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NIVEA and NIVEA Soft: International Success with German Precision

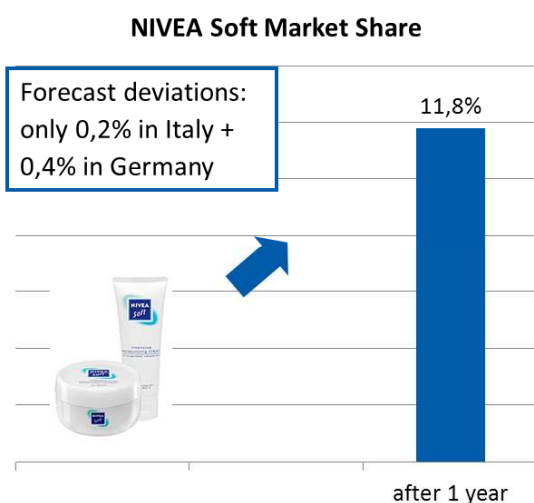
Management Summary

The integration of new products in new markets under the umbrella of a family brand is undoubtedly a risky undertaking. Not every extension fits into the brand concept or lives up to expectations. Even more finesse is demanded when a new product is launched into the core market of the umbrella brand. This difficult task had to be tackled some years ago.

Beiersdorf has used numerous test-market simulation methods in order to support successful NIVEA brand extensions. The method used in this case yielded one of the best fits ever observed between forecasted and real market values. The deviation in the predicted market share was only 0.2% in Italy and 0.4% in Germany. This method - "Sales Effect market simulation" as it is called today - attained a high forecast reliability in both countries.

The international study also provided sound advice for other marketing decisions. The identification of a huge trial purchase barrier proved to be essential, which was solved via intensive product sampling. Product-specific media placement research identified the most effective TV environments and magazines in order to reach relevant target group of brand switchers in favour of NIVEA Soft or NIVEA Cream. These insights enabled NIVEA Soft to conquer the number two position behind NIVEA Cream within such a short space of time.

A method is only as good as its proven forecast accuracy
in real market environments



- *"The fit between predictions and actual market results for NIVEA Soft were without doubt one of the best forecast results ever achieved by Beiersdorf using numerous different market simulation methods over the years."*
- *"The predicted values deviated from real market values by less than half a market share point in Italy and Germany."*



Klaus M. Wecker, Beiersdorf-
market research director, 1971-
2002) Consumer (in planung &
analyse 2001)

"The fit between Ralf Mayer de Groot's predictions and actual market results for NIVEA Soft were without doubt one of the best forecast results ever achieved by Beiersdorf".

NIVEA and NIVEA Soft: International Success with German Precision



Brand extension is nothing new for NIVEA. It is not simply the invention of some modern marketing planner, but a strategy which has helped shape the Nivea success story right from the beginning.

Nivea is one of the oldest branded products at least in Germany. Soap was the first Nivea product to be launched back in 1906. People often forget this, since Nivea's brand image is still predominantly influenced by Nivea Cream, launched as a real innovation in 1911.

In colloquial terms, Nivea Cream has often been referred to as "the mother of all creams" for this reason. The first ever Nivea advert from 1912 already featured three Nivea products: NIVEA soap, cream and Nivea powder.

Hair milk, shaving soap and the first sun protection cream came next, followed by lip care, shampoo, mouth wash, tooth soap (toothpaste) and baby oil to mention just a few other brand extensions.

The principle of "brand stretching" has been used right from the beginning, though these early attempts cannot really be seen as true brand extensions since brand profiles were not considered to be guiding principles at that time. Until the mid 'seventies additional Nivea products had very limited success with the exception of NIVEA sun protection. The reason behind this was an absence of a strategic NIVEA brand concept. Up until that time, NIVEA products were launched rather coincidental, following the so-called "trial-and-error" principle.

NIVEA – Consistent brand extension strategy brings market success

Contrary to Professor Bergler's (a famous German psychology professor) findings, who warned in 1967 that NIVEA should not be associated with cosmetics, the management at NIVEA always regarded NIVEA as a cosmetic brand. This proved to be right as subsequent market development has shown. The basic idea of the NIVEA brand extension strategy was to develop NIVEA into an umbrella brand for "skin care", by carefully introducing new products and by withdrawing those which did not fit that strategic umbrella brand positioning. Brand competence principles were defined for NIVEA for this purpose in order to protect the NIVEA brand against excessive brand extensions.

