

Awakening the Underused Power of Innovation in CPG

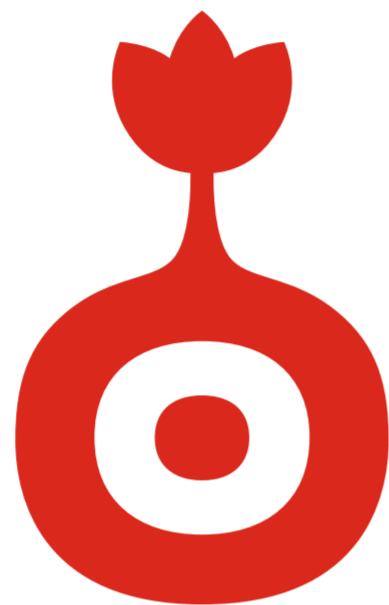
Consumer Facing Innovation

sevendots



Bringing innovation back to the center of value creation

Effectively navigating innovation



At Sevendots we continue to be passionate about the Consumer Packaged Goods industry. We are on a mission to provide brand owners with valuable contributions on important topics affecting the future development of the industry. We do this with rigor and enthusiasm through our Growth Series.

After the latest releases on Personalization at Scale and on implementing effective DTC, we have developed a brand new and encompassing study on Consumer Facing Innovation.

To do that, we followed the proven path of our structured and in-depth approach leveraging a plethora of existing literature and case studies, mining the extensive knowledge of our senior partners, engaging major brand owners to capture their experience, interviewing a global sample of marketers to provide a well-grounded set of key actionable considerations.

This document is a brief summary of the outcome of the study and outlines the 5 key questions around the role and payback innovation has in the CPG industry.

Please contact opportunities@sevendots.com to learn more about the outcome of the study including more analysis, case studies and a structured framework helping brand owners to bring innovation back to the center of long term value generation.

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5 key questions to unleash the power of innovation

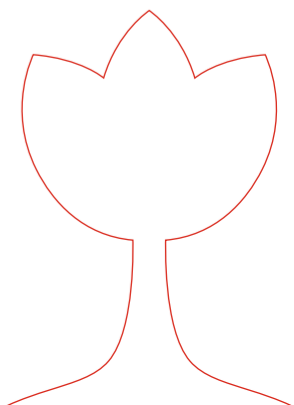
1 Has innovation run out of steam in CPG?

2 Is there a lack of direction in innovation?

3 Can disruptive innovation be planned?

4 Must innovation be only consumer centric?

5 Can success be achieved without metrics?



① Has innovation run out of steam in CPG?



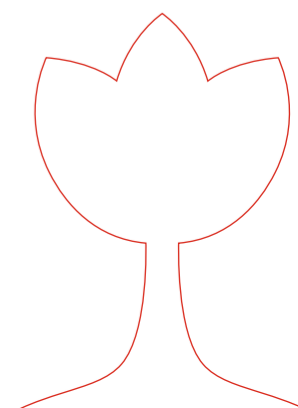
Has innovation run out of steam in CPG?

The Consumer Packaged Goods (CPG) sector is at a crossroads. Caught in a vicious cycle of limited expectations and resources, the industry faces significant innovation challenges. Despite the critical role of innovation in driving growth, CPG companies lag behind their counterparts in other sectors, marking them less innovative on the global stage. With investment in innovation substantially lower than in other industries, a prevailing fear of low returns on innovation investments (ROI) undermines efforts to break new ground.

This apprehension is reflected in a tangible decline in innovation performance within the CPG sector. The trend of new product launches is decreasing year over year, with the success rate of these launches also experiencing a sharp decline. Consequently, brand owners express dwindling confidence in the effectiveness of current innovation practices, often sidelining innovation as a strategic priority.

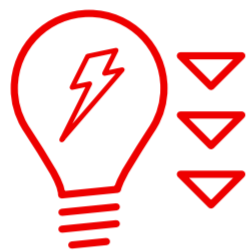
Yet, within this challenge lies a beacon of hope—the virtuous cycle of innovation. Despite prevailing challenges, the direct correlation between innovation and top-line growth remains undeniable. The most successful companies are those with robust innovation pathways, demonstrating that:

- **Innovation is a catalyst for growth, propelling companies to outperform and grow faster than the competition.**
- **Long-term value generation stemming from innovation is evident, ensuring superior Total Shareholder Returns and maintaining brand relevance and differentiation in a crowded market.**
- **Increased resilience and consumer base expansion is possible through innovation, enabling companies to weather economic downturns and reach new markets.**



The problems with innovation in CPG

Limited resources and expectations



Less innovative than other sectors



Underinvesting vs. other sectors

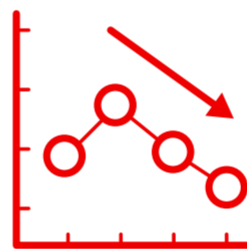


Fear a low innovation ROI

Decreasing innovation performance



Progressively decreasing



Progressively less successful

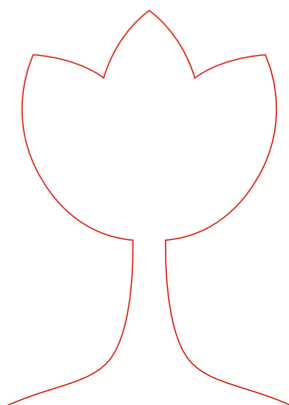
Lack of trust in innovation



Only somewhat effective



Not seeing it as a priority



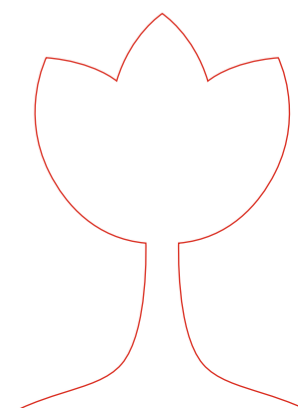
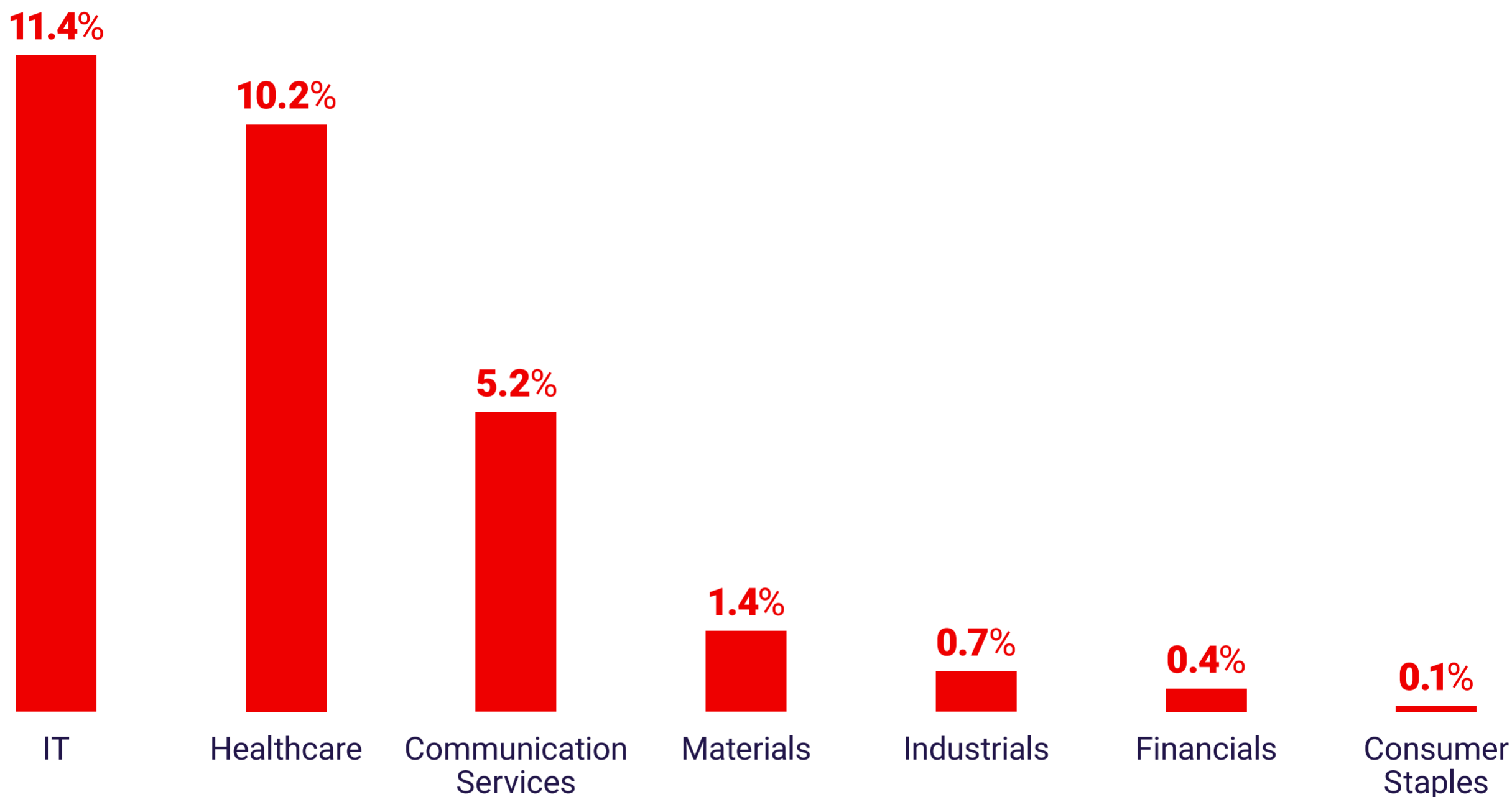
A limited average R&D intensity in the CPG industry



