



TRUEFOOD

Traditional United Europe Food

Contract no. FOOD-CT-2006-01626

Instrument: Integrated Project

Thematic Priority: Food Quality and Safety (# 5)

Chain Strategies Guidelines Concept Paper D.5.3.9

Date due: 30th September 2008

Actual date of submission: 10th October 2008

Start date of project: 1 May 2006
months

Duration: 48

Organisation name of lead contractor for this deliverable: UGENT-P07
Prepared by: PEG

| Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006) | | |
|--|---|-------|
| Dissemination Level | | |
| PU | Public | [X] |
| PP | Restricted to other programme participants (including the Commission Services) | |
| RE | Restricted to a group specified by the consortium (including the Commission Services) | |
| CO | Confidential, only for members of the consortium (including the Commission Services) | |

Table of Contents

| | | |
|-----------|--|-----------|
| 1. | What is this paper for | 3 |
| 2. | Definitions | 5 |
| 3. | Five guidelines for a good strategy | 11 |
| 4. | Goals | 13 |
| 5. | Strategic moves | 15 |
| 6. | Strategies | 21 |
| 7. | Selecting the right strategy | 38 |
| 8. | Conclusions | 45 |

1. WHAT IS THIS PAPER FOR

This paper frames the identification of supply chain strategies suitable for small and medium-size producers of European traditional food products. It inspires and promotes strategic thinking throughout the supply chains while broadly outlining the basic principles, goals and moves that should be followed by producers to improve the overall supply chain performance and their share in it.

The focus on Supply Chain (SC) and Supply Chain Performance (SCP) represents the base on which the whole exercise on strategies has been carried out, while paving the way for the subsequent National Reports developing, detailing and adapting the strategies here proposed.

This document preliminary single out a number of innovative strategies in their components (the strategic moves); then it provides guidelines to select the right strategy in accordance to the starting point and features of the enterprise that will be the active agent of the strategy.

Although it builds upon extensive qualitative and quantitative analysis of the reality of traditional supply chains, this document is not a closed textbook of recipes; it's a mentoring tool to help lateral thinking and the elaboration of an "owned strategy", i.e. a strategy that should be autonomously and contextually implemented.

The structure of the present document is the following:

Chapter 2 (*Definitions*) reports the system of assumptions that have been used to arrive at this contribution. Special attention has been devoted to the definitions acquired in the course of WP5 investigating activity, particularly regarding the notions of TF products, Chain, Supply chain, Strategy and Supply Chain Strategy.

Chapter 3 (*Guidelines for a Good Strategy*) summarizes a few general guidelines to strategy building by taking into account how a strategic orientation fits the organizational and practical activity of a traditional food producer;

Chapter 4 (*Goals*) enumerates the goals that are supposed to be correlated to a strategic plan for food companies in the TF area.

Chapter 5 (*Moves*) analyses the basic element of strategies ("building blocks") of the action plan and gives a full list of the options available in terms of accessible moves for firms.

Chapter 6 (*Strategies*) elucidates a list of 12 strategies and associates them with the relevant moves

Chapter 7 (*Selecting the Right Strategy*) proposes a correlation between the so-called *starting points* (ideal-type examples of companies deciding to pursue a strategy) and the appropriate strategy and goal, with hints on how to interpret it.

Chapter 8 contains few conclusive remarks.

Throughout this text particular attention has been given to a number of acquired concepts in the course of WP5 2 years of activity, published and unpublished. In particular, it is based on the article *Determinants of Chain Performance in the European Food sector*¹, the *Compilation Report on Innovative chain strategies* (D 5.3.6) and the *Inventory on best Practice on Reducing Bottlenecks promoting success factors of traditional foods supply chains* (D 5.1.8) and the Powerpoint presentation on “*Innovative Chain Strategies*” by A. Molnar, X. Gellynck, B. Kühne recently presented at the 6th Workshop at Ghent 1st-2nd Sept. 2008, as well as the “*Input for D 5.3.9 Chain guideline concept paper report*” by the Hungarian WP5 national workgroup. We are also in debt to “*Supply Chain Management*” training materials written by A. Sebök in Powerpoint format (SCM 83-88 and 91-92).

¹ “Determinants of chain performance in the European traditional food sector”, Adrienn Molnár, Xavier Gellynck, András Sebok, Tünde Kuti and Valentino Piana in “Perspectives of Traditional Food Supply Chains on the European Market”, accepted, after the review process, for inclusion within the XIIth EAEE Congress.

2. DEFINITIONS

2.1. Traditional Food SMEs

From the point of view of supply chains, Traditional Food products have been defined as having been in commerce at least 50 years, are related to a local or national authentic recipe and are done in a traditional way.

According to the consumer, however, this definition can be broadened to comprehend products that are “well known”, with “grandparents eating them” and “frequently consumed”, with perceived features of TF as of “good quality”, “good taste”, “safe” and “high nutritional value”.

Conversely, the target market consisting of “traditional food consumers” has been found empirically in WP1 as “people loving the national and regional cuisine”, “living in the countryside”, and “households with children”.

Examples of traditional food are Belgium beer, Hungarian sausages, and Italian cheeses.

Legal definition of small and medium-sized enterprise have changed over time, with recent EU definition² taking into account three criteria:

1. staff headcount,
2. annual turnover,
3. annual balance sheet.

Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro.

Micro enterprises are defined as enterprises that employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro.

While it is compulsory to respect the staff headcount thresholds, an SME may choose to meet either the turnover or balance sheet ceiling. It does not need to satisfy both and may exceed one of them without losing its status.

Apart from this legal definition, what’s important here is the expectation that the firm will not be a big one, with all its branding and advertising power, but rather a producer that can be easily a family-run business, possibly inherited by a visionary leader of the past, or an emerging producer that manufacture a traditional product in a new excellent way, or a regional producer enjoying a surprising success on foreign markets, or somebody seeing just the potential for that due to the positive reaction of tourists, etc.

At any rate, although the authors are focusing on such features, it’s up to the firm to recognize itself as a TF SME, striking a balance of its choice between tradition and modernity.

² http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf, taking into affect from 1/1/2005.

2.2. Chain

As a very broad idea, the notion of chain emphasizes the mechanics of something whose expression is not singular but rather depends on a plurality of actors, influences and synergies among them. Chain phenomena are therefore essentially multiple. This is not the same as saying that chain related phenomena coincide with any activity with a certain degree of complexity. Chain related phenomena presuppose a certain ordering and mutual dependence. A chain is hence *supposed to be an array of subjects, taking decisions, actions and bearing effects whose display can be described, most of the times, in a linear way.*

The chain can be considered as an ordered sequence in which decisions, facts and other events happen according to a certain stable pattern. Normally this pattern allows for a causal sequence and this chain can be described as a causally determined chain. The concept of a chain related integration goes quite rapidly into the notion of *Supply Chain*, by current standards the most popular chain concept in economic analysis.

2.3. Supply Chain

While scarcely univocal, the notion of supply chain refers to several cognate concepts. Its wide application has emerged put of the discipline of “Operative research” in an open environment where different subjects operate with different roles, according to some form of regulated activity with a recognizable economic impact. The key role, is probably the one played by the presence of a certain systematic flow (physical, informational, material or immaterial) along a line to which different subjects are entitled to belong. The type of chain that is relevant is largely determined by contextual factors including: 1) the nature and dimension of the companies involved, 2) the nature an dimension of the flows, 3) the nature of the mediating knots, with particular reference to the supporting technologies and mostly IT solutions, 4) the nature and size of the planning activities associated to the relevant Supply chain.

According to the approaches privileged by some authors, the notion of Supply chain varies from problems regarding *Logistics integration* i.e. integration operations related to the obtaining of a qualitative advantage of the performance but also to the efficiency, in a continuum up to the notion of *vertical integration*, strategically before as a matter of equity and capital.

Another approach emphasizes the contribution of *Coordination* to the Supply chain concept. Coordination means the concept for which a supply chain is managed according to certain skills and division of labour. The coordination account gives importance to the advantages, absolute and relative, deriving to chain members from adhesion to the Supply chain. The coordination account also introduces the idea of seeing the strategies and actions of chain members as chain specific, i.e. as elements concurring to the result of the chain itself, through the relative benefits of the chain members (*Co-opetition paradigm*).

