



CHALMERS

Investigating the Concept of Product Success

A study on product success and the
development of new products in the
Norwegian grocery industry

Master of Science Thesis

in the Management and Economics of Innovation Programme

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Abstract

In previous literature there is a vast amount of theory that explains product innovation and how to successfully develop new products. Although this literature covers what product innovation is and how to develop new products in the best possible way, the literature lack sufficient explanations on *why* the notion of innovation and success is important for a company to understand and *how* and *when* they should properly measure the success of new products. Previous research on product success has mainly focused on financial returns as measurement for success (Cooper and Kleinschmidt, 1987). Additionally, dividing the concept of success into project success and product success has been elaborated in different research reports (Cooper and Kleinschmidt, 1987; Griffin and Paper, 1996). The purpose of this thesis has been to investigate the concept of product success and how the notion of product success and innovation may help a company initiation better new product development projects. Also, factors influencing product success became a natural part of the research. In order to fulfill the purpose, the research has looked at a large supplier to the grocery industry in Norway. In addition, two completely different suppliers were looked at in order to compare the findings. Mainly four concepts in each company were investigated in order to answer the research questions that were generated based on the purpose: the notion of innovation; the notion of success; the new product development process; and the relationship with the retail chain companies. Part of the research was also to backtrack and compare two products from the main supplier. Here, the supplier regarded one product a market success and the other one to be a failure. A qualitative research approach was chosen to be the best way to investigate the research purpose as it can provide rich and thick descriptions of the situation. Here, both open and semi-structured interviews have been applied. The result of the study indicates that a common notion on both innovation and success may improve the communication at the company, the process work and guide which product ideas to invest in. Also, the people directly and indirectly involved in the new product development could benefit from a better understanding of the concepts as they can further understand why the innovative projects were initiated in addition to what is required of them in their position. By dividing success into project and product success, the product development team could also be better evaluated and recognized for their work, disregarding whether or not the product they developed becomes a success. Besides having tailwind and luck, three factors stood out as most important factors for product success: how much distribution the products achieves; location in stores/shelf spacing; and product match with customers needs. Based on the analysis of how the companies investigated in this research perceive product success, an additional dimension for measuring product success was suggested: the mission goal. For the initiation of new development projects, the thesis considered two parts to be especially important in order to succeed; 1. Not base new ideas too heavily on third market analysis. 2. Have the interest and needs of the chain companies in mind when deciding which product idea to go for. For future research, balancing the interest of two customers in different stages downstream should be investigated in addition to the importance of shelf spacing as a factor for product success.

Keywords:

Product success, Grocery industry, Innovation, New product development

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Terms and Abbreviations used in the Report

Alpha AS – A large supplier to the grocery industry

Beta AS – A large supplier used as benchmark

Chain Company – Umbrella chained companies/retail chain company

Commodity product – A raw material or primary agricultural

Customer – Chain Companies and end-customer

End-customer – Consumer

NPD – New Product Development

NG - NorgesGruppen

Omega AS – A small, new company used as benchmark

Processing Companies – Value-adding companies

1. Introduction

1.1 Background

In academic literature there is a vast amount of theory that explains product innovation and how to successfully develop new products. Here, different definitions of product innovation as radical or incremental exist to describe the “newness” of a new product. Also, models like Cooper’s stage-gate are designed to give a conceptual view over the development process and can be used as a tool in order to work through the development process of a new product as effective as possible. Although this literature covers what product innovation is and how to develop new products in the best possible way, the literature lacks sufficient explanations on *why* the notion of innovation and success is important for a company to understand and *how* and *when* they should properly measure the success of new products. Previous research on product success has mainly focused on financial returns as measurement for success (Cooper and Kleinschmidt, 1987). Although Cooper and Kleinschmidt (1987) argue for using market opportunities and market impact to measure product success, this research will try to see if there are additional ways to look at product success from a company’s point of view. This as an understanding of product success that goes beyond these parameters may be helpful for a company in order to make better investments in new product development and to better recognize the company progression. Furthermore, having a clear notion of innovation may also help a company to better determine their existing resources and capabilities and also help them to understand the different requirements in developing radical and incremental product innovations.

In order to investigate the concept of product success and how an understanding of the initiation of new development projects may help develop more successful products, this thesis will investigate a large supplier to the Norwegian grocery industry. In this industry, roughly 5000 new products are launched into the stores every year (Dagligvareleverandørenes Forening, 2014). Almost none of these products seem to be long-lasting as most of them are removed from the shelves after a short period of time. This is a problem for the suppliers as the products that actually do stay in the stores have to cover all the cost of the failed products in order for the suppliers to be profitable (Urban and Hauser, 1993). In order to investigate the industry in relation to existing theory in the context of the purpose of this thesis, the report will try to uncover how some of the dynamics of the grocery industry work in order to find answers to how a large supplier to the grocery industry perceives product success and how they work in order to achieve it by looking at how they develop new products. In order to do this, it was considered important to get a thorough understanding of how the value chain in the industry looked like to further understand how the products were taken in and removed from the different stores.

A special characteristic of the Norwegian grocery industry is the high concentration with only three companies owning almost all of the stores and wholesalers. This is the highest concentration in Europe (Regjeringen, 2014). In this research report, these three large companies will be referred to as “the chain companies”. The chain companies have through the last two decades achieved a lot of power through their acquisition of stores and wholesalers. As a result of this, suppliers to the industry have experienced harder terms in order to get distribution. As there are very few studies on the current situations in the Norwegian grocery industry, collecting primary data became very important in order to understand the dynamics and characteristics of this industry. The main supplier that was chosen for this research will be referred to as “Alpha AS” in the report. Alpha AS is a primary manufacturer and processor of a commodity product. A commodity product is defined as a raw material or primary agricultural

product (Oxford Dictionaries). Although a commodity product is difficult to distinguish from competitors, Alpha AS has a strategy and vision that the industry still has a great potential for further development and growth of this commodity product and are continuously trying to develop new products based on it. As for the rest of the industry, Alpha AS also has a problem getting new products to stay in the stores after being developed.

1.2 Purpose

The main purpose of this research report is to investigate how the concept of product success is perceived by Alpha AS, and how the notion of product success and innovation may help the company initiate better new product development projects. As high costs are related to product failure, getting a better understanding of why some products fail and some succeed may be important in order to develop better products. Additionally, how Alpha AS sets goals for a new product in order to later determine if the product is a success or not is regarded as important in order to understand the concept of product success. The goal will be to uncover additional ways to measure success. Previous research on product success has mainly focused on financial returns as measurement for success (Cooper and Kleinschmidt, 1987).

1.3 Research Questions

1. How does a large supplier in the grocery industry perceive product success and innovation?
 - a. Are there additional ways to measure product success?
2. What factors are regarded as influential on product success in the grocery industry?
3. In what way can the notion of product success and innovation help the initiation of new product development projects?

1.4 Delimitations

This report has limited the research to the Norwegian grocery industry. As the focus of this report is on the supplier, distribution and stores, no consumer has been interviewed in order to find answers. This is as it is assumed that the companies in the different stages in the value chain already have proper and sufficient data on them. The chain companies were further out of the scope of this thesis, however a market overview is provided to give an understanding of the market.

2. Literature Review

2.1 Defining Innovation

Although the term “innovation” has been defined in various ways throughout history, researchers today seem to be clearer on dividing the concept of innovation into either a process or an object. When defining innovation in regard to an object (product innovation), it is essential to properly distinguish between an invention and innovation. When talking about a technological innovation as a process, Garcia and Galantone (2001) defines innovation in the following way: “an iterative process initiated by the perception of a new market and/or new service opportunity for a technology based invention which leads to development, production,

and marketing tasks striving for the commercial success of the invention.” (p.112). On the basis of this quote, the term innovation as a process compared to an invention could be defined in a broader context: an innovation is the process of successfully commercializing an invention from the idea to the launch, where the product or service created, is new to the market. Trott’s (2012) defines an *invention* as: “The process of converting intellectual thoughts into a tangible new artifact (usually a product or process)..” (p. 15). Furthermore, Trott has created an equation that shows the components that comprises the concept of innovation as an object:

Innovation = theoretical conception + technical invention + commercial exploitation

Depending on the form of innovation, different names exists in regard to the “newness” or “innovativeness” of the invention. Incremental innovation is often used when an existing product or service is enhanced; a small improving step (Ettlie et al., 1984; Leifer et al., 2000). If the new product or service is completely new to the world and not based on earlier inventions, the description of the innovation is often words like discontinuous, really new or radical (ibid).

Forms of innovation:

- Product innovation
- Process innovation
- Organizational innovation
- Management innovation
- Production innovation
- Commercial/marketing innovation
- Service innovation

Here “process innovation”, where a company changes a way of doing things, should not be confused with the process of innovation where an idea is developed into a product or service and launch into the market. Although there are different definitions and interpretations of innovation depending on who is asked, the importance of the concept is widely understood and has since Schumpeter (1942) theory on “creative destruction”, been argued to be the engine of growth. When examining the innovative processes at different firms, it is important to acknowledge that every firm has a unique organizational architecture that represents how the firm has formed itself over time. Together with the different functions that shape the organizational structure, the organizational architecture comprises the relationships with suppliers, customer, distributors, competitors et cetera that have evolved over time. As the findings in this report will show, many of these relationships will have a significant impact on the firm’s innovative performance and their success.

2.2 The New Product Development Process and Innovation in Companies

“A key to maintaining a competitive position in the marketplace is the ability to repeatedly commercialize successful new products” (Griffin and Page, 1996, p. 479).

Scholars in the field of product development point out the significant importance of creating new innovative products. In this field of literature there are many different models, tools and theory on how to create new products in the best possible way. Although established companies can perform well without the use of any NPD model, research show that the use of such models has a positive effect on profits (Nijssen and Lieshout, 1995, Cooper, 1993). According to Cooper (1993), the managing and understanding of the process of creating new products is a vital factor for why products succeed or fail. The Project Management Institute (PMI) goes even further in emphasizing the importance of the NPD process, and claim that it is

the single most important factor whether the products becomes a success or not (Project Management Institute, 1998). However, Cooper adds that for a product to be a success you also need some luck and tailwind (factors outside the control of the project leader). The process of creating new products is said to be hard to manage because the process is not preserved of one single department. Instead, a variety of different functions and departments are involved in project teams to work through the process. The team works together from the initial idea to launch. According to Blank and Dorf (2012), the new-product introduction or NPD process may straightforwardly be viewed as this:

Concept/seed → Product development → Alpha/Beta Test → Launch/ 1. ship

Based on the same steps, Cooper (1993) has created what he calls a stage gate process which he claims is an effective tool to manage, direct and control product innovation efforts. The purpose of the model is to give a conceptual view over the process and to be used as a tool in order to work through the development process of a new product as effective as possible. In the stage gate model, the stages are meant to illustrate where the work is done and the gates (gatekeeper) are placed in between the stages to act like quality-control checkpoints. These gates are regarded as central to the new product development process because they can help get rid of bad projects and focus the resources on the more promising ones.

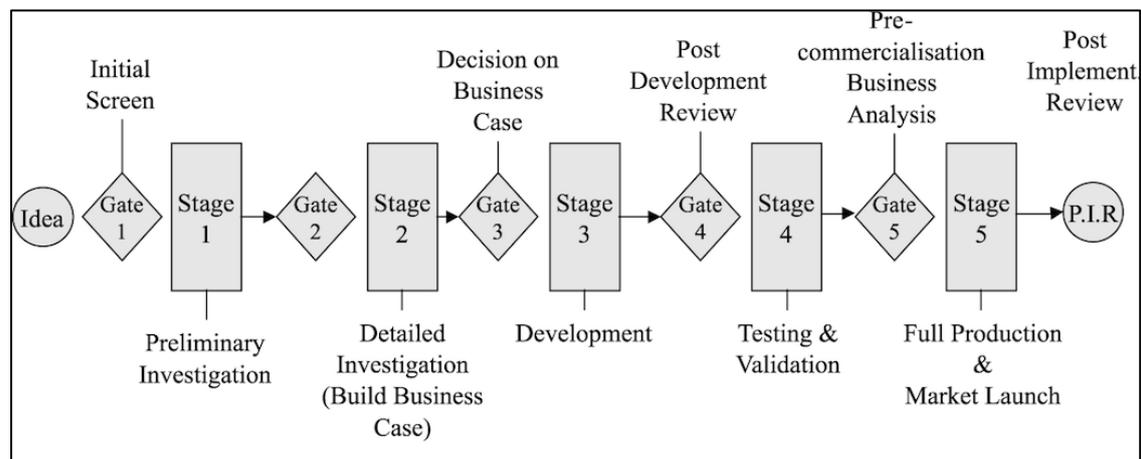


Figure 2: Stage Gate System (Source: Cooper, 1990)

Looking away from the actual stage gate model, Cooper (1993) argue that there are 13 key activities the process of developing new products should contain in order to succeed:

- Initial screening
- Preliminary market assessment
- Preliminary technical assessment
- Detailed market study
- Predevelopment business and financial analysis
- Product development
- In-house product tests
- Customer product test
- Trial sell
- Trial production
- Precommercialization business analysis
- Production start-up
- Market launch

How well a company is able to develop new products is heavily dependent on their organizational capabilities (Henderson and Clark, 1990). These capabilities are complicated and may be demanding to create and costly to change or correct if they don't work properly (ibid). Most scholars in this field seem to be in consensus that a flexible structure is necessary for successful industrial innovation. Tatikonda and Rosenthal (1999) define relative flexibility in the project management approach as "project management autonomy". Here, a company with a flexible structure is more adaptable, more openly communicating and more loosely controlled. Verganti (1999), on the other hand, defines flexibility as the cost and time of having late correctives actions in a project. He further claims that product development flexibility not only depends on the industry, as earlier studies have concluded, but also on the specific innovation strategy of each company, on the multi-project policy, and on the novelty of the product to be developed. A mechanistic structure is on the other hand regarded as a less suitable environment for managing creativity and the innovation process. When regarding the formality of the process of developing new product, Tatikonda and Rosenthal (1999) observations in their research show instances where having a formal development process were effective for projects having high uncertainty. Based on their findings, Tatikonda and Rosenthal (1999) argue that in order to have an effective product development process, the company should try to have "flexibility within a structure". By this they mean that the process should have a predetermined structure with flexibility in the work within that structure: high formality and high autonomy, they argue, are effective together.

A challenge for every company is the balancing act between the need for stability and the need for creativity. The need for stability is required in order for the company to handle their daily processing of making product, maintaining the desirable quality, delivering the right service etc. In order to keep the margins up and be profitable, this requires a high level of efficiency and control. The need for creativity is necessary to generate new ideas for innovative products and services. In order to be able to do this, the company needs to have an environment where the new ideas can be picked up, tested and developed. This balancing act, where you on the one hand are trying to cut cost and be efficient and on the other hand have room for an environment where you have a more loose firmness of formality is, as described in the beginning of this section, a fundamental problem of managing innovation. The common way to deal with this is to have a separate department in the company for research and development (R&D). The shortage here is that a lot of innovation and improvements can come from the daily operations in rest of the company and are not picked up in the R&D department (Trott, 2012). The company needs to be ambidextrous, able to compete in both mature and emerging markets, explore and exploit.

Based on the fact that studies show that a "game plan" and stage gate models work in order to develop products that succeeds, Cooper (1993, p. 96) suggests setting six goals for the development process:

- Quality of execution
- Sharper focus, better prioritization
- Fast-paced parallel processing
- A multifunctional team approach
- A strong market orientation
- Better homework up-front

According to Blank and Dorf (2012), who have developed a model they call "The customer development process", every company has some methodology and process for developing products. This methodology and process is based on detailed plans, checkpoints and goals for steps along the process (sizing markets, estimating sales, developing marketing requirements documents). Although they have all these procedures and checkpoints, the fact is that nine out

of ten new products end in failure (ibid). According to the same authors, there is one crucial factor that separates product that succeeds with products that fail. This factor is dependent on *who* gets out in front to meet the customers. If the product development with senior management is out in front early and often, the chance of succeeding is much higher compared to handing the project over to sales and marketing people who have not participated in the development process. Furthermore, according to Blank and Dorf, a company who develop new products should have a parallel process when conducting the product development. This parallel process is based on going out to potential customers and investigating their needs before committing to a specific path and before defining the product specifications. Questions relating to the “customer discovery” part of the model:

- Have we identified a problem a customer wants solved?
- Does our product solve these customer needs?
- If so, do we have a viable and profitable business model?
- Have we learned enough to go out and sell?

Further in the “Customer Development” phase of the model, the new product development team should have the authority to radically change direction on the product and be flexible in their mindset. To succeed in this process, they must possess the ability to listen to customer problems and uncover things that may be faults in the product, the presentation, the pricing, et cetera. Blank and Dorf emphasize the importance for the company to embrace constant change and the ability to put themselves in their customer’s shoes to uncover their needs and perspective.

2.3 Successful Product Innovation

Although some definitions of an innovation may involve “commercial success” as a prerequisite for it to be called an innovation, (e.g.: “The distinction between “invention” and “innovation” is that invention is the creation of a new idea or concept, and innovation is turning the new concept into commercial success or widespread use.” Creative Advantage, 2015) commercial failure for a new product does not necessarily reduce an innovation to an invention (Trott, 2012). It is the success of bringing the idea from the drawing board onto the marketplace that makes it an innovation. As will be discussed in the analysis, this may then refer to as a “project success”. In the research field of “product success”, authors often use the parameter of financial return to measure the success (Cooper and Kleinschmidt, 1987). In Cooper and Kleinschmidt’s paper on success factors in product innovation from 1987, they criticize the definition of “new product success” in previous studies (including their own) as these studies only take the factor of financial return into consideration when defining success.¹ They emphasize that new products might achieve limited financial return, yet be considered a great success if the product can make a big impact on the market and maybe open up other opportunities for the company. In other words, success is not a simple, one-dimensional concept only measured in financial return (ibid). In Cooper and Kleinschmidt (1987) study, they investigated over 200 new products in 125 industrial products firms. 123 of these products were considered successful, while 80 were considered failures (high success rate compared to other research: e.g. Blank and Dorf, 2012; Trott, 2012). Furthermore, Cooper and Kleinschmidt claim that success could be measured in 10 independent measures²:

¹ Although this paper was written 28 years ago, research in this field still lack focus on what they mean by success

² Griffin and Page (1996) uncovered that companies and scholars use over 75 distinct measures of product development success

- Profitability level
- The product's payback period
- Domestic market share
- Foreign market share
- Relative sales
- Relative profits
- Sales vs. objectives
- Profit vs. objectives
- Window on new categories
- Window on new markets

Based on the results in their study, they uncovered that these measurement could be greatly simplified into three dimensions that could characterize new product performance:

Financial Performance: covers the financial success of the product.

Opportunity Window: to which extent the new product opens up opportunities for the company in terms of new category of products and a new market area for the company.

Market Impact: to which extent the new products impact on the market, both domestic and foreign.

