

Innovation Top Profitability Growth Contribution

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Abstract

In the context of new macro trends dynamics it is of utmost importance to be able to show sufficient flexibility in order to address consumer needs. Innovation ,as one of the key pillars of profitable growth, means allocating sufficient resources to R&D in order to match consumer expectations and coming up with the best configuration of product attributes to provide the most balanced value for money proposition.

Besides addressing the macro trends, as we will highlight the premiumization topic below, it is also very important to keep an eye for the full portfolio availability in order to have sufficient scale of profit to be able to fund the innovative approaches.

Regardless of the industry (pharmaceuticals or beer) it is obvious that the lifecycle of a product becomes shorter and the need to act innovative becomes critical to add additional margin to a company's P/L.

Key words: innovation, profitability, product, market

J.E.L. classification: M2

1. Introduction

Innovation is a process through which organizations have been able to grow economically through changes of products and processes with the goal of implementing and using new types of products, means of production, logistics.

Innovation is influenced by the nature and degree of change in the economic environment, with manufacturers being forced to adapt to the realities on the market.

For organizations capable of seeing change, the global market offers many opportunities and challenges. With all these changes, arise the risk of the evolution of consumer preferences and cultural differences.

The objective of the topic is to outline a model for the implementation of innovation steps in an efficient way by organizations active in the consumer industry improving also the profitability of the company.

The aim of the research is to provide concrete, solutions for managing managerial problems related to creativity and innovation in organizations, considering that the development of products, processes and new services is a crucial component of competitiveness in the current context, being the most effective way to improve profitability of the company.

2. Theoretical background

A summary that reflects today's economic reality comes from Peter Drucker, who defines innovation as "the specific tool of an entrepreneur manager, the means by which he exploits change as an opportunity for different businesses or different services."

The notion of *innovation* from an economic point of view was first analyzed by the Austrian scholar J. A Schumpeter in the first decade of the 20th century in his Theory of Economic Development.

Innovation is defined as "all changes to the purpose of implementing and using new types of products, means of production and transport, outlets and forms of organization of the production process." It is therefore admitted that innovation embraces five types of activities, namely: the creation of a new product; the introduction of a new manufacturing method; entering a new market; the use of new raw materials; a new organization of the company. A definition of innovation that incorporates both products and services and processes (in marketing, systems and operational) was formulated by G. Pinchot and R Pellman : "innovation is both the creation and the bringing into use profitable technologies, new products, new services, new marketing ideas, new systems and new operating paths."

A recent interpretation of innovation by Goffin and Mitchell demonstrates that it is influenced by the nature of change, the degree of change, the source of change.

The innovation process is implemented differently in each company. They, as needed, create their own business model.

The business model described by Osterwalder describes how an organization creates, distributes, and captures value. In order to get profit from an innovation, the business must achieve performance both in product innovation and business model innovation, understanding both the strategic / design options of the business and the needs of customers and technological trajectories, following Teece results.

3. Research method

The research methodology developed during the writing of the article was, as follows: identification of the bibliography representative of the topic chosen, its study and the comparative analysis of the different opinions in the field, especially on the beer industry.

Going through all the documents has involved the use of library resources, databases such as Nielsen retail data which helped me determine the influence of different factors on business models.

The research has gone through several preliminary stages - identification of classical and electronic bibliographic sources, filtering material, construction of working hypotheses to be validated during the research.

4. Analysis

Regardless of the industry in which it operates, a company must be able to anticipate the future and plan its products and services strategy to compete in a fast-moving market. There is a close link between the performance of an organization and its ability to launch new products on the market. All new organizations were born through the development of innovation, comparing and competing with existing competitors on the market.

For example the beer company MolsonCoors took into account the company's expansion over the years, it has diversified and increased its product portfolio both through innovation and through acquisitions, bringing with them, both research and development experience and products in other markets outside the country, which will also be launched in Romania.

Bergenbier SA, part of MolsonCoors, is one of the top three players in Romania, with a market share of 16% (Nielsen Retail, 2016). The main competitors on the market opted for a strategy to reduce the competitive pressure by strengthening portfolios in different market segments, namely according to the preferences and the purchasing power of the consumers. Following the acquisition of Bergenbier by MolsonCoors, the Romanian company has increased its product portfolio by addressing all types of consumers: diversity and quality, these are the characteristics of the Bergenbier SA portfolio, which includes brands that cover all segments of the market and strives to become the first choice for anyone who wants to enjoy an exceptional beer. Innovation and attention characterize each activity, from the observance of recipes specific to each beer and the fulfillment of the promise of a unique taste especially to the hundreds of years of casting and serving rituals or the special experience of moderate consumption in the context of special events.