All these versions are integrated into the *Supply chain management* (SCM) approach that can be considered as a standard way to describe and evaluate the SC. SCM is an “umbrella approach” linking together the different processes that can be associated and integrated into an ideally unique flow describable as an input-output matrix starting with the decision to produce/manufacture a certain product or service, through the various stages of raw materials procurement, to production processes, marketing and distribution strategies.

In this connection the WP5 workpackage of *Truefood* has developed several lines of research aimed at associating to specific SCs of traditional food products a *measurement component*, e.g. of the interrelationships between members.

The ambition is to be able to provide a functional algorithm that could represent in a manageable way the multidimensionality and internal complexity of the SC. This could be in principle achieved by selecting and characterising a priori a number of pertinent *key performance indicators*. Once adopted, key performance indicators can be “read off” as a good proxy of the cumulated capacity of the SC to release certain results.

This objective can be seen as a *Performance Measurement System* (PMS) applied not to the level of the firm but to the entire chain³.

The application of this programme to Agri–food system companies and the relative SC requires even additional analytical capacity. This has been partly provided through the building up of a *Definition of Chain Performance* in which the SC concept have been adapted to the specific relationships in traditional food manufacturing products and their chain mates by including detailed key performance indicators (D 5.3.1.). The definition has been successively tested and adapted.

2.4. Strategy

A strategy is conceived as a *coherent set of moves aimed at durable, sustainable and long term appropriation of goal*, whose choice depends on the *vision* and the *mission* of the organization, which in turn are embedded in their starting condition and in their weak and strong points. In this contribution strategies are seen as options available to decision makers, normally at chain-sensitive firm level. Strategies as such are hence derived mostly from managerial and marketing sciences.

In designing a strategic path for traditional food manufacturers particular attention should be given to the coherence between the desired objectives, namely SC related aims. So the proposed strategies here adopted are to be considered as means to achieve a practical (and possibly measurable) “win”. The analogy with games is hence striking: a strategy is implemented in a definite time span and requires a sequence of decided and conscious actions that can be labelled “moves”. Moves are supposed to determine an advance towards the implementation of the desired strategy. Although some moves are unique and specific to a certain strategy, some other moves are common to several

³ In operative terms, it is often necessary to restrict the membership to the chain to relatively close partner of the focal company, as done in the empirical survey summarized in WP5 D5.3.8.

strategies and are, so to speak, transferable from one strategic context to another. This paper relies quite heavily on this analogy (see chapter 4 and 5 below).

Of course the analogy looks to the type of strategic thinking that is normally received in the managerial and organizational sciences. Therefore it has been attempted to formulate strategies and their moves in a language that is understandable in an economic and commercial environment. Clarity of language has been also attempted (it is not to us to say how success-fully!).

The relation between the starting point (basically the enterprises with their initial “strategic riddle”) and the final point (the goal of the adopted strategy), is characterised along the premises shared in the course of various activities of WP5.

The consequent characterisation takes into account:

1. the *starting point of the strategy* i.e. how and how much a certain strategic sequence is *accessible* to a given company. Each strategy, in fact, must be coherent with the ambition of the single firm operating into the SC. This in turn depends on factors such as financial and economic stability, size, bargaining power, nature of the targeted goal. Of utmost importance in this connection are the *starting (opening) moves* of the selected strategy;
2. the *implementation of the strategy* is the sequence of moves following the first one. It has to do with the “optimal” composition of different moves and with the measure of strategic achievement *in itinere*;
3. the *completion of a strategy* intended as defining a final point of it and hence evaluation whether a strategy has been, ultimately, successful.

These problems find a further elaboration when brought into the environment of Supply Chain strategies.

2.5. Supply chain strategies

The focus on the SC poses a problem of “ownership” for each strategy. Indeed a strategy is normally implemented by a single actor, mostly firms. Free companies are “business units” struggling in a competitive environment and should be considered as competitors and rivals.

The obvious exception is the one presented by integrated corporations, whose internal complexity requires a chain like approach to deal with optimisation of operations.

For this reason the SC perspective offers arguments for breaking the uniqueness of the “all against all” model. SC are focussed on links and interrelationships limiting the extent of pure and simple competition among firms. SC, by means of an integrating procedure linking procurement, manufacturing, inventory and transportations control tools has definitely broken the idealization of a single firm strategy.

Supply chains include of course various degrees of relationships and bonds among companies, including the processing of a common raw material as it happens between milk and cheese producers. But, also the food sector, interactions among companies has widened, determining Supply chain belonging to a vast number of firms even apparently not interrelated, e.g. cheese, wine and tourism. This happens in the form of *interdependence*, which stimulates actions and decisions taken on the basis of the evaluation of a complex environment associated to each firm.

This reinforces the idea that SC concept fits quite well the image of a network, i.e. a highly interdependent system of relations. It follows that a chain strategy is a strategy that changes the structure of the network, by cutting out nodes (agents, intermediaries, etc.), by introducing new ones, and by modifying relevant metrics of the network (e.g. its length, the time it is necessary from the first to the last node, the kilometres travelled by the product, etc.).

3. FIVE GUIDELINES FOR A GOOD STRATEGY

In the subsequent chapters, a number of strategies will be described and some heuristics for choosing among them will be proposed. This, however, should not be taken as if a strategy could be devised outside the organization and merely “executed” by it. On the contrary, generating a strategy is a creative act that charges the entrepreneurs and the top management with huge responsibility. External advice is a mentoring exercise to them in order to raise up their consciousness about the importance of having a strategy. A few direct guidelines about “a good strategy” can serve in this to stimulate a strategic thinking, before entering the more structured approach of the subsequent chapters.

3.1. Transform everyday moves into strategic ones

A strategy is not necessarily a theoretical blueprint, fruit of a special committee talking about alternative visions of distant future. An everyday choice can become “strategic” if done in an un-orderly and unconventional way to generate far-reaching consequences, in synergy with other previous and subsequent choices.

3.2. Act stepwise

Small firms have difficulties in implementing “grand” strategies. You should establish the step of minimal dimension to matter and device a positive feedback that will allow you in the future to take a larger step. For instance, massive advertising is usually out-of-reach for small firms, but targeted external advertising can increase sales so that in the next few months the budget for marketing can grow and a wider campaign can be developed.

3.3. Talk, talk and walk, walk

Much of chain strategies require the active involvement of many chain partners. The basic requirement for involvement is freely flowing information, because shared information helps establish a common interpretation, from which an activity plan can be worked out to achieve the goals. Accordingly, a lot of time and energy can be spent on talks with partners, to increase confidence and reliability. The reputation that you will gain by distributing relevant information that is confirmed by third parties and independent tests will be extremely useful as well.

After a lot of talking, you should expect a lot of walking: to go to many new potential partners, to walk along new paths and to make business experiments. Chain strategies are not just telling your people what their boss - you - want. It is coalition building for a better common future and it requires time, albeit not so much money.

3.4. Generate value for all then grasp for you a part of it

Chain strategies should boost overall chain performance and it is important to target a common increase of sales, value added, cost reduction, etc. at chain level, e.g. by avoiding duplicative actions by chain members, better adaptation to final consumers requirements, etc. You should be generous with the others and boost the total revenue

for the chain. Meanwhile, a new negotiating strength, which can for instance derive from the reputation you gain by “thinking about the whole chain”, should produce direct improvements in your own situation.

3.5. Don’t deny the tradition, build on it

Although chain strategies involve a lot of new behaviours and processes, with new partners and new territories to explore, traditional food producer should not lose “their soul”, their distinctive firm, local and national past, a “nostalgia” that should never fade away in the families you serve with your product.

4. GOALS

Supply chain strategies have a number of key interrelated and overlapping goals, however the overarching goal is the increase of the **overall supply chain performance**, a multifaceted concept that underlines the importance of economic and non-economic indicators for all participants of the chain.

In turn this means:

1. To maintain authenticity (recipe, raw materials, production process)
2. To maintain (strengthen/promote/exploit) gastronomic heritage
3. To lower distribution cost
4. To increase profit
5. To reduce lead time
6. To avoid/reduce customer complaints
7. To maintain/improve safety
8. To maintain/improve attractiveness
9. To maintain/improve environmental friendliness
10. To improve the distribution of risks and benefits
11. To facilitate better chain understanding / To facilitate that chain members understand each others interest better

A mid-size quantitative survey the WP5 workgroup has carried out recently⁴ has demonstrated that the overall chain performance is statistically linked⁵ to:

- trust
- reputation,

and a number of other factors⁶, including:

- business growth
- profits
- financial soundness
- innovation
- marketing capabilities.

