

STOCKHOLM SCHOOL OF ECONOMICS

Market-Oriented Innovation in the Swedish Packaged Food Industry

– Going beyond line extensions

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Abstract

The competitive environment in the Swedish packaged food industry, in combination with changes in consumer lifestyles and consumers' changing demands, are placing new emphasis on packaged food innovation strategies.

The purpose of this thesis is to investigate novel innovation approaches of two large Swedish brands in packaged food, in light of the ongoing market changes that are re-shaping the innovation landscape in the packaged food industry. For this purpose, an in-depth case-study approach is used, based on two leading companies, a branded manufacturer and a private label.

The thesis describes and analyzes how these companies are adapting to the need for new innovation processes as the industry goes from a product-oriented to a market-oriented innovation approach. The companies' adaptation is analyzed in terms of; (a) the gathering and interpretation of consumer data, (b) the management of the innovation process, (c) the level of involvement in the network and (d) the effects resulting from the companies' approach to these three fields.

Among other findings, the study concludes that the analyzed companies have moved towards a more consumer-centric approach in their innovation processes, and that although the quality of consumer intelligence obtained may not be *better*, it is *deeper* than previously; that a "conventional" linear innovation process model is still being used, though with added focus on consumer-involvement; that collaboration across the value chain is moving towards *coopetition*; and finally, that the *products* that result from the increased focus on market orientation tend not to reach up to the expectations of radical innovations, however the *approach* to innovation has become more innovative.

The study ends with a general discussion around each of the four topics and some reflections in regards to the development of innovation in the Swedish industry as a whole.

Key words: Innovation; Food industry; Packaged food; Market orientation; Consumer involvement; Private label

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Special thanks to...

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The industry experts

*Stefan Albertson, Karolina Bjurehag, Christina Cheng, Åsa Gisel,
Stine Hamfeldt, Martin Hedbom, Riika Murto,
Ingrid Stigzelius, Christian Sundgren, Sofia Vinqvist*

Thank you for your expertise and for taking the time. But most of all,
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The interviewees of the two case companies

Thank you for your honest and descriptive reflections.

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1. Introduction

1.1 Background

‘Innovation’ and ‘consumer insight’ have become buzzwords in many industries in the past few years, including the packaged food industry, as a result of consumers’ increased expectations in regards to the type and quality of products they want to see on the market. In response to these changing consumer needs, Swedish food brands are introducing new innovation departments and re-organizing and developing their innovation processes. At the same time, private label goods in Sweden are taking market shares and challenging the competition, both in terms of quality and innovativeness. A-brands are finding it harder and harder to differentiate their products from private labels. The pressure for driving differentiation through innovation has thus intensified significantly.

These market developments are pushing companies towards taking a more holistic approach when it comes to innovation. Many food companies are now to a lesser degree trying to provide merely a product, but rather a problem solution for their consumers, which requires a higher focus on consumer insight. We see a shift in innovation thinking, from a product-oriented innovation approach to a market-oriented innovation approach. On the company-level, such a shift requires organizational adaptations and a whole new approach to the consumer relationship. These changes and adaptations are at the heart of this thesis.

My interest in the packaged food industry stems from my professional work, which has brought me into close cooperation with some of Sweden’s largest food manufacturers. I have worked for a brand agency for the past couple of years, whose main clients are in the FMCG (Fast-Moving Consumer Goods) business, specifically food. During my time there, in the context of innovation projects, I have encountered the expression ‘consumer insight’ on a daily basis, constantly reminding the clients, or being reminded myself, that consumer needs are at the core of product development success. Consumer insight-based innovation is part of the current industry discourse and the trend of our time. The intensity of this mantra was what first spurred my interest in the subject at hand. I became curious: if consumer focus in the food industry is in fact a relatively new innovation trend, how has the industry innovated in the past? And if they have changed their approach over time – how? – and to what consequence? Also,

knowing that the private label market is currently challenging the industry in Sweden, becoming a much more high-paced and innovative industry sector than in other countries, I became curious as to the connection between the competitive pressures from private labels and the move towards market orientation among A-brands. My interest in innovation, combined with my knowledge of the food sector, thus led me to the topic at hand.

1.2 An introduction to market orientation

This section will introduce the reader to the concept of market orientation, which will be this study's main focus. The concept will be further elaborated on in the literature review (chapter 3) and in the theoretical framework (chapter 4).

Market orientation, as opposed to product orientation, refers to a business approach or philosophy that focuses on identifying and meeting the stated or hidden needs or wants of customers. In contrast, the primary object of *product orientation* is to create a product of superior quality as efficiently as possible. In the product-oriented approach, the customer is merely an afterthought, supported by the philosophy: "if we build it, they will come", rather than "the customer is always right".

Market orientation perspectives include *the decision-making perspective* (Shapiro, 1988), *market intelligence perspective* (Kohli and Jaworski, 1990), *culturally based behavioral perspective* (Narver and Slater, 1990), *strategic perspective* (Ruekert, 1992) and *customer orientation perspective* (Deshpande et al., 1993).

The two most prominent conceptualizations of market orientation are those given by Kohli and Jaworski (1990) and Narver and Slater (1990) (Marshall, 2014). While Kohli and Jaworski (1990) consider market orientation as the implementation of the marketing concept, Narver and Slater (1990) consider it to be an organizational culture. Kohli and Jaworski (1990) define market orientation as "*the organization-wide generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness to it*". They add that "a market orientation appears to provide a unifying focus for the efforts and projects of individuals and departments within the organization". Narver and Slater (1990) define market orientation as "*the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance*".

for the business". As such, they consider market orientation to be an organizational culture consisting of three behavioral components, namely, i) customer orientation, ii) competitor orientation and iii) interfunctional coordination. Empirical studies have found that among all three behavioral components, interfunctional coordination, especially those between R&D and marketing has the most significant influence on new product success (Wong & Tong, 2012).

This thesis will examine the market orientation of the innovation processes at two Swedish food companies, looking mainly at their approach to market intelligence (following Kohli and Jaworski's approach), but also touching upon the organizational innovation culture (following Narver and Slater's approach).

1.3 Problem area – Is this a problem worth studying?

Firstly, the Swedish food industry is becoming increasingly competitive, pressuring food manufacturers into delivering products with a higher degree of innovativeness. This competitive landscape places consumer needs and requirements at the very center of success, which for many companies means that they need to make a drastic shift from a mainly product-oriented focus to a market-oriented one. The point of interest here is how the different actors are coping with this shift.

Secondly, there is a lack of best practices on the topic of user-oriented innovation in packaged food. Although a positive relationship between market-orientation and business performance has been established for several types of industries (Avlonitis & Gounaris, 1997; Han, Kim, & Srivastava, 1998; Slater & Narver, 2000 – As quoted in Costa & Jongen, 2006), not much is known about the *level* of market-orientation of European food companies. In terms of the Swedish food industry in particular, not much has been written on the subject. Märit Beckeman¹ and Klaus G. Grunert² are two names that have contributed significantly to the innovation research on the topic of food. Grunert is a well-known authority on innovations in the food industry and Beckeman

¹ Researcher at the Department of Design Sciences, Division of Packaging Logistics at Lund University, Sweden

² Professor at the Department of Business Administration and director of MAPP - Centre for research on customer relations in the food sector at Aarhus University, Denmark.

has focused the majority of her research specifically on the Swedish market. In her Doctoral Thesis, Märit Beckeman wrote about the potential for innovation in the Swedish food sector, looking into what “innovation” means to the different actors in the value chain, and how innovation is performed and what the key issues are. The thesis recognizes that consumer insight has become a mantra in the Swedish food industry, but does not investigate deeper whether it has made an actual impact or to what extent it is being implemented in the value chain. This study will make an attempt at filling this gap, hoping that more research on the topic will follow.

Thirdly, although there is extensive literature to be found on the topic of innovation in general, and some on the topic of innovation in the food industry specifically, very little has been written of the topic of innovation in the *Swedish* food industry, especially on most recent developments. By doing a case-study analysis, I hope to illustrate every-day concerns and activities related to innovation in the Swedish food industry.

1.4 Purpose

The purpose of this thesis is to *investigate novel innovation approaches of two large Swedish brands in packaged food, in light of the ongoing market changes that are reshaping the innovation landscape in the packaged food industry.*

More explicitly, the thesis will describe and analyze how these companies are adapting to the need for new innovation processes as the industry goes from a product-oriented to a market-oriented innovation approach. The companies’ adaptation will be analyzed through the following research questions:

- a. How are consumer insights collected and used as inputs in the innovation process?
- b. How is the innovation process managed?
- c. What effects can be seen as a result of these adaptations?

1.5 Delimitations

The study is limited to an analysis of the Swedish market only, to complement a rather narrow set of empirical studies on the Swedish food industry so far. The scope is further delimited to an in-depth analysis of two actors, since case depth is favored over a quantitative analysis given the purpose and selected methodology. Also, while this study will investigate *some* effects of market-orientation on innovation in these firms, it will not discuss effects in terms of cost efficiency or product success. Finally, it is important to note that the aim of this study is not to provide specific guidelines for how a market orientation should be approached. Its aim is rather to give a descriptive analysis of how two particular firms are adapting to the market changes through a market oriented approach, in an attempt to fill an empirical gap on the topic.

1.6 Definitions

Packaged food products: For the purpose of this thesis *packaged food products* are defined as non-durable, fast-moving consumer goods that are prepared and wrapped beforehand and ready for sale. Packaged food products have a short shelf life, either as a result of high consumer demand or because the products are highly perishable. Any reference to “the food industry” or “food production” in this study refers to the *packaged* food industry.

A-brands: Brands owned by a manufacturer or producer who primarily produces its goods in its own facilities under the company name. Synonyms used in this thesis: “branded food manufacturers”, “premium brands”.

Private label: Brand owned not by a manufacturer or producer but by a retailer or supplier who gets its goods made by a contract manufacturer under its own label. Also called a private brand, reseller, store, house or distributor brand. Coop X-tra and ICA Basic are two Swedish examples.

Food manufacturers: For the purpose of this study, any referrals to “food manufacturers” will include both branded manufacturers and retailers that are developing products under their own label, even though retailers do not own manufacturing facilities themselves, and are thus not manufacturers *per se*.

1.7 Disposition

The study is structured as follows: *Chapter 2* summarizes the data collected in the pre-study, concluding with a slight redefinition of the research question; *Chapter 3* provides an overview of existing literature and lays the foundation for the structure in the theory section; *Chapter 4* theoretical framework, ending in an analytical model which lays the foundation for the structure of the data collection in the case study and the analysis; *Chapter 5* explanation of the methodological approach; *Chapter 6* empirical findings from our case study based on Dairy Ltd and Food Retail Ltd; *Chapter 7* analysis of the empirical findings based on the analytical model; *Chapter 8* concluding discussion, with reflections on the topic, as well as managerial implications, criticisms of the study, and recommendations for future research.

2. Pre-study

2.1 Why a pre-study?

The reasons for a pre-study were threefold; *Firstly*, the primary objective was to gain a basic understanding for the dynamics related to innovation in the Swedish food industry and thus expand my knowledge on the topic. *Secondly*, the pre-study allowed for a better understanding of the ongoing market movements from the perspective of industry experts and helped me choose the case companies and structure the interview questions for the main study. *Thirdly*, first-hand, in-depth interviews allowed for an exclusive insight into current issues and the “talk-of-the-town” concerning innovation in food.

2.2 Design, method and process of pre-study

The information collected in the pre-study is based on numerous interviews with a mix of business experts and researchers (see Table 1, next page). The interviews are corroborated and complemented with written reports and articles relating the current status in the industry. This approach gave me a multi-angled and objective understanding of the dynamics and issues relating to innovation in food manufacturing.

Table 1: Lists the pre-study interviewees and illustrates the variation of sources

Name	Position, company	Area of expertise	Location, duration
Albertson, Stefan	Innovation Manager, <i>Risenta</i>	Innovation in the packaged food industry	Telephone Duration: 45 min
Anonymous #1	Concept Manager Main Meal, <i>Dairy Ltd</i>	Innovation and concept development FMCG (perishables)	Interviewee's office Duration: 1 h
Anonymous #2	Team manager Innovation & New launches, <i>Food Retail Ltd</i>	Innovation processes	Interviewer's office Duration: 1 h
Anonymous #3	Head of Commercial Development at a Swedish food services company*	Innovation processes in FMCG and food services	Interviewee's office Duration: 1 h
Bjurehag, Karolina	Senior Brand Manager (Paulúns) <i>Orkla Foods Sverige</i>	Marketing; brand positioning	Telephone Duration: 30 min
Cheng, Christina	Innovation & Trend Director, <i>Sprillo</i>	Trends and innovation in FMCG	Interviewee's office Duration: 45 min
Gisel, Åsa	Market Director, <i>Orkla Foods Sweden</i>	NPD in FMCG (food & beverages)	Telephone Duration: 30 min
Hamfeldt, Stine	Consumer Insight Manager, <i>Orkla Foods Sverige</i>	Consumer data collection and analysis	Telephone Duration: 30 min
Hedbom, Martin	Research Executive, <i>Ipsos</i>	Consumer insight; surveys, focus groups, open innovation etc.	Interviewee's office Duration: 1 h
Murto, Riikka and Stigzelius, Ingrid	PhD students, <i>Stockholm School of Economics</i>	Shaping of markets in the food sector	Interviewee's office Duration: 1 h
Sundgren, Christian	Head of Innovation, <i>Scandinavian Design Group</i>	Consumer insight in innovation	Interviewer's office Duration: 1 h 30 min
Vinquist, Sofia	Project Manager, <i>Orkla Foods Sverige</i>	Innovation project management	Telephone Duration: 30 min

*Anonymous due to company policies

2.3 The packaged food industry – Pre-study findings

2.3.1 Special characteristic of food

Although food falls under the FMCG category, food products have certain defining characteristics that distinguish them from many other FMCG products and affect innovation. Food quality is to an increasing extent characterized by *credence qualities*, i.e. qualities that are invisible to the consumer both before and after the purchase, such as health- and process-related qualities. This concerns for example organic products. The consumer cannot ascertain neither before nor after consumption that the product is in fact organic, e.g. by tasting or smelling the product. Communication on or around a product with credence qualities thus becomes a matter of credibility and consumer trust. Such qualities contribute to product communication challenges for companies, not only in terms of inducing consumers to buy it, but also to reinforce their choice after the

purchase (Bjurehag; Andersen, 1994; Brunso et al. 2002). Companies thus have to make a trade-off choice between innovating, which often means alteration of credence qualities, and not innovating at all, or innovating based on aspects that are more visible to consumers, such as packaging or taste.

2.3.2 The degree of innovation in the food industry

The overall opinion of the European food sector is that little really new or radical innovation is happening in the food industry (Cheng; Sundgren; Albertson; Costa & Jongen, 2006; Lagnevik et al., 2003; Beckeman, 2011)

“I find that Swedish food manufacturers often have trouble finding that extra level of excellence³ in their everyday grocery products. They often go with evolution, instead of revolution.” (Christina Cheng, Trend & Innovation Expert, Sprillo)

The Swedish food sector R&D spending in 2009 amounted to a mere 0,3% – much lower compared to the manufacturing sector (chemicals, motors, computers etc.), which on average spends 6% of its production value on R&D. Radically new products are rare, especially when compared to the high level of line extensions and me-too products that are introduced each year, which represent nil or an incremental level of novelty (Beckeman et al., 2013; Lindow, 2012; Ernst & Young Global Client Consulting, 1999). At the same time, food manufacturers are talking about “innovation pressure” and a great number of products being launched each year, offering consumers an ever-increasing choice of varieties (Bjurehag; Vinqvist; Anonymous #1). This has resulted in a significant contribution to the “long tail” in sales, where in a category that lists 1000 products 80% of sales can be contributed to less than 40 products (Anonymous #1; Anderson, 2006).

“Personally, I feel slightly exhausted by all the new flavors that are available in different product categories. You just tire of them after a while. Another flavor – what value does that add?” (Stefan Albertson, Innovation Manager, Risenta)

2.3.3 Product launches and failure rates

But, however innovations are defined, the chance of success is rather low, and limited information is available about the “radicalness” of the new offerings that succeed or fail (Beckeman, 2011). The success rate of new product launches is generally estimated as low. Reports of failure rates vary from 80-90% of products during the first year of launch (Ryan, 2007; Wallteg, 2008; Beckeman, 2011). A complicating factor stems from

³ The interviewee used the Swedish word “spets”.

retailers being unwilling to keep products on the shelves for longer than six months if the product does not show positive sales. This is a result of the increasing number of new products launched each year, which forces retailers to make tradeoffs. A further complication stems from the fact that it often takes longer than six months for the general public to get acquainted with and start purchasing a new product. This puts even higher demands on timely launches, i.e. matching the product launch with a trend-peak (Bjurehag; Vinquist; Anonymous #1).

Beckeman (2011) refers to several studies that try to explain why new products often fail: Stewart-Knox and Mitchell (2003) attribute failure of new products to shortcomings in the methodology for food innovations. It could also be that new launches are based on yesterday's trends and in reality other wishes and needs of the consumer have priority today, or that the business model applied to capture value from innovations is not the most suitable one (Teece, 2010). Still, the limited success represents a waste of time, money and ambitions.

2.3.4 Changing consumer needs and demands

Consumers are growing more individualistic, more informed and more demanding (Bjurehag; Anonymous #1; Kandampully, 2002; Grunert, 2005) and are thus more difficult to please. Beckeman (2011) mentions a number of drivers and barriers, such as a strong trend towards sustainability (which will require a total chain approach), "pure" food with no additives, ecological, locally produced, more convenience, higher quality and lower cost. The health trend has been a major force for new product development in the food industry and manufacturers are continuously attempting to appeal to the health-conscious consumer with new innovative products, such as probiotics in yoghurt (Bjurehag; Anonymous #1).

