

Strategy & Corporate Finance Practice

# The committed innovator: An interview with Kellogg's Nigel Hughes

With more people eating at home than in the past 150 years, food companies have an opportunity. Nigel Hughes, head of R&D and Innovation at Kellogg Company, discusses ways to capture it.



**Sean Brown:** From McKinsey's Strategy and Corporate Finance practice, I'm Sean Brown and welcome to *Inside the Strategy Room*.

Today, we are excited to bring you the third episode in our ongoing series on innovation: The Committed Innovator.

Today we feature a conversation with Nigel Hughes at the Kellogg Company. He spoke with Stacey Haas, who leads our consumer innovation practice, and Erik Roth who heads up our innovation practice globally.

Their conversation centered around the innovation challenges facing large consumer-products companies in the COVID-19 era. Nigel provides some fascinating insights into how the Kellogg Company is developing new products with external partners, and how he personally is thinking about working at the intersection of growth, innovation, and R and D.

We hope you enjoy their discussion.

**Erik Roth:** Thanks Sean. We're excited to be continuing this podcast series – The Committed Innovator. We're talking to innovators, entrepreneurs, and leaders from all industries and all backgrounds to have them share their real-life stories and pragmatic tips and experiences from the heart of how their driving their innovation agendas. We are still each remote due to the COVID crisis, but happy to be together. I'm with Stacey Haas, a close partner colleague of mine at McKinsey and Company who leads our consumer innovation practice, and we're honored to have our guest, Nigel Hughes, who is the global head of R and D and innovation for the Kellogg Company. So Stacey and Nigel thank you so much for joining us. And now over to you Stacey to get us kicked off.

**Stacey Haas:** Thanks Erik. Nigel, thanks so much for joining me for this conversation.

**Nigel Hughes:** No, thank you for having me, Stacey and Erik.

**Stacey Haas:** Now Nigel, at Kellogg you're the R and D leader and the head of innovation, how do you see the difference between these two roles?

**Nigel Hughes:** Well, as an R & D leader, I can bring a lot when it comes to technical insight and opportunity. But as I've developed through innovation, I've learned more and more that often there are a lot of technical issues and opportunities to solve. But also, it's so important to understand how those marry with the business model and commercial opportunities. And really the sweet spot is the intersection between the two.

**Erik Roth:** If I might ask a question, Nigel, you know, we hear from a lot of innovators, particularly in large corporations, that the connection between the technical and commercial sides of the business is always a challenge. And you know, how to make R & D and innovation, a real profit and growth centre as opposed to a you know doer of tasks? How do you view that at your company in your experience, and then how do you solve for that?

**Nigel Hughes:** I would argue that I've spent most of my career trying to ignore that tension in the sense that, really the magic lies when you get down to the basics of what you're making and what you're trying to create for the consumer. What do I mean by that? Well, it would be easy for me to walk into a room and talk about technical language and confuse people with my technical insight. It's my job to ensure that I don't do that. And that I translate that technical insight into very straightforward consumer language. I'll give a really simple example. When I walked into Kellogg, all of the R & D organization talked about making product. And I said to them, literally in the first week, hang on a minute we make food, think about what you do as making food and suddenly you'll be able to connect your brilliant technical insight in a much more straightforward way with all of your commercial colleagues.

**Stacey Haas:** Tell us Nigel about how that links to the CPG model. So, over the last several years, one could argue that the CPG model for innovation has been a bit broken. The large CPGs, while historically very successful in innovation, have struggled. And

a lot of those smaller companies have been the ones gaining share. What's your perspective on the innovation model and CPG today?

**Nigel Hughes:** Again, I think it's an issue because we've allowed ourselves to be categorized, and we've looked at ourselves in a particular way. It's interesting, isn't it that we call what we do this wonderful three letter acronym CPG. When actually really what we do is we prepare accessible foods for billions of people every day. So, this is a big scale thing. But that doesn't mean in any sense that it can't be intimate. So, if I look at someone, as a consumer, the C, then am I really looking at them as a human being? Am I really looking at them as a family? And am I really getting under the skin of what they want?

