Part 3

How to Create, Capture and Share Value?

Chapter 43

Innovation in Integrated Food Chains*

A food chain is a complex organization and connects all partners in the supply chain right from input suppliers at the start, to the final consumer at the end. In the middle, we have farmers, industry, wholesalers, retailers, food services and service providers (storage companies, transport companies, banks, institutions and organizations). If you envision the orange juice chain, it goes from input suppliers to orange farmers, until it reaches the end consumer. A lot of people and a lot of organizations are at work to deliver the final product to the consumer.

The objective of this chapter is to show how innovation keeps a food chain competitive. Nowadays, competition is beyond a company, since it is a chain that competes against another chain. In this chapter, I will start with input suppliers and farmers. Food companies have a huge responsibility, since there is pressure on limited resources all over the world.

Inputs play a key role in a food chain. When properly produced and used, they help farmers achieve good yields, produce high-quality products and earn larger revenues, and help consumers enjoy safer, tastier and cheaper food on their tables. On the other hand, inappropriate production and mismanagement may lead to resource overexploitation, negative margins for farmers and more expensive or unhealthy food for families. Therefore, input management is one of the biggest challenges when it comes to food security.

In order to overcome such problems, researchers from private companies, universities and governments have been seeking innovations in input production and application. Among the major challenges, I list 13 innovations that would benefit the food chains.

*First published in *China Daily* (May 19, 2010).

- New renewable production inputs that replace nonrenewable ones, such as today's fertilizers. Fertilizers will become a threat for humanity, and we should come up with a safer alternative.
- Innovations that would allow reuse of resources and the use of by-products to reduce pollution.
- Innovations that would reduce costs for farmers, saving on some operations and improving their margins.
- New technologies that would lead to fewer residual effects of the chemical products used in agriculture.
- Better, more efficient and economical machinery that would save fuel.
- Genetically modified varieties in order to increase yields.
- Genetically modified plants, more adapted to droughts and water restrictions.
- Better grain to protein (animal) and sun to energy (plant) conversion.
- Biotechnology and natural control in order to use fewer chemical products.
- Innovations that would reduce losses in input transport and application.
- More efficient feeding technologies for animals.
- Innovations toward the use of more resistant plants.
- Innovations in breeding that would lead to precocity, which would reduce the cycles and thereby enhance production.

There is a large list of input innovations demanded by farmers inorder to be more competitive. These are the starting points.

In the last couple of decades, world agricultural production has experienced extraordinary improvements, especially with yields, cost management and, most recently, quality as well. Many of these improvements are a direct result of the ability of farmers to face greater external competition since deregulation, using modern technology and production systems. Nevertheless, there is still a lot to be done in this field, even regarding yields.

The major areas of improvement in which innovation plays an important role are sustainability, with the development of technologies that allows, for example, lower water consumption; new crop varieties that conserve more energy and are more resistant or more precocious would reduce the growth cycles and enhance production; animal welfare; certifications and reuse of by-products.

A few more innovations that would majorly benefit the farmers are listed herewith:

- Innovations in crops and land use decisions that would ensure sustainability and resource conservation, at the same time, enable maximum possible use of the land. Some areas allow three different crops per year.
- Use of equipment that would allow better usage of land, which in turn would help increase yields.

- Innovations in water usage technologies that would reduce consumption per area of water.
- Improved animal welfare techniques.
- Innovations in governance structures, allowing sharing of equipment with neighbors, selling services, better use of all assets, that would overall improve efficiency.

Competition is driven by several factors, one of the most important being innovation. Creating new solutions is the path to profitability and has sustainable advantages for companies. Food production, which is under tremendous pressure, is an area where financial resources should be applied toward more research in innovations. In the next chapter, I will discuss innovations required for the food industry and food distribution.

Table 43.1

MAJOR INPUT SUPPLIERS 2020 INNOVATION CHALLENGES
1. Renewable production inputs that replace non-renewable ones, as today's fertilizers.
2. Reuse of resources and the use of by-products, in order to reduce pollution and costs;
3. Innovation that reduces costs for farmers, saving operations and improving margins;
4. Lower residual effects of the chemical products;
5. Better, more efficient and more economic machinery that saves fuel;
6. Genetically modified varieties in order to increase yields;
7. Better grain to protein (animal) and sun to energy (plant) conversion; Search for precocity
8. Biotechnology and natural control in order to use fewer chemical products;
9. Reducing losses on input transport and application;
10. Genetically modified plants, more adapted to droughts and water restrictions;

Source (citation): Neves, Marcos Fava - The Future of Food Business, World Scientific (2013).

Discussion question

Which of these innovations represent opportunities for your company? List challenges and innovations that are not covered in this chapter.

Chapter 44

Innovation Agenda for Food Industry and Retailers*

In the last chapter, I addressed the fact that a food chain is a complex organization, and showed how innovation is important in keeping a food chain competitive, discussing the agenda for farmers and input supply companies at the beginning of a chain. Now I will move forward in the chain, discussing an innovation agenda for the food industry and retailers, to attend to our demanding consumers. Since the food industry is in close contact with consumers' needs and desires, this is where most innovations are taking place. In recent times, consumers' needs and desires have been changing at an ever faster pace.

Consumers expect the food industry to offer healthy food and products that enhance beauty, longevity and promote consumers' welfare. Nowadays, consumers expect a bit more than just the products (convenience, culture, joy, fun). Examples are concepts of "slow food" and "fun food." The food industry also needs to attend to environmental concerns by promoting product recycling and substitution, fit in with the "food miles" movement, and attend to social concerns by promoting inclusion, wealth distribution and fair trade.

Feeling the pressure for more environment-friendly, healthier and distinctive products, the agrofood industry has invested in an extensive agenda of innovation. I would like to list some agenda points that should be part of the day-to-day thinking of these companies:

The development of recyclable and biodegradable packaging materials to address the environmental concerns of buyers is a major point. Consumers do not want to see nonrecyclable packaging all over the place. Another agenda point is innovations

* First published in *China Daily* (May 25, 2010).

in conservation of products, for instance, increasing the shelf-life of products especially among perishable varieties such as fruits and vegetables where more than 30% is lost.

Research is ongoing in improving flavor of food products. Innovations are required in facilitating storage of products and in the reduction of transportation costs. Increasing attention is being given to the consequences of transporting large volumes of food over great distances. Such transportation involves huge costs, damages to the environment on account of emissions and wastages owing to food items perishing during long overhauls.

Therefore, an innovation that could help the food industry to use less water would be appreciated. One way of doing this is by promoting the use of by-products.

New organizational forms are being created by food companies together with medicine companies and cosmetic companies to innovate on nutraceutics and nutricosmetics, which is a merger of two industry segments. There is also a growing attitude toward business-to-business relationships and innovations in contractual arrangements that benefit the chain as a whole and consequently the consumers.

A lot of research is also dedicated to new technologies of industrial optimization. Firms are developing new marketing channel opportunities, such as door-to-door distribution, outlets and other forms that will be addressed in a later chapter.

This is not an exhaustive list, but for food industry strategists reading this chapter, they are worthy of implementation.

Now we come to the final agent of the food chain: the retailer. The retailer is probably the most important participant in the food chain, since he has one of the most valuable assets of a food chain: information, due to permanent contact with the final consumer. Supermarkets, nowadays, must promote new buying experiences, such as launching tasting areas near their product stalls. They should also search for newer ways to offer their products, increasing the benefits for consumers.

There is a trend among supermarkets to offer complete solutions to consumers. Among other challenges, the supermarket is becoming a communication tool, a place of knowledge transfer, where consumers learn about the products they buy, and is becoming a place where the food industry communicates with its end consumers. Supermarkets are trying to regain some market share of food services by capitalizing on home meal replacement opportunities such as selling ready to eat food, or having a restaurant.

Supermarkets are also increasing services, with innovation in terms of delivery, express food, coffee shops, etc.

These agenda points may be considered as a starting list for food industry and retailer strategists.

Table 44.1

Innovation Challenges in Production Systems.

