Go-to-market Strategy for Innovative product offerings within the food & agribusiness sector

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Authors: Dr. Vijayender Reddy Nalla; Gerry Kouwenhoven MBA

Contact author: Gerry Kouwenhoven MBA

University of applied Sciences, faculty of Agriculture

PO Box 3190 2601 DD Delft The Netherlands

E mail: Gerry.Kouwenhoven@inholland.nl

Phone +31621841110

Dr. Vijayender Reddy Nalla

University of applied Sciences, faculty of Agriculture

PO Box 3190 2601 DD Delft The Netherlands

E mail: Vijayender.Nalla@inholland.nl

Phone +31643540656

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Abstract

Bringing food products with a novel and differentiated value proposition to the market is one of the critical challenges for agribusinesses. Even when businesses manage to launch novel products, most fail to achieve long term success. Consumer rejection due to weak value proposition is often cited as one of the primary reasons for failure, but, while that may apply to some products, this paper argues that inappropriate market positioning is at least as important a reason for market failure. A go-to-market strategy which combines market differentiation, consumer segmentation, and proper retail placement is suggested. Two frameworks are developed, the first maps the retail landscape, the second suggests the use of a phased distribution/marketing approach to create and promote the value proposition of novel products to the end consumer. Two case studies are discussed (one success and one failure) to validate the applicability and usage of the suggested frameworks.

Key words: *Innovative food products*, *differentiating value proposition*, retail Landscape, *go-to-market strategy,*

1. Introduction & research set-up

In Europe up to 80% of the new food product introductions fail, and in Japan the figure is as high as 97%. Often new products do not even make it to the official product introduction stages. Lack of real innovation, it is often said, is the primary reason for this failure rate. Products simply lack a differentiated value proposition for consumers and while this is undoubtedly true, one must also ask if other factors play an important role in this failure. We believe that the right go-to-market strategy and/or failure in executing it is also very critical in creating the needed value proposition in the market place. Furthermore, we believe that innovative food products require a different go-to-market strategy that goes beyond a simple commodity approach to enhance their chances of market success. The more effective go-to-market strategy approach for these products is one that ensures the product is tried and evaluated by the consumer segment for which the product has the most relevance. The core essence of this paper is to address the following main research question.

“What is the right go-to-market strategy for innovative food products?

To arrive at meaningful answers to this research question, we formulate the following sub-questions.

1. *What is the existing a retail landscape?*
2. *What are the critical elements of a go-to-market strategy within this landscape?*

3. *How and why does this strategy exploit the current retail environment?*

Our research for this paper is organized as follows. Section 2 presents the literature that has provided us with starting insights and inspiration. Section 3 provides the core contribution of this paper as we map the retail landscape and build the theory and framework for an effective go-to-market strategy. Section 4 presents two case studies, one a success, the other a failure, and illustrates the robustness of the framework suggested through this research. Finally in Section 5, we conclude the study and offer directions for further research.

2. Literature study and research approach

For the development of this research we have taken substantial help from the literature that deals with the areas of consumer segmentation, product differentiation and value proposition, product novelty and new processing technology, and value chain alliance. All 4 areas have substantial influence on consumer adoption of innovative food products.

Loizou et.al. (2009) indicate that consumers are more keen to adopt products which have a differentiating value proposition driven by the elements of food safety, health, and economic and environmental benefits. The authors used a survey approach for their study, and a subsequent statistical analysis led them to develop the concept of four consumers profiles (classes): 'innovators' (2.8%), 'early adopters' (11.2%), 'late adopters (68.4%) and 'no adopters' (17.6%). Furthermore, Loizou et.al. (2009) conclude that market acceptance is significantly related to factors such as 'annual income', classification of consumers', 'knowledge of organic and own label products', 'age' and 'education' and with 'number of children' being a supporting factor. Such empirical findings support Rogers' (2003) socio-economic generalizations about early adopters. The study by Cardello et.al (2006) examines the consumer openness for processed products using innovative technologies and concludes that a general risk perception of the technology used influences consumer adoption.

Teratanavat and Hooker (2006) conducts a study on functional foods. They conclude that respondents (on average) prefer the product with a *single health benefit* (i.e. elevated levels of lycopene), which offers a potential cancer-fighting benefit, to *multiple health benefits*. Furthermore, they stress the importance of getting the consumer segmentation right to achieve success with functional property food products.

