

Coopetition Strategy in the Organic Industry. The Value Creation and Value Capture

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Resumo

Recent academic research presents a large volume of studies of organic market, from the perspective of the motivations of consumers and their buying preferences. However, these studies assume a competitive or a cooperative approach and overlook the institutional complexity of emerging economies. This study aims to investigate the organic production chain of an emerging economy from the perspective of coopetition. We focused our analysis on the organic product's chain and centred on the organic ice-cream producer as the focus node of the chain. It is an investigation of a single case, conducted through in loco interviews with the participants of the organic product chain, along with secondary data. The results demonstrate the influence of non-financial motives as primary drivers of the entrepreneurs' strategic decisions. We contributed to the coopetition literature by showing the creation and capture of value in the organic chain.

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Abstract: Recent academic research presents a large volume of studies of organic market, from the perspective of the motivations of consumers and their buying preferences. However, these studies assume a competitive or a cooperative approach and overlook the institutional complexity of emerging economies. This study aims to investigate the organic production chain of an emerging economy from the perspective of coopetition. We focused our analysis on the organic product's chain and centred on the organic ice-cream producer as the focus node of the chain. It is an investigation of a single case, conducted through in loco interviews with the participants of the organic product chain, along with secondary data. The results demonstrate the influence of non-financial motives as primary drivers of the entrepreneurs' strategic decisions. We contributed to the coopetition literature by showing the creation and capture of value in the organic chain.

Keywords: Coopetition, organic, value creation, value capture.

1. Introduction

There is a growing worldwide trend nowadays among consumers who started to search for food linked to healthy living habits, improvement in the quality of life, health, and well-being, which has been boosting the organic products industry. There is a greater propensity to natural and organic foods due to the increase of green consciousness (Chen et al., 2017). The organic foods stem from a production process of an agro-toxic and fertilizers free agriculture while involving culture techniques that do not harm the environment (Institute of Food Science and Technology, 2015). The production of organic food aims at the cultivation based on the three pillars of sustainability: social, economic, and environmental (Kim and Chung, 2011). Organic products are not limited to agriculture. Its context has expanded for the manufacture and processing, which made the expansion of this market possible in several associations. In addition, the importance of the food market is reflected in the central position of Brazil in this segment, with the Rio Grande do Sul being one of the main global suppliers of animal and plant protein (Contini et al., 2016).

Coopetition is an emerging and *trending topic* in the strategies of relationships between firms that generate a wide interest among researchers since the second half of the 1990s. It is recognized as a multifaceted, multilevel, and paradoxical phenomenon (Raza-Ullah et al., 2014) that shares a divergent use of definitions (Bengtsson and Kock, 2014), lack of generalizability, and a limited analysis of context (Bouncken et al., 2015) since it is a concept still being developed. Despite the significant number of studies related to the concept, coopetition is still considered as a concept in progress. Studies have been limited in exploring a variety of firms, mainly small and medium enterprises (SMEs), start-ups, or family business (Bouncken et al., 2015). In these terms, it is still a challenge to explain the complex network formed by several agents with different functions (Myllärniemi et al., 2012).

The current academic research presents a large volume of studies targeting the organic market, from the perspective of the motivations of consumers and their buying preferences. However, the bias of the production chain in this segment is still little explored. This study aims to investigate the organic production chain of an emerging economy, from the perspective of coopetition, for the creation and capture of value among agents. Therefore, our analysis unit was focused on the organic product's chain and centered on the organic ice-cream producer as a central agent of the chain. In this scenario, we used the studies based on coopetition to theoretically support the analysis of our industry.

Considering the above, this paper makes two important contributions to the literature. First, rarely has coopetition been applied in agri-food industry, with the exceptions of Granata (2012) and Galdeano-Gómez et al. (2015). Therefore, this paper contributes by exploring scant researches about agri-food and, mainly, organic industry. In these terms, this paper to fill the lack of holistic research on coopetitive among players of supply chains (Klimas, 2014), as exploratory and qualitative research (Houé and Guimarães, 2013). Second, this paper is based on non-financial motivations in the organic industry. We identified that players coopete to create and to capture value in the network for ethical or especially healthy reasons. Financial motivations are secondary reasons to coopete in this industry. In fact, this study differs from previous research, because we look beyond the coopetition strategy in an attempt to fill these research gaps, while considering the role that firms use coopetitive strategies for primary non-financial motivations.

