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FOOD VALUE CHAINS: Creating Shared Value To Enhance Marketing Success

Synopsis

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Project Background

USDA's Agricultural Marketing Service and the Wallace Center of Winrock International organized a national "writeshop" with more than 20 leading food systems researchers to synthesize current knowledge about best practices for developing robust values-based food supply chains (referred to here as food value chains). Proceedings from the writeshop, along with additional case study examples, were compiled into a report[1] that describes effective market access and market competition strategies for small and mid-sized food enterprises interested in this innovative approach. To serve as an introduction to food value chains and their attributes, the Agricultural Marketing Service (AMS) has developed this synopsis which defines the food value chain concept, describes how food value chains are initiated and structured, explores how they function, and identifies the benefits they provide to chain participants.

What Is a Food Value Chain?

A food value chain is a business model in which producers and buyers of agricultural products form strategic alliances with other supply chain actors, such as aggregators, processors, distributors, retailers, and consumers, to enhance financial returns through product differentiation that advances social or environmental values. Value chains are formed intentionally on the central principle that transparent and trusting relationships between supply chain partners can produce positive, win-win outcomes for all parties involved. Partners in these business alliances recognize that creating maximum value for their products depends on interdependence, collaboration, and mutual support. The financial rewards accrued through these value chain alliances are shared equitably among partners.

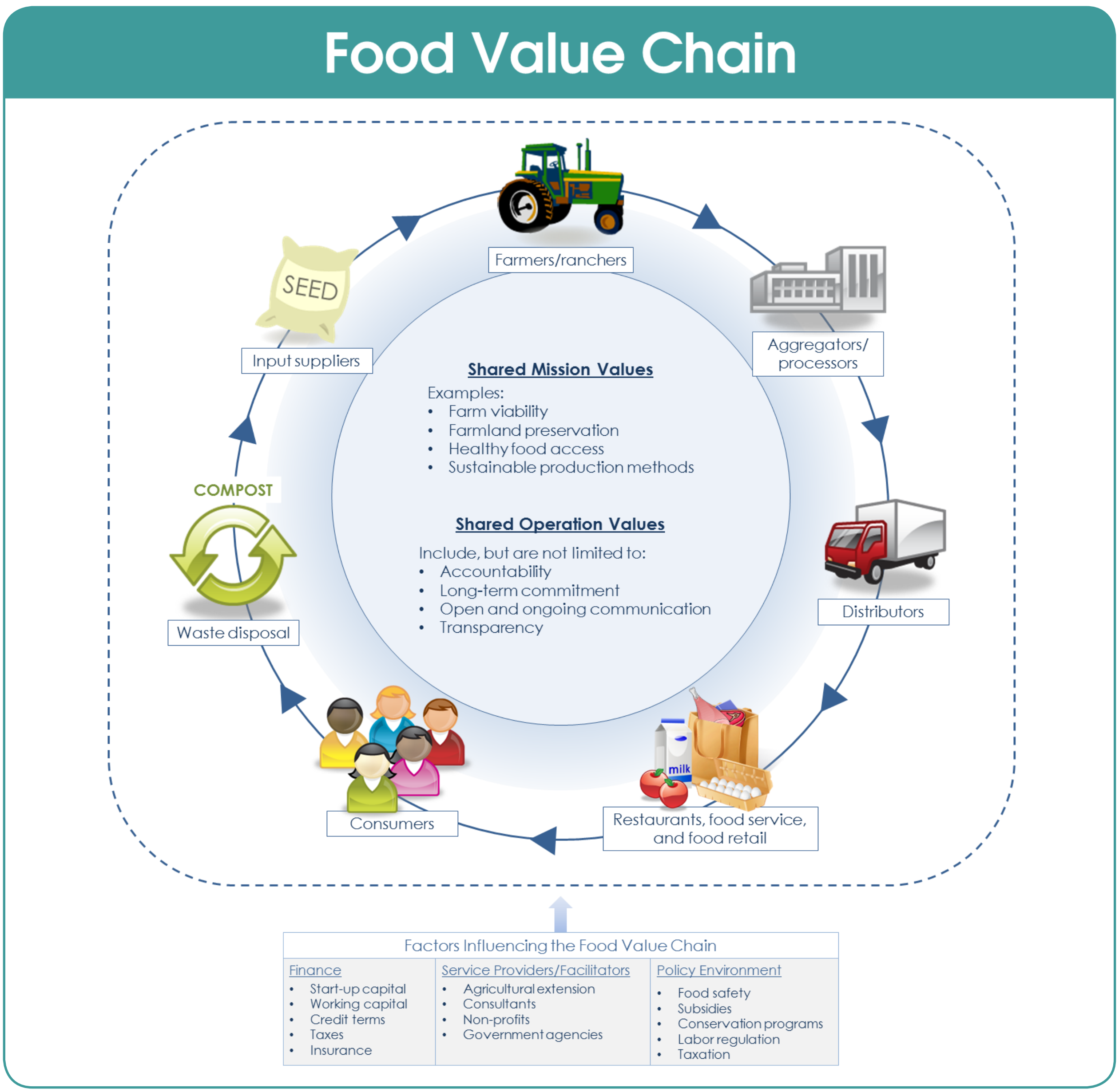
1 Diamond, Adam, Debra Tropp, James Barham, Michelle Frain Muldoon, Stacia Kiraly, and Patty Cantrell. Food Value Chains: Creating Shared Value to Enhance Marketing Success. U.S. Dept. of Agriculture, Agricultural Marketing Service, March 2014. Web. <http://dx.doi.org/10.9752/MS141.03-2014>

