

Joe Berry Award 2025

Entry – JBA-25-091

Product Innovation – Overcoming Hurdles

Question 2A: Innovation and NPD – The Cost of Entry

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1. Executive Summary

You walk into a casino, \$1M stake in hand, ready to place your bet on a single roulette spin. Here is the catch, you only have a 24% chance of winning. Would you take the risk?

This scenario mirrors the gamble faced by companies entering new product development (NPD). According to a Nielsen study of over 12,000 new FMCG products in Europe, this is the likelihood of an NPD surviving the first year of launch: 24%¹. The current economic climate in Australia adds complexity, with rising commodity costs, waning consumer trust, and the growth of private label brands². Nevertheless, FMCG innovation is essential for long-term growth. It drives growth, penetration, category expansion and helps meet evolving consumer needs. The current financial and practical hurdles make it more prudent than ever that customers and companies collaborate to drive innovation that prioritises consumers. *Figure 1*³ illustrates this paradigm, where customer relationships are the primary source of competitive advantage, followed by innovation.

This paper explores the barriers to innovation and the actions companies and customers must take to drive enduring, consumer-centric innovation. Companies are urged to embrace open innovation, consumer preference testing, and balance innovation with core, while customers are encouraged to create mutual value, engage early in the NPD process,

Figure 1

The biggest sources of competitive advantage vary by industry, but innovation is consistently in the top three.

Share of respondents citing factor as source of organization's competitive edge, %

Click to select industry



¹ Dijksterhuis, G. (2016). The Nielsen breakthrough innovation report: A closer look at the factors behind winning new products. *International Journal of Research in Marketing*, 33(2), 331-336. <https://doi.org/10.1016/j.ijresmar.2016.01.002>

² Australian Retailers Association. (2025, February 26). President's address: Retail endurance – Seizing opportunities in change and challenge. Australian Retailers Association. <https://www.retail.org.au/news-and-insights/presidents-address-retail-endurance-seizing-opportunities-in-change-and-challenge>

³ de Jong, M., Banholzer, M., & Doherty, R. (2025). How top performers use innovation to grow within and beyond the core. McKinsey & Company. <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/how-top-performers-use-innovation-to-grow-within-and-beyond-the-core>

2. Barriers to NPD and Innovation: Customer, Company, and Consumer Perspectives

2a. Customer

One of the primary barriers to entry is competition **from private label (PL) brands**. Once perceived as generic, low-cost alternatives, PL's have evolved into highly competitive, consumer-focused products⁴. In Australia, PL brands now account for 36% of the total FMCG market share⁵, with 55% of Australians believe PL brands are increasingly offering better quality products⁶. PL's are increasingly acting like brands, as seen with Woolworths' Macro Own Brand in *Figure 2*⁷. The Macro range has strong brand positioning and a competitive edge by offering high-quality, organic, and wholesome food⁸, directly competing with innovation from leading brands.

Figure 2



Increasing margin pressure is another key barrier to entry. In the duopoly-driven market, along with the growth of private labels, rising costs, and consolidation, retailers are placing margin pressure back onto companies. This is highlighted by a recent McKinsey study, which revealed that 70% of CEOs in the industry view addressing margin pressure as their top priority⁹. From an Australian perspective, a recent IBISWorld analysis shows nearly 1% increase in average profit margins over the past five years¹⁰. As retailers prioritise profitability and scale through core offerings, innovation frequently takes a second role.

This leads into the final barrier amid mounting margin pressures and an already concentrated market, **shelf-space limitations**¹¹. This barrier is evidenced in Coles' recent announcement of a double-digit product rationalization, which will see 10% of products

⁴ Circana. (2025). From growth to transformation: Global private label.

⁵ Circana. (2025). From growth to transformation: Global private label.

⁶ L'Huillier, M. (2025). How brands can redefine value to connect with customers in tough economic times. EY. https://www.ey.com/en_au/future-consumer-index/how-brands-can-redefine-value-to-connect-with-customers-in-tough-economic-times

⁷ <https://www.woolworths.com.au/>.

⁸ Woolworths Group. (n.d.). Our history. Woolworths Group.

