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Executive Summaries

RESEARCH

Does Product Diversity Signal Bargains in Australian Wine?

Ira Horowitz and Larry Lockshin

In the past few years, wine has become the alcoholic beverage with the largest penetration of consumers in both the US and the UK, replacing beer in both countries. Supermarkets have increased the size of their wine sections and the whole channel for wine has changed from one of small agricultural producers to more and more large companies selling branded products. Consumers are faced with a choice from 300-1500 items in a typical wine section as compared to 10-70 in other supermarket categories, so the decision process is more complex and difficult. We examine whether the quality of a single wine from a producer provides information as to the quality of different wines (product diversity) sold under the same producer brand. Does having a broad range signal quality or does being a small specialist producer of only one or two wines signal quality?

We use the residuals from linear regression equations predicting wine quality for each of eight Australian wine varieties to predict whether the predicted quality is higher or lower than should be expected. We use the quality ratings from well-known wine author James Halliday for hundreds of wines to examine our research question.

We find that the winery's reputation, price to some degree, and aspects of the region of origin and vintage predict wine quality. But the actual bottle purchased may exceed or fall short of the consumer's expectations for it. We found that specialization (making only one or two wines) does not necessarily signal quality, but that product diversity is a weak signal as to wine quality and a negative one at that.

Wine brands are different from other brands in the food industry in that they often represent products, whose quality varies from year to year and from type to type. Managers of these wine firms need to understand how consumers receive and interpret signals of quality. Product diversity, whether small or large, does not signal wine quality based on this research. Even price is a fault-ridden quality

signal for Australian wine. More research is needed to understand how and what signals quality to the average wine buyer.

Redesigning the Food Chain: Trade, Investment and Strategic Alliances in the Orange Juice Industry

Paulo F. Azevedo and Fabio Chaddad

Change in trade barriers and capital flow creates opportunities for redesigning the food chain. In the most prominent view, trade barriers foster foreign direct investment as an alternative to explore competencies that may be replicated in the host country (Dunning [1998]). On the other hand, the institutional harmonization that emerges with market integration – i.e. lower trade barriers – promotes foreign direct investments because firms are more likely to invest when they know the rules that govern market competition. This paper argues that the perspective of market integration may combine both effects in the same direction.

The orange juice chain in U.S. and Brazil, the key-players in the global frozen concentrated orange juice (FCOJ) market, provides an interesting illustration of how change in market integration provides incentives for foreign direct investment and the redesign of the food chain, particularly in order to deeply explore existing capabilities. The study focuses on the FCOJ industry in Florida and the Southeast region of Brazil, particularly São Paulo State. Firms expect institutional harmonization and market integration, opening new opportunities for strategic alliances and the re-design of the food chain in general. Meanwhile Brazilian orange juice firms face high import tariff rates and no perspective of significant fall in the short run. Thus there are strong incentives for them to redirect investments to orange crushing plants located in the US. The additional variable that explains the re-arrangement in the FCOJ chain was the existence of complementary capabilities among Brazilian crushing firms – particularly Citrosuco and Cutrale – and US beverage firms, such as Tropicana and Minute Maid.

This finding has relevant implications to agribusiness managers. First, trade barriers are not enough to support FDI and related internationalization decisions. Second, the perspective of market integration creates a positive environment, mainly due to institutional harmonization, for new strategic alliances and the re-design of the food chain. And third, the existence of complementary capabilities between foreign and domestic companies is a necessary condition for this type of supply chain re-arrangement.

Success Factors for New Generation Cooperatives

Jared G. Carlberg, Clement E. Ward, and Rodney B. Holcomb

The goal of the research reported in this paper was to determine the factors important to the success of value-added New Generation Cooperatives (NGCs). A survey of NGC managers was used to determine which potential success factors they considered to be important for their organizations. A self-explicated approach

was used to calculate weighted preference scores for each of 50 factors. Scores were calculated across all respondents as well as for respondents within five broad NGC groups, with the members of each group engaged in similar value-added activities.

Results indicate that factors in the “Planning and Development” category and the “Financing and Costs” category are considered critically important for success by NGC managers as a whole. However, when smaller subsets of NGCs with common characteristics are considered, important differences exist as to the factors considered to be important for success.

Three recommendations for value-added management are made at the end of the paper. It is hoped that this research will benefit persons engaged in the development or management of NGCs or similar value-added agribusinesses.

Protecting Your Turf: First-mover Advantages as a Barrier to Competitor Innovation

Brian C. Briggeman, Michael A. Gunderson, and Joshua D. Detre

Agribusinesses selling consumer goods constantly have to alter their products to meet ever-changing consumer demands. Consumers desire innovative products that meet their personal tastes, income levels, or expectations for improving the quality of their life relative to existing products. Firms that recognize these changes in tastes can innovate and meet this change in demand with improved products and, at least initially, capture a premium.

