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## **The network staircase – marketing and sales collaboration for small food producers**

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### **ABSTRACT**

Small food producers are often advised to collaborate with other small food producers to solve marketing and sales activity jointly. The small food producers have to operate many different activities to run their company, so the idea to collaborate may help them to work more efficient. However, good ideas is not always enough and many network of small food producers struggle to succeed.

In a case study of different small food producers and producers of food specialties and local food, we studied the collaboration between the producers. We found networks, which had developed over time and seemed to function well while other networks still struggled after years with collaboration. A closer look at the different participants in the network uncovered that the different producers had different goals or opinions of what function the network should have. It became even more difficult when the activities in the network had a price label, because the producers conduct the functions themselves without calculating the costs.

The findings resulted in the development of the network staircase model. We identified five different steps of collaboration based the function/goal of the network, producer requirements and obligations. We labelled the steps as community of interest, marketing collaboration, sales collaboration, distribution collaboration and a fifth step of sales management. The farther up the stairs, the more commitment will be on the participants. When they start sales collaboration, someone have to conduct activities and need salary.

The investigations revealed that struggling networks seemed to have participants on different steps in the stair; some wanted marketing collaboration and other wanted distribution collaboration. They had never asked the fundamental question of what each of them wanted and if the network could help them solve these functions. The more successful networks had made statements of what kind of functions the network should perform.

The network staircase model may help small food producers and even other small firms to discuss and clarify what function the network can have for them. Small food producers are diverse and we cannot expect everyone to fit into a particular network, and certainly should everyone be able to choose a network appropriate to their needs. This also indicates that there may be good reasons for small food producers to stay outside seemingly suitable network in their area. The network staircase may serve as a tool for advisors to help the small food producers in their development processes. Different producers have different opinions of the purpose of the network, and they will find themselves at different steps of this staircase.

## Introduction

Collaboration and networking are recommended for small food producing companies to aid their marketing and distribution strategies. Previous studies have identified distribution as a key challenge for local food manufacturers in ensuring market access and competitiveness (Henchion & McIntyre 2005; Magnus and Kvam 2008, Grande 2011). The conventional food value chains significant market position may be a barrier for small producers of food specialties.

Small food producing companies faces much the same challenges as other SBMs. The owner alone, or together with only a few employees, have to operate all the functions in the company requiring different competencies and knowledge. It thus seems rational to collaborate to solve common functions in these companies. Norwegian food producing companies rooted in agriculture production are familiar with cooperatives, who act as the farmers extend arm to the market. By diversifying in to alternative food networks without a cooperative to handle the market, they have to manage these functions themselves. According to Kvam & Magnus (2012) small food producers are not very familiar with functions as marketing, sales and distribution. Farmers have traditionally little experience and have a great need for new knowledge (Borch & Iveland 1997). The business ideas for many small food companies builds on the interest for producing food, not selling it. George et al (2001) state that good networks can help the farm firm to be up to date on product development, new technology, market trends among others. Collaboration and networking are viewed as mechanisms to serve several of the small food producers' challenges. There are many attempts to collaborate and build networks, but there seems to be some obstacles to find good models and to be successful. The LogiMat -project have studied network and collaboration in the value chain for food specialties in Mid-Norway. This paper reports from this study and especially on why some producer networks strive to establish appropriate business model to serve their members.

In particular we address these research questions:

- a. What common functions do producer networks solve?
- b. What does such collaboration require from the producers?
- c. What is the potential of network collaboration in aiding small food producers?

## Theoretical framework

The theoretical fundament for the study rests on supply chain management (SCM), network theory and theory related to SMB and especially small food producers. The SCM theory is developed based on large companies and value chains for conventional food. Short food supply chain (SFSC) and alternative food networks are studied in special (e.g Renting et al. 2003). Alternative food chains have in common that they redistribute values between the actors in the chain compared to conventional chains; they reintroduce confidence between food producer and consumer and represent new models for political connections and market control (Whatmore et al 2003).

