The virtuous cycle of trust. Unveiling clues to successful innovation in the Fast Moving Consumer Goods industry

Belén Derqui
Department of Business Management, Universitat Ramon Llull, Barcelona, Spain
Teresa Fayos
Department of Marketing and Market Research, Universitat de València, Valencia, Spain, and
Nicoletta Occhiocupo
Universitat Internacional de Catalunya, Barcelona, Spain and Oxford Brookes University, Oxford, UK

Abstract

Purpose – This paper aims to shed light on features of successful innovation and on the role played by downstream open innovation (OI) dynamics in the Fast Moving Consumer Goods (FMCG) industry. It also explores the reasons for the decline in the number of disruptive innovations in this industry in the European Union (EU).

Design/methodology/approach – The authors interpret the data in a Kantar consumer panel dataset on disruptive innovations in Spain through an exploratory research including in-depth interviews with 19 managers in the industry.

Findings – Results show that downstream open innovation in this industry is mostly limited to the executional stage in the process and highlight the crucial role played by the point of purchase in the success of innovations. The authors build up a virtuous circle of innovation based on features such as the use of OI processes, company focus and marketing support, transparency and collaboration with retailers, as well as the product's uniqueness and its potential to become viral.

Research limitations/implications – The paper focuses on Spain and, thus, results cannot be generalised. Further research in other countries would be interesting.

Practical implications – The study describes the features of disruptive innovators and develops an extensive list of success factors.

Social implications – The development of disruptive innovation is a source of competitive advantages and one of the most relevant activities of managers today. Nevertheless, the number of disruptive innovations is in decline, and only a few succeed, negatively affecting consumer welfare.

Originality/value – Through this study, the authors provide insights on the features of successful innovators in FMCGs and describe the factors affecting the decreasing trend in the number of breakthrough innovations. Further, this paper fulfils an identified need to study OI in low-tech industries.

Keywords Open innovation, FMCG, Disruptive innovation, Radical innovation, Retailers, Private label, CPGs

Paper type Research paper

1. Introduction

Open innovation (OI) is a relevant ingredient of the United Nations sustainable development goals for 2030 (Smart *et al.*, 2019) and manufacturers in different industries are adapting their

strategies in new product development (NPD) in order to incorporate ideas from different stakeholders (Obradović*et al.*, 2021). Actually, it can be stated that we are at present in the "Open Innovation" era (Chesbrough, 2007). Interestingly, OI has been considered a necessity for survival in the Fast Moving Consumer Goods (FMCGs) industry in particular (Golightly *et al.*, 2012). The FMCGs industry includes food and non-food products that consumers buy at regular intervals and which are typically purchased in grocery stores, supermarkets, hypermarkets, etc. (Vibhuti *et al.*, 2014). Undeniably, NPD is recognised as one of the most relevant activities of marketers in the FMCG in particular and closely related to the long term survival of companies (Beck, 2015). Yet, it becomes a risky activity, as many new products do not even reach their first birthday (Kantar Worldpanel Consulting Division, 2019).

Additionally, it is widely acknowledged that channel power has shifted from manufacturers to retailers (Beckeman *et al.*, 2013; Lovreta *et al.*, 2015) and they not only act as gatekeepers for the new products to reach final consumers, but also manage in-store marketing tools which influence shoppers' decisions at the so called "*moment of truth*", when a high percentage of purchase decisions are made (Dobson and Chakraborty, 2015). Remarkably, Weiss and Wittkopp (2005) posit that the increasing power held by retailers has a negative effect on consumer welfare as it leads to reduced product innovation. In fact, despite growing competition in the last decades has led retailers to offer an ever-increasing number of products, the number of innovations since 2008 is in decline (European Commission, 2014; Kantar, 2018), particularly in the food industry, impacting consumers' welfare (Lagnevik *et al.*, 2003). The scarcity of radical innovations in the food industry in particular has been related to the lack of cooperation within food supply chains (Beckeman *et al.*, 2013; Costa and Jongen, 2006).

Scholars acknowledge that the development of successful new products is crucial to gain and sustain competitive advantages and, thus, understanding the strategic factors that enhance success, despite having been overly studied, is still an essential area of research interest (Evanschitzky *et al.*, 2012; Morgan *et al.*, 2019). In particular, there is a significant lack of research on OI implementation in different industries (Chiaroni *et al.*, 2011; Obradović *et al.*, 2021) and scholars have pointed at the need to research OI in low-tech industries and Europe as a geographical scope, highlighting also the lack of cross company and multiple level approaches (Mortara and Minshall, 2011; Stanko *et al.*, 2017). Moreover, despite innovation being strongly industry-specific, extant research in OI is rarely focused in one specific sector (Santoro *et al.*, 2017). Additionally, we have little insight when it comes to downstream OI in the FMCGs industry. As stated by Liczmanska-Kopcewicz (2019), there is a gap in the literature on the role of clients in innovation success rates.

This paper contributes to this debate, aiming to shed light on features of successful innovation in the FMCG industry as well as on the role played by downstream OI dynamics. Through the research, we explore the factors affecting the decreasing trend in the number of breakthrough innovations in the EU in this sector and develop an extensive list of success factors.

In order to reach these goals, we analyse the interplay between manufacturer brands (MBs) and private labels (PLs) in innovation in the FMCG industry, and explore the role played by manufacturers and retailers in the development and success of disruptive innovation in this sector. We aim to understand the role played by OI processes among the factors that lead to success in radical NPD in FMCG via 19 in-depth interviews to managers and experts in the FMCG industry. The context of the study is Spain, a market where retailers have increasingly gained power, also through the very successful development of PL products, and where successful innovations have proven to be scarce (Kantar, 2018).Moreover, through our research, we explore the motives behind the data in a Kantar Worldpanel dataset including all the radical innovations launched in Spain between 2012 and 2016.

Through this study we address the lack of research focus on understanding FMCG successful radical innovation. We believe that, although only a small percentage of the new products launched are radical (Costa and Jongen, 2006), research in breakthrough innovation is key as it is an engine of economic growth and a source of improved solutions to humans needs (Chandy and Tellis, 1999).

