

The Battle for Product Placement:

The CPG Manufacturer's Guide
to Winning Market Share

by Fred Brown

VIEWPOINTS ON INNOVATION

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Several weeks ago, my wife sent me to the grocery store for some food staples. In the interest of maintaining family peace, I agreed to the assignment. But there was an ulterior motive to my unusual helpfulness. Like most men, I enjoy watching classic battles, whether on TV, at the Atlanta Falcon Stadium, or at the grocery store.

“Wait,” you respond. “Battles at the grocery store—the home of humanity’s sustenance and friendly (most of the time) attendants?”

In fact, there is a continuous battle among retail suppliers for preferred shelf placement. Weekly, monthly, and seasonally, suppliers shamelessly submit product offers to the grocer with discounted specials, seasonal distinctions, and rebates. They

continuously introduce variations to their existing products – all with the sole purpose to get as many of their products in the most consumer-appealing shelf locations in the store. I recently wrote about how suppliers now face the formidable challenge of competing with the grocers themselves, who have learned that they too can offer their own brand of products, and increase their profits by managing product cost while marketing own brand value.

The retailer’s brand continues to grow, yet there are even more challenges faced by traditional CPG manufacturers.

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ROUND 1

More Challenges: The Battle of Consumer Messages

On my wife's grocery list was our favorite breakfast cereal. In the breakfast aisle I found at least 200 different cereals of every size, color and flavor. Each one with packaging messages to attract the consumer—*Lower Sugar!*, *Higher in Protein*, *Gluten-Free*, and now, many new brands with the message, *All-Natural!* In fact, the aisle was so full of cereal variations that I spent almost five minutes trying to find my favorite—Corn Flakes®. How confused I was, rummaging through the shelves amidst all of the cereal options. Several times during my search I hesitated and considered other products. Before finally finding and stuffing the Corn Flakes in my cart, I contemplated, “Are these Corn Flakes not natural? Are they actually counterfeit Corn Flakes, built by high speed 3D printers?”

In fact, the new all-natural message caused me to pause, at one point considering an all-natural cereal product using recycled packaging with an edible inner liner and a story on the box of how farmers spent their entire year fighting insects off of their naturally grown corn (no insecticides!) with homemade brooms and fly swatters.

Just for a moment, Corn Flakes were in jeopardy of losing their hold on the Brown family. The all-natural message had almost done its job—to entice me away from my traditional purchase.

This moment of contemplation reflects the challenge faced by the traditional CPG manufacturer. There are competitive pressures from not only other traditional suppliers and store brands, but also upstart competitors with new-to-the-world messages.

The all-natural message has resonated successfully and provided a wedge for young upstart products. In my case, and certainly for many other consumers, the all-natural message plants doubt in the legacy consumer's mind, while offering something that the young health-conscious consumer thinks they want—natural (healthy?) products. The traditional CPG manufacturer must now adjust their game plan to address these upstarts as well as the retailer's own brands.

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How Young, Upstart Manufacturers Gain Market Share

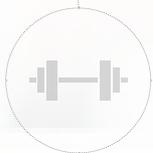
At a recent CPG foods conference, I heard similar complaints from manufacturers about these new upstart competitors. “They are small operations, and more nimble and faster to innovate than us.” “They get less attention from the regulatory organizations because of their size.” “They get special attention from the consumer, because they claim local farm-to-fork sources of supply.” “Our innovation process is bulky and slow to compete.”

Traditional manufacturers feel challenged to keep up with their new competition. How can they possibly compete with these high speed innovators, who are aligned with the new millennials and are stealing mindshare of traditional buyers, while at the same time competing with store brands that are intent on growing their own share of the market?

In reality, these upstarts are not faster innovators, nor are they less scrutinized by the FDA, and in many cases their local message will ultimately be cost prohibitive and challenging for them as they move from one region to another. So how do they **seem** to innovate so much more quickly?



The simple answer is that they are delivering product to address a market message that the traditional manufacturer has failed to anticipate. They are **entering market** with new-to-the-world products, **capturing the attention** of both traditional and new consumers with a message of natural, fresh and healthy. In contrast, traditional manufacturers spend their development budget and resources **developing and marketing small incremental improvements** or variations to existing products (thus the reason I found 200+ cereal boxes on the shelf).