Different qualities of food as commodity have consequences for the supply chains (Zuurbier, 1997; Aramyan et al., 2007). Food is not a uniform commodity; food is a biological product and a diversified commodity, which requires different handling in the supply chain. The development of the food systems follow its own logic due to the characteristics of the food, especially related to food as a natural resource and cultural variations in consume (Goodman & Watts 1994). The global food system is restricted by nature and culture, which opens up for territorial adjustment and forms of the food chain (Morgan et al 2006). Place, power and provenience are nuances, which together with community development affects further development (Morgan et al. 2006).

The business idea of small food producers is to add value by giving the products qualities or attributes which the consumer perceives as distinctive or special (Stræte 2008). Selling outside the local markets require that the marketing and distribution supports these qualities or attributes (Kvam & Magnus 2012). The conventional supply chains are characterized by efficient handling of products in large-scale systems (Zijm 2000, Stadtler 2005). Products from small food producers do not fit well into these systems and underpins the need for hybrid supply chains based on both conventional supply chains and alternative food networks as Sonnino & Marsden (2006) points out.

When tracking the commodity from the producer to the market, conventional food chains are often view as a chain of actors who trade with food. If we view the product as a consumer, it consists of the core commodity supplemented with other products and services, such as packaging and supplementary products. Following the chain of all the elements of the products, there will be several tracks both horizontal and vertical, which together form a value network instead of a single chain (Haugum 2012). This may be labelled alternative food networks (AFN) (Renting et al 2003, Sonnino & Marsden 2006, Paül et al 2013). Paül et al. (2013) describes that alternative food networks transform the system for production, distribution and food consume. Understanding and knowledge of what creates value for the customer will be a key competitive factor for alternative food network (Haugum 2012). One special part of this network is, networks of producers aimed at solving common functions. This producer networks as a part of alternative food networks is the focus of this study.

Producers of food specialties are often SMBs and to a large degree rooted in agricultural production, based on ideas and the working capacity of the farmer family. The food specialty production often relay on external resources from formal and informal networks (Grande 2011, Haugum et al. 2013). Well-functioning networks can help the producers to be up to date on product development, new technology, consumer trends and market development (George et al. 2001). Networks have an important role for rural companies because they may be located far from the market and lack appropriate information sources (Stathopoulou, Psaltopoulos & Skuras 2004). Meert et al. (2005) found that social networks were important to succeed in new businesses on farms. Blundel (2002) also documents the importance of network activities for development of the companies, but warn that network can be inhibitory if the balance of power is unequal or it may be to preservative. Grande (2011) found that small farm companies used networks to discuss ideas, share information about product development and marketing, reduce costs and get access to more customers. This study also showed that spin off companies from agriculture tend to stay with their former networks and their challenges on marketing and sales were not taken well care of in this existing networks (Grande 2011). Bosona & Gebresenbet (2011) found that producers of food specialties might achieve significant benefits by coordinating distribution with others.

Earlier work has found that consolidation and fostering of social networks are important to the success and wellbeing of farm businesses (Meert et al. 2005). However, these may not be sufficient to farmers that engage in new ventures. A study by Grande (2011) suggests that building appropriate networks, strategic alliances and market orientation are of critical importance to optimize benefits from on-farm diversification.

Studies have identified distribution as a key challenge for local food producers when ensuring market access and competitiveness (Henchion & McIntyre 2005; Magnus and Kvam 2008, Grande 2011, Kvam & Magnus 2012, Haugum et al. 2013). The distribution is often inefficient and fragmented because individual manufacturers distribute goods using their own cars or trucks, and half the vehicle capacity may be untapped (Boson & Gebresenbet 2011). Furthermore, Magnus and Kvam (2008) find that many people prefer to distribute the goods themselves. There appears to be a lack of good intermediaries such as transporters and wholesalers who can provide support to producers of alternative food products. Ilbery and Maye (2005) also point this out in an earlier study. Thus the challenge of distribution seem to persist and difficult to solve.

