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The Case of Valldal Branded Strawberries

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Abstract

Valldal is a small township and valley in the picturesque fjord district of western Norway. The case concerns the current management of Valldal Grønt, a small farmer-owned cooperative recovering from a harsh winter that destroyed much of the strawberry production it depends on for its livelihood. Although Valldal Grønt has successfully branded its products, in these times of diminishing production and profitability, the brand equity is under siege. Farmers now seek a leaner organization. Simultaneously, pricing issues are subject to scrutiny and souring business relationships with customers. Valldal Grønt continues to use information technology to better coordinate the supply chain with the daily variations in supply and fluctuating demand. The case illustrates how branding is embedded in an end-to-end supply network and its natural environment. This case is intended for students following courses in supply chain management (SCM) & logistics, operations management and industrial marketing.

Keywords: fresh strawberries, Norway, branding, supply chains, integration, risk management.

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IFAMA Agribusiness Case 18.4A

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Introduction

Harald Valle is the Managing Director and the sole full-time employee of Valldal Grønt AS¹, a farmer-owned cooperative in Valldal, a village located in the Norddal municipality² of Norway. Strawberry production historically plays an important role in this township and is so important that the strawberry is the main feature of the municipality's shield.



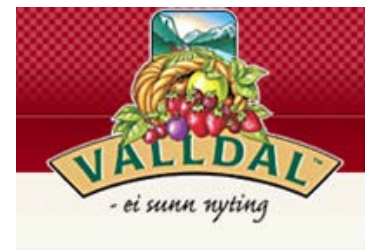
Exhibit 1. The Norddal Municipality Shield

During the brief summer seasons lasting approximately six weeks, Valldal Grønt purchases raw materials from 25 different local farmers. These goods are collected at farms, received, processed, packaged and distributed. The company is a trading intermediary and an important inbound logistics coordinator for both the farmer and customers. About 75% of the product is frozen providing year-round distribution activities. Harald Valle has been working with the company since 2004. He's acquired high-level management skills through negotiating with farmer-owners, customers and managing the flow of strawberries through the firm. He has especially focused on developing "Valldal" as a brand to differentiate the market position of their products to improve the profitability of Valldal Grønt AS.

Branding "Valldal"

Harald Valle's primary concern is marketing strawberries from Valldal and believes successful marketing sustains strawberry production and logistics. Shortly, after joining Valldal Grønt, one of Valle's first tasks was to create a new logo for the company. Bragd AS, a reputable communication agency was tasked with the logo design. The development took time and was supported by the Norwegian government through the food program channeled through the business development agency, *Innovasjon Norge*³. Several components encapsulated the development of the Valldal Norge brand: (1) Valldal is a major regional tourist destination. (2) It is located in the picturesque fjords region of northwestern Norway. (3) This area promotes itself as the "strawberry valley".

Valldal Grønt gradually achieved success in developing a national "Valldal" brand in the five years leading up to 2015. They created a website to manage their reputation for both business customers and end-users⁴. Valldal Grønt AS has developed a range of consumer packed frozen berry products that are manufactured and distributed in several packaging sizes. Harald Valle has been instrumental in initiating branding efforts with industrial food processors. Typically it is the food manufacturers that initiate the efforts to combine the Valldal Grønt logo with their products.



¹ www.valldal.com

² www.norddal.kommune.no

³ http://www.innovasjon norge.no/no/english/#.VMclqP6G_Ac

⁴ <http://valldal.com/>



Exhibit 2. Harald Valle, Managing Director of Valldal Grønt AS with a distribution crate of Valldal Strawberries

The Products

Raw strawberries are transformed by the producer's cooperative into three product groups for: 1) industrial users, 2) consumers, and 3) hotels-restaurant-catering (HoReCa). Fresh berries for consumption are packed in 500 gram baskets, 12 baskets placed in distribution-level carton-type packaging (40 cm. x 60 cm.) with 40 distribution crates on a Euro pallet (80 cm. x 120 cm.) representing the standard “pallet” volume. Plastic baskets are stamped with a logo reading “Valldal”. While most baskets used to market strawberries in Norway are colored, the Valldal brand strawberry product has experimented with see-through plastic baskets and lately, Valldal Grønt uses the Bama standard black plastic baskets. The carton also clearly displays the name of the supplier. The choice of design and branding baskets as well as applying new sizes, such as a new 300 gram basket, are some of the many tasks that concern Harald Valle.



