer tests). If needed, certain measures can be deleted. For example, specific products, as shown by Unilever, Fazer and Tradeka in Finland, do not need advertising. Therefore, the manufacturer and retailer will not use the advertising measure. While there are logical constraints imposed by the structure of the EPI Scorecard, it is also possible to introduce optional measures to those that already exist. For example, ICA and Johnson & Johnson used an environmental measure due to the importance of this issue in Sweden.
- **Weights** (in percentage terms). Weights are assigned to each item within the three main areas. We provide recommended weights based on the Ernst & Young and ACNielsen-BASES pan-European report. Therefore for each new product, the manufacturer and the retailer can modify these weights to reflect specific factors, such as country, retail structure or season. The suggested scoring of criteria is based upon the allocation of weight constrained to a total of 100%.
- **Scores.** Each item receives a point rating of 0, 4, 7 or 10 based on manufacturer and retailer response. Taking this rating and the weight assigned, it is possible to calculate a sub-score. For example, in area III, Probability of launch success, the measure “Degree of product innovation” allocates the following points: 0 point for a conversion item/non branded me-too, 4 points for a branded me-too, 7 points for a line extension and 10 points for an innovative product. Considering the fact that the weight is 10% for the “Degree of product innovation”, if the SKU under evaluation is an innovative product, the sub-score will be: $0.10 \times 10 = 1$). The sum of all the sub-scores for each area represents the area's intermediate score. The sum of the three intermediate scores gives the final score for the product.
- **Implications.** A final score between 7 and 10 indicates a high quality product that the manufacturer and retailer can consider for launching. If the score is between 5 and 7, the product will need improvement in certain areas. In this case the manufacturer may decide to carry out additional work on the product prior to re-submission to the retailer. If the score is below 5, the product has clear weaknesses. The manufacturer may decide to completely rethink or abandon the product.

Figure 4.11 shows the EPI Scorecard compiled for a shampoo produced by a major manufacturer and introduced in a leading retail chain in France. The EPI Scorecard score (e.i., 8.2) indicates that the product can be launched.

Figure 4.11
The EPI Scorecard - Example

EPI Scorecard

Area I - Importance of the category to the customer Area's relative weight: $\boxed{25}$ %

Importance of the category/sub-category for the retailer

Size $\boxed{5}$ % Not present Under average On average Superior to average

Growth $\boxed{5}$ % <0% 0%-5% 5%-10% >10%

Appeal to targeted consumer $\boxed{5}$ % None Poor Important Very important

Business opportunities in the category/sub-category for the retailer

Must be linked with the category role. Analyse retailer fair share and gaps opportunities. $\boxed{10}$ % No gaps Poor gaps opportunities Significant gaps opportunities Very significant gaps opportunities

Area's intermediate score: $\boxed{2.2}$

Area II - Customer commercial proposition Area's relative weight: $\boxed{25}$ %

Expected value increment to retailer business

Estimation based on the category strategy $\boxed{10}$ % None Poor Important Very important

Estimate sku ranking

First year $\boxed{5}$ % Bottom 25% Top 75% Top 50% Top 25%

Service level

Including service quality and costs $\boxed{10}$ % Below average On average High Very high

Product characteristics alignment with environment policy (optional)

Degree of alignment with the environment policy $\boxed{0}$ % n/a Allow to produce Product environmental friendly Environmental label

Area's intermediate score: $\boxed{2.2}$

Area III - Probability of launch success Area's relative weight: $\boxed{50}$ %

Degree of product innovation

NPI Model $\boxed{10}$ % Conversion item, non branded me-too Branded me-too Line extension Innovative product

Tests vs competitors

Quality of Concept $\boxed{5}$ % Bottom quarter <25% Below average 25-50% Above average 51-75% Top quarter 76-100%

Quality of Product $\boxed{10}$ % Bottom quarter <25% Below average 25-50% Above average 51-75% Top quarter 76-100%

Manufacturer track record

Numbers of successful launches in the last 2 years $\boxed{5}$ % Under average On average Superior to average Very superior to average

Expected media awareness building vs competitors

Advertising quality $\boxed{5}$ % No test. Inferior to competition Parity to average results In the leading group Superior to the leading group

Advertising spending $\boxed{5}$ % None Low Medium High

Expected promotion and merchandising support (short and long term)

Retailer support $\boxed{5}$ % None Judged weak Judged good Judged strong

Manufacturer support $\boxed{5}$ % None Judged weak Judged good Judged strong

Area's intermediate score: $\boxed{3.8}$

Final score: $\boxed{8.2}$

0<Score<5 : No listing

5<Score<7 : Possible listing, more accurate preparation needed

7<Score<10 : Listing

Courtesy of Ernst & Young

Having examined the EPI Scorecard from a broad perspective, it is useful to explain the specific measures for each area.

Area I: Importance of the category to the customer

The objective of this area is to evaluate the importance of the category to the customer. The weight recommended for this section is 25% in the global evaluation and can vary +/- 10%.

