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Why Do Food Manufacturers Introduce New Products?

Cheryl Hill Lee and Gerald Schluter

Something interesting is happening with respect to the number of new food products introduced each year. ERS monitors the number of new food products introduced each year through *New Product News*; this service estimates that the number of new food products introduced rose in five of the first six years in the 1990s, peaked in 1995 at 16,890, and has fallen since (Figure 1). Clear inflection points like these intrigue economists. Clearly, something happened here to change the incentive for food manufacturers to change the number of new products they introduced. The size of the food market didn't shrink—the U.S. resident population rose about 9.5 percent from 254 million to 272 million—and consumers certainly have not been demanding less variety of food products. Yet the number of new products introduced annually has fallen steadily after the 1995 peak.

Four potential explanations are

- Regulation of Food Labels—in the early 1990s significant new regulation of food labeling was established through the Nutrition Labeling and Education Act (NLEA) of 1990, which was implemented with regulations that took effect in 1994. The NLEA, its implementing regulations, and parallel regulations issued by FSIS prescribe three aspects of package labeling: nutrient contents, nutrient content claims (such as "low fat"), and diet-disease claims (such as "high fiber will reduce risk of cancer") (Aldrich). Perhaps restrictions upon claims made on food labels reduced the incentive for and/or raised the cost of introducing new food products.
- Retail-food-sector consolidation—In recent years, the U.S. food retailing industry has undergone unprecedented consolidation and structural change through mergers, acquisitions, investitures, internal growth, and new competitors. Could this consolidation have led to more standardization of products carried in stores and therefore less opportunity for new food products to be carried in these stores?
- Slotting allowances—Slotting allowances—fixed fees paid to retailers by manufacturers in return for stocking new products on a trial basis—help channel competition for limited grocery store shelf space and have become more prevalent in recent years. While these fees may make a retailer more willing to stock an unproven product, the fees do raise the cost of product introduction and thereby discourage marginal products.
- Scanner data—The point-of-sale data available from scanner data records may have increased the efficiency of new product introduction. There may be less need for experimentation because manufactures find out more quickly whether a certain new product has staying power in the market.

While all four potential explanations are plausible, the supporting economic logic of the explanations differs sufficiently that an initial step to understanding the recent pattern in new food-product introductions is a review of economic literature for what others have identified as the economic incentives for food manufacturers to introduce new products.

Several factors may influence a food manufacturer's decision to introduce a new food item into the retail market. The lower the entry cost (e.g. the cost of developing the new food or the cost of introducing the new product into the grocery store), the more likely the product will be introduced. The more the manufacturer believes consumers will be interested in purchasing the item, the more likely the product will be introduced. The more likely the firm feels the new product will help its market share, the more likely the product will be introduced. Bayus and Putsis found that a broader product line makes it more likely that at least one of the firm's products will match any individual consumer's preferences most closely. However, the firm must balance the positive demand effects of a broader line with potential negative effects on production costs when deciding on an optimal length for its product line. Putsis (1997) examined the

