

Food Innovation: The Good, the Bad and the Ugly

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Innovation is critical to the life of any global food company and new product development is a major activity in the innovation process. However, innovation is not always a first choice to corporate growth. This article addresses the reasons why companies may fail to innovate and provides evidence that some of these obstacles are surmountable. It is presumed, without significant evidence, that most new products fail. This research will show that the failure rate of new product development is exaggerated. It also reports that there is variation in success rate across the food categories. It will show that the strategy used to introduce new products varies significantly across the spectrum. This article will also show that the strategies used introduce new products. This research shows that there is a statistically significant difference between global regions over the 3-year period.

Key words: innovation, new product development, new product success rate, and new product entry strategies

Introduction

Virtually no one disagrees with the idea that new products are the lifeblood of any business. But in many cases the search for new products through real innovation is often done as a last resort. The late Malcolm Forbes is attributed to have said, 'The greatest obstacle to business is success' and for most of the past, the food industry has been successful. However, two things are taking place that are likely to have a negative impact on the industry if some major changes are not made.

The first is a failure to innovate. It appears that the major food companies have eschewed risk by letting entrepreneurs start food businesses and then buying the fledgling businesses. This is less risky but it is also less likely to produce long term profit and growth.

And yet history shows that, in at least half of all cases, after the deal closes the acquisitions sour. There are dozens of studies and papers, and estimates of how many M&A deals fail to meet financial expectations. This can run from 50 percent to as high as 90 percent according to Jim Price of the University of Michigan (Price 2012).

Most research indicates that M&A activity has an overall success rate of about 50% – basically a coin toss (Sher 2012).

A major cause of the failure of acquisitions as a way to innovate is the inability to integrate the new business into the existing one. The irony is that a big food company buys the innovative company and being the ‘big famous company,’ it tries to integrate the innovative company into the policies and procedures of the behemoth. There is a clash of cultures in which the giant usually wins and the new products fail to live up to expectations. The big losers are the big brands. A recent *Ad Age* article headline proclaimed ‘Big Food’s Big Problem: Consumers Don’t Trust Brands’ (Schultz 2015).

A second cause of failure is that today’s connected consumer is aware that the product that they fell in love with was absorbed by a big food company. Campbell Soup Company CEO Denise Morrison recently recognized this fact by saying, ‘We are well aware of the mounting distrust of Big Food. We understand that increasing numbers of consumers are seeking authentic, genuine food experiences and we know that they are skeptical of the ability of large, long-established food companies to deliver them.’ (Wahba 2015) Recently Kraft changed the recipe for its widely successful Macaroni & Cheese. The company wrote on its website, ‘When we took the artificial flavors, preservatives and dyes out of Kraft Macaroni & Cheese, we wanted to make sure it still tasted like the Kraft Mac & Cheese you know you love. So three months ago, we quietly started selling the new recipe in our old boxes to see if you’d notice. And your silence spoke volumes.’ According to this logic, I guess a consumer had to take an affirmative action and call Kraft to say you don’t like its new product whereas many consumers think they would just stop buying it!

The lack of innovation had led to our favorite brands turning the discovery and creation of the products consumers want over to others, while at the same time they try to find a new flavor for an old product. This is not the type of innovation that made our heritage food companies great.

Innovation is not restricted to the area of food product quality but rather any area within the marketing channel. While some food companies have focused on product innovation, they have fallen short on innovating their channels of distribution and the failure to recognize major changes in the way consumers are buying food. Most major food processors are wedded to the traditional distribution channel aka supermarkets and hypermarkets. These companies do everything humanly possible to get onto the shelves of these stores includ-

ing kowtowing to every financial request that is made by the retailer. Now let me be clear, one should not begrudge the supermarkets, they should ask for all they want. If food processors capitulate that is their business.

There are so many emerging channels of distribution that are being ignored by the food processors. For example, Amazon added 10 million new Prime customers and 60% were first time buyers this Christmas (Loeb 2014). Pharmacies, convenience stores, limited assortment stores, even office supply stores, tv shopping stores, subscription services, etc. are all selling more food, and at the same time being ignored by major food companies.

Regardless of the reason, in my opinion, the lack of innovation has led to a reduction in margins and a failure to remain attractive to the new consumers. Innovation is a lot more than a line extension or a new package design. It is the major way and should be the primary way to keep corporations in sync with their consumers. To paraphrase the late Peter Drucker, there are only two functions of a firm: marketing and innovation. He didn't say a marketing department but a company dedicated to finding out what consumers want and giving it to them. By innovation he didn't mean just the R&D department. He meant a commitment to the overall direction of the company being focused on future needs as well as current ones.

Ironically, reducing the efforts to be innovative was meant to cut costs and increase margins. It may have worked in the short term but many of our legacy food companies are suffering today because of cost cutting decisions made years ago especially in the area of innovation. The authors are reminded of a CEO who came to the Board of Directors with a plan to make the company a leader in their category in the near future. He had a growth plan where innovation was the primary success vehicle. He did tell the board that to get to a profitable point, the company would sustain some low profits until the changes 'kicked in.' He was fired! The next CEO sold off almost everything of value, drove up the share prices, and then left the firm. Guess what? That company is now struggling. If our legacy food processors are going to be viable in the future, they will have to be more focused on the future: future consumers, future channels of distribution and future employees. The era of fat and happy is over. The era of renewed innovation must begin in earnest.

