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MARKET ORIENTATION OF VALUE CHAINS BASED ON TWO CASE STUDIES FROM LIVESTOCK INDUSTRY IN MALAYSIA

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DECLARATION

"I declare that this project paper entitle "**Market Orientation of Value Chains Based on Two Case Studies From Livestock Industry in Malaysia**" is the result of my own research except as cited in the references. The project paper has not been accepted for any degree and is not concurrently submitted in candidature of any other degree"

SIGNATURE   : ....

AUTHOR'S NAME :   KHAIRUL NIZA BIN YAHYA

DATE   :   2 JULY 2008

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DEDICATION

My Wife, Rozilah and my little angels, Nurul Irdina and Nurul Insyirah thank you for understand me. My lovely family Do better than me!. Thank you for everything.

Hari ini, jalan ini pasti semakin berliku
kerana masa depan belum tentu
menjanjikan syurga
bagi mereka yang lemah dan mudah kecewa

Perjuangan kita belum selesai
kerana hanya yang cekal dan tabah
dapat membina mercu tanda
bangsanya yang berjaya

Dr. Mahathir Mohamad

Mei 1996

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ABSTRACT

This paper extends the concept of market orientation from the firm to the value chain level and seeks to develop empirically founded propositions on determinants of different levels of market orientation of value chains. Two case studies on value chains within the areas of agribusiness are conducted. For each value chain, desk research is combined with interviews with decision-makers of all types of value chain members. Interview guidelines are derived from a conceptual model of potential determinants of value chain market orientation. Degree of market orientation of value chains is found to be related to degree of heterogeneity and dynamism of end-users served, nature of chain relationships, regulations and prevailing mental models of decision-makers. Short and balanced chains are believed to further upstream market orientation.

Keywords: Market orientation, Value chain, Food industry

Paper type Research paper

ABSTRAK

Kajian ini dijalankan untuk mengembangkan konsep orientasi pemasaran yang diamalkan di dalam firma-firma perniagaan ke atas rantaian nilai serta mengkaji dan membangunkan penemuan empirikal yang telah dijalankan dalam menentukan kepelbagaian tahap orentasi pemasaran ke atas rantaian nilai. 2 kajian kes te atas sektor pertanian dan penternakan telah dijalankan. Pada setaiap rantaian nilai yang dikaji, kaedah penyelidikan rujukan dan temuramah dengan individu yang terlibat secara langsung dan tidak langsung dijalankan. Temuramah yang dijalankan berpanduan kepada model konsep berhubung penentuan rantaian nilai yang berpotensi di dalam orentasi pemasaran. Hasil kajian mendapati terdapat hubungkait di antara rantaian nilai dengan faktor-faktor seperti kepuasan pelanggan, jalinan di antara rangkaian, peraturan dan pembuatan serta kepuasan pelanggan. Rantaian keseimbangan dicadangkan perlu diwujudkan dalam menjamin keberterusan orentasi pemasaran.

Kata kunci: Orentasi pemasaran, rantaian nilai, industri makanan
Paper type Kertas kerja Penyelidikan

CHAPTER 1

INTRODUCTION

Market orientation is commonly defined as the extent to which an actor in the marketplace uses knowledge about the market, especially about customers, as a basis for decision-making on what to produce, how to produce it, and how to market it (Jaworski and Kohli, 1993, 1996; Kohli and Jaworski, 1990). Market orientation is regarded as a major prerequisite for being able to create superior customer value, which in turn is regarded as a major determinant of competitive advantage. A series of studies have shown that the degree of market orientation is a determinant of profitability of companies (Fritz, 1996; Greenley, 1995; Jaworski and Kohli, 1993; Langerak and Commandeur, 1998; Narver and Slater, 1990; Ruekert, 1992; Sandvik, 1998; Selnes et al., 1996).

Market orientation has been viewed mainly from a dyadic perspective, i.e. as a characteristic of a company dealing with a set of current and potential customers. Kohli and Jaworski (1990) developed a comprehensive framework of theorized relationships among the market orientation construct and its antecedents and consequences. The antecedents include senior management factors, interdepartmental dynamics, and organizational systems. Customer responses, business performance

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and employee responses are identified as consequences. They describe three components of a market orientation:

    i.   The organization-wide generation of market intelligence.

    ii.   Dissemination of the market intelligence across departments.

    iii.   Organization-wide responsiveness to the market intelligence.

