



INNOVATION IN TUBERS:

Creating value for customers and suppliers by developing a consumer-recognized point of difference.



BACKGROUND

The Little Potato Company (LPC) has a short but exciting history. In 1996, founder and shareholder, Jacob van der Schaaf, wanted to emulate the small potatoes he had enjoyed from his European background. Turning a concept into reality came from working with his daughter, Angela Santiago, (now CEO and Shareholder): firstly to grow a one acre test plot sold through farmers markets and then to gain consumers' feedback from restaurants before approaching the first retailer - who took the entire crop.

Resolving not to shift its focus from what consumers seek in the products they choose to consume, LPC has taken what was once considered a waste item graded from standard commodity potatoes and developed a new category in the fresh vegetable market – ***the little potato***.

Successfully achieving a unique value proposition in the eyes of consumers has come from LPC's unrelenting commitment to quality, and to the careful management of value chain relationships with seed breeders, potato producers, distributors and both retail and foodservice customers. In doing so, LPC and its partners have been able to produce a product that commands a premium price in the market, often while simultaneously reducing their costs.

DEVELOPING THE CHAIN

The development of LPC has been guided by a strong philosophy that combines three key elements:

"How can you be lean if you're not part of a chain? That's great that Little Potato Company is lean, but if the grower and the retailer aren't, then you haven't done it completely in vain, but to me they go completely together. They need to be together." - Angela Santiago, CEO and Shareholder



Angela Santiago, CEO

1] Customer focus - LPC believes that, as customers and consumers ultimately determine value, its success rests on delivering unique, tasty products that appeal to consumers' definition of value.

2] Product differentiation – LPC sees proprietary varieties as simply a tool (albeit an important tool) that can be combined with the correct processes to develop a unique brand and achieve a position of differentiation in what was a wholly commodity category of the produce department.

3] Sharing Benefits - By working closely with key partners and suppliers who are committed to the same vision and purpose as LPC, all parties are jointly involved in creating and capturing value. Their ongoing commitment to the partnership comes from the equitable sharing of the value their combined efforts capture from the market.

LPC realized early on that success could not be achieved simply by being part of a value chain. With customers and consumers not only looking for consistency in supply and in quality but also creative ideas and solutions, sustainability could only be achieved by working with like-minded partners situated along the entire value chain.

They therefore believed that long term success could only come from being part of a closely-aligned value chain that developed the managerial style and culture necessary to strategically apply members' differing capabilities (e.g. knowledge, skills, technology and infrastructure) to efficiently and effectively react to consumer demands by continuously improving products and processes.



Amandine

LPC believed that the success of such an approach could only be attained by encouraging all members of the value chain (retailers, LPC, growers, distributors and breeders) to share information more openly. In doing so, everyone has an opportunity to gain new insights into how the chain operates as a whole, and to develop the capabilities that enable them to reduce costs and enhance revenue by better managing the processes involved in supplying specific products to specific markets.

Firmly believing that a value chain is only sustainable when managed correctly, which requires governance structures conducive to encouraging members to remain committed to a common consumer-focused vision, LPC developed a strategic framework that brings together four key elements:



Blush Belle

1] Leadership and Direction - Provided by the Board of Directors and Senior Management, strong decisive leadership and sound strategic direction have been accomplished by altering the composition of the LPC Board, reducing the number of producers and adding new skill sets and experience. The LPC Board now includes a retired employee of a major grocery retailer, an owner of a regional hotel group and an experienced agri-food management consultant.



Cherie

2] Managing and Delivering Quality - LPC has implemented strategies, systems and protocols that enable it to meet the demands of increasingly sophisticated customers through more effectively managing the determinants of quality. The ability to produce and deliver a consistently high quality product comes from LPC: contracting with dedicated growers; owning a modern processing plant that cleans, sorts and bags potatoes ready for sale; maintaining a relationship with a dedicated seed company to develop small potato varieties, which it then trials and acquires the proprietary rights to, and which are deemed to offer sufficient value from consumers' perspectives; and using a distributor to collect and collate

information on product performance directly from the point of sale, and compare that feedback with proprietary information on retail sales.



Above and below: Baby Boomer



3] Marketing - LPC has purposely developed the capabilities necessary to take greater control of its destiny by developing the programs, products and innovations required to position LPC as the category leader with selected retailers. This, along with its ownership of unique proprietary varieties, not easily duplicated by competitors, provides LPC with greater surety of market presence, whether branding products under its own or a private (retailer) label.

