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The role of Swedish retailers in food innovations

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Innovations should create value for increasingly individualistic consumers with varying demands and for other stakeholders. Today, retailers have the power in the supply/value chain. This research investigates how Swedish food retailers view innovations, their role and that of customers and suppliers in the development process and how they see future development. The study is based on open-ended interviews. The results show that Swedish retailers regard food product innovations as something to provide to consumers rather than achieve with consumers. Retailers want more collaboration with packaging suppliers to differentiate. Retailers are successful in establishing their own brands, in becoming brands themselves and in competing with producer brands. This follows the UK model and may result in fewer alternatives in stores and fewer product – or new technology-based innovations by Swedish producers. Service innovations can still occur for retailers to retain consumer loyalty. Consumers demand more than new products; they want to be excited by the shopping experience. More innovations will require deeper insight about consumers, efforts from the value chain and from outsiders. Collaboration is needed to establish trust among supply chain actors.

Keywords: supply/value chain; food producer; food development; UK retail; brands

Introduction

The main objective of an innovation is to create value for the customer/consumer and also for the actors in the value chain. Burt (1989, 29) expresses it as, ‘Value exists only if the consumer perceives it as such, otherwise it is not added value but added expense’. Nestlé (2008) states ‘In order to create value for our shareholders and our company, we need to create value for the people in the countries where we are present’. Societies and cultures differ, which means being able to meet differentiated demands. Earle (1997) notes that ‘Innovation in the food industry combines technological innovation with social and cultural innovation. It occurs throughout the entire food system, including production, harvesting, primary and secondary processing, manufacturing and distribution’. Thus, the supply chain perspective is of importance for food innovations, and efficient logistics have become a necessity in coordinating the different supply chains for the differentiated demands on various food products (Fisher 1997; Gustafsson et al. 2006). In the Nestlé quote, selling/marketing and consumer acceptance are not specifically mentioned. Thus, two
interesting questions are: how do retailers contribute to this value addition and what is their role?

Today’s food consumers range from being affluent and wanting premium in all aspects to having to look for the lowest price. Trends such as health and nutrition, increased consumer convenience, concerns about the environment and food safety need to be addressed, and yet food has to be good, fun and readily available – and affordable. These changes and trends are linked to changes in society. Consumers are becoming more individualistic, more informed and demanding (Kandampully 2002). Hence, innovations must be consumer/market driven, even market driving for more radical innovations (Kumar, Scheer, and Kotler 2000). But are they in reality?

Research on the development of the Swedish food sector directly after World War II indicates that innovations were made in network structures and some were quite radical (Beckeman 2006). This was a period when the Swedish food sector started to grow and boom. Today, 60 years later, the social and cultural settings are different. Consequently, the food sector, its consumers and the supply chains and its actors are changing, possibly in the same directions as the United Kingdom’s market. Even though limited information is available about the situation in Sweden, studies indicate that little really new or radical innovation is currently taking place in the food industry (Christensen, Rama, and Tunzelmann 1996; Lagnevik et al. 2003). Retailers have the power in the supply chain, which means they can be regarded as the ‘gatekeepers’ for consumers (Dobson, Davies, and Waterson 2003). In this role, they launch products under their own brands in many countries, competing with global, national or local manufacturers’ brands; but what does this mean for food innovations?

Leading the retail development in the United Kingdom, major retailers have launched their own branded products on three levels of sophistication, and retailer names have become brands of their own (Burt and Sparks 2002; Howe 1998). Market Link (2009) estimates that 17% of grocery trade revenue in Sweden comes from private labels, with the main categories being frozen foods and household products. The remaining percentages are other brands, from multinational to national to local ones.

The purpose of this research was to investigate how today’s Swedish food retailers view innovations, their role and that of customers and suppliers in the development process and how they see future development. The following research questions have guided the research:

(1) How is innovation defined among senior managers of Swedish retailers, and how do retailers regard their own role in food innovations on the Swedish market?

(2) Is there any collaboration on innovation work in the chain and, if so, in what way and by whom?

The research is mainly focused on Sweden, but the competitive situation and attitudes in the food supply/value chain seem to have similarities with other markets, as reflected in the literature. Therefore, the Swedish situation will be discussed in comparison with that in the United Kingdom, to visualise the direction the Swedish market appears to be taking. The implications of retailers’ brands on food innovations will also be discussed.

The article starts with a review of the literature about innovations in general and innovations in the food supply chain in particular, focusing foremost on consumers
and retailers but also on other stakeholders’ involvement. The research methodology is then described, followed by results, analysis and discussion. The article concludes by elaborating on how more innovations can be achieved in the food sector today and in the future.

**Innovation definitions**

An innovation can be a product, a process, a service or a new way of doing things and ‘refers to any goods, service, or idea that is perceived by someone as new’ (Kotler referred to in Grunert et al. 1997, 4). An innovation is the combination of two processes: invention and implementation, with the latter leading to commercialisation of the invention (Deschamps 2008). Innovations can range from radical ones – ‘that cause marketing and technological discontinuities on both a macro and micro level’ – to incremental ones – ‘only at a micro level and cause either a marketing or technological discontinuity but not both’ (Garcia and Calantone 2002). A new product of a more radical nature is often accompanied by a new process aiming to optimise and set the standard once the product has proven of interest (Utterback 1994). The more radical an innovation, the higher the uncertainty and risk, and consumers very often have an aversion to risks (Galizzi and Venturini 1996). Risk management is thus important, and innovations offer a number of challenges to business leaders (Deschamps 2008).