Costa and Jongen (2006) study concludes that radically new products are rare (only 2.2% of total product launches), especially when compared to the high number of products (an estimated 77% of total product launches) representing nil or an incremental level of novelty (Avermaete et al., 2004; Ernst & Young Global Client Consulting, 1999).

Fearne et al., (2000), Bradach and Eccles, (1989) emphasize that greater levels of cooperation and trust amongst members of a value chain leads to opportunities to continually improve operations and competitiveness irregardless of the size or market power of the individual member. Roberts et al, (2002) demonstrate that by working as an interdependent (rather than independent) organizations, members of a value chain alliance can ensure that an end product satisfies the demands of consumers more than the competition.

Amanor-Boadu (2005) reveals that the relationships that develop through the open exchange of information enable agribusiness companies to overcome challenges by developing innovative solutions that could not have been created had they operated as an individual business. The result is the ability to achieve leadership position in their market, capture higher premiums, introduce more flexible innovative and efficient work practices, and achieve higher profits (Womack and Jones, 2005).

3. Research contribution

The research and the framework developed in this study encourages businesses to align their interests with that of the chain partners which in turn should enable a go-to-market process with higher chances of success. Furthermore, some of the ideas discussed within this study open up new streams of research, especially in retail landscape developments in electronic and mobile commerce.

To build upon this prior research, we first map the retail landscape using two important, in the context of this paper, criteria, namely “product uniqueness” and “volume of sales.” mapped on horizontal and vertical axes respectively.

Subsequently, we propose a step-wise go-to-market strategy framework which can be adopted to ensure that products develop a differentiated value proposition which gives them the best chance to succeed.

3.1. Retail channel mapping framework

In **Figure 1**, different types of retail formulas are broadly mapped using the criteria “product uniqueness” and “transaction volume”.

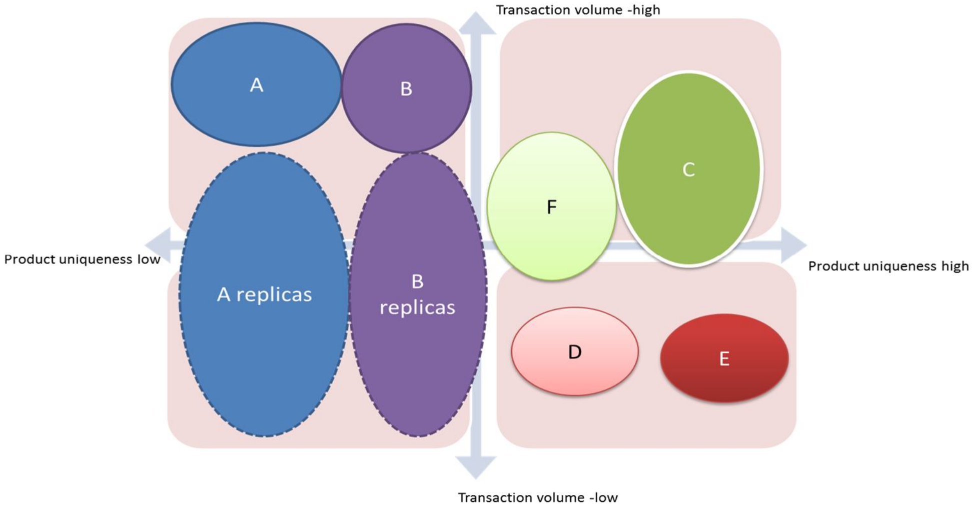

Figure 1: Mapping the retail/distribution channels on two important criteria

Higher or lower “product uniqueness” indicates the relative degree of differentiation from competing products, the effort made to do this, and the acceptance of this differentiated value proposition by the target consumers.

Higher or lower "transaction volume" relates to both a products unit price and total sales volume and reflects both perceived product exclusiveness and the size and composition of the target market.

Retailers position themselves on this map according to their business model, which can be broadly defined as follows:

A: **Conventional undifferentiated retail** channel with high volume combined with low price as the prime driver for their decision making e.g., all discount retail such as Aldi & Lidl fall under this category

B: **Conventional retail with some differentiation** where low price high volume is not the only driver for their decision making on presenting new products. For some items they settle for lower volumes than the **A** channels and charge relatively higher margins. Retails chains such as Tesco and Marks & Spencer in the UK and Albert Heijn in the Netherlands fall under this category

A and B replicas represent the entire competitive space comprising all retailers of the A & B type. It is of less significance and relevance to position or be present below the space indicated under A and B. In reality the retails under the A and B space could be the prime acquisition targets for larger and more successful A & B retail formulas.

