Brand Leadership and Product Innovation as Firm Strategies in Global Food Markets

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Abstract
A series of case studies focusing on firms with leading market positions of different types (large public, medium private, and international cooperative) is used to understand motivations for product innovation and brand leadership. The cases suggest that process innovation (organizational efficiency) support product innovation as firms implement strategies to differentiate their products. Response to changing demand is a disciplined response where firms exploit their specialized resources using superior product knowledge and branding power. Leadership positions are maintained not only by responding to changing demand but steering the market using innovative products and consumer education.

Introduction
The global food industry is changing in ways that require even the most seasoned and skilled food manufacturers to rethink their long-term strategy. Global retailers are capable of upsetting the fortunes of even the largest manufacturers with iconic brands. The power of the retailers is now placing greater pressure on manufacturer's margins. Moreover when manufacturers are unable to meet specific quality demands of large retailers, they may be unable to achieve adequate distribution levels for their products.

Branding and the corporate image of brands has been the lifeblood of the largest food manufacturers. In the 1980's, leading U.S. food manufacturing firms could easily differentiate products using branding strategies supported by significant advertising expenditures. In the United States, breakfast cereal manufacturers were highly successful in using marketing campaigns with aggressive brand promotions and intensive media advertising. The lack of new entrants and private label manufacturers in the cereal market created a tight oligopoly market structure raising further questions about sources of profits and nature of firms pricing behavior (Reimer 2004). Marketing and promotion expenses constituted 30 percent of cereal manufacturers price while gross margins exceeded 40 percent (Cotterill 1999). While this strategy constituted successful marketing, it hardly counts as innovation. Even as prices of cereal rose twice as fast as of all food products little can be said of added benefit for consumers (Gejdenson and Schumer 1999).

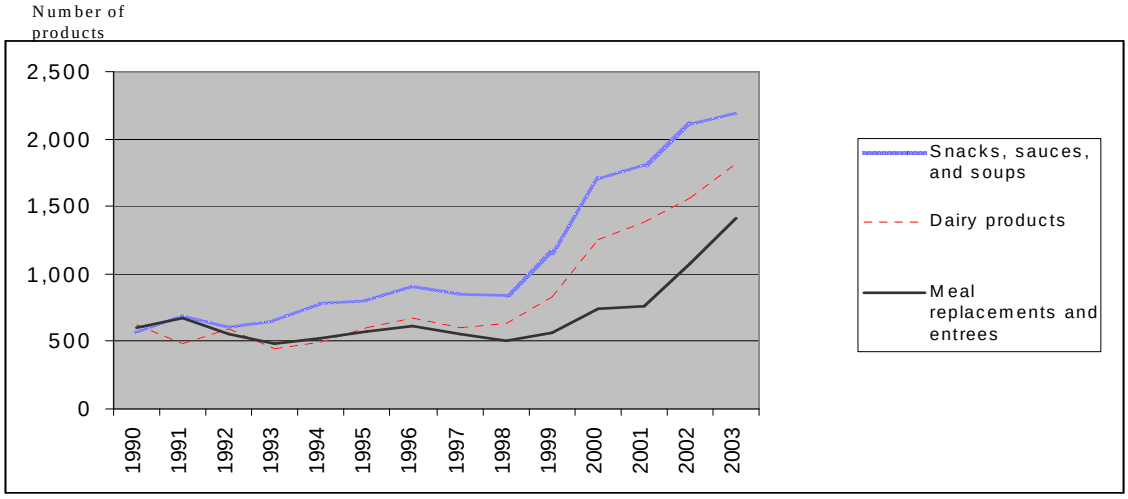
Branded food manufacturers are now facing a different environment from previous decades. The supplier's ability to respond to changing demands is a key factor for attaining success in global food markets (Regmi and Gehlhar 2005). As private labels grow globally, the space available for manufacturer brands dwindles. The survival of a manufacturer brand depends increasingly on being a leader. Suppliers have the option of becoming low-cost flexible manufacturers for private labels or becoming a manufacturer of their own branded products taking on responsibility for and risk of product innovation. Careful long-term strategic planning is critical for branded manufacturers in an environment where sustaining superior returns and maintaining leadership becomes more challenging.

There has been a sharp increase in new food product introductions globally since the late 1990's for major branded food categories (figure 1). However, little is known about the motivation behind product innovation or new product introductions. Traill and Meulenberg (2002) conducted a study of European firms concerning the way in which they innovate, their motivations, and their orientation towards product and process innovation. They conclude that

the “demand-pull” versus “technology push” debate is too simplistic. Russo, Cardillo, and Perito (2003) find that shifts in consumer preferences alone cannot explain higher rates of product innovation in the Italian fruit drink industry. Although the ability of offering consumers new products with special attributes is considered one of the most important competitive advantages in global food markets, innovation-based strategies are risky with a high number of unsuccessful new products. Russo *et al.* suggests that new practices adopted by retailers for managing risks facilitate innovation logistics with manufacturers, which in turn lowers costs of product failures. In such cases, profits from innovation more than offset risks of unsuccessful new products.

Branded food manufacturers face the dilemma of responding to changing consumer demands while bearing the risk and responsibility of their image and reputation. New products serve as a means to differentiate products from competitors, aiding a firm to attain product category leadership. While category leadership is important for achieving higher margins, a company’s brand image alone is no longer sufficient for food manufacturers to remain competitive in an environment of fast-moving retail giants.

