



Indoor Agriculture's Value Proposition: Keys to Profit through Revenue Enhancement

Part 1/2: IA Value Proposition: Strategic Principles

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IA Value Proposition, Profit and Revenue

- All members of the Indoor Agriculture industry are working to enhance their individual profitability.
 - Mostly these efforts focus on reducing capital investment cost and/or operating costs.
 - But another key to profit exists: Profit = **Revenue** – Cost
 - The focus of this lecture and its companion lecture is on **increasing IA profit by enhancing revenue through customer value creation.**
- A company's **Value Proposition** states how its products and services **create value for its customers.**
 - Successful value proposition → more customers or more sales to each customer → increased revenue → increased profits!



Increase Customer Value!

$$\text{Customer Value} = \frac{\text{Perceived Benefits}}{\text{Price}}$$

Only two ways to increase customer value:

1. ↑↑↑ perceived benefits for consumers
2. ↓↓↓ price



Value Propositions (VP) that Create Customer Value

- **Example 1: VP based on decreasing price**
 - For the customer: Increase value by lowering customer price
 - For your business: Increase profits by expanding sales to more than cover lower price
- Who wins with this VP?
 - **Cost leader:** A low-cost producer can drive down price and be profitable as higher cost competitors lose out.
 - Lowest cost structure
 - Acceptable attributes (commodity goods)
 - Innovate by continually driving down cost
- Can IA farms win with this VP?
 - **Not likely** to be a cost leader vs. other growing systems: **HIGH COST OF CONTROL**



Value Propositions (VP) that Create Customer Value

- **Example 2: VP based on increasing perceived benefits**
 - For the customer: Increase value by enhancing the bundle of benefits offerings
 - For your business: Increase profits by expanding higher priced sales or market share due to higher quality
- Who wins with this VP?
 - **Product leader:** A producer who can differentiate and increase its perceived benefits
 - A product leader can drive up price and be profitable as lower benefit competitors lose out or expand market share by meeting weaker competitors' prices.
 - Most unique product
 - Most attractive attributes (differentiated goods)
 - Innovate by continually increasing valued benefits
 - **BUT**, never forget that price is still part of value equation
- Can IA farms win with this VP?
 - **Very possible to be a product leader** vs. other growing systems: **HIGH ABILITY TO CONTROL CAN LEAD TO HIGHER PERCEIVED BENEFITS**
 - Year-round production, consistently higher quality (flavor, freshness, healthiness, etc.), local production, better shelf life, etc.



Value Propositions (VP) that Create Customer Value

- **Example 3: VP based on tailored value to niche customers**
 - For the customer: Increase value by enhancing the bundle of benefits and the price ratio offered to meet customers' special needs
 - For your business: Increase profits by expanding higher priced sales or market share due to superior knowledge of niche customers
- Who wins with this VP?
 - **Customer specialization leader:** A producer who tailors a product's value to a focused or niche set of customers
 - A specialization/niche leader can drive up price and be profitable as less focused competitors lose out.
 - Best focus on customer needs through deep understanding of customer
 - Best benefit mix and price for specialized customer
 - Continually evolve with changing niche customer needs
- Can IA farms win with this VP?
 - **Very possible to be a specialization leader** vs. other growing systems: **HIGH ABILITY TO CONTROL CAN LEAD TO BEST RATIO OF HIGHER PERCEIVED BENEFITS TO PRICE**
 - Specific example: Tailor products to white-table-cloth restaurants.



Value Propositions (VP) that Create Customer Value

- **Cost leader** (Low-cost producer that drives down price)
 - Lowest cost structure, acceptable attributes, continually drive down cost
 - IA **not** likely to be cost leader vs. other growing systems: **HIGH COST OF CONTROL**
- **Product leader** (Differentiator that increases perceived benefits)
 - Highest quality product, best attributes, continually innovate product
 - Possible product leader vs. other growing systems: **HIGH VALUE FROM CONTROL**
- **Customer specialization leader** (Focus/Niche Provider that tailors value)
 - Best focus on customer needs, best attribute mix for customer, continually evolve with changing customer needs
 - Possible specialization leader vs. other growing systems: **UNIQUE VALUE FROM FOCUS**
- **CAN ONE FIRM PROVIDE VALUE IN ALL THREE WAYS?**
 - Every firm wants to do all three.
 - Many firms offer multiple product offerings with each based on a different value proposition.
 - The management challenge is difficult—each VP takes a potentially different mix of assets and markets.
 - Rarely does one firm with one product line achieve all three—likely result of trying is being “stuck in the middle” (Porter)



IA Product Attributes that Potentially Increase Value

For either a product leader or a customer specialization leader the list of attributes that can be enhanced by IA to create customer value is quite long.

The issue becomes which attributes are most valued by customers and what is the capital and operating costs of producing them.

