Capturing value on-farm: Family farm businesses selling food products direct to customers

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Executive Summary

More consumers are seeking food products that have credence attributes, such as improved animal welfare outcomes, lower environmental impact, and positive social impacts. Credence attributes cannot be seen or tasted, consumers only know they are being met by information being passed from producer, through the supply chain to them. Commodity supply chains struggle to pass on accurate, complex information, leaving consumers who are seeking these attributes looking to buy their food through other outlets. Savarese et al., (2020) identified a real opportunity for New Zealand farmers if they are able to connect to these market segments. This research identifies the key requirements a family farm must have to successfully establish and maintain a short value chain.

Coinciding with the growing consumer market, is a risker macro-economic environment where farmers are subjected to tighter margins on commodity markets. Short value chains present opportunities to diversify risk through accessing alternative markets, equity growth without a dependence on acquiring more land, and a way to include more family members in the family farming business.

This research uses semi structured interviews to collect information from family farm businesses who are selling food products directly to consumers. A thematic analysis is carried out to identify the key requirements to consider when establishing a short value chain.

Establishing and sustaining a short value chain is a cyclic process that needs constant realignment between the resources the farm business has and the demands of the customer segment. Farm businesses must have the desire to connect to consumers and the ability to identify opportunities that allow them to connect with consumers in a cost-efficient way. Success relies on mobilising the businesses resources and establishing a production system that creates a constant supply of quality product. Finally, the business must continually seek opportunities to realign with changing consumer demands and maintain their competitive advantage – which comes back to identifying opportunities.

The defining characteristics of family farm businesses who participate in short value chains is their ability to create and sustain consumer trust. This trust results in consumers who are willing to pay more for their product.

From the analysis of successful short value chains in New Zealand there are a number of recommendations for family farm business wishing to establish and participate in a short value chain. The key recommendations are to (1) establish your family values and align these to customer segments to decrease costs associated with mobilising resources, (2) spend time creating a production system that produces consistent, quality products that your consumer wants, (3) connect with your consumers, provide transparency on product details through face-to-face and more permanent marketing such as websites, social media, etc., and (4) constantly seek feedback and opportunities to better meet your consumer’s needs.

Key words: Short value chains, value add, family farms, dynamic alignment, sustainable competitive advantage.

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Table of Contents

List of Figures

List of Tables

1 Introduction

Rising costs, rapidly shifting consumer demands, and global instability, the cost squeeze on commodities is great and New Zealand farmers bear the brunt of it. Smaller scale family farms loose the competitive edge in these markets due to scale of economies. To protect family farms in New Zealand, do we need to capture more value within the farm gate? Does this opportunity involve actually stepping outside the farm gate?

Generally, New Zealand farmers sell agricultural products onto commodity markets. Commodity markets have evolved from a need to achieve scale of economies in processing and markets, and to provide consumers with year-round supply of a standardised product (Lees & Nuthall, 2014). These supply chains favour larger businesses due to the cost of negotiating with many different producers (Hobbs & Young, 2001). The perishable and seasonal nature of agricultural production results in farmers being price takers at the mercy of buyers.

Farmers are proud of their products and feel the commodity market is not compensating them for the value they are creating on farm. Consumers are seeking more information about the food they are consuming and what impact the production process is having on the environment (Lees & Nuthall, 2014). Information around the production of food is becoming valued. There is an opportunity for New Zealand farmers who want to tell a story about their products but they need to get that information to the consumers who are willing to pay for it.

Short value chains are food networks where the number of intermediaries required to deliver a final product from the farmer to the customer is reduced (European Commission, 2016). Examples of short value chains include subscription systems, mobile shops, online stores, selling to restaurants, and farmers markets. In these value chains it is easier to provide accurate information and farmers keep control over the processing, marketing and thus value they create on farm.

Short value chains offer a way to increase the value generation of assets. However, to internalise the processing and marketing, farmers roles need to move outside the farm gate. This involves understanding consumers, market dynamics, and being mobilising resources unlike that which the commodity market demands.

There are opportunities for New Zealand farmers by establishing and participating in short value chains. This report identifies what a farming family business needs to successfully participate in a short value chain to capture more value within the farm gate.

1.1 Problem statement

Customers are seeking food that has been produced in a way that aligns with their personal values (Lees & Nuthall, 2014). These discerning customers are willing to pay for the knowledge of how and where their food is produced (Naglis-Liepa et al., 2021; Savarese et al., 2020). Domineering, globalised, just-in-time commodity chains which the majority of food is produced through struggle to meet the expectation of these people.

If New Zealand farmers can connect with these consumers there is a genuine opportunity to capture more value on farm (Savarese et al., 2020). As commodity prices fluctuate, regulations increase costs, and barriers to marketing to consumers decrease, more farm businesses are looking at selling directly to consumers. Farmers will need processing and marketing skills, skills not developed selling in commodity markets.

1.2 Research objectives

This research will identify the key requirements for establishing a sustainable value chain selling directly to consumers. The output of the research will support and inform family farms that are considering selling food products to consumers.

The objectives of the research are to;

- Define the value chain that supports family farms selling directly to consumers,
- Investigate family farms participating in these value chains to identify the requirements to be successful, and
- Offer practical recommendations for farm businesses wishing to pursue such a strategy.


