

**Global Horticultural Procurement, International Strategic Alliances and the
Challenges of Geographic Location**

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Introduction

The increasing globalization of the horticultural sector and penetration of supermarkets around the world is totally changing the structure of the horticultural procurement and marketing channels (Reardon et al, 2002). The movement towards vertical coordination of the horticultural procurement channels has been primarily driven by the global expansion of European supermarkets (Humphrey, 2004). Across Europe, sales of fresh fruits and vegetables is increasingly concentrated in a small number of supermarkets accounting for 68% of fresh food sales in France, 72% in the Netherlands and 80% in the UK (Cadilhon, Fearne, Hughes and Moustier, 2003) and their market share continues to rise. In the UK, increasing supermarket dominance has led to a massive switch from spot market-based supply to highly vertical coordinated procurement channels that are composed of an ever smaller number of “preferred suppliers” (Gray and Kleih, 1997; Freane and Hughes, 1998). For example, one of the leading UK supermarket chains has reduced the number of produce suppliers from over 800 in 1987 to less than 80 in 2000. They are looking to reduce the number ever further with the goal of having just five produce suppliers who would be responsible for arranging the sourcing of all their fruit and vegetable product lines (Dolan and Humphrey, 2004).

Supermarkets are demanding that this highly selected group of preferred suppliers provide an increased range of services: category management, 12 month supply of all horticultural products, increased food safety and certification, private grades and standards, and guaranteed supply reliability. This phenomenon is presenting enormous challenges for small and medium sized producers worldwide. Empirical evidence suggests that supermarket buyers in both developed and developing countries are increasingly sourcing from large commercial growers excluding numerous small and medium fruit and vegetable producers from the new market structure in both types of countries. Consequently, we observe that the multinational fruit and vegetable procurement companies are responding rapidly to meet these new market demands by reallocating their financial, technological and human capital resources to support the production and purchase of horticultural products from anywhere in the world through proprietary vertically integrated procurement channels.

It is increasingly recognized that significant benefits can be obtained by both buyers and sellers from the establishment of long-term partnerships along supply chains (Perosio et al., 2001). In the on-going process of improving supplier performance, reducing costs, and establishing long term relationships there seems to be a natural selection process toward preferred suppliers who satisfy the increasing demands of supermarket buyers. But how can small and medium producers effectively and successfully cooperatively organize to compete in this rapidly changing global horticultural procurement environment and meet these supermarket and food service industry requirements? How can these producers overcome their traditionally geographic location and seasonality

constrains to become innovative, 12 month per year, preferred suppliers and category managers?

The literature on strategic alliance provides evidence and insights into the critical factors for successful international collaboration: risk reduction, economies of scale, market entry opportunities, blocking competition and access to new skills and resources. But how do you organize and design the marketing channel to allow a geographically, culturally, financially and technologically diverse group of horticultural producers successfully and profitably collaborate in overcoming these constraints? How does the nature of the linkages between firms in the value chains, the role of the lead firms within the chains, and the global buyers' role affect the long-term economic sustainability and flexibility of the chain to successfully adapt to changing marketing conditions?

In this paper we conduct a comparative institutional analysis of an instrumental case study of Global Berry Farms, an international strategic alliance between three firms and producer associations for the international marketing, procurement and production of various berry fruits for the supermarket and food service industries. A conceptual framework is developed based on the modular innovation literature to theoretically examine the appropriate organizational design of flexible and responsive marketing channel architectures, the necessary role of strategic alliances within these flexible architectures and the specific factors that contributed to their success or failure. The case study provides empirical evidence as to the necessary role that different factors play in the initiation, design and establishment of these flexible, responsive, and collaborative marketing channel structures. During the case we explore issues related to customer responsiveness, brand management, business leadership, cost efficiency, technology and innovation, market information systems, vertical coordination, total quality management, and related strategies. Finally, implications for managerial decisions in the food and agribusiness sector are presented