Exhibit 3. Valldal branded frozen strawberries and ice cream branded ingredients from “Valldal”

Consumer-level packed frozen products are branded as “Valldal”. Furthermore, a dominant Norwegian ice-cream manufacturer, Diplom-Is, has used “Valldal” on its labelling of high-quality naturally flavored ice-cream products. The packaging reads “*Ekte norsk fløteis med rørte jordbær fra Valldal*” meaning real Norwegian ice cream made from home-made style stirred strawberries from Valldal.

Brand development is also achieved through distributing Valldal Grønt fresh seasonal strawberry products to the up market restaurant chain Pascal in the Norwegian capital city Oslo. The restaurant’s menu explicitly states that some items feature strawberries from “Valldal”. Valldal Grønt plans to widen this mode of distribution by sending products to Oslo during the season to up market HoReCa businesses and selected delicatessen stores. In 2014, Valldal Grønt signed an agreement with Tine, the dominant dairy product producer in Norway with a 90% market share, to distribute yoghurt products bearing the Valldal brand.



Exhibit 4. The Valldal Tine yoghurt

Valldal Grønt has a strategic partnership with Bama, a fruits and vegetables wholesaler, who is increasingly promoting local foods. However, they are unsure as to whether locally branded strawberries work well in all cases. According to Harald Valle, Valldal Grønt's is the only locally branded strawberry product that is appreciated outside the regions in which they normally distribute due to their long-term branding efforts.

The Farmers and Their Company Valldal Grønt AS

Established in 1998, Valldal Grønt AS, is a private company limited by shares owned exclusively by strawberry growers. It is an agribusiness cooperative founded to increase productivity in strawberry production and distribution. The strawberry growers took the initiative to build the business assisted by consultants provided by the municipality. Help was needed to develop the organization. Valldal Grønt AS aimed to secure the marketing and sales chain for products produced by its owners. It operates a combined production, terminal and storage facility for mainly strawberries in the center of Valldal. It also organizes two annual meetings with growers to inform them about strawberry production, distribution, and facilitate contact among strawberry growers. These meetings occur before, during and after the growing season and always with Harald Valle present.



Exhibit 5. Strawberry farmer and local politician Audun Skjervøy from Valldal. One of Valldal Grønt's owners.

In addition to Harald Valle there are several part-time employees at Valldal Grønt AS. The cooperative employs one administrative employee who works 75% of the year on a full-time basis; accordingly two production workers who work full-time, respectively 80% and 60% of the year; and a part-time cleaning assistant. Valldal Grønt AS also hires seven full-time production workers every season and 25-30 production workers who help during the peak harvest period. Harald Valle's annual workload fluctuates throughout the year with long work hours beginning just before the season begins and slowing down as the strawberry harvest gradually comes to an end. The rest of the year, Harald Valle works on company strategy and prepares for the next seasonal harvest which normally begins in mid-June. The start dates and production volumes of the growing season fluctuate year-to-year due to weather conditions.

Farmers in Valldal are small-scale growers, usually managing and operating farms on a part-time basis. During the season, however, strawberry production demands a large amount of pickers and substantial administrative effort. A typical Valldal strawberry grower operates 20 dekares of strawberry fields. Picking strawberries is a manual task carried out by migrant labor predominately from Eastern Europe. On average one hectare of strawberry field requires of 10 laborers. This means that a grower operating 20 dekares of strawberry field needs 20 pickers and housing for the season. Farmers need to comply with rules regarding housing standards. Facilitating migrant labor is therefore a substantial investment for farmers.



Exhibit 6. The upper picture shows the village of Valldal in the fjord region on the west coast of Norway. The Lower picture shows a close-up of the Valldal Grønt production and warehouse facility.

The Business of Strawberry Production

Prior to harvest, strawberry production involves a complex combination of measures to secure both short-term strawberry growth for each season and a longer term component comprising product and farm facility development. The distribution of strawberries as a commercial item starts accordingly with harvesting. All strawberries in Norway are seasonal and open-air harvested due to the Nordic climate that limits agricultural production to the summer-centered growth period.

Types of Strawberries

The “strawberry” has a number of different cultivars (varieties) permitting strawberries to be grown in a large range of different agricultural conditions as well as varying in durability. Strawberries are relatively expensive to produce since production is technology-intensive and has until recently been distributed in primarily economically developed countries. This is changing as many developing countries are starting to produce strawberries for fresh upmarket domestic consumption as well as exportation of durable varieties such the El Santa.