If I look at the P product, am I really thinking about food and eating, and the occasions, the wonderful occasions that bring us together over food? We've managed to create structures that give the impression that we are getting closer to our consumer. And yet, so often, those actually blind us from the very simple and straightforward truth. A startup is driven by a passionate idea or hunch. We've got to recapture that energy in CPG.

**Erik Roth:** What are the structures that you think have been created that are getting in the way of this sort of pure version of innovation that you're describing?

**Nigel Hughes:** I get in discussions now as to whether members of the R & D team should be present in certain conversations with the consumer, or with the advertising agency, the very people who are going to turn the creative brilliance of the R & D organization into compelling communication. That didn't exist 30 some years ago, when I first started doing this. It was much more open door. People have found models that are efficient. I would argue that CPG overall is more efficient in innovation that it's ever been. The problem is, is it truly effective? And that's what we've seen in in the market, the startups really taking those new positions and pushing the ball forward.

**Stacey Haas:** The period we're in now, with COVID underway, has changed a lot of those consumer behaviors you've been talking about. What do you see in terms of the big shifts in the landscape, and what does it mean for food companies and your innovation?

**Nigel Hughes:** The COVID crisis has actually had a very different impact on our kind of business than it has some other businesses. Of course, demand has been extraordinarily high throughout the whole COVID crisis, more people are eating from home today than they have for the last hundred and fifty years. But the way to get food into people's hands has changed quite significantly. We're probably going to see a reversion back of some of that. So of course, there's been a lot of e commerce that may change over time.

**Erik Roth:** So, what you just described could be characterized as a hunch around the future, that in the hands of a venture builder might turn into the next unicorn that everyone gets excited about. How is that possible within the walls of a large corporation or is it possible, first of all? And then second of all, how are you trying to make it possible? And if not, what is a large organization left to do?

**Nigel Hughes:** I think that's one of the biggest challenges for large organizations. And it's really, how do you manage this duality of having a major core business that you want to drive the efficiency of, and being able to experiment in new spaces? I think that goes to the very heart of my job. Really, if there's one thing that characterizes my job and one of my close partners, who is the category strategy lead for the Kellogg company, our job is understanding how to get that balance. I always think it's a fun word, the word balance, and I remember 25 years ago now, when I was back in Unilever, Simon Clift was the CMO of Unilever at the time. I remember him saying, you know, the thing you should always be remember with balance is that truly It's 100 100. It's not 50 50. So how can you play at 100 in that shorter term? And how can you play at 100 in the, in the longer term. And the way, by doing that, for me is ensuring that you invest in the

short term through internal capability, such that you can get those fast turn rates and you can drive the efficiency. I come back to that efficiency word again. But companies can have those capabilities if they put their mind to them. I'll give you a simple example.

We have an incredible pilot plant here in Battle Creek, Michigan. Up until very recently, we only use that pilot plant to experiment internally. We've actually more recently got that pilot plant fully validated by the FDA so that we can make saleable food. That gives us an incredible opportunity to test and learn but not just test and learn really test and learn, really be able to serve the consumer and really be able to look at in a transactional learning fashion, what is the feedback from that consumer?

Another dimension is we need to build in new business models. Well, we've got a venture arm. How do we use the venture arm to bring in dimensions like that? And so, really, we've changed completely. When I started my career, big companies had R & D centers that were invention houses. Today, we are a design house. We're about aggregating elements of the solution.

**Stacey Haas:** Nigel, how do you make those connection points happen successfully, both across the various pieces internally, but also with external partners in your ecosystem?

**Nigel Hughes:** Well, the interesting thing is a lot of external partners are very keen on working with us, because they know Kellogg. We've got a good and long reputation. Their key problem is, can they access the sort of scale and go to market that we can offer? The challenge is how do we work with them? Because big companies grew up with cultures that said, we want to own everything. And the people we partner with should just be thankful they're partnering with us. I'm caricaturing, but there's an element of that. What's interesting now is you've got to build a culture where you understand that there is real value to be had with those partners, and it's value that we could never get, certainly as quickly and as effectively on our own.

