7 DEADLY MISTAKES

MADE BY
Challenger CPG Companies

Jekyll+Hyde LABS

#1 TOO MANY NEW SKUS

Once a company has a successful product, retail buyers start asking them what else they have coming out. This can be very alluring and difficult to resist. There is a natural tendency for CPG marketers to get excited about this and rush to create a new SKU or line extension. However, this can be very dangerous if not correctly done or timed!

Things to consider:

1) When deciding on whether to add another SKU, you must first make sure that it does n sacrifice the original product that got you started. For example, adding a new flavor ma seem to make sense, however it could simply mean dividing your sales between two S instead of one, resulting in two average or poor performing SKUs.

2) Making improved versions like “extra strength” can also damage the core product unles there is a significant price difference, since most people will opt for the extra strength if is close in price.

3) The safest line extensions involve new indications, larger or bonus sizes, or companion products. An example of a companion product would be a mouthwash brand offering a toothpaste with the same core technology or brand promise.

4) But even a companion has a risk; on average, a companion product will sell 20% of the sales volume as the core product. To be successful, your core product needs to be selli at 5x the base, or Mendoza line, for every retailer, or you will need to launch a separate advertising campaign for the new product, while not reducing the budget for the current SKU.

#2 UNDERPRICING PRODUCTS

Many CPG marketers believe they need to be competitively priced with the major brands in their category. Nothing could be farther from the truth! The ideal challenger product either has a technical innovation and/or premium positioning and quality.

1) A small company cannot beat a major brand on price. No matter how low you get your manufacturing costs, a major brand will still have more economies of scale. Also, if price is your only advantage, a major brand can simply institute a temporary price roll back and wait for you to go out of business.

2) Retailers are not interested in “me too” products. The goal is to reduce redundant SKUs, not add more. Retailers only want to add new items that will either increase the number of units sold in the category or increase the dollar amount for the category. A low-price strategy on a “same” product does not increase retailer revenue.

3) It is simply a fact: challenger brands need larger margins in order to grow. A product with a healthy gross margin has far more ability to aggressively advertise, which is what must happen to drive sales quickly.

4) A product with quality packaging and product innovation is more attractive to consumers. Consider the fact that people do not buy the lowest priced product; they buy the product that they believe gives them the most value for the money. On average, there is a 10x price difference between the lowest and the highest priced product in a category, while the manufacturing cost difference between them is only 4x.

#3 TRYING TO BE EVERYTHING TO EVERYONE

Often when we talk to up-and-coming entrepreneurs, they are very excited about their product and believe that everyone is a possible consumer. However, this line of thinking is not the key to success!

It is far better to be passionately desired by a small group of consumers than to be irrelevant to everyone. Figure out who your best consumer is and get personal about it.

- **What do they like?**
- **Who are they?**
- **Income?**
- **Hobbies?**
- **Education?**
- **What is it about your product this group of consumers can't live without?**

Once you know this, exercise discipline, target this audience and forget about the others.

#4 INCOMPLETE GO-TO-MARKET STRATEGY

Another fatal error we see is CPG marketers who are responding to the marketplace rather than creating a plan and working that plan. You need to have a very well defined go-to-market strategy since it's nearly impossible to switch gears midstream.

Your strategy is going to be dependent on several data points:

- **How contested is the product category?**
- **Who is your best customer?**
- **Should you be in retail on day one or start with direct-to-consumer?**
- **Pricing Policy?**

Do the following exercise:

Imagine it's three years from today. If you were to look back over the previous three years, what had to have happened for you to have reached all of your rational goals?

Based on this, look in the rearview mirror and create a timeline of events that need to happen, with dates of completion, in order to achieve it.

#5 EXPECTING TO MAKE MONEY ON A TEST MARKET (REGIONAL OR NATIONAL)

It is not uncommon for a new product to begin with one or two regional accounts or get a test market of several hundred stores from a major retailer.

Note that these are not events to make money on - they are the opportunity to prove your product's worthiness on the bigger stage. Think of a regional account or a test market as an audition to see if you're ready for prime time.

There are several good digital tactics that can be implemented to drive sales quickly in these cases, but note that it is only in a best-case scenario that you will break even. It is far more likely that you will spend more than you sell.

