Are There Too Many New Product Introductions In U.S. Food Marketing?

Anthony E. Gallo

New food product introductions have risen sharply in recent years, but the net number of products on retail shelves has remained about the same. Most new product introductions are extensions of existing products, and innovation has fallen sharply in recent years.

Introduction

New product introductions, advertising, and packaging, are the three major forms of production differentiation in food processing. New product introductions, therefore, serve as a major form of nonprice competition; they also give consumers more choice and allow new firms to enter the market. With food being a stable but slow-growth industry, sales growth for food manufacturers must come through gains in market share. To induce more consumers to buy their foods, firms develop new products that are different from those of their competitors. And new firms must introduce new products to gain market entry. Therefore, the rate of product introductions provides a measure of competition among firms and indicates the result of research and development activities.

But new products (NPI) can be expensive for firms to develop and, unless they are truly new innovations, of limited value to the consumer. Space allocation is already scarce in food retailing, and NPIs have resulted in slotting allowances. As a structure issue, NPIs raise the question of smaller firms' inability to penetrate the market and the use of nonprice competition as a substitute for price competition. This empirical research examines the economic role of new product introduction in U.S. food marketing. Since 1982, over 136,000 new shelf-keeping units have been placed on the nation's grocery shelves. Is this number too high, too low, just right? What economic purpose does this form of product differentiation, increasingly more important in this highly oligopolistic sector, serve? More significant, this report differentiates between new product introduction and additional shelf-keeping units, and the implications of each to consumers, marketers, and economic policy.

U.S. Department of Agriculture, Economic Research Service.

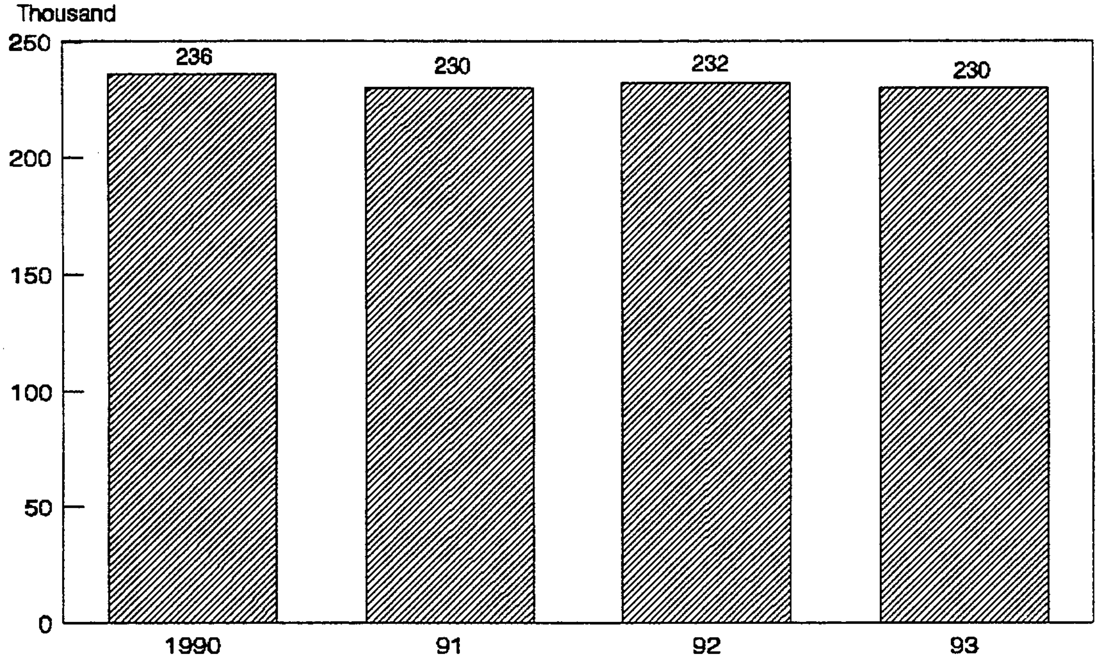
Shelf-keeping Units

Over 230,000 product SKUs (shelf-keeping units) were available in the U.S. retail grocery system in 1993 (Figure 1). If meats, produce, and nonfood grocery products are included, the number of available products increases to an estimated 320,000. But the typical supermarket stocks only 29,000 items.

The gross number of new shelf-keeping units has grown sharply in the last decade. Shelf-keeping units include changes in size, color, or flavorings. During 1980-93, 136,000 grocery products, including 100,000 food products, were introduced. Fewer than 1,000 new food shelf-keeping units were introduced in 1964 compared with nearly 13,000 in 1993 (Figure 2). Only 320 nonfood grocery products were introduced in 1964 compared with 5,000 in 1993. Most of the growth has accrued since 1980. Only 1,500 food products were introduced in 1980. But even at 13,000 units, gross yearly introductions account for only 5 percent of total shelf-keeping units.

