Value Chain Guidebook

A Process for Value Chain Development

Value Chain INITIATIVE

COLLABORATE TO COMPETE

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How to Use this Guidebook

The purpose of this Value Chain Guidebook is to provide you with a process to develop your own value chain. The value chain development process is broken into three stages; each stage includes worksheets, success factors and tips for facilitators. Each business situation is unique, so you may find that you move through the stages in a different order, or that you modify the approach to suit your own situation.

Who will Find this Guidebook Useful

This guidebook can be used by:

- Businesses who are looking for new ways to collaborate to achieve their goals
- Businesses considering a value chain approach
- Facilitators who are working with developing value chain partners.

Contents of the Guidebook

Introduction to Value Chains

This section explains how a value chain approach differs from a supply chain approach and helps you evaluate the risks and success factors of a value chain for your own business. You will also assess your personal and business suitability for a value chain approach.

Stage 1: Identifying the Opportunity

In this section, you will be able to identify some opportunities by mapping your existing supply chain. You will have some idea of the resources you have and will define a clear project objective or focus. You will learn how to gain the support of some members of the supply chain and perhaps name a value chain champion.

Stage 2: Developing a Pilot Project Plan

This section helps you identify your value chain partners and gain their commitment for a pilot project. At this stage you will set goals, develop plans and set measures for the pilot project and select a manager.

Stage 3: Monitoring and Evaluating the Pilot Project

This section will help you evaluate and monitor the pilot project to determine whether a full scale value chain is feasible or desirable.

Facilitator's Resources

While value chains are simple in concept, it is difficult to build the relationships required for a successful value chain. The facilitator's section includes tips and processes that a facilitator can use to build trust and commitment to a value chain approach.

Worksheets

A series of worksheets to help you track your progress, address problems and continue to develop your value chain further are included. You will be prompted throughout the guidebook to complete the worksheets.

Resource Section

A Resource Section at the end of the guidebook will provide you with both written and on-line resources to help you further develop a value chain.

Frequently Asked Questions and Answers

This section includes some frequently asked questions and the responses from value chain experts.

Evaluation

Please fill in the evaluation found in the back pocket to help us improve the services we provide our clients.

Symbols

This symbol tells you that there is additional information found in the CD that accompanies the guidebook. The CD is called "Value Chains: A practical guide to building customer-focused alliances." If you do not have a copy, contact the Value Chain Initiative at the address and phone number found on the inside cover.

Note that the Value Chain Handbook referred to in the CD has been replaced with this new guidebook.

This symbol alerts you to an example or case study. The case study is built around a fruit beverage value chain and is used to illustrate how a value chain can develop.

This symbol leads you to more information on a topic with a more detailed description found in the Resource Section of the guidebook.

This symbol suggests that you make use of a facilitator to help guide you through a specific process or worksheet.

This symbol indicates a worksheet or exercise is to be completed. Loose worksheets are found in the back pocket of the guidebook. Master copies of worksheets are found at the back of the coiled guidebook.

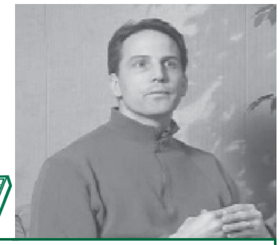
Table of Contents

Introduction to Value Chains

Objectives

After you have completed this section, you will be able to:

- Explain how a value chain approach differs from a supply chain approach
- Evaluate the risks and success factors of a value chain approach for your own business
- Assess your personal and business suitability for a value chain approach.



See the section, "Introduction–Derek Parker" for a definition of a value chain.

What is a Value Chain?

In this intensely competitive world of changing markets and technologies, businesses are faced with new demands, making it difficult to remain sustainable. A value chain approach is one business strategy used to adapt to these changes.

A value chain is an alliance of enterprises collaborating vertically to achieve a more rewarding position in the market.

Collaborative implies voluntary involvement and an expectation of complementary behavior resulting in the achievement of a common result or goal.

The basic characteristic of a value chain is market-focused collaboration: different business enterprises work together to produce and market products and services in an effective and efficient manner. Value chains allow businesses to respond to the marketplace by linking production, processing and marketing activities to market demands.

Vertically aligned means that companies are connected from one end of the primary production process (e.g., farmer's field), through processing, and possibly into the final marketing stages where consumers purchase a finished product. At each stage the product's value increases. This is different from other types of alliances, such as a collection of agricultural producers consolidating supply, which would be considered a horizontal alliance, because no value is added to the product. Normally, the term value chain is applied when the vertical alliance includes three or more companies, known as links, in the supply chain.

From Jerry Bouma, "A value chain in its simplest form is a collaborative effort."

From David Hughes, "Consumers will look for attributes or benefits in the food products rather than price alone. It will be essential to identify these elements and build them into your value chain for mutual benefit."

While companies in a value chain are legally independent operations, they become interdependent because they have common goals and work collaboratively to achieve them. They work together over the long term discussing issues and troubleshooting problems together. It's more than just long-term contracting.

The following chart illustrates how a traditional supply chain differs from a value chain approach.

	Supply Chain	**Value Chain**
Communication (information sharing)	Little or none	Extensive
Value focus	Cost/price	Value/quality
Product	Commodity	Differentiated product
Relationship	Supply push	Demand pull
Organizational structure	Independent	Interdependent
Philosophy	Self optimization	Chain optimization

Adapted from: Toma & Bouma Management Consultants. November 1998. Value Chains as a Strategy. Agriculture and Food Council. Edmonton, Alberta, Canada.

Here’s an example of an existing value chain.

Moving from a Traditional Supply Chain to a Value Chain Approach

Traditionally, commodity beef marketing systems base buying decisions on price. Little information is shared between the production and processing sectors. If consumers are dissatisfied with inconsistent beef quality, producers don’t have the information they need about how their animals are performing after they leave the feedlot in order to make changes.

In 1998, Highland Feeders of Vegreville, Alberta took steps to align the company’s supply chain relationship into a value chain relationship. They saw an opportunity to lead the development of new markets for a differentiated beef product, Spring Creek Ranch Premium Beef–a source-verified, natural premium beef product. It would meet the growing consumer demand for consistent quality, premium natural beef products.

Highland looked to the value chain approach as an alternative to the shortcomings of the traditional beef marketing system and to possibly gain value for all participants in the chain. They developed a system where partners created and shared value through the value chain in five ways.

- They lowered production costs to increase system efficiencies.
- Suppliers such as feed companies, financial institutions and technology companies offered cow/calf producers opportunities usually available only to larger groups.
- They improved product quality.
- Animal and carcass performance information was shared with all value chain members. This provided information needed for all partners to more consistently meet premium targets (product quality).
- A production system was implemented which required all partners to adhere to the agreed protocols in order to successfully offer a differentiated product to the market.

An important component in the early stages of this project was the traceability system that integrated information on individual animals from the cow/calf operator, feedlot and processor. This allowed all the value chain partners to efficiently share relevant information.

See the section, “Process–Evaluating–Page Stuart” for more information on Highland Feeders value chain.

For more information on this success story, visit one of the following websites:

www.agfoodcouncil.com

www.highlandbeef.com

www.springcreek.ca

This example from Highland Feeders demonstrates how a traditional supply chain can move toward a value chain approach. They started by identifying market demand. They then built a system to deliver a differentiated product that consumers perceived as having added value and for which they would pay a premium.

To be successful, information on cattle performance and market information was shared with value chain participants. In addition, they optimized chain performance by creating further efficiencies.

Highland Feeders is one example of a business that adopted a value chain approach and moved away from a traditional supply chain. In their supply chain, everyone benefits but the benefits may be different as shown below.

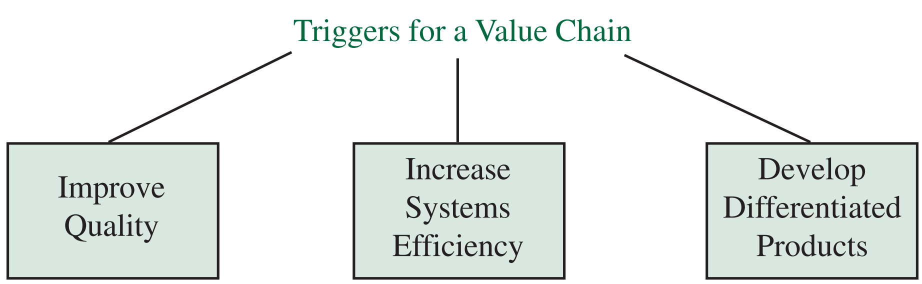
- Producers secured a market and had information to improve genetics.
- The feedlot improved procurement techniques and maximized inventory.
- The packer competed in different markets and supplied predictable product.
- The retailer achieved a reliable supply of a high quality, safe product.
- The consumer got the product they wanted.

The Case Study Example

To further illustrate how a company developed a differentiated product, a hypothetical case study example of a fruit beverage value chain is integrated into this guidebook. The case study starts on page 16.

Why Have a Value Chain?

There are three general triggers for developing a value chain:



Improve Quality

Competition is becoming increasingly fierce. There is an opportunity to produce the safest food in the world when producers, processors and retailers track products through the food chain. Premiums also exist for a consistently high quality produced and processed food product.

Increase Efficiency

Opportunities exist to lower costs and increase efficiencies in the market by producers, processors and marketers working together.

Differentiate Products

Consumers are demanding new products that require supply chain partners to share information and systems or provide unique specialized inputs (e.g., special variety, trademarked process, unique genetics). These products often require consistently high quality, proof of adherence to protocols and legislated standards throughout the production, processing and marketing channels.

For other products there may be no existing marketing infrastructure in place. Bringing existing businesses together provides opportunities to share the risk and costs of developing market channels and end markets (e.g., prairie fruit industry illustrated in the case study on page 16).

Differentiation is the ability to provide unique and superior value to the buyer in terms of product quality, special features or after sales service.

While maintaining competitiveness in commodity production is becoming more difficult, there are opportunities for specialized products that consumers are demanding. Some of these technological products require coordinated systems from producer to market. Once established, a real advantage to these systems is that they are difficult for competitors to duplicate. For example, styrofoam cups that biodegrade in less than two months are made from specialty corn crops in dedicated supply chains. Patented technology that requires everyone in the chain to work together, share information and problem solve as a unit provides a uniqueness that is difficult for others to duplicate. Using a value chain approach enables each chain member to implement specific production practices, share information and solve problems at each stage of the production process.