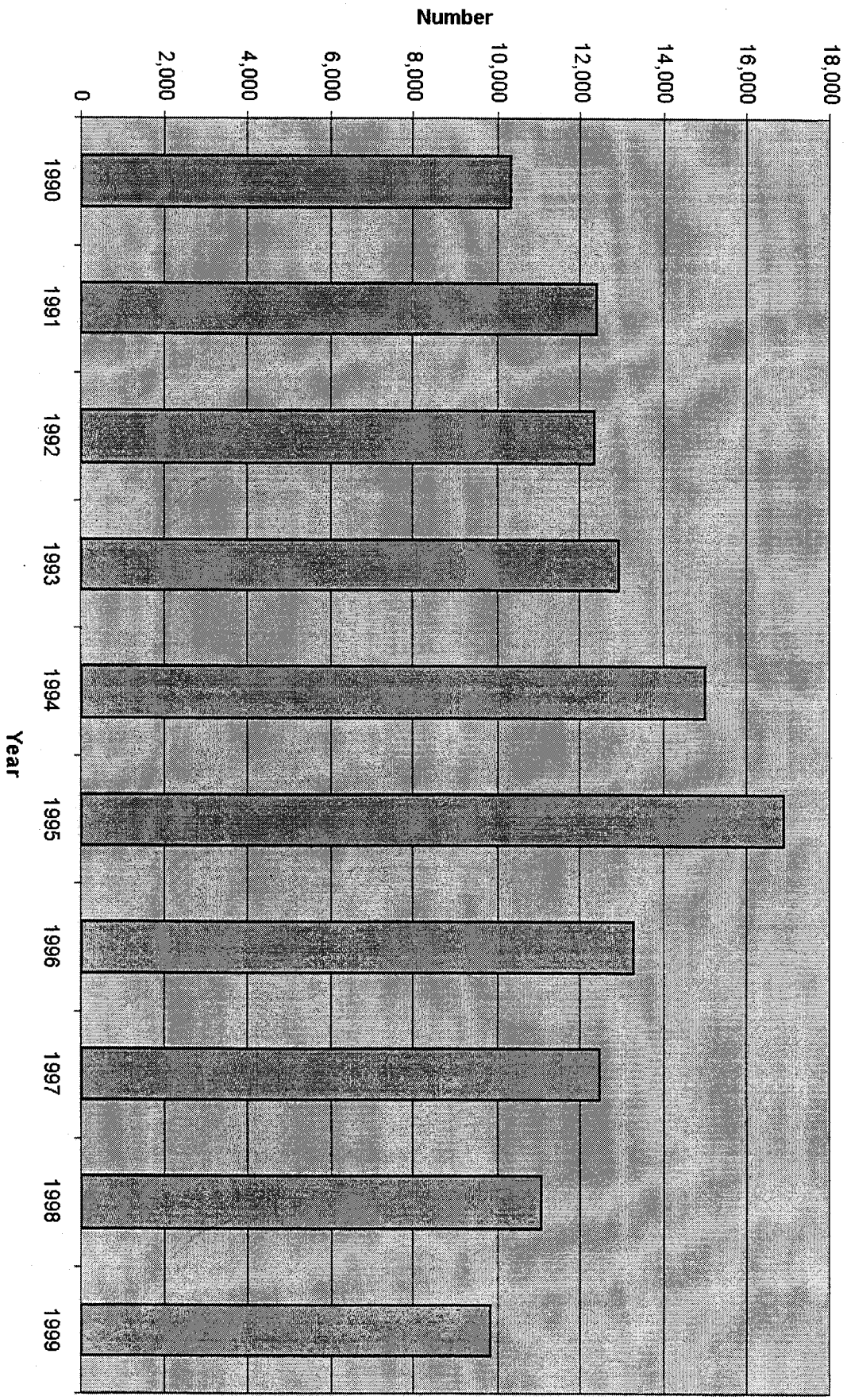

Figure 1. Number of New Food Products Introduced Annually, 1990-1999

number of brands sold in each of 59 geographic markets and over two hundred categories using annual Information Resources, Inc. (IRI) market-level data on food products. He found that an increase in the number of brands increased the ability of national-brand manufacturers to raise price.

Changes in consumer taste and demand for food provide opportunities for food manufacturers to introduce new products. Consumer demand has shifted over the years from raw and unprocessed food products to ready-to-eat and processed foods. For instance, there are many more complete meals in the frozen food aisle of the grocery stores than in the past. Even the produce sections of most retail stores have many more ready-to-eat salad varieties to choose from than ever before. There are many different instant hot-cereal flavor varieties to choose from with bold colors and exciting labels that tend to attract customers. This trend towards an expanded selection of ready-to-eat meals and pre-washed-and-packaged chopped fresh vegetables appears to be a direct response to changes in consumer demand. Many American consumers tend to be interested in how quickly a meal can be prepared, but some consumers also want nutritious and nonfattening foods. Ready-to-eat foods have become more of the norm instead of the exception in most grocery stores today. The lifestyles of many consumers are very fast-paced and many households are not sitting down to home-cooked meals as frequently as in the past. Frozen dinners and prepackaged salads may substitute for a meal that would normally take approximately an hour to prepare. Manufacturers are responding to the busy lifestyles of today's consumers by providing foods that require only seconds or a few minutes in the microwave for preparation.

For those consumers interested in low-fat, reduced calorie, and low-sodium foods, food manufacturers have responded by introducing more of those varieties. Some consumers are responding to health reports that stress the importance of a reduced-fat and low-sodium diet. The fear of heart disease, hypertension, and stroke has influenced the increased demand for foods lower in fat and salt. Food manufacturers have responded to the demand for these types of foods by offering an increased number of lighter varieties of existing foods. Grocery stores are stocked with several versions of a food item based on its fat content, caloric count, or sodium content. Surprisingly, this increased availability of healthy foods has not led to a significant decrease in fat consumption and obesity for American consumers.