Underinvesting
vs. other sectors

R&D spending as a % of Revenue

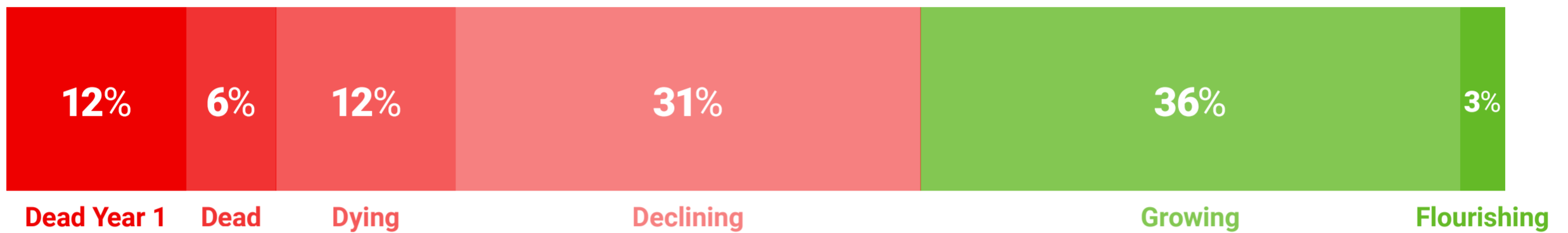
Average 2020



The majority of new product launches start to decline in year 2



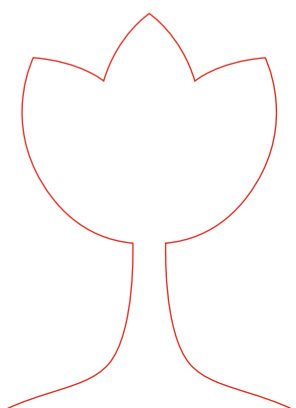
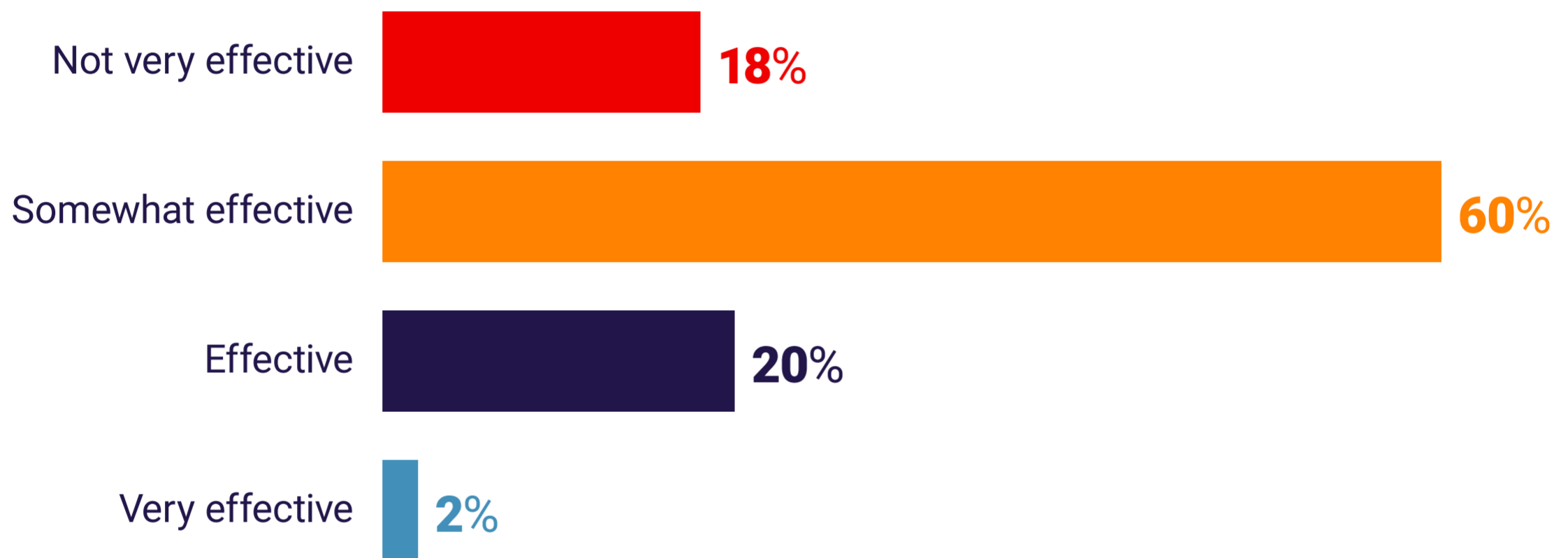
CPG New product launches year 2 performance



Business owners recognize CPG companies are being only somewhat effective in their innovation efforts

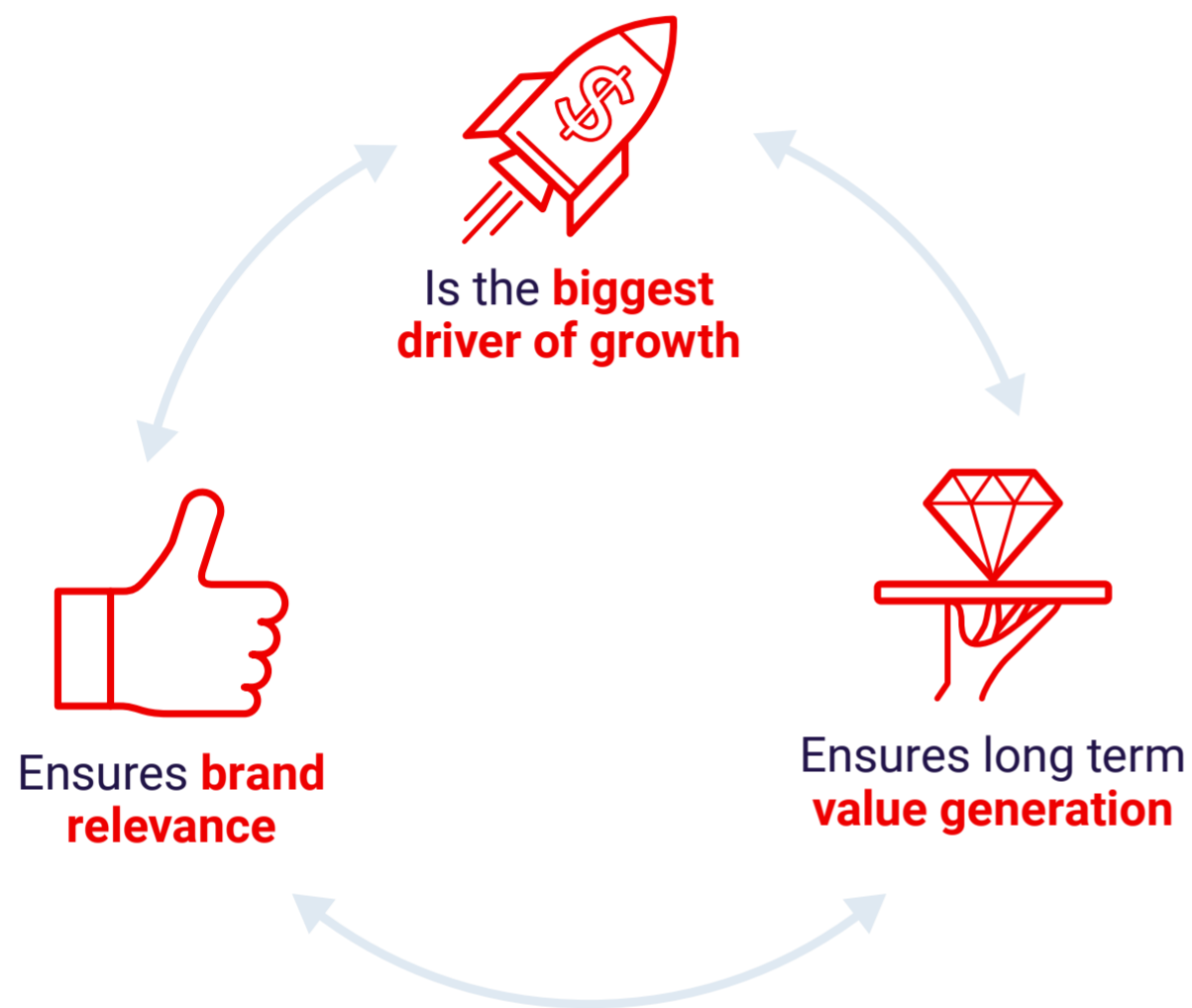


How effective do you think CPG companies are in working on Consumer Facing Innovation?
(single answer)

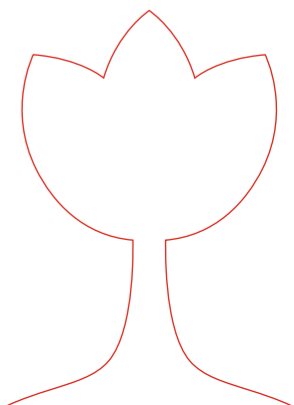


The opportunity with innovation in CPG

The virtuous cycle of innovation



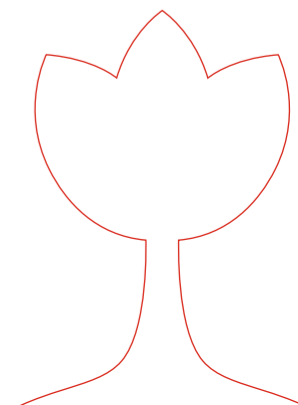
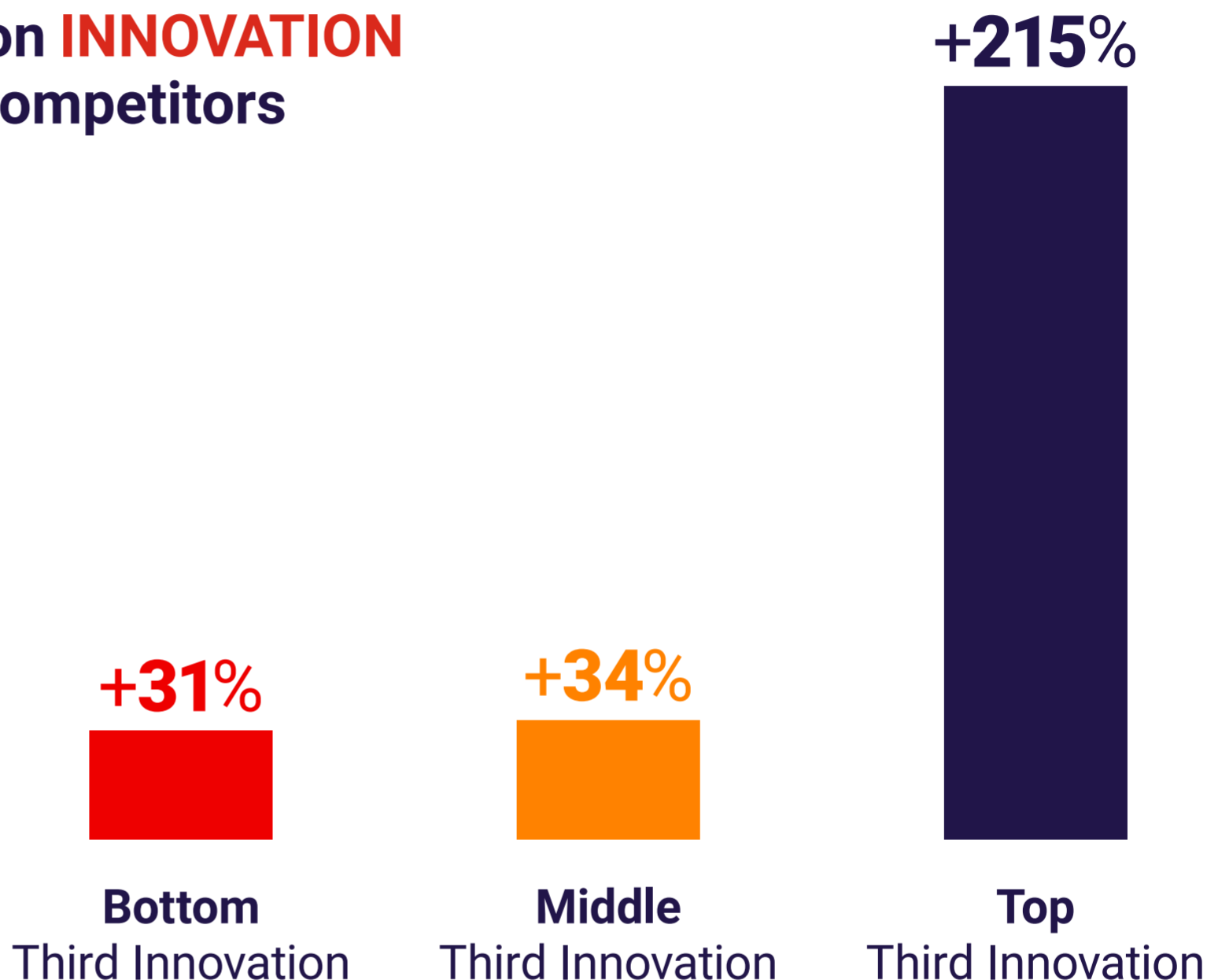
Innovation provides increased footprint and resilience



