LEARN TO WIN WITH THE EMERGING BRANDS PLAYBOOK

New products from upstarts are born to succeed on the shelf and online

TAKEAWAYS

- Emerging brands are breaking through online and in stores.
- New products in the natural and organic segment carry higher price points than established products with traditional ingredients.
- Most emerging brands are designed and packaged for e-commerce.
- Emerging brands are quick to fill marketplace gaps.

ADVANTAGE SOLUTIONS

Advantage is a leading provider of technology-enabled sales and marketing business solutions designed to help manufacturers and retailers across a broad range of channels drive consumer demand, increase sales and achieve operating efficiencies.

RightRice. Caulipower. Noosa.

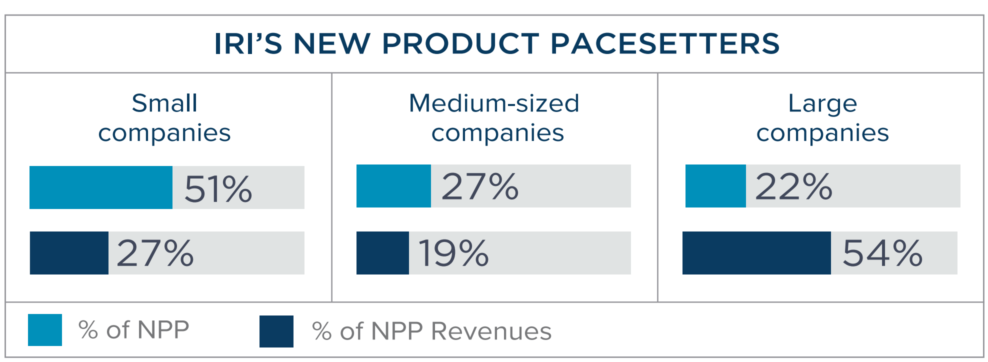
New products from emerging brands are breaking through on physical and digital shelves at a record pace as upstart companies quickly respond to changing consumer preferences and seize opportunities in the rapidly evolving omnichannel marketplace.

Small, emerging product makers are succeeding by delivering the right items in the right packages in high-growth, healthy-margin categories.

For the first time, products developed by companies with annual revenues of less than $1 billion represent the majority of brands on the New Product Pacesetters (NPP) list, IRI's annual ranking of the top 100 new items across the food and beverage, nonfood and convenience store sectors. Small companies produced 51% of products on this year's NPP list and accounted for 27% of combined NPP items' revenue.

Mid-sized companies with sales between $1 billion and $5 billion were responsible for just 27% of NPP items and 19% of revenues, compared to 35% of products and 26% of revenues five years ago. The largest companies represented on the list, with more than $5 billion in revenues, accounted for just 22% of NPP items, but a healthy 54% of NPP sales.

Although large companies are doing well with new product launches from a revenue standpoint, they can learn from smaller emerging brands, according to Joan Driggs, vice president of thought leadership and content, IRI.



"Small companies are thinking entrepreneurially and are less hindered by processes that don't align with the new marketplace or consumer model," she said. "They don't get bogged down by layers of process for the tiniest decisions."

GROWTH CATEGORIES

With zero name recognition and marketing budgets that are a fraction of their more established competitors, many emerging brands are making their mark by introducing products that play to growing consumer demand for quality and sustainability, especially in the clean-label food, beverage and health and beauty categories.

"This [natural and organic] category is growing at three times the rate of conventional products," noted Lynn Yako Graham, president of Beekeeper Marketing, an Advantage Solutions company that helps consumer goods manufacturers profitably grow their business on Amazon.

New brands are more likely to focus their marketing efforts on their sustainable ingredients and business practices, added IRI's Driggs, noting products marketed for their sustainable attributes were responsible for more than half the growth of consumer packaged goods since 2013.

"Sales of sustainably marketed products are growing 5.6 times faster than conventionally marketed products," Driggs said.