2. Literature review

2.1 The product innovation continuum

Innovation is a broad concept that should not be limited to product-related issues: it can be related to new techniques, new forms of organisation, new solutions or even new sources of customer satisfaction, however, in all cases; innovation has to do with newness (Chimhundu, 2018). The literature on innovation offers an ample and interesting debate on how to define and classify innovations on the basis of the degree of innovativeness they bring to the market. Chimhundu (2018) underlines that incremental innovation is developed within a paradigm while radical innovation is revolutionary and suggests that innovations range in a continuum from incremental to radical or new to the world products. Tidd (2001) classifies innovations based on their contribution to a firm's competitiveness, distinguishing between continuous incremental (simple improvements to existing products) and radical or disruptive innovation ("new to the world"). Radical product innovations should offer "*unprecedented customer benefits, substantial cost reductions or the ability to create new businesses*" (Slater *et al.*, 2014, p. 1). Such unprecedented performance benefits for the customer need to be compared to existing products in the industry (Chandy and Tellis, 1999). Often the terms radical, disruptive, really-new, incremental and discontinuous are used ambiguously to identify innovations (Garcia and Calantone, 2002).

Despite the majority of innovations in the market being incremental, Varadarajan (2009) posits that both incremental and radical innovations are of equal importance. Radical innovations bear higher risks (Assink, 2006) because they often require more consumer learnings (Sääksjärvi and Hellén, 2019) and changes in consumer behaviour (Beverland and Farrelly, 2010).

Much has been written on whether radical innovation can be initiated by incumbents or non-incumbents (e.g. Henderson, 1993). The literature suggests that large firms may not be radical innovators, because of the theory of inertia (Acs and Audretsch, 2005). Chandy and Tellis (1999, p. 4) posit that there is a conflict about the role of size on radical innovation: large firms have the financial and technical capabilities to introduce radical innovations but because of the theory of inertia they are "*less likely than small firms to provide the responsive, risk-taking atmosphere needed for the development of radical product innovations*" (Chandy and Tellis, 1999, p. 4). This said, they conclude that size favours incumbents, as large incumbents resulted in being almost twice as likely to be radical innovators as small and medium incumbents.

As stated by der Braak and Deleersnyder (2018), there is a current trend in grocery retailers towards quickly copying innovative manufacturer branded new products. Further, they showed that copycats usually outperform the original products.

2.2 Open innovation in the FMCG context

Radical new products have been found to be rare by scholars in the European food industry. This is related to the low investment in Research and Development (R&D) compared to other industries as well as to the lack of cooperation within food supply chains (Costa and Jongen, 2006). Despite certain collaboration existing between retailers and PL producers, and with manufacturers of limited availability products, Beckeman *et al.* (2013) conclude that

manufacturers do not involve their customers in the process of developing innovation. Food manufacturers tend to develop new products in house, without collaborating with consumers or retailers, although collaboration could lead to more unique offerings (Beckeman *et al.*, 2013). Indeed, the OI approach has proven to be successful in the FMCG industry where innovation is strongly dominated by brands (Mortara and Minshall, 2011); as recently analysed by Han *et al.* (2019), the adoption of an OI perspective has resulted in an increase in product innovation capacity for certain FMCG manufacturers, even though Dragsdahl and Karafyllia (2019) highlight the numerous paradoxes faced in its application, while Stephan *et al.* (2019) suggest OI should be combined with a social perspective to be really effective.

Without doubt, increased collaboration between manufacturers and retailers would result in improved innovation processes and results. Retailers, in their role as intermediaries, are capable of identifying consumers' demands and translating them to manufacturers who have the know-how to develop and produce innovative products (Esbjerg *et al.*, 2016). However, lack of trust is considered a major problem in the food supply chain that results in little information transparency (Beckeman *et al.*, 2013). Paredes *et al.* (2018) posit that retailers should take advantage of their position in the value chain, developing more innovative and holistic consumer-centric concepts.

2.3 Innovation success rates

Although there is no consensus among scholars on how to measure success, the failure rate of new products has always been acknowledged to be high. Fornari *et al.* (2009), for instance, estimated a rate of success of only 1.8% in the food industry. According to Nielsen (2015, p. 4) "of over 60,000 new Stock Keeping Units (SKUs) introduced in Europe over the last years, just over half (55%) made it to 26 weeks, and only 24% lived to reach a full year". Despite this, consumers like new products: 57% of global consumers say they purchased a new product during their last grocery-shopping trip in this same Nielsen study. Golder (2000) posits that successful NPD generally depends on the collection and sharing of information both internally and externally. He goes further by stating that companies that have international brand managers can speed up the transfer of knowledge, improving results.

Diverse metrics are used to assess the level of success for new product performance. According to Griffin and Page (1996), three dimensions should be considered: sales and durability in the market, profitability and operational performance. Other researchers use single metrics, such as whether the product was available in stores in a specific period after launching (Francis *et al.*, 2008). Yet, features of successful innovation in the FMCG industry is still an unresolved issue in the literature.

3. Scope, research questions and methodology

3.1 Scope: the case of Spain

As previously mentioned in the introduction section, in this study, we explore the motives behind the data in a Kantar Worldpanel dataset. In this section, we summarise the analysis performed and published by the Promarca association in collaboration with Esade Business School of a Kantar household panel unique database of 561 innovations in FMCG including all the breakthrough innovations launched in Spain in the period 2012-2016 in the 31 most active product categories in the food, beverages, baby food, household goods and body care sectors. Innovations in the analysis sum up 72% of all the breakthrough FMCG innovations during that period and, as such, they are representative of innovations in the FMCG industry.

According to Kantar, radical innovations include those new SKUs that bring a new feature to the category and, thus, exclude incremental innovations and me-toos. According to this definition, Kantar considers to be disruptive innovation only 10% of the new product

launches that take place every year in FMCGs in Spain, including food, beverages, baby food, household goods and body care.