Image supplied; Bowalley Free Range

2 Literature review

This review critically analyses international peer-reviewed literature to explore how creating and pursuing a value-add strategy influences the relationships between firms in a value chain. It adopts a resource-based view which considers how a firm can mobilise resources to create a sustainable competitive advantage (Barney, 2002). The review discusses the strengths and weaknesses of vertical integration in agriculture and lastly, it defines short value chains.

2.2 Pursuing a value-add business strategy

Pursuing a value-add strategy depends on a firm developing a point of difference that consumers value. The value advantage is the adage that 'consumers do not buy products, they buy benefits', promises of what could be delivered, an image or service (Christopher, 2011). Differentiation from competitors means consumers only get those benefits (and thus value) from that supplier.

A value chain needs to create and capture value for the actors with the chain. McIntyre, et al., (2019) discusses that value creation as dependent on meeting the needs of the final consumer with the product attributes, production processes, and communication between actors.

Creating value for the final consumer is complex due to demands shifting towards credence attributes. Credence attributes are unobservable through search or experience (Baron, 2011 p. 1331), such as high animal welfare, local food, environmental sustainability, and organic production. Information flow is important for proof that the product is what it claims to be (Lees & Nuthall, 2014). As the complexity of the information increases as does the cost of ensuring authentic and accurate information (European Commission, 2016).

If firms seek a value-add strategy, they must ensure the value creation is captured by those making the investment. Value capture is dependent on the functioning of relationships between value chain actors (McIntyre, et al., 2019).

Groups of people which attach a similar value to similar product attributes create a market segment (Christopher, 2011). If a firm is able to leverage their rare and costly to imitate resources to meet the needs of the market segment, they have created a sustainable competitive advantage. Traversac et al., (2011) discusses that sustaining a competitive advantage requires building on capabilities to produce new resources, rather than re-distributing new ones. Mobilising resources is costly and presents a barrier to participating in value-add supply chains (Young & Hobbs, 2002).

The challenge is, if one firm makes a specific investment to enable better alignment between final consumer and product attributes, they will bear the cost of the investment but may not capture the full value they created. On the commodity market firms have no way of assuring the market will accurately reward them for their investment (Hobbs & Young, 2001).

To capture and create value, the efficiency of relationships between firms needs to be collaborative rather than competitive (Brinkmann et al., 2011, as cited in McIntyre, et al., 2019; Kaplinsky, 2000)). Collaboration through closer vertical relationships improves information flow regarding: consumer preferences, production processes, volumes, and timing (Hobbs & Young, 2001).

2.3 Vertical integration

Vertical integration lowers transaction costs, improves resource efficiency and increases market power (Grega, 2003; Young & Hobbs, 2002). Tighter linkages between the production, processing, and marketing increases the flow of information (Young & Hobbs, 2002). As a result, the rise of consumers demanding higher animal and environmental standards creates efficiencies in reduction of actors within a value chain.

Vertical integration is the ownership of a process that could have been exchanged through contracts or spot markets (Kilmer, 1986), firms internalise the processes and relationships.

Firm strategy drives the level of vertical integration it will participate in. Strategies include seeking a growth in profitability by capturing additional levels of the value chain or by wanting to control the activities of actors who would otherwise be independent (Cadeaux & Hg, 2012). Control over other parts of the value chain can alleviate risk (Traversac et al., 2011) or provide protection over a competitive advantage (Del Prete & Rungi, 2020).

Vertical integration is often criticised for being anti-competition (Hobbs & Young, 2001) as it decreases the number of firms competing on the spot market (Young & Hobbs, 2002). Power imbalances can occur because more vertically integrated firms tend to being larger. There is a greater potential for opportunistic behaviour by larger firms with limited accountability (McIntyre, et al., 2019) and large firms dictate the terms of engagement (Kaplinsky, 2000).

Vertical integration can happen backwards - firms internalise activities towards final consumer or forwards - wherein a firms activity expands towards product finalisation and distribution (Grega, 2003). Farmers selling food products directly to consumers is forwards integration as they internalise the processing and marketing. In commodity chains, farmers have very little influence in these aspects of the supply chain. By forwards integrating farmers are able to protect product differentiation (Young & Hobbs, 2002) which results in greater value chain resilience (Aboad et al., 2021).

2.4 Defining short value chains

Often the credence attributes desired by consumers are the result of specific on-farm management decisions such as organic farming and regenerative practices. Farmers are required to make financial, skill, and time investments and will only do so if they are confident they will be able to sell their products at a higher value. Lees and Nuthall (2014) noted that farmers typically have little awareness of consumer demands. As the number of firms credence attributes must pass through increases, so does the cost of ensuring the information is accurate.

Value capture is more efficient when the firm (such as farmers) creating the value connects to the consumers who are demanding it (McIntyre, et al., 2019). Aligning demand with investment ensures firms know there is a market segment willing to pay for the product and rewards them for doing so. Firms who try to access a differentiated market based on credence attributes but do not control production will need to make considerable investments to support and reward farmers for adapting their production systems.

By forwards integrating, farmers are getting closer to the consumer and reducing the number of value chain actors. As a result, consumers buying power is a direct reference for farmers to adapt their production, processing, and marketing systems. Compared to firms backwards integrating into production, farmers forwards integrating present a source of competitive advantage due to their tacit knowledge. Farmers are incentivised as they capture the value of their investment.