Market success has since proven the logic of this "new" NIVEA umbrella brand strategy. Brand extensions contributed some 50% to NIVEA turnover in Germany between 1973 and 1980. In the eighties NIVEA's turnover grew further, and NIVEA extension products grew even more rapidly.

Should another product be introduced into the core market of NIVEA Cream?

The integration of new products in new markets under the umbrella of a family brand is undoubtedly a risky undertaking. Not every extension fits into the brand concept or lives up to expectations. Even more finesse is demanded when a new product is launched into the core market of the umbrella brand. This difficult task had to be tackled in the early 'nineties. At that time it became more obvious than in previous years that NIVEA Cream was not able to fulfil all skin care needs optimally.

Market research surveys showed that a substantial consumer segment desired a skin cream which could be more easily spread on and absorbed by the skin than NIVEA Cream. Beiersdorf's R&D department therefore developed a new cream with a softer consistency, which was named NIVEA Soft.

The question was whether the launch of NIVEA Soft would add sufficient additional turnover to European markets and not only add complexity cost. A high cannibalisation rate was identified as a key deterrent factor for the planned launch. *"Before NIVEA Soft could be launched the conservative thinking management had to be convinced that NIVEA Soft could be a success. With a given market share of about 45% (of NIVEA Cream in the German market) there were substantial fears of product cannibalisation. Initially, these fears were greater than the hopes of increasing the market leadership within universal skin care even further"* (manager magazin 2/1996, p. 68). Or as Beiersdorf (2001 p. 118) has written: *"The universal NIVEA Creme is the unsurpassed skin care for every skin type. It was therefore not easy to add an accompanying slightly lighter cream to suit the needs of individual target groups."*

On the other hand, no launch should be deterred by fears of product cannibalisation, which could prove unfounded. Beiersdorf therefore decided to conduct another wide-reaching NIVEA brand extension study in Italy and Germany.

Core objectives of the new NIVEA basic study

The study should carry out the following:

- Determine whether or not NIVEA Cream in the blue tin still has additional market growth potential
- Analyse whether and how new female consumers can be convinced to buy NIVEA Cream
- Reliably identify the market potential size of NIVEA Soft
- Verify if it is possible to convince a new and different target group than that for NIVEA Cream
- Reliably identify possible product cannibalisation effects and volume sources
- Provide detailed optimization advice
- Increase media budget effectiveness by 30% or more by identifying media usage behaviour in detail of the relevant target groups for NIVEA Cream and NIVEA Soft.

Selecting the research method

The following key factors were important for any new research method: it had to reliably identify market potential size and product cannibalisation rate. It was obvious that these criteria would be an important influence in deciding for a strategic launch of NIVEA Soft in Central Europe.

Beiersdorf decided to use a method for the very first time, which in these days is called "Sales Effect market simulation". This method was chosen for its transparent calculation method and wide application in different markets. These included markets for cosmetics as well as hygiene products, cigarettes and food. Findings from validations in numerous case studies showed that the method had reliable forecast capabilities. In most cases, forecast values differed less than a percentage point from real market values.

The method

One of the decisive factors in achieving brand success is the ability to gain and maintain heavy users. (Following the "Pareto rule" of marketing, 20% of the most intensive users of a brand account for at least for 50% of its total turnover, whilst the remaining 80% of all users account for remaining turnover). To achieve this, a brand has to prove that it is better than the main brand currently used. The main brand currently used represents the "best problem solution" for the individual consumer. A consumer's current main brand can therefore be seen as a benchmark criterion, which has to be surpassed by the test product. According to market experience, consumers only switch brands if the test brand is perceived as being:

- superior in at least one purchase-relevant dimension and
- at least equal on all other dimensions. (Consumers are not prepared to accept a negative experience on any purchase relevant criteria – given the numerous alternatives on the market.)