2.3.5 A shift from product- to market-orientation

"In the past, 'Innovation' used to be basically one guy on the marketing team – this trend-setter, someone with an 'innovative' personality – who would generate new ideas that he really believed in and advocated, mostly based on what he had seen in other markets."
(Stefan Alberson, Innovation Manager, Risenta)

"Nowadays, companies have all sorts of different innovation processes on their agendas. Previously, innovation was simply equated with a good session of brainstorming."
(Åsa Gisel, Market Director, Orkla)

As a response to changing consumer needs and demands, food manufacturers are increasingly referring to the need for a higher degree of market-based innovation approaches (Gisel; Anonymous #1; Anonymous #2; Anonymous #3). Beckeman (2011) stresses that if Swedish actors want to compete with innovative new offerings in the food sector, they must find out what the consumers want and might want in the future and then consider what would be beneficial to develop and innovate in Sweden. In recent years consumer insight has gained popularity as *the* key ingredient towards better innovation, often overshadowing other important inputs highlighted in research (Skarzynski and Gibson, 2008) that are needed for successful innovation, such as trend analysis, the company's own strengths and weaknesses and unorthodox behavior. In light of this, market-oriented innovation departments are currently being set up or reorganized all over the food sector (Cheng).

2.3.6 Competing against food services

Competition is not only restricted to products in the grocery store. As the consumers' schedules get busier and busier and they choose to prioritize other things before cooking the competitive field expands to include restaurants, cafés and take-away food as well. The Swedish consumer increasingly demands convenient, good quality food at a reasonable price rate. And food manufacturers are constantly challenged to provide solutions to consumers' everyday problems in relation to food. (Anonymous #2; Anonymous #3)

2.3.7 Private Label – a new, innovative contender

The competitive scene is changing notably in the Swedish food industry. A-brands are facing tougher competition from private labels, as the private label sector is becoming increasingly advanced in its product offering and is quick to address trends and changing consumer demands. The private label product range is becoming more segmented, and the retailers are offering their own product lines at all price levels, from premium, to organic, to health-oriented product lines (Bjurehag; Gisel; Sundgren; Anonymous #1; Anonymous #3). Their market shares are continuously increasing. Over a period of ten years, the share of private label products in the retail sector has more than doubled, and now constitutes more than 25% of total sales. That is still low, in an international comparison, but the share of private label increases every year (Hansson, 2014). This development is a direct result of a highly concentrated retail sector in Sweden. Only three retailers hold almost 80% of the market, which is the main driver

behind the high level of private label penetration (FoodDrinkEurope, 2012). In light of an improving economic development in Sweden, consumers are becoming increasingly optimistic, which is lowering their price sensitivity, resulting in a higher demand for packaged food of a more premium positioning. Despite this trend, A-brands are struggling to maximize value sales growth, mainly due to the increasingly advanced nature of private label and grocery retailers' greater focus on the development of private label. Over the past few years, the retailer brands have started to move from a pure low-cost strategy towards more value-added products.

2.3.8 Service solutions and holistic offers

Innovation in food is often associated with new food products or packaging, but the service aspects are becoming increasingly important (Vargo & Lusch, 2004; 2008). Examples of such in the food sector include self-scanning, banking, salad bars etc. This is an area where retailers are becoming increasingly skilled and are adding value to the shopping experience. But service solutions can be found closer to the product as well. Looking back at what types of products, or rather types of offers that have been successful in the past, it becomes evident that offers that build on some kind of holistic consumer "solution" are the ones that carry the most value (Albertson). Some old examples include the launch of the Santa Maria tacos concept, which provided a simple solution for dinner-guest or family dinner occasions, and the Swedish candy concept "lösgodis", i.e. bulk confectionary, which allowed for in-store consumer customization. The innovation does not lie in the product itself, but in the way it is offered and marketed to the consumer. It not only creates added value, but can also contribute to a change in the consumers' shopping and consumption behavior.

2.3.9 Integration across the value chain

Value chain integration in the food sector has historically been limited. Wikström et al. (2010) summarize major drivers and barriers for innovation across the chain as: lack of trust between suppliers and the trade, meaning no real collaboration; lack of transparency; limited collaboration; too little consumer insight among food manufacturers. Beckeman (2011) summarizes their findings as follows: "The picture emerging from analyzing the three groups of actors appears at first sight to be one of little common ground for radical or really new innovations. Retailers have the power in the chain, private labels grow, manufacturers find themselves being squeezed on cost but work in the same traditional in-house manner to develop new products as they

always have, and packaging suppliers thrive on their own. In addition retailers and food manufacturers do not trust each other – and the consumers do not trust the industry.” In her own study, however, Beckeman (2011) reported positive findings referring to an increased willingness to cooperate across the value chain. Although, in terms of retailer-manufacturer collaboration Beckeman (2011) notes that, as the retailers are both customers and competitors to the food producers, a deeper collaboration seems difficult. As a response to this problem, Beckeman refers to Bengtsson and Kocks’ (2000) concept of *Coopetition*, as signs can be seen of an interest to cooperate and compete simultaneously, which is the definition of coopetition. Some branded manufacturers already have separate organizations for developing their own labels in parallel with private labels.

2.4 Summing up the pre-study

2.4.1 What do we bring with us?

The pre-study has highlighted a number of challenges that Swedish companies in the food sector face today. It has provided a basic overview of the dynamics in the Swedish food sector and has clarified the reasons behind the high innovation pressure that many companies are experiencing today. To gain a better knowledge of what consumers want, how their needs change and how such changes can be promptly addressed is consequently becoming not only a factor of success for the food sector, but ultimately also one of mere survival. Companies who are able to uncover (or, better yet, anticipate) demand, deliver against it and communicate this effectively to consumers highly increase their chances of survival and success in the marketplace (Kohli & Jaworski, 1990; Urban & Hauser, 1993). The pre-study also indicates that although there are significant challenges in value chain integration between retailers, producers and suppliers, there might also be significant gains in terms of innovation potential if such collaborations were made to work.

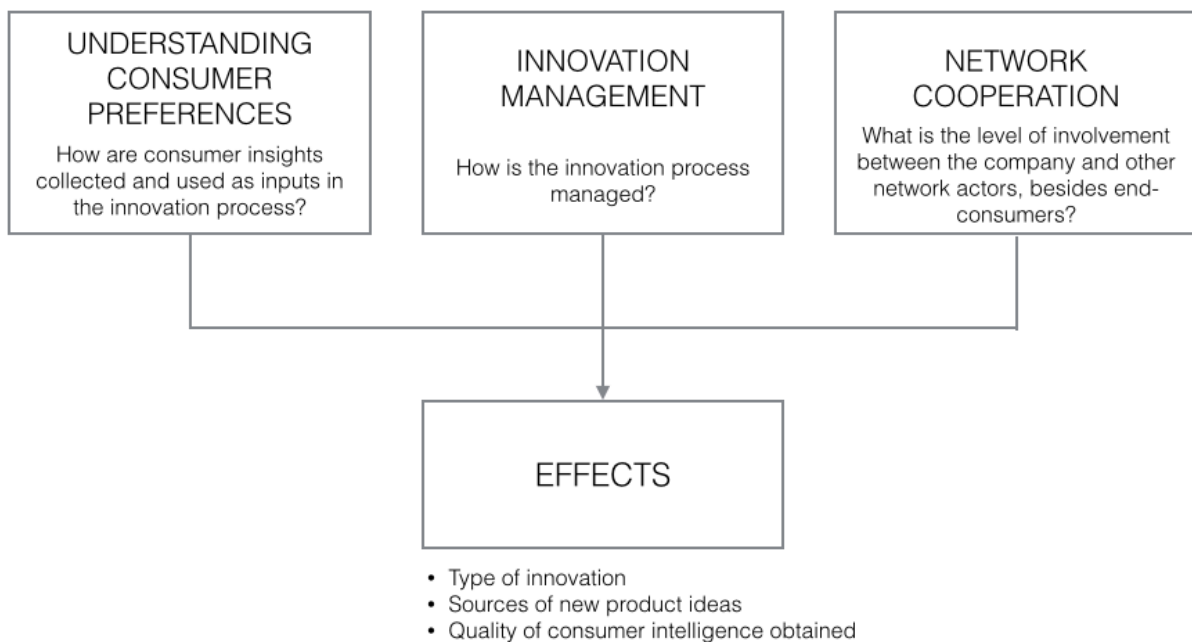
2.4.2 Research question redefined

In view of the findings from the pre-study, which has shed new light on the importance of network adaptation on innovation processes, the three initial research questions have been complemented by a fourth:

- a. How are consumer insights collected and used as inputs in the innovation process?
- b. How is the innovation process managed?
- c. What is the level of involvement between the company and other network actors, besides end-consumers?**
- d. What effects can be seen as a result of these adaptations?

Adding the network perspective will give us a more complete view of the actors' level of adaptation to the ongoing market changes.

This study will henceforth follow the structure depicted in the model below, building on three main themes and what effects these have on food innovation. The model will lay the foundation for the structure of chapter 4 – Theoretical Framework, and chapter 7 – Analysis. The origins of the model will be elaborated on in chapter 3 – Literature Review (specifically section 3.4), and a fuller version, complemented by theories that factor into each theme, will be presented in section 4.5 – The Research Model.



3. Literature Review

This chapter will shed light on previous studies on the topic of innovation in the food sector and elaborate on selected themes from some of the literature that has already been mentioned in the pre-study. This review will form the basis for the structure of Chapter 4 Theoretical Framework and the analytical model presented at the end of that chapter.

The literature on innovation in the food sector is generally limited, and especially so on the topic of consumer-oriented innovation. The next section will briefly relate three empirical studies on the Swedish market. The sections that follow are primarily based on two papers, one by Costa and Jongen (2006) and another by Grunert et al. (2008), which are focusing specifically on innovation in the food industry, and are based on extensive literature reviews from marketing, consumer science and innovation management that is relevant to the topic. They will elaborate on the concepts of *market-orientation* and *consumer-led product development*, which are the more established concepts in innovation, as well as *user-oriented innovation*, which is a newer and further developed concept.

3.1 Previous studies

Beckeman (2011) relates three studies on the Swedish food industry that are relevant for this study:

Arwidsson and Haglund (2008), have studied the consumer's role in the innovation process in one food industry group, Lantmännen, in Sweden. The group has one development process but, according to the authors, it is not communicated sufficiently or adapted to different projects. Arwidsson and Haglund (2008) conclude that too few radical innovations occur in the organization; that the responsibility should not only rest on R&D but also on marketing and production; that a two-way communication with consumers is lacking; and that consumers could become more involved virtually via the Internet, and contribute to more bottom-up innovations. They find that it is particularly important to involve consumers in functional or completely new products or for new packaging design.

Hultman et al. (2008) investigated how manufacturers of Swedish branded goods deal with the increasing private labels, as Sweden is said to be the market where private labels have grown the most among Western markets. In their interviews, Hultman et al.

(2008) identified a number of advantages with private labels over manufacturer labels, mainly connected with retailers' control of the market and their stores, but also a growing competitive threat to the manufacturers as the quality of private label products is improving. The manufacturers identified that they have two advantages over private labels: the better reputation of the manufacturers' brand names, and quality and product development. The strategy of the manufacturers is to provide customers with added value, to continuously develop, and to take the threat from private labels seriously, according to Hultman et al. (2008).

Wikström et al. (2010) investigated the influence of different actors in Sweden, including consumers, on how people choose and consume food: "the hunt for the 'valuable' meal". They found, among other things that: food manufacturers have too little consumer insight; trust between suppliers and the trade is lacking, meaning no real collaboration; trust is lacking between consumers and the food industry; the whole sector must increase its credibility. Some of the proposed remedies for food manufacturers are: better market intelligence; more collaboration between trade and supplier; work to gain the trust of the consumers; differentiation in quality as price is not the only way to compete; offering adapted overall solutions; and focus on information and communication.

3.2 Market-orientation

In light of the market developments in the food sector today it is clear that there is a prevailing need for food companies to further develop their understanding of the markets in which they operate and to skillfully apply this knowledge in the creation of competitive advantage. It is generally accepted that the most advantageous way of achieving this is through implementation of the *market-orientation* concept (Costa & Jongen, 2006; Grunert et al., 1996), as opposed to being *product-oriented*, i.e. develop a product and *then* search for a market niche. As quoted in Costa and Jongen (2006), "market-oriented companies are those which have committed themselves to the continuous generation and internal dissemination of market intelligence relevant to the current and future needs of their customers, as well as to the continuous improvement of their responsiveness to such needs" (Kohli & Jaworski, 1990). Although a positive relationship between market-orientation and business performance has been established for several types of industries (Avlonitis & Gounaris, 1997; Han, Kim, &

Srivastava, 1998; Slater & Narver, 2000), not much is known about the *level* of market-orientation of European food companies and how it influences their performance.

In their study, Kohli and Jaworski (1990) found that the degree of competition and the degree of technological change in an industry has a direct bearing on the importance of market orientation. Strong competition leads to multiple choices for consumers. Consequently, the higher the competition and the lower the pace of technological change, the more focus must be placed on monitoring and responding to customers' changing needs and preferences to ensure that consumers select its offerings over competing alternatives.

Referring to Kohli and Jaworski's (1990) studies on market orientation, Costa and Jongen (2006) argue that the current scenario of high market instability, increasing competitiveness, slowing economy and modest technological development should be rather favorable to a market-oriented approach. However, they point out that few studies addressing this topic indicate that the generation of consumer intelligence by the food industry, a necessary but not sufficient condition for market-orientation, remains very scarce and mostly accidental. In practice, most food companies, with the probable exception of some large multinationals, rely on retailers to obtain information about their end-users. This leads to the assumption that truly market-oriented food companies are still rare in Europe (Avermaete et al., 2004; Harmsen, 1994; Meulenber & Viaene, 1998; Traill, 1997).

3.3 Consumer-led new product development

Costa and Jongen (2006) review and discuss the concept of *consumer-led food product development* in the light of increasing globalization and availability and the necessity to innovate (Beckeman, 2011). The concept of *Consumer-led new product development (NPD)* was introduced in the early 1990s by Urban and Hauser (1993) as a market-oriented innovation strategy developed specifically for the manufacturers of consumer goods, as it focuses on the share of market intelligence pertaining to the end-users (Costa & Jongen, 2006, s. 458). Consumer-led NPD promotes the application of consumers' current and future needs, and its determinants, in the development of innovative products, in order to obtain true added value (Grunert et al., 1996; Lord, 2000; Urban & Hauser, 1993; van Trijp & Steenkamp, 1998).

Since its introduction, consumer-led NPD has been repeatedly advocated by several marketing and food technology experts (Lord, 2000; van Trijp & Steenkamp, 1998), but as Costa and Jongen put it, "little has been done to consolidate its theoretical foundations and establish concrete methodological guidelines for its practical implementation" (Costa & Jongen, 2006, p. 458). They note that, at the time of publication, only two applications of consumer-led NPD within the food industry had been described so far – referring to Grunert and Valli, 2001 and Jaeger, Rossiter, Wismer, and Harker, 2003 – stressing that each of them followed their own methodological approach. Costa and Jongen further note that there are no empirical or case-based studies analyzing the advantages and disadvantages of a consumer-led NPD strategy vis-à-vis, what they call "the conventional" NPD practices within the food industry. The term "conventional practices" refers to a so-called *reactive approach* to NPD, in which food companies try to market what was developed rather than developing what consumers wanted in the first place (Buisson, 1995; Urban & Hauser, 1993). Changes in the food chain may bring about necessary NPD activities in the organization. These can be upstream changes in the production chain, such as supplier, package or ingredient modifications, but also downstream changes, such as alterations in the distribution channels or introduction of competing products. Finally, developments in the chain's environment can also trigger innovation efforts, such as the availability of new technologies or restrictions imposed by governmental legislation.

Consumer-led NPD represents the other end of the scale, namely a *proactive approach* to NPD, in which food companies take consumer needs as the starting point of product innovation efforts, continually collecting and assimilating suitable information about consumers' views and needs throughout the process. Costa and Jongen (2006) state that it would then seem quite obvious to conclude that, given the current socio-economic background against which the European food industry is set, proactive strategies for product innovation should be more successful than reactive ones. However, based on an analysis of the consumer-led NPD model, and contrary to previous, more optimistic visions, they highlight the shortcomings of the consumer-led approach in the context of the European food industry, stating that: "without significant changes taking place in the mindset of the organizations involved in Europe's food R&D, the way forward for consumer-led innovation strategies in the agri-business sector will

be long and hard” (Costa & Jongen, 2006, p. 463). They list three major obstacles to the implementation of this kind of innovation strategy in the food sector:

1. **The lack of concrete guidelines for the effective implementation of consumer-led food product development in everyday industry practices;** Especially (but not uniquely) in the early phases of the development process – opportunity identification and opportunity definition – which are simultaneously the less structured and the more determinant for the success of new products. Quite suitably, these phases have been named the fuzzy front-end of consumer-led NPD.
2. **The sequential nature of consumer-led NPD** (further described in Chapter 4 below), in a clear contrast with the reality experienced by R&D practitioners in their activities;
3. **The lack of intra- and inter-organizational coordination** or integration of R&D and Marketing’s research activities and know-how.

They further note that, the removal of the first two obstacles will be meaningless unless a serious effort is made to break down the barriers to intra- and inter-organizational cooperation within food supply chains. According to Costa and Jongen (2006), it is therefore imperative to encourage cross-functional communication, multidisciplinary teamwork and the development of a common language for innovation that truly focuses on consumer needs without neglecting technological know-how.