Changing Global Horticultural Procurement System

Over the past decade or so, globalization has massively affected the structure and organization of the global horticultural procurement system. There are a range of drivers behind these changes. First, across the world, WTO, NAFTA, CAFTA and other similar free trading agreements are bringing countries closer together and reducing the constraints to trade and investment. Free trade has also increased competitiveness, thereby reducing costs of traded goods, such as horticultural products (Reardon and Flores, 2006). Second, the traditional markets for high value food products are becoming saturated in the industrialized nations of the world. As incomes have rapidly increased and the cost of food consumption has dropped below 10% of disposable income, consumers food purchases have shifted from a staple nutritional requirement to a highly selective right of choice. As a result consumers are looking for and expect a plethora of alternative. Third, there has been a massive technological leap over the past decade in information and communications technology, storage and packaging technology, and transportation and distribution technology. These technological changes have greatly reduced the transaction costs involved in doing business across the globe for producers,

consumers and intermediary firms. Fourth, the supermarket and food service industries have rapidly responded by expanding the variety, location and quality of their offerings while simultaneously vertically and horizontally consolidating into larger multinational organizations in an attempt to extract greater cost efficiencies in procurement and delivery (Reardon and Timmer, 2006).

This process has greatly increased global competitiveness and reduced food costs to the benefit of consumers but has adversely affected the competitive market that producers and suppliers face. US food suppliers state that the single largest change factor that they confront at home and abroad is the consolidation of the food industry actors (Reardon and Flores, 2006). Reardon et al (2003) identify four key sourcing trends that characterize this transformation.

1. The extending and expanded coverage of food industry procurement channels and catchment areas. Catchment area expansion generally occurs concurrently with the firms' growth and expansion. Initially, firms sourcing locally, then they shift to distribution centers and regional procurement, then they move to a linked network of national distribution centers and finally as the parent company becomes a multinational moves offshore the procurement channel becomes a highly competitive global sourcing network (Berdegue et al, 2005).
2. The shift away from sourcing from traditional wholesale markets and brokers to what we term "new generation wholesalers" that are specialized in a product line and dedicated to one or two modern food industry segments. These wholesalers usually serve as "channel captains" for the supermarket in that domain. An important implication is that these new generation wholesalers have moved beyond the "buy it and move it" approach to a more sophisticated collaborative service role providing their clients R&D support, category management, transaction enforcement, private standards enforcement, and general and specific market information and trends identification (Reardon and Flores, 2006).
3. Supermarkets and their "new generation wholesalers" are moving away from spot markets to "preferred suppliers" often on contract. These preferred suppliers are screened on their ability to meet private grades and standard, volume and consistency requirements. This provides both an opportunity and a threat as the traditional spot market doors are being closed and replaced by "managed relationships" controlled by pre-specified gatekeepers (the new generation wholesaler).
4. The rapid emergence of private standards for quality and safety. These standards have been implemented to replace either missing or inadequate public standards. EurepGAP is probably the most visible, however it is not alone. Retailers are using these private standards to positively differentiate themselves along various attributes with consumers in the marketplace. However, this imposes a challenge for exporters as they no longer have to deal with public standards, but also an additional higher and more constraining set of private standards (Reardon and Flores, 2006).

These changes represent a vast opportunity for those firms able and willing to respond and “get in” to one of these regional or global procurement systems as a “preferred supplier” or “gatekeeper”. But for those firms unable gain preferred access it is likely to be a bleak future. Thus the question become, how do firms strategically organize themselves to become the preferred supplier and even better the “gatekeeper” or “new generation wholesaler”? The following section provides a theoretical grounding

Flexible Marketing Channel Architectures

When changes in the underlying business environment occur, such as the introduction of new technologies or changes in consumer tastes and preferences, it becomes imperative that firms not only use their existing core competencies to exploit these opportunities but also learn how to access and develop new internal and external competencies. This allows them to quickly and efficiently respond with new procedures or product innovations or channel configurations and thus create value (Gow et al, 2002).

Robertson and Langlois (1995) refer to this process as the “marketing process” and define it as *the set of activities through which organizations can identify and exploit opportunities to provide for consumers’ needs*. The marketing process achieves this through the development of a range of technological systems or core competencies that allow firms to identify consumers’ needs and then apply the appropriate technological means to create and deliver specific products that better meet these needs. Broadly defined, within this context, technology can be viewed as all tangible and intangible assets, human skills, and organizational capabilities involved in creating and realizing products, including product designs, production processes, and distribution channels. And as Sanchez (1999) notes, “the technological systems used in the marketing process create an institutional context that strongly influences the pace and direction of change in markets and technology” (p. 92).

