

Product Development Through Market Research

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There's really no room any more for small ideas. We really need big ideas that can prove themselves extremely quickly in the market-place and some of the very small niche marketing can be left to some of the more petite kinds of brands and specialty foods. We really have to look for large markets to insure that we don't hit a high failure rate. Overforecasting is a big problem. We all love to be product champions of our ideas and our products, and runaway enthusiasm is a wonderful thing to rally everybody. Even when using sound marketing research techniques, we have to be very cautious not to overforecast and end up overspending in consumer promotion, trade promotion and advertising. This could also help to fuel that failure rate.

The objective is "what do we need to do to get it right the first time?" That's really one of the two big goals in marketing research, specifically in the new product area where the failure rate is 94%. On the bright side of this, when you go back and analyze almost any segment of the industry and you look at a five-year time period in all of your companies, the percentage of total sales revenue coming from new products, on the average, is running at 15% to 20%, even with a 94% failure rate. This just shows how powerful new products can be. Can you imagine your company if it didn't have 20% of its existing revenue right now? A lot of us probably wouldn't be here, especially me.

The Need for Vision

To reposition products, you really need to have vision; the kind of vision that is typical of entrepreneurs, the kind of people who start businesses, like the founder of our company. They usually have a very focused view of what the market place needs today and in the future. You can't drive forward looking in a rear-view mirror. If you really use this vision, you need to look forward, and by looking forward you keep the pipeline full of new ideas. I think there's too much analysis, especially when we start talking about secondary research, to know what trends are taking place, which segments of different categories are growing; it's very helpful information, but it is essentially looking in a rear-view mirror. You must add to that vision of the future the risk that's involved. This is where the entrepreneurial aspect comes in.

Secondary research is really the foundation of creating this vision, and probably the key component to "Mega Trends." There's been a lot written about this and there are some wonderful books available. If you haven't read "Mega Trends," it is a superb text for how to think about the future.

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Mega trends are basically changes in behavior that reflect our entire society. I'll go over these quickly because they were already referred to previously.

Time is a very precious commodity. For example, it was forecast many years ago that there would be more and more leisure time; when, in fact, we're becoming an extremely time-pressured society. I don't know how many of you saw me prior to this presentation, but I was sitting outside on my cellular phone trying to make contacts and following up on meetings. I think we're all time-pressured in different ways and it's a symptom of the changes in society.

Role Changes

The fact is that American families are no longer typical; we are a country of hybrids. There's no two of us so similar that you can look at things in a typical way any more. You really have to look at what's unique about families because they're very different from what they used to be. The role of male vs. female will continue to fade in the 90's, even though it really took hold in the 80's. A lot of research is being done now, especially in the area of food and beverages. We test over 200 new products a year through our company and we always include the male side of the component. Purchases are no longer driven by the female head of household. More and more men are making purchase decisions, and more and more men are becoming primary grocery shoppers. They are much more involved in food preparation which is driven by two-income households. Sometimes, the female head of the household is not at home to prepare meals and the male, and even the children, are getting more involved. Part of this is driven by the microwave, the one appliance that all parents let their young children use because of its safety. The microwave has really changed the role of who's preparing what type of products and how they are doing it. The role of the male and female, specifically as it relates to food preparation, is almost going to disappear by the end of the 90's.

As the large baby boomer population in America gets older, there are going to be more and more senior citizens in years to come. We need to optimize our research techniques, our packaging, and our products to understand older consumers **now**, because five years from now, there's going to be more of them. That's a great opportunity to have vision and research the future. Let's find out what the needs are of older Americans now so that when there's many more of them, we'll be there with the right products, the right packaging and right kind of communication.

The environment has had a huge impact on the food industry, especially from what the consumer sees on the packaging side. While the consumer has a very high interest in products that are all natural, without preservatives, or artificial flavors, etc., it usually means we need higher barrier

properties in our packaging, which works contrary to good environmental practices. Somehow, we must learn to balance packaging technologies and processing technologies for food throughout the 90's. Then, I think technology and environment will come together. We need to be on top of that issue because that's a huge opportunity. The whole idea of healthier eating and bodily well being is really what we're going to be striving for in the 90's; thus, using food as an agent of wellness while moderating certain foods that we eat, and keeping a balanced diet. The consumer is becoming well educated in the area of nutrition, which in turn is having a significant affect on their attitude and behavior. That's something else we need to stay on top of in the 90's.