Peckham also concluded on basis of a 43-year Nielsen-experience: "Be sure your brand has a "Consumer Plus". But let me interpose a word of warning here ... Your improvement must represent a real improvement – a "consumer plus" that the consumer can easily recognize upon use – a value over and above what she formerly has been using ... Additional values in a brand are the key to marketing success ... and the failure to keep brands up-to-date is the greatest cause of lost leadership and loss of market share".

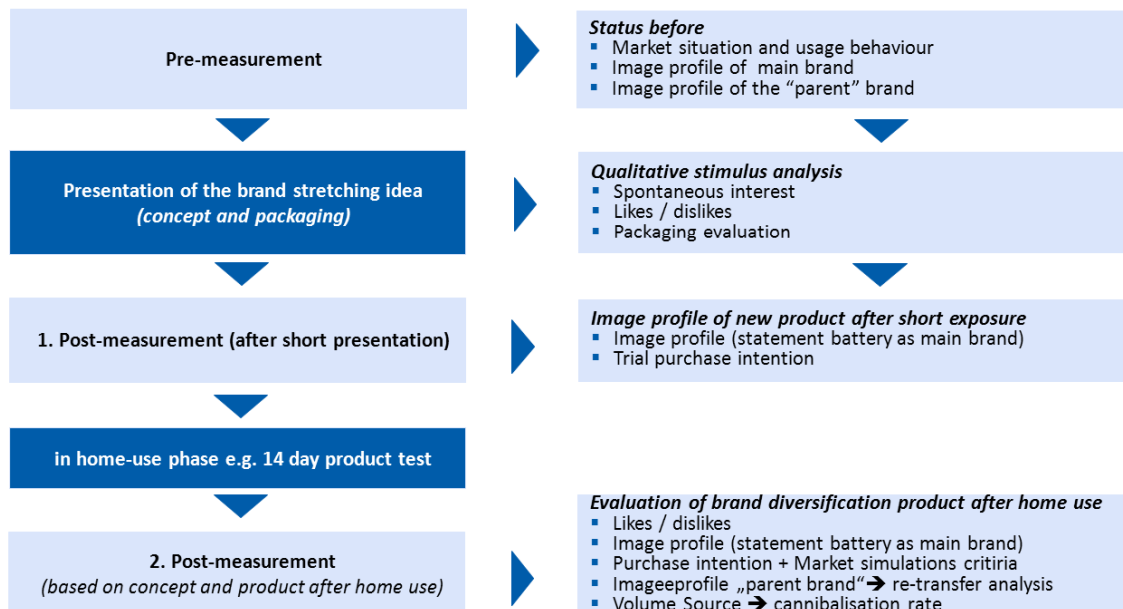
Recent ground breaking behavioural economic results support our brand choice criterion:

- „Humans rarely choose things in absolute terms. We don't have an internal value meter which tells us how much things are worth. Rather, we focus on the relative advantage of one thing over another and estimate or perceive value accordingly." And humans have several quirks such as "we focus more on what we may lose than what we may gain." (Prof. Ariely 2008 p. 2, p. 134)
- „**People hate losses** (and their Automatic [Limbic] System can get pretty emotional about them). Roughly speaking, **losing something makes you twice as miserable as gaining the same thing makes you happy.** - In more technical language, **people are "loss averse".**" (Prof. Thaler, Prof. Sunstein 2009, p. 33)
- „In human decision making losses loom larger than gains." (Prof. Kahnemann, Prof. Tversky 2002)

Research design

A representative survey was conducted in Germany involving 500 test persons. Italy was selected as a second country for the survey in Central Europe. The research was designed as a home use test. During the first interview the main brand was assessed and afterwards the test product before use. In a second interview the test product was assessed again – after a sufficiently long home-use period.

