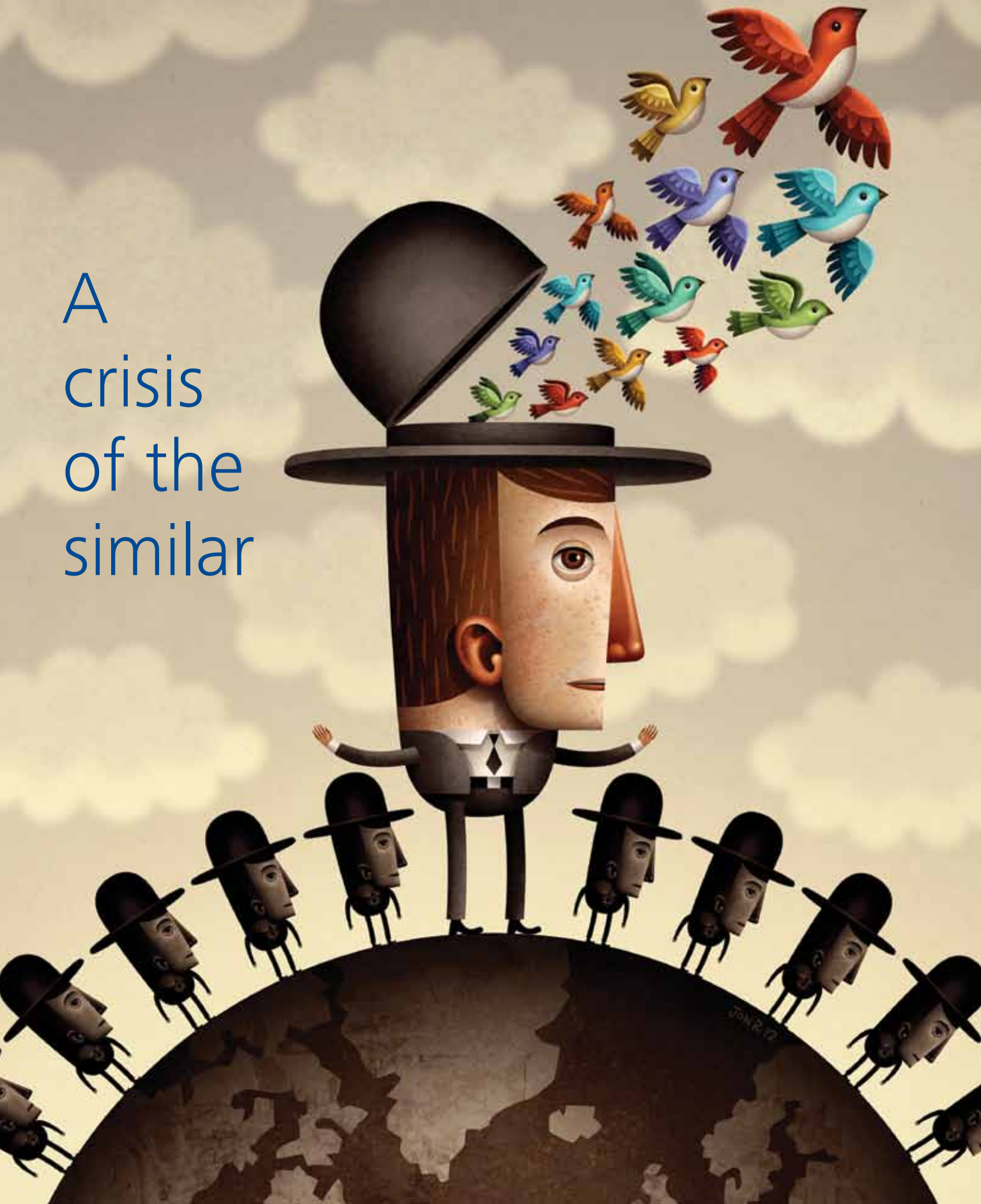


A  
crisis  
of the  
similar



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# A crisis of the similar

## An abundance of “most innovative” new product awards and a dearth of innovative products.

Each year, hundreds of products and dozens of brand managers receive awards for the best new consumer products across household goods, foods, beverages, and personal goods. The “best” or “most innovative” new products are recognized with awards by magazines and market research companies—typically selected based on consumer surveys of product awareness and perceptions.<sup>1</sup>

However, the awarded innovations in consumer products do not seem all that innovative or enduring.