- Importance of the category/sub-category for the retailer. The variables to take under consideration are the size, the growth and the appeal to targeted consumer of the category/sub-category. The weight recommended is 5% for each element.
- Business opportunities in the category/sub-category for the retailer. The elements to analyse are the fair share of the retailer and the gaps that represent interesting business opportunities for the retailer. It is also important to take under consideration the category role that can influence the score (e.g., if a product is classified as destination, a minimum difference between the retailer share and fair share will be considered as a significant opportunity). The weight recommended is 10%.

| | | | | | |
|--|-----------------------------------|--|---|--|---|
| Area I - Importance of the category to the customer | | Area's relative weight: <input type="text" value="25"/> % | | | |
| Importance of the category/sub-category for the retailer | | | | | |
| Size | <input type="text" value="5"/> % | <input checked="" type="radio"/> Not present | <input type="radio"/> Under average | <input type="radio"/> On average | <input type="radio"/> Superior to average |
| Growth | <input type="text" value="5"/> % | <input checked="" type="radio"/> <0% | <input type="radio"/> 0%-5% | <input type="radio"/> 5%-10% | <input type="radio"/> >10% |
| Appeal to targeted consumer | <input type="text" value="5"/> % | <input checked="" type="radio"/> None | <input type="radio"/> Poor | <input type="radio"/> Important | <input type="radio"/> Very important |
| Business opportunities in the category/sub-category for the retailer | | | | | |
| Must be linked with the category role. Analyse retailer fair share and gaps opportunities. | <input type="text" value="10"/> % | <input checked="" type="radio"/> No gaps | <input type="radio"/> Poor gaps opportunities | <input type="radio"/> Significant gaps opportunities | <input type="radio"/> Very significant gaps opportunities |
| Area's intermediate score: | | | | | <input type="text" value="0"/> |

Area II: Customer commercial proposition

The objective of this area is to evaluate the customer commercial proposition proposed by the manufacturer to the retailer. The weight recommended for this section is 25% in the global evaluation and can vary +/- 10%.

- Expected value increment to retailer business. This estimate is based on the category strategy definition (e.g., if the product is a Profit Generator, the element under evaluation will be the margin level). The weight recommended is 10%.
- Estimate SKU ranking of the new product in the category/sub-category for the first year is based on the analysis done by the manufacturer. The weight recommended is 5%.
- Service level includes service quality and costs. The weight recommended is 10%.
- Product characteristics alignment with environmental policy is an optional measure. It is measured only in countries where environmental issues have an impact on the business. The weight recommended, if the measure is used, is 5%. Use of this measure will require adjustment of other weights to ensure a total of 100%.

| | | | |
|---|-----------------------------------|--|---|
| Area II - Customer commercial proposition | | Area's relative weight: <input type="text" value="25"/> % | |
| Expected value increment to retailer business | | | |
| Estimation based on the category strategy | <input type="text" value="10"/> % | <input checked="" type="radio"/> None | <input type="radio"/> Poor |
| | | <input type="radio"/> Important | <input type="radio"/> Very important |
| Estimate sku ranking | | | |
| First year | <input type="text" value="5"/> % | <input checked="" type="radio"/> Bottom 25% | <input type="radio"/> Top 75% |
| | | <input type="radio"/> Top 50% | <input type="radio"/> Top 25% |
| Service level | | | |
| Including service quality and costs | <input type="text" value="10"/> % | <input checked="" type="radio"/> Below average | <input type="radio"/> On average |
| | | <input type="radio"/> High | <input type="radio"/> Very high |
| Product characteristics alignment with environment policy (optional) | | | |
| Degree of alignment with the environment policy | <input type="text" value="0"/> % | <input checked="" type="radio"/> n/a | <input type="radio"/> Allow to produce |
| | | <input type="radio"/> Product environmental friendly | <input type="radio"/> Environmental label |
| Area's intermediate score: | | | <input type="text" value="0"/> |

Area III: Probability of launch success

The objective of this area is to evaluate the probability of launch success of the new product. Both manufacturer and retailer estimate the fact-based results based on tests while starting to set an agreement on possible support actions. The weight recommended for this section is 50% in the global evaluation and can vary +/- 10%

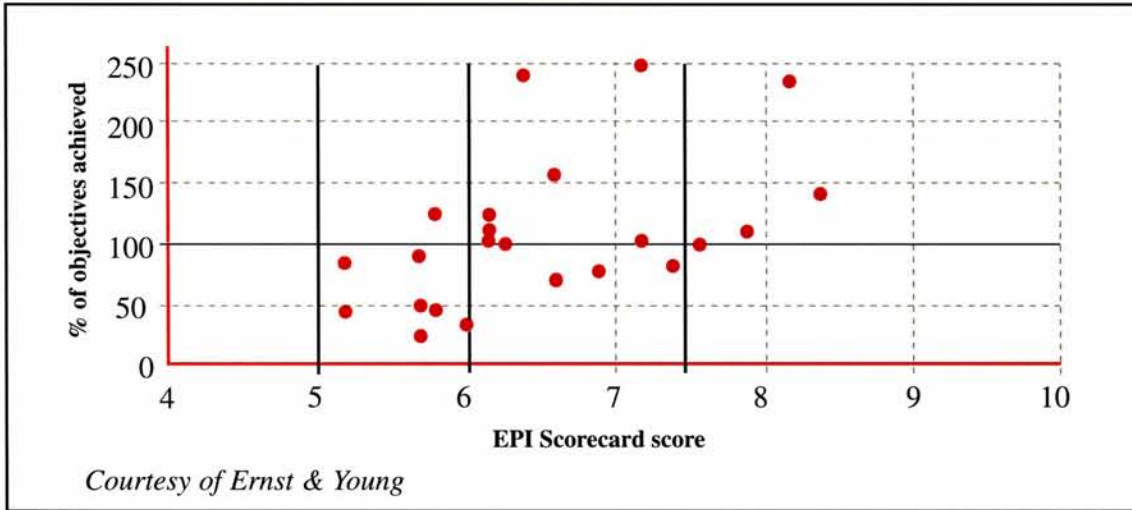
- Degree of product innovation is based on the Ernst & Young and ACNielsen-BASES report. The weight recommended is 10%.
- Tests are done by the manufacturer during the product development process. The weight recommended is 5% for quality of concept and 10% for quality of product.
- Manufacturer track record is based on track record results in the category/sub-category in the last 2 years, his capacity to deliver successful products to the market, and ability to deliver innovative products. The weight recommended is 5%.
- Expected media awareness building is compared to the category/sub-category average in terms of quality and quantity (spending) of advertising. The weight recommended is 5% for the advertising quality and 5% for the advertising spending.
- Expected promotion and merchandising support is based on the manufacturer and retailer support planned on a short and a long-term basis (promotion events, sampling, ...). The weight recommended is 5% for each support.