In principle, one strategy can achieve, or improve on, more than one goal, with the same goal attainable by more than one strategy. By carefully assessing potential conflicting trade-offs between goals, the chain partners can tailor suit their approaches and behaviours, by adjusting the sequence and the specific content of strategic moves.

However, the present “Chain strategies concept paper” cannot exhaust the abovementioned list of the goals and the potential crossing-over among goals but will rather give several examples of broad classes of strategies that aim to relatively straightforward goals, outlining one-to-one relations between a strategy and a goal.

In what follows strategies are built up from the bottom up, as consisting of several moves (steps).

⁴ See deliverables D.5.3.7. and D.5.3.8.

⁵ As the Belgium National Report states, “Global results indicate that traditional food chains are characterised by high levels of trust and reputation. It might be linked to the fact that relationships in traditional food chains already exist for a long period and to the fact that in many chains personnel contact between focal companies on the one hand and suppliers and customers on the other are the dominant business relationship” (D.5.3.7, p. 22). The Italian report highlights that “The strongest positive correlation with performance is exhibited by trust, followed by reputation and rewarding power. Punish power and, even more, Conflict are negatively correlated with performance. A positive loop is clearly present where “good” relationships lead to high performance whereas probably also the opposite is true: good performance can “pay” for positive relationships” (idem, p. 77).

⁶ See for instance the following statements in the Hungarian National Report: “Economic satisfaction and supply chain performance clearly showed positive relationship. Supply chains that were characterized with higher economic satisfaction, recorded higher scores for performance as well. This lets us conclude that getting fair prices and the profitable business have effect on supply chain performance” (idem, p. 44)

5. STRATEGIC MOVES

Strategic moves are descriptive units, i.e. building blocks, of strategies. A (possibly ordered) sequence of strategic moves determines a strategy. Strategic moves are hence assembled in strategic paths. Different strategic paths roughly correspond to different strategies.

Moves are very different in kind and moves can correspond to different categories of action. Some moves are preparatory and therefore can be thought of as tentative instructions to "see and check" whether a given strategic initiative is feasible. They serve the purpose to motivate (rationally and psychologically) the decision of the strategic stake (normally a company or a company owner / manager). In practice such moves can never reach the level of "move in the strategic game". Nevertheless there is a great advantage to be gained from conceiving moves as concrete, even "physical" actions. They should be verbalized as action-sentences in the imperative mood. This in turn can contain several addenda that contribute to make the move detailed, explicit and directed rather than implicit and vague. For example, the following are "moves":

- Search for a person with this specific skill
- Invest in a new machine
- Discuss ingredients requirements with your ingredient provider
- Modify the service level of your delivery system

Although it is essential to consider moves as stable instructions stable along time (by assuming that a move is, like a building block, a "movable" element that can be adopted ideally by any subject with a specific needs as represented by the move), it is obvious that moves contain an element of contextual dependence. Similar and even identical moves, that recommend themselves in a sort of "in vitro" approach, might nonetheless result not applicable in an "in vivo" analysis of the strategic environment. It is therefore wise to consider the notion of move as a relatively stable notion that requires a contextually application.

In general a context for the application of strategic moves is a function of three factors that can be so summarized:

1. the *state of the strategic initiative* as determined by initial conditions of the involved company;
2. the *role of the decision maker* within the SC;
3. the *dimension (financial and technical) of the course of action envisaged by the chosen strategy*. This factor has an important constraining power on the nature of the strategy adopted and at the level of operational details that the move brings in.

These requirements are decisive in so that connect the abstract element contained in each moves with the very concrete aspect of strategic action at operational level.

At the level of this paper, emphasis has been given to the description of as much as possible of strategies (by implicitly cancelling strategies that are but a replica or an

uninteresting variant of major strategies), and to connect these strategies with an array of significant moves. This exercise is somehow a forced one and can be considered, in a sense, arbitrary. But it has the merit of enumerating a number of potential courses of actions and to maximise the number of moves that can be housed in each strategy. There are of course restrictions to this principle (see below paragraph 5.1.). It can be objected that there is no general rule to isolate in a preliminary way a sufficiently complete list of strategies and moves. It can also be objected that there at least ambiguous and mixed cases where there is no clear cut distinction about whether a move belong or not to a certain strategy. This is of course true, but each time a potential conflict of attribution arose, this paper solves it abruptly. Genuine cases of multiple attributions or of conflicting attribution are, according to us, relatively rare ones. So, for the sake of clarity, moves are here associated to one (and only one) strategy.

We also believe that dimensional aspects are important to the way a strategy is implemented. Cost for instance is a macro-variable influencing the move and the strategy to which the move belongs.

On this basis, moves can be combined in a sequence (whose order is in turn relatively stable) so that a strategic actions result from the chosen array of moves.

Cases (rare to our palate) of multiple attribution of moves are mentioned each time we touch upon them. Contrast this aspect with moves that are unique to a determined course of actions, i.e. moves that result to be very specific to the strategy they contribute to. These are the objects of the next paragraph.

5.1. Strategy-specific moves

Strategy-specific moves (for brevity in what follows they are also called “specific moves”) are to ensure the coherence of a strategy. A specific move is a move that contributes and guides the achievement of the desired strategy. It is unique and contains the elements of differentiation with respect to another strategy. On this ground it could be said that moves are specific if their content is strongly committed to a particular and recognizable sequence typical of a standard strategy.

Specific moves are frequently first moves, i.e. the moves placed at the beginning of a strategy to frame all the others. First moves are quite naturally highly discriminating with respect to what come next. They determine the direction of a strategic sequence. First moves (or, to take a terminology from the game of chess), *opening* moves contain a lot of the expected evolution as seen from the point of view of the strategy owner. Their nature is such that they frame a strategic orientation and establish a strategic intention by predefining a (possibly) rational scheme to cope with the environment. Opening moves are important also because they are often one thing with the core insight of the chosen strategy. It frames the general air of the strategy and influence subsequent moves. Moreover, opening moves are often the most difficult to adopt by a mover because they are new and untested in a given context.

Specific moves are so called also because they strictly belong to a determined course of action and are not easily associable with other strategies (with possible exceptions). It is

natural to have moves that are not transferable, i.e. whose content is strongly associated with a strategic dimension that is unique and cannot be part of an alternative strategy. The role of specific moves is highly critical in so far as they open up a distinctive trait to the strategy. These moves bear the burden of providing the necessary discriminating power to the strategic choice and therefore of signalling the sense of the alternative in play. It is hence crucial that specific moves are understood as real drivers to the strategic behaviour.

Specific moves are hence correlated with goals that are within a rational reach of the company in the SC. They are particularly relevant in paving the way to the wanted strategy.

5.2. A tentative list of moves

In what follows a loose list of moves, defined along the principles discussed above, is given. The logic of this list is twofold:

1. on the one hand moves are listed *individually*, according to the building blocks logic requiring to treat moves in a discrete way and so as elements that can occur in more than one strategic path (“transferable” move), with the exception of “specific moves”;
2. to each move is associated to a *responsible chain stakeholders*, having the burden of triggering the activities related to the move, a sort of “ownership” of this step in the action plan: Focal Company (FC), Customer / retailer (C) or Supplier (S).

