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# Market Channel Selection, Supply Chain Upgrading, and Value Chain Collaboration for Success in Food Production

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# NC GROWING TOGETHER

Connecting Local Foods  
 to Mainstream Markets

## Producers



## Distributors



## Grocery and Food Service Retail



# Marketing Channels

## MARKET CHANNEL ANALYSIS

*Market channel analysis is used to compare the costs and returns for the sale of products through different market outlets (e.g., direct to consumer at a farm stand, retail, wholesale). By comparing these costs and returns and the relative risks associated with each channel, growers can make informed decisions about primary and secondary markets for their products.*



# Wholesale

Selling to a buyer who is not the end user.

Packer

Restaurant

Grocery/Retail Stores

Distributor

Auction

Institution/Food Service

# Direct

Selling directly to the end user.

Farmers' Market

Freezer Trade

CSA/Buying Club

Farm Stand/Store

Web

<b>Scenario</b>	<b>Revenue</b>	<b>Marketing expenses</b>	<b>Production costs</b>	<b>Profit</b>
1. Wholesale	\$100.00	\$21.00	\$70.00	\$9.00
2. Farmers' market	\$200.00	\$88.00	\$70.00	\$42.00
3. Wholesale with 33% sort-outs	\$67.00	\$14.07	\$70.00	-\$17.07
4. Wholesale with 33% sort-outs and farmers' market for sort-outs	\$111.22	\$33.43	\$70.00	\$7.79
5. Farmers' market with 20% unpaid product	\$160.00	\$70.40	\$70.00	\$19.60
6. Scenario 4 and 20% unpaid product at farmers' market	\$102.38	\$29.56	\$70.00	\$2.82

Hardesty and Leff. 2009. Determining marketing costs and returns in alternative market channels.. Renewable Agriculture and Food Systems: 25(1): 24-34.

LeRoux, Schmit, Roth, Street. 2009. Evaluating marketing channel options for small scale fruit and vegetable producers: Case study evidence from central New York. EB 2009-03. Department of Applied Economics and Management, Cornell University, Ithaca, NY.

# Marketing Channel Analysis

> **A snapshot of the current status**

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- > A snapshot of the current status
- > **A comparison of the costs/returns selling to current markets**

# Marketing Channel Analysis

- > A snapshot of the current status
- > A comparison of the costs/returns selling to current markets
- > **A decision process to determine which combination of channels maximizes profits (and minimizes risk)**



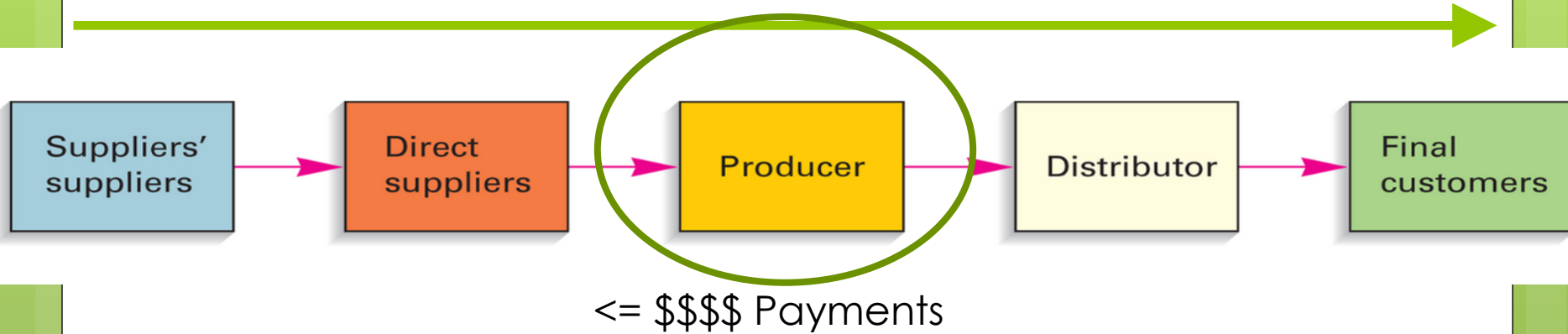


# Our Second Lens on Profitability: **Supply Chain Analysis**

# The supply chain

(of business supply chain management)