| | | | |
|---|-----------------------------------|--|---|
| Area III - Probability of launch success | | Area's relative weight: <input type="text" value="50"/> % | |
| Degree of product innovation | | | |
| NPI Model | <input type="text" value="10"/> % | <input checked="" type="radio"/> Conversion item, non branded me-too | <input type="radio"/> Branded me-too |
| | | <input type="radio"/> Line extension | <input type="radio"/> Innovative product |
| Tests vs competitors | | | |
| Quality of Concept | <input type="text" value="5"/> % | <input checked="" type="radio"/> Bottom quarter <25% | <input type="radio"/> Below average 25-50% |
| | | <input type="radio"/> Above average 51-75% | <input type="radio"/> Top quarter 76-100% |
| Quality of Product | <input type="text" value="10"/> % | <input checked="" type="radio"/> Bottom quarter <25% | <input type="radio"/> Below average 25-50% |
| | | <input type="radio"/> Above average 51-75% | <input type="radio"/> Top quarter 76-100% |
| Manufacturer track record | | | |
| Numbers of successful launches in the last 2 years | <input type="text" value="5"/> % | <input checked="" type="radio"/> Under average | <input type="radio"/> On average |
| | | <input type="radio"/> Superior to average | <input type="radio"/> Very superior to average |
| Expected media awarness building vs competitors | | | |
| Advertising quality | <input type="text" value="5"/> % | <input checked="" type="radio"/> No test. Inferior to competition | <input type="radio"/> Parity to average results |
| | | <input type="radio"/> In the leading group | <input type="radio"/> Superior to the leading group |
| Advertising spending | <input type="text" value="5"/> % | <input checked="" type="radio"/> None | <input type="radio"/> Low |
| | | <input type="radio"/> Medium | <input type="radio"/> High |
| Expected promotion and merchandising support (short and long term) | | | |
| Retailer support | <input type="text" value="5"/> % | <input checked="" type="radio"/> None | <input type="radio"/> Judged weak |
| | | <input type="radio"/> Judged good | <input type="radio"/> Judged strong |
| Manufacturer support | <input type="text" value="5"/> % | <input checked="" type="radio"/> None | <input type="radio"/> Judged weak |
| | | <input type="radio"/> Judged good | <input type="radio"/> Judged strong |
| Area's intermediate score: | | | <input type="text" value="0"/> |

Thus, the EPI Scorecard provides an objective basis for product introduction decisions. In the pilot projects, the products under evaluation (Colgate Palmolive shower gels and Johnson & Johnson face care products) achieved scores high enough to allow introduction.

The Procter & Gamble European team tested the EPI Scorecard on 25 launches done in the last 2 years. The team correlated the EPI Scorecard score with the percentage of objectives achieved (see Figure 4.12). Results show that there is a strong correlation between a high EPI Scorecard score and the percentage of objectives achieved. The launches were chosen at random from categories in which Procter & Gamble does business in Europe, and from across several countries. The results quoted are volumes sold benchmarked against the pre-launch expectation set between Procter & Gamble and customers.

Figure 4.12
EPI Scorecard – Correlation between the EPI Scorecard score and the percentage of objectives achieved.



Internally, Procter & Gamble decided to customise the EPI methodology and to give the following definitions to the EPI scores:

| EPI score | Implication | Actions |
|-----------|---|--|
| < 5 | Bad ideas | Reject |
| 5.1-6 | Small/Risky ideas (Few successes) | The manufacturer needs to do serious improvements and the retailer will effectively support the new product and perceive with caution. |
| 6.1-7.4 | Good ideas (Generally successful products) | The manufacturer and the retailer support the new product effectively. |
| 7.5-10 | Really big ideas (No failures and big successes) | The manufacturer and the retailer support in the most efficient way the new product. |

The 9 products in quadrant C (Good ideas, EPI score 7.1-8 and Really big ideas, EPI score 8.1-10), averaged 178% of objectives. Only 3 products with an EPI score superior to 7.1 reached minor objectives (76% on average).