Figure 1. New Food Products Introduced Globally



Source: Productscan,

Branded food manufacturers face a constant threat of low cost imitators. The reason product imitation is an imminent threat is that most resources, including physical inputs used in food manufacturing, can be acquired by competitors. However, a truly differentiated product is one that is not easily imitated and sold at the same price in the same market. Firms capable of differentiating their products are more likely to possess specialized capabilities or special resources that give them a sustained advantage. In addition, such firms are likely to be cautious in shifting their product mix and may prefer to continue to exploit their unique capability that is not easily replicated by competitors.

Growing consumer sophistication for convenient, healthy, environmentally friendly foods are creating greater segmentation in global food markets. Mass production is being replaced with mass customization. This is taking place as suppliers along the food chain position themselves according to what, how, and for whom they produce. From this viewpoint, the changing environment presents opportunities for branded food manufactures implementing successful product differentiation strategies.

In this paper, we use three case studies to illustrate the importance of how a firm's unique capabilities as an innovator shape its product differentiation strategy. To be a successful innovator, a firm must have competencies in consumer marketing, product innovation, and process innovation. Product differentiation may give firms a competitive advantage as differentiated products possess unique attributes and require the firm to develop unique capabilities, both of which are not easily duplicated by competitors. A review of the basic concepts regarding firm orientation is provided in the next section. This is followed by description of the case studies conducted and a summary.

Firm Orientation Concepts

Traill and Meulenberg (2003) suggest that every successful firm has a dominant "orientation" guiding the company culture and its behavior. Based on case studies they group firm orientations into three basic types: product, process, and market orientations. Market orientation is where a firm's preeminent goal is producing products according to what the current market wants. A firm with a dominant orientation toward the market emphasizes the importance of gathering market information and analyzing current trends (table 1). Firms with a dominant process orientation stress the importance of efficiency and flexibility within the organization and its links with partners. These firms readily adopt technologies to improve the flow of information to improve efficiencies throughout the organization. Firms having a product orientation specialize in product quality making product innovation their primary goal. Their success is driven by the uniqueness of their products. Using this framework, Traill and Meulenberg examine various hypotheses using case studies of food manufacturers.

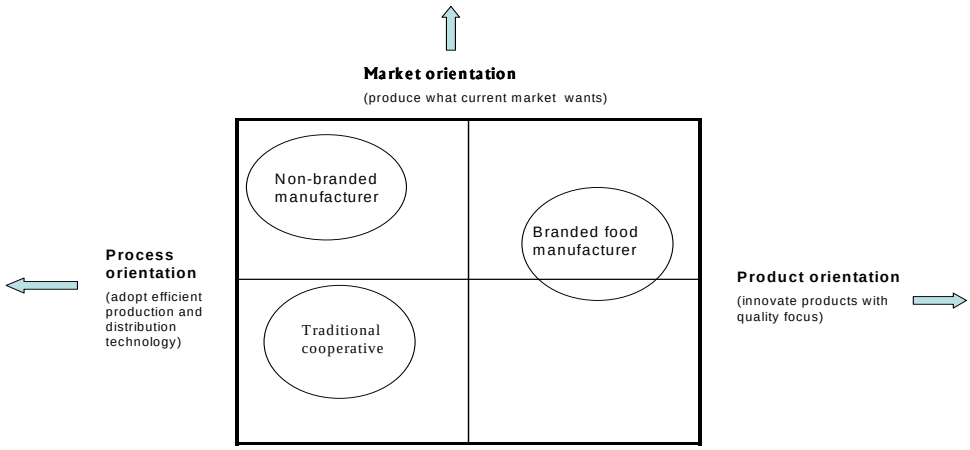
Table 1. Firm orientations and description

Orientation	Primary emphasis of firm	Examples of firm activities
Market	Gain high level of expertise in gathering and analyzing current market trends	Conduct market surveys Consumer testing of new products
Process	Readily adopts processes for reducing organizational boundaries increase efficiencies in physical and information flows for reducing costs in production, distribution, and financial transactions	Implement cutting-edge information services Upgrade to state of the art equipment Establish efficient networks with partners
Product	Extensive product knowledge to enhance quality Stress creativity in products Strive for superior quality	Conducts and monitors international R&D Develops innovative speciality products or functional foods using sophisticated ingredients

Terminology adopted from Traill and Meulenberg, 2002

A dominant orientation is determined by the type of firm (ownership or size) and the markets they supply. For example, manufacturers without their own brand names are more likely to be process oriented where their success depends upon efficiency, speed, and flexibility in production and distribution. They closely coordinate their activities with the market and have the capability of responding rapidly to market changes. Branded manufacturers with strong product orientation use their creativity and foresight to develop innovative products. The traditional cooperative with a focus on using its member's raw material is less product or market oriented than other forms of ownership. Rather, cooperatives place a greater emphasis on process innovation. A graphic representation of orientations and competitive pressures acting on food suppliers are shown in figure 1. All firms face competitive pressures that can shape their strategies. When competitors in the same industry adopt new technologies for improving efficiency, a firm experiences pressure either to adopt the same technology (leftward direction) to remain viable or to differentiate its products from competitors (rightward direction). There are also competitive forces pressuring firms to produce for the current market (upward direction).

Figure 2. Hypothesized firm orientations and competitive pressures acting on firms



There are shortcomings associated with each of the dominant orientation that dictate strategic behavior of firms. If a company is driven only by what the current market wants, then its products may lack innovation and novelty since a product that a consumer already wants is not new and innovative. Firms spending resources pursuing consumer fads risk the problem that such products may not be profitable as the firm strays away from core competencies, ultimately abandoning an inherent advantage for producing its traditional products. A recent example is the low carbohydrate diet where bakeries abandoned their specialty in bread making only to find that the fad is short lived. Food manufacturers focused on being highly efficient may also lack creativity to produce differentiated and innovative products. Such firms become imitators rather than innovators, running the risk of entering a "race to the bottom" with their competitors using

cutthroat pricing strategies. At the other end of the spectrum are firms that are highly innovative using their unique talent and expertise, but ignore market signals. These firms run the risk of "running ahead of the market," thereby innovating themselves into oblivion.