INPUTS	Renewable sources; Reuse; Cost; Residual effect; Machinery efficiency;	Genetics; Conversion (consumption x production); Results to the buyer; Better controls (biological).
PRODUCTION	Yield per area; Sustainability; Conservation; Precocity; Variety; Water consumption;	Conversion (solar energy); Resistance; Animal welfare; Certifications; Reuse.
AGROINDUSTRY	Ecological packing; Conservation; Flavor; Storage easiness; Lower transportation costs; Lower water consumption; Safety; Loss reduction;	Use of byproducts; Nutraceutics; Nutricosmetics; Relationships; Contracts; Channels optimization (gate-to-gate and others).
RETAIL	Offer presentation; Complete solutions; Home meal/Replacement; Relationship; Purchasing centrals;	Express; Delivery; Tasting/trying; Online sales.
CONSUMPTION	A. Health Beauty; Longevity; Food on the go. B. Welfare Convenience; Culture; Enjoy; Fun Food; Slow Food.	C. Ecology Substitution; Recycling. D. Inclusion People; Wealth distribution; Fair Trade; Food and Miles.

Source: Author

Discussion question

List the ten most relevant innovations in a chain approach and how these may represent opportunities to your company.

Chapter 45

Marketing and Distribution Channels Analysis and Trends*

In this chapter, I will discuss marketing channels and raise 20 discussion questions that will prod managers in the food industry to audit and plan their marketing channels.

Marketing channels link companies with clients. They involve a group of agents that perform services to make products available. When a company produces a product, its agents enable the flow of products, services, communications, finances, information, among others.

Like an orchestra, a company should coordinate its marketing channels in order to build sustainable competitive advantage. It is one of the most difficult variables to change in the marketing mix of a company.

With advancements in web sales and new forms of purchase and distribution, we face a new era where marketing channels are stronger.

A framework is offered for discussions to enable an organization to plan and act driven by demand in the distribution of its products and services. The 20 auditing and planning questions are:

1. How is the marketing channel structured today? Who are the participants?
2. What is the percentage of sales from each of these marketing channels?
3. What are the margins in each of these channels?
4. What are services offered by the channels? List the services channel wise. Which participants in each channel offer these services?
5. What are the margins of the agents in each of the channels?
6. Which available channels have not been utilized until this moment by your company and for what reasons?

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* First published in *China Daily* (January 15, 2013).

7. How are the macro-environmental variables i.e. political/legal; economic; socio-cultural and technological changes affecting the different channels presently? How will these variables affect different channels in the future?
8. What are the trends (concentration/internalization) and features of each channel at this moment? What will be the trends and features in the future?
9. How are marketing channels financing consumption? What are the risks involved?
10. What are the opportunities and possible benchmarks in using web/digital sales platforms?
11. How are the marketing channels of competitors structured?
12. What is the mechanism for flow of products in the channel? What is the role of each participant?
13. What is the mechanism for flow of information from the consumer to the company in each of the channels?
14. What is the mechanism for the financial flow from channels to company and how would you improve it?
15. Are there creative ideas in a network concept that could re-shape distribution? If yes, list them.
16. What types of loyalty programs exist in the marketing channels? Are there any programs that could be benchmarked?
17. What types of strategies should be evolved to deal with competitors in marketing channels?
18. What types of strategies should be evolved with noncompetitors that operate in the same marketing channels?
19. How will marketing channels of this industry look like in 20 years?
20. How to organize all these ideas in a project framework to make the company more competitive?

Answers to these 20 questions can help food companies build the most appropriate plans for their marketing channels. Some of these questions are exploratory while others would prod companies to improve the performance of their marketing channels.

Outstanding performance in marketing channels is a source of competitive advantage. I hope that these 20 questions would help your organization to improve your marketing channels.

Discussion question

Answer these questions for your company and build a plan to rejuvenate its marketing channel.

Chapter 46

Improving Food Marketing Channel's Performance*

The objective of the tool presented in this chapter is to describe all the agents that have functions in the channel (are part of the chain) for the company under analysis. This would allow us to obtain an accurate view, including about the agents and functions they perform. At this moment, we are aware of the channel's functions, as well as the critical analysis of the capacity of developing extra functions or relocations, as will be shown later on.

After the analysis at the industry level (where all possible channels are described) the company's channels should be described individually. A company's channels can be different from the ones used in general by the sector, for some possible channels in the sector may not be used by the company (e.g., sales of products in convenience stores). Sales and financial data must be provided with the objective of understanding, because they are the most important channels for sales and company profit.

A table can be generated, similar to Table 46.1, for each category of flow in the distribution channel: products and services, communication, information and payables/financial. The first two flows originate from the company and end at the final consumers and the last two flows originate in the opposite direction. The first column in the table lists functions under each flow. The second column of the table describes who carries out the function and the third column prompts the user to define possible improvements in the role of the person performing the function. If the company has several distributors (wholesalers, retailers), a column for each of them can be added, or possibly a table made for each company.

This table can be filled out for each member of the channel, or also for the aggregated members (retail industry).

*First published in *China Daily* (February 24, 2013).

Table 46.1

Flow table (of the distribution channels)

Function	Responsibility Analysis (who does it and how)	Possible improvements (proposals)
Products and services functions		
Inventory management and its levels		
Product delivery		
Product modification		
Product lines and variety		
New product evaluation		
Sales volume (performance) forecast		
User help/installation technical service		
After sales service		
Sales service supply (team)		
Training: range and costs		
Product maintenance		
Package/specifications issues		
Exclusivity		
Territorial rights		
Market coverage expected		
Exports aspects expected		
Time frame (period to carry out the flows)		
Adaptation for specific legislations		
Others...		
Communication Functions		
Advertisement (all forms)		
Sales promotion (all)		
Public relations actions (all)		
Direct marketing actions		
Information about the products		
Participation in the communication budget		
New media forms of communication		
Package information		
Others...		
Information Functions		
Share info. about the consumer market		
Share info. about the competition		
Share info. about the changes in the environment		
Participation in the planning process		
Frequency and quality of the information		
Share information about complaints		

(*Continued*)

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Table 46.1 (*Continued*)

Flow table (of the distribution channels)

Function	Responsibility Analysis (who does it and how)	Possible improvements (proposals)
Variables of Information		
Electronic orders		
Others (fill in)		
Variables of Payments and Offers		
Frequency of product orders		
Policies for prices and payments		
Margin analysis		
Commissions (volume and frequency)		
Grant credit to the final consumer		
Billing consumers		
Search for sources of finance		
Price guarantees		
Others (fill in)		

Some final comments should be added regarding these marketing flows performed by the channels, in order to complete the table. There are three basic premises in relation to these functions:

- the participants can be eliminated or substituted in the channels;
- the functions they perform cannot be eliminated;
- when participants are eliminated, their functions are passed on or backward in the system and taken over by others.

These functions can and should, for the channel's efficiency, be performed by the participants that manage to operate in the most competitive way possible. All are indispensable, and experience, specialization, contacts and scale are fundamental for this exercise. The efficient coordination of the process always involves sharing of information.

Discussion question

How would you improve the performance of the marketing channels of your company using the table?

Chapter 47

What Are Advantages and Risks of Building Joint Ventures in Food Business?

Joint venture is a type of strategic alliance where a third company is created, with the original two companies continuing their existence. It is one of the contractual forms, an intermediate between the extremes of vertical integration and the market. Table 47.1 provides advantages and risks for companies that are interested in exploring joint ventures.

This table could be used as a tool by companies entering into a joint-venture analysis. If the risks outweigh the possible advantages, the joint-venture is not recommended.

Table 47.1

Advantages and Risks in Strategic Alliances (Joint Ventures)

Advantages of Strategic Alliances / Joint Ventures	Risks of Strategic Alliances / Joint Ventures
➔ Can increase access to critical resources; ➔ Avoid legal and economical entry barriers; ➔ Gain more market force and coverage (scale); ➔ Spread risks; ➔ Acquire experience and contact network; ➔ Avoid supplier and/or distributor power; ➔ Access to distribution channels; ➔ Decrease in stocks, better logistic coordination ➔ Idle capacity utilization; ➔ Adaptation capacity in local markets; ➔ Lower cultural risks to enter new markets; ➔ Increase R&D; ➔ Unite efforts to reach common objectives;	➔ Conflicts between companies; ➔ Delicate construction of the administrative team; ➔ Creating its own identity is critical; ➔ Possible instabilities in the command structure; ➔ Technology transfer without any compensation; ➔ Increase exit barriers; ➔ Unbalanced power; ➔ Hold-up risk (contract break) when only one of the parts makes investments in specific assets; ➔ Partners can disagree about the division of the investments, marketing or other policies; ➔ Cultural difference; ➔ A dynamic partner in a joint venture can become a strong competitor; ➔ Risk of choosing the wrong partner.

Discussion question

Which are the most relevant advantages and risks of joint-ventures in your vision?

