FARMING POST REFORM: 
THE KEY MARKETING CHALLENGES

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Abstract

The 2003 reform of the Common Agricultural Policy largely replaced the European Union’s production orientated system of price support with a decoupled, single farm payment (SFP) system that freed farmers to choose what to do with their land, be it crops, livestock or withdrawal from farming. The outcome is reductions in the levels of farm–gate prices and greater exposure to the vicissitudes of market forces. In justifying the reform, the authorities argued inter alia that a positive outcome would be the encouragement of a more market orientated and competitive farming industry. In this paper we examine the likelihood of this outcome for UK agriculture and how it might be achieved. We find the arguments that the reform will encourage extensive farming techniques and this will serve as the basis of a more market orientated industry unconvincing. We argue that the reform is more likely to achieve its objective of a more market orientated industry if the reform encourages farmers to collaborate in horizontal networks as user members of Farmer Controlled Businesses. Such businesses operate as vertical integrators and are particularly suited to developing a market orientation. We conclude by listing areas of research that can aid an understanding of the marketing functions of Farmer Controlled Businesses and their influence on the economic returns to their user members.

Keywords: Agricultural marketing, Common Agricultural Policy, market orientation, collaboration, farmer controlled businesses.
1. Introduction

The Agricultural Commissioner, Franz Fischler’s, July 2003 reform of the European Union’s (EU) Common Agricultural Policy (CAP), the so-called Mid-Term Review, turned out to be more radical than expected when the policy review was announced in 1999. The Fischler reform (as we shall define it in this paper) came into effect on 1 January 2005 in the UK, since when farm businesses have been coming to terms with the new support arrangements. Under pressure from the World Trade Organisation (WTO) to reduce trade distorting support and from the EU’s finance ministers to limit the growth of public expenditure on agriculture, the Fischler reform converted the bulk of farm support into decoupled payments, known as Single Farm Payments (SFP) whilst substantially weakening the ability of the CAP’s open-ended price support mechanism to hold farm–gate prices above market clearing levels. The reform was designed to address three key needs: to enhance the (international) competitiveness of EU agriculture; to promote a market orientated, sustainable agriculture; and to strengthen rural development (Commission, 2002). At a policy level, EU member governments, the European Commission, together with farm businesses, their lobby groups and businesses located upstream and downstream in the food chain all have a keen interest in understanding to what extent the Fischler reform will generate the desired outcomes.

It is doubtful if the reform can simultaneously achieve the three objectives set by the EU (Rickard, 2004), but our concern here is the objective to create a more market orientated agricultural industry. The importance of such an orientation arises from the fact that in the future the market returns to mainstream EU farm businesses eg, arable crops, beef, sheep and dairying, will be determined largely by market forces in contrast to the CAP’s original support structure, which ‘guaranteed’ that farm–gate prices would not fall below politically determined levels, regardless of the balance between supply and demand. Mindful of the general excess supply of agricultural products within the EU, a common theme in official UK government discussion of the reform, is that the new support regime will encourage less intensive (ie, extensive) farming practices. Moreover, this change in practices will itself be an aid to an improved marketing environment, and thereby enhanced market returns for agricultural produce (Beckett, 2004). This is a key point. It is clear from a close reading of Margret Beckett’s speech (op cit), the then Secretary of State responsible for agriculture, that the government is not only relying on extensification to tighten market supply, but also to provide farmers with a source of additional value creation.

In this paper we will seek to demonstrate that the Fischler reform cannot achieve its objective of a more market orientated agricultural industry unless it results in individual farmers switching from the production focus engendered by the CAP’s traditional system of price support to a mindset where price is viewed as the reward for more closely aligning value delivered with customers’ demands. We argue below that a change to less intensive production methods is not sufficient, indeed from a marketing perspective such a change is an irrelevance. Rather, we explore why, and how, farm businesses might reach downstream of the ‘farm gate’ to create and capture
additional value. This, in our view, would represent a market orientation and the issue is given added urgency by the likelihood that the SFP will be progressively reduced in the coming years in order to keep the total cost of the CAP from exceeding its budget ceiling (House of Lords, 2005).

