

Linking production and consumption: value creation and value capture



Outline

- The importance of consumer insight
- Key Consumer Trends
- The Value Proposition
- Value Creation
- Value Capture
- Conclusions

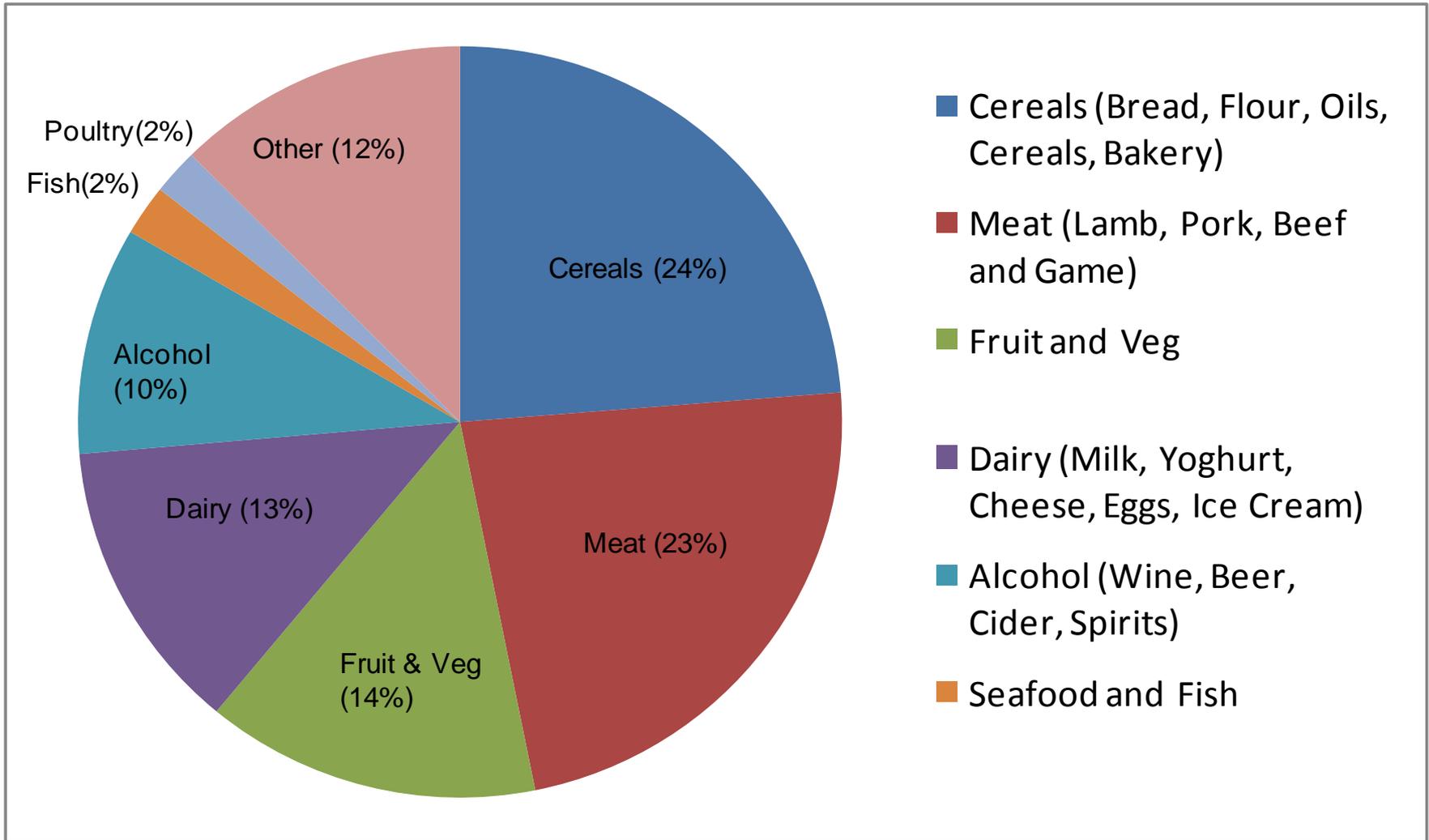


dunnhumby initiative

- **Structure**
 - Joint venture with dunnhumby and Tesco
- **Mission**
 - To help farmers and small food producers improve their businesses by increasing their understanding of consumer behaviour
- **Delivery Model**
 - PhD students funded by trade associations and government agencies