Lack of experience and complexity of the food market may make it difficult for small food producers to succeed in these markets (Grande et al 2013). By concentrating on local markets and keep a low profile in marketing, however, some local food producers managed to develop and compete at a pace that fits their capacity and abilities (Grande 2010). The overall food system including the distribution system is based on large volumes to achieve efficient sales.

The distribution challenges are related to small volumes, which doesn't fit very well into large-scale distribution systems. When the products do not fit the large distributions system, the distribution is further complicated by the fact that some products need freezing, others cooling and some products have limited shelf life. They have also problems to get access to the shelves in the commodity stores, which results in search for other markets, with less organized distributions than the conventional food chain. The food specialty producer is the key decision maker for the food specialty ability to reach a market that appreciates its attributes. Collaboration between producers may solve some of the challenges producers of food specialties face.

## **Methodology**

This study is part of the LogiMat-project, which has the overall aim to "To develop and demonstrate knowledge, methodologies and solutions, and to build a competence network on logistics for food specialties". Mid Norway is perceived to have a large potential for rural commercial development, value creation and business opportunities for farmers related to food specialties, and we chose to study firms in this area. This area also holds many interesting farms and companies that appear as interesting study objects.

The overall LogiMat project included seven main case studies, identified by one small food producer and possibly their business partners. A qualitative case study approach was used to explore the market strategies for the producers of food specialties, decision-processes related to these strategies combined with producers' networks and collaboration. One of the cases were an organized network, two cases were member of two different loosely organized networks, a fourth case was about to decide whether to take part or not to take part in the establishment of a new network. The fifth case is not a food producer but a project, which aim to establish a web page for selling products to hotels and restaurants. The five identified networks from the main study (Case A-E) was supplemented with two other networks (Case F and G), one perceived as successful and another as a network that is struggling.

The cases from the main study followed a study covering food company strategies, their resources, network and capabilities, which were explored through seminars, company visits and interviews. Actors throughout the value chains were also interviewed, that is local food firms, food distributors, hotels, restaurants and retailers. The method enables us to explore the challenges for producers of food specialties and get in-depth insight in their assessments and decisions. The producers are the decision makers for the food destiny in the market and the cases are built around the producers. For Case F, the apparently successful network, we interview the manager of the network and studied documents and their presentation on internet. For case G, we took part in a board meeting in the network and interview the manager, and used their presentation on internet.

Data were gathered in spring 2013. A semi-structured guide was used for the interviews in case A-E. For each interview 2-3 researchers representing different perspectives in order to ask and interpret related to the different fields; logistics, producer strategies and networks. The interviews were recorded and notes were taken during the interview. A summary was written afterwards and checked with the case representatives. Data from case F and G were gather in the same time period, notes from the interviews were written and documents collected and analyzed.

## Results

In this section, we present results from the investigation of producers of food specialty and from the networks. First, we give a short presentation of each case.

### Case A

This network consist of about 20 food producers located in a defined area with a brand related to the area. They have both competing and complementary products. The network sells and distribute products for the producers. The markets are mostly outside their area.

### Case B

This network have been organized since 2006 and have 12 members and four associated members. The network have a brand and the producers are located in the same area. The network have been through different phases to find their way to function.

### Case C

This network is about to start when we conducted the interviews and the producer in the case was invited to take part in the network. The aim of this network was to sell and distribute the products to the grocery stores. In the planning of this network, there were a focus on how to be able to sell enough products to cover the costs of the seller.

### Case D

One of our case companies was member of this network, which mainly promoted the area and the five companies. They had a web page and produced some marketing material. The company put little effort in this network.