This conceptual paper explores the meaning of market orientation for the farming industry and examines how post reform farming practices and business relationships might contribute to the desired outcome. The plan of this paper is as follows. The first section examines the concept of market orientation and in what way it is relevant to the farming industry. It argues that to achieve a market orientation, farm businesses must have the capability to understand and respond innovatively to existing and emerging consumer demands. The second section explains why the Fischler-reform per sé is unlikely to create a marketing platform based on the widespread adoption of less intensive farming techniques. It argues that the trend towards larger scale industrial farms is likely to continue and that it is therefore more sensible to investigate how such farms might adopt a market orientation. The third section outlines the changing nature of the demand for food and concludes that a market-orientated mindset is likely to necessitate a focus on micro segments of a rapidly fragmenting food market. The fourth section discusses how farm businesses are more likely to achieve a market orientation if they collaborate and this section explores the likelihood that Farmer Controlled Businesses will form the basis of a more market orientated UK agricultural industry. The final section sets out a number of identified areas for research arising from this paper.

2. A Market Orientation

Once politicians perceive the need to bring about change, be it in the behaviour of individuals or businesses, it is traditional to use the medium of speeches and commissioned reports to carry the message. The UK government, anticipating in large measure the Fischler reform, set up the Farming and Food Commission under the chairmanship of Sir Donald Curry in 2001, whose report, hereafter the Curry Report, warned that . . . “for an industry that has been under the government’s wing for more than fifty years this [reform] will be a serious challenge. Farmers will need to listen to their customers – or lose money. They will need to be better at marketing, better at working together and better at understanding their business as a business” (Curry, 2002, p16). Despite this observation, of the Curry Report’s 125 recommendations only five dealt directly with marketing though it could fairly be claimed that many other recommendations eg, the establishment of a Food Chain Centre to facilitate benchmarking, have an indirect link to marketing. The five recommendations are set out in Table 1. As can be seen, all are aimed at industry groups, overall the report had little to say as to how exactly individual farm businesses could utilise marketing per se to increase their market returns and improve competitiveness.
<table>
<thead>
<tr>
<th>Focus</th>
<th>Recommendation</th>
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<tr>
<td>Marketing local produce</td>
<td>A specialist body should be set up to oversee the marketing of regional food</td>
</tr>
<tr>
<td>Distribution of local foods</td>
<td>Each Regional Development Authority should work with partners to devise regional strategies</td>
</tr>
<tr>
<td>Protecting local brands</td>
<td>Industry levy bodies should work with specialist groups to protect local food names</td>
</tr>
<tr>
<td>Red Tractor Scheme</td>
<td>Levy bodies should redirect resources currently used for generic promotion towards supporting an improved Red Tractor Scheme</td>
</tr>
<tr>
<td>Fresh Fruit</td>
<td>The Horticultural Development Council be changed to enable it to engage in promotion</td>
</tr>
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For some 45 years, the CAP shielded farmers within the European Community from having to consider market forces when making decisions regarding their patterns and volumes of production. This lack of a marketing dimension, together with the bias towards commodity products, presents a unique challenge when seeking a marketing response to offset the financial effects of reduced farm support. An appropriate starting point is an understanding of what a market orientation might mean for individual farmers in the EU. Kohli and Jaworski (1990) defined market orientation as “…the organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation wide responsiveness to it (Kohli and Jaworski, 1990, p6).

Narver and Slater (1990) suggest that a market orientation is made up of three behavioural components: customer orientation; competitor orientation; and inter-functional co-ordination. Customer orientation relates to the understanding of customers’ current and changing needs in order to be able to create superior value for them. For farm businesses located upstream of final consumers this necessitates an understanding of the needs of agents at different stages in the chain as well as final consumers. Competitor orientation, which relates to the analysis and understanding of competitors’ capabilities and strategies is of little practical relevance as long as the farm business is operating as an atomistic supplier of a commodity but a shift to producing differentiated products and/or the grouping of farm businesses into a larger business entity would increase the significance of a competitor orientation. The third component, inter-functional coordination, refers to the need for the coordinated integration of the business’ resources in creating superior customer value. Again this
aspect of a marketing orientation becomes increasingly important should a farm business, or a grouping of farm businesses, become involved in more than one stage in the supply chain.