## A crisis of the similar.

Consumer products today suffer from a crisis of the similar. Despite an unending array of variations in supermarkets and mass merchandisers, the differences between brands are typically not significant enough for any single brand to stand out. For example, in a survey of over 1,800 consumers across three product categories, only 6 percent of the respondents were loyal to a single brand in a product category, and on average, 49 percent were not loyal to any brand.<sup>2</sup> Consumers believe many product categories are relatively homogeneous; they think differences between national brands are insignificant, as are differences between national brands and private labels. For example, in a survey of over 2,000 consumers in the United States most consumers thought that the store brands were the same as or better in quality than national brands in 20 of the 21 product categories.<sup>3</sup>

Despite an unending array of variations in supermarkets and mass merchandisers, the differences between brands are typically not significant enough for any single brand to stand out.

Across these 21 product categories, only a third of the consumers were loyal to their favorite brands. Furthermore, there are few products that make consumers say “wow!” and represent game-changing or market-creating products.<sup>4</sup> In product categories with more variety than differentiation, the buying decision is difficult for many shoppers.<sup>5</sup>

## Why is there so much similarity in the consumer products sector?

A crisis of the similar stems from similar strategies, similar investments, similar understanding of consumer needs, and similar business models across the industry.

**Similar strategies:** Look through consumer product company annual reports, and it seems as if most of them have the same business strategy: growth from new geographic markets, growth from innovative new products, growth from new channels, and expansion along the range of consumer segments from economy to premium—all with greater consumer connection.

**Similar investment patterns and criteria:** The mix of investment tends to be heavily weighted toward minor product extensions due to a reluctance to risk investment dollars on truly new products and business models. While this shift in R&D and marketing investment away from higher-risk and higher-reward products and programs is understandable due to the possibility of failure, the overreliance on lower-risk, lower-reward investments means that companies are choosing a path of survival versus exemplary performance.<sup>6</sup>



**Similar understanding of consumer needs:** Even with access to an abundance of market research studies, consumer product companies tend to be reactive to consumer behavior instead of predicting changes in consumers' underlying attitudes.

Consumer product companies seem to lag in their understanding of the consumer psyche and its potential implications on purchase behavior. As a result, there seems to be a shortsighted conception of who the target consumer is and what the target consumer wants.<sup>7</sup> For the most part, consumer product companies look to consumer insights captured with similar methodologies ranging from the quantitative (e.g., behavioral data, consumer surveys) to the qualitative (e.g., focus groups, shopper intercepts, ethnographic in-store observations, or in-home visits); however, the findings are more focused on historical data rather than projections for the future.

**Similar business models:** Consumer product companies in food, beverage, household goods, and personal goods tend to have the same set of suppliers, in the same channels, and with the same communication routes to consumers. Companies also tend to be organized around very similar operating processes and organization functions (e.g., marketing, R&D, finance, IT, operations, supply chain) with some variance in terms of centralization or decentralization across functions and borders.

The tremendous similarity in strategies, investments, consumer insight, and business models, and corresponding minimal competitive differentiation across most consumer product companies could explain why industry sector return on assets (ROA) has trended downward over the past 40+ years. Not only have the top quartile performers declined (from 13.6 percent in 1965 to 12.3 percent in 2008), but the bottom quartile has fallen at a much more rapid pace (from 2.6 percent in 1965 to negative 23.7 percent in 2008). Similarly, the average total share holder return (TSR) or the top quartile and bottom quartile have a declining trend (0.5 percent a year and 0.75 percent a year, respectively) between 1965 and 2008.<sup>8</sup>

### Observations of similarity from three consumer product categories.

As part of our research, we looked at three product categories across the consumer products industry sector in household goods, food, and personal care goods. We chose laundry detergent, salty and savory snacks, and men's personal care body wash because each category has a unique but prominent role across channels and in shopping carts. Each product category also has a rich history of product and marketing innovation with compelling

learning and implications for consumer product companies. These categories each have a crisis of the similar, but they offer different sets of possibilities, cautionary tales, and even successes.

**Laundry detergent:** From a distance, the laundry detergent aisle at a mass merchandiser today appears like a rainbow of primary colors blasting through a brightly lit store. At first glance, the sole difference between brands

seems to be the color of the packaging in red, orange, yellow, green, blue, and white. It is as if there is no more room for additional laundry detergent brands because there are no more primary colors. The plastic bottles seem similar across the national and store brands, with the same general shapes and caps. Consumer product companies seem to

have settled on a few common sizes for the containers. A closer look at the brands reveals a proliferation of SKUs with a range of formulations, concentration, package sizes, packaging, eco-friendly claims, and washer-specific products across and within brands.

Laundry detergent has a rich history of innovation; product selection is transformed every few decades. The transformation has occurred along many dimensions—from hard bar soap, to flakes, to powder, to liquid and from laundry soap produced from animal fats and vegetable oils to synthetic non-soap detergents; from use primarily for hand washing, to use in top-loading washing machines, to use in high-efficiency front-loading washing machines; from optimized for soft water and hot water, to variants formulated for hard water and cold water. The many years of incremental innovations are accelerated with an occasional game-changing innovation like synthetic-based detergents or liquid detergent.<sup>9</sup>

Laundry detergent has a rich history of innovation; product selection is transformed every few decades.

