

# Driving OTC New Product Success

## Analysis Connects Marketing Efforts, Year 2 Growth

First-year investments for a brand are methodically planned and typically the highest the product will ever see. But what marketing investments prove to be the most effective in Year 2? Building upon its partnership with SymphonyIRI Group, Knowledge Networks (KN) shares insights from an analysis of the New Product Profiler (NPP) database.

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➤ A tremendous amount of planning, effort, investment and excitement inevitably surrounds the launch of any new product, with much of the focus being on generating awareness and optimizing trial and repeat rates out of the gate. A new product's debut in market generally involves a multi-faceted and carefully orchestrated set of marketing and advertising activities, with Year 1 investments often being as high as they will ever be in the product's lifetime.

Given success in Year 1, the challenge becomes how to continue the momentum in Year 2 despite the very likely reality of having fewer resources. If a new product can continue to grow revenue in its second year, the marketing team can claim well-deserved kudos. But achieving such growth requires a keen understanding of how the various marketing levers work together to impact consumer behavior, and thus, sales. Nailing the correct mix of marketing elements to optimize Year 2 sales is a feat that all marketing and brand managers aspire to do, yet insights into what has worked for previously launched products beyond one's own are often anecdotal, at best.

Thanks to careful cataloguing of new product marketing activities

and performance, manufacturers and agencies now have the ability to mine competitive marketing investment and sales information to learn from what has worked (and not worked) for hundreds of product launches in numerous categories.

Knowledge Networks' analysis of over 80 OTC and Rx-to-OTC switch products in the New Product Profiler (NPP) database reveals that about half (53 percent) of OTC products launched in the U.S. since 2002 achieved increased sales in Year 2, with the average successful product growing dollar sales by 36 percent. As a point of comparison, 50 percent of non-food CPG products launched in the U.S. since 2002 grew their dollar sales in Year 2, and by 40 percent on average. Those OTC and non-food CPG products whose dollar sales decreased in Year 2 experienced decreases of 26 percent for OTC and 40 percent for non-food CPG, on average. The potential for swings in Year 2 sales is significant, making it critical to understand those levers that are most influential in making Year 2 a continued story of success.

### ACV DISTRIBUTION

What factors contributed to products' growth in Year 2? KN's examination of this question focuses on understanding the relationship between dollar sales and four major

spend metrics tracked by NPP: ACV Distribution (the extent to which a product is distributed where consumers shop), Media Spend (in total dollars), Coupon Circulation (in millions) and In-Store Merchandising (in weeks).

In Figure 1, we can see that OTC products whose sales declined in Year 2 suffered from more limited distribution in Year 1 (50 percent vs. 69 percent), coupled with a decline in distribution in Year 2 (50 percent vs. 43 percent). Meanwhile, those products whose sales increased in Year 2 appear to have benefited from wider distribution out of the gate, coupled with distribution that grew even further in Year 2. A very similar pattern is seen with non-food CPG products; those that grew in Year 2 tended to benefit from higher levels of distribution in Year 1, and with distribution levels that grew slightly in Year 2.

### MEDIA SPEND

A comparison of Media Spend for those products that decreased vs. increased sales in Year 2 tells a different story (see Figure 2). For both sets of OTC products, Total Media Spend was around \$20M on average, but a much sharper decline in media spend was witnessed for those products whose sales declined in Year 2 (-34 percent vs. -16 percent). A nearly identical picture is painted