Further insights are provided by concepts such as environmental scanning (Brownlie, 1994) a ‘market sensing’ capability (Day, 1994) and Gray and Hooley’s (2002) inclusive definition of market orientation incorporating both philosophy and behaviour. McDonald and Wilson (2004) view market orientation as a process for defining markets, quantifying the needs of customer groups (segmentation) and developing and communicating value propositions both externally to customers and internally to those responsible for delivering them. Nagle and Holden (2002) emphasise the importance of communicating the value proposition for a successful pricing strategy and Christopher et al (1991), argue that internal communication is vital to achieve the commitment and cooperation of stakeholders to the market. The foregoing places the ability to understand and respond innovatively to existing and emerging consumer demands at the heart of a market orientation. Although the benefits of a market orientation are widely acknowledged (Jaworski and Kohli, 1993; Narver and Slater, op cit) the issue to be considered here is how an industry, in that in general displays an atomistic structure and a commodity bias, can adjust to become more market orientated. A sensible starting point is to understand why marketing has not been viewed as a priority for farmers and why the development of a market orientated farming industry is likely to involve both a change in attitudes on the part of farmers and the building of network organisations as defined by Achrol and Kotler (1999).

3. The Fischler Reform

The CAP has always been more than a system of increasing agricultural output. Since its inception in 1962 it has functioned as an arm of welfare policy. It is only with this insight that the long–running political resistance to large–scale reform can be rationalised (Milward, 1992). The overwhelming signal to farmers, their suppliers and customers in the food chain was that the CAP would remain intact, to a large extent insulating the farming sector from the economic reality faced by its suppliers and customers (Curry, op cit). With the aid of a guaranteed level of support, farmers rapidly adopted new technologies, genetic advances and improved production systems that resulted in steadily rising productivity. Adoption however, should not be confused with efficiency. Despite price ‘guarantees’ productivity improvements were accompanied by falling real incomes as farms failed to control costs, a situation exacerbated in the 1980s as the authorities chiselled away at guaranteed prices in order to offset the rising cost to the public purse of the disposal of permanent surpluses (Curry, op cit). Falling real incomes steadily reduced the number of farm businesses but financial support provided by the CAP heavily constrained the scale of structural change necessary to address the growing imbalances between supply and demand. Thus, despite frequent claims that the CAP produced an agricultural
treadmill [see for example, Baldock et al (2002)] in practice it insulated European farmers from market realities and created a mindset that pressurising governments for greater protection and subsidy was a more certain route to income protection than efforts to capture greater value from the market.

The Fischler reform in fundamentally switching support to a decoupled SFP, might correctly be viewed as the start of a new chapter in the life of the CAP. Receipt of the SFP is conditional only on meeting minimum environmental standards: there is no requirement to produce anything. Although the new system is only two years old, farm–gate prices appear to be more unstable and for some products eg, milk have fallen (Defra, 2005). Released from the obligation to produce particular products in order to receive support, farmers are now in the position of choosing the pattern and levels of production that are judged likely to meet the objectives they set for their farms. One option is to cease farming, effectively withdrawing land from production and living off the SFP or non–farm income. Another option, as noted above, is to farm more extensively thereby reducing productivity and total costs. The effect of this option is to raise unit costs whereas a third option is to seek lower unit costs by increasing the scale of production and capturing economics of scale. Yet another option is to attempt to capture a greater share of the downstream value in order to offset lower prices for farm produce. This last option is not mutually exclusive and can be combined with either the second or third options. The potential importance of the last option is demonstrated when farm revenues are set against total food expenditure in the UK. As can be seen from Figure 1 between 1990 and 2005 the value of farming output – net of direct subsidies – declined by £0.7bn (5 per cent) to £14.1bn while the value of the UK food market increased by £51bn (82 per cent) to £112.2bn (Defra, 2005).

**Figure 1: The UK Food Sector**

![Figure 1: The UK Food Sector](image-url)
The data set out in Figure 1 might itself be taken to justify the need for UK farmers to address the issue of market orientation, but the focus here is whether, and in what way, the Fischler reform might bring about such an orientation. The belief, see for example, the Commission 2003 and Beckett, 2004 that the decoupled SFP will encourage the spread of extensive farming techniques and that this alone will serve to enhance the value of agricultural output appears widely shared. This arises from the assumption that the adoption of less intensive agricultural production techniques will be equated in consumers’ minds with higher environmental standards and hence with higher quality (see for example, NCC, 2001). This assumption is taken up by the Curry Report which states... we believe there are consumers who would be prepared to pay more for food produced to higher environmental standards. We believe too that their numbers are steadily growing... (Curry, op cit, p71).