Take a recent example of an announced joint venture in the media and discuss possible advantages and risks.

Chapter 48

What Are Advantages and Disadvantages of Building Franchises in Food Business?

A company can also use the franchise format for growth. Franchising, a contractual form and an intermediate between vertical integration and coordination via market, is a contract through which a franchiser transfers to a franchisee the right of producing or selling products or services.

In exchange, the franchiser receives the revenue flow of each unit, which can become a fixed fee (franchise fee) and/or variable (such as royalties and advertisement). In addition to this, the franchisee can contribute with assets, such as capital, management ability or know-ledge about local markets.

This way, there is a network that shares a brand, a way of doing business and knowledge that is gained in that activity. Table 48.1 provides the advantages and risks for both franchiser and franchisee.

Table 48.1

Advantages and Risks in Franchises

Advantages in franchises	Risks in franchises
For the franchiser (the owner of the concept):	*For the franchiser (the owner of the concept):*
➔ Long-term strategic relationship; ➔ Business expansion without demanding high levels of investment. ➔ Brand management and control; ➔ More flexibility than vertical integration; ➔ Scale for marketing and technology (advertisement, new product development, administrative procedures); ➔ Capture local knowledge of the franchisee; ➔ Entrepreneurial spirit of the franchisee; ➔ Incentives of the franchisee (it is his business)	➔ Network integration process and participation of the franchisees in strategies and new developments; ➔ "Franchise brokers" and "franchisee cooperatives" (where franchisees meet to increase their bargain power with the franchiser) can threaten the system; ➔ Concentration in the hands of few franchisees can make the negotiation process unequal between the parts; ➔ Labor aspects on the franchisee's behalf that could result in law suits for the franchiser; ➔ Brand value loss due to the offering of products below the specified standards by free-riding franchisees; ➔ Ex-franchisees copying the business.
For the franchisee (local partner):	*For the franchisee (local partner):*
➔ Receive marketing support; ➔ Location for the venture; ➔ Efficiency in supplies; ➔ Market research; ➔ Project and layout; ➔ Financial counseling; ➔ Operational manuals; ➔ Administrative training; ➔ Employee training; ➔ Knowledge already acquired from the franchiser's experience; ➔ Access to consolidated brands in the market.	➔ Unknown expenses in the system; ➔ Geographical concentration of franchisees in the same area generating competition within the franchise system; ➔ Lack of investments from the franchiser in marketing and innovation; ➔ Can limit creativity and innovation of entrepreneurs or franchisees; ➔ The payment system can be discouraging with the initial fixed fee plus part of the economic result (royalties) and contributions for communication; ➔ Mandatory purchase of inputs from the franchiser that can be overpriced.

Discussion question

How do you see the franchise format as a growth alternative?

Chapter 49

Developing Own Stores: What Are Advantages and Disadvantages?

Another growth strategy for food companies is to build own stores. The vertical integration can be summarized as having the distribution function (it will be part of the company) and assuming functions of the distribution channel. There are several factors to be considered. The possible risks presented for this option are summarized in Table 49.1.

Table 49.1

Factors to Consider and Risks in the Vertical Integration Strategies

Factors to Consider in Vertical Integration	Risks in Vertical Integration
➔Complete control of the channels or supply; ➔Access to market information; ➔ Protection against market oscillations; ➔"Agency" costs as a result of different interests in the organization; ➔Integrated tax planning in the chain; ➔Differentiation opportunity; ➔Increased negotiation power with other distributors or suppliers; ➔Creation of scale and entry barriers to new competitors; ➔Protection against the closing of the market, for the company has its own access to it.	➔The cost to change becomes too high; ➔Costs and expenses associated with the integration can be higher than other alternatives; ➔Possible lack of flexibility; ➔Larger exit barriers; ➔May reduce and limit the innovation rate; ➔Large investments required; ➔Clients may become competitors; ➔Differences in optimum production scale; ➔Possible lack of administrative synergy; ➔Problems in one production stage threaten production and profitability of all other stages; ➔Occasional closing of the access to research of other distribution alternatives; ➔The activities at the beginning of the chain may be very different.

The table can be used as a guideline by companies desiring to set up their own stores or distribution systems. If the risks appear much higher than the possible advantages, the vertical integration into own stores or distribution systems is not recommended.

Discussion question

Is the vertical integration a relevant alternative for your company?
How do you perceive these advantages and risks?

Chapter 50

Creating Differentiation and Positioning for Food Business

Markets consist of buyers that differ in terms of needs, purchase power, geographical location, attitudes and purchase practices. Segmentation is key to business analysis, strategic positioning, resource allocation and portfolio management. Segmentation enables a company to study trends among various groups of consumers. Such predictions could be used by the company to formulate and implement competitive actions.

The market segmentation is an important variable in strategy implementation, due to three reasons. First, strategies for market and product development, market penetration and diversification normally pursue increase in sales through new markets and products. To implement these strategies with success, identification of market segments is necessary. Second, market segmentation allows companies to effectively operate with limited resources given that production, distribution and promotions are not required at a lavish scale. Focusing in target segments allows small companies to compete with larger companies. Finally, segmentation decisions directly affect product, distribution, communication and price variables.

Table 50.1 presents a sketch of the main segmentation variables (bases). In order to evaluate the potential of market segments, strategists should understand consumers' characteristics and needs, analyze their similarities and differences and develop profiles of the consumer groups.

Thus, companies can use one or more segmentation bases to identify current and potential consumers that have similar characteristics. Let us consider a company that works with consumer products. It can use demographic variables to define its target segment, for example, clients that are in the Southeast region (geographical). The company can also use other variables, specifying in more detail its segment, i.e., consumers of the Southeast region, men, with ages between 18 and 25 that consume the product in parties and night clubs (geographic + demographic + behavioral). The use of segmentation techniques is absolutely crucial in a world of fragmented foods markets.

Table 50.1

Main segmentation variables
Segmentation Variables for Consumer Markets ("B 2 C")
Geographical: Region; Size of the municipality; Size of the city or metropolitan area; Concentration; Climate.
Demographics: Age; Gender; Family size; Family life cycle; Income; Occupation; Religion; Race; Nationality.
Psychographics: Social class; Life style; Personality.
Behavioral: Occasions; Benefits; User condition; Use rate; Degree of loyalty; Aptitude stage; Attitude in relation to product.
Demographics: Industrial sector; Company size; Location.
Operational: Technology; User status; Client capacity.
Purchase approaches: Organization of the purchase function in the company; Power structure; Nature of the existing relationships; General purchase policy; Purchase criteria.
Situational factors: Urgency; Order size; Specific application.
Personal characteristics: Similarities between buyers and sellers; Attitude in relation to risk; Loyalty.

Source: Author based on Kotler and Webster & Wind.

Key segmentation strategies include market segmentation, differentiation and offer or product positioning. The adoption of target market strategies demands these stages. The first is market segmentation. The second stage is choosing the target market, selecting one or more market segments to work with. The third stage is market positioning, the act of establishing and communicating the major benefits of the product to the market.

Several authors have agreed that an organization distinguishes itself in a market through the differentiation of its offer (products or services) in relation to its competitors, as shown in Table 50.2. This way, the company can evaluate the main forms of differentiation — products, services, advertisements or human resources and evolve plans to use them best as per the segmentation required.

Based on Table 50.2, Table 50.3 provides some ideas for a company to be different from its competitors.

Table 50.2

Differentiation Options for Companies

Type of Differentiation Strategy	Definition	List your Ideas for your Company
Product/ Quality	Product characteristics that make it better – not fundamentally different, just better. The product performs with more initial reliability, has long-term durability or superior performance.	
Design	Offer something that is truly different, that escapes from the "dominant project," giving unique characteristics. This process includes product design, process, visual symbols, architecture, company identification.	
Image	An image is created for the product. This one also can include differences in a product that do not involve intrinsic improvements in performance.	
Services	It is the base for differentiating something parallel to the product, a support base in services, there is always a base to reach another substantial form of differentiation, especially in terms of support and services.	
Human Resources	Through the hiring and training of people much more qualified than the competition, improving the characteristics of the competencies, courtesy, credibility, reliability, responsibility and communication.	

Source: Adapted from Kotler.

Table 50.3

How can the company be different?

