Chapter 98
Business Model Innovation in the Agri-Food Sector

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ABSTRACT

The purpose of this article is to deepen our understanding of what we know about business model innovation in the agri-food sector, both from a theoretical as well as a practical perspective. The methodological approach used in the paper is built on interviews, focus groups and observations of agricultural entrepreneurs and agricultural advisors in the agriculture sector and a review of over 500 peer-reviewed research papers for the period 1990-2014. The findings of the study indicate that entrepreneurs within the agri-food sector ought to shift focus from only a producer perspective to also include an entrepreneurial perspective, e.g. to focus on business model innovation. Based on this knowledge the authors present implications for research and practice. The research field is young and broad, but developing, and in need of stronger theoretical foundations. This article is based on a combination of a systematic literature review of a new emerging field as well as empirical in-depth interviews, focus groups and observations.

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INTRODUCTION

The agri-food sector - the combined agricultural and food sector represents an important part of the EU economy accounting for 19.2m jobs (9% of total employment) and for 4.3% of GDP in EU-27. The agri-food sector[1] is defined by the EC (2007) as the combination of the primary sector (agriculture, hunting and forestry) and the food industry (manufacture of food products; beverages and tobacco). Many businesses in the agri-food sector are exposed to increasing competition, and many of them need new ideas and approaches to make farming more productive and competitive. Legislation, international competition and strong players in the value chain, have for instance contributed to large-scale production economics as guide for the development in many European countries.

In Sweden, because of structural developments in the agri-food sector, farms are becoming both larger and fewer (SCB, 2013), in order to take advantage of economies of scale. In general, Swedish farms are owned and operated by the same family. In months when the farm work is at its peak, the farms employ seasonal employees. Farm work is highly labour-intensive. However, such work is also characterized by the low number of people employed and by the low employee turnover in relation to the relatively high asset values, particularly of fixed assets, such as land, machinery, and buildings. Further, the Swedish countryside has the past half century undergone major changes. Mechanization in both agriculture and forestry has increased productivity while labor has decreased (SOU, 2006). The agricultural sector has large capital values and is essential for the Swedish economy. Within these industries, including processing, worked approximately 416,000 persons in 2009, representing 9 percent of all jobs in the country (LRF Report, 2009). For agriculture, the trend over time, however, has been that larger units have been formed in order to maintain profitability, which has contributed to the small number of farms and reduced the number of people employed in farming in Sweden. The number of full-time workers in farms fell by more than 5,300 people between the years 2007 to 2010, according to Agriculture's statistical report (Jordbruksverket, 2011). The negative change in the agricultural sector is in many parts not compatible with a sustainable society that is characterized by a vibrant food available and may be offered in the local market, for example in the form of locally produced goods.

Agricultural entrepreneurs often see themselves as producers and suppliers, rather than contractors, operators or product developers. The agricultural entrepreneurs are in situations where there is a need to find and implement new innovative ways of creating, delivering and capturing value in order to be able to meet existing challenges and emerging opportunities. This, however, requires finding and implementing innovative business models which are accompanied with mindset change. For example, entrepreneurial farms which managed to break this trend and developed a more differentiated business usually have developed new business models based on a network approach (Lawson, Guthrie & Cameron, 2008).

A dominant logic has a crucial role in the agri-food sector. Prahalad and Bettis (1986, p. 490) describe this dominant logic as the "way in which managers conceptualize the business and make critical resource allocation decisions". In this article, the managers are the agricultural entrepreneurs who tend to think about their work pretty much as they always have, with only a few minor changes. That is their dominant logic. Of course, over the years there have been many farming improvements in terms of capacity, efficiency, knowledge, technology, etc. However, in business terms, change has been very slow in farming. One possible way of breaking this dominant, and traditional, business logic is business model innovation (BMI). According to Lambert and Davidsson (2013), BMI has enormous potential for performance improvements provided the innovator is willing to make changes as conditions change.