After uncovering these three dimensions, the authors of the research study raises the question about the meaning of "success factors" when there are different dimensions of success. They somewhat conclude that the answer to that question must depend on the desired type of success a company wants to achieve. Further in *this* research report, there will be a discussion regarding this question in relation to different goals and missions a new product may have.

In addition to measuring product success (or market success), Griffin and Paper (1996) argue that a company also should measure the product development performance.

Based on their research, where they interviewed 80 experienced product development professionals, they identified various ways to measure this success. Although these different measurement are meant to measure success in combination of what in this thesis is referred to as project success and product success, this literature review only highlights the part of the measurement relevant to "project success":

Project Success Measurements (parameters)

- Launch on time
- Innovativeness
- Met Quality Specs
- Met Performance Spec
- Speed to Market

The focus of this section will now move over to what may categorize product failure and the consequence of it before going in to detail to why academics think products succeed. When reviewing research in this field, many of the researches lack defining what product failure means, but it is assumed here that product failure is characterized by not achieving financial return in addition to not opening up any other opportunities for the company who developed the product. In this field, there are not many studies done on why products fail compared to studies done on why products succeed. A reason for this may be the companies' attitude on not looking back on failure (Urban and Hauser, 1993). Also, it might be difficult to find out what went wrong and pinpoint the causes of failure. In the field of studying the factors that lead to

product development success, there is on the other hand a vast amount of studies. In the period from 1968³ to 1993 there was a minimum of 61 research studies generating 77 articles on the subject (Griffin and Page, 1996).

An investigation on product failure done by Booz, Allen and Hamilton (1982) shows that new product failure were extensive and at a high cost. In their research they investigated 700 firms (60% industrial, 20% consumer durables, and 20% consumer nondurables). For the products that were successfully introduced to the market, as much as 33-35 % failed in the period from 1963 to 1981. When looking at the failure of bringing the new ideas to the phase where they commercialized the product, the research revealed that only one out of seven made it to the market. It also revealed that 46% of the resources spent on developing of new products are allocated to market failure products or to product that were stopped earlier in the NPD process. Looking at this in a financial perspective, this means that every successful product has to cover the development cost of all the failed products in order to make the company profitable. The high failure rates in addition to the high cost makes the NPD process risky. On the other hand, new products are crucial to successful growth and increased profits in most companies (Urban and Hauser, 1993). Urban and Hauser have based on their own experience and other research studies, identified 17 reasons to why products fail.

Factors associated with failure:

- Market too small
- Poor match for the company
- Not new/not different
- Not real benefit
- Poor positioning vs. competition
- Inadequate support from the channel of distribution
- Forecast error
- Poor timing
- Competitive response
- Major shifts in technology
- Change in customers taste
- Change in environment constraints
- Poor repeat purchase or no diffusion of sales
- Poor after-sales service
- Insufficient return on investment
- Lack of coordination in functions
- Organizational problems

When looking at which factors/keys that makes a product-winner, most scholars in the field, including Urban and Hauser (1993), are in agreement: The strongest indicator for success is how the product matches customer needs. What characterizes the essential here, is to have a superior product versus competitors and in the same time deliver value to the customer. Customer in different industries, markets and segments will have a variation of preferences and product feature that they value. E.g.: in an empirical study on new products in the electronics industry, Zirger and Maidique (1990) found that quality and reliability in addition to technical performance was the most important factor for success. In order to find the most critical factors for success, Urban and Hauser (1993) has put together a list of 13 factors associated with success based on previous research by Booz, Allen and Hamilton (1982), de Brentani (1989), Cooper and Kleinschmidt (1987), and Duerr (1986)

³ 1968, The Industrial Conference Board's first report on how to avoid product failure

Factors associated with success

- Match customer needs
- High value to customer
- Innovative
- Technical superiority
- Screened on growth potential, etc.
- Favorable competitive environment
- Fit internal company strengths
- Communication among functions
- Top Management support
- Enthusiastic champion
- New-product organization
- Use new-product process
- Avoid unnecessary risk

In addition, Urban and Hauser points out that “time to market” or “cycle time” is a crucial success factor in industries where life cycles are short, fast moving technology and the innovation window is short, i.e. market performance. Furthermore, Cooper (1993) state that there are much to learn from new products that fail, not only from products success. The difficulties here are to pinpoint exactly why some NPD projects create successful products and other failures when they have many factors in common. According to Cooper, the key to success lies in identifying the discriminating variables which he further argues only can be done by comparing both successful and failure projects. According to Trott (2012), the crucial factor for success lies in the company`s ability to acquire and utilize knowledge and apply this to the new product development. The key, Trott argues, is to listen to the customer in order to achieve this. What is special for *this* research is that Alpha AS has been investigated in order to understand both the end-consumer and the chain companies (distributor and competitor) as their customer. So in order to succeed they have to satisfy the needs of both the consumers and the chain companies. In the analysis of this research study there will be a discussion regarding project - and product success based on the empirical findings. For the purpose of this discussion, the perception of successful product innovation by the author is as follows: When determining whether or not a product innovation is a success or not, one have to assess the issue from two angles. The first angle being the project that was responsible for taking the initial product idea from a concept stage and creating it into a product that is ready for the market. If this process were done according to plan (cost limits, time estimate, desired product features et cetera), it should be characterized as a *project success*. The second angle is whether or not to title the innovation a *product success*. Here, the company`s expectation of the innovation should be the determinant. Already from the moment the product idea (or service idea) was picked up and considered brought to the market, the potential for the end product was estimated. In this potential estimate, different aspects were evaluated: Who will buy it? How many will buy it? Will it cover customer needs? How will the product be received? What market opportunity will the new product open? Does the market position of the company improve/strengthen? Brand improvement? Strengthen position towards distributors? Could it disrupt technology and be seen as the new standard and winning the era of ferment? And so on. Comparing the estimated answers to these questions may provide a foundation that the company can give their verdict on after the product has been in the market for a given time.

2.4 Synthesis of Theory

This last section in the chapter is added in order to sum up and reflect on the different theory and concepts that has been presented. The purpose here is to try to reflect on what are known about the different concepts presented and where further research is needed to sufficiently explain why the notion of the concepts are important. Although several questions are raised throughout this section, the report will only try to answer the questions directly related to the research questions later in the analysis and discussion.

In the beginning of this chapter, the definition of innovation was elaborated. Here it was shown that scholars agree on dividing the concept of innovation into either a process or an object. In the case of product innovation (an object), incremental innovation was used when existing product or service was enhanced; a small improving step. If the new product was completely new to the world and not based on earlier inventions, the description of the innovation could often be words like discontinuous, really new or radical. Although the literature provides a good understanding of the concept, it doesn't emphasize on why it is important for a company to have a clear notion of what innovation is. This is the same case for success. Cooper and Kleinschmidt point out that product success can be measured not only by financial return, but also on market impact and opportunity window, but they lack an explanation on how, when and for who this is important. *Project success*, on the other hand, is in the literature review related to developing a product within the frames of a project plan. Here factors such as time, cost and product features were seen as important when evaluating whether or not the actual development of a new product was a success or not. As for the case of the concept of innovation, the literature here also lack a sufficient explanation of how, why, when and for who this evaluation of project success is important. Could a good way of measuring the development of a project help and motivate the people involved to perform better? In the cases where NPD teams develop new products for a market such as the grocery industry, well-developed products may fail for several reasons. As Cooper (1993) elaborated, for a product to be a success, some luck and tailwind, which is factors outside the control of the project team, is needed. So, is measuring project success more important for development projects where luck and tailwind plays a bigger part of the outcome of the product? Characterizing the development project as a success, although the product does not succeed, could have a lot of impact on the people involved in the development, especially in an industry as the grocery industry where most product fail to succeed. If a project group manage to perform well within the project success measurements, giving them credit for it might just be the difference in motivation for the next project to be a success or not.

As previously presented in this chapter, there exists different models and tools to manage the development of new products in the best possible way. Here Cooper's stage-gate model was presented as a formal way to develop new products where predetermined stages and gates are set. The purpose of the model is to give a conceptual view over the process and to be used as a tool in order to work through the development process of a new product as effective as possible. In the stage gate model, the stages are meant to illustrate where the work is done and the gates (gatekeeper) are placed in between the stages to act as quality-control checkpoints. Although this model gives a conceptual view over the process, it does not include how to set goals in relation to project and product success. Even though product success often is measured by the financial performance of the product, it may be difficult to determine the project success if the evaluation of the project is to take place in product post-launch when the sales numbers are in. This as the evaluation most likely will be affected by the financial performance. In the case of product success, Cooper and Kleinschmidt argued for measuring the concept with opportunity window and market impact in addition to financial performance, but they are as mentioned lacking an explanation for who these measurements are important and when in the development the goals for them are to be set and evaluated. Also, additional questions can be raised regarding these measurements: Can measuring success help the company progress? Are there additional ways to measure success? As the purpose of this thesis is to investigate the concept of product success, linking innovation and the notion of it to the development of new products and product success becomes a natural outcome.

3. Method

The goal of this chapter is to explain how this research project was carried out. Here, the chapter elaborates what data was collected in addition to why and how it was collected. Every approach and choice made is explained in order to describe to the reader the motivation behind these choices.

3.1 Research Strategy and Design

How a research project is designed can easily be described as a plan for how the study will be carried out. According to Berg and Lune (2012), a rule of thumb when writing a plan for a research study is to go in enough detail for people reading it to be able to more or less perform the same study. In other words, the research design should provide a framework that guides the collection and analysis of data in the study (Bryman and Bell, 2011).

As elaborated in the introduction, the purpose of the thesis is to investigate the concept of product success and how the understanding of the initiation of new development may help develop more successful product. Although existing theory explains product innovation and how to successfully develop new products, this research will look further into why the notion of innovation and success is important for a company to understand and how and when they should properly measure the success of new products. In order to investigate the research purpose and the research questions that were generated based on the purpose, a qualitative approach was chosen to be the best way as the goal is to understand the perception and notion to people. In contrary to a quantitative approach, where data is collected to perform numerical analysis through statistical analysis, the qualitative approach is based on information expressed in words where the information collected hopefully will provide a rich and tick description of the situation (Bryman and Bell, 2011). While the quantitative approaches have to complete the data collection before the analysis, the qualitative carries out the analysis concurrently with the data collection (Walliman, 2006). For this research both open and semi-structured interviews have been applied. Open interviews are often used when the objective is to explore a new area where the researcher has limited prior knowledge (Bryman and Bell, 2011). These interview are completely unstructured and are the opposite of standardized interviews (Berg and Lune, 2012). The semi-structured interviews can be located between open and standardized interviews and involves a number of predetermined questions and special topics where the interviewer is allowed the freedom to deviate from the written down questions (ibid). These interviews can reflect awareness that people see the world in different ways (Gubrium and Holstein, 2001).

The research was given a case study design as the goal of the research was to create an in-depth elucidation of a problem. According to Yin (2003), a case study design is useful when the aim of the study is descriptive or explorative in nature. The case study design is also a widely used approach within business and management research as it takes on the “why” and “how” questions of how complex events and processes unravel (Bryman and Bell, 2011. Yin, 2003). Although it pretty much exists a consensus for what a case study is, there are some various definitions to it (Berg and Lune, 2012). When comparing the most incumbent definitions, Berg and Lune (2012, p. 325) suggests that a case study is: “an approach capable of examining simple or complex phenomenon, with units of analysis varying from single individuals to large corporations and business to world-changing events; it entails using a variety of lines of actions in its data-gathering segments and can meaningfully make use of and contribute to the application of theory.” As for most case studies, this research was designed post-facto, but it also sheds light on ongoing issues in the industry concerning negotiation practice. In a case study, the data collection and interpretations can uncover and generate new theory. This theory then produces an explanation for problems or issues that were questioned

(Williman, 2006). According to Berg and Lune (2012), there are two different approaches to research: theory-before-research (Karl Popper, 1968) and research-before-theory (Robert Merton, 1968) perspective.

Idea → Theory → Design → Data Collection → Analysis → Findings

Figure 1: Research-before-Theory Model (Source: Punch, 2006)

Berg and Lune (2012) argues for a model that encompasses both research-before-theory and theory-before-research models. Their argument is based on the fact that research is more of spiraling process instead of a linear progression, which was experienced in this research. For every two steps you take, you take one or two steps backward before continuing forward.

3.2 The Research Method and Process

The research method can be regarded as a technique for collecting data (Bryman and Bell, 2011). In the beginning of the process, several internal open interviews were conducted in order to get a holistic view over the particular industry where Alpha AS is situated. After a clear picture over the problem and industry was painted, the research purpose and research questions were elaborated along with the research design of the study. To give an understanding of how the project was carried out, this section will provide a description of the process from the initial steps to how the interviews and documentation were carried out. The project started with initial interviews with Alpha AS where the research problem was discussed and evaluated. The next stage became to properly define the research purpose, before moving over to the screening of relative literature. Here, a holistic view over the situation and problem were better understood. Because Alpha AS regarded their way of doing things (negotiation, cooperation et cetera) as a competitive advantage (sensitive information), the thesis is written without mentioning the company nor the particular industry (type of product segment) where Alpha AS is located. Nevertheless, it goes in detail of the grocery industry and the three chain companies in order to give a thoroughly picture of the industry. Hopefully, the anonymity of the company and particular industry should not be an obstruction to show and explain the findings of this research.

To properly give a fulfilling answer to the research purpose, the research was initially divided into two phases. In the first phase, the goal was to investigate how the company regarded success, which resulted in the following research question: How do a large supplier in the grocery industry perceive success and innovation? In phase two, the goal was to find out if my hypothesis about the reason for product failure could be found in the product development process at Alpha AS. In this phase, it was realized that in order to understand this process properly and to have tangible examples of successful products, two products needed to be backtracked and compared: one that was defined as successful and one that was defined as a failure. This led to the two following research questions: What factors are regarded as influent on product success in the grocery industry? What are the implications for the initiation of new development projects?

In addition to investigating Alpha AS, two other suppliers to the grocery industry were investigated in order to compare how their relationship with the chain companies looked like and how these two companies developed new products. These two companies are competing with each other in the same product segment and were selected for the following reasons: Beta AS was chosen on the basis that they are one of the largest suppliers to the grocery industries with many well-known brands and a vast product assortment in many categories (Homepage). As they launch a high amount of new products every year, it was assumed that they also had a well-developed new product development process. Omega AS was chosen on the basis that they are a very small and young company with only a few products located in one product

category (Homepage). Furthermore, it was of interest to investigate how a small company has been able to get distribution of their product and to acquire information on how a small supplier regarded success compared to the bigger ones. This was of interest as it could give a better understanding of how companies set goals and evaluate success.

3.2.1 Literature Study

The purpose of the literature review is to provide the reader with enough background information concerning the topic of the research. This is done in order for them to follow and understand the findings of the project. The review concerns past research on the key concepts relevant to the study and should be absent of information the reader doesn't need (Galvin, 1999). After generating a rough idea of the research purpose, a screening of the literature concerning the topic of interest took place. Mainly, the databases at the library of Chalmers University of Technology and the library at the Norwegian School of Economics (NHH) were used. Initially, bounded versions of the literature were used as it may be considered a faster way to immerse yourself with information on a new topic compared to PDFs. Bounded versions may also have higher legitimacy than material taken from the web. When conducting this study, the focus on what the material said was closely interpreted in relation to what was important for the study.

3.3 Data collection

3.3.1 Empirical Study

3.3.1.1 Primary data sources

The primary data was collected through open, - and semi-structured interviews, internal and external to Alpha AS. This can be described as a qualitative research strategy (Bryman and Bell, 2011) and is according to Holmen (2011) the right way to conduct a case study (builds on qualitative data analysis). Initially, the open interviews together with the screening of the literature review created the bases for a proper construction of the semi-structured interviews. In order to find the right interview objects in relation to the research purpose, snowball sampling was continuously a part of the case process. In addition to finding the right interviewees, two products that would be under investigation, were selected. The criterion here was to find one that could represent a failure product and one that could represent a successful one. After discussion and evaluation in the open interviews, two products were chosen. The reason for choosing these two products was that they were recently developed, which mean that the people involved in the processes would have better recollection of what had happened. In addition, the two products were initiated in two different ways. This was seen as an advantage as it might implicate some factors that might be key in order to achieve success. When finding interview objects for the semi-structured interviews, people who had been involved in the process of developing these products were of high interest. Further on, interviews with external people where conducted in order to get insight to how they regarded these new products and product innovation in general. After acquiring knowledge throughout the different interviews and various secondary data on the research topic, I realized that a third phase of the investigation was needed in order to see how different suppliers to the same industry worked. Here, a benchmark was made where interviews with other product manufacturers were conducted to further investigate the new findings.

No.	Company	Area of Responsibility	Date	Interview Form	Interview type	Approx. Time
1	Alpha AS	Finance Director	Des. 1. 2014	Open	In person	60 min
2	Alpha AS	Sales Manager	Jan. 13. 2015	Open	In person	60 min
3	Alpha AS	Branding Manager	Jan. 15. 2015	Open	In person	45 min
4	Alpha AS	Sales Manager	Jan. 25. 2015	Open	In person	90 min
5	Alpha AS	Branding Manager	Feb. 15. 2015	Semi-Structured	In person	60 min
6	Alpha AS	Product Developer	Feb. 17. 2015	Semi-Structured	In person	50 min
7	Beta AS	Product Developer	Mar. 11. 2015	Semi-Structured	In person	90 min
8	Alpha AS	Business Developer	Mar. 13. 2015	Semi-Structured	In person	80 min
9	Alpha AS	Sales Manager	Apr. 15. 2015	Semi-Structured	In person	90 min
10	Profile Store	Store Manager	Apr. 20. 2015	Semi-Structured	In person	60 min
11	Omega AS	Marketing Manager	Apr. 28. 2015	Semi-Structured	Skype	90 min
12	Store Bf. Chain Comp.	Store Manager	Apr. 29. 2015	Open	In person	20 min
13	Alpha AS	Key Account manager	May 8. 2015	Structured	Mail	-
14	Alpha AS	Branding	May 8. 2015	Structured	Mail	-
15	Alpha AS	Sales	May 9. 2015	Structured	Mail	-

3.3.1.2 Secondary data sources

In order to give a clear industry overview together with several phenomenon existing in the industry and relevant to the research, numerous papers on the subject was reviewed. Additional publications, industry, - market, - and customer analysis has also been collected. Secondary data may be important where gaps are left behind from the qualitative data collected from interviews. The reason for this is that some data are not possible to get from interviews alone.

3.4 Research Quality

Validity and reliability are two measurements that can be used to evaluate the quality of a research study. According to Bryman (2012), validity refers to the integrity of the conclusion in a research, while reliability concerns whether the results of the study are repeatable. For quantitative research studies, these two criteria has been largely developed and are seen as important for the trustworthiness of the study (ibid). As qualitative studies don't have the same focus on measurements as quantitative studies, the relevance of applying these criteria for quality has been discussed among qualitative researches (Bryman, 2012). One position to take when using reliability and validity to evaluate a qualitative study is to make little change to the meaning of them, but in the same time not emphasize as much on them as in quantitative studies (ibid). To evaluate this study, three forms of validity was considered relevant together with reliability: internal validity, external validity and construct validity.