Innovators hope that first-mover advantages will allow them to recoup some of the costs associated with creating a new product and reward them for facing the uncertainty of the new market. That is, innovators would desire that initially they could extract a premium for being among the first competitors in a market (Conner 1988). Additionally, they desire that being the first in the market would create a degree of loyalty among consumers that result in consistently higher market share that is more easily defendable. Therefore, our objective is twofold: 1) calculate the size of first-mover advantages; 2) demonstrate that a first-mover strategy deters competitors from innovating. Using a fruit juice company’s market data, we develop a stochastic net present value simulation model to analyze the introduction of a new juice product in an uncertain market. Results indicate that first mover advantages are large enough to justify entering the uncertain market. Also by entering the market now, the firm is able to maintain their long-term market share because the probability of competitor entry is decreased (i.e. barrier to competitor innovation is created). Finally, it is our contention that the presented model allows for a better-justified decision regarding the respective firm’s market investments in a new product. Furthermore, this model is flexible enough to recognize differences in other markets in terms of the number of firms, start-up costs, competitiveness in industry, market share, and pricing responses.

Scorecarding and Heat Mapping: Tools and Concepts for Assessing Strategic Uncertainty

Joshua Detre, Brian Briggeman, Michael Boehlje, and Allan W. Gray

The dramatic changes occurring throughout the agriculture industry are creating new and different uncertainties than the traditional operational and financial uncertainties agribusinesses have faced in the past. These new uncertainties result from strategic choices and a turbulent business climate. The objective of this paper is to present a methodology that helps teach agribusiness managers how to understand, assess, evaluate, and manage these new and different strategic uncertainties. The approach is to present a mental model that frames assessment of strategic uncertainty from a potential and exposure perspective. Scorecarding and heat mapping assessment tools operationalize the mental model. Participants in an executive agribusiness educational workshop applied this mental model to one of three hypothetical seed companies.

The participants in the workshop found that by focusing on the potential of the uncertainty and the likelihood of this potential as well as the exposure and the likelihoods of exposure, allowed them to understand better the true impact uncertainty could have on their firm's value. In addition, their perspective was that the methodology was not only an effective way to facilitate understanding of strategic uncertainty, but it also provided useful assessment tools that management can easily incorporate into their company's strategic planning processes. In essence, the scorecard and heat mapping tools provided a time efficient and systematic method for analyzing as well as communicating the strategic uncertainties faced by the firm. Further development and testing is necessary and underway, but preliminary results suggest that the methodology is useful in understanding, analyzing, and communicating the potential as well as the exposure of strategic uncertainty.

Does Price Signal Quality? Strategic Implications of Price as a Signal of Quality for the Case of Genetically Modified Food

Yun-Jae Hwang, Brian Roe, and Mario F. Teisl

When products differ by quality and quality is highly subjective (e.g., fashion or art), novel (e.g., new technology), or difficult to verify prior to purchase (e.g., credence attributes), consumers may turn to price as a signal of quality. Products containing genetically modified (GM) ingredients meet each of these criteria, i.e., GM ingredients are novel, their presence is difficult to verify, and their impact on quality may be viewed differently across individuals with the same knowledge. This leads to additional difficulty for managers attempting to formulate pricing strategy in the presence of more a complex quality signaling environment.

We add to the limited empirical literature on consumers' use of price as a quality signal by testing if the traditional downward-sloping consumption-price relationship fails to hold for GM products using data collected from a nationally

representative mail survey featuring several hypothetical product choice scenarios. Graphical inspection of the results suggest that certain high and low prices may indeed act as a signal of quality and cause consumers to drive the GM products' market share to levels not predicted by standard theory. Statistical evidence is more mixed across the three products used in the survey (bread, corn, and eggs) but still suggests that survey respondents use price as a signal of the quality of GM products.

Food products with labeled GM ingredients are in an introduction (start-up) period of their life cycle in most product categories. Firms who try to gain public awareness for their products and to expand market share might, for example, decide between a low introductory pricing strategy, a price matching strategy, or strategy that sets price higher than competing, non-GM brands. If consumers use price as a signal of quality, however, some of these pricing strategies might be less effective or disastrous. For example, if products featuring GM ingredients are heavily discounted, either to stimulate trial purchases or by a retailer hoping to lower inventories of a new product, the long-term success of the GM product may fight an uphill battle in some markets because respondents may interpret low prices as a negative quality signal.