3.4 User-oriented innovation

User-oriented innovation is a further development of consumer-led NPD, introduced by Grunert et al. in 2008. It is defined as: “a process towards the development of a new product or service in which an integrated analysis and understanding of the users’ wants, needs and preference formation play a key role” (Grunert et al., 2008, p. 590). The concept of user-oriented innovation affects multiple actors of a value chain, both customers and end users, and is thus broader than the concept of consumer-led innovation. The need for this distinction has its origins in several recent developments in the market for packaged food. Grunert et al. (2008) highlight three developments that make user-oriented innovativeness of the food chain more important than ever:

- Food products are increasingly being accompanied by *intangible elements* [*credence qualities*] that an industrial development practice dominated by technical solutions and established plants must deal with in the manufacturing of material products.
- There is an increasing demand for *individualized products* according to customer wants, short response time, and dynamic adjustments of company competencies according to new market needs or technological opportunities.
- Public demands with respect to *sustainable resource utilization*, considerations concerning ethics and the environment and improvement of the work environment will not merely challenge the organization of production, but also affect innovation of products, services, and distribution forms.

Based on these insights, Grunert et al. (2008) define three relevant streams of research on user-oriented innovation in the food sector:

- (1) **The formation and understanding of user preferences:** How users form preferences for products and services and how companies can intercept and understand these preferences.
- (2) **Innovation management:** How user-oriented innovation processes can be managed in the innovating organization, including questions on how to integrate user information into the innovation process and on how to create cross-functional cooperation among those parts of the innovating organization dealing with user intelligence, production, and technological research and development, respectively.
- (3) **Interactive innovation:** How two or more partners, for example a producer and his immediate customer, can innovate jointly.

Grunert et al. (2008) argue that the relevance of these three aspects depends on the type of innovation process in question; innovation for the *mass market*, where *arm's length innovation*, i.e. little direct interaction between actors in the value chain, is typical in the food industry, and innovation for markets with a small number of potential buyers, typical for business-to-business (B2B), where *interactive innovation* is possible. In the food area, interactive innovation is characteristic for how producers deal with the big players in catering and retailing, but also for many relationships between major players at the various stages of the food value chain (Grunert et al., 2008).

Grunert et al. (2008) further note that innovation with regard to food products eventually always faces a mass market. At the same time, innovation in food may involve several actors, though one may be dominant in the innovation process, and the same innovation process may involve both arm's length and interactive innovation. The authors therefore distinguish between three fundamental types of user-oriented innovation in the food sector, based on the mix of arm's length and interactive innovation that occurs in the process: *Type I*, the classical new product development carried out in-house by the producer; *Type II*, where the retailer takes the initiative to obtain products for his own brand and interacts with the producer; *Type III*, where the whole value chain is involved and the initiative can come from many actors in the chain (see Table 2 for an overview). There is a trend towards more Type III innovations, driven by consumer demands related to processing, where only a change in the raw material will lead to a competitive differentiation.

Table 2: Summary of types of network collaboration (adapted from Grunert et al. (2008))

	Type I	Type II	Type III
Location of innovation process	In-house in the food processing company.	Between retailer and food processing company.	Spans the whole value chain.
Type of user interaction	Mostly <i>arm's length</i> + some degree of interactivity with retailers who have to be convinced to put the product on the shelf.	Mostly <i>interactive</i> + some extent of arm's length innovation facing consumers.	<i>Interactive</i> + some extent of arm's length innovation facing consumers.
Actor collecting insights about consumer preferences	Both understanding of consumer preferences and physical product development are concentrated in one actor, <i>the food processing company</i> .	<i>Both retailer and food processing company</i> may have relevant input for the understanding of consumer preferences – the retailer based on the analysis of scanner data, the producer based on some of the techniques described in the next section.	<i>Same as in type I and II, depending on who is the initiator.</i> Consumer insight collection less common if initiated by primary production sector.

3.5 Effects of market orientation

There are few *empirical* studies of the consequences of a market orientation. In a literature review, Kohli and Jaworski (1990) find that most studies focus primarily on the extent to which the marketing orientation has been adopted by organizations, rather

than its specific consequences. They mention one noteworthy exception, the Lawton and Parasuraman (1980) study, which found that the adoption of market orientation had no apparent effect on the sources of new product ideas, the use of marketing research in new product planning, and the innovativeness of new product offerings. In fact, several authors (Bennet & Cooper, 1981; Kaldor, 1971; Tauber, 1974) assert that the adoption of the market-oriented approach inhibits organizations from developing truly breakthrough innovations. Finally, Costa and Jongen (2006) shed some light on the need to research and clarify the potential effects of consumer-led NPD on: new product success; quality of consumer intelligence obtained; and cost efficiency.

3.6 Conclusions

The evaluation of previous research complements the pre-study and further highlights some important developments and the challenges connected to them that affect food companies' approach to innovation today. The literature review highlights the importance of market orientation and the role of consumers and other users in the value chain. It also shows that market interaction and collaboration across the value chain can be practiced in different ways.

Grunert et al. (2008) propose a framework for analyzing user-oriented innovation in the food industry based on three topics: (1) **The formation and understanding of user preferences**, (2) **Innovation management**, (3) **Interactive innovation**

Although each of these topics is large enough to be a research topic of its own accord, they are also highly interconnected, and when taken together they give a holistic picture of the forces at work in an innovating organization. Without diving too deep into each topic, this study will use all three research streams as a basis for a case study analysis, with the aim of giving the reader some insight into the status quo in regards to the level of user-orientation in the Swedish food sector today, from the perspective of two influential actors. The next chapter will introduce a selection of theories related to each of the three topics, which will form the theoretical framework for this study.

4. Theoretical framework

This chapter will outline the theoretical framework for the main study. Chapter 3 – Previous Studies will serve as the foundation for the structure of this chapter, as well as for the analytical model presented at the end of the chapter.

4.1 Defining innovation

According to Kotler (1991) an innovation can be a product, a process, a service or a new way of doing things and refers to “any good, service, or idea that is perceived by someone as new”. This way of defining innovation implies that anything that is new to the eye of the beholder can be defined as an innovation.

The OECD Oslo Manual (2005) defines four types of innovation:

Product innovation: A good or service that is new or significantly improved. This includes significant improvements in technical specifications, components and materials, software in the product, user friendliness or other functional characteristics.

Process innovation: A new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.

Marketing innovation: A new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.

Organizational innovation: A new organizational method in business practices, workplace organization or external relations.

Christensen (2013) makes a distinction between *disruptive innovations* and *sustaining innovations* (also referred to as *radical* and *incremental* innovations), where radical innovations concern improvements of products that are larger than what is demanded by consumers. Such innovations tend to create new markets. While sustaining innovations concern small, incremental improvements in existing products in existing markets, often in the form of line extensions.

Garcia and Calantone (2002) discuss how the *height* of an innovation can vary from radical to incremental and propose a typology of eight types of innovation heights based on a combination of their effect on *micro* and *macro* level and *technological* or *marketing discontinuities*. According to this typology, radical innovations cause marketing and technological discontinuities on *both* a macro and micro level (e.g. when new industries are created, from which new firms and new customers emerge, such as

the World Wide Web). While incremental innovations occur *only* on a micro level and cause *either* a marketing *or* a technological discontinuity, but not both. Really new innovations represent the range in-between (e.g. new product lines, product line extensions with new technology, new markets with existing technology) (See Table 3 for overview and examples). Frequently, “really new” products are misclassified as “radical innovations” and “radical innovations” are misclassified as “really new” products, while really new products actually comprise the majority of innovations (Garcia & Calantone, 2002).

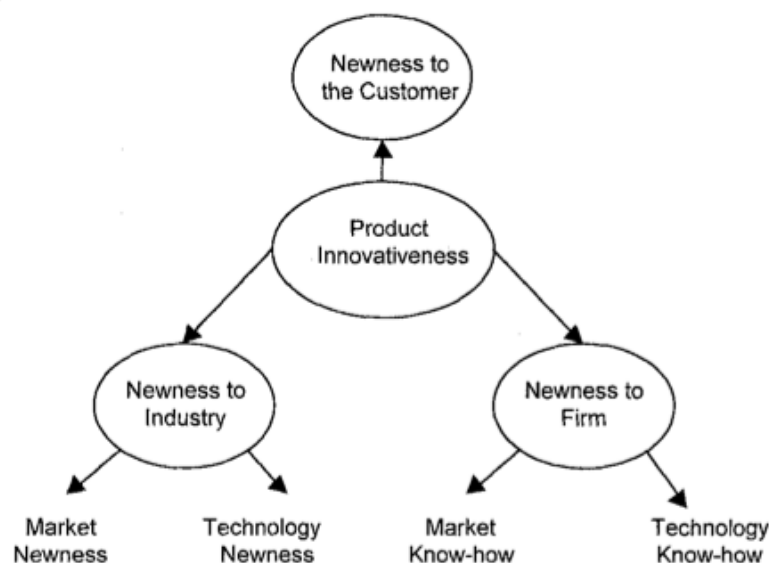
Table 3: Typology of innovations. Adapted from Beckeman (2011), based on Garcia and Calantone (2002)

Type of innovation	Level	Examples
Radical	Macro: M* and T** disc.*** Micro: M and T disc.	Steam engine, telegraph
Really new	Macro: T disc. Micro: M and T disc.	Canon laser jet, electron microscope
Really new	Macro: M disc. Micro: M and T disc.	Sony Walkman, early telephone
Really new	Macro: M disc. Micro: M disc.	Early commercial jetliner
Really new	Macro: T disc. Micro: T disc.	Diesel locomotive
Incremental	Micro: M and T disc.	Supersonic transport, BMW-M5
Incremental	Micro: T disc.	Digital automotive control system
Incremental	Micro: M disc.	Health food

* Marketing

** Technology

*** Discontinuity



Benner (2005) adds another fundamental aspect to the definition of innovation, namely the interconnectedness of different activities within and between organizations, such as R&D, production, marketing and sales. Accordingly, Trott (2005) supports this line of argument by emphasizing the role of innovation in an organizational and process context, arguing that innovations are no longer associated with individuals, but rather to groups of individuals within and between organizations.

In recent years, the trend in innovation research has been to emphasize not only goods but also services. The concept of “a new dominant logic for marketing” stems from Vargo and Lusch’s work on the subject of redirecting marketers’ attention from goods to service provision as the core of economic exchange (Vargo & Lusch, 2004). This approach rhymes well with market orientation since “a service-centered view is inherently customer-oriented and relational” (Vargo and Lusch, 2008, p. 7).

4.2 Understanding consumer preferences

4.2.1 Insight collection

As Chapter 3 has already elaborated on, a central element in market orientation is that of consumer focus. In their studies, Kohli and Jaworski (1990) find that although consumer focus involves obtaining information from consumers about their needs and preferences, it goes far beyond consumer research. Being consumer-oriented involves taking actions on market intelligence, not on verbalized consumer opinions alone. Market intelligence must be seen as a broader concept that includes considerations of (1) exogenous market factors (e.g. competition, regulation) that affect consumer needs and preferences and (2) current as well as *future* needs of consumers. These extensions do not challenge the spirit of consumer focus, rather, they reflect more strategic concerns related to consumers. Importantly, Kohli & Jaworski (1990) note that consumer intelligence generation is not the exclusive responsibility of a marketing department. For example, R&D engineers and senior executives may obtain information at conferences or in trade journals that can be of importance for the innovation process.

Qualitative methods

Qualitative methods are generally said to be ideal in studies where the objective is to understand the meaning of a social phenomenon as experienced by the informants themselves. Such knowledge is obviously important in the context of user-oriented

innovation. Qualitative methods are particularly useful when knowledge about a subject is sparse. Therefore, qualitative methods are ideal in the early fuzzy-front-end of the innovation process, such as *idea generation*, *idea screening* and *conceptualization*, where the objective is to gain a deeper understanding of user needs (manifest or latent) in order to be able to formulate a product concept. But knowledge about consumers' experience, their beliefs and understanding may also be valuable in later phases of product development (Grunert et al., 2008). Qualitative methods can be used alone or they can be combined with quantitative methods.

Quantitative methods

When dealing with mass markets, it is impossible to innovate in interaction with all users, and attempts to innovate in a user-oriented way thus draw on indirect ways of obtaining information about user preferences, often involving the use of quantitative methods to characterize large populations of users. Quantitative methods estimate relationships between concepts in a way that is generalizable to a sample of potential users of a product. There is a great number of different methods available, the common factor being a physical and social distance to the consumers, as these studies are based on surveys (Grunert et al., 2008).

4.2.2 Consumer involvement

Some areas of innovation lend themselves better to participatory development than others (Sumberg et al., 2003), and different types of innovation call for particular competences on the part of participating end-users (Lettl, 2007).

Alam (2002) identifies an innovation process with ten steps where consumers can be involved (see Appendix, Exhibit 1, for a more detailed overview):

- | | |
|---|---|
| (1) Strategic planning, | (6) service design and process/system design, |
| (2) idea generation, | (7) personnel training, |
| (3) idea screening, | (8) pilot testing, |
| (4) business analysis, | (9) test marketing, |
| (5) formation of cross-functional team, | (10) commercialization |

Consumers may be involved in all the above steps, however their contribution will differ depending of the step. According to Alam, the consumer may be especially well suited for the following three steps; (2) idea generation, (6) service design and process/system

design, and (8) pilot testing. Consumers may also be involved after commercialization for evaluation and improvement suggestions.

Co-creation and Open Innovation

Von Hippel (2005) has provided a range of examples of how certain users (lead users or more or less professionalized communities) can take on a role as designers to interact with product developers in companies through *co-creation* processes. “Lead users are users whose present needs will become widespread in a market months or years ahead. Since lead users are familiar with conditions that lie in the future for most others, they can serve as a need-forecasting laboratory for market research” (Grunert et al., 2008). Two things characterize co-creation (Arwidsson & Haglund, 2008): (1) the consumer is the new source of competence and inspiration – a bottom-up perspective, rather than the traditional top-down approach, and (2) companies see the consumer as a business partner or “co-producer” rather than an external factor.

Chesbrough (2003) talks about a paradigm shift which entails a new role for R&D that means going from generating all ideas within the company, to merely leading the innovation process. He refers to the old paradigm as *closed innovation* and the new one as *open innovation*. The company moves from creating innovations for the consumers, to creating innovations *together with* the consumers and involving them in the process, which he refers to as *knowledge co-creation*.

Sawhney et al. (2005) talk about the Internet becoming a platform for co-creation with consumers. Virtual environments allow consumers to be directly involved in innovation and development processes. These virtual environments create a platform for regular knowledge exchange and they also allow companies to involve a larger group of consumers in the development process. “Traditional” market research techniques, such as focus groups are limited in terms of number of interactions and time spent with the consumers. According to Sawhney et al. (2005) the main limitation is consumers’ willingness to interact with the company and the depth of the information, as consumers may limit what they are willing to share. Birkinshaw et al. (2011) conclude that online forums are good for capturing and filtering large numbers of existing ideas, whereas in-person forums are good for generating and building on new ideas, and that companies should be selective in their use of online forums for innovation.

4.3 Innovation management

4.3.1 Limitations of market orientation

Generating information on potential users, as discussed in the previous chapter, is commonly regarded as a major element in having a market-oriented approach to product development. Although many studies have found that market orientation is positively correlated to company performance (Grunert et al., 2008), it has also been argued that market orientation has its drawbacks – that listening to your customer may actually stifle innovation, leading to what is called the ‘incremental innovation trap’ (Grunert et al., 2008). Trott (2005) refers to a number of industry analysts and business consultants (Christensen 2003; Martin, 1995; Francis, 1994) all of which are arguing that the devotion to focus groups and market research has gone too far, and that it inhibits true innovation, leading to commonality, bland new products and an over-emphasis on minor product modifications and competition based on cost. They argue that this is because the process constrains, rather than facilitates innovative thinking and creativity. Enkel et al. (2005) list five risks that firms should take under consideration when integrating consumers in their innovation process: (1) having to share know-how, (2) dependence on consumers’ views, (3) dependence on consumers’ demands, (4) limitation to mere incremental innovation, (5) serving a niche market only.

4.3.2 Innovation processes

The product development process is often described as a “funnel”, whose purpose is to filter the best ideas and then develop them into commercial products (Magnusson, 2005). Sawhney et al. (2005) describe the traditional innovation process as consisting of five main steps: *idea generation*, *concept development*, *product design*, *product testing* and *market introduction*. Companies use different techniques for consumer integration in the process. During the “front-end” stages of the process (idea generation and concept development), focus groups, consumer surveys and quantitative techniques are often used to generate, test and refine product concepts. In the later stages of the process (product design and testing), firms use quality function deployment, prototyping, product testing, and test marketing to design and improve products and marketing strategies for new product introduction.

The stage-gate process

The most widely referenced normative product development model is that of Cooper and Kleinschmidt (1986), which is broadly referred to as the *stage-gate model*. This is also the process most commonly used among large food manufacturers. Winger and Wall (2006) summarizes the four basic stages in the model as: (1) Product strategy development; (2) Product design and development; (3) Product commercialization; and (4) Product launch and post-launch. Each stage has activities that produce outcomes (information) upon which management decisions are made at so-called “gates” (“go/kill” decision points) (see Fig. 1). In practice, some of the activities performed in the product development process can be truncated, or some stages can be omitted or avoided based on a company’s accumulated knowledge and experience (see Fig. 2).

