

# Relative Competitiveness Analysis

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# Supply Chain Management

Understand the  
customer

Understand the  
product

Remember: It is not just strategy - execution counts!

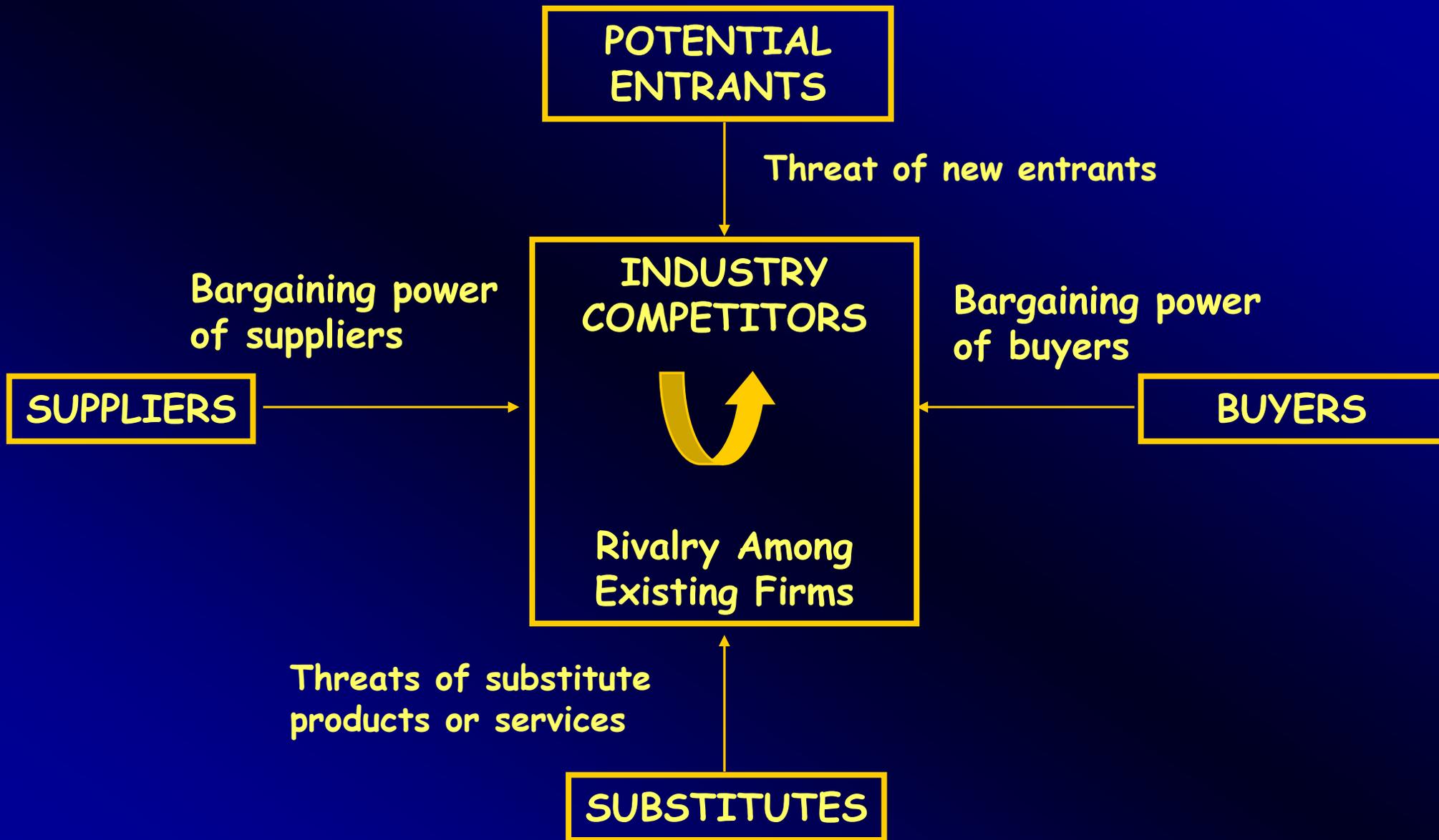
Understand the  
information flow

Understand the  
process

# Structural Analysis

- Structural analysis is the fundamental underpinning for formulating competitive strategy
- State of competition in any industry depends on five basic competitive forces
- The collective strength of these forces determines the ultimate profit potential in the industry - so industries differ in their ultimate profit potential - we know that profit potential tends to be low for many levels of the fresh produce value chain compared with food manufacturers, for example
- The goal of competitive strategy for a firm is to find a position in the industry where the firm can best defend itself against these competitive forces and/or influence them in their favor - and as we have said production ag has some special tools in this regard - often not used in part due to firm rivalry