⁹ McKinsey & Company. (2024). State of grocery Europe 2024: Signs of hope. McKinsey & Company. <https://www.mckinsey.com/industries/retail/our-insights/state-of-grocery-europe-2024-signs-of-hope>

¹⁰ IBISWorld. (2024). Supermarkets and grocery stores in Australia. IBISWorld. <https://www.ibisworld.com/australia/industry/supermarkets-and-grocery-stores/1834/>

¹¹ L'Huillier, M. (2023). How brands can redefine value to connect with customers in tough economic times. EY. https://www.ey.com/en_au/future-consumer-index/how-brands-can-redefine-value-to-connect-with-customers-in-tough-economic-times

delisted¹². The shrinking in-store real estate, alongside the expansion of PL offerings, make it increasingly difficult for companies to secure shelf space for NPD whilst maintaining core offerings.

2b. Company

Cost and financing barriers are the primary barriers hindering companies from pursuing innovation¹³. These include lack of internal funds, lack of external financing and high costs of innovation¹⁴. While external stakeholders and market factors play a role, the responsibility falls on companies to strike the precarious balance between funding core products and driving innovation. Companies are increasingly opting for low-cost, low resource NPD rather than investing in the necessary research, consumer testing, and go-to-market strategies needed for lasting innovation¹⁵.

The **low success rate of innovation** makes it increasingly difficult for companies to pursue innovation, especially as new products typically take two or more years to become profitable¹⁶. Psychological factors such as confirmation bias and the sunk cost fallacy further complicate decision-making. A notable example is Coca-Cola's introduction of "New Coke" in 1985¹⁷. The product faced immediate consumer backlash, yet the company continued supporting it long after it should have due to the significant resources already invested. Coca-Cola's failed attempt to innovate by changing its core range underscores the challenge companies face in balancing innovation with the strength of established products.

2c. Consumer

Understanding consumer needs is paramount for successful product development. The inability to meet consumer demand results in persistent high failure rates of new products in consumer markets¹⁸. This is heightened by the shift in Australia's economic and retail landscape in recent years leading to a **decline in consumer trust**¹⁹. A recent Roy Morgan study highlighted that Australians have never been more distrusting of corporate

¹² Harris, A. (2025, January 31). Coles calls in Bain as it slashes the number of products on shelves. Australian Financial Review. <https://www.afr.com/companies/retail/coles-calls-in-bain-as-it-slashes-the-number-of-products-on-shelves-20250131-p5l8l8>

¹³ Carvache-Franco, O., Carvache-Franco, M., & Carvache-Franco, W. (2022). Barriers to Innovations and Innovative Performance of Companies: A Study from Ecuador. *Social Sciences*, 11(2), 63. <https://doi.org/10.3390/socsci11020063>

¹⁴ Corchuelo Martínez-Azúa, B., & Sama-Berrocal, C. (2022). Objectives of and barriers to innovation: How do they influence the decision to innovate? *Journal of Open Innovation: Technology, Market, and Complexity*, 8(3), Article 63. <https://doi.org/10.3390/joitmc8030063>

¹⁵ Ordoñez-Gutiérrez, Á. V., Méndez-Morales, A., & Herrera, M. M. (2023). Barriers to innovation: A systematic literature review. *Trilogía Ciencia, Tecnología y Sociedad*, 15(29), e2614. <https://doi.org/10.22430/21457778.2614>

¹⁶ Govindarajan, V., & Trimble, C. (2014, June). No innovation is immediately profitable. *Harvard Business Review*. <https://hbr.org/2014/06/no-innovation-is-immediately-profitable>

¹⁷ Jones, K., Bertsch, A., Ondracek, J., & Saeed, M. O. (2016). Don't mess with Coca-Cola: Introducing New Coke reveals flaws in decision-making within the Coca-Cola company. *GE-International Journal of Management Research*, 4(10). https://www.researchgate.net/publication/316255186_Don%27t_Mess_with_Coca-Cola_Introducing_New_Coke_Reveals_Flaws_in_Decision-Making_within_the_Coca-Cola_Company

¹⁸ Pertunen, E., Jung, S., Kirjavainen, S., Björklund, T., & Kim, S. (2021). The role of consumer influences in the new product development of packaged food and beverage ventures. *Proceedings of the Design Society*, 1, 3111–3120. <https://doi.org/10.1017/pds.2021.572>