Figure 1: An overview of a typical Stage-Gate Model for major developments, by R. Cooper

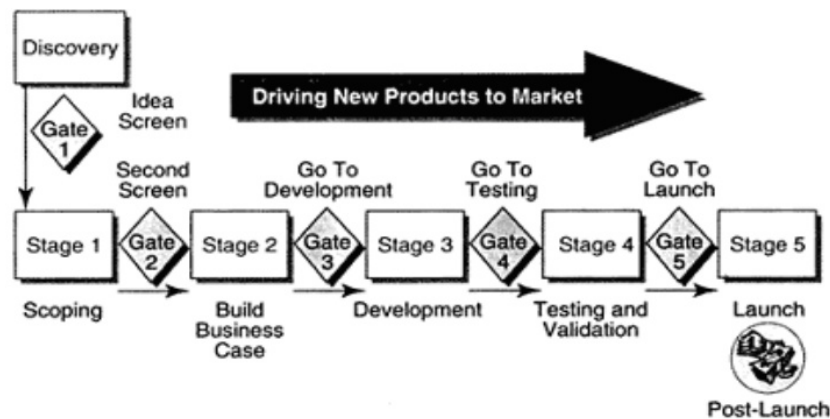
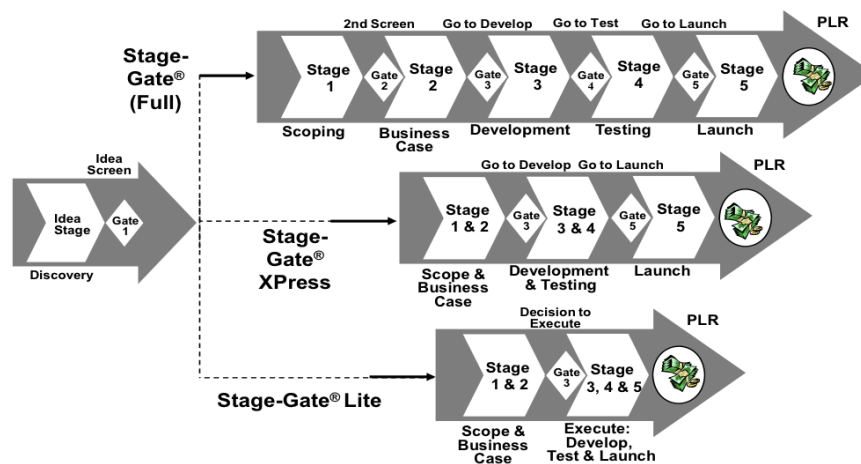


Figure 2: Scalable Stage-Gate to suit different projects, by R. Cooper



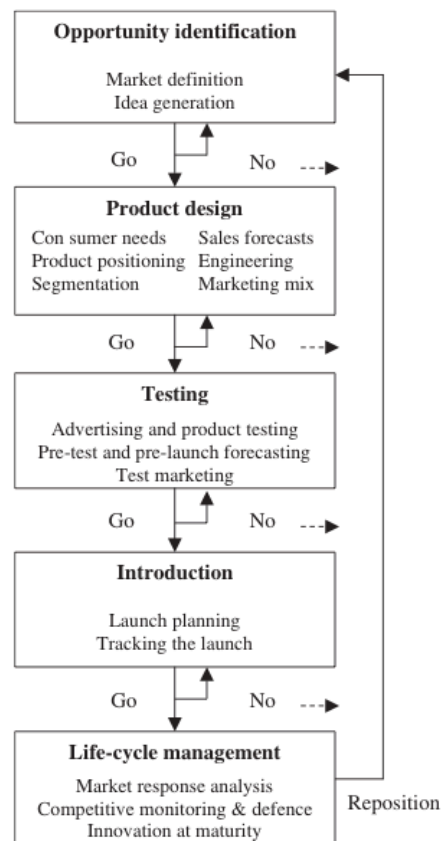
Major new product projects go through the full five-stage process (top)
 Moderate risk projects, including extensions, modification & improvements, use the XPress version (middle)
 Sales-force & Marketing requests (very minor changes) use the Lite process (bottom)

According to Assink (2006) stage-gate models mainly produce incremental innovations, due to their linearity, whereas processes for more radical innovations are often more like a spiral or a circle with continuous fast feed-forward and feedback loops. Such processes are to a higher degree affected by economic, social and political factors, competition, infrastructure, resources, corporate structure and culture.

The consumer-led new product development (NPD) process

The consumer-led NPD process follows the basic structure of the stage-gate model, with an extra emphasis on the role of the consumer and the nature of insight collection and processing (see Fig. 3). It can be viewed as a market-oriented innovation strategy developed specifically for the manufacturers of consumer goods, as it focuses on the share of market intelligence pertaining to the end-users. It is an integrated concept concerning the application of consumers' current and future needs, and its determinants, in the development of innovative products with true added value. An effective ability to translate subjective needs (e.g. "healthy" or "convenient") into objective product specifications is essential in the consumer-led NPD approach (Costa & Jongen, 2006).

Figure 3: Key stages of a consumer-led NPD process (adapted from Urban & Hauser, 1993)



As mentioned previously, in section 3.2, Costa and Jongen (2006) highlight potential problems with this approach in the context of food manufacturing, its sequential nature being one of them.

4.3.3 Cross-functional cooperation

Grunert et al. (2008) refer to new product development as an interdisciplinary activity requiring contributions from nearly all functions in a company. Such cooperation aims at reducing uncertainties inherent in the development of new products, to increase speed of the development process and to heighten the quality of the end result. Numerous studies have shown that cooperation and cross-functional teams are key success factors in product development (Grunert et al., 2008; Hauser, 1996).

Despite the potential of cross-functional product development teams, the use of such teams is not without its problems. Kolhi and Jaworski (1990) refer to *interdepartmental dynamics* as a key factor that can either promote or discourage market orientation. They define interdepartmental dynamics as: “the formal and informal interactions and relationships among an organization’s departments”. Lusch, Udell and Laczniak (1976), and Felton (1959) argue that interdepartmental conflict may be detrimental to the implementation of market orientation. Such conflict may stem from natural desires of individual departments to be more important or powerful. It also inhibits communication across departments. Lack of interdepartmental communication may stem from departmentalization or specialization (Lundstrom, 1976; Levitt, 1969). The conclusion drawn from this is that the higher the *interdepartmental connectedness*, the greater the market orientation of the organization.

4.3.4 Innovation as a discipline

Innovation culture

As mentioned in the introduction Narver and Slater (1990) propose a culturally based behavioral perspective to market orientation and highlight the importance of an organizational culture that promotes value creation for the consumers through i) customer orientation, ii) competitor orientation and iii) interfunctional coordination. A *customer orientation* requires understanding of the consumer’s entire value chain, not only as it is today, but as it will evolve over time subject to internal and market dynamics. In regards to *competitor orientation*, the analysis of principal current and potential competitors must include the entire set of technologies capable of satisfying

the current and expected needs of the firm's target customers. *Interfunctional coordination* refers to "the coordinated utilization of company resources in creating superior value for target customers" (Narver & Slater, 1990, p. 22). According to this approach, any point in the consumer's value chain affords an opportunity for the firm to create value for the consumer. Therefore, any individual in any function in the seller firm can potentially contribute to the creation of value for its consumers. Narver and Slater's theories are supported by contemporary research. Wagner et al. (2014) write about breakthrough innovation programs as the results of organizational prioritization and planning. They are rooted in corporate cultures that value innovation and the individual attributes that help further new-product and service development. Martín-de Castro et al. (2013) find that innovation culture moderates the relationship between human capital and product innovation. An innovative culture can thus drive innovation processes and directly influence the economic success of organizations. Skarzynski and Gibson (2008) talk about making innovation *a way of life* for the organization.

Managing innovation

Birkinshaw et al. (2011) note that making innovation everyone's job is intuitively appealing but very hard to achieve. An interview with Esther Baldwin of Intel Corporation by Hopkins (2010) captures this in stating that: "Innovation isn't 'creativity', it's a discipline you manage". Baldwin argues that innovation can be comprehensively managed as an organization-wide discipline by using IT tools that allow employees to share their observations, which helps the organization to be more productive and efficient in a cost-effective way.

Kohli and Jaworski (1990) stress the role of senior management in fostering or discouraging market orientation. Referring to Argyris (1966), they underline the *gap* between what top managers say and what they do as a key factor affecting market orientation in an organization (e.g. they *say* "be market oriented", but cut back market research funds, thus discouraging change). Kohli and Jaworski (1990) further argue that a positive attitude towards change has consistently been linked to individual willingness to innovate. Top managers' openness to new ideas and acceptance of the view that change is a critical component to organizational success are likely to facilitate market orientation. Trott (2005) complements this view by including leadership- and organizational change in the definition of innovation.

Driving the market vs. being market-driven

Beckeman (2011) refers to a study by Kumar et al. (2000) that investigated a number of pioneering companies whose success has been based on radical business innovation. They conclude that to be market driven is a positive sign, but that companies that are successful with radical innovations (IKEA, Tetra Pak, Starbucks, etc.) are better described as *market driving*. Market driving is different from being sales-, market- and customer-driven. It is an approach that aims to change the rules. Naturally, some obstacles have to be faced, which is why market-driving companies are often new entrants to the industry. Over time they become market-driven, unless they search for another market driving innovation.

4.4 Interactive innovation

4.4.1 The supply chain perspective

Lambert and Cooper (2000) note that competition is no longer between organizations in a supply chain but between supply chains and that the success of a single actor or business will depend on its ability to integrate into a chain (Beckeman, 2011). Hence, the supply chain perspective is increasingly important and becoming the business model in many manufacturing industries. In recent literature, there is ample evidence for the value of increased collaboration in the chain (Beckeman, 2011). Fernie and Sparks (2009) attribute the power in the supply chain today to the retailers, who control the product supply from producers to consumers, contrary to before when power was with the manufacturers. Retail power is “the ability to influence other channel members to make decisions which otherwise would not have been made” (Collins, 2007, p. 3; cited in Beckeman, 2011). Power might be there, although not always exercised, but with higher retail concentration, retailers might use the threat of de-listing (Beckeman, 2011).

4.4.2 Inter-organizational relations, knowledge sharing and trust

Value-chain cooperation in the food sector is a development driven by differentiated end-user demands, which have to be dealt with at different levels of the value chain. It requires new set-ups both for the diffusion of market intelligence across the chain and for coordination of responsiveness among chain members (Beckeman, 2011). It has been shown that companies that can draw on a network of customers, suppliers,

research institutions and competitors are more likely to have higher product and process innovation success (Grunert et al., 2008).

Trust is a key parameter in inter-organizational product development. However, the incentive to share the knowledge that is essential to product development is not the same when the parties belong to different organizations (Grunert et al, 2008).

Beckeman (2011) concludes that there are many advantages in collaborating in the chain if done with the right partners and in the right way. Internal collaboration should be developed first and then external with selected partners. Actors need to be prepared to change their way of working and managing, perhaps by starting with a joint development project (Dunne, 2008), which may be an example of how companies manage to compete and collaborate simultaneously – a concept made known by Bengtsson and Kock (2000) as *coopetition*. Coopetition is an increasingly occurring concept in the food industry, in the context of private labels, when branded manufacturers produce goods for retailers' own brands.

4.4.3 Adapting the business model

Teece (2010) notes that failure in innovation could depend on not designing the right business model. He suggests a framework with two extremes:

- 1) At one end, an *integrated business model*, in which an innovating firm bundles innovation and product together, and assumes the responsibility for the entire value chain.
- 2) At the other end, the *outsourced* approach (i.e. licensing), which is possible only with strong intellectual property rights.

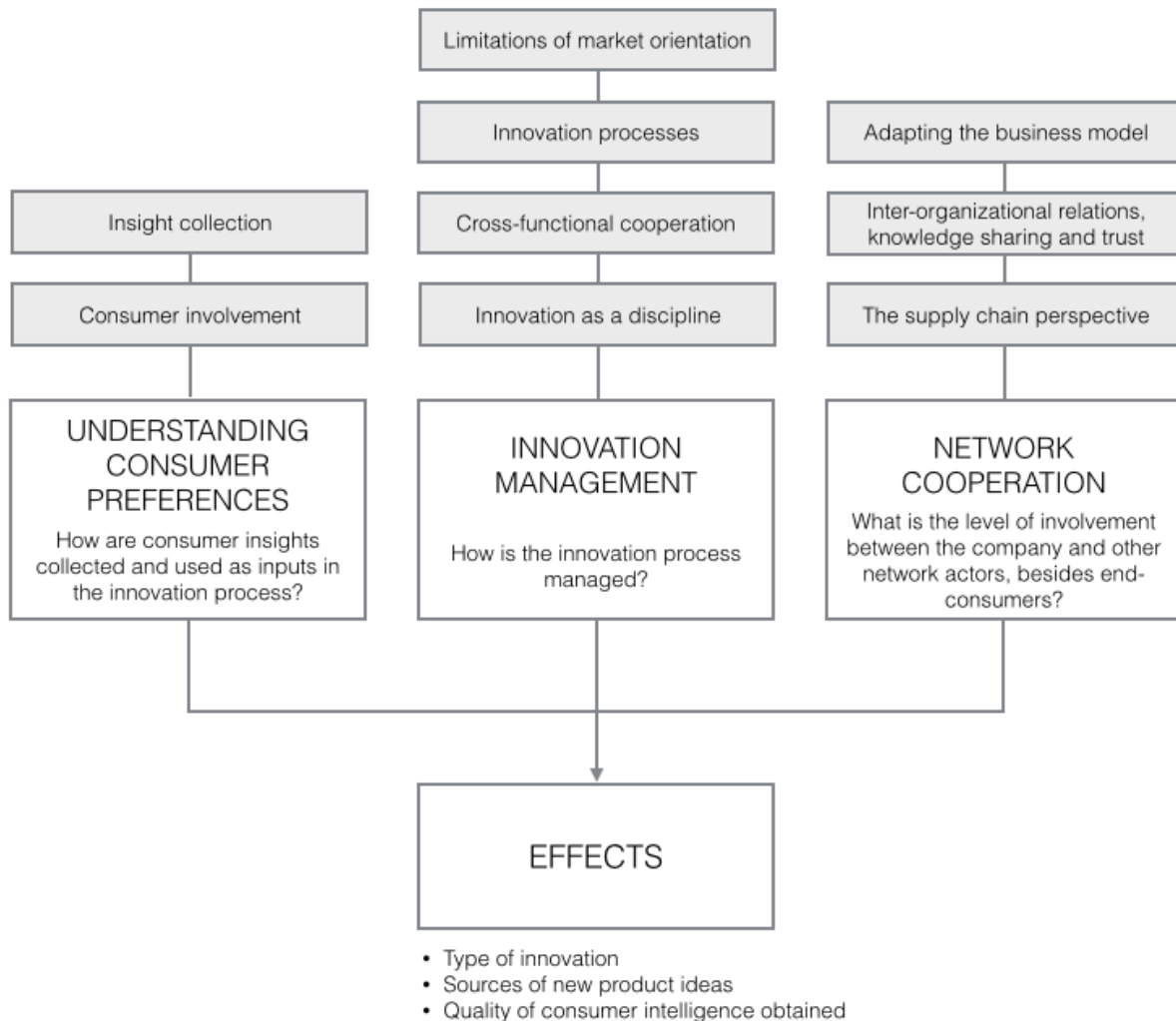
In between are hybrid approaches with mixtures of the two extremes and this is the most common approach.

However, Dankbaar (2007) argues that outsourcing of manufacturing is not an option if a company is planning to remain actively engaged in more than just incremental product development, but to outsource component production could be an option. Dankbaar (2007) claims that the long-term impact of outsourcing manufacturing might be a loss of innovative capabilities and thus one should maintain in-house manufacturing activities. Beckeman (2011) mentions a study by Dabhilkar and Bengtsson (2008) that investigated outsourcing of manufacturing (not specifically food) and the relative improvement potential by Swedish firms and concluded that there is a far greater

performance improvement potential in investing in, rather than divesting, the manufacturing function.

4.5 The research model

Summing up the learnings from the pre-study, literature review and theory sections, a research model (see below) has been created, which will serve as a guiding tool for the analysis and structure of the empirical data.



The pre-study and the previous research together highlight some important challenges and developments that food companies in Sweden face today. The case study and analysis will focus on shedding some light on how two large Swedish food companies are addressing these issues and what impact their actions have in terms of market orientation. The next section will describe the methodology used for the study.

5. Method of the study

5.1 Research design

An evaluation of previous literature on the subject of consumer-oriented innovation approaches in the Swedish food industry has shown that there is a limited amount of empirical studies on the topic. In light of the ongoing market changes that are re-shaping the innovation landscape in the packaged food industry, there is a value in contributing to the already existing theoretical research with empirical case studies that illustrate ongoing developments from the companies' point of view. In doing so, this study hopes to decrease the current knowledge gap on the subject (Merriam, 1994). To fulfill the investigative purpose of this study, a qualitative research method was chosen as it is appropriate for descriptive studies where focus is placed on understanding the whole context of the situation (Bryman & Bell, 2007). Qualitative studies are also considered more appropriate than quantitative when analyzing human behavior (Guba & Lincoln, 1994). Finally, this study will use the open-ended and exploratory inductive approach, where the focus of the final conclusions will be based on observations generated in the research process (Bryman & Bell, 2007). Blaxter et al. (2006) advocate the inductive approach as it requires a deep understanding and competent knowledge about the research area and allows for an argumentation around alternative explanations of the problem. Due to personal interest in the field and previous knowledge on the topic, I believe this approach to be suitable for my purposes.

5.2 Case study

The case study format was chosen, as it is considered the most appropriate approach to studies based on *how* and *why* questions, where the focus is on a contemporary phenomenon within some real-life context and control over behavioral events is not needed (Yin, 2009). To add to the studies robustness, a multiple-case design was chosen. Yin (2009) categorizes case studies into three different types; explanatory, exploratory and descriptive. Since the aim of this study is to investigate and analyze how food companies are adapting to the ongoing market changes, a descriptive format has been chosen to describe their innovation approach. Given my choice of a multiple-case study

design, the selected cases followed a replication-logic, meaning that each case is stand-alone (Yin, 2009).