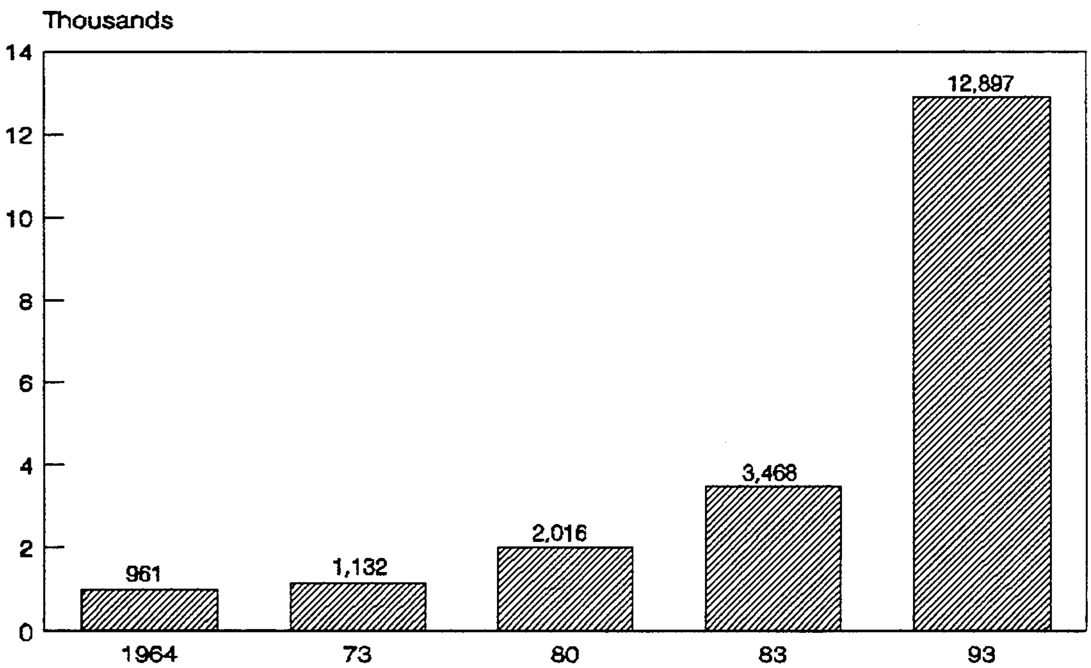
When ERS examined total shelf-keeping unit data, we found that net shelf-keeping units declined in 1991 and 1993 (Figure 3). Despite the introduction of 136,000 new shelf-keeping units, the net change has been negligible over the past several years. Thus, "proliferation" of new food products does not appear to be a problem because most new products fail to push aside established products and gain permanent shelf space. While there are no precise figures, some trade analysts estimate that nearly all new products are not on the shelf after 5 years. Most of this disappearance is due to product failure, but some is by intent. Manufacturers do not intend for every new product to be sold by all retail food stores. Instead, they develop products to reach specific customers in local and regional markets. Also, other new products are meant to have a limited life cycle, such as Easter candies.

FIGURE 1
Total Shelf-Keeping Units Available in U.S. Supermarkets[1]



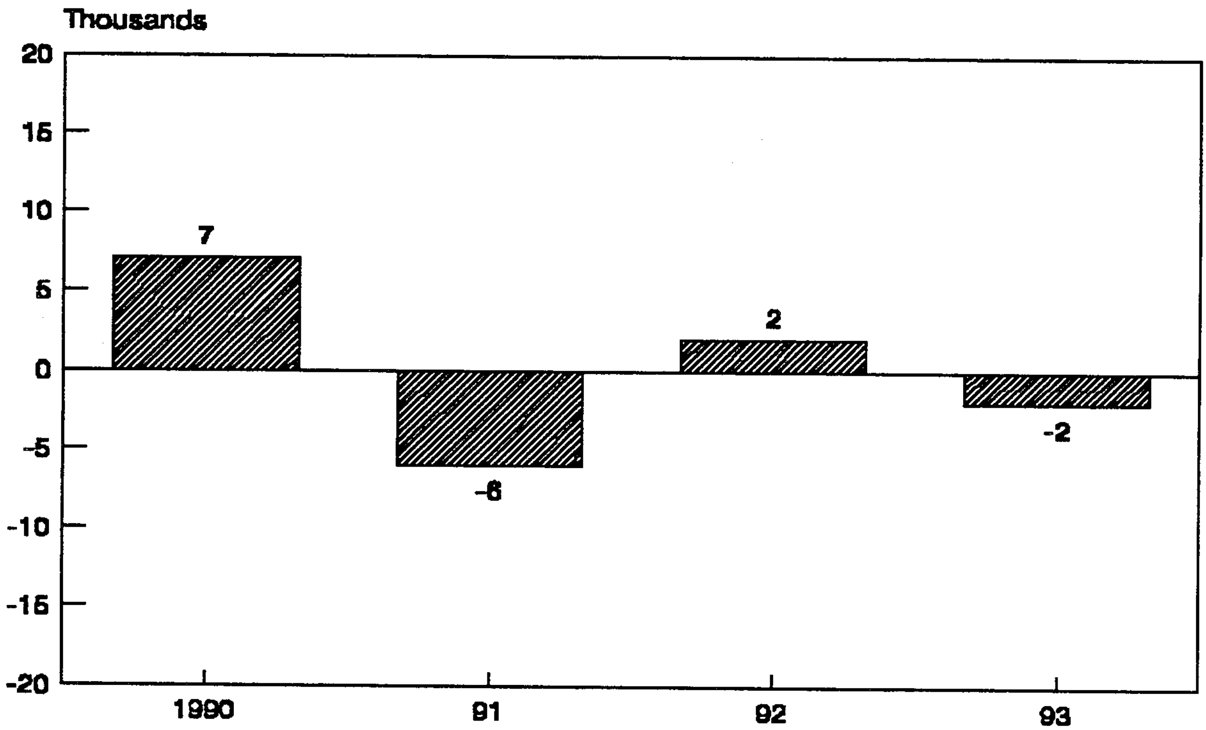
[1]Includes dry groceries, frozen food, and dairy; excludes meats, produce, and nonfood grocery.
Source: ERS.