Because of the benefits and efficiencies of farmers forwards integrating, it has been recognised as a key pathway to economic and social development. Farmers forward integrating is known as short value chains, the European Commission (2016) defines it as;

Definition – Short value chains

The European Commision (2016, p. 5) defines short value chains as “1) little intermediaries as possible, 2) the distance between the producer and consumer be as short as possible, and 3) understanding and communication between the producer and consumer should also be promoted as much as possible since recognising the ‘story’ behind the product adds value to the consumers’ purchase, and develops a long-term loyalty to, and relationship with, the product.”

Short value chains mean consumers are closely connected to the production of their food (Mansoldo et al., 2019). They are synonymous with cooperation, local economic development and enables the consumer to make values-based judgement (European Commission, 2016; Marsden et al., 2000; Naglis-Liepa et al., 2021).

The value creation of a short value chain is by the ‘story’ of the product being conveyed to consumers who are willing to pay a higher price (Naglis-Liepa et al., 2021). Marsden et al. (2000) discuss it is the customers perception of the story and the relationship with the producer that constructs value and meaning, rather than relying just on the quality of the product. As a result, the story of production becomes an asset (Cadeaux & Hg, 2012).

Despite the potential to enable farmers to capture more value on farm there is limited research on short value chains in New Zealand. This research utilises the literature review to identify the mechanisms influencing short value chains in New Zealand. Recommendations focus on how a family farm can establish and participate in short value chains.

3 Methodology

The purpose of this research is to provide a relevant analysis on the ability of family farms to establish and maintain short value chains. In a post-covid world, the macro-economic and regulatory environment is constantly changing. Data needs to reflect current market conditions and consumer trends. Interviews with semi structured interviews was carried out to the data is current and can provided a relevant context for the analysis. The data was analysed using a thematic analysis similar to the process used by Braun and Clarke (2006) with the key themes presenting a thought model when considering to establish a short value chain.

3.2 Data collection

Data collection occurred during October 2022 with three family farms and stall holders at the Ashburton Farmers' Market. Participants were selected on the basis that their family farm is selling produce from their farm in a short value chain and 'family farm' was used in advertising. Table 1 describes the types of businesses interviewed.

Semi structured interviews were recorded and carried out over the phone due to time constraints. Interviews with Ashburton stall holders were done in person and consent was obtained verbally.

Questions for the semi structured interviews were developed from themes identified in the literature review. Questions were grouped by theme to ensure all the main ideas would be covered in the interviews (Noor, 2008). Conversations around themes allows sufficient structure for key issues and opportunities to emerge and the ability to collect qualitative and quantitative data (O'Keeffe et al., 2016).

Table 1 Family farms who participated in the semi structured interviews

Product type	Region	Market outlets
Red meat	Marlborough	Online delivery, restaurant trade, and meat companies
Dairy	North Canterbury	Vending Machine, door-to-door delivery, and Fonterra
Egg production	North Otago	Supermarkets

3.3 Data analysis

Following the collection of data, recordings were transcribed and analysed using a thematic analysis approach. A thematic analysis is a method "for identifying, analysing, and reporting patterns (themes) within data" (Braun & Clarke, 2006 p. 79). While the initial themes identified in the development of the semi structured interviews were pulled from academic literature (similar to the grounded theory approach), a thematic analysis allows the freedom to recognise themes *within* the data set (Braun & Clarke, 2006).

Observing, theming, and analysing data sets as they are observed captures the genuine experience of participants. Importantly, this process is inductive and free of observational biases created by academic theories or researcher perceptions (Braun & Clarke, 2006). Considering the lack of short value chain research specific to New Zealand, thematic analysis allows the identification of phenomena which may not be considered in international studies such as Mansoldo et al. (2019) and European Commission (2016).

The process for identifying the themes was by reading interview transcripts and summarising statements made by interviewees into one or two words, also known as codes. Codes are then grouped into themes which are analysed and refined to generate the analysis of this research. This approach is developed from the phases suggested by Braun and Clarke (2006) to develop arguments that go beyond a description of the data to what is the meaning behind the data.

4 Analysis and discussion

"One thing we were always told was look after your own backyard before you go looking out for the big overseas orders so that what we did here."

New Zealand has many family farms that are selling branded products to customers with as little intermediaries as possible. The products sold range from vegetables, to milk products, to eggs, with minimal to considerable processing, and the market outlet they choose is just as varied.

Upon analysis of the data, it was found that establishing and maintaining a short value chain in New Zealand requires five components as presented in figure 1. A family farming business having a desire to earn more from the land, an opportunity that presents entry into a market, the ability to take action on their desire and the opportunity, ability to establish and stabilise consistent quality and quantity of product, and finally the ability for the business to evolve with changing macroeconomics situations.

