Living Labs as a potential private entrepreneurial innovation leverage on consumers

José Albors-Garrigos, Maria del Val Segarra Oña, Blanca de Miguel Molina, and Maria de Miguel Molina

Abstract

Until now academic literature has not paid sufficient attention to user led innovation in the consumer sector. Few publications have dealt with the subject covering mainly sport goods. On the other hand, Living labs have been understood as publicly or privately led initiatives to bring science and technology closer to the public. Nevertheless, consumers are a power for innovation leverage in the consumer sector which has not been sufficiently explored. New concepts such as that of Creative Consumers have examined this aspect.

This case study will analyze a sort of heterodox living lab that has been started with success by a Spanish firm, Mercadona, a leading merchandise retailer in Spain.

The system, which has been dubbed "Apron strategy" consists in bringing lead consumers to living labs set up by the firm and analyze, in a house environment set, how they use their products and which suggestions they have for alternative uses or improvements.

Keywords: Living lab, Co Innovation, consumers led innovation.

Introduction

This article aims at discussing a unique experiment set up by a large merchandiser firm in Spain. As it will be discussed the approach of the firm to their Co innovation program with their consumers (customers) is a blend of ethnography and crowd sourcing and the program setting could be classified as a heterodox living lab. This article will analyze the consumer’s motivation, their profile and selection process as well as the way the firm has linked the program with their innovation value chain by conveying the results of this bottom innovation approach to their suppliers who develop and carry out the product modifications and proposals to be launched by the supermarket retailer. The main contribution is the application of Living Lab concept to mass customization in a new consumer milieu.

Theory

Users and Open Innovation

Von Hippel was the first author who outlined the importance of users as a source of innovation. He (2011) identified users as main innovation promoters in industry. Later he has emphasized a paradigm change towards user centered innovation systems. According to it users find profitable to innovate contributing to the development of new products and services for themselves and, in many instances, reveal their innovations freely for the use of others. He claims a trend towards a democratized innovation which can be observed in certain sectors such as software and information technologies (free and opensource software) and also in physical products (Von Hippel 2005).

An application: Living labs
Living Labs as a potential private entrepreneurial innovation leverage on consumers

Living labs appear as a consequence or a natural evolution of the concepts discussed in the previous paragraphs. Additionally, this paradigm aims at responding at the need of industries with a tendency to serve standardised products or needing to detect unstructured emerging needs of tacit nature from consumers. These emergent segments have remained unobserved responding to the so called the tyranny of the served market pointed out by certain authors (Hamel and Prahalad, 1994). Some characteristics of this user centric innovation approach facilitate this observation. First, living labs allow a multiple knowledge context focus closer to reality while traditional marketing research is limited to a simple and single context. Second, there is a high degree of participation by the user where they are included in the process of value creation (Eriksson et al 2005). Living labs facilitate an innovation area where users will co create (co innovate) with developers and researchers and interact among them.

The Creative Consumer Milieu

According to Von Hippel (2011) we live the age of the consumer innovator. Consumers play a central and active role in the innovation systems1.

Berthon et al (2007) have approached the subject of consumers innovation by defining an alternative concept. creative consumers. They define creative consumers as "those customers who adapt, modify or transform a proprietary offering". Creative consumers are different from lead users since they will innovate with all types of products or services, not just with novel products, they are motivated by personal needs and do not necessary anticipate future demands and their benefit on innovation is of personal nature or prestige (Kleemann and Voss, 2008)2. Creative consumers are independent from the organization but nevertheless represent a relevant group since they are a rich source of innovation although may

Research Design

In our case we started by visiting more than twenty supermarket units and observed the context, how customer interacted in the context and how employees dealt with customers. Later we have analyzed numerous national and international journal and news clips as well as various business school case studies (HBR, Insead, IESE) and the firm annual reports from 2010 until 2013.

Through the external relations department we have interviewed the managers and some monitors involved in the Co Innovation program and we were invited to one session of one of their living labs where we could talk with some participants. The program managers provided as well ample data on the program and the outcome.

Case study

The firm. Context and corporate culture

Mercadona is a family owned firm. The actual holder of the majority equity, Juan Roig, bought it from his parents in 1981, at that time it had had eight stores with some 300 m2 of retail space each. Since 1991 when he stared to run the company the corporation has experienced an enormous growth and transformation. At the end of 2013 they have 1,467 stores all around Spain with a turnover of 19.812 mill euros and 74,000 employees and have a market penetration of 14,1 % in the Spanish food consumer market.

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1 The Economist, The rise of creative consumer, Mar, 10th. 2005
2 The Economist, 2005, ibid.
The success of the firm seems to be due to a peculiar culture and the development of flexible strategies along the firm life. The firm culture could be defined by some of the sentences of Juan Roig: "An office is a wrong place from which to view reality. If the customer and the employee are at the grocery store, if you want to learn, innovate and stay ahead of their needs, you need to be near him, listen and watch him". There are a number of milestones that define the development of Mercadona culture.

In 1993, Mercadona adopted total quality management (TQM) as a basis of their processes. This approach addressed five critical elements of their business. In first place it considered the customer as “The Boss” in top of their organigram. To service the Boss the price was a key service paid and, consequently, prices should be kept as low as possible but also as stable in time as possible, “prices always low “ became a company motto. Innovation was a value added paid to the boss including all aspects of the value chain. the company maintained a toll free customer service which was able to handle an enormous number of suggestions and complaints from customers (Blanco and Gutiérrez, 2008; Ton and Harrow, 2010).