The list is the following:

- Choose a new provider (FC)
- Eliminate the middle man (supplier, FC)
- Put the chain members at the same table (FC, C, S)
- Participate in a product community (FC)
- Participate in collective publicly funded programmes (F)
- Select a better provider (in terms of quality) (FC)
- Select a better provider (in terms of reliability, lead time) (FC)
- Raise the level of requirements of raw materials from your provider (FC)
- Change the target market of your product (FC)
- Participate to a trade fair (FC)
- Make a consumer study/analysis (FC, C)
- Make/set up tasting sessions (C)
- Make a cooking/preparation brochure (FC, retailer)
- Make an advertising campaign (FC, C)
- Make packaging a brand vehicle (FC)
- Contribute to the creation of brand communities (FC)
- Invest in communication (FC-retailer)
- Get free media coverage (FC)
- Make an announcement in a professional (i.e. product buyers) mailing list (FC)
- Compare the technologist point of view with consumers (FC)
- Set up a financial project (FC)
- Ask for a loan (FC)
- Increase equity (FC)
- Search for a equity partner (FC)
- Search for an industrial shareholder (FC)
- Get rid of the wrong person(s) (FC)
- Explore your competitors moves (FC)
- Sharing forecasts methods with the retailer (FC)
- Lower the requirements of your ingredients (FC)
- Simplify the traditional recipe (FC)

- Add a new flavour/scent to the traditional product matrix (FC)
- Create a health product line (FC)
- Pooling production/sales (FC – retailer)
- Manufacture parts of your product/capacity for other producers (FC)
- Come to comply your process/product/logistics with stringent regulations
- Visit the plants of competitors (FC)
- Asses (audits) the impact of your production on the environment (FC)
- Asses (audits) the impact of your transports logistics on the environment (FC)
- Asses (audits) the impact of your ingredients/inputs on the environment (FC)
- Make voluntary eco compatible labelling (FC-supplier)
- Fixing reputation with a plan for shared certifications (FC-supplier-retailer)
- Putting into the company a QM programme (FC-supplier-retailer)
- Acquire voluntary certifications regarding ethical issues (animal welfare, etc.) (FC-supplier)
- Organize an auction (=best price) (retailer)
- Menace retaliation (FC-supplier-retailer)
- Offering counselling and training for product improvement (retailer)
- Provide interesting packaging specifications/formats (retailer)
- Provide specifications concerning nutritional value (retailer)
- Provide specifications concerning calories intake (retailer)
- Invest in storage facility (S, FC, R and also a third-party)
- Make your logistics compliant with more stringent regulations (S, FC, R and also a third-party)
- Invest in shared storage facilities (FC-retailer)
- Invest in the product identity (FC)

- Increasing speed of delivery (=lead time) (S, FC, R and also a third-party)
- Make external audit about critical area of costs (FC)
- Eliminate intermediaries (FC)
- Recur to outsourcing (FC)
- Control/Reduce the burden of logistics costs in your costs structure (FC)
- Make external audits about the performance of your plant (FC)
- Invest in shelf life (FC)
- Share facilities with regards to:
 - Machine utilization (FC)
 - Market information (FC)
 - Opinions about members of the chain (FC-supplier-retailer)
 - Technological/organizational improvements (FC)

- Acquire certifications (supplier)
- Adopt feed back practices to measure your impact in the chain (retailer)
- Adopt a customer oriented attitude in all the functions of your company (FC)
- Pool resources with sister companies to cope with larger markets (FC)
- Pooling resources for larger markets (FC-supplier)
- Diversifying raw materials (supplier)
- Enhance training activities (retailer)

- Giving economic incentives to people (FC)
- Pilot testing sources of raw materials (supplier)
- Buy training activities (FC)

Each move requires resources, in terms of funding, people, technology (equipment) and information. The burden is on the “owner” of the move but it can try to share with the others⁷.

⁷ This Concept paper does not address the issue of evaluating the requirements, leaving it – when necessary – to the subsequent National Reports.

6. STRATEGIES

This paragraph enumerates 12 strategies aimed at illustrating in a synthetic way how a strategy can function as valuable option to improve the supply chain. As previously discussed, strategies are dependent upon starting conditions, are linked to strategic goals and are made out of moves. Moves are mostly transferable moves but a sub-family is made of specific moves with a high characterization of a certain strategy. Specific moves are in general associated to only one strategy. Therefore they are the opening (initial) move of each described strategy.

In the following a short description of the value and area of application of the strategy is provided as an introduction. A list of the associated relevant moves is included. A comment about applicability follows.

6.1. Product improvement strategies (PIs)

In short

The strategy focuses on gaining advantage out of distinctive and recognizable traits pertaining to the products, in terms of intrinsic and perceived quality. The product remains the same but its quality is demonstrably higher. It is a strategy based on the manufacturer response to various stimuli within the chain (from the retailer or in response to actions by competitor). It can also be seen as a strategy aimed at repositioning a traditional and accepted production by working on the margin of quality improvement.

It must be recalled – from WP1 results – that consumers with a penchant for innovation in traditional food products accept improvements relating to the intrinsic quality of the product (safety, health, nutritional value) but tend not to accept changes in the authentic composition of the product (new ingredients, new combinations).

Hence PIs may be seen as “classic” strategies based on actions leading to a substantial change in the image and the values of the existing product with. It is therefore a strategy whose beneficial effects are expected in the medium to long term.

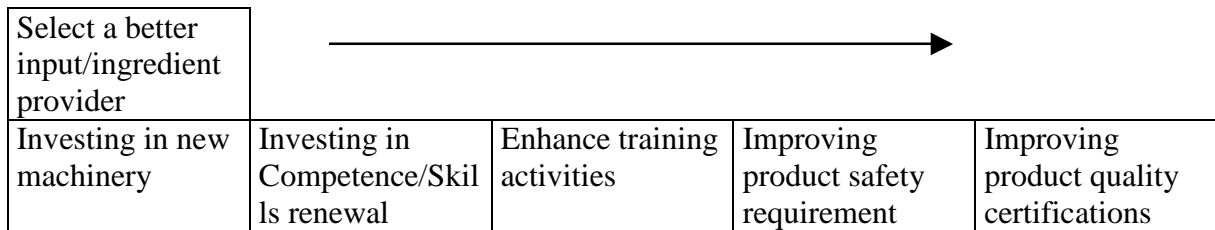
Strategic moves

- Improving product quality certifications
- Improving product safety requirements
- Select a better input/ingredient provider
- Investing in competence/skills renewal
- Investing in new machinery (fixed capital investment)
- Enhance training activities
- Pilot testing on your ingredients

Application, proposed sequence and comment

PIs are recurrent strategies. They can be adopted more than once in the life of a firm. It corresponds naturally to the adjustment process of a business and is in the frame of mind of every entrepreneur. SMEs are obvious candidate for adopting PIs especially if they see themselves as “always as the same” companies, i.e. subjects with a precise and immutable product profile. Product stability is in fact frequently perceived as a highly desirable feature in food manufacturing even more in the case of traditional food products. For this reason PIs remain a core adoptable strategic option, especially for those companies that have a conservative attitude towards innovation. They can serve the purpose of stimulating change in a business organization and in provoking the search for new developments. All this is welcome in itself.

There is no rigid sequence in this strategy. A quite normal one can be triggered by the desire or the necessity to invest in a new production process or can be commenced by an analytic evaluation of ingredient components and ingredient mix. Successively the strategy can be implemented by recurring to new skills and competence, possibly by acquiring them on the education market. New suppliers and ingredients are selected and tested. Finally new certifications and quality requirements are adopted and communicated to the market.



PIs strategies are aimed at making known product recognizable in the chain as a best practice. They are selective upon requisites that are mostly technical and partially economical. In this sense the strategy is a typical improvement and gradual strategy founded over the willingness and the capacity of a company to invest in its own business by increasing technical values, corporate identity and reputation.

6.2. Product Modifications strategy (PMs)

In short

This type of strategy it is based on the assumptions that the existing product must be changed in ways that lead to either a new product or to substantial changes in the structure, features, performance, etc. of the product itself. It is a strategy based on change, i.e. creating a new product out of an old one or, more rarely, *ex nihilo*.

Strategic moves

- Change the target market of your product
- Make a consumer study analysis
- Invest in Communication
- Make an announcement in a professional mailing list
- Get rid of the wrong person(s)
- Simplify the traditional recipe(s)
- Add a new flavour/scent to the traditional product matrix
- Create a healthy product line
- Provide new packaging solutions/formats
- Modify the nutritional value of the product
- Modify the calories intake of the product
- Invest in longer shelf life (e.g. by making use of a new package)

Application, proposed sequence and comment

PMs are obviously aimed at a substantial, recognizable and marketable traditional food production obtained through a successful modification of the product itself. “Modification” must be here understood within a semantic range compatible with the sense of innovative process in the food industry. It contains additions and transformations remix of old components but it excludes (with due exceptions) total reformulation of the product. Variants must be conservative variants.

Also in this case the sequence is not strictly fixed. A modification process can be decided on the basis of a specific market analysis, imitation of the actions (supposedly successful) of competitors, direct request from chain members and so on. Typically it is mixture of the above.