Products and services. \$\$ value increasing =>

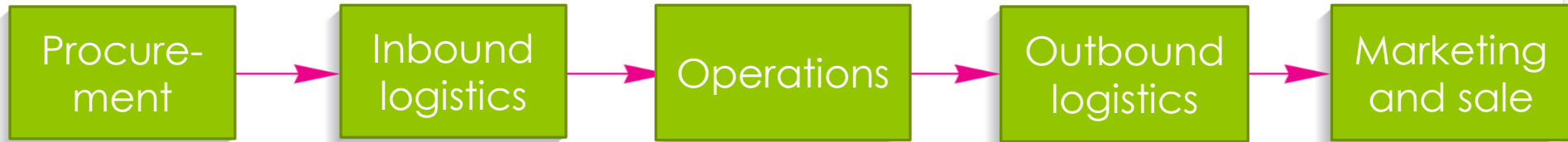


<= \$\$\$\$ Payments

# The value chain

(of business management)

Creating the product, building its value=>



# The value chain 2.0

Products and services, \$\$ value increasing=>



<= \$\$\$\$ Payments

<= Information =>

# The value chain 2.0 = collaborative supply chain

Products and services, \$\$ value increasing=>



<= \$\$\$\$ Payments

<= Information =>

**Trust and Commitment**

# The “values-based” supply chain

Products and services, \$\$ value increasing =>

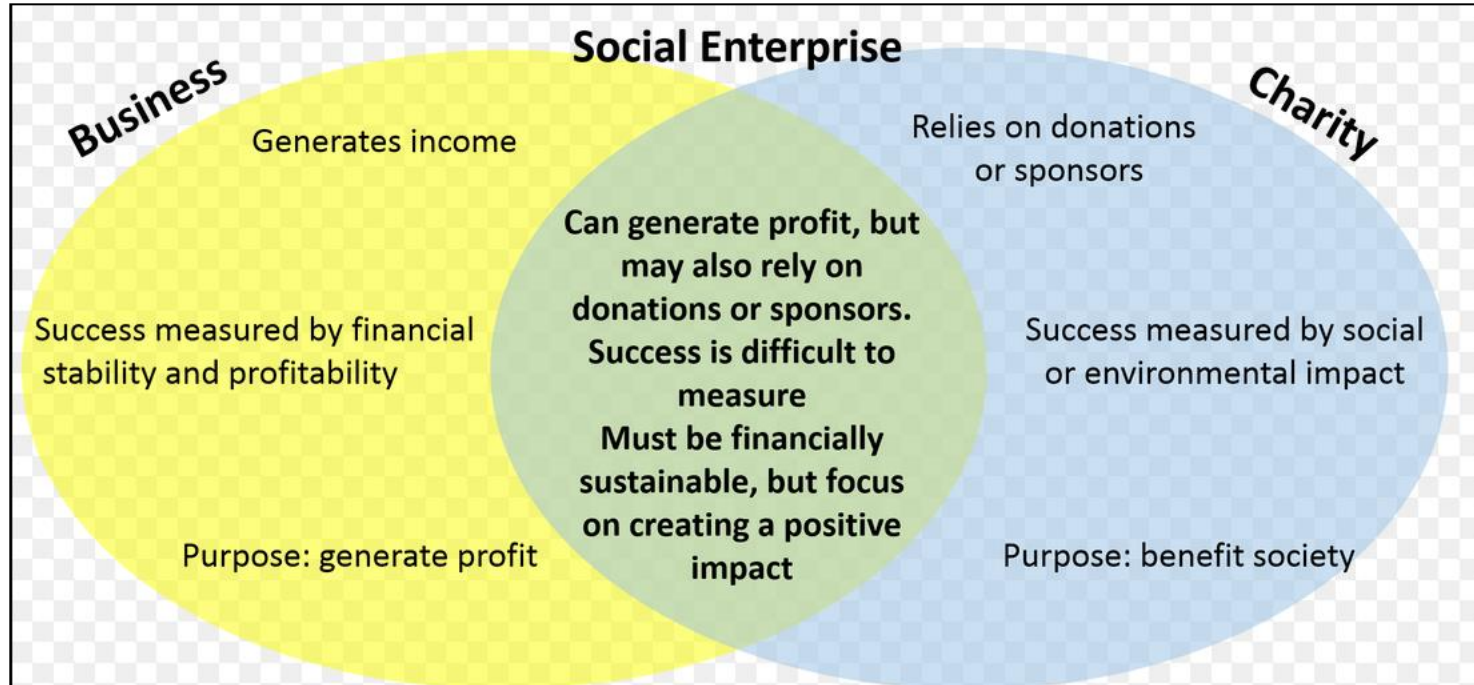


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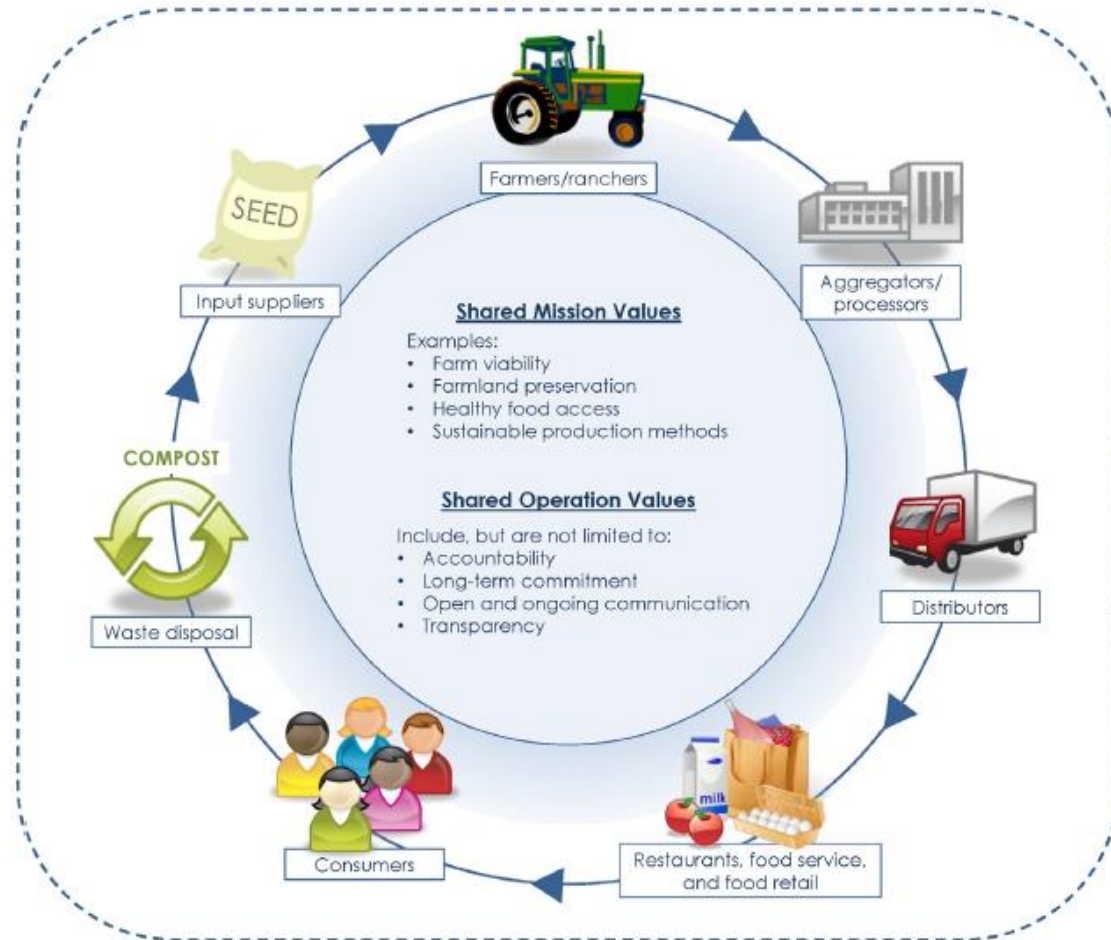
<= Information =>

**Trust and Commitment**

**Shared Social Mission**



# Food Value Chain



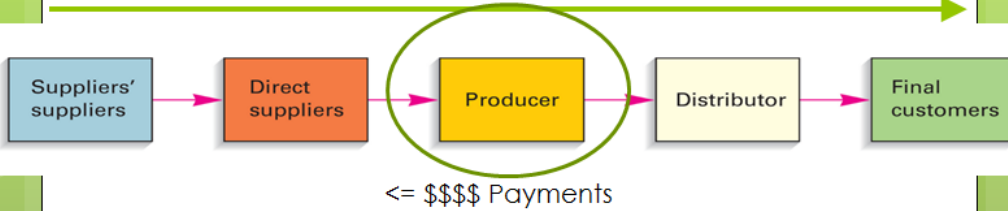
Diamond et al., 2012. Mapping Food Along the Value Chain



