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Strategic Alliances Through the Supply Chain

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Overview

- **Study context**
- **What are strategic alliances?**
- **Nature and extent in Canada's horticulture sector**
- **Examples of strategic alliances involving producers**
- **Drivers and key success factors**
- **Impact of strategic alliances on competitiveness**
- **Conclusion**

Context

- **Work done for Horticulture Value Chain Roundtable.**
- **Objective to examine nature and extent of strategic alliances in horticulture sector and to determine if strategic alliances can enhance competitiveness of all components of Canada's horticulture sector**
- **Collaborative project with John Groenewegen, JRG Consulting Group.**

What is a Strategic Alliances?

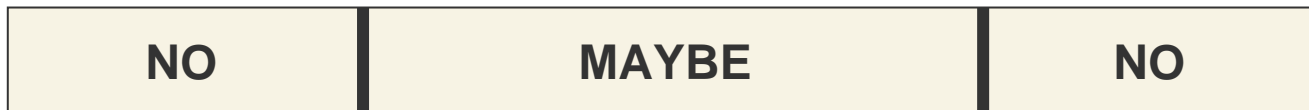
A strategic alliance is;

- A voluntary relationship;
- Based on mutual need between independent organizations in order to achieve jointly determined and individual objectives;
- Where decisions are made jointly because the alliance framework can not anticipate or deal with all situations;
- Where resources, information, profits, knowledge, risk and benefits may be shared.

Potential Strategic Alliances



**Strategic
Alliance?**



Independence

Mutual Need

**The relationship is a
strategic alliance if it
has all of these
characteristics:**

Joint Decision
Making

Sharing

Mutual ID of Strategic
Objectives

Strategic Alliances in Horticulture

Identified 38 examples of strategic alliances

- More examples likely exist

Some relationships were preferred suppliers; not strategic alliances

The majority were commercial, versus not-for-profit

Examples through out the supply chain

Position in the supply chain

- 69% were vertical,
- 25% were horizontal,
- 6% were both

Majority (81%) were agreement or contract based, followed by 19% as joint ventures

Strategic Alliances in Horticulture

Participants

- 64% growers
- 58% wholesalers/distributors
- 31% retail/food service
- 28% packers
- 19% processor
- 19% shipper marketers

Dispute settlement

- 91% direct contact
- 6% direct contact & then 3rd party

Duration

- 11 years on average

Exclusivity

- 50% non exclusive
- 36% exclusive

Strategic Alliance Example 1 - Vegetable Grower/Packer & Processor

General	Vertical, 10 years in duration, exclusive, direct contact to settle disputes, is successful
Drivers	Gain economies of scale; focus on core competencies; increase profits
Details	Packer/grower does extensive pre-prepping before shipping to processor's freezing tunnel
Impact	Processor reduces labour costs & increases efficiency of tunnel Grower/packer can offer complete traceability and quality assurance
Competitiveness	Grower is competitive with imports from China

Example 2 – Greenhouse Vegetable Shipper & Grower Cooperative

General	Vertical, 15 years duration, exclusive, third party dispute settlement, successful
Drivers	Stabilize demand & supply; defend current market position; match competitor action, increase market share;
Details	<p>Each grower packs product</p> <p>Growers have quality assurance program</p> <p>Shipper consolidates product & is marketer for cooperative in Canada & US</p> <p>SA also makes bulk purchases of some inputs</p>
Impact	<p>Gain economies of scale in purchasing</p> <p>Shippers gets critical mass to be able to supply large retailers</p> <p>Growers gain access to market and improved quality</p>
Competitiveness	Higher quality, market access, cheaper inputs

Example 3 –Field Vegetable Growers

General	Horizontal; duration of decades; not for profit; direct contact and then third party dispute settlement; successful
Drivers	Gain more favorable balance of power between growers and buyers Gain economies of scale and market access Focus on core competency – vegetable production
Details	Handles marketing of regulated vegetables and other vegetables (voluntary) Moving into category management (increasing mutual need)
Impact	More bargaining power Growers gain access to market
Competitiveness	Increased market access and value capture by growers