Firm Resources and Sustainable Competitive Advantage

There are other considerations beyond the nature of firm ownership and the types of markets supplied that will direct a firm's strategy. Every firm can be viewed as a collection of resources whose form of productive use depends on it managers' visions and perceptions (Wilk and Fensterseifer 2003). A firm's unique resource base influences its strategies. Heterogeneity and imperfect mobility of resources are what makes strategic resources "a cornerstone of competitive advantage" (Peteraf 1993).

Firm's that recognize their specialized resources are less likely to shift from one product to another as the market changes. They are reluctant to chase the market because it is in their interest to specialize in products that make use of their specific expertise and competencies, which they regard as strategic resources. A firm must make strategic decisions based on its inventory of specific skills, technologies, and natural resources. Firms recognizing strategic resources are better positioned for innovating and sustaining economic rents (Mahoney and Pandian 2001). They are able to take on risks of new products which if successful face lesser threat of imitation when products are supported by strategic resources.

Firms that do not recognize possession of a strategic resource are more likely to make decisions based solely on what the market wants. Such manufacturers may shift from one product line to another using the same resource base. Although such firms are highly responsive to the market, they may never achieve sustained economic profits.

Small and medium sized enterprises (SME) may not have sufficient resources to conduct formal research and development activities. For this reason, companies may by-pass the product development route and opt for private label manufacturing where retailers dictate their specifications of products. Growth in food service activity, an alternative marketing channel, is persuading some food manufacturers to make it a core business rather than promote their brands to retailers. However, there are small- and medium-sized firms that are part of branded niche markets where firms seek more profitable opportunities. These firms perceive themselves as having a unique ability or owning a specific resource that is strategic to producing differentiated products. This might include craftsmanship in baking, a geographic brand name, or a natural resource. Similarly, large corporations with a historic reputation may view their brand image as a strategic resource. Such factors provide options for food manufacturers in the direction they pursue.

Method for Case Study Series

Case studies are an effective tool and a practical means of understanding firm behavior and strategies. The approach has been used for testing hypothesis as demonstrated by Traill and Grunnert (1997). They examine 12 European food companies ranging from small, to large,

public, private, and cooperative type firms. A problem with the case study series is that the selected firms may not be representative of the industry. Another critique is that the case study findings are subjective in nature. Direct interviews or surveys may provide a different perspective of how firms view themselves from what their actions might suggest. For example, firms are often inclined to make statements that quality is of utmost importance to their company when the meaning of quality may vary for each type of firm and industry.

In this paper we focus only on companies that have shown clear leadership positions in one or more product category in global food markets with a goal to better understand motives for innovation and brand leadership. A brief description of each company is provided in the Appendix. Information for each company is drawn from two sources: direct interviews with company representatives and data from Euromonitor International, a provider of global business intelligence and market analysis. Interviews were conducted in a semi-structured format. In the case of the H.J. Heinz Company there was a panel of interviewees consisting of the Chief Quality officer, the Vice President of Global Innovation and Quality, a National Accounts Manager for special markets, and Senior Manager for Government and Regulatory Affairs. The CEO was interviewed in the case of Snyder's of Hanover. For the case study of the Fonterra Cooperative Group an interview was conducted with the Director of Business Development. In all cases company officials were given time to say what they thought was important from their perspective.

Case 1: Large global company with iconic brand image

Due to potential loss in manufacturer's brand equity, large public food manufacturers face the greatest threat from the expansion of private retailer brands and the increased power of the retail sector. The H.J. Heinz Company has a long tradition in the U.S. market of being a number one brand, retaining a dominant position in the U.S. and the world market. However, as with many large food manufacturers, the growing share of private labels is presenting a challenge (table 2). In response, rather than relying solely on its long held brand image, Heinz is making a strategic decision to invest more heavily in differentiating itself further from private label offerings by improving the quality of its products to attract more quality-conscious consumers.[1] H.J. Heinz might easily be viewed as a company with a dominate product-orientation based on its Chairman's statement "I am convinced that quality and innovation are the way forward for Heinz."

Heinz: Product Innovation Activity

Much of the innovation has been focused on what is considered core products where it has strong existing competencies and expertise. New product development constitutes an important part of Heinz's growth strategy. Product introductions are focused on meeting consumer's demand for

[1] Private label offerings are an increasing challenge in the ketchup market, growing 6 percent between 2001 and 2004, accounting for 9.5 percent of the world market, or second largest share world wide (Euromonitor International).

convenience, health, improved taste, and lifestyle changes. The company has created attractive consumer products by offering packaging innovations and the promotion of the health benefits of its existing products. The health dimension is critical factor in its product differentiation strategy for Heinz.

There are numerous examples of recent product innovations. The company introduced a new range of soups, offering more nutritious contents with alternative ingredients with reduced salt, sugar, and fat content. Various "specialty" soups were introduced in the United Kingdom, such as "Spicy Butternut Squash" and "Mediterranean Tomato and Bacon." Other examples are the first microwaveable French fries tasting like restaurant fries. This product is a strong complement to its ketchup. The most successful package innovation in the United States was the Heinz Easy Squeeze ketchup designed in an upside down ketchup bottle for faster and less messy dispensing. This packaging was successfully launched in 19 European countries as well as in the U.S. and the Canadian food service. In recent years, the company has also made substantial packaging innovations in other food products with a conversion from traditional cans to more convenient solutions in single-serve microwavable packaging.