DIFFERENTIATION STRATEGIES

Differentiation variables		How can I improve those variables? Possibilities of improvement
Product	Standardization Style Durability Maintenance Attributes Economy Performance Cost Reliability Ease Packaging	What do we do now about those questions? Is it possible to improve something? How much would it cost? Is the value going to be increased?
Services	Delivery Ease to buy - support Installation Assistance/ care Training Offer and Maintenance Quality Return Credit Digital	
Human Resources	Courtesy Competence Credibility Character Commitment Communication Charisma Pro-active Flexibility Appearance	
Image	Brand Identity Tradition Denominated Region Concept Process Culture Craft Inclusion	

Source: Author, based on Kotler.

Discussion question

Which differentiation options could be applied in your company to improve its positioning?

Chapter 51

"Go to Market" Strategies in Emerging Countries*

This chapter proposes some specific strategies to enter and conquer the emerging markets. These markets are booming nowadays and if any company wants to grow in the global arena, it should participate and capture the growth of emerging countries. In the developed countries, companies could consider merging, acquiring or conquering market share of competitors, since in these regions most of the markets are not growing. Some characteristics of these markets are listed here to help companies with decision-making.

1 Emerging markets cannot be generalized. A deep understanding of each market is necessary. Countries differ. Just as an example, China, Brazil and India are real "continents" and differ depending on each specific region, urban or rural areas, and cultural background. Imagine generalizing Africa, what a huge mistake it would be.
2 As opposite to developed markets, securing information in emerging economies is difficult due to a lack of reliable data, official statistics and other sources. So, companies desirous of entering emerging economies may need to build own sources to find relevant information and knowledge. This is a unique characteristic.
3 Bartering systems (exchange of goods) may be a strategy to finance and avoid risks of default in payments or not receiving at all, due to the lower levels of income, higher inflationary trends and different business models in several emerging economies.

*First published in *China Daily* (November 2, 2012).

4 Marketing channels in emerging economies are very unique, involving several distributors that are very different in the way they do business and perform services. Sometimes it is a chaotic system, difficult to understand and measure. At the same time, the presence of modern retail systems makes a very diverse and dual system. Several variations within each country are also found. A segmentation process should be carried out using this variable and a clear multi-channel approach (in product and services) should be established by the company.
5 Adapting to family businesses and family managed distribution systems is needed. They tend to respond differently to the company offer, asking for more services and financial benefits than for discounts, the basic demand of large multinational retailers.
6 A motivated sales force that uses modern technology for data generation and analysis should be used to build information about the market and target the very different market segments.
7 Companies should try to select after due diligence and build trust with distributors in order to establish entry barriers for latecomers in these markets.
8 The issue of human resources is critical. Emerging countries are experiencing a fast rate of economic growth, and job opportunities are booming within competitors and elsewhere. So a strategy to attract and retain talent is fundamental. Sharing participation in the company may be a good retaining strategy.
9 Competition should be treated in a different way, since new competitors may come into these markets faster than in consolidated markets. Local competitors are more adapted to local situation and offer huge competition, since they know the rules of the game, the so-called "how to play."
10 Acquisition of local companies may be a strategy to acquire resources such as people and market knowledge, but investing company should always consider cultural aspects when taking over management of local company. A lot of mistakes and bad cases can be reported here.
11 It is recommended that companies desirous of entering emerging markets contract the services of local experts to understand the regulatory systems, since these are complicated and are best understood by the locals. Also, the institutional environment in some countries is weak, rendering justice slow and expensive. Sometimes, institutional or governmental restrictions of the new markets would mandatorily require entering only via joint ventures and/or with local partners.
12 Adapting product lines to local logistic systems is needed. In several markets, refrigerated transportation systems and structures are not available.
13 Find the right media to communicate with possible consumers, since effective ways to advertise may vary. Local sources of media may be available that may be more effective.

14 Focusing in the growing segment of food services in emerging cities may be a nice strategy to enter, popularize these products among consumers, and then approach retail by which time demand would have been already created by this strategy.
15 Avoid starting a strategy to capture all the existing markets, since the complexities are huge and the investing company may lose focus. Focusing in target segments is a key resource for avoiding major pitfalls.
16 Manuals describing various procedures are necessary owing to mismatch in the education levels and also to enable companies to train their new human resources in a faster way than competitors. These rulebooks could be used to accomplish training faster which in turn would ensure employee retention.
17 Investing in emerging economies may require investments that are not part of original plans, such as infrastructure, local communities benefits, corporate social responsibility programs and others.

The challenge is set. To grow today in the global arena will be very difficult without playing the game with emerging economies. And the difficulties are immense, so are the opportunities. It is the decade of the emerging economies.

Discussion question

In your view, which among these 17 points emerge as the five most important?

Chapter 52

Creative Food Pricing Strategies*

One of the most difficult decisions nowadays for companies is establishing an acceptable pricing mechanism for their offers i.e. products and services. An adequate, sustainable and creative pricing strategy is based on the equilibrium of financial returns desired by companies and well being of consumers in the tough global competitive arena.

I work with a framework method that has three major phases for this creative pricing strategy (CPS) process. The first phase is the understanding of the initial value of the product or service given, by the consumer. The second is about increasing this value, and finally, the third is the strategic pricing movements. Let us move to the first.

Phase 1 — Understanding the initial value given by the consumer.

1. Before any pricing decision is taken, a company must analyze the external environment: economic, income and demand conditions.
2. After this, a company should try to understand the behavior of the target consumer, his perception of the reasonable price (using surveys, experts, "food labs") and carry out a survey of initial pricing experiences in different marketing channels. The company should also analyze the total consumer costs when buying the product (money needed, time expended, knowledge acquisition, training costs, and psychological costs) that may be working as "buying barriers." All the consumer's risks in buying the company's product or service should be explored.
3. The third analysis in this phase is related to competitors, competing products/solutions and their prices, and how the consumer values and compares the product

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attributes of competitors. In concluding this phase, a company could establish objectives and gain an understanding of its cost structure at different sales levels.

The analysis of consumers, competitors and economic environment will facilitate a company to understand the value of its product or ser vice as perceived by the consumer. In the second phase, a company could attempt to change the initial perception of the consumer toward its products or services.

Phase 2 — Strategies for increasing the value

4. Companies should research and try to create a unique value position for their products. This can be achieved by reducing the importance of substitutes and comparison possibilities (from the minds of the consumers), thus blinding the consumers to competitors.
5. Another opportunity is to compare the cost of the product as a proportion of the consumer's income or total expenditure, measuring and communicating.
6. Companies may use "lock in strategies," to market their products as being complementary to products already acquired by consumers.
7. Companies should communicate the importance of their products' attributes and the risks that may arise upon consumers if such attributes, for instance quality and safety, are neglected by competitors.
8. Companies may also consider offering a "solution-driven" package of products and services to conquer the buyers (sometimes called as "bundling").
9. Mitigating consumer's buying risks, as discussed in Phase 1, is also an idea worth pursuing.
10. Some markets offer possibilities of skimming price strategies for new solutions (image, status, and exclusivity). This benefits the companies to capture value from innovative consumers, first movers and status-oriented market segments.
11 Companies could also offer economic benefits to consumers (like lower production costs) in buying their products along with simple messages and credible commitments.

Phase 3 — Strategic pricing movements

This phase requires companies to:

12. Monitor and preview competitor's pricing movements.
13. Establish discount policies and promotions analyzing seasonality and other factors.
14 Invest in an integrated product line approach and pricing Interactions.
15. Implement pricing adaptations when the market faces any macro-environmental (economy) changes;
16. And finally, using web-based strategies, provide services and pricing options.

Table 52.1

		Creative Pricing Strategies	Lists your Ideas for your Company
A - Understanding	1	External environment analysis	
	2	What are the risks in buying the company's product or service	
	3	Competitors offers	
B - Increasing Value of Company's Offer	4	Reduce the importance of substitutes of the product	
	5	Compare the cost of the product	
	6	Possible "lock in strategies"	
	7	Communicate the importance of attributes	
	8	Problem-solution driven	
	9	Mitigate consumer´s buying risks	
	10	Skimming…capture value with first movers	
	11	List of benefits to consumers	
C - Strategic Movements	12	Monitoring and previewing competition´s pricing movements	
	13	Establish discount policies and promotions	
	14	Pursue an integrated product line approach	
	15	Plan price adaptations needed	
	16	Use web-based strategies, solutions and experiences in pricing	

Source: Author.

I have used this framework with some companies, transforming each of these 16 points into questions and answering them with executives. These questions are valid for existing and new products and services and also in consumer research and other information searching activity. I hope these concepts and questions would prod companies that are facing challenges in their pricing strategies.