FIGURE 2
Gross New Shelf-Keeping Units (Food Only)



Source: Trend Publishing Co.

FIGURE 3
Estimated Net New Shelf-Keeping Units (Food Only)



Source: ERS.

New Products Only a Small Portion Of New Shelf-keeping Units

The number of truly "new" products is limited. In 1993, only 24 percent of "new" shelf-keeping units were "new products." Line and brand extensions accounted for 76 percent of new shelf-keeping units (Table 1).

- Of the line extensions, about 88 percent were variety extensions (different flavors, etc.).
- About 4 percent were size extensions, while new packaging accounted for about 5 percent.

"Innovation" Falls Sharply

"Innovation" has fallen sharply since 1989 (Table 2). Firms were asked to rate innovation by the proportion of total introductions that offered consumers significant new or added benefits in at least one of the following areas:

(1) Positioning--new uses
(2) Formulation--a change in ingredient
(3) Packaging--a change in packaging
(4) Technology--a change in process
(5) New Market--previously unmet market need.

The innovation rating for food and beverages has declined since 1989. Only about 1 in 30 food products was truly innovative. Fewer than half used new ingredients or new technology.

Concentration and New Product Introduction

Concentration in sales about matches the concentration in "new" product offerings (Table 3). The top four companies in 1993 accounted for 9 percent of packaged food sales and 6 percent of new product introductions. The top 20 companies accounted for 18 percent of sales and 16 percent of new product offerings (about 8,700). The remaining 15,000 firms in the food processing sector accounted for the other 11,300 new shelf-keeping units.

Table 1

New Food Product Introductions by Type

Type	Units	1993	1992	1991	1990	1989	1988
Total Introductions	Number	3,144	3,013	3,148	3,489	2,918	2,830
New Brands/Lines	Number	711	948	1,069	1,273	918	711
Share of Total	Percent	22.6	31.4	34.0	36.5	31.5	25.1
Brand Extensions	Number	50	35	28	49	55	75
Share of Total	Percent	1.6	1.2	0.9	1.4	1.9	2.7
Line Extensions	Number	2,383	2,030	2,051	2,167	1,945	2,044
Share of Total	Percent	75.8	67.4	65.1	62.1	66.6	72.2
Line Extensions Share of Total by Type:							
Varieties	Percent	88	87	84	85	85	84
Formulations		5	5	4	4	5	4
Sizes		4	3	6	5	4	5
Packaging		3	5	6	6	6	7

Source: Marketing Intelligence Service, Ltd.

Table 2

Food Innovation Ratings

Item	1993	1992	1991	1990	1989	1988
			Rating			
Innovation Rating	3.6	5.4	5.7	7.0	11.5	10.1
			-----------*Percent* -----------			
Positioning	26.2	30.7	29.0	29.3	25.3	31.4
Formulation	44.6	50.8	56.5	54.6	46.7	38.5
Packaging	26.9	18.0	12.1	14.5	23.6	25.1
Technology	0.8	0.5	1.9	1.0	4.4	4.3
New Market	1.5	0	0.5	0.6	0	0.7

Source: Marketing Intelligence Service, Ltd.

Table 3

Share of Market and
New Product Introductions, 1993

Firms	Share of Market	Share of New Product Introductions
	Percent	
Top 4	9	6
Top 8	12	11
Top 20	18	16

Source: ERS and MIS.

Conclusion

- Total shelf-keeping units in the U.S. food marketing system were an estimated 320,000 in 1993. The number of *gross* shelf-keeping units introduced is rising sharply. But the estimated *net* increase in shelf-keeping units has actually declined in recent years.

- New products account for only about a fourth of new product introductions. The rest are extensions. New sizes account for only a small portion of line extensions.

- "Innovation" has fallen sharply in recent years.

- Concentration of new product introductions among leading firms is slightly lower than concentration of total sales.

References

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