Foods that may provide a health benefit beyond basic nutrition are considered "functional foods," as are foods that have nutritional ingredients added to provide specific health benefits in addition to the foods' basic healthfulness. While the overall food industry is growing at only one percent per year, Reuters indicates the worldwide functional-food market is forecast to grow nine percent annually. This would make the functional-food market a $27 billion business by the year 2010. Many shoppers look to produce when choosing foods for specific health benefits. For instance, consumers chose broccoli, spinach, and carrots for the specific purpose of reducing the risk of cancer. Oatmeal was chosen by shoppers to lower cholesterol and increase fiber intake (Food Marketing Institute).

What is a New Food Product?

Some groups that monitor the introduction of new consumer products, including new food products, call a new food product any new food product that is unique enough—different from existing products—to be assigned a new UPC code. When it comes to new food products, there may only be an extension of an existing product line—a slight variation in the size of the packaging, a new flavor, or a change in an ingredient. Should this extension be considered a new product? Obviously, deciding just how different an introduced food product must be from existing food products before it can be considered a new food product calls for judgement and can easily vary by individual. For example, the product Go-Gurt—"Grab-n-Go" Yogurt—has been advertised as a fun tube of yogurt for children. To some consumers this may not seem like a very innovative product, but to a busy parent attempting to pack a healthy lunch for her child it is a significantly different and convenient product. The product can be eaten refrigerated, frozen or thawed. Parents can freeze and pack it with their child's lunch and it will stay fresh until lunchtime, according to the manufacturer's advertisements. It does not require a spoon, so it is convenient for children and their parents.

How innovative Go-Gurt is depends on the

consumer's perspective. To a busy parent who is trying to quickly prepare his or her child's lunch, Go-Gurt is one of the best new products on the market. However, to a consumer who is not concerned with portability or whether a spoon is required to eat the yogurt, Go-Gurt may not appear very innovative. The consumer may not have any children, so he or she may be indifferent about a new portable yogurt product being introduced. Innovation is in the eye of the beholder. The success of many new food products depends greatly on how relevant and useful the products are to consumers. As long as there is a large enough following for particular types of products, new food-product introductions can survive and be successful. If the food manufacturer can predict what consumers will want to purchase and repurchase, then the likelihood of its new product succeeding is much higher than if the food manufacturer have no prior knowledge.

As noted, some groups that monitor the introduction of new consumer products, including new food products, call a new food product any new food product that is unique enough—different from existing products—to be assigned a new UPC code. This is a convenient definition when one needs objective counts of new food products. We used it in our introduction, in Figure 1, and when we give estimates of the number of new food products from new-product monitoring. When we discuss new food products in general, and the economic forces behind their introduction, we adopt a broader view of a new food product: the new food product has to differ enough from existing food products that some part of the food market—competing manufacturers, food retailers, or food consumers—adjusts to accommodate the new product.

Why do Firms Introduce New Products?

While the introduction of new food products in general appears to be driven by consumer demand, the incentives for individual firms to introduce new products into the market varies, as does the impact that those new products may have on other firms. Competition among food manufacturers may influence their decisions to introduce certain new food items when they do. For instance, the increased number of brands and choices available in the frozen-dinner section of the grocery store results not only from food manufacturers continually innovating to keep the interest of consumers but also from efforts by individual firms to protect their market share from competitors by keeping a sufficient variety of food products available to consumers.

One food manufacturer may introduce a new product in an effort to discourage other companies from entering the market. The introduction of a new food item can serve as a barrier to entry. Once an established firm (a firm that has a secure position and reputation within the marketplace) introduces an innovative food item, it may be more difficult for new entrants to enter the market with a similar food item. The most familiar brand may capture the market for that particular type of food product.

Neither patents nor ownership of raw materials sources is generally important in the food industry. Brand-specific production knowledge is apparently present, since established firms are sometimes unable to duplicate each other's brands. But this has not prevented many from producing, promoting, and distributing successful new brands (Schmalenesee).