Experimental Test Design of the Sales Effect Market Simulation in Cases of Brand Stretching



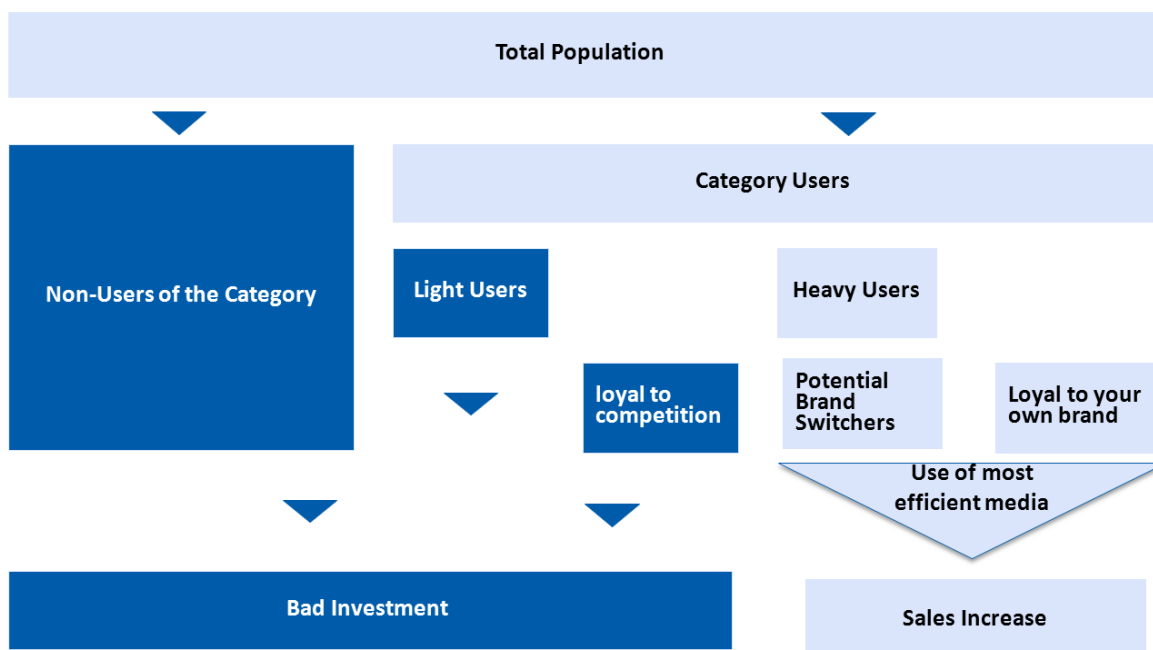
Significant increase in media effectiveness through direct measurement of media behaviour

Media behaviour was also analysed in detail. In this way, we could identify the most effective TV programmes and print media that reach brand switchers in favour of the test brand, and current main brand users. The practical experience gathered from all the studies carried out so far demonstrated in each case that media budget effectiveness can be increased by more than 30%. This may sound like another unbelievable advertisement claim, but media data speak a completely different language. On an average day in Germany in 2010, 4881 TV commercial minutes were aired. A mere 16,3 commercial minutes per day (= less than 0.5 %) were seen by the average German household. (In 1992 there was a ratio of 1,150 minutes of broadcasted TV advertising minutes to 9 minutes actually seen.)

The great improvement in media effectiveness can be explained by the fact that media behaviour was directly identified for the relevant target group. Media planning based solely on indirect criteria such as socio-demographic criteria and psychographic criteria, which are not directly related to brand choice, are less effective in reaching the relevant target groups. Generally available media data such as Verbraucheranalyse data indicate a severe problem: [n.b.: Verbraucher Analyse = „Consumer Analysis“ is the German equivalent of TGI, based nowadays on more than 30,000 consumer face-to-face interviews annually covering more than 200 demographic, media usage and attitudinal as well as purchase / usage intensity variables]

Frequently used socio-demographic target group definitions, such as 'women aged 20 - 49 years with a higher net income', make up some 50% of non users for most "mass market" product categories. (You can easily verify this for your product categories using e. g. Verbraucheranalyse or TGI data). On a brand level, these non-user figures are even higher. Naturally, this increases the risk of reaching the wrong people and of wasting a substantial part of your communication budget. (In the case of NIVEA Soft, more than three quarters of a socio-demographic target group were irrelevant to product success.)

