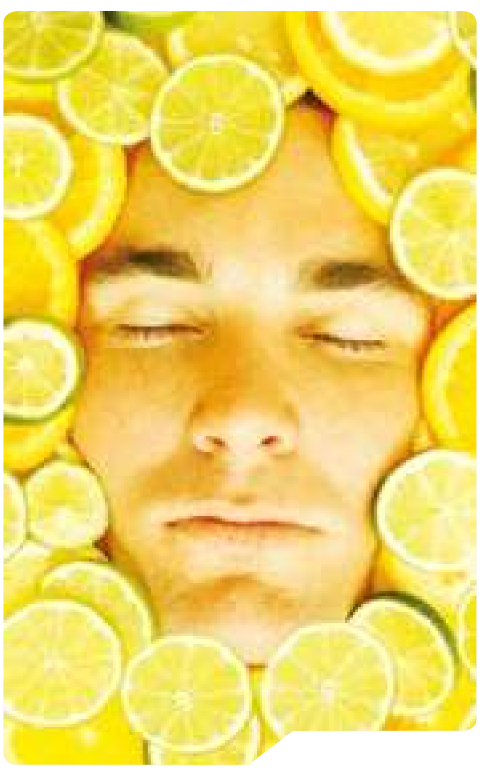
Short-term thinking undermining innovation

The latest rankings in the **Brand Finance 'Brand 50'** report show a food and drink industry struggling to cultivate new ideas and products, which will enable them to gain an advantage in a changing market.



Nestlé retained its position as the most valuable food brand in the world, yet its estimated value has fallen 17% between 2016 and 2017 as the strength of its brand – and by default, its products which include Kit Kat, Yorkie and Rolo – has declined. Other iconic confectioners such as Mars and Hershey's as well as Danone, Kellogg's, and Kraft, which made-up the rest of the 'top 4', have also seen deterioration in their value during the last 12 months. In the drinks category, Coca-Cola and Pepsi, which occupied the top two spots, declined in value by 10% and 14%.

Living a healthy lifestyle and being conscious of your body are trends that continue to impact the food and drink market. Alternative products promoting a variety of interlinked qualities such as 'health', 'natural', 'fresh' and 'free from' have disrupted the market and many established brands haven't yet found a way to take on this challenge.

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The right kind of innovation is the key says Lars Herrem, regional director at Nigel Wright Group, Europe's largest specialist consumer industry recruiter: "Health and obesity is one of the biggest challenges in the food and drink industry and some companies are losing perspective when it comes to innovation and new products which, despite having a lot of time and money

invested in them, don't fulfil the market potential to meet the diverse needs of consumers or adds to the bottom line."

A recent example of this was Coca Cola's 'One Brand' label campaign which failed to live up to expectations and has harmed the value of the brand. This behaviour, Herrem explains, whereby a new product's 'innovative' qualities are exaggerated and used as the basis from which to launch it into the market is common in the industry.

Broadly speaking, there are two approaches to product development: product enhancement and new product creation. In the main, companies tend to classify both approaches as innovation. Yet, as Herrem argued, the way in which innovation is defined often determines how successful it is: "The most successful innovators are the ones who focus innovation efforts on developing new products where product enhancement does not distract time or investment away from the true innovation process."

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It is no surprise that during 2017 there has already been a major move from the big players to realign products to the healthy living trend. Nestlé has significantly reduced the sugar content in its Kit Kat and Rowntree brands and plans to drop at least 10% of sugar content for all products in its confectionery range. Furthermore, both Mars and Cadbury have indicated that smaller pack sizes and even smaller chocolate bars will appear soon. And in investing in leading health industry companies Innocent and Alpro, Coca Cola and Danone have already made positive moves to divest their portfolios.

There is, of course, pressure on companies to minimise the costs that will be incurred when a sugar tax is implemented in the UK in 2018 and while this is a positive catalyst to drive changes in the industry, Herrem warns that what we've seen so far from big brands are only examples of product enhancement rather than innovation: "Sugar is contributing towards making people obese but the problem is sugar tastes quite nice; so, this presents the sector with an opportunity. The brands that will succeed are those that find a way to take sugar out of people's diets but still offer them interesting and exciting propositions that don't make them feel like they must go on a diet. New product creation, therefore, is essential in the long term."