CHAPTER 1: INTRODUCTION

1.1 Rationale and Importance of Research

Packaging is a critical marketing tool and integral part of the product offering, which plays a key role in consumers’ product choices and perceptions (McDaniel and Baker, 1977; Prendergast and Pitt, 2000; Wells et al., 2007). Organisations can use packaging to gain competitive advantage (Rundh, 2005). Furthermore, it is increasingly being considered as a tool to revitalise their mature products (Wansink and Huffman, 2001) and differentiate them from competitors (Wells et al., 2007).

Yet it is often regarded by organisations as merely a necessary evil or cost (Simms and Trott, 2010; Lockamy, 1995). While packaging is important with respect to many key aspects of marketing, it is most strongly associated with the product; indeed, packaging is sometimes integral to the product: for example, bottled water, which in many respects is defined by the bottle itself. In fact, the literature even suggests that as far as the consumer is concerned, in the case of low involvement purchases such as FMCG products, the packaging can effectively become the product (Silayoi and Speece, 2004). However, despite the integral nature of packaging to the product, the existing marketing literature has largely focused on packaging from a marketing communications perspective (see Chapter 5), and failed to explore the management of packaging in the context of product development.

The significance of packaging is greatest within the Fast Moving Consumer Goods (FMCG) industry, a highly important sector in terms of economic activity. For example, the UK FMCG industry is responsible for £125 billion of consumer expenditure, and contributes over 8% of GDP (Bourlakis and Weightman, 2004). The industry is highly competitive, and dominated by international brands, such as Coca-Cola, Procter and Gamble, Unilever, or Colgate-Palmolive. Store brands or retailer-own-label products also contribute to the industry’s competitiveness.

New Product Development (NPD) is a significant activity of FMCG brand owners. Over 1000 new products appear each month on the shelves of British supermarkets (Financial Times, 1995, as cited in Nancarrow et al., 1998), and retailers’ development volumes alone are typically measured in thousands per annum (Francis, 2004). However, although NPD is a key organisational activity (Crawford, 1

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1 FMCGs are low priced items that are used with a single or limited number of consumption occasions (Baron, et al., 1991).
1994; Wheelwright and Clark, 1992), vital to the generation of new opportunities (Cooper and Kleinschmidt, 1986; Flint, 2002; Mandry, 1973), relatively little has been written about its use within this industry.

The most recent studies of NPD within the FMCG industry are those of Francis et al. (2008) and Francis (2006). These identify two key limitations of the existing literature, both of relevance to this study. First, the limited prior studies undertaken in the sector are mainly derived from consultants rather than empirical research (Francis et al., 2008; Francis, 2006; Grunert et al., 1997). Second, they have focused on the development of the core product itself (e.g. Rudder et al., 2001; Rudolph, 1995; Morris, 1993); although a few have at least addressed packaging at a superficial level, focusing on graphics and artwork (e.g. Francis et al. 2008; Francis, 2008; MacFie, 1994). As a result, they offer little insight into the development of the product’s packaging.

This research takes up the task of exploring the management of packaging within NPD. More specifically, it investigates the development of new packaging, and the NPD process. The empirical evidence is derived from a study of market leading firms in the well-established UK food and drinks sectors.

1.2 Research Context & Questions

The FMCG industry has experienced a growing level of global competition, combined with the increasing power of supermarkets and their own label brands (Francis et al., 2008; Francis, 2006). As a result, NPD has become a major activity of both the manufacturer, and supermarket brand owners. Increased level of competition has also resulted in pressure on suppliers to lower the costs of their goods, or increase levels of differentiation to maintain higher margins (KeyNote, Food Industry, 2010). Packaging is vital in this process of differentiation: “With the number of brands available on the shelves increasing constantly... Distinguishing products from one another becomes the biggest task for the consumer” (PIRA International 2011, the packaging industry’s research association).