5.2.1 Case selection

For the selection of appropriate cases, the snowball sampling technique was used, based on the client base of one of the innovation consultants that I interviewed in the pre-study. Her knowledge in the field and extensive network in the food industry constituted a suitable starting point for the sampling (Bryman & Bell, 2007). The cases were selected based on lateral replication (Eisenhardt, 1989), i.e. that both cases will show similar results. My prediction in this respect was that both case companies would show strong tendencies towards market-orientation and consumer involvement, although the methods used might differ in some respects. The cases were ultimately chosen on the following criteria:

- Type of production – packaged consumer goods, perishables (i.e. food)
- Industry leadership – innovators and drivers in their respective categories
- Approach to innovation – consumer-oriented, using new methods
- Organization of innovation activities – an innovation department

Historically, A-brand companies have been the drivers of innovation in the Swedish food manufacturing industry, which is why one of the cases is a branded manufacturer. However, due to the ongoing developments in private label, I chose a private label to represent the other case. This company in particular, distinguishes itself from other Swedish private label companies in that it has a strong innovation focus and contributes significantly to the development of the Swedish market for packaged food. Given the clarity of the choice criteria, this study should be generalizable for future research (Webb & Lambe, 2007).

5.2.2 Selection of interviewees

The company interviewees were selected based on their position, knowledge and proximity to their company's innovation process. In both cases this meant members of the innovation department, both in managerial positions. Given their particular and extensive knowledge about the innovation processes in their respective companies, them being the driving forces in their respective innovation unit, and the time constraint of this study, the interviewees were limited to one per case. This is considered to be

enough for the scope of this study and to get a complete picture of the companies' innovation activities.

5.3 Data collection process

5.3.1 In-depth interviews with industry experts for the pre-study

Due to a limited amount of academic literature specifically covering the topic of market-oriented innovation processes in the Swedish food industry, I conducted an exploratory pre-study with a number of industry experts, all of whom are particularly knowledgeable on either consumer insight, the food industry or both. The pre-study helped me narrow down the scope and pinpoint the most important topics to be covered in the main data collection phase.

5.3.2 In-depth interviews with case company representatives

Each of the interviewees in the case study had also previously been interviewed during the pre-study, which meant that I entered the main interview phase with a fairly clear idea of which of their projects I was interested in and what other questions I wanted to address. Each person was thus interviewed at two occasions, making it two in-depth interviews each, approximately one hour each, followed by an e-mail exchange for follow-up questions and answers. A semi-structured interview technique was used, which allowed me to keep the interview open enough to collect unexpected information that could be of interest, while keeping a structure that allowed for cross-case comparison (Bryman & Bell, 2007). Based on theory and the pre-study, I developed an interview guide based on the main topics covered (see Appendix, Exhibit 3). In-depth interviews were used because of the need for deep and detailed insights and understanding for the companies' processes and activities (Malhotra, 2004).

5.3.3 Documents

In order to achieve accuracy and strength of conclusions methodological triangulation was applied. The in-depth interviews in the main study have been complemented with information from annual reports and information about the case companies that has been published online (Bryman & Bell, 2007).

5.4 Data analysis

Following the recommendations for qualitative research studies, I have applied a grounded theory framework to process and analyze the collected data (Bryman & Bell, 2007). The theoretical model defined in Chapter 4 served as the basis for a structured analysis process, where findings from the case interviews and secondary data were “coded”, based on similar citations, and matched with one of the four analytical topics; understanding user preferences, innovation management, network cooperation and effects.

5.5 Research Quality

According to Bryman and Bell (2007) the quality of a study is often evaluated based on its *reliability* and *validity*. They argue, however, that this method of evaluation is more suitable for quantitative studies, while the evaluation of qualitative studies should be based on trustworthiness and authenticity. Trustworthiness comprises four criteria; credibility, transferability, dependability and confirmability.

Credibility corresponds to internal validity, and discusses to what extent the study presents an accurate picture of reality. In order to obtain credibility I have recorded all the interviews and transcribed them in order to be able to go back and verify citations. The cases have also been sent to the interviewees, in order to obtain their approval and verification. The semi-structured interview technique also contributed to the credibility of the study, as it allowed the interviewees to stray from the interview guide in order to relate relevant information that might not have been considered in the guide. Finally, the triangulation of data, through both primary and secondary sources, in combination with follow-up questions per e-mail that clarified uncertainties, also contributed to increased credibility.

Transferability concerns the study’s generalizability and can thus be compared to external validity (Guba & Lincoln, 1994). Although case studies cannot provide *statistical generalization*, due to the limited sample size, they can provide *analytical generalization* through the connection with theory (Yin, 2009). The clarity of the choice criteria for the cases and the analytical model should allow for generalization for future research (Webb & Lambe, 2007).

Dependability concerns the possibility for replication of the study and whether such a repetition would yield the same results if performed by another researcher. The

thorough documentation of the interviews, both in the pre-study and in the main study, should allow for easy replication of the data collection and the clarity of the analytical model for the analysis.

Finally, *confirmability* concerns the degree of neutrality in regards to the respondent data, or more explicitly that the research is related in an objective manner. While this may be difficult to observe from an external point of view, all collected data is thoroughly documented, including follow-up e-mails with verifications from the interviewees concerning uncertainties. Furthermore data triangulation, where interview data was corroborated through company reports, further enhances confirmability.

6. Empirical findings

The following chapter will present two case studies, which will serve as the base for the analysis. Both case companies have asked to be anonymous, thus the names of the organizations have been falsified and the interviewees are not referred to by name.

6.1 Dairy Ltd

This case is based on several interviews with one of the Concept Managers at Dairy Ltd's Swedish innovation division and on the company's annual reports and webpage. All quotes in this section refer to the Concept Manager, if not noted otherwise. The case is based only on the Swedish division's activities.

Company Facts	
Industry	Branded consumer goods in the dairy sector
Turnover MSEK	1,484
Employees in Sweden	2 199
Geographical market	International

6.1.1 Company Information

Dairy Ltd is an international cooperative. It is the largest producer of dairy in Scandinavia and the market-leading company on the Swedish market. The Swedish branch contributes 19 per cent of Dairy Ltd's revenue. The company has a long history in the agro-food sector and innovation is high on the company's agenda.

6.1.2 Innovation strategy

One of Dairy Ltd's strategies is to increase innovation to meet the consumers' needs, develop customer relations, efficiency and value creation. The goal is to generate 10 per cent of revenue from new product development each year by balancing incremental and radical innovation across the business. In 2014, the launch of products across categories represented an innovation rate of about 11 per cent, which equates to about one billion EUR across categories over three years.⁴

⁴ Facts taken from the company's 2014 annual report

Radical vs. incremental innovation

At Dairy Ltd innovation is defined as the profitable implementation of an idea. The company makes a distinction between radical innovation (New Product Development) and incremental innovation (Existing Product Development). Radical innovation is about offering the consumer completely new and surprising categories of dairy products, a clear departure from existing practices and user experiences. While incremental innovation reflects gradual improvements within existing, defined areas, such as substituting an artificial aroma with a natural one.

"New product development is really important for us. Consumers are demanding it in all FMCG categories, not only food. In shampoo, for example, you need to re-launch your entire range at least every third year in order to be competitive. You need to provide novelties on a yearly basis. Even if you don't change the product, you still need to change the packaging."

Examples of innovations by Dairy Ltd

The company lists the following products among its top recent innovations:

- Product A – A new liquid quark⁵ composition.
- Product B – Creamy quark. A new recipe. Creamier than traditional quark.
- Product C – A new product composition combining two product categories, quark and cottage cheese.

Changing attitudes over time – From product-orientation to market-orientation

The concept of innovation at Dairy Ltd has developed over the years from mainly being associated with technological advancement and referred to as "R&D" or "product development", to market adaptation and consumer insight generation. In 2006, Dairy Ltd's product development activities moved closer to the market when the functional area began to report directly to the business areas. The purpose was to establish a close link between consumer wishes and the group's prioritization of its product development work.⁶ Today, the company's Annual Report brings up the tracing of consumer patterns as a central strategy towards innovation and value creation:

"Understanding consumers is key to making an impact in the markets of today and tomorrow. To grow, we need to understand the needs, tastes and preferences of local consumers."

⁵ Quark here refers to "Kvarg" in Swedish

⁶ 2006 Annual Report

*"The consumer is at the heart of all [our] activities. Only by serving the – known and yet unknown – needs of our consumers will [Dairy Ltd] continue to secure its position (...)."*⁷

The innovation department

Dairy Ltd in Sweden has a special innovation department that works with new product development specifically for the Swedish market. The department operates as an integrated part of the business areas (the divisions), which means that the innovation department "owns" all innovation projects, but the project teams also include people from marketing, market research and sales. Innovation in the Swedish branch is focused on two main business areas; milk and soured dairy products, and dairy products for cooking. These business areas are considered highly country-specific and are therefore not centralized to Dairy Ltd's main innovation centre, which covers global product development.

"Food is a very conservative field, where consumer habits do not change very often. But it is also very local. Consumer preferences even among the Scandinavian countries differ a lot, especially for dairy products. We therefore do local adaptations for many of our product categories."

The Swedish innovation division incorporates an innovation manager, seven product developers, two concept developers, a health and nutrition expert, a small three-man pilot dairy plant and laboratory, as well as a sensory facility.

6.1.3 The innovation process

Dairy Ltd uses the Stage-Gate Process in their innovation projects, which is the standard among large food manufacturers. Market and consumer insight collection is focused to the first two parts of the process, the *pre-stage phase (Discovery)* and *stage 1 (Exploration)*. The discovery phase signifies the point of initial interest in a specific area. It can be spurred by a change in consumer behavior, a growing trend, growth or decline in a certain category. Pressure from Private Label is also often a catalyst for the initiation of innovation projects. This kind of discovery is followed by an "immersion", where the problem in question is further investigated. The immersion serves to identify whether the topic is of interest to Dairy Ltd; if there is a brand fit, and in the case of trends, whether the trend is strong enough to invest in.

⁷ Quotes from 2013 Annual Report

“Our goal is that the product should already be on the shelf when the trend hits the mass market. That’s also an important aspect, that the trend isn’t only applicable to the Stockholm area, but to consumers all over Sweden. We don’t always have to be first, but we should be first to provide the product to the general public.”

A current example of such a discovery and immersion topic is the eating habits of Millennials, who tend to eat more meals per day, but in smaller portions. For Dairy Ltd this presents both a challenge and an opportunity – How can they best cater to the needs of this particular group in the future?

Following the discovery and immersion phase, an initial business case is presented to the management at *gate 1 (idea screen)*, where it receives a ‘go’ or ‘no go’. In the case of a ‘go’ the project team enters into *stage 1 (the exploration phase)*. This is where the bulk of the market research is done, through consumer immersions, using both quantitative and qualitative methods. Quantitative methods are used to follow up and verify the findings from previously made qualitative studies. The findings from this research then serve as the base for a revised business case, which in turn serves as the foundation for the project throughout the rest of the process. Based on the new business case, the project team develops product concepts, usually in collaboration with a brand or trend agency, which are then tested on consumers using online surveys. The quantitative results serve as the base for the ‘go’/‘no go’ decision at *gate 2 (Second screen: “Go to development”)*.

The stage between gate 2 and 3, called *stage 2 (Development and testing)* is significantly longer than the previous stages, spanning from 6 months to 1,5 years, depending on the complexity of the project and the investments needed. This is where decisions about packaging are made, among other things. In short, this is the problem solving stage.

“As project leader, I need to get the right people in the same room and make them think in unison regarding any considerations or problems we might have, such as ‘How do we solve this without having to invest 5 million SEK?’. Next week, for example, I will travel to one of our dairy plants to see how we can connect a blending machine with a certain packaging machine in order to be able to use the kind of packaging we want.”

Gate 3 (“Go to launch”) takes place five months prior to launch. This is where the innovation team hands over the project to marketing. *Stage 3 (Design & Launch)* is dedicated to packaging design and developing the communication and launch plans together with the sales department.

The project team meets regularly throughout the project in cross-functional “portfolio meetings”, which are held every sixth week, usually two weeks before a gate meeting. During the meetings current business cases are discussed and prioritized for upcoming gate meetings. Less impactful decisions, for example concerning a new crème fraîche flavor, are taken directly in the portfolio meeting.

6.1.4 Case – Open Innovation

Dairy Ltd strongly supports Open Innovation. The Swedish innovation department launched its first Open Innovation project in 2013, at the initiative of the innovation department’s two Concept Managers.

“We had a personal interest for the subject and we read and Googled it a lot before we suggested that we should try it out.”

The first attempt started with a pilot project on a smaller scale. The objective of the project was to identify non-conventional consumers of quark and to investigate how they use existing quark products. At the time, quark was traditionally categorized as a baking product, and placed near butter and cream in the retail stores. But the growing health trend had revitalized quark and made consumers aware of its low-fat high-protein qualities. 3000 consumers answered a web-based survey and were then transferred to an open online discussion forum. During one week 550 consumers wrote 685 posts on the forum on the topic of quark. In a second stage 1000 consumers were invited to a closed discussion forum for idea generation around four pre-specified themes.

The study resulted in a number of new usage areas for quark towards which no existing quark products were positioned at the time. As a result of the project, Dairy Ltd launched a series of quark products for different usage occasions; for baking and cooking, and for breakfast and as a snack in-between meals, positioning them based on the healthy qualities of quark. In addition, two entirely new-to-the-market liquid quark compositions were also launched.

The pilot project, which was kept relatively short, was followed by a longer, eight-week Open Innovation project based on a closed online discussion forum. The objective this time was to investigate consumers’ needs, difficulties, challenges and moments of joy related to weekday home-cooking. Points of interest included: What do people cook and

why? What does the decision making process look like prior to the meal? – from planning, to purchase, to placing the meal on the table. Which are the “critical” moments? What are the needs of the consumers and are they met today? Knowledge base, attitudes, priorities related to cooking? Where do people find inspiration? Does the whole family partake in the meal? Does everyone eat the same thing? Etc.

“We wanted to interact with the target audience over a longer period of time to learn more about everyday cooking, and with the help of the participants hopefully get answers to questions we had not even thought to ask before. We asked them to take pictures of their refrigerator and meals, and to tell us about their favorite recipes and quick shortcuts in everyday cooking. In addition, we sent them vouchers and asked for help with a digital co-creation project.”

The goal was to recruit 100 active participants and the choice criteria for the target group were:

- 70% families with children 3-18 years-of-age
- 30% adults without children
- Cook at home at least three times per week

The outcome of the project cannot be revealed when this thesis is being published, because the resulting products have not yet been launched on the market. However, Dairy Ltd states that the results were very satisfactory, although recruitment for the project proved to be more difficult than anticipated.

“We thought that, since this was a chance for them to learn and get tips from other consumers, that more people would be willing to participate. I would also have preferred if there were more consumers who are not so enthusiastic and fond of cooking. But, for natural reasons, they don’t take active interest in these kinds of things and are not as prone to sharing pictures of their fridge as the cooking enthusiasts.”

After much work, the forum included 120 active participants during the eight-week period, out of which 20-25 were extremely active, i.e. logged in daily.

“We got to know those participants really well, and in the end we could almost anticipate their reactions to the product concepts that we presented to them.”

The uniqueness of an Open Innovation project lies in the combination of deep qualitative analysis and a larger audience, compared to traditional focus groups or ethnographic studies, and that it happens over a long period, often very close in time to the consumer behavior or need that you wish to know more about. The difficulty with Open Innovation

is being able to translate the consumer intelligence into marketable insights. Furthermore, it is very resource intense. The inflow of information is really high and it's a matter of planning ahead and asking the right questions to the right people. The method requires dedication and time.

Dairy Ltd state that they are very happy with the Open Innovation concept and that they will keep using it for consumer insight generation in the future, however on a slightly smaller scale, to make it less time consuming. The goal is to create a continuous Open Innovation process that can be run throughout the year, for different product categories and with different consumer groups each time.

"I think that the future is in Open Innovation. We just need to work on making it more efficient. Many multinational organizations already have a continuous open innovation system with ongoing open innovation projects that are open year-round."

The Swedish division at Dairy Ltd was the first to try Open Innovation for consumer insights, after which the interest among other divisions has grown and the concept is now being applied in other markets as well.

6.1.5 Understanding the consumer

"Consumer insight is a central criterion for selecting projects, where close collaboration with marketing will shorten the distance from idea to consumer."⁸

The bulk of consumer input at Dairy Ltd is collected in the early stages of the innovation process. The qualitative research in *stage 1 (the exploration phase)*, labeled "consumer immersions", covers different methods, both "traditional" and more modern, depending on the needs of the project. Consumer immersions include in-depth interviews (with experts, early-adopters and consumers), focus groups, habits and attitude studies, ethnographic studies (shop-along and cook-along), Open Innovation as well as inspiration trips to other countries. Different types of consumers are used for different purposes. For idea generation, mostly "super-users" or "early adopters" are used, as well as trained consumer expert groups provided by independent research companies. For concept testing, mostly "early majority" consumers are used. The company also uses its online platforms (Facebook and the webpage) for continuous consumer contact. Short

⁸ Quote from 2012 Annual Report

mini-surveys or polls are posted regularly on these platforms asking consumers questions related to ongoing product development projects.

According to Dairy Ltd the key lies in using different approaches to consumer research, because it provides different viewpoints.

"I think it is important to work with a range of suppliers, both in terms of market research and in terms of concept development, design and packaging development. Part of my job is to match the right project with the right partner."

