



## BOARD STUDY / COMMUNITY EDUCATION SERIES NOTES

June 21, 2016

### Value Chain, It's in the Co-op DNA

**Facilitated by:** Jeff Hertz, Research Assistant to the Board of Directors

**Guest Speaker:** Steve Warshawer, Value Chain Facilitator for La Montañita's Co-op Distribution Center

*Topic:* In this Board Study, the Board of Directors and meeting participants will explore the opportunities for using value chain analysis as a tool for building relationships between producers and consumers, optimizing the value of La Montañita activities, and building transparency across the value chain. This Board Study will also be used to discuss how the Co-op's current Value Chain Coordination work is impacting value chain development in the southwest region and influencing coordinators around the country.

Goals:

- a. Discuss the history of the concepts of the value chain & competitive advantage
- b. Discuss the concept of a value chain as applied to the Co-op's efforts in serving our local food system
- c. Identify opportunities for applying value chain analysis to optimize the value of specific La Montañita activities
- d. Identify opportunities for continued dialogue that extends beyond supply-side economics to include a more holistic understanding of the value chain in which producers operate vis a vis consumers.

To access instructions and materials for this Board Study, visit:

<http://lamontanita.coop/directors/documents/>

#### **Presentation: History of the Concepts of Value Chain and Competitive Advantage – Jeff Hertz**

A Value Chain is: a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.

Michael Porter's 3 Generic Strategies

- Cost leadership strategy – offering lower costs than the competition
- Differentiation strategy – differentiating a company along dimensions valued by customers
- Focus strategy – offering products to selected segments of the market (vs. an industry-wide strategy, offering product across many market segments)

La Montañita used to primarily use a differentiation strategy, but now there is significant competition in the area we have differentiated into. We must consider how we are/can use cost leadership and focus strategies as well.

Value chain is about the relationships between the people on the supply chain. That's what makes it unique.

## **Presentation on Value Chain Analysis - Steve Warshawer**

- Two examples: Toyota has gained the reputation of quality because everyone in the chain has an equal right and responsibility to succeed. Their values and competency matter. In contrast, a particular retailer buys its onions from growers in the Hatch Valley. They lay out a price at the beginning, and then reduce those prices at the end of the season when there are more onions than they need. They view the producers as disposable.
- La Montañita is a value chain because our suppliers, our members, and our staff are not disposable. We don't view any parts of the enterprise as disposable. Relationships matter. Our end goal is benefits to community through support for producers, and benefits to our "consumers" or the end users/eaters. Our values go beyond Toyota's traditional value chain to a value-based value chain.
- We are sitting in a chain of activities, starting with the farmer, then transportation, then distribution, then retail, then someone's plate. If values are shared the whole way through, then we are creating a value proposition.

## **Discussion:**

- How does the cost leadership strategy interface with that description of value chain?
  - You can't lead with price for long. This is pretty widely accepted in business. But can we ignore price? No. We are not going to compete with Walmart, but price is not irrelevant.
- In La Montañita, we are learning that because of the changing environment, our former differentiation strategy is not enough. Do we abandon this strategy? No. But we need to approach it differently. It includes cost leadership and broadening focus. Can we talk about how we do local in a way that communicates in the market place? Then we would be differentiating again. With the Double Up Food Bucks program we are taking on a focus strategy. The fact that we are a co-op provides differentiation in the market if we talk about it well, but also describes our "firm infrastructure," which is an element of the value chain.
- Member question: I understand that "value" means money, but I want to know, is La Montanita abandoning the principles of sustainability?
  - No. If we retain a value chain approach, we are asking value-based questions all along the chain. Everyone in the chain deserves opportunity, fair treatment, quality.
- What happened in the banana trade between the 1980s and now? Some of the horrific behaviors of producers were discovered, and consumers voted with their dollars all the way back to the dirt. Practices changed as a result.
- Value chain is all about how we affect change. We buy what we want, and if the market speaks loudly enough, we can make a difference.
- If our members don't want it, we are not going to buy it. That is how they speak to us. They vote with their money. Everyone that can afford to "votes" local by buying local products. But we are learning in other areas what our members value. We are broadening our focus. We are offering a wider range of products to bring in new people.
- We have to keep re-inventing. Co-ops across the country are giving up because they can't compete with Walmart. I argue it is value, not just price.
- Our strategy is to experiment and figure out what works in the competitive market place. If we are selling the same products and we are selling at the same prices, why would anyone choose to

shop at our stores. What else do we do? You don't abandon local, organic foods. But we need to look at other competitive advantages.

- Another example is the evolution of the baby salad green product line: 10-12 years ago, it did not exist. It probably was developed by a small, local operation, but it has been picked up by large businesses. The product grows in 30 days. They saw that they could grow this without pest pressure, without pesticides. The product leaned organic. Then there was ecoli in spinach in 2006 so they hit a wall. Now they are saying you can't grow food with manure because it will kill people. So where do the answers come from? Some of our farmers are providing an answer – diverse microbial populations in soil kill bad bacteria. Innovative ideas come from us. This requires that we stick with it for the long haul.
- Our ideas and our values change the food system. In that process, we hit walls, they hit walls. What I'm hoping as a person who has been close to this set of problems for about a decade, my hope is that our value chain can have an impact on the larger food industry. Value chains can change fairly big swaths of food systems. We haven't given up on anything. We have engaged a whole new set of opportunities.
- Member-owner comment: We are creating more choices instead of making things smaller and simpler for the shopper. A recent article talked about the advantage of Trader Joes and Aldi's over Whole Foods because they have fewer options rather than more.
  - Our value chain process is living. When making decisions, we ask, which option supports our producers, our staff, our members?
- Member-owner comment: I think the small farms are probably the best practice in agriculture. The ecoli problem was the result of big agriculture.
  - Nobody ever figured out where the ecoli came from. But good soil could likely have prevented it.
- It is amazing how quickly big agriculture adopted organic. I really like it when larger companies learn from what we are doing and adopt it. I think what we are trying to do is bring our values to a system that we have not really been a part of.
- Thinking about the concept of the value chain, what other opportunities are there for us to broaden our conversation. Where else can we apply a value chain analysis to parts of La Montañita?
  - One of this month's readings was on grass-fed beef. First step was to identify assumptions and to test them. For example, there was an assumption that the middle man is out to rip us off. The end goal: Producer is satisfied and the market is happy
  - We found some gaps in the value chain – do we really have grass when we know we need it? Can we predictably grow and finish cattle? Can we predictably project costs? We couldn't do it. We then identified interventions to address the gaps. And La Montañita is implementing many of those interventions now. It brings to the members what they said they wanted.
  - We don't have those kind of resources to do value chain analysis to the extent that it was done in that study, but we have relationships. So we watch for gaps and opportunities.
- The hardest part is to stick to the differentiation strategy and get better at it in a hotly competitive market. That's a lot of what we are debating.
- Member-owner comment: But we are not evolving. We are devolving by offering conventional products.

- I don't see having two beef programs instead of one as devolving. We have two beef programs focused on two different ranchers/producers. They are both local. That is unique. Meeting two different customer needs. Two different flavor profiles. Two different price points. How we communicate the message around it is important.
- Member-owner comment: Our message used to be quality products and relationships. Now that is in question.