Internal validity is concerned with the question of whether the casualties between variables in the research holds water in the conclusion (Bryman, 2012). According to Holmen (2013), there are three ways of ensuring high internal validity: A tick descriptions, internally coherent findings and a systematic relation between concepts. In addition to having the research design

and data collection methods, the literature review has a thorough explanation of each concept together with discussions on how these concepts are perceived by the respondents. However, due to the difficulties of creating a table of the respondents answers regarding the concepts, the internal validity is deemed as medium.

External validity of a research study is concerned with whether the results from the study can be generalized beyond the context of the research (Bryman, 2012). As this is a case study, it naturally is a context-specific research and external validity is traditionally difficult to achieve. As this research investigate three different actors that is regarded by the author to represent the different types of suppliers that exists in the industry, the likelihood that the same result may be achieved by looking at other suppliers in the same industry is regarded to be relatively high. Because the Norwegian grocery industry has very special characteristics, applying the result for other industry may be difficult unless the particular industry has similar characteristics. The external validity is therefore considered to be medium.

Construct validity concerns the degree to which the measures chosen actually reflect the concept that is investigated (Bryman, 2012). This form of validity can be strengthened by having multiple sources of evidence, respondent reviews and chain of evidence (Holmen, 2013). In addition to having multiple sources throughout the project, continuously discussions on the findings and the data collected with the main contact person at Alpha AS and the supervisor at the university worked as a respondent validation to assure that data collected was inline with the purpose of the research. The construct validity is therefore deemed as high.

Reliability is, as mentioned earlier, concerned with the results from a research study being repeatable. In other words: will another researcher get the same result if he or she was to conduct the same study using the same methods? For qualitative studies, this may be problematic as it is difficult to get the same social setting and circumstances as the initial study; "Because human behavior is never static, no study can be replicated exactly, regardless of the methods and design employed" (LeCompte and Goetz, 1982, p. 35). Although it is difficult to get the exact same results, this study has tried to have clear and understandable research questions together with a rich description of how the research was conducted in order to create reliability. However, it is likely that not all relevant data was collected as the author was not able to get interviews with any of the chain companies as the subject of the research was to sensible for them to give out information. Although, as the results in this research was so clear, getting the same results again is deemed to be high.

4. An Overview of the Norwegian Grocery Industry

This chapter will give an overview of the industry where Alpha AS is located and also elaborate some phenomenon or characteristics of the industry that may be crucial in order to achieve product success.

4.1 Industry Overview

In Norway, the grocery industry employs about 90 000 people, which is about 25% of all the employees in the commodity trade (Daglivarehandel og mat 2013). The total trade in this industry contributed with more then 7,4 percent of Norway's GDP in 2011(ibid). In 2014, the turnover for the grocery stores alone was 160 billion NOK. Even though many of the actors in the industry have significant turnover, the operating margins in the last stage in the value-chain are low compared with other industries (2-4%) (Daglivarehandelen, 2015).

During the last two-three decades, the industry has gone through substantial structural changes (Daglivarehandelen, 2015). In the beginning of the late 1980`s and early 1990`s, the industry was characterized by small independent actors. Back then, the value chain used to look like this with independent actors in every stage:



Figure 1: Value Chain late 1980`s and early 1990`s, Source: Dagligvarehandel og Mat (2013)

Today, there are virtually none of these independent actors left in the last two stages, as large companies have bought almost all of them. These large companies, three of them in total, are chains based companies with vertical integration throughout the whole value chain. In addition, these chain companies also have close cooperative relationships with several other actors in areas where they are not heavily present themselves. Through the acquisition of wholesalers and retailers, the chain companies have created an almost impossible barrier of entry for new potential actors in this area of the industry (Etableringshindere i dagligvarehandelen, 2013). An additional factor that makes this barrier of entry even higher is the chain companies` collaboration and joint ownership: e.g.: wholesalers who import and distribute fruit and vegetables (BAMA Gruppen AS, NorgesGruppen 46%, Reitangruppen 20%, Homepage). Before the chain companies gained this position in the market, the primary manufacturers and the processing companies had much more control and power in negotiation with wholesalers and retailers. Here, the primary manufacturers and processing companies could almost dictate price and decide which assortment should be found in the retailer`s shelves. Today, this power balance has moved in the favor of the chain companies (Mat, makt og avmakt – om styrkeforholdene i verdikjeden for mat, Matkjedeutvalget, 2011). Further in this report the primary manufacturers and processing companies will be referred to as “suppliers”.

Because of this gained power to the chains, the suppliers have to position themselves relative to the chains and develop strategies to sell their product to the different chains. A concept called “launch windows” has arisen as a period in time where the chain companies and suppliers meet to negotiate which product each of the store will have in the store and which new product will be part of the assortment. This chapter will go in further detail of launch windows in a later section. The change in the power balance in the industry has been examined in a public report done by “Matkjedeutvalget” (Mat, makt og avmakt – om styrkeforholdene i verdikjeden for mat, 2012.), where they concluded that this increased power to chain has evolved at the expense of suppliers. Characteristic for this power balance will also be investigated later in this chapter.

4.2 The Retail Chain Companies

The grocery store industry in Norway is today totally dominated by three companies or “retail chains” with a combined marked share of 97% (Nielsen, 2015). No other European country has the same concentration in the wholesaler stage of the value chain (Konkurransetilsynet, 2005). As mentioned earlier in the chapter, these chain companies own all the distribution/wholesalers and retail stores.

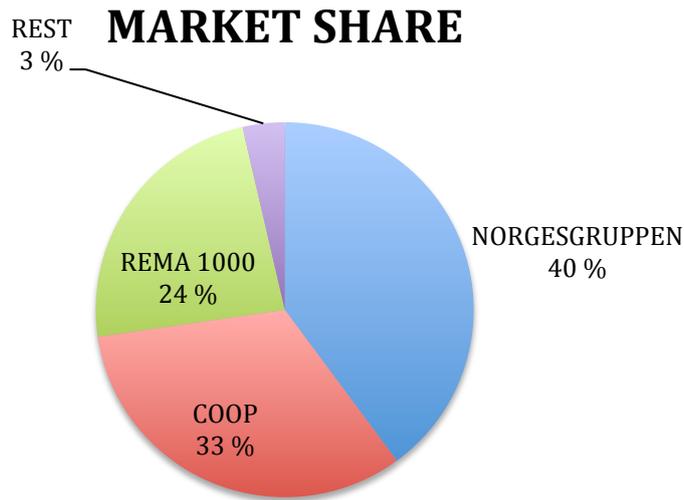


Figure 2: Retail Chain`s Market Share (Source: Nielsen "Dagligvarerappen", 2015)

4.2.1 NorgesGruppen

Established in 1994 by cooperation with several retailers and wholesalers, NorgesGruppen (NG) is the largest of the three chain companies with a market share of 40 percent (Nielsen tall, 2015). In 2014, they had a total turnover of 71,4 billion where most of the revenue comes from their 1769 grocery stores and 800 outlets in service trade. NorgesGruppen distinguish their stores into seven different profiles. The profile stores include Meny, Ultra, Spar, Joker, Jacobs, Centra and Kiwi. Here, each of them has their own profile. Meny covers the large supermarket segment, Spar the “standard” sized supermarkets, and Kiwi the low-price segment. Depending on the size of the store, the product range in NG’s stores are between 2000 – 20 000 items. The assortment in each store are dependent on which profile the store belongs to and the size of the location. Most of the assortment is “fixed listed”, meaning that the central office at NG decides which product should be in each store. A small amount of the assortment in the stores is also voluntary for each stores. Voluntary assortments means that they can chose between products that NG have in their portfolio, not from suppliers of their own choosing. Though there are some exceptions for this as for some of the gourmet stores, as the data later will show. About 4 000 local producers delivers about 2 000 different products of local food to NG’s stores. Through NG’s own distribution company: “ASKO”, they have total control of all distribution to their own stores. ASKO is responsible for the product- and information flow in the value chain from suppliers to retailers. Although NG doesn’t have an upstream acquisition strategy, they have their own private label company: Unil AS (Daglivarehandel og mat, 2013). Unil AS is responsible developing, procurements, marketing and distribution of all private labels within NG. There are about 200 different products private labels owned by NG.

4.2.2 Reitangruppen AS

In contrast to NG, Reitangruppen only have one profile store: REMA 1000. Nevertheless, they are just as integrated as NG when it comes to distribution with their own distribution company: “REMA Distribusjon” and “Reitan Distribusjon”. Through “REMA Industrier”, Reitangruppen has ownership in suppliers like “Norsk Kylling” (100%), Grans Bryggeri (50%), Staur foods

(50%), BAMA Gruppen AS (20 %), MaxMat (75 %) og Hugaas Industrier (50 %), Spekeloftet (50 %) and Gram Slot (20 %).

Rema 1000 have about 5 000 – 6 000 product lines in their stores depending on the size of the local. In the private label segment they have Landlord (meat etc.), Godehav (fish, shellfish etc.) and Solvinge (white meat and eggs). In addition they have small suppliers who deliver products with the REMA 1000 brand on it. Even though Reitangruppen doesn't produce Private labels in the same way as NG and Coop, they own different companies which delivers products exclusively to the REMA 1000 stores. So in reality they serve the same purpose as private labels.

4.2.3 Coop Norge

Coop Norge was established in 1906 and is today the second largest of the three chain companies. They have 1 250 stores spread between eight profile stores: Coop Obs, Coop Extra, Coop Prix, Coop Mega, Coop Marked, ICA, Rimi and Matkroken. In contrast to the two other chain companies, which are owned mostly by the families who founded them, Coop is owned by customers through their membership in one of 102 cooperatives in Norway. The subsidiary "Norsk Butikkdrift" operates the stores that have been acquired through the acquisition of ICA Norway. "Coop Norge Industrier" produces the chain company's own private labels, including coffee (Coop Kaffe), baking goods (Goman), jam and juice (Røra)

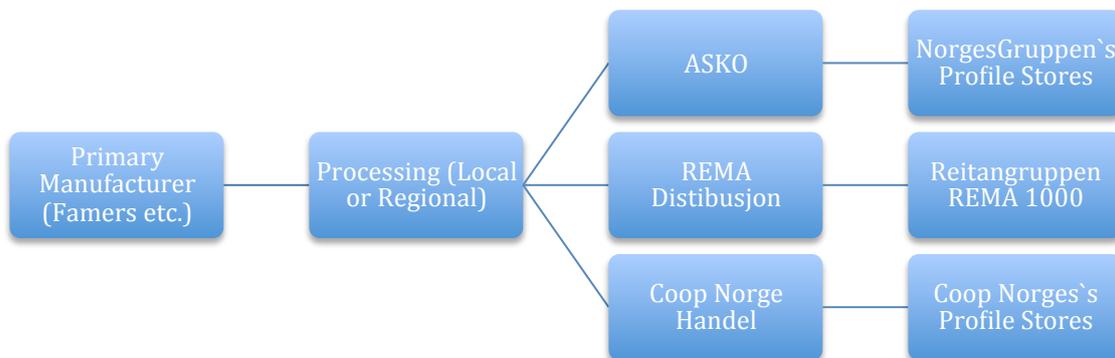


Figure 2. Present Value-Chain. Source: Author

Though most of the suppliers deliver through the distribution channels owned by the chain companies, some of the suppliers (milk, soda, baked goods, etc.) deliver directly to each of the stores.

4.3 Private Labels

Private labels can be described as the chain company's own brand for a variation of different product. The private labels products are exclusively sold in the chain company's own stores and have been created with the incentive to increase their profits, enhance their profile, gain a competitive advantage, steal market shares from existing product, secure customer loyalty and to put pressure/have leverage on suppliers. In other words, these products have become a significant competitive factor between the chain companies, but also with traditional brands

and new products in many product categories. Initially, when the chain companies first started making private labels, the products had a plain and basic design and were intended to compete in the low price segment. In the later years, it has become more common for the chain companies to launch private labels intended for the premium segment. The strategy behind this is to let the customer feel that they can choose between low price and high end products when they come to the store (interview store manager).

As the chain companies control the last stage in the value chain (the retailers), they have a unique advantage of observing consumer trends in the market. Based on this inherent knowledge on consumers' preferences, they can develop new products and conduct modifications of existing at a lower risk and cost than other outside actors. The phenomenon of private labels is diffusing to additional product segments continuously and is present in all the main protein sources as egg (34%), chicken (41%), fish, meat (24%), fresh bread (30%) etc. (Percentage of the total sales in Norway; Matmaktrapporten NOU 2011:4). Even though private labels haven't been as common in Norway as the rest of Europe, the growth has been significant the last decades. In 1991 private labels stood for 3 % of the total grocery sales. In 1995: 5 %, 1999: 8 %, 2010: 11,8% and in 2014: 13,7 % (Nielsen, 2014). In the stores today, NorgesGruppen have about 11 % of their assortment with private labels, Rema 1000 has about 19 % and Coop has 17 % (Nielsen tall, 2015).

4.4 The Relationship Between Chain Companies and Suppliers

This section will go in detail of the relationship between the suppliers and the chain companies as it is seen as crucial for product to get enough distribution in order to succeed. The section is mostly based on secondary data and will be analyzed together with the primary data, which will be elaborate under each company investigated in following sections.

As mention earlier, the grocery industry has gone through some structural changes the last decades. In this period, the chain companies have also developed a negotiation system called "Høstjakta", directly translated meaning "autumn hunting". The main topics in these meetings are what access the supplier will have to the stores (listing), the price from the suppliers to the chains, bonuses and exposure in the stores. Annually, each of the largest suppliers has meetings with each of the chain companies in order to discuss these topics. In addition, the chain companies arrange an annual meeting through "Dagligvarekjedenes Landsforening", where most of the suppliers attend.

For new products, a concept called "launch windows" has emerged and is used by the largest chain companies at the same period of time every year (February, May and September). This is the only period where suppliers are allowed to launch new products to the market. A couple of months ahead each window, the suppliers hold presentations for a category manager at each chain company. Here the suppliers present about 6-8 ideas, depending on the size company. One to three of these ideas may go into the stores (According to several respondents). Since NorgesGruppen and Coop Norge has many different profile stores, 15 in total, which of the new products will be listed in each stores, depends on different factors from the chain companies side: strategies, politics, potential, competition with private labels et cetera. The suppliers are as mentioned in the beginning of this section, dependent on getting enough distribution: mainly to cover their cost of the development and production of the product. The main individual to persuade in these meeting is the category manager related to the respective product. The category manager at the chain company approves the ideas and makes the decisions regarding the listings of the new products. In February 2015, a total of 1 700 new products entered the grocery stores in Norway (Dagligvareleverandørenes Forening). Even though these products are spread to the different profile stores, it is self-explained that existing products have to leave the shelves in order to make room for the new ones. The "listing" is in other words vital for the product success. The chain companies decide which products should

be listed in each of their profile stores by different codes. A contract between a supplier and a chain company may be guaranteed listing in some of the stores and voluntary listing in others. In reality, these contracts are very complicated, and may have many alternatives in between the two ends: guaranteed and voluntary listing. As the findings later in the chapter will show, it is rare that a company gets guaranteed listing in every store.

As a result of the importance of getting listed and having good exposure in the stores, suppliers are willing to pay or give discounts to achieve it. Here, different concepts and terms as part of the negotiation have emerged: joint marketing, yearly bonuses, product line discounts et cetera. Since the negotiations and contracts are kept confidential, the extent of this payment is somewhat unclear and has caused a lot of debate and controversy (see next section). The concept of joint marketing are based on an indirectly payment from the suppliers to the chain companies for ads, campaigns performed by the profile stores, activities in the stores, good store location, lower price during campaigns et cetera. (Daglivarehandel og mat, 2013). As this also is seen as an important part of the marketing from the supplier's side, the willingness to pay is high.

Additional fees they may be a part of the negotiation:

Presentation fees	Fees paid for the privilege of making a sales presentation
Slotting fees	Up-front payment, promotion, or shelf space for a product
Display fees	Fees paid for special merchandising and display of product
Pay-to-stay-fees	Fees paid to continue stocking and displaying a product
Failure fees	Fees paid when a product does not meet expected goals
Listing fees	Fees to get a product listed in store assortment

(Source: Bloom et al., 2000)

4.5 Controversy and Laws surrounding the Negotiation Practice

During the last decade, there have been many debates in the media concerning the negotiation practice between the chain companies and suppliers in Norway. This debate is based on claimed abuse of power by the chain companies and the different fees that the suppliers have to pay in order to get access to the store (DN, 2005). A short review of this debate is included in the report as it is seen an essential factor for product success and relevant to the analysis.

When some actors acquire large and dominating position to the extent that they can exercise market power, it may threaten the competition by having payment terms smaller actors cant afford (Norwegian competition Authority, 2005). As examined in the previously section, the different fees that may be required from the chain companies in order to get listed and entree to the stores may be to extensive for some actors. This may result in these actors not being able to get access and be shut out of the market completely. If this is the case, the result may be reduced product selection for the consumer and reduced/less competitive pressure in the supplier stage in the value chain. On the basis that the chain companies have created these different fees, there may be larger suppliers who take advantage of their position to out buy smaller competitors. According to the Norwegian competition act § 11, an actor who is dominating the market is not allowed to abuse this market position. In addition, § 29 in the same act states that any other actor who contributing to making this possible, which in this case is the chain companies with their fees, is breaking the law. So far, none of these laws are sufficient enough to stop the chain companies taking different payment for shelf spacing (slotting fees), as the chain companies argue that it is a part of joint marketing (NRK, 2015). Although many suppliers want a more sufficient law to prevent payment for shelf spacing, the chain companies disagree the need (ibid).

In England, which is regarded to be five-six years ahead of Norway in the grocery industry, they first tried to have suppliers and chain companies follow guidelines for the negotiations, but in the end they ended up with a supervision unit and law that states that it is expressly prohibited with slotting fees: Stores are to place the products where they are best suited for the consumers (NRK, 2015). In Norway on the other hand, the Competition Authority concluded this in their annual report (2013/2014) on the subject of a new law: “The law commission on Power Relations in the Food Supply Chain delivered its report and proposals for new legislation on fair trading practices. The Competition Authority has, in its reply to the consultation request, not seen the need for a new code of conduct.... The Authority has questioned the need for such a code of conduct and is critical to the proposed use of fines for breaching quite vague and subjective sections of the proposed act. On a more positive note, the law commission has suggested that the parties are only breaching the law when the conduct is harmful to consumers.” (Annual Report, Norwegian Competition Authority, 2013/2014. Page 4.)