The problem, however, is to access the requisite technological sets or core competencies, as this requires firms to move beyond their boundaries and collaborate with those value chain partners most competent in a particular product or process. This may appear to be an easy task; however, firms often find it extremely difficult to dismantle their previous chain relationships due to rigidities and path dependencies. To do so successfully on a regular basis requires adoption of a flexible modular architecture that allows for any value chain component to be freely replaced or reorganized within the existing bounds while causing minimal disruption to current economic activity (Gow et al, 2002). In doing so, there is an important distinction that needs to be made between the value chain¹ as a whole – the system – and the value chain in its parts – the components² – that underscores the idea that successful chain development requires two types of knowledge. “First, it requires component knowledge or knowledge about each of the core

¹ Note that the value chain may be made of one or more components that may be located in one or more firms; the actual observable value chain structure will depend greatly upon the location of the requisite core competencies.

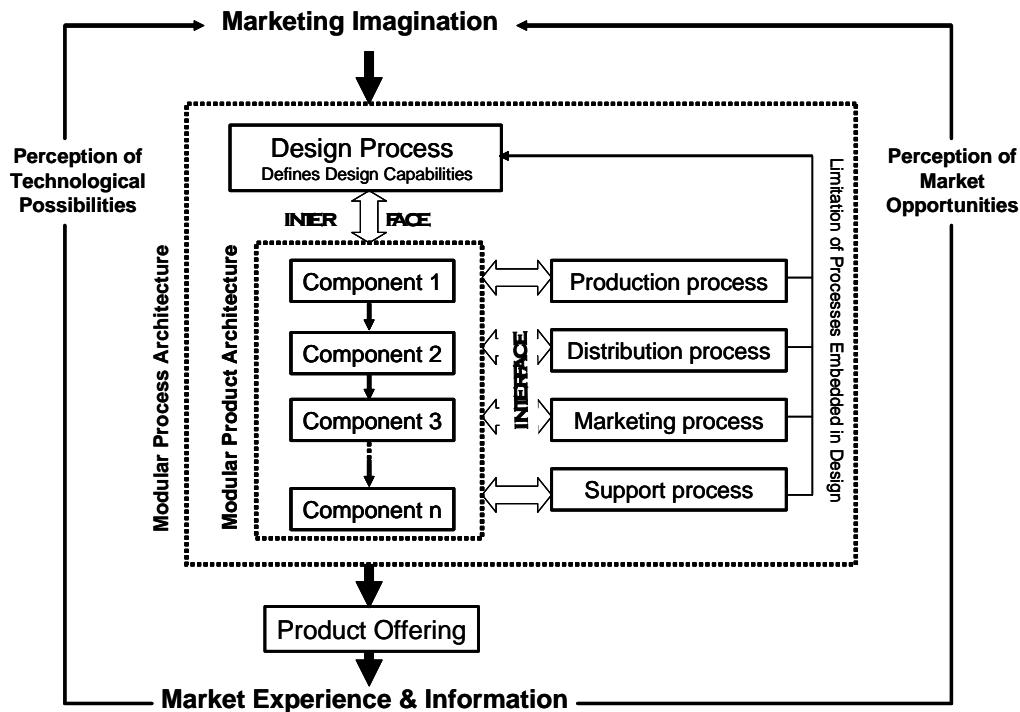
²We define the components as a distinct portion of a business unit, firm, or value chain that embodies a core competency or design role and performs a well-defined function.

[competencies] and the way in which they are implemented in a particular component.” Second, it requires architectural knowledge or “knowledge about the ways in which the components are integrated and linked together into a coherent whole” (Henderson and Clark, 1990, p. 11). It is the recognition of this distinction between architectural and component knowledge, or between the components themselves and the links between them that provides important insights into the ways in which innovations in value chains may be facilitated or retarded (Henderson and Clark, 1990).

Consequently, the establishment of flexible modular supply chains is not a trivial task; it requires an understanding of the critical processes or constraints driving innovation within a value chain. Modular product, process, and knowledge architectures are now being adopted in numerous market situations to provide the required market flexibility and responsiveness necessary to meet changing market demands (Sanchez, 1999). These modular architectures are having a significant affect on the “technologically determined economics of the marketing process” (p. 92). They are changing the way that different components in the marketing process are interacting with each other, and thus altering the underlying technological “deep structure” of the marketing process. This is leading to numerous innovations and changes in the marketing process with respect to product strategies, organizational forms, and market dynamics. These new modular marketing processes are altering many of the underlying assertions that were previously held about what is “technologically feasible and cost effective in identifying consumer preferences and designing, producing, distributing, and supporting products to serve [consumers’] preferences” (p.92). These new modular product, process, and knowledge architectures are providing a basis to “create greater product variety, introduce technologically improved products more rapidly, bring new products to market more quickly, and undertake these initiatives at lower cost than ever before” (p. 92).

