

Value Added Networking: How do You Get Started?¹

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▪ What Will I Learn In the Value-Added Workshop?

Participants will become familiar with the concepts of value-added pork marketing. You will learn how to strategically plan and develop a cost-effective marketing plan for pork products. While the example used to illustrate the concepts is an actual market assessment of the Hispanic market for pork products, the tools and analysis are identical for any alternate application. The same questions are relevant and can be applied to producers trying to access packer value as they coordinate their commodity pork marketing programs. Participants will learn how to address five core marketing questions whether they're considering the packer as their ultimate customer or finding ways to access the consumer directly. The complete "Front-end Guidance Manual on Value-Added Networking" will be available for participants at the seminar.

▪ Why is it Time for Value Added Networking?

Over the past 5 years, horizontally networked investments by pork producers have proliferated. They have primarily focused on lowering production cost through accessing technology not available with the resources of individual producers. Many successful examples exist and are models for continuing interdependent investment. This effort extends the strategy of networking as not only a means to lower cost but to also add value.

¹ Portions of this paper are taken from "Front-End Guidance for Value-Added Networks: Marketing Pork to the Mexican Consumer in the United States." National Pork Producers Council in Cooperation with the National Pork Board. 1997. Co-authored by Brian Buhr and Dennis DiPietre. The manual is available from NPPC (515) 223-2600.

The individuals and firms who interact directly with consumers will have the greatest potential to develop knowledge of consumer demands and ability to pay. Consumer preferences are enlarging beyond interest in the physical characteristics of the product, such as lean, color and taste, to such things as safety, humane growing conditions and organic production methods. As this occurs, the information flow from consumers necessary to drive investment, will need to reach through the chain all the way back to pork producers and their input suppliers. Feedback stopping at the local meat case manager will not be sufficient to guide future investment.

While it is not clear which mechanisms will arise to accomplish the necessary knowledge-sharing and information transfer, it is clear commodity price determination mechanisms are unlikely to be effective in conveying demands for specific, identity-preserved products or attributes. The response will increasingly be to seek and develop vertical relationships to augment price signals.

A post-industrial model of production is emerging. The focus of this model is to produce a differentiated pork product within a highly controlled, responsive and flexible system of production. While many of the industrial model production methods are used, the system is broader and more complex. As distinct from the industrial paradigm which focuses heavily on low cost commodity production, the post-industrial producer is targeting product characteristics which are multi-dimensional and directly related to known tastes and preferences of final consumers.

Within the post-industrial motive, the focus changes from least cost production of lean to **cost and quality controlled production of food made from pork**. The focus is both process and product quality. Production in this paradigm broadens the notion of "system" to include the community in which production takes place all the way through to the final consumer of the end-products.

Attributes of this system of production are: high investment requirements driven by the marketing decision, very specific input requirements, trading back some of the efficiency gained by industrial methods in return for quality characteristics demanded by customers, and modeling production and profitability as a means to change. Instead of "walking the grain off the farm", this group is "center of the plate" focused. In addition, there is an awareness and commitment to manage within the social and environmental climate within which the production takes place to achieve a win/win relationship with the community. Long-term commitments to the community are part of the investment.

Multi-goal quality attributes for products include food safety, shelf-life, texture, appearance (including color), taste/texture, water-holding capacity, size of cut, tenderness etc. In addition, responsiveness to the changing demands of target

customers is rapid. Executing effectively within this model requires high management/knowledge and capital requirements and relatively low labor.

Given the persistence of demand for special characteristics, the availability of the technology and methods necessary to produce those demands and the willingness to pay by consumers, an incentive develops for firms. This incentive is to vertically integrate or coordinate other functions in the chain to realize the opportunity. The fundamental change which occurs is that each intermediate level (or a set of levels) in the channel comes under the organization, management and control of a single firm or joint venture.

▪ **Assessing Value Added Potential**

Today's swine industry has a large stock of production knowledge. However, knowledge of the consumer and knowledge of how to reach the consumer is in shorter supply. Marketing knowledge can be learned and applied; just as production and financial knowledge has been adopted in today's swine industry. The following are the basic five steps value-added networks must consider. A more in-depth prototype of these steps is applied to the Hispanic market in the Front-End Guidance manual.

Who is Your Customer?

Who is the customer you're targeting? Is it an ethnic group (as in the manual), or is it a restaurant or local packer? How big is the potential customer base? Is it big enough to offer growth potential? The idea of networking is that you don't have to own the knowledge, but must gain access to the knowledge. Vertical alliances can help enhance your abilities to identify customers.

What Does Your Customer Want?

Is color a major factor as in the Japanese market? Is cutting style different, or size of hog different? Is your packer changing their pricing grid to meet their customer specifications? In the analysis of Hispanic markets we found a preference for much thinner cuts and for pork offals. We also found a distinct preference for freshness and for service. This suggests that in addition to product attributes, relationship and service can be an important value not often provided by the throughput oriented commodity channel. Quality market analysis cannot be done at arms-length – you must engage your customer.

Is the Customer Willing and Able to Pay?

While customers may have different preferences, the question remains are they willing or able to pay for these preferences? Does the packer's price grid compensate you adequately for added costs of your pork product? This is difficult to ascertain, as it requires careful analysis of prices both and quantities

of products consumed as well as qualitative differences. All three pieces of information are seldom available, but can be obtained through surveys, focus groups or even experiments.

What is Your Competitive Position?

You know your customer, your product meets your customer's preferences -- Who else is in your market? Are you competitive on cost structure? Are you providing significantly superior value? How easily can someone else enter this market if you're successful? Unfortunately, the cost treadmill concept applies to market development as well – where value is available, then others will seek to capture it for themselves. Adding value is not an excuse to reduce vigilance on cost containment. Cost control and value added must go together.

How do You Manage the Rest of the Market Channel?

Few individuals in the industry have a comprehensive knowledge of all the components of the pork market channel. Feasibility studies of vertical production often stop at the cost feasibility of packing. Distribution and retailing are perhaps more critical challenges to success. Forming alliances will be a critical component to accessing this knowledge. Key considerations will be given in assessing a packing/processing partner as well as the distribution problem. If you're going to the final consumer, accessing the retailer is another critical component, but may be by-passed in marketing direct to the consumer and likely will be a function of the distribution process (e.g., direct mailing efforts or selling to wholesalers as an intermediary to retailers).

▪ **Summary**

The outline presented above suggests alignment through the entire pork market channel. This is only one possible strategy, which, interestingly, smaller scale operations seem most able to follow. For many producers, the vertically related activities will be undertaken by already existing partners, but all partners will be committed to providing products desired by specific market segments. These linkages will capitalize on knowledge possessed by each production segment but emphasize communication of the knowledge of the consumer to the primary production phase.

