The 5 Ps of Picking New Products

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by Jenny Kosek for *Grocery Headquarters 2014 Nonfoods Handbook*

February 4, 2014 — The battle for shelf space is raging on and for grocers with limited room in their general merchandise and health and beauty care departments, deciding which new products to bring in, which items stay and which should be replaced is growing increasingly difficult as categories shrink, expand and emerge based on fickle consumer trends.

With thousands of nonfood items introduced each year, the conundrum becomes how to select the items with the best odds of boosting profit and which items to remove without the risk of losing profits.

With 40% of consumers believing that nonfoods items such as health and wellness products are "worth spending a little more on," stocking innovative items that are attractive to shoppers is a critical component in growing market share. Countless factors weigh on a retailer's decision to add or remove nonfoods items from shelves, but as many are discovering by employing some practical considerations, retailers can manage shelf space wisely.

Hamacher Resource Group (HRG), a marketing and research firm based outside of Milwaukee, Wis., has been objectively reviewing new HBC products for more than 30 years. Its team of analysts holds each product up to five key considerations that predict a product's chances for success at shelf. Dave Wendland, vice president at HRG, refers to them as the five Ps (Product Differentiation, Placement, Profitability, Promotional Strategy and Past Performance) and suggests that weighing these considerations against a new product can help retailers make better informed decisions and build their bottom line.

"Regardless of whether it is GM or HBC, ultimately, grocers want to carry products with high margins and those with the best potential to move off the shelf," says Wendland. "Knowing which new products warrant consideration for stocking can be made much easier when they are held up against these five criteria."

Product Differentiation

The world of nonfoods is rife with imitations and stocking multiple versions of what is ultimately the same product only serves to tie-up valuable shelf space that could be dedicated to new and innovative products. Retailers should ask, "how many multivitamins do I really need to offer?" Still, manufacturers often continue to introduce copycat products in the hopes of capturing consumer interest, often at the tail end of what may have seemed a burgeoning trend. But truly unique, innovative products are out there and these products can establish a nonfoods department as a destination for shoppers frustrated with the overwhelming, often under inspiring assortment of products they may find in other stores.

Consider, for instance, those vitamins, one of the top performing, yet most crowded HBC category in grocery. One recent product standout HRG identified is Centrum Specialist. No simple multivitamin here. This new take in a booming category offers a complete adult multivitamin, plus zinc and antioxidants for immune support. Those additional ingredients are often the differentiators that make a product stand out to consumers and sway them to purchase it over other multivitamins offering more of the same. A retailer currently carrying several versions of the same product should consider removing the slow-selling duplicates and making shelf space for a single new innovator. This will capture consumer attention and draw them back to the HBC department for repeat purchases of these exciting products.

Product differentiation is arguably the most important of the five Ps. If a product excites shoppers and stands out as truly unique, that store will be the destination point they return to for new and innovative products.

Placement in category

Strong categories demand strong products. With a large, profitable category such as vitamins, adding new SKUs that expand the vitamin subcategories makes sense. For instance, calcium and vitamin D supplements are increasingly in demand as consumers recognize the importance of these key nutrients in bone and digestive health. In addition, the demand for sugar-free products continues to grow as more consumers with diabetes enter the market.

Knowing which subcategories are expanding can help retailers know which new products are worth adding to shelf. Cross-merchandised products that meet the needs of multiple subcategories—such as Citracal Sugar Free Chocolate Chews, tasty, chewable vitamin D and calcium supplements—offer the potential to increase profits while keeping more shelf space available for older SKUs.
In every category, space is limited, so any new product must steal space from somewhere else. Retailers that do their homework upfront can help them more easily determine if space is available and where it should come from.

Profitability

To most grocers, a product's profitability is their top concern when considering whether or not to stock it. However, the question of profitability in regard to a new product is more complex than baseline margins. If the product does not excite consumers or cater to trends in the category, it simply will not generate sales.

Therefore, when considering adding a new product to the shelf, grocers must ask themselves if the product will bring incremental dollars to their bottom line. Will the new product attract shoppers to the nonfoods department who might not otherwise shop it at grocery, thereby adding sales? If so, the incremental sales potential of the item justifies removing some SKUs to make way for the new item. Second, ask if SKUs are removed, will the product sell enough units to replace the profits generated by those items being removed? If so, make space for it at shelf.

