

Global market review of new product development strategies in the food and drink industry – forecasts to 2013

2008 edition



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Preface

Report methodology

This 2008 report is an update of the 2006 edition and provides insight into best practice new product development (NPD) strategies in the fast-paced global food and drink market. The report focuses on trends, drivers, innovation and marketing in major regions around the world and primary food categories with forecasts to 2013.

The rate of NPD continues to rise year-on-year in the majority of food and drink categories, despite the significant resources required to launch a new product, and growing competition. Consumer awareness of nutrition and healthy eating has resulted in a raft of 'better for you' products in recent years. Meanwhile, healthy indulgent products are also making their mark, particularly in countries with a fast-growing functional food sector, and in regions where consumers demonstrate a growing interest in added value products.

Premium products are also encouraging value sales growth and prompting investment in NPD, particularly in sectors such as chilled food and bakery. Indulgent foods continue to be developed despite the general concerns regarding health and nutrition, as consumers are looking for more treats and rewards for their fast-paced lifestyles. People are becoming more self-indulgent in their eating and drinking habits; a trend that has created marketing and NPD opportunities for food manufacturers, suppliers and retailers. The self-reward culture is increasing in prevalence, and will continue to grow in most countries around the world over the forecast period to 2013. Consumers will increasingly attempt to balance healthy eating habits with the occasional treat.

The author

The author of this report, Helen Lewis, has more than seven years' experience of researching, writing and analysing trends and developments in the global food and drink market. During this time, she has developed an extensive contact list of industry experts and researchers. Helen conducted a programme of secondary research specifically for this report. just-food has analysed numerous data sources and publications relating to NPD within the food and drink markets. Primary research was conducted in the form of one-to-

one telephone and email interviews with professionals working within the industry including NPD consultants, and food companies ranging from small start-ups to multinational businesses. These research techniques were combined to enable just-food to make informed market estimates, trend predictions and forecasts to 2013.

Aims of the report

The primary objective of this report is to provide insight into the current activity within NPD in the global food industry, and to assess the profit hotspots by region and category for future innovation to 2013. Major developments over the past four years are considered and, where possible, opportunities are quantified with forecasts to 2013.

The report analyses NPD strategies implemented by multinationals through to smaller players in order to identify future opportunities. NPD is assessed in key markets including Western and Eastern Europe, North America and Asia-Pacific. just-food has analysed a selection of the many drivers and trends that influence NPD, as well as the three megatrends: health, convenience and premium. Brand case studies are included to highlight and substantiate strategies and analysis throughout the report, as are comments from relevant industry executives who were interviewed by the author.

This is not just another report telling you that around xx% of new products fail within the first six months of launching. Everyone is now well aware of the various failure rates that cast doom and gloom over the subject of innovation in food. This, the latest in a series of just-food trend reports, assesses the potential causes of failure with best- and worst-practice insights from industry executives, NPD experts and branding/marketing specialists. This report considers realistic NPD strategies and provides actionable recommendations that can be immediately integrated into your NPD process. The report aims to help readers understand the essential elements in a successful product development procedure. Ultimately, it will help you define and refine your corporate strategy in terms of new product development.

Chapter 1 Introduction to the NPD process: Drivers and regulations

Introduction

New product development can be a costly business but it is essential to the growth of the food industry. Embarking on the development of a new food brand can be time-consuming, expensive and disappointing. It can also be the best thing that has ever happened to a company/manager as it propels the business into rapid growth and profitability. Failure to innovate will result in an out-of-date brand that shrinks into the background within a highly competitive food market.

NPD is the term used to describe the whole process of introducing a new product to market, and this process, as well as the major trends and opportunities influencing current and emerging markets, is assessed in this report. There are two distinct parts to the NPD process. The first involves the creative side, including idea generation, product design, sampling, customer interaction, building a supply chain and distribution. The other part deals with market research and marketing. Both are essential, although it is typical for one to be addressed in greater detail than the other due to a bias in a company's expertise or a lack of time/energy/resources.