The trend in recent years in innovation research has been to emphasise not only goods but also services, ‘to a new dominant logic for marketing; one in which service provision rather than goods is fundamental to economic exchange’ (Vargo and Lusch 2004, 1). This is because ‘a service-centred view is inherently customer oriented and relational’ (Vargo and Lusch 2008, 7). Relationships, networks and interactions are then required, and trust between partners becomes essential as it encourages cooperation, more long-term benefits and prevents opportunism (Lindgreen 2003). Examples of service innovations in the food sector are the introduction of self-service stores in the 1950s and later the growth of chilled processed food in the United Kingdom. Cox, Mowatt, and Prevezer (2003) claimed that the latter was driven by the development of non-proprietary technologies in information management and not by new technologies in food preservation.

**Food innovations**

Even though food innovation and development do not seem to have any specific innovation model and usually follows the general theories of innovation and development (with the exception perhaps for more service development), some dominant forces drive the need for new food products (Fuller 2005, 19):

1. All products have a life cycle; they die and must be replaced.
2. New products promote growth.
3. New markets may be created; organic, functional food, e-commerce, etc.
4. New knowledge and technologies may offer new opportunities such as sous vide, nanotechnology, microwave, etc.
5. Changes in legislation, health regulations, agricultural policies, etc.

Depending on the actors involved, Grunert et al. (2008) identify three types of innovations in the food sector, here simplified as: Type I, the classical new product
development carried out in-house at the food producer; Type II, the retailer takes the initiative to obtain products for his own brand and interacts with the producer; and Type III, the whole value chain is involved, and the initiative can come from many actors in the chain. There is a trend towards more Type III innovations, driven by demands by end users for differentiation.

Despite the focus on innovation and food development, it is estimated that approximately 90% of the food products launched in the United States fail within a year of introduction (Rudolph 1995), and many new products are already stopped in the development process before launch. Similar figures are mentioned in Sweden. A recent investigation in Italy (Fornari, Grandi, and Fornari 2009) found that only about 20% of the products launched (food and personal care) could be considered really new (i.e. ‘create concrete market revitalisation’) from company and market points of view. Of all the products launched, only 1.8% was considered success, whereas an additional 5.3% was considered worth keeping under observation for a longer time. The failure of new products might indicate shortcomings in the methodology for food innovations (Stewart-Knox and Mitchell 2003). Referring to three studies in the United States, Denmark and the United Kingdom, Stewart-Knox and Mitchell (2003) conclude that market and consumer knowledge and retailer involvement were associated with success and that original products were more likely to be successful.

Innovations by retailers

Before and during World War II, the availability of raw materials and food, in general, was scarce. Producers had the power and focused on efficiency, running full shifts, and deciding and developing what should be sold in the stores and how. Today, however, it is the retailers in most European markets that control the product supply from producers to consumers (Fernie and Sparks 2009). Retailers offer an ever-increasing number of products, facing growing competition domestically and globally.

In the United Kingdom, the shift of power from manufacturers to retailers started in the 1960s–1970s, and retailers there have been leading the retailing development ever since. The UK retail sector has evolved through different stages and was in the fourth stage in 1994 (Laaksonen and Reynolds 1994). This is characterised by:

- Their own segmented brands
- A strategy of value added and many image-forming products
- Niche products made by innovative technology
- A quality/image of being the same or better than the brand leaders and/or innovative and different

Prices are equal to or higher than those of the brand leaders, which is motivated by the products being better and unique. The products are driven by the retailers but supplied by companies that mainly produce retail brands (Laaksonen and Reynolds 1994). Today, the major retail store chains in the United Kingdom have become brands, seemingly heading into the fifth stage (Burt and Sparks 2002). This means, using Tesco as an example, offering products on three levels of sophistication and pricing: value, standard and exclusive (Burt and Sparks 2002), and having a food
technology department supporting these activities (Omar 1995). In addition, Tesco is leading in efficient distribution and logistics (Smith and Sparks 2009).

The development of store brands and the store as a brand can also be seen in other markets such as in the Netherlands (Luijten and Reijnders 2009). The level of private labels by retailers ranges from 28% to 45% in Switzerland, Germany and the United Kingdom, to around 15–20% in Sweden and many other European countries and in the United States (Anselmsson and Johansson 2007). In many markets in Europe, retailers are becoming bigger, fewer and oligopolistic (Anselmsson and Johansson 2007; Burt 2000; Burt and Sparks 2003).