Heinz: Process Innovation Activity

Heinz established four imperatives to achieve better performance: drive profitable growth, remove the clutter, squeeze out costs, and measure and recognize performance. By "removing the clutter," Heinz seeks to eliminate inefficiencies and reduce complexities of product portfolio and supply chain. The company implemented a major restructuring initiative named "Streamline" aimed at reducing overhead costs. Heinz has also made a series of divestitures in an effort to refocus its business more closely on its core products. The company is focusing on its top 15 "power brands," which account for 60 percent of total sales. The "squeeze out the cost" initiative has mainly focused on promotional expenditure as new systems have been implemented to better track promotional spending. Through a new global procurement initiative led from World headquarters in Pittsburgh, Heinz is aiming to cut costs in both direct and indirect sourcing activities.

Heinz: Marketing Activities

The company launched its first national foodservice advertising campaign, using the slogan "Insist on Heinz." The objective of this campaign is to encourage consumers to insist on Heinz Ketchup, when it is not available in fast food restaurants or other food service establishments.

Table 2. Heinz's Position in U.S. and World Ketchup in 2003

U.S. market Brand	Company	Share	World Brand	Company	Share
Heinz Ketchup	Heinz Co, HJ	58.9	Heinz	Heinz Co, HJ	27.6
Hunt's Ketchup	ConAgra Foods Inc	16.3	Kagome	Kagome Co Ltd	5.7
Del Monte Ketchup	Del Monte Foods Co	5.1	Baltimor	Baltimor Holding ZAO	4
Private Label	Private label	14.5	Hunt's	ConAgra Foods Inc	3.4
Others	Others	5.2	Del Monte	Kikkoman Corp	2.1
Total	Total	100	Del Monte	Del Monte Foods Co	2
			Calvé	Unilever Group	1.4
			Hellmann's	Unilever Group	1.4
			Felix	Orkla Group	1.3
			Hela	Gewürzwerke Hermann Laue	1.2
			Others		49.9
			Total		100

Source: Euromonitor International, 2005

Furthermore, to take full advantage of its strong position in the foodservice market, the company has created “Group 57”, a culinary expert team that supplies customers with new ideas and support. Heinz invests in consumer education by promoting the health benefits of lycopene in tomatoes. Heinz’s advertising expenditures have also increased in recent years, mainly due to the launching of a new product, Ore-Ida extra crispy fries in the United States. In response to growing competition, especially from private labels, Heinz introduced an Every Day Low Pricing initiative across many product groups. The aim of this initiative is to fight off competition by creating a positive value impression among consumers.

Case 2: Small and medium private enterprise (SME) with branded products

Small- and medium-sized enterprises are often involved in niche marketing. Niche marketing typically involves a supplier selling a differentiated product catering to a focused, target group of customers. The consumer target market may have a certain romantic loyalty to the product or to the brand name. Niche marketers can often capitalize on positive feelings that a group of consumers may have about a certain region to which they trace their heritage. This is one reason why Snyder’s of Hanover can compete with the Frito-Lay brand (owned by PepsiCo) in the snack food market while attaining a respectable market share in both the U.S. and the global market (table 3). Innovation, in general, is a rather elusive concept for an SME. This is because innovation can involve major, expensive changes or subtle changes such as extensions to existing product lines. In response to changing market conditions, SMEs need to adapt, develop new ideas, and improve existing products.

Snyder’s of Hanover considers itself a medium-sized niche company where product quality and innovation are key to remaining a leader. Although the company has a long tradition of pretzel making, there are many types of pretzel-like products sold under company’s name (see Appendix). Snyder’s of Hanover has found ways to adapt to market changes and pursue markets outside the United States for future growth.

Table 3. Snyders of Hanover position in U.S. and World Pretzels in 2003

Company	Brand	U.S. share	Company	Brand	World share
Frito-Lay Co	Rold Gold	31.5	PepsiCo Inc	Rold Gold	21.4
Snyder's of Hanover	Snyder's of Hanover	27.0	Snyder's of Hanover	Snyder's of Hanover	17.9
Utz Quality Foods Inc	Utz	5.0	Lorenz Bahlsen Snack GmbH & Co	Salzletten	6.3
Mars Inc	Combos	3.6	Utz Quality Foods Inc	Utz	3.3
Bachman Co	Bachman	2.7	Mars Inc	Combos	2.4
Herr Foods Inc	Herr's	2.3	Intersnack Knabber-Gebäck GmbH	Stickletti	2
Old Dutch Foods Inc	Old Dutch	1.6	Bachman Co	Bachman	1.8
Jay's Food LLC	Jay's	1.5	Herr Foods Inc	Herr's	1.5
General Mills Inc	Gardetto's	0.5	Ancel SA	Bretzels	1.4
Private label	Private Label	6.3	PepsiCo Inc	Parkers	1.2
	Other brands	18.0		Other brands	40.8
Total	Total	100.0		Total	59.2

Source: Euromonitor International, 2005

Snyder's of Hanover: Product Innovation Activity
According to the CEO, the company's strategic direction is in producing differentiated products, whereby market niches are filled with innovative products. Snyder's is currently producing a wide array of distinctive products for national distribution in the United States. The company is reluctant to enter product markets in snack foods where other competitors can easily replicate products. The CEO used cheese curls as one example where the snack food industry is fiercely competitive with the growth of private label manufacturers.

