FOOD manufacture

Everyone makes mistakes. Some are embarrassingly visible and some are extremely expensive. But the most costly errors can be the ones you don't spot, because instead of learning from them you go on making them over and over again.

In food and beverage new product development mistakes get made with monotonous regularity. It's a truism that nine out of ten supposedly brilliant product ideas quickly sink without a trace. So were they mistakes or just an acceptable part of the cost of the one winning product?

Often failure is attributable to poor or non-existent consumer research. Manufacturers consistently risk the cost and humiliation of launching no-hopers on to the supermarket shelves rather than invest even in a handful of focus groups at the pre-production stage.

But these avoidable failures, says one consultant working closely with food companies, are just the external symptom of a deep, money-wasting malaise at the heart of many NPD processes.

"What cannot be seen", argues Jonathan Smith of Axis Management Consulting, "is the vast cost, disruption and hassle not just from those products that go out and fail, but from those that die before they even make it to the market."

Smith says the true costs of NPD go way beyond the visibles, such as packaging and ingredient write-offs or wasted slotting fees. The management time wasted in flabby NPD processes can, on its own, exceed material costs. And then there is the opportunity cost: money and effort lavished upon duff projects cannot be spent on potential winners.

It's almost as if the effort of dreaming up potential launches is so great that no-one can bear to wake up and smell the coffee. Instead, more and more concepts are added to the list of hopefuls until the whole NPD process becomes bogged down.

"A lot of manufacturers have a project list of 60, 70, 80 items" says Smith. "That in itself would be enough to bollocks your system, and the reason is that you'd never be able to get your act in gear. The best project management in the world would struggle with the number of projects some people are trying to handle."

He continues: "For the individual managers involved it means endless meetings. It's going to take half a day just to mention each of those projects for two minutes apiece.

PROFIT AND LOSS

Then, he says, there's the age-old conflict between production and sales and marketing. If you want to inflame that, what better way than by wasting precious factory time on whimsical new recipes. Of course, it's a given that innovation is the lifeblood of any food business. To the extent that if you do it well you are seen to be focusing effort on one of the key success factors. If you do it badly, however, it's all about cost. And, as Smith points out, if you spend too long on the doomed 90% you will fail on the real breakthrough items.

LOW MARGINS

The relatively low profit margins made by food manufacturers today make the risks more significant. "An operating profit of 5% of sales is typical for food," says Smith. "So a company turning over £10m only makes £500,000. When you are talking about losing tens of thousands it's a serious proportion of profits."

His contention is that while speed to market is important, speed to kill a duff project is equally so. By the time a product has been nurtured all the way up to the day of launch, the bulk of the cost has already gone into it.

Branded products can cost further tens of thousands, or even millions, in advertising and promotional support. That cost may not be applicable to a own label product, but for the retailer it's still a visible failure in the marketplace, which can be both embarrassing and harmful to the manufacturer.

Part of the answer, says Smith, is to have some kind of filter or "gate" through which product ideas must pass before they can be progressed, because once ideas start getting people and resource invested in them, the money meter is ticking.

"It's about having a few sharp senior people asking difficult questions right at the start, which is an uncomfortable prescription for managers because it means they've got to make an early roll of the dice."

But it's essential, he says, that ideas which are not properly thought through do not get put in front of the customer. Tell a customer they can't have something and human nature dictates that's the very thing they'll want.

"You must not have ideas sneaking in under the radar. Otherwise, next day you'll have a customer who wants it and who then feels let down if they don't get it," he adds.

EARLY SCREENING

"It's about controlling the point where the customer gets attached to it, because that's the point where it goes critical," says Smith.

He is not unsympathetic with those at the sharp end of NPD. You can see why some ill-starred products get launched, he says, because when you're wrapped up in an idea it all sounds terribly exciting - especially if a customer has made enthusiastic noises too.

But early screening of ideas is one of the two key defences against product failure. "That's before the project has even got started" says Smith. "The next thing is where you get the consumer involved."

Even in 2003, a massive proportion of food products arrive on the shelf without ever having seen a shopper. The number being researched has undoubtedly risen in the past decade but just as often there is no research. Judgements on the product are too often made by just the buyer and supplier in tandem.

And one problem is that when it comes to food we all think we're experts. After all, we're all consumers, aren't we?

"Most people really believe they know best"", says Smith. "So then they say: "We can't afford to do research on every little product".

But if the product is not worth researching, it's reasonable to ask whether it's worth launching at all. A medium-sized business would typically look to make £100,000-£200,000 profit contribution from any new launch, which should put the cost of consumer testing into perspective.

"Even if it moves your failure rate from eight out of ten to seven out of ten, it's still going to make you a stack of money."

You are never going to zero your failure rate. Consumer research is not fail-safe. But you can eliminate needless errors.

According to Smith, for every 10 products in research, two or three will be spot-on, another two or three will have some merit but need a bit of fixing, the others will be a waste of space.

On the two or three that were perfect you gain little except evidence to support your case for shelf-space. Fix the ones that were close but not quite, and you will be making money. Eliminate the five or six that were hopeless and you are immediately saving a shedload of cash.

The extra sales revenue comes from the ones that were not quite right and that, for want of a bit of research, would have failed," adds Smith.

"Studies of NPD failures tend to say 'the packaging failed' or 'the product failed', which common sense would probably tell you anyway. They are both just different ways of saying that the consumer didn't like the total package.

"But stick 10 housewives in a room in Sheffield and show them the product and they won't mess around. They are very literal, quite prescriptive. They will spot things and put you right without fear or favour."

NO-GO GATEWAYS

All major companies have a series of processes - some good, some bad - to manage their NPD programmes.

At Nestle Rowntree, head of innovation Arthur Day says: "Within Nestle there's a variety of approaches across the business units, but they tend to be variations on the 'funnel' theme - go/no go gateways at the key stages of scoping, concept development, feasibility, development and refinement and implementation."

But there is no perfect process, he adds. "You need good judgement at the key stages."

Day draws a distinction between 'incremental and 'radical' innovation. The first can be achieved relatively quickly on existing assets. "This is the type of innovation much favoured by accountants - limited editions, flavour variants, product improvements, packaging and format changes.

"Of course, there's a role for this, but it tends to be relatively short-lived - often intentionally - and easily copied."

With incremental innovation, eventual obsolescence is guaranteed, argues Day, whereas radical innovation creates step changes in a market - new categories, for example, or new routes to market.

"Development timetables, resource requirements and investment - capital and commercial - tend to be greater, but so too are the risks," he says. "Some failures are inevitable, but they are a rich source of learning."

In the current climate, with product costs so often the number one priority, Day says the risky option looks daunting - a matter of serious concern to UK manufacturing.

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