¹⁹ Rodrigues, D. (2024). Australian consumer insights. Mintel. https://clients.mintel.com/content/custom/australian-consumer-insights?fromSearch=%3Ffilters.region%3D17%26last_filter%3Dregion%26resultPosition%3D15

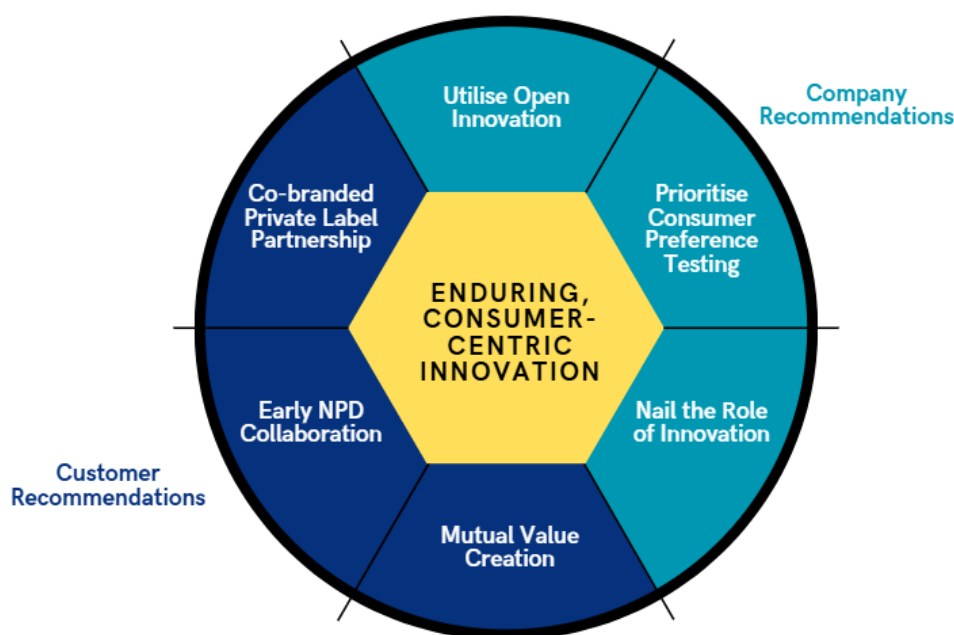
Australia²⁰. This is exemplified by a recent ARA study, showing that 65% of retailers said consumer spending and confidence are the biggest barriers to growth²¹. This climate makes it one of the hardest times to innovate as consumers are hesitant to try new products and gravitate towards the brands they know and love.

With consumer distrust persisting, what will compel consumers to spend their limited disposable income on innovation?

Changes that will satisfy both the manufacturer and retailer to successfully collaborate on NPD.

Once a new product is launched, the most consistent contributing factor in its failure is a lack of consumer focus.²² This section outlines changes, as seen in *Figure 3*, that both companies and customers can make to adopt a consumer-centric approach and overcome practical and financial hurdles in the long run.

Figure 3: Recipe for Enduring Innovation



²⁰ Roy Morgan. (2023, August 31). Risk monitor: Moral blindness. Roy Morgan. <https://www.roymorgan.com/findings/9321-risk-monitor-moral-blindness-august-31-2023>

²¹ Australian Retailers Association. (n.d.). *President's address: Retail endurance – Seizing opportunities in change and challenge*. Australian Retailers Association. <https://www.retail.org.au/news-and-insights/presidents-address-retail-endurance-seizing-opportunities-in-change-and-challenge>