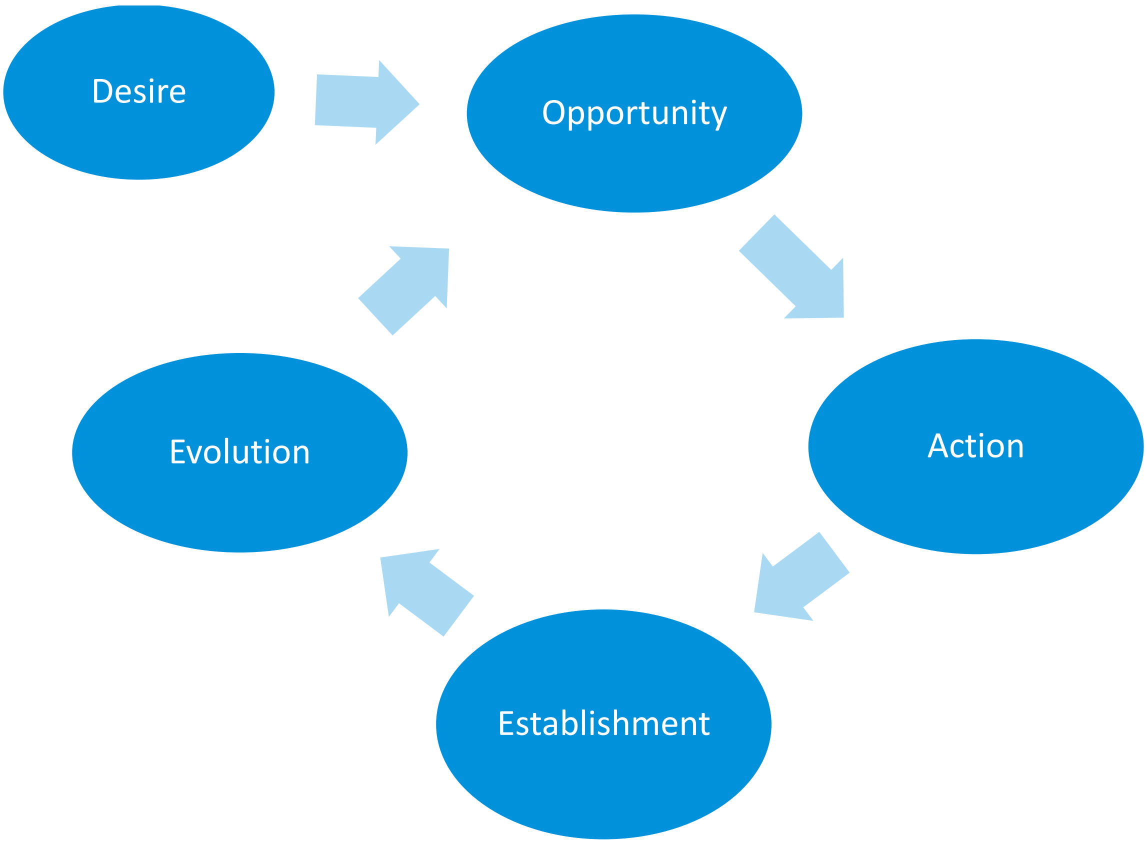


Figure 1 The cycle of short value chains in New Zealand (Source; Author)

It is important to note that figure 1 is a cycle. The desire is one of the kick starters, but if a business is not able to continually adapt its success will be short lived. The following analysis will explore these five elements drawing on data collected from the semi-structured interviews

4.2 Desire – identify the motives

The desire to capture more value on farm was observed as a seminal requirement for establishing and sustaining a short value chain. Often the desire was driven from frustration.

> *"They spent so long growing and nurturing … and within 24 hours it's got someone else's brand on it"*

Or due to changing regulations that increased the cost of production so the margins were no longer sustainable if they carried on selling commodities. The perception of risk in supplying the commodity market drove some respondents to seek diverse markets.

> *"… we realised that when [the commodity company] went bad we virtually had no say in our business…"*

> *"they can go to the shelf and look at a whole lot of [production system] brands, and actually the integrity may or may not be there just because it's got a label on it"*

Respondents identified that their profit was dependant on the commodity company's marketing skills and ability to navigate market challenges. The respondents recognised that selling their products on to alternative markets spread their risk. Mukul (2002) noted farmers are becoming concerned with the price stability of traditional outlets and Lees and Nuthall (2014) saw that farmers perceive risk in supplying commodity chains due to price volatility and a disconnect from customers.

The frustration and the risk awareness appeared to develop because the family farms have a sense of pride in what they were producing. They believe it to be more valuable than the prices they are receiving in the commodity market and recognised they have, or can create a story that consumers are willing to pay a premium for.

> *"… really important for them to be able to trace it to the consumer and then have the consumer come and say how much they like it, 'The quality is high, the quality is consistent'."*

Mansoldo et al., (2019) discussed that pride in experience-based knowledge was often a precursor for selling products directly to consumers.

Interestingly, a common theme for drivers was, that participating in a short value chain provided a way to include more family in the farming business.

> *"We've come back and decided that we actually really want to have some involvement in the family farm and the family business. And so I guess this is kind of a way of diversifying it enough for us to have the involvement as well."*

> *"…so that when people buy our brand, they know who we are and who they are buying it from the [name] family."*

Internalising the processing and marketing requires skills outside of day-to-day farming. In short value chains, family members who are not ‘farmers’ in the traditional sense, can offer indispensable expertise which can be leveraged to benefit the whole family. Seeking out differentiated value chains allows businesses to generate greater value from their existing resources (Lees & Nuthall, 2014). When considering the challenges facing land ownership and succession, creating short value chains could be an effective means to help get the next generation into farming.

Upon analysis, none of the respondents set out to create short value chains. Instead, their motivators were to create more value and mitigate risk. However, the desire to achieve these objectives was not enough to create a successful short value chain. It requires the opportunity to do so.

4.3 Opportunities – understand the markets and resources

Opportunities are created by changes in the internal or external environment that present a way to enter a short value chain, that, without it would have been more costly.