**Stacey Haas:** For a long time, a lot of the bigger companies thought that that longer-term innovation really needed to be internally driven. I am hearing from you, it doesn't need to be that way. And in fact, we should be leveraging our external ecosystem more, or other investment vehicles as you said.

**Nigel Hughes:** That is exactly where I stand, Stacy. I've got enough grey hairs that I can pretend to have an innovation philosophy. It's what I would call a solution-based innovation philosophy. And I really picked that up by spending quite a lot of time on the west coast and looking at what the tech folks were doing. And although their models are constantly evolving, fundamentally, the models of the big tech folks were to be a design aggregator, but with technologies and technological components that came from other places. And I really see that as being the best way to handle all of the uncertainty and opportunity of the future.

**Stacey Haas:** Do you have an example or time you can think of Nigel we're that kind of partnership with an external party really helped your innovation?

**Nigel Hughes:** Yes, yeah. We put money into a company called MycoTech. MycoTech are all about getting proteins from mushrooms. Historically, Kellogg would have parked that kind of interaction purely with the R & D team and maybe gone back to look at it once every couple of years. Instead, what we did was really bring that MycoTech team close in and say how do we build them as an essential part of not only our longer-term innovation thinking but also our immediate innovation thinking. Within 12 months of starting that collaboration, Kellogg's food contained the MycoTech proteins. That is unheard of for the Kellogg company. And remember, we're talking about a start up here, we're not talking about a supply partner that's got all of the supply sorted out, we really had to support them working through their supply base. Now that relationship has turned into a whole pipeline of opportunities, because we've secured through our venture investment, access to their frontier work.

**Stacey Haas:** What did you do differently in this particular relationship that you think made the difference?

**Nigel Hughes:** We accepted that we would put venture money in there, but that we would have to work to get access. And it wasn't a guarantee or a stipulation in the contracts. So that was involving a risk from our side. Because if MycoTech had found someone else that was able to bring their particular proteins to market more quickly, they could well have done so. But we accepted that.

**Stacey Haas:** I'm really glad you raised the topic of plant based proteins. It is obviously a hot and fast-growing trend. Curious for your thoughts on the rapid growth of some of the other brands in the space and whether the innovation that has occurred was something that an incumbent brand like Kellogg could have done and scaled.

**Nigel Hughes:** I think actually, Stacy I would characterize it as more than a trend. I see this being a massive shift in the whole food space. And that's because there are three drivers actually. There's the dietary drivers. We know that diverse plant-based proteins are better for us than certain meat proteins. There's environmental reasons. And more and more there are ethical reasons. I see this as being a permanent evolution.

To your question about why Kellogg did or didn't do something in the past, I actually believe that this market is only in its first generation. I draw a parallel between what's going on now and what happened with the.com bubble in the 1990s. A lot of companies started, a lot of them then failed. I think what's happening right now is that 1.0 version and for sure, Kellogg has a right to play in the meat alternative space. And is doing some through Morningstar farms and we're launching incogmeato in the coming year. What is even more interesting from my point of view is how will people incorporate plant-based proteins in their diet in 10 years time.

Again, it's a hunch on the future. I'm not sure it's just going to be in meat mimics.

**Erik Roth:** Given that you said earlier, CPGs, or consumer companies have lost touch with really understanding consumers as well as they could. What we see when we go into a lot of consumer companies, you know, a lot of innovation and R & D efforts aren't clear on what problem they're trying to solve. Do you see that as well? And then how in your experience, have you helped your organization to adopt this more solution orientation that you're referring to?