In producing value for participants and society at large, food value chains exemplify what Harvard Business School Professor Michael Porter and consultant Mark Kramer refer to as "creating shared value."[2] Rather than businesses seeing "social responsibility" as something they do for public relations purposes, they orient their core operations to simultaneously achieve business success and social benefit. The shared-value concept that is embedded in food value chain businesses recognizes that markets have the potential to generate positive externalities in addition to private benefits.

What Is the Difference Between a Food Supply Chain and a Food Value Chain?

Food value chains are distinguished from other business arrangements by their commitment to transparency, strategic collaboration and dedication to authenticity, along with their interest in developing business strategies and solutions that yield tangible

Figure 1. Food Value Chain Relationships and Operating Principles[3]



2 Porter, Michael E. and Mark R. Kramer. "Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth." Harvard Business Review (January-February 2011): 62-77.
3 This graphic is available for separate download from http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5108179.

benefits to each participant in the system. As shown in figure 1, three simultaneous dynamics are at work in any given food value chain: (1) the relationships between value chain actors facilitate the movement of food from farm to table; (2) these relationships are governed by shared operational and mission values; and (3) the operational design, values, and ultimate success of a food value chain are conditioned by a multitude of external factors, including market demand, availability of support services and physical assets, access to capital, and the policy environment. Some of these dynamics are also seen in traditional supply chains; however, what differentiates a food value chain from a traditional supply chain is the emphasis on establishing shared mission and operational values.

Food value chain actors decide which mission values to emphasize for the purpose of product differentiation (such as farm viability, farmland preservation, healthy food access, and sustainable production practices), agree on a particular set of operational principles (such as accountability, long-term commitment, open and ongoing communication, and transparency) to guide their interactions with each other and develop processes for institutionalizing these principles and mission values into their core business practices. Product differentiation is usually articulated as identifying and marketing a meaningful set of differences in product design, performance, or quality characteristics in an attempt to distinguish a company's offerings from those of its competitors. Firms in food value chains augment these traditional aspects of product differentiation with social or environmental mission values that reflect the objectives of the chain participants and resonate with the targeted group of consumers. The strongest food value chains are those forged with a clear understanding of, and consistent communication about, their underlying values. Mission values have included, but are not limited to: supporting the local economy, providing humane treatment of animals, and demonstrating environmental stewardship.

Respecting and preserving the farmers' identity all the way through to the customer can be an important branding element for values-based food supply chains. An effective values-based business approach is dependent on customers believing in the authenticity of the producers and product claims. Only if the story is true and effectively communicated can the chain build trust and loyalty in its customers and all those involved in bringing the product to market. One way that some food value chains have sought to maintain—and even heighten—consumer confidence in their farm members and their products is by facilitating more direct connections between consumers and the farmers that serve them. Good Natured Family Farms (GNFF), an alliance of more than 100 farmers in Missouri and Kansas, provides an example of this concept. GNFF works closely with Balls Food Store, a regional grocery chain based in Kansas City, to optimize customer outreach and establish these connections. GNFF frequently asks the farmers in its network to visit Balls Food stores to showcase their products and meet consumers as they shop in the stores. Additionally, GNFF invites Balls Food managers to tour GNFF farms and create in-store signage at Balls Food stores promoting the local origins and unique production practices behind GNFF products. This collaboration is largely responsible for the $3 million in sales for GNFF in 2011 and has become a central component of Balls Food Store's local food marketing strategy.

Which Benefits Accrue From Value Chain Participation?

A growing segment of consumers is interested in purchasing food products that embody their social or environmental preferences. By responding to this rising consumer demand nimbly and effectively, food value chains are reaping a number of operational, economic, and community benefits.