The Curry Report offered no evidence for this observation and there are two major problems with the assumed link between extensification and higher value. Firstly, it is far from clear that the Fischler–reform will encourage widespread extensification as opposed to a reduction in the agricultural area. Extensification is low productivity farming, so if adopted widely it could, in principle, result in a general reduction in output, the revenue effect of which might be more than offset by low price elasticities of demand for agricultural products. Such an outcome would depend on continued tariff protection for the EU’s farmers at a time when the European Community has offered to significantly reduce tariffs (Commission, 2005). Secondly, evidence showing that a large proportion of consumers view the production technique itself as a quality enhancing attribute is lacking. As demonstrated by organic food, the method of production can be a source of positive demand but drawing conclusions about extensive production techniques from the experience of organic production is fraught with difficulties.

The methodological difficulties of determining the existing effects of farm policies, let alone future effects are immense (Tangermann and Buckwell, 1999) and this should caution against a ready acceptance of politically convenient assumed outcomes of the reform. The Commission’s own projections suggest that only in the beef and sheep sectors is extensification likely to be the general response to the Fischler reform (Commission, 2003) and even in these sectors the overall impact is estimated to be limited. It remains to be seen whether the Commission’s (op cit) relatively modest projected fall in the output of beef and sheep materialises and also to what extent prices adjust to compensate given the prospect of future reductions in tariff protection. More significantly, as payment of the SFP does not distinguish between production techniques providing good agricultural practice is not compromised there is nothing in the reform to prevent farmers seeking the unit cost advantages of economies of scale and the high productivity associated with intensive farming techniques.

If the outcome of changes in supply-demand balances are well understood the same cannot be said for the links between extensive production techniques, quality signals and premium prices. While there is some evidence (see for example, Nayga et al,
2004) that consumers seem willing to pay a premium for safe food, the claims by proponents that consumers would be willing to pay more for food produced by extensive production systems (see for example Pretty, 1998) lack empirical support. The genesis of such claims is not clear, but probably owes much to the recent growth in the consumption of organically produced food but, the organic market cautions against a ready acceptance of such claims.

At first, sales of organic foods in the UK grew rapidly, climbing from £499 million in 1998 to approximately £1.18 billion in 2005 (Mintel, 2005). However, £1 billion of sales still only amounts to about one per cent of total expenditure on food and despite enormously favourable publicity, the growth of retail organic food and non-alcoholic drinks sales has slowed markedly (Mintel, op cit). Reflecting this slowdown prices for some organically produced agricultural products have fallen – implying that supply now exceeds demand – and organic sector profitability is no longer growing (ADAS, 2004). The fact that supply appeared to rapidly overhauled demand suggests that only a small percentage of consumers are committed to paying a premium for food produced organically and more generally the increase in consumption of organic food reflects a continuation of the search by consumers for wider choice and new food experiences. Given the experience of organic foods, there must be severe doubt as to whether the less easy to define and categorise attributes of less intensive farming can be a practical source of higher value.

Unlike organic production, there is no generally accepted definition, let alone certification of extensive production techniques. Such techniques involve modern farming practices including the use of inorganic fertilisers and pesticides. Even if it were possible to achieve agreed definitions of extensive production systems, there remains the issue as to whether they would be a source of additional value. The foregoing raises an important empirical research question; namely, how much value do consumers attach to the degree of extensification involved in an agricultural production technique. This in turn raises the issue of communicating the value to potential consumers, a situation that is complicated when the presumed quality signal will come from downstream agents in the supply chain.

In the absence of evidence to support not only the contention that the reform will bring about widespread extensification but also that extensive farming practices are a source of additional value it seems sensible to assume that the industry will continue its long term trend of hollowing-out. Despite the growing cost and complexity of the CAP it could only slow, but could not prevent, structural change within the EU’s farming industry. Farm numbers have declined steadily, production has become concentrated and commercial farms are now highly capitalised: a process known as agricultural industrialisation. The industrialisation of agriculture has been defined as … the application of modern industrial manufacturing, production, procurement, distribution and the coordination concepts to the food chain(Boehlje, 1996, p30).
The Fischler reform is the third attempt to reform the CAP since 1992 and like the previous reforms its overall effect is to reduce the level of support to EU farmers. It is improbably that the trend towards industrialisation will be halted; indeed, it is more likely to speed up. The UK farm industry is in the vanguard of this process of industrialisation. In 2004 just 20 per cent of farm holdings in the UK accounted for 85 per cent of the farming value added (Defra, 2005). The vast majority of farm holdings – 63 per cent – produced less than 3 per cent of UK agriculture’s total value added (Defra, *op cit*). The 20 per cent of farms responsible for 85 per cent of the value added tend to be larger scale but even so they are small in comparison to their suppliers and customers.