Within this modular framework, an architecture is defined as a system for which (1) the overall functionality of the complete product or process system has been defined and decomposed into individual functional components, and (2) the manner in which the individual functional components interact or interface with one another has been specified (Baldwin and Clark, 1997; Clark, 1985; Sanchez, 1999). Sanchez (1999) recognizes three kinds of architectures that organizations either explicitly or implicitly determine and whose interactions play a crucial role in the marketing process: product architectures, process architectures, and knowledge architectures (Figure 4).

Figure 1: Modular Architecture



Source: Adapted from Sanchez (1999)

Products within this framework — whether physical products, services, or components along a value chain — can be viewed as a system of discrete functional components working in unison to provide the overall functionality and requisite attributes to the final product that distinguishes it in the marketplace.

The *Product Architecture* (1) decomposes the overall functionality of the final product, along with desired bundles of product attributes, into separate functional components, and (2) defines the interface specifications through which these components interact. The process by which this occurs is the product design process (Sanchez, 1996, 1999; Bogner and Thomas, 1996). The exact specification of the interfaces between each component can have important implications as to how these components interact. In particular, the specification of the interfaces determines the extent to which individual components are tightly or loosely coupled with each other, i.e., the level of interdependence or independence within the system (Orton and Weick, 1990; Sanchez and Mahoney, 1996). Consequently, the more tightly specified and standardized are the component interfaces (i.e., a system of loosely-coupled component design), the greater the flexibility that is created to allow for substitutability of variations in component designs within the product architecture (Sanchez and Mahoney, 1996).

Process Architecture decomposes the designs of an organization's, or value chain's, processes into specific activities and defines the ways in which those activities interact in carrying out those processes. An organization's overall process architecture includes its

activities for creating and realizing products and the interactions of those activities in the organization's marketing process.

An organization's, or a value chain's, *Knowledge Architecture* refers to the decomposition of its knowledge into specific knowledge assets and the ways those knowledge assets interact in the organization's, or value chain's, processes for creating and realizing products (Sanchez, 1999). Within this framework, Sanchez (1999, p. 49) recognizes "four essential and distinct kinds of knowledge that an organization may have about the product and process architectures it creates and uses:

1. knowledge of how a given functionality may be decomposed into product and process functions;
2. knowledge of how product and process components function;
3. knowledge of how its product and process components interact in product and process architectures; and
4. knowledge of how each component in its product architecture interacts with each process component in its process architecture as the organization creates and realizes products."

Thus, modular architectures, by allowing the substitution of component variations, enable firms to mix and match component variations to offer a wide variety of product offerings with different functionalities, attributes, and performance levels, and therefore may provide strategic flexibility. However, depending on the path dependencies of the architecture, the benefits of the strategic flexibility may accrue only to the firm or component controlling the product design process. Thus, the question for many groups of primary producers is how to design a chain so as to maximize the value of their core competencies while recognizing the limitations of the processes and leveraging the component attributes of other chain parties.

Competing Globally with Flexible Marketing Channel Architectures – The Case of Global Berry Farms

The following instrument case study applies the theory of strategic flexibility and modular architectures to explain how three independent groups of berry producers from three different regions of the world have successfully organized themselves to compete within the rapidly consolidation global food retailing and horticultural procurement industries.

Global Berry Farms

Global Berry Farms is a strategic alliance between three independent successful berry fruit production companies in North and South America that has evolved over the past decade and a half leveraging each firm's core competences using a modular architectural approach: Hortifrut (Chile), Michigan Blueberry Growers (Michigan –USA) and Naturipe (California- USA). There are clear complementarities between the three partners that create a natural fit. All three companies are: well established industry players; globally forward thinkers; possess healthy cash-flows; and are viewed as leaders in the production and marketing of their specific berry fruit varieties. They all offer high

quality berries delivered consistently, quickly and cost-effectively year round to supermarkets. All are very quality conscious, hold third-party certification for quality assurance and require full traceability and HACCP certification of all associated growers. Finally, the three parties share two common objectives: (1) to become the preferred year-round, full-line fresh berry supplier in North-America and in global markets; (2) to maximize returns to producers in the long run (more diverse customer base, more efficient production methods).