2. *Setting objectives.* Manufacturer & Retailer Target Setting Tool. Next, manufacturer and retailer reach a common understanding on key measures and objectives to be reached after a set period (one month, six months, one year, etc). These measures (consumer, market, production/logistics, financial measures) are linked to category strategies (see Figure 4.13) and will later be used to evaluate the success of the new product introduction. For example, financial measures will be important for a "cash generator" product, but not for an "image creator". The measures selected for the product in question are entered into the Manufacturer and Retailer Target Setting Tool (Figure 4.14). *“The Manufacturer and Retailer Target Setting Tool is very important because it provides clear, transparent objectives for both manufacturer and retailer, and the objectivity it creates makes it easier to generate strong long-term relationships. All these elements will support a good distribution ramp-up and advertising campaign”*, says Paolo Borghesi, Colgate Palmolive Category & Merchandising Manager.

Figure 4.13
Selecting which measures to focus on

| Category Strategy \ Measures | Consumer | Market | Production / Logistics | Financial |
|--|----------|--------|------------------------|-----------|
| Traffic Builder | ● | ● | ● | ◐ |
| Turf Defender | ● | ● | ● | ● |
| Transaction Builder | ○ | ◐ | ● | ● |
| Cash Generator | ○ | ○ | ◐ | ● |
| Profit Generator | ○ | ◐ | ● | ● |
| Excitement Creator | ● | ○ | ○ | ○ |
| Image Creator | ● | ○ | ○ | ○ |
| <p>● HIGH ◐ MEDIUM ○ LOW</p> <p><i>Courtesy of Ernst & Young</i></p> | | | | |

Note: High, medium and low indicate the degree of emphasis placed on the respective cluster of measure.

The following list indicates possible key measures for each area:

Consumer:

- Brand awareness
- Brand loyalty
- Perceived quality
- Perceived value
- Consumer satisfaction
- Household penetration

Market:

- Market share
- Market growth
- Category share
- Category growth
- Promotion effectiveness
- Retailer fair share

Productivity/Logistics:

- Weighted distribution
- Lead time
- Days out of stock
- Inventory value
- Inventory turns
- Gross profit / unit shelf space

Financial:

- Category/brand turnover
- Category/brand growth turnover
- Category/brand profitability
- Economic value indicator
- Operating value indicator

Figure 4.14
Manufacturer and Retailer Target Setting Tool – example (Cash Generator product)

| Manufacturer and Retailer Target Setting | Targets Year 1 |
|---|----------------|
| Consumer measures | |
| ● Brand Loyalty | 6% |
| ● Category Household Penetration | 15% |
| Market measures | |
| ● Manufacturer Market Share in Retailer A | 3% |
| ● Category Share in Retailer A | 5% |
| Production / Logistics measures | |
| ● Weighted Distribution | 90% |
| ● Service Level | k=99% |
| ● Inventory Level in Retailer A | 4 days |
| ● Lead Time | 1 day |
| Financial measures | |
| ● Category Turnover in Retailer A | 495,000 € |
| ● Growth Turnover in Retailer A | +10% |

Courtesy of Ernst & Young

3. *Agreement on support actions* – Joint Execution Check List. Having completed the EPI Scorecard and set joint objectives for the new product introduction, manufacturer and retailer use the Joint Execution Check List to specify the necessary support actions (see Figure 4.15). This tool identifies "tactics" in a number of areas ranging from assortment, through shelf presentation, to pricing levels and promotion, plus distribution, advertising and agreements with data providers. In this step the partners also establish the degree of co-operation required to evaluate the launch (step 7). In particular they specify the channel and the stores where data will be evaluated jointly (Tracking needs to start well in advance, at least 6-8 weeks before the product goes onto the shelves). ***“The Joint Execution Check List is a powerful tool which makes it possible to organise and allocate tasks for the launch”***, says Riccardo Ricci of Colgate Palmolive, Business Account Manager.

Figure 4.15
Joint Execution Check List – template

| Category tactics implementation | Tactical choices |
|---------------------------------|---|
| Assortment | Decrease/increase/maintain numbers of SKUs Swap replacing existing SKUs Uniform vs cluster: Tailor the assortment by store/format/cluster of stores Private Label: Develop, abandon or expand Private Label |
| Pricing levels | Decrease/increase/maintain retail selling pricing levels Uniform vs cluster: Vary pricing levels across different stores/formats/markets Private Label: pricing levels based on strategic, competitive and consumer positioning |
| Promotions | Type Frequency Duration Timing Location Cross-merchandising |
| Shelf Presentation | Location within store Merchandising plan Planogram layout Space location Uniform vs cluster |
| Planning | Choices |
| Distribution | Type of channel Number of stores Number of consumers reached Synchronisation with advertising |
| Advertising | Type of advertising Number of TV spots Number of leaflets Synchronisation with distribution |
| Data/Analysis Provider | Data/Analysis provider Type of data/measures |

Courtesy of Ernst & Young

Outputs and links with following steps

This step is rich in outputs. Each objective/tool feeds step 5 (Joint execution of launch plan), step 6 (Jointly communicate to consumer) and step 7 (Evaluate the joint launch). They prepare the ground for distribution and advertising, and equip manufacturer and retailer with the tools necessary to evaluate the launch (with the support of a data provider).



LAUNCH

5. Joint execution of launch plan

In this step the manufacturer, assisted by the retailer, implements in-store all the elements identified in the Joint Execution Check List drawn up in step 4.