External opportunities are created through changes in the business environment that is not controlled by the firm, such as, changing consumer purchasing patterns, consumer awareness of animal welfare and environmental standards, and changing regulations (Lees & Nuthall, 2014; Savarese et al., 2020; European Commission, 2016; Mansoldo et al., 2019). One respondent was able to use COVID as an opportunity.

> *“… and so, in the time of COVID, online shopping was massive, online food delivery was massive and to come in at the time was really great for us”*

Shifting consumption patterns that saw more consumers buying online meant one respondent was able to invest in building an online platform that delivered to people’s homes. More people shopping online meant they could capture a much bigger customer base than pre-COVID.

Technology being available and affordable can also be an enabling factor.

> *“we shifted to [their production system] in 2015 because we wanted to invest in something that would be around for 20 plus years and the technology was finally there to do [their production system] properly”*

Opportunity can also be created by mobilising resources in a way that creates a competitive advantage. Resources can be defined as all assets, capabilities, competencies, processes, information and knowledge that are controlled by a firm (Barney, 2002). Firms create a sustainable competitive advantage by controlling valuable and rare resources that are difficult to copy (Lees & Nuthall, 2014). Respondent had pre-existing skills and relationships that meant they understood the requirements of producing a consumer facing good better.

"We had a supermarket… a domestic and international market and was pretty risk averse because you know you had a quite a few different income streams..."

"A lot of this is our gut instinct, we've been doing this for three generations"

If a firm can act on any opportunity using internal resources, they can create a sustainable competitive advantage.

"Actually, it was my wife's idea because she saw one in Oxford, one in Timaru, and saw they were doing it, you are allowed to do it, and so we put the things in place to move from our other businesses."

Here the respondent had the internal resources to make an investment in technology that was newly developed and proven. Having the correct skills and technology enable them to enter in a short value chain at a much lower cost to a business that only had skills or technology.

While having favourable external environments and identifying a competitive advantage is necessary for establishing a short value chain, them alone will not actually create one. The next section explores the conditions that enables family farms to establish a short value chain.

4.4 Action – mobilise resources

For a firm to act, it must be able to mobilise physical, human, and social capital resources to align with the internal and external environment (Lees & Nuthall, 2014). Upstream and downstream relationships need be managed to deliver customers value at a lower cost (Christopher, 2011), as at these interfaces, value can be created or destroyed (Gattorna, 2010). This requires understanding the consumer segment and managing relationships.

Respondents recognised there are market segments that were more likely to purchase their products. The success of an organisation is a sound understanding of the customers fundamental need and dominate buying powers (Gattorna, 2010)

"… and our customers say 'I remember when we used to go to Uncle Pat's place'… well they get it just because of that."

"We are trying to do something in 20 years' time is still going to be around and is what the consumer expects."

All knew what their target demographics expected of their products and therefore the areas that needed to be invested in to ensure product information and thus value, reached the consumer who was willing to pay for it.

The point of sale for the product is also important. The product needs to be sold in a place where the people who are willing to purchase the product, are going to find it. Conversations with some respondents revealed that being unable to supply the supermarket, due to complex requirements, was limiting their ability to sell to their customers. Most other respondents relied on a mixture of short value chains and traditional supply chains. Which is in keeping with consumer trends where consumers purchase through a mixture of short value and 'long' supply chains (European Commission, 2016).

Being connected to a 'long' supply chain was also beneficial for stabilising production and providing opportunity for investment while maintaining an income. Most industries in New Zealand have large businesses that deal in commodities. Low barriers to entry in these supply chains allows farmers in short value chains a way to ensure income while they developed expertise and made capital investments. Respondents either still relied on these, or used them while they were establishing. One respondent who uses a commodity chain and a short value chain said;

> *"I've talked to many small operators and they have said this is really hard. But at least I have a big [farming business] behind me that pays the bills… if we were just doing [the product] we wouldn't be in business now"*

Traditional supply chains offer an opportunity for farm businesses to develop rare resources that can give them a competitive advantage whilst decreasing exposure to risk.

Another key theme identified was the importance of <u>positive cooperative relationships</u>. Is this not a separate sub heading? It is a very important theme. All the respondents had excellent relationships with staff that were empowered to support the direction of the business.

> *"We've got husbands and wives, mothers, daughters, and a lot of them have worked for us for a long, long time and they live in the area or are our neighbours… our staff get really excited about what we are trying to do… our staff get a lot of free reign and the ability to show initiative themselves…"*

Having good relationships with staff is important when their skills impact the product quality. Respondents also noted how important all type of relationships with other actors in the value chain, such as customers, buyers, toll processors etc.

> *"if they are local we try and visit them and do the first couple of deliveries, it's a bit harder if they are further afar. So, yea, always being in touch when they order and then try to meet them in person"*

> *"we invited them to the [farm] to show them where the [product] they are using for the customers, where its coming from and yea, they really enjoyed it"*

While resources need to be mobilised, respondents noted that connecting to customers is a process. Product and skill development takes time to establish a consistent quality of product.

4.5 Establishment – supply consistent quality

A common theme among all respondents was that establishing a short value chain required time and skills. It is challenging to creating a quality product that consistently meets the expectations of customers.