Innovators win



Brands perceived as **HIGH** on **INNOVATION**
have grown **7x** faster than competitors



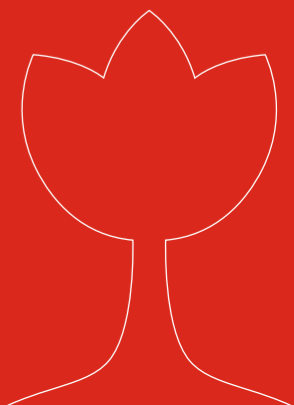
2 Is there a lack of direction in innovation?



Is there a lack of direction in innovation?

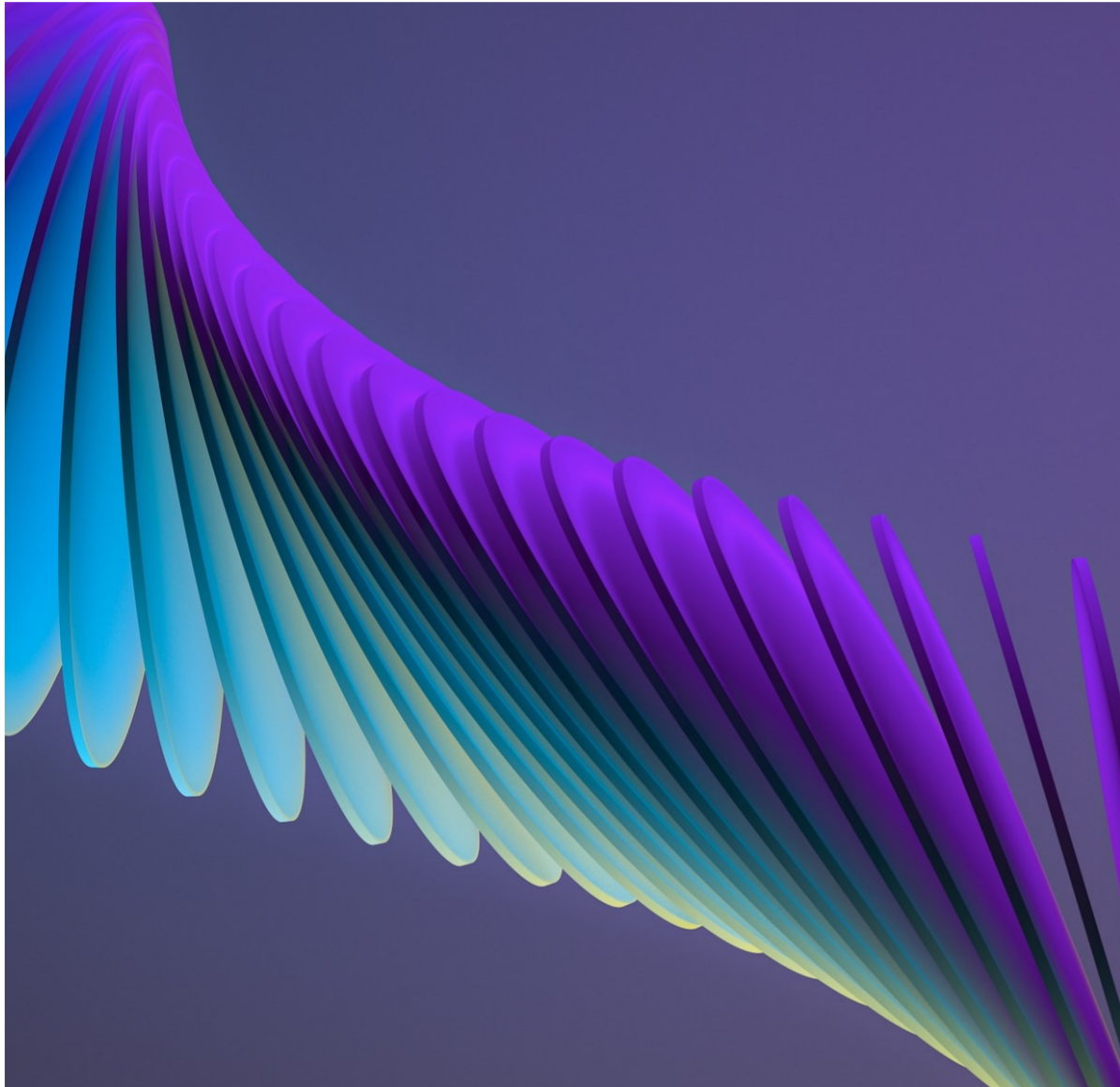
There is a cognitive gap between the desired contribution of innovation and real leveraging of innovation. This is linked to two main disconnects:

- A disconnect between the desire to focus on long term disruptive innovation, which can drive value that mainly addresses uncovered consumer needs, and the reality of working mainly on short term innovation.
 - Short term focus has a potential stranglehold on true innovation (for many). In fact, growth comes from the core, but this alone will not ensure an enduring lifespan for growth from innovation.
- A disconnect between the desire for disruptive innovation and the complete focus on product innovation.
 - There is a need to look beyond product innovation and move to higher level solutions that mix tangible and intangible elements. Moreover, looking at business models can offer relevant opportunities.



Two main tensions in defining innovation directions

Proximity vs. Disruptive innovation

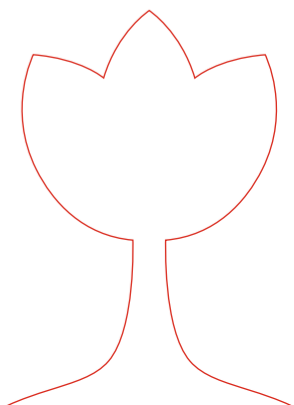


Brand owners claim disruptive is more important but most of the innovation is in proximity.

Product vs. Broader innovation

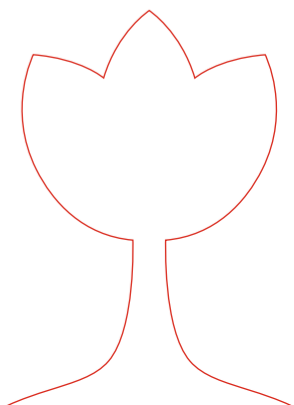
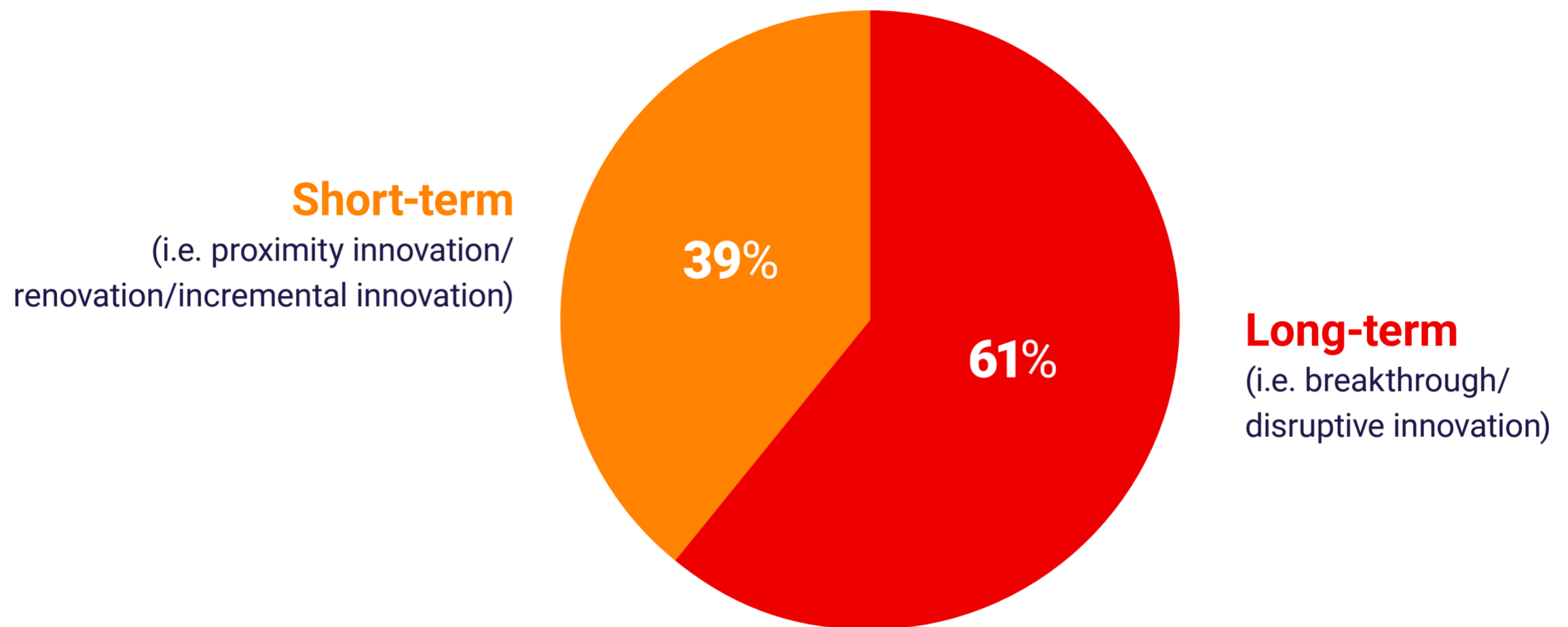


Biggest opportunity is in Higher Level Solutions and Business Model innovation while most of the efforts are around Product Innovation.