The preference for different consumer insight methods in the industry varies with current trends. At the moment, Open Innovation, co-creation and inspiration trips are popular among food manufacturers, and Dairy Ltd uses all three in combination with more "traditional" methods. The Open Innovation method has provided the company with a valuable substitute to ethnographic studies. It allows the project team to remotely follow a group of consumers over a longer period of time, and to really get to know them much better than when using quantitative methods. The drawback is the limited subject pool, compared to quantitative studies, although it is larger than for focus groups or ethnographic studies.

"I don't think that Open Innovation is revolutionizing in terms of supplying us with sharper insights. However, I do believe it gives us deeper consumer insight. In terms of inspirations trips, personally I don't think they give us much consumer insight. They are too subjective."

However, too much consumer focus can also become a problem. The innovation team must take into consideration that consumers tend to be restricted by historical and present experiences and usually have a hard time imagining the future. Therefore, though much weight is placed on consumer preferences, the project team does not always blindly follow the outcome from the quantitative concept tests in *stage 1*. Gut feeling and cross-disciplinary experience within the project team is used to assess the outcomes.

"If we believe a lot in a certain product idea, we might decide to move forward and keep working on it despite bad ratings in the concept test. We might realize during the process that we based the case presented to consumers on the wrong insight, and that's why they didn't like the concept, but we still think that there is a good product idea at the bottom. The same goes for concept tests with really high ratings. Some concepts are dismissed despite high ratings because we judge them to be too niche and we don't believe the consumers' willingness to pay will be high enough once the product is out on the shelf."

The biggest challenge lies in interpreting what the consumers say in relation to their actual willingness to pay. The consumers may prefer an organic, premium product in a certain type of packaging, but the question is: Will they be willing to pay for it once it is out in the store? There is always a tradeoff.

"It's possible to make large studies on sales volume and willingness to pay for a specific product, but they often cost half a million SEK, so we cannot do them for every product idea we have."

Instead, smaller "price meter" studies are made for concepts where the price elasticity is judged to be high, which makes the price level hard to estimate. In focus groups, an extra question about willingness to pay can be added.

6.1.6 Managing innovation

Following the increase in retailers' Private Label-focus in Sweden, Dairy Ltd reviewed its production strategy in 2012 and announced that the company is willing to enter into strategic partnerships with all customers for private labels, stating that it is important for Dairy Ltd to meet the Private Label demand. This was a strategically important decision with major significance for the Swedish dairy market. As a direct consequence of this decision, Dairy Ltd launched a long-term partnership agreement for milk with one of Sweden's largest retailers.

In their 2012 Annual Report the company quotes that: *"[Dairy Ltd Sweden] will exploit the opportunities that have manifested themselves in the private label category and we will build brands bolstered by innovation and consumer inspiration—not least in close dialogue with our customers across the digital media."*

6.1.7 Inter- and intra-organizational knowledge sharing

Dairy Ltd not only supports Open Innovation on the B2C-level, but also on a B2B-level:

*"To develop tasty, inspiring, healthy and competitive products, a strong network within the areas of knowledge and skills is essential. [Dairy Ltd] Innovation, therefore, collaborates with consumers and customers to test concepts and trial products: with chefs to find the optimum flavor, with suppliers of ingredients, technology and packaging to compose, produce and package such ideas and with researchers from across the world to solve other basic issues."*⁹

⁹ Quote from 2004 Annual Report

Each year, Dairy Ltd hosts an annual supplier's innovation fair. The concept has proven to be a success as it enables one-on-one meetings between the suppliers and Dairy Ltd employees. Many suppliers also retaliate by hosting annual innovation and consumer insight days for the employees at Dairy Ltd.

The Swedish branch of Dairy Ltd does not have a specific policy for spreading an "innovation culture" among its employees. However, the innovation team makes an active effort to involve co-workers from various departments in the innovation projects.

"A brand manager, a product manager and a product developer are always part of the team – they are essential. But then we also try to mix it up a little from time to time, for example finding new people from sales who are interested in the project. That way different parts of the organization feel engaged and included."

"Our colleagues in Finland have been working on their innovation culture a lot. But then again, they are so few, not more than a couple of hundred including the dairy. So they have been able to work with innovation in a different way, involving people from the dairy and hosting internal innovation and concept days where they all sit down and try to generate new ideas. We don't work that way here."

6.2 Food Retail Ltd

6.2.1 Company Information

This case study is based on several interviews with the Team Manager of Innovation and New launches at Food Retail Ltd, as well as information from annual reports and the company webpage. All quotes in this section refer to the Team Manager, if not noted otherwise.

Company Facts	
Industry	Grocery retail
Turnover MSEK	71 026
Employees	8 213
No of Stores	1 314
Geographical market	Sweden

Food Retail Ltd is a Swedish retailing corporate group. The company has been in the grocery retail business for over 75 years, and has today over 1,300 retail stores in Sweden. With a turnover of 71 BSEK it is considered one of the leading retailers in the food retail business in Sweden. In contrast to the other case studies, this is a private label actor. In addition to well-known A-brands, Food Retail Ltd also offers a wide selection of their own products. The company has come a long way in terms of new product development and innovation, and has been a major driver in the private label market in Sweden over the past few years. In 2014 private labels accounted for 22.7% of the company's sales. A total of around 420 new private label products were launched, many of which were in the fresh foods segment.

6.2.2 Innovation strategy

Innovation at Food Retail Ltd is defined as “constant improvement” and “having an entrepreneurial mindset”.

“[Food Retail Ltd] works actively to offer current, attractive and unique products within our private label product range. We work methodically based on customer input, sales data and requests from the stores. We aim to ensure that [Food Retail Ltd’s] corporate brand products are our customers’ first choice by offering relevant and innovative products in each category.”¹⁰

¹⁰ Quote from the company webpage

Food Retail Ltd's strategic strength lies in their approach to innovation as a cross-category discipline. The company embraces its "lack" of company-owned production facilities and R&D labs by promoting a creative focus in their innovation work, rather than a technological focus.

"We [the innovation team] might not have cutting-edge expertise in each category, but we are good at seeing the whole picture. The expertise is provided through our category managers. We are in a position which allows us to develop value-adding cross-category solutions for our consumers."

Radical vs. Incremental innovation

In conformity with their branded competitors, Food Retail Ltd makes a distinction between radical and incremental innovation, taking into account their strategic position in the way they work across this innovation spectrum. Radical innovation is not an objective in itself. For Food Retail Ltd it is primarily about creating added value for the consumers.

"We try to focus on developing products that are new to the Swedish market or to our stores, focusing primarily on new concept development based on new trends, category demand and consumer needs, rather than existing product development."

Examples of innovations by Food Retail Ltd

The company lists the following products among their top recent innovations:

- Product D – Pre-prepared easy-to-cook meal concept.
- Product E – A new frozen fish offering in new innovative packaging and new-to-the-freezer fish varieties.
- Product F – Ready-made sauce, frozen into cubes for easy dispensing.

Changing attitudes

Food Retail Ltd has historically been a typical private label contender with simple me-too products at a lower price point, with little differentiation in relation to other actors. Its main positioning strategy has been a lower price point. Innovation, in terms of new product development, has not been part of the company's business strategy until very recently. Previously, all product categories worked individually with product development, based on their own perspective of the market. However, as a retailer, Food Retail Ltd has the privilege of having a holistic overview of a store's entire offering. Herein lies the potential and strength of the innovation department at Food Retail Ltd – as a coordinating force across categories. This is also their primary differentiation from A-brands, who often work in product silos and with a limited number of categories. Food

Retail Ltd's approach has thus shifted from a single-product-orientation towards a cross-category-orientation in the form of innovative and holistic concept solutions.

Today, the private label assortment at Food Retail Ltd consists of a wide selection of goods, in numerous cross-category product lines, aimed at different consumer groups that cover all price levels, from low to premium. All new private label introductions by the company are based on consumer and market insights.

The innovation department

The innovation department at Food Retail Ltd is a relatively new concept. It was introduced two years ago, with the mandate to establish a structured process for innovations and to serve as an in-house innovation consulting team for the different product categories.

"In the past, new product introductions were more haphazard, in the sense that they were usually based on spur-of-the-moment ideas or tips from one of our manufacturers. We didn't have a structured innovation process."

Over time, the innovation department has become an integrated part of the organization, and it continues to develop its offers and mode of operation. Today, the innovation team consists of two innovation project leaders, two concept launch project leaders (who are also product developers), two packaging developers and a team manager.

6.2.3 The innovation process

The innovation department takes on assignments of varying complexity. Once a year, one innovation project is launched on a larger scale, with the aim of developing an innovation plan for selected trends, categories and consumer groups that Food Retail Ltd sees long-term potential in. These large-scale innovation projects tend to have a cross-category impact and follow a stage-gate process involving management at each decision point. They have a heavy focus on trends, consumer insights and analysis and involve external agencies and research consultants in the market analysis phase. But the innovation department also takes on smaller projects that revolve around existing product or assortment development, where the innovation process is shortened and adapted depending on the needs of a specific product category or sub-category. Such "on-the go" projects often originate in an inexplicit innovation idea from a product

category team, or the identification of a certain consumer need that the category would like to satisfy. The innovation department then structures the process and helps move the project forward, providing insights and guidance for the product category team as needed. These smaller projects are much shorter and more efficient, as they follow a fast-track process, leaving out decision gates and high-level management and market insight collection is focused to the innovation department only.

6.2.4 Case – Solving consumer problems cross-category

Last year, Food Retail Ltd launched one of its large-scale innovation projects with the innovation department in the lead. The project concerned innovation of the freezer section and spanned over a number of product groups, such as frozen fish, different sauces and snacks and finger food such as wraps, burritos and tapas. The problem formulation was that the freezer section has seen relatively little innovation in the last decade, and holds little inspiration and variation for the consumer. Food Retail Ltd's private label products are popular in the more generic product categories, such as fish and vegetables, where brand loyalty is generally low. Consequently, the issue was not so much in sales of current products, but rather in consumer experience. How could Food Retail Ltd expand their offering with new added-value products that would attract new consumers into the freezer section?

The insight collection process involved trend scouting and benchmarking, as well as in-depth interviews with consumers – both current consumers that already shop in the freezer section and consumers that experience a certain barrier when it comes to buying frozen food. The findings mostly confirmed the team's suspicions.

"People mostly shop on routine, buying basic products they know and are used to, such as frozen salmon or broccoli. They don't get inspired and feel no joy connected to the frozen food they buy. They are also generally not aware of the benefits of frozen food, which contains the same amount of nutrients and is often more fresh than the products in the refrigerated food shelf. Frozen food minimizes in-store wastage and is often frozen right after it's harvested, compared to 'fresh' products that have been in transport for a long time to then lie on a shelf for days."

The project objective boiled down to making a step-by-step journey towards a more "fresh" feeling in the frozen food section.

After the analysis phase the project team identified a number of consumer needs towards which potential concepts could be aligned – such as health, convenience and family. Once the consumer needs were clearly established, the team organized a large workshop, inviting around thirty key individuals from all over the company. They made sure they had people there that could make decisions and take immediate action. The workshop was organized around a number of workstations with inspirational material – for example, the health track involved berries, smoothies and “superfoods” – each revolving around a consumer need. The participants were divided up in teams and rotated from station to station, discussing and generating ideas.

After the workshop, the project team met again to decide on which ideas to endorse and how to prioritize them. The final list was brought to a management team meeting, where the final selection was to be made.

“The innovation project generated a lot of great concept ideas. In the end, all of them were approved for development, which is really wonderful.”

Network effects

One of the concepts concerned a new approach to frozen fish. The innovation team wanted to achieve the same kind of feeling of freshness in the frozen fish products as in the fresh fish and meat section. They evaluated the packaging used in those sections and saw a clear tendency towards ‘skin packaging’.¹¹ The innovation team wanted to do the same thing in the freezer section. The endeavor resulted in a tight collaboration with the supplier.

“We presented them with all our ideas and received a very positive response. They were excited, because nothing has really happened in frozen fish in terms of innovation in the last fifty years. In the end, they actually went through the effort of adding a whole new production facility for this.”

The new packaging uses a new method, which keeps the fish fresh and maintains the aroma, so that it actually tastes like fresh fish.

¹¹ A type of carded packaging where a product [or products] is placed on a piece of paperboard, and a thin sheet of transparent plastic is placed over the product and paperboard. See Appendix, Exhibit 2, for an example.

Towards a more holistic approach

The packaging was only one part of the innovativeness of the new concept. The whole frozen fish offering was adapted to reflect a “deli-like” feeling, inspire cooking joy and attract new consumers. First of all, new varieties of fish were introduced that are usually not seen in the freezer section in Sweden, which tends to be limited to salmon fillets and codfish. The new varieties included novelties like arctic char, halibut and pike perch. Secondly, the concept also included new cuts, some of which are entirely new to the freezer section, such as: butterfly fillets, dressed fillets (i.e. with the skin on), steaks, and extra thick back meat. Thirdly, just like in the meat section, the price reflects the weight of the fish, i.e. the fillets are not matched and packed to meet a certain per-package weight limit, which is usually the case with frozen fish. Lastly, the fish were packed in two-person portions, which limits food waste and reflects the tendency towards an increased number of single households (driven by a growing elderly population and more single or childless households among the young in urban areas).

Some of the concepts that came out of this project have already been launched and the rest are still under development when this paper is being published.

6.2.5 Understanding the consumer

“Consumer needs are the basis. (...) Through our retail stores we are constantly attentive to market demands. Consumer needs are always the starting point of our work.”¹²

Food Retail Ltd works systematically with both internal and external consumer surveys to communicate with consumers and take note of how they see Food Retail Ltd and their products. As a consequence of a surge in the use of macro trends for market insights, Food Retail Ltd’s ambition is to develop their insight processes further in terms of understanding and analyzing consumer behavior from a macro perspective, such as generational differences and demographic shifts.

“We talk a lot about macro trends but we still need to improve the way we use them and apply them in our processes. We have a new IT system in place now, which we hope will help us do that.”

Since the introduction of the Innovation Department, Food Retail Ltd has developed its use of qualitative consumer research methods, such as focus groups, concept testing and

¹² Quote from the company webpage

co-creation. For the concept development phase, the innovation team has developed a customized mix of two methods, concept testing and co-creation. As a first step, "early-majority" consumers are invited to focus group discussions around a set of specific concept ideas. In the next step, trained consumer expert groups develop these concepts in a co-creation session based on input from the focus groups. The method is very appreciated by the innovation team, as it helps them move their concepts closer to the consumers' needs.

6.2.6 Managing innovation

Collaboration

The innovation department at Food Retail Ltd has worked hard to win the approval of their colleagues in the product categories.

"In the beginning, people would question why somebody from outside of the product category team should interfere with what they considered to be their job. 'We are perfectly capable of generating our own ideas', they would say. I tried to overcome this barrier by responding to any kind of inquiry, no matter how small, and by attending as many meetings as possible to show our presence and commitment. That was my main strategy – intense in-house sales and marketing. And I still do it."

Today, the innovation department is gradually becoming an integrated part of the organization and the product category managers see the value of letting innovation play a bigger part than previously. The product category managers still "own" their own category's innovation process, but can now bring in expert help to produce products with real added value. Most importantly, the innovation team is never hired as a stand-alone consultancy service. Instead the innovation projects are carried out in a collaborative manner between the innovation team and the product category team, as well as across product category borders.

"It is very important that our category managers feel a connection to and a certain ownership of these innovation projects. Even if we are the ones leading the process."

Making the low cost/high market impact-equation work

The innovation department's first project concerned a cross-category ready-meal concept, which was an ambitious attempt to meet the competitive landscape head-on with a new concept that would drive new consumer behavior. The project, however, had to be put on hold, due to several reasons. However, the main issue was the need for a

high marketing budget, which stood in contrast to the typical private label strategy of keeping costs low in order to offer a competitive price point.

“That equation doesn’t really pan out if you want to do radical innovations. You need to tell the world about your new offering, especially if it concerns changing consumer behavior. You can’t just expect people to notice it themselves. And that is a big challenge for us, as a private label company.”

For the freezer project the project team managed to get a higher budget, which meant they could market it not only through the company’s internal channels (customer magazine, online etc.), but also in external channels, such as the popular press.

“I’m glad we could afford some extra promotion for that project. Still, if any of our A-brand competitors had done the same thing, it would have been on a whole different playing field. A-brands can afford to launch with a bang.”

6.2.7 Inter- and intra-organizational knowledge sharing

Intra-organizational knowledge sharing

Working across borders and including colleagues from different parts of the organization has been highly prioritized in Food Retail Ltd’s innovation projects. Each project starts off with data and insight collection by the innovation team, which is then complemented by in-house know-how from product category managers and product owners, as well as suppliers, producers and retailers.

“To really drive innovation one needs to include a lot of people from different parts of the organization. For us, that has been the main success factor.”

The workshop format presented in the frozen food case illustrates the way the innovation department tries to integrate colleagues from different parts of the organization in the projects.

Furthermore, the innovation team has developed a trend-spotting app for those who are interested in new food trends and want to contribute to Food Retail Ltd’s innovation projects. The aim is that everyone in the organization should have the app and use it regularly. For now, the innovation team has invited a selection of colleagues from different departments, as well as some of their retail managers.

"It is a great way for us to engage more people in our innovation projects, and it is also a resource-efficient way of discovering new trends."

The app works in a similar way as Instagram or Facebook. People can upload images and share them with the community.

"Say you are out travelling and you happen upon an interesting product or concept that you think represents a certain consumer trend. You take a photo, upload it to the app, tag it, and add a short comment or clarification. People can 'like' your trend, comment on it and rate it in terms of how significant or impactful they think this trend will be. Leaderboards show which trends are "hot" and who has posted the most."