Product quality, a very important consideration for Snyder's, is described in terms of product freshness, texture, and flavor. These attributes of the pretzel are all quality components that the company is constantly improving. The CEO attributes part of the company's success to improved pretzel quality through its oven baking technology. Conventional ovens yield a high variance in moisture content, making pretzels unstable in storage. The company acquired specialized baking ovens which provide consistent moisture content in the baking process. Simply finding the right ovens is considered research and development for Snyder's of Hanover.

Snyder's of Hanover: Process Innovation Activity

Like many small- and medium-sized firms, the company has limited scope for achieving major cost reductions in production and distribution. The speed and flexibility of taking an idea to a commercially viable venture is key to the company's success. At Snyder's of Hanover, the development process for products is in many ways ad hoc, but very effective for a medium-sized food company. The CEO says there are three rules to ensure product success, but then states "unfortunately nobody knows what they are." Flexibility is important to bringing a good product to fruition. Ideas or concepts are "tossed around." The process of generating new products is done through informal means where a research and development process committee meets once a month consisting of four of five people, but always includes someone from the top management. The company employs, in the CEO's description, a "Marco Polo" approach of traveling, carrying ideas home and keeping and improving on the good ideas. If a new concept does not fit with existing competencies it is discarded.

Snyders of Hanover: Marketing Activities

The company is open to consumer suggestions and has its own online club called "Pretzel Eaters Club." In addition, it conducts polls to get consumer reactions to various products. As an example, a recent poll asked consumers how they prefer to eat Snyder's pretzels. This is important since the company is looking for better complements, such as dips, for its pretzels. Moreover, it also helps Snyder's design the most appropriate type of pretzel to accompany a particular dip. However, the company carefully screens suggestions by evaluating how potential concepts and products fit with existing capabilities.

Snyder's of Hanover is cautious to not expand into new products that do not fit with its existing production capabilities. The company finds focus groups helpful for determining whether a new

product concept is viable prior to making major capital outlays. The company offers an extensive line of new product extensions that fits with its existing pretzel category. A point emphasized by the CEO is that the company's philosophy is to be open to suggestions but not let consumers take the company in directions it does not want to go.

Case 3: Large cooperative using R&D and international ventures

A handicap of traditional cooperatives is their orientation toward producers and lack of consumer awareness. However, this is changing as cooperatives discover more suitable market-oriented strategies and increasingly operate in global markets. Although capital constraints have been a primary barrier to internationalization, risk aversion is one of the most important factors discouraging the extent of internationalization (Buccola, Duraham, Gopinath, and Henderson 2001). The Fonterra Cooperative Group has successfully internationalized, breaking away from most models of traditional cooperatives. Its two distinct businesses structure, specialty ingredients and consumer milk products provides a hedge against fluctuating international dairy prices. Fonterra is a supplier of both consumer product and dairy ingredients. The consumer business, New Zealand Milk, was renamed in 2005 becoming Fonterra Brands. The name change was made to better reflect the company's core brand business. Fonterra is now pursuing a strategy called 'Winning Through Brands' where the Fonterra name and product brand will appear on packaging as an endorsement and its worldwide reputation as a leader in dairy.

Fonterra uses its expertise in dairy technology for creating value from milk as both ingredients and consumer dairy products. It is a leader in several country markets for branded consumer products such as milk, cheese, powder milk, butter and yogurt (table 4). Although, Fonterra is ranked 14th in sales of consumer dairy products, Fonterra is ranked as the 6th largest dairy company in the world with more than two thirds of its sales in dairy ingredients. In addition, Fonterra supplements its New Zealand products with milk supplies from foreign affiliates to assure a stable supply of products for its customers.

Table 4. Fonterra's position in selected country and product categories

Chile, Yoghurt	Market Share	Venezuala, Long-life UHT milk	Market Share
Fonterra Co-operative Group	43.7	Fonterra Co-operative Group	50
Nestlé SA	37.2	Parmalat Finanziaria SpA	44.5
Parmalat Finanziaria SpA	5.8	Alpina Productos Alimenticios SA	4.1
Sodiaal SA	3.6	Lácteos Los Andes CA	1.3
Calan SA	2.8	Others	0.1
Private label	0.4	Total	100
Others	6.5		
Total	100.0		
Hong Kong, Powder Milk		**Taiwan, Cheese**	
Fonterra Co-operative Group	36	Fonterra Co-operative Group	47.6
Friesland Coberco Dairy Foods	34.5	Kraft Foods Inc	17.8
Nestlé SA	20.5	Lactalis, Groupe	3.6
Private label	5	Friesland Coberco Dairy Foods Holding NV	3.6
Others	4	Land O' Lakes Inc	3.0
Total	100	Bega Co-operative Society Ltd, The	2.8
		Unibel SA	2.0
		Others	19.5
		Total	100.0

Source: Euromonitor International, 2005

Fonterra: Product Innovation Activity

Fonterra views milk with sophistication, seeking to lead the race to develop its nutritional potential by meeting the needs of an increasingly health-conscious world. Science and biology underpins the dairy industry both in on-farm production and in dairy product manufacturing. Biotechnology is the tool that allows Fonterra to modify biological systems, either using natural means or more advanced tools.

To develop specialized products, Fonterra uses a health and nutrition team that focus on the unique health benefits of milk-derived bioactives. This team targets specific areas in response to global consumer health concerns namely: immune health, gastrointestinal health, infant nutrition, dermatology, sports health, therapeutics, bone health and animal health. Fonterra's concentration on the development of new products to drive growth is evident in both the consumer products and the ingredient business. It established new research and development facilities in 2004 to expand its potential of new products. Fonterra also established a number of joint research projects with pioneering German vitamin producer BASF. This agreement includes developing dairy-based products for the health ingredients market, and a collaboration to develop customized, instantly-vended convenience foods for a variety of dietary needs, which will be marketed as or "point-of-sale individualized foods".