NPD is widely debated in terms of its failure rate, which is believed to be anything up to xx% in the food and drink industry. This seems a little high, but it does reflect the intense pressure placed on the NPD process. There are various categories of new product launches, and each carries its own level of risk. The following simplistic diagram segments the five primary types of NPD. The smaller section to the top right represents true innovation, which is a product that is regarded as completely new to its market or category; this is rare, hence the smaller segment size. Line extensions involve the expansion of a brand into a new variety or category. Line extensions draw upon the existing brand image/qualities/expertise and are viewed as less risky and easier than true innovation. Product changes can include line extensions, although they typically relate to a product that is already on the market and involves recipe reformulation or revamped packaging. The repositioning of a product, in terms of its reputation or image, without making any product changes is also a

Chapter 2 NPD trends in foodservice and their influence on the retail market

Introduction

In the food business, keeping an eye on the competition is essential to survival as more and more new products are launched every year. Monitoring the competition and trends influencing NPD should not be limited to a company's particular category, but extend to other sectors such as retail, foodservice, catering and airlines. Identifying the other trends and developments that companies are investing in can be a great source of inspiration. Monitoring the competition can also be an indicator of potential future NPD opportunities.

One size does not fit all

The foodservice industry has criticised some food and drink manufacturers for believing that 'one size fits all' when it comes to developing a new product for the retail and foodservice markets. Introducing a retail product to the foodservice industry is not a simple case of re-packaging into a larger format. Attention needs to be paid to the role of the product and its function in the foodservice sector. The marketing, branding and look/feel/functionality of the packaging, and potentially the recipe itself, may all need tweaking for the foodservice audience.

Unilever Foodservice, for example, does not offer the same products as the Unilever retail division, although there are some similarities and crossovers. Unilever's Knorr brand is stronger in the UK for chefs in foodservice than it is for consumers in their kitchens at home. It may be a simple case of increasing the size or type of packaging for some retail products, but specifically-designed new products and packaging are also required to create interest from foodservice operators.

Chapter 3 Best-practice NPD strategies

Introduction

NPD processes vary from company to company based on budget, resources and personal preference. This chapter identifies tried and tested idea generation methods, and offers insight into best and worst practice NPD strategies. Following insights from a number of NPD experts and industry executives, the chapter is segmented into ten unique stages with actionable recommendations to encourage efficient implementation in your company.

Stage one: Idea generation

Ideas are easy, but coming up with an idea that is truly innovative is much more difficult. For companies looking to create a big impression, creating an innovative product is essential to success.

The larger food and drink companies employ staff to specifically focus on innovation and new product development. These departments are primarily responsible for idea generation, which includes tracking competitor launches, and keeping on top of the latest consumer and industry trends and drivers. The role of NPD and innovations managers includes focusing on the early stages of the process to managing the idea from concept to shelf. Most companies adopt a less rigid approach to idea generation, bringing together marketing and sales departments, as well as researchers, senior managers, customer-facing staff, nutritionists and food technologists. In larger companies more hierarchy and red tape is typically involved in the NPD process, and it can take months, sometimes years, to bring a product to market. Smaller companies tend to have the ability to move faster and respond more quickly to consumer demands.

Specialist in New Product Development's Dolby told just-food: *"NPD is an instinct with science to back it up. People who produce food are not usually marketers and vice versa."*

Chapter 4 Consumer trends driving NPD

Introduction

This chapter explores some of the influential and emerging food and drink industry trends and consumer drivers which are expected to inspire NPD to 2013. The aim is to assess NPD opportunities and consider the hurdles that will result from expansion, line extension and a move towards new distribution/growth channels. The following trends and drivers are investigated in this chapter:

- the rise of the foodie consumer;
- ethnic foods and specifically targeting ethnic communities;
- 'free-from' foods;
- sustainability and carbon footprints; and
- healthy indulgence.

