Beyond Vitality:

Redefining CPG innovation for incremental growth

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Shouldn't innovation growth be more reliable than a coin flip?

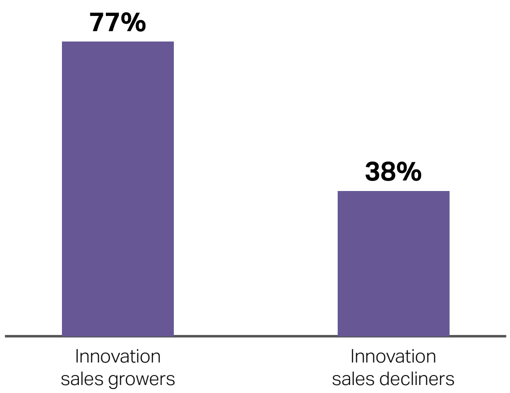
"Even the best processes, technology, and tools will not translate to success without the fundamentals in place."

Ramon Melgarejo
President, NIQ Strategic Analytics & Insights

In a price-sensitive economic environment, innovation remains a critical growth lever for businesses. But despite its vital role, in our review of launched innovations over the course of a year, we found that **only 7% of companies grew their innovation sales. Even more surprisingly, only 50% of launched innovations grew in their second year**. These numbers are at odds with the impact innovation has on the bottom line: Companies that invest in and grow their innovation sales are two times as likely to grow overall sales.

Companies growing innovation sales are 2x as likely to grow overall sales

% of manufacturers growing total sales YoY



How we calculate likelihood to grow:

$$\frac{\textbf{77\%}\text{ of Innovation sales growers}}{\textbf{38\%}\text{ of Innovation sales decliners}} = \textbf{2.03x}\text{ likely to grow}$$

Source: NIQ Innovation Measurement powered by BASES

Today's innovators have more technology, tools, and resources at their fingertips than ever before. Yet the odds of attaining innovation vitality appear to be no more reliable than a coin flip. Why?

Utilizing NIQ's Innovation Measurement powered by BASES, we conducted an in-depth review of 250,000 innovations across 130 categories, supported by client survey data on innovation ecosystems. We identified that **innovation vitality hinges not on using the latest trending tools or technology, but on a disciplined adherence to fundamental innovation principles.**

> ***Particularly when it comes to the pursuit of "agile" innovation, we found that top innovators define agility not as a rush to market, but as a commitment to continuous and efficient cycles of data-driven measurement, learning, and adaptation, ensuring that each product iteration strengthens its market fit.***

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Speed at all costs comes at great cost

Redefining *“agile”*

As budgets tighten and competitive stakes grow higher, organizations are under pressure to accelerate their innovation cycles to deliver new products more quickly in-market. The term “agile” is often used to describe this acceleration, yet its meaning and application often vary across organizations. While the term is commonly associated with software development—and originally signified an iterative, incremental approach—we frequently observe its misinterpretation as “speed at all costs.” Unfortunately, this approach often leads to skipping essential steps like pre-market testing, leading to incomplete knowledge of market dynamics and product performance. Cutting these corners is at odds with what we know about the best practices of top innovators—i.e., those who are growing innovation sales—who, according to NIQ BASES research, spend an additional four months in pre-market prep on average, as compared with lower performers.

Real agile market research is more than just the technical capability to quickly deploy and collect survey data; it's **ensuring that the data collected is clean, actionable, and reliable enough to facilitate confident decision-making.** Processes that disconnect consumer research from learning and iteration, or that cannot be validated with in-market outcomes, are in fact contradictory to the origins of agile methodology. At best, organizations that adopt such an approach risk losing additional time and resources on backtracking in order to obtain critical data points. At worst, they risk the inability to scale their product post-launch because they failed too late in the game to recover with consumers and retailers.

While agile methodology in software is a continuous cycle of updates and enhancements, "agile" in the CPG industry is about structured preparation and thorough testing to maximize a product's chance of success at launch—followed by ongoing post launch enhancements to factors such as messaging, distribution strategy, and promotions.

Agile in both fields ultimately aims for customer centricity and adaptability but operates **within constraints and opportunities unique to each industry.**

Agile methodology in CPG product innovation is:

- **Iterative and incremental:** Emphasizing continuous cycles of testing, learning, and adapting at every stage of development leads to better outcomes.
- **Data-driven decision-making:** Basing decisions on clear, reliable, and actionable data can guide adjustments that improve the product's market fit.
- **Cross-functional collaboration:** Encouraging cohesive teamwork across different functions can ensure alignment on goals and deliverables throughout the innovation cycle.
- **Proactive measurement and tracking:** Setting early stage-gates and post-launch metrics can help quickly identify areas for improvement and ensure alignment with market needs.
- **Focused on consumer and market fit:** Integrating feedback from pre-market testing and ongoing market observations can help in product refinement and adapting marketing or distribution strategies to conditions on the ground.
- **Prioritizing foundational steps over speed:** Adhering to core principles and pre-launch testing can help avoid costly, last-minute adjustments or failure to scale due to skipped foundational steps.