Remarkably, breakthrough innovators in the FMCG market in Spain are mainly big incumbent firms, largely with a consistent and persistent strategy to innovate. As stated in the analysis, 98.8% of the breakthrough innovations in Kantar's database belong to corporations with over a €10 million turnover and over 50 employees. Only 10 out of the 561 products analysed are introduced by smaller firms. Furthermore, it seems that innovation is strongly concentrated. In fact, over 50% of the innovations are launched by only 9 corporations, out of which just one is not a multinational firm. Moreover, only 20 firms account for 72% of the radical innovations in the period. Furthermore, 88% breakthrough innovations in FMCG in Spain are MB items (491), while only 12% are PL. Besides, PL innovations are highly concentrated in few retailers: only 2 retailers account for 94% of PL innovations. These retailers are Mercadona, the market leader, and Lidl, the retailer with the highest growth rates in the last years (Kantar, 2018). With regard to MBs, 72% are global brands while 28% are local brands. Further, the most innovative categories keep a constant flow of innovations along the years: out of the top 14 most active product categories, 9 include launches each year during that period, and the other 5 launched innovations in 4 out of the 5 years in scope.

A negative trend is observed in the number of breakthrough innovations in Spain in the 5 years under study, particularly in the last three years. The average number of disruptive innovations during the 5 year period was 112.2, but only 90 in 2016. More recent publications by Kantar show that this negative trend has continued: only 85 innovations were launched in 2019 and 88 in 2020 (Kantar, 2021).

With regard to the availability to the consumer, there seems to be a barrier to the introduction and distribution of innovative products developed by manufacturers. The average Weighted Distribution (WD) achieved 12 months after the introduction of MB innovations in the database was 31.5%.

Overall, according to Kantar, the innovation success rate during the period 2012-16 was 46.3%. This ratio is quite stable in the years under scope, with a quite stable failure rate of circa 50%. According to Kantar's criteria, an innovation is considered a *success* whenever it reaches a penetration rate above the average in its category by the end of the natural year in which the launch took place. Kantar uses these criteria for standardisation and objectivation purposes across categories, although it is not how businesses usually measure success.

The success rate of the most innovative firms is higher than the rest, so it can be argued that innovation requires experience. The average success rate of those companies with over 30 innovations during the 5-year period resulted in 62%, clearly above the overall average. Interestingly, success rates also vary significantly depending on the level of distribution reached by the innovation. Average WD achieved by successful innovation was 44.2%, while failures did not even reach an 18% distribution rate.

3.2 Research questions

In order to contribute towards filling the gaps in the literature on cross company and multiple level innovation approaches (Mortara and Minshall, 2011), as well as on the lack of research on the role of customers in innovation performance and in European low-tech industries in particular (Chiaroni *et al.*, 2011; Liczmanska-Kopcewicz and Wisniewska, 2019; Obradović *et al.*, 2021; Stanko *et al.*, 2017) and having in mind the relevance of Spain as a research subject in this area, it is the purpose of this paper to investigate the following research questions:

RQ1. What are the main characteristics of disruptive innovators in the FMCGs industry?

RQ2. Which factors affect the decreasing trend in the number of breakthrough FMCG innovations?

RQ3. Which are the key success factors in FMCG innovations? and,

RQ4. What is the role of downstream OI dynamics in the success of innovations?

3.3 Methodology
In order to answer these research questions, we used a qualitative exploratory study aiming for a deep understanding on the why and how radical innovation is performing in the FMCG industry (Corley, 2015). The research was based on a multiple-case study in which 17 semi-structured in-depth interviews were performed among top managers in the FMCG industry (12 manufacturers and 5 retailers), as well as one interview with a top manager at Kantar Worldpanel and one interview with a top manager in an industry association. The latter were included attending to their expertise and global overview on innovation in the industry, as well as to their relationship with multiple firms and sectors which provides them with privileged access to information (Wood *et al.*, 2016).

Following Turner *et al.* (2018), we believe that, despite the size of the sample may not be exhaustive, it offers the opportunity to deeply explore how managers respond to complexities and, thus, it does have theoretic generalisability. Indeed, as highlighted by Gummesson (2006), the use of the qualitative multi-case method, through interviews with decision makers allows dealing with complexity and context.

Furthermore, given we aim to interpret quantitative data on the evolution of radical product innovation, in order to be able to answer our first and second research questions, it is necessary to perform an explanatory qualitative analysis, following a quantitative-qualitative sequential design, as proposed by mixed methods researchers (e.g. Charles Teddlie and Tashakkori, 2009).

The sample was chosen following both purposeful and practical criteria, following Patton (2014). Chief Executive Officers (CEOs) and managers in the marketing or sales areas of manufacturers of products in Kantar's dataset of top radical innovations were contacted. All interviews followed the same structure with open questions and lasted between 60 and 90 min. Interviews were led by two of the researchers. Despite a protocol was established as a guide to elicit information, researchers' encouraged free-flowing discussion on the process and problems of innovation. Participants were reassured complete anonymity and confidentiality in order to guarantee honest and sincere responses. Interviews were recorded in order to avoid the loss of information and transcribed to better manage information. Moreover, transcripts were analysed using computer-aided qualitative data analysis software (CAQDAS) Atlas.ti.8 to document the research process and facilitate information triangulation; besides, data analysis software eases unveiling patterns within qualitative data (Crick, 2020).

The information analysis process was iterative and corroborative. Firstly, each corporation was considered as a case study, attending to the unique nature of each firm. Once the relevant information in each case was studied, recurrent topics were identified and analysed (Calderón *et al.*, 2019). Trustworthiness of data interpretation and analysis was reached by independent coding by two researchers and interviewing beyond the point of saturation as recommended by Lincoln and Guba (1985).

Lastly, as advocated by qualitative researchers (e.g. Crick, 2020; Yin, 2014), in order to reduce subjectivity, exact words quotes from the interviews were used to illustrate main findings (R stands for retailer, M stands for manufacturer and A stands for association in the quotes below).

4. Findings
This section is organised as follows: first, we conceptualise innovation based on our participant's considerations and, in the following sections, we provide an answer to each of the research questions listed previously.

4.1 Conceptualisation of innovation in the context of FMCGs

4.1.1 Innovation needs to go beyond the product itself. Consistent with the literature (Sorescu and Spanjol, 2008), respondents unanimously link the idea of disruptive innovation to the fulfilment of a new consumers' need. It is agreed that disruptive innovation implies offering a solution that was not previously available to the consumer and, thus, it refers to the satisfaction of latent or new consumers' needs.

That said we found subtle different perceptions, as some managers focus on the product itself, while others consider innovation to be anything that may contribute to the firm's sales or profit growth or provide a competitive advantage, while offering a new experience to the consumer. In this context, disruptive innovation is not only limited to new products; it includes innovation in processes and communication too. Due to the current highly competitive environment, together with the particular characteristics of the FMCG industry, it is highlighted that firms need to not only develop new products but also radically different ways of presenting and communicating them to consumers and retailers.