### Case E

This is the project trying to develop a web solution to sell products for the members. During the interview period, they tested a pilot model, selling products to hotels and restaurants. The business model for this web page was still unclear.

### Case F

To get more examples we included this case which is thought to be successful. They have over 30 members selling different products. The network sells and distribute the products of behalf of the producers. Even they have been operative for some year it is still clear if they have a sustainable business model.

### Case G

This case is included because they seem to struggle. It has been operative for some year and developed the network through different project financed efforts. They have a brand and members from a defined area.

### Small food producers and their marketing strategies

Producers of food specialties are a very diverse group. Many of the companies are spin off from agricultural production and based on a strategy of value adding, but there are some companies decoupled from agriculture. There are big differences in the preconditions to produce food specialties and to run the business. Many of the producers have a genuine interest in production and are very proud of their products. The volume of the productions vary, some production is limited of biological production in the short run, others limited of the working capacity of the owner, other by the market or the technical capacity of the production. We found productions dependent on seasons and others decoupled from seasonal productions.

Every producer of food specialty has a market strategy, but it differs from grasping the day's opportunities to detailed formalized plans. Some have very clear targets, which they work towards, others lack consciousness marketing strategies. Illustrated by:

*"We started with written plans, but after a while it has slipped away."*

*"The plan is in our heads and it becomes gradually as times go."*

It is not clear what is the result of clear plans or coincident and many producers can be characterized by grasping the opportunities showing up. Additionally they seem to lack knowledge about market opportunities and the different market requirement.

The small food producers sell their food products at local, regional, national and even international markets. This requires different need for logistics and distribution and it is solved in different ways. Some work hard to find good logistics solutions and others look for collaborative solutions. Operating in the national and the international markets demand a more professional marketing strategy. Local markets such as farmers market, farm shops, local shops and restaurants are often view as easy ways to sell the products. Many producers want to sell in the grocery stores, and we find some local solutions where the producer serves the grocery store directly instead of being a part of the product range of the grocery chain. There are also producers who sell to different markets to try to maximize profit. We found that the producers have different insight in the requirement from the customers and of the different markets.

Hotels and restaurants are view as good customers and partners. The chefs “understand” and appreciate good quality, and due to this, the producers perceive it is easier to get a high price. The producers experience that the hotels and restaurants accept different volumes, product varieties and seasonal variations. These customers also give the producers useful feedback, which for some producers stimulate product development. It is easy to distribute directly to the hotels and restaurants nearby and the producers use the delivery to nurture the customer relationship.

Many producers prefer to do many of the functions related to marketing, sales and distribution themselves. Some producers prefer to distribute the products themselves and argue that it is flexible and they have control with the distribution. We found that the producers were little aware of the costs related to their own distribution. This is costs related to both transport with own car or special car and their own working hours. Especially, the working hours are regarded as free.

### **The need for collaboration**

Some of the producers who were members of a network and the producer, who was invited to take part in a network, were not very eager to take part in the network. They were satisfied with their current distribution, even they knew that it was costly to travel to the customers with quiet small volumes of products. They appreciated to meet the customers especially the chefs. It seem that the network needed the member more than the members needed the network. On the other hand, producers who participated in quiet well-functioning networks were more aware of the advantage with the network, but some of them conducted selling and distribution themselves in addition to the network.

Many of the members in the network wanted the network to distribute their products. One producer wanted to network to find the customers and sell the products so he could concentrate on producing. It became clear that the members of the networks is very different, both products and their strategies. Some of them like to produce when it suits them or they have limits due to seasonal products or other capacity obstacles. Other producers have capacity to produce but need to find the right market, which is willing to pay.

### **Network of producers**

In the study of the networks and collaborating firms we find both successful networks and networks who are struggling to find a good model for collaboration. Some of the networks have struggled for many years to figure out how to develop a sustainable collaboration. Producers network seem to be a good solution for some, but seems however to be difficult to organize and develop in other places. Such networks need devoted members and put high demands on development of strategy and goal.