The Fischler reform, was in part driven by the Uruguay GATT Agreement on agriculture, but it also anticipated a WTO Doha Development Agreement. As such the reform should be viewed as part of a long–term process that is intensifying the competitive pressures on EU farmers. We believe that these pressures will force further change on the EU agricultural industry as farmers seek to replace the loss of support with higher market returns. Given the growing body of empirical evidence supporting the proposition that market orientation is positively associated with superior performance (Jaworski and Kohli 1993; Atuahene-Gima, 1995; Narver and Slater 2004,) we are in agreement with the European Commission that a more market orientated agriculture industry is a sensible response. However, in the light of the foregoing we offer the following proposition:

*Proposition 1:* a more market orientated UK agricultural industry is unlikely to be associated with a halt in the trend towards larger scale or the widespread adoption of extensive farming practices.

We are concerned that the post–reform discussion has focussed heavily on farming practices. In our opinion there is a strong case for researching how industrial farms might develop their market orientation and also the potential benefits of such an orientation on food chain efficiency and consumers’ satisfaction. In preparation for examining these issues we explore some relevant demand side developments that are pertinent to the building of customer value propositions.

### 4. The Changing Nature of Demand

Developed nations are now what Drucker (1993) has described as post-capitalist, knowledge based societies and Firat and Venkatesh (1993) have defined as in the post–modern era. The latter has become synonymous with a consumer society where consumption and cultural capital (Rifkin, 2000) take centre stage. Consumer demands are constantly shaped and reshaped by contemporary social forces the distinguishing features of which are a rise in ‘individualism’, fragmentation, and rapid technological change. Affluence increases economic discretion with the result that consumers are becoming ever more demanding, insisting upon having both more
choice and individual solutions that are tailored to their needs. This is reflected in food consumption patterns. Being well-fed and no longer fearing food shortages, consumers do not view food as purely related to the need for sustenance as evidenced by the shift towards eating as a leisure activity, e.g. ‘out of home’ eating and the expansion of foodservices. Well-fed, affluent consumers are more ready to question whether a product is safe, to expect that it has been produced by a process sensitive to the welfare of animals and the environment and to consider the image it projects of them (Gabriel and Lang, 1999).

In concert with these patterns, consumers have been empowered through technology. Information and communication technology has the potential to extend the bounds of rationality through the medium of an information-processing capability, enabling consumers to identify the relative values of more alternatives, and the scope to engage in a dialogue with suppliers. However, the vision of a better informed, more rational consumer needs qualification. Wilmott and Nelson (2003) argue that the paradox of growing economic affluence is that it is both an enabler and a complicator. It is a complicator because consumers often feel that they are ‘drowning in choice’. Under increased time pressure and lacking trust, particularly in relation to food producers, they seek guidance in their purchasing decisions (Roberts and Baker, 2004). Against this background the concept of a more market orientated farming industry implies an understanding of the complexity of contemporary consumer demands on the part of farmers and this poses both a serious challenge, but also significant opportunities.

The growing complexity of consumer demands is illustrated schematically in Figure 2, which shows the product or market space for food (Tirole, 1993). The first stage in defining a market focuses around the needs of the final user, including all the competing products and services that are used by the market to satisfy a specific demand (McDonald and Wilson, op cit). According to Barkema and Drabenstott (1995) food markets are being splintered into ever smaller segments and technology is enabling the food system to deliver more precisely narrowly defined food products. One consequence of this fragmentation is the proliferation of product offerings. A second is the importance of obtaining and organising information on consumers. Although a highly simplified conceptualisation, Figure 2 serves to emphasise that individual products, or rather their attributes, have a unique ‘address’ within the product space. Each dot represents a differentiated product’s address and as illustrated, products have been allocated to a strategic group. The identification of an address where demand is not being satisfied means that scope exists to create value and by supplying a product with the mix of attributes identified a firm is well placed to capture the inherent value.
The vertical axis in Figure 2 reflects increasing vertical differentiation; that is, the absorption of additional resources for the delivery of higher quality products, defined here to include greater convenience and/or service support. Vertical differentiation involves more than one value adding stage in the food chain, for example agricultural production and basic processing. Pre-prepared meals reflect higher levels of vertical differentiation and at even higher levels there is an increasing proportion of supporting services. An upwards vertical movement in the product space therefore involves an increasing volume of resources, and it follows that vertically differentiated products must command higher prices to be economically viable. The horizontal axis reflects horizontal differentiation eg, differences in taste, texture and presentation. A horizontal movement in the product space links products whose production absorbs similar volumes of resources eg, production costs are similar, but whose perceived value, and therefore price, can vary widely.