C: **Differentiated brand building retailers** which create categories and brands through their own or private label offerings. In essence they do not wait for products and categories to gain volume but create such categories themselves. Because of their existing brand reputation and size, they can achieve both higher volumes and still command higher margins. Niche retailers and established organic retail brands such as Whole Foods in the US and 4FruitCompany and The Goudreinet in the Netherlands fall under this category

D: **Niche physical retailers** offer differentiated and less established products in a smaller scale bricks-and-mortar-stores format. Established retailers position themselves as organic, local-for-local, sustainable etc. Gourmet channels, and non-branded channels fall under this category

E: **Niche online retailer** is targeting a specific consumer segment with very specific offerings for them using innovative approaches. Some examples of this type are several upcoming food retailers such as Ocado in the UK.

F: **Differentiated retail concepts** where the focus is not so much on product innovation but with new retail concepts. Some examples such as LeShop and Coop@Home fall under this category.

In the context of this research, the channels in the two right hand quadrants, what we call the innovative zone, namely the C, D, E & F, will be of relevance when we discuss in further detail the go-to-market strategy framework. Before we do that, we present some key elements which are often ignored but critical to understanding how to bring product to market.

3.2. Critical elements for getting the go-to-market strategy right

We would like to emphasize the fact that having a product on a retail shelf does not guarantee success and this is independent of the size and success of the retailer. The simple reason for this is that the real potential for a product can only be evaluated and achieved after a targeted consumer segment has tried the product and judged its value proposition. This means that considerable effort must be committed to identifying a target consumer segment and deciding how to influence its perception of a new product. This will affect the retail channel choice/ product positioning and the connection to the overall market strategy.

1. Consumer segmentation: To be able to come to an appropriate go-to-market strategy, it is important to define the consumer segmentation or early adopters of the product as precisely as possible. Defining the key value proposition of the product, and outlining the most relevant consumer group for the value proposition on offer, forms the critical step for segmentation. However, we have seen that in practice it is quite difficult to get the segmentation right, and even the established brands with well accepted products continuously wrestle with this component of marketing. Here, taking the risk of sounding repetitive, we would like to stress the fact that any investment of resources (effort, money & time) would prove ineffective without getting the segmentation right (i.e., without defining a consumer profile that would find the offering relevant).

2. The choice of a retail channel (from the landscape defined in Figure 1) automatically determines the positioning of the product. In essence, the choice of a retail channel has already determined the product positioning based on the retail formula and the image the retailer carries. Consumers (even the early adopters) are not seeking innovation when they are shopping in a conventional retail channel and in most cases shelves are flooded with look-alike product stock keeping units (SKU's) that make it difficult to differentiate the innovative product from routine ones. Furthermore, and most importantly, consumers' willingness to pay for a product is very much dependent on the channel within which they are shopping. In essence, we believe that consumers of all types are relatively more price sensitive at a conventional retail channels (A or B in Figure 1) than at specialized and differentiated retail channels. Hence the objective is to target a specific segment of consumers in an environment where they are actively seeking differentiation and are willing to pay more to obtain it.

The above pointers suggest that trying to sell the new, and improved product on a conventional retail shelf (A and B) could prove to be counterproductive. In a best possible scenario, such a strategy may get some initial volumes but not the desired profitability figures due to higher price sensitivity within these channels. A clear understanding of the above logic suggests that these insights are as relevant for an established player as they are for a new one. In essence, we are suggesting that manufacturers of innovative products should seek for retail/distribution possibilities which combine an experiential component which is more than just obtaining a general commodity. Hence, through this research we are indicating that all companies/businesses who wish to create an innovative value proposition should utilize the retail channels more likely to promote this. When discussing the following market strategy framework, we endeavor to bring out some elements which offer the status-quo players an advantage/competitiveness over new ones. Using the go-to-market framework indicated below (in Figure 2), we believe that businesses can create an appropriate progressive path for their unique and differentiated product offerings.