New Products and Innovation

Over the years marketing managers have complained that in general their new products have failed and in many cases this was due to

sloppy research. They would argue that rather than innovate and have failure rates estimated as high as 75% to 80% it was cheaper to simply buy successful products and let the entrepreneurs do the innovation. Recent research set out to provide an estimate of the actual failure rates of new products.

In order to quantitatively measure the success or failure rates of new products, the following definitions and data were used. Product failure was simply defined by answering the question, 'Was the product available for sale and identified on the corporate website 18 months to two years after its introduction?' The new products were identified in the Mintel Global New Products Database. Since this database included information not just on the new product but also on the company and the category, it was decided to break out the categories in detail to estimate exactly what the failure rate was for each category.

In order to answer the success rate question empirically, the Mintel GNPD and company websites were used. A sample of the new product introductions from 2010 through 2012 for various food groups was selected. About 1,500 new products from 8 food categories: Baby Food, Bakery, Breakfast Cereals, Chocolate Confectionery, Dairy, Desserts and Ice Cream, Fruit and Vegetables, Meals and Meal Centers were used.

One of the difficulties in developing an industry standard for product success or failure is that there is no real consistency in how new product failure (or success) is defined. Each product may have a specific strategic purpose. After it serves that purpose it is removed from a product line. For example, One company used a number of new products to make a competitor's new products more difficult to introduce. As soon as the competitor's product failed, the company removed its own new product entries. It was a strategic success not a failure, even though the 'new' product was no longer on the market.

Using the aforementioned definition, 66% of all new products that were sampled and reported by Mintel were *successful*. This is far more than the 20% to 30% that has been reported in the past. As can be seen in table 1, the success rates were also calculated for the 8 product categories separately and interestingly there is a significant variation across product categories as shown below:

It was also hypothesized that there might be a relationship between product failure rates and the new product entry strategy that was used. We used the same data set for this analysis: Mintel Global New Products Database and used about 1,800 new products cases.

TABLE 1 Product by Category Success Rates

Food Category	Success rate
Baby Food	87.5% successful
Bakery	70.9% successful
Breakfast Cereals	65.1% successful
Chocolate Confectionery	78.2% successful
Dairy	61.5% successful
Desserts and Ice Cream	57.6% successful
Fruit and Vegetables	62.2% successful
Meals and Meal Centers	70.9% successful

The GNPD database defined five different types of new product entry strategies.

1. *New Product*. It is assigned when a new range, line, or family of products is encountered. This launch type is also used if a brand that already exists on GNPD, in one country, crosses over to a new sub-category.
2. *New Variety/Range Extension*. It is used to document an extension to an existing range of products on the GNPD. Think of these as line extensions or brand extensions.
3. *New Packaging*. This launch type is determined by visually inspecting the product for changes, and also when terms like New Look, New Packaging, or New Size are written on pack. This can include as 'new' a physically identical product in a new package.
4. *New Formulation*. This launch type is determined when terms such as New Formula, Even Better, Tastier, Now Lower in Fat, New and Improved, or Great New Taste are indicated on pack.
5. *Relaunch*. This launch type depends entirely on secondary source information (trade shows, PR, websites, press).

The results as shown in table 2 indicated that 40% of all new product launches were in the 'new product' category with 59% of those being successful. The launch rate for 'new packaging' was 21% with 50% success. The results of using launch strategy 'New Variety' was 34% of all launches with 58% being successful. Product launches using 'New Formulation' were used 1.8% of the time yet firms using that strategy were successful 74% of the time. Finally, product introduction strategy 'Relaunch' was used 1.4% of time and was successful 75% of the time.

This raises a separate question as to whether these results are unique to the United States or if other parts of the world use similar new product/innovation strategies. Additional analysis on different

TABLE 2 New Product Launch Strategies

Strategy	Count	Percent region
New Formulation	532	1.89
New Packaging	5989	21.27
New Product	11496	40.82
New Variety/Range Extension	9748	34.61
Re-launch	397	1.41
Total	28162	100.00

TABLE 3 Differences in Each Region Between 2009 and 2011

Strategy	USA	EU	K&J	China
New Formulation	-48.70	-248.44	-381.66	118.76
New Packaging	436.38	897.99	199.71	-15.87
New Product	-117.84	-1210.05	-89.52	-73.43
New Variety/Range Extension	-383.01	204.23	-44.29	96.58
Re-launch	113.17	356.27	315.77	11.48
Chi-square	383.31	1029.02	902.59	33.49

parts of the world including the USA, the EU, China, Korea and Japan using the GNPD databases was conducted (Salnikova, Stanton, and Wiley 2013). Two hypotheses were tested to see if there were differences in the strategy of introducing new products.

