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

Rebecca Dunning, PhD
Center for Environmental Farming Systems
NC State University
NC GROWING TOGETHER
Connecting Local Foods to Mainstream Markets

Producers

Distributors

Grocery and Food Service Retail
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
<table>
<thead>
<tr>
<th>Scenario</th>
<th>Revenue</th>
<th>Marketing expenses</th>
<th>Production costs</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wholesale</td>
<td>$100.00</td>
<td>$21.00</td>
<td>$70.00</td>
<td>$9.00</td>
</tr>
<tr>
<td>2. Farmers’ market</td>
<td>$200.00</td>
<td>$88.00</td>
<td>$70.00</td>
<td>$42.00</td>
</tr>
<tr>
<td>3. Wholesale with 33% sort-outs</td>
<td>$67.00</td>
<td>$14.07</td>
<td>$70.00</td>
<td>$−$17.07</td>
</tr>
<tr>
<td>4. Wholesale with 33% sort-outs and farmers’ market for sort-outs</td>
<td>$111.22</td>
<td>$33.43</td>
<td>$70.00</td>
<td>$7.79</td>
</tr>
<tr>
<td>5. Farmers’ market with 20% unpaid product</td>
<td>$160.00</td>
<td>$70.40</td>
<td>$70.00</td>
<td>$19.60</td>
</tr>
<tr>
<td>6. Scenario 4 and 20% unpaid product at farmers’ market</td>
<td>$102.38</td>
<td>$29.56</td>
<td>$70.00</td>
<td>$2.82</td>
</tr>
</tbody>
</table>

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

> A snapshot of the current status
Marketing Channel Analysis

> 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 =>

Suppliers’ suppliers → Direct suppliers → Producer → Distributor → Final customers

<= $$$$ Payments
The value chain
(of business management)
Creating the product, building its value=>

Procurement -> Inbound logistics -> Operations -> Outbound logistics -> Marketing and sale

<= Information =>
The value chain 2.0

Products and services, $$ value increasing=>

Suppliers’ suppliers → Direct suppliers → Producer → Distributor → Final customers

<= $$ $$ Payments

<= Information =>
The value chain 2.0 =
collaborative supply chain

Products and services, $$ value increasing=>

Suppliers’ suppliers  ->  Direct suppliers  ->  Producer  ->  Distributor  ->  Final customers

<= $$ $$ Payments

<= Information =>

Trust and Commitment
The “values-based” supply chain

Products and services, $$ value increasing =>

- Suppliers’ suppliers
- Direct suppliers
- Producer
- Distributor
- Final customers

<= $$$ Payments
<= Information =>

Trust and Commitment

Shared Social Mission
**Business**
- Generates income
- Success measured by financial stability and profitability
- Purpose: generate profit

**Social Enterprise**
- Can generate profit, but may also rely on donations or sponsors. Success is difficult to measure. Must be financially sustainable, but focus on creating a positive impact

**Charity**
- Relies on donations or sponsors
- Success measured by social or environmental impact
- Purpose: benefit society
Food Value Chain

Shared Mission Values
Examples:
- Farm viability
- Farmland preservation
- Healthy food access
- Sustainable production methods

Shared Operation Values
Include, but are not limited to:
- Accountability
- Long-term commitment
- Open and ongoing communication
- Transparency

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 =>

Suppliers’ suppliers → Direct suppliers → Producer → Distributor → Final customers

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Trust and Commitment
Upgrading and Marketing Channels

The supply chain (of business supply chain management)
Products and services, $ value increasing =>

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The value chain 2.0 = collaborative supply chain
Products and services, $ value increasing =>

Suppliers' suppliers → Direct suppliers → Producer → Distributor → Final customers
<= $$$$ Payments
<= Information =>

Trust and Commitment
Vertical and Horizontal Collaborations
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
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

This project is supported by the Agriculture and Food Research Initiative competitive grant no. 2013-68004-20363 of the USDA National Institute of Food and Agriculture.