Building an aligned and committed value chain: A framework for the innovative entrepreneur in food & agribusiness.

Abstract

Most food & agribusiness stakeholders (entrepreneurs in particular) agree that it is not only difficult to build a differentiated value proposition but also to realize its true market potential. A lack of market and/or supply partnerships, i.e. a robust and committed value chain, is often cited as the reason for the failure to achieve this potential. The key objective of this research is to understand the elements needed for building a committed value chain and to suggest an approach to achieve it. Our research shows that partnerships with complimentary capabilities, able and willing to align their incentives, and with the tools to realize agreed collaboration objectives, are most likely to realize a committed value chain. The research further provides guidelines to develop these elements and achieve committed chains in practice. Finally, we demonstrate the relevance of the suggested approach using two real-life business cases; the first one is a business success story with a committed value chain, while the other is a story of a failure due to the lack of a committed chain.

Key words: Committed chains, shared responsibilities, shared information and aligned incentives, innovative entrepreneur.

Introduction & Research questions

Almost all successful products and brands, irrespective of their sector and segment of operations, have well-established and reliably functioning value chains/networks. That is, material flow well organized all the way down to the end-consumer, financial flow is smooth throughout the chain, information flow is shared in both directions, and a certain level of trust and commitment between all chain partners is well established. Differentiated value propositions, on the other hand, often require different business models, and different relationship structures beyond what is currently available in the marketplace. Successful innovation needs commitment from potential value chain partners, but these partnerships needs to be built up. The key objective of this research is to understand the elements necessary for building a committed value chain and structure them into a framework that can be used by an innovative entrepreneur.

With the above background, we aim to address the main and sub research questions below:

How can an innovative entrepreneur build a committed value chain to realize the market potential of his innovation?

1. *What are the key elements of a committed value chain?*

2. *How can an innovative entrepreneur structure these elements to ensure that there is a required level of commitment from his complimentary chain partners?*

Research method

This research is carried out from the perspective of an innovative agribusiness entrepreneur who has access to a key technology and/or process innovation that enables him to offer differentiated products/solutions; generally a food grower and/or processor. Taking this as the starting point, we discuss strategies to getting the chain commitment from the required upstream and downstream players to realize the market potential of the innovation.

This study of the framework or theory of chain commitment takes input from published literature that has scientific rigor and managerial relevance and is strengthened with extensive interviews and discussions carried out with entrepreneurs and experts who have had practical experience of bringing differentiated value propositions to the market. Furthermore, we evaluate two real life case studies in detail to demonstrate the relevance and robustness of the proposed framework and its application to real life business situations. In the next section we discuss some literature that relates to the critical subject, which is the chain commitment, and offer valuable starting points for developing useful frameworks and meaningful insights.

Literature research

Literature relevant to this paper is taken from research and studies into marketing, and value chain creation and coordination, especially within the area of food and agribusiness. We intend to leverage this published literature and relate it to the objectives of this research.

The literature on go-to-market approaches for less established businesses with innovative products is quite scarce. Luister (2011) presents several food concepts in 4 different categories 1. Fabulous to go, 2. Fabulous to buy, 3. Fabulous to shop and 4. Fabulous to farm. Some of the case studies presented discuss elements and challenges related to building the value chain and help us understand the critical components required for successful chain building and achieving market results. Someren & Nijhof (2010) discuss 9 different Dutch case studies using the Triple P (People-Planet-Profit) business development point of view. The study suggests that this approach leads to improved business performance with respect to social (people), ecological (planet) and financial (profit) goals. Nalla & Kouwenhoven (2014) provide a go-to-market framework for innovative entrepreneurs. This research helps businesses to adopt a right go-to-market strategy for their innovative food products offerings, the key take-away of which is the need for the support of distribution partners and how this can be achieved through proper market positioning and approach. Furthermore, Nalla & Kouwenhoven (2014) suggest that, almost always for new and innovative food products, the entrepreneur has to start niche distribution channels that can inform and influence early adopters of the proposed value proposition. Nalla (2014) emphasizes the relevance of incentive alignment for achieving coordination within the chain and for eliminating inefficiencies within it. Within this study clear contractual mechanisms have been proposed to achieve coordination and collaboration.

Kouwenhoven et al. (2013) suggests opportunities for greater value creation in the context of the value chain. The suggested framework in that study and the case studies discussed present very good inputs/insights for the process of chain building. In this study, which focuses on creating added value by reducing waste, the authors propose different types of interventions for value chains that are in different stages of their life cycle. Specific interventions such as value chain financing, technology interventions, incentive alignment, work alignment, training & development and information sharing are suggested for the value chains that are at early evolving stages of the life cycle. Product-process-technology interventions are suggested as primary interventions, with market intelligence, incentive alignment, work alignment, training & development and information sharing complimenting them. Although Kouwenhoven et al. (2013) focused on eliminating inefficiency, several of its' insights are relevant in the context of this paper.