Just as each business is unique, so are the reasons why you might choose to implement a value chain. Your business might benefit from improved quality, better efficiency or developing specialized products, or there may be other ways your business can become more competitive by using a value chain approach.

There are many reasons for using a value chain approach. As you look at the triggers mentioned above, try to answer the following question: *Do I need to work with other businesses in my supply chain to improve efficiencies, quality or differentiate my product to be more competitive or sustainable?* If you answered "yes," a value chain approach may work for you!

Rewards and Risks of a Value Chain

Moving to a value chain approach has both rewards and risks. Business rewards result from a focused effort that not every business is capable of or prepared to invest in.

Rewards:

- *Competitive edge*
- *Unique way to manage risk*
- *Access to markets*
- *Reduced response time*
- *Rewarding relationships.*

Rewards

The rewards of implementing a value chain approach are:

- Competitive edge when the chain's products and processes are difficult to duplicate
- A unique way to manage risk–buyers are assured product quality, supply and safety through integrated systems from production to retail. Suppliers are more assured of a market and the benefits of economies of scale.
- Improved access to markets
- Reduced time to respond to changing customer demand, as a result of better communication with chain partners
- More rewarding business relationships–collaborative versus adversarial.

What do you see as being rewards for your business?

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Risks:

- *Less control*
- *Less flexibility*
- *More money spent*
- *More time spent to make decisions*
- *Sharing of proprietary information or expertise.*

Risks

Any change to a business involves some risk. This collaborative approach may not be for everyone. You'll want to assess the following risks carefully as you make decisions about timing, partners and suitability of a value chain for your business. The risks of implementing a value chain approach are:

- Less control as business activities are shared
- Longer decision making time since more people are involved
- Less flexibility and independence than being on your own because many decisions will be made jointly with partners and decisions that both you and your partners make may have a direct impact on your operations
- Others gaining access to proprietary information or expertise
- More time, effort and money spent to achieve a well-functioning value chain.

What are some of the biggest risks of your business?

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Success Factors

Our experience and that of value chain project leaders tell us that there are several factors that contribute to the success of a value chain. You will increase your chances of success if you ensure early on that the following happen:

- Commitment from the top
- Leadership vision
- Careful partner selection
- Compelling value chain goals
- Not easily duplicated
- Commitment from all
- Cohesion/interdependence
- Collaborative planning sessions
- Pilot project
- Neutral facilitator
- Dedicated chain manager.

These last two roles–facilitator and champion–are described in more detail on the next page.

Support from a leader is possibly the most important success factor.

See the section, "Background–What are Value Chains?" for more information on the risk and rewards of value chains.

Which of the above do you already have?

____

____

Which do you need to work on?

____

____

Important Roles

Neutral Facilitator

It's difficult to have open, honest discussions and develop detailed plans without the help of a neutral facilitator. An external facilitator has the advantage of being perceived by all participants as working for the value chain as a whole, rather than for any single participant. Since facilitators have no stake in the outcomes, they have the license to guide the session in ways that none of the participants can. If the facilitator has knowledge of value chains, he or she can also provide timely assistance by suggesting ways to build your value chain while it is still in the formative stages. Experience tells us that expert assistance can be valuable at each stage of value chain development. It's good practice to split facilitation fees amongst the participating businessess.

Facilitation and links to funding assistance is available through the Value Chain Initiative. See contact information on the pocket inside the back cover.

Champion

Each business in the value chain will want to name a champion–an essential component of the development process. A value chain requires enthusiastic support from both strategic managers (to ensure ongoing support) and operations managers (to ensure smooth implementation). Choose an individual (president or a CEO) who can gain buy-in from senior management, has a vision for your value chain, has a big picture perspective of goals and sees how companies can cooperate for mutual benefit. Without a champion, it will be difficult or impossible to get a value chain off the ground.

The roles of a champion include:

- Identifying specific rewards and risks for the business
- Garnering support for the project from opinion leaders in the company (both formal and informal leaders)
- Listening to and addressing concerns of leaders
- Developing relationships with value chain partners.

Assessing Your Readiness for a Value Chain

Before you commit to a value chain, you need to examine your business strategy and determine whether the value chain approach is right for you.   Your business strategy is the way you attempt to separate or differentiate yourself from your competitors. You may aim to be the lowest-cost supplier or make a product that is unique and relatively expensive. A business strategy also addresses more complex issues such as your approach to research and development, your competitors and your existing business relationships.

To assess your readiness for a value chain approach and to help you review your current business strategy, complete the following two worksheets found in the back pocket of this guidebook:

- Worksheet 1, “Business Strategy”
- Worksheet 2, “Assessing Readiness.”

Master copies of worksheets are found coiled within this booklet. Keep them blank for photocopying.

Summary

Before you move on to Stage 1, “Identifying the Opportunity,” make sure you have:

❒ A good understanding of what a value chain approach is and how it differs from a supply chain approach

❒ A good understanding of the rewards, risks and success factors of a value chain approach for your business

❒ Assessed your personal and business suitability for a value chain approach (Worksheets 1 and 2).

See the section, "Process–Introduction–Laura Lee Billings," for information on the process of developing a value chain.

Stages in Building a Value Chain

Three stages in building a value chain have been identified. The rest of the guidebook looks at these three stages and how you might apply them to your own situation. Before you take a more detailed look at the three stages, look at the summary of each stage below so that you have an idea of what to expect.

Stage 1: Identifying the Opportunity

In this first stage, you will identify some opportunities for a value chain by first mapping and evaluating your existing supply chain. You probably have some idea of your resources but may need to further define a clear project objective or focus. Learn how to gain the support of some members of the supply chain and perhaps identify someone who will champion the value chain.

Stage 2: Developing a Pilot Project Plan

At this stage you look at developing a pilot project plan with clear goals, plans and measures. A pilot is a small, trial-size version of a commercial-scale value chain. It minimizes some risk by allowing you and your partners to commit yourself and work out any bugs while you proceed on a small scale. This is the stage where you identify suitable partners for the value chain, select a manager and achieve commitment from all partners perhaps in the form of a written agreement.

Stage 3: Monitoring and Evaluating the Pilot Project

This is the stage where you will implement and monitor your pilot project. You will adapt and build in order to determine whether a full-scale value chain is a possibility.

Stage 1: Identifying the Opportunity

Objectives

After you have completed this section, you will be able to:

- Map and evaluate your supply chain
- Outline the opportunity by developing a project summary and evaluating the market
- Assess resources, risks and capabilities of a value chain project.

Map Your Supply Chain

Mapping your existing supply chain is the first step to identifying opportunities. By mapping the major companies who are your suppliers and customers, you will better understand how the product moves through the market channel and identify who you need to involve in the value chain project.

It may be useful to bring in an outside neutral facilitator to map your supply chain.

There are advantages to doing this exercise with one or two of your existing chain partners:

- You will help create buy-in for the project
- Partners can provide valuable perspectives on the strengths, limitations and opportunities for the chain.

The following is an example of a pork supply chain map.

Mapping a Pork Supply Chain

Processes	Companies
Pig Breeding	*Swinex*
Pig Production	*J.Jones* *E. Smith* *K. Simin*
Transport and Handling	*ABC Trucking*
Slaughtering	*DEF Abbatoir*
Cutting	*DEF Abbatoir*
Packing	*XYZ Packing*
Customer	*Farmers' Market* *XYZ Grocer* *Marcy's Meat Counter*
Pork Loin	end product

Mapping your current supply chain enables chain members to better understand how events are linked in the supply cycle and identify duplications, bottlenecks or gaps.

To map out your current supply chain, complete Worksheet 3, "Map Your Existing Supply Chain," found in the back pocket of this guidebook.

Evaluate Your Supply Chain

The next step is to evaluate your current chain. What are you doing well? What would you like to improve? This process can be helpful in determining where the greatest opportunities are for value chain development such as product quality, systems efficiencies or differentiated or specialized products. One helpful tool for evaluating your chain is to use the following principles of value chain development (adapted from "Forming and Managing Supply Chains in Agribusiness." National Food Industry Strategy, Australia).

If you develop a better understanding of consumer needs and wants, your value chain partners will be able to establish a competitive advantage by delivering exactly what the consumer and customer want.

Focus on Your Customer and Consumer

Many of us are very focused on our product. Expanding that focus to include your customer and the final consumer is an important shift. It is important to identify and define your suppliers and your customers. Each business in the supply chain has suppliers and customers as well as consumers at the end of the chain.

Supply Chain Suppliers and Customers

For example, with the pork supply chain shown on the previous page, the consumer could be looking for increased loin eye depth. The processor will go back to his supplier, the pig producer, to find a way to deliver this attribute to the customer, Marcy's Meat Counter.

Differentiate Your Product

Companies today are looking for ways to differentiate themselves from their competitors by developing new or improved products. Working together with your suppliers and customers to deliver a superior product may allow you to achieve things you otherwise would be unable to deliver.

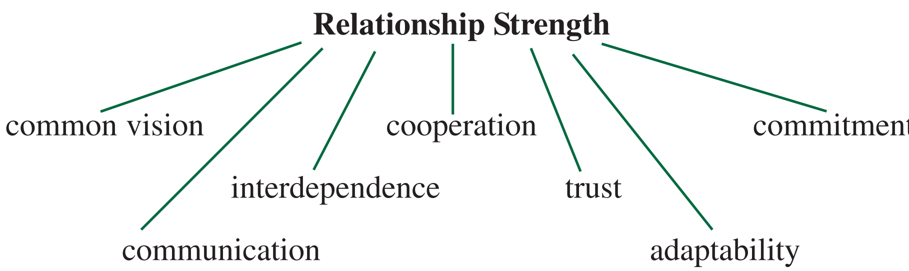
Contribute Resources

Each business in the value chain has a unique collection of resources that collectively will contribute to the capacity of the new value chain. Taking an objective look at your resources will be a useful step in the initial stages. You'll then have an accurate description of all the resources available for the new venture. For example, one business may have a very skilled workforce while another business may contribute a newer equipment line, and yet another business in the chain may have excellent industry contacts.

See the section, "Process–Planning–Brock Furlong" for information on how Maple Leaf Poultry linked production to retail and brought partners to the table.

Build Relationships

Successful value chain managers report that relationships are the most important element of a successful value chain. Successful value chains are built on relationship strength which includes the following elements (adapted from B. Fryer's model presented in The Journal of Chain and Network Science).



The next stage in developing a value chain is to develop a pilot project which will allow you to build better relationships with your partners.

