

# Course title: Creating Innovative Business Models

Lecture 11. Create value

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# What is – Value-Added Agriculture?

- Adding Value – Process of changing or transforming a product from its original state to a more valuable state

Add value to wheat



By processing it into a  
product (flour)



Desired by customers –  
(bread bakers)



# BUT – Raw Commodities already have value?!

- Many raw commodities have value in their original state.
  - They are raised by an agricultural producer; then sold by that producer for further processing
- Corn, wheat, weaned calves, market lambs, watermelons etc. all HAVE value. They are worth something.

# \$\$Money, Money, Money\$\$

Could producers get MORE \$\$\$ for their products if they –

- Grew products differently
- Physically changed their products before selling them
- Coordinated with an agribusiness to change the way their product was marketed?

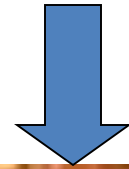


# Adding Value in a Changing Agricultural World

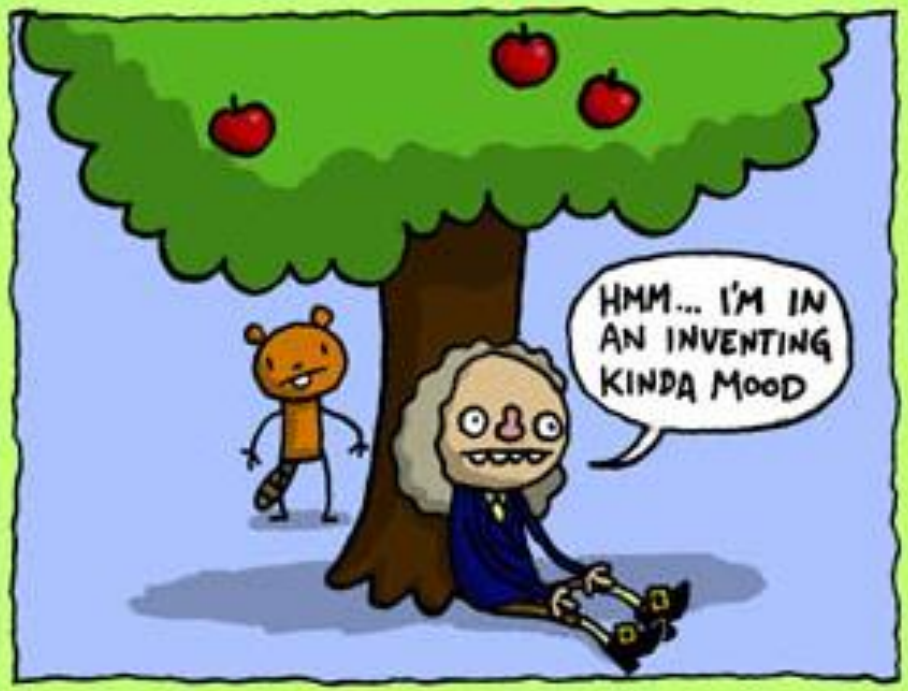
- It's important to identify value-added activities that support investment in research, processing & marketing
- Additional opportunities for adding value include:
  - Applying biotechnology
  - Food engineering (raw product to consumable forms)
  - Restructuring food distribution systems.

# “I Produce Food”

- Producers are members of a food company
- Producers produce, process, and market food to consumers
- ‘I am a rancher; I raise steak & hamburgers’ is the new way of thinking



# Newton Moment!



- Take out a blank piece of paper
- Everyone write ONE 'why' question that relates to the information we just copied into our notes.

# Hieroglyphics Moment

- For ALL of the Capturing vs. Creating Value Slides (there are 10 of them)– take a few minutes and draw a quick picture next to the definitions.
- Make sure the picture represents the definition to YOU – the Learner!