**Salty and savory snacks:** Salty snacks at mass merchandisers or grocery stores have multiple aisles or sections for a wide assortment of chips, crackers, nuts, and popcorn that induce hunger with each step. From head to toe, the primary shelves and end caps are full of different national and store product choices. At a distance, the sheer volume of choices can be overwhelming. Some products are in large family-size and small single-serve containers like cardboard boxes, plastic containers, or plastic bags. The packaging attempts to differentiate the products by describing the multitude of flavors, ingredients, or health claims.

Salty and savory snacks also have a history of consistently adding new products; literally hundreds of products are launched each year with different flavors, ingredients, health and wellness claims, and packaging. Salty snack ingredients range by grain type, including corn, wheat, and rice, to preparation types of baked and fried. The constant rollout of flavors reflects the ever-changing consumer preferences and attempts of consumer product companies to entice the consumer with product variants in addition to the basic staples. Also, there are lots of niche products in response to consumer trends with claims like organic, low sodium, or fat-free. For these products, there are lots of niche-like products with potential substitutes across categories.

**Men's body wash:** The men's body wash section is a relatively new and growing section of the mass merchandiser. Often, the section is near the much larger selection of women's soaps and body washes. While the women's section is full of soothing colors like lavender, light green, and soft whites with flowing fonts, the men's body wash and soap aisle makes for a jarring transition to darker colors and bolder letters. Dark blues, maroon, and black are in sharp contrast to the lighter colors nearby. Men's products tend to have claims of function like odor fighting versus claims of beauty.

A closer look at men's body wash and soap products reveals that they are remarkably similar in function to the women's products, were it not for the packaging differences. It is a category with incumbents and newer variants beginning with the premise that some men would value targeted products instead of using their spouses' products. The innovations in this category focus on the marketing and positioning of a product, whether it is television commercials or other advertising targeted at men.

In our review of the three categories, we observed four ways the crisis of the similar has manifested itself.

*Observation 1: A seemingly non-stop cadence of product extensions and incremental innovations*

Across the three product categories we looked at, brand managers regularly launch product extensions or updates to their products based on minor incremental innovations, refined positioning, or updated packaging. Much of consumer product research and development investment is focused on incremental product improvements, often just to catch up with competitors. Product improvements often “overshoot” the needs of the typical consumer, providing performance or functionality a majority of consumers are unwilling to pay for.<sup>7</sup>

For example, some national brands have repositioned their mid-band personal and household cleaning products down closer to the value segment to better compete for consumers who believe that the store brands are good enough for them. While there is a role for continually keeping a product fresh, brand managers appear to be reluctant to try something genuinely new. And when they try something new, they often fail to generate significant incremental revenue and profits because the product may not have a redefined or new value proposition—a value proposition that differentiates itself from competitors. Consumers do not seem to miss national brands due to this lack of innovation and un compelling value proposition.

**While there is a role for continually keeping a product fresh, brand managers appear to be reluctant to try something genuinely new.**

*Observation 2: Consumers are numb to improvements*

The crisis is different for each product category. In some categories, products are very similar. In general, consumer product innovation inspires yawns rather than awe in most consumers. Consumers are numb to incremental improvement. They don't realize or value the years of incremental innovation as they make repeat purchases and even try new products

in the category. They don't value incremental innovation enough to switch products or notice differences. While the product packaging claims the soap cleans or smells better, do most consumers really notice a difference?

For example, less than one in three respondents in a recent consumer survey have a laundry detergent or salty snack brand that they will repeatedly buy whether it is on sale or not (32 percent of laundry detergent and 28 percent of

salty snack respondents).<sup>10</sup> Furthermore, nearly four out of five consumer respondents who purchased laundry detergent or salty snacks in the past six months believe that store brand quality is the same as or better than national brands (80 percent of laundry detergent and 78 percent of salty snack respondents). What this means is that to truly be remarkable—to stand out—you have to escape the path of incremental innovation.



*Observation 3: More niche products targeting smaller and smaller sub-segments*

Looking at the proliferation of SKUs, it is apparent that more products are narrowly targeted toward specific sub-segments of consumers based on attributes like flavors, ingredients, packaging, and formulation. There are variations in laundry detergent based on type of machine, format (e.g., liquid vs. powder), water type, and scents. In salty snacks, there are a multitude of flavors, ingredients, and sizes. Similarly, in men's body wash, there are a multitude of products based on age, scents, format, and sizes. For example, there are hundreds of products offered online on Amazon.com in the "laundry detergent", "salty snacks" and "potato chips", and "men's body wash" categories.<sup>11</sup> Consumer product companies have tried to escape the similar with an explosion of "niche-like" products targeting smaller and smaller groups of consumers more effectively.