Business owners see long-term innovation as most important

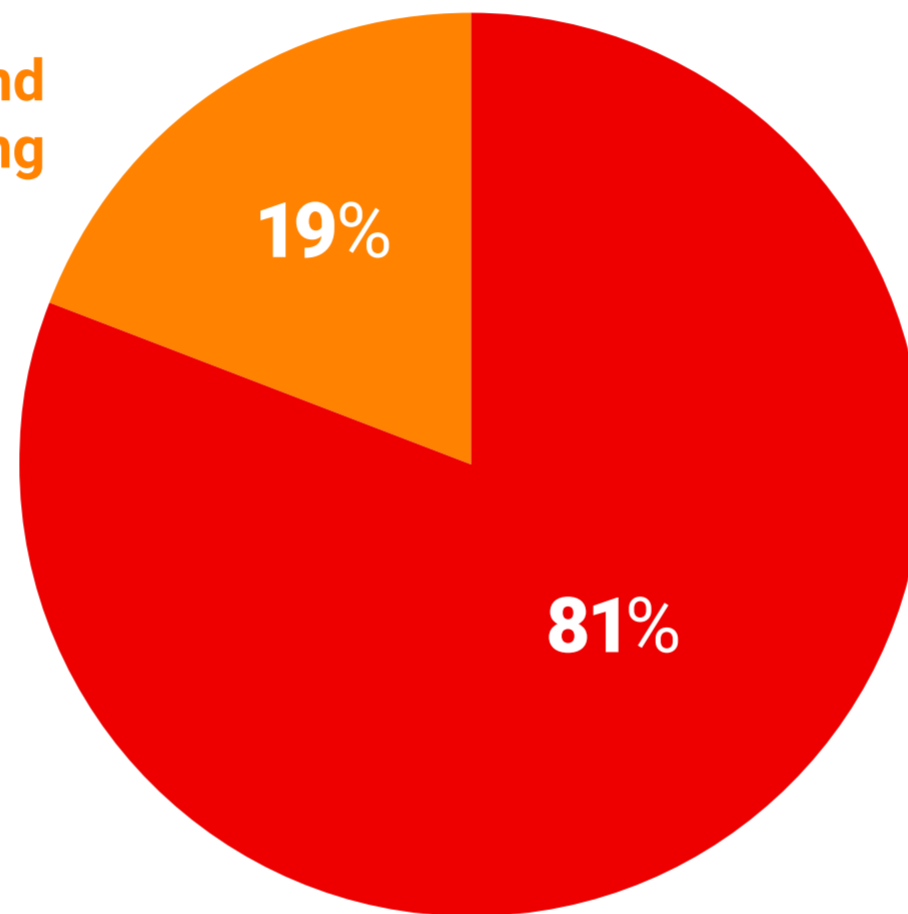
Consumer Facing Innovation can be divided into short term (i.e. proximity innovation/renovation, incremental innovation) and long term (i.e. breakthrough innovation). **Which one do you think is the most important to support financial performance in the CPG industry?**



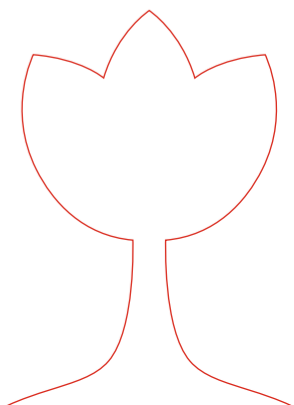
However, most businesses grow in core

Share of total revenue growth
2016-2021, %

Growth from adjacencies and
new business building



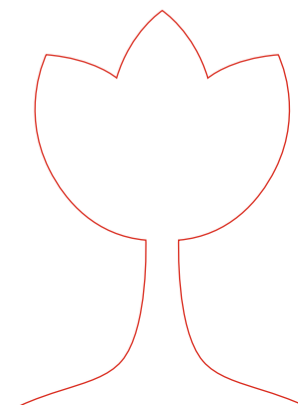
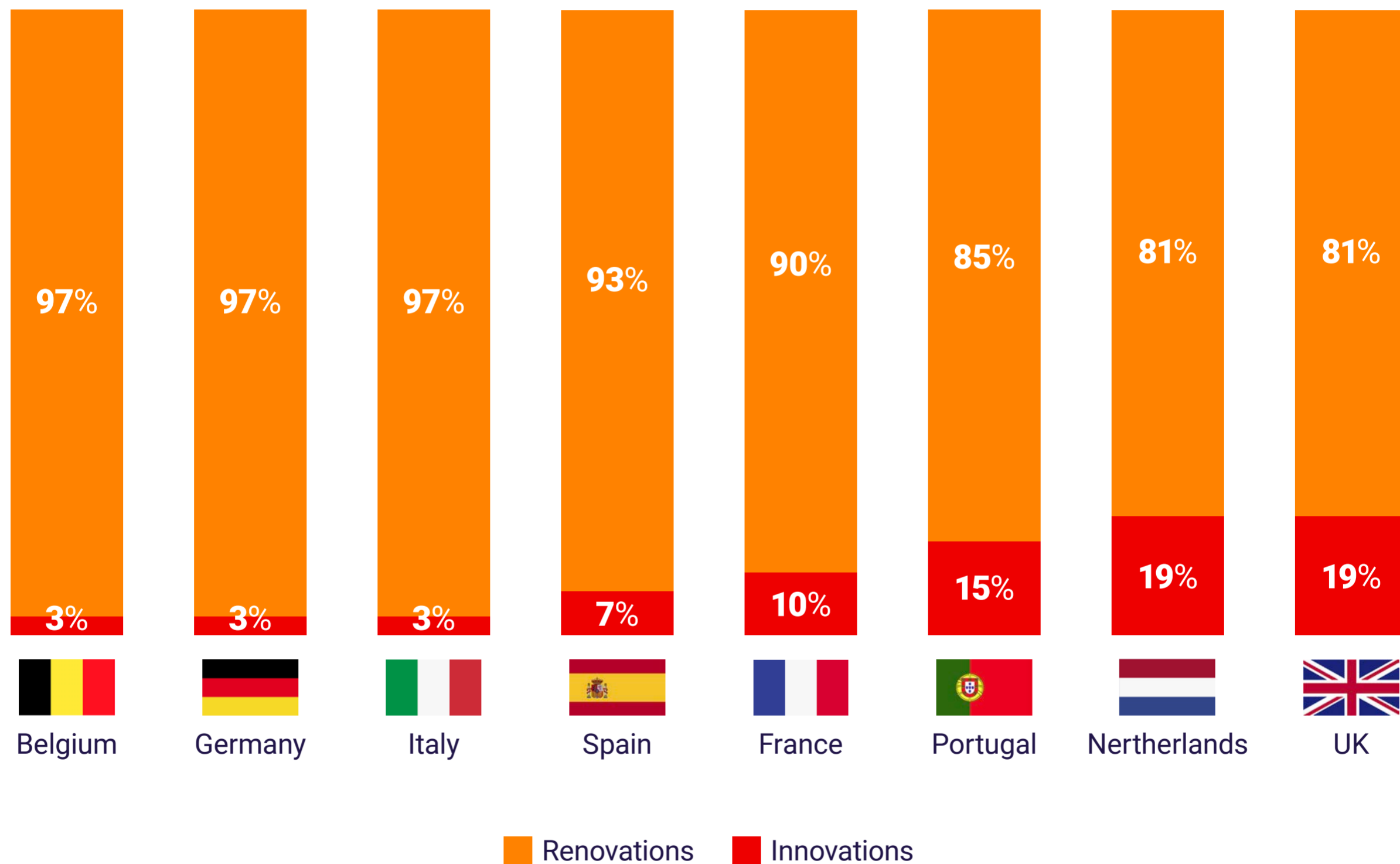
Growth in core



Renovations dominate in Europe but with some geographical differences

% innovations vs renovations in total launches

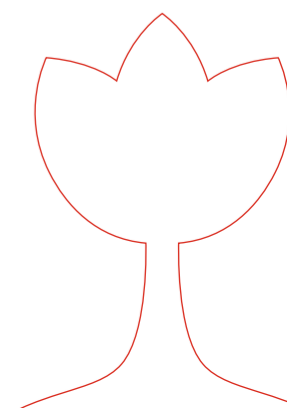
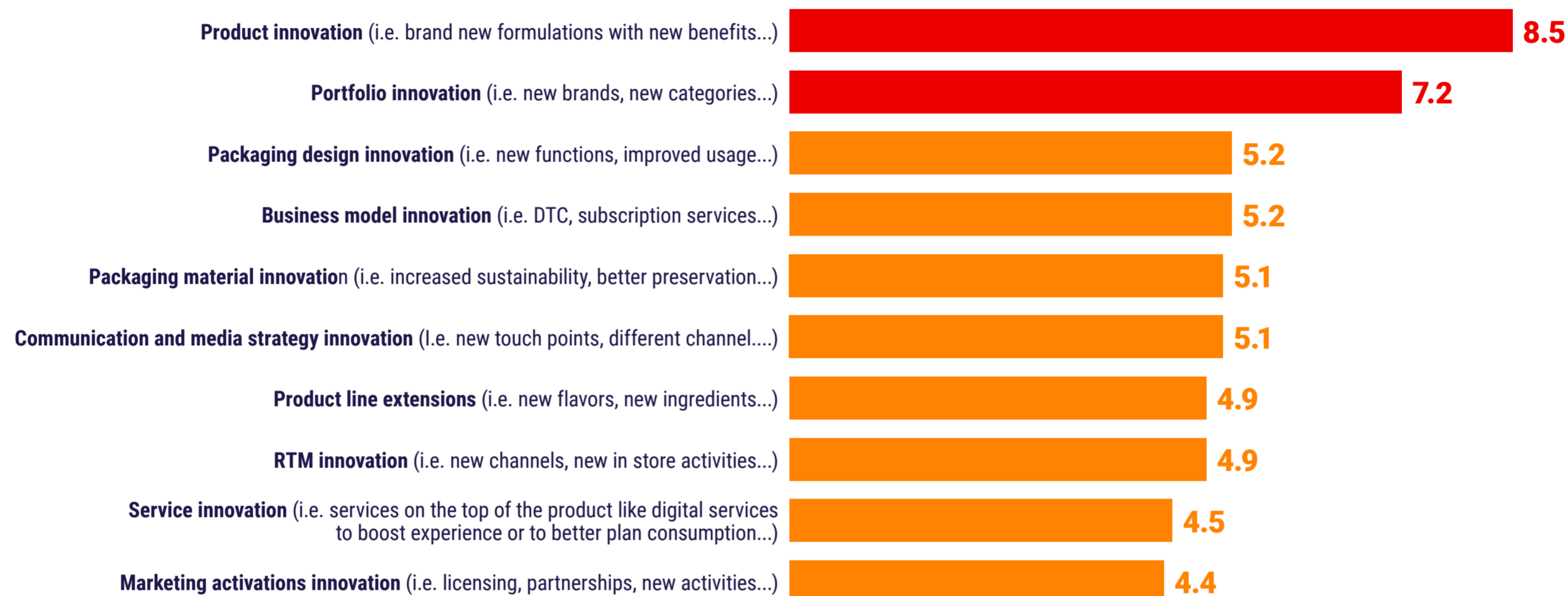
2022-23




Product and portfolio innovation continues to be seen as the priority

Where do you think the focus on developing Consumer Facing Innovation is most important?