The former head of negotiation for NorgesGruppen through the 1990 and beginning of 2000, Steinar Kristiansen, was one of the people developing this negotiation system. After he was fired, he has gone to the media and explains how cynical these negotiations were (DN, 2005). Suppliers had to pay up front fees and marketing money. They did every thing they could to press the suppliers for money, sometimes more than the suppliers could afford. They argued that this money would go to campaigns, ads in newspapers and the best location in the stores, although very little of this money actually did. The slotting fee (called it “joint marketing”) where as high as 8-10% of the product price. Promised the suppliers spaces in the store that they could not give. In this debate, representatives for NorgesGruppen, says that the claims from Kristiansen is meaningless and absurd and not true. When head of suppliers were asked about these bonuses in this debate, most of them refuse to comment since they have confidential agreement with the chain companies (VG, 2005). An additional part of this debate is the increasing prices in the grocery stores, which the chain companies’ claims is because of the increasing prices from the suppliers side. A research report conducted by Oslo Economics show the development in prices has gone up 4 % from the suppliers side to the chain companies, and 6 % from the chain companies to the consumer in the period from 2011 to 2014 (Oslo Economics, 2015).

5. Empirical Findings

The empirical findings contains the study on Alpha AS and the benchmark study where two additional companies were investigated: Beta AS and Omega AS

5.1 Alpha AS – a supplier in the grocery industry

This section will examine Alpha AS, which has been investigated in order to answer the research questions. The specific product category where Alpha AS’s products is located, is based on commodity products. The product category is mainly dominated by homogeneously product without significant product differentiation. Although the products are based on several commodities, they may have a small differentiation with slightly higher quality for some actors. As a result of this difficulty in differentiating the products, the new product developing process is an important task for the company to distinguish themselves. So when processing the commodity product, they no longer compete with a homogeneous product.

Alpha AS produces the commodity product themselves and conducts the value-adding process before they sell both of the product forms to the chain companies. Although they compete with products based on commodity products, Alpha AS strongly believes that the industry still has a

great potential for further development and growth. Alpha AS is close to a completely vertically integrated company spanning from farming and value-added-processing, to sales and distribution of their products. The report will focus on a subsidiary of Alpha AS that handles sales and product development. Although this is a subsidiary, it will be referred to as Alpha AS.

On the basis that Alpha AS base their new products on a commodity product, the main focus will be on incremental innovations. Here, the new products will mainly appeal to existing customers as the “newness” of the product is based on their needs. Although Alpha AS vision is to create new markets with their innovative work, which may be the case internationally, the products that have been investigate in this report, is by the author regarded as incremental innovations. To define a new product as a disruptive innovation, the product should to a greater extent give opportunity to create new markets, which eventually can capture an existing market.

5.1.1 The Notion of Innovation at Alpha AS

Although there where some formulation differences when respondents at Alpha AS were ask how they regarded innovation, they had a somewhat same opinion regarding the subject. All of them automatically referred to the work the company is performing as innovation. The product development chief defined innovation as every thing from small changes in packaging to bigger development projects where they develop products that are new to the market. In addition, he also argues that innovation is based on choices the product development team makes on behalf of the customer. Furthermore, the other interviewees all spoke of offering something new to the customer: making it easier to handle the product, new opportunities in flavors and taste and new experience in design. The sales managers point out that innovation in existing products also is an important part of their innovative work. He elaborates that if existing products already in the market stops evolving, they risk dying out. If one of the products in a product line starts dying, it may also be destructive on other products in the same product line.

5.1.2 The Notion of Success at Alpha AS

When the respondents at Alpha AS were asked to define product success, they mainly had one overall notion: reach the goals set for the product. The fundamental goal for a new product is to reach the stores by getting listed, then fortifying the achieved position. An important goal when getting listed is to avoid getting downgraded in the product listing system: e.g. go from fix range to voluntary. Although this seems to be the basic notion of success at the company, there were some more detailed notion of what success is to be found. This notion is based more on a strategic view where some products have different goals, not only to generate profit. Here a “sub-product” may have the purpose of defending attacks on a “main product”. It may also be a product with the purpose of being a cheaper alternative to a market-leading product produced by Alpha AS. Furthermore, a strategy for a product may be to act as a door opener to get distribution and to open up new categories for additional products. These products, in other words, have different “missions”. In these missions, products may have lower price, resulting in lost margins. The lost profit may then be calculated as a marketing cost if a product manages to successfully penetrate a market. The branding manager at Alpha AS summarizes success for an isolated product to be measured relative to the strategy behind the product. One of the key account managers argues that success has to be seen in relation to product type, market and target group, but points out some essential requirements for a product to be characterized as a success: 1. The product must still be in the stores two years after the launch, which most of the new product fail to do. 2. Distribution must reach a minimum of 90 % of the listed stores. 3.

The product must achieve minimum the average volume that applies to comparable products. The sales manager adds that to be successful you also need to quickly respond to market demand: if you can't produce enough of a specific product, you won't be able to succeed. Likewise, if the production cost is higher than estimated, the company might not be able to generate profit even if the sales are good.

5.1.3 The New Product Development Process at Alpha AS

The company has only been conducting systematically development of new products for about nine years. As mentioned in the previous section, innovative projects are often initiated based on secondary sources: e.g. Nielsen numbers. Trends, customer shopping patterns and habits et cetera, are here used to generate hypotheses for new innovative ideas. These ideas can for example be a change to an existing packaging (design, size, functionality) or a completely new product idea based on one of their commodity products. Though a lot of the ideas are generated from secondary data, Alpha AS perform some qualitative research themselves. This primary data may be based on a family that they have followed and observed their daily living habit.

For the Norwegian market, there is mainly one product development team consisting of six people responsible for the market. The team is lead by a product-developing manager, which has a background as a chef. In addition to the manager, there is one additional chef, two people from the quality, and two people from sales in team. For most projects this team consists of the same people, but in cases where a project has a very unique character and business is not as usual, the product-developing manager may choose to put together a special team. In addition to the individuals participating in the team, other employees who have other areas of responsibility may initiate innovative projects as they see a potential for development. Since Alpha AS doesn't have the resources to have people hired to work fulltime with innovative projects (except the two chefs in the team), the innovative work may be a subtask for several employees. In these cases, there is no fixed team who handles the process. Besides the actual development of the product, an important task for whoever is in charge of the project is to find fitting factories for the products and suitable technologies to properly produce the new products.

Alpha AS has three main incentives for initiating a new project, which they regard as an innovative project. Even though it depends on the market, the three drivers for starting a project are:

Reactive

Here the customer contacts Alpha AS with a need for a product type or category. Alpha AS then performs an evaluation if they are capable or not to proceed with the development of a product that meets the specifications given by the customer. The evaluation is based on profit opportunities, factory possibilities, risk, future prospects, marketing, design et cetera. If the project gets a green light, the NPD project team takes on the task of developing this product or product concept. This reactive form of initiation of product development will often result in a private label for the customer.

Proactive

The proactive incentive is based on the strategies of Alpha AS.

One of the core building stones for the company strategy is to be first to market with new products. Since they operate in different markets worldwide, connecting right product ideas to right market is a significant task. In order to perform this task, an import job is to analyze the European market in order to see trends. In order to do this right, different marketing analyses are bought from a third part. For the Norwegian market, the NPD team is also responsible for performing these tasks in Norway.

Concepts

The concept incentive is based on general concept that they work with. Here they have own form of food, which they call “concept food”. Several of these concepts have own brands where some of them have own factory-houses dedicated to only produce for the individual brand. The concept stands alone. One of the strategy ideas here is to have the whole value chain: every ingredient is self-import. One of the concepts is for example a partnership with one of the Chain companies. Cooperation in both development and manufacturing: co-owners.

How the actual process of developing a new product looks like, is according to all the interview objectives at Alpha AS, very different from product to product. It may be a product in dialog with a customer or it may be a product based on a need and opportunity in the market. It may also be a supplement-product to an existing portfolio. Also, product concepts are often taken from different markets or from different commodity based products. Before the project group decides to go for a project, they evaluate what is achievable to construct and produce. The possibility for this is based on regards for price and innovation degree. Sometimes the project is already stopped after the evaluation as they see that the investments required are too high compared with the profit opportunities. Other obstacle may be that pre-calculations show that the product will cost more than what the customer is willing to pay, packaging is not possible to make or that the uncertainties on sale volumes are too high.

When the project group has decided to go for a project, the first thing that they do is to start testing their assumptions surrounding the idea. The choice of which type of testing they will conduct depends on the product and on which product category the idea is located. Most commonly they use a sensor panel they have in-house. Here, random employees at the company are asked to come by and give score and thoughts on product samples. The results from these tests often give a good indication. Before going further to more extensive testing, some small product correction is often done based on the feedback from the in-house test. In this period of time, the quality members of the project team also perform expiration tests. The further, more extensive tests, are often to test the product on different focus groups. These tests are not done by Alpha AS, but by hired agencies. Additional tests are also done by chefs in the project team where they take the new products ideas to in-store tests. Here, they let customers taste the products while they are in the store shopping. The goal in these types of tests is to get as much information from the customer as possible. If the tests give satisfying results, the next step in the process depends on the origin of the idea. If the product were developed in cooperation with a customer, which in the case of the Norwegian market would be one of the chain companies, they may already have agreed on distribution. Although they have an agreement on distribution, a further step may be a pilot test/pilot sale before launching the product on a national basis. If they have developed the product without any customers’ involvement, the next step looks very different. As for all other suppliers, they have to present their new product ideas to each chain company in the period leading up to a launch window. This process will be elaborated in further detail in a upcoming section.

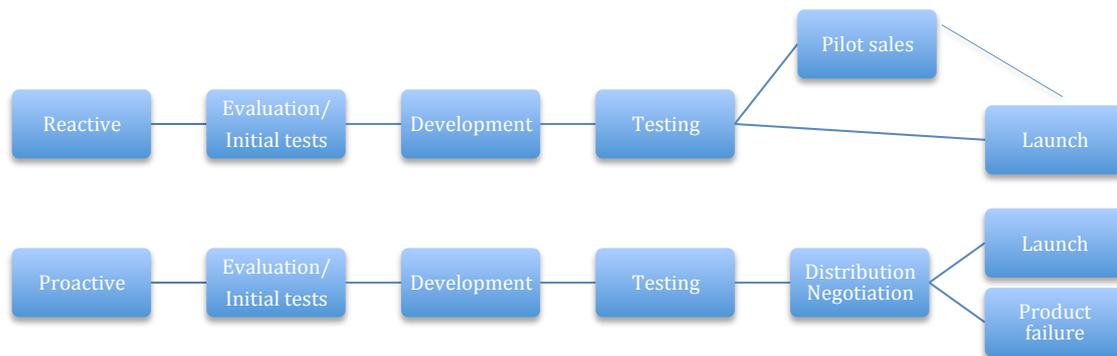


Figure 3. The new product development stages (Source: Author)

On the basis that product developed by Alpha AS doesn't require any technical properties itself, changes can easily be made to the product specifications a long the development process. This makes the developing process very flexible. As a consequence, the ideas presented in the launch window meetings are often not the same as the ideas that initiated the project. Regardless, changes to the specifications are always part of the process. The packaging production is in most cases outsourced, which means that they are not locked to special manufacturing equipment on this front.

As a result of the notion of innovation so broad at Alpha AS, every change to product is regarded as an innovation. If the company wants to make changes to the packaging of a product, they normal use a couple of months. The longest project for Alpha AS lasted for five years from the initial to the launch. Product B, which will be examined later in this chapter (a proactive product), took 1,5 years. Normally: 1,5 to 2 years is estimated for development of a new product.

Normally Alpha AS has people in charge of a market that makes decision regarding the products. They also have people in charge of product segments and sales. In the end the people in charge of sales and market are the ones who makes decisions whether or not to launch a product in collaboration with customer (distributor). The first decision made in the NPD process is often whether or not to go for a new product idea. This is a composed decision based on profit and potential in the market. Depending on the product, there are different decision makers who make these decisions. If Alpha AS alone conducts the product development, the project team leader together with the sales manager decides/is responsible for all the decisions along the process to the launch window meetings. If the product development is done in cooperation with one of the chain companies, the decisions are made together. Although, according to the team leader, the Norwegian market is somewhat special in this case and that in reality the chain company makes these decisions alone. If the new product demands a lot of resources, the board of directors has to take the decision whether or not to go for it.

5.1.4 Relationship with Chain Companies and Launch Windows

Alpha AS has different relationship in various ways to the three chain companies. How each relationship looks and how they communicate, differs a lot from company to company. Mainly, the responsible person for a product category at Alpha AS communicates with the corresponding profile managers at each chain company. The reason to why they communicate in different ways is primarily based on the fact that they have different history of doing business, different contracts/deals (Joint marketing, Private Labels etc.), different trust/loyalty, different retail frames et cetera. When negotiation with the chain company, Alpha AS cannot dictate price out the consumer. The decision of which price the product should have is solely up to each profile under each of the chain companies' umbrella of different stores. When asked about lowering prices on new product to the chain companies in order to increase sales as part of the strategy, several of the interviewees argue that this is not a strategic option as they would rather use that money on building their brand and holding margins up.

Some of the chain companies have an "all rights reserved" agreement on specific products and some of the products are sold to everyone. For some products, the problem may be that only one of the chain companies is willing to distribute it. For one of the chain companies, the relationship is so close that they don't need to follow the launch windows for some products. Normally, as for every supplier, they have to follow the launch windows. Here, they present the new products a couple of months before the launch windows. In these presentations, the sales representative for the given market handles it. If they feel they need expertise, an extra member from the project team is also present. During these meetings, the chain companies decide whether or not they will accept the new products into their assortment. This decision is as mentioned earlier in the chapter, based on different factors. These factors, which the chain companies evaluate before taking in new products, may relate to competition with own private labels, politics and strategies. If the chain company accepts the new products, or some of them, the next step is to give them listing in the different profile stores. This is according to most of the interviewees, the most critical phase for the product success. If the products only get fix range in some stores and mostly listed as a voluntary choice for other stores, the likelihood for the new product to fail is high.

5.1.5 Product A – a case of a failed product

Product A was a product Alpha AS developed based on an idea that they got from secondary data (statistics), interviews and focus groups. The data showed that younger people desired an easy meal in between an early lunch and late dinner. The product created was consequently directed towards younger people and children with the purpose of covering this need. The packaging was designed to be fun and easy to handle with "new" creative words on the design. They tested the new product on focus groups, students, taste panel for children (used a facilitator) and served the food in a school cafeteria where they interviewed many to the students afterwards. They also conducted cooking classes at a school where the students got to feel and taste the product. Everybody involved in the project were convinced that they had created a winning product after evaluating the feedback from the different tests.

As this product was developed without any of the chain companies' involvement, the product was presented for each of them in the launch window meetings. Only the smallest chain company⁴ at that time agreed on taking the product in as part of their assortment. The sale through this channel was not enough to "defend" the production costs of the product; insufficient production amount compared to high production cost. When four individuals directly or indirectly in the product development process of the product were asked what they think went wrong, most of them were quick to answer that they really didn't know. Further, some of them argued that factors for success or failure are hard to point out in post-facto.

⁴ This chain company was in the beginning the year (2015) bought of one of the three remaining chain companies

Although, after getting some time to think, all of them came up with reasons, which they seemed to feel confident about were the reasons for failure. The most crucial factor all of them agreed on was that the fact that the product didn't get enough distribution. Furthermore, the project team leader believes one of the factor for the product A not having better sales through the one channel which they did get, might be found in packaging. Here, he believes that the product had too low entity weight compared to the size of the packaging. So even though the consumer might have liked the product, they might have felt tricked or fooled by the size of the packaging.

The reason for not getting the two biggest chain companies to agree on a listing in their assortment for the new product might be found in the chain companies own "private labels". A short time after product A was rejected, both of the chain companies launched similar products that where meant for the same costumer segment as product A. The project team leader is sure that hadn't it been for the competing products being launch in the same launch window, Product A would have been a success.⁵

The business developer manager at Alpha AS, who was indirectly involved in the development process, is under the impression that the product may have been trying to succeed in a conservative segment area where the consumer is already set on buying existing products. He claims that the Norwegian consumer is a creature of habits and adds that the price was too high in combination with a product that was too complicated. When asked about the price, he claims that they reduced the raw material in order to press the price down. This might have led the consumer to have felt deceived with a product with too little content in the packaging: a lot to pay and feel that after eating it that it should have been more. When looking back, he realizes that the NPD process should have been stopped. Here, he argues that they should have had pre-calculation and better tests that could have shown that they gave the consumer too little value for money. He continues explaining that even though they had good design, which could persuade the consumer into buying the product one time, they wouldn't buy it again if they felt it was to expensive compared to the amount of food in the package. When the business developer is further asked about the NPD process, he argues that a more formalized structure could have help to see the problems with Product A. If objective individuals from the outside of the project could have evaluated the product and process, they might have seen the problems with it. When people work with developing new products, they might get somewhat blinded to see what the consumer really wants. He claims that one of the reasons here is that they can't see numbers from test and analyzes objectively.

Even though the interview objectives at Alpha AS still believe that Product A is a great product, they will not try to launch it again. The reason for not trying to re-launch given by the project leader is that he personally don't believe in products directed towards children: "They aren't stupid". They can't assume that they will go for their assumptions and get tricked into buying the products. He further argues that they have to change their focus to trends in the market instead and hope for perfect timing. Product trends can be a success for a customer segment even though it isn't meant for them. He acknowledges that they need insight to consumers and use them to develop their products. The team`s vision is to take food trends from e.g. London, Paris, USA and in some way commercialize them into products.

5.1.6 Product B – a case of a successful product

The second product that has been investigate, referred to as Product B in the report, was launched January this year (2015). So far it seems to be a success. In beginning of April, they

⁵ This contradicts what he earlier said regarding the entity weight might be the reason for failure

had already sold the estimated quantum for the whole year of the product. The idea behind the product was inspired from a study trip to England where representatives from both Alpha AS and one of the biggest chain companies were present. At this trip they recognized together that a product category, which were based on Alpha AS's commodity product and didn't exist in Norway, had a strong growth in the market. After seeing this potential, Alpha AS and the chain company agreed on a deal where Alpha AS would develop this product and give the chain company distribution rights. Although this was only a "gentlemen's agreement" without any signed contract, Alpha AS values the relationship to the extent that they wouldn't go to any of the other chain companies with the product.

In the beginning of the development process, the two parts agreed on a framework for developing the product in cooperation, which included an open pre-calculation and model for development with a transparent process for both parts. An important notion throughout the project was that none of the other competitors were to be mentioned about this product. From the beginning they had a clear strategy that the quality was to be exceptional: none of the competitors should be able to beat them on this feature. In other words meaning that even though competitors would copy the product with a cheaper version, they would not be able to compete with a superior product.