3.3. Go-to-market strategy framework

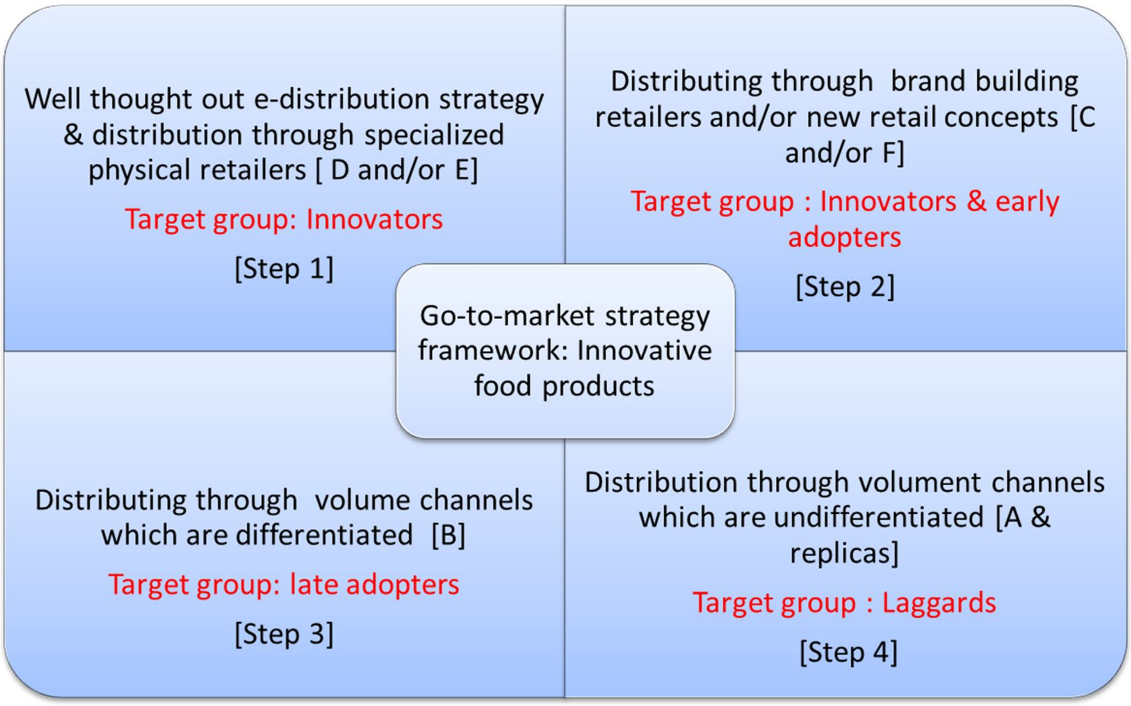

Figure 2: Go-to-market strategy framework for innovative food products

Within the go-to-market strategy framework [Figure 2] we see four steps or stages a product could take in order to progress from innovation to conventional mass product. In many ways this framework can be related to the product life-cycle (Levit, 1965) and Diffusion of Innovation (Rogers 2003) framework; the key addition being that this framework demonstrates the process for innovations to realize their market/business potential.

Below, we explain the interrelationship between each step and suggest ways businesses can maximize the chances that their innovative product offering evolves through them appropriately. After we have explained the four steps and the business relevance of each of these four steps, we will explain two real life case studies to demonstrate if the proposed framework makes sense in practice.

Step 1 is about setting-up a well worked out e-distribution strategy [E] and identifying the right physical retailers [F] to reach out to the target consumers and ensure that they have tried the product(s). Below we present some key elements which when addressed properly could ensure effective results:

1. **Choice of Platform:** Whether it is via an e-platform or a specialized physical retailer, the key element is to reach early adopters. Select a platform which not only targets early adopters but also offers a chance for the product to become one of the more popular items the platform sells. This strategy creates a buzz around the product which can help propel it into the other stages.

2. **Communicating the value proposition effectively and authentically:** A differentiating value proposition is what makes a product innovative, and this value proposition needs to be communicated effectively and authentically. Lack of authenticity is detrimental to creating an positive memorable experience for the customer which we believe is quite critical for the adoption and development of the product.

3. **Two-way (business-consumer) communication channel:** Through the use of internet and communication technologies, consumers can make their voice heard much more effectively than ever before. It is critical that companies work-out a framework to leverage this consumer presence and expression to improve not only the functional elements of selling the product but also the experiential aspects for the consumer as he/she makes a purchase.

