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Beyond the conventional-specialty dichotomy in food retailing business models: An Italian case study

Silvia Massa*, Stefania Testa[1]

University of Genova, V.le Causa 13, 16145 Genova, Italy

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ABSTRACT

The present work aims at analyzing how a food retailer may succeed in turbulent times by trying to overcome the weaknesses of the two dominant paradigms in food retailing (conventional and specialty) through business model innovation. In order to conceptualize the business model, the dimensions suggested by Morris et al. (2005) are adopted. Case study methodology is applied. This paper provides both research and practical contributions. From a research perspective, empirical evidence collected allows the researchers to formulate a general hypothesis that is deemed necessary to be tested by means of confirmatory approaches. From a practical perspective, it provides some suggestions on how to innovate each business model's component, keeping in mind that innovation could not necessarily regard all of them. Several suggestions can be applied in different contexts, not exclusively in the food sector, and both in manufacturing and services.

1. Introduction

In a recession economy, consumers adapt their shopping behavior and habits in adjustment to changing economic conditions (Ang, 2001; Ang et al., 2000; Zurawicki and Braidot, 2005). This causes a reduction of consumer demand for products and services and results in fierce competition in the market place (Zehir and Savi, 2004). The food sector is not an exception and indeed seems to present further elements of complexity. On one hand, reduced budget for food spending results in a shift of consumer choices to mass industrial products sold by conventional retailers. On the other, increased focus on food safety and quality induced by recent food scares (e.g. BSE; E. coli; salmonella; foot and mouth disease; avian influenza) as well as increased awareness of food-related ethics (e.g. ecological sustainability, social justice, and animal welfare) result in a shift to higher quality food sold mainly by small specialty retailers. At present, the challenge posed by these apparently contradictory consumer instances has been taken up by two alternative food retailing paradigms. Each offers competing strategies to attract consumers' food spending budget (Hansen, 2003; Huddlestone et al., 2009). However, both conventional and small specialty food retailers show weaknesses. The former are facing an "identity crisis". Struggling with fierce competition on prices, which seems to be their only competitive strategy, they are now moving towards less standardized offering, by introducing a greater selection of natural and organic foods and prepared foods (Warner, 2005). The latter seem unable to compete with the power of conventional food retailers, thus remaining a niche phenomenon (Venturini, 2008). Thus, in order to survive and grow in such a complex context, producers and retailers need to enact radical innovation in their products/services processes as well as business models. According to a recent survey (Lindgardt et al., 2009), business model innovators outperform "traditional" innovators (i.e. product/service and/or process innovators) over time. The authors of the research indeed claim: "When the game gets tough, change the game". Therefore, the present work aims at focusing on an excellent example of business model innovation in food retailing. The company is a newly founded food retailer, born in the heart of the so-called "Food Valley" in North West Italy. The company, despite the crisis, shows a continuous double-digit growth in revenues since its foundation. This case study allows the authors to analyze how a food retailer can succeed in turbulent times and overcome the weaknesses inherent in the two existing paradigms through innovation in its business model.

This paper is organized as follows. Section 1 introduces the framework adopted to conceptualize the business model and the methodology. Section 2 describes the company under investigation. Section 3 reports on the case study, organizing evidence on the retailer business model according to the proposed framework. Section 4 discusses innovations in business model, comparing company choices to dominant choices in the sector. The final

* Corresponding author. Tel.: +39 010 3532747.
E-mail addresses: silvia.massa@unige.it (S. Massa), stefania.testa@unige.it (S. Testa).
[1] Tel.: +39 010 3532135.

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section summarizes the paper's main findings and contributions to literature, as well as suggesting further research.

2. Investigation framework and methodology

A recent review of the literature on business models (Shafer et al., 2005) has investigated several definitions of business model. None of these definitions appears to have been accepted fully by the business community. Across them, the authors have found more than 40 different business model components. In order to address this paper's research question – i.e. how a food retail company can succeed in turbulent times as a result of innovations in its business model – the six basic business model components introduced by Morris et al. (2005) have been adopted. These components are: offering; market; internal capability; competitive strategy; economics; and personal/investor choices. It is worth noting that sometimes distinctions among components are blurred and different aspects may be closely related and may also overlap. Each component includes various elements that answer a basic question as summarized in Table 1. According to the authors, such components are reasonably simple, logical and measurable and provide a holistic perspective on the most important elements that drive a business.