**Nigel Hughes:** That is absolutely fundamental to that whole approach, Erik, understanding the problem to solve and then understanding who is the most capable of solving that problem. And the first thing you've got to bury is your own ego. And say, I'm not going to be the person who solves that problem. I'm going to be the food designer or the food aggregator that brings all of that together. The other part of it is, we don't live in the world of ideas. We try as much as we can to live in the world of clear opportunity. And therefore, it's really important to us to say, Okay, I know that if I can move this brand into this space, there is a clear profit pool to go for. And there is a clear, profitable business to be generated. I think a good example of that is, is the work that the team did around CheezIt Snap'd. You've got a great equity, but an equity that wasn't playing in that more sort of adjacent chips area. You've got a huge profit pool there. So why not? And the team did a tremendous job of designing food to capture that opportunity.

**Stacey Haas:** Nigel CheezIt Snap'd and Pop Tart Bites were recently highlighted in IRI's pacesetters report for, as a top 10 food product. So congratulations for that. We'd love to hear what in addition to what you just said about being clear on the opportunity, what led those two products to be so successful?

**Nigel Hughes:** To me there were three dimensions to it, Stacey. The first one is what I just talked about, we understood the size of the opportunity space, so there was incredible belief within the organization to go after that space. The second one was we attacked it in a wonderfully integrated way from a commercial execution point of view. All channels in an integrated fashion. Very, very important. You can talk as much as you like about, about the proposition if you don't get the execution, right, innovation will fail. And then the third part was, and it ties all the things together, we knew that we had a winning food. But I'll tell you again, it goes back to the simplicity of this stuff at a certain level. I knew it was a winning food because every time you took that food and put it in the middle of a meeting room table, it would be the first food to go. And that is so important because there what you're doing is you're, you're understanding it's great food, and you're creating belief within the organization, both at the same time.

**Stacey Haas:** In those products, what kind of consumer engagement did you have Nigel? Because one of the things we see is that the R & D organization will work really hard to internally optimize the product before it ever gets in front of the consumer. Curious if you tried any alternative models with those products?

**Nigel Hughes:** I alluded earlier to the fact that we set up the capability for transactional learning. So what we were able to do was get out there, and not only get it in front of consumers, but actually put it for sale so that they put their hand in their pocket. We weren't talking conceptual here, we were talking very real. And that was very, very important to us. In terms of tweaking the design of the food, the flavour profiles and the like, but also really critical things like understanding the right pack sizes. So it was very, very high touch and we want to drive more and more of that, because we see that as being a key success factor.

**Stacey Haas:** So just to make sure I understood it correctly, because this is, it's exciting to hear Nigel, you put food in front of consumers, you let them buy

it, and then you actually went back and edited the food, edit the packaging, etc, before you launched it scale.

**Nigel Hughes:** That's right, entirely iteratively. We've done something very similar with, with a more breakout idea which is Joybowl. We're doing that in exactly the same way. Because we know that whilst we can be confident about a big space and a big opportunity, we will probably be precisely wrong in the initial execution. So the iteration is everything.

**Stacey Haas:** And is this shortening or lengthening your development process?

**Nigel Hughes:** The iterations are way shorter than what we would have done but we're putting in more iterations. So overall, it's shortened slightly, but it's not massively shortened. But for something like this, we're not too worried about that. Because this is the creation of a new food proposition for us. We fully expect this to be worth several hundreds of millions globally over time and we fully expect this to be in the market for a significant amount of time. So it's really worth putting that effort in. If I'm talking about a single flavor variant of the small brand, then I just want a really quick iteration. And I just want the shortest development time possible.

**Erik Roth:** So Nigel iteration and learning presumes that sometimes you'll learn some things that will help accelerate an idea and make it bigger, better, stronger. Sometimes you can learn things that actually suggest that an idea just isn't the right idea, and it should stop. How do you instill this sort of learning culture within Kelloggs, specifically in terms of the notion that it's okay to take risks on things that may not work? I've heard so many stories where initiatives just keep going because that's what was on their agreed upon objectives, and they don't have a backup. So how do you solve that dynamic of risk taking and also, when something doesn't work out the reallocation of that resource to something new or something different or something that perhaps has a better chance of success?