Discussion question

Use the framework to develop a strategy for improving the pricing of your products.

Chapter 53

Value Creation, Capture and Sharing Trilogy: The Costs*

This chapter will deal with costs. We will discuss differentiation and collective actions' aspects of value creation, capture and sharing in Chapters 54 and 55.

In this chapter, we discuss: How would cost reduction help companies to capture more margins? Basically, there are two major components of costs where we can find possibilities to improve: (1) internal costs and costs of inputs, and (2) services bought by companies (supply chain costs).

We will start with activities related with internal costs. Here, companies should look at all the production-related activities and explore improvements.

(a) Companies should explore strengthening their core competencies, or what they know how to do;
(b) They should evolve mechanisms to effectively utilize their resources and assets. It is a simple question. We have this asset, how to use it more effectively? Strategies relating to outsourcing may be an interesting activity. Outsourcing noncore activities would reduce costs;
(c) Companies should evolve scale strategies. What production levels would result in scale economy?
(d) An analysis of the quality and cost of materials is another possibility of value creation, capture and sharing, studying new materials and components which may offer better solutions.
(e) To have efficient labor is also important. Companies should evolve mechanisms to train their human resources, use them effectively and provide welfare. Simplicity is the word here.

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* First published in *China Daily* (October 19, 2010).

(f) Using methods to continuously redesign operations toward a "cellular" control of costs is another activity. Every activity, like a cell, must be seen and analyzed in terms of how could it be better done?
(g) Research and development toward specific technologies that could improve the company's efficiency is another strategy;
(h) Identifying the optimal financial architecture, i.e., seeking cost of capital and some public funding sources (governmental support) at competitive rates.

The above mentioned internal factors would strengthen companies' resolve toward cost control, value creation, capture and sharing.

The second bundle of activities involved in the cost approach of our value creation, capture and sharing model (cost, differentiation and collective actions) is focused at the supply chain of a company (buying processes and relationships with suppliers).

(i) Here, a company should try to reduce the bargaining power of sellers, mostly working on strategies related to promoting competition within a group of reliable suppliers and to have a continuous trial of substitutes/alternative inputs (even imported). This would bring better negotiation power to the company, increasing margins.
(j) Another possibility is to know the best moments in buying, since a seller has some moments over the year when his demand is smaller, and a company with good capital structure can buy better during these times.
(k) Governance contracts/reduction in transaction costs, is also a strategy, since to buy and to negotiate there are some other costs involved (transaction costs) that have impact over time and other resources of the company. Companies are encouraged to invest in technology and information systems to develop and implement effective processes.

In this section, we have listed 11 working points for companies that want to capture more value for their products and services via reducing the costs. These 11 working points may be regarded as opportunities by food companies. To complete our "Value Creation, Capture and Sharing Model," our next chapter will explore differentiation strategies and collective actions' possibilities toward value creation, capture and sharing.

Table 53.1

The Value Creation, Capture and Sharing Model: Costs

Activities	How the company or food chain can do it? Ideas.
Explore core competence to an exhaustion	
Better use of all assets	
Search for scale	
Quality and cost of materials used in production	
Efficiency in labour	
Continuous redesign of operations and methods	
Technology (R&D) to reduce costs	
Financial architecture (better financing sources)	
Advantage of experience effects	
Perform operations better than rivals	
Overhead costs reduction	
Outsourcing (make of buy decisions) to reduce costs	
Reduce bargaining power of sellers	
Governance contracts/reduction of transaction costs	
Increase your importance to suppliers	
Continuous trial of substitutes/ alternative inputs (imported)	
Stimulate competition within a few and reliable suppliers	

Discussion question

Which of these alternatives are available to your company? What measures would your company undertake to achieve them?

Chapter 54

Value Creation, Capture and Sharing Trilogy: Differentiation*

How can differentiation help to capture more value? The differentiation approach has five major possibilities, each with its own tools and ideas. The first is the integrated relationship approach, the second is related to products/solutions, the third is connected to services/people, the fourth possibility involves packaging and the fifth, the company's brand/image.

(1) **In an integrated relationship approach**, the first option for companies or food chains should be to search for proximity with clients — establish the so-called "lock in" strategies in which a company "locks in" consumers by increasing the switching costs of moving to a different offer or company. In a relationship, it is also important to offer performance to the buyer (value driven) being a unique solution that tries to simplify buyer´s decisions and costs.

(2) **In products and solutions**, mostly in food markets, innovation is the buzz word. We see products with aggregated nutrition components or attributes, like vitamins, minerals or other supplements. Launching innovative products in existing or new and booming markets (e.g., pet food) is also a strategy to be considered. Increased or reduced portions of products may also be considered, such as reduced products for smaller families or even individual portions. Ready-to-eat products serving a complete meal (rice with beans inside the same package) and targeting new market segments (such as nutraceuticals, functional foods and nutricosmetics) open opportunities for value creation, capture and sharing. Sustainable practices and certifications are value creators in most of the cases.

Another possibility is linked to innovations and products that expand the size of markets. Some companies when targeting younger generations are offering

* First published in *China Daily* (November 2, 2010).

toys or other gifts together with food to increase value and consumption. Innovations in ethnic food and new buying experiences promote growth in the market. Companies could also use occasions such as Christmas, Valentine's Day, Olympic Games or other events to market their products. There is growing appeal of "home made" food that is fresh, locally produced; this and other such linkages could be established with consumers. Legal protection, like patents for innovations, is also a strategy for value creation, capture and sharing.

(3) **In services and people**, companies could search for a faster, more reliable, "just in time" or prompt supply. Another opportunity is looking at the buyer's decision process, offering services that may reduce customer's "fats" in buying, that convince the consumer of the benefits with this acquisition instead of acquiring a similar product from a competitor. In services and assistance, companies may also set a standard for the industry and this may work as an entry barrier for competitors. Companies should invest in technology, at the same time, recruit competent human resources which would give them an edge over competitors (use the "high tech and high touch strategies"). Channel related strategies also have space here, offering locational convenience, presence at the point of sale and new distribution formats for the "on the go eating" segments and other types of buyers.

(4) **In packaging,** several possibilities and techniques could be deployed by companies such as using recyclable packaging, different materials for packaging different products; depending upon the products, packaging could be transparent, they may contain messages about health benefits, shelf-life, sustainability programs (recycling package initiatives), supply chain information (traceability), how to use the products related to life style (fitness, beauty, etc.).

(5) **In branding and image building**, there are well known strategies for increasing and capturing value. For instance, companies could apply the concepts of the integrated marketing communication strategies to manage a company's brand and image. They can be used to establish permanent "loyalty contracts" with buyers, receiving added value based on the recognition given by consumers to the brand and image. Endorsements are also value creators.

Finally, companies could invest in developing strategies that create new concepts, new functionalities, offering better financial results and diagnosis to clients, and "tailor made" offers.

In this chapter, we have listed five working points for companies or food chains that want to capture more value with differentiation. These points may be transformed into opportunity questions by companies. Our next chapter will explore collective actions possibilities in value creation, capture and sharing model.

Table 54.1

The value creation, capture and sharing model: Differentiation

Activities	How the company or food chain can do it? Ideas
Integrated relationship approach	
Lock in strategies: increase buyer switching cost	
Products/solutions (unique to buyer)	
Customer service: fast, reliable, "just in time"	
People ("high touch")	
Packaging solutions	
Simplifying buyer´s decisions	
Brand and Image	
Performance to buyer (value driven)	

Discussion question

Which of these alternatives are available for your company? How would you achieve them?

Chapter 55

Value Creation, Capture and Sharing Trilogy: Collective Actions*

This is the concluding chapter in the value creation, capture and sharing model series. Here, we present the third bundle of activities related to collective actions. Joint or collective actions are defined as companies' activities that could be performed together with another company or food chain, or even more than one company. These companies may be competitors or others that do not compete but operate within the same markets, and even totally nonrelated companies. Due to an increase in competition, compressed margins and control costs, the possibilities of working together are huge and need to be explored by companies in the near future.

We will divide collective actions in seven areas of possibilities. (1) Supply chain, (2) internal management, (3) products/brands/packaging/services, (4) communications, (5) marketing channels and sales, (6) pricing, and finally, (7) via horizontal and vertical collective associations.

(1) In joint and collective actions within the supply chain (here considered as all the suppliers of the company), the most common activities comprise buying inputs together with other companies thus increasing their bargaining power with suppliers. Another idea is to create a common purchase structure shared with other companies to provide scale gains and reduce redundancies.

