



Opportunities to Increase Profitability by Responding To Consumers' Definitions of Value: A Case Study in Fresh Pork

BACKGROUND

Collaborative innovation occurs when businesses along a value chain strategically align their resources to develop the capabilities they need to target specific segments of the consumer market. This offers considerable opportunities to develop competitive advantages that do not exist in the wider industry. Capturing added value through strategically innovating as a value chain is increasingly common in other sectors. However, often due to deeply rooted structural, cultural and organizational barriers, it is new to agri-food.

To illustrate the benefits that businesses operating in Canada's agri-food industry could gain from taking a collaborative approach to innovation, the Value Chain Management Centre coordinated a study of a value chain supplying fresh pork to consumers in Atlantic Canada. The project team was comprised of Australian, British and Canadian researchers who possess expertise in value chain management, systems theory, consumer marketing, primary production and agri-food innovation.

For commercially sensitive reasons, the value chain that forms the basis of this research is anonymous. Located in the Atlantic region of Canada, it stretches from grain production (for feed), to hog production, through to consumers, who shop in a specific sub-set of the retail sector.

Value
Chain
Management
Centre

Funding for this project was provided by Agriculture and Agri-Food Canada through programs administered by Agri-Futures Nova Scotia and the Agricultural Adaptation Council in Ontario, and by Pork Nova Scotia and the Nova Scotia Department of Agriculture.

PURPOSE

Businesses commonly place undue focus on creating efficiencies by seeking to do things right. They aim to reduce costs through improving current processes. This focus on cost reduction detracts attention from asking whether current processes are suited to attaining and retaining competitive advantage. In effect, are they doing the right things?

This case study presents an objective point-in-time assessment of a specific value chain's ability to innovate in relation to a defined segment of the consumer market. It then proposes how the same businesses could work together more effectively to deliver additional recognized value to consumers.

In addition to the recommendations for the researched chain, the results will hopefully encourage businesses operating in the wider Canadian agri-food industry to consider how they too could benefit from adopting a collaborative approach to innovation.

"The case study analyzed how value chains can work and will hopefully become an example to create successful value chains in Nova Scotia."
Pork Nova Scotia

INTRODUCTION

In analyzing how the businesses situated along the chosen value chain could capture greater value through aligning operations related to the production, processing, marketing and retailing of fresh pork, the researchers first needed to identify the chain's present state. To accomplish this, it was necessary to define four critical factors to evaluate the present performance and improvement opportunities:

1. How consumers purchasing from the involved retailer define value in fresh pork;
2. The level of strategic alignment that exists within and between the businesses that together comprise the value chain;
3. Current processes that exist along the value chain. These include operations involved in flowing material from primary production (*grain for feed and hogs for pork*) through to consumers and information (*communication*) within and between businesses that together comprise the chain;
4. The state of the enabling environment. Particularly the impact that culture, vision and leadership has on the chain's structure, resource availability and utilization, as well as employee drive and motivation.

These factors are aligned in effective value chains. This leads to an enabling environment that brings together structures and processes, along with drivers of action, to strategically achieve outcomes that none of the businesses could achieve individually. The most important of these is innovation through continuously improving products, services and processes, in relation to target consumers.

The methodology used to assess the chain's performance reflects a belief that the involved businesses' culture, vision and leadership shape the structures and processes that exist along the value chain(s) in which they operate. In turn, these factors determine how the businesses utilize their resources in terms of the value chain's long term strategy and daily operation. Nine separate sources of information were used to build a picture of the value chain's performance and its responsiveness to consumer behaviour:

1. An on-line survey that gathered the perceptions of 29 individuals situated from along the chain regarding factors that influence operational and strategic decisions;
2. Physically walking the value chain to observe operations first hand and become familiar with the chain's structure;
3. Interviews¹ with 50 representatives from every link along the value chain. Interviewees included key people from each of the larger businesses' functional departments, or the sole proprietor in the case of farmers. The interviewees also represented a cross-section of the involved businesses' management and staff (i.e. operational staff and executives);
4. Four variations of consumer research:
 - a. A national study into the attitudes and behaviour of approximately 800 pork consumers.
 - b. A national study of approximately 90,000 pork purchase occasions in all types of retail store.
 - c. An online preference survey of 748 consumers known to regularly shop in the retail chain.
 - d. An in-store "willingness to pay" survey of 680 consumers in seven of the retailer's stores.
5. Confidential internal reports concerning the involved businesses' performances.

"This was a fascinating process that revealed weaknesses and strengths all along the chain. Of particular interest to me was the quality and intensity of the research and the work done by the international team of value chain experts. A wonderful blend of academic knowledge and a common sense marketplace approach."

CEO, Distributor

¹ All the interviews were conducted on condition of strict anonymity. The results provided insights into interviewees' perceptions about the performance of their business, the chain in which they operate, and opportunities for strategic and operational improvements. They also provided insights into the relationships between the incentive structures that existed along the value chain and how this translated into individuals' behaviour within the context of their individual businesses as well as the overall value chain.