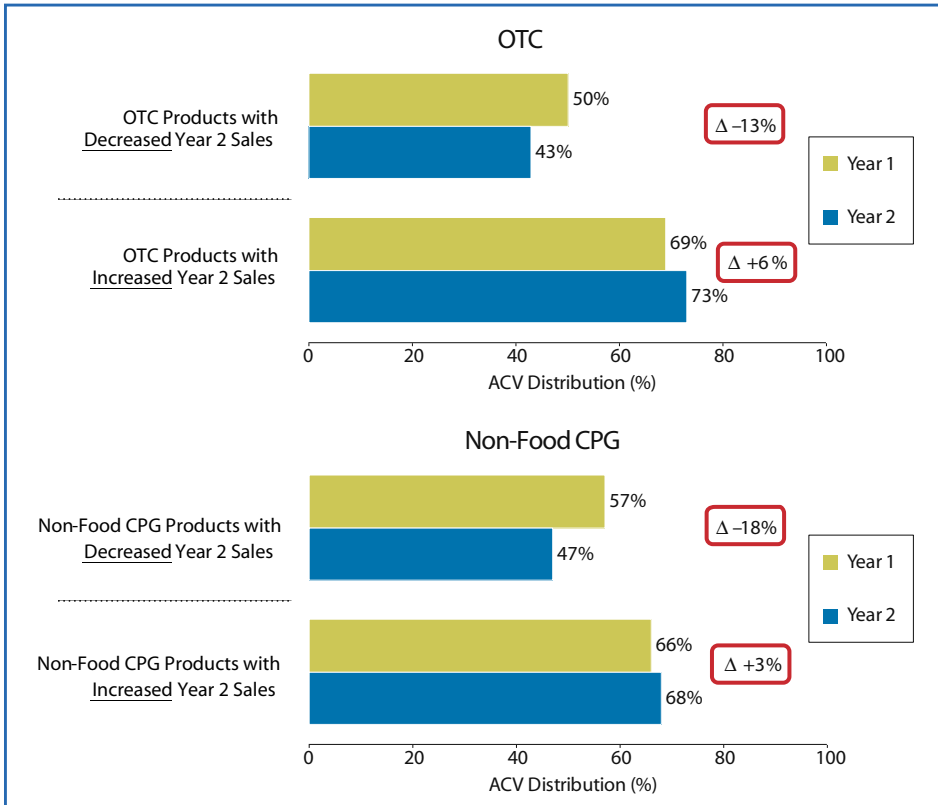


Figure 1: Average ACV Distribution: Year 1 vs. Year 2

for non-food CPG products. On average, those products that decreased in sales in Year 2 began with Media Spend levels similar to those who grew in Year 2. However, their Media Spend fell off much more sharply (-64 percent vs. -34 percent) in Year 2 than did products whose sales grew in Year 2.

## COUPON CIRCULATION

It is clear that both OTC and CPG manufacturers appreciate the important and ongoing role that coupons can play in stimulating interest in a product throughout its lifecycle. While OTC products that experienced an increase in Year 2 had somewhat higher levels of coupon circulation in Year 1 than those whose sales decreased in Year 2 (198MM vs. 179MM), both types of products tended to increase their coupon circulation in Year 2.

However, while OTC products as

a whole increased coupon circulation by approximately 6 percent, the increase in circulation for products whose sales increased in Year 2 was 9 percent vs. only 2 percent for products whose sales declined in Year 2. In contrast, non-food CPG products showed a somewhat different pattern, with Year 2 success seeming to be driven more by the increase in Year 2 coupon circulation than by higher coupon circulation levels in Year 1. (See Figure 3.)

## IN-STORE MERCHANDISING

The pattern in In-Store Merchandising investments closely parallels that of ACV Distribution for both OTC and non-food CPG products, as depicted in Figure 4. In addition, those whose Year 2 sales decreased had even fewer weeks of merchandising in Year 2 (-26 percent for OTC;