Often little or no time is spent developing the required business relationships when groups embark on projects. In fact, most businesses want to have a trusting relationship with their customer, but think it is acceptable to be tough on their suppliers. Yet everyone in the chain is both a supplier and a customer.

Pay Attention to Logistics and Distribution

The speed and efficiency of taking a product to market are critical areas in value chain management; with perishables it is even more important. Poor logistics and distribution increase costs and detract from product quality, a key to satisfying consumers.

Share Information

Objective decisions are based on reliable information. Sharing information is needed to successfully solve problems and explore opportunities such as reducing costs, minimizing market risk or identifying new market opportunities.

A distinguishing factor in value chains is more transparent communication. It involves value chain partners sharing information, problem solving and exploring new opportunities together.

Communication is the start of a healthy relationship; withholding information invites distrust.

> "……by sharing information, risks and rewards, partners can do more together than acting independently."
>
> Ray Goldberg, Harvard Business School

Add Value

Value should be added to the product at each link of the chain. Value does not necessarily include dollar value only. There could be value in information exchange, in building networks and in learning new processes. Examine what value you and your potential value chain partners add to the product. Identify any businesses in the chain that are not adding value and question if they need to be part of the value chain.

Share Value

Sharing value among value chain partners means partners get a share of the rewards that is congruent with their contributions. Identifying a process to decide how value will be shared is an important discussion and can be difficult. If chain members are not satisfied with their share of the rewards, they are unlikely to stay committed. The discussion can be difficult because "value" can be quite subjective and difficult to quantify.

To determine the opportunities for value chain development, use the above principles and Worksheet 4, "Evaluate the Supply Chain," found in the back pocket of this guidebook.

Outline the Opportunity

Now that you have completed the evaluation stage, determine the most important opportunity or problem to be addressed using a value chain approach. Be creative by considering all the possibilities and opportunities at hand. A project summary will be helpful when you are talking to potential partners and when you develop the pilot project plan.

Now is the time to think about all the possibilities for a value chain approach.

Complete Worksheet 5, "Outline the Opportunity," found in the back pocket of this guidebook to develop a project opportunity.

The following case study illustrates how two producers and a processor identified an opportunity.

__The case study outlines how a value chain might evolve and some of the challenges that can be encountered along the way. The story will illustrate each of the major stages of value chain development.__

Case Study of Fruit Beverage Value Chain

Identifying an Opportunity

Bill is a grain farmer as was his father and his father's father. With grain prices low and no rebound in sight, Bill has begun to consider growing other crops on his farmland. Wendy, a neighbor growing wheat, oilseeds and elderberry bushes, encouraged him to consider growing elderberries.

After the three years it took to establish her elderberry bushes, Wendy began harvesting and squeezing the berries to produce a beverage that was a smash hit at local bed and breakfast operations and restaurants. Observing her small success, Peter, a local beverage processor, approached Wendy to see if she could produce and sell the berries in greater volumes. Peter had been processing drinks from concentrates that were imported from outside Alberta. He believed that local berries would make a better tasting and more nutritious drink.

__Often an opportunity will emerge when people in a supply chain start to brainstorm.__

Wendy felt that she lacked both the financial capital and labour resources that would be needed to achieve the expansion Peter had in mind. She was also not prepared to accept the risks. With these thoughts fresh in her mind, Wendy happened to meet both Bill and Peter at the local coffee shop. Sipping on their tasty elderberry drinks, the three began questioning whether an opportunity was possible or if this was just one of those small town ideas bound for nowhere.

(to be continued)

Evaluate Your Market

If you are considering taking a new product to market or expanding into a new market, you'll need to do a market review. Developing new products and markets requires considerable work. In most cases, expert advice is critical.

See the Resource Section at the end of the guidebook for more information and resources on market research.

See the section, "Process–Evaluating–Thomas Blaha," for more information on defining and evaluating your market.

Case Study of Fruit Beverage Value Chain continued...

Building a Market Review

Bill went home from his meeting with Wendy and Peter thinking more deeply about growing elderberries and wanting to know more about the market for this obscure berry. He turned on his computer and soon enough, he found Karen, a consultant who had done a study on elderberry market opportunities in the United States. Bill copied her e-mail address and sent a note asking if she could provide the group with information.

It was the next day that Bill received an e-mail reply stating that the consultant could share some general information over the phone, but that any additional information would not be free of charge. After about a week or so, Bill and Wendy decided they would engage the consultant, budgeting $3,000 between them to partially fund the work. Peter was also interested and agreed to contribute $3,000. With their $6,000, the consultant agreed to put one week of her time into the project to produce some basic market data and insights. The consultant told them up front that $6,000 would not fund a detailed study.

Money spent on a market consultant may save you money in the long run.

In drafting a brief contract with the consultant, they all firmly agreed on what was needed. First, they did not need to know anything about the production of elderberries. What they really needed to focus on was the market:

- Where will the processor have most success in selling the product?

(continued on next page)

- What is the demand for elderberry spreads and drinks locally and in key regions of North America?
- What products compete with elderberry spreads and beverages?
- What retail, restaurant and institutional markets exist?
- Who are the potential buyers and their contact information?
- What are the trends and future scenarios?

When the consultant's report came back one month later, Bill, Wendy and Peter were generally pleased with the brief, informal report. They realized they could have tried to do this work themselves; however, engaging a professional provided them with early knowledge of buyers, contacts and insights into the retail and food service markets that would have taken years to secure. They also realized that by having everyone contribute some money, the group had demonstrated a level of commitment to developing a value chain.

(to be continued)

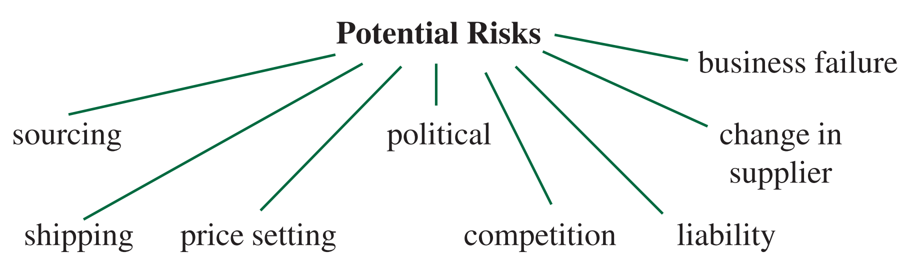
Assess Resources, Risks and Capabilities

By this time, you likely have a good sense of your opportunities. Take the time now to prepare a summary of your group's resources and capabilities you can access for a value chain pilot project. You'll also want to evaluate the potential risks.

This evaluation will be a useful tool when choosing and talking to potential partners and developing your pilot project plan.

Risks

At this stage, ensure that you identify those factors that could interfere with the success of the project.



Determine the likelihood of indentified risks and at what stages they might occur. Identify any risks that are relevant at this early stage, and design some strategies to lessen them. For example, an early risk might be that your idea is shared with competitors. Some groups develop a confidentiality agreement to protect their ideas.

Complete Worksheet 6, “Resources, Risks and Capabilities,” found in the back pocket of this guidebook, to help you understand your resources, risks and capabilities.

Summary

Before you move on to Stage 2, “Developing a Pilot Project Plan,” make sure you have completed the following:

- ❒ Mapped and evaluated your existing supply chain (Worksheets 3 and 4)
- ❒ Defined a clear project focus (Worksheet 5)
- ❒ Evaluated your market
- ❒ Assessed resources, risks and group’s capabilities (Worksheet 6)
- ❒ Named a value chain champion
- ❒ Secured support of one or two members of your supply chain
- ❒ Ensured the group has the commitment, resources and time required to develop a value chain.

Stage 2: Developing a Pilot Project Plan

Objectives

After you have completed this section, you will have:

- Identified your value chain partners and achieved commitment from these partners
- Set clear goals, plans and measures for a pilot project
- Selected a manager for the pilot project
- Obtained some type of written agreement from all value chain partners.

> Note: The facilitator icon appears throughout this section. A facilitator can help your group build relationships, develop goals and plans and ensure meetings run smoothly.

Identify Value Chain Partners

You should now have a clear project goal and a list of resources you will need to get there. These resources will become your list of criteria as you search for and select additional value chain partners. You may already have existing partners and resources that you want to include in this venture. Now is the time to also look for other partners that will bring, to the chain, expertise and resources that are lacking. Some resources, such as contract work or rental equipment, may be more cost-effective if obtained outside the chain.

Robert Porter Lynch, Warren and Co., a US alliance developer, suggests partners must have good chemistry, yet many companies continue to ally with the closest interested partner and pay the price later.

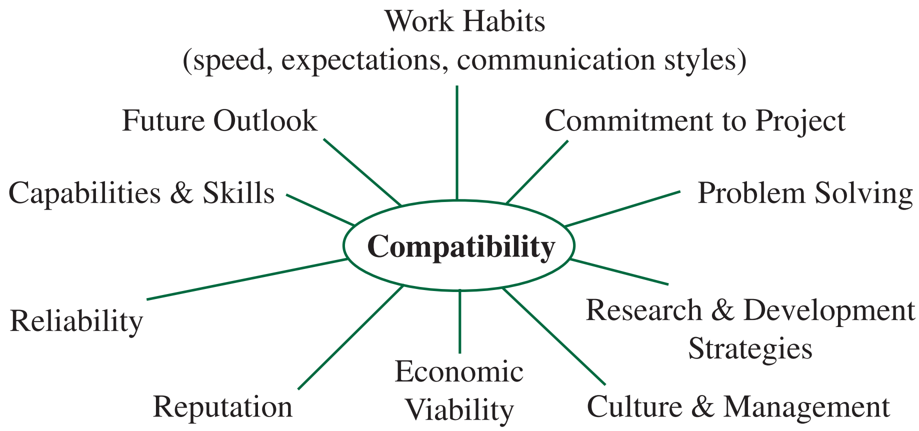
Experienced alliance developers tell us that carefully selecting the right partners is the most important factor in establishing a successful value chain. The best alliance strategy or market opportunity may still not be successful without the right partners.

Compatible Business Approaches

How do you find the right partner? Knowing what you're looking for is key. This underlies the importance of identifying your needs and what you have to offer to a value chain. The best fit between organizations involves interdependence; partners can achieve their goals, which in turn helps you achieve yours. Equally important are compatible business approaches.

See the section, "Process–Planning–David Dzsiak" for more information on identifying and choosing partners.

When choosing partners, compatible business approaches are important.



To partner in a value chain means to share and collaborate to reach a common goal.

