

Food Value Chains: The Changing Paradigm of Agricultural Marketing

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Today's Supply Chain

- ***Cooperative “Partnership” Structure***
- Buyers seeking long-term relationships with suppliers to ensure:
 - **Steadier pricing**
 - **More consistent supply availability**
 - **Greater quality control**
 - **More precise inventory management**
 - **Rapid responsiveness to shifts in customer demand**
- **Long-term supply relationships taking greater precedence over short-term price negotiations**

Why the Evolution to Cooperation?

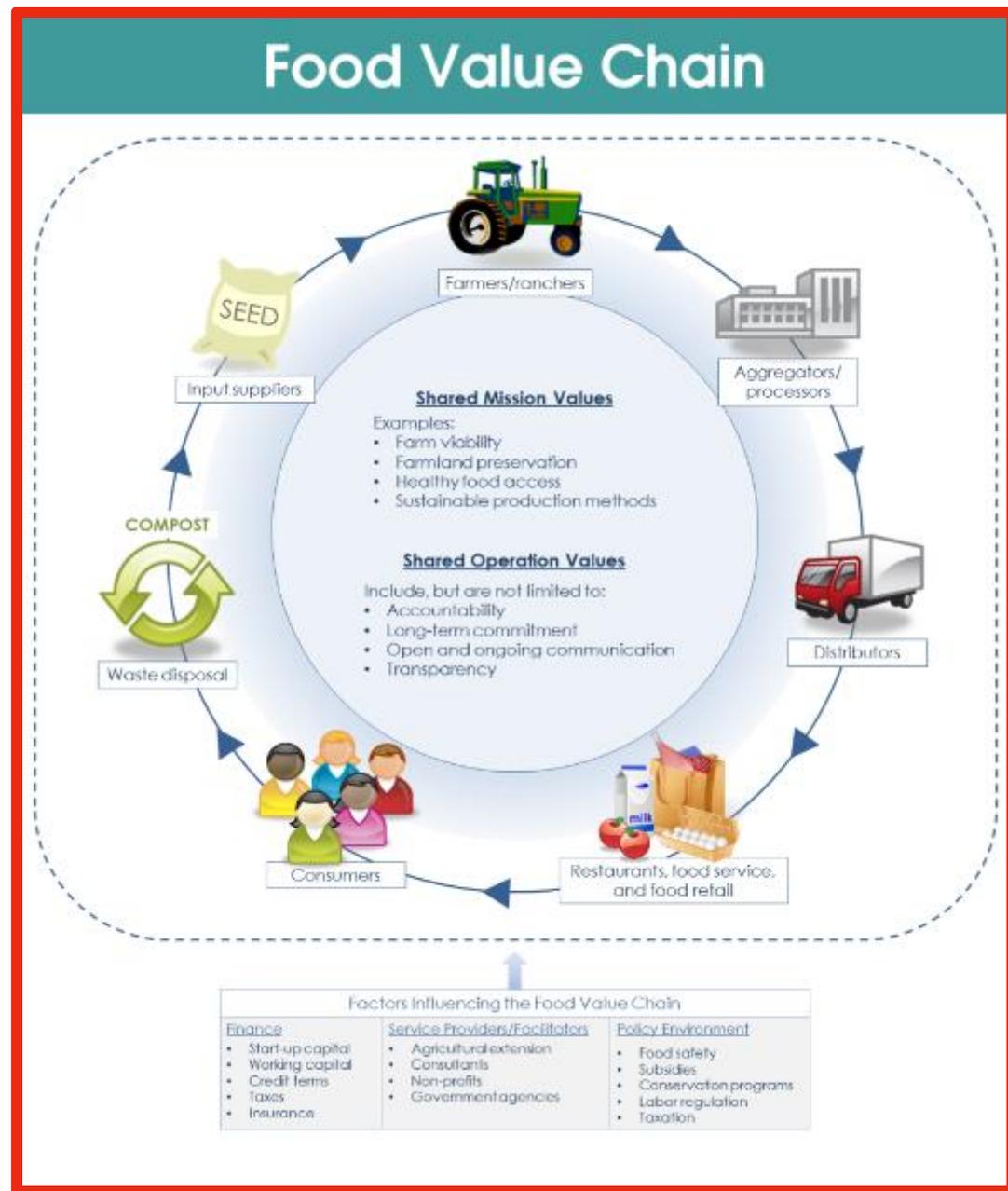
- **Technological capabilities allow superior, “real time” exchange** of data between chain members
- “One size fits all” approach in food retailing gives way to **“mass customization”**
- Customers more willing to seek out **multiple sources** for highly-desired food items, esp. perishables
- Consumers **looking to advance social and environmental goals** through food purchasing decisions
- Giving rise to **value chain relationships in food system** rather than traditional fragmented, competitive supply chain relationships

What is a Food Value Chain?

- An **innovative business model** in which producers and buyers of agricultural products
- Form **collaborative partnerships** with other supply chain actors (e.g. processors, input suppliers)
- To **enhance financial returns** through product differentiation that **showcases both quality attributes and social/environmental values.**



- The food value chain may look a lot like a traditional supply chain on the surface, but. . .
- **Shared mission and operational values** support decisions and processes
- **Integrates support of external partners** to benefit all parties



How Do Producers Benefit From Value Chains?

- Value chain participants – including producers/ingredient suppliers – **share the benefits of cooperation**
- Value chains **give suppliers greater negotiating power and influence** by:
 - **Enhancing product value** (through targeted product differentiation and appeals to consumers' social conscience)
 - **Providing greater predictability and product consistency** to buyers
 - **Having the capacity to respond more quickly to consumer needs** (through exchange of real time market information across the chain)

How Do Producers Benefit From Value Chains?