Many producers of food specialties are encouraged to collaborate to solve apparently common functions. In the area of Mid-Norway we find different networks of producers, and some seem to function well, while others struggle. The board of the network, just like an interest organization, runs some networks. One of the restrictions is the fact that all of the producers have their own company to run beside the network. Some of the producers may even run the food specialty company together with agricultural production or another job. Then it is less energy and awareness left for the network. We also find networks that have been through different development projects to make a business strategy for the network. Some of these networks are running business companies (Case A and E) with employees to solve common functions for the producers of food specialties. It does not exist a common business model for the network companies. Each network search for a good model tailored to their needs.

We find that the different networks cover different functions. This may explain why some succeed and others struggle. We found that the members often had different needs and expectations to the collaboration. Sometimes this needs and expectations were discussed as a part of the networking. In other networks the focus was only on the network as a unit.

When the network changes from an interest organization to a business organization, which solves functions for the member, the network needs income to cover wages for the people who perform common functions for the members. These represent the price of the common functions. This price may be difficult to set because of the variety of products and volumes, and it may be hard to accept for the producers because they are not familiar with the real costs of such functions, as long as they use their own time carrying out the functions.

## **Discussion**

The producers' challenges are related to awareness and knowledge about marketing, sales and distribution. In traditional farming in Norway, such functions are taken care of by large cooperatives and the farmers can concentrate on production. When such companies diversify into food specialty, they meet other requirements regarding selling the products. Without basic knowledge, it is difficult to create strategic plans and to be a professional company in the market. This is also complicated by the fact that large companies dominate parts of the food market and it can be hard for the small companies to get access to the overall food system. When the food producers enter different market they have a minimum of knowledge about the market, but will gain more experience as they interact with different markets. This indicates that newcomers have less knowledge, but will gain insight, so they have knowledge to act more professional by time.

Many of the producers of food specialties are small companies with only a few persons to cover different competences and functions in the company. Network with external actors may help the producers to expand their competence base. This is also one of the arguments to advice producers to collaborate and build producer networks. There are also differences between the producers planning and decision processes. Some tend to work systematically to gather information, plan and make decisions, when other act reactive on opportunities.

## **Model development - "the network staircase"**

The study of food producer networks revealed different forms of collaboration in the network. Networks solving different functions for their members can be categorized in the network staircase, a model developed to clarify what functions to collaborate about and what this require from the members. These forms of collaboration can be illustrated like steps in a staircase of collaboration in networks, figure 1.