Complete Worksheet 7, "Choosing Potential Value Chain Partners," found in the back pocket of this guidebook, to determine what characteristics, skills, resources and attitudes to look for in potential partners, to meet your specific value chain needs.

Case Study of Fruit Beverage Value Chain continued...

Choosing Partners

Bill took a look at his farming operation and how things had changed over the years. While he was proud to be an independent producer, the idea of working with others collaboratively and over the long haul (which is what would happen if he joined forces with Wendy and Peter) was very appealing. Bill thought back thirty years in time when he cropped vegetables on a quarter section of his farm. Even when a buyer came along with an offer of a penny or two more a pound, he didn't turn away from his key customer.

He always had his eyes focused on the distant horizon, despite opportunities for short-term gains.

Bill thought about his approach to business: a focus on quality, service and long-term business relationships. This focus would make it easier to work with Wendy and Peter whom he trusted and knew had similar values and approaches. In short, Bill's business strategy and his personality were just right for this value chain.

(to be continued)

Once you bring partners into the value chain, they must be treated fairly, given a voice and respected for what they bring to the alliance.

Initial Contact

Once you've short-listed the companies that might fulfill your requirements, your initial contact with them should be tentative. Outline your basic value chain idea, what you hope to achieve and how you think it will benefit them. While providing them with some information, you'll also want to leave your options open, reserving full commitment until you know the potential partner better. Be sure to withhold any sensitive information that might allow companies to become your competitor if they choose not to become your ally. It is probably best to delay detailed contracts until you've reached a solid verbal understanding with their key decision-makers.

If you're already involved in a successful alliance with other companies or farmers, you can probably proceed with greater confidence to forge a stronger value chain. You will likely have a better understanding of the prospective partners' true capabilities and can build on the existing relationship.

Steering or Working Committee

Once potential partners have expressed an interest, it's time to pull all interested parties together. A steering committee, with representatives from each of the partner organizations, is an effective way to begin. In the initial planning stages, invite senior people who can make decisions on behalf of their organization to attend a meeting. After bringing a steering committee together, the next step is to build strong relationships among members.

See the next page for information on using a facilitator at your first meeting.

While it is important to have senior leaders on the steering committee, they may not have the time and expertise to actually manage the project. In these early discussions, include someone, or several people, who could potentially manage the project. Ideally, if resources allow, a dedicated project leader would be named. This could be a staff person or consultant who is hired as project manager. In situations where this isn't possible, groups may choose to hire expertise as required at specific stages in the project.

Role of Steering Committee

- Clearly identify the opportunity
- Determine project goals, objectives and measures
- Make commitments of resources
- Monitor and evaluate
- Act as champions, working hard to generate support for the project.

An outside facilitator is preferable. Someone within the chain could assume the role as long as he or she stays neutral and hears all points of view without disagreeing.

Bringing Parties Together for the First Time

A facilitator can help ensure that your first meeting runs smoothly and accomplishes your objectives. This could be a member of the steering committee or someone outside the group hired to facilitate. “Bringing Parties Together for the First Time,” of the Facilitator’s Resources at the end of this guidebook, can be used by the facilitator to ensure success at the first meeting.

Build Relationships

Building a collaborative business relationship when relationships have traditionally been competitive takes effort and attention. While the business case may drive a value chain, personal relationships can make or break its long-term success. Even the most “bullet-proof” business case will not survive long-term interpersonal problems. Value chains need a foundation of cooperation, trust and mutual respect to thrive.

As in other relationships, value chain relationships are built by both working together and getting to know each other in an informal setting. The most successful value chains allow opportunities for partners to interact and get to know each other better through recreational and social activities outside of the day-to-day business schedule.

Common Ways of Building Positive Rapport

- Joint social events such as golf, barbeques, dinners, etc.
- Taking customers/suppliers out for supper to express appreciation for the business relationship
- Work co-location where members of different enterprises work side-by-side to build rapport and goodwill.

Characteristics of a Strong Business Relationship

- Trust is developed as we get to know and understand our business partners and their actions become predictable. Trust is built through reputation, past experience, behavior and keeping commitments.
- The decision-making process must be perceived as fair by all and provide clear direction on who's responsible for making which decisions.
- Interdependence is achieved by identifying what each partner needs from the chain to remain committed.
- A balanced power structure ensures no dominant members.
- Shared or complementary goals must be identified for all members of the chain.
- Equitable returns does not mean equal; it means a return from the chain relative to the investment in the chain.
- A problem solving and conflict resolution process is essential.
- Commitments of time, effort and money must come from each partner.

Strong business relationships are built on:

- ***Trust***
- ***Interdependence***
- ***Fair decision-making process***
- ***Balanced power structure***
- ***Shared goals***
- ***Equitable returns***
- ***Problem-solving process***
- ***Commitment.***

Build Relationships

In order to build the relationships for a successful value chain project, it is best to have a facilitator. "Build Relationships," of the Facilitator's Resources at the end of this guidebook, can be used by the facilitator to help build relationships among members of the value chain.

Manage Key Discussions

During value chain formation and pilot project implementation, there will be key discussions that require a collaborative attitude, excellent communication skills and possibly the help of a facilitator. These discussions will need:

Key discussions should be led by a skilled facilitator.

- A positive attitude towards mutual continuous improvement among value chain partners
- Sharing of strategic and operations data
- Adapting your organizational systems to support the value chain alliance.

Here are two examples of problem solving discussions.

Problem-Solving Discussions

- When value chain activities require some groups to increase their operating or fixed costs, adequate compensation needs to be devised, or the group may not be able to participate. For example, if producers need to improve their product quality through new and more expensive production techniques, a system that rewards these improvements will be important.
- In a grower-processor alliance, growers need to appreciate the serious financial implications of running a plant at low capacity and the necessity for a steady supply of raw material. Likewise, the processor needs to appreciate the variability involved in crop production where “mother nature” plays such an important role.

“Collaboration Tips,” in the Facilitator’s Resources at the end of this guidebook, for tips on how to ensure these key discussions are constructive.

Develop a Pilot Project Plan

Your first value chain project should be a pilot project; a pilot is a small, trial-size version of the full potential value chain. It allows you and your partners to commit yourselves in stages by minimizing risk and allowing you to work out the bugs while proceeding on a small scale. Most value chains take a while to show benefits, and initially demand a lot of resources. If the project succeeds, you can take what you've learned and go full scale with more confidence.

A pilot project allows you to test whether a value chain approach will work.

Identify a Suitable Pilot Project

Begin by identifying one portion of your business that could be separated and operated differently as an independent test case. Build your pilot project around this small portion. Examples include a specific product line (e.g., a milled oat cereal, a specialty meat product, etc.) or one specific market, such as a small, high-end retail shop. It may also mean finding a new way to work with your partners.

While a pilot project can take many forms, it should meet the following criteria.

Pilot Project Criteria

- Demonstrate the potential of larger-scale collaboration
- Allow all parties to evaluate their involvement and decide whether to continue the arrangement
- Provide clear measures of success, based on quantified measurable objectives (e.g., percent increase/decrease, revenue, etc.)
- Have pre-determined check-in points and an end date.

Before detailing goals and objectives for your pilot project, answer the following five questions to assess the competitive marketplace position of your idea.

Assessing Competition

	Yes	No
Do you foresee price wars or very thin margins for this project?	❐	❐
Is foreign competition an existing or potential threat?	❐	❐
Can other products be substituted for yours?	❐	❐
Is it easy for other companies to get into your market?	❐	❐
Will any suppliers or customers in your proposed chain use their power to limit the chain's opportunities?	❐	❐

If you answered "yes" to any of these questions, you may want to revisit your idea. The uniqueness and success of a value chain relies on developing products and processes that are difficult to duplicate and compete on criteria other than price.

See the section, "Process–Management–John Butler" for more information on planning.

Build a Plan

Once you've identified a suitable pilot project, you're ready to build a plan. Start by setting goals, objectives, measures and action plans. Involving chain partners in developing these plans is necessary to building commitment and trust, as well as preventing misunderstandings down the road.

- Goals–identifies what you hope to achieve with the pilot project
- Objectives–specific, practical and easy to understand steps to achieve your goals
- Measures–indicators of reaching the goals (see the next topic)
- Action plans–the "to-do" lists that partners take on in order to fulfill their commitments towards reaching the goal. Be sure to include timelines and who's responsible for completing each task.

Build a Plan

A facilitator can help you build a plan. "Method for Planning Sessions," of the Facilitator's Resources at the end of this guidebook, can be used by the facilitator to help the group develop goals, objectives, measures and action plans.

Develop Measures

It is important to determine performance measures in the planning stage of your value chain development. When your measures are monitored and reported, the results of the measures can be used as an early warning sign that there may be a problem in the process and something may need to be changed or addressed.

There are four main categories of measures: cost, quality, speed and volume. Each category may be applicable for your business; however, each measure requires data be collected and managed. The greater the number of different measures you use, the more time required to collect the data. When you are selecting a measure, make sure that you are able to collect the required information and that the data you are collecting will actually tell you something about your progress towards your goals.

Make sure your measures reflect progress towards your goals.

It is not enough to report on the measure; all parties involved need to understand what the expectations are for the project. This is also an opportunity to plan for improvement. For each quarter, you can improve the targets so that you are working in a continuous improvement cycle.

Using clear, quantifiable measures before, during and after the pilot project allows the group to assess project progress and success.

Possible Measures

- Cost: profit margins, return on investment, reduced capital costs
- Speed: reduced time to market, decreased turn-around time
- Quality: improved quality of product/service, improved market image, customer satisfaction
- Volume: increased productivity, increased market share, sales into new markets

Sample Value Chain Goals and Action Plans

Goal: Recapture market share lost over the years to lower-priced imports

Objective: Improve service in a particular region in order to gain back customers.

Measure: Increase customer base by 20 percent by the end of the year.

Action plan:

- Develop business case
- Identify potential customers
- Initiate individual business visits.

Once you have clear goals, objectives and action plans, decide as a group how and when the objectives will be reviewed. It's also a good idea to agree with your partners on what will happen if objectives are not met.

Decide on a timeline for reaching goals and reviewing objectives.

While clear goals and objectives are necessary to get your pilot project off the ground, they are also useful when talking to value chain customers, suppliers, new partners and perhaps even the media.

Complete Worksheet 8, "Value Chain Pilot Project Plan," found in the back pocket of this guidebook, to clearly outline the project plan to all value chain partners.

