



United States Department of Agriculture



# Food Value Chains: Creating Shared Value To Enhance Marketing Success

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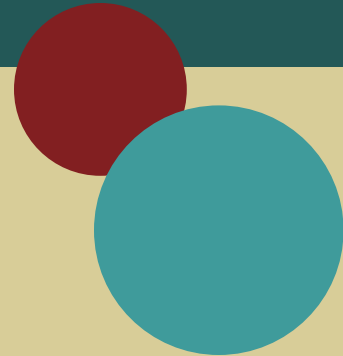
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**2014 Report available at:**

<http://dx.doi.org/10.9752/MS141.03-2014>





# 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



# Report Contents

## 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

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# 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<sup>1</sup>
  - 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

1. 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): 6–77.

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# Adaptations Under Shared Value

- Porter and Kramer note businesses that adopt a shared-value lens typically adopt new practices and structural changes<sup>2</sup>
- 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

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): 6–77.





# 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

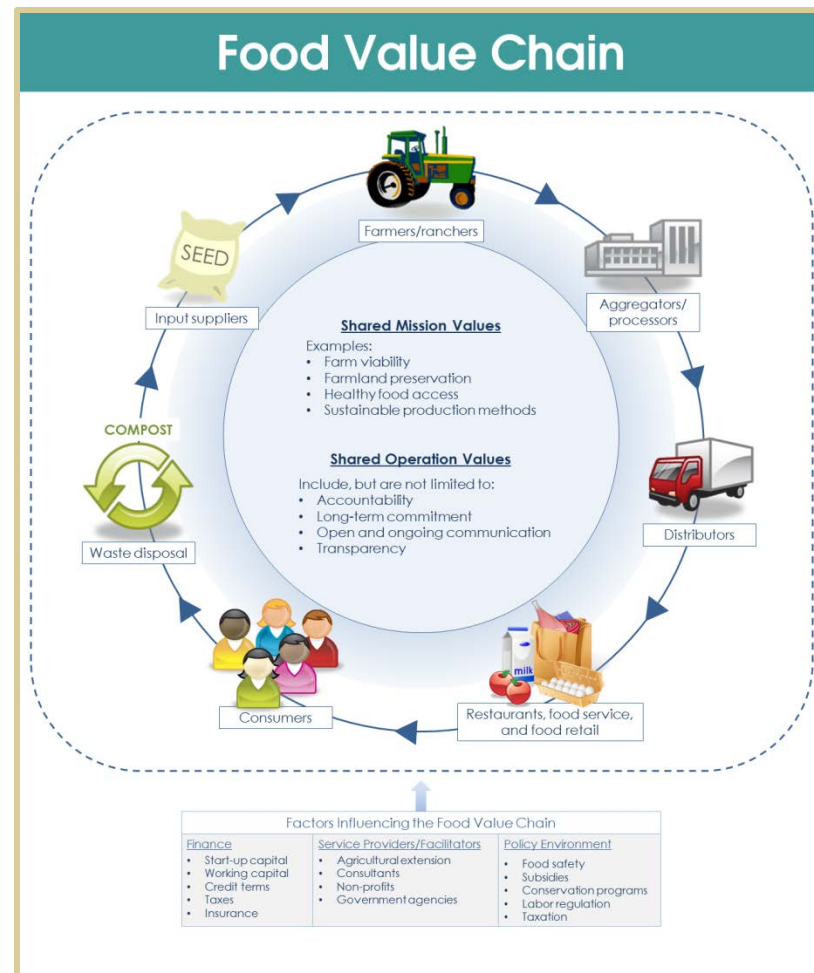


# Producers As Strategic Collaborators

- 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

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- 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<sup>3</sup> 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

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



# 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>

***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>

***Food Value Chains: Creating Shared Value To Enhance Marketing Success. (Report)***

- <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)***

- <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5105706>

***Networking Across the Supply Chain: Transportation Innovations in Local and Regional Food Systems. (Report)***

- <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>

***Measuring Effects of Mobile Markets on Healthy Food Choices. (Report)***

- <http://dx.doi.org/10.9752/MS142.11-2013>