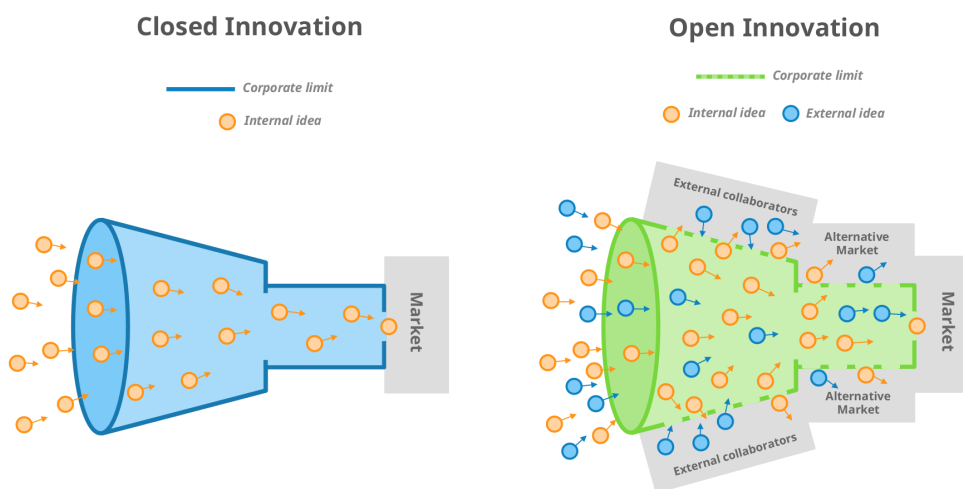
²² McKinsey & Company. (2022). *What is innovation?* McKinsey & Company. <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-innovation>

3. Company Recommendations

3a. Utilise Open Innovation

To remain competitive and meet evolving consumer demands, companies can no longer rely solely on its own resources²³. Open innovation (OI), as seen in *figure 4*²⁴ incorporates external insights from consumers, markets, and technology, differing from the traditional R&D vertical integration approach²⁵. It demonstrates how innovation can thrive even with limited financial resources as it leverages the power of combining diverse bodies of knowledge to drive impactful results.

Figure 4



A key example is LEGO, an early adopter of OI, launching Mindstorms in 1998 with MIT Media Lab²⁶. LEGO's initial success with OI prompted the development of a crowdsourcing platform, now a 2.8-million-strong community that has generated 135,000 ideas, 40 of which have been launched²⁷. Other companies have also thrived with OI, including Unilever, using its platform to present challenges like oil oxidation technology to external innovators, IKEA's digital co-creation platform and Coca-Cola's co-creation efforts in local markets. This highlights how OI unlocks superior innovation, allowing companies to stay competitive and agile while managing costs effectively.

²³ Derqui, B., Fayos, T., & Occhiocupo, N. (2022). The virtuous cycle of trust: Unveiling clues to successful innovation in the Fast Moving Consumer Goods industry. *European Journal of Innovation Management*, 25(6), 1085–1104. <https://doi.org/10.1108/ejim-01-2022-0006>

²⁴ Chesbrough, H. (2003, January 1). The era of open innovation. MIT Sloan Management Review. <https://sloanreview.mit.edu/article/the-era-of-open-innovation/>

²⁵ Billington, C., & Davidson, R. (2010). Using knowledge brokering to improve business processes. McKinsey & Company. <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/using-knowledge-brokering-to-improve-business-processes>

²⁶ <https://www.mckinsey.com/capabilities/operations/our-insights/the-next-step-in-open-innovation>

²⁷ Beretta, M., Dahlander, L., Frederiksen, L., & Thomas, A. (2021, February 17). LEGO takes customers' innovations further. MIT Sloan Management Review. <https://sloanreview.mit.edu/article/lego-takes-customers-innovations-further/#:~:text=Lego%20has%20found%20productive%20ways,quality%2C%20safety%2C%20and%20buildability>

3b. Prioritise Consumer Preference Testing

Following an initial phase of OI, to successfully launch a lasting product that genuinely prioritises consumer needs, consumer testing is vital²⁸, more specifically consumer preference testing (CPT). Although CPT has higher upfront costs, it directly measures consumer opinions, behaviours and purchasing intent, providing real-world insights, and thus reducing the likelihood of a costly launch failure²⁹. However, other methods such as internal panel testing may be time and cost-effective but lack market representation³⁰. A compelling case study for CPT is Nestlé, which uses a 60/40 approach, requiring at least 60% of a large consumer sample to prefer its product in blind taste tests against competitors³¹. This approach has yielded strong results as evidenced by the Nescafe Gold Origins launch³². Nestle offered a product that provided a step-up in quality and experience, catering to coffee enthusiasts seeking a more refined option. By adopting consumer preference testing, companies can overcome financial and practical barriers by validating product appeal early, reducing the risk of costly failures, and driving more competitive and sustainable NPD.

