The Impact of a Values-Based Supply Chain (VBSC) on Farm-Level Viability, Sustainability and Resilience: Case Study Evidence

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Context

- Irish beef sector:
  - Largest agricultural sector
  - Accounts for almost 40% of total Gross Agricultural Output = €6.9 billion in 2016 (Bord Bia, 2016).
  - However… viability issues at farm-level
    - Experiences poor market returns
    - Power issues within the supply chain - processors and retailers (Renwick, 2015)
    - Highly reliant on EU subsidies and off-farm employment to remain stable (Dillon et al., 2017).
“Collectively negotiate with processors on price received for the animals they supply… the potential to be a real game-changer in rebalancing the supply chain”

(Minister Coveney, February 2016)
Producer Organisations (POs)

“Address a market failure… to provide a route to market that didn’t exist or to rebalance power in the supply chain” (DEFRA, 2014,p.2)

“not…in the context of traditional commodity production systems” (Berdegué, 2008,p.10)
Routes towards viability:

There are two main ways to be competitive in a global economy:

1. being the lowest cost supplier of an undifferentiated commodity
2. providing the market with a unique and superior value in terms of product quality, special features or after-sales service.

Michael Porter *The Competitive Advantage of Nations*
Viability

Premiumization

Sustainability
Ecological integrity and the social sustainability of the family farm

Resilience
Collective action to leverage and optimally exploit resources
Agriculture of the Middle (AotM)

• ‘Bifurcation’ of US food markets
• Middle family farms have valuable sustainability attributes that are worth protecting for society
• 2 strand approach:
  • Brand family farm products to express the socio-cultural and ecological sustainability values associated with family farms (Lyson et al., 2008; Macken-Walsh, 2011)
  • Co-operation between family farms to leverage scale and coordination in accessing markets and between farmers and other chain actors e.g. processors, retailers-values-based supply chains (VBSC) (Stevenson and Pirog, 2008).
**Food chains**

- **Supply chain**: producers as *input suppliers* (Feller et al., 2006)

- **Value Chains**: a focus on the *distribution* of power and profits (Feller et al., 2006)

- **Values-Based Supply Chains (VBSC)**: a focus on *values* and *relationships* (Stevenson et al., 2011)
Case-study co-operative

• *Family farms/ ranches* - central to brand/ marketing
• The same US buyer as Irish beef
• The same product category as Irish beef
• Separate processing entities
  • ‘Clever alliances’ (ICOS, 2016)
Figure 1: Case Study VBSC
Viability

“If ... you’re selling to the commodities... you’re gonna make money or not depending on what the commodity does. But in our case... you know your cost of production and you put the price on it”
Sustainability

“The educational aspects... have been a real plus. We got to work with ... a professor...she ... taught us how to get down and actually think about what an animal is seeing ... and when we put in new corrals in the last 3–4 years we have used a lot of her principles...worked out well.”
“[That] - goes back to a group of ranchers being able to partner with bigger players that have all the infrastructure. …[they] are able to utilise resources that we have that they couldn’t otherwise ever get”
Caveats of US case study co-operative

- The need to remain progressive to supply premium markets/ maintain buyers:
  - Certification issues
  - Relationships within the VBSC

- Co-operative is not immune to the price effects of the commodity market:
  - Membership loss…thus supply issues
  - Purchasing cattle…Do they need the members anymore?
  - Isomorphism
Irish context

1. What should the minimum number of members in a PO?

2. What are your views on structure and governance of producer organisations?

3. What do you see as the main role of POs?

4. Do you see a role for POs becoming involved in contractual negotiations between producers and processors?
PO Membership

- Specific numbers, no minimum or max number
- Should be based on tonnage or volume rather than number of producers
- Market share:

  “If [a] group want to set up they need to have at least 25% of the market share in order to kick start it…in order to have some clout”.
PO Structure

• Co-operative-tradition in agriculture
• Professionals in marketing, finance and production should be hired as needed
• Clarity needed on rules- to ensure structural validity of the PO
• Farmers as barriers?

“You know either the meat factories will break it up, or they will break it up themselves by not really adhering to it”.

The Irish Agriculture and Food Development Authority
Existing vehicles for PO development

• Knowledge transfer discussion groups- forum for establishing POs- regionally dispersed
• Livestock mart- provide a transparent method of selling livestock and securing payment (ICOS, 2017)... obsolete?
• However they could too function as an Association of POs (APO)
Role of POs

• Majority- negotiating with processors on price- biggest challenge?
• Little incentive for processors to enter into negotiations if they can access cattle supplies outside of POs

“We wouldn’t really see the need for a producer group because…in our opinion from what we would have seen in the past…is that all it would have led to is an extra cost really”.
Conclusions

• Beef PO legislation is largely welcomed, however the potential of adding value is overlooked
• Case study- enhanced members viability, sustainability and resilience, but...
• Irish stakeholders lack vision towards full chain integration and there is a focus on negotiating with processors…represents their biggest challenge?
• Focus on setting up individual POs with little knowledge of APOs which may be needed to gain long-term traction in the marketplace and to enter into negotiations with processors
Thank You