Please notice in my printed copy is not completely readable:

| | | | | | |
|----------------------------|--------------------------------|--|---|------------------------------------|--|
| Imitate your competitor or | Make a consumer study/analysis | Get rid of the wrong person | Modify nutritional value | Simplify the traditional recipe(s) | |
| | | Change the target of your product | Modify caloric intake | Provide new packaging formats | Make announcement in professional mailing list |
| | | Plan a scientific feasible modification | Add new flavour/scent to product | Invest in longer shelf life | Invest in Communication |

Both in technical and perceptive terms, PM strategies are useful in so far as can be flexible and compatible with a number of different evolutionary paths. The decision to

modify a product is also flexible because it allows both radical and incremental innovation. Companies should imagine quite often to introduce modifications both to improve through experiments over product the potential for a new customers/markets and adopters but also in order to keep the attention of the company open to changes that can occur at the level of packaging and other more service-linked characteristics of the product. Insisting on “change” is also an important trait of the identity of a company. It makes it sensitive to interpreting the market in a proactive way and helps the company communicate its value as an innovator.

6.3. Improving the quality of the Production Process throughout the chain (PPIs)

In short

This strategy is coherent with all those actions that can contribute to important improvements in the production/manufacturing process (es) of a firm. The idea is that these improvements are strongly correlated with important economic outputs that regard both the quality and the quantity of the selected product. Process improvement has also an impact on lead-time and delivery. A production process can basically be improved in two ways:

1. by improving technically its performance capacity;
2. by improving organizationally its utilization.

Therefore PPIs are an important part of the design of strategic actions leading to higher flexibility and quality of performance of the food industry as such

Strategic moves

- Compare the technologists point of view with the consumers’
- Use part of your manufacturing capacity for other producers
- Make external audits about the performance of your plant
- Share with others facilities leading to higher machine utilization
- Share facilities with regard to technological-organizational improvements
- Invest in new machine/fixed capital

Application, proposed sequence and comment

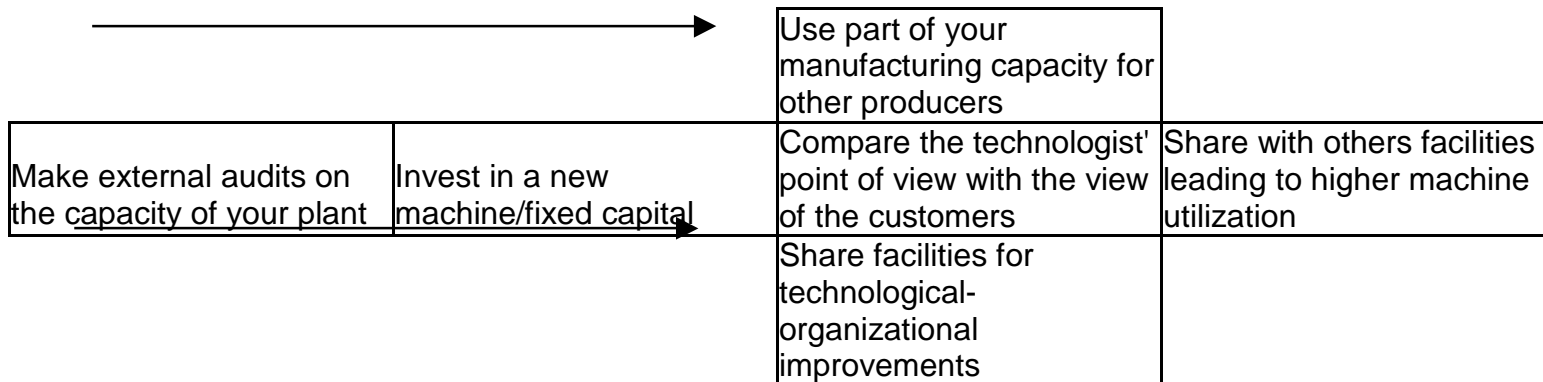
Production processes are a very internal part of the company set up. Investing into them might mean a radical reshape of the production process (sometimes it happens), but in general there is a trend in fine-tuning production requirements by operating on adaptation rather than on deep reshuffle. Normally food companies are relatively prudent from the point of view of technology improvements but the core process is central to the manufacturing capacity and quality of the firm. In strategic terms it is therefore clear that actions taken over production processes have a major impact on the ability of the company to be more efficacious and more efficient.

In terms of the envisaged sequence of moves, PPIs emerge as a path strongly linked to the technical responsibility of a firm. It covers all operations that depend structurally on

the level of performance of machines and production lines in the company. This leads almost immediately to a set of problems and decisions that have to do with how the firm face the challenge of technical adaptation of its production capacity.

Therefore the strategy arises in the decision-making based on attentive scrutiny if the performance requirements of the production, its reactivity to new requirements, and the overall structure of the relative costs.

Please notice in my printed copy is not completely readable:



The next step is easily represented by choosing either a regeneration of the plant or, more frequently, a choice of actions leading for example to alliances with other producers (as a mean to saturate capacity) or to other forms of collaboration with sister companies or competitors (peers). Agreement of joint utilization of then technical resources can be a typical chain enforcement strategy, especially if the strategic moves are somehow negotiated in connection with what customers look for.

6.4.Reduce the costs (CRs)

In Short

Cost reduction strategies are recurrent and frequent in the life cycle of a firm. They are often motivated by downsizing constraints. In this context we shall refer to cost reduction as a “positive” strategy, i.e. a course of actions leading to the generation of savings and more efficiency.

Variable costs and fixed cost can be mixed in different proportions, with technical consideration being subject to the management judgements, often taking into account the industry business cycle⁸.

Strategic moves

- Make external audit about critical area of costs
- Eliminate intermediaries
- Recur to outsourcing

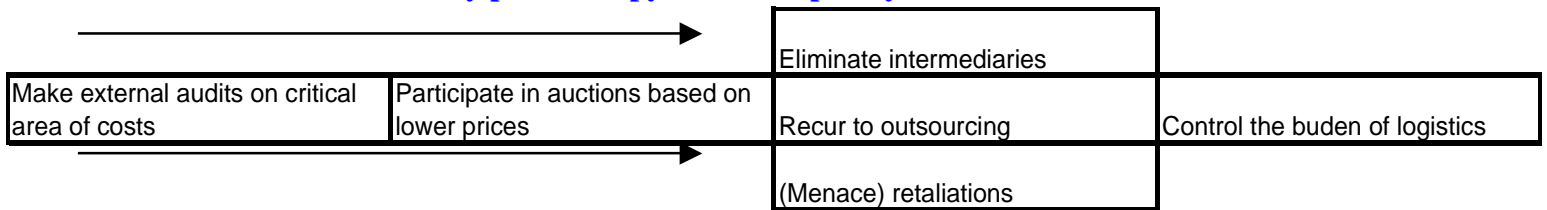
⁸ See Piana V. “Firm-specific fixed and variable costs: a model of market dynamics”, Economic Web Institute 2006.

- Control/Reduce the burden of logistics costs in your costs structure
- Organize/participate in auctions (=best price)
- Menace retaliations

Application, proposed sequence and comment

Savings are a constant point of attention of companies. A cost reduction strategy can both be global or local. Global reduction strategies can coincide with higher order strategies leading to other strategic plans. In the context of this reasoning CRs are thought of as local moves leading potentially to quick wins in the always to few engagements in cost reduction.

Please notice in my printed copy is not completely readable:



Typically a source of the path is represented by an audit of the critical area of costs obtained by means of one of the received method of cost analysis. Later it comes the decision to increase efficiency by recurring to outsourced services, including also the option to buy (instead of make). Quite frequently the cost of the logistic system (an area where cost analysis is popular and relatively easy to obtain) will be scrutinized in order to reach immediate savings when possible. In the context of supplier to focal company relations and vice versa it is possible to consider the move of cutting intermediaries by appropriating margins. A role can be also given to auction based on lower prices for subjects in desperate need of reallocating the ratio of costs. Retaliations of some sort are possible strategic moves depending on the power of the adopter.

6. 5. Reformulate logistics (RLs)

In short

By logistics we mean that strategic dimension that has to do with optimising output in terms of economies of “purchase+production+storage+transport+services”, i.e. those crucial aspects of the SC that govern the coordination of the production factors in link with time and delivery constraint. For certain firms logistics represents the most critical segment of their strategies. Given the importance of coordination, time and costs as a source for keeping with written contracts, logistics is a new and fundamental asset of strategic thinking and, given that increasing importance in technological solutions to rationalise logistics, it is clear that this dimension is more and more at the core of companies strategic building.

