Five Commandments For The Next Industry Leaders

George Young, founding partner, Kalypso

This month, the food and beverage (F&B) industry is embarking not only on a new year, but the dawn of a new decade—one driven by the demands of a new consumer reality [1] focused on value, food safety, health and wellness, and environmental sustainability.

Near-term, the industry faces a post-recession economy in which the ability to adapt will separate those businesses that soar into success from those that tiptoe into fragile recovery. However, true leadership in the new decade will not be dictated simply by how companies navigate the post-recession road to revitalization.

The real leaders will be those that break exciting new ground—either as **innovators**, who focus on production innovation and development, or **acquirers**, who are smart in identifying and acquiring strong, successful brands.

What will the F&B leaders of 2010-2020 look like, and what will take them to the top? Here are five commandments businesses need to embrace if they are to emerge as the industry's leaders.

Commandment #1: Know Thyself

It sounds simple, but the identity crisis is a major obstacle for many companies.

Now is the time to ask the heavy-hitting questions: *What are we good at? Who do we want to be? What are we capable of*? *Are we innovators? Are we acquirers?* Answering these questions requires insight into not only the company's product offerings, but also its customers, innovation process, and the skills and culture of the team responsible for leading the firm's innovation strategy. Only then can an F&B company determine its long-term goals and how to align the business to get there.

Commandment #2: Align Innovation with the Business

Success is based on the ability to align a company's innovation strategy with the overall business strategy. That's equally true whether a firm is building shareholder return through product development or brand acquisition.

For example, take J.M. Smucker. The company supports its business strategy for dominating a range of F&B markets with an innovation strategy that focuses on acquiring leading brands, rather than relying primarily on internal development. Over the past six years, Smucker sales have grown five-fold through acquisitions, with shares up 38 percent. The company holds top market positions across 10 different categories. Thus far, Smucker's acquisition of Folgers has seen growth in the high single digits, all while cutting the price of coffee for cash-conscious consumers.

Commandment #3: Remember Breakthrough Innovation

Brand extension and variety help build the business, but breakthrough innovation holds the biggest carrot for the next leaders. Such innovations in the F&B industry today are few and far between. The challenge is to go beyond simply responding to consumer insights and instead foster a "push" vision—bringing to market a new category-creating product that consumers don't yet know they want. Investing in these ideas is where new ground will be broken.

The introduction of Red Bull is a great example. It created new demand among consumers, launching an energy drink market, which it now dominates with 70 percent of the market share and over a billion cans sold throughout more than 100 countries each year. While it is difficult to predict what the next breakthrough will be, companies need to refer back to Commandment #1 and ask, "*What are we good at?"*

Commandment #4: Create Differentiation with Product Sourcing and Composition

The new consumer is more actively engaged in understanding the food and beverage products they are purchasing—making decisions based on what's good both for them and for the environment. They not only worry about whether a tomato is organic or if their milk is free of the rbST growth hormone, they also care about how far a food item has traveled, by what method, and how much fuel was required.

The first step to addressing these consumer concerns is aligning sustainability practices with business practices. However, the next F&B industry leaders will be those who go further and begin demonstrating how local suppliers play a part in their sourcing strategy.

One innovator in this arena is Chipotle Mexican Grill, a QSR chain of over 800 restaurants. It now introduces bulk vegetable shipments from local farms into its supply chain during the peak growing season. Such variable sourcing will require F&B companies to modify their supply chain processes and the systems supporting them, but it can provide a powerful differentiator to consumers concerned about their carbon footprint.

Commandment #5: Participate in Interactive Labeling

The new consumer is also working to become more informed—turning to labels, the Web, menus, and other resources to understand what they are eating and drinking, how healthy it is, and where it came from. That is why simply having accurate label information that complies with federal government mandates will no longer be enough to reach these customers.

The next generation of F&B leaders need to look at interfacing directly with the consumer by providing full, interactive traceability information via labeling, websites, and even mobile phone communications. This interactive labeling will emerge as a competitive differentiator in the next decade. Leading companies will provide consumers with the ability to access to up-to-date product information, such as where it was manufactured, recall status, and validation of label claims such as “allergen-free.”

By getting closer to this new consumer, F&B companies can create the demand and loyalty that will lead to leadership in the next decade.

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