



final report

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Pursuing Horizon 2 Growth Opportunities in Snacking - Stage 1: Opportunity Scoping

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Executive Summary

Mega-trends represent fundamental shifts across market sectors that have a major impact on consumer behaviour, such as 'premiumisation' and 'health & wellbeing'. They also represent significant opportunities for a business to realize 'next wave' growth, if they can respond to new expectations of how products and services must perform.

A mega-trend will likely create many and varied opportunities for growth, yet many businesses fail to capitalize on the opportunity as they don't take the time to survey the new landscape and discern what is a good fit with their own strategy. A business needs to ask: Will pursuing the opportunity help realise our future ambitions – where we want to be 'playing' in 5 years' time? Secondly, do we have, or can we gain, the capabilities required to champion the opportunity – will it be able to 'win' in this market space, against new competitors?

Previous work undertaken into the snacking mega-trend identified 10 different snacking occasions consumers have thru the day, though this was further underpinned by consumer segment differences that took the list up to 18 snacking opportunity spaces. The first stage of the project was to reduce this list down to the 5 or 6 opportunities that were a good strategic fit for the business in question.

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1 Background

The theme area of ‘Snacking & On-the-go food consumption’ has been identified as a key long term opportunity space for Australian primary industries, in both the domestic and key growth export markets. Initial development work (V.RMH.0021) scoped out the broader opportunity using accessible industry information. To support and facilitate the desired industry development, MLA commissioned key ethnographic research (V.RMH.0049) and acquired some leading sector understanding (New Nutrition), to provide a real-world fact base of customer behavior and market understanding.

To realise this long-term growth and achieve the desired value-adding potential, requires an ‘Horizon 2’ innovation approach – this frames the recommended approach to be “piloted with Patties Foods in an initial scoping work phase” – that is:

- A design led philosophy that makes the target customer the focus, including the identification of target customer segments and an insight into their personal values and aspirations.
- A deep understanding of key snacking occasions, including underlying needs, choice dynamics, key behaviours and the trade-offs involved in sourcing and preparing snacks.
- A desire to see possibilities beyond an extension of ‘business as usual’, that encourages new business models to be developed and new value chains envisaged

Snacking is not one, but a multitude of opportunities throughout the day; from breakfast on-the-go, to mid-afternoon cravings thru to the late night 4th meal. The appeal of a snacking opportunity as a focus for Horizon 2 innovation, will differ across businesses.

Using a Design Led innovation approach, unlike undertaking line extensions or leveraging overseas market successes, offers less of a ‘line of sight’ to the most appealing opportunity space. Thus, there is more scoping work to be done in the initial stages, to determine where one is best suited to focus one’s innovation efforts.

2 Projective Objectives

The objective of this project is to first identify and then realise a significant new wave of growth for Patties Foods, outside of its existing ‘food’ business. Patties Foods are a leading player in meat pies, dominating the supermarket freezer cabinet with brands Four’n’Twenty and Herbert Adams, as well as being a major supplier of Private Label. Thus, venturing into snacking is a significant step outside of this core, into an adjacent category.

The objective of stage 1, in a 3-stage process, is to identify which of the 20 or so initial opportunity spaces are worthy of deeper consideration, by a more extensive cross functional

team. Different snacking opportunities are relevant to different types of businesses, so those that are ‘clearly’ a poor fit are best filtered out early in the process. The desire was to get down to short list of 6 or so opportunity spaces – a more manageable number to fully explore. At this stage, only a single member of the Patties Foods Innovation Team was required, before a more significant commitment of a cross-functional team would look at the resultant short list of opportunities in stage 2.

HORIZON 2 INNOVATION ROAD MAP – THE SNACKING JOURNEY



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3 Methodology

Stage 1 required the following steps to ensure the appropriate rigor was in place to evaluate each opportunity spaces, as the selection can be inadvertently biased by personal preferences:

1. Participants need to familiarise themselves with the mega-trend in focus, often best undertaken through drawing parallels to other sectors that have been impacted. This enables one to assess the potential scale and nature of the impact on the Red Meat sector. Note: For the Snacking mega-trend, this work has previously been undertaken by MLA (V.RMH.0021)
2. View 'real-world' consumer behaviour, as it relates to the mega-trend in focus. Undertake, or access research into 'real world' consumer behaviour in respect of the mega-trend – in this instance, observe consumers actual snacking behaviour over the course of 3 full days. A key outcome from this research was the identification of the snacking opportunity spaces (V.RMH.0049) that are the foundation for this project.