Strategic moves

- Select a more reliable, time compliant provider(s)
- Sharing forecasts methods with the retailer
- Make your logistics compliant with more stringent regulations
- Invest in shared storage facilities
- Increasing speed of delivery (=lead time)
- Increasing reliability of delivery

Application, proposed sequence and comment

If it is agreed that logistics plays a focal role in shaping various decisive features of the SC, it follows that interventions on logistical knots is a typical chain associated strategy. Here. More often than with other strategies, it is possible to play moves influencing the balance and the reciprocal weights into the chain itself.

The suggested moves sequence tries hence to interpret a path originated by even trivial facts: excessive costs of the logistical activities, insufficient performance rate of certain logistics sub-activity. Out of this diagnosis a firm can direct its attention to various option whose efficiency is recognized. This can happen at various knot of the chain. For instance:

| | | | |
|---|--|--|------------------------------------|
| | Make logistics compliant with more stringent regulations | | |
| Select a more reliable /time compliant supplier | Invest in shared storage facilities | Sharing forecast methods with the retailer | Increasing reliability of delivery |
| | Increasing speed of delivery | | |

6. 6. Increase the flexibility of **your** operations (IFOs)

In short

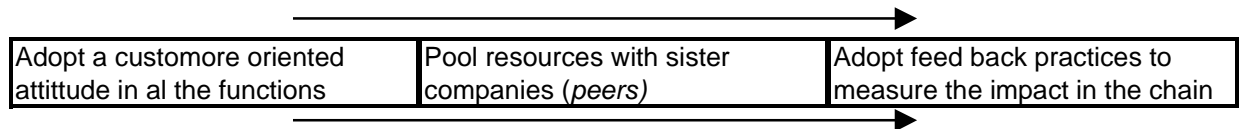
The concept of flexibility is highly adopted in describing a number of different strategies. The notion of flexibility probably contains a lot about a key strategic concept, i.e. problem solving and, in turn, adaptation. A flexible firm is a firm capable of coping with ever evolving scenarios and apt to find out the appropriate balanced solution. For this reason flexibility is an important and recurrent trait of different strategies. In essential, flexibility is a strategy (or better, a strategic attitude) allowing a higher level of efficiency and efficacy in the SC.

Strategic moves

- Adopt feed back practices to measure your impact in the chain
- Adopt a customer oriented attitude in all the functions of your company
- Pool resources with sister companies to cope with larger markets

Application, proposed sequence and comment

There are, it goes without saying, many different ways to go flexible. Some ways include very narrow actions, some other contain just broad attitude. Intentional flexibility should be in general more precise. In this context we must content ourselves with an indication of the kind of moves going in the direction of increasing flexibility through a generalization of the attention to the environment of one's firm



and a capacity to steer the own interest with attention to the logic of the chain one is inserted into. In this sense flexibility is active policy (and not only a form of reactive adaptation) aimed at practising a collaborative role in the chain.

6.7. Increase the reputation of your firm in the chain (IRs)

In short

Reputation, envisaged as reputation in the chain, is a trademark of reliability with allies and competitors. It is a trait that helps reducing the risk, as perceived from the point of view of other chain members. Strategies to increase reputation are hence conducive to a more prestigious perception of the role and capabilities of a given company.

Strategic moves

- Fixing reputation with a plan for shared certifications
- Putting into the company a Total Quality Management (TQM) programme
- Acquire voluntary certifications regarding ethical issues (animal welfare, etc.)

Application, proposed sequence and comment

Although reputation covers a wide range of values and depends also on the context of a company or market, and although reputation is largely based on requirements that should be considered as a prerequisite for any business, there is a ample range of aspects of reputational value that can be creatively promoted by a company.

There is of course a difference between values mostly oriented to the customer (or to the final consumers) and values more typical of the relationships *intra-chain* (like the relations with suppliers and clients). Reputation oriented strategies are hence actions taken to grow in the expectations of other actors and to impose to others the point of strengths of a company.

In the sequence, among many other possible moves, the moves have been chosen to emphasize the dimension of both internal and external qualifications – mostly voluntarily taken – leading to the establishment of the credibility of a firm a sound TF producer.

| | | |
|---|--|---|
| Acquiring voluntary certification on ethical issues | Define a plan of certifications forthe company | Putting into the company a QM programme |
|---|--|---|

6.8. Branding traditional food production (BTFs)

In short

Branding is a strategy aimed at making a product less anonymous and more known. Branding is narrowly connected to reputation. Frequently the two strategies go hand in hand. Branding strategies are one with the construction of certain traits - strong product identity, product visibility and recognizability, product awareness – that create a positive perception of a product.

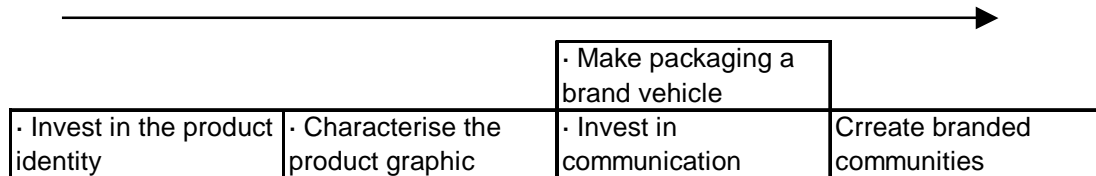
Strategic moves

- Invest in the product identity
- Characterise the product graphic identity
- Make packaging a brand vehicle
- Invest in communication
- Contribute to the creation of brand communities

Application, proposed sequence and comment

Brands are products with a distinctive market identity and frequently with a measurable market advantage. Branded products can always claim to bring with them aspects that are precious to the evaluation of the consumers and represent a benchmark for the same category of product. Although branding is a difficult long and more often than ever a costly strategy, it is true that in the food economy there are small producers that vehicle brand values and, history teaches, large affirmed branded companies were usually born as small family owned and locally created businesses.

In the context of this analysis branding must be considered a strategy for traditional food manufacturers. Although a true heavy branding strategy is mostly reserved to large and solid structured companies, some branding oriented strategic actions can be available to many. The example of move here quoted (“Contribute to the creation of brand communities”) goes in this direction.



The idea is to work on the identity of the product and its associated values. An output can be the creation of communities of consumers and witnesses of a certain food product by keeping an eye on a particular class of “product enthusiasts” sharing interest for a brand both in terms of intrinsic value of the product but also in terms of awareness, cultural belonging, fashion and “user identity”. A company can invest in nourishing these communities for example by maintaining and paying for web-based resources (e.g. blogs) where the community meets, discuss and create interest around the branded product.

6.9. Increase the dynamics of your network (IDNs)

In short

Networking is an important dimension of inter- and intra- company collaboration. Networking, frequently with the help of support organisations like Food Federations, is a fundamental way of increasing profits by sharing at least certain categories of costs. It is also a method to gain advantages (material and immaterial) by exploiting results obtained through cooperative actions. It is therefore an essential part of the strategic manoeuvring of food SMEs in the SC.

Strategic moves

- Put the chain members at the same table
- Participate in a product community
- Share facilities with regard to market information
- Share opinions about the best practices in the chain
- Buy Training activities
- Participate in collective publicly funded programmes

Application, proposed sequence and comment

Networks are structures where many actors with similar interest put forces together to reach results and objectives whose cost and complexity would be too high for free riders. This means that networking can represent a substantial help to bridge gaps that a company alone would consider unable to fill. Networking, in the context of the present paper is linked to the concept of cooperation and can be applied to almost any link in the SC. Of course there are virtually countless forms of networking with a vast array of targets.

I cannot write inside, please correct minor refuses

| | | | |
|-------------------------------------|------------------------------------|--|--|
| | | Share opinions about best practices in the chain | |
| Put chain members at the same table | Participate in a product community | participate in collective funded programmes | Share facilities with regard to market information |
| | | Buy training | |

The proposed sequence tries to catch the element of increased capacity gained through networking. It concentrates on several possible aspects of collaboration where a company can acquire a larger and more qualified level of information finalised to improve its output and profit. The basic idea looks at the kind of synergies that can be acquired through reciprocal participation of chain members in discussion table. The common environment can serve also the purpose of learning (for instance in communities of companies or professionals working in the same product area), and diffusing best practices of interest to many. Funded research programmes, information sharing and certified training are also moves that can lead to “upper level” network formulas, like for example share facilities (data base in common) to govern more attentively information about prices clients, volumes, etc.).