Small-company brands are often quicker to identify and fill marketplace gaps outside the natural, organic and sustainable categories, too, Graham said. One example: Smoke Blaster, a spray that safely eliminates smoke odor from skin, hair and clothing. "It saw a whitespace," Graham said, "and moved in."

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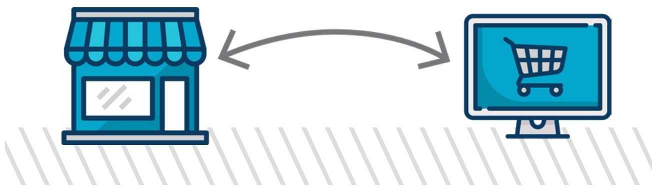
BORN FOR OMNICHANNEL COMMERCE

Newer brands are well positioned against more-established brands because they have considered the realities of omnichannel retailing from the get-go.



While they may lack long-standing relationships with brick-and-mortar retailers and the budgets for slotting fees and trade programs, emerging brands that focus on e-commerce can gain national distribution — and the public relations and media opportunities that come with it — overnight.

"Selling online, you don't have to wait for shelf resets to get up and running," Graham noted.

What's more, new products in the natural, organic and specialty segments typically carry higher retail prices than similar, traditional-ingredient products, making them better positioned to succeed online, Graham said. On Amazon, for example, products must retail for at least $10-$15 to cover the fixed cost of shipping to the consumer, have enough margin to pay the retailer and make even a modest profit, she noted.

New brands' easy-to-understand, transparent brand design and e-commerce marketing strategies help, too. "If your value proposition is simple, your product has a chance to take off on e-commerce before there is wide in-store distribution," Graham noted. "I always ask the question, 'What is your right to win in 50 characters or less?' That is how much copy you have to communicate on a search advertisement on Amazon. If it's not that simple, the brand has to invest in in-store sampling and PR for trial and education before it will see meaningful traction."

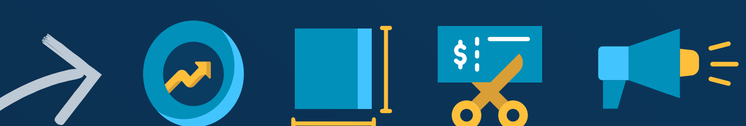
These brands also often benefit from more nimble supply chains and unique relationships with their suppliers, as they launch with e-commerce-optimized packaging, accommodate no-minimum orders and emphasize transparency in ingredient and package sourcing.

THE STORY OF RIGHTRICE

You've probably seen it featured in your favorite magazine or shared on Instagram by any number of culinary, celebrity or fitness influencers. The introduction of RightRice, the breakthrough vegetable-based grain created by the founder of Popchips, is the first-ever synchronized product launch between Amazon and Whole Foods, which had exclusivity on distribution for three months.

The February RightRice launch illustrates what a new brand can accomplish with a coordinated effort between Amazon and Whole Foods, said Lynn Yako Graham, president of Beekeeper Marketing, the Advantage Solutions company that worked with the RightRice team to launch on Amazon.

RightRice had all the foundational elements needed to succeed instore and online out of the gate: a clear, on-trend value proposition ("rice made from vegetables") that people could understand immediately; consumer-friendly pack sizes, including a variety pack; search advertising; couponing; and Amazon-generated marketing blasts, Graham said. At the same time, Whole Foods showcased all four RightRice SKUs on the shelf and launched the item with off-shelf merchandising.



"RightRice did an amazing job educating people about the product using a mix of PR and social media and influencer marketing," Graham said, "and they were very intentional and thoughtful about their messaging, 'Rice Made Right-er.'"

EMERGING BRAND LESSONS

Now, many established companies are replicating these winning strategies. For starters, they're acquiring the makers of breakout products not just to fill gaps in their portfolios, but to learn and integrate their skills and strategies, Driggs noted.