OUTCOMES

The research identified considerable opportunities that the value chain could exploit:

- The majority of consumers currently undervalue fresh pork;
- The chain is not currently delivering on two potential attributes of fresh pork, for which a large body of consumers appear willing to pay a premium;
 - If these two attributes, *guaranteed taste* and *guaranteed juiciness* (eating quality) were available, there is potential to increase consumption among many current pork consumers and expand sales to shoppers who do not currently eat pork.
- Pockets of inefficiency exist in the chain. While these issues may not be significant individually, their cumulative impact on the value chain's cost structure is considerable;
- Consumers' perceptions of the value of individual cuts and attributes varies by the day of the week and by meal occasion;
- For consumers who value provenance, the appeal of local or Atlantic pork appears to be greater than pork identified as either Canadian or provincial;
- Compared to consumers of other meats, pork consumers are particularly underrepresented among consumers who have children living at home, as well as in the *under 35* and *higher income* demographics;
- Four clearly defined segments of pork consumers exist. Though consumers in each segment exhibit different drivers of behaviour, they often shop in the same store.

Reasons why the value chain was not able and/or motivated to act upon these opportunities include the following:

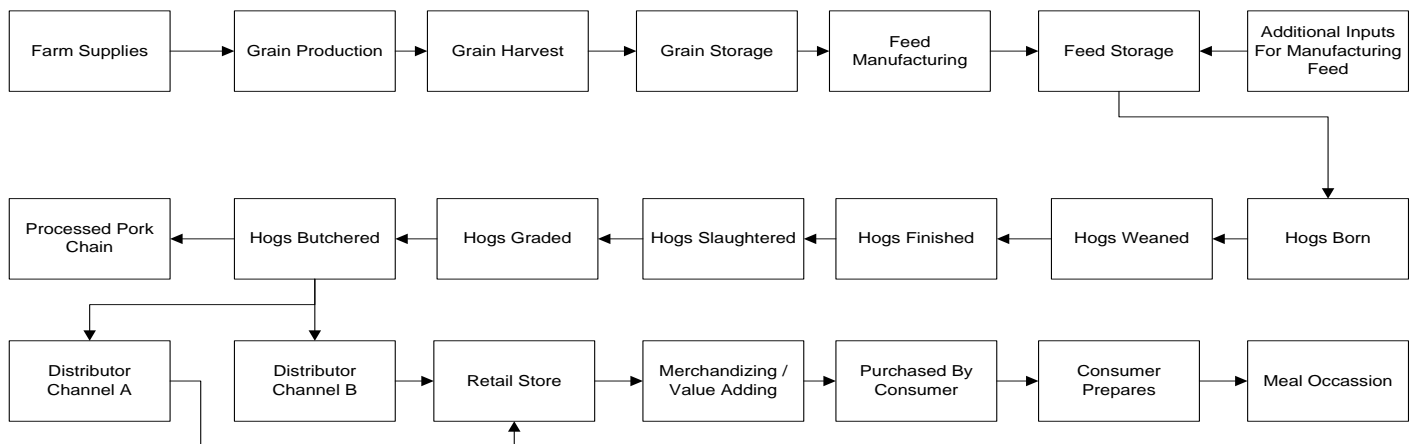
- A lack of market insight, particularly in terms of the overall drivers of consumer behaviour;
- The chain's attitude toward consumer preferences was largely based on assumptions. No systematic process had been put in place to test concepts or develop new products;
- Although the value chain's membership possessed similar values and objectives, including a preference for Atlantic products, the relationships that existed between them remained transactional rather than strategic;
- While the chain recognized that production costs are higher in the Atlantic region than elsewhere in Canada, this recognition had not translated into a concerted effort to compete on factors other than price;
- A combination of misaligned incentives and processing capacity led to a large portion of the chain viewing fresh pork as essentially a by-product possessing little intrinsic value;
- By using discounting as the only promotional vehicle, the value chain presented itself as a deliverer of fresh pork that is not valued by consumers above that of a commodity;
- Unnecessary adherence to the **Chicago Mercantile Exchange** and related indices to determine product flow and quality resulted in upstream elements of the value chain missing opportunities to produce pork that appeals to consumers by providing a higher quality eating experience;

- An ad hoc combination of policies, programs and funding support impacted many producers' behaviours and their attitudes toward the consumer market;
- Downstream elements of the chain were unable to segregate or differentiate pork by source;
- The involved businesses were unable to accurately track, analyze and share performance or purchasing data in an accurate or timely fashion;
- While innovative capacity exists at virtually every level of the chain, innovations occurred in a series of silos rather than being leveraged by the overall chain and driven by constant attention to consumer behaviour.

THE CHAIN UNDER ANALYSIS

Figure 1 presents a schematic of the fresh pork value chain used as the basis of this study. It involves multiple grain producers, a feed manufacturer, multiple pork producers, a federally inspected processor, a distributor and a chain of retail stores.