Assisted over 600 SMEs in the last five years



Case Studies: www.whobuysmyfood.org

- **Promotion**
 - KG Fruits – Raspberries
 - Long Clawsons – Blue cheese
- **NPD**
 - Coastal Grains – Rapeseed oil
 - Sue Gwilliam – ‘Get Real’
 - Rebecca Rayner – Glebe Flour
- **PR & Advertising**
 - Processed Vegetable Growers Association
 - British Summer Fruits Association
- **Market Development**
 - Sarah Petit - Organic vegetables
 - James & Lucy Barclay – Speciality beef & pork
 - Sunnyfields Organic – Organic retail
 - Anthony & Lucy Carroll – Heritage potatoes
 - Paul Southall – Runner beans
 - Morris’ Quality Bakers
 - Bowden’s Local – On-line retail
 - West Hill Dairy – organic cheese
 - Harrison’s Poultry – Poussin
 - Malmesbury Syrups
 - Well Hung Meat
 - ...

Duchess Botanicals

Kent Business School | Centre for Value Chain Research (VCR)

New Product Development

Key Insights: Passion is an important ingredient for success in most small businesses but can also blind owner managers to the realities of the market - customer needs, and consumer wants. Duchess Botanicals is a classic example of a) how not to develop a new product, b) why it's never too late to listen to consumers and c) why the most successful businesses are those most willing and able to adapt to change.

Why is a Duchess selling soft drink?

What reason could Her Grace Emma Rutland, the 11th Duchess of Rutland, have for wanting to launch a range of premium soft drinks? Quite a few.

Life is not all castles and rose gardens for the Duchess, the challenges of running a stately home, preserving and sharing this amazing history with the rest of Britain are certainly very real, and the obstacles faced can be mundane and ordinary... including floods!

Case Study - April 2010

Her Grace Emma Rutland, the 11th Duchess of Rutland grew up on a farm in Wales. Her early years helping with the family's Bed and Breakfast, starting her own interior design business, and even her experience as an opera singer, were all good preparation for the challenges of life as an aristocrat in 21st Century Britain.

With the title of the 11th Duke and Duchess of Rutland also came a 9 million pound inheritance tax, and a 6.9 million pound restoration and maintenance bill simply to keep the castle from falling down. The Duchess's business and enterprise skills were immediately put to the test. The discovery and sale of a Van Dyck original was a starting point, but the sustainable answer to funding the preservation of this incredible piece of history lay in developing the business of Belvoir Castle, and exploring possibilities for the Duchess to develop her own brand.

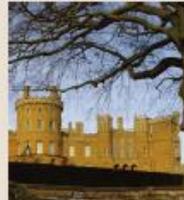
For the Duchess, launching a range of premium soft drinks is the first step in developing a Duchess brand, and one of many steps in the journey to ensuring the safeguarding of Belvoir Castle; for her family, for her children's families in generations to come, and importantly, for the people of Britain to share. The life of a Duchess may not be carefree and easy, but Her Grace is up for the challenge, and demonstrating the unending ability of our family to adapt to change.

Idea generation and concept development

The Duchess had the vision of a range of products to launch the Duchess of Rutland brand but had no experience of manufacturing or marketing and a shoestring budget to work with, so she turned to her brother, William Websters, who runs Radnor Hills Mineral Water Company. Together, they developed the idea of a range of flavoured waters.

Utilising the spare capacity and know-how at Radnor Hills offered several advantages including saving time and money. The product also presented a good fit with the values that the Duchess wanted the brand to embody - natural,

Suddenly there were screams from the children, 'Mummy, mummy, the castle is flooding! Thinking this was the end - I adored my green waffles, barbour and brody, and look to the roof where obviously the source of the problem was. Sliding down the roof with children in tow, resembling Mary Poppins on a bad day, I found a blocked gutter, dug my hand into the gurgling mash and pulled out 3 dead pigeons. To this day, that flood was the easiest and quickest problem I have solved at the castle.



Importance of Consumer Insight

- Differences in purchasing behaviour between segments may be significant but should not be assumed
- Heterogeneous segments require different treatment
- The more limited the resources the more important it is to target them



Key Consumer Trends

- Spoilt for choice
- Starved of time
- Increasingly inquisitive



- Universally **value** conscious



Money is not the only currency... But



What is your value proposition?