In Sweden, retailers are mainly in the third stage of retailing development according to Anselmsson and Johansson (2007). This implies a strategy of ‘me-too’ in big category products, utilising a technology close to the brand leader with acceptable quality at a lower price (Laaksonen and Reynolds 1994). Category management is usually exercised by the retailers who decide how the different products are exposed, which may contribute considerably to success – or the opposite (Nordfält 2007). The retail concentration in Sweden is the highest in Europe (Defra 2006), with ICA having almost 50% market share, followed by Coop, Axfööd and Bergendahls (the latter without its own retail brand until recently). The retail price of retailer brands is 38% lower than the corresponding manufacturer brands, but there are indications among retailers that they are entering the next stage by moving away from price as the major competitive weapon towards added value (Anselmsson and Johansson 2006).

The interest for new products exists among retailers who compete with their own brands against manufacturer-branded products. Retailers’ degree of innovation in the United Kingdom has increased from 40% in a 2002/2004 survey to 59% in 2004/2006 and to over 50% reliant on market sources such as customers and suppliers as they are exploiting ‘open innovation’ according to Reynolds and Hristov (2009). They are particularly active in fresh products that are usually not branded by the supplier. Grieivink, Josten, and Valk (2002, 453) predict that ‘Within ten years, over 60% of the supermarket turnover will consist of assortments that are fresh, semi-fresh or chilled’, which will be labelled by retailers.

However, there are indications in Germany that increased retail market power reduces product innovation in food manufacturing (Weiss and Wittkopp 2005). The opposite is claimed in Sweden in categories with a higher growth of retail brands (Anselmsson and Johansson 2007).

Innovations and involvement by suppliers

A supplier may serve the food manufacturer and the retailer with products, packaging, services, new ideas, etc. At the same time, the food manufacturer is also a supplier who carries the risk in terms of lost investment if the product fails (Stewart-Knox and Mitchell 2003).

Van Echtelt et al. (2008) emphasise the need to select the supplier and determine the extent of involvement. Their results ‘suggest that success of involving suppliers in product development is reflected by the firm’s ability to capture both short- and long-term benefits’ (Van Echtelt et al. 2008, 180). This includes the experience accumulated between the two partners, permanent access to suppliers’ new technologies and transfer of knowledge from one project to another by access to individual supplier resources and capabilities. Payne and Holt (2001) emphasise the
need for integration of the value process into relationship marketing and multiple stakeholders. As part of the retailer–supplier relationship to create value, the concept of category management appeared in the 1990s in which different product categories are seen as business units and can be managed as such by category managers. Aastrup, Grant, and Bjerre (2007, 523) suggest a model ‘of a trade-off between retailer benefits and sacrifices from moving to closer category management collaboration with suppliers’ in order to create more value. Underlying this is the necessity of trust in the relationship. Where many actors are involved, interaction and collaboration in the chain become necessary, as well as the creation of trust (Grievink, Josten, and Valk 2002; Grunert et al. 2008).

There are different ways to collaborate. It can be more or less organised in clusters and networks, internal and/or external or in other forms of inter-organisational relationships (Barringer and Harrison 2000). Clusters according to Porter (1998) increase competitiveness, and networks may be one form of clustering mainly based on trust and relations (Gordon and McCann 2000). When the radical innovation of frozen food was introduced in Sweden right after the war, a spontaneous cluster and network formed; participants from inside and outside the supply chain collaborated, and trust existed among them (Beckeman and Skjödebrand 2007).

**Service innovations and customer/user involvement**

According to Mascarenhas, Kesavan, and Bernacchi (2004), the product itself is no longer the basis of value creation, rather the experience of the consumer adds value. Customer satisfaction can be influenced not only by past experience but by expected future experiences of consumer delight. Still 80% of the retailers’ efforts are said to be spent on the shopping process and not on the shopping experience (Grievink, Josten, and Valk 2002, 458).

One objective for retailers is to create customer loyalty and trust as it is less costly to keep customers than to get new ones (Pitta, Franzak, and Little 2004). Hence, innovations by retailers include products, services, new ideas, etc. Mascarenhas, Kesavan, and Bernacchi (2004) suggest involving target customers at all stages of the value chain in order to enhance customer relationships, achieve customer satisfaction and even surpass it. Von Hippel (2001, 2005) similarly suggests involving users as innovators, giving them toolkits to do their own development, and to involve lead users. Grunert et al. (2008, 591) provide an overview of user-oriented innovation in the food sector and define it 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’. As users can be both direct customers and end users, this concept is broader than consumer-oriented innovations.

Chesbrough (2003) suggested an open innovation approach/mindset to innovation opposed to closed in-house innovations, inviting everyone who has the ability to participate. As one example, General Mills uses an open innovation model (Erickson 2008), which lets customers develop their own cereal mix, get it packed and delivered (www.mycereal.com). Saltå Kvarn, a Swedish cereal producer, recently started doing the same (Packmonitor 2009). Another example is Proctor & Gamble who created their model for innovation by involving external organisations and individuals around the world (Huston and Sakkab 2006), claiming it has proven very successful.
Methodology

The study of Swedish retailers started in 2007/2008 with an exploratory series of open-ended interviews (Yin 2003) with 12 expert participants, who have, or have had, long experience in the food sector. The interviewees were a mixture of professors from academia and institutes, persons active in branch organisations and senior managers with past experience in R&D or marketing. The purpose was to get their help in identifying issues and important aspects in the Swedish food sector, and their suggestions for suitable interviewees among the four leading retailers to be interviewed in the next phase of the study. Participants confirmed an interest in the topic, contributed with aspects and suggested people to approach. Some of the questions for the retailers were also tested on them.

