Title: In the current competitive business environment, the success of any business is dependent on how well they coordinate their activities across the supply chain to create value for customers, while increasing the profitability of every link in the chain

Name of Author	Chiva Thlang
Name of University	University of Queensland
Country of Study	Australia
Major	Agribusiness
Degree	Master
Course Title	Agribusiness Value Chain Management
Type of Document	Assignment
Year	2017

The University of Queensland

Gatton Campus

AGRC7050 Agribusiness Value Chain Management

Assignment II

‘In the current competitive business environment, the success of any business is dependent on how well they coordinate their activities across the supply chain to create value for customers, while increasing the profitability of every link in the chain.’

Task: Write a report to demonstrate your understanding on the key concepts highlighted in the statement above. If needed, use additional reference material (not more than 10) and support your opinion. Justify your opinion by applying relevant key concepts.

Student Name: Chiva THLANG

Student ID: 44145781

Introduction

The world is changing. The only thing that can be anticipated about change is it is going to change even faster. Changing business environment or externalities in such aspects as social, politics, economics, and environment require businesses to reassess their drivers of success as well as to reevaluate their internal readiness including organizational culture, resources, competencies, and strategies necessary to adapt and compete. In the era of globalization, opportunities, challenges and competition break through boundaries pushing change even more drastically and structurally (Boehlje, Bröring & Roucan-Kane 2011). Some implications are clear: business management is getting more complicated and competition is getting tougher. Businesses have made significant responses one of which is working together as a chain and driving the chain from customer perspective. This article will examine characteristics of new business competitive environment, explain the link between value chain and business success, explain how chain activity coordination play key roles in business success, argue how activity coordination and equitable profit sharing across the chain are crucial for sustaining a business and a chain success.

Competitive Business Environment

Since the mid-21st century, business environment has undergone structural changes taking business competition to the next level. Currently, businesses operate under the influence of both global and local drivers. For instance, environmental issues demand more sustainable ways of doing business while environmental regulations manipulate standards and code of conducts which add complexity and costs to businesses. The technology advancement potentially imposes abrupt and radical changes on how organizations operate. Apart from opportunities, these changes also generate risks and uncertainties for businesses especially in term of strategic decision making. To reduce risk, businesses have responded by increasing in size and scope through vertical and horizontal integration, differentiating products, targeting niche market, shortening supply chain, and by getting closer via partnership and collaboration (Boehlje, Akridge & Downey 1995). Boehlje, Bröring and Roucan-Kane (2011) argued that the key response to the fast changing and more risky environment is to develop sustainable competitive advantages through continuous innovation in products, services, management strategies, and/or business process. Innovation, in addition, has been fueled by the increasing soft assets such as human skills, R&D, relationship and hard assets such as technology advancement, and infrastructure (Boehlje, Akridge & Downey 1995). Innovation has accelerated complexity of competition.

One of the innovative ways of competing introduced in the 1980s is linking together as a supply chain so that can raw materials can be transformed into final products more effectively and efficiently. In this regard, Lambert and Cooper (2000) described the new nature of competition as chain-versus-chain rather than firm-versus-firm. In short, business competitive environment is more intense and more in form of network competition.

Value Creation, Value Chain and Business Success

Business success today has a strong link with customer value creation. With rising power, consumers are not just receivers produced goods anymore. They demanders of specific attributes based on their needs and wants. In this sense, businesses have to create customer values by designing and delivering products with desired attributes. Priem (2007) defined value as the highest amount a customer willing to pay in return of the total benefits experienced. However, understanding and defining values through the eyes of customers is quite challenging since customers perceive value differently (Priem 2007). Also, the perceived values are changing. For example, powerful consumers in developed countries demand not only quality and safety for the produces they purchase, but also specific physical characteristics of products such as shape, nutritional content, additives, functionality, and microwave-ability. Recent changes in social values encourage consumers to place higher value on social aspects such as fair labor treatment and environmental sustainability in chain operations (Stirling 2013).

In this sense, businesses need to look at their supply chain from a new paradigm—value chain. This means the chain longer focus on what they produce and push to market. They must go beyond efficiency and low cost and move towards customer value creation and satisfaction. Value creation refers to the process of establishing and increasing the benefit of consumption through innovation (Priem 2007). Instead of viewing supply chain as a series of processing and distributing activities, value chain is seen as a series of value creating and adding activities that ultimately fulfill customer needs and wants. Value chain management is a powerful business strategy that utilizes the combined resources of chain members as a weapon to enhance and sustain competitive edges over competitors in a fast changing environment (CAPI 2012). Similarly, Bonney et al. (2007) characterized value chain management more inclusively as the alignment of strategies, processes, and structures in pursuit of a shared objective and on the basis of trust, commitment, consumer value, and value creation in the chain.

Based on the value chain concept, a successful business or chain is the one which understands customers and consumers' needs and wants and fulfill them more effectively, efficiently, and at higher profit than competitors as well as at a distinctive position in customers and consumers' mind.

Working as a chain could help a business succeed in many ways. First of all, a business could be more efficient. By getting closer to other chain members, a business could reduce investment and operation costs by reducing redundancy, waste and duplications in the chain. Second, a business can create long-term competitive advantage. It is quite difficult for a business operating unilaterally in a fragmented value chain system to achieve competitiveness (CAPI 2012). By integrating into a chain, regardless of where the company situated in relation to the end market, the company can benefit from market intelligence sharing which enable it to be more consumer-focused and market-oriented. Utilizing this information together with access to skills, knowledge, expertise and technology of value chain partners, the company could generate superior customer values over its competitors. Thirdly, the company could translate its superior value into higher captured value or profit by satisfying customers and consumers better. Priem (2007) argued that businesses could achieve higher consumer payments by focusing on improving consumer benefits. Finally, by operating as a chain a company could reduce and share risks with its chain members. The chain use traceability and quality assurance system to mitigate risks in production, price, quality, and safety. But because risk is inevitable, the chain can members share those risks.