Fonterra: Process Innovation Activity

Fonterra's management states that "operational excellence has to be embedded in our culture".[2] An important part of Fonterra's global business operations is procurement of raw milk and gaining access to product markets. Fresh milk products, by their perishable and bulky nature, cannot be economically transported across long distances. Furthermore, high trade barriers on dairy products restrain global product movements. Fonterra established several strategic alliances and partners to increase efficiency and flexibility in its global supply chain. Fonterra and Dairy Farmers of America (DFA), the largest milk-collecting cooperative in the United States, formed a joint venture company called DairiConcepts which combines DFA 's manufacturing sites with Fonterra 's technological expertise and innovations. DairiConcepts both strengthened Fonterra's position in the U.S. market and offered the cooperative the ability to better exploit its new opportunities.

In addition to improving efficiencies in its South American operations, Fonterra established a joint venture with Nestlé to form Dairy Partners Americas. Consisting of 3,400-strong workforce throughout the Americas, with more than two thirds of them ex-Nestlé staff, Dairy Partners Americas has been successfully implemented in Argentina, Brazil and Venezuela. A further extension to the Dairy Partners Americas includes Trinidad and Tobago, Ecuador and Colombia. These and other partnerships provide alternative sources of raw milk for its ingredients business, enable optimization of Fonterra's production plan and inventory levels, and ultimately facilitate meeting customer demand in all regional markets.

Fonterra: Marketing Activities

Fonterra focuses on conveying the message that it has high quality products stemming from research and development activity, which use healthy, natural and ecologically responsible products that are consistent with Fonterra's rural roots. The company takes a science-based approach to developing and promoting these products by employing scientific results found in research studies and commissioning research papers and clinical studies to support its claims. In 2004, a report was published illustrating the positive benefit of feeding fortified milk powders to children. Fonterra aims to establish the image of its products in the minds of young consumers, viewing them as potential life-long consumers. For example, its website for children, (www.milkzone.com), offers interactive games, fun information, contests and links to other milk-related sites.

Case comparison summary

Although each firm in this case series differs by type and the products they supply in different markets, they have much in common as branded manufacturers seeking to differentiate their products. All firms view themselves as having a unique identity within their industry. This is key for implementing a successful product differentiation strategy.

[2]Statement made by Fonterra's CEO, Andrew Ferrier, to shareholders October 2004.

Each firm has strategic resources, either real or perceived, that are key for successful product differentiation strategies (table 5). Both Heinz and Snyder's of Hanover believe their brand conveys a quality image with their respective company's historic reputation. The image of enduring quality gives consumers trust and loyalty to the brand name. To retain this image, Heinz and Snyder's of Hanover must constantly innovate products to compete with younger companies seeking to imitate products. Brand power alone erodes easily if it is not maintained with tangible product quality enhancements.

Table 5. Summary and comparison of cases

	Heinz	Snyder's of Hanover	Fonterra Cooperative Group
Type of company	Large, public, global	Medium sized, private, domestic	Large cooperative, global
Strategic resources (real or perceived)	-A quality brand image established in 1876 -Expertise in condiments and sauces -Superior knowledge of international cuisine	-Fine art of pretzel baking since 1909 -A family tradition and geographic brand	-Image of clean environment-green pastures -Deep knowledge of milk and components
Product orientation	-Packaging and quality innovation for making products healthier and more convenient	-Niche marketing of quality products by improving existing products with emphasis on health components	-Put more focus and resources behind innovation projects to capture market leadership using R&D
Process orientation	-Streamline operations and focus on improving core products	-Flexibility and speed of adopting to improve new products	Outsource global information technology to achieve operational excellence of mergers and partnerships
Market orientation	-Educate consumers, provide information on healthy choices for their products	-Listen to ideas, implement only when fits with company	-Educate consumers about benefits of of dairy products and ecological sound practices
Comments from management	"Quality and innovation are the way forward"	"Do not let consumers take you where you don't want to go"	"We want to be indispensable to our customers" "a genuine ability to use our R&D capabilities"

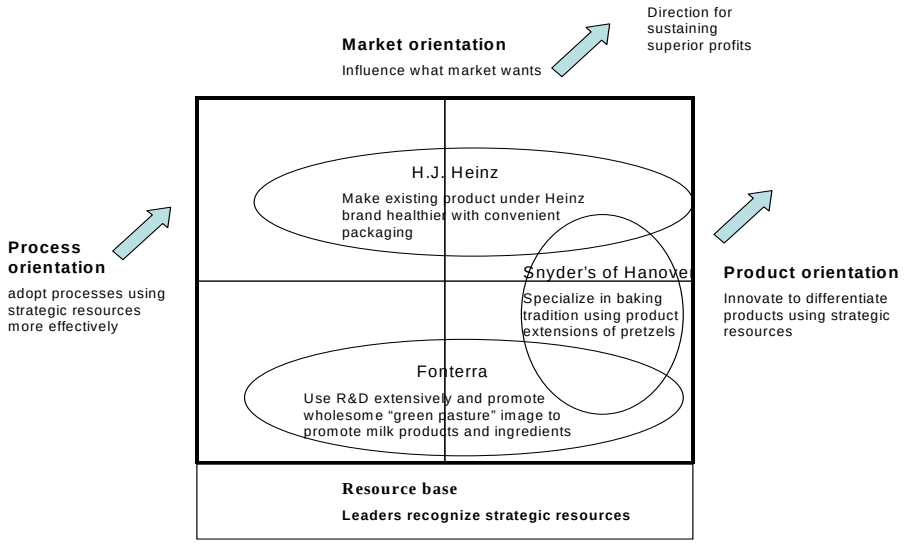
Fonterra, a new company name, does not use its company name as a brand. Rather, the cooperative owns many consumer brands in foreign countries (such as Anchor, Anlene, Meadow Fresh, Soprole). The company's distinct resources, which render it a technologically advanced innovator and a supplier of New Zealand milk products, gives it a distinct competitive advantage that is not easily replicated by competitors. As a New Zealand-based company it projects an image of high quality milk products. Through its superior product knowledge of milk and extensive networks in research and development, the company conveys experience and expertise to its industrial ingredient customers. Like Heinz, its reputation as a consumer branded company must be maintained with new product innovation.