# Forces Driving Industry Competition



Source: Porter, *Competitive Strategy*, 1980

# Barriers to Entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs - have typically been relatively low in fresh produce value chain, but likely increasing - think food safety risk, stock-out risk due to less consistent supply higher with large chains, or higher shrink due to quality issues; risk increases with firm size; psychic costs of severing a relationship
- Access to distribution channels - think new grower-shipper trying to access large retail accounts or seller of new product trying to access retail shelf-space
- Cost advantages (of existing players) independent of scale - like favorable locations - big deal for fresh produce, season/yields/location, and retail; learning curve, greenhouse tomatoes great example; proprietary technology, varieties

# Three Generic Competitive Strategies

## STRATEGIC ADVANTAGE

Uniqueness Perceived  
by the Customer

Low Cost Position

S  
T  
R  
A  
T  
E  
G  
I  
C  
  
T  
A  
R  
G  
E  
T

Industrywide

DIFFERENTIATION

OVERALL  
COST LEADERSHIP

Particular  
Segment Only

FOCUS

# Focus Strategy

- Serve the particular target very well – compared with firms competing industry-wide
- Implies some limitations on the overall market share achievable
- Trade-off between profitability and sales volume
- You can achieve either cost leadership or differentiation or both with a focus strategy, but not industry-wide – e.g., you could be the low cost alternative within your market focus

# Three Generic Competitive Strategies

| GENERIC STRATEGY               | COMMONLY REQUIRED SKILLS AND RESOURCES   | COMMON ORGANIZATIONAL REQUIREMENTS   |
|--------------------------------|--|--|
| <b>Overall Cost Leadership</b> | <p>Sustained capital investment and access to capital</p> <p>Process engineering skills</p> <p>Intense supervision of labor</p> <p>Products designed for ease in manufacture</p> <p>Low-cost distribution system</p> | <p>Total cost control</p> <p>Frequent, detailed control reports</p> <p>Structured organization and responsibilities</p> <p>Incentives based on meeting strict quantitative targets</p> |

Source: Porter, *Competitive Strategy*, 1980

# Three Generic Strategies

| GENERIC STRATEGY       | COMMONLY REQUIRED SKILLS AND RESOURCES  | COMMON ORGANIZATIONAL REQUIREMENTS   |
|------------------------|---|--|
| <b>Differentiation</b> | <p>Strong marketing abilities</p> <p>Product Engineering</p> <p>Creative Flair</p> <p>Strong capability in basic research</p> <p>Corporate reputation for quality or technological leadership</p> <p>Long tradition in the industry or unique combination of skills drawn from other businesses</p> <p>Strong cooperation from channels</p> | <p>Strong coordination among functions in R&amp;D, product development, and marketing</p> <p>Subjective measurement and incentives instead of quantitative measures</p> <p>Amenities to attract highly skilled labor, scientists, or creative people</p> |

Source: Porter, Competitive Strategy, 1980

# Three Generic Strategies

| GENERIC STRATEGY | COMMONLY REQUIRED SKILLS AND RESOURCES  | COMMON ORGANIZATIONAL REQUIREMENTS                                 |
|------------------|---|--|
| Focus            | Combination of the above policies directed at the particular strategic target | Combination of the above policies directed at the strategic target |

# Understanding Competitors

- Sometimes I think that commodity shippers don't recognize the different market positioning of key competitors and how that may influence their ability to compete successfully despite being higher cost producers
- For example, if competing against a branded shipper (consumer brand vs. trade label) shippers often try to win the business by offering buyers a lower price thinking this will erode the competitiveness of the branded shipper
- This fails to take into account that the branded shipper is pursuing a differentiated strategy and can compete successfully at a higher cost
- Hence, commodity shippers competing with the branded shipper are just giving up margin by trying to undersell the branded shipper and weakening everyone's position

# The Components of a Competitor Analysis

**What drives the competitor?**

## **FUTURE GOALS**

At all levels of management and in multiple dimensions



**What is the competitor doing and can do?**

## **CURRENT STRATEGY**

How the business is currently competing



## **COMPETITOR'S RESPONSE PROFILES**

Is the competitor satisfied with its current position?

What likely moves or strategy shifts will the competitor make?

Where is the competitor vulnerable?

What will provoke the greatest and most effective retaliation by the competitor?