# Capturing vs. Creating Value

- Adding value to products can be accomplished in a number of different ways, but generally falls into one of two main types:

- Creating Value

- Innovation
- Industrial Innovation

- Capturing Value

- Coordination

# Capturing vs. Creating Value

- Creating Value – occurs with actual or perceived value to a customer for a superior product or service
  - Innovative new products
  - Enhance a product's characteristics
  - Enhance services
  - Create brand names
  - Develop unique customer experiences

# Capturing vs. Creating Value

- Creating Value through - Innovation: Improving existing processes, procedures, products and services or creating new ones
  - Market unique or branded products
  - Produce identity-preserved or specialty crops
  - Combine family activities or recreation associated with direct on-farm marketing

# Capturing vs. Creating Value

- Creating Value through - Industrial Innovation:  
Processing traditional crops into nonfood end uses
  - Ethanol from corn
  - Biodiesel from soybeans
  - Particleboard from straw

# Capturing vs. Creating Value

- Capturing Value: Changing the distribution of value in the food/fiber production chain.
  - Meant to ‘capture’ more of the consumer dollar through:
    - Direct Marketing
    - Vertical Integration
    - Producer Alliances
    - Cooperative Efforts

# Capturing vs. Creating Value

- Direct Marketing
  - Selling products directly to the consumer
  - Selling beef animals ‘on the hoof’
  - Selling homemade soaps & lotions to the general public
  - Think – eBay!

# Capturing vs. Creating Value

- **Vertical Integration** – One producer or business owns the product from beginning to end. This producer or business doesn't sell the product until the consumer purchases it:
  - **Tyson Chicken** -

# Capturing vs. Creating Value

- Producer Alliances: Individuals / companies from the same level of the food chain consolidate in order to produce and market a superior product

# Capturing vs. Creating Value

- Cooperative Efforts: Individuals or companies pool their products in order to increase bargaining power.

# Capturing vs. Creating Value

- **Minimizing Costs:**

- Before producers can explore value-added processing and marketing they MUST minimize production costs
- Only low cost and efficient producers will survive
- Adding value cannot take the place of good management

**Eye-Witness News Moment**

# Key Components

- Many times adding value requires a combination of techniques
- These techniques provide producers with a competitive advantage in the marketplace
- There are 6 strategies for adding value

# Key Components

## 6 Key Strategies for Adding Value

- Changing physical state of products
- Producing enhanced value products
- Differentiating products
- Bundling products
- Producing more products that improve efficiency up the supply chain
- Owning assets up the supply chain

# Key Components

- Changing the physical state / form of products
- **Milling wheat into flour**
- **Making strawberries into jam**
- **'Feeding' alfalfa into a biomass generator**

# Key Components

- Producing products in ways that enhance value
- **Growing organic crops**
- **Producing antibiotic and hormone-free beef**
- **Producing free-range chickens**

# Key Components

- Differentiating agricultural products in order to enhance their value
- **Selling beef under a branded beef label**
- **Marketing 'heat & eat' pot roasts**
- **Selling pre-seasoned corn on the cob**

# Key Components

- Bundling Products
  - **Beef and wool producers jointly market beef & flavored wood chips for the ‘ultimate grilling experience.’**
  - **Greenhouse growers sell pre-planted hanging baskets**

# Key Components

- Producing & marketing commodities that improve operating efficiency up the supply chain
- **Produce new wheat varieties that improve milling & baking efficiency.**
- **Processors are willing to pay a higher price for the wheat**

# Key Components

- Owning assets somewhere up the supply chain for further processing
- **Corn producers begin producing ethanol**
- **Cattle producers process & sell their own meat**
- **Dairies market their own organic ice cream**

# Things Happen When:

Producers use one (or more) of these six strategies:

- 1. Customer base is expanded
- 2. Producers receive greater portion of revenue
- 3. Producers receive strategic advantages in the marketplace
- **BOTTOM LINE:** - Producers make more \$Money\$

# Commodities vs. Products

Producers used to have a 'produce-then-sell' mentality

- Producers grew crops or livestock
- Hoped to find a buyer
- 'Took whatever price was offered that day

TODAY's Agriculture includes:

- FIRST determining what consumers want in their food products
- THEN creating those products

# Commodities vs. Products

- Agriculture is moving towards a global economy
- The international market for value-added products is growing
  - Consumers have increasing health, nutrition, and convenience needs
  - Food processors want to improve productivity
  - Technology enables producers to produce what consumers WANT!

# Commodities vs. Products

Producers who add value will become more than commodity producers –

- They will be preparing food for end-users
- Quality, variety & packaging are important
- Price is not as important as quality

They will be producing consumable products – (steaks, hamburgers, bread, Poptarts etc.)

# Reference

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