In the next section, we discuss framework development & case analysis.

Framework development & case analysis

Literature review, expert interviews and the case studies have led us to conclude that the following key elements are necessary to build a robust and committed chain for delivering a differentiated value proposition. Complimentary chain partnerships are the first critical component that makes a differentiated value proposition possible. Secondly, for the value proposition to grow and adjust to the changing market conditions, the incentives should be fairly and proportionately distributed according to the risk and contribution made by individual chain players. The third is critical execution to ensure that the processes and integration tools are in place for smooth information and task sharing. These three components in the context are indicated in figure 1 below:

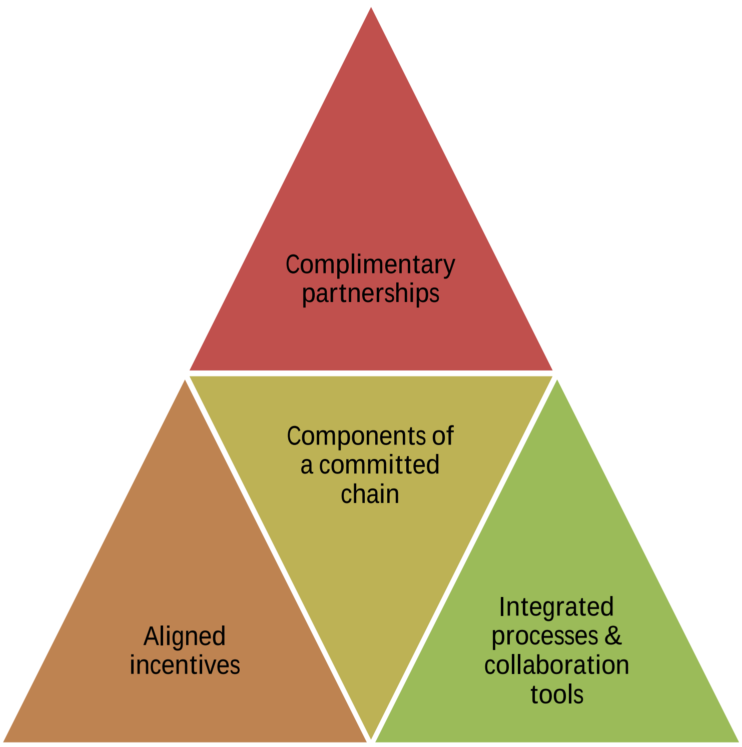

Figure 1: Components of a committed value chain

These three components are critical for realizing market success and will be discussed at greater length in subsequent steps. As each of these elements will also be validated in the context of the case studies, we briefly present the background of the case studies below and explain them in greater detail as we continue to build the theory for this research.

Introduction case studies

Case study 1: Koppert Cress

Koppert Cress specializes in cresses; seedlings of unique plants that impact human senses. At Koppert there is a specific cress for flavour, fragrance, feel or presentation and the assortment is widening continuously. Every year at least one new item is added to the collection of micro-vegetables.

Although the history of Koppert Cress goes back to 1987, the major growth and success were initiated when Mr. Rob Baan (the current entrepreneur) took over the company in July 2002. Mr. Baan not only changed the name of the company to 'Koppert Cress', he also had a vision and drive to do things differently. With long experience as a professional traveler, Rob came into contact with many cultures, ingredients and food habits. Being a passionate home-chef himself, he was able to link his business knowledge of the seed industry with the culinary treasures he encountered on his travels. Together with his partners, Theo Cuppen and Altai Lin, he combines seed-technology know-how with exotic tastes and fragrances, and has managed to realize a fivefold growth since 2002.

Case study 2: Anonymous

The second case is also a Dutch company which, by request of the principles, will remain unidentified. This cooperative ownership structure was designed to collect different vegetables from growers, prepare and package them in a box, and weekly deliver them to consumers ordering via the website. The idea was that the consumers could get access to required quantities of freshly grown vegetables each week at relatively lower prices (as this eliminated intermediate distribution channels) while the growers could reduce their dependence on the price driven, retail controlled distribution system.

In the next sub section we discuss the complimentary partnership subject in greater detail and discuss the approach of each of the above businesses to building complimentary partnerships.

1. *Complimentary strategic partnerships*

Complimentary partnerships are required to deliver the promised value proposition and improving it on a continuous basis. It is this continuous delivery and improvement of the value proposition that enables sustained profitability and prevents easy replication by competitors. An example is a business that has developed an innovative product and now requires distribution channel partnerships to provide access to the market. Furthermore, it would require other kinds of partnerships such as logistics, customer support etc.