Exhibit 7. Norwegian strawberry retail business

Photo: Vegard Grøtt / Scanpix

One desirable indicator of strawberry cultivars is their degree of firmness. Firmer strawberries are more durable after harvesting. Removing the stem from strawberries also reduces their durability. In Norway, due to its northern geographical location, strawberry production is seasonal. The most common type of strawberry produced in Norway for fresh consumption is of the Korona cultivar. Valldal farmers have chosen to grow another cultivar—the Polka. This strawberry is slightly firmer and darker in color than the Korona berry. Due to increased firmness, the Polka strawberry has up to 72 hours durability compared with the Korona's 48 hours. However, the main reason the Polka was chosen, is because this cultivar is well adapted to the specific growing conditions in Valldal.

In the last few years, Valldal Grønt has gradually started using the Florence strawberry, first introduced during the 2011 growing season, representing 10% of the fresh strawberries packed into baskets for consumption, with Polka filling the remaining 90%. This variety ripens later than the Polka and withstands the colder late-summer Norwegian climate better, thereby extending the end of the growing season. While the Polka represents about 40% of the produced volume in the studied valley, the remainder consists of the Senga Sengana type strawberry. This cultivar has been used in Norway since the 1960s and was previously used for fresh consumption. Currently, Senga Sengana is predominately used as raw material in industrialized food processing.

Due to the Norwegian government protectionist measures, it is far cheaper for industrial customers to purchase Norwegian strawberries than import strawberry products. Demand for Norwegian produced strawberries is therefore unlimited. Costs associated with producing and distributing strawberries in Norway is also high. This is generally due to the high costs of living in this country. However, Norwegian consumers have strong purchasing power because of their higher standard of living. Valldal Grønt has also increasingly diversified and is now producing 25 tons of raspberries. These berries are harvested after strawberries, thereby prolonging the season and securing better use of migrant labor. Valldal Grønt also changed its distribution of

consumer packed frozen strawberries. They now sell products produced in accordance with orders from Norrek Dypfrys AS, a specialized producer of frozen berries. These products are also branded with the Valldal logo including the "Nyt Noreg" generic brands that emphasize Norwegian produced foods. Norrek Dypfrys AS also produces private brands of strawberries for other supermarket suppliers. For Valldal Grønt this implies simplified sales and marketing of these types of products since they now have only a single customer who is responsible for the distribution to retailers in Norway.



Exhibit 8. Frozen strawberries produced by Norrek Dypfrys AS

Farming Strawberries

A range of factors impact harvest quality and quantity. Colder weather slows plant growth. The age of the plants also affects strawberry yields. Rain deteriorates product quality, and when rain is a factor, daily harvests of strawberries for fresh consumption have been reduced by as much as 80% for the entire studied region. When rain is a factor, pickers are then directed to harvest them for industrial use. Strawberries designated for industrial use are a lower quality. Other major threats to strawberry production include soil deterioration and insect attacks. Growing strawberries in the same fields year-after-year eventually depletes soil quality. In order to replenish the soil, fields are rotated and used to grow grass for animal feed or other soiling enhancing crops such as potatoes. In the studied valley, specialization which becomes too focused on strawberry production becomes a threat. Insects attacking strawberry plants are another threat that has reduced harvests up to 80% in certain strawberry fields. This risk has been controlled through precautionary measures which includes the use of pesticides.



Exhibit 9. Picking strawberries in Valldal

By introducing the Florence type strawberry, Valldal Grønt has been able to extend its growing season for fresh seasonal strawberries by a few weeks. Price increases coincide with the end of the Norwegian growing season. This provides an opportunity to increase profits. According to Valldal Grønt, their primary challenge is to increase the total volume of strawberries produced. The demand for frozen strawberries from Valldal Grønt's perspective is inexhaustible, and the seasonal fresh strawberry demand is also relatively unlimited. Thus opportunities exist to distribute fresh products into neighboring regions and start production in neighboring locations such as Stordal, Vaksvik, Hellesylt which have growing conditions similar to Valldal.