2. Coopetition

Coopetition is analyzed by two approaches: as a process and as a context (Bengtsson et al., 2010). As a process, coopetition involves narrow strategies of competition and cooperation simultaneously between competing firms, in different areas and levels of interaction (Bengtsson and Kock, 1999, 2000). One continuum ranges from complete competition to complete cooperation with different degrees of coopetitive relations. The stronger the cooperation is, the weaker the competition is, and vice-versa (Bengtsson and Kock, 2000). Two-continuum approaches suggest that different levels of cooperation and competition can co-exist, in parallel within a coopetitive relationship, based on a multifaceted concept (Bengtsson et al., 2010).

On the other, as a context — that it is the focus of our research — coopetition is either broadly presented in a chain that adds value to the company through environmental interaction (Brandenburger and Nalebuff, 1996; Lado et al., 1997). This chain refers to customers, suppliers, substitutes, and complementors called "The Value Net." In this relationship, coopetition occurs between the firm and these parts, in any direction, based on the game theory. In these terms, coopetition is a relationship strategy where the partners — mainly suppliers, firms, and costumers — aim to increase the value of their businesses to overcome individual results that could be obtained. The crucial point is how to divide the results that the firms obtained through coopetitive strategy.

In the perspective of coopetition as a context, in a more general concept, coopetition includes all the relations developed between complementary organizations (Pellegrin-Boucher et al., 2013). It is based on the firms' capacity to create and appropriate value collaboratively, capturing the bigger proportion of the value individually (Gnyawali and Park, 2011). Coopetitive relationships develop over time according to the influence of the participants involved, which implies intensity of cooperation and competition movements (Dal-Soto and Monticelli, 2017). The Value Network (Figure 1) explores all the inter-dependencies in this context.

Coopetition is based on the interdependence between firms, with the partial convergence of interests and goals through hybrid relationships. It is based on creating opportunities to generate competitive advantages while removing external obstacles and neutralizing threats (Chin et al., 2008). In this case, the shared objectives prove to be more important than maximizing individual profits. Self-interests are overlapped and positively dependent on each other. This behavior generates a strategic interdependence among firms known as the coopetitive system of value creation (Padula and Dagnino, 2007). However, it is necessary to

clarify how firms create value and how appropriate this value for them is (Volschenk et al., 2016), considering mutual reciprocity (Franco and Belo, 2013).

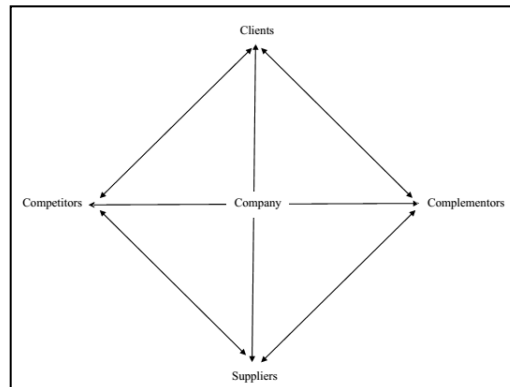


Figure 1: Value network.

Source: Adapted from Brandenburger and Nalebuff (1996).

Coopetition allows firms to access resources and markets, economies of scale and scope, increased bargaining power, reduction of transaction costs, periods of product development and innovation, and contractual mechanisms to neutralize opportunistic risks. Nevertheless, strategic options enable the assumption of flexible postures (Lado et al., 1997). In these terms, firms can reduce costs, conduct research, acquire knowledge, and develop new products or technologies (Luo, 2007). Moreover, coopetition may produce entry barriers against competitors not included in the coopetition (Ritala and Hurmelina-Laukkanen, 2009). Especially for SMEs that may improve their position in the market using coopetition, this relationship is strategic for developing and gaining competitive advantage (Tomski, 2011). Excessive coopetition can have a negative influence on innovation performance, being a cause for concern on the opportunistic behavior (Gnyawali and Park, 2009). It happens due to the threat of expropriation because there is a difference between the knowledge created by the cooperation and the knowledge appropriated by the competition.

