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Food Product Proliferation: Part I

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1972. Over 81 percent of the increase was in grocery stores. The remaining increase was distributed among several types of retailing—department stores, drug and proprietary stores, general merchandise and variety stores, retail bakeries, and eating places.

Grocers tripled their employment in the service industries between 1963 and 1972, but these industries still accounted for only 0.24 percent of the retailer's total employment. Grocers also increased their employment in finance, insurance, and real estate from 17 employees in 1963 to 1,006 in 1972. The bulk of this probably was in real estate since most chains have specialized real estate departments that secure desired store locations.³

The Future

Food retailers will continue to add grocery stores as they are able to do so. This has been their principal area of growth, and probably will continue to be in the near future as they build conventional supermarkets and pursue the trend toward segmentation. Retailers are seeking to grow by selling more nonfoods in their grocery stores and by opening separate nonfood retail establishments. This suggests that industry boundaries within the retail trades will continue to be blurred as grocery retailers become general retailers.

Food retailers are likely to continue to integrate into food wholesaling since this is a logical extension of their retailing activities. They probably will continue to bottle milk and manufacture bakery products. However, their total manufacturing activities are expected to continue to decline in importance relative to their other operations. ■

³ Many large chains buy land, obtain zoning changes, arrange for store and/or shopping center construction, and sell the property to an investor with a lease-back agreement for the grocery store. This enables them to control store location and construction without tying up funds in long-term building ownership.

References

1. National Commission on Food Marketing, *Organization and Competition in Food Retailing*, Technical Study No. 7, 1966.
2. *Progressive Grocer*, April 1979.
3. U.S. Bureau of the Census, *Enterprise Statistics: Part I—General Report on Industrial Organization*, for the census years 1963, 1967, and 1972.

The astounding growth in the number of grocery items—most of which are touted as novel by their manufacturers—is a main feature of contemporary grocery merchandising. But opinions vary greatly on whether this food product proliferation benefits consumers. Estimates of its extent tend to vary widely because they are based on different concepts of proliferation. Moreover, most positions on the topic appear to use unstated economic rationales with little or no empirical evidence.

The Concept of Product Proliferation

The term "product proliferation" is rather new and variable in usage. However, the most general concept is that any given item can be categorized according to several criteria or dimensions to create a product "space." There is always room in any given product space for product proliferation to "fill" by bringing out new products aimed at a particular market segment.

There are 10 characteristics that fully specify most food products. They are:

1. *Basic ingredient* or ingredient mix;
2. *Extent or method of preparation* (implies method of preparation to make ready for final consumption);
3. *Visual properties* (shape and color);
4. *Organoleptic properties* (texture, viscosity, toughness);
5. *Flavor* (extracts, spices, and scents);
6. *Packaging* (material, shape and size, type, or opener or applicator);
7. *Time* (of manufacture, of spoilage);
8. *Intended occasion* (cooking ingredient, main meal, side dish, appetizer, breakfast, dessert, snack, ceremonial, supplement, etc.);
9. *Special identity* (ethnic origin, "health" food, low calorie, other dietary characteristics); and
10. *Target group* (age, sex, wealth, vocation, avocation, or other consumer characteristic).

Changing any of these descriptors implies a change in the consumer group at which

the product is directed. For example, if a cereal is presweetened by frosting the flakes, it is then directed at a different potential group of consumers, young children perhaps. Such a change would imply a shift in the identity of close substitute cereals; the "repositioned" product would now compete in the "presweetened, children's" category rather than the "low-sugar, adult" category.

This method also can be used to distinguish "commodity-type" foods from physically "highly differentiated" foods. For example, raw cow's milk reached the urban consumer of the early nineteenth century with only three or four dimensions (color, creaminess, freshness, and possibly added water). Today, milk is more differentiated—it can come in three or more sizes in glass, paper, or plastic containers; it can have three or more butterfat levels, and it can be chocolate flavored. As a result, most grocery stores carry at least a dozen fluid milk items.

Packaging changes may be the most prominent form of food product proliferation. It is certainly one of the most obvious aspects of change to consumers. Packaging permits food manufacturers to offer a nearly infinite gradation of sizes, including multiple units. More importantly, packages can deliver messages to potential users by indicating possible uses or additional occasions for use.

In addition to proliferation due to physical changes, advertising can create more subjective differences among products. Advertising can alter the intended occasion, special identity, or target-group dimensions of an existing product.

The Case Against Proliferation

Critics of grocery product proliferation generally focus on several interrelated aspects that they consider undesirable for consumers.

First, they contend that product proliferation is deceptive because most "new" items being introduced are not really new. Although estimates vary, from 70 percent to 100 percent of all "new" food products are said to be imitations, line extensions, reformulations, or "repositionings" of existing products. Moreover, product such "cloning" often involves a movement toward greater homogenization of product offerings rather than a real increase in variety.