Identify, Measure and Manage Risk

In Stage 1 you identified some early risks and assigned strategies to deal with them. In collaboration with your partners, identify all of the risks that might affect the project. Next, assess the importance of each of these risks, and rank them so that the most important ones can be dealt with first. The final step is to develop appropriate risk management strategies and incorporate them into your plan.

See the Resource Section for more information on a formal risk assessment process called the Risk Matrix Tool.

You may wish to use a formal risk assessment process such as Alberta Agriculture, Food and Rural Development's Risk Matrix Tool. This approach helps you to estimate the "likelihood" of each risky event occurring, as well as the "impact" it would have on the business, should it occur. The next step is to brainstorm for appropriate risk "responses," of which there are really only four: avoid, transfer, mitigate and accept. The overall effect is to simplify the complex process of risk management into several understandable and achievable components.

A few examples of risk management strategies that have been applied to value chain development include the following actions by value chain partners (the risk response category is in parentheses):

- Sharing information and problem solving in order to address emerging risks (mitigate, transfer)
- Implementing traceability or identity preservation to improve the ability to find the source of problems and implement improvements (mitigate)
- Involving additional partners in a potentially lucrative but risky new venture (transfer, mitigate)
- Agreeing to stay away from some certain volatile market sectors (avoid).

Collaborative Planning Sessions

It's hard to plan a value chain in your spare time. Day-to-day pressures make it difficult to find the opportunity for meaningful dialogue between partners. Collaborative planning sessions are a critical step in value chain development.

Planning sessions should last a day or two, and are conducted on neutral ground, preferably away from the workplace. Key decision-makers from each value chain member must attend (may be steering committee members). At the planning session, representatives reach consensus on critical issues and plans before the pilot project is fully underway.

Refer to page 23 for more information on steering committees.

The goals, objectives, measures and action plans mentioned previously are typically developed at a collaborative planning session. You'll also want to establish protocols for decision making, communication and resolving problems if you haven't already done so.

Even after the initial planning sessions, you need to plan regular in-person sessions with steering committee members to jointly sort out operational problems, revise strategies, assess progress and opportunities, or enhance working relationships. Setting up regular meeting times ensures you don't meet only when there are problems to sort out.

Consider using a facilitator to lead your planning discussions. A neutral third party can help identify common needs, facilitate problem solving and keep discussions on track. Go to Facilitator's Resources at the back of this booklet for more information on bringing groups together.

For more information about where to find a skilled facilitator, see the Resource Section.

Business Structures

Now that you may be entering a value chain, does your business structure still fit? Do you need to grow, find outside money, add suppliers or hire management?

Choose a business structure that fits your unique needs. Tax and liability separation issues can direct you to a corporation. Groups of people with a "democratic" viewpoint can direct you towards a co-operative or a partnership. Intense independence can be expressed through a corporation or a single proprietor.

The type of business structure you choose can be influenced by the following factors:

- The size of the value chain and the need to access larger markets.
- The motives and goals of the owners. The business structure needs to fit the philosophy of the owners and how they wish to share the risks and rewards.
- The ability to raise money. Finding money outside your own business is a major issue and each structure is unique in facilitating investment.
- The amount of tax you are willing to pay on the profits in the business.

There are many business structures to choose from:

Types of Business Structures

- Single Proprietor–Cultivates independence and simplicity of ownership.
- Corporation (Ltd., Inc.)–Most flexible in raising capital and offers best liability protection to non-managing shareholders.
- General Partnership–Often created when a sense of family or trust exists beyond the business and makes a good interim structure as parties work out the business venture.
- Joint Venture–A written agreement to only share revenues and costs, and is often made for single events and not an ongoing enterprise.
- Co-operatives–Based on one member, one vote, unlike a corporation where one share equals one vote.
- New Generation Co-ops.

For more information on business structures, see the Resource Section.

You might assume that your business stays separate and you link into the value chain through a variety of contracts; however, this may not best suit your value chain. All participants in the value chain need to discuss the type of business structure that would best fit.

Written Agreements

Full legal contracts should not be developed until you've reached agreement and can ensure that value chain partners are compatible with one another. This "getting to know each other better" can be done on the basis of a letter of intent/memorandum of understanding (MOU) outlining broad goals and generally agreed upon working relationships between enterprises or groups. It is possible to proceed into a pilot project (where risks are manageable) with a completed MOU. However, as value chain partners proceed, working into a scaled-up value chain structure, specific requirements of a legal contract will start to emerge and the contract you sign will more accurately reflect everyone's best interests. Delaying a contract allows you to build a trusting relationship before you start discussing things like risk and cancellation clauses.

Memorandum of Understanding (MOU)

An MOU generally specifies rights and obligations, but the specific contents and format depend entirely on circumstances. There is no set formula. Some typical components of a MOU include:

- Measurable goals and objectives
- Responsibilities of participating organizations such as resources to be committed, delivery schedules, etc.
- Roles and responsibilities
- Ownership and equity
- Non-competitive clauses
- Management of alliance in terms of staffing, authority, organizational structure, policies, etc.
- Milestones and performance reviews.

For more information on MOUs, see the Resource Section.

Legally Binding Contract

Some typical components of a legally binding contract include:

- Topics included in MOU
- Profit sharing
- Liability and risk sharing
- Protection of assets such as intellectual property
- Cash flow arrangements, that is, banking, contract payment terms
- Conflict resolution mechanisms: appropriate dispute resolution, arbitration, mediation, etc.
- Exit terms including cancellation or dissolution clauses, buy-out clauses, etc.

Importance of Leaders

In order to move forward on a plan, value chains rely on the support of high-level decision-makers. Employees look for signals from the top; if they see the leader dedicating resources and energy to the value chain, they'll follow suit. Leader support is a very important success factor.

Equally important to successful implementation is the commitment of operational people. Include them in the planning process to develop a practical implementation plan and ensure their buy-in to the project.

See the section, "Process–Planning–Brock Furlong," for more information on the importance of leaders.

Manager

Collectively, companies involved in a value chain may select an individual to act as chain manager to monitor progress and facilitate communication and collaboration. Once a chain becomes functional, some sectors of the agriculture and food industry benefit by having a broker operate as a chain manager to facilitate information sharing and other chain activities. A broker's knowledge of customers and consumers and their wealth of contacts in the industry ensure that a market focus is maintained. It's important that the value chain manager be impartial, trustworthy and an effective communicator. The manager should report to the steering committee so they can assess the project's progress towards goals and also assist with problem solving. The manager should also be in touch with project champions (if they're not part of the steering committee), to share success stories, keep champions apprised of progress and to offer insights about maintaining support for the project.

The next part of the case study of the fruit beverage value chain illustrates how a group made a deliberate decision to start with a small pilot project to test how well an alliance among the three participants would work.

Case Study of Fruit Beverage Value Chain continued...

Develop a Pilot Project

Bill thought about what he would have to do to join with Wendy and Peter as an elderberry producer. Bill knew very little about berry production. Fortunately, Wendy would be there to help him in the beginning. He would have to determine what equipment he could share or rent from Wendy and what he would have to purchase. While he was making a list, he began thinking about the plants he would need to purchase to build up an orchard. When he shared this concern with Wendy, she mentioned a couple of elderberry propagators who had some material. However, when she thought further, she realized that they would have to partner with at least one of the propagators to encourage them to rapidly increase their volumes. If Bill and Wendy expanded upward, and if new growers came on board, they would need a large number of grafted cuttings.

Peter's concerns were different. He knew he would have to alter some of his processing equipment if he were to produce large volumes of the elderberry juice. He would have to seek out parts suppliers that unfortunately all seemed to be located in Europe.

All three shared a common concern relating to the financing of the project. Collectively, they tried to consider how they could keep the initial project small in order to minimize the risk. Peter was concerned that he may have a difficult time purchasing new equipment and then proceeding on a small scale. In this event, it would be difficult to produce enough to pay off the amount he would probably have to invest.

These concerns were brought to their meeting at the local coffee shop. As Bill would need three years to get to the production stage, his main concern was how much land to devote to elderberries. Peter expressed concerns about getting too big too fast and decided that he could take in Wendy's production with only a few minor modifications to his processing line. If there was an expansion opportunity, he could begin importing some elderberry concentrate and slowly grow the percentage of local product as it became available.

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All three agreed that their approach would focus on the long term. Once a market was firmly established, they would grow their production at the same pace as demand for their product grew. As Bill was currently outside of the actual production base, he agreed to make a financial contribution and take an equity stake in the business the three would collectively create. Wendy was comfortable with their "start small" approach and Peter felt the limited investment required of him was acceptable. At this point, the three began to think about their missing link in the chain: marketing.

It took time for Peter to find a food broker willing to take an equity stake in the business in return for promoting and distributing the elderberry beverage to retailers. When Bill shared that he was not keen on losing some ownership and control of the marketing of the product, Peter reminded him of their previous discussions about the risks that would be involved in taking advantage of the opportunities. Bill was then able to support the inclusion of a broker in their project.

(to be continued)

Summary

Before you move on to Stage 3, "Monitoring and Evaluating the Pilot Project," make sure you have the following in place:

- ❒ Value chain partners
- ❒ Buy-in and commitment from all partners to a pilot project
- ❒ Clear goals and plans
- ❒ Resources
- ❒ Written agreements
- ❒ Manager
- ❒ Champion.

Stage 3: Monitoring and Evaluating the Pilot Project

Objectives

After completing this section, you will be able to:

- Monitor the pilot project to determine if objectives are being met
- Understand the importance of integrating both human communication and computer technology
- Evaluate your pilot project.

Monitor the Pilot Project

As you move along in the pilot project, make sure you schedule regular steering committee meetings to report on the status, or communicate the progress, of the project to date. At these meetings check for any challenges or problems with the pilot's progress, conflicts that may have arisen and any new opportunities. Define and plan your next steps to address these issues.

See the section, "Process–Planning–Brock Furlong," for more information on monitoring.

At a meeting with partners, try to answer the following questions.

- Are objectives being met?
- Have the objectives changed?
- Are all partners satisfied with progress?
- What needs to change to increase satisfaction or ensure continuing support?

Revisit the measures you developed in Worksheet 8, "Value Chain Pilot Project Plan". They will help you monitor progress towards the goals and determine if the project is on track. Once the pilot is underway, you will be able to determine if your value chain relationships have advanced enough for you to look at other activities that would improve the value chain.