Economic Benefits Through Strategic Collaboration

In a food value chain, farmers and producers are considered part of a strategic, interdependent collaboration of actors. Value chains encourage producers and buyers to participate in coordinated product mix, marketing, and distribution activities that maximize product value and realize any transportation savings associated with shorter supply chains. In addition, a significant portion of the economic benefits of food value chain participation accrue directly to food producers, who often end up retaining a greater percentage of consumer expenditures on food than most U.S. farmers experience. The average U.S. farm producer only receives about 15.5 cents of each retail food dollar spent by consumers.[4] In contrast, for example, Intervale Food Hub, based in Burlington, VT, works collaboratively with its producers to determine prices for their products based on actual production costs for the producers and what the market can realistically bear. As a result, Intervale's producers generally net about 60 to 70 percent of the retail revenue obtained from community-supported agriculture sales and 85 percent of the revenue obtained from wholesale customers. Other value chain partners such as aggregators, processors, and distributors can expand market share with differentiated products and capitalize on price premiums that may accrue to locally or regionally branded products.

Market Expansion and Food Recovery

Many food value chains are structured in a way that allows their producer members access to larger volume markets, such as commercial and institutional food service, than they could access on their own, which contributes to greater farm revenue, cash flow, and financial stability. New outlets may also be identified by food value chains that are not part of a traditional supply chain system. For example, in Washington, DC, the DC Central Kitchen purchases lower priced "seconds"—lesser grade produce of equivalent nutritional value to top-grade produce—from fruit and vegetable growers operating within a 200-mile radius of the city—and processes it for use in the DC Public School System and municipal social service agencies. Processing the seconds creates a product that is indistinguishable from that made from top-grade fruits and vegetables. Farmers benefit by selling product that may not have had a commercial outlet previously, and institutional buyers (and ultimately consumers) benefit from access to lower priced, high-quality raw ingredients.

Market Intelligence and Customer Loyalty

Value chain partnerships efficiently gather customer feedback and market intelligence at the point of sale and relay the results throughout the chain. This permits suppliers to match their product assortments and advertising messages to customer preferences with ever greater precision. Such arrangements enable wholesale buyers to build customer loyalty and retain a greater share of customer spending, and customers experience greater levels of product satisfaction and an easily accessible mechanism for using their spending power to support desired social and environmental outcomes. An example of this is Country Natural Beef's (Hines, OR) requirement that its member ranchers spend 2 weeks a year at retail outlets, talking with customers in the meat section next to their products. Ranchers vouch for the authenticity of Country Natural Beef's products and their high quality directly to eaters, thus retaining the rancher's identity with the product all the way through the value chain. These visits also provide an opportunity for ranchers to receive direct feedback from consumers about the product, both positive and negative.

Community Development Benefits

Improvements in farm income gained through value chain participation can also lead to enhanced economic activity on a community level. Farmers who retain a higher share of consumer expenditures through food value chain participation have more discretionary income to spend on local suppliers of goods and services. This spending directly benefits ancillary businesses that depend on agricultural producers for a portion of their revenue (such as

4 2011 Food Dollar: Industry Group (Nominal), USDA Economic Research Service, accessed from http://www.ers.usda.gov/data-products/food-dollar-series/food-dollar-application.aspx .

sellers of fertilizer, seed and animal feed, agricultural equipment, and contract labor). Regional studies over the past decade have documented the fact that spending at locally owned independent businesses generates greater direct local economic benefit than equivalent spending at chain-operated establishments. The American Independent Business Alliance found in its October 2012 literature review of 10 community-based retail studies that spending at independent retailers generates 3.7 times more direct local economic benefit than spending at national chain stores.[5]

Conclusion

The food value chain business model provides the essential components for building trust-based, productive partnerships between agricultural producers, food processors, marketers, and consumers that can strengthen farm viability through additional revenue streams, higher prices for quality-differentiated farm produce, risk sharing with buyers, and reduced costs through efficiency gains in logistics. This combination of business strategies enables producers to maximize their collective production and distribution capacity and to address the needs of larger commercial customers, such as foodservice and retail buyers, who demand consistent and reliable volumes of food products differentiated by quality and values-based attributes. The deliberate inclusion of mission-oriented values and operational practices into a value chain's marketing and branding strategies, coupled with strong leadership, effective communication, and collaborative business planning, provides producers with the tools necessary to diversify and expand the scope of their business and to satisfy evolving consumer and commercial demands in a timely and responsive fashion.

This is a synopsis of *Food Value Chains: Creating Shared Value To Enhance Marketing Success*, available at http://dx.doi.org/10.9752/MS141.01-2014.

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5 Ten New Studies of the "Local Economic Premium," American Independent Business Alliance, October 2012, accessed via http://www.amiba.net/resources/studies-recommended-reading/local-premium.