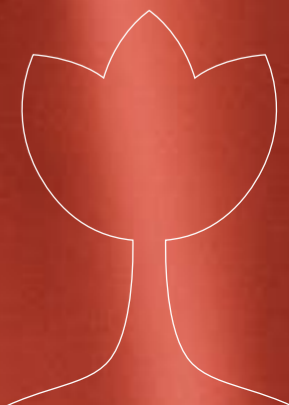
Rank: 1 low – 10 high



While innovation should operate well beyond products

 “Innovation should be about products and services, or a combination of them, that are designed to satisfy the consumer desire or solve a consumer pain points.”

Head of Innovation – Food Multinational



③ Can disruptive innovation be planned?

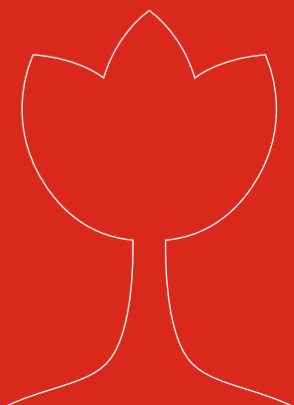
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Can disruptive innovation be planned?

Barriers to breakthrough innovation lie mostly in the short term focus of companies and ingrained risk avoidance. Specifically, there is a disconnect between looking at breakthrough innovation and lacking an innovation vision and an innovation framework.

Disruptive innovation needs a more structured approach that includes scouting, scoping and development and that links together value proposition, value chain and business model. Focusing only on Value Proposition is undermining the ability to succeed.

To foster disruptive innovation, tapping into a broader and open ecosystem and using a venture approach or M&A can offer better opportunities. For M&A there should be a clear distinction between acquiring capabilities and delegating innovation.

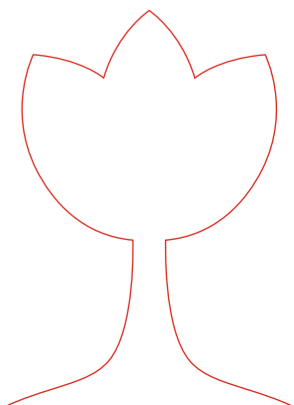
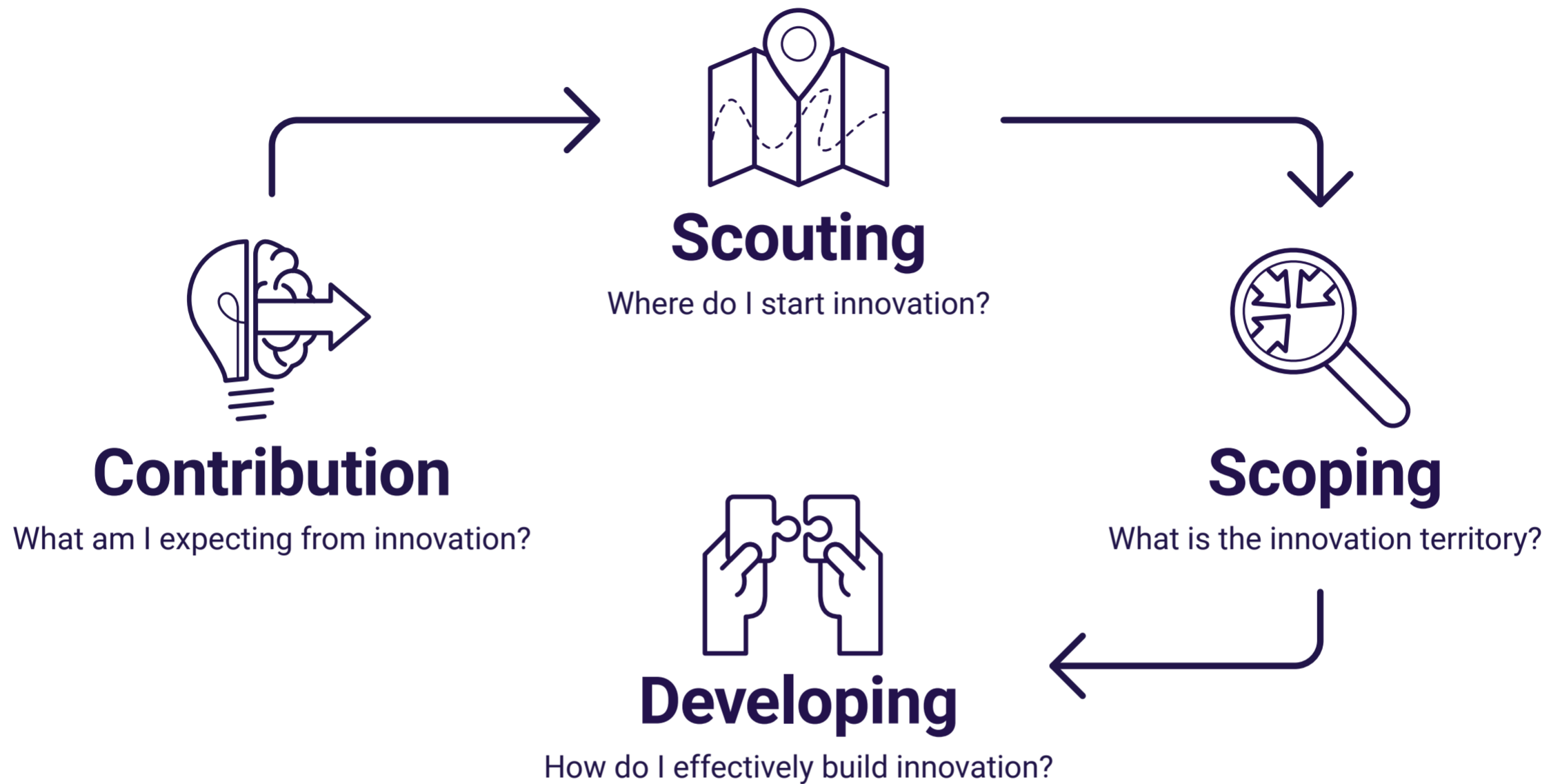


Where should we point?

54% of brand owners see the lack of strategic thinking and framework as the major barrier to breakthrough innovation.



Four steps in the journey for effective disruptive innovation



Broadening the innovation territory



Scoping

Effective innovation is supported by providing higher level solutions to consumers.

This requires:

- Better mix of tangible and intangible elements (service component).
- Going beyond the traditional category definitions.
- Looking at broader ecosystems.

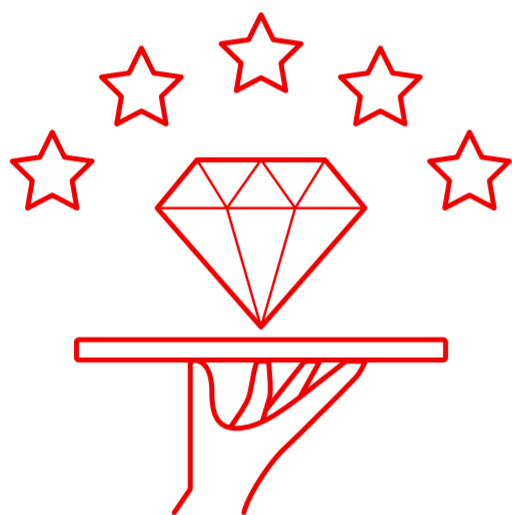


Building the case for disruptive innovation opportunities



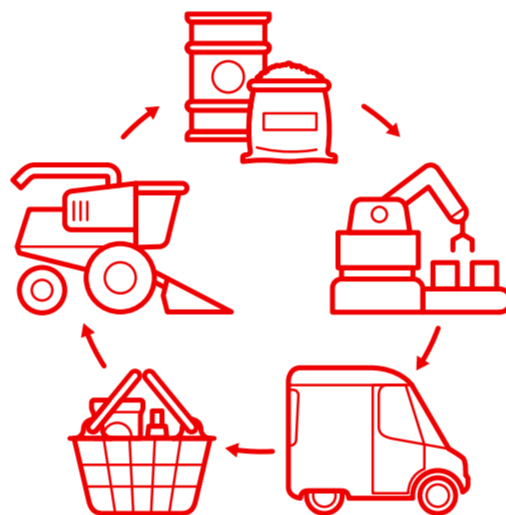
Disruptive innovation development should consider and link all the needed elements.