After a while the innovation team collects the "hottest" trends and organizes a workshop around them, with the most active trend-spotters.

"This way we know we will get committed people, who really have a passion for food, into the discussion. They often have great ideas."

The app also makes it possible to include other external individuals for specific projects, such as retailers or suppliers.

Inter-organizational knowledge sharing and trust

Food Retail Ltd's relationship with their manufacturers has started to change in the last few years. They are moving from having many short-term contracts, based primarily on cost effectiveness, to selective long-term collaborations with mutual knowledge exchange. Food Retail Ltd's frozen fish project illustrates this change.

"Our suppliers have always provided us with tips and ideas from various food fairs, but not more than that. We have recently started a dialogue with a couple of our suppliers concerning a more collaborative cooperation. There is definitely room for improvement in terms of mutual knowledge exchange."

Although A-brands have historically been known to own their own production facilities, strictly limited to their own products and brands, this tendency is slowly losing ground. More and more A-brands choose to outsource parts of their production (especially for innovative products that require different production facilities), which allows them to compete head-on with private labels, owing to shorter time-to-market. Some A-brands, like Dairy Ltd, have also chosen to act as suppliers to the private label market. This mostly works to the retailers' favor, as they get access to branded manufacturers' facilities and know-how, but it also complicates matters in some cases and makes differentiation harder.

“Our competitors often use the same production facilities as we do. We now all live in the same world, and in many cases the products are exactly the same, also among A-brands, only the brand and the packaging changes.”

In the case of frozen fish, the development of a whole new production facility meant additional costs and a great risk for the supplier. The supplier cannot be hindered from selling the concept to other clients. In fact, Food Retail Ltd expects them to do so. This is not the main issue. Food Retail Ltd actually sees it as a positive development if it helps drive innovation in the industry. However, it is when such development is inhibited that the issues arise. One of the concept ideas from Food Retail Ltd’s freezer section project illustrates this:

One of the concepts that resulted from the “freezer project” concerned vegetarian ready-meals. The insight from consumer interviews was that there is very little to choose from in the freezer if you are vegetarian or vegan, and the few products you can find taste very little. Food Retail Ltd decided to use a Swedish supplier – an A-brand competitor, who is knowledgeable in the field, because they produce vegetarian frozen foods themselves.

“We wanted to use a new type of paper packaging to introduce a new look and feel in the category. We prepared a whole bunch of inspiring reference materials for them to look at and made an effort to sell our idea, but in the end we just got a plain ‘no, we can only do the usual black plastic tray’ [which they themselves use and which has become some kind of standard in the ready-meal category].”

Even though the black plastic tray didn’t really rhyme with the innovation team’s concept, they were in a dependent position and had to finally accept it.

“But of course, now the supplier knows everything about our idea and nothing can stop them from using it for one of their own brands. It’s a weird reversed situation. Usually private labels are accused of copying A-brands, but in this we are afraid that they might copy us. It’s interesting that it has come to a point where we [private labels] introduce concepts where we have come a longer way than the A-brands, which poses a threat and puts pressure on them.”

7. Analysis

In light of the purpose of this study, which was *to investigate novel innovation approaches of two large Swedish brands in packaged food, in light of the ongoing market changes that are re-shaping the innovation landscape in the packaged food industry*, the following section will present an analysis of how the case companies are adapting to a market-oriented innovation approach. It is based around three domains concerning: (a) the understanding and interpretation of consumer preferences, (b) the management of the innovation process and (c) the level of involvement between the company and other network actors. The section is summarized by an analysis of (d) the effects resulting from the companies' approach to these three fields.

7.1 Understanding consumer preferences

In terms of how consumer intelligence is collected, it is clear that both companies place a lot of focus on qualitative research and consumer interaction. Especially so in the early “fuzzy-front-end” of the innovation process, the so-called *discovery phase* and *exploration phase* (or *scoping*), when the problem formulation is still in its early stages, which is in accordance with Grunert et al.'s (2008) notion of best practice. The fact that both case companies have established an Innovation Department for the collection of consumer intelligence and insight generation shows that market-oriented product development is a top priority.

Although the label “innovation department” seems to imply that *all* new product development and creative thinking is centralized to one unit only, both cases show that active efforts are being made towards involving other departments as well in the consumer intelligence generation process. Food Retail Ltd do it through their trend-spotting app to which chosen individuals from different departments have gained access, and Dairy Ltd do it by regularly inviting new colleagues from departments that otherwise are not included in the innovation processes. This supports Kohli and Jaworski's (1990) idea that consumer intelligence generation should not be the exclusive responsibility of one department or individual. However, as these efforts are mostly targeted at single individuals and not the entire workforce, there is still a lot of potential for organization-wide involvement, not least because of the efficiency potential from having a whole organization set towards consumer intelligence compilation.

Both case companies show a progressive approach in regards to qualitative methods used for consumer intelligence collection. The development of methods such as “cook-along” co-creation, used by Food Retail Ltd, place food companies as close as they can get to the market and the user experience, without actually living with the consumer. It illustrates the effort of trying to get to the core of the consumer’s problems and needs. The Open Innovation method used by Dairy Ltd deepens the relationship with the consumer even further, as was illustrated by them being able to predict the reactions of the online community towards the end of the project. This supports the ideas put forward by Sawhney et al. (2005) concerning virtual environments allowing for a regular knowledge exchange and a direct involvement in the development process. Especially the regular knowledge exchange presents a novel approach to how consumer intelligence is collected. IT solutions, such as Dairy Ltd’s Open Innovation online platform or their mini-surveys on Facebook and the webpage allow the companies to constantly keep a finger on the pulse of consumers.

It is however, not without some difficulty that the collected data is then integrated into the innovation process and translated into marketable insights. The difficulty seems to lie in extrapolating the needs and wants of consumers into doable products that the consumers will *actually* want to buy once they are on the market. As focus on consumer intelligence collection only increases, the ability to handle and process it only becomes more important.

The case studies also show a movement of consumer involvement backwards in the innovation process chain. At Dairy Ltd, consumer involvement used to be limited to concept testing, where the consumers were presented with already finished concept ideas that had been developed in-house. Whereas today, following the ideas of Alam (2002), consumers are also involved earlier on, in the actual generation of concepts, and contribute to idea generation as well as concept development and improvement. These developments also support the ideas of Chesbrough (2003), who talks about a paradigm shift, where companies go from being idea generators themselves to merely leading the innovation process.

As to the limitations of these consumer involvement methods, the problems faced by the case companies seem to reflect the problems put forward in theory. Sawhney et al. (2005) talk about an unwillingness by consumers to get too deeply involved with the company in time-consuming activities, such as co-creation or open innovation, which

proved to be the case in Dairy Ltd's Open Innovation project. This awakens the question of which consumers actually get to represent the majority population in such innovation projects? Are they really representative of the "real" consumer? Of course, the companies are making an effort in selecting the "right" consumers in their product development, however, as we could see in the Dairy Ltd case, some consumers will never get involved in these kind of activities, because it requires too much of an intrusion into their personal life (Sawhney et al., 2005).

7.2 Managing innovation

Limitations of market orientation

Most importantly, and in accordance with Kohli and Jaworski's (1990) reflections on the subject, there is a clear understanding for the limitations of consumer input in the innovation processes and that being consumer-oriented involves taking actions on market intelligence, not on verbalized consumer opinions alone. In the case of Dairy Ltd, the innovation team expressly goes against consumer recommendations in concept tests when they judge it necessary.

The increasing focus on trend analysis, especially revolving around health, puts the companies in danger of focusing their efforts on markets that are too niched (Enkel et al., 2005), based on narrow trends or such trends that are still far away from evolving fully to the general public. The Dairy Ltd case shows insight in regards to this problem as well, where considerations to this nature are incorporated in the early stages of business case analysis, where brand fit and market potential are considered. Being quick in introducing new products to the market is still of strategic importance. However, only after careful consideration of the product's potential.

The innovation process

Although both companies refer to their innovation processes as following a Stage-Gate model, it is clear that their processes are in fact adapted according to the consumer-led NPD approach, which places extra focus on consumer involvement. Interestingly, both companies are making efforts to battle some of the rigidity inherent in this linear model by adapting it to different kinds of innovation projects. Food Retail has created an alternative fast-track innovation process for small-scale projects, which allows for adaptations of the innovation process based both on the need for high-level

management involvement and the depth of consumer insight. Likewise, gate meetings are ignored at Dairy Ltd in projects that are categorized as incremental (e.g. when adding new flavors).

Cross-functional cooperation

Both case companies work actively on incorporating different departments in their innovation process, which is referred to as best-practice towards product-development success (Grunert et al., 2008). At Food Retail Ltd, the innovation stage has been lifted out from the sole responsibility of each respective product category, to a department-transcending level, which allows for a more holistic approach to product innovation. The private label retail format seems to be especially well suited for this kind of approach, as retailers have the privilege of overseeing the entire range of products, from fresh to frozen to pantry, which allows for cross-category product development. This is in comparison to many branded manufacturers, such as Dairy Ltd, who act across a limited range of categories. The innovation department then plays a coordinative role, leading the innovation process in the right direction based on consumer insight, rather than being the sole producer of ideas. The “burden” is thus shared among several disciplines. At Dairy Ltd, the application of cross-departmental cooperation is reflected in their regular portfolio meetings and the constitution of the innovation project team, which spans over several departments. The case shows that active measures are taken to incorporate colleagues from departments that traditionally have not been much involved in the innovation process. But these efforts are sporadic and initiated only because the innovation department judges it to be rewarding, not because there is a company-level integration policy in regards to innovation. Furthermore, although other parts of the company (Finland) have shown that backwards integration in the innovation process is possible (by involving the production facility in idea generation), the Swedish branch only integrates the production (the Dairy) as a cost-saving, technical advisory function. This goes against Kohli and Jaworski’s (1990) recommendations of using interdepartmental connectedness as a “conductor” towards greater market orientation.

However, as argued by Kohli and Jaworski (1990), interdepartmental connectedness may also have negative effects on interdepartmental dynamics, as was illustrated by the initial difficulties encountered by the innovation department in the Food Retail Ltd case. The historical, departmentalized, manner of working with

innovation created obstacles for the introduction of a new form of organization, and hindered the integration of the new innovation department. Just as was stated in Levitt (1969), the conflict mainly stemmed from natural desires of the product categories to protect their own territory, which included new product development. The case also shows that a management-level decision concerning the integration of two departments does not suffice for such integration to truly occur. In the case of Food Retail Ltd, it took individual efforts by members of the innovation team to persistently prove their worth before true collaboration could take place. Once such collaboration is in place, there is much to gain, not least in terms of efficiency. This is illustrated by Food Retail Ltd's cross-disciplinary workshop format, where the presence of decision makers from different departments and levels of the organization allowed for quicker decision-making and execution.

The role of management

While the importance of consumer-led NPD has been recognized at Food Retail Ltd through the establishment of an innovation department, there still seems to be some rigidity in the strategic approach to innovation. Although Food Retail Ltd in theory is moving towards a more consumer-centric innovative assortment, which has all the potential of driving the market in a new direction, it continues to be limited by marketing budget constraints that are still adapted to the old way of thinking in regards to private labels. This corresponds to the problem highlighted by Argyris (1966) concerning a gap between what top managers *say* and what they *do*.

In the case of Dairy Ltd, the possibility of even presenting an idea in a gate meeting that is not supported by positive consumer feedback reflects the company management's readiness for risk taking when it comes to innovation. The management's readiness to consider innovation ideas that are based "only" on the innovation teams experience and gut feeling seems to be fueling individual willingness to innovate (Kohli & Jaworski, 1990), as was illustrated by the initiative to "try out" Open Innovation, which was initiated by the private interest in and enthusiasm for the topic by two employees.

Innovation culture

Innovation culture seems to be a domain in both case companies that still needs some work. Establishing a culture where any individual in any function feels that he can potentially contribute to the creation of value for the firm's consumers (Narver & Slater,

1990) is generally easier said than done. However, some minor steps have already been taken towards the cultivation of a more innovative culture, such as the trend-spotting app at Food Retail Ltd that is meant to spur innovation thinking among all employees. Furthermore, the language related to new product development has shifted away from “R&D”, which carries strong product- and technological connotations, towards the broader term “innovation”, which suggests a more creative and forward-thinking approach. This shift in terminology seems to carry with it a hope for and a signal towards a more innovative organization-wide culture.

7.3 Interactive innovation

Inter-organizational relations, knowledge sharing and trust

Both cases illustrate a movement towards more inter-organizational collaboration. Following Dankbaar’s (2007) line of argument, Food Retail Ltd is showing a willingness to move into more collaborative agreements with its manufacturers, in order to strategically support the development of their innovation. Dairy Ltd seems to have come a longer way and Open Innovation, also on a B2B-level, is part of their strategy. It is perhaps natural that they should be more interconnected with external actors in this way due to their heavy focus on R&D, which requires contact with outside actors such as researchers and technical experts. But they are also driving the development of *coopetition* (Bengtsson & Kock, 2000) in the market, through their entrance into a production collaboration with a retailer. This integrative development is in line with Lambert and Cooper’s (2000) line of reasoning that: “competition is no longer between organizations in a supply chain but between supply chains”. Although coopetition may have positive effects on knowledge sharing and innovation in many cases, its success depends on the correct pairing of partners (Beckeman, 2011), as was illustrated by the packaging problem in Food Retail Ltd’s frozen vegetarian food case. The wrong pairing may inhibit, rather than facilitate, the progress of innovation.

Inter-organizational knowledge sharing in regards to consumer trends specifically seems to be flourishing, however, as was illustrated in both cases. Ingredient and packaging suppliers have developed new touch-points with their customers by becoming trend informants and carriers of niched know-how on their specific area of expertise. This form of knowledge exchange occurs both in multi-organizational forums such as trade conventions, but also in company-to-company tailored theme days and

lectures. Trend spotting, in general, seems to be the easiest way to involve and interest colleagues across different departments in the innovation process, which provides a good opportunity to spark company-wide interest and an innovation culture.

7.4 Effects of a market-oriented approach

Type of innovations produced

Beckeman's (2011) findings reflect my own, in terms of how food companies tend to define "innovation": "Most interviewees are aware that what we commonly call innovations can vary from very small improvements to radical changes, but they define innovations as something more than incremental (...)" (Beckeman, 2011, p. 71). When asking the companies themselves to exemplify recent innovations in their product range it becomes evident that innovativeness truly lies in the eye of the beholder, as was put forth by Kotler (1991).

In terms of innovation *height*, the market-oriented approach does not seem to result in more radical products, as was also argued by Bennet and Cooper (1981), Kaldor (1971) and Tauber (1974). An analysis using Garcia and Calantone's (2002) typology (Table 5) shows that *really new* products, as opposed to radical innovations, actually comprise the majority of innovations mentioned by the companies, which is in line with Garcia and Calantone's findings.

Table 5: Analysis of products based on Garcia and Calantone's (2002) typology

Type of innovation	Level	Product	Description	Firm/industry-level
Dairy Ltd				
Really New	Macro: T* Micro: M** and T	Product A	A new curd-composition in liquid form.	New to the industry New to the firm
Really New	Macro: T Micro: M and T	Product B	A new recipe. Creamier than traditional curd.	New to the industry New to the firm
Really New	Macro: T Micro: M and T	Product C	A new product composition combining two product categories, cottage cheese and yoghurt.	New to the industry New to the firm
Retail Ltd				
Incremental	Micro: M	Product D	A pre-prepared, easy-to-cook product concept, based on fresh ingredients.	New to the firm
Really New	Macro: T Micro: M and T	Product E	A new frozen fish offering using a new packaging system and new-to-the-freezer fish varieties.	New to the industry New to the firm
Incremental	Micro: M and T	Product F	Ready-made sauce, frozen into cubes for easy dispensing and portioning.	New to the firm

*Marketing discontinuity

**Technology discontinuity

The reasons for this may be partly attributed to strategic and financial reasons, since most companies maintain a strategic distribution between “radical” innovation projects and evolution projects, where the former require high investments and top management supervision and are thus kept to a selected few. But it can also be partly attributed to process structure, as a consequence of using the linear Stage-Gate process in new product development. As has been shown in previous research (Assink, 2006), such linear processes mainly manage to produce incremental innovations. In the context of food, it might be more interesting to talk of innovation in simpler terms, such as “newness to the industry”, “newness to the firm” and “newness to the market”. In which case the above products would be categorized as shown in the last column in Table 5.

In line with Benner (2005) and Trott's (2005) extended definitions of innovation, which also include the organizational and process context, an analysis of the two case companies has been made using the OECD Oslo model:

Dairy Ltd		Food Retail Ltd	
PRODUCT INNOVATION Products A, B and C with new-to-the-firm/market qualities	PROCESS INNOVATION <i>Product B: A new recipe</i>	PRODUCT INNOVATION Products D, E and F with new-to-the-firm/market qualities	PROCESS INNOVATION <i>Product E: A new packaging system</i>
MARKETING INNOVATION New category positioning of products A, B and C based on new product qualities	ORGANIZATIONAL INNOVATION Open Innovation	MARKETING INNOVATION <i>Product E: New pricing method (per weight), new packaging (x2)</i> <i>Product F: new-to-the-freezer</i>	ORGANIZATIONAL INNOVATION New innovation department Cross-category collaboration Trend app

The analysis shows that the companies' shift towards a more market-oriented approach has brought with it innovations not only on the product level, but also on the process-, marketing- and organizational levels. Organizational innovation is especially prominent at Food Retail Ltd, who has gone from a no innovation approach, to implementing a whole new market-oriented process around innovation and new product development.