*Observation 4: Similar products in similar stores*

Not only do the products look similar, the shopping aisles within the mass merchandiser, grocery, club, discount, and dollar channels look remarkably similar, too. There are some exceptions of uniqueness across channels in the dollar stores and discount supermarkets in particular; however, were it not for the retailer-specific store brands and smaller package sizes, these too would look similar. Even as retailers experiment with new formats such as small urban stores, the product offerings remain remarkably similar within and across channel types in the laundry detergent, salty snacks, and men's body wash categories. Both consumer product and retail executives seem to agree. Only a small portion of respondents (39 percent of consumer product executives and 34 percent of retail executives) believe that consumer product companies have developed retailer-specific, tiered product lineups to successfully compete with store brands.<sup>12</sup>



## Escaping the crisis.

Consumer product companies can escape the crisis of the similar. Our observations of the three product categories offer considerations that are applicable across the consumer products industry.

### *Recommendation 1: Think beyond the same old value propositions*

Consumer product companies should consider developing products with genuinely new value propositions. Admittedly, there is a need to refresh products to maintain share, but let's not confuse repositioning, cost reductions, or minor reformulations with market-changing innovation. While there is a role for product and brand extensions, just adding a brand name to an existing non-innovative product isn't driving true growth. Products with new value propositions have a unique set of benefits that could be related to product performance, convenience, or other attributes. For example, in the laundry detergent category, products were developed that helped consumers clean their laundry much more effectively with hard water and cold water.

### *Recommendation 2: Develop products that evoke extreme emotive responses*

In an environment of similarity and products targeted at smaller and smaller segments of consumers, a successful product only needs to strongly resonate with a narrow group of consumers. Consumer product companies should consider creating products that evoke emotive responses. However, in order to surgically target one narrow consumer segment, brands risk alienating other consumers with messaging that may not resonate. Therefore, while a product may succeed in attracting a small segment, it may deter a majority of consumers. For example, in the men's body wash product category, some brands aggressively market to young teens with messaging that may not only appeal to many consumers, but may also offend them. Part of the appeal to young teens may be that the product is not liked by other consumer segments. Similarly, in salty and savory snacks, there are ingredients and flavors that have a very narrow but strong appeal to select ethnic segments.

*Recommendation 3: Discover missed segments of consumers*

The basic observation that most (51 percent) men in the United States have used their spouses' or girlfriends' shampoo, body wash, or soap resulted in the expansion of body wash offerings targeted at men.<sup>13</sup> In this product category, men were a missed segment of consumers that could be better served and targeted sooner with unique product offerings. While the products are relatively similar in this category, the marketing and positioning of the men's offerings is an important driver of differentiation. These missed segments of consumers have the potential to create markets for consumer product companies.

*Recommendation 4: View the packaged goods as the new fashion industry*

In the salty snacks category, there seems to be a never-ending proliferation of minor variant products that is analogous to the apparel segment and the ebb and flow of fashion trends. For example, within the apparel industry, there is constant changing of preferred styles, brands, and colors combined with the seasonal offerings. Of course, understand that in fashion, there are enduring products, like a basic black t-shirt, and whimsical products, like seasonal clothing for a specific occasion. Similarly, in packaged goods, there are more enduring products and their whimsical variants. Apparel companies are used to operating in this fast-moving environment of predicting, meeting, and shaping fashion trends, and consumer package goods companies could learn from them.

*Recommendation 5: Look to companion technologies as a source of innovation*

Companion technologies of products provide a potential source of differentiation. In the laundry detergent product category, innovations in detergent have occurred and continue to occur in response to companion technologies like laundry machines. For example, the movement from a bar to powder, and from powder to liquid are linked to improving effectiveness in hard water and addressing the shortcomings of laundry machines. The faster improvement trajectory of the companion technologies could be a source of innovation or inspiration for new consumer packaged goods to match up with the capabilities offered by the new technologies. For example, detergent manufacturers should consider collaborating with laundry machine makers in the earliest stages of the R&D process, similar to coffee companies working with coffee machine manufacturers to enhance the overall consumer experience with single-serve products and machines.<sup>14</sup> One way to escape the crisis of the similar can be to encourage and harness innovations in companion technologies.

**Closing thoughts.**

A visit to a supermarket or mass merchandiser leaves the impression of abundant choices but striking similarity across products. The observations and recommendations apply to a broad range of consumer products, although we looked at only three discrete product categories. While the crisis of the similar is engrained in the consumer product industry today, there is hope for consumer product companies that think differently about value propositions, develop products that evoke extreme responses, uncover missed consumer segments, emulate the fashion industry, and look to companion technologies to inspire new products.

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