3. Methodology

We conducted a qualitative research using a descriptive case study approach (Flick, 2007) because of its applicability to the objectives and the complexity of the proposed subject. A qualitative approach is appropriate for the case selected (the Brazilian organic products) since it is a fragmented industry based on creation and rivalry of value among the participants of the chain that stimulate strategies of coopetition between organic producers. In these terms, coopetition strategies are a form of organic producers gain competitiveness in an emergent industry that is difficult to capture the value based on differentiation positioning. Moreover, coopetition is rarely addressed in emerging economies (Peng and Bourne, 2009).

To analyze the coopetition in the organic industry, we selected a specific part of the chain that represents all participants in the Value Network (Brandenburger and Nalebuff, 1996). In these terms, organic ice-cream fabric is a good option because it is a paradoxical relationship in several aspects. First, on industry view, it is a single case because is a product usually with high fat, but in this case, focuses on health. Second, on the theoretical view, the organic ice-cream producer has a relevant role in the chain because develops relationships in all parts of the chain. In this case, there is creation and rivalry of value among the participants of the chain.

Representatives from organic producers with differing status regarding membership of

business groups, cooperatives, etc. who were judged as relevant to map the industry were interviewed (Creswell, 2009). The representatives were selected if the following criteria were met: i) to have a relationship with the organic ice-cream producer; and (ii) to be a participant of the Value Network in the organic ice-cream production (competitors, suppliers, complementors, clients, and company). Data were collected applying nine semi-structured interviews with the organic producer, managers and organic business owners (Table 1). All interviews were conducted by two researchers. We recorded and transcribed all data enabling data triangulation between different accounts of organic participants of the industry. Secondary data were also collected from the websites of the participants to complement and contrast information from interviews and bibliographical material such as websites, annuals, newspapers, magazines, and books. By associating the interviews with the secondary data, observations, and notes of researchers, the data triangulation was accomplished. Data triangulation aimed at obtaining more validity and reliability while collecting data at different times, from different sources or instruments in the study of one same phenomenon (Collis and Hussey, 2003; Stake, 1998).

Table 1 - General information of the interviews

Interview	Position in Value Network	Location of business	Duration
Organic producer (fruits) and Osteria owner	Supplier	Bento Gonçalves	1h23min
Ice-cream produce (Santo Fruto)	Company	Bento Gonçalves	1h42min
Organic producer (fruits and vegetables)	Supplier	Farroupilha	2h01min
Organic producer (fruits and vegetables)	Supplier	Farroupilha	1h49min
Ecological producer cooperative (COOPEG)	Complementor	Garibaldi	1h14min
Ecological Centre Ipê	Complementor	Ipê	44min
Brazilian Corporation for Agricultural Research (Embrapa)	Complementor	Bento Gonçalves	25min
Organic producer (fruits and vegetables) and ice-cream producer (La Naturelle)	Competitor	São Paulo	1h31min
Delicatessen	Customer	Porto Alegre	46min

For data analysis purposes, the content analysis technique was used to infer knowledge through the generation or not of quantitative indicators (Bardin, 1977). Data analysis was performed by preparing summaries, interview recordings, in addition to the printed and digital materials. Finally, results have furthered the discussions about the value creation and the value capture using the cooperation strategies.

4. Analysis and discussion of the results

We analyzed the organic industry from the perspective of the value network considering the influence the production of organic home-made ice cream by a company called Santo Fruto. First, our analysis of the cooperation among the participants in the organic industry shows that, even when the players cooperate, there is also a value dispute between them. This case reinforces the dynamics of value creation and appropriation when competitors cooperate

(Volschenk et al., 2016). The organic ice-cream producer called Santo Fruto and its main competitor called La Naturelle, for example, cooperate to promote the organic industry, while promoting a greater visibility, not only for the organic industry but this sort of product. However, although La Naturelle does not recognize Santo Fruto as a competitor, they both dispute space to gain more customers. Therefore, the dispute of value occurs when both organic ice cream manufacturers compete for the same market.