A food product’s unique address within the product space depends only in part on tangible attributes such as presentation, convenience and service surround, increasingly it also involves intangible or credence factors such as assurance regarding safety, animal welfare and environmental care. Food scares have raised anxieties amongst consumers regarding the safe use of chemicals, the composition of feed and farm hygiene. For some consumers, the control of pollution and/or the humane treatment of animals are serious concerns. In contrast to search and experience attributes (Nelson, 1970), credence attributes cannot be detected either before or after purchase and consumers have to rely largely on extrinsic indicators ie, reputation, for the assurance they desire (Darby and Karni, 1973). Consumer expectations regarding the credence attributes of food are to a significant extent dependent on behaviour at the farm stage – as evidenced by UK multiple retailers vying to publicise the adherence of their farmer suppliers to farm assurance standards.
Overwhelmingly the delivery of such attributes depends on the trust consumers have in the credibility claims of farmers and as credence attributes have grown in importance logic suggests so has the contribution of upstream farmers to the value proposition.

Consumers’ demands for wider choice, convenience and new food experiences drive an inexorably expanding product space while narrowly focussed demands increase the density of product offerings providing emerging opportunities to capture and create value. It is possible in the future both these trends might be augmented by the acceptance of genetically modified food by EU consumers. As consumers build cultural capital, this will be reflected in the growth of demand for exotic foods and meals consumed outside the home. These demands spread beyond the consumption of food to the surroundings in which it is consumed. Pine and Gilmore (1999) use the example of themed restaurants such as the Hard Rock café and Planet Hollywood as examples of ‘eattainment’ where the food functions purely as a prop to the ‘experience’.

Value is created when a product’s address is aligned with a willingness to pay on the part of a definable consumer group. As the last link in the agri-food chain, foodservice providers and particularly the multiple retailers, have the marketing capabilities to seek and identify emerging consumers’ demands. However, there can be no presumption that these demands will be met by domestic producers. As the European single market gathers momentum and WTO agreements reduce tariff barriers, UK farmers and their processor customers must constantly review their ability to compete successfully with other European and global suppliers. Compared to many parts of the world, UK farmers – despite high levels of efficiency – are relatively high cost producers. This suggests that if they are to successfully compete to capture the value they create, UK farm businesses must give serious consideration to the ways in which their output is more closely aligned than competitors with value added addresses within the product space.

Despite the trend towards larger scale units, individual farms generally remain relatively small in business terms and this necessarily limits their ability to collect and organise information on consumers as a means of identifying emerging profitable opportunities. For all but the very smallest niche markets, an individual farm will not produce a sufficient volume to satisfy demand and most opportunities will involve processing and other downstream activities. We noted above that many of the credence and indeed the search and experience attributes of food products depend on the care and effort of farmers. Thus, downstream processors, manufacturers and retailers also rely on the efforts and care of farmers to help them secure value added addresses within the product space. Thus we offer the following proposition:

Proposition 2: It is beyond the capabilities of any one stage in the agri–food chain to fully meet emerging demands where the credence attribute of environmental case and animal welfare are deemed important. This is more likely to be achieved if farmers
and their downstream customers adopt a more cooperative approach to their exchange relationships.

5. Marketing through Collaboration

We have observed that the direct effect of the Fischler–reform will be to reduce farm–gate commodity prices and this may result in some farms adopting more extensive production techniques. In our view neither of these two outcomes in themselves can be viewed as forming the basis of a new value proposition or a market orientated farming industry. What might trigger a market orientated mindset, and hence the search for new value propositions, is the realisation on the part of farmers that the reform signals the beginning of the withdrawal by EU governments of support for agricultural production, and implicitly, farm households. Certainly, the National Farmers Union is clear as to the longer–term implications of the reform and in the words of its President … the message has never been more clearly set out or received (Bennett, 2004). If farmers become convinced of this reality it could be sufficient to trigger a new mindset.