Many small or start up brands will decide to not advertise or support these regional or limited test markets because it is so costly to do so. This is a mistake! In fact, it is more costly not to support them.

It is imperative to perform well during a market test because, once you are in a limited market test or region, the rest of the retail buyers' eyes are upon you. All those buyers will be making their decisions about your product's viability based on this event.

Remember that with IRI and Nielsen, there are no secrets in our industry. Every buyer can see how your product is doing, and, if it isn't impressive, you are not going to expand your retail footprint.

#6 TRYING TO “GO IT ALONE” (NO BROKERS OR WRONG BROKERS)

A good broker more than earns their fee.

1) A good broker has existing relationships within the account you are targeting. This means not only can he or she get a meeting much quicker than you can, they already have built-in credibility with the buyer.

2) A good broker is close to the retail account and understands what is important to that buyer:
   - Do they have a green initiative in place?
   - Are they undergoing SKU rationalization?
   - Is the buyer under pressure to expand or reduce the set?

3) A good broker knows what to say yes and no to. It is the nature of all buyers to ask new vendors or young vendors for the world. Buyers will often ask for big promotional discounts, pay-on-scan payments, or a guaranteed sell-through. A good broker knows the account and the buyer, so they will have a good sense of what you must accept in order to get on the shelf and what you can say no to.

4) A good broker constantly follows up. Most retailers reset their plans once a year with a mid-year refresh. This means that you will likely only see the buyer one time per year (not counting shows like ECRM or NACDS).
   But a lot can happen over a year!

5) A good broker is constantly seeing the retail buyer to review their products, find out about any possible problems and/or discover new needs the buyer has that you could then leverage into an expanded or new SKU.

#7a BROKEN DIGITAL STRATEGY (SOCIAL)

Social media is a reality for nearly every brand today. It is a place to develop a relationship with your consumers and communicate directly to them. However, it is also the place where unhappy customers will attack you. Because of this, you must understand that your brand will have a presence on social media, even if no one in your firm is part of that conversation.

Too often, we hear that the receptionist or an intern is handling the social media. That is like asking an orderly in the hospital to perform your brain surgery! Just because a person knows how to get in and has an ID badge does not mean that person is a doctor.

Social media needs to be handled by an experienced team of experts, not just one person. This team also needs to be armed with the latest analytic tools, social listening programs and other costly tools.

#7b BROKEN DIGITAL STRATEGY (SEARCH)

In addition to social media, every CPG marketer needs to have a paid search strategy in place. Paid search needs to be handled by an experienced team with the appropriate monitoring tools. Many CPG marketers make the mistake of assuming that if they come up first organically in searches for their product name, they have this covered. This is just not the case.

1) Most searches are conducted on mobile devices; this means the only search results that are immediately visible to the user are paid results. In many cases, these are ads from your competitors who are buying your product name.

2) Every month, thousands of people are looking for the deliverable that your product provides. They are searching for solutions every day. However, the way most people search is not by brand name, but by indication or function. For example, people will search for "toenail fungus treatment" or "sensitive gum products". It is important that your product is represented in those results. When someone takes the effort to type a term into a search engine such as "toenail fungus", they have just essentially raised their hand to say "I am absolutely a customer for your product". Search is literally the cheapest way to reach them because the targeting is perfect.

3) Although paid search is on a cost-per-click (CPC) model, most searchers never click on an ad. They simply look for a brand name with ad copy that fits their needs and then go to the store or an online site to buy it.

4) Finally, brands that hold a top placement in search have far better brand recognition at the planogram/retail shelf. Remember: these people just searched for a solution, saw your listing, and went to a store to find your product.

Jekyll+Hyde LABS

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No advertising agency in America has the depth of knowledge or the connections within the industry that we do. We love entrepreneurs and want to help every brand succeed.

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The CPG Insiders Podcast brings the insights and expertise that Jekyll + Hyde has gained and leveraged across more than two decades in the advertising business, becoming the top agency in the country for CPG challenger brands. The show offers useful perspectives on creative and media strategies, product packaging, retailer needs, trends, traps to avoid and more about what it truly takes to succeed at retail.

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