Collaborative Product Development Between Large Retailers and Small and Medium-Sized Suppliers: The Case of Food Products in South Korea

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Making efforts to break down the barriers between the intra-company departments as well as cooperating with external partners can become the driving force to create a successful innovation in the new product development (NPD) process. This study deals with the case of developing retailer-initiated supplier brand, not the case of developing retailer brand or private brand where retailers have developed ew products with their own brand. Using case analysis of the new product development (NPD) process, where large retailers and small and medium-sized suppliers cooperate, we found that the vision, commitment, and leadership of the large retail ers are important factors to elicit the cooperation between partners and achieve new product development successfully, and that the large retailers' inter-departmental conflict adjustment is an equally important factor with the external cooperation issue. Unlike previous studies about the retailer-supplier cooperation for new product development in the food industry suggesting that position differences cause communication problems which is a major obstacle to the new product development success, this study suggests that large retailer's initiative role is a critical success factor in the NPD by the cooperation between small and medium-sized suppliers and large retailers.

Introduction

Many prior studies on the cooperation between businesses in new product development (NPD) have focused on identifying the success factors, especially looking at the processes from the perspective of the manufacturer (Steenkamp and Dekimpe 1997; Hoegl and Wagner 2005; Lakemond et al. 2006). When retailers and manufacturers cooperate with each other in the NPD process, adjusting conflict and improving communication which were caused by the perspective differences were suggested as important factors for success (Grunert et al. 2005; Olsen and Sallis 2010).

Few studies have focused on the distributor's role when managing suppliers in NPD projects (Melander and Lakemond 2014). In addition, most previous studies concentrate on the case of an equal partnership between distributors and manufacturers. However, when distributors are looking for suppliers to work with for an NPD and they could not find any but a small and medium manufacturer as potential partner they will need to take additional roles for a successful NPD. There is few research that addresses the role of retailers who are under high uncertainty in the NPD process due to the incompetency of their unsubstitutable partners. The NPD of retailers has mostly been the development of private brand (Andersen and Munksgaard 2009). It is nearly hard to find a retailer that participates in the new product development of supplier's brand. In that case, the roles of actors in the partnership

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should be different from those in the private brand development.

This study analyzes an NPD case of a Korean retailer in which the retailer develops supplier's brand rather than its own private brand. From the case analysis we attempt to explain what was the intention of the retailer and what motivated the participants to cooperate with each other in the NPD process. We will discuss how this type of NPD is different from the development of private brand.

Literature review

Large retailers tend to exercise a strong influence on small and medium suppliers over various aspects and it is not an exception in the new product development (NPD) processes (Andersen and Munksgaard 2009). The cooperation between retailers and suppliers for the new product development can be hampered by positional differences such as differences in strengths or educational backgrounds, etc., which may lead to a project failure. For instance, generally the manager of the retailer belongs to marketing department whereas his or her counterpart belongs to the R&D department of the suppliers. This positional difference due in part to different educational backgrounds or different job characteristics makes communication difficult between them (Sherman et al., 2005; Song and Parry 1997).

Andersen and Munksgaard (2009) studied intensively the actors' positional differences in the value network and the collaborative atmosphere, as key determinants of the NPD success between retailers and suppliers in the food industry. Positional differences refer to the problems caused by the differences in knowledge contexts, and the collaborative atmosphere refers to the factors such as balance of power that create a good atmosphere.

However, as in the present case, when the retailers are developing a new product with supplier's brand rather the private brand, major conflicts may arise from inside of the company and the meanings of the actors' positional differences or the collaborative atmosphere will convey different nuance.

For example, the newly developed supplier's brand may in competition with the exitsing other manufacture brands or private brands in the same store. Therefore, inter-departmental disagreements in the retailer may arise, on whether such an NPD is really necessary to the company as a whole, or which department should take in charge of the project.

Actors' positional differences cause differences in knowledge. Therefore, when the retailers cooperate with the suppliers to the supplier who are in lack of market knowledge, their cooperation in the new product development process becomes more difficult (Andersen and Munksgaard 2009). However, as in this case, in the relationship between the existing supplier and retailer where the new supplier is participating as a customer to the existing supplier rather than as a supplier to the existing supplier, the cooperation problem due to the market knowledge difference will need a different interpretation. In this case, existing supplier will be in the position of the supplier to the supplier because existing supplier is supplying new supplier with raw materials and the new supplier processes them into new products and delivers them to the retailer. When such an NPD partnership is initiated by the retailer, the existing supplier and the new supplier may experience a lot of problems in cooperating and communicating each other because they had no previous relationship. Therefore, the key to the success of the NPD lays on how the retailer motivates the suppliers to cooperate with each other in the process.