SNACKING OCCASIONS



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3. Define one's own Horizon 2 innovation strategy – 'where to play and how to win'. This requires a forward-looking perspective:
 - a. What ambitions does the business have in terms of the market spaces they seek to play in, in future? This is ideally expressed in the positive, though can also include aspects of market dynamics a business wants to develop beyond.
 - b. What capabilities does the business possess, or believe it can gain access to, which will be important in the context of the opportunity.

4. Each of the 22 opportunity spaces were evaluated against the businesses H2 innovation strategy. Each snacking occasion was explored around two key dimensions:
 - a. Appreciating the underlying consumer dynamics associated with an occasion: What is the nature of the occasion – its phase of the day context? Who is the key target consumer and how does the occasion fit into their lives? What is the primary need that is at play? Consumers expectations of how a product offering must perform? How do they source a snack on this occasion – is it a planned or spontaneous decision?
 - b. Assess the macro drivers of the occasion: Is it an occasion that is growing in penetration or frequency – thus how big is it and is it growing? What is the typical price point at this time and hence what value is the occasion? What existing products are consumed on this occasion? From which channels are these products sourced & does the channel put much effort in to targeting this occasion?

The main discussion then centred around addressing the two fundamental strategic questions:

 - c. Will pursuing this opportunity help us get to where we want to go as a business?

- d. Do we believe we have, or can gain access to, the capabilities required to champion this opportunity, whatever that might involve?

Note: See Breakfast on-the-go example in the Appendix

4 Results

The initial list of 10 snacking occasions was expanded to 22 opportunities, once important consumer segment differences were recognized, and other consumer segments were included (kids). Initial scoping discussion, net of pre-reading the available MLA reports, enabled a productive discussion to be had, to cover off the introductory piece that are steps 1 & 2.

Subsequently over the course of two half day sessions, the list of opportunity spaces was assessed against the businesses innovation strategy. For example, Patties Foods eliminated several opportunity spaces that only required specialization in one area, as against requiring diverse capabilities, on the basis that barriers to entry were too low and the space quickly becoming crowded. Ultimately 6 opportunity spaces were taken forward to the 2nd stage of the Design Led Innovation journey.

On average 30 minutes were spent discussing each opportunity space, requiring 2 half day sessions to complete the task. The reality is that some opportunities were dismissed after only a few minutes, whilst others took extensive discussions.

5 Discussion

Within a mega-trend, such as snacking, there are a diversity of opportunities. Given the breadth of players within the red meat value chain, there is significant scope to identify attractive opportunity spaces that fit different types of business, to drive future growth.

Subsequent presentation of the short list of opportunity spaces to the 'stage 2 cross functional team' and after subsequent discussion, resulted in the replacement of one of the six opportunities with an alternative, due to a slight refinement of the businesses innovation strategy.

The snacking occasions and consumer segment differences identified in the previous ethnographic research, were well understood and fully embraced as the foundation for the project.

A quantification component would provide a useful adjunct to the consumer behaviour observed through the ethnographic research – having an assessment for each opportunity space of its breadth of relevance to consumers and scope to value-add against their needs.

6 Conclusions/Recommendations

Few businesses have a clearly defined long-term innovation strategy, tending to respond to more immediate market opportunities. Going through the process of evaluating the appeal of different opportunity spaces, forces one to be explicit as to critical Horizon 2 questions within 'where to play & how to win'.

Businesses should be pursuing a portfolio of opportunities – ranging from established market spaces where consumer expectations are evolving, thru to hypothesized and newly emerging market spaces that are yet to come to fruition. This approach enables a business to continue to refresh its core, whilst also identifying tomorrow's growth driver. The challenge is the markedly different approaches to innovation required for businesses to focus on both horizons of growth.