Effective Communication: Segmentation Model



Key results of the survey

- NIVEA Cream - with a market share of 45% - had a small residual growth potential of approximately 6% market share points under ideal market conditions (100% brand awareness and 100% distribution). However, to exploit this last few per cent would have been a rather costly affair.
- NIVEA Soft achieved a promising user potential of 22% in Italy and of 23.2% in Germany under ideal market conditions. (*n.b.: Experience has shown that a brand with almost the same growth potential in two European markets is just a coincidence, which should be treated as an exception*).
- The potential of NIVEA Soft was significantly higher after usage experience than before product use. Therefore, to overcome the trial purchase barrier intensive sampling activities were recommended.
- NIVEA Soft convinced – as intended – a new and different target group than NIVEA Cream.
- The product cannibalisation rate was relatively small for a brand extension (34% – under ideal market conditions). Reasons for this were the uniqueness of the product and substantial differences in the packaging design of NIVEA Soft.
- The launch of NIVEA Soft would predominantly affect competing products.
- An analysis of media behaviour showed significantly large differences in media affinities of the relevant target groups. Media effectiveness could be increased using these insights by more than 30%, a financial equivalent of millions of Euros.

Successful launch of NIVEA Soft

NIVEA Soft was launched in April 1994. Its packaging design and advertising communicated the following: NIVEA Soft is young, fresh and different. Although NIVEA Soft appeared as a distinctive entity, it's "NIVEA-ness" could clearly be seen, i.e. its belonging to the umbrella brand.

The TV commercial featured a self-confident young woman with a modern short haircut in a sunlit apartment. She is resting on a couch. She is toying with the question as to whether a new cream could make her skin even softer. NIVEA Soft appears. After the young woman tested NIVEA Soft she is excited about it: "Fantastic! It is as soft as a warm summer rain on my skin! Even my boyfriend turned into a real softie!" She is laughing and romps about with her boyfriend. The unconventional, very vivid atmosphere and the expressive, relaxed style of the model lend this NIVEA Soft commercial a very individual young touch.



Before NIVEA Soft was launched, NIVEA Cream had a market share of about 45%. Approximately 1,5 years after its launch, the new product already claimed second place – behind NIVEA Cream - in the universal skin cream market, with a market share of 16%. The accumulated NIVEA share amounted to 56% at the expense of the competition. The product cannibalisation rate of NIVEA Cream was relatively small at approx. 5%. The objectives of the NIVEA brand extensions could therefore also be met in NIVEA Cream's core market.

Market validations prove high forecast reliability

In a home-use test, ideal marketing conditions are created via sampling, resulting in 100% brand awareness and 100% distribution (availability). In reality these figures are, of course, unachievable. Therefore, in order to plan future sales volumes, the predicted values have to be weighted with the attainable brand awareness and distribution. The deviation between planning figures and real market figures was very small. The deviation was in actual fact less than 0.2 %!

The question begs itself whether this correspondence was a coincidence or not. How do the validation findings from the test-market simulation look? To determine a method's forecast reliability, forecast values must be multiplied with the brand awareness figures and the weighted distribution achieved in the market. Results were compared with the values from a leading panel. The deviations in both countries were below half per cent market share points.

Validation of the NIVEA Soft Forecasts in Italy and Germany

				Difference	
1. Italy					
22%	x	0,50	x	0,87 =	9,7%
potential		awareness		weigh. distrib.	
trade panel-market share:					0,2%
					9,9%
2. Germany					
23,2%	x	0,53	x	0,93 =	11,4%
potential		awareness		weigh. distrib.	
trade panel-market share:					0,4%
					11,8%

The product cannibalisation rate was also reliably forecasted with a deviation of only 0.8% – another exceptionally good correspondence in Germany. (In Italy no brand loyalty analysis was carried out).