The process of developing the product started with looking at how they could manage to create and produce this product in Norway. The outcome of this search, after defining the product features, was to allocate the production to an existing factory where they completely changed the purpose of the facilities. After calculating the production volumes and the potential profit, they saw that the investments in manufacturing cost et cetera could be justified. At this point in the process the business developer at Alpha AS said they just hoped that the product would be good. So far, as mentioned in the beginning of this section, the product seems to be a success. When the interviewees were asked to identify factors that may have influenced the success, all of them point to the fact that the chain company was apart of the development as a significant factor. When the product was launched, the chain company promoted the product in TV commercials, profile store campaign papers, and good exposure in the stores. Even if Alpha AS would have wanted to make this effort to promote the product themselves, they couldn't have afforded it, nor taken the risk of doing so. The business developer believes the process of achieving this success would have taken much longer time hadn't it been for the chain company's efforts.

The incentives for the chain company for promoting product B to this extent may be, according to the project leader, that they see the product in a bigger context. Products like product B might be a type of product that attracts consumers who usually fill up their carts a little more (maybe 40-50 % more).

Study 2 - a benchmark with two different suppliers

In order to compare Alpha AS with other suppliers who produce products to grocery stores, two very different companies were taken under the loop. Due to confidentiality reasons, the first company will be named "Beta AS" and the second will be named "Omega AS". These two companies are close competitors in the Indian food segment. The big difference is that Beta AS is a large company with a vast diversity of products in many product segments, while Omega AS is a small family company with only one focus: Indian food.

5.2 Beta AS – a large supplier to the grocery industry

Beta AS is one of the biggest suppliers to the grocery industry in Norway. They have a variety of product brands and can be found in almost every product category such as frozen food, fresh food, ready dinners et cetera (company homepage). Their products are not based on any commodity product, and they stand free to enter and develop any kind of product. The interview object representing this company is in charge of a product portfolio within a specific product category. One of the main responsibilities for this job is to develop new products to the product category.

5.2.1 The Notion of Innovation at Beta AS

Basically, the notion of innovation here is more or less the same as at Alpha AS. The interviewee describes innovation as a change to a product, improvement to the production processes or a change to design and packaging. Furthermore, he elaborates the change has to enhance to the degree where it gives the customer additional value.

5.2.2 The Notion of Success at Beta AS

For a product to be a success, the goals set initially have to be reached: this doesn't necessarily mean that the product has to generate profit. He elaborates this by explaining the intense competition in the market and that it is vital to maintain and improve existing market shares. In addition, product that doesn't generate profit may be a success if it can strengthen the company brand. He further draws associations to the ongoing price war between different actors where one has to join the battle to avoid losing it. Finally, the representative from Beta AS complements the definition of success, with the same elements as the interviewees at Alpha AS did: Success is in the end getting a product to stay in the shelves and generate profit. Preferably to the degree where the product can pay for its own joint marketing fee.

5.2.3 The New Product Development Process at Beta AS

The development of new products at Company Beta follows a formalized stage-gate model and is according to the interview object a very effective way of bringing new product ideas to the market. The first stage in the product development process is to come up with ideas. Small teams or individuals generate these ideas by looking at the market situation and acquired market analysis in order to find "holes" to fill. Often, these ideas come from looking at other product segments where a product, which they see a potential for transforming into their own segment, are doing well.

The second step in the process is to present these ideas (often more than one idea) to a council. The council is a group of about 20 people who works as a gate and makes all the decision on whether or not to pursue an idea and grant the necessary resources. The next stage is for the project team to develop a business case that is based mostly on numbers: estimated profit, production cost, media plan, communication etc. When this is done, the project team goes back to the council to get further approval and resources. In the third stage, the final touches to the product is done before it is up to the council to give the final approval to take the product out and present it to the chain companies. This process is the same for every product development project. The process is often finished a whole year before the actual launching of the product. Every time they launch a product, they launch it for the whole country at the same time; no pilot sales.



Figure 4: Based on interview, Beta AS. (Source: Author)

5.2.4 Relationship with the Chain Companies and Launch Windows

Beta AS normally presents many different products ideas for the chain companies in the meetings ahead of the launch windows. In the meetings, there is in reality only one representative from the chain company who acts as the wall or gate between Beta AS and the consumers. Because the time limit between the meeting and the actual launch window is so short, Beta AS has to start producing of the new products before they know whether or not they get distribution. The respondent at Beta AS explains that a lot of the decisions made by the chain companies, whether or not to accept new products, are based mainly on strategy and politics in order to best compete with the two other chain companies. The essential decision here, as reviewed earlier, is which type of listing the new product will get in each of the profile stores. It is very rarely that a supplier gets listed in all the profile stores owned by one of chain companies. As mentioned regarding the strategy and politics, a chain company may not agree on listing a new product solely on the reason that another chain company has already agreed on listing it. Although Beta AS is big enough to pay for shelf spacing, it is always the chain companies who decide to remove products if they want to.

As the chain companies focus more and more on their own private labels, the competition increases in many product segments/categories. A big problem is often that the chain companies make cheaper copies of their products. In addition, if Beta AS develops a new product that may steal market share form a private label, the chain company may deny them distribution. The chain companies also have the big advantage when testing their own private labels in their stores. Compared to outside suppliers, these tests are performed at a much lower cost.

5.3 Omega AS – a small supplier to the grocery industry

The interviewee at Omega AS acts as the marketing manager and has been involved in the company since 2010. He is responsible for all the negotiation concerning distribution and sales. Omega AS is a small business founded in Norway in 2003 by an Indian family. The initial purpose for the company was to conduct cooking classes based on the Indian cuisine for the Norwegian people. After a lot of interest in the food they made in these classes, they decided to test-manufacture some of the most popular recipes in a factory in India (2010). Even though they didn't have any distribution or plan on how to sell these products, they order half a container in their first shipment. The first retailer who agreed on a trail period for the products was a gourmet store in Oslo called Jacob's. NorgesGruppen (NG) owns Jacob's, which as mentioned earlier, is the largest chain company in Norway. The exclusive futures concerning Jacobs compared with almost every other store under the regime of NG, is that they stand free

to take in whatever product they want. After Omega AS products generated good sale figures, the store manager tipped other stores in NG, which had the same freedom, about the product. After additional stores agreed to list the product to their assortment, the communication with the central office at NG increased during 2011. After getting more and more voluntary listing in the more exclusive profile stores at NG, Omega AS got fixed-range listed into 300 of NG stores this February (2015). Being very satisfied with achieving this distribution, Omega AS will for now only focus on distribution through this channel. One year since they have changed design, label etc. Since then, the sales has increased by 138 %. Omega AS is dependent on expending to as many stores as possible since they don't have a high turnover per store.

5.3.1 The Notion of Success at Omega AS

For Omega As, success is simply whether or not their products stay in the stores. In order to achieve this, their products need to have enough rollover so that NG wants to continue to sell them and not replace them with other products. Although NG is the one who usually removes products, Omega AS has actually removed a product at one occasion and replaced it with an alternative variant of the best selling product. Because NG saw that this product had higher potential than the previous product, they accepted the switch.

5.3.2 The New Product Development Process at Omega AS

In the period from they started selling products in 2010 to 2013 they had somewhat been doing this on a hobby basis. In 2013 they got a new board of directors with a lot of experience building up different brands. These individuals brought new strategic thinking to the table and recommended different changes on how processes were conducted. Even though they didn't have a formal framework, they built a best practice of doing things. The interviewee from Omega AS argues that you have to do this in the beginning when you are small: "find your way of doing things".

This "best practice" process has so far started with taking popular recipes from the cookery classes and travel to India to see if it is possible to make the products there. Normally, the factory then produces 5-6 samples that they bring home. The board of directors is the first test panel, then family and friends. If they get satisfying feedback from them, they move the focus over on price and design of the product. At this stage, they also have to evaluate the aspect regarding what is realistic. Even though the company discovers products with a lot of potential, they see that the marketing job is too extensive for a small company to be able to make them successful. With an initial generation of about 15-20 product ideas, they generally narrow it down to about five products before presenting them in the launch window meeting. In this meeting they hope that maybe one or two products makes it to the stores.

Compared to the two other companies that have been investigated, Omega AS cannot afford to pay for the best shelf spacing (the eye-catching height). What they can do is offer each merchant some extra products free of charge to ensure that their less attractive shelf spacing always is filled properly up with products. After trying out having demo-stands in the store where they sold their products, the company noticed a huge difference in sale. Today, this is without a doubt the most important work the company do in order to increase their sales. Stores who give the company extra space for their products, gets demo-stands in return a given number of times throughout the year. The interviewee argues that this is a "win-win" as both of them generate profit from it. Furthermore, he argues that the most profound work for succeeding is communication with the stores. Before the companies could negotiate with the individual merchant about placement et cetera, but the new laws are much stricter on the

“planograms”⁶. This is actually a big advantage for the company as prior to this law, the larger actors were able to have more frequent sellers to the stores than they could. The result back then was that the bigger actors removed product-placement given to Omega AS. This gave them less fronting, maybe one product facing instead of the initial three, which resulted in less turnover/rollover.

5.3.2 Relationship with the Chain Companies and Launch Windows

Earlier in this chapter, this report has touch on the subject of paying for shelf spacing and how this may be a barrier for smaller actors. So far, Omega AS has not paid anything for their shelf spacing even though NG listed them in over 300 stores. The reason for this may be that NG consider the products from Omega AS as exclusive and different from what the other chain companies can offer. For now, the interviewee thinks that they can avoid paying for shelf spacing as they are new and small. Although, if they continue expanding, he thinks that NG will demand payment for the space they already have. This is based on the fact that he is knows that larger actors pay a lot for their shelf spacing.

In the short time Omega AS has been a part of the grocery store industry, they have learned how much power and control the chain companies have. According to the respondent, there is a very pore selection of good rice products in the market. If it weren't for the domination of private label in this product category, the company would have been able to launch a rice product with significant higher quality than existing products.

5.3.3 The Competition between Beta AS and Omega AS

According to the interviewee at Omega AS, the competition with Beta AS has both positive and negative aspects. The positive sides are that having more Indian food products in the stores gives a synergy effect to sales. The interviewee claims that this synergy has helped Indian food to have a growth in the Norwegian market with 23-24% in sales the last two years. Further, he explains that products from Beta AS help opening consumer's eyes to Indian products. Here, he refers to all the different campaigns Beta AS has conducted on their Indian food products. The negative aspects when competing with a larger competitor is that they loose all negotiation regarding shelf spacing. While Beta AS can afford the best shelves (consumer eyesight) and extra promotion in the stores, Omega AS products are placed at the bottom or top shelves. When Omega AS is to attend the next launch window meeting (May, 2015), they expect that the negotiation will be tougher than previous meeting. This expectation is based on their growth the last year and the fact that Beta AS is getting more aware of the increasing competition from them. The latter reason meaning that Beta AS are willing to pay more to prevent Omega AS getting more spacing and additional products to the shelves.

5.4 Chain Companies Effort for Product Success

Based on the interviews with employees in Alpha AS and individuals from two additional companies together with secondary data, it seems that there are two circumstances where the chain companies chose to make an efforts to sell a product. The first one is the case where they have all rights reserved on a specific product. This may be regarded as a competitive advantage towards the other chain companies. The second circumstance is the case where the supplier

⁶ Planograms – “A planogram is a diagram that shows how and where specific retail products should be placed on retail shelves or displays in order to increase customer purchases.” (WhatIs.com)

pays them to make an effort (joint marketing). This effort entails media coverage as mentioned earlier, consumer brochures, TV commercials, newspapers, enhanced shelf spacing et cetera. Alpha AS only negotiates with the central office at the chain company. As for the first of January this year (2015), sales personal are not allowed to touch the shelves in the store. Before, they had some liberty to move around on product in the shelves and come to the store in order to make sure that expiration dates, shelves were filled up; fronting labels etc. were in order. Alpha AS argues that this makes it harder to affect the sales in the store. High amount of waste is often a reason to why merchants chose to remove products from shelf. In some cases the supplier are forced/it is a requisition that they take return on products that reaches the expiration date: reduces retailers risk. There is a very low threshold from the chain companies' side to remove products from the stores. Several of the interviewees from the suppliers side claim that stores don't do much in order to sell more in order to change downtrends.

6. Analysis

This chapter analyzes the empirical findings in light of the theory presented in the previous chapter. The focus of the analysis will be on the notion of innovation and success at Alpha AS and how Alpha AS develops new products in relation to how scholars recommends the development should be done. The analysis also focuses on the relationship between Alpha AS and the chain companies as the empirical findings have uncovered the importance of getting distribution through them in order to achieve product success. The purpose of having this broad perspective is to properly back up the arguments in the discussion.

6.1 The Notion of Innovation and Success

When interviewing the employees at Alpha AS about how they perceived innovation and success it became clear that none of them had a clear notion of either of the terms. As elaborated in the literature review, both of these terms don't have an exact definition, but scholars agree on the meaning of them. This section will first look into how Alpha AS regards innovation before moving over to how they regard success in contrast to how scholars perceive the same terms.

All of the respondents at Alpha AS talked about the work performed in relation to the development of new products as innovation. There was no talk about the newness or the innovativeness of this work, only that when they did something new, it could be regarded as innovation. Although there was a general obscurity of the notion of the term innovation, there were some aspects of the notion they all agreed on. This aspect was that innovation is to offer something new to the customer; new flavors, packaging, et cetera. Furthermore, the sales manager talked about innovation as important for existing products in the market. Here he elaborated that if existing products stopped evolving, their risk of dying out increased. He further explained that if a product in a product line starts dying it could further be destructive for other products in the same product line. Summing up, Alpha AS understand the importance of being innovative, but they lack a predetermined definition of the concept.

In the literature review, this report elaborated the difference between an invention and innovation. It also touched on the subject of different types of innovation (product, - process, - organizational innovation, etc.) and that innovation has different characteristics as incremental and radical depending on the "newness" of the invention. None of these different forms and types of innovation were mentioned in the interviews as it seems that the notion of innovation in Alpha AS is so broad that it involves everything that has some sort of newness to it, both in products and processes. In order to further investigate how Alpha AS regards innovation when it comes to products and the process of bringing them to the market, two products were

examined. Alpha AS regarded product A, which was considered a market failure, as an innovation partly as the packaging had a new design. They also regarded the item in the packaging as an innovation, even though from an outside perspective, was existing components put together. In order to produce product A, they had some challenges with factories and packaging. Whether or not Alpha AS regards this process as innovation is unclear based on the data collected. Product B, which was regarded as a market success, was a product based on an idea from products existing in retail stores in England. Taking this idea and creating their own product was regarded as an innovation in two ways: the actual product innovation, and the factory change they had to design in order to manufacture the product. The packaging was not regarded as an innovation as they used existing packaging. To conclude Alpha AS's notion of innovation, it seems like every small change they make to a product or process or new product they make, regardless if the change is new to the market or not, is termed an innovation. Drawing on Garcia and Galantone's (2001) definition of innovation, product A may be characterized as an increment innovation as the new product only advances a small step from earlier products. As product B has a higher degree of newness, it is slightly more difficult to determine which form of innovation it should be characterized as, but as it is a product based on a commodity and doesn't stand out that much for existing products, it should also be characterized as an incremental innovation. If Alpha AS were to have a radical innovation in the future, the basis of the commodity product has to have a higher degree of change. The notion of innovation in relation to success and investment in new products will be further discussed in the next chapter.

Moving the attention over to the notion of success, the interviewees at Alpha AS had some different notions and opinions on what success is and how to define it. What they all agreed upon was that success was about reaching different goals. Moreover, while conducting the interviews and asking the respondents about success, two things stood out. First of all, none of the people interviewed in person had a clear vision of what success was. Ergo, Alpha AS may not have defined how success is supposed to be perceived by the company or how to measure it. Second, the term success had a subjective notion. Some individuals in Alpha AS perceived product A as a success while others considered it a failure. As there are different types of innovation, the findings in this report also show that there are different types of success, as described in the literature review. These different types of success are not only depending on the goals, but also on the evaluation afterwards that may reveal unexpected factors and events. It also depends on how the product is separated into the process of making the product and what result the product achieves after being launched to the market. As described in the literature review, success may be separate into "project success" and "product success". When regarding product success, Cooper and Kleinschmidt (1987), argue that there are three dimensions that can characterize a new product as a success:

Financial Performance: covers the financial success of the product.

Opportunity Window: to which extent the new product opens up opportunities for the company in terms of a new category of products and a new market area for the company.

Market Impact: to which extent the new products impact on the market, both domestic and foreign.

These three dimensions are independent, meaning that even though a new product may not achieve high financial performance, it may be considered a success if it opens up new opportunities for the company. What Cooper and Kleinschmidt don't emphasize in their paper is how the goals are set and how the evaluation of these dimensions should be done in order to define whether or not the product may be termed success. When comparing the products that were investigated to the three dimensions that Cooper and Kleinschmidt (1987) argues can measure product success, product A fails on all three dimensions. As the product was removed from the shelves after a short period of time, it had no chance of succeeding on either of the

suggested dimensions. Product B on the other hand seems to be succeeding on at least two of the dimensions. Financial performance are reported to be well over the expected and the company are in progress of developing additional products to complement product B; in other words product B has opened up an opportunity to launch additional products in the same product category. In addition to Cooper and Kleinschmidt's three dimension of measuring product success, the findings in this research might implicate that there is a fourth dimension which product success might be measured on: the mission goal of the product. Respondents at both Alpha AS and Beta AS talk about new products having strategic mission goals. Here the branding manager at Alpha AS elaborates that if they have a market-leading product, they might launch a cheaper alternative in order to defend the main product from attacks. If this cheaper product is able to defend and help the main product to fortify its position as the market-leading product, it is difficult to measure the product success based on Cooper and Kleinschmidt's three dimensions. It is therefore suggested here that a fourth dimensions should be taken into consideration when evaluating the success of a new product. In order for this fourth dimensions to be evaluated, clear mission goals need to be set in the early development phase of the product. To then further evaluate the mission goal after the launch of the product, the different goals that where set has to be compared in several periods of time. E.g. Has there been any attacks on the main products since the launch of the cheaper alternative? How are the sales number on the main products compared to previous? How are the sales number compared to the estimate? A further discussion on why the measurements on success may be important will follow in the next chapter. Also, a reflection on how the notion of innovation and success may affect the way people at the company work, what projects to invest in and how the findings in this research might contribute to our understanding of the notion of innovation and success will be discussed.