# The supply chain

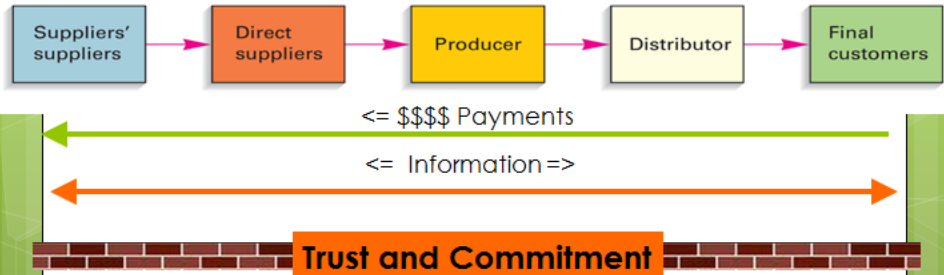
(of business supply chain management)

Products and services. \$\$ value increasing =>



# The value chain 2.0 = collaborative supply chain

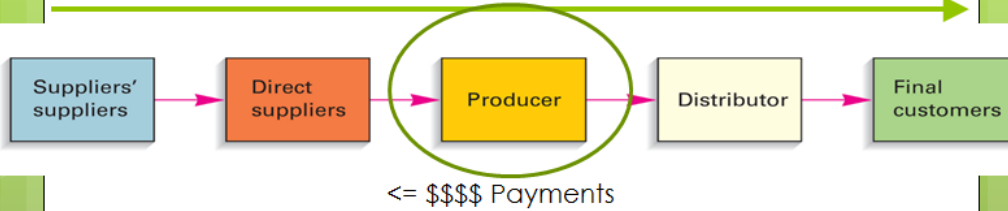
Products and services, \$\$ value increasing=>



# The supply chain

(of business supply chain management)

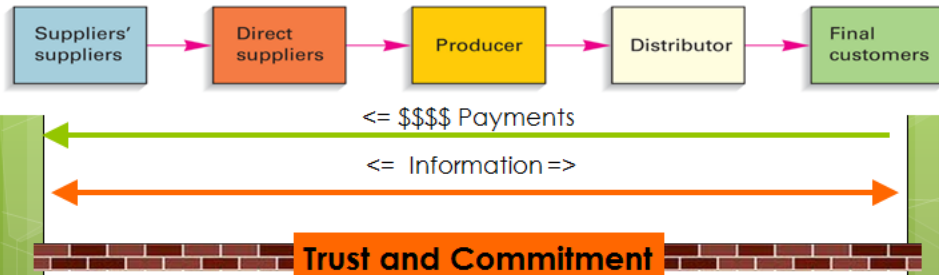
Products and services. \$\$ value increasing =>



## Upgrading and Marketing Channels

# The value chain 2.0 = collaborative supply chain

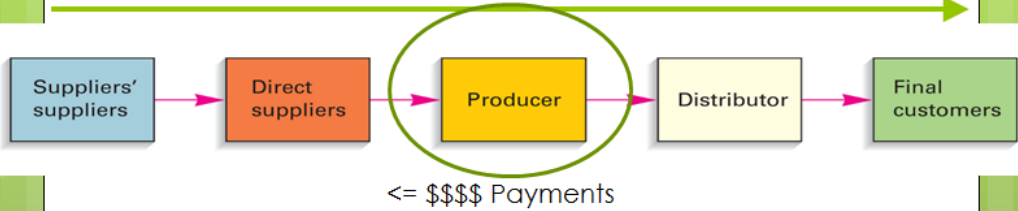
Products and services, \$\$ value increasing=>



# The supply chain

(of business supply chain management)

Products and services. \$\$ value increasing =>



<= \$\$\$ Payments

Vertical and Horizontal Collaborations

## The value chain 2.0 = collaborative supply chain

Products and services, \$\$ value increasing=>



<= \$\$\$ Payments

<= Information =>

**Trust and Commitment**

# Upgrading (and Downgrading)

**Upgrading:** Improving your competitive position in the marketplace by:

- Making **better products**
- Making them **more efficiently**
- Moving into additional and/or **more skilled activities**

**Downgrading:** Improving your competitive position in the marketplace by:

- Making **fewer products**
- Moving into fewer and/or **less skilled activities**

