

FARMERS UNITE

Belgium, pseudonym

A group of farmers joined forces to boost their sales and distribution channels for their fresh produce. Assisted by a specialized innovation support centre, the group went on to sell to a major supermarket chain and set up a two-person company to manage the logistics

Executive Summary

An SME that produces dairy products joined a cooperative (in this case called 'Farmers Unite') and formed a collaboration with four other farmers (dairy and livestock farmers as well as flower and vegetable growers). The aim of the collaboration was to innovate their business model.

They joined up to distribute their products to each other's shops by jointly investing in a distribution body to upgrade their point-of-sales network and logistics efficiency. They set up the business from scratch, found partners and steadily grew to a group of 11 farmers, covering a whole province in Flanders and distributing to several retail stores of the Delhaize supermarket chain. Distribution is organized through a 'pick, drive, deliver' system. It was founded by the consortium as a separate legal entity and currently has two employees.



CASE N° : SD43

SECTOR: AGRICULTURE

TECH INTENSITY: LOW-MEDIUM TECH

LIFE CYCLE STAGE: RENEWAL

INNOVATION VECTORS: PROCESS, SERVICE, ORGANISATIONAL, DISTRIBUTION CHANNELS

01 PARTNERS: OTHER SMEs, INNOVATION SUPPORT CENTRE FOR AGRICULTURE

KEYWORDS: Farmers, agriculture, collective, distribution, short supply chain

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BACKGROUND

The SME in this case study produces dairy products and the farm is run by a husband-and-wife team. They already have years of experience in processing goat milk into dairy products and selling them at local markets, neighbouring farms, local retailers and at their own farm.

The project idea was presented to the farmers by the Innovation Support Centre for Agriculture, which also helped with project management. The group has steadily grown to 11 farmers. All of them have complementary products to offer and most of them have a shop of their own. The collective has helped to increase the number of drop-off points and extended the relationship with one of Belgium's largest retailers – Delhaize. The farmers invested time and money in the implementation process. The project has had a profound impact on the profitability of the farming business of the consortium members.

INNOVATION CHALLENGE & MARKET OPPORTUNITIES

The strategic challenge lay in offering a wide variety of local and fresh farm products at a single location and at a competitive price, bearing in mind the pressure on margins. They saw the opportunity from customer feedback which wanted to have more local products available from regional farmers at their sales point. The farmers wanted to spread their points of sale but could not find a solution, as individually managed distribution proved to be very time-consuming and was not scalable. To achieve it at a competitive price level was also a challenge.

Product sales derived from a short(er) supply chain (with a USP of fresh local produce, produced in a transparent way) are strong customer trends. Consumers like to have a connection with the farmer who produced their food. Farm shops are doing good business and are growing. Even in traditional retail, the shelf space allocated to local products has extended over the past 5 years. In view of this trend the opportunity for the SMEs was to scale up their offering.

OPEN INNOVATION TRAJECTORY

Concept development

The farmers wished to develop the concept of a joint business model to:

- Expand their point-of-sales network and increase the availability of their offerings;
- Expand the product portfolio at each point-of-sales;
- Upgrade their logistics efficiency by developing a 'pick, drive and deliver' logistics concept*.

*Inspiration for the logistics concept came from a well-performing system in the Netherlands. A distributor picks up goods from farmer N° 1 and drives to farmer N° 2. He drops off the farmer N° 1's products, requested by farmer N° 2 to sell in his shop and picks up the goods from farmer N° 2. This cycle continues twice a week so that every farmer can sell products from his neighbouring colleagues. In addition to the shops of the farmers involved, they also wanted to extend their drop-off points to traditional retailers and independent shop owners.

The key success factors for the new joint business model were defined as (1) ability to lock in the commitment of the contributing partners; (2) to be able to grow the network of suppliers; (3) set a framework for expansion with new partners.

The key investments and development features included:

- A joint investment in a refrigerated van;
- An ICT system to enable planning and coordination of the new 'pick, drive and deliver' concept.

The development process, IPR and competition strategy

The farmers received inspiration and support from the Innovation Support Centre for Agriculture (Innovatiesteunpunt) for the development process. They submitted an application to an EU-funded programme to develop their concept and establish a collective. In this way, it was possible to invest more time in the development and professionalization of the company.

All business model development activities were performed jointly by all the partners as follows:

Step 1: Buy a software license

The group of farmers visited the best practice example in the Netherlands and decided to buy their custom-built software package to process deliveries and manage administration and billing.

Step 2: Adapt/customize and optimize the software platform to their specific needs

They tweaked the platform to their own needs and experimented with it in a pilot project.

Step 3: Recruit retailers and set up new marketing activities

As soon as they found out that the system was working well, they established contacts with retailers to pitch their concept. They also went to fairs to promote their offering. The innovation consultant assisted them in marketing and negotiations with the retailers, avoiding harsh contractual agreements and product recalls and margins.