6.10. Make your finance more robust (MFRs)

In short

Acquiring financial resilience is a major problem for all food companies, including of course SMEs. The objective to enlarge financial robustness depend crucially on conditions and constraints that are decided externally with respect to the bulk of a firm strategic tools. Nonetheless financial robustness is an important goal and a necessary one in a number of passages in the company life cycle.

Strategic moves

- Ask for a Loan
- Set up a financial project
- Increase Equity
- Search for an equity partner

Application, proposed sequence and comment

Financial stability and soundness is something a company should learn to manage. Financially flawed companies are frequent in the food economy. They sometimes survive but at the cost of great stress and fatigue. External constraints are very heavy in this area but of course firms must learn to come to terms with these specific rules. So the proposed set of moves is trivially the one described more or less in the given order.

| | | | |
|----------------------------|----------------|-----------------------------------|------------------------------|
| Set up a financial project | Ask for a loan | Search and find an equity partner | Increase your company equity |
|----------------------------|----------------|-----------------------------------|------------------------------|

Financial strategies may contain a lot of details. What is important is that a company understand how the financial resources are to be used to consolidate a certain moment of the life cycle of the firm itself. Having in mind TF producers, it is clear that finance plays a delicate role and that a financial strategy must be often assisted by appropriate network coverage.

6.11. Increase the environmental compatibility of your business (IECs)

In Short

Environmental issues are increasingly a pervasive dimension of the company life cycle. It touches both economics (for instance in the form of energy saving processes) and the identity of the firm (in terms of major acceptability for sophisticated consumers). This suffices to justify a strategic label for eco-actions.

Strategic moves

- Asses (audits) the impact of your production on the environment
- Asses (audits) the impact of your transports logistics on the environment
- Asses (audits) the impact of your ingredients/inputs on the environment
- Make voluntary eco compatible labelling

Application, proposed sequence and comment

Environmental issues are partly covered within the industrial obligations of companies and the compliance with legislation in force. But food is a product with intrinsic links with the natural environment. Ecology, in the most general term of the notion, has clearly to do with projections related to the life cycle, life sustainability, health (including the environment health), harmony and the value of living creatures.

For this reason there is an increased attention to how food production, transport and consumption impact on the environment. A company strategy aimed at making the consumers aware of a number of measures taken by the manufacturer to better save the environment can both be part of a single or chain linked strategies. Forms of partnership between supplier and producers and also between producers and retailers are already visible and constitute a significant share of certain markets.

The suggested moves try to capture a rational sequence for a firm with a clearly identified interest for being perceived as eco-friendly.

| | | | |
|--|----------------------------|---------------------------|-------------------------------|
| Asses impact of firm inputs on the environment | Asses impact of production | Asses impact of logistics | Make eco-compatible labelling |
|--|----------------------------|---------------------------|-------------------------------|

6.12. Make your communication effective (MCE)

In short

Communication is one of the most important strategic leverage of a company. As a broad concept, it is directed to the final consumer, to the distribution channels, to suppliers, to other chain partners, and even, in the so-called “internal marketing”, to the employees of the firm. The most expensive form of communication are often weak points of traditional food SMEs, but the quality of the communication remains key to effectiveness. Companies of every size should choose the kind of communication most suitable to them.

Strategic moves

- Make an advertising campaign
- Invest in communication
- Get “free” media coverage
- Add to your product a cooking preparation/recipe brochure
- Make press conferences and announcements
- Organize communication events

Application, proposed sequence and comment

To communicate means to be able to enlarge the area of attention and credibility around one's own case. Hence communication in the overall SC coincides with actions targeted at intensifying and qualifying the value within the chain in a way that rebounds on all the chain members.

In the food business this is frequently obtained through coordinated actions rather than grand communication campaign depending purely on the media attractiveness of one single producer. In Italy, for instance, the global image of the beer market has been boosted by a multi subject campaign rather than by a single advertising strategy of the market leader. This helped the whole community of beer making subjects to establish a well grounded knowledge of the expectations of the market towards the world of breweries and also contribute to the consolidation of the relations among the actors in the chain.

Not very clear to me

| | | | |
|---------------------------|-----------------------------|--------------------------------|---------------------------------|
| · Invest in communication | · Get "free" media coverage | · Make an advertising campaign | · Add to your product a cooking |
|---------------------------|-----------------------------|--------------------------------|---------------------------------|

This in turn constituted a major stimulating factor in establishing consensus and expanding mutual understanding among chain members. It can so be said that communication increases the opportunity of the system although traditional communicative strategies (like the one here described in the moves) it remains an option for the single firm.

7. SELECTING THE RIGHT STRATEGY

The choice of the best strategy is never an easy choice. It crucially depends on the starting point of the firm, its environment, the perceived evolution of a number of other factors. However, a suggestion over where to look first for a new strategy can be generated in an organized process, led by the principle of "choosing the available strategy which solves the worst (or leverage the best) difference with competitors along the variables that the target market rewards the most".

It should be underlined that one firm cannot carry out too many divergent strategies at the same time. In what follows a selection procedure of one against the other strategies is proposed.

The heuristics of selection consisting of three main steps:

- A. identify the feasible strategies available to the firm and which are out-of-reach;
- B. localize the best strategy in the strategic space by two axes (difference in competitiveness and importance):
 - B.1. for each available strategy, rate the present competitiveness of the firm with respect to the average of the market (main competitors);
 - B.2. rate the importance attributed by a chosen market segment to the goals of the strategy;
- C. interpret the selected strategy with respect to the identity of the firm.

For instance, to choose whether to concentrate on either "communication effectiveness" or "cost reduction", it is important:

1. to be sure that both are feasible and not out-of-reach in terms of resources required available to the firm (e.g. financial resources);
2. to verify if, for instance, the present visibility on the market is null and the costs are normal (in this case it seems to make sense to concentrate on the communication and not on costs);
3. to evaluate the importance given by the target segment (e.g. local customers buy the product even if the brand itself is not recognised and are very price sensitive; in this case, the opposite choice of "cost reduction and not "communication" should be made);
4. by balancing on a matrix the two criteria (difference in competitiveness and importance for the target), one strategy is selected (e.g. cost reduction to undercut competitors in prices and have a large increase in sales, due to high price elasticity);
5. if the firm starting condition is a large available cashflow, then the firm can choose expensive but effective moves within the "cost reduction" strategy (e.g. "Organize auctions"); it interprets the strategy in a grand way; if instead the firm is merely breaking even, then it will adapt the move in a more limited meaning (e.g. "Participate in auctions organized by others").

A broader discussion of each step is proposed in what follows.

A. Establish which strategies are feasible given the starting condition of the firm

National reports might identify the main variables relevant to assess the availability of the strategies. However, we can tentatively propose two key variables that determine the availability of a certain chain strategy for traditional food producers:

- a. the economic soundness (“health”) of the firm, by dichotomising:
 - a1. an economically healthy firm, with sound profitability and significant resources to invest;
 - a2. a barely breaking-even firm, with difficulties in investments;
- b. the present peer network of the firm, by dichotomising:
 - b1. an isolated firm, which goes to the market with its sole internal capabilities;
 - b2. a firm belonging to a consortium or another institutionalised network, which embraces and influences a relatively large number of other producers.

By double-crossing the two variables, one obtains four cells (“starting point”) of the firm:

- a1b1: a strong isolated firm, probably with its own brand and relevant strategic independence;
- a1b2: a leader in a group of producers, probably capable of influencing a common strategy;
- a2b1: a weak isolated firm, risking marginality;
- a2b2: a weak group of firms looking for a collective strategy to exit the crisis.

Depending on who you are, certain strategies are (e.g. financially) available or would represent an over-stretching that might broke down the firm.

With all degree of subjectivity the exercise implies one might suggest the following matrix, mapping which strategies are open and which are excluded for each type of firm.

Matrix of the strategy availability from different firm’s starting point

| | Healthy isolated firm | Healthy networked firm | Barely breaking-even isolated firm | Barely breaking-even networked firm |
|----------------------------------|-----------------------|------------------------|------------------------------------|-------------------------------------|
| 1. Product improvement | X | | X | X |
| 2. Product modifications | X | | X | X |
| 3. Quality of production process | X | | X | |
| 4. Cost reduction | X | X | X | X |
| 5. Logistics | | X | X | X |
| 6. Flexibility | X | X | | X |
| 7. Reputation | X | X | | |

| | | | | |
|--------------------------------------|---|---|---|---|
| 8. Branding | X | | | |
| 9. Dynamics of your network | | X | X | X |
| 10. Finance | | | X | X |
| 11. Environmental | X | X | | X |
| 12. Communication | X | X | X | X |
| | | | | |
| Total number of available strategies | 9 | 7 | 8 | 9 |

Accordingly, the choice of the “best” strategy is restricted to less than 12, because some strategies are too difficult, too expensive or too complex to be carried out – or at least this is a general evaluation and, as a checkpoint, one should establish whether the exclusions and inclusions are fair with respect to the specific firm at hand.