Disruptive Innovation Full Proposition



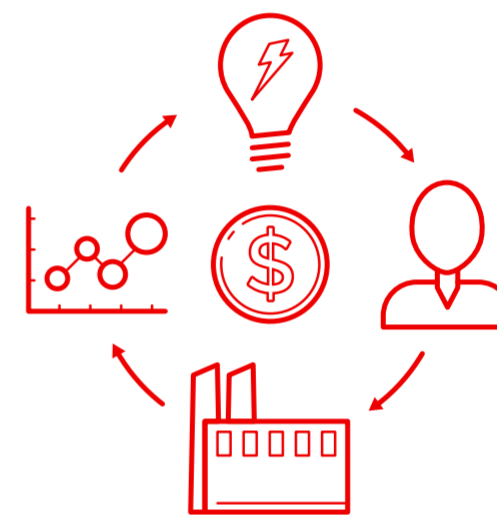
Value Proposition

From JBTD to design criteria



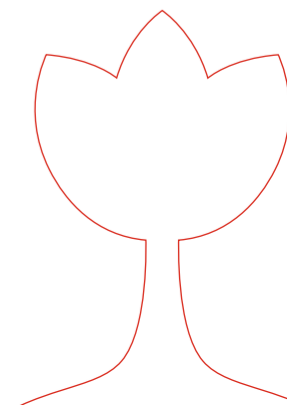
Value Chain

Value creator and value destroyer



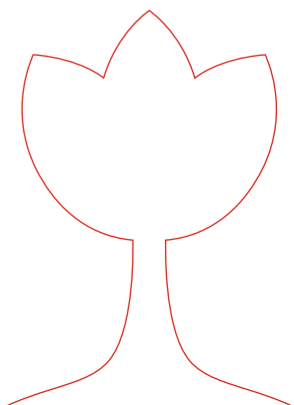
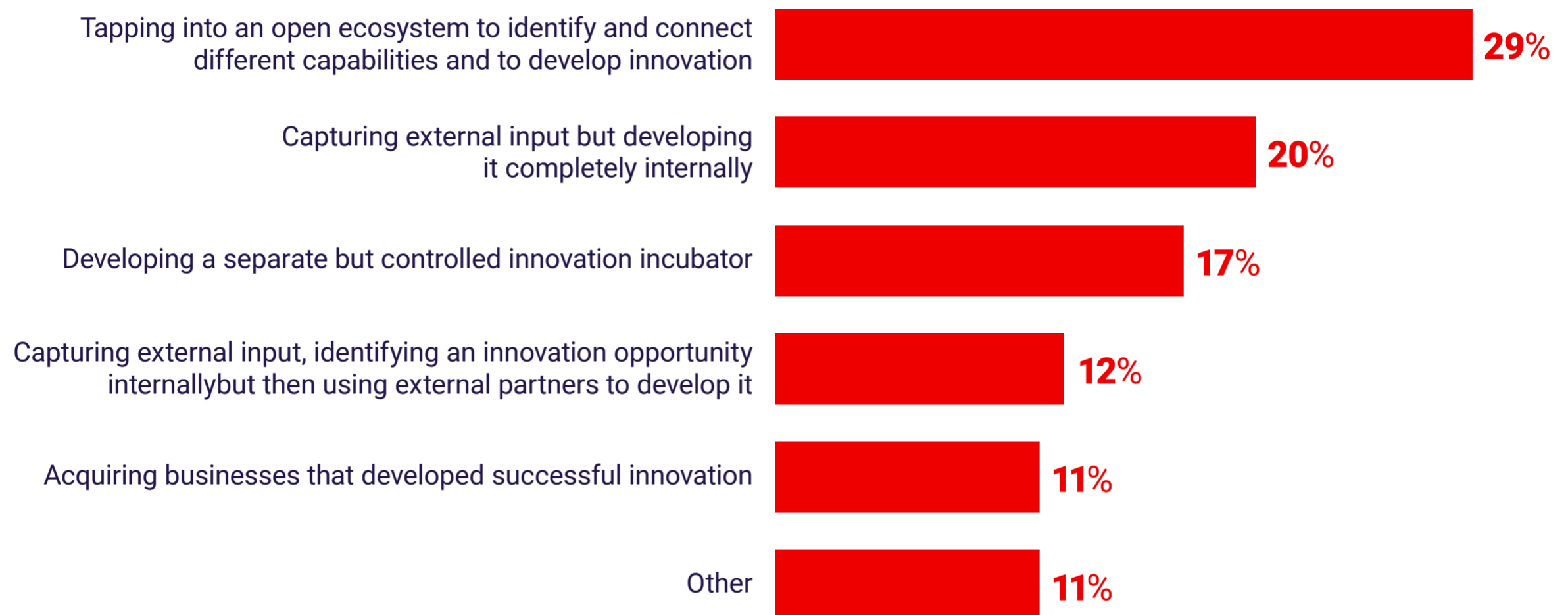
Business Model

Product, brand, distribution, manufacturing



Breakthrough innovation should tap into open ecosystems and leverage external inputs

How do you think a disruptive, or breakthrough Consumer Facing Innovation process should be best managed?
(single answer)



④ Must innovation be only consumer centric?



Must innovation be only consumer centric?

The quantity and quality of innovation can depend on different external and internal factors.

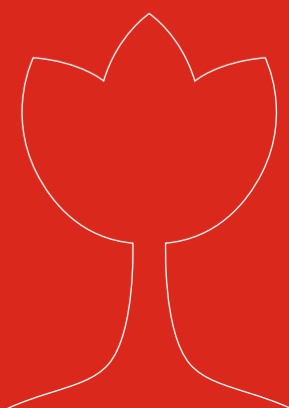
In any case, a consumer-centric approach is the most important success driver, as any innovation should cope better with an existing or new need, or provide a higher-level solution.

For the external factors, the innovation trigger could come from technology or external forces like the regulatory environment or supply chain issues. Also, competitive actions play a role in pushing for the need for innovation.

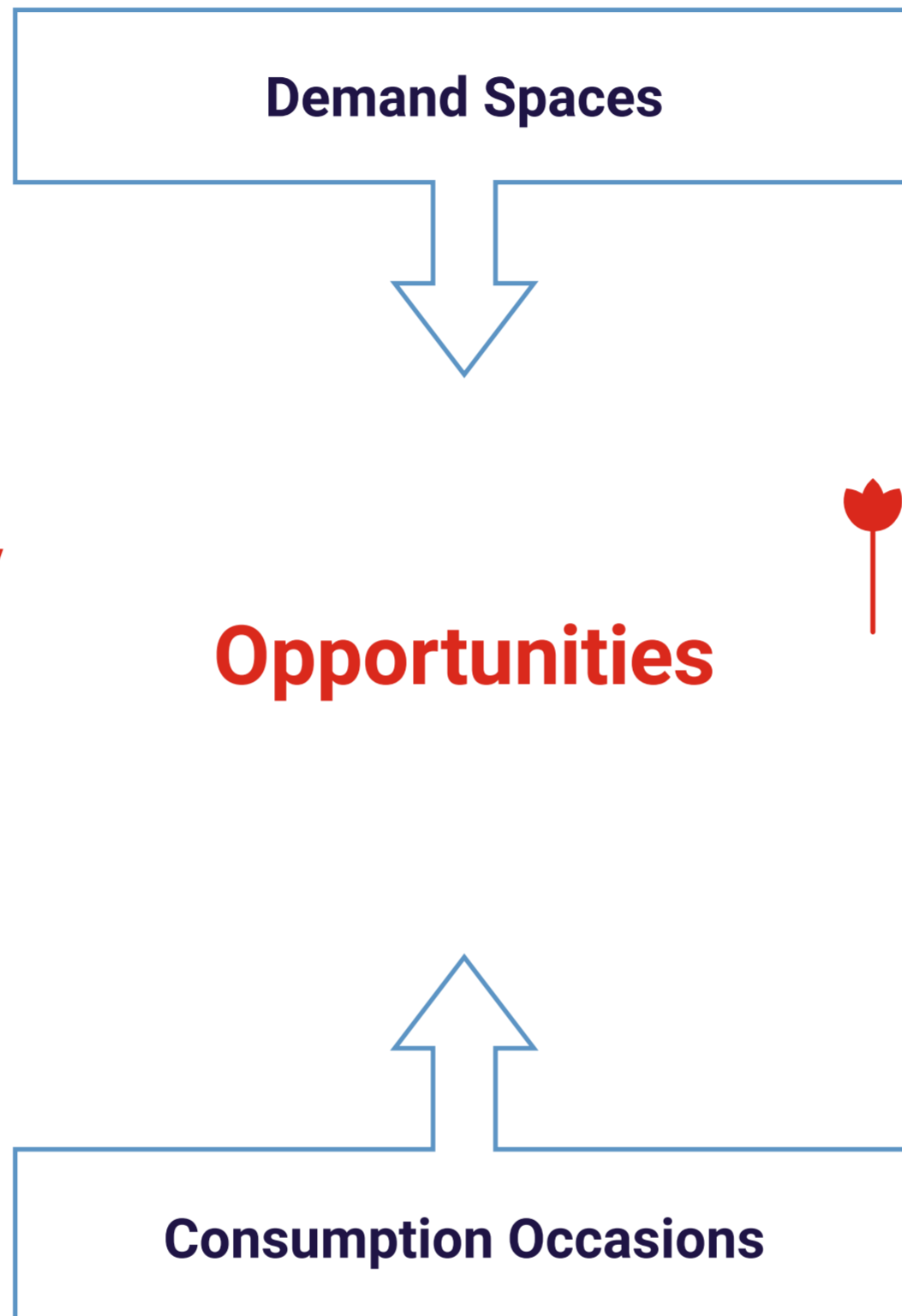
Sustainability is driving a lot of innovation and can provide strong ROI. The same can be said for personalization.

Regarding internal factors, the financial dimension, which supports the top and bottom line, also optimizing costs or CAPEX, can represent the main triggers for innovation. However, de-risking and vision development can also be important drivers.

At the base of the decision about innovation, and in between external and internal factors, there is also the overall category dynamics. The category equity, the category growth or the category commoditization are all elements triggering the need for innovation.



Looking at demand spaces and occasions

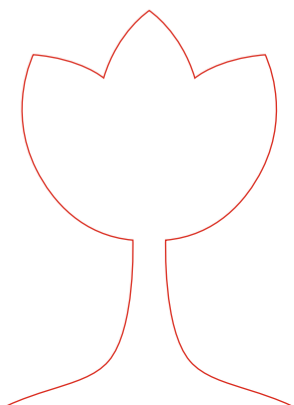


“Innovation must be rooted in opportunity gaps in consumer demand spaces.”

Senior Brand Manager —
Personal and HH Products
Multinational

“Innovation should start from deep understanding of consumer needs and consumption occasions.”

Global Marketing Leader —
Multinational Dairy Company



Justified by consumer expectations

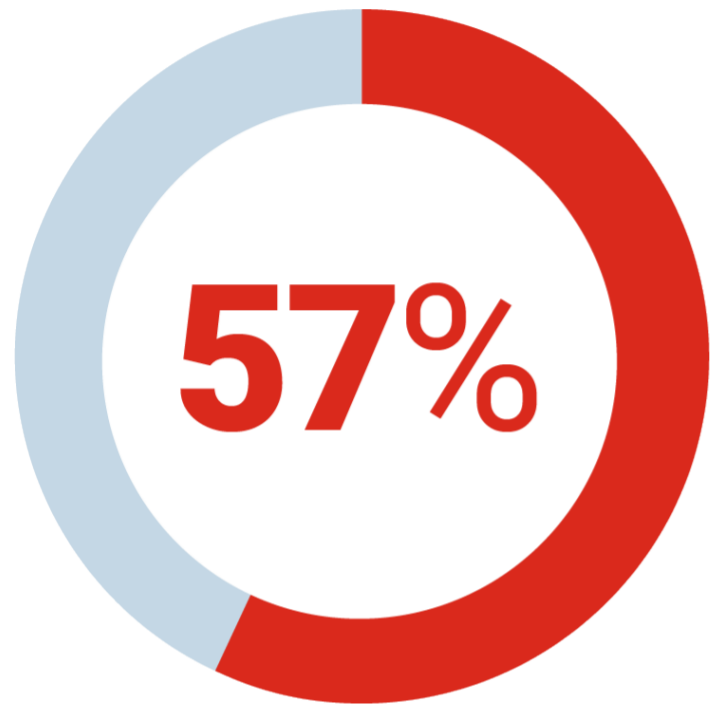
Over 2/3 of global consumers today actively seek out innovative offerings