(2) In internal management, companies may consider plans to invest in projects with other like-minded companies in areas of quality, traceability and information systems; share human resources management practices (share training,

* First published in *China Daily* (November 11, 2010).

structures and others); share financing and legal practices (using collective tools), etc. Here, an understanding of how the strengths of a company could be shared by another may be analyzed.

(3) **Joint or collective actions in products/brands/packaging/services** may also contribute to capture value. Some examples are: to complement product portfolio with other company's products, having a more complete offer; create new products and technologies in conjunction (reducing individual investment), facilitating adoption of new technologies and defining a dominant standard; use other company's brands to enter in new markets (brand licensing); share services structures for clients, for example, related to the guarantee, maintenance, recall of products; and finally, use the same packaging infrastructure. We may even consider sharing production or service assets bought together and collective construction of infrastructure (like the example of the ethanol pipeline being built in Brazil).

(4) **Joint or collective actions in marketing channels and sales** could also be carried out to capture value. Examples are: companies with interests in market segments can share channels and increase sales; combine efforts to open international markets; sales staff from different companies may complement their products portfolio with products from another company; in learning about client characteristics (knowledge about client specificities), costs may be shared among companies; increasing the trade of information among sales staff (sales and potential sales in their markets) and joint market studies to increase knowledge of territories, alignment of territories, number of sales staff and determination of quotas.

(5) **In pricing**, several possibilities of joint and collective actions are possible. Examples are: offer a package of products and services with more value and convenience, as in bundling of agricultural inputs. As a consequence, there is a significant chance that the client's price sensitivity is reduced, allowing the company to charge more for the package, in comparison to a separate product. Companies can share discounts (through loyalty cards, for example) and other pricing strategies.

(6) **Capturing value through collective actions via communications** also has some examples: conduct joint advertising among companies from the same industry, or companies that have the same target market; joint investments for increasing the consumption of the industry's generic product to create knowledge and form a favorable public opinion of the product so that all participants benefit; share public relations infrastructure; stalls and stands, common exhibition and demonstration areas and other promotional activities.

(7) **The last topic in value creation, capture and sharing** is via horizontal and vertical collective associations. These include participation in associations, cooperatives, pools of producers, joint ventures, alliances and other collective forms.

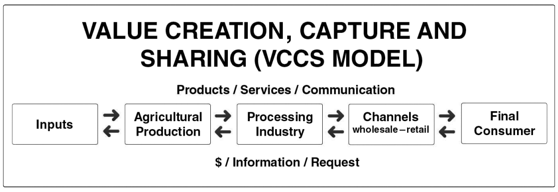
Table 55.1

Value Creation, Capture and Sharing: Collective Actions	
Activities	**How the company or food chain can do it? Ideas**
Collective actions via supply chain	
Collective actions via internal management	
Collective actions via products/brands/packaging/-services	
Collective actions via communications	
Collective actions via marketing channels and sales	
Collective actions via pricing	
Collective actions via horizontal and vertical associations	
Collective actions via strategic alliances and joint ventures	

Source: Author.

The benefits of participating in cooperatives and strong associations in the industry helps activities like lobbying, market protection, tax reductions and other activities that try to protect margins.

In this final chapter in the "Value Creation, Capture and Sharing Model" trilogy, we listed seven working points for a company that wants to capture more value with collective actions. These working points may be transformed into opportunity questions by companies in raising ideas that will become projects for value creation, capture and sharing.



DIFFERENTIATION STRATEGIES

Inegrated relationship approach;
Innovation;
Lock-in strategies;
Products and "solutions";
Brand and Image;
Packaging solutions;
Sustainability and certifications;
Intimacy and convenience;
Channels;
Sales force;
Services;
Performance to buyer.

COLLECTIVE ACTIONS STRATEGIES

Supply Chain;
Internal management: products/brands/packaging and services;
Communication;
Channels;
Sales;
Pricing;
Horizontal and Verticals associations;
Strategic alliances, joint-ventures and other forms.

COSTS STRATEGIES

Explore core competences;
Better use of resources and assets;
Strategy-scale production;
Quality and material costs;
Efficiency in labor;
Continuous redesign of cost reduction;
Financial architecture (better financing sources);
Advantage of experience effects;
Outsourching (make or buy decisions);
Better operational performance;
Overhead costs reduction;
Contracts governance/reduction of transaction costs;
Reduce bargaining of sellers and increase importance to suppliers;
Continuous trial of substitutes;
Stimulate suppliers competition.

Source: Author.

Discussion question

Which of these alternatives are available for your company? How would you achieve them?

Chapter 56

Creating a Winning Food Concept*

Unstable global environment, lower margins, incredible access to new technologies, huge amounts of information from the digital world, higher risks, complexities, and the emergence of new competitors and "copy-etitors" (companies that immediately copy the product) bring a dynamic world of opportunities, challenging our management.

If running a company is difficult nowadays, having a strategic plan toward innovation and innovative concepts is even more difficult. Executives suffer from lack of time, pressure to produce short-term results in a rapidly changing environment that emphasizes "one surprise per day." There are difficulties in forecasting caused by internal cultural problems related to unsuccessful planning experiences from the past and avoidance of getting into more activities. Sometimes, to plan is difficult since we face the arrogance of the owners of the truth, commonly verbalized with the "this doesn't work here…"

The search for success in the current competitive environment requires companies to innovate. A traditional challenge is how to develop an innovation culture supporting the development of new products, guaranteeing growth and profitability. Given this, I think we should move further than traditional new products… How?

Innovations could be more creative that pursue the objective of creating "a concept." I like to analyze examples of companies that launched products or ideas which became concepts. First of all, let me define a concept. It is more than a product, involves a complete package of solutions, a new behavior, a culture and even a community. It is something new that makes a difference. Imagine as examples Starbucks, McDonalds or the new digital world: Facebook, Twitter, Google and other innovations that when they came to market, a new idea and a concept came together. How to create concepts?

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* First published in *China Daily* (November 23, 2010).

The new product development process has well-known and traditional activities. What I am doing here is adapting toward a broader inspiration of the "concept behavior creation." We may think in seven steps, as detailed below.

1. **Generation of concept ideas:** Ideas could be generated by consumers through chats, e-mails, formal letters, discussions, tests, surveys and communities. This involves description of their problems and suggestions and proposals for improvements. Ideas also could be given by suppliers, distributors and sales staff, by outside and inside research and development areas, employees, shareholders and others. We must be stimulated to give ideas of concepts, thinking about what are the main concept benefits; who would benefit from such a concept; what will be the occasion; what needs will be met? Talking to consumers, having consumer's labs and most importantly paying attention are challenges.
2. **Selecting best concept ideas**: It has the objective of reducing the number of concept ideas to a few attractive and practical ones evaluated in accordance with the requirements of success (reputation, brand, R&D, HR, marketing, production, etc.) and the company's competence in dealing with the issue.
3. **Strategy for marketing the selected concept ideas:** This steps plans about the size, structure and target market behavior; the planned concept positioning and details of prices, channels, communications, selling, profit goals in the long term; cost and profit estimates (cash flow statements).
4. **Building the integrated concept network:** This comprises issues such as: How to design this concept as an integrated network of contracts, participants, financial design, partners and others? Who will participate in this innovation? What is the "architecture" of the concept, its participants and tasks?
5. **Physical development and testing of concepts:** This refers to physical (actual) development of the concept, involving all tests and approvals needed. Here, we should see how consumers and other stakeholders will react and perform market tests.
6. **Finally, make it happen (launch of the concept):** This phase refers to "go to market". We should think — when? (timing choice); where? (geographic strategy); to whom? (target markets); how? (market penetration strategy).
7. **Continuous redesign:** A concept, when created, cannot last forever, and must be permanently renewed. A concept must bring value to consumer's time, ambience, building a "lock-in" strategy (try to create difficulties for the consumer to change your offer toward a competitor, have clubs and communities to support like miles clubs, cards, culture clubs, among others, a clear communication, a superior value in quality, design and problem-solution driven. And always think about how to improve.

In this chapter, I raised seven steps toward concept creation. The most important behavior that we should pursue is to pay attention, to be curious and to navigate since nice concepts are being created all over the world, one per day.

Table 56.1

Food concept creation
7 Steps - food concept creation
1. Concept ideas proposal
2. Concept ideas selection process
3. Concept marketing strategy
4. Building the integrated concept network
5. Concept physical development and testing
6. Make it happen (the launch of the concept)
7. Continuous redesign

Source: Author.