The shift from convenience foods to "ultra" convenience foods is one way we're going to be able to really keep up with this time-pressured society. We can see that, for many products, much of your research will be directed towards developing new products. How convenient is that product? I would say that if the consumer told you that your product, right now, is as convenient as something else they're using, it's probably not convenient enough. When we test new products, we should see how we can make a product even slightly more convenient than what it is and stay ahead of the curve to introduce successful new products.

Stimulating Creativity

I think of paramount importance to the meat industry in this emerging trend of the consumer telling us that freshness is a new standard for quality and they are looking for this in all packaged goods. Consumers are also understanding what "sell-by" dates are as well as coding systems. Consumers are becoming very smart in this area and this in turn is a very strong motivator for doing standard research to look into the mega trends that fuel creativity. All this creativity doesn't come from smoke-filled rooms or think tanks. Rather, it's really getting out there and digging into the details, understanding the trends. It's really a product of hard work.

One way to stimulate creativity is to look at other successes, understanding the opportunities presented by new ingredients, and eating out. The restaurant industry takes all the risks. Someone can put something on a menu for a month, find out if it's working or not, then take it off the menu. You know that the costs involved with the restaurant industry are borne by cafes and grills, especially some of the smaller operations, not necessarily the chain restaurants. They really take the risks. They are exploring the fringes of what might start new consumer trends. I eat out almost constantly (which I don't complain about), but I think eating around is part of doing research.

Looking at packaging in foreign markets has become extremely important as we develop into a global village. I was recently in London and was shocked to find Kentucky Fried Chicken, Burger King and MacDonald's right around the corner from a typical little pub. We have really developed into a global market. To see what's happening in the far eastern markets, such as Japan, especially what they do with packaging, is absolutely phenomenal. So, we must look at both sides of the world to be a catalyst for creativity. This is an industry that's driven by technology. The need to stay

current in emerging technologies and combining different kinds of technologies is an extremely important thing to include in all secondary research.

Finally, let's look at culinary trends. Some ethnic trends, such as Italian, Mexican and some of the more popular Asian cuisine, are going well in the U.S. This is having a huge impact on the U.S. Even in the state of California, where I'm from, you are looking at one-fourth of the population being of some type of Asian descent. This is going to have a huge impact throughout the food industry. This means the use of new ingredients in many of the restaurants. Right here in Fort Collins, I've been told there's an extremely good Vietnamese restaurant, and it's something you wouldn't necessarily expect to find in a small but vibrant city. But Asian cooking is going to have a huge impact once all the secondary research is done, which is a continuous process.

Research Objectives

Occasionally, people sit down and say we need to do some secondary research; we need to look very specifically in this one area or to learn about something. Really, that's a continuous process and is something we need to do all the time. When a problem-solving need occurs, then we get into the primary research. The real objective of primary research is to determine, "how do we reduce the risk of making a decision?" That's really the only reason we ever do research. When we feel strongly that we've learned something, that's when we really have a clear cut opportunity to do something to better the industry. We might leap frog over to the next opportunity in terms of marketing research. So really we're just looking to reduce the risk.

We highly recommend that you minimize upfront cost until we have some kind of research that confirms judgement. This gives the opportunity to test products and ideas together to maximize learning. This is extremely important. I think that as you look through the 70's and 80's, marketing research techniques have really matured and become extremely helpful to all the food industry. A lot of research was done in serial fashion where you would identify a concept, test the concept with consumers, and find out what they liked or didn't like about the concept. Then several months later, you would test a product and make sure you learned everything about the product. Subsequently, you would know a few months after that whether you might test the product and the concept together. We strongly advocate this approach because the industry and consumer needs are moving so quickly that they must be brought together as early as possible.

Take a concept and very quickly create what we call a "proto-cept" product, something before a prototype. In this approach, the consumer really has something to react to at exactly the same time they are looking at the concept. There are really only four outcomes. One is that the concept and product work perfectly the first time and you get very clear directions where to go. Very often we can communicate a new product idea via concept and the concept is OK, but what we wouldn't know if we didn't show them the product is that the product didn't match the idea at all. We've seen this more than once.