Despite consumer interest in the product, a new firm will introduce a product only when the expected revenues from doing so are greater than the expected costs. If an established firm's cost of producing its current product is raised by the introduction of a new product, the firm will be less likely to innovate. Aron and Lazear discuss how the timing of product introduction is crucial. While established firms are sometimes reluctant to open up new markets, it may be to a firms' advantage to follow into the new product line. If the first-mover advantage is not great enough to deter entry of other firms into the market, then being a first mover is actually a disadvantage. Since entrants do not take into account the effect of fixed costs and diseconomies of scope borne by established firms, they tend to enter too often. Provided entry by outsiders, the established firm's decision to follow into the new market is efficient, but only relative to remaining in the old product while the entrant produces the new one. This action would cause the new entrant's costs to be sunk, and the existing firm's decision is an efficient one.

Firms decide in which market to operate depending on the payoffs in each market. The decision to enter a new market, however, involves several steps after the initial move. The new product

must be developed, personnel must be trained, contracts must be written with new suppliers and terminated with old ones, and plants must be restructured.

The survival of firms is contingent on the conditions of the market in which they enter. Entry, exit, and the survival of firms in terms of evolutionary changes in the market from the first introduction of a product to maturity of the market are critical to the introduction of new products. Data from the *Thomas Register of American Manufacturers* consisting of a complete inventory of all entering, surviving and exiting firms in each of twenty-five new-product markets has been used to test the survival of firms. Survival rates depend on both stage of development and individual firm attributes. The development of a market for a new product may follow a systematic sequence of changes, or the changes could be a product of random shocks. Entry rates appear to be affected greatly by stage-related changes in both the rate of technical advance and the form that innovations take (Agarwal and Gort).

One reason firms may introduce products is to expand their potential markets by varying the characteristics of their products to fit those most likely to sell in a particular market. For example, if the market is a particular area, the firms may engage in spatial competition, the simple mechanism in which firms try to capture the largest number of customers from their neighboring competitors. They do this by choosing a particular position in the geographical space. Horizontal differentiation, or spatial competition, relates to the idea that consumers will prefer to shop at a supermarket within their own neighborhood and firms may have to expand their product line to ensure that their products appeal to customers in this area. Firms may also expand their product line to compete by vertical differentiation. With vertical differentiation—differentiation based on quality differences—product diversity arises because consumers are differentiated by their income. In a vertically differentiated product space, all consumers agree over the most preferred mix of characteristics and over the preference ordering (Tirole). The market is segmented according to consumers' ability to pay: high-quality products are purchased by rich consumers, standard-quality products by middle class consumers, and low-quality products by poor consumers. Based on these conditions, the disparities in income distribution bind the number of qualities that can coexist on the market; higher income dispersion implies a larger number of qualities with a positive market share. The entry of new products (of given qualities) may be accompanied by the exit of some existing products (Phlips and Thisse).

Supporting our earlier discussion of the important role of changing consumer tastes as an impetus for new food-product introductions, Weston and Chiu find consumers' demand for variety requires firms to keep a high rate of introduction of new food products to maintain their competitive position. Because of these forces, new industry segments continue to emerge: quick snacks for busy people who want to buy time more than nourishment; ready-made meals for heating in the microwave; low-fat, low-calorie foods for dieters; special foods for babies and the elderly; health foods for the fitness oriented. Food manufacturers have continually responded to the needs of consumers by introducing food items that are innovative and reflective of the current times.

How Do Firms Introduce New Products?

The way in which new products are introduced to the market can be as important as what is introduced. Firms use various methods of securing their products on the market. Innovation and product differentiation within the retail food market are distinctive compared to other types of product markets. For instance, brand names on food items are essential for identification purposes and serve as a signal to consumers for a particular level of quality. When consumers can differentiate products based on the manufacturer's labeling and the brand name provides key information to the consumer, the potential success of future introductions and the value of these introductions for securing the firm's competitive position increases.

The effort of learning about new products can be costly, and consumers are assumed to vary in their ability and willingness to expend such effort. Consumers tend to be loyal to established firms despite the entry of lower-priced rival goods because such goods are rationally expected to be of lower quality. Loyalty to known brands is a reflection of consumer uncertainty about new untested goods. There appear to be consumer brand-loyalty

advantages to the first entrant's new product. Based on the results of a study conducted by Gabszewicz et al., brand loyalty remains an important first-mover advantage. Certain brand-name food products have a reputation of good quality and high nutrition value, and new entrants may therefore find it difficult to introduce a competitive new food item. Consumers may identify with particular brand-name items, and they will be inclined to continue to purchase the products with which they are familiar.