Agile methodology in CPG product innovation is *not*:

- **Simply "speed at all costs":** Sacrificing essential steps for the sake of a fast launch can lead to market misalignment.
- **A linear or rigid process:** Agile methodology is not a one-time, sequential workflow but a dynamic approach that requires adjustments based on feedback and testing outcomes.
- **Unstructured or ad hoc:** Agile methodology involves a clear plan with checkpoints and data-driven adjustments.
- **Limited to quick, short-term wins:** Agile supports long-term growth through careful planning, resource allocation, and iterative learning.
- **Isolated from market feedback:** Agile continuously integrates feedback and tracking post-launch to ensure the product resonates in the market.
- **Defined by a single definition across industries:** While agile principles may look different in various sectors (e.g., software vs. CPG), they always center on proactive learning and iteration.

Learn *before* you launch

"Although transactional methods record 'real' behavior, given the number of uncontrolled variables, it is difficult to reliably predict how that behavior will translate to full market sales."

Mike Asche
SVP, Data Quality Leader, NIQ Strategic Analytics & Insights

Many CPG companies are adopting another practice from the agile software development playbook in the name of speed to market: beta testing—or releasing products with the intent of making iterative adaptations *post-launch*. This type of test market or transactional learning was commonplace for the CPG industry in the 1970s but ultimately fell out of favor due to high costs, difficulty in isolating sales drivers, and lack of diagnostic insights, among other challenges. **Although the 21st century has brought advancements in market research capabilities, many of the past challenges with test markets are the same as those encountered with today's launch-and-learn approaches.**

In particular, the rise of e-commerce—and the seeming ease of launching new products online—has contributed to this movement. E-commerce can be unforgiving for CPG innovators, and even more so for smaller brands—especially for products that aren't fully baked. Ratings and review counts, in particular, dictate search and page rank algorithms, meaning that **businesses risk tanking their visibility before even getting started simply by failing to meet consumers' expectations.**

Developing a market-ready product is critical, but not easy

4 stars

The average rating expected in NIQ BASES testing for a "good" product across categories and markets

Ready

NIQ BASES research shows that 4 stars in our testing is on par with a "Ready" profile in our Factors for Success

65% not "Ready"

But most products we test are not market ready. What does this mean for the products we don't test?

Launch-and-learn approaches also raise questions about accuracy in data interpretation:

- What are your benchmarks?
- Is the sample size representative?
- How do factors like shelf or page placement influence behavior, and what are the confounding factors?

We do not dispute that in-market testing can provide *some* valuable feedback. However, in our experience (and based on conversations with our clients), this method is more effective for early-stage concept ideation as opposed to later-stage, broad-scale decision-making and sales projections—at least without proper controls, methodology, and validation in place.

Case study: Magic Spoon

NIQ BASES' 2024
Breakthrough Innovation Award Winner

> *"Brands at every level thrive on adherence to innovation fundamentals. Magic Spoon's success story shows how—regardless of your brand's size or offering—strategically incorporating these principles into a 'launch and learn' approach can lead to category disruption and sales growth."*
>
> —Ramon Melgarejo, President, NIQ Strategic Analytics & Insights

In CPG product innovation, a successful "launch and learn" emphasizes careful preparation, testing, and product refinement in response to consumer insights prior to full market launch. A minimum viable product must be thoroughly vetted and consumer-ready, given both the challenge of modifying physical products post-launch, as well as the detrimental ripple effects of failing to meet consumer expectations.

What does a successful launch and learn look like in practice?

Magic Spoon found a gap in the declining cereal category to transform traditional "kid cereal" into a healthier option for adults. They prioritized product development at the outset, dedicating six months to learn and iterate on a consumer-perfect formula. While their ultimate goal was to be in brick-and-mortar locations, **Magic Spoon operated exclusively online/direct to consumer (DTC) for three years, focusing on brand building, flavor development, assortment optimization, and packaging—all in preparation for a retail launch.** Importantly, they utilized feedback from online buyers to help inform flavor development, optimal assortment to maximize incrementality, and optimal packaging for both virtual and brick-and-mortar shelf environments.

In 2022, the brand launched in retail stores, gaining distribution in more than 20,000 stores in less than two years. Retailers were excited about Magic Spoon due to their DTC traction of over 1 million customers online, their status as the top-selling cereal on Amazon, their strong consumer demand and repeat purchases, and the opportunity to sell an incremental innovation in a declining cereal aisle.

The company continues to adapt to nutritional trends and taste preferences and continually seeks out incremental innovation opportunities in which they own natural brand equity, like treat and cereal bars.