For a company to be competitive in the market and to innovate, must know the relevant market in which it activates and its main competitors. "The relevant market is the market on which the competition takes place and is used to identify products and businesses that are in direct business competition. It includes a product or group of products and the geographical area where they are produced. The relevant market has two components: product market and geographic market." (Official Monitor, 2004)

The relevant market of a product is built by all the similar products from the point of view of their characteristics, price and usage. They are the ones on which the consumer directly exercises his buying decision.

The relevant product market is identified by an analysis of the products in that market, taking into account several factors such as price, demand elasticity and substitutability.

The products that can be achieved by expanding production capacities or by modifying production lines are those that manufacturers decide to make, being also economically acceptable, and succeeding in replacing certain products with the relevant market within a short period of time.

Innovation can be achieved both as a way of production and as services. Innovation in services (eg transport, distribution, logistics) brings innovation to production (zero stock, bar code identification - for big chain stores, easy transport, fast delivery). All these innovations attract investment in areas such as marketing, financial engineering, professional engagement, consulting, scientific research.

An interested definition has been proposed by the Finnish Funding Agency for Technology and Innovation: "Service innovation is a new or significantly improved service concept that is being adopted in practice. This can be, for example, a new channel of customer interaction, a new distribution system or a new technology concept or a combination of them. A combination of services always includes reproducible elements that can be systematically identified and reproduced in other cases or environments." (Bart van Ark et al. , 2003).

The relevant geographic market includes the area where the economic agents involved in the delivery of the products included in the product market are located, the area where the competition conditions are sufficiently homogeneous and can be differentiated in the neighboring geographic areas due, in particular, to substantial competitive conditions. Similarly, the notion of geographic market also refers to services. (Official Monitor, 2004)

Carrying out a complete market analysis is an essential thing to help shape the strategy of a company, along with finding the need for internal and external resources, planning each stage of innovative development. Because innovation is a complex process, this involves resource investment internally and externally. Innovation is associated with increasing productivity and the number of employees.

One of the most important sources of innovation that is found outside of the organization is the user. Its needs can serve as a starting point for developing, improving and / or designing new, more competitive products and services. As they have the appropriate skills, users can not only offer a market-friendly innovation environment to consumers but also solve unforeseen problems and participate in the development of products and services themselves.

The consumer is the one who can best observe and analyze a product because it uses it, and, because it looks at everything from the outside of the image, it discovers certain sides of the product that do not fully satisfy it. Thus, the company's specialists can meet their ideas and they can apply or adapt them so that they can be put into practice. As a strategic goal, the company must aim to have a partnership between it and the consumer in terms of the innovation process. (Kusiak, A., 2007)

The market analysis of products in terms of attractiveness in the market is based on certain indicators: market competitiveness and attractiveness, product lifecycle and product competitiveness. The most used analysis model for identifying the most profitable products, the ones to be developed or those in which should be developed or to which should be abandoned is the Boston Consulting Group method.

In order to be competitive on a market, companies must have a better planning, a clear marketing strategy for each product, so that the consumer is faithful to the brand both in the short term as long term. Consumer knowledge is essential in achieving the strategy. The decision to buy the consumer is influenced by both marketing campaigns and other features (for example, the

price).

"No matter how good a product is, it will not be sold, and the consumer will not be pleased if the price is too high. In the past, the criteria of making the products was selling them, at the moment this criteria is buying them, again the manufacturer must be at the consumer's position when manufacturing a product." (Ishikawa K., 1985)

For example the beer market is a vertically differentiated market. The factors identified as elements of differentiation are: the quality and perception of consumers (this latter element being mainly based on the image built by advertising). Beer is generally grouped into four distinct segments: super premium, premium, medium and economical. Branding in the categories mentioned belongs to the manufacturers. In general, positioning a beer brand in a certain category is a manufacturer's marketing decision, so there is no homogeneous classification set.

Let's take the example of Bergenbier brands. Based on Nielsen market information and our own analyzes, we can include the Bergenbier S.A. products after the BCG matrix in the following quadrants:

Figure no. 1. Bergenbier brands



Source: (Nielsen report, May, 2016)

Becks and Stella can be regarded as the *stars* of the portfolio as they benefit from brand health, significant position in the segment, and the fact that in numerous external market analyzes the premium / super premium segment shows signs of recovery starting in 2016 on the basis of preferential consumer preference of acquisitions.