Product innovation refers to the decision by the firm to supply a new product, as opposed to process innovation, which refers to the adoption of a new production technology. Firm-specific learning is expected to play a major role in determining innovation costs, and it is assumed that a firm with experience in production has a cost advantage in upgrading the product compared to a firm that is not producing. This "learning by doing" effect often explains the declining fixed costs of innovation (Gruber). Once a firm has established the technology needed to produce certain types of products, it will cost much less for that food manufacturer to continue to introduce similar products.

Entrants are more likely to introduce more-efficient production processes that make firms more competitive within a market, which can lead to lower prices. Established firms tend to use not only price but also advertising and new product introductions as a way to deter or limit entry. New product introductions can make entry more difficult if consumers are more likely to buy new products from established firms rather than from new entrants. In the ready-to-eat cereal industry, established firms accommodate other established firms on price and new product introductions but use advertising to limit the scale of entry (Thomas).

Advertising and new product introduction can be construed as substitute forms of entry-deterring conduct practiced by producers of more differentiable food products. Zellner studied the effects of advertising and whether it is a barrier to or facilitates entry. Using a sample of seventy-five five-digit food-product classes in 1977, empirical analysis was conducted to study the effects of advertising as an entry barrier. The study supports the argument that advertising functions more to persuade and raise entry barriers than to inform and facilitate entry. The study suggests that two modes of conduct—the intensity of advertising and new product introduction—are affected by industry structure and have an important influence on industry performance. Firm growth is typically accompanied by the introduction of new products and heavier advertising.

Not all new food products are introduced by the food manufacturer. Many food manufacturers produce food products for others as well as producing their own brands. Supermarkets tend to stock leading national or regional brands as well as their own store label in adjacent shelf locations. This occurs for most types of foods and beverages and is an interesting aspect of the market for manufactured food products. Private-label goods' share by volume of total supermarket sales of packaged groceries increased from 15.3 percent in 1988 to 19.7 percent in 1993 and 20.2 percent in 1996 ("Make It Your Own"). Supermarket chains learned that private labels provided higher profits than national brands (Harris et al). High levels of sales concentration and product differentiation characterize industries that manufacture national food brands. The four leading national-brand manufacturers accounted for approximately 85 percent of retail sales of all branded food products in the United States (Connor and Peterson).

Benefits of Introducing New Products

The introduction of new food products can benefit food manufacturers in several ways. Of course, a successful new food item will raise its manufacturer's profits. The success of new food products is contingent on the product's availability and on consumers responding to the promotions and consistently purchasing the new items. Food manufacturers with name brand items familiar to customers are more likely to be able to successfully introduce new food products. Once a food manufacturer has established a positive reputation with its new food products, it will be able to introduce other new items with more ease.

Branding may be one important way to add value to the food product. Branding differentiates the food item and provides an alternative to price competition. Brands have the ability to create consumer franchise—consumer awareness of, positive attitudes toward, and willingness to frequently buy a brand. Njssen and Van Trijp suggest that, despite

the fact that fresh food products have been on the market for many years, it may be easier for a first-mover brand in the product category to develop a strong consumer franchise. For example, Perdue chicken has a reputation among consumers as high-quality poultry, and people will most likely continue to purchase it even at a higher price.

Branding can be an important way for a firm to protect its market share. For example, if a new flavor becomes popular, an existing ready-to-eat cereal manufacturer may introduce that flavor to an existing cereal, and that minor innovation may make it difficult for other firms to enter the market. The established firm already has brand loyalty in many instances, and it is therefore much easier for that firm to introduce the new flavor of cereal. New entrants who attempt to compete with established firms that have consumer loyalty will have difficulty entering the market. For example, if General Mills decided to add a new flavor of Cheerios to grocery store shelves, a manufacturer considering the introduction of a new product may struggle to compete with the reputation of the General Mills brand-name products.

In a multi-product retail firm, profits normally are maximized if some type of price discrimination is practiced. The fact that supermarkets handle a multitude of products is enough to suggest that the opportunity to price discriminate does exist. Consumers of staples—goods that are purchased frequently and in considerable quantities by households—tend to be more responsive to price changes. Because all supermarkets carry staples, consumers can easily make price comparisons. Price comparisons on non-staples, however, are more difficult because they are purchased less frequently and because the money spent on any single non-staple is too small relative to the total food budget to call for price-consciousness with respect to that item. Manufacturers' development of new products—such as cake mixes, frozen foods, and so on—has increased the opportunity for price discrimination by retailers. Retailers have welcomed the new products because many of them are purchased by high-income consumers, who are less sensitive to prices, or by middle-income consumers who are equally insensitive to price because of the infrequency of the purchase. There does appear to be evidence of extensive price discrimination in supermarkets (Holton).

