

Consumers swayed by 'trusted recommendations'



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China's consumers are being a bit more tight-fisted with their money. Sales of consumer goods have been slowing in the recent months.

New product launches are also fewer and changing in tone. "Bigger is better" seems to be losing some of its appeal when it comes to splashy product debuts.

TNS, the research arm of WPP's Kantar division, recently carried out a joint study with Kantar Worldpanel that analyzed 3,500 new product launches in 77 categories over the past three years.

Shanghai Daily sat down with Ray Crook, managing director for innovation and product development at TNS Asia Pacific to discuss the findings of the survey.

Q: What are the major trends in new product launches?

A: Almost all categories are introducing new products, just over half of them in the premium range. The number of actual new products is declining. In 2011, there were 300,000 new launches, while last year the figure was only 210,000.

New product launches used to contribute about 8 percent of a company's overall growth, but by 2013, that proportion had fallen to 6 percent. It's harder to get growth from innovation.

Q: Why is it more difficult now to stage successful new product launches, and what kind of companies do that best?

A: Markets are now becoming saturated, and consumers have a wide variety of very good products to choose from.

For new products to be successful, one needs to identify a gap in the market rather than just putting new products out there and assuming they will succeed automatically.

We define successful new products as those that can bring a company incremental growth, which means achieving a higher growth pace than the industry average. That's harder to achieve than before. That is particularly true for multinational companies. We've found they are having more difficulty achieving incremental growth, even in premium sectors, and they are struggling a lot more than local companies.

Out of the 3,500 new product launches we tracked in 77 sectors, half of

multinational company launches were aimed at the premium end of market. For local companies, only 27 percent of their launches were premium, but they were able to provide 30 percent more added growth than multinationals.

That's because local players know the market better, and they're launching products that fit the needs of Chinese consumers better.

One new product launch strategy commonly seen in multinational companies is "search and re-apply." That means simply introducing products from overseas into China. The problem is that China is different from other parts of the world. It's okay to bring in a product from overseas, but it may need to be customized for Chinese consumers.

Q: Can you cite some examples of successful new product launches in China?

A: Mars introduced a smaller size of Snickers — a 20-gram peanut candy bar that costs 1.50 yuan. It proved very successful because 51 percent of people who bought the smaller bar were new users to the brand.

Unilever also has offered smaller detergent packs and successfully attracted new buyers.

Q: What categories have the most growth potential in the next few years in China?

A: Our studies have found several opportunity areas in the consumer goods sector, including functional foods and drinks, and "multi-sensual-experience" products, which refers to a snack or food that offers sound or texture as well as excellent taste.

Potential growth opportunities could also come from offering a simplified or convenient version of existing products.

My personal favorite innovation is one that reduces the processes consumers have to go through to use a product. For example, scrubbing brushes with built-in detergent that releases automatically when you scrub on a pan. Innovation doesn't have to be as glamorous as an iPhone. It's whatever makes your life better and saves extra work.

Q: Where do the failures go wrong?

A: They are products that are very similar to what's already on the market, usually copycats. Sometimes they are just flavor extensions. For example, a new lemon flavor added to the existing beverage. They are not delivering a

new or better benefit.

They simply move sales volume from one type of product to another type, undercutting sales for other products under the same brand.

Q: Consumers are willing to spread the word and comment about new products on social networks. How can consumer goods companies make good use of the digital platform to fuel new product launches?

A: Digital platforms and social media network can convince people to try a new product much more quickly and can allow products to reach a much larger group of potential consumers.

In the next few years, products of different types should all have some form of digital footprint. They need to create some topical discussion among consumers.

E-commerce is also playing a more important role than before, so it's important to be visible on most online shopping sites to obtain trial.

It's crucial to understand who the target audience is and make sure that digital strategy is consistent with the product offering and overall marketing strategy.

Q: What's unique about new product launches in China? How do Chinese consumers stack up in terms of trying new products?

A: There's no one golden rule for new product launches. It's a matter of understanding what the market is and determining where growth will come from. Brands have to take into account the incremental growth a company can accrue from new products. If a company makes a new product and people are switching to it from existing products from the same company, there's no benefit. They are just adding to the cost base.

Chinese consumers are willing to try new products, but they want trusted recommendations from friends and family. If your first time experience is negative, it can have a ripple effect and turn off a lot of people. Our study shows that 45 percent of new products launched in China stay on the shelf after three years, 19 percent bring incremental volume of which only 4 percent would be big winners.

So new products don't necessary need to have the biggest sales volume, it's crucial to measure the potential incremental growth and the possible cannibalization with existing products rather than simply going after being the biggest seller on the market.