The suppliers were considered as well a critical element. Mercadona has 2000 suppliers approximately of which 110 are integrated suppliers that have special agreements with the company such as long term agreements and cooperation in innovation, cost control support, procurement services, logistics, etc. These integrated suppliers are a critical element in the innovation process as we will discuss below.

Being a family owned firm, Mercadona shows culture traits which are characterized by involvement, team orientation, employee development, consistency, customer focus, core values, adaptability and flexibility which outline a performance-enhancing culture. This follows the propositions of some seminal authors (i.e., Denison et al, 2004). The founder, Juan Roig, has had a critical role in setting and maintaining the leading values of the firm. On the other, hand the strong internal promotion guidelines of the company and its level of autocracy have been relevant in the setting and maintenance of the innovation systems of Mercadona.

Mercadona traditional Innovation approach.

Juan Roig defines the mission of the firm as "Prescribing the necessary solutions so the boss can make his total shopping". Mercadona has been a leading food retailer in innovation. It was the first in Spain to incorporate the use of bar-code scanners in 1981 founding the association AECOC to promote its implementation. Between 2005 and 2008, it invested €600 million, of the approximately €1,8 billion invested over that period, to equip its stores and logistics chain with the latest technology. It was also the first to incorporate the concept of ambiance store sections (i.e., butcher, fish, bakery, fruit and vegetables, cosmetics, deli and cleaning).

Mercadona also initiated also in 2013 six “laboratories”. Located in the retail shops they are test benches where new initiatives are tried supported by the experience of customers and employees. The results obtained are evaluated and analyzed, both successes and failures, to make the decision of implementing them in the rest of the retail stores chain. For example, butcher and deli sale booths where meat and deli are served at customers demand instead of in fix packages as it has been done traditionally.

A new experience. Co innovation with customers.

In June 2011 Mercadona launched a new program "Apron Strategy" from their Prescription department in charge of the before mentioned Monitors. According to the company "Mercadona has put on an apron for cooking, cleaning, washing and caring for their pets with its customers". Through this strategy, the company intended to learn about the specific use made by their customers of their products. This allowed the company to innovate, improve and launch new products. For this purpose new facilities were designed within some of its stores dedicated exclusively for this purpose.

The figure 1 below resumes how the new system operates.
The new innovation program relies basically on the 184 Monitors working in the prescription department. Of those, there are 80 working in dry products and the rest in fresh products (meat, deli, fish and vegetables). Its functions are to capture, define and communicate users needs. They are experts in the products they are managing. Their job includes carrying out surveys and interviews to quantify "bosses" habits. Sometimes also visit the home of the "bosses" to get first hand information about their habits and routines in relation to the products in questions.

The process begins at the retail store. "First we have to differentiate between buyers and consumers. It is locate to buy products to consume themselves, not others", explained two monitors. Later a conversation is established with the consumer to find out if he is a "consumer in love" with the product in question and who is willing to "seek the product wherever it is", if he doesn’t find it instead of changing products, explained the monitors. "They are the most knowledgeable on each product and when you talk with them you get a huge amount of information".

It must be outlined that consumers in love when identified by the shop monitors may be invited to co-innovation centers located far away or even in another town. In that case their travelling and accommodation expenses are taken care of. These are not paid and don’t receive any compensation.

From that point, "the boss" is invited into the center of co-innovation. The products are placed as they are in the linear shelves. It must be analyzed in detail how he buys and how he consumes to provide him the best products, all what he really needs. Everything is tested: new recipes, new packaging designs, format variations, and so on. After testing the product, the customer transmits his impressions to the monitors. Subsequently, the information captured is analyzed and organized and the need transmitted by the customer it is conveyed to the supplier in question. In general two monitor participate in the process: one helps the customer while the other observes and takes notes.

It must be emphasized that these Co-innovation meetings generate a large amount of sticky and tacit information. As one participant related "..they asked me to use the product as if I was at home and observed how I did it taking note of all my movements including how I opened the dye capsules and asked ways of improve and changet their design.."

Before finally moving on to the manufacturing phase, the supplier develops a product prototype that is tested again in the Co Innovation center by the customers who inspired it. If they validate it, the product will be "dressed" for being testing in the retail store. This will be the last phase to test whether the new product has option to consolidate before starting .

Findings. Results of the Experience until now.

Since the experience was launched in June 2011 the results achieved are shown in table 1.

Figure 1. Co Innovation Model Mercadona, 2011.
Table 1. Results of Mercadona co-innovation experience.

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumers Participation</strong></td>
<td>1,200</td>
<td>7,000</td>
<td>9,000</td>
<td>17,200</td>
</tr>
<tr>
<td><strong>Innovations developed</strong></td>
<td>150</td>
<td>400</td>
<td>700</td>
<td>1,250</td>
</tr>
</tbody>
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After analyzing a sample of innovation lists it could be estimated that 2% of them could be classified as new to market, an additional 4% new to the firm. The rest could be brand extensions, improved products, package redesigns, etc.

References