A dekar is a metric system measurement for land volume and comprises of 1000 square meters, approximately 0.25 acres. While the average dekar of production soil yielded 1800 kilos per dekar a few years ago, at present a dekar yields less than 1000 kilo. This is a result of increased limitations in use of pesticides as well as strawberry beetle contamination. Beetle attack is difficult to control and a development priority. There is consideration using irrigation schemes to cope with the strawberry beetle by disturbing its habitat. A major threat is harsh winter conditions. The winter of 2012-13 was extremely cold accompanied by drought. There was therefore no snow to naturally insulate the strawberry plant during this harsh winter. A majority of the strawberry plants perished, especially the Florence plant. While production of Valldal strawberries normally ranges from 500 to 600 tons annually, the harvest in 2013 was a mere 118 tons. Since the harsh 2013 winter farmers have been protecting the strawberry plants with plastic coverings on the ground than insulate the plants during cold winters. In 2014 this harvest had increased to 260 tons due to planting new strawberry plants the preceding year. In 2015 the harvest is expected to be 450 tons. This slow progression is due to that it takes a year before the strawberry plant bears fruits the first time. Harvested product quality is best during the first year. Volume is, however, low. The peak volume is reached in the plant's third year, and the fourth year is its last year of production normally. In addition, an annual season may start earlier or later due to weather conditions impacting on the start, length and volume of production in season. Also the total harvested volume may vary by 20% on a seasonal basis. The daily volume of strawberries designated for fresh consumption fluctuates from day-to-day due to weather changes. Average production per dekar in Valldal the last years is shown in Table 2:

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Table 2. Harvested volume in kilos per dekar (approx. 0.25 acres) by farms supplying to Valldal Grønt.

Year	kg/da
2008	1260
2009	1052
2010	842
2011	924
2012	1271
2013	404
2014	670

If you ask a farmer they will most likely state that they are satisfied with a harvest of 1200 kg/da. Some farmers have managed to create a yield of 1500 kg/da.



Exhibit 10. Harald Valle visiting producers during harvest

The Supply Network

The main company actors involved in the "normal" Valldal Grønt supply network of fresh seasonal strawberries is shown in Figure 1.

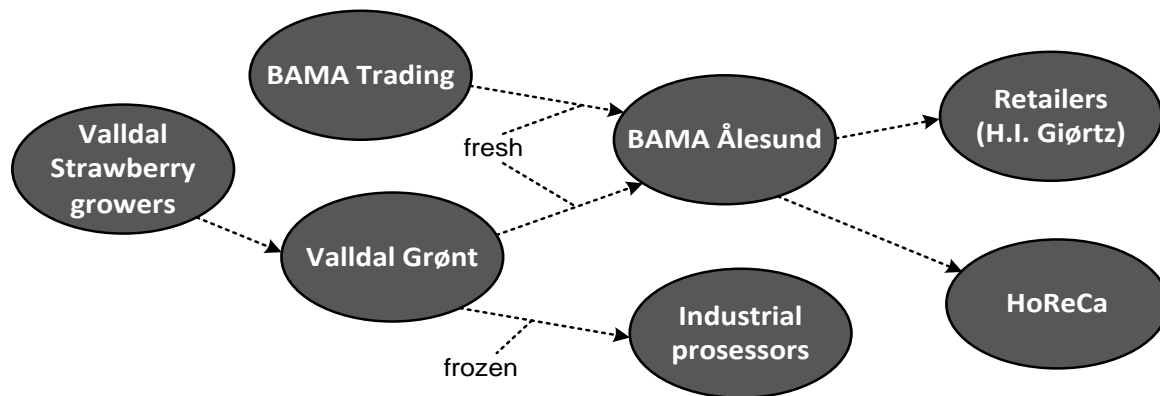


Figure 1. The flow of goods and supply network actors involved in strawberry distribution from Valldal.

Norway's leading fresh produce wholesaler, BAMA Group AS has 21 distribution centers across the country⁵. The BAMA Group distributes products exclusively to retailers within NorgesGruppe. BAMA Ålesund, the Bama distribution center for the wider Sunnmøre region, where Valldal is situated also distributes its products to HoReCa (hotels, restaurant, catering) market. H.I. Giørtz & Sønner is the regional distribution center of NorgesGruppen in the Sunnmøre region. In this region the market share of NorgesGruppen exceeds 50%. H.I. Giørtz holds 33% ownership of BAMA Ålesund. The rest is owned by BAMA Group⁶. A variety of supermarket chains with competing market positions make up the dominant NorgesGruppen.

Recently, Valldal Grønt decided to invest in new equipment to produce frozen products. By cooperating with a regional specialist in industrial convection technology, Øen Kuldeteknikk (www.kuldeteknikk.com) established a company together with the Norddal municipality in order to supply Valldal Grønt with the freezing capacity needed for their seasonal and municipality buildings in Valldal (the municipality center) and with heat need during the rest of the year. Through this partnership, their estimated investment was reduced from an expected 12 million NOK to 5 million NOK. The convection machinery is located adjacent to Valldal Grønt's production facility, which suggests a widened supply network not directly associated with product distribution.

The flow of different strawberry goods including variation types and packaging managed by Valldal Grønt AS prior to the harsh winter in 2013-14 is illustrated in Figure 2.