Triggering a new mindset regarding market orientation still leaves the question as to how in practice it might become operational. The Curry Report (op cit) put great emphasis on collaboration, primarily in the form of the horizontal banding together of farmers within producer groups, but also implicitly through its support for vertical collaborations. Two consequences of the Curry Report’s recommendations are the launch of English Food and Farming Partnership (EFFP) – the other UK regions have similar organisations – to encourage horizontal collaboration, specifically within Farmer Controlled Businesses (FCBs) - analogous to ‘new generation cooperatives’ in the United States – and also the establishment of a permanent Food Chain Centre, to facilitate closer cooperation between the stages of the food value chain. The Curry Report’s support for collaborative ventures was not however primarily or explicitly focussed on generating market orientation. It argued that producer groups, eg, a FCB could act as . . . negotiating partners with the food processors and that the priority for the Food Chain Centre should be benchmarking best practice (Curry, op cit).

The reference to ‘negotiating partners’ suggests an emphasis on market power and benchmarking is primarily an aid to cost efficiencies. This is in the spirit of the traditional defensive approach to farmer collaboration or as such groups are generally known, cooperatives. Cooperatives operate for the benefit of their user members. By virtue of their scale they have scope to leverage the intertemporal benefits of storage in the form of greater price stability and a reduction in the spatial disadvantages of farm location (Wright, 2001) and they can add value by using their scale to grade and blend produce to meet specific demands (Hennessy, 1995). Our interest in farmer collaboration is focused on the relatively new organisational form of the FCB. In the UK the post Curry emphasis on FCBs takes its inspiration from North America’s new generation cooperatives whose distinguishing features are closed–membership and a
focus on value adding activities (Fulton, 2000). Many factors are cited as driving this change eg, technology and regulations (see for example, Hobbs and Young, 2000) but following Fulton (op cit) we believe that the industrialisation of farming is a major influence. Most importantly, a coordinated network of farm businesses capable of operating at a regional, national or even multinational level calls for formal governance involving professional management and an efficient organisational architecture. A professionally managed FCB by definition exercises the combined economic power of its members. For example, in England a large proportion of milk is now sold through three FCBs each with a turnover in excess of £500 million. Such enterprises are potentially economically powerful, capable of operating downstream by vertically integrating or entering as an equal partner into collaborative vertical relationships, such as joint ventures and partnership alliances.

Given their focus on downstream value adding activities we might reasonably expect FCBs, subject to resources, to utilise professional management systems to meet the constantly rising levels of vendor services expected by food chain customers, provide the transparency and assurance necessary to deliver the credence characteristics of safety, environmental care and animal welfare and deliver the stringent quality standards and the demands for identity preservation throughout the food chain.

Larger scale FCB’s can spread risk by supplying several markets and members can provide the collateral for borrowed capital to enable investment in specialised assets, including brands, and market intelligence. Sunk cost investments such as are not normally within the competencies of farmers, including the development of new products and new markets (Goldsmith and Gow, 2001).

A FCB operates as a vertical integrator. Its role is to ensure that the output from its network of farm suppliers is continuously adapted to ensure alignment with changing customer-consumer preferences and the capture of value from newly identified ‘addresses’ within the product space where demand is not being satisfied. As observed by Achrol and Kotler (1999) in this situation the integrator firm must itself be a market orientated firm. In order for a FCB to efficiently carry out its role as a marketing integrator it must develop (as appropriate) strengths in customer research, forecasting, pricing distribution, advertising and promotion (Achrol and Kotler, op cit). Thus we offer the following proposition:

*Proposition 3:* FCBs offer networks of collaborating farm businesses an effective vehicle for developing a market orientation.

The foregoing has hypothesised that FCBs in particular, offer the prospect of the development of a market orientation and the building blocks of such a development are set out in Figure 3. The horizontal axis represents the use of horizontal collaboration to improve the marketing margin. The elements here are predominantly the ownership of tangible assets such as buildings and specialised machinery, economies of scale and the sharing of market intelligence to motivate efficiencies and goal congruency. The vertical axis represents the identification of
new market opportunities arising from the development and exploitation of heterogeneous assets such as market knowledge, intellectual property e.g., brands and competitive strategies.