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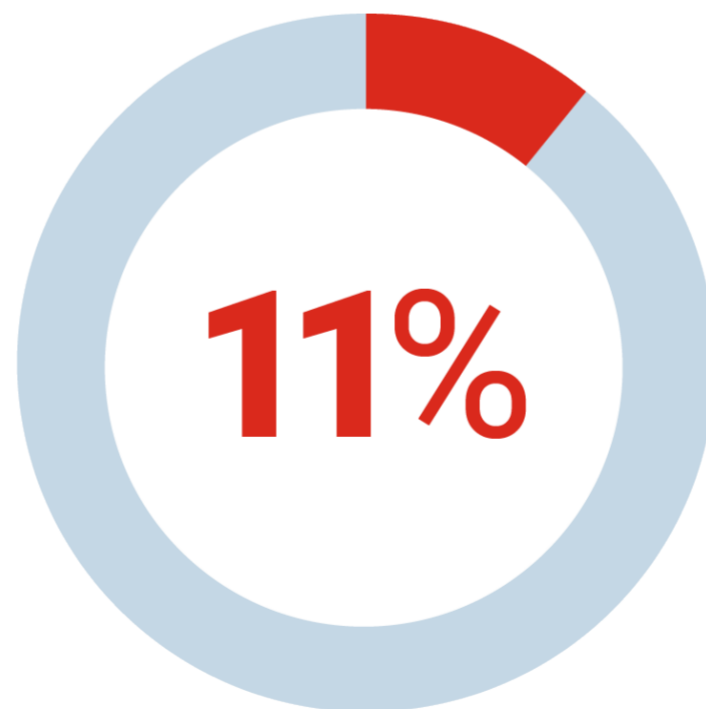
Source: NielsenIQ, 2022



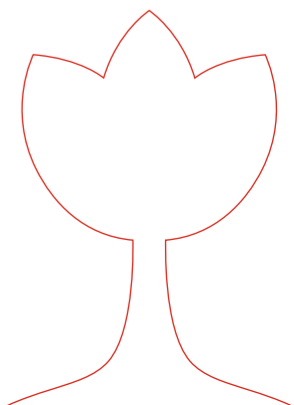
Even with major cultural differences



of Brazilian consumers are
excited to try new things.



of German consumers
seldom try new things.



The need to consider other factors that demand innovation

External Factors

Competitive actions

Macro forces

Technological developments

Regulatory changes

Supply Chain perturbations

Internal Factors

Revenue growth

Margin improvement

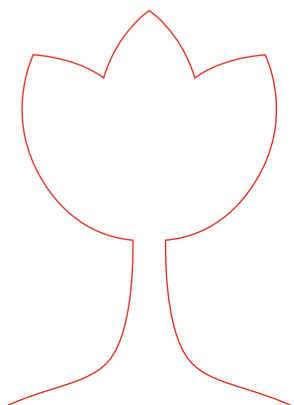
CAPEX optimization

De-risking

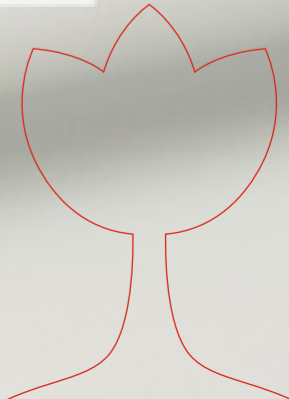
Vision implementation

Category Dynamics

(Equity, Growth, Commoditization)



5 Can success be achieved without metrics?



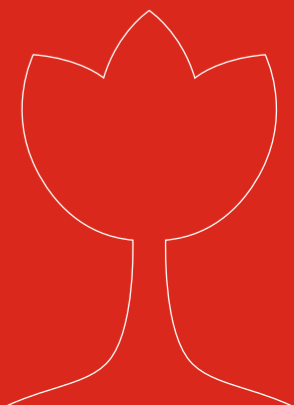
Can success be achieved without metrics?

Proper expectations around the potential returns from innovation and the timeframe associated with achieving these are crucial elements for internal alignment and for providing the right ground for fertile innovation to exist.

An organized and comprehensive process is hard to support, maintain and improve without a clear set of metrics.

Metrics should be applied to:

- The type and amount of expected payback being financial (top and bottom line) and/or non-financial (i.e. from equity or penetration, etc).
- The timing of the defined payback.
- The type of desired innovation (i.e. short or long-term one).



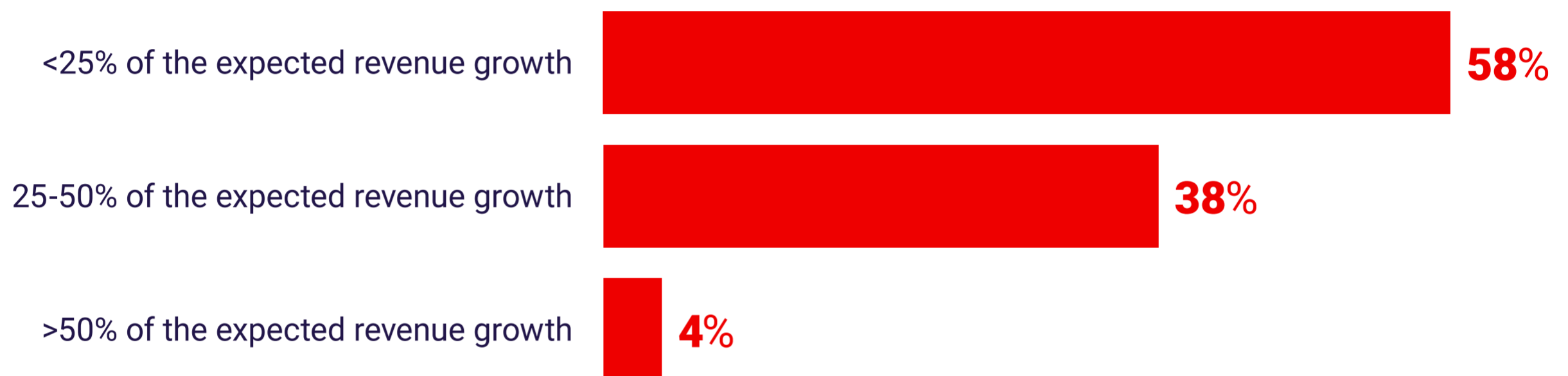
40% of brand owners believe that it does not make sense to establish a target for innovation contribution to revenue growth.



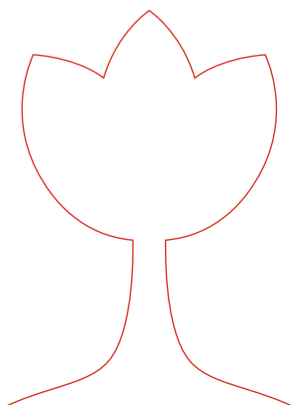
If and when a target is set for the contribution of innovation to revenue growth it should be around 25%

Which one of the following answers do you think best represents the expected quantified contribution of Consumer Facing Innovation in terms of the overall company yearly revenue growth?

(single answer)



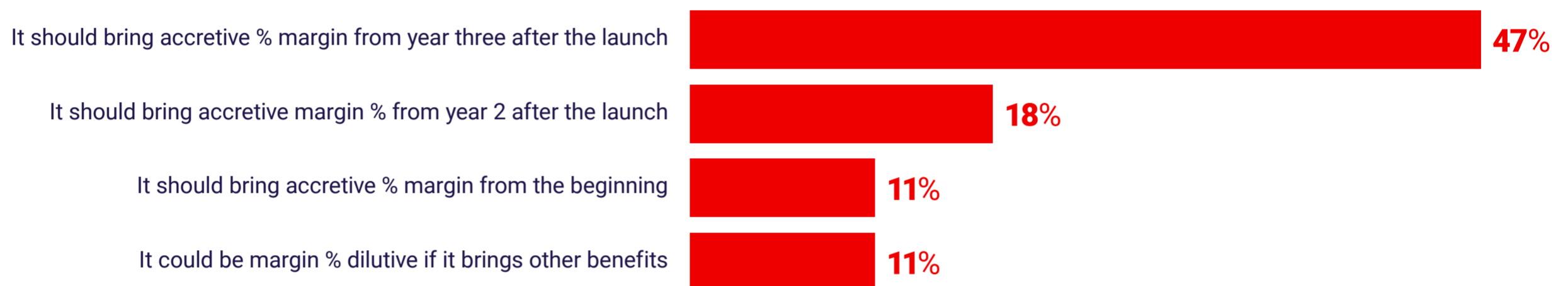
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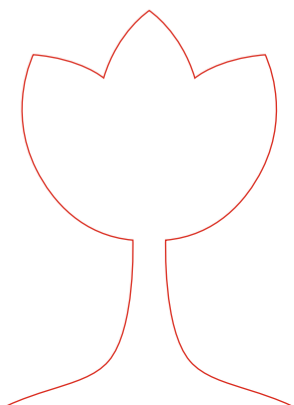
Breakthrough innovation should be given time to kick in before contributing to growing margins – around 3 years

Which of the following sentences in your view best represents the financial contribution that breakthrough/disruptive Consumer Facing Innovation should have?

(single answer)



13% claim that margin should not be one of the key element for evaluating breakthrough innovation.



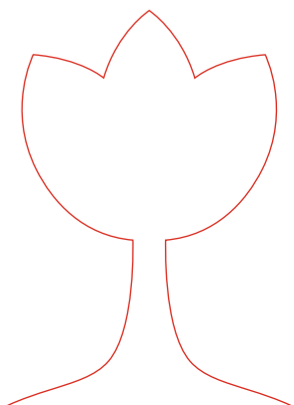
A healthy metric system turns innovation activities into a learning process

Financial

- Top line contribution per proximity and disruptive of innovation (net of cannibalization)
- Profit contribution
- ROI (based on R&D spending and other related costs)
- CAPEX optimization

Non-financial

- Equity impact (consumer engagement)
- Territory expansion (consumer base, occasions, channels, etc.)
- Customer and other stakeholders perceptions
- Innovation lifecycle (time to market, speed of distribution)





Summary & Conclusions

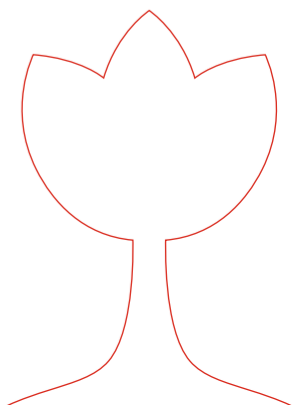
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It's time to move innovation to the center of value creation

It's time for the CPG industry to re-envision its approach to innovation. By embracing a culture of innovation, companies can unlock new growth avenues, enhance resilience, and secure a competitive edge. This study serves as a call to action for CPG companies to:

- **Invest strategically in innovation to drive long-term growth and shareholder value**, while also being agile enough to respond to external market dynamics and consumer trends that dictate the direction of innovation efforts.
- **Cultivate a disciplined and visionary approach to innovation**, moving beyond product innovation to redefine market categories.
- **Foster an environment that values and measures innovation**, ensuring it becomes a cornerstone of the corporate agenda.

