Understanding and predicting new line extension success

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Note

Researcher(s) own analyses calculated (or derived) based in part on (i) retail measurement/consumer data from Nielsen Consumer LLC ("NielsenIQ"); (ii) media data from The Nielsen Company (US), LLC ("Nielsen"); and (iii) marketing databases provided through the respective NielsenIQ and the Nielsen Datasets at the Kilts Center for Marketing Data Center at The University of Chicago Booth School of Business.

The conclusions drawn from the NielsenIQ and Nielsen data are those of the researcher(s) and do not reflect the views of Nielsen. Nielsen is not responsible for, had no role in, and was not involved in analyzing and preparing the results reported herein.

Abstract

The practice of capturing more business and growing brands through launching new products continues to reign. Thousands of new consumer products are launched each year, equating to a new launch every two minutes in the United States (Nielsen 2019a). A common belief is that 80% of new products fail (see Castellion & Markham 2013; Crawford 1979, 1987). While the actual failure rate is much lower at 40% (e.g., Barczak et al. 2009; Markham & Lee 2013; Victory et al. 2021), success is rarely guaranteed. Brands make decisions about allocating resources to shorten the odds of success, but these resources are often limited, and priorities are needed. This leads to two broad questions: **1)** 'How do successful new products perform?' and **2)** 'When are they more successful?'.

This thesis documents the success of new line extensions (NLEs) on key performance indicators and investigates key marketing conditions in NLE success in two studies. This research investigates NLEs because they are the most common type of new product introduction (Booz-Allen & Hamilton Inc. 1982; Hultink et al. 2000; Lomax et al. 1996; Victory 2017). Using a dataset of around 1.4 million products purchased by up to 60,000 households (Kilts Center for Marketing 2021), a total of 36,994 NLEs introduced from 2005 to 2013 were examined, across five consumer goods categories in four highly populated United States regional markets.

This research aims to dispel NLE success myths by identifying Empirical Generalisations (EGs) (see Ehrenberg 1995). This thesis observes success across many conditions, using replication in Many Sets of Data (MSoD) (see Lindsay & Ehrenberg 1993; Uncles & Wright 2004), paired with statistical tests, to build confidence that these results would hold in more situations and are not by chance.

Study 1: This study investigated NLE success using seven key performance indicators from different success perspectives. This study identified the following key findings:

- **Successful NLEs often perform better early on** compared to failures. More NLEs that failed (~20pp) had a share or penetration below its category norm than the successes.

- While NLEs are commonly introduced to capture market share, **around three in four NLEs have a share or penetration below its category norm** directly after its launch.
- **NLEs are often introduced to attract new parent brand buyers, but few NLEs do so.** Around nine in 10 buyers of the 'average' NLE were previous parent brand buyers.
- **Most NLEs join the 'long tail' of their parent brands and contribute less than 10% to brand sales**. The biggest difference is shown for contribution by brand share size.
- **Many new line extensions ultimately fail in the longer-term.** An average 80% of NLEs were no longer bought by category buyers three years after launch.
- **In the short-term, half of NLEs failed within the first year**. However, half of these failures are seasonal NLEs. Once excluded, the rate drops to 23% in the first year.

Study 2: The second study investigates several conditions in NLE success, including conditions related to the NLE's category, brand, and marketing (distribution and pricing).

- **Wide distribution for NLEs is rare but vital.** More of the successful NLEs (~half) have distribution levels above the category norm compared to the failed NLEs (~20%). **Distribution is the biggest predictor in NLE success.** NLEs with higher distribution (1.8 times) and increases in distribution (3.6 times) are more likely to be successful.
- **NLEs introduced by bigger brands also have a greater chance of success.** NLEs from higher share brands are 1.5 times more likely to be successful, and the 'average' NLE introduced by a higher share parent brand performs better on several key indicators.
- The category plays a role in NLE success. **Being introduced in a category with more products is the next strongest predictor, with a negative relationship to success.**

These findings inform practitioners about what performance to expect from NLEs, how to identify successful NLEs early on, and which marketing decisions should be prioritised to increase the chance of NLE success. This research advocates practitioners to: **A)** have a clear business case for NLEs and be clear on the NLE's objectives, **B)** prioritise distribution as one of the more valuable marketing activities, and **C)** understand the category and brand conditions that can provide a head start in the short-term or that are a hinderance.

Keywords: new products, new line extensions, new product success, new product launch, marketing decisions, product innovation