⁵ Data 2009. www.bama.no

⁶ www.bama.no

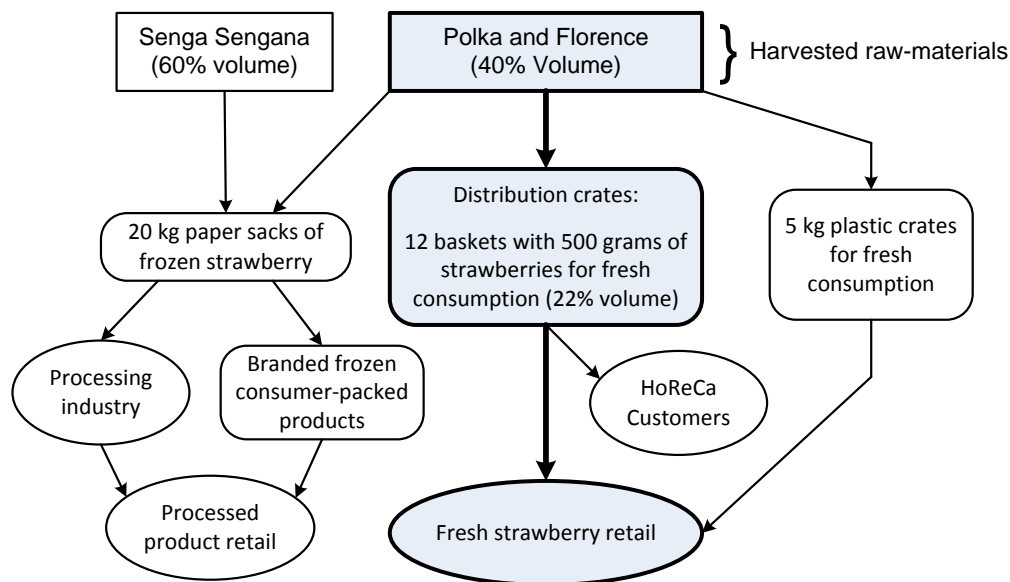


Figure 2. The flow of fresh strawberry products through the retail chain administered by Valldal Grønt.

Replanting has focused on the Polka variety. In 2014, 90% of production was Polka and 10% Senga Sengana. The Senga Sengana species will eventually be terminated. Fresh strawberries for consumption are distributed in 4kg plastic crates. Stems of the berries are removed. This product consists of slightly smaller Polka strawberries. These products are purchased by households to be frozen or used in home-made jams. Products for industrial production are frozen and packed in 25 kilo paper sacks.

Strawberries for fresh consumption are packaged in clear (500 gram) plastic baskets then placed into carton crates containing 12 baskets. Strawberries for industrial use are picked in larger plastic baskets that are emptied into plastic crates. Fresh strawberries in 5 kilo crates, and the industrial-purpose strawberries, are treated in the same manner during harvest and in production prior to freezing. Only strawberries of the Polka cultivar are used for fresh consumption. These crates are collected in central position on the farm.

Early in the season, two runs are made by two trucks operating separate routes. In the peak season, an additional truck is added to handle the increasing supply. There are two different routing schedules, one used during the peak season and another for the period prior to and after the peak. The growers' cooperative annually produces about 600 tons of strawberries at its facility with a capacity of 800 tons. About 120 tons are designated for fresh consumption and in this case the facility functions only as a terminal. The daily flow into the growers' cooperative ranges between 0-65 tons per day. The average volume during the season ranges from 40 to 50 tons. This facility also distributes other types of fruit and berry products and has the capacity to produce, store, and handle other fruits and berry products.

Approximately 75%, of the fruit sent to industrial food processors is used to make juices, jams and flavor additives for products such as ice cream and yoghurt. Production of consumer-packed frozen strawberry products accounts for less than 10% of the total volume harvested. Less than

20% of the fresh strawberry production is distributed in-season through retailers to consumers. Most of the fresh strawberries for consumption are transported daily to the wholesaler's facility. The growers' cooperative also sends fresh strawberries to retailers in the southern region through an agreement with the regional fresh fruits and vegetables wholesaler.

At the growers' cooperative facility the main volume of strawberries for industrial purposes are processed at the same time as a limited demand for 5 kg. crates packed for fresh consumption. These products have their calyx removed during picking and are destined for households making traditional home-made preservatives such as jams and jellies or frozen sugared berries. The process involves cleaning, freezing and packing. This production takes place only during the strawberry harvest.