Another way of understanding the retailer-driven NPD is to grasp the difference between manufacturer brand and private brand. Since retailers usually don't get in charge of research and development themselves, they prefer simple products of incremental innovation or products similar to

the existing ones (Olsen and Sallis 2010). In addition, compared to the manufacturers who focus on a specific product category, the retailers are interested in keeping store loyalty and pursue harmony between the various product categories. The retailers know very well about which products customers prefer, as they collect information directly from the customers through in-store customer contact. The products with private brand usually go to the market with a lower price than the manufacturer brand. Private brands are difficult to succeed when there is a powerful manufacturer brand in the same category (Olsen and Sallis 2010). In such a case, retailers may try to reduce risks by developing a supplier's brand rather than a private brand. In addition, the suppliers are more easily motivated to participate in the NPD process when it is about developing their own brand. They may also expect that the retailer has a good intention and is trustworthy.

Method

Because the retailer-initiated NPD with multiple suppliers is a rare case, we adopted a case study methodology to explore the complex process of NPD. In this research, we investigate how important is the retailer's willingness to cooperate with suppliers for NPD in the retailer-initiated NPD with multiple small suppliers. We also investigate the role of retailers to encourage cooperation between suppliers, and how they manage internal conflicts in the process.

We chose the NPD of the instant pre-cooked white rice in plastic packets by Lotte Mart for a case analysis. Lotte Mart is one of the largest discount stores in South Korea. Its sales revenue in 2014 was about 5.5billion USD, which marked the third-largest discount retailer in Korea following E-mart, Homeplus.

The development of instant pre-cooked white rice was initiatiated by rice & grain merchandising manager rather than by the food merchandising manager. It is a very unusual thing because instant pre-cooked white rice has been managed by the food merchandising manager.

The rice & grain merchandising manager came up the idea when she saw the supplier of rice had been struggling their rice. The rice consumption in South Korea has been continuously decline for decades, while Korean rice products are hard to export due to the lack of price competitiveness. The instant pre-cooked rice market has been dominated by a few major manufacturer brands such as CJ. Consumer has considered that instant pre-cooked rice is so expensive that it can't substitute rice. The rice & grain merchandising manager wanted to develop a new instant pre-cooked rice that is cheap enough to substitute rice. When she prepared for the NPD plan, food merchandising manager attempted to stop it. But the CEO of Lotte Mart thought that the new instant pre-cooked rice can benefit both the rice supplier and Lotte Mart itself, therefore, he ordered to proceed the project. The rice & grain merchandising manager had no experience of developing manufactured food, there for, she contacted the manufacturers of major instant pre-cooked rice brands but rejected. After spending many days for searching the manufacturer she found out Korea Bio-plant, a small equipment manufacturer of instant rice. Korea Bio-plant was not interested in manufacturing instant rice because its interest lies in selling equipment itself. The rice & grain merchandising manager persuaded the mangers of Korea Bio-plant by saying Lotte Mart will provide 200million USD interest-free fund to build an instant rice production factory. Finally, the managers of Korea Bio-plant accepted the suggestion because they believed that producing a successful instant pre-cooked rice might promote the sales of their equipment.

The price of new instant rice for 210g's is 0.5USD, which is 30 ~ 60percents lower than the existing ones. Lotte Mart has been able to reduce production cost by buying rice directly from existing suppliers and provide it to the manufacturer. Finally, the product was launched with supplier's brand with origin and harvest year on the package, which may increase customer loyalty.

The new instant rice was displayed next to the rice packages in the rice and grain corner urging the consumers that it can substitute rice.

Instant pre-cooked white rice in plastic packets released in April, 2014 and selling more than 10,000 a day after 75 days from its launch. The sales volume was close to that of CJ instant rice, the market leader.

Conclusion

The case of developing new instant rice which is priced 30% lower than the existing brands through the retailer's partnership with local rice supplier and instant rice manufacturer could have failed if the project was handled by the traditional food merchandising manager. Making efforts to break down the barriers between the intra-company departments as well as cooperating with external partners can become the driving force to create a successful innovation in the new product development (NPD) process. This study analysed the case of developing retailer-initiated supplier brand, not the case of developing retailer brand or private brand where retailers have developed new products with their own brand. Using case analysis of the new product development (NPD) process, where large retailers and small and medium-sized suppliers cooperate, we found that the vision, commitment, and leadership of the large retailers are important factors to elicit the cooperation between partners and achieve new product development successfully, and that the large retailers' inter-departmental conflict adjustment is an equally important factor with the external cooperation issue. Unlike previous studies about the retailer-supplier cooperation for new product development in the food industry suggesting that position differences cause communication problems which is a major obstacle to the new product development success, this study suggests that large retailer's initiative role is a critical success factor in the NPD by the cooperation between small and medium-sized suppliers and large retailers.

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