## **ASSUMPTIONS**

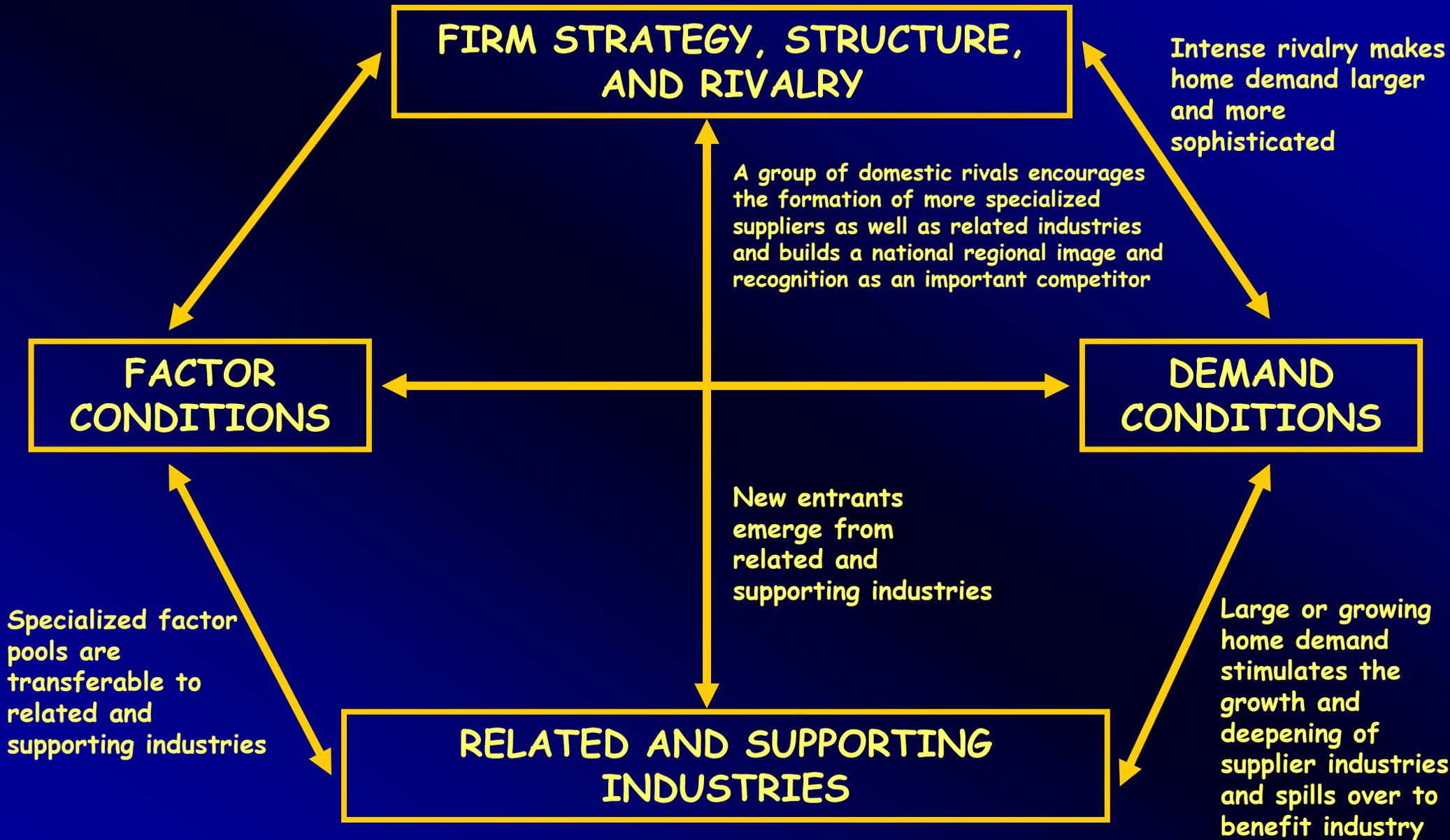
Held about itself and the industry



## **CAPABILITIES**

Both strengths and weaknesses

# Determinants of Competitive Advantage



Source: Porter, *The Competitive Advantage of Nations*, 1990

# Supplemental Information on Info-Sharing Cooperatives and Generic Promotion

# Info Sharing Cooperatives Bottom Line

- They can be immensely successful in enhancing grower returns by improving market transparency and vertical coordination
- If they build better understanding of consumer demand and better coordinate supply and demand then both buyers and sellers benefit
- Yet each member of a cooperative has different business strategies that make it very difficult to develop acceptable rules for all members
- Reality is that firm rivalry is high and firms do see each other as the competition
- Initial successes are significant and solidify support, but then gains are less significant and group solidarity wanes
- There tends to be a supply response when groups are successful - higher prices stimulate higher acreage - this leads to their demise, so co-ops must control a very high share of volume to be effective and supply/acreage controls are important (key to success of United Potato Growers of America, for example)