A partnership can be understood to be complimentary when the business is able to strengthen the value proposition and increase the marketability of the product and/or service. We have learned that many entrepreneurs finalize their partnerships based on experience and intuition. However, this study's proposed framework for complimentary partnerships enables entrepreneurs to more formally assess the critical parameters of interdependence, aligned objectives and aligned values, to ensure their complimentary strategic partnerships are effective.

1. *Interdependence*
2. *Aligned objectives*
3. *Aligned values*

While interdependence strengthens the value proposition, aligned objectives & aligned values ensures that the value proposition can be delivered without being compromised by the short-term constraints that emerge during innovation and differentiation. For example, it might be possible that every manufacturer including the innovative one needs a retail partner which means there is an interdependence between them. However, it might be possible that the manufacturer is innovation driven while the retailer is cost driven which makes it difficult for these players to align the objectives and values.

Below, we look into both case studies and discuss their approach in forming partnerships and how the elements listed above are the difference between success and failure.

For the case of Koppert Cress

To deliver unique value and experience to the end-consumers, Koppert Cress had to create a special value chain. Their value proposition starts with unique varieties of Cresses with special properties of flavor, fragrance, feel, presentation or singly or in combination. These properties are developed in partnership with breeding companies with know-how in specialty cresses and the growing conditions needed to optimize the desired product characteristics. Partnerships with specialized greenhouse and lighting companies help build the necessary growing infrastructure. Finally, on the distribution side, are the chefs and specialty users of their produce who promote it by using the products to provide unique sensory experiences to their customers.

A closer look confirms that these partnerships are two way, breeding companies need input from Koppert cress to suggest direction in innovation, the lighting and the greenhouse companies develop and provide the necessary specialty equipment, chefs require unique ingredients to realize their creative work. Koppert Cress understands the need to create and manage these interdependent collaborations and have built their existing relationships over a 13 year period.

Each of the businesses in the above described chain share the objective of "delivering unique consumer experience" to the consumer's plate. Incentives play a major role in making innovation and coordination possible within the Koppert Cress chain. Price is never the key discussion point, value creation is. All the partners in the Koppert Cress chain are keen on delivering value and then asking a price that justifies that delivered value.

For the anonymous case

Though the value proposition for the consumers and growers was very clear, each grower joined the cooperation with a different objective. For some of the growers this new initiative was only an alternative market option to be used when the traditional channel did not accept their products. Others wanted to pursue this path as a primary distribution channel. Hence, real interdependence could not be created due to the varied objectives. Also, the incentives for each grower varied according to the firm's size and scope and interfered with unity and synergy. Furthermore, the success of this model depended on real marketing know-how, and they never achieved a collaboration to provide this. As a result this initiative in the originally designed form and structure did not long survive.

It is clear that aligned objectives and complimentary capabilities that creates mutual interdependence, and leads to respect for the contribution of each member, will require fair risk-reward structures. In the next sub section we discuss the incentive element and discuss the approach of each of the above businesses in aligning incentives with chain partners.

2. Aligned incentives

Businesses exist to create and maximize profits which can only be carried out by managing risks in the process of delivering a differentiated value proposition. Value chains which do not share the risks & rewards in a fair manner are very rarely able to remain competitive and are mostly unstable (Nalla 2014). Situations of unfair risk-reward sharing are quite prevalent in real world business operations and in our view accounts for a large number of unstable value chains and business failures.

One of the most important managerial problems, in any Value Chain consisting of autonomous organizations, is sub-optimization which is caused due to the fact that each player is trying to optimize his/her own objectives. This is due to the fact that the Value Chain decision making is distributed over the various players (Nalla 2014). In such situations modifying the terms of trade can do the trick. The modification of the terms of trade is achieved through incentive schemes or contracts over certain trade parameters (variables). This approach aims to achieve coordination among business entities by providing incentives to share risks and/or rewards. There are several contract mechanisms that can be designed and used to make sure that the independent decisions made by business entities optimize the overall performance of the whole chain. The use of the so-called buy-back contract for sharing risk and the profit sharing contract for sharing reward are two examples of contract mechanisms which can be applied as much in food & agribusiness as in any other sector. These kinds of contracts are designed to spread the consequences of both success and failure amongst all the independent business entities thereby improving the overall performance of the value chain when compared to normal arm's length transactions.

A Supply Chain contract is an agreement among different organizations/entities with respect to different trade parameters such as pricing, order quantity commitment, periodicity of ordering, delivery commitment quality, and information sharing that together define the terms of trade (Nalla 2014). For example, an agreement with respect to the pricing parameter usually concerns:

- How much is paid for each unit.
- What additional incentives are involved and how they are paid. This part can include agreement on incentives such as quantity discount, profit sharing, revenue sharing, credit for returned goods, et cetera.

Here below, we look into how the transaction, incentive and information sharing process is organized in the context of the case studies.