> M3: MBs need to be disruptive not only in product development but also in how to communicate and promote innovations; and this includes both mass media and, most importantly, in store activation.

> M9: What we sell had been sold for decades in butcheries; we were disruptive in packing and selling it in supermarkets.

> M7: True disruptive innovation goes beyond the product portfolio. Innovation for me is finding a new solution to a specific problem of any kind.

4.1.2 Both base business and radical product innovation are equally relevant. When referring to product innovation, a continuum from little to high added value to the consumer is observed; from a consumer perspective, me-toos add little value to what was previously available, while disruptive innovations offer a new solution to consumer needs. It is argued that all these types of innovations in the spectrum are necessary as they attend to different goals.

Interestingly, manufacturers clearly distinguish between innovation in the base business and disruptive innovation. The former is often described as an update of the current assortment. Despite developing disruptive innovation is said to be prioritised, the need to update the base business is also highlighted. Innovation in the base business is described as a continuous process which includes new flavours or formats and cost reduction initiatives, usually considered to be not disruptive. That said, managers acknowledge that disruptive innovation is sought for but seldom reached. In fact, managers highlight the risk resulting from allocating resources to disruptive innovation, because it might imply underinvesting in the base business.

> M1: You must bear in mind that innovation will bring at the most 15% or 20% of your yearly revenues. For this reason, it is of utmost importance what you do in your base business and, as it is permanently under attack by PLs, you must continuously improve it.

This being said, in this study we shall only focus on radical/disruptive innovation only, and we shall use both terms as synonyms.

4.2 Portrait of disruptive innovator firms

4.2.1 Type of organisation. Interviewees explain the fact that almost all breakthrough innovations belong to big corporations by emphasising the need of large financial resources to be able to develop a disruptive innovation. Actually, big, multinational corporations would benefit not only from their greater resources, but also from economies of scale in the innovation processes.

> R3: Multinational firms share knowledge and insights across countries. This provides them with a great advantage, their different subsidiaries are interconnected.

Not surprisingly, and consistent with the trend towards globalisation, multinational firms acknowledge that there are more and more globally valid consumer insights found in their market research processes across the different countries where they operate. Multinational corporations devote global branding teams to the development of innovation, which are teams of marketers focused on innovation across countries and without day to day pressure. Apart from the bigger capacity of multinational corporations to be able to discover global consumer insights, this fact unveils potential for global new product launches resulting in relevant economies of scale in the process of innovation.

Moreover, it seems that it is not only about size. There are also differences among big multinational firms which may be related to diverse corporate cultures and levels of profitability. Those firms with higher profitability rates can also devote more resources to thinking long term, at the same time as they may be more open to assume risks. Moreover, these firms often adapt their structures to make disruptive innovation possible by building multi-functional teams. On the other hand, it is highlighted that big corporations tend to be too bureaucratic and their processes often too slow. In fact, respondents relate those scarce examples of disruptive innovation in small firms to the innovative personality of the founder, together with the high flexibility provided by being small. However, most frequently, small firms either devote few resources to innovation or do not have the financial muscle to wait until results arrive. Diverse results among big corporations can also be explained by different leadership styles. Leaders that most promote disruptive innovation have good listening skills and long term vision. Actually, they are described as visionaries. The capability to integrate many diverse opinions in the decision process is also highlighted, including not only internal voices but also considering the opinion of different stakeholders, following the OI mind-set. Market research firms, communication agencies as well as collaboration with suppliers outstand as sources of inspiration for NPD. It is also mentioned that the leader demonstrates strong trust both in the product success and in the whole team, as well as his/her ability to build synergies among stakeholders and partners. The role of top management in choosing the best ideas, in communicating the relevance of NPD across the organisation, and developing a good execution in launches, is also highlighted. Leaders who promote innovation are alleged to challenge their teams at the same time as being supportive, trustful, good communicators and resilient. Flexibility is indeed a requisite: failures need to be admitted as part of the innovation process; besides being rapid in reacting if something is not working as expected. These leader characteristics grant trust both from the staff and retailers.

> M11: The key is not only to innovate but to develop an innovation process that embeds failure. You need to choose the one innovation with the highest expected results and invest hard in it. And if it does not work, you need to acknowledge it fast and withdraw it.

4.2.2 Manufacturers' vs retailers' innovation. Managers state that innovation is a manufacturers' role, rather than a retailer's role:

> R2: Our function as retailers is to choose products, not to develop them. Mercadona is the only exception, they consider themselves to be a manufacturer who distributes, not just a distributor.

Retailers have diverse strategies with regard to innovation. Only a few retailers are focused on developing innovation under their own PL brands. Most prefer MB to devote the required efforts to develop innovation and they just copy what is successful after a while. Still, copying too fast also implies costs and associated risks and, for this reason, retailers state they now wait longer periods before copying MBs than before. Retailers state they do not have the resources or the capabilities to develop radical innovation on their own, despite having very useful information about the final consumer.

R2: Except for Mercadona, retailers do not have the capability to develop innovation. Our buyers manage 150,000 SKUs with a team of only 7 people. It is impossible for them to have the required knowledge about the categories to be able to develop innovation.

Regarding PL innovation, the high costs related to the development of innovation often holdback PL suppliers from developing innovation. The development of new products ad-hoc for one specific retailer is usually very difficult to be profitable because it is hard to reach a volume high enough to cover all the costs. Again, multi-national firms have an advantage here, as development costs for a global retailer may have an easier pay-off.

Further differences are found among retailers. For instance, multinational retailers may just bring innovation from other countries in which they operate. This was mentioned to be the case of German discounters such as Lidl or Aldi. Actually, only Mercadona, was mentioned as focussing on developing PL innovation. Its exceptionally high market share may provide manufacturers with enough potential sales volume to reach a return on the investment if they developed innovation under an exclusivity contract. Moreover, in the particular case of Mercadona, the fact that its positioning strategy is strongly focused on PL leads them to being the only retailer with a relevant share of disruptive innovation in our sample.