**Nigel Hughes:** I would take that in two ways. I think there's a very practical part of, of how do you know when to quit? And then there's the psychological part. In terms of the practical part, by focusing on clear financial opportunities, profit pools, what we find we do more is not necessarily just stop something completely, but we understand that a particular route to get there isn't the best route, and therefore we'll stop a particular route. But we'll continue with the aspiration to go after the overall space. In the past because people were trying to force things through to being their opportunity, then you've got a lot of people carrying things on. The psychological side of it is really interesting and it goes back to this notion of being solution-based and I won't say by any means that we're all the way there on this, we're not absolutely not. But by focusing on solution rather than idea, there is a positive depersonalization of what's going on. Now, you still want people to be passionate, you still want them to drive to success but it's important that they're not just associating that success with their single idea and their single contribution. And that's a long journey for us. I'd say we're only at the beginning of that.

**Stacey Haas:** Nigel have you had to work with the leadership team in new ways in order to support that kind of change?

**Nigel Hughes:** Yes, and this is where senior leadership is often the biggest challenge within a company because as senior leaders we get conditioned to only look at the hard data. The fact is often the data is not very hard, because we're talking about the future. So a big part of what we've been doing is trying to build confidence around that hunch, trying to build confidence around, yeah, this is an ambitious opportunity space to go for even if we're not quite sure exactly how we're going to get there.

**Stacey Haas:** I'd love to get your perspective on how the R & D process itself is changing. In particular, how you think about digital, AI, or other kind of technologies as part of the process.

**Nigel Hughes:** I think they're fundamentally important. Let me give a very concrete example.

One of the most important things for our consumers is that they understand the ingredients within the foods that they're consuming, and they understand where those ingredients are from. The digital world is transforming that, it used to be that it was fine to say, yeah, roughly speaking, the wheat that goes into this, or the oats that go into this come from this part of the world.

Now, we could tell people which corner of which field in which country at which time this particular ingredient was grown. And they might not want that level of precision, but people want more and more precision. And it's not only a supply chain thing, it is a real R & D thing. Anybody I would suggest can make one or two prototypes that work. When you try and then do that to produce billions of the same thing day after day after day after day, it's a bit tricky, and that's the business that we're in. So being able to understand your ingredients at a more granular level. Being able to understand exactly what processing they've been through is critically important to us.

**Stacey Haas:** If you think about the future for innovation and CPG, what is it that you would like to see? What would you like us to be talking about in five or 10 years?

**Nigel Hughes:** For me, there's one word, and that's personalization. Within the next 10 years, we're going to understand that food is a personal choice, and we're going to be able to create foods that address your particular personal needs and desires. The work that's going on right now around the human microbiome is absolutely fascinating. And beyond that, we're beginning to understand that it's about our microbiome and our metabolism that determines how we respond to food from a health and well-being point of view. Equally, people want foods that are personally designed for them, and that's going to be a massive, massive thing, and it's a huge shift for companies like Kellogg, because what we've done historically is be able to make solutions that serve many, many millions of people. We're going to go through a transformation where we really see the value created in the food business through personalization, is my belief.

**Erik Roth:** Nigel, thank you so, so much for your time, your insights, there is no question that you are absolutely committed to innovation. And I am sure those who are listening will learn a lot from your comments and your insights and are going to look forward to their personalized version of food sometime in the hopefully near future.

**Nigel Hughes:** Thank you, Erik. Thank you, Stacy. It's been an absolute pleasure. Thank you.

**Sean Brown:** We hope you enjoyed this innovation focused episode of *Inside the Strategy Room*. If you haven't already, be sure to listen to our previous episodes on this topic: We've spoken with the former vice chair of GE, Beth Comstock, and more recently, with Canadian entrepreneur and investor (and star of TV's shark tank) Kevin O'Leary. An edited version of this discussion will be available soon on the Strategy and Corporate Finance practice site

on McKinsey.com, where you may also find links to other episodes.

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Thanks again for listening, and we look forward to having you join us again soon *Inside the Strategy Room*.

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