# Upgrading (and Downgrading)

**Process**

**Product**

**Functional**

# Process Upgrading

**Change** the way you are **currently creating** your produce or service to:

Make your existing product/service **cost less** than your competitor

Make your existing product/service **more valuable** to the buyer

# Process Upgrading

Change the way you are currently creating your produce or service to:

Make your existing product/service cost less than your competitor

Make your existing product/service more valuable to the buyer

Computerize a function so that it **requires less labor**

Adopt new production practice to **reduce inputs**

Identify new meat cuts to **reduce loss**

Apply post-harvest handling techniques to **improve shelf- life**

Deliver more than one thing **to save on transport costs**

Identify an effective way **to communicate** with your buyer

# Product Upgrading

Change your product or service to:

Make a **different product or service** that is more desired in the market

**Differentiate your product** so it is a “better version”



# Product Upgrading

Change your product or service to:

Make a different product or service that is more desired in the market  
Differentiate your product so it is a “better version”

Add lettuces to your production

Package in a clamshell

Package in an eye-catching clamshell

Provide chopped cabbage

Get GAPs certified

Get AWA certified

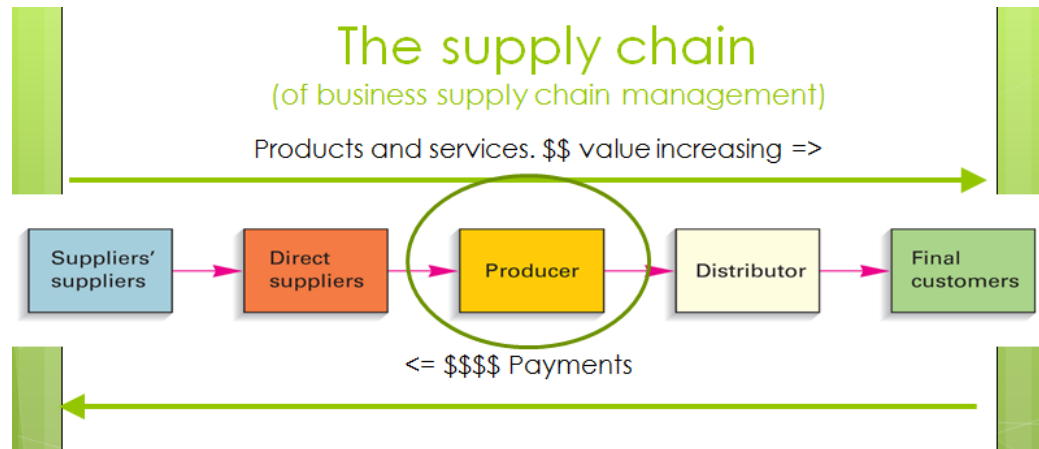
Source identify your product

# Functional Upgrading

Acquire new functions in the chain (or abandon existing functions):

**Take on** a supply chain activity that is currently being done by others

**Abandon** a supply chain activity that you are currently doing yourself



# The supply chain

(of business supply chain management)

Products and services \$\$ value increasing ->



<= \$\$\$ Payments

Acquisition, absorption

Food hubs seek functional upgrading by acquiring the function of a distributor

An individual producer can also acquire this function via direct-store-delivery or direct-to-consumer sales

# Supply chain collaboration and coordination

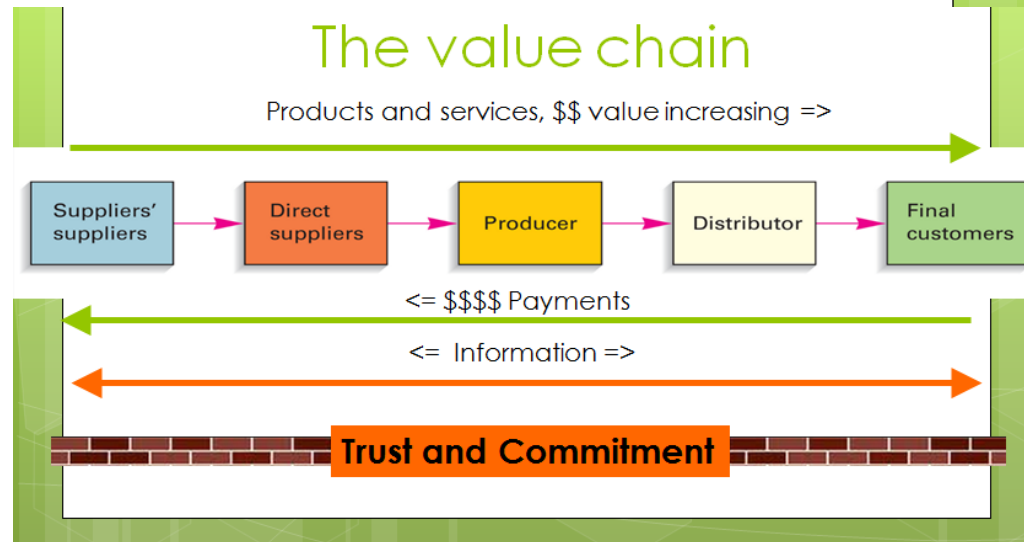
Vertical or horizontal integration =>  
cooperation without ownership