The more relevant the product or service the greater the demand



Where is the focus?



Focus on attitudes is difficult to convert into driving behaviour and profits

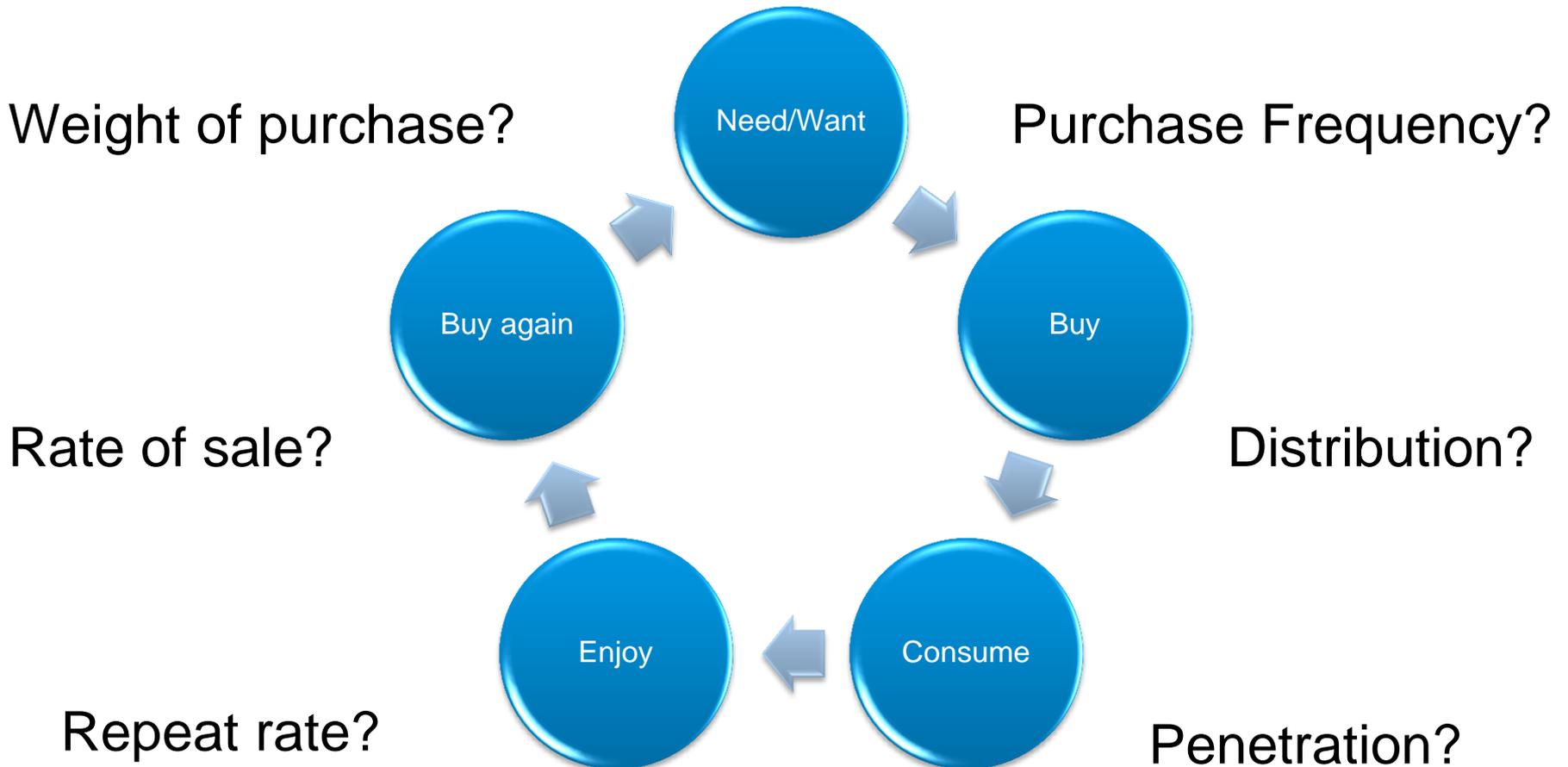


Focus on profit leads to little relevance, increasing issues of customer churn and dissatisfaction



Understand what customers want
Become more relevant
Keep customers engaged for longer, engender trust,
long term loyalty and drive value creation

The perfect scenario



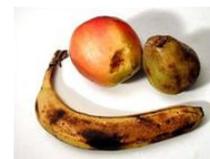
What is your value proposition?