Discussion question

What new concepts could be created in your company using the seven steps discussed in this chapter?

Chapter 57

The Consumer's Risk Analysis*

Do our companies have contracts with consumers? First of all, contracts are relationships, and are either formal (written and signed) or informal such as verbal contracts that are based on trust and carry a higher value in many societies than written and formal agreements.

The difference between consumer's expectations and what is received when a product is purchased (dissonance or gap) is well studied in marketing. Companies face an era of high expectations, which bring additional responsibility. Most companies would like to have loyal consumers buying what is offered, and giving returns. The question here is how to establish these contracts.

A traditional analysis would probably emphasize that companies should have good products with quality, affordable prices, quality service, effective communication and marketing channels, sales process and others. But we can move on a different direction, which involves studying risks and looking at our offer with the consumer's lens.

The focus should be on using an opposite way of looking and coming backward, analyzing possible risks that consumers avoid when buying something, starting a relationship or building a sustainable contract. What are these risks? How to avoid them? How to modify our strategy?

1. What are the risks of bad performance (the product will not solve the need completely)? Understand what consumer thinks in terms of quality, conformity and other criteria used to measure performance are important. Several companies show the economic benefits of using the offer or product, in case of new technologies, and it is an idea.
2. What are the risks of extra time (energy expenditure) or lack of convenience in the purchase process? Consumers need simple purchase experiences, so all the

* First published in *China Daily* (March 11, 2011).

processes as seen by consumers (credit, deliver, showrooms and internet, among others) should be mapped and analyzed to become faster and simpler. Losing time nowadays is almost a crime!

3. What are the risks of money expenditure (sensation of less value for the money spent)? Understand how the consumer is putting value on our offer and what really is being offered. If there is a gap, probably the company has committed a mistake on advertisement or other marketing activity.
4. What are the risks of not belonging or not receiving pleasure, comfort and well-being within the community? Several products are purchased based on opinions, and will be used in situations where consumers will face other opinions, coming from friends, family, neighbors, colleagues and other relations. Consumers are searching for acceptance and sometimes buy a product or service linked to a wish of belonging, of "making part."
5. What are the risks to health or security related to the product? If it is a food or beverage, how is the health risk seen, and what is valued in terms of certifications and other associations.
6. What are the risks of payment (consumer finances)? Will consumer be able to pay? Could the company offer credit or other benefits?
7. What are the risks in not fitting consumer's values toward society, environment, employment and other values a consumer might have? Production processes, marketing and others should be linked to what is valued by the buyer.
8. What are the risks in reselling? For instance, the case of durable goods, that are used and then sold (like cars, for instance).
9. What are the risks in not understanding consumers' requirements? These risks are sometimes neglected. In most industries, consumers want simple solutions, or products that are easy to use and to understand.
10. What are the risks in maintenance, services, or post-sales interactions? For instance, costs related to insurances, maintenance, the inputs needed, energy consumption and other variables.

Successful consumer relationships nowadays focus on experiences. To be successful, means performing better than the competition in avoiding consumer risks and delivering benefits.

This will bring a relationship with consumers, which would tend to be loyal if companies would sustain the momentum of their research to provide a better value equation to the consumers. If the consumer perceives accommodation then we will be surprised with their new contract with a competitor. This is our risk.

This consumer risk analysis may give positive results and ideas.

Here goes a summarized table of the list of 10 questions.

Table 57.1 Consumer Risk Analysis

1 - What are the risks of bad performance (the product will not solve the need completely)?
2 - What are the risks of extra-time expenditure or lack of convenience in the purchase process?
3 - What are the risks of money expenditure (perception of less value for the money spent)?
4 - What are the risks of not belonging or not receiving pleasure, comfort and well being within the community in the purchase of the product?
5 - What are the risks in health or security related to the product?
6 - What are the risks of payments (receivables/consumer finances)?
7 - What are the risks in not fitting consumer's values towards environment, employment and other values a consumer might have?
8 - What are the risks in reselling (value of used products)?
9 - What are the risks in understanding features of the product?
10 - What are the risks in maintenance, services, or post-sales interactions?

Source: Author.

Discussion question

Use this list of 10 questions in focus groups with consumers and also internally within the company, gathering knowledge of sales and marketing people, and other specialists in order to reduce risks. The consumer will then have a sustainable contract and a profitable relationship with your company, with common benefits.

Chapter 58

Building Inter-organizational Relationships and Contracts*

Changes in the economic environment have accelerated the companies' focus in their core competencies, outsourcing noncore activities, and therefore, reducing diversification levels. In this context, the vertical integration (realization of distinctive technological phases under the same decision command) frees the space for inter-organizational contracts as an alternative coordination structure (relationships). It is the era of specialization, innovation and solution-driven behavior.

The so-called hybrid forms gain space in the universe of networks and relationships. Since hybrid forms are mostly produced by contracts, we see the emergence of smooth collaborative networks based on relationships.

Inter-organizational relationships can be formal (based on written contracts) or informal (verbal agreements). Depending on the institutional environment, both have the same value. Some societies value verbal agreements where the participants have reputation and credibility, and a formal document, therefore, is not needed to make transactions happen and to guarantee behavior. Other countries need formal documents, and in some countries with weak institutional environments, even these written documents do not have value.

Companies are getting more involved in transactions and with availability of suppliers and distributors, relationships culminate into smooth cooperation making it possible to reduce the transaction costs, with well designed contracts.

Contracts are elaborated in a mutant environment and in the presence of bounded rationality. Bounded rationality is defined as the noncapacity to foresee ex-ante, in other words, all future contingencies before the beginning of the transaction. Incomplete contracts enhance several opportunistic problems and bring undesirable transaction costs that could be reduced if the process of building a contract, of thinking more about the transaction or the relationship could be done with more time and details.

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* First published in *China Daily* (July 9, 2011).

Contracts are mechanisms that help to regulate flows. These are the traditional flows between companies, or from a seller to a buyer. When a transaction is completed, we will have the flow of products, services and communications from the seller to the buyer, and then, the flow of money, information about the product and new requests, going from the buyer to the seller. Any contract should define well the responsible actors to perform the flows. Here are the main topics considered in each flow:

Product and services flow: This includes product characteristics, inventory management, product transportation, product modification and after-sales service, customizing a product to specific needs, providing technical service, product maintenance and repair, procedure and handling of returned products, promotion about product availability, packaging, specific packaging requirements, evaluating new products, after-sales follow up, industrial consumer services, preserving quality and others.

Communication flow (from company to final customers): This refers to sales promotion to end consumers, information about product features, advertising, providing sales force, frequent visits/face-to-face contacts, packaging information, loyalty programs, website participation, traceability information and others, mostly involving new and digital media formats.

Information flow (from customer to company): This refers to sharing knowledge of local market, consumer behavior, scanning data (access to computer data), complaints via website/service line, order frequency, order formats consideration, and arranging information about consumption and others.

Payments and financial flows: This flow deals with paying for the products, conducting credit checks on end consumers, billing customers, caring for specific customer orders, arranging credit provisions, price guarantees, financing and others.

As a final comment, these inter-organizational arrangements also have a learning curve. It means that repeated transactions between companies' increases trust, making it possible to reduce costs via adoption of more "just in time" practices, reducing stocks, eliminating redundancies and collaborating more, since there is an increase in trust as "time goes by".

One of the problems to be avoided in long-term relationships between companies is accommodation and its consequences, such as lack of innovation, cost reduction and others. So even in stable relationships, some competition is important to keep innovation and reduce accommodation.

In the network economy, the process of building more complete contracts is very useful. This chapter brought some contributions to help the process of building or reviewing contracts in the era of relationships. It is a mechanism for building good governance strategies and structures.

Discussion question

How would you improve the contracts of your company?

Chapter 59

The Connectivity Era: Receiving Information*

I want to address some incredible innovations that have changed our lives, the way we do business and the companies' strategies. These changes deal with our capacity to communicate, to be tuned in and informed in a new world of connectivity.

I would like to share a personal story. Let me remember . . . "those were the days my friend, we thought they would never end . . .." From 1977 to 1978, I lived in the US, while my father was doing post-doctoral studies. Our family was in Brazil and I remembered that international phone calls were so expensive that we could communicate by phone with them only on Sundays and that too for few minutes only. Forget mobile phones, we used those old equipments with rings to dial. There was an "operator" also to work as intermediary for our phone calls.