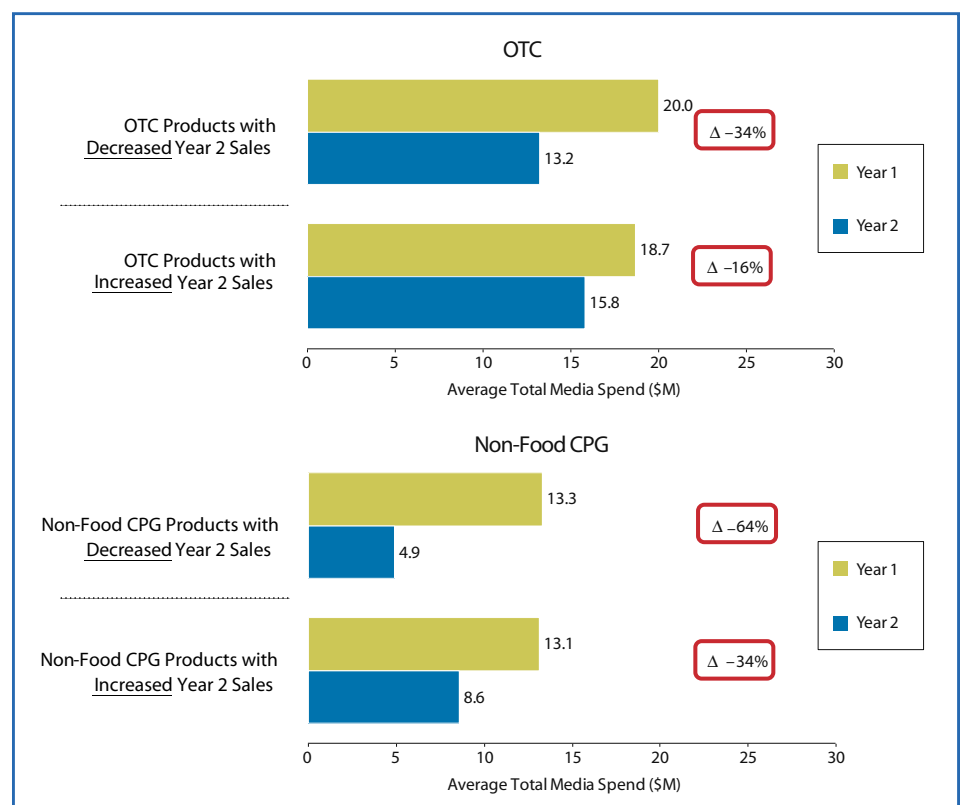


Figure 2: Average Media Spend (\$M): Year 1 vs. Year 2

# ANALYSIS

-21 percent for non-food CPG), while those whose sales improved in Year 2 increased the number of weeks during which In-Store Merchandising was active in Year 2 (+20 percent for OTC versus +18 percent for non-food CPG).

Generally speaking, we see that for both OTC and non-food CPG products, there is pattern of increased investment for those products whose sales increase in Year 2 and decreased investment for those products whose sales decreased in Year 2. This begs the question, are the increased sales due to the increased marketing investments? Or are investments being increased due to improved sales? While we are not able to draw conclusions about the direction of causality, it's unlikely that increases in Year 2 investments would be based solely on a product's