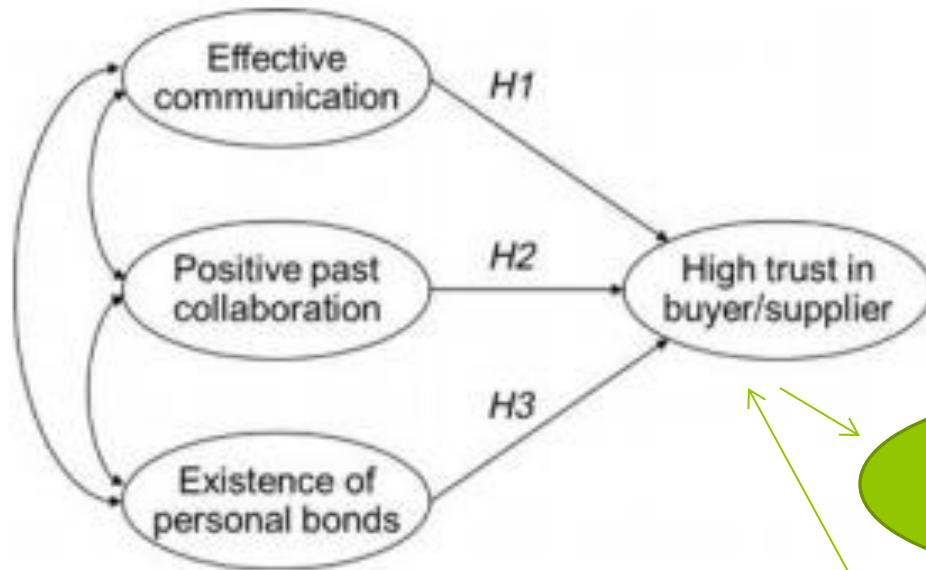
## Vertical collaboration =

Two actors, different nodes – farmer and wholesaler, food hub and retailer. At a minimum involves cooperation, if not actual contracts.

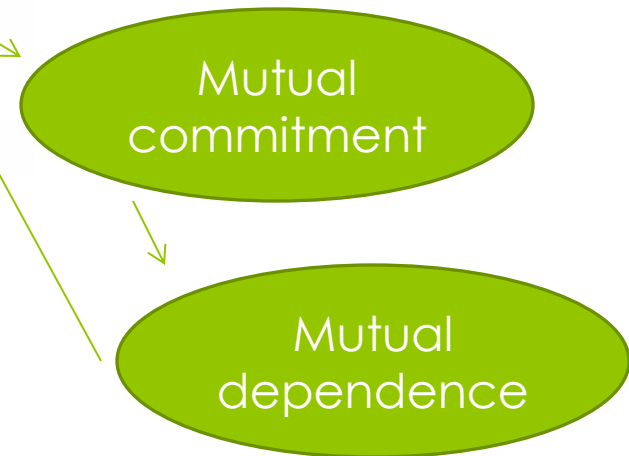
## Horizontal collaboration =

Same actors, same node. Agreements among producers to co-operate for example on marketing, sharing of refrigeration, etc.





The research on collaborative supply chains



# What can you do as Extension educators to enhance grower profitability?

## **Build individual grower capacity to:**

- Weigh the market channel options
- Understand pathways to upgrading
  - Process, Product, Functional

## **Build grower power in the market through:**

- Vertical collaboration
  - Build network connections
  - Shepherd initial collaborations
- Horizontal collaboration
  - Build network connections
  - Shepherd initial collaborations

# Thank You!



See Resources for  
Producers and Buyers at  
**[ncgrowingtogether.org](http://ncgrowingtogether.org)**

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