Integrate Systems

Often there are multiple connections between value chain partners. As you operate in a value chain, opportunities to build and sustain the extended enterprise arise because of the multiple connections created between value chain partners. The closer and tighter these connections, the more you can consider:

- New roles
- Implementing new technologies
- Deploying new models of operation
- Cost reductions, delivery, time savings and quality improvements
- Risk management tools.

See the section, "Process–Planning–David Dzsiak," for more information on integrating systems."

Working cooperatively, you can share data and decision-making to the point where transactions between value chain partners are seamless, almost as if they were within the same business. For example, inventory requirements can be anticipated and adjusted with little paperwork or time lag. Invoicing and payments can occur automatically.

Through collaboration, bottlenecks and obstructions are removed, allowing the flow of goods and services to become more streamlined. Just-in-time and just-the-right-amount deliveries are much more likely to be achieved within a value chain with good communication.

Integrating and synchronizing systems involves both human communication and computer technology. Develop a system for sharing information among chain partners. This might be an integrated invoicing system, harvesting/processing protocols, inventory control, customer satisfaction, etc. Integrating value chain enterprises through synchronized systems is getting more economical, due to advances in computer technology. This makes the potential payoff even greater.

The most effective value chains encourage participants to exchange ideas freely, trade best practices and experiment to continually find better ways to interact. Take the opportunity to benefit from an outsider's perspectives on how effective you really are. Always remember that there's a better way!

Adapt and Build

Value chains never remain static because they are based on continually shifting market opportunities, and consumer and customer demands. No matter how well a value chain is operating, stay focused on emerging opportunities and be prepared to seize opportunities as they arise. An advantage of a value chain is that there are many more eyes on the horizon scouting for opportunities.

Make sure you continually watch for new opportunities.

As value chains mature and commitment builds, working relationships become closer and more collaborative. Individual companies focus more on their area of expertise, leaving other tasks to value chain partners who possess different skills and expertise. Being able to adapt, evolve rapidly and capitalize on opportunities are some factors that characterize successful value chains.

Once the value chain is underway, there's still plenty that can be done to enhance it. Schedule regular meetings with the steering committee, celebrate the achievement of milestones, co-locate or exchange staff and, most importantly, work with your partners to introduce methods for continuous improvement. A few examples of where you might continue to make improvements are in the areas of logistics, inventory management, process improvements, customer service, information sharing and product market development.

Thriving value chains realize their potential through ongoing discussions with partners. Challenging each other and the value chain itself are healthy behaviors. It takes a concerted effort to ensure that lines of communication remain open and the chain remains vibrant. Plan a formal approach to ensure that dialogue is practical and relevant and keeps the value chain focused on continuous learning and change.

Evaluate the Pilot Project

Complete a final review of the pilot project with chain partners. Identify the learning gained and discuss the next steps to establishing a more permanent value chain and relationship.

Now is the time to evaluate the pilot project and decide whether the group wants to establish a more permanent value chain.

Ask these questions:

- What was accomplished?
- Can more be accomplished by continuing?
- Can we add to the objectives?
- Are there any new areas we can work on together–cost reduction, safety, quality, new products or new markets?
- What can we do together that can't be done independently?
- Are there any new opportunities?

Be sure to provide written copies of project results and all the associated records of its management for each partner. File and retain these results to provide support for future projects.

Use what you learned in the pilot to transfer to other markets or new opportunities for yourself and the partners in your value chain. The pilot project experience will help you work better with these and new partners, and provide a greater chance for success in new endeavors.

Let's return to the elderberry value chain to see how their pilot project worked.

Case Study of Fruit Beverage Value Chain continued...

Pilot Project Evaluation

Seven years have passed since Bill, Wendy and Peter first met to talk about their elderberry drink value chain idea. It took years longer than what any of them had imagined; however, their goals have generally been achieved (even though they have been revised more than once).

In the production area, Bill is now the biggest elderberry grower in the province. He, along with 11 other berry growers, supply enough berries for Peter to keep a dedicated processing line in operation at nearly full capacity. Each new grower that entered the chain received some start-up capital that was repaid with their initial shipments once their orchards were established.

Though none of the growers made as much money as they had initially hoped, they were at least happy to have a secure and steady market. Prices did fluctuate; however, a pricing formula was put in place to provide more stability and transparency in what the growers received for payment. This stability and the contractual relationship the growers kept with Peter were very useful when growers negotiated with the local bank for operating and investment capital.

One year, when prices in Europe skyrocketed, a couple of growers sold their entire crop to German buyers. As a result, they were not allowed to return to the elderberry value chain. Wendy knew that growing the industry required a steady supply and, if they allowed these growers back, they would have the same problem in the future. Wendy pointed out to the other growers how another province's elderberry industry collapsed when producers ignored local processors in favor of, yet again, high prices in Europe.

Peter faced competition from other fruit beverage processors, but his product was unique enough to carve out a secure, albeit small, share of the overall fruit beverage market. He faced many processing challenges over the years but found that, in working closely with the growers, the problems were remedied much more quickly.

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As illustrated in this case study, it may take longer to complete a pilot project than initially thought.

Also, Peter's food safety program in his plant (a HACCP or Hazard Analysis Critical Control Point system) is a powerful selling tool for the product at the retail level. Even the berry growers developed a HACCP-based system to maintain high food safety standards.

The producers and processor worked with two different distributors in the first two years before settling with one that seemed to fit more with their value chain approach. Now, there is far better information flow between the distributor and the rest of the chain. In fact, with better market intelligence, the producer group has begun to grow black currants, which have been identified as a high-value niche product for health-conscious consumers.

Wrap Up

Whether you decide to proceed with a value chain initiative or not, working more collaboratively with other companies will provide insights into markets, your industry and strategic relationships. As you gain new insights and abilities to thrive in the new economy, keep in mind this quote:

"It is not the strongest of the species that survives, nor the most intelligent, but the ones most responsive to change..." Charles Darwin

Review the following "Summary of Value Chain Development Project Stages" to give you a quick snapshot of the three stages and the outcomes expected at each stage.

At the end of each stage, decision-makers make the decision on whether to proceed to the next stage.

Summary of Value Chain Development Project Stages

Go or No Go

Go or No Go

Go or No Go

	Stage 1: Identifying the Opportunity	Stage 2: Developing a Pilot Project Plan	Stage 3: Monitoring & Evaluating the Pilot Project
Actions	• Assess your and your business readiness • Map and evaluate supply chain • Identify possible opportunities • Evaluate your market • Assess resources, risks and capabilities • Identify a small core group • Provide basic value chain information	• Select your partners/steering committee • Manage key discussions • Develop a pilot project plan agreeing on goals, plans and measures • Identify and mitigate risk • Define how you will work together (roles and responsibilities) • Establish temporary organizational structure for steering committee • Financial contracts/legal contracts • Secure resources • Build relationships	• Launch pilot project • Meet regularly • Monitor pilot • Communicate • Build and adapt systems • Identify new opportunities • Decision to scale-up • Ongoing relationship development
Who	• A core planning group • A few trusted potential partners	• Required partners	• Alliance partners
Outputs	• Increased value chain knowledge • Opportunities identified • Assessment of resources, risks and capabilities	• Market and business assessment • Partner's commitment • Pilot project plan • Organizational structures and written agreements where required • Resources allocated • Contingency plan	• Post pilot evaluation • Corporate business structure established • Adapt and build
Resources	• Financial • Physical • Human • Intangible	• Financial • Physical • Human • Intangible	• Financial • Physical • Human • Intangible
Significant Decision Criteria	*Go/No Go Decision Making* • Are you and your business ready to work in an alliance structure? • Are market size, growth and opportunities attractive? • Do any known killer variables exist? • Do the risks outweigh the opportunity? • Does preliminary market analysis show viability?	*Go/No Go Decision Making* • Is market size appropriate and attractive? • Is there an attractive competitive advantage? • Are there potential benefits? • Are the financial projects in line with financial criteria? • Are required resources in place? • Are good partners committed? • Are identified risks acceptable?	*Go/No Go Decision Making* • Are deliverables in place? • Are partners committed? • Is the market receptive? • Should we scale up and implement this new business approach?

Facilitator's Resources

This section includes tips and processes that a facilitator can use to build trust. While value chains are simple in concept, it is difficult to build the relationships required for a successful value chain. The facilitator's section includes tips and processes that a facilitator can use to build trust and commitment to a value chain approach.

Bringing Parties Together for the First Time

When bringing people together for the first time, it's very important to be crystal clear on the purpose, outcomes and the process. As this is the first time the group comes together, they will be looking to you, the facilitator, to provide direction and structure to the meeting.

1. Meeting purpose
   Be very clear about the purpose of the meeting–explain value chain concept, get buy in for an idea, evaluate your current supply chain, identify opportunities, etc.

   Make the purpose of the meeting very clear.

2. Participants
   Keep the numbers of participants to fewer than 10 and invite those in senior positions in each business. Participants should be open to hearing new ideas, be willing to provide open, honest feedback and be a good spokesperson to take the message back to other business executives. Invite only those who would potentially be involved in the value chain at this point–avoid including outside observers.

   Invite those in senior positions in each business.

3. Contacting participants
   Personal contact, followed up by a letter or e-mail, is always the best way to extend the invitation. It provides the opportunity to briefly explain the context and purpose for the meeting. After contacting participants, allow time for them to think over the invitation before requesting a confirmation of attendance.

   Contact participants by telephone.

4. Meeting location
   Choose a convenient, neutral, private location where all participants can sit around a table with comfort. It's important that there's room for everyone at the table and that participants can easily see each other. You'll also want room for a flip chart or white board to record ideas.

   Chose a neutral location.

   Providing refreshments sets a comfortable tone. If participants don't know each other, you may want to use name tents on the table for the first meeting.

As facilitator, act as chairperson.

5. Chairperson
   As facilitator, you should chair this meeting.

6. Agenda
   It's important that an agenda be circulated to participants beforehand. This allows participants time to gather their thoughts before the meeting and be prepared for a full discussion. Make sure to include details in the agenda like start and stop times, name of facilitator, names of all participants, topics for discussion, etc.

Circulate the agenda prior to the meeting.

   The meeting should be no more than three hours in length and, as facilitator, you will need to adhere to timelines strictly. The meeting will be most productive if there is a lot of opportunity for participants to provide comments, ask questions and discuss among themselves. An agenda that is primarily presenting information will not engage participants or encourage their feedback.

7. Meeting notes
   During the meeting, make sure that key points are recorded on a flip chart so everyone can see what's been recorded. It provides an opportunity for people to correct any inaccurate notes, as well as providing a tracking of discussion. Check frequently with the group to ensure the notes are accurate and complete.