Consumers are also becoming increasingly demanding, with the market becoming highly fragmented, experiencing increased demand for convenience foods, and a drive for healthier products (KeyNote, 2010). This is reflected in some producers pursuing packaging change to compete in a saturated market, with such changes
made with respect to size and shape (e.g. Coca-Cola fridge packs), printing of labels (Tetra Pak cartons requiring different printing processes to previous forms of packaging), and materials (e.g. PET bottles and microwaveable materials).

A number of factors have directly driven the increased significance of packaging in the current competitive environment. Arguably most pertinent is the growing environmental concerns amongst consumers (Wells et al., 2007; Key Note, Food Industry, 2006), which has resulted in considerable pressure on firms to curb their packaging and reduce their environmental impact (KeyNote, 2009; GMID, 2011). There is also pressure on organisations to improve usage and accessibility for elderly consumers (PIRA, 2011). More generally, a number of leading brands in the sector have utilised packaging changes to improve their products, shelf presence, and success (Key Note, Food Industry, 2006). Thus the development of the product’s packaging represents an important challenge, existing alongside constant pressure to reduce packaging costs.

This study largely examines the food and drinks (or beverages) sectors of the FMCG industry. These sectors provide a useful indicator of such a competitive, volatile industry. The development of new products in these sectors is typically characterised by the high level of packaging, inseparable from the core benefit/product: which only further enhances its importance.

Within this industry, a number of examples provide evidence of key packaging developments (Chapter 2). Indeed, in the drinks sector, technological development tends to focus on new types of packaging, rather than the drinks themselves (Key Note, Drinks market, 2005). However, whilst a number of studies have been undertaken on NPD in both the FMCG industry as a whole (Francis et al. 2008; Francis, 2006) and the food and drinks sectors (Rudder et al., 2001; Rudolph, 1995; Morris, 1993), it has failed to provide meaningful insights into the management of packaging development.

FMCG firms frequently outsource much of the packaging function. As a reflection of this, the research also incorporates the packaging industry. This is a significant industry, estimated to be worth £9.49 billion in the UK alone (Keynote, 2010). Suppliers of packaging have become increasingly important to the FMCG industry, given the growth in sales of pre-packed meats, chilled foods, salads and prepared
vegetables: this trend is likely to continue (Key Note, Food Industry; 2005; 2010). However, despite its size and the companies operating within it, the role and incorporation of these suppliers in FMCG product and packaging development has largely been overlooked.

This research examines the above issues, studying the management of packaging within firms in the food and drinks industry, as well as providing insights into the wider supply chain. The aim is to develop a framework that builds new understanding of the management of packaging in the NPD process of food and drinks firms. This raises the following research questions.

**Research Questions:**

RQ 1: How do food and drinks firms manage the development of new packaging within their NPD process?
RQ 2: How does packaging development contribute to the generation of new product opportunities?

### 1.3 Overview of the Limitations of the Literature: NPD and Packaging

Past research in marketing and business in general has largely failed to recognize the contribution which packaging can make to a product, and more widely to business (Simms and Trott, 2010). The majority of articles on packaging originate from marketing literature, which has largely examined packaging from the perspectives of marketing communications, pricing, branding, and distribution (Rundh, 2005; Simms & Trott, 2010; see also, Chapter 5). As a result, its contribution to product management in NPD has largely been overlooked.

While packaging is associated with many key aspects of marketing, it is most strongly associated with the product. The existing literature has identified packaging as a key and integral part of the product offering (Silayoi and Speece, 2004; Rundh, 2005, Simms & Trott, 2010; Wells et al., 2007), key to its success (see Rundh, 2005; and Chapter 4). Consequently, packaging is a ‘priority issue’ (Koss, 2007: p132), which should be central within the development of products (Bjarnemo et al., 2000; Johansson, 1998).
In a review of the existing literature, Francis et al. (2008) note that, despite the importance of NPD to the FMCG industry, it has largely been overlooked. Furthermore, the limited studies undertaken have focused on the core product, and surprisingly fail to examine the management of packaging (e.g. Ernst & Young, 1999; Anselmsson and Johansson, 2009; Rudder et al., 2001; Rudolph, 1995; Francis, 2009; MacFie, 1995). However, there is at least an acknowledgement that it may be necessary and advantageous to consider packaging concurrently and holistically in NPD (Simms and Trott, 2010 and Rundh, 2005).