In general terms, retailers state they do not want to be engaged in manufacturers' NPD processes but for the development of products to be exclusively distributed in their own stores. A collaborative NPD project was mentioned by one retailer, who described specific partnership agreements with small local suppliers for the joint development of sustainability-related innovations. These were all part of a strategic project related to the positioning of the retailer brand itself, aiming in fact to reinforce its sustainable brand image. This is said to be feasible only by partnering with Small and Medium Enterprises (SMEs), who would benefit from reaching relevant sales volumes through such partnership; however, as it often implies for SMEs to devote most of its manufacturing capacity to this one specific retailer – it was mentioned that some of these partners devoted up to 90% of their capacity to the production of this specific PL – they acknowledge to be assuming high risks and the need to take advantage of the increase in size to diversify the business.

4.3 Factors affecting the trend in breakthrough innovation

Managers justify the negative innovation trend in the last decade relating it to their "frustration" with regard to retailers. They state that whenever they are not able to develop *difficult to copy* innovation they need to minimise the resources invested because if the launch is successful, it is usually copied by PLs in a period that can range between 6 months and 2 years. Three interviewees even mentioned that one retailer in particular copied products even before they were launched to the market, based on the information supplied by the manufacturer when presenting the product to be listed. Doing so, retailers significantly reduce the investment needed for developing their own innovation. This is interpreted as unfair competition by manufacturers resulting in a factor that disincentives innovation or, at least, encourages manufacturers to be cautious in their decisions with regard to innovation.

In addition to the risk of being copied, the reduced sales potential due to the difficulty in reaching wide distribution is also mentioned. Managers state that it is extremely difficult in Spain to exceed a 50% weighted distribution rate at the moment of the launch, due to the restrictive strategies regarding new product introductions in certain retailers, like Mercadona and Lidl in particular, adding to the limited size of the stores of others such as Dia. This reduced sales potential makes it difficult to profitably support the launches with strong marketing efforts, so the probability of success in sales is further diminished. As a result, managers have two paths to follow: either investing in marketing activities even knowing that consumers may try to find a product that is not widely available and, thus, with a low

probability of success; or reducing the marketing resources allocated to innovation and, thus, making it difficult for the consumers to get to know it. The result in both cases is a reduced number of innovations aiming to diminish the associated high risk of failure. In fact, managers are aware of the fact that the resources devoted to such an uncertain activity, as resources are always limited, may put their base business at risk. This increased risk of failure may be the main reason behind the observed negative trend in the number of breakthrough innovations in recent years.

> R2: The tragedy for MBs in Spain is that it is extremely difficult to reach the required level of distribution for an acceptable rate of return on investment for their efforts in marketing. I know several multinational firms headquartered in the EU that do not invest in innovation in Spain for this reason. They know that without marketing investment, you reach zero sales.

> M10: I have often witnessed innovation having a negative impact on the profitability of firms: Poor decisions in innovation can risk overall corporate performance.

In brief, reaching distribution and, thus availability for the consumer is mentioned as the main challenge. Two key supermarket chains in the Spanish retail market – Mercadona and Lidl – often do not introduce manufacturers' innovation in their stores before they have proved to be a success, as their assortment is strategically short and mostly based on PL. The growth of Mercadona and Lidl, has placed a ceiling to the weighed distribution that a new product can reach in Spain at least in the first months after its launch. Due to the fact that these two retailers together account for almost 30% of the value market share in Spain (Kantar, 2018), brand managers face the aforementioned dilemma of deciding whether to start a communication campaign before the product has reached wide availability or upholding the investment until an actually uncertain date. If they postpone mass communication, there is the risk of not reaching enough rotation levels and being delisted from those retailers that did introduce the novelty; if they invest in communication before reaching a wide distribution, they create a demand that the consumer can't fulfil due to low availability. In this context, communication at the point of purchase arises with force (as stated by A2: "*consumers get to know new products at the point of purchase on average in 54% of the case*s"), and makes collaboration between manufacturers and retailers a must.

Another factor that helps understand this negative trend in the development of disruptive innovation is the lack of long term vision often attributed to the decision making process in corporations. This was mentioned as being especially relevant during economic downturn periods, when corporations have a strong focus on minimising costs. The difficulty in coming up with a disruptive product in the current context of the FMCG industry is also highlighted. Competition has led to saturation in many markets and, on top of the difficulty in finding a disruptive novelty that is consistent with current brand portfolio images, an additional challenge is the high expense of new brand development in this industry. Moreover, it is stated that, although innovation provides firms with competitive advantages, their lifetime is turning shorter, reducing, thus, the period to reach return on their investments, making innovation an even more risky activity.

Manufacturers state that, they choose to invest in categories where industrial processes are more sophisticated, aiming to build barriers to entry beyond branding and communication. This may explain the higher rate of innovations in categories with a higher price gap between MBs and PLs in the dataset. For this purpose, upstream collaborations and partnerships are pursued in search for unique, high value and difficult to copy innovations.

4.4 Success factors
4.4.1 Measures of success. Success is typically measured differently by manufacturers and retailers. Most MBs measure the difference between actual and projected sales, but also use

other criteria such as market share or profitability. In fact, we observed a wide range of criteria to measure success among manufacturers, while retailers mainly focused on rotation at the point of sale as the key performance indicator together with overall category marginality.

> M6: There are many diverse ways to measure success. I would say there are as many as there are different firms. Standardisation is not possible' (...) "Success is totally different for MBs and retailers".

> M3: We measure time (endurance in the market) as well as penetration and repeat rates. The best way to measure success is to confront resulting sales with the investment done. There is not much else to do.

> M6: Rotation is central for retailers because they also need to consider how much an alternative SKU would have sold in that same shelf space.

Nevertheless, retailers also define success as those new products that do not cannibalise sales: a successful SKU should increase overall category sales, typically by attracting new buyers to the category. Consequently, increasing penetration is highlighted as one of the key measures for success. Interestingly, retailers consider adding shoppers to a category as a requirement to consider an innovation as disruptive. This new perspective is linked to their need of maximising return on shelf space, and to the difficulty of managing an ever increasing product variety. For instance, several of our interviewees mentioned coffee capsules as an example of a new product category creation, alleging that cannibalisation of previously existing products resulted in being very low: most of their sales were incremental, as stated by both retailers and manufacturers.

However, there is no unanimity on the period during which the results should be measured, and again, results show different mind-sets between manufacturers and retailers.

