PART I
INTRODUCTION

CHAPTER 1
MARKET ORIENTATION, PRODUCT DEVELOPMENT AND COMPETITIVE ADVANTAGE

There is wide agreement that the food industry in western economies is entering a difficult period. The competitive pressure on food companies is the result of several tendencies which act on and reinforce one another:

- In affluent economies, what growth there is in the market for food products is taking place in terms of value rather than quantity.
- Most industrialised economies are characterised by an oversupply of agricultural products.
- A global tendency towards deregulation, decrease in government subsidies to the food and agricultural industry, and reduction of trade barriers removes many of the shields which have traditionally protected food companies from competition in the past.
- Consumer behaviour is becoming less predictable, as consumer demands become more fragmented and less consistent.
- Increasing concentration in the retail sector has resulted in powerful agents which not only exercise an important gatekeeper function, but also put added pressure on food manufacturers.

As a result, the intensity of competition in western food markets is generally expected to increase.

These developments have given food producers a renewed interest in food products with greater value added, which in turn has led to an increase in research and development of new products and processes. As has been noted elsewhere, the food and beverage industries have a notoriously low record on R&D investments compared with other industries (Grunert & Baadsgaard, 1991), which will have to change as a result of the tendencies towards increased competition mentioned above.

K. G. Grunert et al., Market Orientation in Food and Agriculture
Nevertheless, there are also voices warning against heavy investments in innovation and product development in the food sector. These point out that tastes and food customs are part of the cultural heritage and thus change only slowly, giving limited room for innovation. In support of this view are the high failure rates for new products, the shallow penetration curves for those new products which were eventually successful, and econometric analyses which show that changes in taste account for only a very small proportion of the overall variation in demand for food products (Søgaard, 1994). Investment into new products and processes is therefore not always a sufficient recipe for success: new products also have to be 'right' for the market they serve. In the future, developing new products and being innovative as a food company will require not only a more intimate understanding of the market, but also the skilful use of that understanding. In other words, the company will need to be market oriented.

Market orientation has become a widely-discussed concept in the food industry. Market orientation is regarded as something desirable, something that the food industry lacks, and something that could help it build a better competitive position for the future.

The purpose of this book is twofold: to clarify the implications of market orientation for food companies, and provide tools to help them achieve this aim. The book is based on the findings of MAPP (Market-based process and product innovation in the food sector), a 4-year research programme initiated in Denmark in 1991. The research programme, which was carried out in collaboration with major Danish food companies, involves both the question of how to collect market information, and of how to use this information in the company's decision-making. The MAPP research programme continues; this book summarises the first four years of research in this area.

In this chapter, we start by presenting and discussing some basic terms. First, we first present a framework for analysing the competitive position and competitive advantage of an individual food company. We then discuss the term market orientation and how it can contribute to competitive advantage. Finally, we discuss the implications of market orientation for product innovation.