- Whatever it is it **MUST** be:

- Carefully **targeted**
- Effectively **communicated**

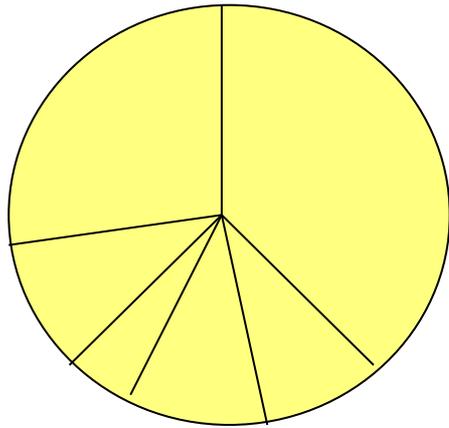


- Consistently **delivered**



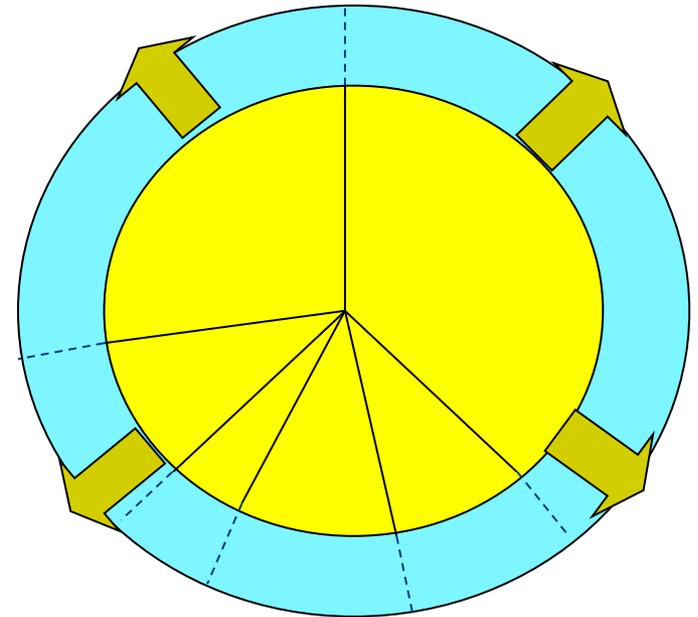
Value Creation Vs Value Capture

Value capture
(Firm's bottom line):



Vs

Value creation
(Chain's top line)



The only way to *grow the pie* is by getting (more) consumers to spend more

Value - Creation



Value - Creation



Crusty
???



Organic
???



No crust
???



Seeded
???



Toastie
???



Standard
59p



50/50
???



Oatbran
???



Healthy
???



Dietary
???