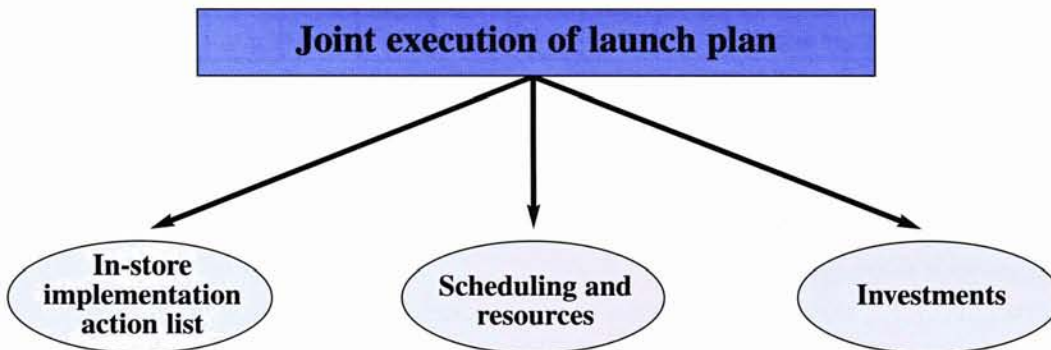
Inputs from previous steps

The main input for this step comes from the Joint Execution Check List.

Ownership

While the retailer is responsible for in-store implementation, the manufacturer may advise on certain aspects such as shelf presentation. Responsibilities and roles are defined in the Joint Execution Check List. In-store implementation can be time-consuming first time round. Moreover, the more companies work in this way, the better results they will get. *“The first implementation requires a sizeable investment in terms of people and time, but the lessons learned make the process much more efficient the next time round”*, says Paolo Brugioni, PAM Grocery Business Manager.

Figure 4.16
Step 5 – Joint execution of launch plan



Objectives

The main objective is to implement the Joint Execution Check List drawn up in step 4 (see Figure 4.15).

1. *In-store implementation action list*
2. *Scheduling and resources*
3. *Investments*

Figure 4.17 shows how one company schedules the various actions involved in implementing EPI.

Figure 4.17
Scheduling for the EPI process – example

| Activities \ Weeks | 02 | 06 | 08 | 09 | 10 | 14 | 17 | 20 | 22 | 36 |
|---|----|----|----|----|----|----|----|----|----|----|
| · Launch presentation | x | | | | | | | | | |
| Category Plan Fit | | x | | | | | | | | |
| EPI Scorecard | | | x | | | | | | | |
| Manufacturer & Retailer Check List | | | x | | | | | | | |
| Joint Execution Check List | | | x | | | | | | | |
| · Product in systems | | | x | | | | | | | |
| · First Shipment to stores | | | | x | | | | | | |
| · Presentation to sales force | | | | x | | | | | | |
| · Shelf presentation to sales force | | | | x | | | | | | |
| · Sales kick off | | | | | x | | | | | |
| · Promotions | | | | | | x | | x | | |
| · Media booking | | | x | | | | | | | |
| · Media start TV | | | | | x | | | | | |
| · Media start magazines | | | | | | | | x | | |
| · Launch results debrief | | | | | | | x | | | |
| · Launch results debrief after 3 months | | | | | | | | | x | |
| · Launch results debrief after 6 months | | | | | | | | | | x |

Courtesy of Ernst & Young

Note: EPI process tools are in bold.

Outputs and links with following steps

Information coming from this step feeds into step 7 (Evaluate the joint launch). It is collected by the manufacturer, the retailer and the data provider.



LAUNCH

6. Jointly communicate to consumer

The aim of this step is to stimulate awareness and trial and build consumer loyalty, e.g., through advertising.

Inputs from previous steps

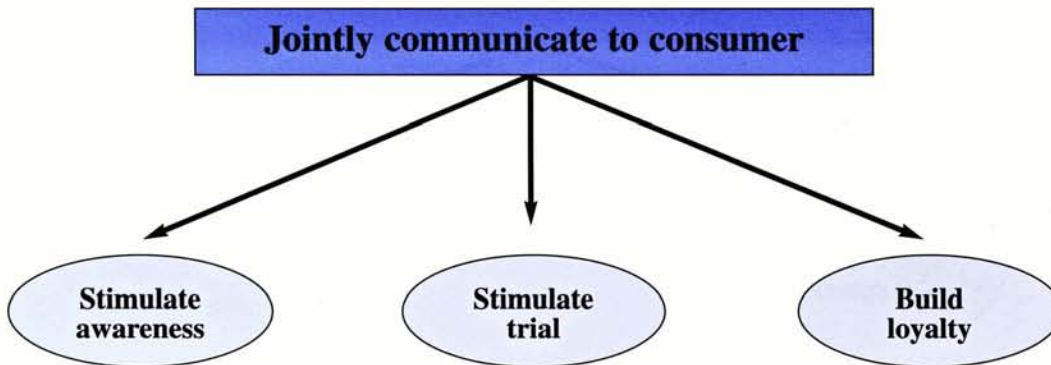
The main input comes from the Joint Execution Check List created in step 4 (see Figure 4.15).

Ownership

Manufacturer and retailer are both responsible for stimulating awareness / trial and building loyalty.