A case study methodology (Yin, 2003) was adopted as qualitative approaches are most appropriate to deeply investigate and understand complex phenomena, such as the one under investigation, as well as to develop hypotheses that later can be tested with confirmatory approaches. The case study was conducted according to the guidelines and suggestions for qualitative methodologies provided in relevant literature (Pratt, 2009). The case study centers on a recently founded Italian retail company named Eataly. Data collection was primarily carried out through semi-structured in-depth interviews – including many conducted in the retail environment – and was supported by documentation and observation. In particular, data were extracted from the firms' websites and other publications (such as annual reports, newspapers, articles, Master's theses, blogs about food issues, books produced about the company, etc.). Observations were conducted at the store itself, walking around among customers and employees. Use of multi-method approaches, designed to compensate for any single method's weaknesses, was thought to be particularly useful in terms of increasing the richness of data and constructing a "full picture" of the organization under investigation. The study thus incorporates Kanter's (1977) suggestion that different sources of data be used to validate one other. In order to improve research, the organization was studied for a considerable length of time (20 months) and data were collected from the founder/entrepreneur and ten other key informants (e.g. sales manager, marketing manager, accounting manager, purchasing manager and consultants). Each interview lasted from 1 to 2 h. Every effort was made to transcribe interview and observation notes verbatim as soon as possible. After transcribing the interviews, data were coded to identify themes, recurring comments and parameters that could be analyzed with regard to the research issue. Collection and simultaneous analysis of data continued until saturation and redundancy were achieved. Findings were arrived at in an interactive fashion through repeated discussion by team members until consensus emerged.

Table 1
Business model components (Morris et al., 2005).

Component	Basic question
Offering	How does the company create value?
Market	Who does the company create value for?
Internal capability	What is the source of company competence?
Competitive strategy	How does the company competitively position itself?
Economics	How does the company make money?
Personal factors	What are the company size/growth ambitions?

3. The setting

Eataly is a successful food retail company, which currently counts five sales points in Italy, three in Japan and one in New York. In 2009, it counted, in Italy, 300 employees, approximately €40 M sales and 2.5 million customers. The company was founded in 2005 in the heart of the Italy's so-called "Food Valley" in the Northwest area of the country through the idea of a successful entrepreneur, who was already well-known in the retail appliance business (Unieuro). In fact, Eataly's founder (hereafter EF) started his business career in 1985 with a small household appliance store. In 2003 he sold to an international retail appliance group for a total of approximately €500 M. Once EF had completed his experience in the appliance business, he began thinking of a new enterprise: applying conventional distribution strategies, which had determined his previous success, to specialty food retailing (Olivero, 2005). At that time, the food retailing business was absolutely new to EF and by his own admission he was more a lover of good food than a food business expert. A close personal friend of Carlo Petrini, founder of the Slow Food consumer association,[2] EF succeeded in convincing Mr Petrini to join in the Eataly enterprise. In fact, EF and Petrini shared the ideology of "Good, Clean and Fair Food", which is to say that food must taste good, be ecologically sustainable and produced in a socially fair way (see e.g. http://www.slowfood.com/; Petrini, 2005). Choosing Slow Food as a consultant in the creation of Eataly's first store, located in Turin, represents the budding enterprise's clear manifesto of intent. Eataly's first goal is well-documented and clearly proclaimed: providing market outlets to small producers who guarantee top quality products. Eataly's second declared goal is to fairly compensate these producers in order to preserve product quality and support rural area economies. Eataly's third main goal is to preserve top quality products without excessive price mark-ups. Thus, on the demand side, Eataly seems to focus on creating demand made of conscious and educated consumers who agree to pay a "fair" price, where fair means one that is respectful of quality, sustainability, safety, social justice, animal welfare, etc (Farinetti, 2009a). In fact, Eataly was created to provide an informal setting where customers can "buy, eat and learn about high-quality foods". In this vein, Eataly's educational activities assume great importance. For example, free courses for elderly persons teach them how to cook good tasty dishes on a low budget. Similarly, young children – the consumers of tomorrow – are engaged in workshops where they can learn the basic concepts of good, clean and fair food.

In the following, the main aspects of the Eataly business model are described. According to the proposed framework, empirical data are provided in order to flesh out the six components of Eataly's business model. Then, the main innovations in each component of the business model are discussed.

[2] Slow Food is a non-profit, member-supported organization founded in 1989 to counteract fast food, the disappearance of local food traditions and to promote people's interest in the food they eat (http://www.slowfood.com/).