The organizational systems set of antecedents includes three organizational structure-related constructs: departmentalisation, formalization, and centralization (Kohli and Jaworski, 1990).

However, more recently there has been a rising interest in looking at market orientation from a value chain perspective (Baker et al., 1999; Elg, 2000; Grunert et al., 2002; Langerak, 2001; Siguaw et al., 1998; Simpson et al., 1999; Simpson et al., 2001). The notion of value chains probably has its origins with Michael Porter, almost 20 years ago (Porter, 1985). Simplistically, Porter proposed the value chain concept as a means of identifying each of the business actions or stages that transformed inputs into outputs. Companies interact in value chains in creating value for the end-user, and while a particular company will often primarily focus on its immediate customers in its market-oriented activities, it will often also be able to make profitable use of market intelligence not only on its immediate customers, but also on customers further down the chain and especially on the end-users served by the chain. The degree of market orientation of one chain member may thus be influenced by the degree of market orientation of other chain members. Consequently, the competitiveness of the whole value chain in serving end-users will

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be related to how the various chain members together perform the task of generating intelligence on end-user needs and wants and use it to guide their value-creating activities.

1.1   Background of Study

Agriculture has a long tradition for being commodity-oriented, with an emphasis on efficiency, high volume, consistent quality and economies of scale. As competition in food markets is moving towards products with higher levels of value added and higher degrees of differentiation, it becomes more important that production-related competencies become supplemented by market-related competencies, since products will be tailored more specifically to certain markets or customer segments, and the risks increase of developing products, which do not gain market acceptance (Grunert et al., 1996).

Food markets are becoming increasingly international and global. As summarised by Grievink et al. (2002, p. 19-21), there are six key developments characteristics to the global food sector: the concentration and internationalisation of the food industry and retail sector can be expected to continue; the power of retail sector will grow; globalisation and individualisation will be key consumer trends; large brands will remain powerful; technology strength will be a critical success factor for both food manufacturers and retailers, and the agricultural business is moving towards more demand-driven business. Paradoxically, alongside the globalisation of the food sector, one can identify the emergence of new small-scale markets that often are extremely localised. These small-scale markets exist, among

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others, for local and regional food, farm food, niche products, quality food and organic food.

In the increasingly globalise food markets the distance between consumer and producer has widened. Moreover, it is no longer a question of physical distance alone; the mental gap between food production and consumption has also grown. This has obviously consequences for the way customers perceive food products and has given rise to concerns, for example, about food safety and environmental issues relating to food production (Brom, 2000). As a consequence, there is an increased interest in the transparency of the food supply chain; for a growing number of consumers and professionals in the food sector, place and mode of production and trace ability as aspects of food quality have gained more and more importance lately.

In the increasingly globalise food markets, the retail sector mainly controls the distribution and logistics of the industrial food products. In the conventional food supply chains, the interdependence between different food supply chain actors is usually organised sequentially (Figure 1.1); one actor's output is another actor's input. The value created from managing these transactions derives typically from reductions in transactions costs and logistics optimisation (Lazzarini et al., 2001). However, the distance from the producer to the ultimate end-user is often long (Nygård and Storstad, 1998), both in space and time. Although the pursuit of transparency in the entire chain is accepted as a common goal in a conventional food supply chain, including, for example, the product origin, this may be obscured when the product goes through several links before reaching the end-user.

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Despite its wide-ranging environmental impacts, livestock is not a major force in the global economy, generating just under 1.5 percent of total GDP. But the livestock sector is socially and politically very significant in developing countries: it provides food and income for one billion of the world's poor, especially in dry areas, where livestock are often the only source of livelihoods. "Since livestock production is an expression of the poverty of people who have no other options," FAO says, "the huge number of people involved in livestock for lack of alternatives, particularly in Africa and Asia, is a major consideration for policy makers."