Figure 4.18

Step 6 – Jointly communicate to consumer



Objectives

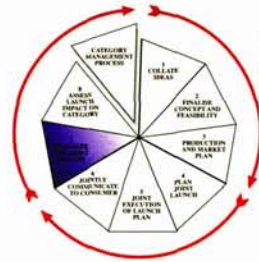
The impact on the consumer can be increased¹³ by aligning the communication plans of both manufacturer and retailer – for example, combined advertising on television, together with in-store promotions and sampling. In the long term, these activities will reinforce product awareness and loyalty.

1. *Stimulate awareness*
2. *Stimulate trial*
3. *Built loyalty*

Outputs and links with following steps

Information from this step feeds into step 7 (Evaluate the joint launch).

¹³ As shown in a separate report, New Product Introduction – Successful Innovation/Failure: A Fragile Boundary, published by Ernst & Young and ACNielsen-BASES, 1999.



EVALUATE

7. Evaluate the joint launch

The aim of this step is to assess the success of the product introduction.

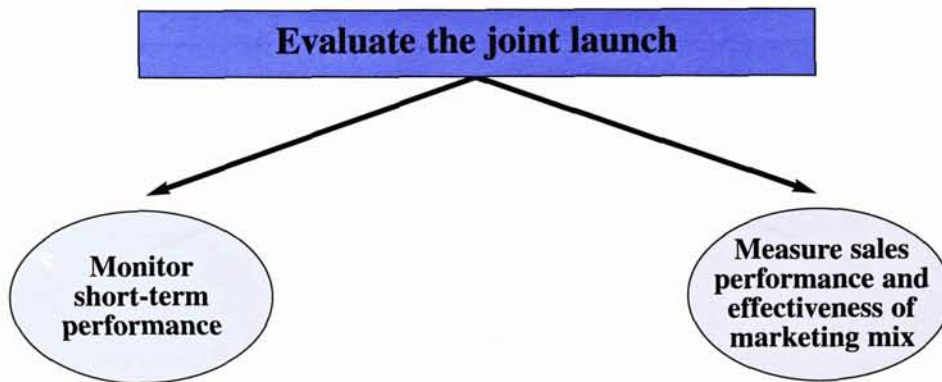
Inputs from previous steps

The inputs for this step come from the measures identified in the Manufacturer and Retailer Target Setting Tool in step 4 (see Figure 4.14) and the information coming from data providers.

Ownership

Co-operation in this step is close and involves the data provider.

Figure 4.19
Step 7 – Evaluate the joint launch



Objectives and tools

The Manufacturer and Retailer used the Manufacturer and Retailer Target Check (see Figure 4.20) in order to:

1. *Monitor short-term performance.* Manufacturer and retailer apply the tool at short and regular intervals (e.g., every two weeks).
2. *Measure sales performance and effectiveness of marketing mix.* Manufacturer and retailer apply the tool at regular intervals (e.g., every two months), checking whether they have reached the goals set in the four areas: consumer, market, productivity/logistics, financial.

Figure 4.20
Manufacturer and Retailer Target Check – example (Cash Generator product)

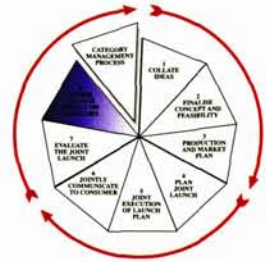
| Manufacturer and Retailer Target Check | Targets Year 1 | Results after 2 months | Results after 4 months |
|---|-------------------|---------------------------|---------------------------|
| Consumer measures | | | |
| ● Brand Loyalty | 6% | 2.3% | 3.4% |
| ● Category Household Penetration | 15% | 10% | 11% |
| Market measures | | | |
| ● Manufacturer Market Share in Retailer A | 3% | 1.4% | 1.8% |
| ● Category Share in Retailer A | 5% | 3.4% | 4% |
| Production / Logistics measures | | | |
| ● Weighted Distribution | 90% | 60% | 70% |
| ● Service Level | k=99% | k=98% | k=99% |
| ● Inventory Level in Retailer A | 4 days | 5 days | 4 days |
| ● Lead Time | 1 day | 2 days | 1 day |
| Financial measures | | | |
| ● Category Turnover in Retailer A | 495,000 € | 459,000 € | 472,500 € |
| ● Growth Turnover in Retailer A | +10% | +2% | +5% |

Courtesy of Ernst & Young

Outputs and links with following steps

Step 7 reveals whether the objectives set by manufacturer and retailer regarding product and category performance have been met. For example, in the PAM-Colgate Palmolive pilot project, the two shower gels achieved their objective in terms of weighted distribution after one month of sales – an impressive result compared to the category average.

The EPI process is now essentially complete. The final part, step 8 (Assess launch impact on category), is only carried out periodically, e.g., on an annual or semi-annual basis.



EVALUATE

8. Assess launch impact on category

Only in exceptional cases would a company assess the impact of one single product introduction on the relevant category. However, once several new products have been submitted to the EPI process – the Ernst & Young and ACNielsen-BASES report suggests after one or two years – it is worth assessing their collective impact on the category in question.