> R1: Our particular rule is to consider a successful innovation when 90% of the initial stock placed in the stores is sold in the first two weeks.

> R2: We consider a successful innovation one that after 6 or 12 months ranks among the top 70% of the SKUs in its category. Generally, up to 90% of the innovations end up unnoticed and after a few months sales are at a minimum.

> M8: You measure success by analysing sales or market share in a reasonable period of time, between 2 and 3 years.

Moreover, to measure how successful an innovation is, it needs to be compared to its previously settled goals and plans. Only when goals are very clearly settled can a plan to reach them be built. Collaborative plans, thus, will require a relevant effort by both sides in agreeing on specific goals and metrics.

4.4.2 Success rates, key failure and success factors. Retailers' mistrust on the ability of MBs to develop successful innovation can also explain why most innovative firms tend to reach higher success rates. Retailers may trust those most experienced firms more, favouring them at the point of purchase, based on what they have demonstrated previously. Such firms also declare to have straightforward communication with retailers, which helps them in reaching the optimal execution at the point of purchase.

Despite agreeing on the fact that the rates of success are very low overall, both manufacturers and retailers attribute failure to quite different motives. Often, manufacturers argue that innovations fail because they do not reach enough availability, while retailers, although agreeing on it, highlight that even among those scarce examples that do reach a very wide distribution, the rate of failure is still high. Actually, retailers relate the low rates of success to the excessive number of non-truly differential innovations developed by

MBs – which are often offered to them as if they were disruptive – and to their low communication budgets. Moreover, retailers see most failures as a lack of transparency or even lack of vision and skills from manufacturers.

Successful examples include the introduction of the innovation in the off trade market previous to the launch in retail: the low rate of concentration in the HoReCa market makes it easier to reach distribution at the same time as favours open communication and engagement in the NPD process as the risk of copycats is low. It is stated that once the innovation has proven to be a success in the out of home market, retailers will be more open to introduce it.

As for key success factors, results show that succeeding in innovation is a hard task for FMCG firms. From now on, we gather the most relevant success factors mentioned by our interviewees. A summary can be seen in Table 1.

In the first place, it is stated that firms willing to develop disruptive innovation need full alignment of all business areas, and a clear long term strategy. Corporate focus and engagement across the different functional areas is, thus, a clear success factor: to reach success, each innovation must be perceived as relevant by the whole corporation, and therefore, all functional areas need to be engaged during the development process. Consequently, successful firms highlight that leadership skills are required so that the whole organisation is fully aligned and diverse perspectives are taken into consideration. It is strongly emphasised that innovation is not a marketing process but a corporate process.

M6: It is a continuous learning process where absolutely all corporate areas intervene from the start.

Moreover, participants agree on the fact that NPD teams or committees need to be diverse. Cross functional innovation teams are mentioned in the origin of all successful innovation

	Manufacturers' perspective		Retailers' perspective
Measure of success	→	Wide range of criteria being the first one: difference between actual and projected sales	→ Rotation at the point of sale
			→ Products that do not cannibalise sales
Key failure factors	→	Not reaching enough availability due to retailers' lack of support or patience	→ Lack of differentiation/vision/skills of MBs
	→	Complex nature of the innovation process	→ Low communication budgets of MBs
Key success factors	→	Corporate focus and leadership skills: full alignment of all business areas	→ Trust in the most experienced MBs in introducing innovations
	→	Long Term Strategic Planning	→ Favour those products supported with strong communication efforts and *virality* and higher sales volume forecast
	→	Cross functional and international innovation teams	→ Favour product affordability for consumers
	→	Experience in innovation	
	→	Well established innovation funnel	
	→	Carefully choosing projects to be launched	
	→	High level of weighted distribution	
	→	Retailers devoting the required space at the point of purchase	
	→	Consider retailers' needs right from the beginning of the process	
	→	Collaboration in the execution of the launch	
	→	Set and share realistic forecasts on sales and projections	
	→	Time and perseverance for an innovation to become known	
	→	Devoting efforts to the trial of the innovation by the consumer	

Table 1.
Key innovation failure
and success factors

examples. Furthermore, clear support from top management together with strong and engaged leadership that is capable of influencing and coordinating all the different areas involved is required.

Secondly, well-established innovation processes are mentioned as a key to success too. Innovation development requires going through well-defined stages. Furthermore, it is acknowledged that in order to benefit from a clear focus in the whole organisation, as well as trust and support from retailers, MBs should very carefully select and prioritise innovations. The more unique and most relevant for the consumer an innovation is, the higher the probability that it becomes a success.

M6: MBs need processes to objectively predict sales and revise results after the launch. For instance, Danone has four "innovation windows" per year; every time they introduce one SKU, they withdraw another one.

M10: My motto with regard to innovation is "Fewer, Better, Best", because if you have too many innovations they end up competing against each other, resulting in low impact overall.

A process is needed to objectively provide realistic forecasts in the current uncertain context, realistic sales projections for each new product, and the obvious acknowledgement that not all innovations will be equally successful helps gaining trust from retailers. Objective proactivity in the withdrawal of failures also helps build trustful and long term relationships with retailers, easing the introduction of disruptive products in the future. Actually, risk of failure is considered to be inherent to the complex nature of developing disruptive innovation. Failures are sometimes perceived as necessary learning in the path towards success. Great successes are said to be often based on previous failures.

Interestingly, the role of the sales management vision is strongly highlighted. Engaging the sales area in the process from the early stages helps building more accurate sales projections, considering their knowledge about customers' needs and preferences.

M7: When developing a new project, we sit with over 15 customers along the process, because otherwise sales projections do not get close to reality.

Choosing the right Key Performance Indicators (KPIs) to track is also relevant. Moreover, MBs must communicate realistic sales projections to retailers when introducing innovation. Retailers often state they cannot trust sales forecasts from manufacturers as they tend to present every single new product as if it was going to be a top seller.

M4: Transparency towards retailers when sharing sales forecasts helps in building trust.

An objective forecast method is needed to be able to objectivise sales projections and success potential. It is recommended that the goals and KPIs defined for each new product are based on comparative measures with past experiences. This can also explain the higher rate of success in the most innovative firms. As long as a good pre-launch forecast is related to higher success rates and most innovative firms are better positioned to develop good forecasts, we can assume that an "*experience wheel*" favours success. The ability to compare with past experiences provides a useful learning curve.