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┌─────────────┐   ┌────────┐   ┌──────────┐   ┌────────────┐   ┌──────────┐   ┌──────────┐
│ Production  │ → │ Farmer │ → │  Food    │ → │ Wholesaler │ → │ Retailer │ → │ Consume  │
│  Inputs     │   │        │   │ Industry │   │            │   │          │   │    r     │
└─────────────┘   └────────┘   └──────────┘   └────────────┘   └──────────┘   └──────────┘
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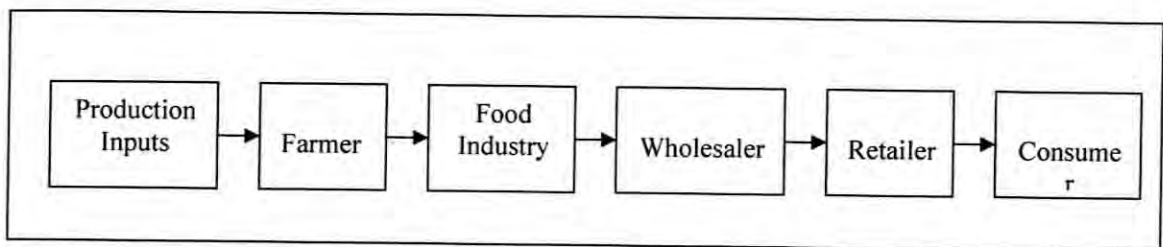
Figure 1.1 Traditional way of viewing the food chain

1.2   Problem Statement

The food industry is a particularly good example for studying market orientation at the value chain level for several reasons. Firstly, the topic of market orientation in food production, i.e. agriculture, the subsequent processing links in the food value chain, is of high practical importance. Secondly, the commonly high dependence of certain regional economies, in terms of employment and income multiplier effects, upon agriculture production systems adds important social and Welfare benefits to the gains that might be realized from greater market orientation (Pinder, 1983). Thirdly, increased chain cooperation is a universal trend in the food industry (Royers and Rogers, 1998; Wierenga, 1997). Part of this trend is again efficiency-driven, but another part is driven by differentiated end-user demands,

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which have to be dealt with at different levels of the value chain, and require new arrangements both for the diffusion of market intelligence across the chain and for coordination of responsiveness among chain members. Consumer demands concerning animal welfare, food safety, environmental considerations and use of genetically modified organisms (GMOs) are all examples, where evolving and heterogeneous consumer demands create needs for end-user focussed market orientation to extend across the whole value chain. For this research paper, the aim of this study is to derive an empirically-based framework on determinants of market orientation at the value chain level. Then, the researcher will develop a framework based on two case studies drawn from the food industry.

1.3   Purpose of Study

This paper extends the concept of market orientation from the firm to the value chain level and seeks to develop empirically founded propositions on determinant of different levels of market orientation of value chains.

1.4   Objective of Study

i.   To derive an empirically-based framework on determinants of market orientation at the value chain level.

ii.   To develop a framework based on two case studies drawn from the food industry.

iii.   To develop a market system model based on frame work.

1.5   Scope of Study

This case study will describe the basic concepts of a market chain, why it is important and how the researcher can use this information to assist linking farmers to markets.

1.6   Limit of Study

The aim of the research is to arrive at propositions on market orientation in value chains in agribusiness to be summarized in a conceptual framework. Based on this procedure and the criteria mentioned above, two cases are selected. This study only focuses on beef and mutton industry. The term case study covers various qualitative approaches. By the end of this study, an empirically based conceptual framework has been established.

1.7   Hypothesis

Ho: There are no significant differentiation between degree of market orientation of value and degree of heterogeneity and dynamism of end-user served, nature of chain relationships, regulations and prevailing mental models of decision-makers.

Ha: Degree of market orientation of values is found to relate to degree of heterogeneity and dynamism of end-users served, nature of chain relationships, regulations and prevailing mental models of decision-makers. Short and balanced chains are believed to further upstream market orientation.

