inmar®

SHELF **STRATEGY**

Disruptive Innovation Requires Brands to Get Out in Front of Developing a Shelf Strategy

Table Of Contents

Disruptive Innovation Requires Brands to Get Out in Front of Developing a Shelf Strategy

By Paul Weitzel, June 25, 2018

01

Disruptive Innovation is on the Rise

Each year, the U.S. food and beverage industry introduces 20,000 new items to the grocery channel. This level of innovation has remained fairly consistent for the past 10 to 15 years. Over this period, the vast majority of new items have failed. If you ask retailers why this trend has been rather consistent, the most common answer you get back is, "Most of the items are me-too's and not unique. They come with manufacturer support, but after six months the low demand doesn't justify remaining on the shelf."

What's different about the recent crop of new items is there is an increasing pattern of innovation that is more differentiated than in the past. Items are more unique and many are game changers. CPG manufacturers are clearly spending more time and focus creating unique innovation. The term "disruptive innovation" is being placed on these items and they are causing the merchandising community to re-think category structures and where to actually place disruptive innovation in the store. Do they belong in traditional sets or are they unique enough to be merchandised in new locations based on important and differentiated product attributes?

02

Low Growth Refocusing CPG Development Attention

With the extended slow/no growth grocery environment, CPG manufacturers are facing pressure to introduce innovation that will transcend the one-in one-out placement success that applies to most new item launches today. To achieve real growth, they must understand more than ever that the items they bring to market have to solve a need state and provide unique value. The need for real growth has kick-started product development and we are in an era that many consider is producing product innovation that is truly disrupting the success of many traditional brands.

The increase in unique product innovation is creating more questions on where to merchandise these new and differentiated products. Should they be shelved in traditional sets, or are they better suited in other traffic locations where they align better with other products that satisfy similar need states? Many CPGs don't have an answer to this question and the sales organization is left scrambling for ideas late in the game. Finding the ideal location prior to sitting down with retail customers will increase your chance for a successful and sustainable product launch that maximizes growth.

03

The Best Shelf Location is Worth Everything

There are nearly 300 categories in a typical food and drug supermarket spanning 60,000+ square feet of shelf space. These categories are meticulously laid out across a series of 3′ or 4′ sections based on how consumers shop the store and based on how retailers want consumers to shop the store. Sophisticated retailers use AutoCAD software to ensure horizontal and vertical shelf space is optimized to meet their demand forecasts and satisfy inventory requirements. Retailers also rely on traffic flow pattern research and basket affinity data to understand hot and cold zones across the store and determine optimal product adjacencies.

Why is this important to you? Identifying and getting optimal shelf locations for new items, and particularly disruptive innovation, is necessary to speed up trial and adoption. A case in point:

> A well-established CPG manufacturer recently introduced a new meal solution product that came in an aseptic pouch. This item eventually was merchandised in/near the canned soup category. While it was not a traditional soup item, and it was not sold in a can, the manufacturer convinced retailers it belonged with canned soup because it was a meal like many of the new soup offerings today. The item ended up being merchandised on the top shelf, up and away from most consumer eyes and even their reach; partly because of fixture limitations and partly because it was not a traditional soup item. The product and packaging was fairly unique and the item would have been better served merchandised with other ready-to-heat prepared foods. This manufacturer did not determine the right shelf location ahead of time (racing to get the product to market) and, as a result, the product suffered very poor shelf locations and quickly died on the top shelf.

Brand managers have an opportunity to get out in front of shelving decisions and provide the sales organization with better consumer and shopper insights that significantly increase the chance for a successful launch. There is enough shopper purchase behavior data across the store to significantly increase the odds of success. Consumer decision tree tools exist and can identify good, better and best locations, providing options if the optimal location is not possible. A closing note on the story above…this manufacturer had to eliminate existing items to make room for these new items and ended up losing sales by making the conversion.

04

Don’t Wait to Develop Your Shelf Strategy

Without a point-of-view on the best location, product innovation often ends up:

1. In undesirable shelf positions until they can be worked into more optimal positions;
2. In traditional sets when other store locations may be more optimal;
3. Waiting for the next reset, which can be months away.

To increase your rate of success, implement the following strategy:

1. Determine optimal location well before introducing the item to the category management and retail merchandising team. Have both shopper and financial justifications for the store locations and shelf positions.
2. If a new set/location is warranted, identify other items that should belong in the new set and create a comprehensive vision for the retailer before you meet with them. Show the combined growth opportunity for all of the items.
3. Understand margin structures, new item fees, price gaps, allowances and service requirements for the new locations. This is especially important if they are located in departments that are new to your sales organization.

Many of the larger retailers have made significant investments in IT and other technology, and are making more assortment and space decisions on their own. CPG pull-back in some of their category management investments—brought on by lack of growth, inability to pass on cost increases and zero-based budgeting—have contributed to this shift and it's making it more difficult for CPGs to get highly desirable and optimal shelf space for new item launches. Don't wait for the new item sales calls to determine shelf location and position. Too much is at risk and the failure rate increases when space decisions are the last of the decisions being made.

Paul Weitzel

Vice President,
Analytics Solutions
Inmar

Paul Weitzel joined Inmar Analytics from the Willard Bishop acquisition in early 2016. Paul now leads the firm's efforts in developing product solutions that improve in-store, online and supply chain decisions. His specific areas of expertise include activity-based costing, joint value creation, shelf optimization, developing channel growth strategies, eCommerce and helping trading partners achieve speed-to-shelf. Paul has authored several key industry publications on a variety of topics including retail optimization and the new eCommerce supply chain. Paul holds an MBA from DePaul University.

Inmar

635 Vine Street
Winston-Salem, NC 27101
(866)440-6917
solutions@inmar.com

Disclaimer:

These documents do not constitute legal advice. Inmar advises all reviewers to seek advice from legal counsel based on specific business needs.

www.inmar.com

www.inmar-insights.com

www.linkedin.com/company/inmar

@InmarInc