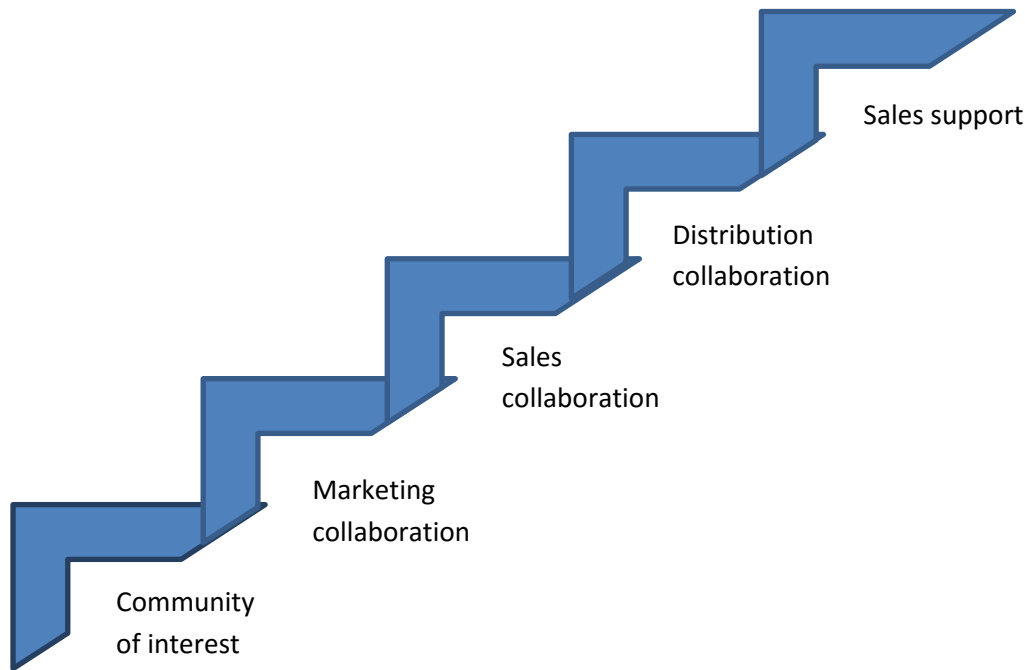


Figure 1: Network staircase

The steps in the staircase illustrates that different functions are solved jointly at each step and the producers face different requirements at each step. To move from one-step to another require more obligations from the producers. A further description of each step may illustrate this.

#### Community of interest

The first step require little commitment for the producers to take part. The main purpose of the collaboration is to share knowledge and experiences, just as identified by Grande (2011). The more mature companies in the network may feel that they only share their experiences without getting other experiences back. This may be a threat for the network as well as the culture for sharing experiences. Blundel (2002) pointed at a possible obstacle if the power balance between the members were unbalanced. The perception of competition may also restrict the willingness to share. Some view the neighbor producer as main competitor and are not willing to share knowledge and experiences.

There is free entry and exit in the community of interest and if no one wants to share anything the foundation for collaboration disappear. The network is not dependent on a special actor; it is the community, which represent the value of the network.

#### Marketing collaboration

One step up the staircase is the marketing collaboration. At this step the entry may be more controlled and the exit may have impact on the collaboration. At this step we find networks which have built identity and brand. The brands are mostly related to places or geographical areas. This can also be supported by a range of food specialties rooted in local production, culture and traditions. Such networks will have to decide what area they want to represent. A large area will include more producers, but it may be harder to build a common identity among the members.

In the marketing collaboration, the participants contribute with their working hours and a small amount of money to develop and produce common marketing materials. External funding can support development of common identity and brand, together with some marketing activities. The entry may be restricted by rules of membership. If the brand expresses a geographical restriction, others can be excluded. A certain quality level or rules for membership are also used to exclude members. The members of the network may want to exclude producers whom they do not want to be identified with, or whom they think can harm the identity and brand. We also find requirements for using the common brand.

Moving from the community of interest step to the marketing step enlarge the requirements to the producers. The members are anticipated to take part in common marketing activities, deliver input to marketing material and pay their share of the common costs of marketing. The place and the area for the identity and the brand may cause some discussions of what is a suitable area.

#### Sales collaboration

At the step for sales collaboration the collaborations becomes more formalized. Sales collaboration implies that somebody have to take care of the sale on behalf of the companies. The sales job generates costs and the sales collaboration needs income to cover these costs. To sell the food specialties require that the producers have product lists with prices and predictable deliveries. To be effective the sales collaboration needs an ordering system. Internet sale is an example of a sales collaboration, where a common webpage shows products and prices together with an online ordering. The sales collaboration doesn't solve the distribution challenge.

Sales collaboration without internet sale is more effective if the producers have the same customers. This may restrict the sales of products, which are complementary, and the producers might be dissatisfied. It may be difficult for the producers to accept the price of the sales function. When they sold the products themselves, they just did the job without recording how much time they used, and what price their working hours had. The sales collaboration tends to give a more systematic sales process and customer support. The collaboration is an opportunity to behave more professional.