To further investigate the difference between product success and project success, product A may be used for this purpose. The project of developing product A was a process where Alpha AS managed to create a product that where healthy and got great feedback on different tests on packaging design, looks, taste et cetera. So, can the project of creating the product be termed a failure because the chain companies accidentally had a similar product ready to be launched? This can be argued for and against. An argument for deeming the project a success can be based on the fact that they "successfully" created a product that had a good opportunity for becoming a product success. On the other hand, looking back at the process, there were some indicators that perhaps should have stopped the development process. Additionally, some blame might be found in the way the project was initiated. This is some of the reasons for why it is so hard to define success; there are very often arguments both for and against the interpretation. The conclusion in this report regarding product A will be to term the product a failure as the product was taken of the shelves without opening up any further opportunities for Alpha AS nor having any missions to fulfill. Although the development process of creating product A had some faults, the project of creating the product may be characterized as a success. This is based on Griffin and Paper's (1996) measurement that can be used in order to measure the performance of the project. From Alpha AS's point of view, product A scored high on all of these parameters, including innovation:

Project Measurements	Within Project Plan Targets
Launch on time	YES
Innovativeness	YES
Met Quality Specs	YES
Met Performance Spec	YES
Speed to Market	YES

Table 1: Project Measurements for developing product A(Griffin and Paper, 1996).

Based on the findings in this research together with Griffin and Paper (1996) and Cooper and Kleinschmidt (1987) dimensions on project and product success, a hierarchy model have been put together by the author to illustrate the dimensions of measurements within success. In the following chapter, the evaluation of success in relevance to setting goals is further discussed.

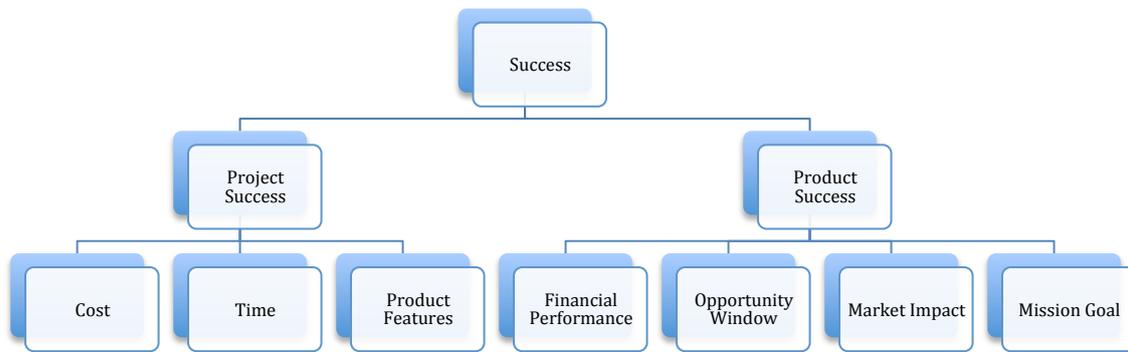


Figure 5: Success Hierarchy (Source: Author, Based on findings and Cooper, 1987 and Griffin and Paper, 1996)

6.2 Factors Influencing Product Success in the Grocery Industry

This part of the analysis will focus on which factors influences the success of a new product. The next part will then give attention to the new product development process before the attention will be given to the relationship with the suppliers.

After conducting all the interviews (both internal and external to Alpha AS), the respondents perception of product success and failure, what *they* think is the reason for success and failure, in addition to tracing product A and B, gave a summary of the factors in the table below. As presented in the literature review, Urban and Hauser (1993) put forward a list of 13 factors associated with success and 17 factors associated with failure based on their own and previous research by Booz, Allen and Hamilton (1982), de Brentani (1989), Cooper and Kleinschmidt (1987), and Duerr (1986). The table below compares the factors found in this research to the factors presented by Urban and Hauser:

Factors Derived from Data:	Theoretical Categorizations Urban and Hauser (1993)	
	Failure	Success
Insight to primarily and secondary data on the consumer		x
Getting distribution	x	
Product location in stores:		
Effort done by retailers		
Effort done by chain companies: campaigns etc.		
Packaging: look good enough for the customer to chose it		
Price	x	
Timing	x	
Taste		x
Private label competition		
Joint marketing demands		
Product match with customer needs		x
NPD process		x
Getting the customer to taste the product		
Effort with having demos in stores		
Strategic/political moves from the chain companies		
Pure luck		x
Branding		

The factors from this research not matching the ones from Urban and Hauser's (1993) seems to mainly be related to the industry conditions in the Norwegian grocery industry. Although the respondents had various opinions on what influences product success, all of them mentioned distribution, shelf spacing and product match with customer needs as the overall important factors for success:

Distribution

Only three chain companies that they can get distribution through. Depends very much on the relationship between the supplier and chain company. This factor matches one of Urban and Hauser's (1993) 17 factors of failure; "Inadequate support from the channel of distribution".

Shelf spacing

Shelf spacing and location in the store is according to all of the interviewees the most important factor after getting distribution. If the consumer can find the hypothetically product easily, the probabilities of sale is much higher (ibid). As mentioned earlier, shelf spacing depends very often on the "joint marketing" agreement between the suppliers and the chain companies. When matching the factors derived from data with the theoretical categorization from Urban and Hauser, location in store or shelf spacing is not found in either the category of failure or success. Although shelf spacing may be essential for products in the grocery stores, it is considered as strange that it is not found in any of the factors put forward by Urban and Hauser.

Product match with consumer needs

Meets need, willingness to pay the price, likes the taste, willingness to re-buy. This is one of the factors of success listed Urban and Hauser and may also be the most well-known factor for success in academic literature.

In addition, four of the interviewees emphasized the knowledge and insight work done through primarily and secondarily data on consumer behavior. The branding manager at Alpha AS emphasizes the importance of packaging and why the right balance between boring and too flashy design might be underrated as a success factor. He further elaborates this by giving an industry example; The most selling mayonnaise in Norway (the only competitors are private labels and some import brands) celebrated their 60th year anniversary in the market by making a nice gold tube of the product instead of the regular white and yellow tube. In the period where this tube was sold (at the same price) instead of the regular one, sales numbers decreased severely. After an investigation on why this happened, they found out that the consumers felt they were paying more for the product than they normally would. As people don't buy mayonnaise as often as e.g. milk, they usually don't know the average price for the product. Likewise, the brand manager emphasizes the vital factor not to mess with the consumer's expectancy: do not try to make the consumer believe that the product is something it isn't. Drawing on Urban and Hauser (1993) factors of failure and success, the factor of packaging is believed to go under the success factor "match customer needs", but in an industry as the food industry, packaging may be seen as a separate factor from the actual product as it has so much influence on the customer whether or not to buy the product for the first time.

Furthermore, one of the respondents at Alpha AS, which has not been involved in the development of either of the projects, also points out the human factor in the development projects as a plausible problem for the company. Since the project team is small and involves the same people from the beginning to the end, they may be overconfident in their own beliefs surrounding the product in development. When analyzing tests and results, they may emphasize too much on the good outcomes and overlook critical errors/problems concerning the project. The same respondent suggests that they should have some form for objective view, or outside of the project individuals to help the project team make better decisions. The project team leader on the other hand explains that they have tried to have an outside panel act as gates in the development process and that this didn't work. He argues that this was impossible to implement, as the panel didn't have any prerequisite for taking decisions concerning the product's fate. The dilemma whether or not to have a formal product development process can be seen in light of Urban and Hauser's success factor to "use new-product process". Compared to other authors as Nijssen and Lieshout (1995) and Cooper (1993), managing and understanding the new-product process is a vital factor for why products succeed or fail. Based on their research and the Project Management Institute (PMI) that claim that having a formal NPD model is the single most important factor whether the product becomes a success or not (Project Management Institute, 1998), a recommendation to Alpha AS to have a more formal development process will follow in the discussion chapter.

When comparing all of the respondents that are working with product development in one way or another, both internal and external to Alpha AS, they stress that product success is not possible without some efforts done by the retailers. Two of them go as far as arguing that if you have a good tasting product together with right timing and price, you have a guaranteed success if the stores choose to "go for it". One of the retail-managers on the other hand argues that this is not always the case and refers to their efforts surrounding promoting of the new "Coca-Cola life". Here, they gave the cola the best place in the store, stands and demos. Demos help them to sell maybe 20 more bottles than usual, which is not much compared to the effort done by the store. He, together with several other individuals interviewed, explains that products often fail because the typical Norwegian shopper is a creature of habit and is not open to buy new products before trying them.

Several of the interview objectives speak of the rising power of the chain companies. Not only do the chain companies control the distribution, the retail houses, the shelf spacing, the campaigns, and location in store, but they also sit on valuable information about the consumers. This information is impossible for other actors to obtain. Shopping patterns et

cetera, are recorded in the cash register and analyzed in order to understand the consumers better (Dulsrud and Beckstrøm, 2005). Based on this inherent knowledge on consumers' preferences, the chain companies can develop new products and conduct modifications of existing products at a lower risk and cost than other outside actors. Even though the private labels haven't been as common in Norway as the rest of Europe, the growth has been significant the last decades.

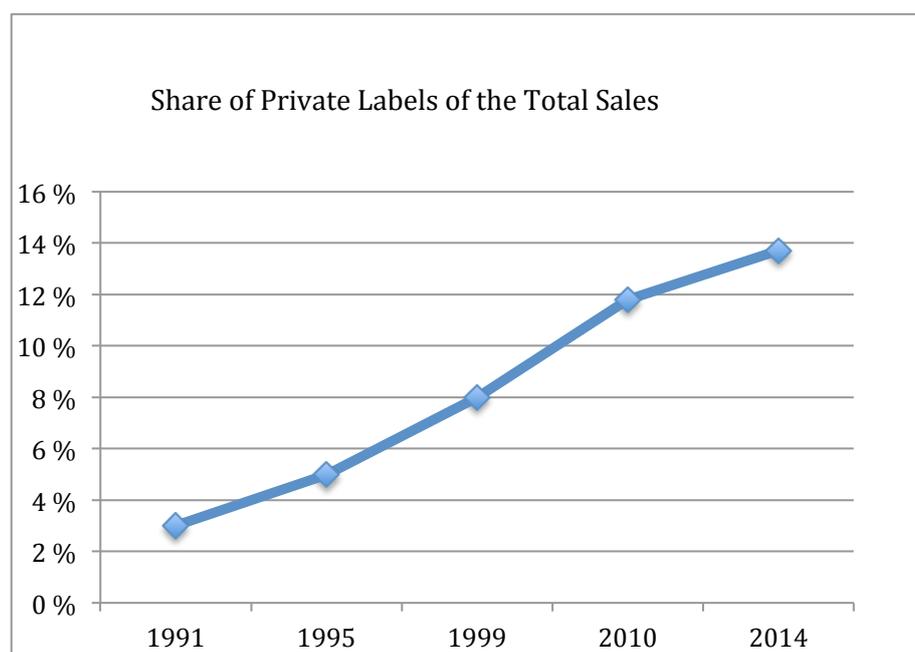


Figure 6: Share of Private Labels of the Total Sales. (Source: Author. Based on numbers from Daglivarehandelen, 2014 and Magma, 2012)

For the chain company these private labels are important for several reasons as mentioned in the empirical findings. One of the reasons mentioned was that they might create leverage on the suppliers if they produce similar products as the suppliers do. Furthermore, the business developer at Alpha AS also adds that this leverage isn't the only challenge for the suppliers as the private labels are getting better in quality. This means that suppliers, as Alpha AS which focus on high quality products, will have increasing competition in the years to come. This will not only apply for new products, but also for exiting products that have been in the stores for many years. In other words, this will be an even more important factor to take into consideration when developing new products. For smaller suppliers, the only option may be to produce private labels for one of the chain companies, as was the case for a small chocolate company in Norway (NRK, 2015).

6.3 Alpha AS and the New Product development Process

Even though the whole grocery industry is characterized by very high new-product failure, there will be actors who are better than others to develop new products that succeed. How good and efficient Alpha AS is to develop new products compared to competitors is hard to determine, and is not the focus of this research. However, this section will look closer on how Alpha AS performs the development of new products compared to a couple of models and research studies conducted in this field. The two-benchmark companies, Beta AS and Omega AS, are used in order to compare how two very different companies conduct their development. This is done to better comprehend why different actors develop new products the way they do. Here, the definition of success is again unclear because one company may define product success for just staying in the selves in addition to having a small profit, while

other companies may pay for the new product to stay in the shelf no matter what because the product has a “mission”. Whether or not this mission is successful might be difficult to determine.

For Alpha AS, developing products based on commodity products may have some advantages compared to disadvantages as well as affect how the new product development process looks like. One advantage is that they know their consumers well after selling products to more or less the same consumer segment for many years. Because they know their consumers well and operate internationally, they can also somewhat easily enter new markets. Also, when creating new products, they know many of the consumer’s preferences and needs. According to Blank and Dorf (2012), the new-product introduction is a good fit when existing companies create new products for consumers that are well known. Here the market is well defined and the basis of competition is understood. The steps they define for the NPD is close to how Alpha AS conducts development of new products:

Concept/seed → Product development → Alpha/Beta Test → Launch/ 1. ship

(Source: Blank and Dorf, 2012)

Although this stage-chain would be a good fit when the grocery industry had independent actors in every stage in the value-chain and the suppliers had all the power⁷, this chain misses what this research has uncovered as the most crucial stage in the NPD process: the distribution barrier. Before being able to launch a new product, Alpha AS must get through the distribution barrier that the three chain companies have created. Based on the data gathered for this research report, getting through this barrier is affected by the following factors:

- Having a product that doesn’t directly compete with a private label owned by the chain company
- Creating a private label for the chain company
- Pay for joint marketing
- Creating a product that fits the strategy and profile of the chain company
- Giving one of the chain company exclusive rights to the product
- Involve one of the chain companies in the development process

As a result of this barrier, it can be argued that Alpha AS not only has to view their consumers as the customer when developing new products, but also the chain companies as the customer. Balancing these two types of customers may be a difficult task. According Blank and Dorf (2012), who have developed a model they call “The customer development process”, every company has some methodology and process for developing products. This methodology and process is based on detailed plans, checkpoints and goals for steps along the process (sizing markets, estimating sales, developing marketing requirements documents). Although they have all these procedures and checkpoints, the fact is that nine out of ten new products end in failure (ibid). According to the same authors, there is one crucial factor that separates product that succeeds with products that fail. This factor is dependent on *who* gets out in front to meet the customers. If the product development with senior management is out in front early and often, the chance of succeeding is much higher compared to handing the project over to sales and marketing people who have not participated in the NPD process. Drawing on this statement from Blank and Dorf (2012) and comparing it to how Alpha AS work, Alpha AS is today not conducting the end of the NPD correctly as they hand over the new products to sales people in Alpha AS who then meets the chain companies in the launch window meetings. In this comparison the chain companies is regarded as the customers. Furthermore, according to Blank and Dorf (2012), a company who develop new products should have a parallel process

⁷ Late 1980`s, early 1990`s, before the rise of the chain companies

when conducting the product development. This parallel process is based on going out to potential customers and investigating their needs before committing to a specific path and before defining the product specifications. Based on the interviews with people involved the development process at Alpha AS, they do this to a certain degree. Although it seems like this is done after they pretty much have created a concept based on secondary market analysis. What they don't do, is regarding the chain companies as their customer in this process. As the chain companies are the ones who decides whether or not the product gets distribution, it can be argued that Alpha AS should consider them as the customer when developing new products.

The analysis in this report wont go in much detail of the Blank and Dorf's customer development model, but point out the some parts of it that may be important in order to achieve success. One of the important parts of the model that Alpha AS should try to answer, are the questions relating to the "customer discovery" part of the model:

- Have we identified a problem a customer wants solved?
- Does our product solve these customer needs?
- If so, do we have a viable and profitable business model?
- Have we learned enough to go out and sell?

When answering these questions, both the chain companies and the consumer should be, as mentioned, regarded as the customer. Further in the "Customer Development" phase of the model, the NPD project team should have the authority to radically change direction on the product and be flexible in their mindset. To succeed in this process, they must possess the ability to listen to customer problems and uncover things that may be faults in the product, the presentation, the pricing, et cetera. Blank and Dorf emphasize the importance for the company to embrace constant change and the ability to put themselves in their customer's shoes to uncover their needs and perspective. When studying the data from Alpha AS, it looks like the NPD project team in Alpha AS acquires these abilities when regarding the consumers as the customers. They seem efficient when it comes to adapting the product idea and make changes to it after reviewing customer feedback. Although, all their efforts in the NPD process is on focus group, tests at the office, stores, schools et cetera and none of these test are in reality relevant to the "other customer"; the chain companies.

Based on the findings from tracing Product A and general descriptions on how the normal NPD projects are initiated, it seems that Alpha AS generate many ideas based on market analyses conducted by a third part. These are analyses on trends, customer preferences et cetera, which all the actors in the industry have access to. Generating ideas based on the same data as competitors, in this case other suppliers and the chain companies, may result in a higher chance for competition in the same product segment. This was the result for product A as many other suppliers also focused on the findings in the same analysis. Here, they had the same goal of developing a product that could cover the need of younger people who wanted an in between and easy handle meal. The result was that Alpha AS didn't get sufficient distribution because the two largest chain companies had developed similar products and didn't want competition from product A.

According to Tatikonda and Rosenthal (1999), a NPD project can be regarded as success, where the success is based on a high level of project execution. Although the project might be regarded as a success, the product can be characterized as a market failure. This was the result as the findings show, for product A. Tatikonda and Rosenthal argue that the reason for failure may be found in poor product planning (e.g. wrong product features) or in poor market introduction (e.g. inadequate sales promotion). These are two factors that might be linked to the failure of developing product A. In order to improve the initiation and planning of NPD

projects, Alpha AS may need to get better understanding of the front end of the development of new products where the different targets and goals for the project are set.

When looking at the actual process where Alpha AS carries out the project development, the project team manager claim that they have a very informal and flexible process with only natural stages. Tatikonda and Rosenthal (1999), defines relative flexibility in the project management approach as "project management autonomy". Based on the fact the NPD team at Alpha AS seems to have a high level autonomy, the definition on flexibility fits well to the NPD process at Alpha AS. Additionally, the NPD project team seems to have a relative high level of resource flexibility that the same authors also mentions as a prerequisite for defining the process a flexible. When regarding the formality of the process, Tatikonda and Rosenthal (1999) observations in their research show instances where having a formal development process where effective for projects having high uncertainty. Although Alpha AS has relative low uncertainty seeing they base their products on commodity products and the customers are well known, doesn't mean that an *informal* way is the best approach. Based on their findings, Tatikonda and Rosenthal (1999) argue that in order to have an effective product development process, the company should try to have "flexibility within a structure". By this they mean that the process should have a predetermined structure with flexibility in the work within that structure; high formality and high autonomy, they argue, are effective together. As several of the interviewees at Alpha AS stated: Product A could have been stopped earlier in the process if they had predetermined stages where they could have realized that Product A had faults. When regarding how a predetermined structure could look like, Coopers stage-gate model gives insight to a commonly used form of structure. According to Cooper (1990), the stage gate model is an effective tool to manage, direct and control product innovation efforts.