By integrating an outward-looking perspective into their innovation strategies, CPG companies can better anticipate and react to the changing needs of the market, ensuring that their innovation efforts are not only sustained but are also relevant and impactful in an ever-evolving world.



The need for a different approach

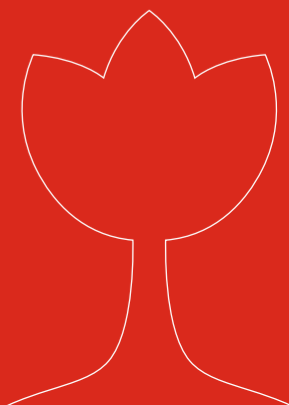
Answering the key questioned outlined at the start of the report provide an indication of how to optimize the role of innovation in CPG.

To leverage innovation fully, a greater ambition for innovation must form the basis, which includes defining higher targets and deploying resources accordingly. Focusing on the long-term, through defining clear quantitative targets will form a key component of this.

Breakthrough innovation must be a central element of the innovation strategy, but it requires discipline. Defining both a vision and a framework is fundamental to define the territory for its development.

Innovation must be consumer-centric but, at the same time, it is important to track and identify emerging external and internal factors that impact its development.

An ongoing measurement approach is the backbone for effective deployment.



Elements that block the potential for unleashing the power of innovation

1

**Low investment,
low return**

Innovation is under leveraged

2

**Desired contribution
vs. leverage**

Disruptive is seen as most important but main focus is on short term

3

**Disruptive innovation lacks
structure and discipline**

Lack of vision and approach limit disruptive innovation deployment

4

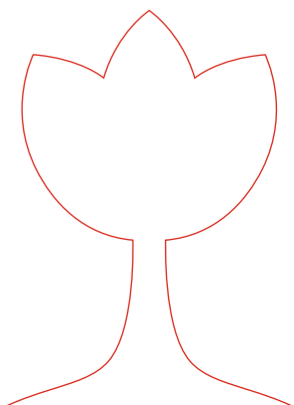
**It must be about the
consumer (but not always)**

Consumer is king but sometimes, internal and external impacting factors are ignored

5

**Can success arrive with
no metrics?**

Lack of proper metrics limits internal alignment



Looking at how to structurally improve innovation ROI

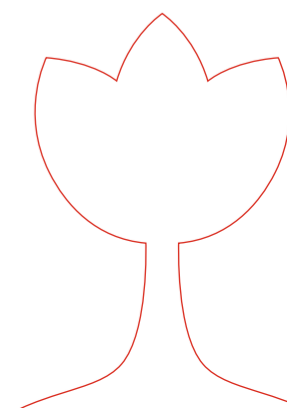
1 Low investment, low return
↳ Set more ambitious innovation budgets

2 Desired contribution vs. leverage
↳ Focus on long term and develop targets

3 Disruptive innovation lacks structure and discipline
↳ Develop vision and framework

4 It must be about the consumer (but not always)
↳ Investigate consumers and track external factors

5 Can success arrive with no metrics?
↳ Build targeted measurement systems





**How can Sevendots support
better innovation?**

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Sevendots brings concrete strategic value across the different stages

Sevendots enhances your innovation strategy and deployment, accelerating its contribution to your business's long-term value generation through expert support and strategic guidance.



Vision development

External impacting factors tracking

Innovation platforms

Idea generation and valuation

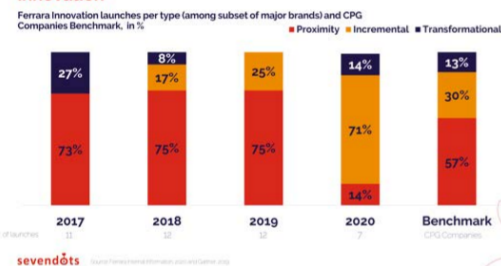
Benchmarking and targets definition

Framework development

Resources identification

Industrialization

CPG benchmarking indicating a prevalence of proximity innovation



Defining the correct ambition for the role of innovation

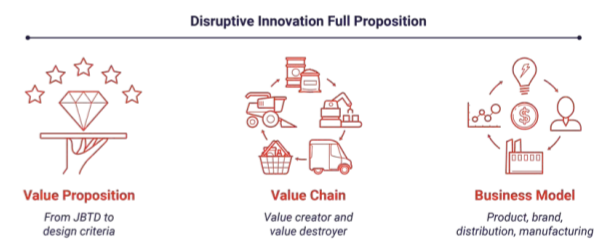


Identify the potential innovation opportunity areas

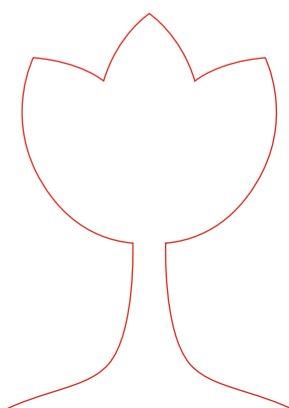
For each innovation lever a set of specific thought starters to facilitate ideation have been identified



Translate the most relevant opportunity areas in innovation platforms and identify the needed contribution



Select and refine the ideas and project them in full industrialization



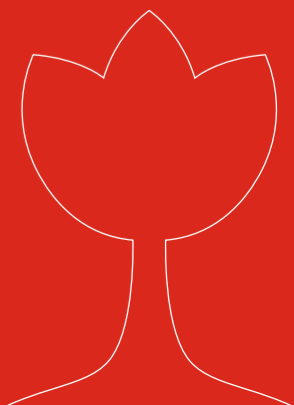
SO

What did we base these insights on?

Sevendots insights are always based on a robust platform of knowledge and, dissatisfied with just one source, we always cross-check our conclusions with other sources of information.

5 key stages of learnings fueled our final content:

- 1** A detailed search and review of all relevant information sources and cases about innovation processes and outcomes from academics, consulting firms and practitioners.
- 2** An internal survey among 20 Sevendots partners from 10 countries– with strong experience in brand and general management or in consulting and consumer research – collecting, structuring and distilling all their experience on innovation.
- 3** Qualitative interviews with 26 senior professionals in large CPG companies, including PepsiCo, Nestlé, Haleon, The Coca Cola Company, Unilever, Ferrero, Kimberly Clark, Barilla among others, from functions such as global and regional CMO's and CEO's, International Marketers and Global CMI.
- 4** A quantitative survey of more than 80 brand owners around the globe, all from leading multinational CPG companies.
- 5** And finally, an extensive search and review of case studies providing vivid support to our findings.



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The role of penetration is gaining additional importance



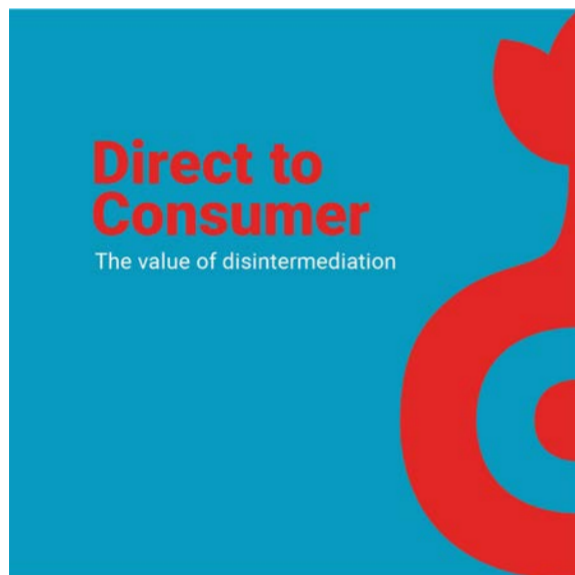
Purpose and social focus should be upgraded while reinforcing the basics



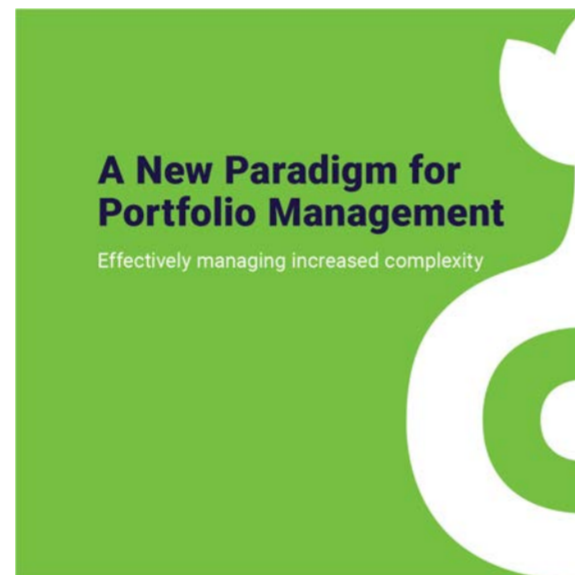
Category definitions could be reconsidered and the role of intangibles expanded



Personalization can drive increased value and engagement but needs to be properly planned and executed.



The need to evaluate and step into DTC with the right execution



The importance of a more proactive portfolio management



Companies and brands societal contribution is today more demanding and complex to manage



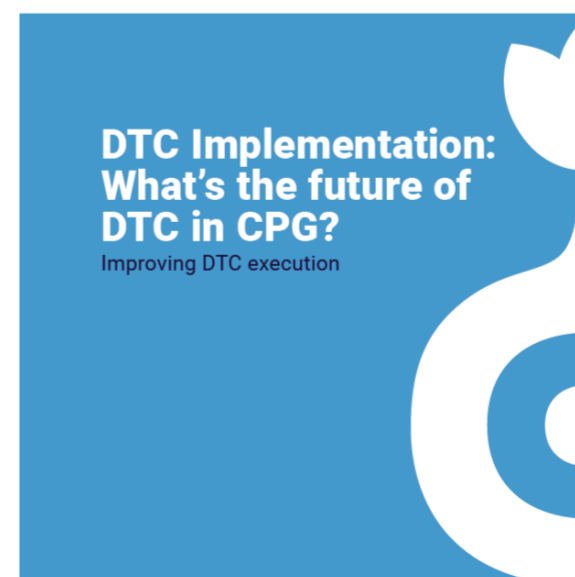
Developing the right mix of service and product as a key component of successful DTC implementation



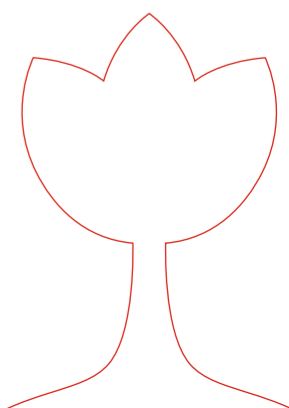
Sustainability is a central asset and has to be managed through an effective value equation



Managing the different benefits level is a crucial component for coping with small brands developments



DTC has gone through a learning curve – the time is now to leverage its unique benefits



Sevendots Growth Series / Volume 11 / Key Highlights

For a presentation of the
whole outcome of the project
please contact
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