The actual study of how the four main Swedish retailers currently view innovations, their role and in relation to others in the chain took place in 2009. The selection was based on input from the exploratory study, by contacting the retailers directly, presenting the case and asking them to select senior interviewees for the purpose or by asking interviewees for other suitable names as the interviews progressed.

The methodology was qualitative in order to achieve a deeper understanding of the retailers’ views. The data collection consisted of responses to initial and specified questions about the interviewees’ company or work, position, previous experience and educational background followed by open-ended questions on the subject (Yin 2003). Web sites and articles about the retailers were also studied before the interviews. The interviews were recorded and transcribed and analysed based on themes identified and grouped according to purpose and research questions (Miles and Huberman 1994).

The 13 interviewees, their backgrounds and information about their previous experiences are presented in Table 1. Five respondents are included from the exploratory group as they have a background in retail research or are active in related branch organisations. They are marked with a superscript ‘a’ as they only answered some of the questions later posed to the retailers.

As can be seen in Table 1, of the eight people directly active in retailing, three have responsibilities in purchasing, three in quality or environment, one manages private brands and one is a CEO. All respondents were asked to define ‘innovation’, give examples on the market and if they considered more innovations were needed. The retail active respondents were, in addition, asked about how more innovations might be achieved, trends, the future, about working in the chain, how new products are found and/or developed and what they feel that the manufacturers miss in their relations with the retailers.

Results and analysis

The results are divided into the three different themes of analysis: definitions of innovation illustrated by examples and trends, innovations by retailers and their role and collaboration in and outside the chain.

Definitions of innovation, illustrated by examples and trends

In this study, ‘innovation’ was defined by the interviewees in a broad range from incremental to new development to even radical or new ways of doing things. The
Table 1. Interviewees in the study of Swedish retailing.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Retailer</th>
<th>Present position</th>
<th>Relevant previous experience</th>
<th>Educational background</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Purchasing director</td>
<td>Dagab and Retailer B</td>
<td>M.Sc. in Business and Economics</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>Manager of private brands</td>
<td>Different positions at A</td>
<td>M.Sc. in Business and Economics</td>
</tr>
<tr>
<td>3</td>
<td>B</td>
<td>CEO at retail branch org.</td>
<td>Retailer C</td>
<td>M.Sc. in Business and Economics</td>
</tr>
<tr>
<td>4</td>
<td>B</td>
<td>Purchasing director</td>
<td>At major food company</td>
<td>M.Sc. in Business and Economics</td>
</tr>
<tr>
<td>5</td>
<td>C, partly branch org.</td>
<td>Expert, safety and environment</td>
<td>Different positions at C and in EU context</td>
<td>M.Sc. in Agriculture</td>
</tr>
<tr>
<td>6</td>
<td>C</td>
<td>Quality assurance manager</td>
<td>Different positions at C</td>
<td>Studies in economy; internal training</td>
</tr>
<tr>
<td>7</td>
<td>C</td>
<td>Environmental issues</td>
<td>Different positions at C</td>
<td>Internal training and experience</td>
</tr>
<tr>
<td>8</td>
<td>D</td>
<td>Purchaser</td>
<td>Retailer A</td>
<td>Internal in Retailers A and D</td>
</tr>
<tr>
<td>9&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Professor</td>
<td></td>
<td></td>
<td>Ph.D. in Business and Economics</td>
</tr>
<tr>
<td>10&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Professor</td>
<td></td>
<td></td>
<td>Ph.D. in Business and Economics</td>
</tr>
<tr>
<td>11&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Associate Professor</td>
<td></td>
<td></td>
<td>Ph.D. in Business and Economics</td>
</tr>
<tr>
<td>12&lt;sup&gt;a&lt;/sup&gt;</td>
<td>CEO at branch institute</td>
<td></td>
<td>Other org.</td>
<td>M.Sc. in Business and Economics</td>
</tr>
<tr>
<td>13&lt;sup&gt;a&lt;/sup&gt;</td>
<td>CEO at branch org.</td>
<td></td>
<td>Different food companies</td>
<td>M.Sc. in Business and Economics</td>
</tr>
</tbody>
</table>

Note: *Partial interviews from exploratory study (see text).*
different definitions of innovation stated were: something new that changes people’s
way of shopping and consuming; something completely new which drives the
category and sales; using existing products in a new way and/or in a new market; and
new products, packaging or presentation. This corresponds with the view of Kotler
(in Grunert et al. 1997, 4) that an innovation ‘refers to any goods, service, or idea
that is perceived by someone as new’. All the respondents also stated that they
wanted more innovations in order to differentiate and create interest in the stores.

Respondents were asked for examples of innovations on the Swedish food
market in order to better understand what they meant by innovations and to get an
idea about the level of radicalness of their suggestions. The suggested innovations are
categorised into: innovative products in Table 2, innovative packaging in Table 3
and innovative services and new ways of doing things in Table 4.