Organizational fragmentation and post-launch support

Key to any agile initiative are cross-functional teams comprising different skill sets that come together to deliver value in increments and ultimately achieve a common goal. In our BASES client survey, we found that product launches tend to be more successful when innovation workstreams are collaboratively led. However, many organizations are fragmented in such a way that impedes those workstreams from coming together until just before launch.

Take, for example, an R&D team tasked with developing a product utilizing one brief, while the Insights team is tasked with research to finalize messaging using a completely different brief. When these two parallel workstreams come together for hand-off only a few months prior to in-market launch, there will invariably be a consumer mismatch between product expectations and actual experience. This can lead to a domino effect: early withdrawal of resources, followed by decline in marketing support, velocities, and, ultimately, sales growth.

This sort of disconnect is often solved only by ensuring decision criteria are harmonized among cross-functional teams early in the innovation cycle. In fact, the first proponents of agile methodology observed the benefits of early collaboration across highly successful innovation workstreams, ultimately coining the term "scrum" to describe the intricate balance of teamwork at play:

> *"Rather than following conventional 'relay race' methods of product development—in which one group of functional specialists hands off its completed phase to the next functional stage—these companies were using what [Hirotaka] Takeuchi and [Ikujiro] Nonaka called a 'rugby' approach, 'where a team tries to go the whole distance as a unit, passing the ball back and forth.'"*
>
> —Darrell Rigby, Jeff Sutherland, and Hirotaka Takeuchi,
> "The Secret History of Agile Innovation"

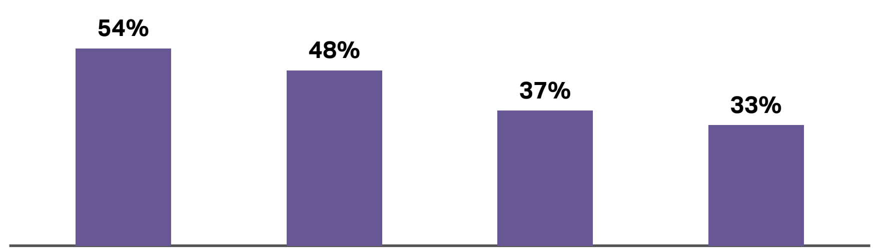
> At a high level, ***innovation vitality can be broken into two components:***
>
> 1. Making your customers happy.
> 2. Making your retailers happy.

Growing velocities (i.e., sales per distribution point) and distribution are early indicators of vitality. In fact, **our Innovation Measurement data demonstrated that innovations that managed to grow both indicators during the first quarter of launch were 1.6 times more likely to grow in Year 2 (Y2).**

Innovation success = Winning with consumers + winning with retailers

And the process starts early

Year 2 Innovation Vitality



Early distribution growth	Y	Y	N	N
Early velocity growth	Y	N	Y	N

Source: NIQ Innovation Measurement powered by BASES

But to generate strong velocities and distribution, adequate support is needed, which—according to our Innovation Measurement data—isn't the case for **50%** of innovations, leading to a weak in-market launch.

Ensure your cross-functional teams provide adequate post-launch support by calibrating against these critical factors for success:

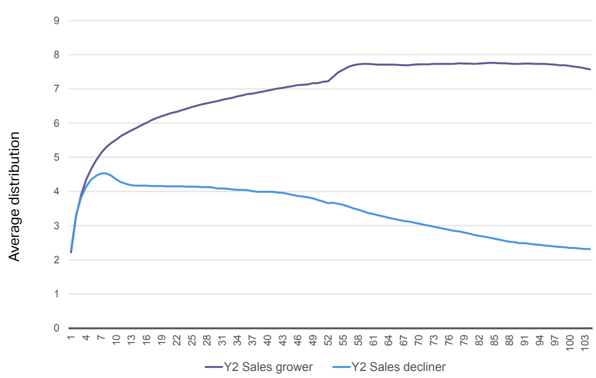
- **Early alignment on timelines and metrics***—keeping in mind that a binary success/fail measure doesn't adequately define all innovation types*
- **Shared briefs** *to facilitate smooth handoffs for each stage of development*
- **Aligned expectations about resource allocation** *(especially into years 2 and/or 3 for launches intended to grow over multiple years)* **and post-launch learning and iteration plans**

Don’t wait to learn once you launch

Early and clearly identified post-launch measurement stage-gates are often not top of mind for innovators—in fact, in our State of Innovation survey, many manufacturers admitted to delaying measurement until 10 weeks post-launch or overlooking it altogether. This is a critical oversight, given that key indicators of long-term growth potential arrive quickly post-launch: Our analyses demonstrate a clear divergence between innovation growers and decliners as early as Week 4.

We see divergence in strong and weak performers as early as Week 4 post-launch ...