For the case of Koppert Cress

It is very clear that complimentary partnerships to create and deliver business value are critical to the Koppert Cress chain. Trust between the business partners plays a crucial role as shown by joint investments in the development of projects. Recapturing the investment requires clear information sharing, respect for each participant's contribution, and fair terms of trade. Although the details of the incentive agreements and structures are privileged information, it was clear from the interviews that they do have risk-reward sharing contractual agreements in some form.

For the anonymous case

In the anonymous case business objectives amongst the principles were less aligned and this lead to a mis-aligned incentives and lack of coordination among different partners leading to sub-optimization. From our interview and discussions it was clear that this situation precluded the effective joint marketing effort which was necessary to making this initiative successful.

In the next sub section we discuss integrated processes & tools and discuss the approach of each of the two case studies to aligning their processes and tools.

3. Integrated processes & collaboration tools

To build a stable and evolving value chain, businesses need to align their goals and coordinate their decisions on capacity, inventory, pricing, promotion, quality of the product or service, product variety etc.

After having ensured that the partnerships are complimentary and incentives are aligned, process integration means identifying the right tools and platforms for sharing information, ideas and challenges with different elements within the scope of the collaboration framework. Modern IT infrastructure and software availability means proprietary and dedicated ERP systems are no longer required for each company within the partnership, and this makes operational coordination economically viable even for small to medium size businesses. This allows market chains to be built rather quickly.

Process integration in the context of the case studies is shown below.

For the case of Koppert Cress

Koppert Cress shares its IT systems, growing facilities & experience labs with all the chain partners and they also have access to the systems and capabilities of all the partners.

If Koppert Cress wants to know the projected market for a specific well established product, it has access to projected demand data from its distribution partners. Pricing and promotion are determined using all the information available within the distribution partnership. On the supply side suppliers of seeds and other materials also get access to this data and carry out their production and inventory plan to meet the needs of Koppert Cress on a regular basis. In the context of an innovation, project coordination in experimentation is carried out with the breeding company while all other eco-system partners communicate the economic and technical feasibility of their components. Running such a system effectively needs a good level of coordination and requires aligned business processes and joint investment in a shared IT system.

For the anonymous case

Lack of aligned objectives created a situation of mistrust and there was no incentive for chain players to share information or processes for the success of this organization and investments for achieving integration with other chain players was not done. This lack of integration in the business processes was clearly reflected in the value proposition delivered and end consumers were dissatisfied.

In the next sub section we summarize the analysis and suggest how entrepreneurs can make use of the framework to design a chain that would enable them to create and deliver value proposition to the market.

Information summary and tool applicability and set-up

The literature review, extensive discussions with entrepreneurs and application of theory have led the authors of this research to the following conclusions.

1. One of the key insights from this research is that the degree of alignment in the objectives of the complimentary chain partners will govern the level of commitment in the chain. This in turn determines if and how the designed value proposition is delivered to the target consumer group. Cooperation and interdependence are not enough. If objectives are not aligned it may not be possible to realize the synergies that come with complementarity
2. Aligned objectives create a platform for aligning incentives. Risk-reward sharing agreements are the key. And yes, innovative engagement structures such as contract mechanisms can play a significant role
3. To realize the full potential of collaboration, it is important that business processes and information are shared with partners.

4. Only when all the above elements are in place can value creation, delivery and sustained business performance be expected. Hence achieving chain commitment is a long and continuous improvement journey as demonstrated by Koppert Cress. Businesses that are aiming to build a serious value proposition, and a sustainably profitable business, should do it with complimentary partnerships.

In the next section we conclude the study.

Conclusions, contributions & directions for further research

This research provides a useful framework to enable entrepreneurs to bring innovation to the market and to realize market potential. We explain the need for a committed value chain and work-out a framework to create it, using the elements of complimentary partnerships, aligned incentives and integrated processes. Furthermore, we provide guidelines on how these components can be set-up and committed chains realized in practice. We demonstrate the applicability of the developed frameworks and its components two real-life business cases; one successful and the other a failure case study. This research makes clear that successful businesses have these elements in place to make its value proposition reach its' market potential.

Our advice to entrepreneurs who ask themselves the question posed at the beginning of this study:

How can an innovative entrepreneur build a committed value chain to realize the market potential of his innovation?

is use the key elements of a committed value chain in your mission and vision, and structure these elements in your strategy and goals. Measure, monitor and evaluate to ensure that there is a required level of commitment from your complimentary chain partners. This is how innovation disrupts the status quo and maximizes its' chances for success in the marketplace.

This research contributes to the existing literature as it focuses on the individual entrepreneur as the central element in the building of the committed value chain. Future research should be extended to defining the commitment parameters much more elaborately and objectively. Furthermore, from a practical standpoint, case studies can be developed to test and improve the framework. Although we discuss this subject in the context of the food sector, we see relevance of these ideas in other business sectors as well.

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