The interviewees clearly stated packaging to be of great interest as a means for
differentiation. This corresponds to the theory of packaging to be regarded as the
product interface with the consumer and ‘the silent salesman’ (Downes 1989; Olsson
and Larsson, 2009). Retailers usually develop new packaging via the packer or food
supplier (often based on briefs from the retailers) who are in direct contact with the
packaging suppliers. The retailers expressed an interest in direct contacts in the
future, however still reactive, wanting the packaging suppliers to contact them,
which has happened in a few cases.

The retailers further mentioned innovations that are examples of new ways of
doing things and new services; these can be regarded process or service innovations
as suggested by, for example, Vargo and Lusch (2004, 2008); see Table 4.

As stated in theory, innovations should respond to actual trends among
consumers (e.g. Burt 1989; Kumar, Scheer, and Kotler 2000) in order to create value.
The consumer trends most frequently mentioned by the interviewees (not in any
particular order) are:

- natural/genuine materials/ingredients/food, health, simplicity, fresh food
- environmental and global concerns, ecology, fair trade, waste
- non-allergenic foods, locally produced food, need of basic foods at basic prices
to provide convenience to consumers
- premium products for people to bring home instead of going to restaurants

**Innovations by retailers and their role**

In each of the tables of innovations (2–4), there are examples that are driven by
retailers. The main view among the interviewees is that Swedish retailers today drive
food innovations through differentiation, often via new packaging, and their own
brand development via food manufacturers in or outside Sweden. Retailers have
access to information about consumers, their purchasing and preferences, trends, etc.
via different IT-based systems. Some of that information is used in the above-
mentioned innovations. This information is, however, not generally shared, and it is
unclear to what extent it is shared with any suppliers.

It is, however, clear that there has been an evolution of the role of the Swedish
retailer in food innovations, especially after 1995 but even since World War II.
Before the war, the food and packaging industry then existed primarily as basic
industries, such as mills, slaughter houses, dairies and some packaging suppliers;
products were mainly sold in loose weight/volume and often stored at ambient
Table 2. Examples of innovative products suggested by the respondents.

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Description</th>
<th>Type of innovation</th>
<th>Brand owner</th>
<th>Level of innovationa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oatly</td>
<td>A range of oat-based products; alternative to dairy products and generally</td>
<td>Technical: patented base product and process; Market: new range of products, new</td>
<td>Oatly</td>
<td>A new company was</td>
</tr>
<tr>
<td></td>
<td>health-conscious consumers</td>
<td>category</td>
<td></td>
<td>established; new but</td>
</tr>
<tr>
<td>Santa Maria</td>
<td>Mixes and ethnic, incl. Mexican, semi-fabricates, spices</td>
<td>Market: a new category, a new consumption pattern for weekend and family</td>
<td>Santa Maria</td>
<td>Fresh and dry spices,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>dry mixes, canned</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>semi-fabricates, ‘bread’; new</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>innovations at the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>time</td>
</tr>
<tr>
<td>ICA selection</td>
<td>A range of premium products in several categories</td>
<td>Retail innovations</td>
<td>ICA</td>
<td>Similar to Tesco in the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>United Kingdom; new</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>and incremental</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>innovations</td>
</tr>
<tr>
<td>Ånglamark</td>
<td>An ecological range of products from 20 years back</td>
<td>Retail and agricultural innovation: new category</td>
<td>Coop</td>
<td>Long-term development from</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>farm to table; radical</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>innovation at the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>time</td>
</tr>
<tr>
<td>Cappuccino, instant</td>
<td>A mix to be prepared directly in the cup with hot water</td>
<td>Technical and market: a new category and consumption</td>
<td>Nestlé</td>
<td>Convenient and new</td>
</tr>
<tr>
<td>powder</td>
<td></td>
<td></td>
<td></td>
<td>innovation</td>
</tr>
<tr>
<td>Stir-fry</td>
<td>A new range of frozen products</td>
<td>Technical and market: new category</td>
<td>Masterfood</td>
<td>Convenient and new</td>
</tr>
<tr>
<td>Frozen Smoothie</td>
<td>First on the market</td>
<td>Market: somewhat a new category and consumption</td>
<td>Axfood</td>
<td>New, close to incremental</td>
</tr>
</tbody>
</table>

Note: aLevels of innovation evaluated by the authors.
Table 3. Examples of innovative packaging suggested by the respondents.

