

FOCUS: FOOD CHAIN VALUE

Capturing value from new genetics



Consumers have long demanded cheaper and more convenient foods. But consumer trends have shifted significantly in the past decade as desires for healthier food choices have emerged. In addition, budget-conscious consumers are now looking carefully at the value they receive for the food they buy.

In the food sector, input providers in the chain are faced with adjusting the tried-and-true food value chain to find new and better means of extracting value while meeting the demands of the evolving value chain.

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The Evolving Value Chain

A hundred years ago, food went from the farmer's field to the family plate. Traditionally, each member of the value chain acted independently and focused on their organization (supplier) and the next supply chain member (customer). For example, genetics providers concentrated on developing higher yielding crops and extracting value from the farm market. Both benefited by selling more seed/grain at an overall lower cost/higher productivity per acre.

As this market matures, it becomes more competitive and therefore more difficult to generate acceptable margins.



Today and in the future, it becomes increasingly complex. Many dimensions must be synchronized and fluid: segregating the seed, field and harvest (Identity Preservation), specialty dealer networks,

specialized grain processors, constantly changing food/industrial manufacturers and the ever-changing consumer.

Currently, each player in the chain is working toward specific targets:

- Genetics researchers are spending more time and money on consumer oriented, downstream traits in addition to field and yield productivity.
- Agricultural companies are aggressively working on developing new genetics that will provide healthier crops.
- Food companies are searching for products that are "better for you" to meet consumer demand for foods that will provide healthier lifestyles and longer, active lives.

Future value will depend on consumer needs that promote health and wellness. Industrial users will demand greener products from domestic sources that are sustainable, bio-degradable and non-toxic. The opportunity lies in deciding correctly and effectively where to invest your resources to ensure that you receive a good return on your investment.

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Each player in the chain has new opportunity where they accept the responsibility of investing time and money wisely to identify and create the most value. While the traditional business model will become more of a cash model, future growth and opportunity will be in marketing specialty grains with *high-value, downstream consumer traits*. The complexity of the supply chain will necessitate a better understanding of the value that each link in the chain delivers and how to best position your company to develop and extract the value received.

Focus the Process in Five Steps

Totally assessing the full value chain requires experienced understanding of each segment, and of where the most value is created. For example, while the grower may not perceive value in planting a specialty crop, the food processor may be willing to pay more for a specialty grain that provides increased value to the consumer, such as lower saturated fats or higher nutritional value.

Context outlines five key steps toward advancing the value capture opportunities in the evolving value chain.

1. **Understand your “real” customer:** while the grower or processor may be the traditional customer, a specialty product will probably be more valued by the end user.
2. **Identify where the value will be created:** Think of it this way: deciding to go to the moon did not create value in itself; it was the electronic innovations and new technologies that ultimately created value for aeronautic and aerospace companies.
3. **Develop a value chain model:** Identifying and understanding each piece of the chain will provide a simplified analysis of where the true value is and where to focus your time and attention.
4. **Run the numbers:** develop a financial analysis of the value chain and make sure you and your ultimate customer understand and appreciate the value received.
5. **Develop the value-focused business plan:** starting with good market research, create a strategy that is needs-driven and develop the sales and marketing plan based on market needs vs. supplier wants.

While the current economy may be fraught with pessimism and reluctance to take on new opportunities, a long-look at positioning sustainable growth in the industry enables the winners to emerge. Advancing these plans strategically is key to that long-term success.

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The Context Network provides business management and strategy consulting services to the world's leading agriculture, biotechnology and food companies and government agencies and institutions. Major areas of expertise include strategy, merger and acquisition support, valuation of new technologies, formation of alliances, and market research. The West Des Moines-based firm is composed of a core of professional consultants that is complemented by a network of more than 200 industry and subject-area experts.