Business Success and Supply Chain Coordination

Business relies on supply chain performance for its success, but supply chain management is complex and requires high level coordination between members. If examined closely, the whole value chain system is comprised of several sub-systems including governance, finance, marketing, operations, human resources, and information which flow back and forth between upstream and downstream partners (CAPI 2012). Lambert and Cooper (2001) indicated that supply chain management consists of multiple processes including customer relationship, customer service, demand, order, manufacturing, procurement, product development, and return. These processes flow across each and every organization in the chain. Companies in the chain need to be able to coordinate these processes effectively based on shared chain objectives and strategies.

The success of the supply chain as well as a business in the chain depends upon how well they coordinate these processes. By coordination, it means each company needs to participate in supply chain management components: planning chain directions and activity execution; designing work structure directing how tasks should be performed; developing organizational structure of the company to enable cross-functional teamwork. Also, members need to coordinate and structure how materials, products, and information flow while considering the leadership and governance (Lambert & Cooper 2000).

To be succeed in supply chain activity coordination, it is import that the company has an organizational culture that enables collaboration cross-departmentally and cross-organizationally. In this sense, each company needs to get rid of its silo mentality which conceptualizes itself as an independent company. Besides the alignment of organizational culture, business needs technology to enable gathering and filtering of procurement, logistics, and demand information while being aware of macro factors such as changes in market place which influence the company's position in the market, and allow it to adapt quickly (Lambert & Cooper 2000).

There are a number of underlying qualities that make some value chains more successful than others. According to an extensive research, those qualities include awareness, trust, integrating ability, timely business decision, market orientation and transparency. Without these qualities, the whole system would underperform or even break apart (CAPI 2012)

Supply Chain and Profit Sharing

To reiterate, the essence of operating as a chain is to respond to customer needs or market opportunities and in return capture value from consumers in form of revenue and profit while benefiting all members involved. In this sense, profitability is a key incentive behind the participation in the chain.

Value chain success relies on coordination and collaboration within the chain. Coordination and collaboration depend on trust and commitment individual firm puts into the system. But commitment and trust could be destroyed by inequitable share of profit. Value captured from consumers in form of profit must be shared equitably and proportionately to value contributed. Priem (2007) indicated that the act of excessively increasing share of captured value at the expense of chain partners is a zero-sum game. In this case, there are some companies gain and some loss which destroy incentive and commitment.

Value chain strength depends on the strength of linkage between members at every link or stage of the whole chain system. Therefore, it is important for value chain to increase profitability of every link of the chain. Failure to do so would result in failure of the whole system.

Summary and Conclusion

Putting all the above concepts together, the new reality of business competition forces business to form value chain and utilize it as weapon for creating long-term competiveness in response to customers and consumers' needs and wants. But in this new way of operating, business must be ready internally and be able to coordinate the sophisticated activities in the multi-process supply chain system downstream and upstream beyond the arm-length trading partners. And to sustain this coordination, every members of the chain must gain profit fairly based on their contribution.

Getting together as a chain is not sufficient. The chain need to perform better than competitors' chains. The key to better performance is better coordination of sophisticated and complex activities and processes in a more effective, efficient, and timely manner. Individual business coordination performance determines the chain success and chain success determine individual business success. It is vice versa.

Nevertheless, chain member should understand the nuance between cooperation, coordination, and collaboration. Value chain should be developed by making transition from fragmented 'open market' system where only short-term, price-based, opportunistic, and adverbial business relationship. Moving to 'cooperation', a buyer prefers fewer suppliers with longer contracts with mutual understand of cooperation benefits, yet information sharing is transactional and limited. In 'coordination', companies are getting closer to each other with high information linkage and there is some involvement in attitude, leadership and culture alignment but usually for a short and medium term. At the end of the spectrum 'collaboration' refers to long-term and strategic engagement in sharing resources and developing competencies of chain members with mutual understanding of benefits. At this stage, chain members focus strongly on culture compatibility, shared vision and leadership. They are highly integrated via joint ventures and technology sharing through which they generate higher risks and greater rewards (CAPI 2012; Spekman, Kamauff & Myhr 1998).

Reference

Boehlje, M, Akridge, J & Downey, D 1995, 'Restructuring agribusiness for the 21st century', *Agribusiness*, vol. 11, no. 6, p. 493.

Boehlje, M, Bröring, S & Roucan-Kane, M 2011, 'Future agribusiness challenges: Strategic uncertainty, innovation and structural change', *International Food and Agribusiness Management Review*, vol. 14, no. 5, pp. 53-82.

Bonney, L, Clark, R, Collins, R & Fearne, A 2007, 'From serendipity to sustainable competitive advantage: insights from Houston's Farm and their journey of co-innovation', *Supply Chain Management: An International Journal*, vol. 12, no. 6, pp. 395-9.

CAPI 2012, *Characterizing the determinants of successful value chains*, Canadian Agri-Food Policy Institute.

Lambert, DM & Cooper, MC 2000, 'Issues in supply chain management', *Industrial Marketing Management*, vol. 29, no. 1, pp. 65-83.

Priem, RL 2007, 'A consumer perspective on value creation', *The Academy of Management Review*, vol. 32, no. 1, pp. 219-35.

Spekman, RE, Kamauff, JW & Myhr, N 1998, 'An empirical investigation into supply chain management: a perspective on partnerships', *International Journal of Physical Distribution & Logistics Management*, vol. 28, no. 8, pp. 630-50.

Stirling, C 2013, 'Agriculture and food: a new era of collaboration', pp. 2-39.