Figure 1: Fresh Pork Value Chain



EVALUATING THE CHAINS PERFORMANCE

Consumers determine value. Therefore, the first step in evaluating a value chain's performance is to assess the drivers of behaviour and demands within the market that the chain currently serves.

Only then can an assessment be made about the chain's performance and the effectiveness of current management practices. Results from the chain analysis and market research can then be used to identify then prioritize opportunities to improve the performance of the value chain in relation to consumer demands.

The researchers used a combination of online and in store research to develop a picture of the current market, and identify opportunities to capture greater value from producing, processing and marketing fresh pork. Evaluating the same scenario from different angles is called triangulation. If areas of similarity exist between the different research findings, it is likely that a legitimate opportunity exists that the chain may be able to exploit.

The results, shown below, provide insights into consumers' current purchasing habits. It also provides insights into the drivers of purchasing behaviour that the chain could exploit to capture greater value from the target market.

CONSUMER RESEARCH

The following tables present top line results from the consumer research. The results were used to evaluate the chain's operations, its level of strategic and operational alignment, and identify co-innovation opportunities.

The first three sets of results were acquired by polling consumers generally, regardless of where they purchased fresh pork. The second three sets of results were acquired by polling consumers who were known to shop in the retailer that participated in the study.

Figure 2 presents the demographics of pork consumers, comparing the Canadian average and the Atlantic region. This table clearly shows:

- Pork consumers in the Atlantic region tend to be older, less affluent, and live in smaller households;
- A clear correlation occurs between the age of children and the extent to which pork is consumed at home. A possible reason for this could be that as children age, they exert more influence on purchase decision making and discourage their parents from buying pork;
- Finally, in both Canada overall and the Atlantic region, the vast majority of pork consumers do not have children living at home.

Statistically significant demographic differences between Atlantic pork consumers and the overall Canadian population are highlighted.

Figure 2: Demographics of Pork Consumers, Canada and Atlantic Region

Demographic Determinant	Canada	Atlantic
Age		
Under 35	17%	6%
35 – 49	28%	30%
50-56	34%	33%
65 and over	21%	30%
Total	100%	99%
Income		
<\$30k	18%	19%
\$30k - <\$45k	17%	23%
\$45k - <\$60k	19%	22%
\$60k - <\$70k	10%	12%
\$70k - <\$100k	18%	12%
\$100k+	17%	13%
Total	100%	100%
Household composition		
Under 6 only	7%	7%
6-12 Only	5%	4%
13-17 Only	3%	3%
Under 6 and 6-12	2%	0%
Under 6 and 13-17	0%	0%
6-12 and 13-17	1%	3%
None Under 18	83%	83%
Total	101%	100%

Physical Attributes

Figure 3 presents a number of attributes against which Canadian and Atlantic pork consumers were asked to rank their level of satisfaction on a scale of 1 (poor) – 10 (excellent). Canadian and Atlantic consumers exhibit very similar satisfaction scores across all of the attributes.

Figure 3: Consumer Ranking of Fresh Pork Attributes, Canadian average vs. Atlantic average

Attributes	Canada	Atlantic
Freshness	8.2	8.4
Taste	8.2	8.2
Easy to prepare from scratch	8.1	8.2
The whole family will eat it	8	8.1
Appropriately sized cuts	7.8	8.1
Versatile - can be prepared in a wide variety of ways	7.8	8
Tenderness	7.9	7.9
Quick to prepare	7.7	7.9
Overall healthiness	7.7	7.8
Value for money	7.7	7.6
Affordable price	7.4	7.6
Available in a variety of quick to prepare products	6.7	7
Availability of recipes / serving suggestions in store	6.1	6.5

The research identified several attributes that are very important to pork consumers. *The whole family will eat it* was deemed to be the most important driver of meat purchases overall. While this factor is ranked well in the table above, additional key drivers of pork consumption, namely *available in a variety of quick to prepare products* and *availability of recipes/serving suggestions in store* received lower satisfaction ratings.

Cuts purchased by meal occasion

Figure 4 presents the cuts pork consumers most commonly purchase, separated by three different meal occasions. Again, the table compares the Atlantic region and the Canadian average. The results are:

- Consumers prefer different cuts, depending on the meal occasion;
 - These preferences do not differ significantly between Canadian and Atlantic pork consumers.
- Chops are the most popular choice for weekday meals;
- Roasts are one the most popular cuts for weekends and special occasions;
- Tenderloin* is the cut of meat which Atlantic consumers in particular associate with special occasions or entertaining and therefore could value for its differentiation and eating experience. However this is also the cut most often discounted by the Canadian industry.

The most popular cut by meal occasion is highlighted in Figure 4.