Communication Flow

During the season, the volume of harvested strawberries fluctuates day-to-day. Valldal Grønt AS, manages this flow of goods, and farmers are expected to notify them with daily harvest estimates by mid-afternoon on the day prior to the harvest through SMS messaging. This information is conveyed to Bama Ålesund, who then prepares coordinating orders of strawberries with supplies. Estimates are measured in the number of pallets. The next day projections are further updated by midmorning. Final numbers are tabulated from individual growers as the pallets are picked up in the afternoon. This information also specifies which variety (Polka or Senga Sengana) is planned for harvest. The information collected from first estimates is also forward to the regional fresh fruits and vegetables office informing them the volume of fresh strawberries they can expect to receive on the following day. Information is updated as more exact figures become available. In 2010, the growers' cooperative started using an automated production monitoring system where growers are able to log into a webpage and report their anticipated and actual production volumes. This system is used by growers to keep themselves updated on deliveries, and is also to purchase needed equipment and strawberry plants. The automated system allows instant access to account information spanning each day of the season. Although the system is fully functional, only two of the 25 growers actually use the system to report daily production during the season. Presently, all but one of these producers have internet.

Retailers simultaneously send daily orders for fresh fruits and vegetables products to the regional fresh fruits and vegetables wholesalers. A relatively fixed amount of fresh Norwegian strawberries is expected to be sold daily for consumption. Medium-sized supermarkets in the local region typically order six crates of strawberries, five times a week. The soonest retailers can expect deliveries is the following day. Weather conditions strongly influence demand. Sales of fresh strawberries may double on a sunny day and are highest on Fridays and Saturdays. Orders are submitted in the morning prior to delivery day. Each product has a numerical GTIN code used for logistics tracking. A hand-held digital scanning device is used to create orders and information is sent directly to the regional fresh fruits and vegetables wholesaler. Orders from HoReCa customers are also received by the wholesaler, although this is a relatively smaller volume. The regional fresh fruits and vegetables wholesaler uses Excel spreadsheets to compare order information with supply information.

The task of the regional wholesaler is to either push excess amounts of strawberries onto the market by calling purchasing vendors at the retailers, and suggesting price reductions to facilitate purchases of larger volumes. In some cases price promotions are planned in advance among specific differentiated supermarket chains within the focal retailer group. In cases of demand exceeding supply, such as when it has rained the day before, the regional fresh fruits and vegetables wholesaler needs to first attempt to find supplies from other regions. If the demand still may not be met, the regional fresh fruits and vegetables wholesaler representatives call the retailers and inform them about the quantities they actually will receive the following day.

Quality discrepancies are sought avoided through inspections at the different facilities in the materials flow. Inspections involve primarily measuring the temperature of the products combined with a visual control. In cases of quality discrepancies, product traceability is provided by markings on the crates. This information allows the identification of the farm, the picker and the time of harvest. Complaints are usually communicated by telephone. This may in some cases involve communicating by telephone sequentially through the entire chain, from retailer, through Bama Ålesund and Valldal Grønt AS, to finally reach the farmer.

Pricing Strawberries

Strawberries are relatively expensive commodity-type agricultural products with relatively costly production and distribution activities. At the retail facility baskets of strawberries have a profit margin of about 15% compared to 20-30% for most other fruits and vegetables products. This is countered by the large volume of strawberries, and that these are products that usually easily sell out when in supply. In addition, retailers express that when in season, consumers expect the store to be able to provide this product. In Norwegian food culture fresh strawberries for consumption are interwoven with consumer perceptions of “summer”. The downstream part of supplies is relatively integrated due to a combination of ownership-based ties (vertical integration) and long-term contracts. The cooperation between the growers’ cooperative and the regional fresh fruits and vegetables wholesaler has lasted more than 10 years based customary renewed annual contracts.

Prices of industrial products are set annually in centralised negotiations. A national growers’ cooperative negotiates with different industrial customers. This represents what is commonly termed by industrial actors as the “market price”. One of the main challenges facing Valldal Grønt AS is actual pricing the products, especially for household consumption of its fresh products. Prices of strawberry products for industrial delivery are usually somewhat lower than that of supplies for fresh consumption. A price per kilo is negotiated for the products between the growers’ cooperative and the regional fresh fruits and vegetables wholesaler. Valldal Grønt AS is a small market player in the total Norwegian fresh seasonal strawberry market, responsible for only a fraction of this form of supply. BAMA sets its prices on a national basis through registering fresh strawberry market price fluctuations involving also the other major Norwegian strawberry distributors. Harvesting commences later in Valldal than in the dominant eastern parts of the country. BAMA has a dominant position with approximately 80% of all distribution of strawberries to retail chains in Norway.