4. **Choice of the logistics partner:** In the context of e-fulfillment, logistics plays a significant role. This face to face transaction could be the only physical touch/contact point the business has with the consumer and if managed properly can have a real effect on the buying experience for the consumer and the future development of the product's image in the marketplace

Each of the above elements, when worked-out carefully, could prove to be quite effective in creating both reach and impact and have to be kept in mind no matter the stage of the product's life cycle. Though we have discussed them in the context of Step-1, they are relevant for each step indicated within the framework.

In Step 2, the business should try to transition to specialized physical distribution channels such as C & F. At this stage, the product should have demonstrated its' potential with the innovators and is ready to be adopted by a larger consumer base. This is the time for the business to mobilize more resources (monetary, production, marketing etc.,) to evoke interest within the larger reach retail formulas [such as C & F] and their consumer segments. At this stage, it may not yet mandate a major alteration of the segmentation strategy, but might require some minor fine-tuning depending on the category of operations. As in stage one, the choice of retail platform and communication of the value proposition are here as important as in the first step. Of somewhat less importance is the last-mile logistics requirement as the business makes use of the already solid reputation of the retailer. Trade terms may require fine-tuning however, which could mean a cut in unit margins, but this should be off-set by the higher volumes these channels can deliver.

In Step-3, the product becomes relevant and interesting for volume driven specialized distribution channels [such as B]. Progression towards Step 3, strongly indicates the product has general likeability elements (such as taste, quality, price and safety), and also signals that the offering business is able to learn and adapt to market demands. At this stage there is substantial growth potential through volume and this might require a rethink about positioning and the product's key differentiating elements. Increases in volumes leads to production and logistics challenges and stronger (relatively) retail partners brings new contractual obligations (such as exclusivities, private label offerings etc.). This stage demands a higher level in professional and partnership capabilities. One specific challenge of importance for the business is to consider if it is willing to forgo its margins in its initial successful product line, and in many cases its initial consumer base, and become more of a mass production company, or continue to try to create new and innovative product lines to serve the needs of its' original early adopter customers.

In Step-4, the product is ready to go into the mainstream channels such as A and its' replicas. At this stage the product has lost most of its innovative positioning dimensions and must be marketed in compliance with the large retail/distribution formula. At this level the product has become a mass market success, with higher volumes and higher income, but there is also increased competition. This may require a culture shift as the company decides if it wants to keep-up the image of the business as a continuous innovator.

During each stage it is also important to keep an eye on the competition, competitive dynamics and the relevance of the product value propositions. Businesses can expect smart competitors to take notice of a product's successful progress at least in Step-2 or maybe even Step-1. ,but surely by the time the product is approaching Step-3. There is a definite chance that the business will encounter competition with replica products competing on price. A continuous innovation strategy and upgrades in the value proposition not only serves as a tool to retain competitive positioning against low price competitors, but also retains the interest of consumers and specialized channels.

In our view this go to market strategy is as beneficial to established businesses as it is to new ones. However, established businesses with a good reputation, more resources, and understanding of the business dynamics are able to execute their market strategy faster and in some cases they may be able to carry out more than one step at the same time.

In the next section, we discuss two different case studies to bring out the relevance and applicability of the framework in practice.

4. Case studies

In this section we discuss two different product innovation examples and the approach used to market them. To test the robustness and relevance of the ideas discussed within this paper, we present one successful and one failure case study. The successful case study deals with a tomato product line branded as "Honingtomaten®" by company Looije Tomaten. The failure case study deals with healthy fruit snacks marketed by Yuno Foods.

4.1. Case study: Honingtomaten®

Business description & Value proposition

Honingtomaten® is a brand introduced by a Dutch company “Looije Tomaten” in May 2009. “Looije Tomaten” is a family owned business and is in existence since 1946 and as of 2014 Honintomaten® constitutes 20% of the total sales of their business. Looking at the commoditization of the tomato chain, Looije has endeavoured to create a differentiated tomato line which can be positioned as a delicious snack and as a gourmet product. They succeeded in doing so and have decided to launch these differentiated tomato products as “Honingtomaten®” (to be translated as honey tomatoes).