Health:

- herbicide-free
- pesticide-free
- local supply (maintain nutritional value)

Social:

- consistent employment
- job opportunities for urbanites
- food security

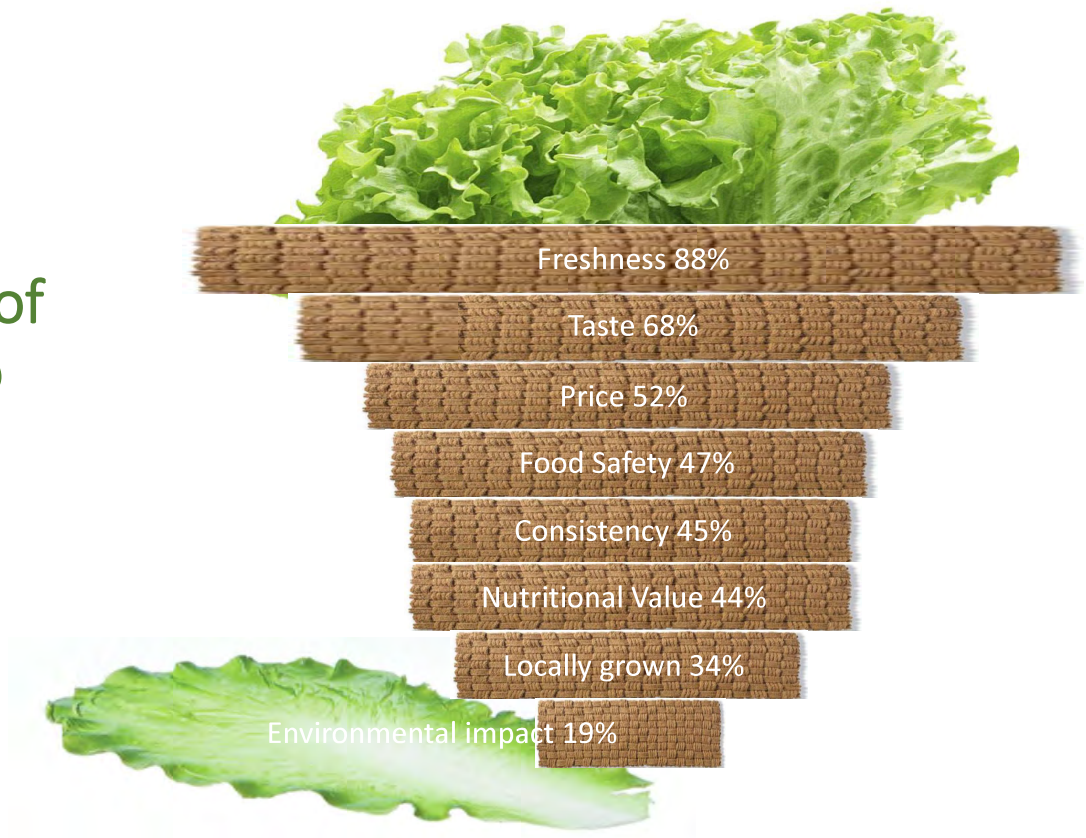
Environmental:

- local supply (little use of fossil fuels to harvest, transport and refrigerate)
- 80-90% less water consumption
- less land degradation
- smaller need for land

Market:

- consistent year-round supply
- superior control over desired attributes: taste, freshness, nutrition, etc.
- value of attributes vs prices
- superior ability to produce quantity demanded

Importance of Attributes to Consumers



Transition to Market Segments

- In Part 2 of this lecture, we move from the principles of value propositions to the problem of identifying what attributes different segments of customers desire and are willing to pay for?
- Identifying consumer segmentation is important
 - There is not much information about consumer's attitude towards IA
 - Consumers might be hesitant about accepting new technology (e.g. GM food)
 - It is likely that consumer preferences towards IA vary significantly
- Consumer segmentation will be helpful to answer:
 - Who will likely buy IA produce?
 - Where are they geographically? What behaviors characterize their buying preferences and processes? What is their age, education level, gender and other demographic characteristics? What are their psychographic characteristics?
 - How much will they willingly pay for IA produce attributes?
 - Will IA be accepted by consumers and grow in market share?



IA Value Proposition & Revenue Enhancement

- Maximizing profitability for IA farms involves two strategies, not just one.
 1. **Driving down operating and capital costs.**
 2. **Driving up revenue from high value produce attributes** stemming from environmental control technologies and integrating them into complete systems.
- Each IA farm needs a value proposition for increasing customer value, revenue and profit.
 - Three were introduced in this lecture.
 1. Cost leader
 2. Product leader
 3. Customer specialization leader
 - IA farms are not likely to succeed at cost leadership.
 - IA farms have great potential to be product leaders and customer specialization leaders.
- IA can enhance taste, freshness, and other key attributes.
 - **Consumers value these attributes highly.**
 - **Consumers are however diverse.**
 - In their attitudes toward IA: IA skeptical, IA accepting, IA supportive and IA engaged
 - In their willingness to pay for IA: Quality Seekers, Price Conscious, and Focused Practicals
- Each IA farm needs to create a **marketing strategy** that maximizes its revenue from the consumers targeted by its produce attributes.
 - **Each major decision made about capital and operations will have cost AND revenue impacts.**



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