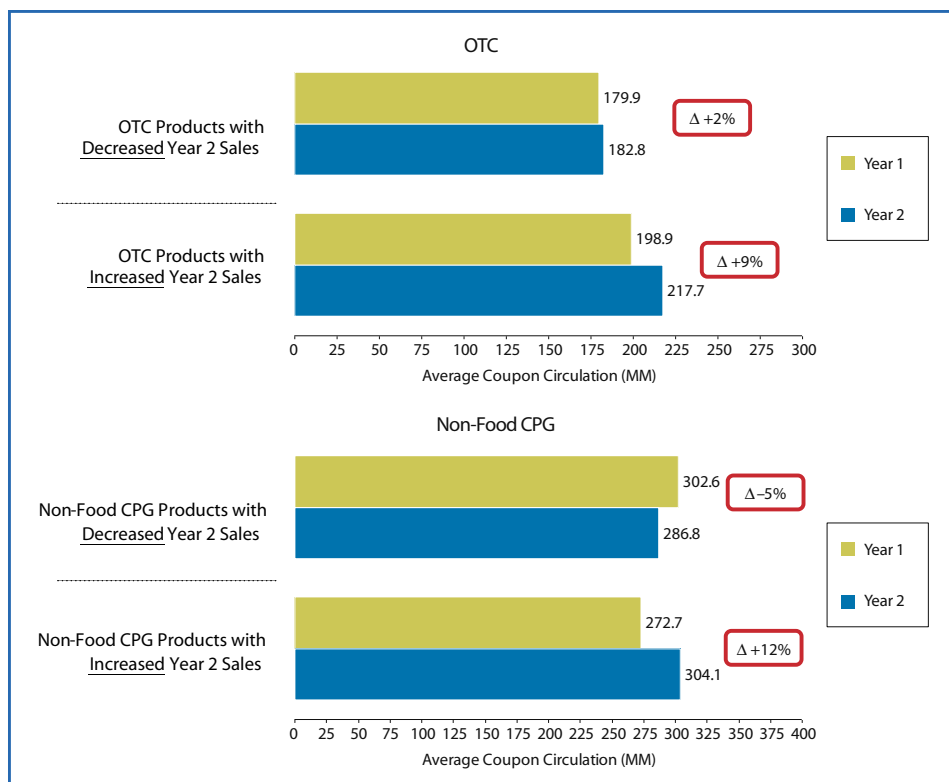


Figure 3: Average Coupon Circulation (MM): Year 1 vs. Year 2

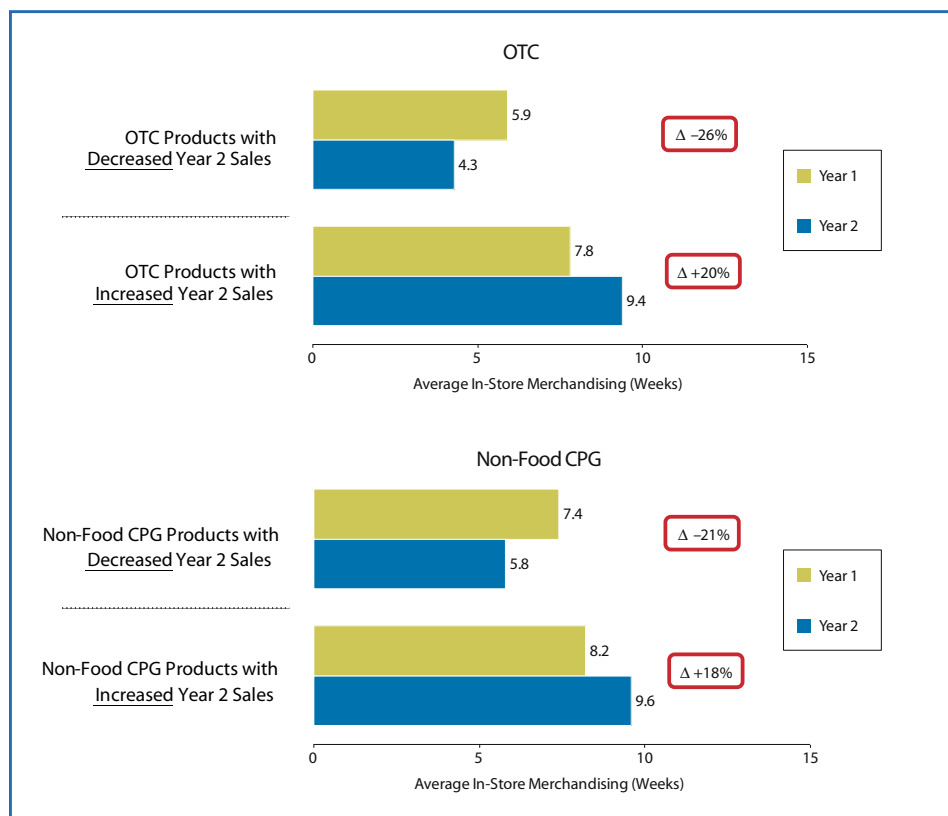


Figure 4: Average In-Store Merchandising (Weeks): Year 1 vs. Year 2

sales success in Year 1.

What levers are most critical to Year 2 success for OTC and non-food CPG products? If we compare the spread in investment changes from Year 1 to Year 2, it becomes evident that the biggest point of distinction between products that grew in Year 2 and those that declined is **In-Store Merchandising**. While the OTC products that improved sales in Year 2 grew 20 percent in average weeks of merchandising from Year 1 to Year 2 (see Figure 5), the OTC products that declined had seen a 26 percent drop in merchandising weeks. Non-food CPG products show a very similar pattern, with the biggest swing in investments being for In-Store Merchandising (See Figure 6).

Given the consistent findings for OTC and non-food CPG products, one might wonder how the dynamics for Rx-to-OTC switches compare. Unlike nascent OTC prod-

uct launches, Rx-to-OTC switches benefit out of the gate by having already established at least modest levels of awareness, trial and repeat purchase. And significant revenues earned while an Rx help to fuel the OTC launch, making it rather simple for Rx-to-OTC switches to outspend their newborn counterparts.