The limited, superficial insights within the existing marketing and NPD literature as a whole, suggest that packaging is considered at a later point in NPD; and the attention it receives is primarily focused on graphics and artwork (Francis et al., 2006; Francis, 2008; MacFie, 1995). Many firms also fail to create a pipeline of new packaging ideas and concepts (Ahmed et al., 2005; Simms & Trott, 2010): leading them to focus on incremental cost saving designs (Ahmed et al., 2005). This in turn results in limited new packaging demand, side progression, and margin erosion (Richmond, 2004). It seems that many organisations see packaging as an “unavoidable non-value-added cost containing little or no strategic value” (Lockamy, 1995 p. 52). The literature fails to provide detailed understanding of the level of attention packaging development receives, or the factors that influence this.

This research argues that there is a need for a new definition of packaging within the literature, which extends beyond the level of graphics, artwork, and marketing communications. As a result, a new typology can be developed, that generates new understanding of the levels of packaging development and change. It is also argued that the management of packaging development, as opposed to graphics and artwork, is of critical importance in NPD. The development and incorporation of new packaging can provide firms with new opportunities: hence the rationale for this study, which will provide a more detailed assessment of the management of packaging within NPD, the attention packaging receives, and its role in creating new product opportunities. Moreover, the study will identify the various activities involved in the development of packaging, and the factors influencing the role which it plays.

The research provides a unique perspective, bringing the innovation management, R&D, and NPD literature to bear on a topic which has traditionally been the domain of marketing. In doing so, a unique contribution to the literature is made: creating a greater insight into the management of packaging within the context of NPD.
1.4 Theoretical Background

This study of NPD in the food and drinks sector involved the recognition of a number of areas of the literature in order to generate the framework forming one of the key outputs of this project.

First, the research context chapter provides insights into the critical importance of packaging. The chapter also analyses the current business environment in both the FMCG and packaging industries. In the latter case, it is important to consider this industry due to the outsourced nature of packaging. A summary of key packaging developments is also presented within this discussion.

Second, a review of the existing literature on NPD is presented. This provides an overview of the different types of NPD models in the generic literature, then proceeds to address the FMCG industry, and food and drinks sectors in particular. This review highlights the need for a new model of NPD for these sectors, based on the significance of packaging. This section also argues that the existing literature on NPD has not been able to provide details on the actual packaging development process involved, decision making on packaging format choice, packaging development activities, or the role of different parties in this process. This study hopes to achieve these new insights.

A discussion of packaging, and its key contributions, is provided. This section presents a new, much more comprehensive overview of packaging’s key marketing functions than is evident in the existing literature. This is followed by a discussion of NPD in line with technological capability, outsourcing, and absorptive literature: which highlights the need for a different view on NPD with respect to packaging development, based on the various levels of development (based on the typology presented) and the outsourced nature of the packaging function.

Finally, this study develops a conceptual framework from the aforementioned areas of literature. This framework, along with a typology of packaging development activities, attempts to provide a new perspective on NPD in the sector, which takes proper account of packaging. The model is well-grounded in theory: figure 1.1 illustrates the areas of theory used in the development of the conceptual framework.
1.5 Contribution of Thesis

This thesis contributes to the existing literature on product development by providing conceptually developed, evidence based research. The study of NPD in the food and drinks sectors contributes to the existing literature and research in the marketing field in particular, but also to the fields of NPD, innovation management and R&D management.

