Cutting Ingredient Costs by using Lower-cost Alternatives

HOW DOES IT WORK?
To help meet lower-income consumers’ needs, companies often need to adapt their products. This is particularly important when it comes to making products more affordable.

Ingredient costs can be a main driver of product costs – particularly in settings where other costs (like labour and rent) are relatively low. As such, one way to cut costs can be replacing more expensive ingredients with cheaper alternatives or omitting certain ingredients altogether.

WHAT ARE SOME EXAMPLES?

Coopérative de Transformation d’Approvisionnement et d’Écoulement de Soja (CTAE) – Benin
This company developed a product, soya goussi, which replaces the mashed seeds used in a traditional dish with roast soybean to create a cheaper product – which is also more nutritious, having a higher protein content. The product is particularly low-cost as it was made using soy cake, a by-product of soybean oil production. The product can also be used to substitute for meat, at a price about 30% lower than chicken.

Promasidor – South Africa
In their powdered milk, sold under the Cowbell brand, the company replaced milk fat with vegetable fat, creating both a cheaper product and a more shelf-stable one – which is particularly helpful to households that may lack refrigerators.

Danish Care Foods – Cambodia
This producer of fortified snacks and therapeutic foods replaced the imported dairy- and peanut-based products used by its competitors with cheaper local fish and beans, which also enabled it to better cater to local tastes.

KokoPlus – Ghana
When making a fortified complementary feeding supplement, this company excluded the cereal part of a typical porridge flour, since households already had access to grain flours. This allowed for cost reductions in production (due to fewer ingredients and simpler processes), packaging (due to smaller packages), and distribution (due to smaller and lighter packages).
WHAT SHOULD A FIRM CONSIDER?

Replacement of ingredients may seem like a straightforward strategy, but success with it depends on achieving customer acceptability. This can be done through a product that is very similar to the original (regarding how it can be cooked, taste, texture, and storage properties) or through careful marketing and consumer education.

From a nutrition perspective, the replacement ingredients should be nutritionally similar (or superior) to the original ones.

From a food safety perspective, it is important to be transparent with the labelling of the products so that it is clear which ingredients the product contains. This allows consumers to see which ingredients have been replaced compared to other similar products.

This strategy also has limits: there are only so many ingredients one can remove before a product becomes undesirable or not useful, and some ingredients have few substitutes.

Finally, in settings where ingredient costs are a small portion of product costs, this strategy might not be effective at making a measurable difference in costs.

HOW TO DEPLOY IT

To deploy this approach, an entrepreneur could first identify their product’s major cost drivers to see how important ingredients are in relation to total costs, and which are the most expensive; experiment with different formulations to identify whether there are any substitutes for those, or if any could be omitted; calculate the savings from such changes – considering whether any other costs would also change (e.g., processing, storage, packaging, or shipping costs); consider whether the substitution would change any other product properties (e.g., nutritional content); and consider how to educate consumers on the change (e.g., through packaging or marketing).

To Learn More:

den Brink CP, Vellema S. 2018. Making the provision of nutritious and affordable food a business: Two case studies of the intertwined processes of frugal innovation and inclusive development in Ethiopia and Benin. The Partnerships Resource Centre.


While we hope this offered useful advice, users should always consider their company’s circumstances when adopting new approaches – and make sure that they are used as part of a broader viable business model. The examples cited come from a 2022 document review and may not be fully up to date.

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