Indeed, all four major spend metrics reflect the superior strength with which Rx-to-OTC switches go to market. While ACV Distribution and Coupon Circulation tend to be 20 to 50 percent greater for Rx-to-OTC switches than for nascent OTC launches, In-Store Merchandising

and Media Spend for switches average two and three times that of nascent OTC products, respectively. With Year 1 dollar sales of Rx-to-OTC switches exceeding those of nascent OTC products by a factor of 4.8 on average, it's surprising that Rx-to-OTC switches don't outspend nascent OTC launches by an even higher amount.

## FINAL THOUGHTS

This examination of OTC and non-food CPG products provides a glimpse into the relationship between several important marketing levers and new product perfor-

mance, and identifies In-Store Merchandising investments as the lever which most distinguishes products whose sales improve in Year 2 from those whose sales decline. It's important to keep in mind that this finding is based on an analysis of averages, however.

Not every new OTC or non-food CPG product will adhere to these same patterns, making it ever so important that marketers take the time to study specific products – how they have invested and how they have performed over time. With New Product Profiler, such detail is available at the product level, permitting a much more granular understanding of what has helped new products succeed and what has hindered those that have not – ultimately better informing the marketing management of new products to come. <<

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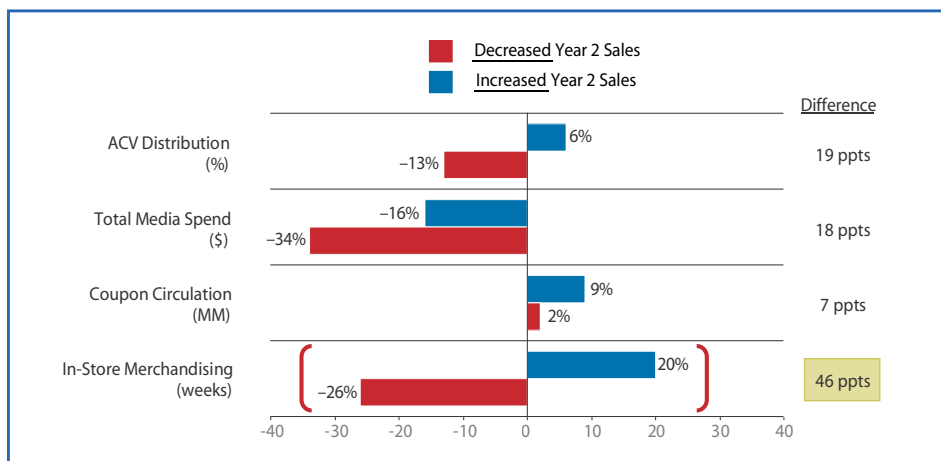


Figure 5: OTC – Year 2 Average Percentage Point Differential

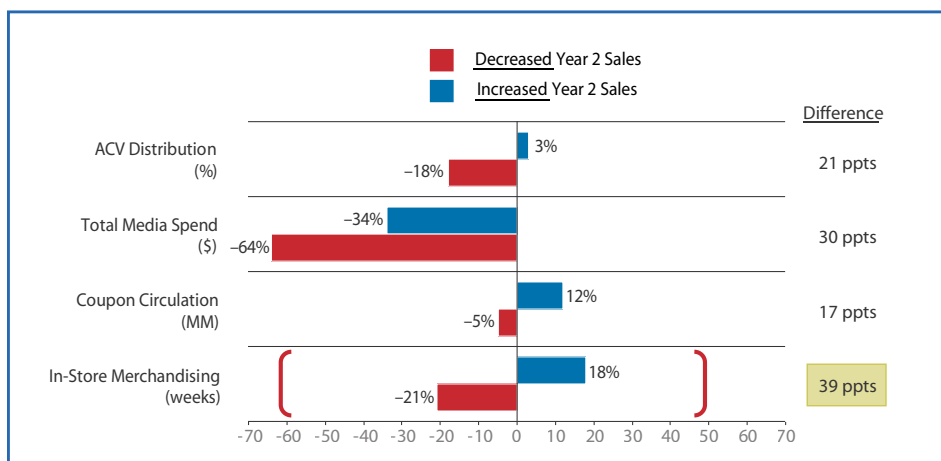


Figure 6: Non-Food CPG – Year 2 Average Percentage Point Differential