My grandfather used to send the local newspaper in Brazil through post every Monday morning, and we received it the next Monday (seven days by regular mail). So we were abreast of the news, business, current affairs and sports in Brazil, but after a long delay. Times of the old Boeings 707 of Pan Am, that we could take pictures using our old cameras with films to be further developed.

Then almost 20 years later, in 1995, I lived in France to pursue my Master of Science degree. The period was when e-mail communication systems took root; and the nascent mobile phone industry was also taking its first baby steps. There was a central computer at the university where we could receive and send e-mails. A few innovators were using it, however, with no wide acceptance since it was not user friendly, and the only computers present were desktops, large, expensive ones with limited resources.

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During 1998–1999, I lived in the Netherlands and was doing part of my PhD. We were already using the internet, accessing a lot of online content, and doing many other computer-related tasks. E-mailing was widely prevalent and mobile phones too had become a rage. I could read newspapers from Brazil at 8 am in the Netherlands, and in Brazil, the time was still 3 am. I used to joke with my colleagues in Brazil that I was ahead of the time! So from reading the newspapers seven days later, I "moved to the future" and could read the newspaper five hours ahead. From very expensive phone calls on Sundays, in 1977, I now make free calls via the internet today. I can travel throughout the world and still keep in touch with my family and see their day-to-day lives unfold before my eyes, for free. My expenses with international phone calls came to zero.

And then we faced the web revolution. These 10 to 15 years (1995–2010) will be strongly remembered by history books, changing our lives dramatically. We are connected all time, we are informed all time, we have changed ways of entertaining ourselves. From a lot of time spent in front of television, we moved to computers that offer billions of contents pages, from both professionals and ordinary citizens. Everything is available in the internet. If we miss some information, we search, click and find the answers there. We are swamped by information all time — in our phones, computers and other devices, like the recently launched tablets. A real revolution in the industry has taken place.

Things that did not exist 10–15 years ago are now an inextricable part of our lives. Just imagine and look around now. Notice how many things that surround you now were not part of the past. Look at your mobile phone — it carries five or six industries in just one device. It is a camera, a film machine, a watch, a tape recorder, a computer, a radio, a GPS, and even. . . a phone! In the past, all these functions were performed by separate devices produced by different companies.

With the web, we can see maps, we can program trips, compare prices of products and services all over the world, follow GPS systems and avoid getting lost, economize time and money and we can even see videos of the places we plan to visit and the hotels we plan to stay. The web has reduced information asymmetries and our transaction costs.

We upload our curriculum and other personal data, we receive information about our old friends in social networking sites, both professional and personal, we meet new friends and are informed about what our friends are doing. Suddenly, old friends and contacts whom we have lost touch with over the years appear in our computers and come back into our lives.

We can join communities and receive information of promotions, we can buy together in collective buying sites and we can read QR codes and download a lot of information about a product or service.

The internet revolution has clearly divided our lives — before the web and after the web.

Discussion question

How information and connectivity can change the fortunes of your company in the future?

Chapter 60

Gap Analysis Tool (GAT) for Improving Performance*

This chapter aims to propose a tool for analyzing gaps in the sales potential of an organization when considering one of its offers and its actual sales or performance. Different from the traditional planning process, GAT allows companies to compare actual performance with potential performance.

The potential sales of an organization is represented by the upper limit of the demand in a given period of time, in a situation where most the following aspects reach its full potential: maximum number of possible users; maximum usage per time (utilization rate); maximum proportion of consumers using and maximum frequency of purchase among other situations that takes us to the limit of the market of a given offer (product).

Achieving the sales potential of an organization becomes a difficult task as the current market is very dynamic, competition is intense and there is great difficulty in forecasting future scenarios in a fast changing environment and changing consumer behavior.

The difference (gaps) between the total sales potential of a market for a given product, the total sales potential of an organization and its actual sales indicates the rate of development or underdevelopment of the organization and of their markets.

It is important to remember that larger existing gaps means that markets are less developed and therefore there are greater opportunities for growth.

There are two major types of gaps. Gaps that are internal in a company (related to the offer of the company) and gaps that are external, related more to market conditions, competitors and others. Here, I will describe possible internal gaps.

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1. **Product, packaging, brands and service gap:** This seeks to reevaluate aspects such as size, style, shape, packaging, and others in order to reduce possible errors of alignment between the product or service and their target market positioning. The question is: what are we missing in the product?
2. **Communication gap:** seeks to identify and reduce errors in communication actions of the product or service, such as an advertisement in an inaccessible local to the target market and others. The question is: what are we missing in communications?
3. **Marketing channels' gap:** seeks to identify existing problems in marketing channels of product or service, for example, is the shelf space for a specific product in line with the goal of product sales, or even geographical distribution issues? The other question is: what are we missing in channels?
4. **Sales force gap:** seeks to identify factors related to inadequacies in sales force — people, training, sales structures, among others. The question is: what are we missing in sales force?
5. **Pricing gap:** This searches for inefficiencies in the system of pricing of products and services, whether the pricing strategies adopted are consistent with target markets, competitors, production costs, among others. The question is: what are we missingin pricing?

   After these five possible areas of gaps that may occur internally in companies, we should look for gaps outside the companies that is shrinking sales or making it more difficult for companies to reach the potential market.
6. **Current offers from competitors:** seeks to analyze the organization in comparison to its competitors, aiming at solving the inefficiencies and increase its competitiveness. Actions such as product differentiation are widely used as a movement to show the company or the offer different from the competitors. The question is: what are we missing when compared with our competitors?
7. **Substitute products gaps:** By studying the substitute products and the gaps caused by them, companies should reevaluate their positioning and search for tools that allow comparisons to identify potential advantages and explore these. The question is: what are we missing in relation to substitute products?
8. **Market potential gaps:** seeks to identify and overcome obstacles that are hindering the growth potential of the given market. It is necessary to search for new customers, encouraging the use and increasing consumption, for example. This can be done collectively, by the industry associations, in order to improve consumption. An example is the marketing efforts taken by the milk industry in the US, with the famous Got Milk campaign, and others. It is a win-win situation to attempt to increase the overall size of the market so all companies will gain. The question is: what are we missing to increase the overall market?

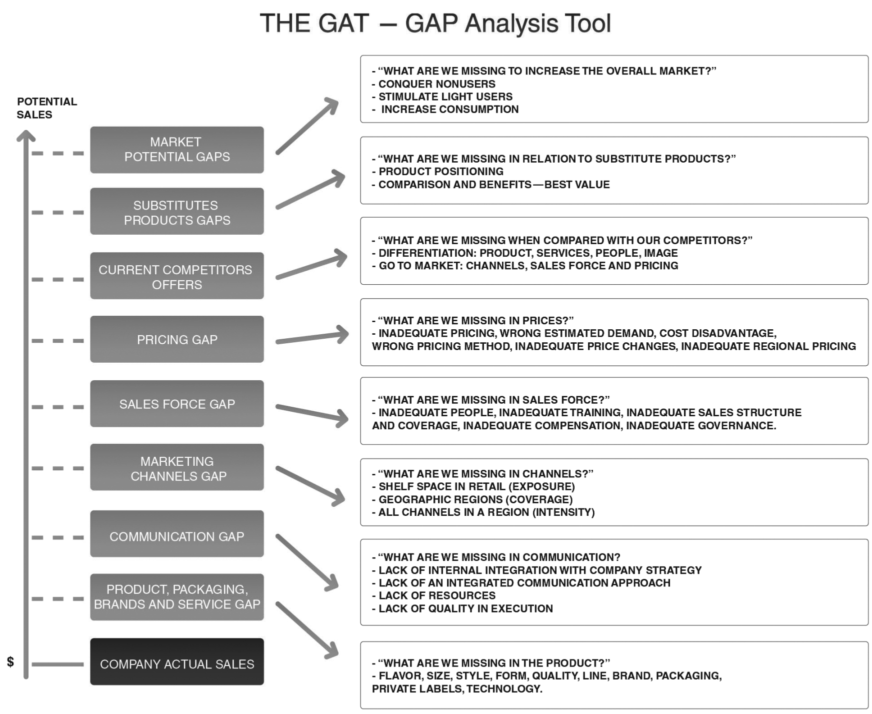

Figure 60.1 The GAT — GAP Analysis Tool

Source: Author.

Discussion question

This Gap Analysis Tool can be useful in carrying out a backward process — from the mistakes committed towards the strategic projects needed. Try to perform it in your company.