Second, similarly, the organic producers cooperate between themselves to prevent the overlapping of products negotiated in fairs of organic products, thus avoiding the competition. Therefore, the organic producers cooperate to the growth of the market of organic products - also preventing the competition among themselves - but compete to capture the value of the customer who is willing to pay more for the organic products. It is a way to explain mainly the chain value or value network when firms cooperate to create a bigger market and then compete to divide it up (Brandenburger and Nalebuff, 1996) in a cooperative network structure or between networks. The creation of value also occurs between the organic producers and the organic ice cream manufacturer, also commercializing the excess of production from the suppliers. However, there is a value dispute when we observe the organic producers challenging the price demanded by the organic ice cream manufacturer. High levels of competition implicate on the inter-dependency between the firms for the search of the same resources that not all of them can have at the same time. This motivates an individualist behavior that targets the gains of only one of them, ignoring the interests of the other participants in favor of their own benefits (Padula and Dagnino, 2007).

Third, to another important role in the value network is played by the complementors. They legitimatizes the players that participate in the organic industry. However, this kind of cooperation is more transactional than traditional, because of the need to deliver benefits to third parties that induced the cooperation (Dal-Soto and Monticelli, 2017). In this case, certifiers such as COOPEG and Centro Ecológico Ipê (Ipe Ecological Centre) create value with the other participants in the chain - organic producers, manufacturers of organic ice cream, and stores specialized in organic products - but dispute part of the value created by the requirement certification (EcoVida badge) for the participants in the industry. These complementors are at the heart of the relationships established between the participants and create value from two axes: mindset and business model.

Fourth, through the development of ecological and environmental awareness and of the physical and well-being concern, which was acquired through the non-use of pesticides, we identified that are fostered the cultivation and production of products that provide health and quality of life for those who produces and consumes it. Also, being part of the organic industry promotes and propagates the ethical actions. According to our analysis of the relationship between the market players, we identified that, for the motivating agents, the performance in the organic industry can be divided into two categories: (1) mindset, regarding Figure 2A, and (2) business model, regarding Figure 2B. In both cases, the gains associated with suppliers, institutions, and clients create legitimacy, sustainability and new business opportunities using local assets (Franco and Belo, 2013).

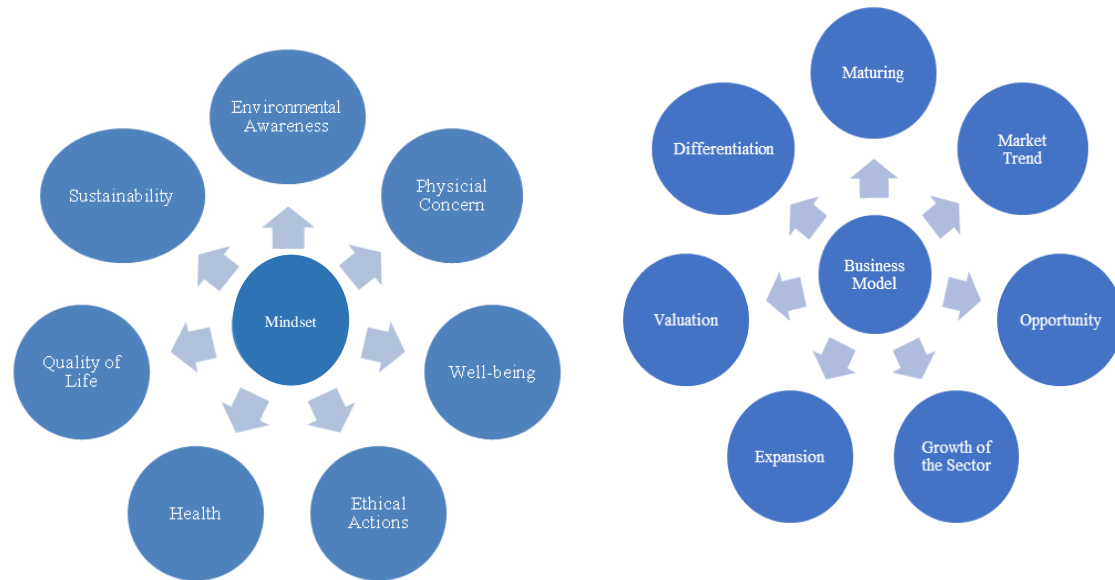


Figure 2A: Mindset motivations for the organic industry.