1.8   Definition of Study

For this study, some words are may be caused confusing among the readers of this research paper. So, the researcher will be mentioned about certain term that used in this case study.

i.   Market Orientation

- Defined as the extent to which an actor in marketplace uses knowledge about the market, especially about customers, as a basis for decision-making on what to produced, how to produce and how to make it.

ii.   Value Chain

- Defined as the means of identifying each of the business actions or stages that transformed inputs into outputs.

iii.   Food Industry

-    Defined as beef and mutton industry.

1.9   Theoretical Perspective

The researcher will take point of departure in the definition of market orientation by Kohli and Jaworski (1990), who define it as the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it. Following the suggestion by Grunert et al. (2002), the researcher also extend this definition to the value chain level by defining market orientation of a

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value chain as chain members' generation of intelligence pertaining to current and future end-user needs, dissemination of this intelligence across chain members, and chain wide responsiveness to it. Intelligence generation thus refers to the sum of activities of all chain members pertaining to information on end-users, typically consumers, e.g. retailers analysing scanner data and manufacturers commissioning consumer market research studies. Dissemination includes all exchanges of information on end-users between chain members. Finally, responsiveness refers to the actions of the chain members towards the creation of superior value for the end-user, no matter whether they relate to improved raw materials, different forms and degrees of processing, or forms of distribution perceived superior.

These market-oriented activities need not be evenly distributed across the chain. For example, all intelligence-generation could be concentrated at the downstream level with the retailer, and responsiveness could be concentrated entirely upstream in primary production. Only dissemination would then have to involve all members of the chain. The most complete attempt to date to identify potential determinants of different degrees of market orientation of a value chain has been presented by Grunert et al. (2002). These authors proposed five groups of factors beyond those typically analysed at the organisational level:

i.   characteristics of the end-users served
ii.   barriers to the exploitation of opportunities created by heterogeneous and dynamic end-users
iii.   characteristics of the market supply,
iv.   characteristics of relations among value chain members

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v.   Regulations.

These factors are proposed based on a review of a broad range of literature, which the authors thought to be useful for building a conceptual basis for analysing market orientations in value chains. However, they are not based on any empirical evidence. It seems therefore very appropriate to supplement this conceptual work with some explorative empirical work, which takes these factors as point of departure, but opens up for an experience-based extension, reduction or change in the groups of factors. For this reasons, the researcher will use these five groups of factors to structure the case research. The five groups are discussed in more detail in the following.

1.9.1   Characteristics of the end-users served

Heterogeneity and dynamism in end-user demands are expected to be major determinants of market orientation of value chains, because they create the potential for economic gains by being more market-oriented. Heterogeneous and dynamic end-user demands create opportunities, which may be exploited profitably, but are also a source of uncertainty. Viewed from the perspective of transaction cost theory (Farrell and Gibbons, 1995; Klein and Shelanski, 1996; Rindfleisch and Heide, 1997), exploiting such opportunities will often required transaction-specific investments, because production facilities and marketing channels will be committed to transactions with certain groups of customers. This, in turn, can increase transaction costs due to switching costs and costs in preventing opportunistic behaviour of other

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chain members. Being market-oriented can reduce uncertainty, make transaction-specific investments less risky and decrease transaction costs.

1.9.2 Barriers to the exploitation of the opportunities created by end-user heterogeneity and dynamism

Such opportunities may not be perceived, they may not be considered profitable, or their exploitation may not occur due to hold-up problems in the system. Opportunities may not be perceived due to mental models emphasising other key success factors than customer oriented product differentiation; for example, cost efficiency, logistics and supply chain management. Hold-up problems, analysed in transaction cost theory, may occur when a chain member does not invest in tailoring offerings to a particular end-user segment because of a fear of becoming more dependent and subsequently being exploited by other chain members.

1.9.3 Characteristics of the market supply

Trondsen (1998) and Ottesen and Grønhaug (2002) have pointed out the role of uncertain upstream supplies in market-oriented behaviour. The more heterogeneous and dynamic the supply of raw material to the value chain, the more researcher expect market oriented activities also to take place upstream in the value chain (Langerak, 2001), since the raw material heterogeneity can either be matched with differentiated end-user needs or the heterogeneity may need to be reduced to satisfy end-user procurement specifications.