> *"yea you can't afford to have a bad day."*

Building consumer trust has to start with consistent, quality supply. Being able to use the scale of the commodity supply chain as discussed in section 4.4 provides the time to develop the scale and skills and ensure when the product is sold, it meets expectations.

> *"It took us five years to be comfortable with our system… our brand has only been going for the last year and a half"*

Short value chains are often represented by only one brand. Mistakes could ruin the consumers trust and negate their willingness to pay a premium for the product. Strong policies and procedures are needed that often cannot be copied from other production systems and so take time to develop.

> *"… so we went over to Europe to have a look at everything. Because no one really knew how to do it in New Zealand"*

The above respondents' point of difference and therefore value proposition is their unique production system and transparency that surrounds it. They spent time developing their systems to ensure they were able to consistently meet the expectations of their consumers.

A significant challenge facing New Zealand's pasture based agricultural system is that production volumes and quality are highly dependent on the climate (Lees & Nuthall, 2014). Establishing short value chains requires a stable production system that mitigates this variation to be in line with consumer expectations.

> *"He has enabled us to [make the product] year-round… even through the middle of winter… he has changed the way he farms to make sure he's always got [the product] readily available for us we need them."*

Not only is New Zealand's food production systems seasonal, so is consumer demand. Profitability is borne from meeting supply to demand when dealing with perishable products. As short value chains tend to deal with smaller volumes sudden changes in demand can have large impacts on supply.

> *"We put it on three community pages and got about 100 people. We couldn't deal"*

To deal with changes in demand, all respondents had ways they could rapidly increase supply (within reason) or ways to outlet excess product. Typically, these strategies relied on being connected to a market outlet that did not discern between and low- or high-quality products.

Therefore, these short supply chains are able to meet consumer expectations and maintain the trust consumer have in their brand.

Not only is spending time developing procedures important for producing a consistent, quality product, it allows the farm businesses to refine their systems so they can operate at lower costs. A firm's competitive advantage depends on their ability to differentiate itself and by having a lower cost of production while doing so, creating a greater profit (Christopher, 2011).

4.6 Evolution – sustain a competitive advantage

Value chains are dynamic situations that give rise to opportunities that may now present threats. Consumer demands are constantly changing, what might have been considered a point of difference in the past is now a minimum requirement for a supply chain.

> *"Since April [2022] we have seen a massive shift in people's spending habits… the cost of living… people are able to go overseas now and are going to spend more of their disposable income on doing that rather than buying premium products"*

The above respondent was able to capitalise on changes in consumers' buying patterns during COVID. However, this market segment has since shrunk. To maintain the business's growth, the respondent shared this sentiment;

> *"we've got a really great customer base so we are still seeing customers returning to purchase, it's just now we are having to look further afield to bring new customers on"*

They have diversified their market outlets, still maintaining the brand story and name, just connecting to customers in different ways. Maintaining a competitive advantage with a market segment requires the firm's strategy and resources to be moulded to the evolving preferences (Gattorna, 2010).

> *"… since we've been doing it, we've had a lot of customers come back to us with [saying they love the] health benefits … and we love supplying the [product] because it helps a lot of people"*

This perception has now formed some of the branding strategy in this short value chain. All respondents noted they had direct and regular communication with consumers.

> *"…emails, yea I talk to a lot of the customers at the [place where the product is sold] and they've all got good stories, from the kids, the dogs, themselves"*

> *"We are always asking for feedback every time someone places an order, we always like to hear if they enjoyed it, if there was anything that could have been done better"*

Constant communication means the family businesses were are to give the customers what they demanded. Gattorna (2010) presented the concept of dynamic alignment noting that the response to consumers preferences needs to be managed. Good leadership to shape the firm's internal capabilities is required to maintain or expand the firms competitive advantage. Family businesses need to be able to realign their resources, this comes back to section 4.4, resources need to continuedly be mobilised in response to continual opportunity changes.

All of the short value chains had a collaborative approach to solving challenges.

> *"That is a big thing, about making those mistakes, learning from them, carrying on, and then repeating over and over again…"*

And were willing to collaborate with customers and staff.

> *"…we've had staff suggest things that have really impacted how we've gone about things"*

As a result, the value chain becomes more resilient and able to adapt to changes quicker because they are aware of the changes and opportunities beyond the family members.

5 Key findings

The analysis shows that family farms need to create a product with a story which consumers are willing to pay for. A consumer will only purchase a product if they know what they are buying is what it claims to be. Product attributes need to be easy to find so a consumer can align their values to those of the products. However, a family farm's ability to participate in short value chains is ultimately dictated by the scale of the market segment. Therefore, despite farmers identifying the risks associated with participating in commodity chains there was also a general consensus that there is a significant risk in using short value as the only to-market strategy.

This section explores two key themes identified in analysis of New Zealand short value chains. These are aligning the importance of creating and maintaining trust through marketing, and the importance of maintaining connections to commodity markets.

5.2 Creating trust

The European Commission (2016) definition of short value chains refers to the importance of telling a story. This story in based on credence attributes, even after eating it you cannot tell the difference between it, and a 'conventionally' produced one. This requires trust that the food you have eaten is exactly what it says it is.

Brand trust, and thus a consumer's willingness to purchase the product, is dependent on the consumers perception of the brands competence and credibility. Competence is perceived by the consumer and credibility is created through transparent information (Lassoued & Hobbs, 2015).