Figure 4: Pork Cuts most commonly purchased, by meal occasion

Cuts/ meal occasions	Regular weekday meals		Regular weekend meals		Entertaining guests or for special occasions	
	Canada	Atlantic	Canada	Atlantic	Canada	Atlantic
Chops	59%	63%	21%	23%	13%	17%
Ground pork	16%	14%	7%	9%	5%	1%
Tenderloin	12%	12%	19%	16%	36%	*41%
Roasts	7%	8%	30%	29%	27%	22%
Ribs	4%	1%	19%	20%	15%	17%
Other	3%	1%	4%	4%	4%	1%
Total	100%	100%	100%	100%	100%	100%

Market segments by attribute sought according demographic

Figure 5 presents the four consumer segments that were found to commonly purchase pork in the retailer that participated in the study. It shows which attributes have the most influence on purchasing for each segment.

Some highlights of the findings are:

- Women are more discerning than men when purchasing pork, and are particularly interested in attributes related to health and provenance;
- Cluster #1 is the most discerning and has the lowest income. Targeting value added products at this group is unlikely to succeed, other than for special occasions;
- Cluster #4 is the second most discerning consumer segment and also has the highest average income;
- The segment that could offer the most opportunity is the third most discerning. Cluster #2 is interested in health and has the second highest average income. As mothers, this is an important segment to target because eating behaviours are learnt early in life.

The colours below indicate how important each attribute is to each cluster (i.e. dark green offers most potential). Unshaded attributes are those that are least desired. The percentage shown is the proportion of the total population represented by each cluster.

Average response colour coding:

Dark Green	Extremely important
Light Green	Very important
Dark Orange	Important
Light Orange	Somewhat important
Unshaded	Neither important or unimportant; or Unimportant

Figure 5: Market segments, by demographic and attributes sought

	Cluster #1: <i>Discerning and fussy, but with little ability to pay more (12%)</i>	Cluster #2: <i>Health-minded mothers (25%)</i>	Cluster #3: <i>Preference for tasty, Canadian pork, if not expensive (25%)</i>	Cluster #4: <i>Prosperous but disinterested (38%)</i>
Gender Average M: 28% & F: 72%	Dominated by women (M: 20% & F:80%)	Mostly women (M: 5% & F: 95%)	Mostly women (M: 6% & F: 94%)	Dominated by men (M: 60% & F: 40%)
Age Average: 46	Oldest: average 48	Youngest: average 43	Average: 47	Average: 47
Household size Average 2.5	Smallest average 2.1	Largest average 2.6	Average 2.5	Average 2.4
Household income Average \$47,010	Lowest average \$30,492	Average \$49,540	Average \$47,728	Highest average \$50,854
Taste	Dark Green	Dark Green	Dark Green	Light Green
Price	Dark Green	Light Green	Dark Green	Light Green
Juiciness	Dark Green	Light Green	Dark Green	Dark Orange
Low fat	Dark Green	Light Green	Light Green	Dark Orange
No antibiotics or growth promoters	Dark Green	Light Green	Dark Green	Dark Orange
From Atlantic Canada farm	Dark Green	Light Green	Light Green	Unshaded
From a Canadian farm	Dark Green	Dark Orange	Light Green	Dark Orange
From your province	Dark Green	Dark Orange	Light Green	Unshaded
Animal welfare (natural/pasture)	Dark Green	Dark Orange	Light Green	Unshaded
Environmental production	Dark Green	Dark Orange	Light Green	Unshaded
Healthiness (inc Omega-3)	Dark Green	Dark Orange	Dark Orange	Unshaded
Traceable back to specific farm	Dark Green	Dark Orange	Dark Orange	Unshaded

Willingness to pay premiums

Figure 6 presents the willingness of consumers who shop in the retailer that participated in the study to pay premiums for certain attributes associated with fresh pork. Results are presented by individual attribute, the potential premium, and by two types of meal occasion. The results show that:

- Fresh pork is viewed as a regular meal choice, rather than a preference for special occasions;
- Atlantic (as opposed to provincial, Canadian or local) is the provenance identifier that resonates most with consumers and for which they may be prepared to pay premiums;
- Convenience, possibly relating to ease of preparation, is a point of attraction for which many consumers may be willing to pay a premium;
- Virtually all the attributes that certain consumers appear willing to pay a premium, relate to health, wellness and enjoyment.

Attributes are highlighted when more than 15% of total shoppers indicated they are willing to pay a premium.

Figure 6: Willingness to pay premiums, by cut/attribute and meal occasion

	Regular Meal		Special occasion	
	Percentage	Rank	Percentage	Rank
Regular pork loin chops (base price)	57	1	38	1
Atlantic pork loin chops at a 20% premium	50	2	34	2
Boneless pork loin chops at 30% premium	44	3	31	3
Omega-3 pork loin chops at 17% premium	28	4	14	6
Marinated pork loin chops at 33% premium	22	5	13	8
Antibiotic free pork loin chops 37% premium	20	6	15	4
Guaranteed tastier and juicer pork loin chops at 37% premium	20	7	15	5
Atlantic Omega-3 pork loin chops at 30% premium	19	8	13	7
Omega-3 and antibiotic free pork loin chops at 50% premium	15	9	12	9

Figure 7 shows the percentage of respondents at specific stores who said they would pay the premiums associated with each attribute described above. All the stores trade under the same retail banner. The table illustrates that:

- Within the same retail banner, certain stores offer the greatest potential demand for value-added products;
- There is considerable difference between individual stores. The reason being that their catchment areas will have varying demographic characteristics.