Finally, worth highlighting, is the impact of digitalisation. E-commerce is still in the process of development in FMCGs and the role of brands in this channel still needs to be determined. It is anticipated that pure online players will soon reinforce PLs too, also making it hard for MBs to reach distribution in this channel.

M1: It is important to observe what pure online players will do with regard to brands. In my opinion, they will bet on their own brands, making it even more difficult for MBs. Amazon is a brand destroyer. They keep your information and leverage on you.

R2: Visibility of innovation in the online channel is a huge challenge. Digitalisation does not favour innovation in CPGs at all, as shoppers buy very quickly and MBs do not have space nor time to explain the product's benefits.

However, manufacturers willing to expand internationally reckon on the opportunity offered by online retailers.

Furthermore, the essence of the FMCG industry implies that success is closely related to mass production. Only by reaching high penetration and repeat rates can innovations reach mass volumes. Needless to say, internationalisation helps reaching mass production volumes. Indeed, success is closely related to the resources devoted to market the product and, thus, high volumes of sales are needed to pay off the investments. Moreover, retailers will favour distributing those products supported with a strong communication effort as they expect higher sales volumes from them.

M4: You do not only need to have an excellent product, you also need to be able to list it and reach distribution. TV helps listing.

The innovation's potential for becoming viral is also considered as a success factor. Digital channels and Social Media are needed to spread the news and help build consumer awareness. Virality is a success factor because of the high costs of traditional media: it can help reduce the cost of reaching a wide audience.

Time and perseverance is also mentioned as a key to success. Both manufacturers and retailers agree on the need to leave some time for any innovation to become known. Visibility at the point of purchase is demanded of retailers by MBs, at the same time as retailers demand MBs invest in integral marketing campaigns to support the innovation. Interestingly, training store staff on the benefits of the product is often neglected, despite acknowledging it would be useful to improve results.

R2: Providing visibility to innovation at the point of purchase is the biggest challenge for retailers. It is hard to find spare spaces in the store.

In brief, MBs need to provide innovations with the required marketing support and retailers need to devote the required space to innovations at the point of purchase. Closely related to visibility at the store is packaging, which is described as key for communicating product benefits to the consumer as well as to store staff, as it is often the only information store staff get about new products.

M5: Disruptive innovation requires educating consumers. A very useful tool, which is rarely used is providing training to store staff.

Affordability is also mentioned as a key factor. High price gaps between the innovation and the current products in the market are only rarely accepted by consumers in the FMCG industry. This is central as it implies that penetration should be prioritised in order to reach mass volumes.

4.5 Open innovation dynamics linked to successful innovation
Despite managers acknowledging good results from collaboration initiatives with suppliers as well as within international and multi-functional teams, for the purpose of this paper and aiming to answer our research question number 4, we shall focus on downstream OI dynamics. Through this, we aim to shed light on the role of customers in successful innovation. Given that considering the retailers' perspectives when designing the innovation's marketing mix increases the chances of success, OI dynamics stand as crucial. Indeed, considering retailers' needs in the process since the very beginning eases the odds of reaching better distribution rates, which, as mentioned before, is one of the most relevant bottlenecks for success.

Retailers, however, do not feel they should necessarily be involved in the product development stages of the innovation process of non-exclusive or PL products. Nonetheless, they often complain that manufacturers fail to adapt their offerings to their particular needs and, thus, MB innovations do not help them differentiate from competitors. MB managers need to align innovation to the particular needs of each of the targeted retailers. For this purpose, they may need to develop differentiated innovation for different retailers or at least make certain marketing mix decisions jointly.

> M3: Previous to presenting an innovation to the retailer, manufacturers need to reflect on each retailer's strategy and how they can help them reach their particular goals.

Collaboration in NPD is very rarely done in practice, as stated by both manufacturers and retailers; they both agree that collaboration improves the chances of success, although it is normally limited to executional issues, including promotional planning or, exceptionally, pricing decisions. Retailers favour innovation that helps them differentiate from competitors; if this is not possible through the product itself, at least the execution at the point of purchase is expected to be unique somehow. Thus, collaboration between manufacturers and retailers takes place mostly at the final stages, and it applies merely to executional decisions.

> M7: During a New Product Development process, we hold multiple meetings and discussions with retailers. But it is not a co-creation process, it is just building engagement and collaboration for the execution stage.

Indeed, collaboration among retailers and manufacturers is mentioned by both parties only in relation to the execution of the launch. No collaboration initiatives between MBs and retailers were found before the product was ready to be launched unless it was an exclusively distributed private label product. Retailers state they are fine with not collaborating in the development process but they consider it very important to develop the executional plan together.

> M8: We collaborate with distributors and intermediaries in general to build the pricing structure and the promotional plan. They need to be engaged in the execution.

Needless to say, execution at the point of purchase also needs to be very carefully planned, as stated by retailers.

> R1: There is one only chance to succeed. A new product launch is a precious unique opportunity, and therefore, companies must make sure they are absolutely focused so that everything is perfectly planned.

Interestingly, it is mentioned that one of the first decisions to be made – in order to adapt your strategy and being able to set realistic expectations – is to choose the distribution channels and the specific retailers that will be targeted to reach the consumer. As reaching WD is one of the biggest challenges for innovators nowadays, at least in Europe where retailer concentration is high, distribution goals need to be carefully set and MBs need to carefully plan on how to reach them. Moreover, as stated by both manufacturers and retailers, reaching visibility at the point of purchase is crucial. Engaging retailers along the innovation process and keeping transparent and open communication with the targeted retailers arises, thus, as a key success factor.

5. Discussion
5.1 Contributions and originality
Despite successful FMCG breakthrough innovations being mostly developed by manufacturers, global firms in particular, our results do not suggest that they engage retailers in the process before the very last stage, contrary to what is suggested by

Han *et al.* (2019), following the OI model. That being said, both manufacturers and retailers agree in the convenience of including retailers in the innovation process since the very beginning, despite rarely doing it.