Critics note that brand proliferation erroneously gives the impression of strong competitive rivalry when actually, only a few companies market most brands. One firm, for example, sells ice cream under at least 25 different brand names, and another uses no less than 16 trademarks for its coffee. Some companies pursue proliferation by multiplying the number of items within a single brand line. For example, the leading producer of soup makes 80 varieties under the same trademark, 12 of them combinations containing chicken. In addition to flavor extensions, proliferation occurs because of changes in coloring, shape, packaging materials, package sizes, or method of preparation. One company recently marketed six different brands of presweetened children's cereals that were essentially identical except for shape and flavor. Another now markets 18 different flavors of gelatin, 9 cooked puddings, and 11 instant puddings—all under a single brand.

A second complaint is that product proliferation can be costly. New products often are priced higher than the ones they replace, or variants offered at the same price are produced from lower cost ingredients. Willard F. Mueller, an economist expert on the brewing industry states that most light beers are cheaper to produce but sell at "premium" beer prices. He concludes that "selling a product that costs less to make at a higher price is the ultimate achievement in advertising-created product differentiation."

A third charge is that product proliferation is wasteful. Introductory advertising is expensive and possibly excessive, partly because so many close substitutes already exist. When a new product appears, rival brands usually boost their advertising and promotion budgets; thus, much new product effort is self-cancelling. The problem is compounded because so many new items fail within a short time. Product proliferation may be shortening the life cycles of established products. Product proliferation

often is used to exploit narrow market segments such as children, the elderly, or those interested in "natural" foods. This can mean a substantial loss of economies of scale of production. In addition, since most manufacturers advertise through mass media outlets (television, magazines, etc.) many consumers receive the advertising message who are not potential customers. This leads to increasingly off-target advertising.

Today, many introductory advertising and promotion campaigns require expenditures over \$10 million. In addition, coupons and free samples are distributed to tempt consumers to try new products. Retailers generally must be offered inducement to reallocate retail space from existing to new products, and assume additional inventory and control costs. Product proliferation has been a prime cause of the physical expansion of supermarkets. For example, pet foods now take an average of 210 feet of shelf space, an increase of 80 percent since 1970.

Another criticism of product proliferation is that it makes rational choice between competing products more difficult. Food shoppers compare the prices and quality of alternative products before making choices, but as the number of alternatives available increases, those choices become more difficult. The number of new food products is so large that evaluating all of these products by trial consumption is literally impossible for individual households. So many advertising messages are available that consumers may base product selection on emotive images and brand identification to make selection easier—this seems especially true of poorer and less educated consumers. Even the physical effort required to shop in large stores with 15,000 items may inhibit some consumers from making all the necessary comparisons. This may be one reason that consumers are making more use of "convenience" and limited assortment stores which normally have less than 1000 items.

The final criticism leveled at food product proliferation is that it is anticompetitive. Rather than striving to offer products at a lower price or higher quality, many manufacturers prefer to sell foods of a different quality. Physical differentiation is often the basis for image advertising, which emphasizes minor or imperceptible differences among brands. Those firms able to

first offer a full, extended line of items gain competitive advantages over rival firms that would like to market the same product. A full-line producer can crowd out single-line producers from the market shelves. Also, producing an entire line from scratch may be difficult, especially for smaller firms. Thus, product proliferation can raise barriers to entry. If this happens, over time, seller concentration may increase and the extent of competition decrease. The higher profits that result will be used for cross-subsidizing more extensive "product development" and "advertising investment," thus closing the circle.

The Case for Proliferation

In general, product proliferation is viewed by manufacturers as favorable to consumers. They believe that novelty itself is of value and that new products broaden the range of consumer choice.

Manufacturers feel that increasing segmentation is the natural outcome of increasingly sophisticated marketing techniques. These techniques aid in the "discovery" of new consumer groups and the satisfaction of previously unknown consumer desires. The fact that some consumers are willing to pay the extra costs of new product development and promotion costs is considered sufficient justification for proliferation.

While concerned about media advertising clutter and the necessity of increased repetition, sellers profess that brand identification helps simplify consumer choice by ensuring product quality. The high level of entry via product proliferation and the fact that so many products "fail" is taken as evidence of strong competition and particularly of low barriers to entry and exit. Occasionally, however, food manufacturers cite product proliferation as an anti-competitive practice in private antitrust suits. Perhaps the ultimate argument for business people who engage in product proliferation is that it is necessary for their survival.

The second part of this article, to appear in the summer 1980 NFR, will present alternative estimates of the extent of grocery product proliferation and describe the results of a recent empirical test of the determinants of food product proliferation. ■