Figure 3: Creating and Capturing Value

Commercial farmers appear to be becoming more open to the idea of co-operation and collaboration (EFFP, 2004). Now that EFFP is fully operational we expect to see the spread of FCBs in England and more importantly a more dedicated approach to marketing on behalf of their user members. However, we are unaware of published research regarding the role of FCBs, or collaboration in general, as a vehicle for achieving a more market orientated farming industry. Research into farming cooperatives has focused on issues such as their role as a countervailing power, in securing market access, the realisation of economies of scale and the preservation of farm incomes (see Van Dijk, 1997 for a broad discussion). What is required is theoretical and empirical studies as to the benefits that arise, not from the exercise of market power *per se* but rather from the ability of well managed FCB to invest in a capability to anticipate and more rapidly respond to specific existing and changing consumer demands. This echoes Webster’s (1994) observation that close cooperation between partners in a value chain as a source of delivering value is a new responsibility for marketing.

6. Conclusion and Further Research

In discussing the response of the UK agricultural industry to the Fischler–reform, we share the objective of policy–makers to create a more market–orientated and competitive industry. We have cast doubt not only on the broadly held view that the reform will encourage extensification nut also that extensification *per se* will provide
farming with a marketing platform for the capture of added value. We have focussed instead on three emerging issues: the pressures on farm revenues arising from the reform; the growing interest by UK farmers in collaboration; and the role of FCBs as a vehicle for developing a more market orientated farming industry.

The ending of production support, the splintering of food markets into ever smaller segments and the new emphasis on vertical and horizontal collaborations threaten to render the traditional assumption of commodity homogeneity obsolete and significantly reduce the usefulness of the traditional approach to farm incomes based on forecasts of aggregate supply and demand. We have argued that increasingly in the future EU farm incomes will depend on an ability to create and capture additional value, which in turn demands a market orientation. In the context of the food chain, even large scale farms are small businesses whose ability to understand and influence its market is extremely limited. We suggest that farmers collaborating as user members of a FCB have a platform for the development of a market orientation and there is a pressing need for researchers to contribute theoretical and empirical work in this area. Such research should yield a better understanding as to the advantage FCBs might possess in aligning farmers’ production decisions with emerging market segments, and thereby providing an offset to the decline in support from the public purse. Research to test the hypothesis that the development of a market orientation is the prime objective for FCBs would represent a timely contribution to the debate on future policy for the EU farming industry.

A major consequence of the Fischler–reform is the exposure of all farmers to the vicissitudes of the market. This is a situation few farmers have faced for more than two generations and it promotes interest in investigating theoretical and empirical issues relating to pricing decisions. A particularly strong case can be made for research to guide the formulation and implementation of pricing strategies for FCBs involving the prices paid to their members, as well as charged to customers. Marketing academics and practitioners have built–up a rich set of models and techniques to improve pricing–decisions and one area of fruitful research would be an examination of how such models and techniques could be employed by FCBs focussing on downstream market segments in partnership with other food chain businesses. A developing pricing model that academics have been utilising to investigate pricing issues is game theory. Game theory would appear to be particularly relevant to large scale FCBs whose business environment might accurately be characterised as an oligopoly and whose food chain relationship would appear to have much to gain from the cooperative strategies that emerge from game theory.

A further area of research—arguably the primary area—arises from the fact, as observed above, that UK farmers do not have a history, indeed a mindset, of a market orientation. Over the past 60 years, farmers in what is now the EU, have become imbued with government support. It might fairly be claimed that for many farmers the government represents the market, and it is the government they turn to when the
market does not provide the expected returns. The starting point for collaboration is the attitude of farmers and there is an urgent need to research ways of changing the mindset of farmers so that they are not only more open to the idea of collaborating, but also to the potential benefits of investing in market orientated FCBs. There is also the issue of marketing efficiency and whether gains stemming from the effective operation of marketing orientated FCBs will result in higher marketing margins beyond the farm gate and higher retail prices for food? This is an important question that does not appear to have been addressed in the marketing literature.

Finally, the widespread assumption by policy makers regarding consumers’ willingness to pay according to the farming techniques employed in the production of food eg, extensification should be investigated. We have argued that this assumption may be based on a misunderstanding of the demand for organic produce, and also that in practice, less intensive farming techniques are not capable of differentiation from a consumer’s perspective. The CAP reform provides an opportunity to conduct consumer research into this issue that has implications not only for both practice and theory relating to the formation of consumers’ perceptions, but also for policy makers in their approach to farm policy, and more widely to genetically modified food.

References


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