Inputs from previous steps

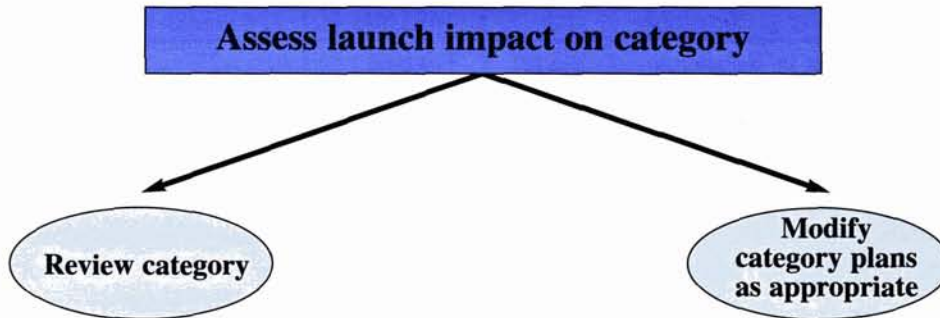
All the data evaluated in step 7 (Evaluate the joint launch) allows to review categories.

Ownership

This step is owned by the retailer.

Figure 4.21

Step 8 – Assess launch impact on category



Objectives and tools

After reviewing the impact of the new products, the retailer will:

1. *Review category.*
2. *Modify category plans as appropriate.* It may become necessary to redefine the category and/or adjust the category role, strategy or tactics..

Outputs and links with the EPI process

This step may deliver ideas for step 1 of the next EPI cycle (Collate ideas).

How to make it work

Since we developed the EPI process, we have been able to test its effectiveness and ease-of-use in two pilot projects. In both cases, the companies involved implemented the whole EPI process: PAM with Colgate Palmolive in Italy; and ICA with Johnson & Johnson in Sweden.

We also conducted some specific tests in Finland (Tradeka with Unilever and Fazer) and in the UK (Procter & Gamble). In these cases, the companies involved implemented just one key part of the process – the EPI Scorecard (see Figure 4.11), which provides a way of evaluating whether a product is worth launching in its present form.

Below we summarise some of the lessons learned from these pilot projects and tests, under four headings: people, value relationships, performance measurement and technology.

People

If the EPI process is to be implemented successfully, top management must be prepared to give the initiative full support and provide the necessary people with appropriate skills. Especially if the comprehensive approach is chosen, retailer and manufacturer will both need to form multifunctional teams with adequate knowledge and experience of both product introduction and category management.

Both the PAM-Colgate Palmolive and the ICA-Johnson & Johnson pilot projects involved a number of people from each side. The effort involved was larger than a normal launch, but achieved very good results.

Value relationships

Sensitivity about sharing confidential information is a real issue that could prevent the EPI process from delivering the full benefits promised. It follows that a trust-based relationship between the trade partners is essential if the EPI process is to bear fruit. It may seem obvious but it is impossible to overemphasise the value of good relationships at every level of the two organisations, including a clear understanding about which information is and is not going to be shared. Even seemingly insignificant factors like the location of meetings can have an influence on the relationship.

The relationship between the trade partners also needs to be set up with a view to the long term, given that the ultimate goal of EPI is not just short-term volume increases or cost savings, but also long-term brand/category value. The minimum time needed to implement the comprehensive EPI approach just once is 3-5 months, but the two sides should plan to work together over a much longer period.

The teams formed to implement the EPI process can be quite complex and each side should appoint a single person responsible for managing the project. Beyond this, the teams need to represent all the relevant functions:

- *Manufacturer representatives.* Marketing, sales, finance and supply chain department representatives are required. Sponsorship of the initiative must come from the top of the organisation, but normally the teams are led by the Sales Director or the Category Manager.
- *Retailer representatives.* Category management teams, normally within the buying departments, are heavily involved in the exercise. The IT department and the stores should be involved too.
- *Consultants.* They normally can help to keep the exercise on track, especially by facilitating meetings and helping the teams apply the measures.
- *Data/Analysis provider.* This might be a third party supplier, like ACNielsen, or the IT departments of the companies concerned. It is advisable to involve the data provider as early as the launch phase, when the partners are setting objectives using the Manufacturer and Retailer Target Setting Tool. This enables the data provider to understand which data will be needed.

Performance measurement

As we have seen earlier in this report, the EPI process requires the managers involved to use a number of measurement tools. Many of these are performance measurement tools, such as the Manufacturer and Retailer Target Setting Tool. The importance of shareholder value for today's senior executive has become critical. Measuring success, based on financial and non-financial, but quantifiable measures, is required. We recognised the need to continue to develop and execute plans designed to maximise value in alignment with overall corporate objectives.

- *The Manufacturer and Retailer Target Setting Tool* (see Figure 4.14). There are many possible measures. In both pilots it was clearly important to focus on measures that matched the product category strategy.
- *The EPI Scorecard* (see Figure 4.11). In the PAM-Colgate Palmolive pilot project, the EPI Scorecard was used in the way we suggested and the exercise went very smoothly, taking just one meeting (with some pre-work). In the ICA-Johnson & Johnson pilot project, the team was also able to go through the EPI Scorecard quickly, thanks to work already done on the Category Plan Fit (see Figure 4.8).

Technology

For EPI to work well, top management needs to pay particular attention to technology, in particular:

- *Data warehouse technology.* Both retailers and manufacturers should look into investing in data warehouse technology. Companies like Ernst & Young and ACNielsen can help identify the needs as well as design, implement and operate flexible systems. Analysis of store data is crucial to understand what is happening in each phase of the launch. In the pilot projects, a number of useful measures were not used because the technology was not able to provide the right data.
- *Connections between headquarters and stores.* Retailers must invest in technology in order to get the best possible feel for what is happening in each store. Internet technology can be especially helpful for exchange of information.