The prominent role of the foodie

More and more new products are being launched to specifically target foodies, who are increasingly recognised as a consumer group/target market in their own right. Foodies typically have a passionate interest in food, drink, cooking, eating out and food issues, such as provenance, authenticity, health, premium products and exotic ingredients. They characteristically like to try new products, visit different types of restaurants and bars, enjoy reading food articles, regularly purchase recipe books, and watch plenty of food-related television programmes.

There are a rising number of foodie consumers who are buying higher-quality, premium and more exclusive products to impress friends and family – and as a well-earned treat for themselves. This is creating a premium market with huge NPD potential.

In 2005, the Institute of Grocery Distributors (IGD) estimated that xx% of UK consumers could be classified as foodies, while the remaining xx% were known as 'fuelies'. The latter category stereotypically focuses on low-price food and drink rather than high-quality, added-value goods. By 2013, just-food

Chapter 5 The next big thing by category and region

Introduction

In 2006 there was a xx% increase in the number of new product launches in the global packaged goods sector on the previous year, according to Mintel. More and more new products are launched every year. The total number of new packaged goods exceeded xxx,xxx in 2006 and xxx,xxx of those were food or drink products (Mintel). It is estimated that around xxx products were launched every day in 2006 around the world.

Launching the 'next big thing' in food and drink, gaining first-mover advantage and inspiring customers to purchase your brand over those of your competitors are the primary aims of new product launches. The opportunities are endless and differ by category and region. The difficult part is spotting/creating a niche opportunity to suit your company's skills and expertise. Adapting successful, best-practice NPD strategies that have already worked in your category can help to improve your chances of success in this hugely competitive environment. The following chapter analyses the market growth potential by value and volume of five food categories: bakery and cereals, chilled food, confectionery, frozen food, and sweet and savoury snacks. The data is broken down into regional sales forecasts to 2013 based on previous sales from 2003. The aim of this section is to pinpoint profit hotspots by category and region. Note that all data points referred to in this chapter have been calculated by just-food's research team.

Asia-Pacific

The bakery sector stands out as the category with the strongest NPD opportunities with a high value forecast for 2013 (US\$xx.xbn) as well as solid annual growth expected over the 2003-2013 period (CAGR of x.x%). The chilled market, while performing exceptionally well in terms of forecast value sales to 2013 (US\$xx.xbn) will not leave a lot of room for NPD with very low annual growth expected (CAGR of 0.8%).

Chapter 6 The ten major NPD trends to watch

Introduction

The ten major NPD trends to watch to 2013 globally has been created by just-food following primary and secondary research conducted specifically for this report. All of the trends have been touched upon, usually in detail, throughout the report. This concluding chapter offers an overview of the ten major trends to watch (and details the top three). There are clearly many more than ten NPD trends that are likely to influence and inspire innovation, and grow brands over the next six years, and these are included to act as a springboard for debate and idea generation.

Premiumisation and speciality foods

Premiumisation has been occurring throughout the food industry for years, however, the future trend will encompass a lot more than higher quality ingredients and fancy packaging. Premiumisation is the number one trend to watch to 2013. The trend will extend to include speciality, niche and unique products that appeal to a consumer's sense of adventure. Premiumisation will also include the functionality of the product, which means packaging formats and design will become even more vital to the survival of a new product.

Europe

The speciality food market in 2007 will reach a value of US\$xx.xbn in Europe and US\$xx.xbn in the US according to just-food estimates. Italy is forecast to experience the strongest growth in Europe between 2003 and 2013 at a CAGR of x.x%. By 2013 the Italian speciality food market is predicted to reach US\$xx.xbn. Spain follows close behind Italy with a CAGR of x.x% (2003 and 2013). However, the Spanish speciality food market is much smaller in value at a forecast US\$xbn by 2013.