The study’s initial contribution into the management of packaging in NPD in the food and drinks sector is founded in the development of a new typology, which identifies the different levels of development activities within firms. This typology provides new insights into the opportunities which packaging can provide. It is linked to a conceptual framework, to create new insights into the level at which firms primarily focus their packaging activities within NPD.
The second contribution is the development of a unique conceptual framework to help firms understand exactly what is going on. This model provides a novel way to view the key links between the packaging capabilities within the firm and its NPD team, absorptive capacity, the existence of packaging champions, and perceptions of the flexibility of the existing production process. The framework also provides insight into the roles of suppliers, retailers, and end customers. These elements are linked to the typology, to build new understanding of the type of emphasis on packaging that will result based on the aforementioned elements.

The framework also acts as a tool with which to gain new understanding of how new opportunities may be uncovered through changes within the firm in a number of these areas. The thesis argues that when the management of packaging within NPD is viewed using this model, deeper understanding is generated. This new perspective also reveals the limitations of existing models when applied to the management of packaging.

The third contribution is that it builds on two areas of the existing literature: in particular, that covering absorptive capacity (Cohen and Leventhal, 1990; Zahra and George, 2002), and models of NPD in the FMCG sector (Francis et al., 2006 Francis, 2008; MacFie, 1995; Bigliardi et al., 2010).

With respect to the former, this thesis provides new insights in regards to packaging in FMCG. The research finds that the nature of packaging activities undertaken by firms, and how packaging is integrated into their NPD process, is determined by packaging absorptive capacity. In particular, two unique aspects of absorptive capacity are identified as key: the existence of packaging champions; and industrial packaging design expertise in the firm.

With regard to models of NPD, this thesis builds on the existing models in the FMCG industry and food and drinks sectors: in particular, the work of Francis et al. (2006), Francis et al. (2008), and Francis et al. (2009). This existing research provides limited and superficial insights, largely focused on graphics and artwork, into the packaging activities undertaken by firms. New, more detailed insights into the development of packaging and decision-making are provided in this research project.
The fourth contribution is a new set of empirical data. This data provides a rich
description of NPD in the food and drinks sectors, from a number of perspectives,
based on data gathered from key informants both within and outside the FMCG
industry. This empirical data set incorporates market leading national and
international firms, both branded and own brand (private label). This data provides
new understanding of the activities and processes used to develop new products
within these firms. In particular, detailed knowledge is provided with respect to how
packaging is managed, and where packaging activities fit within the NPD process as
a whole. This data provides new insights by highlighting cases where packaging was
used to gain new opportunities or improve the product, as well as cases where
problems were experienced with respect to the management of packaging.
Viewpoints and recommendations of how improvements could be made are also
gathered.

1.6 Overview of Research Approach
The purpose of this thesis is to examine the NPD processes of food and drinks firms,
uncover how packaging is managed within this process, and develop a framework for
further understanding of the management of packaging.

To address the research questions, the study utilised a phased approach: consisting
of two primary phases, preceded by a preliminary phase, based on collaboration with
an international packaging manufacturer that provided sponsorship for the project.
The first of the two main phases presents an exploratory study of depth interviews
undertaken in the FMCG and packaging industries, as well as involving industry
bodies, and packaging design and consultancy firms. This phase captured multiple
perspectives on the development of packaging from a variety of actors and parties
involved. The result helped to further refine the conceptual framework developed
from the literature, and provided important insights, which helped shape the second
phase.

The latter phase adopted a case study approach, and explored a number of NPD
projects, within established, market leading food and drinks companies. The data for
these case studies is gathered from in-depth interviews with decision makers, acting
as key informants, involved in the development of packaging. This is triangulated
with other data sources in order to build the case studies. This phase provides further
assessment of the issues uncovered by the first exploratory phase, focusing on the
key findings with respect to the NPD process, the role of individuals with packaging expertise, the influence of the production process on development, and the role of external suppliers, consumers, and retailers.

The study stresses that the combined findings of each of these phases can make a significant contribution to a better understanding of management of packaging development within the industry. Table 1.1 provides an overview of the key phases of the research, inputs, and outputs.