The result of this step in the procedure is a list of feasible strategies, among which to choose the “best”.

B. Localize the best strategy

A particularly good strategy addresses large differences with the competitors, e.g. deep weaknesses or top strengths.

In coherence with what used in WP5.1 survey (based on the definition of supply chain performance) and WP5.2. benchmarking, a 7-point Likert scale will be used.

By rating from 1 to 7 the current position of the firm with respect to its main competitors, one can have the following meanings:

1. much worse than competitors;
2. moderately worse than competitors;
3. slightly worse;
4. neutral (not better, not worst);
5. slightly better than competitors;
6. moderately better than competitors;
7. much better than competitors.

For instance, “costs” if much worse than on the market average would receive a 1. This value is indicated on the **row** of the strategic space:

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | | | | | | | |
| 7 | | | | | | | |

The vertical **columns** correspond to rating, from 1 to 7, of the importance attributed by the target market⁹:

- 1=Strongly unimportant
- 2=Moderately unimportant
- 3=Slightly unimportant
- 4= Neutral
- 5=Slightly important
- 6=Moderately important
- 7=Strongly important (very desirable feature to have)

If the target market is very price sensitive, so costs are very important, then the location of the “cost reduction strategy” is in the cell (1,7).

⁹ Choosing the target market segment is a key step for any marketing or chain strategy; by addressing a clear target, the chain can focus on what really matters to it. By selecting a target niche, the chain can reduce the number of competitors and increase the sustainable advantage because of reduced limitability of the strategy by firms that have other targets.

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|-------------------------|
| 1 | | | | | | | Cost reduction strategy |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | | | | | | | |
| 7 | | | | | | | |

A cost reduction strategy is badly needed because the costs are high and the market is price sensitive.

The meaning of coloured areas is the following:

Blue: we are **better than competitors** but **the market is scarcely interested to the issue)** – hence do not follow strategies aimed at improving us in this respect, the market would not reward our efforts

Red: we are **worse than competitors** but the market is not interested on the issue; do not follow strategies aimed at improving us in this respect, the market would not reward our efforts

Gold: we are **worse than competitors on very important issues, i.e. areas considered desirable** by the consumers – hence we should follow strategies urgently in this area;

Green: we are **better than competitors and the market is very interested on the issue;** if we have abundant resources we can insist on it.

Let's make an example with a choice among all 12 strategies of a firm rating its competitiveness and the importance for the target in the following way:

| Strategies/goals | Our competitiveness (row) | Importance for the target (column) |
|-------------------------------|---------------------------|------------------------------------|
| Product improvement | 5 | 5 |
| Product modifications | 4 | 3 |
| Quality of production process | 2 | 3 |
| Cost reduction | 4 | 6 |
| Logistics | 6 | 1 |
| Flexibility | 6 | 5 |
| Reputation | 2 | 4 |
| Branding | 1 | 6 |
| Dynamics of your network | 3 | 6 |
| Finance | 2 | 2 |
| Environmental friendliness | 5 | 7 |
| Communication | 3 | 6 |

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|-----------|---------|-------------------------------|------------|---------------------|--------------------------|----------------------------|
| 1 | | | | | | Branding | |
| 2 | | Finance | Quality of production process | Reputation | | | |
| 3 | | | | | | Dynamics of your network | |
| 4 | | | Product modifications | | | Cost reduction | |
| 5 | | | | | Product improvement | | Environmental friendliness |
| 6 | Logistics | | Communication | | Flexibility | | |
| 7 | | | | | | | |

Branding is the most urgent and important strategy. A careful evaluation, based on firm identity along variables not yet taken into consideration, might also consider strategies aimed at increasing the dynamics of the network and, to leverage a present strength in a variable relevant to the market, the environmental friendliness.

By contrast, those falling in the red and blue areas, represent less relevant targets. This means that strategic efforts in those areas would not be as beneficial as the gold and green sectors.

C. Interpret the strategy: starting points and opening moves

An essential task of “interpretation” is required to the decision-maker because, as stated several times in this paper, a strategy should adapt to the specific starting point and identity of the chain’s members involved.

The interpretation of the strategy will include:

- a) one or more preliminary steps to prepare the ground to the standard moves, as described in chapter 6;
- b) the elimination of a move which might be troublesome for the firm at hand;
- c) the adaptation of a move that can be downplayed or emphasised (e.g. by using low or high financial resources, respectively).

While points b) and c) are quite straightforward, some explanation is needed as for the point a).

With reference to the abovementioned dichotomizations, an isolated firm with economic difficulties probably would first and foremost need to network with and aggregate to other producers; it might even consider the possibility of selling part or all its equity shares to other – more powerful – players before launching a new ambitious strategy.

A firm that participates to a broad consortium of peer producers of the same product would first contact and convince the other members of the consortium about the need of a common strategy and should be able to include in the active discussion the consortium leaders.

A healthy isolated firm of large dimensions would concentrate decision-making in the board of directors, with internal marketing devoted to capture the attention of key managers.

A large firm in crisis might need an external investor, before which to present the strategy and the relative budget.

These examples could be extended, in the general direction of making the chosen strategies fitting with the current conditions of the firm and the other members of the chain.

8. CONCLUSIONS

The discourse developed in the present “Innovative chain strategies concept paper” has explored the opportunities opened to Traditional Food producers for radical changes and incremental improvements in their chain management *latu sensu*.

The attempt has been to associate the idea of performance at supply chain level with decision-making procedures to secure that appropriate strategies are undertaken to respond to challenges to consumer-driven markets.

Some examples have been outlined of strategies, their goals and their components (“moves” or “steps”). In order to maximise the strategic thinking – coherent with a supply chain approach – strategies have been built in a way that represents sequences of actions with a common goal, enforceable by different stakeholders throughout the supply chain. Although each move is performed under the “ownership” and responsibility of one chain member, their effects expands through the chain, possibly improving overall results.

The leadership in the chain is assumed to be at the focal company, the producer, although market dynamics make it sometimes a weak partner with respect to large retailers or huge providers of raw materials. This assumption has been used because the producer has the widest range of strategic choices and has the most difficult task of balancing tradition and innovation.

The objective of this document has been, moreover, to provide a ground for how to implement strategic decisions. Strategies are highly condensed tools. This means that their implementation cannot be left to automatic mechanisms. Therefore the attempt herein taken has been to associate strategies with starting points and final goals, with suggestions about the whole process.

Intended as regulative concepts attaining to the process, five guidelines have been provided are valid for all strategies.

In the final part of the paper, an attempt has been made to devise an algorithm that selects particularly desirable strategies, by taking into account present weaknesses and strength of the chain members, in particular the focal company.

Contrary to standard SWOT (**Strengths, weaknesses, opportunities, threats**) analysis, the ST part is followed by an analysis of relevance of the goal for a chosen target market. In so doing, it represents an innovative approach to strategy choice. It can be extended to cover the comparison of a very wide number of different strategies, not only chain strategies related to strictly defined chain management.

In the subsequent National Reports on Innovative Chain Strategies:

- a) the five broad guidelines of chapter 3 can be widen to include new strategic suggestions;
- b) the strategies presented in chapter 6 can be multiplied to cover all goals enlisted in chapter 4;
- c) more moves can be added to suit the general, national and chain-specific settings;
- d) highly innovative strategies can be developed by introducing “strategy-specific moves”¹⁰;

¹⁰ As the Hungarian workgroup has already begun to do with its “Input for D.5.3.9” document.

- e) existing and new strategies can be detailed up to “Action plans” to identify the optimal sequence of moves, while trying to evaluate the resources needed for each (in terms of finance, human resources, technology and information);
- f) a broader set of variables can be proposed to classify the starting conditions of the firm and more emphasis could be given to chain level conditions;
- g) assessment could be made of the actual availability of strategies to national firms;
- h) supplier-centred and retailer-centred strategies could find more room and development, due to the features of the national environment.