Appendix – Sources

- **Accelerated Solution Environment or ASE.** This workshop enabled industry professionals to "think outside the box", to understand the product introduction process better, define success criteria and reflect on linkages with category management. It was this event that led to the decision to represent Efficient Product Introductions (EPI) as a circular process with each step providing input into the next and the final step feeding into category review and the EPI next cycle.

This event was attended by the following people:

| | | |
|----------------|--------------------------|--|
| Belgium | Mark Moebius | Procter & Gamble |
| | Luc Demeulenaere | Procter & Gamble |
| Finland | Tero Rautsola | Fazer Confectionery |
| | Jukka Lång | Unilever |
| | Tapio Finer | Tradeka/Valintatalo-Chain |
| France | Jean Jacques Jarrosson | Groupe Danone |
| | Frédéric Berchon | Promodès |
| Italy | Paolo Borghesi | Colgate Palmolive |
| | Andrea Lagioia | Colgate Palmolive |
| | Anne Marie Kearney | Kraft Jacobs Suchard |
| | Paolo Brugioni | Gruppo PAM |
| Germany | Heike Kiene | Fegro/Selgros |
| | Ursula Blatzheim | REWE |
| Greece | Joseph Bourlas | Veropoulos Bros |
| Netherlands | Ton Kooi | Heineken |
| | Dieter Marquardt | SPAR International |
| Sweden | Anette Helmertz | Johnson & Johnson |
| | Eva Junevad | ICA |
| | Jaliya De Soysa | ICA |
| United Kingdom | Peter Ellingworth | Bristol Myers |
| | Alison Pinnock | Sara Lee Household & Body Care |
| | David Hillmann | United Distillers & Vintners |
| | Ben Hoelke | Kellogg Europe |
| | Joachim Neukam | SmithKline Beecham |
| | Colin Peacock | Gillette |
| | Charles Offer | IGD |
| | Phil Jarratt | Procter & Gamble |
| | Steve Saunders | Chivers Hartley |
| Ernst & Young | Roberto Iorio | Ernst & Young Global Client Consulting |
| | Phillip Cartwright | Ernst & Young Global Client Consulting |
| | Francesco Percopo | Ernst & Young Italy |
| | Paul Mullis | Ernst & Young UK |
| | Natalie Blunn | Ernst & Young UK |
| | Ruth Greene | Ernst & Young UK |
| | Jonathan Low | Ernst & Young USA |
| | Marc Spronk | Ernst & Young Netherlands |
| | Samantha Van Rooij | Ernst & Young Netherlands |
| | Jean Luc Vincent | Ernst & Young France |
| | Fabrice Loison | Ernst & Young France |
| ACNielsen | Jean Jacques Vandenheede | ACNielsen Belgium |
| ECR Europe | Laurence Deprez Zenezini | AIM Belgium |

- **ACNielsen-BASES** contributed additional expertise and data which was used to throw further light on the conclusions of the other analyses.
- **Data analysis** led by Ernst & Young and ACNielsen. This involved analysing nearly 25,000 new FMCG product codes introduced over a 13-month period in six major European countries (France, Italy, Germany, Finland, Spain, UK).
- **Ernst & Young industry specialists** developed the EPI process further.
- **Field work** conducted throughout Europe. The purpose of these case studies was to throw light on the current state of the product introduction process and find out how far the industry was ready to go with a joint approach between manufacturers and retailers.
- **Pilot projects** conducted in Italy and in Sweden.

Colgate Palmolive - Italy

Paolo Borghesi, Category & Merchandising Manager
 Riccardo Ricci, Business Account Manager
 Fabrizio Guccione, Gruppo PAM Account
 Paolo d'Orso, Brand Manager

Gruppo PAM - Italy

Paolo Brugioni, Grocery Business Manager
 Francesco Mazzucato, Category Manager
 Lara Facchinetti, Ass. Category Manager
 Natasha Comin, Ass. Category Manager

Ernst & Young

Francesco Percopo, Manager
 Stéphane Timpano, Senior Consultant

Johnson & Johnson - Sweden

Anette Helmertz, Sales Director Scandinavia
 Magnus Knutsson, Category and Space Manager
 Robert Ehinger, Account Manager
 Peter Paumgardhen, Brand Manager
 Ulf Ankarberg, Promotion Manager
 Anders Rask, Field Sales Manager

ICA - Sweden

Jaliya De Soysa, Development Manager ECR
 Charlotte Ihrmark Gustafsson, Category Manager Coach
 Harriet Tiderman Säfwenbergh, Ass. Category Manager
 Christina Sjö Dahl, Category Manager
 Björn Sjögren, Finance
 Jonas Levin, Marketing Communications

- **Test projects** conducted in UK and in Finland.

Procter & Gamble - UK

Phil Jarratt, European Customer Marketing Manager

Unilever - Finland

Jukka Lång, ECR Co-ordinator

Fazer Confectionery - Finland

Tero Rautsola, Development Director

Tradeka/Valintatalo-Chain - Finland

Sanna Teinilä, Product Manager

Disclaimer

This study in this publication is promoted by the members of ECR Europe and has been made possible, in particular, thanks to the active support of those companies and organisations which participated in the project work undertaken by the authors and consultants, Ernst & Young Global Client Consulting.

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