Food Value Chains:
Creating Shared Value To Enhance Marketing Success

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Background

- USDA Agricultural Marketing Service (AMS) identified the need for guidance on market access strategies for small and mid-sized food producers and manufacturers

- AMS observed an emerging model of aggregators and distributors sharing more profits with suppliers, linked by shared values

- AMS organized a “writeshop” event to create a guidance document based on field experience and expert knowledge of participants

- Writeshop was held in December 2009 with more than 20 values-based food supply chain practitioners and researchers

- In partnership with nonprofit Wallace Center at Winrock International
Approach

• Prior to the writeshop, four discussion questions were posed:
  
  ▪ What insight does your research or experience yield with respect to forming values-based relationships in a value chain?
  
  ▪ What have you learned about how buyers, producers, and other players in the value chain modify their behaviors to achieve and share the benefits of competitive advantage?
  
  ▪ What do you know about why efforts to form values-based food supply chains have failed?
  
  ▪ Is there anything else you think intermediaries should know about establishing values-based food supply chains that hasn’t been addressed above?

• Through facilitated discussion, participants developed an outline, then divided into small groups by expertise and interest to craft sections

• AMS revised the document to produce a final report
Elements of the Report

- Provides guidance on how food value chains are initiated, structured, and maintained
- Presents conceptual and functional approaches with case examples
- Describes benefits food value chains provide to participants
- Explores how values-based operation principles are defined, maintained, and communicated to buyers
Topics covered in the report include:

- Theory Underlying Food Value Chains
- Food Value Chain Characteristics and Benefits
- Embedding Values in Food Value Chains
- Leadership Approaches for Successful Food Value Chains
- Preparing to Enter a Value Chain: Look Before You Leap
- Market Readiness: Components of a Food Value Chain Business Plan
- Values-Based Communication and Branding
What is a Food Value Chain?

- Values-based supply chain or food value chain is defined as

  - A strategic alliance between farmers or ranchers and other supply-chain partners that deal in significant volumes of high-quality, differentiated food products that distributes rewards equitably across the chain

- Partner alliances recognize that maximum value for products depends on interdependence, collaboration, and mutual support

- Alliances form around shared values such as social or environmental concerns that are reflected in the product and customer relations

- Responsive to demand for products differentiated by values-related claims such as “local,” “regional,” or “organic”
**Theory of Shared Value**

- Food value chains exemplify “creating shared value” concept by Harvard professor Michael Porter and consultant Mark Kramer

  - Businesses intentionally structure their core operations to produce both financial success and social benefit
  - Traditional approaches create value propositions describing how a firm’s products and services are superior (e.g., product differentiation)
  - Food value chains additionally ask: Is our product good for our customers?
  - Concept incorporates a desire for social improvement

Adaptations Under Shared Value

- Porter and Kramer note businesses that adopt a shared-value lens typically adopt new practices and structural changes.

- Reconceive products and markets
  - Identify new products and services to meet social needs or serve overlooked customer segments

- Redefine productivity in the value chain
  - New choices in production, marketing, and distribution; adopt equipment and technologies to save energy, conserve resources, and support employees

- Build supportive industry clusters at the company’s locations
  - Enhancement in local procurement and reliance on less geographically dispersed supply chains

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Key Characteristics

• Economies of scale coupled with sales of differentiated food products

• Cooperative strategies to achieve competitive advantages and the capacity to adapt quickly to market changes

• High levels of performance, trust, and responsiveness throughout

• Shared vision, shared information (transparency), and shared decision-making and problem-solving among the strategic partners

• Commitment to the welfare of all participants with emphasis on equitable profit sharing, fair wages, and mutually acceptable business agreements
Producers As Strategic Collaborators

- Know their production and transaction costs and are able to negotiate prices based on acceptable profit margins above those costs
- Perceive contracts and agreements as fair, providing equitable treatment to all partners, and including appropriate timeframes
- Are able to own and control their own brand identity as far up the supply chain as they choose, including co-branding
- Participate in decisions for conflict resolution, communicate concerns about performance, and alter directions within the value chain
Food Value Chain Schematic

- Food value chain may look like a traditional supply chain

- Shared mission and operational values support decisions and processes

- External factors affect the food value chain
  - Finance
  - Service providers/facilitators
  - Policy environment
Shared Values