The negative trend in breakthrough innovations in the FMCGs in Spain can be explained through the increasing difficulty on reaching distribution and, because of the resulting reduced sales potential, an increased difficulty to financially justify the necessary marketing efforts. This situation reveals a vicious circle: difficulty in reaching wide availability due to the concentration of retailers and the growth of short assortment retailers results in low sales potential and, as a consequence, low marketing efforts (or at least more risky marketing investments) which result in high failure rates, which again, increase retailers distrust and low distribution rates. The ultimate negative consequence of this process is the reduced number of disruptive innovations and reduced choice for the consumer.

Results point out that the most active firms in innovation is also the most successful, building on their experience curve in innovation. This creates a virtuous circle of consistent and persistent output in innovation, which leads to success. Nevertheless, this virtuous circle differs from Gielens and Steenkamp (2007) findings, as they relate success with consumer awareness of the innovative brand, while our study suggests that a close and trustful relationship between MB and retailers may be the key factor explaining success. On the other hand, successful innovations in our sample reached wider distribution and, consequently, were more widely available to the consumer. A feedback loop may occur here, as retailers may be more willing to list innovative products once they have proved to be successful, and it is easier to reach high success rates when consumers have easy access to the new products. At the same time, a proven track record of success in innovation facilitates acceptance by retailers at the same time as encourages the exchange of information and trust.

As for success metrics, our results suggest that both MBs and retailers prioritise performance indicators that differ from those proposed by scholars, such as the absence of sales cannibalisation and, therefore, we suggest opening a new research path in this sense.

In brief, implications for theory include the relevant role played by retailers in OI processes, as well as the relevance of reaching availability, persistence and economic support for radical innovation together with trust from retailers on innovation success rates.

5.2 Managerial implications

Our results point above all to practical implications. Evidence has been provided that, in order to build an innovation virtuous circle managers must consider the following factors:

First, the ability to unveil relevant unmet consumer needs in a unique manner, while helping retailers fulfils their unique needs too. This normally requires a corporate culture and leadership styles that promote the adequate processes to develop disruptive innovation, including OI dynamics (i.e. international diverse innovation teams, open communication practices, etc.). Furthermore, protecting the industrial process as much as possible so that the innovation is not easy to copy is needed to armour disruptive innovation, which is often related to upstream OI schemes.

Second, innovations with the highest potential should be selected and prioritised. The capability of choosing those innovations in the funnel with the highest potential ("fewer bigger better" concept) and only launching the very best ones is another success factor, and devoting as many resources as possible to promote them, including full corporate focus and commitment from all corporate areas with the launch. Benchmarking is recommended as it is easier to decide in relative terms: by comparing several potential innovations with regard to objective indicators or factors and validating the results with retailers, making sure that the innovation adds value not only to the consumer but to each retailer too. Close communication with retailers through reinforced trust surely helps anticipating the results of a new product launch.

Third, a detailed planning process that integrates diverse stakeholders (both internal and external) and setting realistic goals, including reaching the maximum distribution possible, despite considering there is a ceiling that is difficult to overcome, at least in the first period for most categories. To do this, firms need to promote collaboration processes with retailers, engaging them in joint business plans at least for the execution of the launch. This is consistent with Golder's (2000) findings.

Fourth, media support for consumers to get to know the innovation soon, thus rapidly reaching plentiful rotation levels, and consequently avoiding loss in sales for retailers due to substitution of current products with new ones. On top of mass media, collaborative marketing efforts are required to guarantee visibility at the point of purchase and encourage trial. In a context of extreme competition, it is necessary to make the new product outstanding using the different trade marketing tools. Our study shows that retailers' trust is crucial and built upon transparency of information and expectations with regard to innovations.

In addition, successful examples include innovations which had become viral in social media, increasing awareness as a consequence. This is related to one of the bottlenecks observed by managers, which was the difficult return on the marketing/communication investments in new products. Therefore, it is important not only to formally use social media in the process of NPD (Bashir *et al.*, 2017) but also in its dissemination. We suggest opening a new line of research to further analyse features of successful innovation communication.

6. Conclusions, limitations and future research

Briefly, we conclude from this study that big, multinational corporations tend to be disruptive innovators since they have access to large financial resources as well as economies of scale in the innovation process. Actually, innovators are mostly manufacturer firms, described as highly profitable and led by "*visionaries*". The decreasing trend in innovation in the EU is attributed to the difficulty in reaching availability for the consumer and, thus, key success factors include adaptation and collaboration between manufacturers and retailers. The role of downstream OI dynamics emerges as a key success factor.

The described vicious circle of innovation in FMCGs (difficult to reach distribution →low sales expectations → limited investments and marketing support → high failure rates) can be overcome and transformed into a virtuous circle by perseverance (increased experience), OI processes (increased collaboration and trust between MBs and retailers), corporate focus and marketing support (increased visibility).

That said, managers acknowledge innovation as the only way to grow in the long term: risky or not, innovation is unanimously considered a must for corporate long term endurance. Failing to innovate would lead to losing competitive advantages. Furthermore, the need to speed up innovation is recognised by most managers, in order to be able to catch up with the speed of changing consumers' needs.

In a nutshell, we subscribe to the M10 model: *"The 3F: Focus, Fast & Furious"; furious* because disruptive innovators need to support innovation strongly with both economic and non-economic resources. *Fast* because managers need to speed up innovation, as if it is successful it will be copied by PLs, and *Focus* because success requires concentration, collaboration, communication and full attention from both manufacturers and retailers.

This paper focuses on providing a better understanding of features of successful FMCG innovation, and opens new paths for future research as results suggest new antecedents for successful disruptive innovation criteria, which should be verified using quantitative research methods.

The study focuses on Spain, and, thus, due to the particularities of some of the retailers in this market, together with food and drink-related products, results cannot be generalised and therefore, it would be interesting for future studies to analyse other countries.

While this study has identified relevant potential future directions for research, there are limitations to consider. First, its exploratory nature appears as the main limitation and we hope that will be addressed in future research. Another limitation to be taken into consideration is the number of participant firms, despite conforming an adequate and convenient sample size for a qualitative methods study (Yin, 2014). Lastly, notwithstanding the efforts undertaken by the researchers in order to guarantee sincerity and honesty in participants' responses, by reassuring anonymity and confidentiality, it is sometimes difficult to avoid a small self-complacent bias, when using qualitative methods.

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Corresponding author
Belén Derqui can be contacted at: belen.derqui@iqs.edu