Incremental product improvements or variations to existing products are enticing to the manufacturer. These types of development projects typically require lower investment in capital and resources, and involve lower risks to introduce. A **successful variation** increases revenues and market share. But unfortunately, many incremental improvements or variations don't produce expected revenues, fail to entice new consumers, and even cannibalize sales from the existing brand.



The incremental improvements and variations may extend—but will not save—a brand, and the final result may be the merger of two struggling CPG competitors (E.g. Con Agra/Ralcorp). Imagine how one of the major CPG manufacturers felt when, at the conference, they heard a young R&D employee of one of those upstart companies say, “Of course I know your brand! My grandfather loved your product.”

Conversely, young companies become successful by competing with **new-to-the-world** products, distinguishing themselves not by offering better me-too products, but by offering different products. Whether intentional or by accident, many of these new brands were ideated and developed based on the new all-natural message, even before today’s consumer even knew they wanted all-natural products. And in the all-natural case, these companies and their new products even have the support and testimonials from nutritionists, doctors and food scientists about the benefits of all-natural foods.

So there’s the problem—the traditional manufacturer’s incremental product improvements have not kept their brands aligned with consumer trends. And they are now left to choose between two unappealing options:

- a) Pursue the trend with revised product development plans, putting them into a me-too position with products that will arrive late to market
- b) Stay the course, betting that their products will emerge bruised but salvageable



“Of course
I know your brand!
**My grandfather
loved
your product.”**

CPG Innovation Practice Must-Haves

Despite the significant challenge of competing for shelf space with young, seemingly nimble upstarts, there are practices that traditional CPG manufacturers can use to change their strategy and remain relevant to the consumer. Let's look at some key components of long term success in the retail food market, with some real-world examples.



(Re)connect with the Future Consumer.

Clorox Company recently announced that they are increasing their investment in Google marketing platforms for fiscal 2016 in order to “gather insights and increase interaction with consumers on mobile platforms.” Clorox acknowledges that today's new consumers communicate differently and believes the consumer of the future is more comfortable communicating via mobile. Their investment assures that they don't lose connection with tomorrow's consumer.

In a report from AHAA, consumer packaged goods and retail companies that increased their investment in

Hispanic marketing saw a jump in revenue.

“Consumers are seeking **value** and **experience**, and they're looking for **trusted ingredients**”

The lesson learned here is that the demographics of the US market consumer are changing, and CPG companies have the opportunity to allocate a portion of their new product development (NPD) budget to explore and increase products dedicated to specific demographics.

The Kerry Group says that food companies need to embrace the shift in consumer consumption and shopping trends. Stan McCarthy, chief executive officer of Kerry Group P.L.C., said, “In the past, the tradition was the weekly shopping—the once a week weekly shopping list, looking for the lowest price and looking for bulk items and multipacks... But that has changed. [Consumers are] shopping for immediate satisfaction—25% of all meals consumed are purchased on the same day... [They] are seeking value, freshness and experience, and they are looking for trusted ingredients on the label.”

Each of these scenarios points to one thing: Tomorrow's consumer is not yesterday's consumer, and successful food suppliers must keep connected with consumer desires to anticipate—if not shape—future wants and needs. Consumer trends may be partially satisfied by incremental product improvements, but every CPG manufacturer should also budget, plan and deliver new-to-the-world innovation, either setting new trends or remaining aligned with market changes.

An interesting footnote: When CPG manufacturers were recently polled about innovation trends, the word *competition* was mentioned more often than the word *consumer*. This suggests that too much focus on the competition and not enough on the consumer plays a role in the lack of ongoing brand success?



Make the Rules. Don't Get Caught up Following the Crowd.

It is easy to decide to mimic popular products and commit development resources to deliver similar merchandise, but it's difficult to wrestle consumers away from an established product with a late-to-market entry. The fast follower strategy is usually successful by offering lower price points, making it margin-driven. Since products are simply being imitated, innovation doesn't really play a role in achieving success. This was the early development strategy of the grocery retailer brands—offering similar products at a lower price.