Staropramen, as a new brand on the Romanian market, benefits from a strong support from the company on the media side through TV advertisements, consumer activities by organizing events related to jazz, food, TV shows and promotion in stores. Considering the market share at this moment, we can allocate the brand to the quadrant *dilemma*.

The Bergenbier brand, by its nature, target audience and importance within the portfolio, can be assigned to the *milking cow* quadrant. In the same quadrant, we can also mark Lowenbrau, which, without visible investment support and a single available package, 750ml PET bottle, generates significant revenue according to Nielsen.

Noroc is in a noticeable decline every year, even if the company's representatives declare that this brand is an important element of the portfolio, and does not give any signs of recovery even if sustained efforts are being made at the level of media visibility and consumer activation. Profit is "the essential engine of society" says Francois Perroux. Profit is the essential incentive to carry out an economic activity for those who carry out this activity.

“In the literature, profit in the general sense is defined as the positive financial result of a lucrative activity, representing the difference between the proceeds earned and the expenses incurred by it. It is also considered that the gross profit is the sum of the positive financial results in a range of the time (month, quarter, year) obtained by a natural or legal person in the sectors of activity. This general sense of profit gives a picture of the way in which the activities take place in a productive unit, if these units succeed in the incomes obtained in following the sale of the production, to cover the costs incurred in obtaining the respective production. Effective realization of the profit means that the assortment and the quality of the production versus sales to cover the expenses incurred in obtaining the respective production. The assumptions and the quality of the production must correspond to the solvable demand. If the goods do not meet the needs they are not realized and the profit is not formed.” (Porter, M. E., 2001)

Thus, to maximize profit, manufacturers must also conduct a portfolio analysis in terms of profitability. So if one of the market share products has low profitability or close to zero, then the manufacturer will need to rethink the strategy and focus on high-profit products.

The profitability of a product can be influenced by the following: large discounts on the market, usually aligned to the discount level, just to be competitive, high production costs of the product in question, high logistics costs, massive investments in marketing, product promotion costs, team costs. All of these combined elements in the long run bring low profitability to the company.

Let's take, for example, generics pharma companies in Romania.

Initially, when launching a generic product, they were first on the market, after the original product. At that time, the profit margin / unit was 40%. After about three months, the competition entered with the same type of molecule but with a lower price, giving higher discounts. Company x had to give 30% discounts to be competitive, but the production cost of the molecule was 35%. In this situation, the unit profit margin per company dropped to 10%.

Another example is in the beer market. Although the economic segment dominates the beer market in Romania, with more than 50% of its volume and 40% of its value, its dynamics shows a change in consumers' preferences to the price segments with a higher perceived value for them, thus the premium and super premium segments look a year-on-year increase in the total market (Nielsen, 2016).

From the perspective of the portfolio offered to consumers, and the allocation of brands to price segments, we can say that Bergenbier SA comes to meet these with a set of brands that meet the needs of each segment, so they can maintain their profitability.

Figure no. 2. Bergenbier brands by segment



Source (Nielsen report, May, 2016)

Looking at the brand-wide packaging offer we can see the importance of each price segment. According to Nielsen market data, PET has the highest importance in the economy segment, and the premium and super premium segments based on aluminum cans, returnable glass and non-returnable glass a lower importance.

By making a comparative analysis of the Bergenbier SA segment mix versus the direct competitors or the average beer market it is clear that the disadvantages of market exposure on the economy segment come with a substantial advantage in terms of the value of the current mix. The

value of super premium, premium and medium segments is above the market average, which means that in terms of profitability, actual sales volumes can be offset by a mix of segments directed at higher value added products for the company.

As regards the production process, the costs added to produce a premium or super premium beer are significantly higher than to produce beer for the average segment as a result, the possibility of asking the consumer for a higher price for products in the upper segments is based on the perception of quality and appearance of the higher social state at the time of consumption.

5. Conclusions

Innovation is one of the most important growth measures for a company, and it is the source of sustainable long-term development, at least in the beer industry.

A successfully implemented innovation helps to increase profitability not only in the short term but also in the long term, can help increase the company's market share, brand awareness and especially can reach the top 3 favorite brands of consumers.

When innovation is on the first place in a company's strategy, their products became more attractive on the market, having something different and new, the profitability can be maintained for long periods of time and it becomes the top priority for management.

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