Another common characteristic among the three firms is their tendency to focus on products where each firm has strong core competencies. In the case of Heinz, the company divested of certain products that were not deemed as core products. In other cases, firms have innovated existing products rather than expand into more product categories. For example, in response to the growing demand for health foods, Snyder's of Hanover could produce new and healthier snack foods. However, the company has instead chosen to focus on creating better tasting Snyder's pretzels using healthier inputs. This decision is consistent with the company's desire to sustain its quality and family tradition of pretzel baking. In addition, there is a careful screening process for which ideas are implemented to fit with the company's production capability. All of these actions are viewed as responding to the changing market in a "disciplined" manner. In doing so, each firm reduces the risk of facing direct price competition with firms that can imitate the company's products.

Firms with the leadership position also take on the responsibility of educating consumers to promote their products. Steering the market in their favor is more advantageous than allowing the market to steer the firm. Influencing the market is important to capture new markets using their specific capabilities. Thus, leadership firms coordinate consumer education at the same time they offer more choices of products to their customers.

It is difficult to say that any one firm has a single dominant orientation. Both Heinz and Fonterra emphasize product innovation and process innovation (operational efficiency). Because of this, a "dominant" orientation is not depicted graphically (figure 3). Rather, process innovation supports product innovation. For example, by focusing on the company's power brands, Heinz aims to improve organizational efficiencies with the goal of improving product innovation in specific product categories. Likewise, Fonterra is developing strategies to put more focus and resources around its consumer "power brands" which earn higher returns. When strategic resources are recognized, there is less pressure to follow a particular orientation (as suggested in figure 1). Rather firms direct their activities around market, process, and product activities which, in turn, direct the firm towards higher growth and profitability.

Figure 3. Leaders recognize strategic resources and use innovation to influence market for sustaining profits and growth



Conclusions

Branded manufacturers can be a major source of innovation in the food industry as they have the potential for earning superior returns. Leadership is maintained when firms are able to differentiate their product offerings from competitors. However, maintaining leadership position

requires not only branding power but also innovative products. The case studies covered in this paper suggest that firms use their unique resource base and form strategies to capitalize on their capabilities. A single dominant orientation is not necessary to maintain leadership. Rather process innovation can facilitate product innovation leading to successful product differentiation and enhancing leadership position.

Health, vitality, and convenience foods are becoming more important in global food markets. Responding to this demand will require investments in food science and technologies to produce truly innovative products that involve new processes, ingredients, or both. The question of whether the growing power of retailers means the demise for branded food manufacturers is one that deserves attention. Innovation and its motivation is a national public policy concern that is influenced by a myriad of regulations and laws administered by various agencies. An area of future investigation is how policy might open doors to other forms of food businesses beyond the traditional role of food manufacturers, including specialists in ingredient technologies, product innovation firms, and specialty food manufacturers.

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Appendix

H.J. Heinz Company is a leading manufacturer and marketer of branded foods in the global food industry. The company is most recognized for its ketchup with a comprehensive presence in condiments, sauces, ready meals, soup, tuna, and baby food. Heinz is the most global U.S.-based food company, with a world-class portfolio of powerful brands holding number-one and number-two market positions in more than 50 countries. The Heinz brand has an estimated value of $2.5 billion with Heinz's top-15 power brands accounting for two-thirds of annual sales.

The company has number-one or number-two brands in 200 countries around the world, showcased by Heinz Ketchup. Other brands in the company's portfolio include Heinz, Weight Watchers, Ore-Ida frozen potato products, Classico pasta sauces, Plasmon baby food and John West tuna. Heinz also uses the famous names Weight Watchers, Boston Market, T.G.I. Friday's, Jack Daniel's and Linda McCartney under license.

Table A1. Examples of Heinz new product introductions (2003-2004) in U.S. and U.K markets

Brand & Product Name	Country
Heinz Tomato Ketchup with Talking Labels - Worthy of Gold; Fixes Burgers at Warp Speed; Served at the Immaculate	USA
Heinz One Carb Ketchup	USA
Wyler's Soup Starter Homestyle Soup Mix - Beef Vegetable; Chicken Noodle; Potato, Garlic & Chives; Hearty Three Bean Chili; Hearty Chicken Vegetable; Chicken with White and Wild Rice;	USA
Wyler Sodium Free Instant Bouillon Cubes - Chicken; Beef; Sodium Free Instant Bouillon Packets - Chicken; Beef	USA
Heinz Chilled Soup - Carrot & Coriander; Roast Chicken & Herbs; Tomato & Red Pepper	United Kingdom
Heinz Weight Watchers Soup Cup - Country Vegetable; Thai Chicken; Tomato	United Kingdom
Heinz Top Down Tomato Ketchup	United Kingdom
Heinz Special Soup - Broccoli & Watercress	United Kingdom
Heinz Special Soup - Mediterranean Tomato & Bacon; Spicy Butternut Squash	United Kingdom
Heinz Top Down Tomato Ketchup - Chilli; Curry	United Kingdom
Heinz Salad Shaker Pre-Packed Salad Kit - Classic Chicken Caesar; Classic Greek	United Kingdom
Heinz Exotic Table Sauce & Dip - Garlic & Chive; Sweet & Sour; Tomato & Chilli	United Kingdom
Heinz Eazy Squirt Sauce - Choppin' Sweet `n' Sour; Cowboy Joe BBQ; Slurpin' Sweet Curry; Supersonic Pizza	United Kingdom