Promotional Strategy

It is important for retailers to be aware that a manufacturer's planned promotional strategy for a new product and dollar spend are no longer the only factors to consider when looking at their promotional strategy. Savvy manufacturers, regardless of financial resources, should be developing comprehensive promotional tactics to accompany a new item launch. Increasingly, a large portion of that strategy should be focused online and while the cost to manufacturers of utilizing social media initiatives via Facebook, Twitter and Pinterest can be minimal, the potential for it to impact sales is profound. Given that 23% of consumers learn about new products online, ensuring that manufacturers have strong digital marketing strategies in place that will grow consumer awareness of the product and help move the items off shelves is essential.

However, it is significant to note that while many manufacturers continue to invest large sums of advertising dollars in television and print ads, 60% of consumers still learn about new products in the store. At the same time, new item launches that are bolstered by in-store advertising materials provided by manufacturers are likely to be more successful than products lacking this support.

Past performance

When evaluating a new product, it is natural to consider the manufacturer's history within grocery. If past launches by that manufacturer have been successful, grocers can be more confident in shifting SKUs to create shelf space for additional items in their lines. However, with so many new products entering the market, grocers are increasingly encountering new manufacturers they have no history with. How can a grocer determine if these products from new manufacturers will be profitable?

New manufacturers may be entering markets in the U.S. for the first time, may be crossing into grocery from another channel or may simply be start-ups trying to gain traction with retailers. A bit of investigation will reveal their history and provide grocers with the confidence needed to carry them. If these products are also innovative, positioned in a strong category, potentially profitable and backed by a fully-fleshed marketing strategy, consider removing SKUs that no longer fit those criteria in order to keep the assortment fresh and shoppers engaged.

Worth making room

At HRG, a team of industry analysts meets directly with manufacturers to gather critical information that will allow them to prepare unbiased product assessments based on the five Ps to guide retailers in their assortment planning. The HRG analysts reviewed an astounding 4,000-plus new HBC items between July 2012 and June 2013, spanning 24 distinct categories. After considering how each item measures against the five Ps, the analysts assign select products based on a one-, two- or three-star ranking. The more stars a product is awarded, the higher its chances for strong sales at retail.

Interestingly, most products do not make the grade. Out of the thousands of items the analysts considered, only 310 items, or less than 8%, received coveted star rankings. These are the products the analysts determined were unique introductions (or line extensions) in strong categories, with excellent profit potential, solid promotional support from the manufacturers and reliable manufacturer track records. In short, these products would make excellent additions to retailers' shelves. The items reviewed by HRG's analysts come from many manufacturers, both established and new, span all forms, formulas and flavors and cross dozens of fine line categories.

In 2012, Unilever began efforts to distribute its Clear line of therapeutic shampoos and conditioners in the U.S. Already successful overseas, Clear includes dandruff treatment options for men and aims to entice female consumers seeking to improve their scalp and hair condition. Unilever recruited supermodel-turned-media-mogul Heidi Klum as Clear's spokeswoman, developed online videos and prepared a full promotional spend of over $250 million to launch the product in the states. HRG's analysts awarded six separate SKUs in the line two-star ratings thanks in part to the manufacturer's proven track record, committed spend and decidedly creative, glamorous take on therapeutic hair care.

Another product that received high marks from HRG's analysts was Valeant Pharmaceutical's CeraVe SA Renewing Cream 12-ounce. With skin care among the top five highest performing HBC categories, the analysts agreed that retailers who take steps to refresh shelf space in the skin care department will see revenue returns on their investment. In addition to being introduced into a strong category, CeraVe contains potent salicylic acid and soothing vitamin D to repair damaged skin. Valeant backed the product with a full promotional strategy that included YouTube videos and generated social media buzz.

Not all products rated highly by HRG's analysts come from the top drug manufacturers. Kent Precision Food Group's Thick-It AquaCare H20 was awarded a two-star rating by the analysts for providing appealing hydration solutions to consumers with difficulty swallowing. As the product is a unique destination item, the analysts were convinced that retailers who stock it would invite repeat purchases from these particular consumers, assuring the product's profitability at shelf.

What if a new product does not meet all five of the five Ps? In that case, grocers should use their best judgment. Determining which products to add or remove from inventory requires a constant juggling of data, dollars and gut intuition. With the whopping number of new products being introduced to the GM and HBC market every year and the flood of statistics surrounding the industry, more retailers are finding value in applying new science or working with industry analysts to sort through the data and apply an experienced eye toward predicting the products and trends that will contribute to increased revenue. Other retailers may find value in narrowing their new-to-market product considerations to focus on the five Ps as a starting point to streamline their shelf planning. Whichever the method, continually reviewing, rotating and refreshing inventory is crucial to engaging and retaining consumers.