Record key points on a flip chart.

   Circulate a summary of meeting notes to all participants afterwards, allowing them the opportunity to correct any inaccuracies.

8. Follow-up
   At the end of the meeting, pose a question about whether participants are interested in pursuing the idea further. Be sure to let participants know at the beginning of the meeting that you'll be asking the question later. Also let people know what some next steps might be.

Contact participants a few days after the meeting.

   Allow people the opportunity to go away and think about their further participation and take the idea back to others in their business. Within a few days of the meeting, contact participants to get a sense of their interest in continuing value chain discussions.

Use the checklist, "First Meeting Agenda," on the next page to ensure you don't miss any steps.

First Meeting Agenda

Use the following as a checklist for your first meeting or the first few meetings. You may not be able to get commitment or assign roles until later.

1. Introductions

   ❒ Have participants introduce themselves and provide a synopsis of their business and their role in the business. Ask each person to outline what they'd like to achieve at the meeting.

   ❒ Record each person's expectations on a flip chart. At the end of the meeting, the group can review the list to see if they met everyone's expectations.

2. Provide background

   ❒ One or two people can provide some background to the project, what's been done to date and what the next steps are.

3. Purpose of meeting

   ❒ Once some background has been provided, outline what is hoped to be achieved at this meeting and what decisions the group may be making.

4. Discuss the opportunity

   ❒ Get participants' view of the opportunity, ask what additional information they might have about the market, etc., and how they might contribute towards the project.

5. Outline the value chain approach

   ❒ Once the opportunity is outlined, it is a good time to discuss value chains and how they differ from traditional supply chains. Discuss success factors, risks, responsibilities of each member, etc.

(continued on next page)

At the first meeting you may not be able to get commitment or assign roles.

6. Ask for level of interest so far

   - ❒ Get a sense from participants their level of interest in proceeding further with discussions and plans to form a value chain. Ask each business to identify what's attractive about this opportunity and what barriers they see. The group may be able to answer or address the barriers at this meeting, or more likely, these will be addressed at subsequent meetings.

7. Ask for commitment (or give each business time to think the idea over)

   - ❒ Confirm a timeline for each business to indicate their level of interest and what resources they are willing to commit to continue planning.

8. Outline various roles and commitments needed to proceed

   - ❒ Name a project leader if there is a commitment to proceed.

9. Outline next steps

   - ❒ Identify the next steps in the process.

Build Relationships

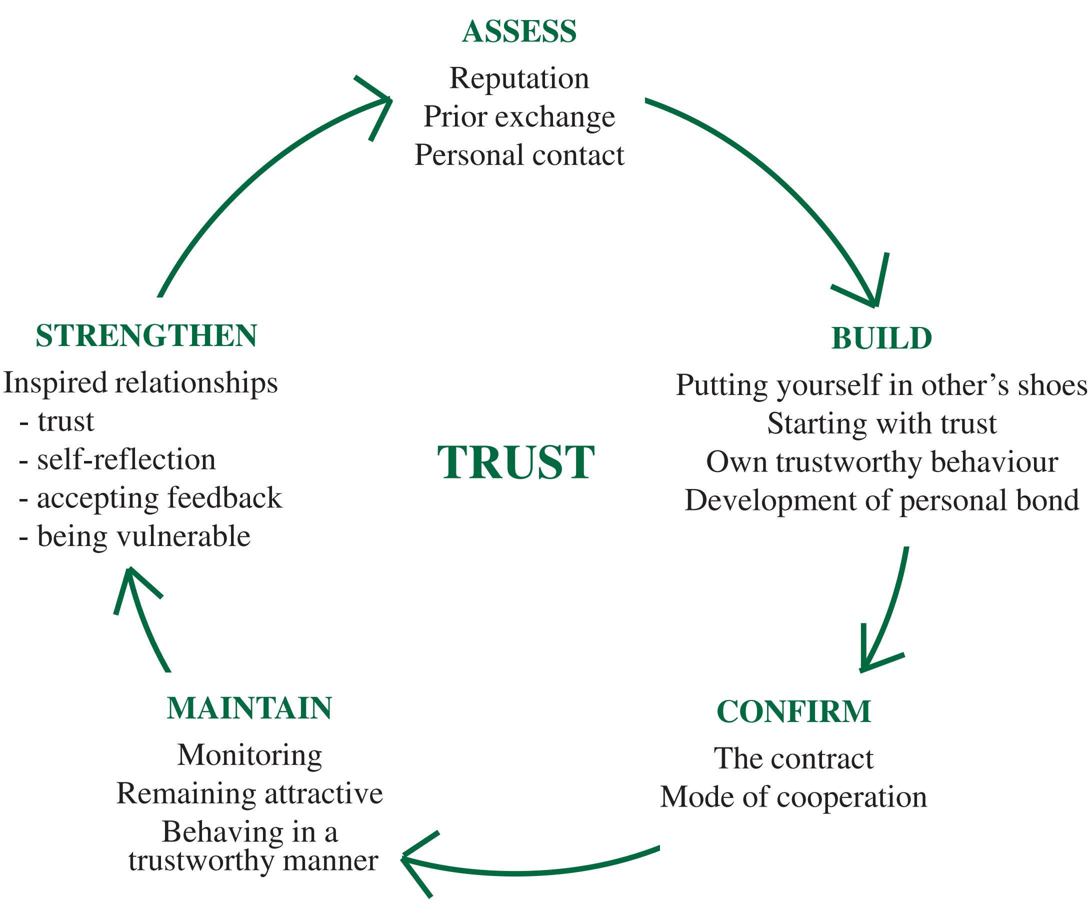
Strong business relationships are key to the success of any value chain initiative. Building and maintaining these relationships takes time, effort and some skills. This section provides information, techniques and tools to help build these relationships.

This section is useful for individuals who will be facilitating discussions–it could be a member of the steering committee or an outside facilitator. It's also useful for business partners to review, to assess their contributions towards building a strong team and identify areas where the business partners may need to make changes.

Characteristics of Strong Business Relationships

Trust

Trust is developed as we get to know and understand our business partners and their actions become predictable. Trust is built through reputation, past experience, behavior and keeping commitments. It generally develops in five stages: assess, build, confirm, maintain and strengthen.



From: "Building Trust in Alliances," Pricewaterhouse Coopers LLP, October 2000.

Characteristics of Strong Business Relationships

- Confidence in business partners
- Cooperation among business partners
- Previous experience with business partners on which to base trust
- Sufficient personal experience with business partners in order to assess trustworthiness
- Viewing business partners as an integral part of the team
- Being able to rely on business partners to deliver products and services on time
- Sharing of valuable market information with business partners
- Sharing of best practices among business partners
- Commitments by business partners met–attend meetings, return calls, complete tasks.

Decision-Making Processes

You will need to work out a decision-making process that's perceived as fair by all and with clear direction on who's responsible for making which decisions.

- Before having discussions on decision making, create several scenarios that represent typical decisions that will need to be made by the value chain.
- Each business responds to the scenario with how that decision would be handled in their business, who would typically make the decision, with whom they would consult and how long it might take.
- Have each business describe their decision-making process – ensure no judgements are made about each business's process. Draw a picture or make quick notes, for everyone to see, of each process.
- Now as a group, begin to talk about what similarities they see in the processes and what differences.
- Have the group design a process that will work for the chain as a whole–this will be a combination of each business's methods. It will need to meet everyone's needs, as well as serve the value chain well.
- After you have agreement on a process, have each business identify what they will need to change or adjust about their system to make this work.

Interdependence

Interdependence is achieved by identifying what each partner needs from the chain to remain committed.

- Spend time finding out each party's interests. Do this regularly both at meetings and between meetings. You may want to end each meeting by going around the circle and each person contributing.
  Here's what we're going to do to build/support the value chain and here's what I need to see from others to remain committed.

- While checking in with participants between meetings is a good way to build rapport and get a sense of what's going on, there are a few cautions:

  - The goal is for chain members to be interdependent, not dependent on the facilitator, so it's important that all issues get aired and resolved by the group. Acting as an intermediary, or smoothing over disagreements between meetings, may be doing the group a disservice in the long run.

  - If a group member expresses dissatisfaction with another member's actions, the facilitator's role is to encourage the member to bring the issue to the table, or to speak directly to the other member. The facilitator can also help the member clarify and reframe the issue and prepare them for possible reactions.

- Keeping members focused on the long-term goals–despite small setbacks or annoyances–is a good "between-meeting" strategy.

Commitment

Each partner must make commitments of time, effort and money.

- When action plans are being designed and agreed to, make sure that all partners are contributing their fair share. Some partners will have money and equipment while others will have expertise, manpower, industry contacts, etc.

- Ensure action plans use "commitment" language such as, "We *will* complete the survey by October 15," rather than "We'll *try* to complete the survey…"

- As commitments are being made, ask partners what difficulties they might have in meeting that commitment. Ask if anyone around the table could assist them in meeting the commitment.

- The group should also discuss what will happen if commitments aren't met.

Collaboration Tips

One of the keys to building relationships with partners is demonstrating listening skills. Really hearing what your partners are saying builds trust. Here are some tips and examples to demonstrate that you're listening.

1. Listening isn't the same as agreeing.
   Practice summarizing and feeding back messages, even when you don't agree. Stay neutral–you'll have a chance to provide your opinion later.

Giving Feedback

For example: *So it sounds like in order for this to work for you, it would be important to have some delivery guarantees in place.*

2. Find and acknowledge things you agree on rather than focusing on differences. To build trust and a common purpose, draw out those things partners agree on first. Sometimes it may be a principle that everyone agrees on, rather than a practice or action. Early in the process (or by the end of the first steering committee meeting), draw up a list of the principles and actions on which the group agrees.

Finding Agreement

For example: *It sounds like we all agree that commitment is important for this to work. Exactly what commitment looks like will need to be worked out.*

3. Avoid using “but” because it contradicts what was said before. Try inserting “and” instead.

Using “and” not “but”

Instead of: *We agree that commitment is important, but I can’t see us putting in that much money at the start.*

Try: *We agree that commitment is important, and it will also be important for us to look carefully at how much money we can put into the start up.*

4. Ask questions to understand.
   When partners talk about actions or practices that impact them negatively, rather than defending or explaining, use questions to understand where they’re coming from. It’s through deepening your understanding of their concerns that creative solutions and long-term relationships develop.

Asking Questions

For example:

Tell me more about how that impacted you.