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Description</th>
<th>Type of innovation</th>
<th>Brand owner</th>
<th>Level of innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrally cut-up and packed meat; probably using MAP technology</td>
<td>Cooperation with a company (KPT) that centrally cuts-up and packs the meat for further distribution; longer shelf-life and less waste</td>
<td>Technical/packaging and retail innovation</td>
<td>ICA</td>
<td>Fish will be next; on the market a new innovation</td>
</tr>
<tr>
<td>Microwaveable soups in a bowl</td>
<td>A range of frozen soups that can be microwaved and eaten directly from the bowl</td>
<td>Packaging: new; technical: adapted recipes</td>
<td>Felix (Procordia) first</td>
<td>Convenience; followed by other brands; in the packaging a new innovation</td>
</tr>
<tr>
<td>Honey in a bottle</td>
<td>A squeezable plastic bottle</td>
<td>Packaging and retail innovation</td>
<td>ICA</td>
<td>Similar bottles now used for other products; incremental innovation</td>
</tr>
<tr>
<td>Ecolean packaging system</td>
<td>A totally new packaging system for chilled or aseptic liquid products; material mainly based on clay and plastics</td>
<td>Unique packaging material, new filling equipment; market: lower costs, claim more environmental</td>
<td>Ecolean</td>
<td>Targets mainly markets outside Europe; some claim radical innovation, but not proven yet</td>
</tr>
</tbody>
</table>

Note: *Levels of innovation evaluated by the authors.*
Table 4. Examples of innovative services and new ways of doing things.

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Description</th>
<th>Type of innovation</th>
<th>Brand owner</th>
<th>Level of innovation$^a$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual offers to consumers</td>
<td>The offers with rebates are based on earlier and registered purchases</td>
<td>Retail: new way</td>
<td>ICA</td>
<td>Said to be the first in the world in this scale, radical innovation (?)</td>
</tr>
<tr>
<td>IT development back to ‘on demand’</td>
<td>Suggested development going back to the very beginning, e.g. order before slaughter; less waste</td>
<td>New way of thinking in the whole supply chain; process</td>
<td>Idea by one respondent</td>
<td>If/when possible then radical</td>
</tr>
<tr>
<td>Self-scanning Plastic pallets</td>
<td>Replace cashier Replacing the wooden ones</td>
<td>Retail: new service Retail: new way, lighter, more hygienic; packaging</td>
<td>Coop first ICA</td>
<td>New innovation in Sweden New way of doing things</td>
</tr>
<tr>
<td>New ‘entrance’ for local and small producers</td>
<td>A new logistic system to work with local and small to facilitate their access to ICA’s system, distribution and sales</td>
<td>Retail: new way; a service for producers</td>
<td>ICA</td>
<td>A new way of meeting a strong trend for local production by small enterprises</td>
</tr>
</tbody>
</table>

Note: $^a$Levels of innovation evaluated by the authors.
temperature (Beckeman and Olsson 2005). The market was highly protected until Sweden joined the EU in 1995, and the economy became more competitive. In 1995, about 80% of the Swedish food production was not exposed to international competition (SOU 1997).

The market-leading retailer in Sweden, ICA, is working with a differentiation within their own brand: ICA Euroshopper (low price), ICA Good Life (healthy), I Love Eco (ecological) and ICA Selection (premium), and becoming a brand of its own, similar to UK retailers (Burt and Sparks 2002). A number of food experts are employed by ICA, like in the United Kingdom (Omar 1995), to control their own branded products and support the differentiation strategy; other retailers mention similar needs.

In the study, it was also found that retailers are initiators of services and new ways of doing things as is shown in Table 4 and suggested by Vargo and Lusch (2004, 2008). ICA is now leading the non-food and service development with loyalty cards, banking services, etc. It is quite obvious that ICA dominates and leads retail developments in Sweden and follows Tesco in the United Kingdom, albeit with some delay. In spite of their success, ICA is highly regarded and respected for their competence by competitors.

Collaboration in and outside the chain

In terms of collaboration in and outside the chain, the interviewed retailers are of the opinion that manufacturers should develop products based on new technologies. The retailers further claim that they lack support and understanding from the suppliers for product launches. Some retailers confess that lack of support is to a great extent created by the trade, squeezing the suppliers on price (i.e. the power set-up and lack of collaboration in the chain highlighted by Abrahamsson and Stahre in Wikström 2009).

Through insights from the interviewees, there appears to be very little trust among retailers in relation to the suppliers. Trust is considered essential for cooperation and other long-term benefits (Lindgreen 2003), to keep customers (Pitta, Franzak, and Little 2004) and to create more value (Aastrup, Grant, and Bjerre 2007). Collaboration exists to some extent between retailers and those food manufacturers that produce retailer brands, and between those in the chain for products of limited availability. One such example is ecological food, mentioned by Coop and carried out in an internal network. The interviews further reveal that the interface between producer and retailer is usually between a sales person and a purchasing representative, not between development people and the new food staff at the retailers, except for new-category products or unique products. Hence, collaboration is limited to those in the ‘family’ (i.e. Coop and other cooperatives, ICA and Ahold affiliates, etc.) and horizontally.

It was further found that in order to source for one’s own-branded products globally, retailers collaborate in networks with other retailers of the same ‘family’. A network is one form of cluster and mainly based on trust and relations (Gordon and McCann 2000; Porter 1998) and consequently set up rather with other retailers, as trust is not prevalent in relation to suppliers. The retailers have noted a certain resistance previously among Swedish producers to producing retailer labels. Retailers visit exhibitions such as PLMA, Private Label Trade Show, in Europe and the United States for new ideas and sourcing. According to the interviewed retailers, Swedish suppliers are not very visible at these exhibitions.
The respondents not directly active in retailing naturally could not provide input regarding innovations by retailers and actual collaboration but had strong opinions about the need to collaborate in and outside the chain and to use the competence available, but not on how to achieve it.