Being a relatively late entrant on the national Norwegian strawberry market, when strawberry harvesting commences in Valldal, strawberry prices on the Norwegian national market for fresh consumption are already at a relatively low level. This is about 2-3 weeks after the earliest fresh

strawberries have been harvested in greater volume in Norway. To cope with this, in June 2004 Valldal Grønt decided to establish its own sales organisation Valldal Bær AS (bær = berries) marketing its fresh consumption strawberries to customers not affiliated with NorgesGruppen serviced by BAMA Ålesund during the 2005 and 2006 seasons. This distribution practice continued until Valldal Grønt came to agreement with BAMA Ålesund, that allowed them to set a unique product (Global trade item number – GTIN, www.gs1.org) code on the fresh seasonal Valldal Grønt strawberry product. This practice was facilitated by a then initial stage marketing effort differentiating Valldal fresh consumption strawberries through baskets carrying the “Valldal” logo.

The solution also involved a seasonal contract negotiated by Harald Valle with the manager of BAMA Ålesund regarding a fixed price. Informal pricing arrangements were then still in practice. The fixed price could e.g. be negotiated within the limits of an overall expected turnover. This meant that a lower price could be agreed upon such as in the case of large harvested daily volumes or planned promotion campaigns on certain deliveries if a later higher price was agreed upon. At the end of the 2008 season prices had proven to be higher in the past years than the negotiated price. It was therefore decided to use the national market price mechanism in the 2009 season. This year, however, weather conditions in the main Eastern Norwegian production areas was exceptionally good providing large volumes at the start of the season. This gave prices in the beginning of July 2009 that actually at times was lower than for supplies to the contractually-based deliveries for industrial purposes. Simultaneously, some retailers sell strawberries at a loss to attract customers. These are usually planned campaigns administered by supermarket chains within the focal retail group. After the 2009 season it was decided to return to the earlier fixed price agreement. The supermarket chains in NorgesGruppen plan product promotional campaigns relatively likewise for all their products. Furthermore, while supermarket chain strawberry promotional campaigns are planned many weeks in advance, actual harvesting volume does not always produce the necessary planned volume due to weather conditions.



Exhibit 11. Strawberries on sale at a Norwegian supermarket

Current Business Challenges for Valldal Grønt

After a harsh winter in 2012-13, Valldal Grønt has been unprofitable. Being a Norwegian firm, Valldal Grønt's uses the Norwegian krone (NOK). In mid-2015 the exchange rate for NOK was approximately 7.70 NOK for 1 USD and approximately 8.20 NOK for 1 EUR. In 2013 Valldal Grønt lost 2 million NOK. In 2014, losses are expected to total 1 million NOK. The equity of Valldal Grønt will be at around 0 NOK. Valldal Grønt is budgeting profits of 0.5 million NOK in 2015. Consequently, three employees had work hours cut by 50% from October 2013 to April 2014. Harald Valle took a voluntary leave of absence from November 2014 to March 2015. Valldal Grønt AS also succeeded in receiving a research grant associated with increasing berry production from the Norwegian government which allowed him to commence working full time in February 2015. These cost-saving measures also reduced administrative capabilities. However, Harald Valle, an energetic entrepreneur, secured government support through an agro-technical research project aimed at increasing the volume of production supplying Valldal Grønt with raw strawberry material.

Table 2. Accounting figures from Valldal Grønt AS by years in Norwegian kroner (NOK).

Year	2002	2008	2012	2013	2014
Income	20,490,357	23,356,460	29,626,111	10,869,516	15,587,093
Costs	20,050,345	22,407,963	27,595,067	15,704,831	11,988,773
Profit	440,012	948,496	2,031,044	-1,119,258	-117,738
Total assets	9,642,181	9,736,643	10,097,250	15,937,986	15,409,889
Equity	258,075	874,967	1,410,150	703,910	-99,117

Note. Income, costs and profits are associated with management accounts exempting the financial results.



Exhibit 12. Winter picture of strawberry plants 2013

Photo: Hegelin Waldal

Since the harsh winter in 2012-13, the farmers who own Valldal Grønt, are increasingly calling for Valldal Grønt AS to be downsized into a purely seasonal business operation. This would require restructuring the cooperative to provide only the most basic forms of trading, logistics, and production and remain active only during a slightly longer harvest season. This strategy is still being cautiously brought forth by the growers but the sentiments are real and need to be addressed by Harald Valle.