A CPG food manufacturer can certainly rationalize a late-to-market product as a mechanism to capture some share of the market, but should be realistic about category domination unless earlier products have clear deficiencies the consumer wants or needs, or the late product offers new-to-the-world differentiation.

To remain relevant in the changing consumer market, the traditional CPG manufacturer has the responsibility to be non-traditional.

In other words, some portion of the product development budget should be targeted to defining new market messages (educating the consumer) and delivering accompanying products. Leap-frogging with a new-to-the-world message and product can be difficult and risky, and requires a longer timeline for success. The financial rewards can be significantly greater, and can put competition (including the retailer's own brand products) in catch up mode.



Innovate, Innovate, Innovate!

PepsiCo's shift from a strategy focused on brand refreshes to one focused on product reformulation is "paying off in buckets," according to global R&D head Dr. Mehmood Khan. The previous development strategy was focused largely on product line extensions, leading to sub-optimal resource allocation to the most promising ideas.

The company took several steps, including:

- Placing a greater emphasis on development platforms rather than extensions
- Implementing a common, disciplined phase gate process to assure resources for the most promising ideas and new platforms

"Too much **focus** on the competition and **not enough** on the customer plays a role in the **lack of brand success?**"

- Providing performance of a region's new products to other regions to encourage that the most successful innovation launches are adopted
- Generally increasing investment in product development

The most noticeable result of all of these actions is a significant growth in revenues as a result of new product introductions. But that isn't the only positive result for PepsiCo. Their innovation has sent their competitors scrambling to adapt their products to a landscape that is changing because of PepsiCo's trend-setting marketing messages and product platforms. PepsiCo made the rules, forcing the competition to follow.

If All Else Fails, Acquire.

Recently, Dr. Pepper Snapple Group acquired 10+% stake in BA Sports Nutrition L.L.C., the maker of the BodyArmor branded sports drink. The BodyArmor SuperDrink was introduced in 2012. Some ingredients in the product formulation are coconut water, vitamins and cane sugar, and the product is perceived by consumers as clean since it has no artificial flavors. Conversely, Dr. Pepper Snapple is known for flavorful, but traditionally carbonated and artificially flavored refreshments. Dr. Pepper decided that partnering with a young, already branded, successful company would offer higher yields at lower financial risk than trying to introduce a clean label Dr. Pepper branded solution to the market.

The Campbell Soup company recently created the Campbell Fresh business unit and is intent on capturing a greater share of sales at the perimeter of supermarkets. The new business unit will combine the assets of the recently acquired Garden Fresh Gourmet business with Bolthouse Farms and Campbell's portfolio of refrigerated soups.



Campbell **acknowledged** that fresh innovation, which is not Campbell's expertise, is "different and can be much more **complex** than the center of the store given short shelf life."

Acquisition generally accelerates market entry faster than development, and can give the acquiring company immediate **category presence**, minimizing significant time and cost for developing and promoting the new product. Acquisition also allows the company to focus on message and sales channel deployment.



Finally, acquisitions can provide an immediate **platform for acquiring companies** that excel in incremental product improvement. The acquiring company not only has the advantage of faster entry into a new market, but they have a new platform to leverage their expertise to innovate incremental or variation products.



Summary

The battle for product placement on the store shelf is escalating. The traditional CPG manufacturer is surrounded by new challenges from store brands and from young upstarts focusing on new consumer trends. If the traditional CPG manufacturer makes the decision to maintain status quo, get back to basics, or weather the storm, they will fall behind the competition and lose their relevance to the consumer.

Innovating in small increments will extend a product or brand, but without differentiating innovation, the brand will ultimately lose the battle. Successful manufacturers must make the decision to bet their resources on new-to-the-world ideas and products, driven by a closer collaboration with current and future consumers.

In the words of Krishna, “Either slain thou shalt go to heaven; or victorious thou shalt enjoy the earth. Therefore arise, resolved to battle. Plan and execute for victory.”

To the CPG manufacturer, my message is: fight on with your best weapon—innovation!



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