All respondents spent time developing farm systems that are able to create a consistent, quality product. As a result, they made significant investment into skill, technology, and system development. During this process not only was the family farm creating a point of difference, they were also developing a value chain that was resilient. Christopher (2011) noted that if you can create an excellent product with an excellent process, you have created a sustainable competitive advantage. Being able to competently produce a product creates the opportunity to make trust – it does not mean the brand is entitled to it.

Respondents interacted with consumers either face to face or by branding (i.e. websites, package labelling). These interactions are where information regarding the product is transferred from the producer to the consumer. At this point the consumer makes a decision, are they going to buy the product? Do they value the product at the price the farmer is selling it?

Within this small interaction, producers need to be able to prove competency and credibility or provide an option for the consumer to become more informed.

Relying on face-to-face interactions alone are limiting and can create a key person problem. People spoken to who only used face-to-face interactions for marketing identified that they struggled to access their consumers. Success appeared when a combination of branding and face-to-face interactions was used. Respondents often said that their best feedback came from consumers in free and frank discussions. Interestingly, Lassoued and Hobbs (2015) in their consumer trust research, identified that consumers are more likely to trust the actors involved in the value chain rather than individual food products and brands. This demonstrates significant benefit of using face-to-face interactions to insight the brand competence.

The other interaction consumers and producers have is through branding. This is a more permanent form of interaction wherein the information is available independent of key persons. It is often costly to establish and as it is permanent, the systems and claims need to fully reflect the brands story. These sources such as package labelling, websites, billboards, and social media can connect to many consumers regardless of location and demographics.

It is in these more permanent forms, information that proves credence attributes is clearly on display. In figure 2 extracts from some of the respondents' websites are shown, these clearly display the importance of telling the brand story.

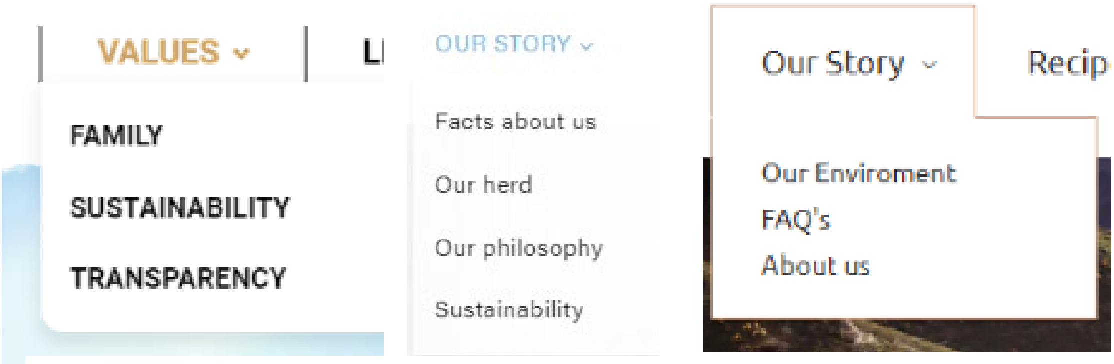


Figure 2 Website extracts demonstrating the importance of having family values clearly displayed. Retrieved 30 October 2022

Some respondents used live cameras linked to a QR code on their packaging to prove their claims and promote the ultimate of system transparency.

> *"We try to be active on social media, it's really nice when you get sent through some good news… there's some people their kids need to … watch the [animals] on the livestream and check they are okay before they go to bed at night. That's quite cool."*

Literature is quick to establish that dynamic alignment and thus success, needs to be in response to consumer demands. However, it appears that respondents entered in markets where their families' values were key aspects of a market segments demands. These values are shared not only among the family members but also with staff. With both consumer and producer sharing the same underlying values, the risk of opportunistic behaviour occurring is significantly lower, thus maintaining a high level of trust.