4] Systems, Strategies and Long Term Growth -

LPC has always sought to ensure that its day-to-day management decisions reflect a longer-term plan. In this vein, it is currently developing a strategy whereby it is able to 'leverage' its market position in a more substantive way, while ensuring that expansion does not negatively impact the processes and relationships that are the basis of its success to date. This will likely include developing a 'franchise' program which allows the company to meet the growing demand for its products in North America.

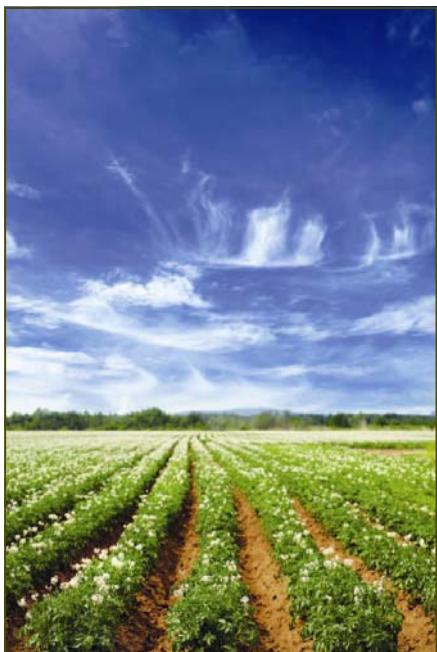
CHALLENGES

LPC's early success created many challenges, the greatest of which were developing the ability to deliver a consistent supply of higher quality potatoes than competitors and justifying a premium price compared to commodity potatoes.

These are enormous challenges. The realization of quality is the result of so many factors: variety, growing and harvesting conditions; storage conditions; packing; and the rigour of the quality control processes at all stages of the value chain, particularly when packing, shipping and handling to and at the retail location.

"With challenge comes opportunity. You have to be something different. If you don't like what's going on, you either try to change (it), or you create something you like better." – Andrew Haarsma, Farmer & Shareholder, LPC

Sourcing ‘out of region’ products to meet obligations when local supplies run out is another challenge.



LPC Potato Crop

Any or all of these issues can have a dramatic impact on the quality of the product delivered to the customer and consumer and, therefore, LPC’s competitiveness.

OVERCOMING COMPETITION

LPC’s success in marketing small potatoes attracted competitors offering lower priced products, particularly in 2003/2004 when an excess supply of potatoes drove the price of commodity potatoes downward. This placed the still fledgling company in a very difficult situation financially, and proved to be the challenge that urged LPC to develop a closely-aligned value chain, extending from breeding through to consumers.

Overcoming competitive threats was and continues to be achieved by facilitating open objective communication throughout the value chain. This enables LPC to use the knowledge of participants situated along the entire value chain to continuously improve products and processes necessary to consistently deliver and market potatoes that look and taste different than commodity potatoes. This translates into the ability to create an ongoing point of difference for customers and consumers by reducing costs while simultaneously improving quality in relation to competing products.

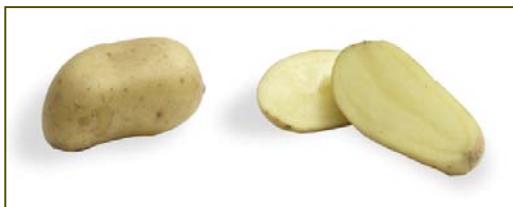


Blushing Belle



LPC Test Plot

BENEFITS



Piccolo

LPC, its suppliers and customers have achieved several benefits by working together: securing accounts with major retailers such as Costco, Safeway, and IGA (Sobeys); the launch of a major private label program with Loblaws (2006); the introduction of two branded products based on new proprietary varieties in 2006; and more than 10 proprietary varieties, which are in the process of being further developed into unique branded products whose key varietal differentiators are colour, shape and taste.



Yellow, Red and Blue

The strategic management of the company and the inter-relationships it has created along the entire value chain continue to provide LPC with its greatest competitive advantage. Thus, it is in a position to develop and market unique little potato products that will take years for any competitor to emulate. This could not have been achieved without the vision and leadership shown by Angela Santiago, her father, Jacob van der Schaaf, and LPC's Executives and Directors.



Variety of LPC Branded Potatoes

A **Little Potato Company** case study interview is included in the Value Chain Management Centre's DVD 3 Disc Set, which features interviews with participants of eleven successful value chains.

CASE STUDY: *LITTLE POTATO COMPANY - Page 6*
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