• Social or environmental mission values incorporated into traditional scope of product differentiation strategies, e.g.,
  ▪ Supporting the local economy
  ▪ Preserving farmland and sector viability
  ▪ Providing humane treatment and animal welfare
  ▪ Expanding community access to fresh food
  ▪ Demonstrating environmental stewardship

• Operational values established to guide interactions with each other and create foundation for business practices, e.g.,
  ▪ Accountability
  ▪ Long-term commitment
  ▪ Open and ongoing communication
  ▪ Transparency
Case Examples of Benefits

• Economic benefit through strategic collaboration
  - Case Study: Intervale Food Hub

• Market expansion and food recovery
  - Case Study: D.C. Central Kitchen

• Market intelligence and customer loyalty
  - Case Study: Country Natural Beef

• Community development
Economic Benefit through Strategic Collaboration

- Coordinated marketing and distribution activities maximize product value through strategic responsiveness to market demands
- Shorter supply chains lead to transportation cost savings
- Significant portion of economic benefit of food value chain accrues directly to producers

**Case Study: Intervale Food Hub**

- Intervale works with producers to set prices based on production costs and market demand
- Producers net 85 percent of the revenue obtained from sales to wholesalers through the food hub
- Compares to U.S. average farmgate-to-retail price ratio of less than 15 percent in 2011
Market Expansion and Food Recovery

- Aggregation and distribution allows small and medium-sized producers to access commercial and institutional markets otherwise unavailable.

- As a result, a wider range and volume of product than possible through their existing marketing channels can be reached.

**Case Study: D.C. Central Kitchen**

- Purchases and processes lower-priced “seconds” for DC Public Schools System and municipal social service agencies.

- Processed products are indistinguishable from top grade fruits and vegetables.

- Farmers sell product that lack commercial outlets.

- Buyers access lower-priced, high-quality products.
Market Intelligence and Customer Loyalty

- Customer feedback and market intelligence are gathered at point of sale and shared among value chain partners.
- Suppliers gain advantage in responding more quickly to customer needs and buyer requirements.
- Consumers directly access producers, building loyalty and giving insight into preferences.

Case Study: Country Natural Beef

- Member ranchers spend two weeks a year at retail outlets, talking with customers about products.
- Rancher’s identity and connection to the product is preserved all throughout the value chain.
- Ranchers receive direct feedback from consumers about their product.
Community Development Benefits

- Farmers who receive a greater share of consumer expenditures have more discretionary income to spend on local goods and services.
- American Independent Business Alliance literature review\(^3\) found spending at independent retailers generates 3.7 times more direct local benefit than spending at national chains.
- Local food value chains can tell the story of both suppliers and the community, increasing loyalty and brand recognition.

Conclusions

- Food value chain is a strategic business model engaging all participants in the supply chain in mission and operational shared values.

- Value chains explicitly acknowledge that more equitable partnerships—in which all involved parties share in risk and financial gains—are good for business and produce positive social and environmental benefits.

- Food value chains address the competitive need for responsiveness to and knowledge of the target customer.

- Communicating shared values to customers differentiates products, expand market share, and builds loyalty.
Additional Resources

**Regional Food Hub Resource Guide.** (Report. Also available in Spanish)
- [http://dx.doi.org/10.9752/MS046.04-2012](http://dx.doi.org/10.9752/MS046.04-2012)

**Moving Food Along the Value Chain: Innovations in Regional Food Distribution.** (Report. Also available in Spanish)
- [http://dx.doi.org/10.9752/MS045.03-2012](http://dx.doi.org/10.9752/MS045.03-2012)

**Food Value Chains: Creating Shared Value To Enhance Marketing Success.** (Report)
- [http://dx.doi.org/10.9752/MS141.05-2014](http://dx.doi.org/10.9752/MS141.05-2014)

**Why Local Food Matters: The rising importance of locally grown food in the U.S. food system.** (Slide presentation)

**Networking Across the Supply Chain: Transportation Innovations in Local and Regional Food Systems.** (Report)
- [http://dx.doi.org/10.9752/TS202.06-2014](http://dx.doi.org/10.9752/TS202.06-2014)

**Assessing the Economic Impacts of Regional Food Hubs: the Case of Regional Access.** (Report)
- [http://dx.doi.org/10.9752/MS145.09-2013](http://dx.doi.org/10.9752/MS145.09-2013)

**Measuring Effects of Mobile Markets on Healthy Food Choices.** (Report)
- [http://dx.doi.org/10.9752/MS142.11-2013](http://dx.doi.org/10.9752/MS142.11-2013)