#### Distribution collaboration

One step further up is the distribution collaboration. At this step more functions are taken care of by the network. In addition to the sales functions, the network has to handle the products, inbound and outbound transport, cross docking, labelling and tracking – every function at right time. The network performs more functions on behalf of the producers and the producers have to pay the price. Timing is important for the distribution and this require prompt deliveries from the producers.

An effective distribution system requires volumes which fit the transport solution. This may be hard to find. A good basis is many producers in the surrounding area and many common customers. In addition to the sales costs there will be distribution costs which the producers have to pay. Case A and E have the most developed business models for distribution collaboration. One example is commission sale another example is when the network buys the exact volume and sells on. Good business models for distribution collaboration have to be further investigated.

#### Sales support

This fifth step is sales support, which imply following up in the grocery stores. Many producers selling through grocery stores experience a need to take care of functions as; is there enough products, are they visible or have someone hid them, do the product and their packaging look nice and are the oldest products in front. One of the cases have thought about including sales support in the grocery stores. There seemed to exists a perception that sales support was costly and it was difficult to sell this service to the producers.

### What step to choose?

Each step in the staircase covers different functions for the producers and puts different demands on them. The producers have different expectations, needs and opinions about what functions the network should solve. The producers in a defined area will have different needs and can be scattered over the staircase. This situation makes it difficult to make an agreement of what kind of collaboration is desired for the network in the area. This actualize that the chosen network does not fit every producer in the area, and accordingly, it is not an objective to be a network for every producer.

This challenge is further complicated by a lack of marketing strategies in many companies, which implies that they do not have a clear opinion of their needs. Collaboration can then be formed on the premises of the companies that have formalized strategies, and the other will grasp the opportunity to take part. This may not be a good solution in the end.

Well-functioning networks have made strategic choices of where in the staircase they should be. We found network with a clear strategy to be a marketing collaboration, others to be a sales collaboration and some to be distribution collaboration. All the steps have their own business models and the business models becomes more demanding when moving up the stairs. Especially at the sales, distribution and sales support steps there have to be developed models for income to cover the costs of solving common functions for the producers of food specialties. There is still unclear whether they are economic sustainable. Engagement in such networks makes the firms distribution cost more visible. The producer may not be fully aware of costs attached to own distribution since they often do not pay them directly.

It is tempting to think that it is an objective to reach the top of the staircase and that it has to be a struggle to reach next step. This depends on the producer's needs. It is important to clarify the producers' needs and the networks opportunity to solve the need. If the producers' needs are very different, collaboration in network may not be the answer.

Both the producers' expectations and the objectives for the network need to be discussed in search for a suitable network model. Professional producers with clear objectives, plans and strategies will help the clarification process in the network.

### Conclusions and implications

In this study, we find both successful networks and networks who are struggling in developing efficient collaborative models. Producers network seem to be a good solution for some, but seem to be difficult to organize and develop for others. We find that such networks need devoted members and put high demands agreeing about strategies and goals. In addition, they strive to build economic sustainable solutions. Some of the networks have struggled in many years to figure out how to develop a sustainable collaboration.

We find that the different networks may cover different functions and members may have different goals and needs regarding their participation in the network. This may explain why some succeed and others struggle. In this study, we have developed a collaboration staircase, a model that helps to clarify what functions to collaborate about and what this then requires from the members.

The Network staircase model shows that moving one-step up requires much more from the members than the previous step. The challenge is that the members (and their advisors) often are unaware of these requirements. The staircase model may help to sort and understand these requirements. The staircase also illustrates different types of network may solve different functions for the producers. Prior to the discussion of

collaboration and network, the producers of food specialties need to professionalize and increase awareness of the functions a network should solve.

Knowledge developed in this study aims to help advisors and small food producing companies analyze and realize what functions to collaborate about and the associated requirement. Without clarifying these essential questions entrepreneurial food entrepreneurs will struggle to find a sustainable and efficient network models. It is still a question what is needed to be an economic sustainable business model for the sales, distribution and sales support stages in the network staircase.

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