Costs of Introducing New Products

When manufacturers of food products introduce new products they face additional costs such as research and development (R&D), advertising, and training for employees. The R&D costs are not great compared to other industries. The National Science Foundation reports that during 1994 the amount spent by companies in the U.S. on basic and applied research and activities aimed at translating results of these investigations into products or processes (development) averaged four percent of these firms' net sales. For firms making food, kindred, and tobacco products the R&D expenditure share was less than one percent of these firms' net sales (NSF). This expenditure, however, is likely to vary by type of new food product. For example, compare two new products, cholesterol-free egg products and a new flavor of instant oatmeal. The research and development involved in creating the egg products may be more costly and involved than the new flavor for the hot cereal. Also, compared to other industries, firms making food, kindred, and tobacco products spend more on research than the average of all firms (42 percent vs. 28 percent of R&D on research compared to 58 percent vs. 72 percent on development) (National Science Foundation). While estimates of advertising costs for new food products are not available, the food industry as a whole is a large user of advertising—four cents of the consumers' food dollar goes for advertising (Elitzak). Similarly, separate estimates of employee training costs associated with new food products are not available. The wide range and number of food products available suggests the industry technology and cost structure do not provide significant cost savings from large production runs of homogeneous products compared to several smaller production runs of differentiated products.

When manufacturers of food products make decisions about introducing new food products, they must consider the retail market. Introducing new food products is not costless to food retailers, and manufacturers' products must compete for limited shelf space in grocery stores. As a result, most grocery retailers require some type of slotting allowance from food manufacturers as a form of payment for the shelf space. The slotting allowances—fixed fees paid to retailers by manufacturers in return for stocking new products on a trial basis—

help channel competition for this space. Slotting allowances may also improve product selection by downstream retailers who are uncertain of demand.

Slotting allowances stem from retailers' imperfect information surrounding new-product demand. Today's retailers face many product categories and various brands in each category. The retailer makes an implicit agreement to stock the manufacturer's new product for a trial period—usually six months—in exchange for the slotting allowances. The major debate in the industry centers on whether the fees are anticompetitive or serve as arrangements to cover increases in retailer costs. Manufacturers have complained that slotting allowances are a form of price discrimination used by retailers to extract manufacturer profits. Retailers claim the fees are necessary to cover the costs of stocking new products.

Slotting allowances can serve as a risk-sharing mechanism where all new products pay a fee and the successful products subsidize the ones that fail. The slotting allowances can also be used as a signal to identify the good products. To date, slotting allowances have been widely adopted in grocery stores and sometimes in drugstores. Apparently, trends in new-product activity and sales per store help explain the absence of slotting allowances in other consumer nondurable retail markets. Shaffer provided an anticompetitive argument that slotting allowances make manufacturers no worse off but help retailers reduce competition at the retail level. Theoretically, to reduce consumer search costs, slotting allowances should be used by any retailer who stocks multiple products, but the fees are mainly adopted by grocery retailers (Sullivan). Kroger was the first supermarket to officially admit to charging slotting allowances. Kroger justified the fees by stating that they pay for the one-time costs of entering product information into the computer, putting new products in the warehouse, and placing them on the shelves (Sullivan). Many food manufacturers are faced with the additional cost associated with slotting allowances when they introduce new food items into the retail market. However, manufactures who sell in supercenter retailers, such as WalMart, do not have to pay slotting fees— these supercenters increase the supply of shelf-space to match the demand from proven products, so the price of shelf-space is essentially zero (Richards and Patterson).

Food product suppliers who are willing to pay slotting fees or promotional allowances give retailers a signal that they are confident about the success of their product. The risk of a new product failing is high. If a product fails, retailers must shoulder the costs of physically removing the product and reshelving an alternative, and the opportunity cost of lost sales from other potentially successful products that could have been sold from the same shelf space.

