

TRANSFORM RESEARCH INTO REVENUE

Using evolutionary concept optimization, brands are boosting new product revenues by 38% and earning \$259 for every research dollar spent.

We all know the story: Across the Consumer Packaged Goods (CPG) industry, sales growth is sluggish – making innovation all the more critical for brands. However, less than 1% of new products launched to market achieve \$50 million in year one revenue; only a small subset of new products in a brand's portfolio (20%) account for the majority of new revenue.¹

Facing this pressure to innovate better, more and more C-level executives are scrutinizing their consumer research investments and asking some really tough questions:

- “Do consumer insights play any direct role in driving innovation revenue?”
- “Do some consumer research tools impact revenue more than others?”
- “Should we be increasing – or decreasing – investment in consumer insights?”

To help answer these questions, Nielsen conducted a series of studies to examine the impact of research spend on innovation revenue. As a first step, Nielsen decided to investigate a critical part of the innovation process – consumer evaluation of new product concepts.

Putting Concept Tests to the Test

Traditionally, marketers measure the strength of their new product ideas by constructing a concept, which sets up a consumer problem and then communicates how the product uniquely solves it. Many methods are used to test and evaluate concepts – ranging from



focus groups to quantitative-based online surveys and evolutionary optimization.

But which method is best for maximizing revenue?

Across 20 randomly selected new product initiatives, Nielsen compared the average BASES forecasted revenue for concepts selected using evolutionary optimization to that of non-optimized concepts (concepts selected by the marketing team using alternate methods).² For each initiative, both groups of concepts were tested providing a clear A/B comparison. To calculate forecasted revenue, Nielsen assumed a consistent level of marketing support and distribution for each brand, based on category averages.

¹Based on Nielsen's annual study, less than 1% of innovation achieve breakthrough status – achieving \$50 million in year one revenue and earning 90% of that revenue in year 2

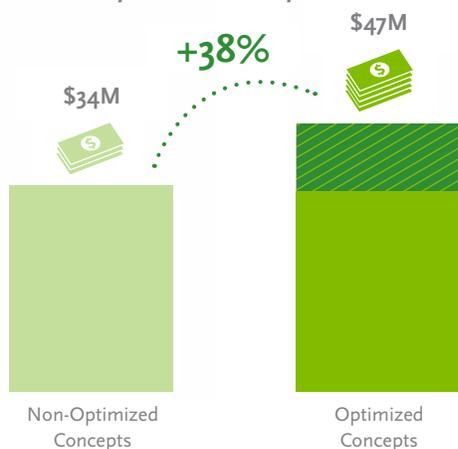
²The 20 randomly studied initiatives spanned different countries, categories, investment levels and launch types (new brand versus extension). Each initiative had a varying degree of concept options that were optimized and selected by consumers.

KEY FINDINGS

FORECASTED REVENUE IMPACT

On average, evolutionary optimization identified concepts that yielded \$13 million more in forecasted revenue for the brand – a 38% improvement over concepts selected using other methods. In other words, brands that do not use evolutionary algorithms to optimize their concepts sacrifice roughly one-third of their potential revenue.

Forecasted Sales Revenue for Optimized vs. Non-Optimized Concepts



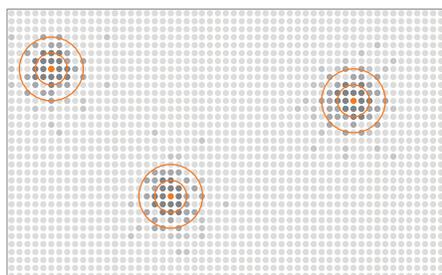
RETURN ON RESEARCH INVESTMENT

Assuming a cost of approximately \$50,000 per optimization study, the average return on investment for evolutionary optimization was 259X. In other words, for every dollar spent on optimization, innovation teams earned back an average of \$259 dollars for the business.

Initial Investment vs. Forecasted Sales Revenue for Optimized Concepts



*Based on average of 20 initiatives studied



HOW DOES EVOLUTIONARY OPTIMIZATION WORK?

Cross-functional teams collaborate, identifying a wide range of ideas about a product, including different consumer insights, features, claims, taglines, and so on. They enter these ideas directly into software that makes it easy to organize and review them.