Source: Productscan

Snyder's of Hanover

Snyder's of Hanover, known as "America's Pretzel Bakery," started in 1909, in Pennsylvania, with sales totaling about $300 million in 2004. The company is considered a niche player in the snack food industry. It specializes in pretzels and similar snack foods, with 90 percent of its sales in the United States. The company has national distribution with two production plants, one in Hanover, Pennsylvania and the other in Phoenix, Arizona. The company has a long tradition t began in 1909 with Snyder's founder Harry V. Warehime, affectionately known as "Gramp Harry". He started the Hanover Pretzel Company with a single recipe, Hanover Olde Tyme Pretzels. The company's product line is an extensive array of pretzel products including Sourdough Hard Pretzels, Nibblers (Garlic Bread, Honey Mustard, and Sourdough), Flavored Pieces (Buttermilk Ranch, Cheddar Cheese, Honey BBQ, Jalapeno, Seasoned Snack), Organic Selections(Oat Bran Sticks, Classic Mini, Honey Wheat Sticks, Pumpernickel and Onion Sticks), and EatSmart (Veggie Crisps, Sundried Tomato and Pesto, CheddAirs, Soy Crisps, and All-Natural Dips).

Table A2. Examples of Snyders of Hanover new product introductions

Brand & Product Name
Snyder's of Hanover Pieces - New York Deli Style; Hot Buffalo Wing
Snyder's of Hanover Pretzel Sticks - Pumpernickel & Onion; 12 Multi Grain
Snyder's of Hanover Pretzel Sandwiches - Cheddar Cheese; Peanut Butter
EatSmart All-Natural Soy Crisps - Parmesan, Garlic & Olive Oil; Tomato, Romano & Olive Oil
Snyder's of Hanover Carb-Fix Pretzel Nibblers
Snyder's of Hanover Pretzel Dips - Made with Hershey's White Chocolate; Made with Hershey's Milk Chocolate
Snyder's of Hanover Pretzel Sandwiches - Cheddar Cheese; Peanut Butter
Snyder's of Hanover EatSmart Veggie Crisps - Sundried Tomato & Pesto; Cheddar & Jalapeno; Lunch Packs - Regular
Snyder's of Hanover EatSmart CheddAirs Corn & Rice Puffs with Aged White Cheddar Cheese - Lunch Pack
Snyder's of Hanover Organic Honey Wheat Sticks - Lunch Pack
Snyder's of Hanover Milk Chocolate Covered Specials Pretzels
Snyder's of Hanover Rounds - Creamy Caramel Sourdough Pretzel Slices; Apple Cinnamon Pretzel Slices
Snyder's of Hanover EatSmart Kettle Pops Organic Sweet Popcorn - with a Light Caramel Glaze; with a Sweet and Salty Glaze

Source:Productscan

Fonterra Cooperative Goup

The Fonterra Co-operative Group was formed by the merger of New Zealand Dairy Group, Kiwi Co-operative Dairies and the New Zealand Dairy Board in late 2001. It is owned by its 13,000 dairy farming shareholders. Fonterra is organized in three divisions; New Zealand Milk Products (NZMP), New Zealand Milk, and Fonterra Enterprises. NZMP is the world's largest dairy ingredients company which focuses on separating milk to its various components and then marketing these components. New Zealand Milk is the business unit manufacturing dairy based consumer and branded food products, while Fonterra Enterprises comprises an innovative venture and growth businesses supporting Fonterra's core business activities. Since the merger there have been a number of acquisitions. Fonterra has a 50% stake in Australian dairy producer, Bonlac Foods Ltd, and has undertaken the formal merger of both companies' consumer products operations in Australia and New Zealand. Other acquisitions and strategic alliances include joint ventures with Nestlé through Dairy Partners Americas in South and Central America, Dairy Farmers of America with DairiConcepts in the United States, Britannia Industries Ltd in India, and Arla Foods in the United Kingdom.

Table A2. Examples of Fonterra's new product introductions

Brand & Product Name	Country
Brownes Traditional Friendly aB+ Yoghurt - Vanilla Pear	Australia
Connoisseur Exquisite Yoghurt - Caramelised Pear; Classic Vanilla	Australia
Chill Ice Cream Bar - Super Sour	New Zealand
Tip Top Chill Ice Cream Cone - Mega Blast	New Zealand
Polar Pops Milky Pops - Banana & Caramel; Strawberry & Caramel	New Zealand
Polar Pops Moo-Sli Pops Ice Cream Bar - Caramel	New Zealand
Meadow Fresh Calci Trim Liquid Breakfast Drink - Banana; Chocolate; Strawberry	New Zealand
Meadow Fresh Pouring Custard - Vanilla Custard	New Zealand
Mainland Spreadable Cream Cheese & Sweet Chilli Sauce	Australia
Brownes SupaShake Milkshake - Choc Cherry	Australia
Britannia Milkman Low Fat Cheese - Sliced; Spread	India
Britannia Milkman Malai Chaska Cream Cheese Spread	India

Source:Productscan