Retailers may use practices other than slotting allowances to handle increased competition among manufacturers. Retailers compete amongst themselves to obtain customer favor, and manufacturers compete with each other for limited shelf space, which in turn affects manufactures' costs and prices. Resale price maintenance (RPM) occurs when a manufacturer sets the price at which its product can be resold by independent wholesalers or retailers. Maximum RPM lowers the retail price if manufacturers cannot use franchise fees. Minimum RPM raises the retail price if manufacturers cannot set a wholesale price above marginal cost and must use only a franchise fee. RPM may correct for service externalities and protect against information free-riding, and slotting allowances may improve product selection by downstream retailers who are uncertain of demand (Shaffer).

Many economists believe that maximum RPM is unlikely to harm consumers, mainly because it lessens the problem of successive markups when there is imperfect competition at two stages of the industry. Retail differentiation—the presence of several retailers within a market—is important because each manufacturer can increase its sales by having more retailers carry its product. Retail differentiation ensures a variety of retailers for a manufacturer when marketing its products. Each new retailer brings new customers for the manufacturer's brand. Without retail differentiation, manufacturers would have no reason to compete for retailers (Perry and Besanko).

Summary

Changing consumer demands provide food manufacturers many opportunities to introduce new food products. The rapid pace of many consumers' lives provides marketing opportunities for more frozen dinners, ready-to-eat cereals, and prepackaged sal-

ads. We are living in more of a microwave society, and food manufacturers are continually developing new food products that cater to consumers' busy lifestyles. The recent introduction of "rice bowls" that combine several food groups (meat, starch, and vegetable) into one simple container makes it very easy for children and adults to enjoy a meal in minutes. The preparation of many of these ready-to-eat meals has become simpler, and consumers can maintain their busy schedules and still eat what appears to be a balanced meal. So many opportunities exist for new food products to be introduced because there are so many variations of existing foods that have yet to be developed. If a reduced-fat, low-sodium variety of every existing food were introduced in the market today, we would have more new food products than consumers could possibly handle.

Several factors may influence a food manufacturer's decision to introduce a new food item into the retail market—the cost of developing the new food, the cost of introducing the new product into the grocery store (e.g. slotting allowances associated with shelving the product), and, of course, whether or not consumers will be interested in purchasing the item.

Established firms tend to compete for market position not only with price but also by using advertising and new product introductions to deter or limit entry. A food manufacturer may introduce a new product in an effort to prevent other companies from being able to enter the market. Once an established firm introduces a new food item, it may be more difficult for new entrants to enter the market with similar food items. New products may help firms engage in spatial competition, in which firms attempt to capture the largest number of customers from their neighboring competitors. Spatial competition, or horizontal differentiation, relates to how consumers shop at a supermarket within their own neighborhood. Traditionally, growth has been achieved in the food industry through a high rate of new product introductions and promotion methods to develop strong brands.

Food manufacturers with name-brand items familiar to customers are more likely to be able to successfully introduce new food products. Once a food manufacturer has established a positive reputation with its new food products, it may be able to introduce other new items with more ease. Branding differentiates the food item and provides an alternative to price competition. Brands have the ability to create consumer franchise—the awareness of, positive attitudes toward, and willingness to frequently buy a brand.

A testament to the benefits of new food products is the fact that despite the slotting allowances food manufacturers must pay whenever they introduce new food items into the retail market, many new food products are still introduced each year. Food manufacturers who are willing to pay slotting fees or promotional allowances provide retailers with a signal of a successful product. Therefore, the grocery retailers have more confidence in the new food items that the food manufacturers are introducing to the retail market. And, of course, if the expected gain to the manufacturer did not cover the slotting fee, the manufacturer would not introduce the product.

Introducing new food products may be a part of a retail differentiation, because each manufacturer can increase its sales by having more retailers carry its product. Retail differentiation allows food manufacturers choices when marketing their products. Each additional retailer brings new customers for the manufacturer's brand. Similarly retailers can benefit from manufacturers' activities. Manufacturers' new product developments can increase-the opportunity for price discrimination by retailers. In many cases, retailers will welcome some high-priced new food products because high-income consumers, being less sensitive to prices, are willing to purchase them. The fact that grocery stores handle numerous products suggests the possibility that price discrimination would exist.

In short, food consumers want and will support a variety of similar food products. Food manufacturers find it relatively easy to supply a variety of similar food products because development costs are often low. Industry technology and cost structure do not provide significant cost savings from large production runs of homogeneous products compared to several smaller production runs of differentiated products, and the retail food distribution system is structured to facilitate the introduction of new food products.

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