Sources of new product ideas

In opposition to findings from previous studies (Lawton & Parasuraman, 1980), both companies show indications of having found new sources for new product ideas. Dairy Ltd places much effort in differentiating between different types of consumers for different stages in the process. This in itself provides different sources of ideas depending on the level needed. Consumers are to a higher degree involved in the early stages of concept generation and concept improvement and have more impact on the outcome than previously. Food Retail Ltd mentions cook-along sessions as especially awarding in terms of new ideas. In such co-creation sessions problems and solutions that were not previously considered by the company often surface.

Apart from consumer involvement, another notable new source of ideas seems to come from within the companies themselves, namely the employees. The increased focus on cross-departmental cooperation in innovation generation allows for an inflow of ideas from outside the innovation department. Idea generation is partially outsourced by the innovation department to other departments using tools such as workshops and IT platforms, like Food Retail Ltd's trend-spotting app.

Quality of consumer intelligence obtained

A key problem resulting from too much consumer orientation that has been mentioned in previous literature is that of the 'incremental innovation trap' (Costa & Jongen, 2006).

Arguably, because consumers cannot be expected to provide reliable insights about their needs concerning future consumption, the quality of consumer intelligence is greatly unsatisfactory for future-oriented innovation. Thus, involving consumers more in the innovation process thus does not decrease uncertainty about their needs, but rather adds to it. Finding a method for handling this problem is therefore of great importance. From what we have seen in the Dairy Ltd case the conclusion can be drawn that awareness of this problem seems to have helped in trying to overcome it. Not always trusting blindly in what consumer *say*, but also focusing on what they actually *do* should result in better projections of profitable future product development.

8. Concluding discussion

Recalling the purpose of the study: *to investigate novel innovation approaches of two large Swedish brands in packaged food, in light of the ongoing market changes that are re-shaping the innovation landscape in the packaged food industry.*

This study has analyzed how two of the largest Swedish companies in packaged food are adapting to the need for new innovation processes as the industry goes from a product-oriented to a market-oriented innovation approach. The following sub-questions have been analyzed:

- a. How are consumer insights collected and used as inputs in the innovation process?
- b. How is the innovation process managed?
- c. What is the level of involvement between the company and other network actors, besides end-consumers?
- d. What effects can be seen as a result of these adaptations?

The main theoretical and empirical contribution of this study lies in a thorough description and analysis of how two of Sweden's largest companies in packaged food are adapting to a market-oriented innovation approach, in terms of consumer intelligence collection, innovation process management and value chain integration.

8.1 Conclusions

A shift towards a market-oriented approach

Dairy Ltd and Food Retail Ltd both show a shift towards a more market-oriented innovation approach. In both cases the shift has been motivated by a need for deeper consumer insights in order to provide more market-oriented products driven by consumer *needs* rather than what the company is *able* to produce based on its current capabilities. Dairy Ltd refer directly to the developments in private label as having a great impact on the way they approach product development, in terms of *what* they innovate (often decided by pressure from private label in a certain category), as well as *how* they do it (faster than before, because they need to keep ahead and because private labels tend to have faster processes due to outsourced production). The fact that a

multinational company like Dairy Ltd has a de-centralized innovation process adapted to each of its markets illustrates their focus towards market orientation.

Although the products themselves may not reach up to the expectations of *radical* innovations, there is much in favor of saying that these food companies have become more innovative in terms of the *approach* to innovation (Trott, 2005), as shown through their organizational efforts (the innovation departments and cross-category collaboration) and methods used (new qualitative methods and support of IT tools).

Important to note is that the new focus on innovation does not replace the conventional line extension strategy but complements it. Line extensions are still needed in order to deliver a constant notion of “newness” on the store shelves for the consumer.

Generation and application of consumer intelligence

Through the use of methods such as Open Innovation and “cook-along” co-creation, I believe the two case companies have shown that they are indeed moving towards product development *with* consumers, and not merely *for* them, which is the opposite of Beckeman’s (2011) reflections. Although much time is dedicated to listening to consumers, there is also an understanding for their limitations, which is taken into consideration in the process. Active efforts towards cross-category and cross-department integration show a willingness towards broadening the scope of information intake, allowing for new perspectives on current market developments that can be crucial for the development of truly market-oriented innovations. It is also a move towards a more efficient way of compiling and analyzing consumer data. Although, there is still room for much improvement in this aspect. Finding more structured ways of using various IT platforms for company-wide data collection could be a way of further rationalizing the data collection process, keeping a finger on the pulse of consumers and fueling idea generation from new perspectives. Establishing such continual touch-points with the market and with consumers gains the more importance in light of having to keep up with the fast innovation pace in the industry.

Managing the innovation process

The conclusion that can be drawn from the cases concerning the handling of innovation processes is that process design is kept to industry “tradition” (the Stage-Gate model), with adaptations for a more consumer-centric data collection approach (the consumer-led NPD model). The nature of innovations that come out of these linear processes

would suggest that there is indeed a problem in regards to the ‘incremental innovation trap’ that needs to be taken into consideration in the innovation process. The important distinction seems to lie in being able to separate *consumer* orientation from *market* orientation. Where the latter implies a greater scope of analysis, including not only consumer research but also exogenous market factors and macro factors that can indicate the direction towards which the market is evolving (Kohli & Jaworski, 1990).

The involvement of consumers in co-creation and the cross-departmental collaborative approach that have guided the two case companies indicate a changed attitude towards the management of new product development. There is an interesting tendency that can be observed in these two companies’ management of the innovation process, namely that the innovation department no longer is the principal author of ideas, but the coordinating unit of a collaborative idea generation process.

To sum up the above sections; Although the quality of intelligence obtained in a market-oriented approach may not be *better*, in terms of what the consumers themselves can tell us about their future needs and wants, it is *deeper* in regards to their current behavior, which can be argued allows for easier projections of the future. That is, involving the consumers more in the process of innovation, and doing so in new interactive ways, may not result in more insightful and innovative ideas from the consumers, but it does provide more information about their value chain, which in turn can be used by the company to produce more insightful and innovative product ideas. True market orientation is therefore not about collecting more consumer data by adding new consumer touch-points to the innovation process, and relying more on what the consumer says, but rather about using those additional touch-points in combination with other market intelligence (the competitive environment, macro and micro trends etc.) to find new, viable product development opportunities in the consumers’ value chain.

Collaboration in the value chain

Beckeman (2011) found that there is a lack of trust and transparency in the value chain and questioned whether this would prevail or not. From the findings in the Food Retail Ltd case it can be concluded that transparency and trust still seem to be an issue, especially so between retailers and branded manufacturers. As has been argued by Fernie and Sparks (2009), the power in the supply chain today does seem to have

shifted from the manufacturers to the retailers, who have sped up the pace of innovation by taking a more competitive stance with their private labels and by executing the power of de-listing. At the same time, there is a clear tendency towards a more collaborative approach among actors in the chain, as evidenced by the emergence of *coopetition*. At the present time however, although steps are being taken towards a higher integration across organizations in the value chain, competition is still mostly kept at the company level, as opposed to between supply chains (Lambert & Cooper, 2000).

8.2 Reflections

Based on extensive discussions with industry experts for the pre-study, in combination with the findings from the main study, I will here briefly touch upon reflections surrounding the topic at hand.

Business model adaptations

An interesting development in the industry concerning network dynamics is that while retailers seem to be investing in closer collaborations with production, in order to fuel their innovation, large branded manufacturers increasingly outsource parts of their production, *especially* innovations that require new types of equipment, in order to shorten the time-to-market. This goes in the opposite direction of Dankbaar's (2007) argument that outsourcing of manufacturing is not an option if a company is planning to remain actively engaged in more than just incremental product development. The question is then, what effects will this have on the dynamics in the food industry? Will we soon see branded manufacturers lost to time- and cost-saving activities and acting as followers to retailers' private label brands? Or will the two opposing sides find a new power balance and new differentiated positions to compete on?

The question originates from a historically clear differentiation between A-brands and private label, where A-brands differentiated themselves through innovation, while private labels positioned themselves through low-cost pricing. Now, however, retailers are moving towards more innovative, value-added products, which is changing the playing field for A-brands. Consumers can often no longer see any significant discerning differences in product quality between private label and A-brands to justify paying a price premium for the branded alternative. This forces A-brands to adopt pricing strategies comparable to private label, or risk losing market shares, unless they can find new angles to their innovations. Does the solution perhaps lie in A-brands

differentiating themselves through *radical technological* advancement and innovation on the packaging-, processing and product composition-level, while retailers focus on *holistic cross-category solutions* and *service innovation*?

Driving the market vs. being market-driven

A related reflection on current developments concerns the power distribution in the industry (Kumar et al., 2000). Are we seeing a shift in the industry in terms of who is driving the market and who is becoming market-driven? Food Retail Ltd is pioneering in the private label market and clearly challenging the conventional rules of the game with its new approach towards private label. The question remains whether the company will be able to uphold this movement. This will, to a high degree, be hinged on their ability to collaborate across the value chain, but also on their willingness to make the right investments and business model adaptations to support this shift. Driving new consumer behavior through holistic solutions and service innovations requires guiding the consumers in the right direction, which in turn requires marketing investments on a larger scale than has historically been seen in private label. Will private labels be willing to invest?

Open Innovation as the new “standard”?

Open innovation as a consumer insight collection mechanism is actively avoided by most actors, due to the difficulties of transferring collected data into marketable insights. However, there are some (such as Dairy Ltd) that are attempting to master and develop the technique. Although we should not expect to see Open Innovation projects in small to middle-sized food companies (because the method is very resource demanding), some more of the larger actors might want to try and adapt the method on a larger scale.

“Radicalness” in the context of food

Finally, talking about “radical” product innovations in the context of food may be placing the notion of food innovation in the wrong light. Much of the innovativeness in the food industry occurs on other levels than the product, such as on the process- or organizational levels. The introduction of organic product lines, for example, required a radical reorganization of to the whole value chain from farm to fork. The distinguishing feature of such innovation is the credence quality-factor, which “hides” the innovativeness of the product from the consumer. The same goes for holistic cross-category solutions, where the product components themselves might not be perceived

as innovative, but the true innovativeness actually lies in the way they are being marketed.

8.3 Managerial implications

One learning from this study is that in order to obtain true market-orientation, innovation should not be left to the responsibility of one department (the innovation department) or one person (the innovation manager) only, which goes in line with the recommendations made by Arwidsson and Haglund (2008). Annual reports proclaiming a market orientation are helpful, however employees also need to witness behavior and resource allocation that reflects a commitment to market orientation and innovation. I agree with Birkinshaw et al. (2011), who note that making innovation everyone's job is intuitively appealing but very hard to achieve. Still, if a company is to come anywhere close to this utopia, active support from the management is needed. As has been argued by Kohli & Jaworski (1990, p.15): "senior managers must develop positive attitudes toward change and a willingness to take calculated risk". That quote captures the core for managerial implications of this study.

Some consideration may also be taken in regards to the structuring of the innovation process. In order to reach that "extra" level of innovativeness a higher degree of dynamics in the process might be called for. Linear stage-gate processes, although increasingly injected with different consumer insight collection methods, are missing that "chaos factor" that seems to be crucial for true out-of-the-box innovation (Kumar et al. 2000). The innovative individual, who once constituted the "innovation department" in many companies, has been replaced by an interdisciplinary product development team, which to some extent seems to have eliminated the "powerhouse", or the driving spirit of truly radical idea generation. Re-establishing that kind of personality in the innovation team might be something for management to ponder upon.

A movement along the market orientation dimension may be especially difficult when there are departmental concerns that a market orientation may jeopardize certain department employees' power or expose other inadequacies related to the department's mode of operations (Levitt, 1969). In such situations in particular, the opening of communication channels across departments is crucial for increased market orientation. Implementation of *formal* periodic meetings between departments facilitates the

sharing of market intelligence and allows for innovation closer to the market and the consumer.

8.4 Criticisms of the study

A general criticism, applicable to all case studies is the absence of systematic procedures, due to a relative absence of methodological guidelines (Yin, 2009). The theoretical model used for the analysis has tried to answer this problem by providing a structured procedural method both for the theoretical research, the primary data collection and the analysis. Secondly, even though I have used a multiple-case approach to enhance robustness, one could argue that more cases would provide a more comprehensive and generalizable illustration of the context. However, *depth* of research has been prioritized over *scope*, since this was a descriptive study with the purpose of filling a gap in empirical research on the topic. Thirdly, the fact that the study focuses specifically on the food industry can have an impact on its generalizability. The food industry is a relatively traditional industry, with slow technological development and a low frequency of truly radical innovations over time. Given the specific features of this industry, the generalizability to other industries is limited. The same goes for the fact that the study is based on the Swedish market, which entails country-specific considerations, such as the development of the private label market which differs considerably from for example the UK private label market.

8.5 Future research

In light of this study, there are several topics that would be of interest for future research:

Open innovation

This study has touched upon the subject of Open Innovation (Chesbrough, 2003). When applied, Open Innovation in the food industry today mainly focuses on involving the consumers. However, there is potential to extend the mindset of openness to also include other actors in the value chain. In order to do so, the barriers of risk and mistrust must be overcome. Consequently, and as has also been suggested by Beckeman (2011), there is a need for further analysis of how competitive collaboration (“coopetition”) can be attained in the context of product development.

Financial implications

The study has not touched upon the subject of cost effects of market orientation and the processes surrounding product innovation. An analysis of the effects on time-to-market, possible profit margin gains, and new product success would be of interest.

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Appendix

Exhibit 1 – Activities in development process

Alam's (2002) summary of possible consumer activities at different stages of new product or service development

Activities at Various Stages of the Development Process		
<i>Development Stage</i>	<i>Activity Performed by the Producers</i>	<i>Activity Performed by the Users</i>
1. Strategic planning	Chart the direction; corporate objectives; mission of the business. Identify users for involvement to leverage users' expertise.	Limited feedback on proposed plan for new service development.
2. Idea generation	Internal and external search for the ideas. Probe customers' needs, wants, and preferences and their choice criteria, likes, and dislikes; seek competitive product ratings.	State needs, problems, and their solution; criticize existing service; identify gaps in the market; provide a wish list (service requirements); state new service adoption criteria.
3. Idea screening	Feasibility analysis; attribute analysis; gather users' problems and their solutions; elimination of weak concepts by analyzing how these meet users' needs; assess customers' purchase intent; look for patent legal and regulatory issues.	Suggest rough guide to sales and market size; suggest desired features, benefits, and attributes; provide reactions to the concepts; liking, preference, and purchase intent of all the concepts. Help the producer in go/no-go decision.
4. Business analysis	Economic analysis to justify the project, that is, payback analysis and net present value; market assessment, profitability analysis; drafting of budget for each concept; commitment of resources by top management; detailed competitive analysis.	Limited feedback on financial data, including profitability of the concepts, competitors' data.
5. Formation of cross-functional team	Adopt a team approach and select a team leader; induct users into the team; ask each team member to adopt a role he or she would prefer to play in the development process.	Join top management in selecting team members.
6. Service design and process/system design	Combine the service attributes identified earlier with their delivery process, including service delivery personnel; map this process jointly with the users; develop documentation and final service design blueprinting; find out service delivery time; install, refine, and debug the service delivery mechanism.	Review and jointly develop the blueprints; suggest improvements by identifying fail points; observe the service delivery trial by the firm personnel. Compare their wish list with the proposed blueprints of the service.
7. Personnel training	Train the service delivery workforce; prepare them for encounters; manners and attentiveness are the key criteria; ensure consistent service quality.	Observe and participate in mock service delivery process; suggest improvements.
8. Service testing and pilot run	Test the blueprint; implement design change and refinements; test to prove the service under real-life conditions; determine users' acceptance of the service.	Participate in a simulated service delivery processes; suggest final improvements and design change.
9. Test marketing	Develop marketing plan and test with the users; examine the salability of the new service; examine the marketing mix options in different markets; limited rollout in the selected market.	Comments and feedback on various aspects of the marketing plan; detail comments about their satisfaction with marketing mixes; suggest desired improvements.
10. Commercialization	Plan promotional campaign; appoint distributors and brokers; roll out in the market; look for potholes; modify according to the market conditions.	Adopt the service as a trial; feedback about overall performance of the service along with desired improvements, if any; word-of-mouth communications to other

Exhibit 2 – Fish packaging

Example of skin packaging in the refrigerated fish section:



Typical packaging for frozen fish: Food Retail Ltd' new packaging for frozen fish:



Exhibit 3 – Interview Guide

Personal information about the interviewee

- Position and responsibilities at the company
- How long have you worked for the company?
- Previous experiences

The innovation department

- How is the innovation department organized?
- What are the different positions in the department?

The innovation process

- What does your innovation process look like?
- Who is involved in the process?
- In what stages of the process do you involve consumers?
- How do you involve consumers?

Consumer insight

- What methods do you use to collect consumer data?
- What type of insights are you looking for?
- What kind of “tools” do you use to collect consumer data?

Development over time

- How would you say innovation has developed over time, in general in the industry?
- How would you say innovation has developed over time at your company?
- Would you say that you have a different approach to consumers today?

Innovations

- How would you define an innovation in the food industry?
- Can you give examples of innovations that your company has developed?
- Is it important to produce “radical” innovations in your industry?
- At what level do you innovate?: e.g. product, packaging, process...
- Do you make a difference between “innovations” and “new product development”?

The network

- What does your collaboration across company borders look like?
- Do you use your manufacturers’ know-how to get consumer insights?
- Do you use your suppliers’ know-how to get consumer insights?
- Do you use your retailers’ know-how to get consumer insights?
- What is your view on the private label development?

Challenges

- What are your greatest challenges in terms of innovation today?
- What crucial aspects do you have to have in mind when innovating?