The role of the business logic for growing value chains of organic food – first results of an international case study analysis

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*Abstract –*[[1]](#footnote-1)Values-based food chains link primary production with the end-consumer ensuring the maintenance of particular values related to the product or production processes. The paper presents the analyses of business strategies and management instruments of 20 case studies in Europe and Turkey. Analyses show that all studied cases have a consistent internal organisation as well as cooperation and communication in the specific value chain. The concept of business logic analysis helps to identify success factors related to business and chain management for growing values-based food processing and marketing.

Introduction

Values-based food chains link farmers, processors, wholesale and retail traders so that the end-consumer receives a product with additional quality attributes such as regionality, fair trade, high animal welfare or nature conservation standards. The transmission of such additional values which are beyond general food standards requires chain specific objectives and well-targeted management strategies (Schaltegger et. al 2002).

 The business logic provides the ‘guideline’ matching management of chain partners with core objectives. Our understanding of business logic is founded on the idea that businesses and initiatives have an overarching business logic when business goals, business strategies and management instruments are internally consistent. Based on this, we have two hypotheses:

* When objectives and strategies follow a business logic, the businesses and food initiatives can maintain the additional values of food products or production processes they are based on and wish to communicate to end-consumers - organic, regional, natural or traditionally manufactured.
* The identification and analysis of business logic helps to improve the management of value-based food businesses/initiatives and highlights enabling and hampering external conditions e.g. policy or economic framework.

If we want to learn more about the management adjustments needed in periods of growth or crisis, we need to scrutinize business strategies, the use of particular management instruments and look into their consistency. Following this thought, we can identify gaps or inefficiencies in respect to the management of the business or initiative. Aiming to improve the efficient organisation of the businesses and food initiatives and the enhancement of future-oriented development processes, the analysis will help to improve strategic planning and organisational processes of individual businesses, initiatives and value added food chains. The case study analysis aims to firstly identify strategies and instruments used to realise growth and other goals, secondly explore coherence of goals, strategies and instruments – defined as business logic - and based on this, identify gaps in effectiveness, economic performance and efficiency in the expanding chain.

Methods

The theoretical framework is tested on 20 case studies. The case studies represent a variety of organic food businesses, initiatives, and chains. Primary producers, producer groups, processors, wholesalers, retailers, integrated chain and regional concepts were selected. In terms of legal forms, the cases range from family businesses to producer and/or consumer cooperatives or associations. Key selection criteria was firstly to be considered mid-scale in their respective countries, and secondly to have experienced a period of substantial growth (in terms of volumes, turnover, etc.). The cases differ in the degree of professionalization of the management. Overall, they provide a rich picture of mid-scale organic value chains.

 They are part of the Core Organic II project ‘HealthyGrowth – From Niche to Volume with Integrity and Trust’. National project teams in 10 countries conducted semi-structured interviews with representatives of the cases, using a common interview guideline. Their case study reports are based on the interviews and secondary data such as such as business documents, Webpages, newspaper articles ([www.healthygrowth.eu](http://www.healthygrowth.eu)).

strategies, instruments and business logic

*Business strategies and management instruments*

On their trajectories, all businesses, initiatives or value chains are driven by strategic planning. The strategies are not necessarily written but only present in the common understanding of the management team; other strategies are communicated explicitly e.g. the sustainability strategy on the Homepage or the growth strategy in the business plan for the local bank. Business strategies taking internal and external business environments into account are central for a well-prepared expansion (Fueglistaller 2008). Moreover, a differentiation strategy is crucial for most businesses/initiatives offering alternative food. They aim at gaining customers with value-adding features such as organic, ‘free from…’ or regional.

 Each strategy starts with the definition of long-term goals, and defines particular courses of action as well as the allocation of resources necessary for carrying out these actions. Businesses might use a combination of different strategies to achieve their goals. The formulation of the strategy involves analysing the product, customer, values, location, competitors, available skills and resources, opportunities and risks, potential to grow etc. and therefore is directly linked to the use of instruments.

 The management areas ‘strategic planning’, ‘governance’, ‘organisation’, ‘personal management’, and ‘controlling’ have a range of instruments at their disposal. Each instrument focusses usually on the realisation of a particular task. For example, individual on-farm training schemes are a powerful personal management instrument when shop assistants are asked to communicate the quality properties of high animal welfare and local artisanal processing to the customer (Münchhausen 2015a). Or, the instrument of laboratory testing at all stages of the grain supply chain helps with quality insurance for mills and bakeries and can drive quality-related price negotiations (Münchhausen 2014b).

*Identification of business logic and its role*

The analysis shows that the business logic concept supports the identification of strategies and instruments and their particular relevance and effectiveness for the realisation of goals. In the retrospective, some stakeholders realise that problems could have been solved faster and more effectively if a competent management or coaching and training schemes for e.g. organic food business managers would have been available. Moreover, the study points out business areas or strategic processes with gaps in business logic consistency. For example, a processors applies a set of instruments helping to minimise food additives but puts less emphasis on the transmission of such ‘pureness’ and ‘free from…’ quality aspects through the chain. Such an ‘imbalance’ between instruments supporting the same strategy might be a potential risk in respect to end-use communication.

 If the business logic is in place, it normally ensures an effective value transmission even under conditions of rapid growth. However, particular quality attributes can get lost when e.g. expanding intermediates such as dairies or abattoirs distribute lots to traders who do not share the same business logic. Hence, the business either uses another well-reflected strategy, e.g. a cost reduction strategy implemented by the instrument of increasing capacity utilization, or the identification of the inconsistency serves as starting point for an improved cooperation for the enlargement of the values-based business logic towards the particular marketing channel.

Discussion

All explored cases implemented strategies and a set of well-working management tools suitable for the realisation of the business goals. Some case studies show that managers only realised significant problems with strategies or instruments when they reflected, e.g. supported by the business logic concept, on a former development phase of their business/initiative. Other interviews show that businesses/initiatives are aware of strategies, instruments or management areas that need adjustments or reorganisation but – for different reasons – have not yet been able to implement changes. When cases face development deficits, they usually impact on the business logic; and vice versa, the business logic analysis can help to identify the deficits.

Conclusions

Since the management of food businesses/initiatives is challenging, the consistency of goals, strategies and management instruments is crucial for an efficient and effective expansion pathway combined with excellent chain cooperation. In many cases, the early enhancement of the management could have supported the growth process. Moreover, in-depth business logic analyses help to distinguish external and internal success factors during growth. Often unfavourable external conditions hamper the development. HealthyGrowth analyses will have to focus on them in the next step of the analysis.

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