Validation of the forecasted cannibalisation rate in Germany

Forecast: 34% cannibalisation rate

Household panel: (market reality)	marketshare
NIVEA Soft:	16%
NIVEA Creme:	- 5%

Forecast with realised marketshare: 16% x 0,34 = 5,4%

Difference: 0,4%

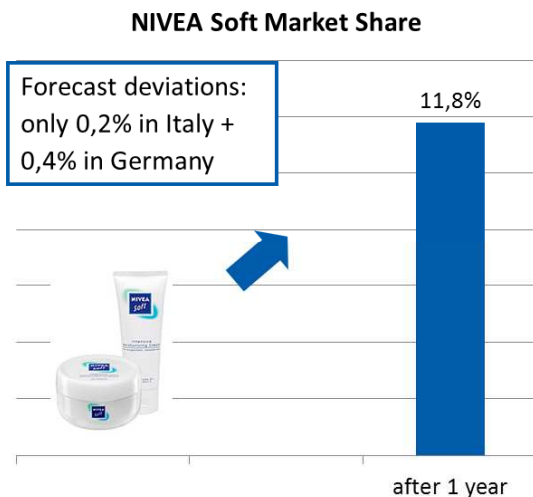
Summary

Beiersdorf has used numerous market simulation methods in order to support successful NIVEA brand extensions. The method used in this case yielded one of the best fits ever observed between forecasted and real market values. The deviation in the predicted market share was only 0.2% in Italy and 0.4% in Germany. This method - "Sales Effect market simulation" as it is called today - attained a high forecast reliability in both countries.

The international study also provided sound advice for other marketing decisions. The relevant target group of brand switchers in favour of NIVEA Soft or NIVEA Cream could be reached via the most effective TV environments and magazines due to product-specific media placement research. This enabled NIVEA Soft to conquer the number two slot behind NIVEA Cream within such a short space of time.

After its problems in the early 'seventies, NIVEA has since managed to become the largest skin care brand in the world with 2.7 billion € turnover in 2004. This outstanding achievement is even better than it sounds, given the fact that Beiersdorf achieved this pole position with NIVEA while up against significantly larger competitors, which had access to more financial resources, such as Procter & Gamble, L'Oréal and Unilever. Even the manager magazin 2/96, usually very critical, were in agreement, with the headline: "The blue wonder. The success story of NIVEA proves two essential points: Traditional brands can stay young and up-to-date. And: Beiersdorf has an excellent brand strategy." Reliable strategic market research provides the essential basis for strategic brand success.

A method is only as good as its proven forecast accuracy
in real market environments






- The forecasts of the nowadays named „Sales Effect Marktsimulation“ proved to be surprisingly accurate:
- In the first year NIVEA Soft achieved a double digit million Euro turnover. However the forecast deviated by only 9.000 €.
- A key insight was the diagnosis of a huge trial purchase barrier which could be sampling ausgelöst wurde.“



Cathrin von Dassel has been working in marketing since 1987, with more than 8 years at Beiersdorf AG in Germany (responsible for the development of NIVEA Soft, USA and China) in Mayer de Groot 2003

“The fit between Ralf Mayer de Groot’s predictions and actual market results for NIVEA Soft were without doubt one of the best forecast results ever achieved by Beiersdorf”.

	<p>Cathrin von Dassel</p> <p>has been working in marketing since 1987, with more than 8 years at Beiersdorf AG in Germany (responsible for the development of NIVEA Soft, USA and China). Subsequently she spent several years at Reckitt & Coleman as European Category Director and Marketing Director Germany, Austria and Switzerland, as Regional Marketing Director Eastern Europe at H.F. & Ph.F. Reemtsma GmbH and as South American CMO.</p>
	<p>Klaus M. Wecker</p> <p>was Head of Market Research, Consumer at Beiersdorf AG. After jobs in various areas in market research institutes he started at Beiersdorf as market research project leader for NIVEA Cream, NIVEA Milk and NIVEA Sun Protection. From 1971 until his retirement in 2002 he was responsible for the international market research at Beiersdorf.</p>
	<p>Dr. Ralf Mayer de Groot</p> <p>is one of the leading marketing researchers and strategists with 30+ years of experience working in executive Marketing, Research and Consulting positions within MARS, Carat, Konzept & Analyse and Target Group. His expertise is uncovering hidden reasons for brand choice and predicting the image and sales effect of marketing initiatives. Brands which used his innovative insights have won more than 25 effectiveness and innovation awards in the last decade. He has written numerous publications and teaches at several universities.</p> <p>For more information and exiting case studies: www.mayerdegroot.com mdg@mayerdegroot.com Telephone: + 49 6198-50 29 21</p>

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