H01 *There is no difference in the new product introductory positioning over a three-year period in each of the four geographic areas.*

H02 *There is no difference in the new product introductory positioning across the four geographic areas.*

As can be seen in table 3, H01 is rejected as it appears that there is a statistical difference between the various countries over the 3-year period. Note that the smallest Chi square was for China which has the least amount of change in their new product introduction strategies between 2009 and 2011. It appears as if the method of introducing new products did vary over time for each country.

H02 is rejected as well, as can be seen in table 4. It appears there is a significant difference between the way the four geographic areas introduce new products. The USA is using more New Packaging introductions and less New Product than expected. The EU is doing somewhat the opposite with less than expected New Packaging and New Variety/Range Extension and more New Product than expected. J&K and China seemed to be less focused on New Packaging

TABLE 4 Differences between Observed and Expected across the Regions

Strategy	USA	EU	J&K	China
New Formulation	-659.29	-423.31	1431.97	-349.37
New Packaging	2605.16	-974.10	-916.07	-714.99
New Product	-1637.97	4093.09	-4524.11	2068.99
New Variety/Range Extension	-59.31	-2103.40	2842.80	-680.08
Re-launch	-248.59	-592.28	1165.41	-324.54

with much more use of the launch types of New Formulation and New Variety/Range Extension for J&K and of New Product for China. Note, only J&K introduces more than expected of Re-launch.

What does this all mean? It means the most common methods of new product introduction may not be the strategies that lead to the highest chance of new product success. It behooves each marketing manager to at least question their new product strategy and consider all the options.

The other side of the coin is that while there is evidence of some successful innovation and new product development, there really doesn't appear to be the kind of innovation in the food industry that we see in the very successful technology industry. There may be more opportunities for breakthrough innovation and technology in other areas than in the food business. However, we do not see front page articles on innovation in the food industry like we do in many other industries.

How much innovation has there been in other industries? Would anyone have thought that the largest chain of hotel rooms would be Airbnb, or the largest taxi cab company in the world would be Uber, or that the largest retailer would be Alibaba? Some of the changes at the CES (electronics conference) included a computer embedded in a refrigerator where you can simply push on the screen icons to order more food.

However, what really seemed to be missing in the food industry is something that was just new, out-of-the-box, and exciting. Think of big innovations in the food industry, but you most likely can't think of too many.

Some food companies have tried and failed. Many thought that Procter & Gamble's Olestra (artificial fat) was an absolutely breakthrough innovation. Here are a couple of things that are innovations that someday may or may not be successful.

Subscription meal service may someday be a very profitable, niche business. The idea is that you can have all the ingredients as well as

the recipe shipped to your house so that you can make the meal yourself. Making a meal is the way a cook shows their love and affection for their family or partners. There is a big difference between saying, 'Which hamburger is yours, honey?' and 'Look at what I made for you tonight, honey.' This is a big innovation because it totally changes the channels of distribution and gets people away from the traditional supermarket which is slowly dying away.

Another innovation is the virtual supermarket where photos of products are shown in a variety of different venues with QR codes or the equivalent, and consumers need only to expose their cell phones to the various codes and those products will be delivered to their house. These systems have been tried in places like bus stops where consumers have time to browse the board with all the foods, or in other types of brick-and-mortar stores where the actual products do not need to be carried on a shelf in those stores. French grocer Casino undertook a first trial of its digital shopping wall in Lyon in October 2012, and Tesco South Korea caused a stir in 2011 with a QR code wall – enabling shoppers to add items to online baskets by scanning the code. Orders were then delivered that evening.

Why is it that the food industry never seems to have products featured in *Time* magazine's new products of the year issue? Is it that the food category has already extracted all the innovation we can, or have we become so focused on the next quarterly financial report that we're not really searching for that breakthrough innovation?

There are at least three scenarios that might explain the lack of 'breakthrough innovation.' One is that food is something which consumers are very comfortable and familiar. They just don't want the change. Maybe in the area of food, consumers really want small changes and not big innovations. For example, American consumers seem to be willing to try some new foods like Thai or Indian, but they won't venture into the area of proteins from insects (which many think will be an innovation in the future).

The second scenario might be that the food industry is unwilling to take those big steps to create a 'breakthrough innovation.' If this scenario is true, it might be because they believe the first scenario. That is, why try to push consumers into something very new when they may be less than willing to try it? It could also be that the food industry is slowly looking for 'breakthrough innovations.' This may be a very reasonable strategy as we know Aesop told us that the tortoise beat the hare. And some companies want to be 'first at being second.'

A third scenario could be that some food companies are coming

up with breakthrough innovations, but they are so hush-hush that the public is not aware of them. The food industry unquestionably needs innovation to survive. Whether it is the mini innovation such as line extensions of a similar brand, or larger innovations such as Amazon's 'no store' food shopping, the industry must keep up with the changing world of the consumer.

Some people have suggested that in the food industry only the big strong companies survive over time. However, remember the words of Charles Darwin who said, 'In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment.'

Those companies that don't disappear are not necessarily large or small but rather are nimble and prepared to make the changes, and to innovate their products and their company into the changing world of the consumer.

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