Step 4: Develop and set-up the distribution network and its management processes for the new business model

The farmers invested in the purchase of a refrigerated van and searched for an entrepreneur to manage the business. This tendering procedure was coordinated by the consultant.

Until today, the consultant is still coaching the group and still attends several of their general meetings. His proximity to and involvement in this collaboration is considered as an essential added value to the success of this case. (He had gained in-depth experience in a previous job as a director at a multinational retailer.)

The software package that was used was licensed from the Dutch organization on which their model is based. Apart from that, only the brand name is protected.

The competitiveness of their offerings was based on the cost efficiency that was achieved with the collective and shared distribution network.

Commercialization and follow-up

As the number of drop-off points increased, one of the founding farmers could no longer process the administration by himself so they decided to set up a separate company to manage the distribution and invoicing.

Farmers who wish to join the collective have to meet a few criteria. One of them is having a complementary offering. In this way, no direct competition is introduced into the collective.

Several challenges arose with scaling up:

- **New members joining:** When the consortium came up to speed, new members wanted to join. However, the founders had already invested in the software license and other business risks. Additional rules had to be written for potential new members. These new members were also forbidden to bring a 'competing product portfolio' into the collaboration.
- **Access to international brand retail stores:** After one year of sales, the consortium was approached by two large retail brands to deliver products to their stores. This potential network offered promising and tempting sales volumes, but the retailers offered harsh contract conditions (in terms of margins, year-round minimum production volumes and mandatory returns of deteriorated products). The consultant assisted in these negotiations that led to less risky investments by the cooperative. Eventually, they set up a partnership with one retailer.
- **Equality of votes:** As some members become more successful in sales (in other channels, apart from this collaboration), they tend to leverage this position when decisions have to be taken. The consortium now struggles with this new positioning and some of the requests that they make (e.g. to invest in an additional refrigerated van to transport the most popular members' products). This discussion might lead in the end to a member leaving the cooperative.

The collective will become stronger if more farmers join and if their drop-off points and drop-off volumes increase. This is the active strategy that they are pursuing. Meanwhile, the innovation consultant, who was heavily involved in setting up the collective and managing a few early stage crises, is gradually withdrawing in favour of increasing the self-reliance of the group.

The individual members did not have to invest in new organizational forms, although their shops became more popular and sometimes they needed additional assistance in the shop, rather than in the field or in the glass-house. Most often this was covered by their current staff.

A new joint distribution entity was set up by the farmers; it is seen as an independent company, able to make investment, marketing or logistics decisions on its own. It is currently run by two associates.

Marketing is done in the farmers' shops and sometimes at farmers' markets or trade fairs (once or twice a year). Journalists sometimes write about their model in newspapers or journals, leading to

additional marketing exposure. Exclusive contracts with retailers, e.g. Delhaize, mean that the farmers' product portfolio may only be sold in their stores (and not at other traditional retail chains).

The software system is under continuous improvement to optimize the needs of the farmers. Additional members have since joined the collective, bringing the total to 11 participating farms. New business opportunities are actively sought in the form of new drop-off points and package deals.

BUSINESS IMPACT

Negotiations & marketing know-how

The farmers gained knowledge about the world of professional retail organizations and negotiations with them. This led to a huge growth curve for all of the farmers.

Soft cooperation skills

The group learned to build trust among themselves and found a common purpose to grow their business while relying on each other.

Distribution chain design & management

Together with the innovation consultant they learned the do's and don'ts of setting up their own kind of distribution chain. This new-found expertise has already been used to set up two more successful distribution chains in other regions in Flanders.

Negotiations with retailers received special attention. If the farmers had not obtained support from the consultant they would have received very stringent conditions for the return of products and considerably lower margins. They also learned about quality management and control when working together and relying on each other in moments of crisis (e.g. when the goods delivered do not conform with the expected quality, or when the orders do not match with the delivery, etc.).

This open innovation collaboration led to the creation of two full-time jobs at the distribution company. The farmers' sales turnover in the shops increased considerably (from between +10% to +300%) and even saved one farmer from bankruptcy. Over 20 drop-off points are currently served.

LESSONS LEARNED

This is a case of collaboration on business model and service innovation, which was possible only in the form of open innovation. No single farmer could do it individually. The open innovation was triggered by international benchmarking (the group of farmer-entrepreneurs received a lot of information from a best practice example in a neighbouring country). They were also supported by a mature innovation consultant. EU funding and an independent innovation support organization were important for getting the collaboration off the ground. It also helped the group to become self-sustainable afterwards.

Main lessons learned:

1. Setting up a partnership that aims to address a common acute need is a basis for a win-win partnership. This drives a higher commitment and mobilizes the actors around the shared objective.
2. Benchmarking and finding good practices can shorten the learning curve of a joint collaboration. Do's & don'ts can be shared, especially if the best practice is not a direct competitor.
3. Help from third parties can accelerate the new venture (an innovation support centre to structure the start-up and connect it with funding opportunities).