Example 4 – Growers, Processor & Government

General	Vertical; successful
Drivers	<p>Processor wanted to expand capacity for processing tomatoes</p> <p>Growers wanted additional sales</p>
Details	<p>SA between Processor and Ontario Processing Vegetable Growers & Ontario government</p> <p>Gov't provided capital funds to Processor; growers contribute a portion of payment towards capital investment cost (on tonnage above base)</p> <p>Growers contract with Processor at price negotiated by marketing board</p>
Impact	<p>Growers gain additional sales; Processor gained capital to increase capacity & efficiency</p> <p>Government helps grower cash flow & employment</p>
Competitiveness	Access to capital; greater efficiency

Drivers of Strategic Alliances

	All	Horizontal	Vertical
#1 Driver	Gain access to market	Gain access to market	Gain access to market
#1 Top Of Mind	Increase profits	Gain economies of scale	Increase profits
#2 Top of Mind	Gain access to market	Increase profits	Gain access to market
#3 Top of Mind	Gain economies of scale	Greater demand for food safety	Increase customer satisfaction, & greater demand for food safety
#4 Top of Mind	Greater demand for food safety	Gain access to market, & improve quality	Increase market share, & greater demand for quality
#5 Top of Mind	Improve customer satisfaction	Gain knowledge & information, and reduce costs	Defend current market position & globalization

Critical Success Factors

	All	Horizontal	Vertical
#1 Driver	Trust	Trust	Trust
#1 Top Of Mind	Trust	Trust	Trust
#2 Top of Mind	Ability to meet performance objectives	Effective communication & compatible goals	Ability to meet performance objectives
#3 Top of Mind	Compatible goals	Cultural compatibility	Clear goals
#4 Top of Mind	Effective communication		
#5 Top of Mind	Sharing of critical information & cultural compatibility		

Key Issues & Trends in Horticulture Sector

Issues:

- **Market requires 12 month continuous supply but production is seasonal**
- **Consolidation of buying and the need to supply buyers with critical mass**
- **The structure of the supply chain and the need to address negotiating power imbalances**

Trends:

- **Globalization**
- **Consolidation at each level**
- **Food safety programs at each level of chain**
- **Operating with traceability & recall programs**
- **Increase in product offerings & differentiation**
- **Competition between supply chains**

Strategic Alliance Formation

Mutual need:

- Many sellers and few buyers does not create mutual need – no strategic alliance
- Need for product differentiation, and importance of inputs and their supply can create mutual need

Horizontal strategic alliances:

- Mutual need between when many suppliers: negotiation, information, common approach to market
- Compulsory marketing boards are not strategic alliances

Constraints to formation:

- Market structure & absence of mutual need
- Different objectives
- Trust -Particularly an issue at grower level
- Regulations

Do Strategic Alliances Enhance the Competitiveness of Horticulture Sector?

96% believed the strategic alliance improved their competitiveness
4% believed their competitiveness may have improved

Specific Comments:

- Alliances improved quality, access to market, & prices received by growers
- Alliance allows company to focus on its core competencies & key products
- The alliance provides the benefit of central desk selling
- Traceability & quality makes product competitive with product from China
- Alliance enables company to offer a high quality product with demanding food safety and traceability attributes
- Alliance allows company access to a predictable supply for 52 weeks
- Alliance creates the ability to control the supply chain on key market and attribute requirements

Strategic Alliances Do Enhance Competitiveness

Horizontal:

- Gain access to market and economies of scale; increase profitability

Vertical:

- Gain access to markets; increase market share; increase profitability; increase customer satisfaction; focus on core competency

Horizontal Grower Strategic Alliance:

- Gain economies of scale and access to markets; address balance of power issues;

Vertical Grower Strategic Alliance:

- Allows grower to focus on core competency; increase sales; price stability; improvements in quality; defend market position

Horizontal Packer/Shipper Strategic Alliance:

- Gain economies of scale and access to markets;

Strategic Alliances Do Enhance Competitiveness

Vertical Packer/Shipper Strategic Alliance:

- Ensure product supply; ensure consistent supply

Vertical Processor Strategic Alliance:

- With growers to obtain secure supply
- Leverage supply into strategic alliance with retailer
- Access to capital
- Improved efficiency

Horizontal Wholesaler/Distributor Strategic Alliance:

- Increases bargaining power

Vertical Wholesaler/Distributor:

- Vertical with suppliers can make it able to provide more differentiated products to retailers

Vertical Retailer Strategic Alliance:

- Vertical with suppliers can provide secure source of supply with specific attributes

Most Important Factors for Formation & Success of Strategic Alliances

Mutual Need

Trust

Thank You