Attributes that scored more than 40% in any individual store are highlighted in green.
 Attributes that scored between 20-40% in any individual store are highlighted in yellow.

Figure 7: Willingness to pay premiums, by store and cut/attribute

	Atlantic pork loins	Boneless pork loins	Omega-3 loins	Marinated loins	Antibiotic-free loins	Tastier and juicier	Atlantic Omega-3 loins	Omega-3/antibiotic-free
Store A	67%	53%	24%	5%	16%	22%	33%	7%
Store B	60%	7%	44%	15%	31%	36%	2%	2%
Store C	68%	63%	9%	16%	37%	10%	34%	34%
Store D	29%	40%	20%	8%	8%	10%	15%	5%
Store E	17%	54%	74%	86%	18%	20%	12%	32%
Store F	76%	76%	27%	24%	8%	32%	20%	8%
Store G	37%	17%	19%	20%	14%	19%	11%	15%

Summary of consumer research

The consumer research produced a number of important findings relating to fresh pork. These include:

- National and Atlantic consumers can be quite similar in their purchasing behaviour and overall attitude toward fresh pork;
 - The research therefore has implications across Canada.
- **Fresh pork products are undervalued in the eyes of many consumers;**
 - It is largely viewed as a commodity that possesses little intrinsic value.
 - It is not viewed as a meat that is well suited for serving at special occasions.
- Consumers of fresh pork are likely to be aged 35+ and have few children living at home. This suggests that pork does not attract the patronage of younger consumers, or consumers with children living at home;
 - Precisely why pork consumption diminishes as children get older is not known. It could be that, as children mature, their influence on what parents purchase and prepare increases.
 - Another reason could be that, for various reasons, fresh pork is viewed by parents as not being suited to serving to children.
- **The fresh pork market is clearly segmented, with consumers desiring different attributes;**
 - Attributes related to eating quality rank highest among those desired by consumers.
 - Potentially, certain segments of the market exhibit a willingness to pay for fresh pork that exhibits a guaranteed level of eating quality and/or health benefits.

- Consumers who are attracted to fresh pork due to it containing specific attributes appear likely to behave in one of two ways. They are:
 - Discerning: They would prefer to purchase fresh pork that possesses one or a number of value adding attributes.
 - Discriminating: They will only purchase fresh pork if it possesses certain characteristics.
- While retail stores carry the same banner name, the types of consumers shopping in those stores differ by catchment area;
 - This results in certain stores being more suited to the merchandizing of higher value products than others.
- Consumers' perceptions of value differ by meal occasion;
 - This includes the relative importance of different attributes and preference of cut.
 - And the source of that product (e.g. provincial, Canadian, Atlantic, local).
- Offering value added products could encourage the consumption of fresh pork amongst shoppers who do not currently purchase pork;
 - This would increase the size of the market for fresh pork.

Current State

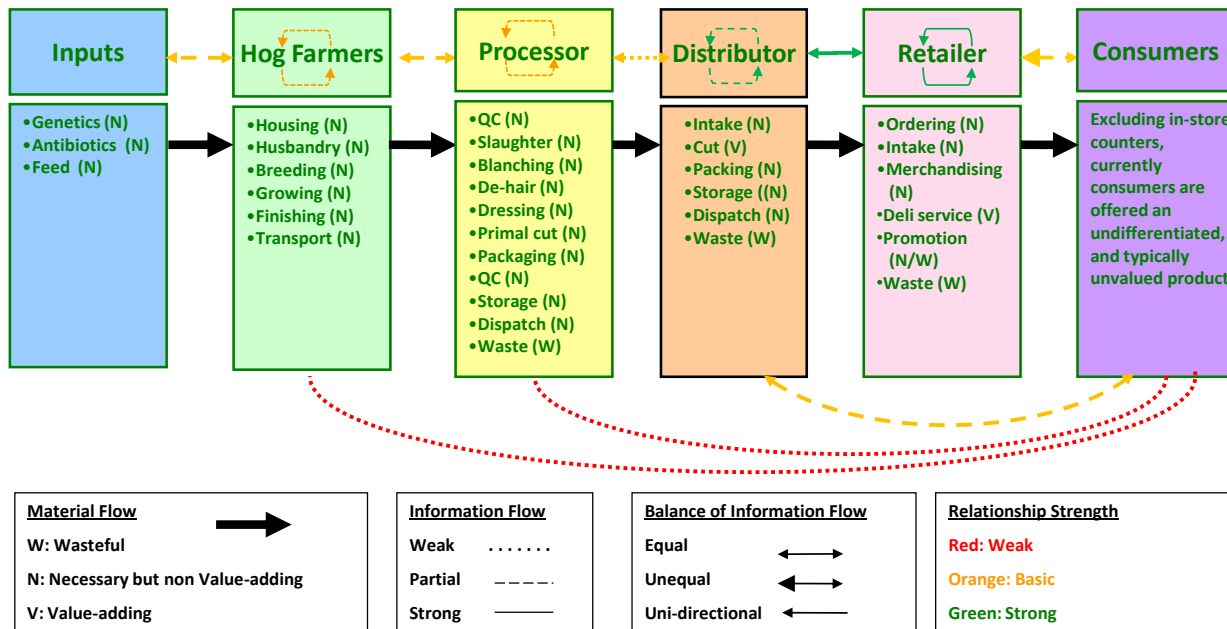
The current state of the value chain is shown in Figure 8. The illustration highlights the activities along the chain that create value from a consumer perspective. It also shows the strength of relationships that exist between the involved organizations, along with the extent, strength and direction of information flows.