Value - Creation



Standard
59p



Oatbran
65p



Crusty
83p



Organic
85p



Healthy
87p



50/50
£1.00



Toastie
£1.18



No crust
£1.22

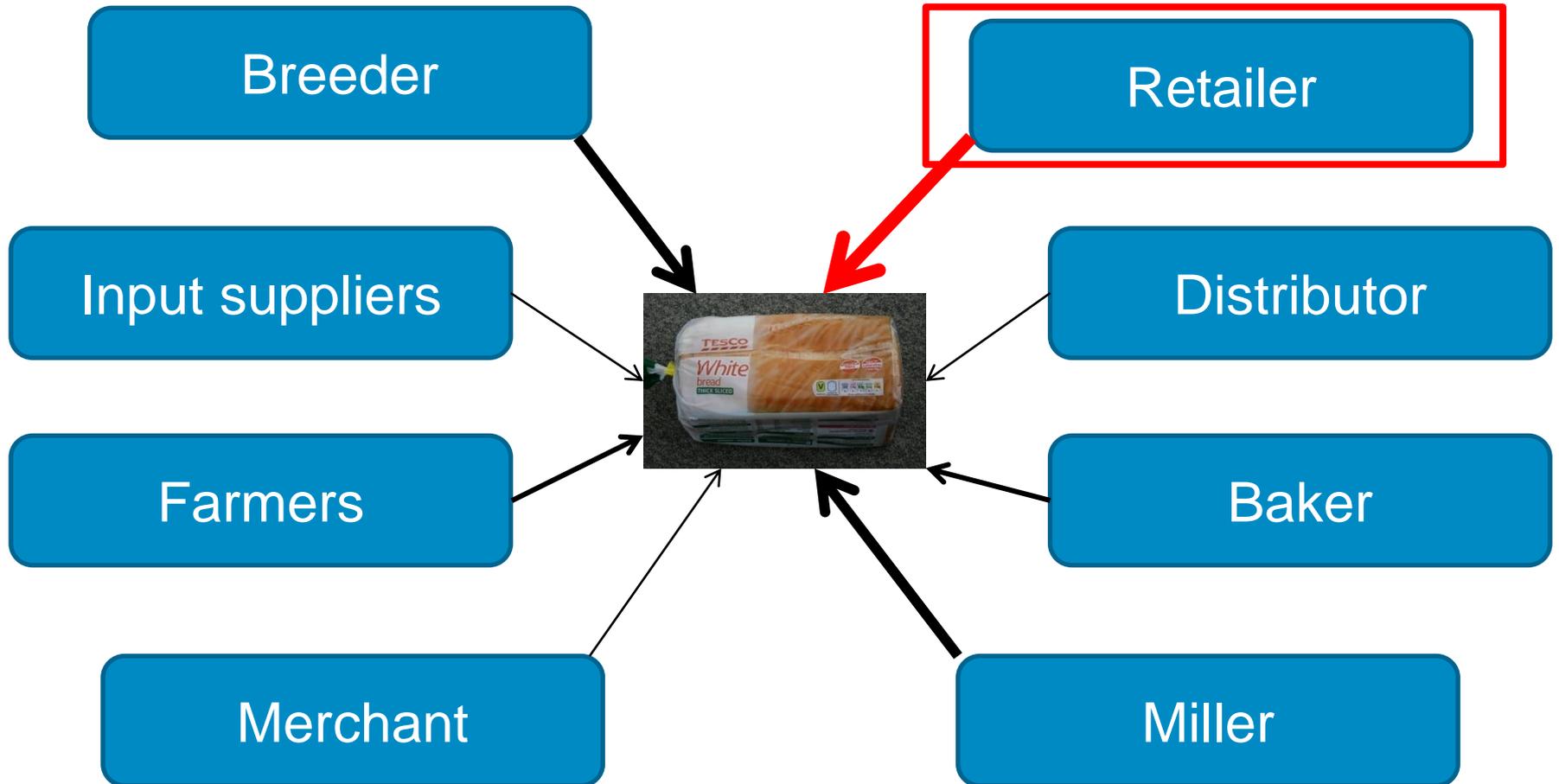


Seeded
£1.65



Dietary
£2.16

Value - Capture



Customer Value - Retailers

Suppliers who offer:



- In-depth knowledge of their customers
- Product ranges for all store formats
- Innovation exclusive to them
- Speed to market with new products
- Dedicated resource (account manager)
- Openness and honesty
- Willingness to change
- Investment to grow the business
- Promotions that grow the category
- Resources to deliver projects/plans
- Market expertise

Suppliers who:



- Know their product but not their market
- Duplicate the range
- Stifle NPD with process
- Devote shared resource to the category
- Keep information to themselves
- See change as more work
- View investment as risk
- Are unable to segment their market
- Promote for short-term category share
- Require the supermarket to delivery the supplier's plan
- Manufacture product with no real skill

Conclusions

- Consumption and Production are inextricably linked
 - Value chain design
 - Value chain performance
- Need to break the mould from within not wait for others to 'see the light'
- Stereotyping:
 - partly what people do ('reality')
 - partly how we choose to look at them (often from a distance)
 - become embedded in people's perceptions
 - results in systems and structures to accommodate or work around the (stereotypical) behaviour of 'others'

Thank you!

- **Keep in touch with us...**

- Website: <http://www.kent.ac.uk/cvcr>
- Blog: <http://blogs.kent.ac.uk/value-chain-thinking>
- Follow us on Twitter: [@valuechains](https://twitter.com/valuechains)