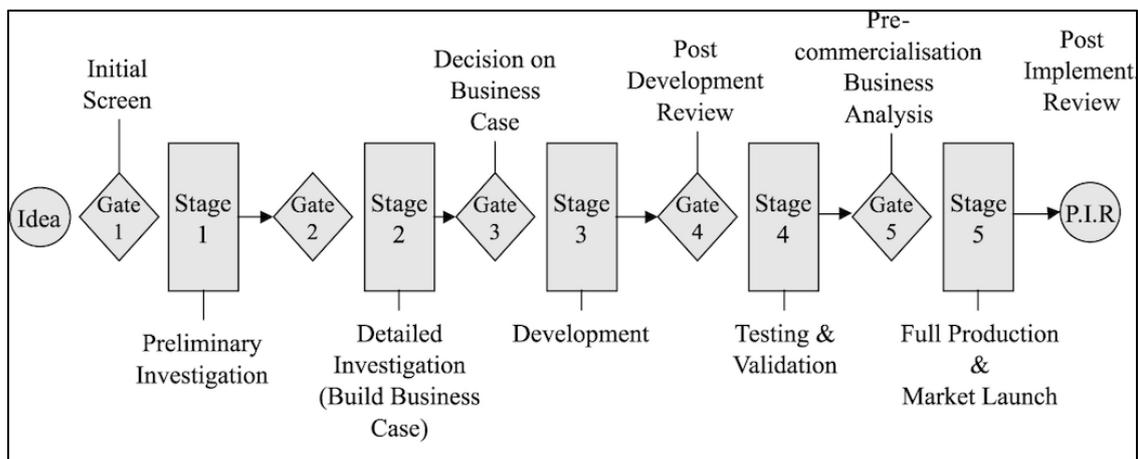


Figure 7: Stage gate system. (Source: Cooper, 1990)

The purpose of the model is to give a conceptual view over the process and to be used as a tool in order work through the development process of a new product as effective as possible. According to Cooper (1990), studies show the companies who have implemented stage gate systems or models, have better performance rate. Even though the NPD team manager argue that having models for developing new products doesn't work for them as every project is so different, the fact that there are indicators that product A should have been stopped before getting launched, could be an argument to contradict the managers claim. In Coopers stage gate model, the stages are meant to illustrate where the work is done and the gates are placed in between the stages to ensure that the quality is acceptable. Even though Beta AS is successfully using a stage-gate model based on this methodology where they have a formal council with up to 20 people that work as a gate, doesn't mean that Alpha AS should do the same. Compared to Beta AS, Alpha AS does only develop products within a certain product area and have a much smaller product development department to keep track of. When

considering how Alpha AS performs the NPD process today and comparing the process to how Cooper suggests predetermining a set of stages with different gates, the process is actually very similar. The only difference is really the predetermined gates, which in reality already naturally exists. The stages are pretty much the same. A suggestion could be to implement one or two predetermined gates in order to validate and make sure that people not directly involved in the NPD process has the same view as the team members in order to avoid the problem mentioned earlier about people in the project team being blinded by own beliefs. Additionally, it can be argued that there are at least two more benefits of implementing a more formal structure to develop new products: The respondents at Alpha AS expressed that people who not normally work with the NPD process at a daily basis often participate in the process. In these cases, a firmer structure with predetermined stages and gates could help them to understand their tasks in addition to achieving better performance and effectiveness in the project. Also, having a final gate before the launch window meetings where they could simulate the meeting and sales pitch could help to improve the presentation and persuading of the chain companies.

Looking away from the actual stage gate model, Cooper (1993) argue that there are 13 key activities the NPD process should contain in order to succeed:

- Initial screening
- Preliminary market assessment
- Preliminary technical assessment
- Detailed market study
- Detailed market study
- Predevelopment business and financial analysis
- Product development
- In-house product tests
- Customer product test
- Trial sell
- Trial production
- Precommercialization business analysis
- Production start-up
- Market launch

Based on the findings in this research report, it seems that Alpha AS have tried and are performing almost all of these activities to a certain extent. As for Blank and Dorf's model, Cooper doesn't take the distribution barrier and the "other customer" into account when creating models and identifying important factors related to the NPD process.

When examining the two products that were investigated, the huge difference in the development process was that one of them was developed in secret while the other one was developed in cooperation with one of the chain companies. Although the products were somewhat randomly selected, it may represent a very relevant problem. Alpha AS argues that the development of product B was a special case as it was based on a coincidence⁸ and that they in the future wont go to the chain companies early on in the process. This is because they fear that the chain companies might steal the idea and create their own private label based on the idea. Based on the respondents, Alpha AS appears concerned regarding their own product development process. Compared to other industries that are more characterized by technology, patents, company secrets and other intellectual properties, this industry is more characterized by products that can easily be copied. This might be the reason for the concern: they want to keep their development secret in order to be first to the market with a new product. According to the brand manager at Alpha AS, they put a lot of effort into distinguish themselves from

⁸ The idea for the product came from a study trip to England with representatives from both companies

competitors when creating these new products. Andersson (1996), who have written a paper on the art of being first, argue that in order to create product differentiation and brand differentiation, the company must adapt the needs of a chosen market segment in a way that clearly and communicably differs from competitors' products. This seems impossible if Alpha AS continuous to develop products based on the same market analysis as the competitors do. Andersson also identifies 15 other problems when companies try to differ themselves. In these 15 problems that Andersson lists, seven of them can be linked directly to the failure of product A:

- Having products with wrong name, design or packaging (tried "fun" names and had a very advanced design on the packaging)
- Products that are so sophisticated that customers are unwilling to pay for them
- Slow launch with too little communications support to make an impact
- Underestimating the cost of differentiation (factory and packaging costs too high to defend the sales)
- Products that are priced too high at launch and never achieve volume (Product had to high price compared to entity weight)
- Mistimed launch (the same time as the chain companies had similar products)
- Mistaken belief that the company knows what the customer need better than they do themselves.

When examining the product development process at the three companies, which has been gathered for this research, it seems that there are two factors that influence how formal the process structure is: 1. How long they have been performing product development. 2. The size of the company. Beta AS, who by far is the larges of the three companies, has been conducting product development for over 50 years. They have a strict and formal stage-gate model for developing all of their products. Alpha AS on the other hand, has been systematically conducting development of new products for nine years. Here, they have a small transparent group lead by a team manager. The process has no formal stages, but according to the project leader there are some natural stages along the way. The third company, Omega AS, cannot be compared to the two the other companies in size. Still, they have continuously developed products since 2010. In this time they have found a "best practice" with simple testing of product taste and production possibilities. The NPD team at Alpha AS is organized as a multifunctional team and is lead by a team leader with authority. The team involves activity from different people from different functions in the company. This team arrangement is according to Cooper (1993) an essential ingredient in order to successfully execute a stage-gate game plan.

6.4 The Relationship Between Chain Companies and Suppliers

In this section the relationship between the chain companies and mainly Alpha AS is examined. In order to properly describe why this relationship is so important for success, the section will start by painting a picture of how difficult the circumstances for the suppliers in this industry are.

As the findings in this research report show, the utmost crucial factor for product success in the Norwegian grocery industry is whether or not the product gets enough distribution. As a consequence, the relationships with the chain companies are very important for the suppliers. The industry is as mentioned in the empirical findings characterized by a concentration with only three actors dominating all of the distribution channels and retail stores. The power balance has made a shift from where the suppliers set the rules to the other way around. This have resulted in the suppliers not only having to think about making products for the end-consumer, but also satisfying and fitting into the strategies and politics of the chain companies.

Because of this transformed situation, the negotiation between the two parts has gotten tougher from the suppliers point of view: they don't hold the best cards anymore. The different demands from the chain companies to the suppliers might be as mentioned earlier: joint marketing, bonuses, rebates and complicated transaction systems. Because of the secrecy and confidentiality surrounding these negotiations, it is difficult for the suppliers to know what terms and deals the competitors get in their contracts. Based on the interviews, it seems very likely that different suppliers pay very different amounts for the same kind of deal. When the largest newspaper in Norway interviewed representative from various suppliers about the contracts, almost every one of supplier representatives refused to answer anything about the negotiation with the chain companies (VG, 2005). When the Norwegian state channel, NRK, made a documentary about the same subject, they performed a more "confidential research" which revealed that suppliers wish to get a law in order to prevent the chain companies from demanding many of the fees they demand today. Because very little research has been conducted on this area, the media is almost the only secondary source to be found on this subject (Dulsrud and Beckstrøm, 2005). There have been cases in Norway where suppliers have sued the chain company for taking advantages of the market power. This resulted in the suppliers losing in court, which further resulted in their entire assortment being removed from the stores: loss for both parts. This may be a reason for the suppliers choosing to agree on "unfair" treatment and not pursue any further lawsuits; they don't risk to get thrown out of the stores.

Alpha AS has to relate to all of the three chain companies in this industry. As stated in the empirical findings, each of these relationships is very different depending on factors as the history of doing business, contracts, loyalty and different retail frames et cetera. As Alpha AS has developed a couple of products together with one of the chain companies in addition to producing some private labels and some other activities not examined in this report, they have established a much closer relationship to this chain company compared to the two others. One of the advantages of having this closer relationship is that for some products they have been able to avoid the launch window dates for season-based products in order to get better timing to market. Alpha AS sees this as a huge advantage as they for example can launch Christmas products in November instead of the September launch window. After investigating product B and examined what seems to be they key factor for success for this product, all the distribution and efforts conducted by the chain company seems to be the key factor in addition to the product being well received by the consumers. As a result of the success of product B, Alpha AS seems to highly value their relationship with this chain company. How this closer relationship to one of the chain companies affect the relationship to the two other chain companies is difficult to say. It is also difficult to know to which extent the two other chain companies are aware of how the cooperation between Alpha AS and this chain company is, but for future business it may not be wise to get locked into only one distribution channel. Seeing it from an outside perspective, it looks like the relationship between the chain companies and the suppliers in the grocery industry can be describe as type of relationship in between "arm length transaction" and "arm-in-arm dealing" (businessdictionary.com). Although the relationship is closer than in an arm length transaction, it seems relative easy for a chain company to change suppliers to their stores, especially for suppliers who base their products on commodity products. This because these products are very difficult to distinguish from supplier to supplier, and the consumer may not mind that the stores switch supplier as long as these products has a certain quality and good price.

As getting enough distribution is crucial in order to succeed, an important task is to persuade the product category manager at each chain company to list the new product into as many stores as possible. Ensuring fix range for costly products seems especially important, as these products need more distribution to cover the cost of production. When regarding experiences from Alpha AS and Beta AS, a chain company may not be willing to list a new product if one of the two other companies already has agreed on listing the products. A dilemma here may be that if Alpha AS in their first meeting with one of the chain companies agree on a listing

where only a few stores get fix-range listed and the other stores get voluntary listed. This may then be an obstacle for their meetings with the two remaining chain companies. As mentioned earlier, voluntary listed may result in a higher probability of failing, so if they don't achieve enough fix-range listing, the dilemma is whether they should choose not to go with the first chain company at all and hope that the next chain company will give them better listing. If they come to the next chain company with some listing from the first meeting, they may not get any listing at all as a consequence of the chain company's strategy. Having certain product lines for each chain and "all rights reserved" to one chain company may be confusing and frustrating for the consumers as they don't know which of the profile stores may have the product they want to buy after seeing a commercial for the product.

Joint marketing and the different demands that the chain companies require from the suppliers in the negotiations are also an important part of the relationship between two parties. As the terms in the negotiation can be expensive, large suppliers may get an advantage as they can put pressure on smaller suppliers and keep them from entering the stores. The chain companies on the other hand may use the negotiations to pressure the larger suppliers with smaller private labels if they do not fulfill the demands in the negotiations (NRK, 2015). Because the Norwegian consumer is regarded as a creature of habit⁹ and expects to find certain products in the stores, the chain companies pressure the suppliers differently. As the findings in this report show, Omega AS didn't have to pay any joint marketing fees or any other fees as their products fitted into the chain company's own strategy. Additionally, in the case for Omega AS, the chain company knew that Omega AS couldn't afford any forms of fees. For Beta AS on the other hand, the chain company knows that Beta AS can afford to pay, which results in a much higher pressure. According to Dulsrud and Beckstrøm (2005), who have written a paper on slotting fees in Norway, the use of such fees is controversial theme in international scholarly literature and competition policy. In their paper, Dulsrud and Beckstrøm (2005) conclude that joint marketing (slotting fees included) seems to contribute to some positive and negative effects for the different actors involved:

Limited assortment in the stores

Almost only the big suppliers can afford the marketing cost and shelf price associated with joint marketing. Here the big suppliers can use this system to out buy smaller competition.

Higher price on product for the consumer

No research can confirm the actual deal between the chain companies and suppliers because of secrecy and confidentiality agreements, but it is assumed that it is a fix upfront fee from the suppliers to the chain companies.

Lower competition among products

Avoid price competition by not allowing certain suppliers to the market.

7. Discussion

In the analysis, how Alpha AS regards innovation and success in relation to academic literature was investigated. It was concluded that they had no predetermined notion of either of the terms, nor of how to measure success. Both of the investigated products, A and B, were characterized as incremental innovations based on Garcia and Galantone (2001) definition. When comparing the data on success to the literature review, it was elaborated that success can

⁹ Interviews: Brand manager at Alpha AS and Product developer at Beta AS among others.

be divided into project and product success, both with separate parameters of measurements. Based on the measurement for project success, both product A and B was characterized as a success, while only product B was characterized as product success. Furthermore, an additional dimension of measuring product success was suggested based on the findings: the mission goal. When comparing factors derived from data to theoretical categorized factors, one important factor of success was not to be found in previous research: location in store/shelf spacing. This chapter will discuss why the notion of innovation and success may be important for the company to understand and for who in the company that this may be important. Also, *when* and some suggestion on *how* to measure product success is discussed.

7.1 The Notion of Innovation and Success

This section will first discuss why and for whom the notion of innovation is important in relation to success before moving the focus over to the importance of the notion of success and how and when to measure product success.

As elaborated, respondents at Alpha AS consider the work performed in relation to the development of new products as innovation. There was no talk about the newness or the innovativeness of this work, only that when they did something new, it could be regarded as innovation. In the analysis, product A and B were considered to be incremental product innovations based on Garcia and Galantone's (2001) definition. Why is this important in relation to success and for who in the company is this important? First of all, distinguishing what is new to the company and what is new to the market could be argued to be important for several reasons by answer questions like: what have the company done before? What are they good at? What are their strengths in existing products? What new resources and capabilities are needed if they are to develop radical innovations?

If the company makes an incremental innovation, they are continuing making a product which that they may already be great at making. Here they know their customers well, they can to a larger extent anticipate sales, production costs etc. Defining the new product as incremental or radical sets the scene for the development - the development teams, sales people, marketing et cetera can better distinguish the requirements needed in investments and effort towards the developments process, distribution and consumers. If the company decides to go for a radical innovative product instead of an incremental, larger investments may be needed in factories where new process-technics and production machines are required in addition to higher marketing costs in order to get the consumer to recognize and buy the new product. Also, the company has to deal with higher uncertainty regarding sales, customer response, market impact and so on. This is because radical innovation may be far more extensive of what is normally done by the company. By mapping innovation it may be easier to determine the company's capabilities to handle new innovation by looking at previous developments. By doing so, it can help employees understand the requirements need and reveal the company's agility, how customers responded to previous innovations, and may for example show that it can take time for a radical innovative product the get roots in the market. Furthermore, relating the mapping of innovation in relation to factors influencing success in the case of the grocery industry, radical innovations may have a higher chance of getting distribution as it doesn't compete directly with private labels and other suppliers. Also, the chain companies may also be interested in distributing the product as it can give them an exclusive product not found in other stores. As presented in the empirical finding, the sales manager at Alpha AS talked about innovation as important for existing products in the market. Here he elaborated that if existing products stops evolving with incremental steps, the risk of dying out increases. The branding manager at Alpha AS further explained that if a product in a product line starts dying it could further be destructive for other products in the same product-line. Although the Norwegian consumer is characterized as a creature of habit by most of the respondent, investing in continuous development of existing products in this industry seems to be of high importance.

When summing this up, investing in incremental innovations seems to be important in order to reduce risk of products and product-lines dying out in addition to strengthen the brand and increasing sales. Radical innovation on the other hand seems to be important where new consumers are the target and a way to increase the chances of getting distribution and capturing a new market segment. Alpha AS seems to be doing many things right, but might benefit for a higher focus on their innovative work. Categorizing new development projects into incremental and radical innovation projects could be a good start for people in and around the project to understand the magnitude and requirements for the project. Although respondents at Alpha AS say that they don't focus on things that have been done wrongly in the past, it can be argued that even though it is correct to focus on what has been done right, it is important to keep in mind previous factors for failure so they don't make the same mistake twice.

Moving the focus over on success, respondent at Alpha AS interpretation of the concept was greatly dependent on their position at the company. This may be a result of the company not having a predetermined notion of what the term means. In order to improve the development of new products, a predetermined notion not only on innovation but also on success may be helpful. Having a clear definition on these concepts may help to improve communication and process work and guide which product ideas to invest in. In order to create a common view on success, the term may as previous research has suggested be divided into project and product success, both with separate parameters of measurements. A good motive for dividing the concept into project and product success, found in this research, is to show that even though a project was executed perfectly, the product may still end up as a market failure as some luck and tailwind is needed in order for the product to be a success. Because these are factors outside the control of the project leader, successful projects ought to be characterized as so in order for the company to progress. When diving success into project and product success, each of these divided terms may then have predetermined goals for each parameter of measurement which are set in the initial stages of the development phase. These goals should then be continuously evaluated and reported. As was shown in the analysis part of this thesis, a model for defining success could be further developed based on this ranking order of measurements:

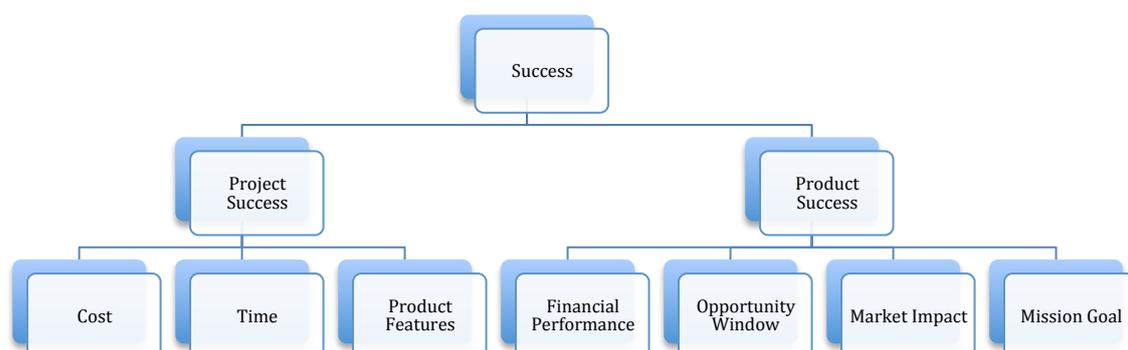


Figure 8: Success Hierarchy (Source: Author, Based on findings, Cooper and Kleinschmidt, 1987, and Griffin and Paper, 1996)

Based on the analysis of how the companies investigated in this research perceive product success, a fourth dimensions has been suggested in addition to Cooper and Kleinschmidt's

(1993) three dimensions: the mission goal. As suggested, goals for this dimension are to be set already in the initiation of the development; this as the mission goal is the whole reason behind the initiation. Although this can be regarded as intuitive, this should be a clear predetermined goal that states the purpose of the product and should be followed up with proper evaluation after the product is launched. This becomes especially important for a product that for example is developed in order to prevent attacks on a main product.