The findings include:

- Few activities enhance the perspective among consumers for whom fresh pork is more valuable than a commodity;
- Waste occurs in a number areas, particularly at the processing, distribution and retail levels of the value chain;
- The chain has limited interaction with consumers. The strength of the relationships that members of the chain have with consumers ranges from basic to weak;
 - Input suppliers – such as grain producers, feed manufactures and service providers – have negligible connection to consumers and downstream elements of the value chain.
- Most of the lines of communication are partial or weak, both within and between the different organizations situated along the value chain. The only places where both the lines of communication and relationships are strong occur between the retailer and the distributor, and within the retail stores;
 - The weakest relationships and the weakest lines of communication exist between the distributor and the processor.
- The internal relationships between functional departments is strong within the distributor but the level of internal communication is limited;

- The distributor lacks the infrastructure, along with the capacity, skills and incentives to produce higher quality fresh pork products.
- Within the processor, the internal relationships between functional departments are largely transactional and communication is limited;
 - Although the processor possesses the capabilities and skills required to add value to processed pork, it does not possess the ability to add value by cutting and packing fresh pork.
- The situation between hog farmers is similar to the processor. There is a limited exchange of information and the relationships are transactional rather than strategic;
 - Therefore, while some hog farmers see the need to produce a value-added product based on consumers' willingness to pay, many do not.
- The research suggests that the chain could produce pork that offers consumers a higher than usual eating experience. This opportunity could be realized by strategically aligning grain, feed and hog production. Currently, only transactional linkages exist between these elements of the chain.

Figure 8: Current State of the Fresh Pork Value Chain



SUMMARY OF CHAIN ANALYSIS

It appears that the chain is in its current state due to a lack of consumer insight and a lack of aligned incentives. This has resulted in a “catch 22” situation.

**The chain does not value the product, so makes little effort with it.
Consumers do not perceive fresh pork as valuable.**

There is a general perception among the members of the value chain that fresh pork possesses little intrinsic value. No one has taken ownership for increasing the value of fresh pork, from a consumer perspective. Because the chain does not value fresh pork, it invests little into creating consumer value through innovation.

This behaviour by the chain results in many pork consumers regularly buying on price ahead of other product attributes. Over time, the chain’s activities have fostered an ongoing perception among consumers that pork is a commodity product. This situation of price discounting leading to consumers viewing the product as a commodity appears to be more acute in pork than perhaps any other type of meat.

IMPROVING PERFORMANCE

Significantly improving the performance of a value chain may require only minor improvements at multiple points along the value chain. The summation of those improvements could enable the participants to capture greater value from their activities and improve their profitability. As this project was undertaken amidst a recession and an imploding hog industry, the research focused on identifying improvements that could be undertaken in a relatively short time frame.

The four greatest short term opportunities for the value chain are as follows:

1. Turn the goodwill that currently exists into strategic capabilities;
2. Develop and use consumer insight;
3. Produce and merchandize higher value products;
4. Improve information systems' capabilities and effectiveness.

These points all relate to providing a guaranteed level of eating quality. To develop the capability to achieve this, the chain needs to more intimately connect their operations to consumer demands and desires. Many areas with their businesses operations could exploit these improvements, which would help to establish a sustainable level of competitiveness.

1. Turning Goodwill into Strategic Capabilities

Because it is something which competing chains find hard to replicate, goodwill is the cornerstone of co-innovation and sustainable competitive advantage. That the chain already possesses a considerable level of goodwill means that they have the opportunity to translate their aligned values and shared objectives into commercial advantage. To accomplish this, the chain will need to translate goodwill into a willingness to take ownership for addressing the current problems.

