

Retailers and innovation in the food sector: villains or caretakers of consumer interests?

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Introduction

Retailers are positioned to play an integral role in innovation within the food sector. Through their day-to-day interactions with consumers, retailers are in a privileged position to identify emerging consumer demands and to respond accordingly by instigating the development of innovative food products and services in collaboration with their suppliers. At the same time, retailers are central to the diffusion of new food products, services and technologies to consumers as they control access to consumer markets.

The traditional role of retailers has been to serve as an intermediary between suppliers and consumers. This task involves the creation of product assortments, bulk breaking and offering a range of services. Retailers have moved away from their traditional role, however. Rather than simply selecting from the product portfolios of food manufacturers and focusing their operational efforts on assortment bundles, pricing and availability, retailers in search of differentiation from competitors have taken more active interest in other distribution channel activities that previously were the domain of the manufacturing and wholesale industries. Retailer interest in product development, product innovation, packaging design and functionality, and supply chain activities has thus grown. Some of this involvement has intensified with the growing (and changing) market share of private brand ranges, which have evolved from relatively simple “me-too” products to segmented, differentiated and (often) innovative products.

Nevertheless, there is very little recent research on how retailers make decisions on new products and practically no research on the role that retailers play in innovation within the food sector.

Methodology

To fill these gaps in our knowledge, we have interviewed key informants from 10 retailers in Belgium, Denmark and the United Kingdom, as well as with a small number of suppliers. An interview guide was used, but the interviews were open-ended. The interviews covered the retailer decision-making processes and their concerns in relation to new technologies, focusing upon three inter-related themes: (1) the organisation and management of the buying process when selecting new products; (2) retailer attitudes to novel food technologies and potential areas for growth; and (3) retailer awareness of novel technologies and the potential barriers to acceptance. During the interviews, extensive notes were taken and in some case the interviews were recorded. Notes were written up shortly after each interview to provide a summary of the issues discussed.

Interviews typically last between one and two hours, and firms participated on the understanding that their comments and views would not be directly attributed to them.

Findings

Our findings suggest that retail buying is currently overwhelmingly organised and managed on a product category basis. Combined with the prevalence of private brand ranges and the growth of limited line discount chains, this poses a very basic challenge for new product introductions as there are fewer “slots” available for new products. Increasingly, the search for new products is initiated by the retailers themselves and stimulated following periodic category reviews to identify range “gaps.” These gaps are typically driven by understandings of customer needs, not product or technology-led ideas. The retail buying process is often quite rigid: new products have to pass a number of hurdles in order to get selected.

Regarding the second theme explored in our interviews, retailers emphasise that the key issue for them in new product selection is the “benefits case” – i.e., identifying and documenting the customer benefit (or solution) arising from the novel technology, not the technology itself. Retailers lamented that food producers sometimes lost sight of the consumer benefit, as they were blinded by the promise of particular technology.

The final theme explored was retailers’ awareness of novel technologies and the potential barriers to acceptance. It was evident that technology awareness was high among the companies covered by our study. Major barriers or challenges to acceptance of products based on technology identified were consumer knowledge and understanding of novel technologies, difficulties of scaling up, communication to consumers and the regulatory environment.

Discussion

Our findings suggest that retailers can play to contrasting roles. On the one hand, retailers can be seen as the villains when it comes to innovation: they are, quite unashamedly, followers who prefer to move incrementally rather than in big evolutionary leaps. It is therefore easier for suppliers to have line extensions or tweaks on existing products accepted by retailers than radically new products. Retailers are particularly risk averse when it comes to their private brands. From this perspective, retailers are roadblocks to innovation, maintainers of the status quo.

On the other hand, retailers can be seen as caretakers of consumer interests. They are not interested in a new technology as such, but in what benefits it offers to consumers (and themselves). The implication is that when a supplier approaches a retailer with a new product idea, they have to be very clear about what consumer need it satisfies (or perhaps creates).