When setting goals for a product in order to determine whether or not it should be defined as a success in the future, the goals ought to be in perspective of what can be realistically expected from a company. For a company like Omega AS, who has no experience from neither the grocery industry or developing products, success may be viewed as just being able to reach the stores with a couple of products and have some financial return. For bigger companies like Alpha AS and Beta AS, who has delivered product to the grocery industry for several decads, product success ought to have different goals then just entering the stores. Although it is hard to get products to stay in the stores, a higher level goal then just entering the stores could for example be to stay and fortify a shelve position in addition to creating financial return. For further development and improvement of the NPD process in Alpha AS, parts of the projects that were carried out rightly and wrongly should be label under terms that have been clearly defined. When interviewing people in Alpha AS about product A and B, it seemed that they had not evaluated factors that influence either the failure nor the success of the two products. As both products had recently been developed, the respondents directly or indirectly involved were able to resonate during the interview and point out factors that might have affected the outcome. So although Alpha AS have a platform they share files and logs communication, there seems to be no formal evaluation and reporting of the development projects. If Alpha AS in the future decided to develop a more formal NPD process where they for example use a stage gate model, a reporting system could be helpful to evaluate earlier projects and products in order to properly design a model based on what they have uncover as successful factors.

As examined in the analysis chapter, Alpha AS regards product A as product failure, yet the development project of creating the product was regarded as a success based on the execution. In order to improve the NPD process and in the future create products that have a higher chance of succeeding, a common view on success and innovation should be in place to properly determine factors and events that are important. To better improve the NPD process, Cooper (1993) suggests to undertake an analysis of past new product projects in the company where both failure and successful products in addition to aborted projects should be included. The analysis could here consist of a strength and weakness analysis on each of them where they focus on what was done well and what was done poorly. This should be done throughout the whole project where they search for good practice and areas for improvement (ibid). In order to carry out this properly, a clear view on how success may be needed in order to get the best possible outcome of this analysis. Projects or processes that might have been executed exceptionally might get forgotten. In these projects, innovative methods that worked or didn't work might also be forgotten. Here the notion of innovation could also be an important factor as Alpha AS may need to learn what is "new-to-company" or "new-to-the-world" to understand the magnitude of their work. As new product development is an intense part of the grocery industry where a launch windows may contain 1 700 new products (Dagligvareleverandørens forening), Alpha AS may also benefit from clear definition of product innovation. As the market seems to be so agil and the factors that separate success from failure are so hard to distinguish, the right focus on what innovative products is could help Alpha AS determine how much efforts should be put into convincing both the chain companies and the consumer to buy their products.

In this first section of the chapter, the importance of having a clear and predetermined notion of both innovation and success has been discussed. Although previous theory explains what innovation is and that success can be divided into project and product success, it is here discussed for who and why this predetermined notion is important. As was seen at Alpha AS,

employees had different opinion of whether or not product A was a success. If the concept had been divided into project and product success, they assumedly would have agreed that it was a project success and at the same time a product failure. The conclusion of the discussion is that this notion may improve the communication at the company, the process work and guide which product ideas to invest in. The people directly and indirectly involved in the new product development process could also benefit from a better understanding of the concepts as they can further understand why the innovative projects were initiated in addition to what is required of them in their position. Also, by dividing success into project and product success, the project team can be better evaluated and recognized for their work, even though the product didn't succeed.

7.2 Factors Influencing Product Success

Based on the empirical findings, the analysis in this research has uncovered that Alpha AS should try to understand both the end-consumer and the chain companies (distributor and competitor) as their customer. According to Trott (2012), the crucial factor for success lies in the company's ability to acquire and utilize knowledge before applying it to the new product development. The key, Trott argues, is to listen to the customer in order to achieve this. In other words, Alpha AS has to satisfy the needs of both the consumers and the chain companies in order to succeed. As a result of this, the relationship to the chain companies are very important. If the chain companies don't want to list the products, there are no other way to get distribution and in other words succeed. The result of this research shows that getting distribution depends heavily on the size of the supplier and their ability to pay for joint marketing. It also depends on to which extent the supplier's products compete with the chain companies own private labels in addition to the relationship between chain companies and supplier. After one of the chain companies was involved in the development of product B in addition to working together on a couple of concept products (which are not discussed in this report), it seems that they slowly have developed a much closer relationship to this chain company compared to the to others. An advantage here is that they may guarantee distribution through this chain company if they continue to develop exclusive products to them. Additional advantages could be if they cooperate further in the development process, they might get access to the chain company's own consumer data and planogram analysis. The disadvantages, on the other hand, may be that they lock themselves into only one distribution channel and get very dependent on the chain company's strategy. As discussed earlier, a big part of the chain company strategy is to develop private labels. If the chain company was to invest in the first two stages of the value chain (primary manufacturing and processing) where Alpha AS is located, the close relationship may cease back to an arm-length distance again. Depending on the size of the company and how they produce their products compared to the amount of the distribution achieved may also be a factor that affects the financial return of the company. For a big company like Alpha AS, they need to get a significant amount of distribution and sales in order to cover as the high factory expenses. In addition, if the factory is hired, the owner may use the facility for other products that are more profitable. For smaller companies like Omega AS, who import their product and have low costs, may generate profit by only having a fraction of the distribution.

Having good shelf spacing is according to all of the respondents, of very high importance. If the chain companies don't have special incentives for selling the products (like product B), the only way to achieve good shelf spacing is to pay for it (joint marketing). A less, more attractive way may be to make private labels for the chain company, but here the financial returns and lost brand recognition are significant. When the factors derived for data was compared with the factors that Urban and Hauser put forward as influencing new product failure and success, shelf spacing or location in store were not matched to any of them. This is odd taken into

consideration that this seems like an obvious factor in any retail industry. Shelf spacing and location in the store is according to all of the interviewees the most important factor after getting distribution. If the consumer can find the hypothetically product easily, the probabilities of sale is much higher (ibid). As mentioned earlier, shelf spacing depends very often on the “joint marketing” agreement between the suppliers and the chain companies. When matching the factors derived from data with the theoretical categorization from Urban and Hauser, location in store or shelf spacing is not found in either the category of failure or success. Based on the collected data and the analysis of factors that affect the success of new products, it seems that the most important factor doesn't lie in having a product that the consumer likes (best taste etc.) and desires. The most crucial factor seems to be getting the chain companies to promote and bet on the new product. The findings in this thesis may implicate that this might be done in three ways:

- Having a product that doesn't compete or steal margins from the chain companies and on the same time, attract consumers who typically buy larger quantum of groceries (e.g. high-end products). In other words try to fit the strategy of the chain company
- Participate in what is called “joint marketing”
- Produce products for the chain companies under the chain companies own “private label”

7.3 The implications for the initiation of new products

Alpha AS mainly makes and creates products based on commodity products. Although the company have been selling their commodity product for many decades, they have only systematically conducted product development for nine years. When Alpha AS sells the raw commodity product, the price of the product follows a market price (spot price), which for this type of product is very volatile. The processed products on the other hand follow a fixed price. By having a fixed price on the processed products, it helps the income of Alpha AS to be more stable because it works as a contra cycle. On the basis of this situation where the processed products works as “buffer”, these products are of high importance. It can therefore be argued that Alpha AS should put more effort into developing these products. Based on the interviews, it seems like they are often just hoping that their assumptions about the consumers are right and hoping that the new product will be a success. When several of the respondents talks about products that have succeed in the past, they tell that for some of the ideas they just decided to “go for it” without thorough testing. Because of the product success of these products, Alpha AS might be a bit bias to the formality of the NPD process. An additional problem may be that because they are a large supplier they rely on getting distribution as they are capable to pay for joint marketing in many cases. As the main focus of Alpha AS is to sell the raw commodity product, where they make most of their money (Annual report), less focus may have been given to the processed products. This argument is based on the fact that Alpha AS has an overall high turnover, but only have one or two persons employed on a full-time basis developing new products. The additional people involved in the NPD process are often randomly involved. An advantage here might be that new people involved may be motivating and give impulse for the existing people working with NPD. What may be a disadvantage on the other hand is that these random people are not familiar with processes or how to proceed in the different stages of the development. As Alpha AS seem to lack a formal way of evaluating and reporting the events and factors regarding success and innovative work, it may be difficult to get insight to previous projects and products. As this report has previously discussed, a major factor for product success is getting enough distribution and how to achieve it is also

discussed. Based on this discussion, it can be argued that the NPD project team need to acquire more knowledge about what happens after the development project is finished and handed over to the sales staffs. This information can be applied in the early phases of the development process to better figure out how to balance the interest of both the chain company and consumers. Regarding implementing a more formal stage model at Alpha AS, it is difficult based on the data collected in this research to come with a final recommendation of how the process at Alpha AS should look like in order to perform optimally – Nevertheless, previous research studies show that an implemented stage gate model have better product results (Cooper, 1990). The negative parts of a stage gate models may be all the time spent on preparing and presenting product to the gate councils. If the council in addition doesn't have any prerequisites to determine whether or not the project should be stopped, as the NPD team manager at Alpha AS claimed, the stage gate model loses its purpose. On the other hand, if the council is put together with people who do have these prerequisites, a NPD project may be stopped before the cost and expenses get significant high. As the NPD team may have difficulties to interpret test and feedback objectively (might be blinded by a wish to succeed and belief in own ability), the council can work as effective gates throughout the process. Additionally, they might also give valuable input to the development.

When examining product A, findings show that they based the idea of the product on market analysis performed by a third part and which all of the other suppliers to the grocery store had access to, including the chain companies. The result for product A was that it got limited distribution through only one supplier. The reason for this be may that other suppliers and the chain company had at the same time developed similar products assumingly based on the same market analysis. If Alpha AS in the future continue to base their ideas on market reports which all the other competitors and chain companies also have access to, the risk of them coming up with similar products could be assumed higher. E.g. if a report says that men who watch football desire a snack to share with their friends during the game, the result may be several suppliers in addition to the chain companies create products to cover this need. Here, even though the products in reality are very different, they may have very similar design and cover the same need et cetera. This may in other words result in only a few of the products developed among the suppliers entering the stores, as was the case for product A. Based on the result from tracing Product A, it can be argued that the initial product idea should at a lower degree be generated based on third hand market analyses which every actor in the industry has access to. This as the likelihood for higher competition in this segment and the increased chance that the chain companies are in development of similar products. Instead, perhaps more effort should be allocated trying to generate ideas on own consumer knowledge and primary research data. Product B on the other hand was initiated together with one of the chain company's. In addition, the idea for the product was not based on market analysis, but from a foreign market where they are not present themselves. Based on the fact that product B seems to be a success, Alpha AS should maybe consider how they could initiate similar projects in the future. Although the NPD team manager and the business developer at Alpha AS say that product B was a one time project, it may be argued that they should reconsider that decision. For future project, taking new product ideas to the chain companies in the early stages might be a risk worth taking. As the company regard their high product quality as a competitive advantages, the high-end new product ideas may be the right ideas to take to a potential meeting. This because the risk of the chain companies stealing the ideas would be much lower as most of the private labels still are low-end products.

8. Conclusion

This chapter concludes the thesis by answering the research questions that were generated to fulfill the purpose of the thesis. The first of the three research questions was to find out how Alpha AS perceived success and innovation. After analyzing the answers from the respondents at the company, the conclusion was that there was no common view on either of the concepts. Although there were many different interpretations on both, the closest to a common view of success was that success was loosely viewed as reaching goals. Innovation on the other hand was mainly viewed as something “new” to the company and to the customer. Based on this, the importance of having a clear and predetermined notion of both innovation and success was further discussed. Although previous theory explains what innovation is and that success can be divided into project and product success, it was here discussed for who and why this is important. At Alpha AS employees had different opinions of whether or not product A was a success. If the concept had been divided into project and product success, they assumedly would have agreed that product A was a project success while the actual product was a failure. Based on the analysis of how the companies investigated in this research perceive product success, a fourth dimension was suggested in addition to Cooper and Kleinschmidt’s three dimensions of measuring product success: the mission goal. The goals for this dimension were suggested to be set already in the initiation of the development. In the end of the discussion related to the first research question, it was concluded that a common notion on both innovation and success may improve the communication at the company, the process work and guide which product ideas to invest in. Also, the people directly and indirectly involved in the new product development could benefit from a better understanding of the concepts as they can further understand why the innovative projects were initiated in addition to what is required of them in their position. Lastly, by dividing success into project and product success, the project team could also be better evaluated and recognized for their work, even though the product didn’t succeed. The second research question that was examined was based on what implications the initiation of new development projects had and how this understanding may help to develop more successful products. For the initiation of new development projects, the thesis considered two parts to be especially important in order to succeed in the Norwegian grocery industry: 1. Not base new ideas too heavily on third market analysis; 2. Have the interest and needs of the chain companies in mind when deciding what product idea to go for. Understanding both of these parts was argued to increase the chances of getting through the difficult distribution barrier that exists in this industry. The third and final research question was to find out what factors were regarded as most influential on product success. Here three factors stood out as the most fundamental factors for a new product to succeed: distribution; shelf spacing; and product match with consumer needs. Although product match with consumer needs is essential, getting enough distribution seems to be the “make it or break it” factor for new products in this industry. It was here also raised a question to why previous research hasn’t put any emphasis on shelf spacing or location in store as a factor relating to success or failure. Finally, the findings in this research show that if a supplier succeeds in getting one of the chain companies to promote and bet on the new product, chances for product success seem to be at a much higher level. Furthermore, the findings might implicate that this can be done in five ways: 1. Having a product that doesn’t compete or steal margins from the chain companies and in the same time, attract consumers who typically buy larger quantities of groceries (e.g. high-end products). In other words try to fit the strategy of the chain company; 2. Participate in what is called “joint marketing”; 3. Produce products for the chain companies under the chain companies own “private label”; 4. Give one of the chain companies exclusive rights to the product; 5. Involve one of the chain companies in the product development process. In the end, some company recommendations to Alpha AS were given. Here, a more formal process of developing new products where a common view on innovation and success is suggested for implementation. Also, a better system of reporting and evaluating each project and product is suggested for improvement. Due to the fact that distribution is so hard to achieve in this industry, a higher focus on the chain companies as the customer is also

recommended. For future research, balancing the interest of two customers in different stages downstream should be investigated in addition to the importance of shelf spacing as a factor for product success.

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10. Appendix

Appendix I - Interview Questions Store Managers

- Hvordan vil du beskrive innovasjon?
- Merkes det at "selgerne" er tatt vekk? Vet du hva årsaken var for at de ble fjernet?
- Hvilke insentiver har dere i butikken for å velge eksponering av et spesifikt produkt?
Er det sentralkjeden som styrer dette?
- I hvilken grad kan dere i butikken bestemme vareutvalget?
- Når nye produkter kommer til butikkene, gjør dere noen tiltak for at de disse skal selge?
- Gjør dere selv noen tiltak for å selge mer av et produkt dere har tro på?
- Forskjellen nå som dere har egne varer som blir produsert av kjeden?
- Som del av Norges Gruppen, har dere vært borti at produkter blir testet i butikken?
- Hvordan kontrollerer man om et nytt produkt selger bra? Kanskje vanskelig med oversikt på 20 tusen produkter...
- Fjerning av produkter, hvem bestemmer?
- Forskjell på safari og meny?
- Bidrar dere i butikken med info til kjeden som kan være med å utvikle nye produkter?
- Hvilke faktorer tror du spiller inn på om kjedene velger inn nye produkter i forhold til sine egne?
- Hva tror du er de viktigste faktorene for at et nytt produkt blir en suksess eller ikke?
- Hvor mange av de nye produkter i hvert lanseringsvindu vil du si overlever?
- Hva tenker du om de nye produktene til Alpha AS? Potensiell suksess?

Appendix II - Interview for Alpha AS respondents

- Hva er din rolle i bedriften?
- Hvilken typer arbeidsoppgaver har du?
- Hvordan vil du beskrive innovasjon?
- Kan du beskrive prosessen fra dere finner en ide til dere lanserer produktet? Stegvis, gi gjerne eksempler
- Hvor lang tid vil du ca. si det tar fra dere har en ide til dere legger frem forslaget til butikkene?
- Hvordan tester dere antagelser og nye produkter?
- Hvordan tas beslutninger om å satse på en produkt ide eller en antagelse?
- Hvem tar denne beslutningen?
- Hvor ofte hender det at dere avslutter et prosjekt underveis?
 - evt. hvordan/hvem tar denne beslutningen?

- Hvordan settet prosjekt gruppene sammen?
- Hvilken innsikt har resten av organisasjonen i produktutviklingen? (komme med innspill osv..)
- Kan du fortelle om prosessen dere hadde med "Produkt A" produktene?
- Hva føler du var vellykket og mislykket med den prosessen?
- Kan du fortelle om Alphas AS sine nye produkter?
- Forklar gjerne prosessen fra dere fikk ideen til i dag? (et par uker siden lansering)
- Vil du beskrive de nye produktene for innovative?
- Hvilke strategiske planer har dere for hvert lanseringsvindu?
- Hva tror du er de viktigste faktorene for at et produkt lykkes eller feiler?
- Bruker dere noen verktøy eller modeller som støtte til utviklingsprosessen av nye produkter?
- Går det fint om jeg sender deg en mail med oppfølgings spørsmål om det trengs?

Appendix III - Interview for Beta AS Omega AS Respondents

- Kan du fortelle kort om bedriften?
- Hva er din rolle i bedriften?
- Hvilken typer arbeidsoppgaver har du?
- Hvordan vil du beskrive innovasjon?
- Kan du beskrive prosessen fra dere finner en ide til dere lanserer produktet? Kan du gi et produkt eksempel her
- Har dere noen strategiske planer for lanseringsvinduene?
- Hva tror du er de viktigste faktorene for at et produkt lykkes eller feiler?
- Hva vil du si er et suksessfullt produkt?
- Hvordan tas beslutninger om å satse på en produkt ide eller en antagelse?
- Hvem tar denne beslutningen?
- Hvor ofte hender det at dere avslutter et prosjekt underveis?
- evt hvordan/hvem tar denne beslutningen?
- Bruker dere noen verktøy eller modeller som støtte til utviklingsprosessen av nye produkter?
- Diskuterte dere noen gang å lage et "Private Label" for noen av kjedene?
- Har du noe forhold til begrepet "Joint Marketing"? Om dere har inngått en slik avtale, vet du noen om hvordan disse pengene blir disponert?
- Går det fint om jeg sender deg en mail med oppfølgings spørsmål om det trengs?