- Suppliers **able to retain a greater share of food dollar expenditures** compared to conventional supply chains
- Buyers and processors **share risks** with producers
- **Efficient and shared logistics** (transport, packaging, processing) provide shared benefits across chain
- Producers/ingredient suppliers have **greater input into planning and management decisions**

Farm Share of U.S. Consumer Food Dollar (2012)

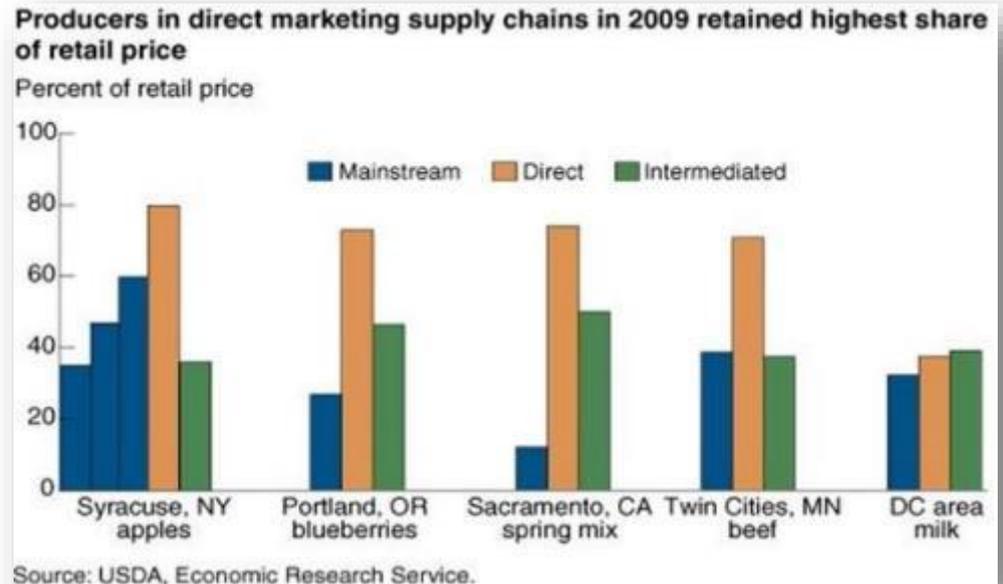
In mainstream supply chains, farmers **retain only 17.4 cents** of the consumer food dollar on average



<http://www.ers.usda.gov/data-products/food-dollar-series/documentation.aspx>

Different story in local food systems...

- In “short” supply chains, local producers received up to **seven times the price** compared to mainstream chains - USDA ERS report http://www.ers.usda.gov/media/122609/err99_1_.pdf
- Food Hubs often **return between 75 to 85 percent** of their wholesale sales revenues to their producers - USDA AMS report <http://dx.doi.org/10.9752/MS046.04-2012>



How Do We Create Successful Food Value Chains?

Key Takeaway:

It's Not About Infrastructure, It's About Relationships

The best investment is often in human capital

Tips for Creating Successful Food Value Chains

Keys to success include:

- **Recruiting likeminded, committed partners** for value chain formation
- **Assessing the needs and capacity** of all chain players and community members
- **Identifying the right resources/contacts** to leverage those assets
- **Repurposing existing infrastructure**
- **Identifying new – or previously unrealized -- market opportunities** (e.g., using second-grade produce to create branded value-added food items with processing partner)

The Roles of a Value Chain Coordinator

- **Matchmaker** — Identify and connect key stakeholders through referral services and other forms of short-term or one-off engagement. This “public interest broker” role is key to development of food value chains because many businesses are stepping outside their normal channels to find new collaborators.
- **Convener/Relationship Builder** — Build the necessary relationships across the food value chain by engaging key stakeholders (farmers, processors, distributors, and buyers), maintaining communication channels, and fostering a trusting environment. Some examples of this are convening stakeholder meetings, forming working groups, and implementing other forms of longer-term engagement.

The Roles of a Value Chain Coordinator

- **Technical Assistance Provider** — Work with food value chain members to build capacity through education and training programs in such areas as sustainable production practices, food safety, marketing/branding, etc. These education programs can raise consumer awareness and ultimately drive sales for food value chain products.
- **Policy Advocate** — Raise policy issues and partner with others to address policies and procurement requirements, such as bidding procedures and preferred-vendor practices that may interfere with the ability of food value chains to access certain marketing channels.

The Roles of a Value Chain Coordinator

- **Resource Prospector** — Identify and pursue resources, such as grants, loans, and services to support value-chain collaborators as they develop their enterprise(s).
- **Catalyst/Innovator** — As a resource prospector, value chain coordinators can also use grants and other external resources to test new business models and lower the financial risk of the businesses engaged in the value chain.

Financing Options for Food Value Chains

- **Federal**
 - Community Economic Development Program
 - Local Food Promotion Program
 - Intermediary Relending Program
 - Value-Added Producer Grants
 - **USDA Rural Development**
- State
 - Specialty Crop Block Grant
 - Michigan Good Food Fund
 - State Small Business Credit Initiative
- Local
 - Small Business Development Centers
- Financial Institutions
 - Local and Regional Banks
 - Community Banks and Credit Unions
- **Foundations**
 - RSF Social Finance
 - **Local Philanthropists**
- Intermediaries
 - Nonprofit Development Companies
 - CDFIs