Hortifrut is a Chilean berry fruit company established in 1983. Today it is the largest berry grower/shipper in Chile, Mexico and Spain. It has traditionally grown and marketed globally a range of high quality fresh berries and asparagus under the "Southern Sun" brand. The berries include blueberries, blackberries, raspberries, strawberries, cranberries, golden raspberries and red currants. Hortifrut main production, collection and storage centers are located in Chile, where the products are storage for their national and international commercialization. However, they also have production locations in Mexico and Spain. This allows them to leverage different geographical production locations, climatic conditions, plant production periods, practices and maturation windows to successfully exploit and respond to the markets requirements for 12 month supply. Hortifrut also runs their own plant breeding programs and multiplication green houses, thereby guaranteeing the genetic characteristic and the health of their plant that allow them to full fill the market requirements.

Michigan Berry Growers (MBG) is one of the world's largest growers, marketers and distributors of fresh and processed cultivated blueberries with a production base of over 550 growers and total annual sales in excess of \$63 million. It was established as a cooperative in 1936 by 13 growers who untied to market blueberries along a similar structure as the New Jersey blueberry and cranberry cooperatives. By 1938, the group had established packaging standards, which included labeling specifications with an MBG logo and grower name and location. The berries were packed under the New Jersey Blueberry Growers Association's "Tru-Blu" registered brand. In 1990 MBG created the Blueberry Store and becomes the only Michigan grower organization to own and operate a retail store. MBG formed a partnership to align the sale of frozen process fruit with Peterson Farms, Inc. of Shelby, Michigan. Peterson Farms is in charged to market 100% of MBG's frozen cultivated blueberries and frozen blueberry products.

Naturipe is one of the largest dedicated strawberry producers, processors and shippers in the USA. It is located in California with production facilitates in Watsonville, Oxnard, and Irvine. This combination of shipping points allows them to provide customers with fresh and good quality strawberries year round.

Establishment of the Alliance

The formation of the alliance was initiated by Victor Moller, CEO of Hortifrut. Victor recognized that for Hortifrut to be successful in the rapidly globally consolidating horticultural industry is was necessity that they expand their US market presence. To achieve this Hortifrut' needed to identify one or more credible partners whom possessed

the requisite knowledge and experience in marketing berries in the USA, owned or controlled an established distribution system and most importantly possessed a global perspective about the markets future evolution.

After conducting an extensive search, Hortifrut located and approached MGB in 1991. MGB over the past 50 years had established a well know brand within the US marketplace along with a superior US sales and distribution structure. However, to remain competitive and grow within the newly evolving business environment, MGB needed an international partner who could help them to fill out their product range and market supply gaps during the year. Supermarkets were looking for preferred suppliers who could deliver a complete range of complementary berry products 12 months of the year. MGB was constrained both by geographical location as well as access to different varieties. Consequently, MBG concurrently recognized that they too needed a partner, but with different competencies. They needed a partner who was located in a different geographically region, complementary to their own, and possessed proprietary access to the latest berry research and technology. This partner would allow them to expand their supply window to 12 months and lead new product introductions.

Both companies also recognized the need to identify a partner or partners of equal size and importance. In the long-run merging with small companies may have been an alternative option for both companies, but in the short run, a larger partner was crucial to ensure that they could meet volume requirements of US supermarket chains and their developing trend towards “one preferred supplier.” Both companies also wanted to improve their cost structures and product offerings in terms of production, procurement, distribution, research and marketing. Thus, in 1991, MBG and Hortifrut started collaborating with MGB handling part of Hortifrut’s export program in the US. Over the following decade a period of courtship developed during which time the partners learnt each others national and corporate cultures, their individual core competencies, and established strong personal and corporate relationships. After a decade of collaboration, the relationship had evolved to a stage, where in 2000 Global Berry Farms was established as a 50/50 joint venture between MGB and Hortifrut. GBF combined MBG’s and Hortifrut’s US marketing groups.