One prime example: Kellogg Company's 2017 acquisition of Chicago Brands Co., the maker of RX nutrition bars, a New Product Pacesetter. Recently repositioned as Insurgent Brands, Chicago Brands Co. introduced TIG Snacks, a new clean-label bar whose primary ingredient is chickpeas, this spring.

Larger consumer goods companies also are launching new products that consumers wouldn't necessarily associate with their longtime, legacy brands in new ways, Driggs noted. For instance, marketed with maximum transparency about ingredients and carbon footprint, Unilever's Love, Beauty and Planet products are plant-based, cruelty free and packaged in bottles made with 100% recycled materials. The brand funds and showcases a community of Changemakers, people who are committed to small acts that help the planet.

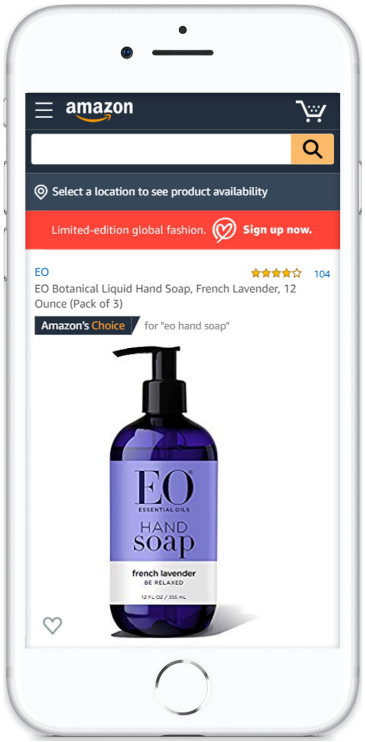
"While big companies are still doing very well, to keep doing well they really need to continue to innovate and look at mergers and acquisitions carefully," Driggs said. "They shouldn't buy a successful small company, then continue to go to market and respond to the changing consumer and marketplace as it had in the past." •

ARE YOU READY FOR AMAZON?

No matter their size, consumer goods manufacturers who want to succeed on the world's largest online retail platform must embrace change and innovate quickly, two traits common to small, emerging companies producing insurgent brands.

"New, smaller brands know that Amazon is a strategic must-win channel," said Lynn Yako Graham, president of Beekeeper Marketing. "Even if sales there are small to start, if they focus on building a solid foundation, they position themselves well for future success. The channel will only become more and more important.

"Larger, established brands also understand that Amazon is important, but the cost of making changes to their systems to accommodate Amazon's specific needs can prove too daunting and many are late to the game or put it off until the pain is acute."



Many large consumer goods companies, for example, are hesitant to add e-commerce-specific SKUs to their already large portfolios, she noted. EO Products, however, was one entrepreneurial company that invested in Amazon-friendly SKUs and scored big.

Previously, the company offered its popular hand soaps in six-count cases of containers that were prone to breaking or leaking when shipped to the consumer. The company created a new three-count pack that was more consumer friendly for shoppers who are not able to pantry-load and was able to withstand the journey to the consumer without damage. The result: triple-digit growth of their entire business for the last two years running.

Now e-comm-friendly pack sizes are included in all of EO Products' new item launches, Graham said. Of more than 200 EO Products SKUs, the company's 20 Amazon-friendly SKUs now comprise more than 70% of sales.

IT'S NOT EASY BEING SEEN

Still, given the complexities — and cost — of promoting products online, especially on Amazon, new items introduced by big-company legacy brands often have a leg up. Nearly half of brands selling on Amazon spend more than $40,000 per month advertising on the platform.

"There's no question it costs more to win on Amazon now than ever before," Graham said. "More dollars are being dedicated to Amazon advertising and there are more brands out there investing in Amazon advertising to be discovered. If your product is in a very competitive category, you have to be smarter about your ad spend and the keywords you spend against.

"Smaller companies need to be clear on their advertising goals and KPIs," she said. "Sales? Product awareness? Repeat purchase? They need to pick one and be realistic about what it's going to take to get there. They need to be prepared to invest if they want to see rapid growth, especially in competitive categories."