The key differentiation elements of “Honingtomaten®” can be summarised as:

- A tasty snack with natural health advantages
- Perfectly suitable as an ingredient to gourmet food
- Differentiated and sustainable packaging concept
- Targeted, clear and consistent communication about the product

Go-to-market strategy

Through their initial consumer and expert testing initiatives Looije has understood that they have an innovative product with a differentiating value proposition to offer and hence decided to start with an own brand and offer these products through novel channels. They have understood their innovative adopters as

- people keenly seeking for innovative fruit and vegetable snacks
- gourmet food lovers who are keenly looking for novel ingredients for creating a rich food experience
- chefs in high end restaurants who work with their recipe innovations

To be able to cater to their first segment of consumers they have targeted niche healthy snack shops. To cater to second target segment they have started to work with distributors/packers that cater to specialized fruit and vegetable shops and gourmet ingredient outlets. Finally, they have used specialized shops and partners that cater to high end food service. They have consistently followed this targeting and positioning and formed partnerships which helped them grow without compromising on the quality. Hence, over a period of time they managed to acquire the interest from serious retail partners both innovative ones such as the C & D and that of A & B. They have decided to retain the brand and product differentiation of Honingtomaten® and hence continued to offer them only at specialized channels as a premium product. Honingtomaten® is one of the few fresh produce examples which demand a consistent price throughout the year.

The company is expanding by offering relevant branding and marketing private label tomato concepts for a specific retailer or a country. Furthermore, to cater to the demands of retail channels they have launched new brands, brands with an own story that suits the value proposition of A & B retail players.

Not only they did get the positioning right, but they have chosen all their partnerships (wholesalers, logistics and retailers) to offer an experiential effect to their consumers. They have constantly invested in value added services like “recipe creation”, “customized delivery” and have ensured that they have always listened to their consumers and made efforts to become relevant to them. Their belief is that the competition can make equivalent products but their innovative spirit (on as many dimensions as possible) on the market front and their customer centeredness is difficult to copy.

4.2. Case study: Yuno Brands

Business description & Value proposition

At the end of 2009, two young entrepreneurs started the company Yumm brands with an objective to bring healthy fruit snacks marketed to children. They started their launch under the “Yuno” brand name. The key value propositions that were intended are indicated below:

- Healthy fruit snacks made out of fruit concentrates
- Replacement for the salty, sugary and fatty snacks currently consumed by children
- Preventing obesity in children

Go-to-market strategy

The first distribution in 2010 was through swimming pools and other specialized outlets. They received good publicity when in 2010 Yuno foods was the recipient of the most innovative enterprise award in the Netherlands. However before they had amassed even € 100.000 in sales within their niche channels, they set-out to acquire conventional retail distribution with a target of 800 retail outlets for 2013. They successfully acquired some distribution space in B retail outlets (B) for a period of 3-6 months (during 2013-2014). However, this proved to be too big a step for them as the product did not achieve the needed sales volume target required by the volume driven retail channels. This pushed them out of the retail shelves and eventually into bankruptcy in early 2014. The important lessons can be summarized below:

- When sufficient traction is not developed with the initial marketing it is worthwhile to fine-tune the segmentation and value proposition rather than to prematurely change the channel type.
- Without gaining sufficient traction within the niche channels one should not jump to the conventional channels lured by volumes and revenues. By doing so Yuno foods announced themselves too quickly against strong snack category players with status-quo and marketing power. Also meeting the demands of the category managers of the retail industry requires sufficient market level experience, a committed consumer base, and sufficient marketing resources.

- The introduction of Yuno was done at a time when the development of the healthy fruit snack category was in its' infancy (especially at the level of conventional retail). Although an early player, Yuno was neither clearly visible in the traditional media nor within the new media channels. This combination of factors made it difficult for Yuno to gain initial sales volumes and the effort to change this with a too soon strategic move forced them into bankruptcy.

5. Conclusions and suggestions for further research

This research helps businesses to adopt a right go-to-market strategy for their innovative food products. In this paper, we demonstrate that the choice of the distribution channel is quite critical to ensure that the target consumers get to try and judge the product.

The research and the framework developed in this study encourages businesses develop a strategy with distribution channel choice as the core component. We also emphasize how the other critical marketing components, such as segmentation, alignment of interests with value chain partners, differentiation communication etc. can complement the distribution channel choice.

Although we discuss this subject in the specific context of the food sector, we see the relevance and applicability of the framework and ideas to other sectors. Hence this research offers considerable scope for further research to understand the sector specific dynamics in bringing innovative products to its relevant consumer base.

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