This could come from using consumer insights to establish a shared vision of the chain, its operations, and the products produced. The factors that are crucial to enabling this level of strategic and operational alignment to occur include:

- Assigning roles and responsibilities;
- Implementing incentives to encourage individuals and organizations situated along the value chain to exploit opportunities as they arise;
 - The incentives should be constructed to reward participants according to the contribution they provide the chain. Rewards should relate to the consumer recognized value that they enable

to be created - through financial investment and effort, and the level of risk that they are exposed to in the process.

“Having good communication is a vitally important part of ensuring that each partner along the value chain is able to contribute and benefit from listening to the consumer.”
Vice President, Processor

2. Develop and Use Consumer Insights

Currently, the chain lacks a systematic understanding of consumers. This leads to a management culture where decisions are largely based on past innovation (or lack of) or anecdotal impressions.

To ensure that methodical consumer insights, rather than assumptions, lie at the core of management decisions, the chain needs to determine which segments of their consumer base irredeemably consider pork to be a low value commodity versus those who can be encouraged to purchase higher value products. To achieve this, the chain needs to do the following:

- Use existing consumer insights to pinpoint which stores offer the greatest opportunity for launching value added fresh pork products;
- The existing research suggests that some consumers may pay premiums for fresh pork products based on taste, juiciness, Omega-3, free of antibiotics and/or growth promotants. The chain must determine whether the existing research is sufficient to launch a pilot effort;
 - If the chain determines that further consumer research is warranted before piloting the introduction of higher value fresh pork products, the information that currently exists on consumer satisfaction and attitudes provides a great jump-off point.
- Develop a marketing strategy for fresh pork. This must replace the current Chicago Mercantile Exchange system, a pricing structure that invariably leads to the production of a commodity product, which negatively impacts consumers' perceptions of value.

3. Produce and Merchandize Higher Value Products

Private label appears to be the most promising branding vehicle for the pork value chain given consumers' positive attitudes toward the retailer's private label products. There are several benefits of using the retailers' private label as the launch vehicle:

- It is an established brand which resonates with consumers seeking higher value products and products that possess distinct attributes associated with taste;
 - However, it is still important to choose specific stores with a consumer base that is more likely to purchase higher value products.
- As private label, the retailer is more likely to contribute its resources to developing and marketing the new pork products over the long term. Store managers exhibit a greater propensity and motivation to support the introduction of private label products versus new and untried brands or products.
 - As appropriate, store management and staff will need to be trained in how to best merchandize and handle the higher value fresh pork product(s).

4. Improve Information Systems' Capabilities and Effectiveness

The information systems that currently exist along the chain are fragmented. This impacts the extent to which they can be used to convey information about the chain's performance, and consumer behaviour between functional departments and along the value chain.

Improving access to information will encourage the formation of stronger strategic relationships between the members of the value chain. It can also help the chain create value for consumers by enabling it to align its operations to meet and/or exceed market demands.

Therefore, there are two primary objectives for introducing a more aligned information and communication system:

- Enable the chain to assess its financial performance more directly in relation to its operations;
- Provide consumer insights that the chain could act upon for strategic advantage.