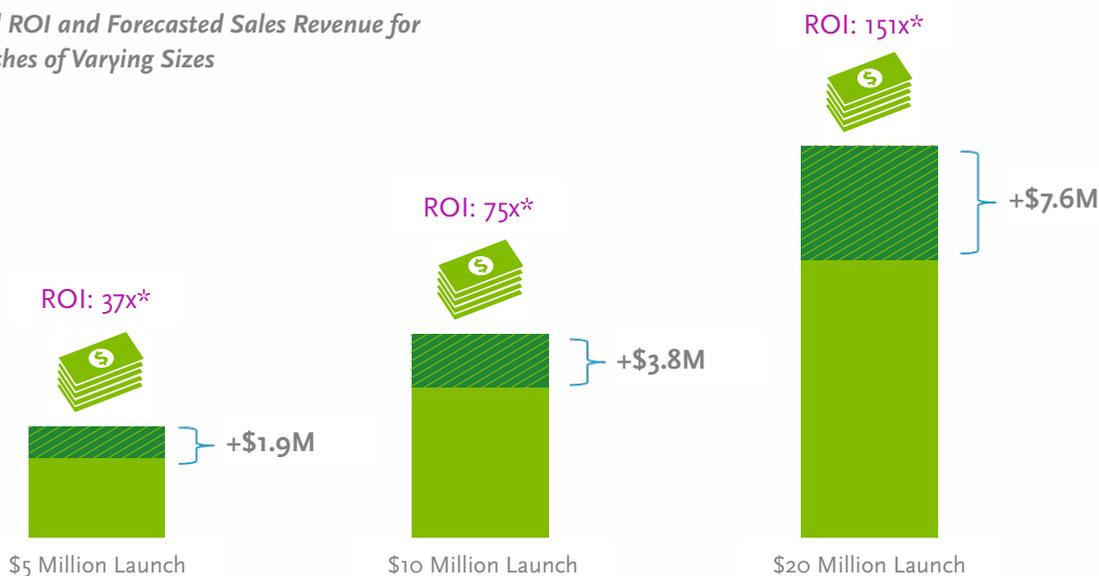
Once these ideas are captured, patented learning algorithms simultaneously test hundreds to millions of concept alternatives—different combinations of the ideas generated in the initial phase—with consumers. Consumers view different concept alternatives online and select the options they prefer most, while the algorithm learns from their choices, evolving the most favorable combination of elements. By enabling marketers to evaluate so many potential product positionings, evolutionary optimization reliably produces a concept that resonates more strongly with consumers.

To see Nielsen Optimizer in action, visit <http://affinnova.wistia.com/medias/7nagudgesv>

ROI BY LAUNCH SIZE

Even for smaller to medium sized launches, the expected revenue improvement and ROI payback for optimization can be huge.

Initial ROI and Forecasted Sales Revenue for Launches of Varying Sizes



*Assuming cost of approximately \$50,000 for evolutionary optimization study

BASES PROBABILITY OF SUCCESS IMPROVEMENT

BASES Probability of Success is a key metric and proprietary Nielsen model used in stage gate processes to determine whether an innovation should launch. Though different from forecasted revenue, it's an important indicator of a product's ability to achieve consumer trial and adoption. On average, optimization improved an initiative's probability of success by 65% and was 4X more likely to develop an innovation with a high chance of succeeding in market.

Impact of Evolutionary Optimization on BASES Probability of Success



CONCLUSION

Innovation teams should take away some key lessons from this study:

1. **Spending on consumer insights does have a direct, often dramatic impact on new product revenue — depending on the methodology selected.** Instead of reducing insights spending, companies should be identifying areas where spending is having the most direct revenue impact and doubling down. Sharing industry examples (like the data in this report) can encourage C-level executives to think of research as an investment – not a cost – and can help consumer insights play a more strategic role.
2. **Challenge research suppliers to prove their ability to impact revenue.** This will help you make more informed investment decisions and continue to gain the support of finance and upper management. Suppliers should be able to provide data that isolates the direct impact of their research on an initiative's revenue – apart from other factors such as advertising and distribution.
3. **Make sure you are using the most advanced consumer insights methodologies and technologies to test many ideas.** Many methodologies advertise themselves as helping brands to “optimize” concepts by allowing them to test a lot of concepts with consumers, when in actuality they are only testing a handful. By investing in algorithm-based technologies like evolutionary optimization, marketers can test hundreds – or millions – of concept alternatives at once with consumers, which is the only proven way to identify the best idea. Choosing any other method could mean increased likelihood of failure and reduced sales for new innovations.



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