After a delegation of four executives representing Tine (dairy); Coop (retailer); Røra Fabrikker⁷ (Fabrikker = Norwegian for factories) a coop-owned producer of the fluid strawberry substance for industrial use; and an advertising agency visited Valldal Grønt to prepare for production of the new Valldal branded yoghurt, some producers asked Harald Valle if they would get an immediate better price for their products. Harald Valle feels accordingly his long-term effort to develop "Valldal" as a branded product is gradually weakening among the producers since the harsh 2012-13 winter and the following 2013 poor harvest since new strawberry plants may not be harvested the same year they are planted.

Prior to the 2014 season, however, BAMA Ålesund was notified by BAMA central that the expected supply of strawberries for fresh consumption would increase from 2500 tons to 5000 tons at a national level. Expecting a large surplus of supplies, BAMA Aalesund refused to contract a fixed price for the 2014 season. Valldal Grønt AS therefore decided to distribute as much of their strawberries directly to the supermarkets themselves. Harald Valle hired an assistant to carry out general administrative work including handling supplier relations. He then focused on selling products to retailers in the region. During the season Valldal Grønt had three vans distributing their products. Retailers then received their products less frequently; two or three times a week.

The market gradually expanded since retailers who were not receiving Valldal Grønt's strawberry product learned through word-of-mouth that Valldal Grønt was distributing its products directly. These retailers were missing their branded Valldal strawberries. Instead they were often selling strawberries from other regions which meant longer transportation time and therefore a lessening degree of freshness. The price was also lower than that of BAMA. In addition, while the previous fixed price during the 2013 season was 19.25 NOK per basket, Valldal Grønt was charging 26 NOK for strawberry products to its retail customers. BAMA Ålesund was therefore in a difficult situation, losing out on its strawberry orders since an increasing amount of retailers were preferring to purchase directly from Valldal Grønt AS, and at the same time struggling to find alternative supplies, since the surplus supplied by Valldal Grønt AS to BAMA was far less than demand. At the end of the season BAMA Ålesund made it clear that for the next year's 2015 season they would agree to a fixed basket price of Valldal Grønt supplied strawberry products.

What's Next for Valldal Grønt?

Harald Valle must address the fact that the assets of Valldal Grønt AS are gone. In 2014, the economic trend is slowly improving and expected to continue, but nowhere near where it was prior to the winter of 2013. The 2015 season got off to a slow start as June and July were very

⁷ <https://coop.no/om-coop/virksomheten/coop-norge-handel-as/as-rora-fabrikker/>

cold and wet months. In mid-August, the weather abruptly improved bringing dry and warmer weather. This led to a late start. The 2015 season began with small daily harvests as the weather suddenly improved. With warmer temperatures, the daily harvest volumes grew, prolonging the season. However, the delayed harvest took place at a time when the strawberry season had normally ended. Consumers didn't seem to mind, and demand was still good as supplies picked up. The case reveals how vulnerable Valldal Grønt is to the basics of weather conditions and insects at a seasonal level and volume variations at a daily level during the harvest. Even though Harald Valle has spent much time and effort building a modern, locally branded agricultural product, this has not helped Valldal Grønt AS in tackling the realities of being a producer and distributor of a vulnerable agricultural commodity. The owners of Valldal Grønt AS seem to be panicking due to fundamental economic concerns. They therefore express a desire for Valldal Grønt to be transformed into an organization that can better handle the clearly pertinent issue of managing risk associated with environmental factors. According to this view, Valldal Grønt AS should focus on production and strawberry goods delivery. Due to the limited managerial resources, Valldal Grønt AS has some very important strategic decisions to make.

Fundamental trading activities carried out in the season are regarded as less risk-prone than risks associated with environmental concerns. The case also identifies several incidents in which the business relationship with Bama is not straightforward. Pricing strawberries is not simply a matter of floating the product into the marketplace but subject to decision-making and contracting that occur in the business relationship between Valldal Grønt and Bama Ålesund. A major strategic decision emerges therefore regarding whether Valldal Grønt should reduce its managerial capabilities and focus on securing profits through a weaker trading organization. This option leaves in the open how the farmers may collectively improve their resilience in face of environmental concerns as well as the threat of increasing imports of potentially better quality and more competitive prices. Given the small size of Valldal Grønt AS, and that it is owned by farmers located in close vicinity to where Harald Valle has his office, discussions are many and relatively transparent. All the farmers are indigenous to Valldal and know each other well. Important formal strategic decisions are therefore debated and made by the general assembly of the firm and are not left to the board of directors. Harald Valle plays a key role in organizing this strategic debate and decision-making.