Distribution growth of Y2 growers vs. decliners



*... yet **67%** of FMCG marketers wait until **Launch + 10 weeks** to assess new launch performance**

Source: NIQ Innovation Measurement powered by BASES. Distribution threshold = 1% ACV
* BASES State of Innovation Survey, June 2022; (n=794 global CPG professionals; 5-point scale, top 2 box).

Intensifying this pressure even further, retailers are no longer waiting four to six months to delist underperforming products—many are reassessing their assortments much sooner. As part of your agile team alignment, **be sure to identify the stage-gates and measures critical to your post-launch success to facilitate a more nimble response.**

3 A focus on fundamentals

Redefine *"agile"* through strong launch, learning, and iteration plans

"You can be fast in your footing, but if you fall off the tightrope, what does it matter?"

Antoine Saunier
Global Client Leader, NIQ Strategic Analytics & Insights

Having identified some of the blockers that impede innovation growth, how can brands work to overcome them? In our 40-plus years of experience helping brands bring some of the world's most breakthrough innovations to life, we know that a rigorous focus on fundamental innovation principles is the key to success. We empathize with the pressures that brands are under to move quickly—but speed without fundamentals in place ultimately undermines desired outcomes and could even result in financial setbacks.

For innovators, the message is clear: Embrace agility not just as speed, but as a thoughtful cycle of proactive measurement, testing, learning, and iteration. When cross-functional teams work cohesively to ensure all aspects of pre- and post-launch are continuously fine-tuned according to the data, innovations are much more likely to resonate with both consumers and retailers, leading to enduring market impact. By focusing on the following foundational principles, companies can increase their odds of creating breakthrough innovations that endure well beyond Year 1.

Redefine what it means to be agile

Agile innovation does not mean rushing products to market or skipping essential steps. It should identify efficiencies and areas to accelerate while prioritizing informed adjustments based on a cycle of proactive measurement, testing, learning, and iteration.

Learn before, during, and after you launch

Learning should guide every stage of the innovation cycle, beginning with a deep understanding of your category, target market, and competitive landscape.
A continuous cycle of learning pre- and post-launch will empower teams to be more agile in addressing issues before they impact critical milestones.

Set realistic goals backed by actionable plans

Effective goal setting goes beyond simply defining success: It requires a balanced mix of clear KPIs and a well-thought-out roadmap to achieve them. Use data-driven insights to set realistic goals, timeframes, and action plans, keeping in mind that innovations can serve different purposes and pathways to growth. Balance your portfolio across innovation types, remembering that a binary success/fail metric is often insufficient for growth measurement.

Champion early, end-to-end organizational alignment

Cross-functional alignment across the organization is critical to innovation vitality—and it must begin early to be effective. Start by setting clear expectations, roles, and responsibilities across all functions, followed by sharing briefs upfront to ensure everyone is working toward the same goals and in adherence with the agreed-upon action plan. Unify teams around key learning plan metrics, starting at the outset of the innovation cycle, through launch, and into the outyears.

Watch

What drives innovation vitality? Is it ***quantity or quality?*** Our Innovation Measurement experts recently discussed the growth factors that matter most for top innovators. Watch our on-demand webinar to learn more.

Focus on proactive measurement

Early in-market signals for distribution, velocities, and other performance indicators demand a quick course-correct to ensure steady growth. Re-evaluate key metrics and post-launch stage-gates, keeping in mind that past norms and timelines may no longer be sufficient as top- and low-performing innovations diverge more quickly—and retailers make delisting decisions even sooner.

Optimize post-launch performance through ongoing iteration

Noting the speed at which top- and low-performing innovations diverge, use data as a guide to identify and iterate on launch components that can be reasonably modified (e.g., brand messaging/advertising, resource allocation, distribution). For launch aspects that can't feasibly be adjusted (e.g., changes in product formula), incorporate those learnings into subsequent renovations and/or launch plans.

The key takeaways

Innovation can and should be a reliable engine for growth. But the unpredictable results of many product launches underscore the importance of a disciplined, fundamentals-first innovation approach. Through rigorous planning, measurement, and proactive adaptation, companies can avoid common pitfalls that can derail even the most promising product concepts.

NIQ's Global Thought Leadership team values your feedback. Complete this brief survey to let us know what you think of this content.

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About NIQ

NielsenIQ (NIQ) is a leading consumer intelligence company, delivering the most complete understanding of consumer buying behavior and revealing new pathways to growth. NIQ combined with GfK in 2023, bringing together two industry leaders with unparalleled global reach. Our global reach spans over 90 countries covering approximately 85% of the world's population and more than $7.2 trillion in global consumer spend. With a holistic retail read and the most comprehensive consumer insights—delivered with advanced analytics through state-of-the-art platforms—NIQ delivers the Full View™.

For more information, visit NIQ.com