Expansion of the Initial Alliance with MBG

During the decade long process that cumulated in the joint ventures establishment, both companies learnt to collaboratively leverage each others products, competencies, tacit component and architectural knowledge to profitably exploit this new global business environment. The ticket they recognized the importance of using flexible and adaptive alliances.

By 2000, they realized that a new partner with strong presence in the strawberry market was required to meet supermarket demand. There were two possible companies, Driscoll, one of the largest global producer and marketer of berries (including strawberries), and Naturipe, a specialist California strawberry grower/marketer. Both companies provided a strong US strawberry market presence, however Driscoll overlapped substantial with

GBF's own competencies whereas with Naturipe there was a more balanced synergistic need from both sides. Consequently, they approached Naturipe in 2000.

Since Naturipe was unfamiliar with MBG and Hortifrut and was successful in its own right, it took a one and half year period until Naturipe accepted the proposal to jointly market their strawberries with MBG and Hortifrut under GBF. The alliance establishment process followed a similar sequence as the initial partnership between MBG and Hortifrut, requiring various visits to learn about each others operations competencies. It wasn't until late 2002 when GBF was restructured to become an equal split three-way joint venture between the firms. The joint venture includes non-compete clauses, conflict resolution procedures, business development right zones and a break-up clause. Under the agreement the three partners were allowed to individually engaged in new partnerships, for example MBG has developed a partnership with Peterson farms to handle their frozen fruit sales since 2001.

With the formation of the new joint venture, a seven person board of director was established. Each partner controls two director's spots as well as an external director, who is currently a Professor of horticultural marketing at U. of Davis. To implement a decision the board requires 6 votes. Up to this point, the executives that were interview indicates that since the number of board members is small, they always be able pull things at the end of the day. Logically, there are some disagreements, but the board members are aware of the gains of working together and solve the problems in time.

Business Leader

The role of the organizations business leader cannot be under estimated. Victor Moller, CEO of Hortifrut, plays a critical leadership role, not only in consolidating and solidifying the alliance but also establishing the alliances vision and strategic direction along with continuously collecting information and knowledge on the latest industry developments. He possesses a clear vision about the JVs future directions and requirements. He is continuously traveling the world markets researching economic, demographic, social, and market drivers, participating in conferences, talking with academics, and meeting with clients, customers and business partners to discuss the implications of his observations and findings on the berry industry, food retailing and their business model. When recently interviewed Victor (2006) pointed out that "the berry world is a very small exclusive club where everyone knows everyone else."

As Mr Moller pointed out "the long term success of joint ventures, such as GBF, demand a lot of effort from all of the members. They are established slowly through a trial and error process where members learn from each others successes and failures, gain an understanding where new mutually beneficial partnerships can be established and learn how to solve the many differences that arise." Key to this process is the business leader or strategic partner who is continuously operating at the conjugate that binds everyone together, keeps the communications channels open, quickly dissipates problems and is continuously working towards building more social capital between the alliance members.

Partnering to the secure Consolidating Consumer Interface

On the demand side, over the past decade, GBF has been forced to develop integrated partnerships with fewer larger customers throughout the world. During this period there has been an observable rapid consolidation in both the retail and food service sectors. For example, in retail, five of GBF's smaller regional chains consolidated into one when Ahold supermarket chain acquired them and centralized their buying and procurement departments. Similar consolidation has been observed in food service with the emergence of firms like Sysco's and McDonalds. Although this consolidation trend positively affects the market share, scale and efficiency, it also creates a far greater dependency. The loss of a major account like Ahold or Sysco can mean the difference between profitability and bankruptcy.

The result has been increased demand for larger more responsive suppliers. This trend actually grew out of the frozen and processed fruit sector, but today it is the fresh fruits sector that is driving the trend. Ultimately, retailers are driven by end-consumer. Today consumers expect to find a broad assortment of fresh fruits available every single day of the year. This has forced fruit marketers to establish stronger relationships with those who are able to meet their requirements, such as GBF. Over time GBF has leveraged and strengthened these relationships from the trust and respect they have earned through consistent year round delivery of high quality berries as well as their ability to rapidly respond to changing consumer tastes and preferences towards new varieties, organic, and non-GMO.