A bigger problem, in terms of losing an opportunity, would be the third point. We expose the consumer to the concept and perhaps we choose the wrong words to describe it. The Nova illustration was a great example, meaning, "no go." We just chose the wrong words. We don't define it very well on paper or graphically but when we put a real sample of what the product should be in front of the consumers they may say, "Well, this isn't what we thought you were talking about," or "this is a great idea," or "this is a delicious product" or whatever it is. If we didn't do the product testing simultaneously with the concept test, we may lose a huge opportunity just because we didn't pick the proper words to put down on paper. Then very quickly, if both the concept and the product fail very early in the development, the testing will close the book on that idea, and we move onto something else. We don't belabor it by a long string of sequential marketing research techniques.

In doing your earliest primary research, it's good to test the ideas first among a small, well-targeted consumer segment. For all of our different categories of products, we know who the most motivated consumers are. Rather than going to a very broad general population study, if we know who the most likely users of the product are, we will test with them first. If that idea doesn't work with them, it's very unlikely you are going to motivate anyone on the fringes of that specific type of food behavior. When you elaborate the product research, it's extremely important, when you're doing your analysis, that you compare the performance of that product among those consumers who were positive to your product and those who rejected the product. Don't look at the data in totality. If you do, what you may end up doing is alienating those who did like your product. The goal is to optimize the product to satisfy the needs both of people who did and didn't like your product.

Sensory Segmentation

This leads us to a new way to segment consumers beyond demographics, beyond how much money they have, beyond how time pressured they are, into sensory segments. There is a lot of work being done in this area and this is probably one of the hottest new areas to help us define who our consumers should be. It's easy to look at the reasons why. Just look at the cheese industry, where you have five different types of cheddar cheese going from mild to very sharp. What they have done, which is essentially what has happened in the industry over time, is identify different sensory segments of consumers. We can start classifying consumers not just by how many kids they have, how much money, etc., but by their sensory attributes (what kinds of foods they like) and start clustering consumers around the types of foods that they eat.

There has been some very interesting work done recently in the yogurt category. To share with you a little in-

formation, there were basically two sensory segments in that category. Consumers who like a lot of fruit in their yogurt, and consumers who like a lot of dairy, real milky, creamy flavor-profile. Through some very strong work that we did in sensory segmentation, we found that there were four times as many consumers who prefer the product that had the stronger fruit profile than did the dairy profile. We then segmented the market on a sensory profile and learned to identify those who were strongly motivated and used the product in the fruit segment. Who are these people, where do they live, how much do they make, and what are the kinds of products they use? Now we can try to tie who your target market is into those consumers who really like your product.

There's going to be a strong emergence of this type of research, I think, as we go through the 90's. What the research is really saying is "Don't try to be everything to everybody." If there was one cheddar cheese, one flavor right in the middle, it would be too strong for those who liked it mild and too weak for those who like it sharp. You wouldn't have a market; you'd have a very small market right in the middle. By learning to sensory segment all of these, you broaden your opportunities.

Product Development

The real success factor in product development is putting the food first. Repeat sales drive the business. There's always the opportunity through very good promotional techniques, and very strong advertising execution to buy the trial; but regardless of how strong your message is, the product really has to perform. It really has to be the first component in understanding, if your product is going to be a success or not. Also as I said earlier, another success factor is seeking real tangible differences among your competition, and providing something that's very meaningful to consumers. That pointed difference should be simple and straightforward. If possible, add value, which is a very simple concept that is very difficult to master.

In short, probably the easiest way to analyze if a product is going to be successful or not is to pick a competitor's product in the market place and look for three things: How good is it (or how good does it taste), how fast or easy is it to prepare and is it inexpensive? You must have at least two. If you have a product that's good but not fast and also expensive, it's very likely that it's going to fail. If you have something fast but not good and also expensive, it's likely to fail also. If you can fulfill two of these objectives with the consumer, you have better than an even chance of making it in the market place. If there is a way you can achieve all three, you've clearly got a winner! I believe that all of our product development, all our research activities, especially in primary research, have to focus on satisfying these three factors with consumers.