Figure 2B: Business model for the organic industry.

We observe that the mindset and the performance in a sustainable industry, are above the financial motivations. However, this issue is not forgotten. All players mention that the consumption and the organic production, however still growing when compared to the traditional industry, are seen as a market trend. This trend makes the organic industry a promising business opportunity since, besides presenting expansion in number and amount of products, enables the already available products to become more popular. Similarly, other factors identified are the greater appreciation and differentiation, both from the organic products and from the professionals who work in this industry. This perspective is aligned with Dal-Soto and Monticelli (2017) who identified coopetition as promoting the cost reduction, learning, qualification, and differentiation of activities and Franco and Belo (2013) that associated coopetition with brand creation and product certification.

Fifth, with regards to the organic industry barriers, the respondents working in organic farming and complementors highlighted some technical aspects. Some peculiarities inherent to the organic culture, as the harvests that occur only in the natural period of each cultivation - which results in more offers of a particular product (*in natura*) than the market can absorb, and also the greater risk of crop failures than traditional planting. Also, were highlighted issues such as lack of technical and political and the lack of financings that considerate the differences between organic and traditional culture.

5. Concluding remarks

Our study had as the main objective to investigate the organic industry from the perspective of coopetition, for the creation and capture of value among the agents. From this perspective, the analyses showed that the relationships between the participants in the chain can be divided into two categories: mindset and business model. With relation to the mindset, the results point to the existence of a strong and collective awareness driven by the creation of values that permeate the environmental sustainability, health, and well-being of those involved. The mindset motivations can be considered as the main motivation for staying in this segment. These values corroborate with the consumption interests, as emphasized by particular authors (Hoefkens et al., 2009; De Barcellos et al., 2014; Dalmoro, 2015; Schouten et al., 2015)

Regarding the barriers of the performance in the organic industry, unique factors have been identified, which impact more the organic farming than the conventional one, while relating differentiated planting techniques, periods of shorter crops and pest risks, due to the lack of use of agrochemicals and pesticides. These aspects reduce the production scale and consequently increase the commercialization costs. The authors (Uematsu and Mishra, 2012) emphasize that the risk management problem in the production is one of the main impediments to the development of the sector.

With regards to coopetition, the study showed that the relationship between players is made evident not only by the creation of value through cooperation but also by the dispute of value through the competition between them. Regarding the Santo Fruto, the focus of this study, the cooperation is established with the La Naturelle to promote the organic industry, but there is a value dispute in their market positions based on differentiation. Similarly, Santo Fruto and the final customer (storekeeper) compete for fresh products from chain producers, but also cooperate through the availability of diversification in the range of organic products. Moreover, the firm Santo Fruto and its suppliers (producers and/or agriculturists) dispute value since Santo Fruto does not have exclusivity in the supply of *in natura* products, as there are other buyers in the chain who dispute the production of organic products. However, Santo Fruto and the suppliers cooperate through the efforts of the suppliers in searching the certifications necessary to include the organic stamp in the processed product. In this sense, the structure of the coopetition facilitates each member to focus on their competence (Myllärniemi et al., 2012).

One limiting factor of the research is related to the number of participants during data collection, which should be extended for a better generalization of the study, thus stimulating also the use of quantitative methods. As a suggestion for future studies, this study can follow the evolution of the organic chain from the perspective of coopetition, since this involves dynamism and can change according to the development and maturation of the industry. In this case, the intensity of competition and cooperation movements should be considered (Dal-Soto and Monticelli, 2017).

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