3c. Nail the Role of innovation

The final imperative is for companies to clearly define the role of innovation, ensuring it drives growth without compromising the integrity of their core range. A strong core is essential to any company's success, yet innovation is equally crucial as it fuels incrementality and growth³³. Companies are encouraged to look beyond what they conceptualise as traditional blue-sky innovation to other forms of innovation such as changes to pack format. A classic example of successful format innovation is Coca-Cola's Mini 250mL cans³⁴. Instead of launching a completely new product, Coca-Cola introduced a smaller, portion-controlled format to cater to the new consumer that wanted healthier, smaller, and more convenient servings. By balancing core offerings with strategic innovations, companies can drive penetration and new occasions while ensuring the stability and profitability of their core.

²⁸ Lawless, H., Heymann, H. (2010). Preference Testing. In: Sensory Evaluation of Food. Food Science Text Series. Springer, New York, NY. https://doi.org/10.1007/978-1-4419-6488-5_13

²⁹ Pellegrino, Gabriele. 2018. Barriers to innovation in young and mature firms. *Journal of Evolutionary Economics* 28: 181–206. [Google Scholar] [CrossRef]

³⁰ Ruiz-Pava, G., & Forero-Pineda, C. (2020). Internal and external search strategies of innovative firms: the role of the target market. *Journal of Knowledge Management*, 24(3), 495-518.

³¹ Nestlé. (n.d.). Nestlé enhances taste and nutritional value. Nestlé. <https://www.nestle.com.au/en/media/nestle-enhance-taste-nutritional-value>

³² Espinoza-Orias, N., Cooper, K., Lariani, S. (2018). Integrated Product Development at Nestlé. In *Designing Sustainable Technologies, Products and Policies*. Springer, Cham. https://doi.org/10.1007/978-3-319-66981-6_50

³³ Buffoni, A., de Angelis, A., Grüntges, V., & Krieg, A. (2017). How to make sure your next product or service launch drives growth. McKinsey & Company. <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/how-to-make-sure-your-next-product-or-service-launch-drives-growth>

³⁴ Chu, Bodi. (2020). Analysis on the Success of Coca-Cola Marketing Strategy. 10.2991/aebmr.k.201128.019.

4. Customer Recommendations

4a. Mutual Value Creation

Innovation has never been retail's first language, yet it has proven essential for driving growth, consumer satisfaction and competitive advantage³⁵. As a result, retailers are now compelled to invest in innovation to drive joint success and deliver lasting innovation. One of the most effective ways to achieve this is through driving in-store presence and trial, with in-store sampling as a key execution³⁶. Hofstede's decades-old research shows that giving consumers the chance to try a product reduces uncertainty and perceived risk, which is critical in today's economic climate where consumers are more hesitant than ever to try unfamiliar products³⁷. Costco stands out as a prime example, using in-store sampling across global markets³⁸. In the US, this strategy has delivered impressive results; with wine sales rising by 300% and frozen pizza 600% during sampling period³⁹. Retailers often focus on such tactical support during the introductory phase to drive an inflated spike. This spike, amplified by company activities, is reflected in analysis showing that peak share for #1 FMCG products typically occurs just 24 days after launch⁴⁰. However, after the initial launch, retailers are urged to consider the product life cycle and invest in sustaining momentum and support beyond year one to drive innovation forward.

4b. Early Collaboration with Company's NPD

A further key recommendation for customers is to collaborate with companies at the concept development stage to shape NPDs that directly address shopper needs and fill category gaps⁴¹. This benefits all stakeholders by tailoring innovation to customer shoppers, giving companies greater confidence in ranging decisions and better meeting consumer needs. It also paves the way for exclusive launches and joint promotional plans that drive mutual success. A notable example of this is Sainsbury's collaboration with Unilever to develop exclusive ice cream flavours for the brand's magnum line⁴². By collaborating at the concept stage, Sainsbury's helped co-create flavours that fit their consumers' tastes, such as the "Sainsbury's Cherry Magnum", helping both parties strengthen their market offering and drive sales. While exclusivity can limit scale, customers are still encouraged to share data to fuel NPD and avoid launching misaligned innovation.

