FOOD manufacture

Own–label manufacturers told to act to reduce new product failures

By Stefan Chomka

Manufacturers of own-label products need to work more closely with the retailers to reduce the number of new product launches each year and address the worryingly high rate of new product failure in the sector.

According to Jonathan Smith, MD of Axis Management Consulting, while new product development (NPD) failures are more noticeable in branded products, where failures are more high profile and often more costly, own label producers are the biggest losers in NPD. The main reason for this, he says, is the high number of retailer-driven own-label launches each year that forces producers to take on too many projects and, as a result, not give them the attention they deserve.

"Naturally the retailer will come up with some requests, but the real difficulty is suppliers being bombarded with a constant stream of ideas", says Smith. "People are running around like headless chickens launching products which can't possibly have been given the evaluation and care needed. You end up with a much higher failure rate.

Smith suggests that manufacturers could even be working on up to 80 projects at one time across the major multiples. "Companies can't do 80 things at once," he says.

To address this problem, Smith says own label suppliers must be more proactive in approaching retailers with good new product ideas. "As a supplier you need to go to the retailer and steer it away from bad ideas," he says. "Five good ideas are worth more than 20 bad ideas. You've done the retailer as much a favour as you've done yourself – trading good projects for bad ones."

While Smith says it is hard to estimate the cost of new product failures on a macro level, because costs are shared across so many different departments, he estimates that each failure costs a company around £50,000. "If you do that 20 times a year that is £1m," he says. "A £50m turnover company producing for the own-label sector would expect a 5% return on sales, or a profit of around £2.5m. The kind of number [of failure costs] we are talking about is of the same magnitude as profit."

Speaking at an imagery and perception symposium last month organised by the Institute of Food Technologists, Herbert Stone, president of the US market research and sensory testing company Tragon Corporation, put the cost to the US food industry of failed launches at well over a billion dollars.

He believes this figure is so high because retailers and manufacturers fail to understand the consumer they are targeting is," says Stone. "Often they get the wrong consumer in the test."

Stone says companies need to do more rigorous testing to discover what consumer expectations will be of a new product and to ensure that it meets these expectations, rather than just conducting taste tests. "Don't just ask 'do you like it?' and 'will you purchase it?' but ask how appropriate are certain benefits of the products," he says. "Products that best satisfy consumer expectations have the greatest likelihood of success. The key is to find out what are those expectations, and whose."