



WHAT HAPPENED TO PROFITS?

Value shifts in food and agriculture

by Dr. Jim Budzynski

"Why can't we seem to make any money in this business?"

Hardly a day goes by when you don't hear some member of the agri-food channel venting this frustration. What's funny is that, just by hearing that common refrain, you would have no idea whether you were listening to a chemical company manager, an equipment manufacturer, a producer, or a food processor. Even the ongoing revolution in e-business has generally only added one more voice to this chorus — the unprofitable dot-com!

The sad fact is, for most players in this industry, the profitability that many of us had realized has evaporated, and even those newcomers who hoped for big profits from emerging trends in technology have found them elusive. What happened?

THREE KEY QUESTIONS DRIVING PROFITS

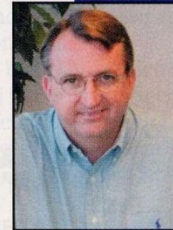
In order to get to the bottom of this, we only have to answer three simple (but not easy) questions:

1. Who is the real customer?

For many in this industry, the answer varies by position in the "food chain." Most of us define our customer as "that party closest to us from whom we derive our revenue." Some examples:

INDUSTRY PLAYER	TRADITIONAL "DEFINED CUSTOMERS"
Ad agencies, trade publications	Chemical or equipment manufacturers
Chemical, seed or equipment manufacturers	Distributors, dealers or producers
Distributors	Dealers
Dealers	Producers
Producers	Elevators, grain processors
Elevators, grain processors	Food companies
Food companies	Grocers, consumers
Grocers	Consumers

Part of the challenge the agri-food industry is facing is that the lines between these formerly distinct entities are rapidly disintegrating. What's the difference between a dealer and a distributor? How about a chemical and a seed company? What about grain processors and food companies? The answer is that the consolidation of this industry has often meant there is no meaningful difference between these entities, and that we all have one



Dr. Jim Budzynski, Bright Path Strategies

customer — the consumer who places some value on a food product in some way, shape, or form.

We should be careful, however, not to get hung up on defining the "customer" as exclusively a consumer. Our ability to add value to those "other" customers directly above or below us in this chain also determines whether we will survive or not. So most of us must get used to the challenge of having both "immediate" customers and "ultimate" customers, and the delicate act of balancing the needs of both. To understand this balancing act, one need look no further than "customer needs" on both sides of the "biotech debate."

2. What are consumers' needs and how are they changing?

To most of us, the changing (and perhaps fickle) eating habits of consumers seem fairly irrelevant to our market. The current controversy over GMOs and biotechnology illustrates that, like it or not, consumers' preferences will dictate what our industry can accomplish.

The admirable efforts of the crop protection industry to counter some of the inaccurate information being distributed by opponents of biotechnology is but one example of what happens when we as an industry fail to recognize that consumer desires will dictate our future. In this case, the needs of an intermediate customer was given greater weight in

(more on page 22)



WHAT HAPPENED TO PROFITS?/continued from page 20

the decision making process than the perceived needs of consumers.

Many of us were shocked to see "downstream" players in the food industry who were aware of the inaccuracy of these claims still not take a stand for common sense, but rather adapt to the preferences of consumers and cease to "handle" biotechnology products.

3. How can I create sustainable value when meeting customer needs?

Several years ago a great book came out that outlined how companies create customer value (*The Discipline of Market Leaders*, by Michael Treacy and Frederik D. Wiersema). The basis of the book was that there were only three ways that companies can create sustainable value for their customers, and that a sustained focus on your chosen "value discipline" was the

key to market success and profits. The three disciplines were:

- **Technology (Product) Leadership (TL - Innovation)** – delivering value by creating a "better mousetrap" that outperforms alternatives on some key criterion important to the customer;
- **Customer Intimacy (CI - Service)** – delivering value to customers by meeting their unique product or service needs in ways that were difficult for others to match; and
- **Operational Excellence (OE - Value)** – delivering value to customers by having a low cost of doing business and leveraging that cost position to deliver value to customers.

For many years strategy sessions throughout numerous segments of this industry were often based on

these three value disciplines. As one might expect, companies in commodity segments such as grain handling and fertilizer tended to focus on OE (operational excellence) as the driving value discipline; ag retailers tended to focus on CI (customer intimacy); and basic chemical, seed, or equipment companies tended to focus on TL (technology leadership). These strategy discussions uncovered many internal challenges within companies where competing value disciplines created strategic disconnects. But over the years, we became convinced that the theory was, well — wrong. We have several reasons for arriving at this assessment:

First, the competitive value of dominating one value discipline declined over time based on a number of factors (see page 23). In many markets the "size of the pie" declined considerably, undermining even a good value discipline position. Also, we found companies needed to excel at *all three* value disciplines in order to prosper, which is far more difficult than excelling at only one.

Other factors also made it increasingly difficult to dominate a given value discipline. For example, in many TL (technology leadership) driven market segments there are many technologies available with relatively high performance characteristics for each. As small, agile niche players and subsidized foreign competitors entered the market space, the inherent advantage of sheer market size attributable to the OE value discipline declined. Finally, the emergence of large growers with complex needs made the traditional CI approach far more difficult to implement.

It also became apparent that a *fourth* value discipline was emerging that in some ways was making the first three less and less relevant.

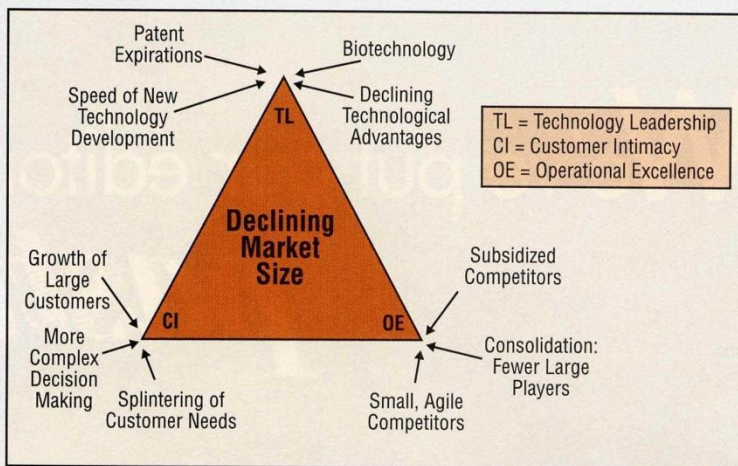
THE FOURTH VALUE DISCIPLINE

The fourth value discipline increasingly critical to success is *business design*. Business design involves the ability to rapidly configure (and reconfigure) combinations of the other value disciplines in response to the

rapidly changing needs of defined customers. This has turned the traditional value chain upside down, as companies start first with customers and then build channels, offerings, and competencies to meet those targeted customer needs. Two recent examples in our industry are the growth of vertical food industry coordination mechanisms and e-business, both of which require a business design response to the emerging needs of both upstream and downstream customers.

In order to profit today, companies must re-examine all customers' needs, understand which value discipline gaps exist for their organization in meeting those needs, and build new business designs which can rapidly address the emerging needs of targeted customers. This represents a tall order, but appears to be one of the few remaining paths to sustainable profits.

In future issues of *Agri Marketing* we will examine how the changing



needs of food consumers (and subsequently food processors) are changing the business goals for agri-food companies, how increased buying power of growers is re-shaping the way agri-marketers need to look at their businesses, and how new business models like must be structured

to provide profits by delivering sustainable value to customers. **AM**

Dr. Jim Budzynski is president of BrightPath Strategies, an Indianapolis-based strategic consulting firm focusing on companies in food and agriculture.