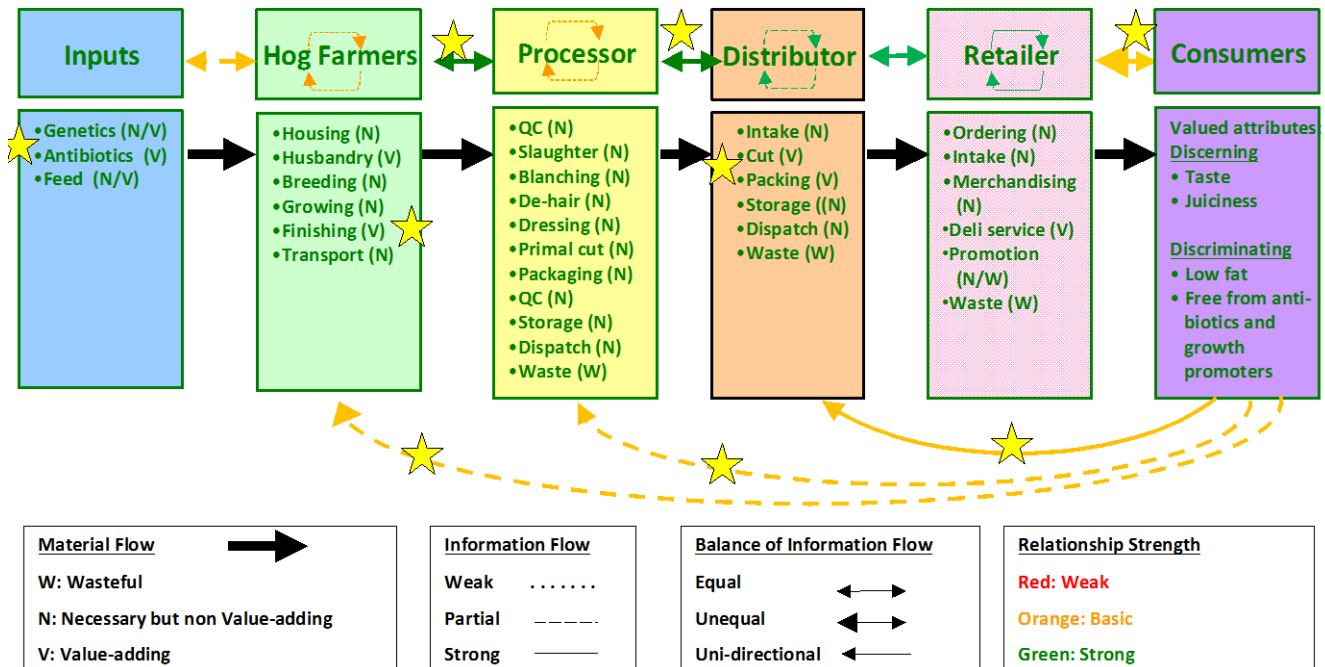
DEVELOPING THE FUTURE STATE CHAIN

Figure 9 shows the future state of the value chain, if the suggested improvements are enacted and prove successful. The stars highlight areas where improvements could be made. They include places where additional consumer recognized value could be created, relationships improved between and within businesses, and improvements made to information flows.

For this situation to be achieved, each of the chain members would have to ensure that their internal operations and incentive structures were aligned to satisfying the overall needs of chain. This would ensure that they:

- Possess the capacity to supply/process/sell the value-added products;
- Are committed to the sustained growth of this chain, notwithstanding each member will also be working with other chains; and
- Have in place effective management processes, in particular those required to provide consistent on-time delivery of product at the required volume and quality.

Figure 9: The Future State Chain



The process of developing the future state chain could follow the path described below.

1. Hog producers develop, in conjunction with downstream elements of the value chain, a collaborative production and supply plan for producing pork that possesses distinct attributes. This would provide downstream partners with the confidence in supply, which would be required for them to risk investing in fixed assets, the engaging and/or training of personnel, and the necessary marketing support;
2. Supply agreements are established and are aligned with the marketing strategy. These would address the quality, volumes and margins required to make the initiative a worthwhile endeavour for everyone. This element of the initiative may well begin as a small pilot project, expanding as consumer demand is proven and becomes better understood. *A methodology is presented below describing how the retailer might pilot new product development (NPD);*
3. Based on the supply agreement and a willingness to invest resources into adding value to fresh pork, the processor upgrades its facilities to be able to process and segregate pork by quality;
4. Based on the supply agreement and its fundamental corporate commitment to local suppliers, the distributor upgrades the capacity of its facilities (and personnel if required);

5. Every member of the chain who assumes a management role (hogs farmers as well as all the relevant managers employed by the processor, distributor and retailer), operate in accordance to an incentive scheme that is aligned to the initiative's key performance indicators (KPIs). The communication system that is put in place to support the project ensures that everyone receives verifiable information on the initiative's performance, and is held personally accountable for their performance.
6. Thereafter:
 - a. Farmers ensure that they comply to commitments that have made for delivering in full, on time and to quality specifications;
 - b. The processor kills and segregates the value-added fresh pork;
 - c. The distributor prepares and packs retail-ready products. These are branded with the retailers' private label and are clearly identified as Atlantic Pork. Any additional attributes determined to be important through consumer market research could be added;
 - d. Store managers stock the value added fresh pork products for a pre-agreed period and thoroughly test consumers' response to the product.

Piloting New Product Development (NPD)

It is important that a pilot project be undertaken prior to embarking on a full scale commercial sized endeavour. Inconsistency exists in areas of the consumer research and significant differences exist between the types of consumers who shop in individual stores, even though they trade under the same retail banner. Without a pilot project, considerable resources could be invested in developing a venture that ultimately proves unviable.

The objectives of a NPD process could include the following:

1. Launch new products so that consumer insights can be built upon in the short term, and foster the ability to undertake longer term fresh pork NPD;
2. NPD should add value to the fresh pork category and provide the retailer and the chain with a clear point of difference to their competitors.

Method

1. Work with a pork producer and the processor to develop a value added pork product that is branded with the retailer's private label and identified as Atlantic pork. Additional characteristics important to consumers could be featured as well.
2. Launch the product in (as an example) 15 stores, as follows:
 - a. Five (5) randomly selected stores;
 - i. Launched without any promotional support.
 - b. Five (5) stores identified as selling more than average - in fresh pork sales and sales of all SKUs currently sold under the private label brand;
 - i. Launched with minimal promotional support (e.g. point of sale).
 - c. Five (5) stores identified as selling more than the average amount of fresh pork of all branded SKUs;
 - i. Launched with targeted mailing (coupons, information sheets) to shoppers known to buy more than average volumes of fresh pork and SKUs carrying the same private label brand.
3. After a pre-agreed period, collate information on the relative impact and success of the three (3) launches.
 - a. Determine the performance of each in relation to previously established KPIs.
 - b. Determine next steps.

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