Leveraging Geographical Location Advantages

On the production side, GBF can now produce different berry varieties at different geographical locations during different production windows throughout the year. This allows GBF to provide complete production coverage of the calendar and offer continuous 12 months supply of their full range of berries to buyers. When this is mapped into their extensive market knowledge, GBF has the ability to schedule production in these different regions to exactly meet their clients' requirements and demands. Additionally, controlling the complete marketing channel from production to retail they have the ability to access real time production information and map their promotional programs to global supply and demand conditions.

More specifically, Hortifrut has a strong Northern hemisphere winter program, but even within Hortifrut production takes place in six distinct climatic zones in Chile. Naturipe brings in the strawberries from many different climatic zones across California. MBG is a leading blueberry producer with a presence in four US states.

New Varieties and Technologies

To stay in front of their main competitor, Driscoll, the GBF partners view proprietary control of a leading edge breeding program that leads to the continuous introduction of new berry fruit varieties as a necessary core competency to support their sustained competitive advantage. As a result they have all supported the development of an active privately owned breeding program as essential. To achieve this they are continuously

searching to establish exclusive collaborate breeding agreements with the leading researchers, breeders or institutes whom possess the latest breeding technology and traits with these individuals. Currently, they are exploring opportunities with groups in South Africa, Australia and New Zealand to develop proprietary varieties for these regions. To ensure market exclusivity, newly varieties are first commercialized and produced on their own production sites. It is only when the next variety is ready for commercialization, that these varieties are released to other users. To fund these efforts they have begun pooling their resources including royalty payments of these new varieties.

Brand and Identity Consolidation

Initially, all of the berries packed at GBF were marketed under the firms members different and independent brand labels: Naturipe, Great Lakes Blueberries, Great Sunbelt Blueberries and Southern Sun. However, as the market consolidated, joint the members recognized it was necessary to form a united front under a single consumer brand to successfully compete against Driscoll, the World's leading berry marketer. They all recognized that consumer brand recognition was fundamental to their future success, but giving up their individual brands implied a loss of individual identity. This was not an easy decision and only resulted from a complex set of discussions and negotiations. In the end the commercial success of the GBF venture, the business logic of a single brand with 150 million consumer contacts per year and the mutual trust, familiarity and social capital that had been established between the members over time prevailed with Naturipe being chosen as the single consumer brand. Naturipe was selected as it had the highest consumer recognition rate and it was the oldest brand. Today all GBF products are marketed under the Naturipe brand, whether from North, Central or South America.

Channel Coordination, Architectural Knowledge, and Replication

Over the years Hortifrut has invested heavily in the knowledge acquisition process and research and development in an effort to understand how each of the different marketing channel components operate and how they integrate and link together as well as identifying the most efficient and reliable players in each component. Their goal has been to gain coordination control of the complete marketing channel starting from fruit production and varieties through packaging, processing, shipping and distribution. Control of the marketing channel does not necessary mean ownership, but can include it; mainly it refers to gaining proprietary control through ownership, contractual agreements, or alliances of specific marketing channel components and knowledge processes that provide unique value propositions while outsourcing and minimally satisfying those components that are highly replicable commodities.

Hortifrut are using their unique tacit knowledge of how each component operates and integrate together to replicate their current Americas berry fruit marketing channel in different regions of the world. The idea is to maintain the south-north structure and product flow with the production and R&D of new varieties being carried out in southern hemisphere countries while the sales and final consumption mainly occurs in the north hemisphere (high value markets).

On the marketing side, the three partners today bring together decades of marketing experience, each bringing their own diverse customer base into the equation. As a result GBF now tries to know the particular demand required and schedules of each customer, keep them informed with up-to-the minute crop information, assist them with promotion planning to match supply and demand and ensure each supermarket customer is provided with a consistently year round supply of the complete range of quality berries. To do this GBF now has: marketing operation in several countries, among them are Australia, Argentina, Chile, Guatemala, Mexico, New Zealand, South Africa, Spain and the United States; production activities in California, Florida, Georgia, Texas, Arkansas, Oregon, New Jersey, North Carolina, New Jersey, Michigan and Mississippi, and exports to a range of other countries including Argentina, Brazil, Canada, France, Germany, Spain, Italy, the U.K, Japan, Taiwan, Korea, Mexico and the Caribbean Islands.

Continuous Improvement

At GBF research and development is a continuously effort of improving fruit quality, fulfilling consumers demand, and ensuring reliable delivery and customer service. Their research program is based upon an extensive market research program that is regularly surveying consumers, clients, and markets identify future market needs, trends and opportunities. This market opportunity knowledge is then mapped against their extensive technical knowledge to imagine, design, and develop new berry fruit varieties and marketing processes that can deliver consumers a berry fruit with the desired attributes to meet their preferences and requirements.