Whilst this is ideally a once-off, systematic process, there is a subjective element to the evaluation of opportunity spaces, in terms of their strategic fit. Hence there is value in making explicit the rationale for filtering out opportunity spaces and generally socializing the journey with others, to ensure key opportunities are not being lost during these early stages

7 Key Messages

Innovation that is seeking to identify 'next wave' growth (Horizon 2) requires a different approach to normal innovation efforts that seek to refresh the core of the business in response to evolving market drivers by leveraging the existing business model.

A project of this nature requires a significant amount of scoping work during these early stages, to ensure the business is focusing on opportunity spaces that support where the business wants to be in future and has the capabilities to successfully realise.

Inherent in the process is a business having a clear and explicit innovation strategy, borne of its overall business strategy, as the basis on which opportunities are initially filtered.

A real world understanding of consumer behaviour, as it relates to the mega-trend, is key to informing the process – can the business solve a problem the customer has?

8 Appendix

8.1 Illustrative example – Breakfast on-the-go. blue collar

Consumer Dynamics

Occasion Description: Whilst Breakfast is universally recognised for its importance in ‘setting oneself up for the day’, not everyone has the time, or the opportunity to sit down for a proper breakfast. Whilst people might prioritise other things in the life, such as getting to work early, this does not lessen the need to have something ‘substantial / filling’ to start the day.

Target Consumer: Blue Collar Workers, with males aged 20-35 the focus. Making an early start and often not being the most organised at-home, means they often either must grab something as they are heading out the door, or find something on their way to work.

Underlying need: These blokes are particularly looking to fuel up for the day ahead, knowing that they face many and varied physically demanding tasks.

Snacking dynamics: Typically, habitual behaviour, likely switching between a few tried and tested options, based upon how feeling on the day, swayed by mates’ choices, or circumstantial factors (i.e. whether need to fill up with petrol).

Expectations of snack performance: A snack must mirror a meal / proper breakfast – overcoming their hunger and providing them with sustenance to see them through a long morning. They are particularly attracted to hot snacks, as they feel more like ‘proper food’ and deliver to taste expectations. Value is important to them – they expect a lot for their money. At this stage of the day, overly healthy is not a big consideration, as it will get ‘burnt off’ through the day.

Macro occasion drivers:

Product reference points: Offerings generally need to be significant in their delivery, as they are there to replace breakfast.

BREAKFAST ON-THE-GO REPERTOIRE OF CHOICE



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- Hot offerings, largely made by the venue, such as toasted sandwiches, egg and bacon rolls, sausage rolls, etc.

- Fast food plays prominently in this space, with offerings such as McDonalds breakfast.
- Functional beverages, such as flavoured milks, or energy drinks, though normally in combination with a food item

Size & Growth: This is believed to be a well-established market opportunity – many blue-collar workers already do this, on an ongoing basis. Whilst it commands a reasonable price point, of at least \$3 or \$4, most offerings deliver reasonable good value, through volume.

Channel: Need to fulfil the grab-and-go requirement most consumers demand on this occasion. Thus, channels that are in-transit, on the way from home to work, with suitable parking, form the consideration set.

- Petrol stations and Convenience stores (7-11 are making it a particular focus)
- Café's and hot food take-away shops, including fast food
- Train and bus station

Many of these channels have taken to opening their doors earlier, or deliberately promote their offering to these guys (i.e. early morning radio), in order to appeal to this opportunity.

Patties Foods Strategic Fit:

Does PF's have the capabilities to realise the opportunity?

Does pursuing the opportunity enable PF's to pursue their broader strategic ambitions?

Pro's	Con's
Have the capabilities to develop 'hot snacks'	Already well represented in this space, so limited upside
Existing relationship with national channels – recognised expertise in this space	An established market – some sustained growth as consumers skip breakfast
Limited number of established brands - opportunity to crystallise needs	Value driven market – delivering 'bang for your buck' is cost of entry
Potential to find a platform for positive sustenance - protein	Limited scope to value-add – left leveraging a 'less-bad' solution?