Discussion

The retailers interviewed define innovation in a broad range from incremental to new, but not really radical and not defining the level of radicalness. The word innovation tends to be applied to practically everything claimed to be new, as in the definition by Kotler and Grunert et al. (1997, 4) referring to an innovation as ‘any goods, service, or idea that is perceived by someone as new’.

When it comes to the role of retailers, it is clear that they want more innovations in order to differentiate within their private labels, whereas manufacturers are expected to develop more unique products based on new technologies. This means that manufacturers are expected to take on more risk and demanding tasks as also identified by Deschamps (2008). The interviews further revealed that retailers want new products from branded manufacturers that are genuinely new but at the same time they are aware that consumers do not want new products that are too advanced. Consumers may not be very eager for new or radical innovations, which may relate their aversion to risk as mentioned by Galazzi and Venturini (1996). In fact, one respondent questions if innovative products are not being driven by retailers rather than by consumers. Retailers do not seem to be developing with the consumers but rather for the consumers and not involving customers (Mascarenhas, Kesavan, and Bernacchi 2004; Von Hippel 2001, 2005). Compared to the levels of user involvement in food innovations described by Grunert et al. (2008), the most common approach appears to be that the Swedish retailer takes the initiative to obtain products for his own brand by interacting with the producer, rather than involving the whole chain and acting as if driven by demands for differentiation. As a result, collaboration from the retailer side with food manufacturers appears to be on the agenda only if the resulting products are under retail brands.

As retailers start to differentiate, they also have to find producers and other suppliers for a wider spectrum of variety and quality. But unlike what Van Echtelt et al. (2008) suggest, Swedish retailers do not appear to feel the need for involving selected suppliers for more long-term development or for creating more value (Aastrup, Grant, and Bjerre 2007) or to involve users. A more open mindset as suggested by Chesbrough (2003), inviting others in or outside the chain to contribute, does not seem to be the case, contrary to reports from the United Kingdom of more ‘open’ innovation (Reynolds and Hristov 2009). In addition, there was and perhaps still is a certain resistance by the producers to manufacture private labels, according to the retailers interviewed. This may be one reason why food exports from Sweden have only been partially successful, although increasing (Livsmedelsföretagen 2009). One retailer remarked that more than 50% of food products on the shelves in Sweden are imported.

It is clear from the interviews that trust is not the case today between the different actors in the Swedish chain. Lack of trust means that cooperation in cross-functional teams, involvement of different stakeholders, networks and clusters also with outsiders are limited and thereby diminish the likelihood of innovation success (Pitta, Franzak, and Little 2004; Stewart-Knox and Mitchell 2003; Von Hippel 2001,
The results of this study further demonstrate that collaboration is limited to horizontal relations between the retail organisation and manufacturer, which most likely results in few really new or radical innovations. According to the literature, integration, collaboration, networking, etc. are recognised as necessary in successful innovations, but a number of difficulties and lack of trust are seen as major obstacles (e.g. Aastrup, Grant, and Bjerre 2007; Lindgreen 2003).

Exclusive development collaboration between one producer and a specific chain may take place in particular cases such as limited availability, but otherwise the strong position of ICA with a market share of almost 50% in a small market of about 9 million inhabitants makes it unrealistic not to have ICA on board for any kind of new development. ICA operates differently from the other chains with the shopkeeper as owner or part-owner of the store. The way ICA is organised may be their special asset, linking the amount of work put in by a private owner to the outcome and emphasising the importance of strong individuals, referred to as ‘Edisons’ (Beckeman 2008).

Consumers today are individuals more than part of a group. They want experience now and in the future (Mascarenhas, Kesavan, and Bernacchi 2004), and they want to feel good about what they purchase and eat. Hence, retailers have unique opportunities to make purchasing a worthwhile experience, but are said to put more efforts into the process than the experience (Grievink, Josten, and Valk 2002). Some retailers express concern about the consumers’ perception that shopping in big stores is utterly boring. However, some service concepts have been introduced and tested, such as shop-in-shop and home deliveries. Other reasons for the consumer being bored can be that so few new products are visible and that many seem to be and look the same.

It is clear that new innovative activities in services, logistics, non-food, etc. are needed and already being carried out by retailers. This follows theories by Vargo and Lusch (2004, 2008) about more emphasis on service than goods. This development supports Swedish retailers in becoming brands of their own and apparently closely following the UK model (Burt and Sparks 2002; Smith and Sparks 2009). ICA, in particular, is on its way to the fifth stage of retailing (Laaksonen and Reynolds 1994). By establishing convenience stores in town centres, the Swedish retailers also follow the United Kingdom differentiation of store categories but with a difference when it comes to pricing: In Sweden, prices differ considerably between stores of the same chain, while in the United Kingdom they are more even (L. Sparks, pers. comm.).