## Info Sharing Cooperative: Ca. Tomato Farmers

- Ca. Tomato Farmers is an info sharing co-op of California fresh tomato growers accounting for over 75% of the volume of California-grown tomatoes
- Focus on food safety and developing USDA-verified audit criteria and programs for its members' tomato production and harvest practices
- Proactive food safety leadership assists members in communication with foodservice and retail buyers on appropriate food safety requirements, and may strengthen members' marketing positions relative to non-members
- Perform risk management functions for members by monitoring delinquent accounts, and production and harvest level data which assists in forecasting volumes and flow to market

## Info Sharing Cooperative: Ca. Tomato Farmers

- Other risk management benefits come from purchasing data on foodservice and retail markets and consumption
- This helps co-op members to better forecast demand and adjust supply accordingly
- In addition, the data management functions of the co-op build a robust understanding of the fresh tomato supply chain providing information to buyers and members on how to better manage the supply chain and potentially stimulate demand for mutual benefit
- Strong promotion in the Canadian market in conjunction with price and volume management

# Generic Promotion Bottom Line

- The economic evidence is overwhelmingly in favor of generic promotion via mandated-marketing programs, e.g., commissions, marketing orders, check-offs.
- Most studies show that producers could have profitably invested more in promotion rather than less.
- This is also true for national check-offs, e.g., beef and dairy.
- Studies examining nonpromotion generic programs also show impressive results: Ca. Strawberry Commission invested \$250,000 in p.r. after food safety scare to rebuild consumer confidence, B/C ratio was 454 ( $ABCR_T$ ).
- Generic promo can expand total demand vs. individual firm efforts that often compete only for market share and shelf-space, without expanding the total pie (especially since fresh produce firms usually don't conduct direct consumer advertising).

# Generic Promotion Bottom Line

- Generic promotion is only one of many factors affecting demand trends for a crop, and certain crops are more promotable than others - those that fit with broader societal trends, and consumer preferences, like health and wellness or convenience.
- If generic promotion didn't work for a crop like iceberg lettuce it would be one of the few exceptions - still the product is challenging - weak nutrition message, "tired image." If choose to promote need to re-invent and reposition the product, "retro," crunchy, other options. First step might be obtaining retail category data to assist in better retail positioning and category development, rather than a consumer campaign.
- Many other commodity groups promote, so not promoting can automatically put you at a disadvantage.
- Promotion of any type (generic or branded) is a learning process and requires experimentation.
- In general, fresh produce is out-promoted by other food products, making it increasingly difficult to compete with snack foods, sweets, and other convenient consumer options.

# Selected Generic Promotion Results, by Program

| Commodity    | Expenditure<br>Million \$ | Activity     | B/C Ratio       |
|--------------|---------------------------|--------------|-----------------|
| Table Grapes | 12.1                      | US/Can promo | $ABCR_T = 80.1$ |
| Avocado      | 9.8                       | US Promo     | $ABCR_T = 5.0$  |
| Raisin       | 4.6                       | Export Promo | $ABCR_T = 7.3$  |
| Dried Plum   | 5.2                       | US Promo     | $MBCR_I = 2.7$  |
| Strawberry   | 4.8                       | Advertising  | $MBCR_I = 44.0$ |

$ABCR_T$  = ave. benefit cost ratio, total producer cost

$MBCR_I$  = marginal benefit cost ratio, producer incidence of cost

Source: Economics of Commodity Promotion Programs, Kaiser et al., 2005

## **Generic Promotion Experiment: Almond Board of Ca.**

- **Due to a lower court decision generic promo for almonds was curtailed for the 1994/95 to 1996/97 season, from an annual average of \$11.2 million to \$3.9 million.**
- **Industry situation worsened and in the 1997-98 season full promo resumed.**
- **This offered the opportunity to estimate producer returns with and without promotion; model developed to sort out the promo effect (Crespi and Sexton).**
- **The accrued losses (foregone profits) to producers ranged from \$90 million to \$234 million, depending on assumptions and scenarios.**

## Other Generic Promotion

- In 2008 the US Highbush Blueberry Council promotion and publicity budget totaled around \$1,575,000. This is a small budget, but has reinforced the health and wellness halo effect enjoyed by blueberries due to anthocyanins and anti-aging properties.
- In general, generic promo programs are able to capitalize on consumer messages relatively inexpensively via public relations – if the product has a positive health message - since they are representing an industry rather than a firm and public benefits may encourage the media to tell the story.