The GBF employs and incorporates state-of-the-art production, process and information technologies into their marketing channel to ensure that they can access and receive the most relevant real-time information on their ability to meet market demand, order fulfillment, logistics and delivery, food safety, quality assurance, and financial transactions. This includes ensuring that they meet the numerous public and private grades and standards imposed on them by customers. For example, Hortifrut's food safety protocol includes continuously water quality, plant production and residual control test at in-house laboratories, and full traceability and auditing systems.

The EURO Gap that is forcing Michigan producer to incorporate into their production plans restrictions such as environmental and social measures. In addition, large companies such as Sara Lee and juice processors such as Ocean Spray are concern about these measures and start carrying out audits and collecting information about producers whom are following this direction especially in term of fair payment putting more pressures into producers.

Impact

They have learned their core competences and deficiencies, and learn the way to overcome them. For example, the strategic alliance with Michigan Blueberry Growers (MBG) and Naturipe of California allowed them to supply the US marketplace 12 months a year. Blue Berries are now ocean shipping because of technological changes (better varieties), improved port facilities, state-of the art cold chains from pre-cooling at harvest

to controlled atmosphere containers on the way to destination markets, high level of sophistication in post harvest handling and low cost per unit. By taking advantage of their market knowledge of each product, they reengineered the supply process and aligned it perfectly with the market windows; the fruit containers support a trip of 14 days as a result of modify atmosphere in the containers arriving in very good conditions to US markets. Furthermore Hortifrut's global vision of how the berry market has evolved has incentive them to expand their market share in Europe. To make this possible, Hortifrut has acquired a broker firm in Spain and created the Euro Berry Marketing In Asia, the progress is in a less advance stage because China has been bulking the berries production and makes the market penetration less feasible.

Other negatives factor such as high cost of oil is being compensated by reduction of production cost such shipping fares from Chile. However, in the case of products that are sent by airplanes, the situation is different because of the increase in airfare transportation due to high prices oil. To compensate this adverse situation, Hortifrut is looking for alternative production sites such as Mexico where new production plans will be implemented especially raspberries. Guatemala is another alternative but at the moment only spot production is being bought rather than implementing production plans. Furthermore, Driscoll compete with MGF in South America for purchasing product and for growing market shares. Hortifrut owns 50% of the total production, 25% is from contracting farmers (two year contracts), and 25% is spot market. By means of acreage ownership control, Hortifrut guarantees at least 75% of the berries supply. The increasing number of partnership in Chile put more pressure on Hortifrut since they compete for providers and at the same time they compete with independent growers that have enough financial resources to growth small production areas into big areas. The lively competition has created a movement toward production agreements and contracting farming. MBF manage its financial transactions in a daily basic – they do not finance their client, however they have a financial support program with some of the contracting farmer but the majority of the payments are made when the product is delivered and the quality inspected.

A favorable aspect for growth of the exporting sector in Chile is the active participation of the Government helping fresh fruit and vegetable exports by improving trade and fiscal laws, transportation infrastructure, capital markets and indirectly by controlling social influences that can affect the competitiveness of the sector by means of labor laws that allowed subcontracting reducing the social responsibilities of the employers. However, this situation is likely to change with the new administration.

Implication

This instrumental case study provides a unique insight into challenges firm face competing in the global horticultural industry and the necessary marketing channel innovations that have to be undertaken to survive within this rapidly business environment. The establishment and continual evolution of GBF has had a strong positive impact on the performance of its individual partners. As individual marketers, they were too small to get contracts from large multinational supermarket and food

service procurers, such Ahold and Sysco. As a result they were individually likely to get marginalized over the long term. As an alliance, however, they have not only avoided market exclusion, they thrived with sales growing far beyond projections: GBF expected to have sales of 100 million by 2004, but reached a sales of level of 170 million in 2003. This unexpected success story has positively affected the perceptions of benefits that can be derived from the alliance. The key success factors in the alliance were a careful partner selection, visionary business leaders, a (long) courtship period and social capital development, tight consumer/customer interface, proprietary ownership of technology, efficient channel coordination, and continuous process and product improvement.

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