Possibilities for more innovations
Retailers will continue to work on extended global networks in sourcing, developing and purchasing products, including new packaging systems, and will increasingly compete with manufacturers’ branded products. Judging from the interviews, this will not only result in incremental product innovations, but also that some products sourced abroad are new on the Swedish market. This is one way the United Kingdom retailers appear to be going. In doing this both in Sweden and the United Kingdom, they are doing a good job judging by the growth of their brands.

With increased retail power, reduced product innovations may follow among food producers, as was found in Germany (Weiss and Wittkopp 2005). In addition, the retailers in Sweden claim that the branded producers launch fewer new products. According to Traill and Meulenberg (2002), product introductions are more
expensive for producers than for retailers. One consequence of this could be fewer new products from producers who are being squeezed by the retailers on price. As a result, the actors of the chain may need to consider other business models.

It would also be interesting to seriously discuss collaboration on innovations not only between the actors in the chain but also with internal and external stakeholders as suggested by Payne and Holt (2001). This will make optimal use of existing knowledge and competence in the country, in spite of very little trust and transparency among today’s actors. Another aspect of collaboration is that individual contributions are easily overlooked and yet individuals make things happen. Beckeman (2008) found in a study of the Swedish food sector after the war that individuals, referred to as ‘Edisons’, in different functions inside and outside, were instrumental in getting radical innovations accepted by consumers on the market. This will be another area to emphasise for future innovations.

Working on establishing more trust in the chain must be of mutual interest and requires appropriate person-to-person interactions about common goals and visions in the chain and externally. The concept of relationship marketing has been introduced to improve business performance, but requires trust between partners (Lindgreen 2003). Examples of working in networks exist in the United States and the United Kingdom involving a wide range of stakeholders to establish trust and loyalty (Barringer and Harrison 2000; Gordon and McCann 2000; Pitta, Franzak, and Little 2004; Stewart-Knox and Mitchell 2003), and even to enter the Era of Open Innovation as suggested by Chesbrough (2003) and by Reynolds and Hristov (2009), which is now practised successfully by UK retailers.

Co-branding of a premium product produced by a leading branded producer for the premium segment of a retailer could be one way of getting more radical or new innovations on the market and to supporting two brands. Most of the retail interviewees do not believe in this idea or that the producers would accept it.

As seen in the study, the interface between producer and retailer usually takes place between a sales person and a purchasing representative, both of whom are not very knowledgeable about the product. Of tradition, the purchaser is not supposed to interact with the supplier more than necessary so that they do not become too friendly, always keeping the price in focus. If the producers would create more unique products and new categories, this would certainly benefit not only them but the retailers and require more contacts between product developer and marketing at the producer and qualified people at the retailer. Unfortunately, the retailer later on, if the products are successful, will try to source copies under their own brand, unless the producers have some kind of special asset (i.e. raw material, process, logistics, services, packaging, etc.).

So, there are some intriguing questions still to be answered regarding food innovations on the Swedish market: Are we looking to a future with only two major brands in major stores on the market like the British model? And will they be differentiated retailer brands and A-brands from global producers? And perhaps a third national brand? Will this be exciting enough for consumers in their shopping experience?

Conclusions

The study results show that retailers regard innovations very broadly but predominantly as something new and valuable to the market, in accordance with
many researchers in the field of innovation. It can further be concluded that Swedish retailers regard food product innovations as something to provide to consumers in order to satisfy a need, rather than something achieved together with consumers or users, as suggested in research about open innovation and collaboration and also practised by some foreign retail groups. The study further reveals that retailers are quite successful in establishing their own brands and becoming brands themselves and competing with producer brands. The Swedish retailers furthermore follow the evolution of the UK retailers. This may ultimately lead to stores in the future that only have two, perhaps three, kinds of brands: the retailers’ mainly incremental products; new, sometimes radically innovative A-brands; and possibly one national brand (i.e. the British model). It can further be concluded that innovations in services and other developments to increase customer loyalty will be of interest for all kinds of brands. But customers want more than new products, they want to be excited and here retailers have a great potential to make the shopping experience more exciting, and thereby also involve themselves in service innovations. Who makes the products and under what brands is in this sense of relatively minor importance to the customer, provided trust and good past experience is associated with the brand and there is a relevant choice. However, it can be questioned whether the choice will be relevant if Sweden goes with the British model. Similar questions can be posed to the manufacturers: What will they do to create unique products and services? How do they see the future of being a more integrated partner with the retailers?

If we want more really new innovations by producers – or retailers – in Sweden, it will require in-depth consumer insight as trends shift with time. To meet those trends will require collaboration efforts from the whole value chain including outsiders. Retailers face the consumers and know best what they buy today but are not experts on what they will buy and be delighted with in the future. Food competence is still higher among food manufacturers than among Swedish retailers, particularly concerning more radical and/or technological innovations. Packaging suppliers, particularly those supplying systems, are increasingly of interest to the retailers. This can be judged from examples of innovations and the expressed interest by the retailers for more direct contact. The more stakeholders choose to collaborate and look for win–win situations, the better they will manage to offer consumer delight. This will require serious attempts to establish trust. One way is to work together in innovation projects and exchange all kinds of information in an open atmosphere and to identify win–win situations for all in the chain, with the future consumer in mind.

References