³⁵ Alshwayat, D., Elrehail, H., Shehadeh, E., Alsalihi, N., Shamout, M. D., & Rehman, S. U. (2023). An exploratory examination of the barriers to innovation and change as perceived by senior management. *International Journal of Innovation Studies*, 7(2), 159-170. <https://doi.org/10.1016/j.ijis.2022.09.003>

³⁶ Mihăescu, I. (2020). Product sampling effect on purchase decision: Also by social aspects. *Marketing and Management of Innovations*, 15(3), 122-130. <https://doi.org/10.21272/mmi.2020.3-10>

³⁷ Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede Model in Context. *Online Readings in Psychology and Culture*, 2(1). <https://doi.org/10.9707/2307-0919.1014>

³⁸ Shastri, A. (2024). *Business model of Costco*. IIDE. <https://iide.co/case-studies/business-model-of-costco/>

³⁹ Morgenstern, D. (2014). The psychology behind Costco's free samples. *The Atlantic*. <https://www.theatlantic.com/business/archive/2014/10/the-psychology-behind-costcos-free-samples/380969/>

⁴⁰ Stray Partners. (n.d.). 12-year analysis for new product launches. Stray Partners. <https://www.straypartners.com/cases/12-year-analysis-for-new-product-launches>

⁴¹ Biggs, C., Tawfik, K., Aylwin, J., Jain, T., Gospodinov, D., & Zeller, A. (2025). How retailers use innovation to gain an edge. Boston Consulting Group. <https://web-assets.bcg.com/c8/2a/386f5c39419a8bf3877ddb853154/bcg-x-wrc-how-retailers-use-innovation-to-gain-an-edge.pdf>

⁴² Perusco, H. (2018). Sainsburys and Unilever to launch exclusive magnum flavour. *The Grocer*. <https://www.thegrocer.co.uk/magazine/archive/sainsburys-and-unilever-to-launch-exclusive-magnum-flavours/554935.article>

4c. Co-branded Private Label Partnership

With Private Label (PL) emerging as leaders in innovation, a co-branded PL partnership offers a powerful strategy to capitalise on this momentum and overcome hurdles⁴³. From a company perspective, it leverages the growing consumer trust in PLs and supports a high-volume, low-margin strategy, while customers benefit from the company's established brand equity and consumer base⁴⁴. A key example of such a collaboration is the Coles Bakery x Arnott's Iced Vovo Hot Cross Bun collaboration⁴⁵. This partnership leveraged Arnott's strong brand recognition, reinforcing the quality perception and unique product offerings of Coles' PL range. For Arnott's, it resulted in a 58% uplift in Iced Vovo Biscuits in bakery stores⁴⁶. Such partnerships foster innovation and the joining of resources, helping to overcome financial and practical challenges.

5. Conclusion

The barriers to new product development and innovation in the FMCG sector are significant, however the importance of innovation for long-term growth and competitive advantage remains undeniable. To overcome the rising barriers, companies must prioritise open innovation, invest in consumer testing, and find a balance between core offerings and innovative products, whilst customers can drive innovation forward through continued in-store support, data-sharing and early collaboration. By embracing a collaborative, consumer-centric approach, both companies and customers can navigate the financial and practical hurdles limiting innovation and deliver enduring, consumer-centric innovation. Thus, the gamble of NPD becomes less about risk – and more about playing to win.

⁴³ Beacom, E. and Bergin, A. (2024), "Private label partnerships with retailers: a risk or opportunity for producers?", *International Journal of Retail & Distribution Management*, Vol. 52 No. 13, pp. 16-30. <https://doi.org/10.1108/IJRD-08-2023-0494>

⁴⁴ Beacom, E. and Bergin, A. (2024), "Private label partnerships with retailers: a risk or opportunity for producers?", *International Journal of Retail & Distribution Management*, Vol. 52 No. 13, pp. 16-30. <https://doi.org/10.1108/IJRD-08-2023-0494>

⁴⁵ Feiam, A. (2025, February 26). Aussie classic: Coles introduces Wagon Wheel-inspired hot cross bun collaboration for Easter. *News.com.au*. <https://www.news.com.au/lifestyle/food/eat/aussie-classic-coles-introduces-wagon-wheels-inspired-hot-cross-bun-collaboration-for-easter/news-story/1049303a5a63ad98a90b2254874c4518>

⁴⁶ IRI-Aztec Scan w/c 29/01/2025