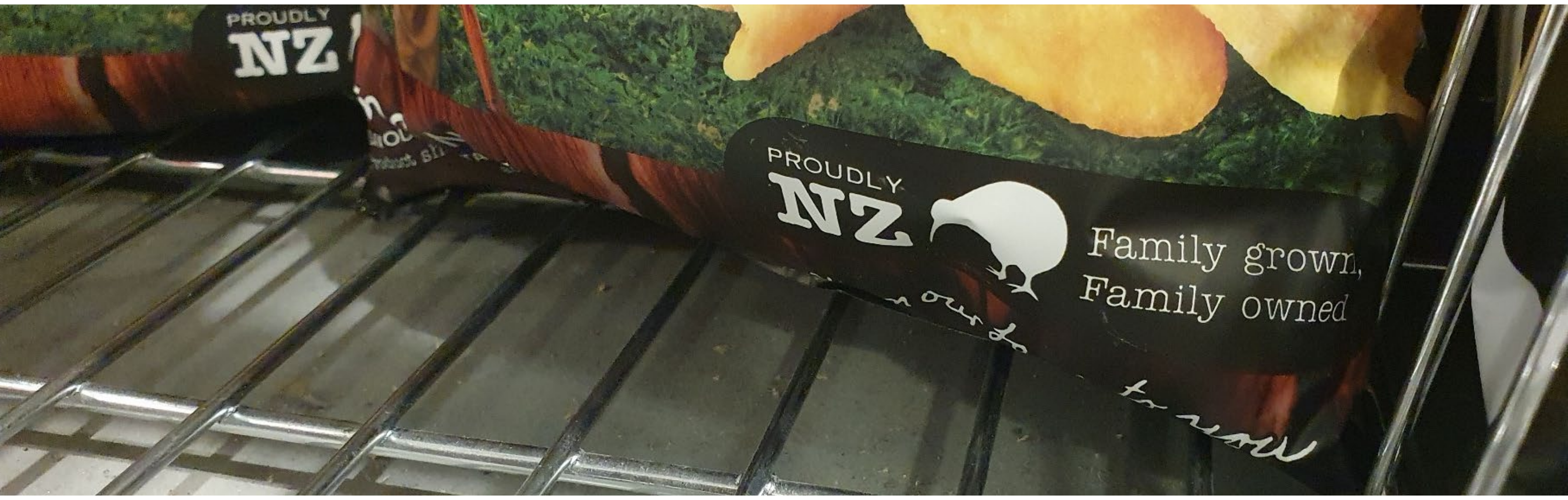
5.3 Commodity connections

Just as the respondents identified the risk of supplying just commodities, they also identified the risk of only operating at a small scale selling directly to consumers. Short value chains offer the chance for diversification which spreads the risk and the ability to increase the equity generation from an asset. However, short value chains struggle to connect to large scale, stable market outlets.

The ability of a brand to capture a premium in the market is tied to the consumer's trust. Commodity markets provide a way for farm businesses to develop a consistent, quality product without compromising consumer trust. The lack of differentiation that frustrated participants to seek short value chains actually becomes a key tool.

One respondent identified a market segment they had not entered that would see 80% of their product enter the short value chain, currently only 10% goes to about 600 customers. While they have not acted on the opportunity, supplying the commodity market in the interim means they could quickly mobilise to fulfil that market much quicker and at a lower cost compared to a new entrant.

It was observed that as the volume of consistent, quantity product sold through the short value chain increased, the businesses dependence on commodity supply chains decreased. While it appears scale could be what decouples a business from supply chains, the research indicates that scale is only achieved if there is a consistent, large market outlet. Farm businesses that are able to find and connect with these customers will have the demand to grow and be rewarded with scales of efficiency. However, as scale increases so does the risk of losing control over the product's 'story'.



6 Conclusions

This research investigated the ability for New Zealand family farms to capture more value on farm by establishing and participating in short value chains. It was found, short value chains present a way to involve more family in the farm and grow equity that is not dependent on acquiring more land.

Family farms that are engaged in short value chains produce food that aligns to their beliefs, typically having better environmental, social, and economic outcomes. While this report has considered this in the context of meeting consumer demands, a closer connection to land aligns with te ao Maori.

Establishing and participating in a short value chain requires a business to be dynamic and responsive, continually assessing the macro-economic environment and mobilising internal resources to meet the demands of consumers. Successful businesses are resilient as their diversified market outlets spreads risk. Considering the global instability and increasing consolidation of agriculture, diversifying market outlets to short value chains may protect smaller scale, typically family farms in New Zealand.

This research looked to identify the key requirements for establishing a sustainable value chain selling directly to consumers. The following recommendations look to support and inform family farms that are considering selling food products to consumers.

7 Recommendations

These recommendations are for any family business considering pursuing a short value chain as a means to diversify their risk profile or increase the equity generation of their current assets.

- Identify your family business values,
- Do customer research to identify if a market segment aligns with your values, and establish if they are willing and able to purchase your product with your story,
- Consider what resources, people, capital, and social, you have that your family could leverage to establish a short value chain,
- Spend time developing a product that consistently meets the expectation of a quality product and begin to develop trust, leverage pre-existing supply chains,
- Maintain trust through constant communication, use face-to-face interactions and marketing to provide full transparency, and
- Constantly seek feedback from consumers, adapt your business to their feedback.

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9 Appendix

Interview participate information sheet and semi-structured questions.

Kia ora,

My name is Megan Fitzgerald. I am based in Methven, Mid-Canterbury and am passionate about helping farmers increase the value they capture within the farm gate. I see an opportunity in creating short value chains where farmers are able to tell their story to customers who place a value on this.

Short value chains are breaking out of farmers markets and appear to be growing in numbers. I want to understand the journey these farming enterprises have been on and the changes they have made to their farming systems. The purpose of my Kellogg report is to help others who may be considering connecting to consumers as a value-add proposition.

Method

I am using a case study approach and interviewing of a number of different farming enterprises across New Zealand. I have connected to farm businesses that produce across a range of food products and have various to-market approaches. The case studies will be used through out the report to help add context to the unique farming and market environment we have in New Zealand.

Question Areas

There are four areas I am interested in. These are;

- Your journey – Why did you decided to change to selling directly to customers? What benefits are there? Constraints or limitations? How is your business now structured and how does it differ to if you were supplying only commodity products?
- Your production system – What changes you made to your 'traditional' farming system that allows you to meet the needs of the short value chain? What are the biggest constraints you faced and how did you overcome them?
- Your processing system – What changes are there compared to a normal system? How was capability developed in this area?
- Your marketing approach – How do you connect with customers? What level of involvement do customers have? How was capability developed in marketing? How do you protect your point of difference?

These questions are not a hard and fast list but are there to give you an idea of the concepts I am considering.

I look forward to meeting with you.

Any questions please give me a call on 0272621602 or email megz.fitzgerald@gmail.com

Nga mihi nui, Megan Fitzgerald