What was it about …. that made it difficult for you?

What would you have needed to improve the process?

5. Get agreement on principles before moving ahead on actions.
   This is an important step because when the group gets bogged down in details and disagreements about actions, they can focus back on the agreed upon principles, and it can help get discussions back on track.

Getting Agreement on Principles

For example:

- *The value chain must benefit all partners*
- *We agree to open and honest communication*
- *All partners at the table have equal power*
- *We’re committed to making the value chain succeed.*

Method for Planning Sessions

(Developing goals, objectives, measures and action plans)

Create a Vision

Ask the group one of these two questions:

- What would a functioning value chain look like five years from now?
- If you were successful at implementing the value chain, what would the industry and your place in it look like?

Ask the group to look ahead five or ten years.

On a flip chart, write the words and phrases the group generates. Summarize and come up with a composite picture. Each partner will have a slightly different view or angle of the picture. The whole group doesn't need to agree on everything.

What Needs to Change?

Ask the group what would need to happen in the next five years to make this vision a reality. What would there need to be more of, less of and what does the group need to start doing and stop doing? Smaller groups usually generate good discussion around these. Give each group one or two topics (i.e., What do we need to do less of? What do we need to start doing?), and ask them to record their ideas on a flip chart and share with the larger group.

Ask what needs to change to make the vision reality.

What's Most Important?

Once you've created a clear, concise list of what needs to change, move the group towards setting some priorities for taking action. There are several ways to do this:

1. Give everyone three or four colored stickie dots–each color represents different points or weight (i.e., everyone is given 16 cents: red dot =10 cents, blue=5 cents and yellow = 1 cent). Each person places their "votes" where they think the group should put their energy.
2. Ask the group to classify each action into one of four categories:
    - Quick wins (doesn't take too much energy and will make a significant contribution)
    - Short term (can be completed in the next 6 months)
    - Medium term (can be completed within the next 2 years)
    - Long term (will take more than 2 years to reach)

Ask the group to set some priorities for action.

Now have the group choose priorities from each of these categories.

3. Explain the use of the four quadrant model to prioritize actions. Divide actions from above into one of four quadrants in the table below, identifying those actions that will have a lot of impact on the goal to form a value chain and actions that the group has a lot of control over.

Q. 1 High impact – High control	Q. 3 Low impact – High control
Q. 2 High impact – Low control	Q. 4 Low impact – Low control

The group should focus its immediate efforts on Quadrant 1 and Quadrant 3 (if the results are visible, such as demonstrating leader support). Longer term efforts in Quadrant 2 make sense. Discourage efforts in Quadrant 4 activities.

How Will We Get There?

Ask the group to develop an action plan.

Once the group has set some priorities, work with them to develop action plans that include specific actions, required resources, who will be responsible and a timeline for completion.

Note: Throughout this process, the facilitator should ensure that the goals are all either shared or complementary for all members of the chain.

Important Tips When Bringing Groups Together

Meeting Preparation

- Make sure key leaders attend (same level of authority from each organization). If key leaders can't attend, postpone the meeting until they can. When inviting people and confirming their attendance, ensure they know the importance of a leader attending and that substitutes won't work.
- Get commitment about who's attending beforehand and circulate the list, along with agenda, meeting purpose, etc. There should be no surprises for anyone.
- Speak personally to each organizational leader beforehand to ensure they know the purpose of the meeting and that you understand some of their needs and concerns.
- Avoid having outside observers at meetings–limit attendance to those who have a direct stake.
- Hold the meeting in a neutral place, ensure privacy and provide refreshments.
- Keep the group size to less than 10.

Meeting Set-up

- Create a round table (or a square table with no obvious front).
- While those from the same organization will likely sit together, try not to have adversarial partners sitting directly across from each other.
- As a facilitator, ensure you have good eye contact with everyone.

Facilitation Tips

- Always let each organization speak for themselves–don't bring up things they mentioned in private prior to the meeting.
- Ensure you hear from everyone around the table on most issues–if some members are silent, go around the table and ask everyone for

their input.

- After some input, and as you're writing contributions on a flip chart, summarize or paraphrase what you heard. Choose neutral terms–reframing comments that aren't neutral. For example, reframe*"They didn't keep up their end of the bargain.*" to *"You were disappointed."* or *"It's important to keep agreements."*

- Keep linking input back to general principles–fairness, commitment, honesty, trust, etc. This will help the group develop broad parameters they want to work within. Then you can start to flesh out what each of these looks like.

- If someone dominates the discussion, summarize what you heard, thank him or her for the contribution and say that it's important to hear from everyone on this issue.

- If a conflict begins to emerge, spend time with the person who first brought the issue up. Ask probing questions to get to the interests. Avoid having the person tell a long story. Ask the following questions. How did that impact you? What were the consequences? What bothered you most about that? What would you have liked to have happened? What would you do differently next time?

- Early on at each meeting, establish some common ground or common goals. For example, "*Here's what we've agreed is important*," or "*Here's what we're all trying to achieve.*" No matter where the discussion goes, you then have a way to bring it back on track. Write down the goal or common ground on a sheet of paper that can be referred to throughout the meeting.

- As you move along in discussions, keep reminding the group of how far they've come and the progress made. *"So far, we've agreed that….."*, "*We've now got two goals completed…"*

- Summarize discussion points frequently so the group knows they've been heard. Ask if you heard it right–did you miss anything?

- Stick to time allotted–don't go overtime, unless you've negotiated more time and everyone agrees to stay. Starting and ending on time is a good demonstration of keeping commitments (which is key to building trust).

Worksheets

A series of worksheets to help you track your progress, address problems and continue to develop your value chain further are included. You will be prompted throughout the guidebook to complete the worksheets.

Worksheet 1 Business Strategy

If you have not already done so, take some time to consider where your operation or company is headed overall.

1. Where do you want your business to be in the future?

2. Can you achieve this the way you currently operate?

3. What are the current strengths of your business that are important to achieving your future vision?

4. What are your business weaknesses that prevent you achieving your future vision?

5. Which of your weaknesses can you correct on your own?

Reflecting on your answers to where you want your business to go and your strengths and weaknesses, which weaknesses might be strengthened by collaborative relationships or a value chain approach?

Worksheet 2 Assessing Readiness

You have just reviewed several of the reasons, benefits, risks and success factors associated with value chain development in the agriculture and agri-food industry. Before identifying your opportunity, assess your readiness and the readiness of your business to work on a value chain approach by completing the checklist below.

My Readiness

I operate in a collaborative manner.	❒ Yes	❒ No
I ensure everyone is focused on shared vision and goals.	❒ Yes	❒ No
I respect different management styles.	❒ Yes	❒ No
I encourage new ideas and product improvements.	❒ Yes	❒ No
I believe in fairness and flexibility.	❒ Yes	❒ No
I routinely share information and problem-solve with partners.	❒ Yes	❒ No
I demonstrate a willingness to jointly develop strategic plans.	❒ Yes	❒ No
I communicate regularly with others in the supply chain.	❒ Yes	❒ No
I actively seek trusting business relationships with customers and suppliers.	❒ Yes	❒ No
I'm willing to devote time, effort and financial resources to develop a value chain.	❒ Yes	❒ No

My Business's Readiness

Overall business performance is shared and understood throughout our organization.	❒ Yes	❒ No
Recognition and reward systems are team based.	❒ Yes	❒ No
Information about our customers and competitors is well known.	❒ Yes	❒ No
New business is based on customer needs and market change.	❒ Yes	❒ No
Focus is on maximizing value to the end customer.	❒ Yes	❒ No
Business membership agrees that collaborative efforts are desirable.	❒ Yes	❒ No
Partnerships will have a positive effect on business.	❒ Yes	❒ No
A global outlook is maintained.	❒ Yes	❒ No

If you responded " yes" to most of these questions, you are ready to explore a value chain approach.
If you responded "no" to most of these questions, you may want to re-consider a value chain as being an appropriate approach for you.

To complete a detailed assessment of your readiness to partner, go to www.agfoodcouncil.com under "Value Chain Resources."

Worksheet 3 Map Your Existing Supply Chain

Complete the map of your supply chain for your main product line. Keep it simple by only identifiying the main members of your chain.

Step 1: Start by identifying the end product that will be going to consumers and work backwards from there. Write the name of that product in the circle on the supply chain on the next page.

Step 2: Once you have identified the end product, ask " What happens to the product right before it gets here?" This answer goes into the process box before the end product. Ask that question again and fill in the box before the process box. Do this until all the processes have been captured. Some examples of processes are: marketing and packaging, transporting, slaughtering and breeding.

Step 3: Now look at all your processes and identify what companies are involved in each process. Identify other members of the chain and their roles.

Process

Companies

End Product

Worksheet 4 Evaluate the Supply Chain

What is the chain doing well? ____

____

Where are the weak points of the chain? ____

____

What needs to be improved? (quality, inefficiencies in production or processing, logistics, etc.)

____

What excess resources exist? ____

____

What resources are limited? ____

____

What limits your growth? ____

____

What do you wish you had more of? Less of? ____

____

What are the logistical problems? This includes such issues as supply, transportation and storage.

____

What information do you and your supply chain partners need to make better decisions?

____

What factors impact your ability to operate effectively/efficiently?

____

What change/changes would provide the most benefit to supply chain members?

____

Which relationships in the supply chain could be strengthened to work more successfully together?

____

What would your end users (consumers) say are the product's strengths and weaknesses?

____

Worksheet 5 Outline the Opportunity

Using the information from Worksheets 3 and 4, write down your idea for a value chain. Be creative by considering all the possibilities and opportunities.

Background: reason for making changes

Opportunity:

Check your idea against the following criteria. If it meets the criteria, move to the next section. If not, adjust it so it meets these criteria.

- ❐ This opportunity addresses a serious or actual business concern.
- ❐ There's market potential for this business opportunity.
- ❐ The opportunity has potential for economic benefit.
- ❐ The opportunity addresses a market need and will be profitable.

Worksheet 6 Resources, Risks and Capabilities

Use the worksheet below to take stock of the resources and capabilities you currently have, and those that would be needed from other businesses to take advantage of the opportunity using a value chain approach.

Resources	Your Business	Required from Partners
Financial Resources: • cash • access to cash • collateral		
Physical Resources: • facilities • equipment • technology		
Human Resources: • talent/expertise • access to labor • management strength		
Intangible Resources: • reputation • creativity • client base • connections		
Relationships: • good relationships • relationships that require improvement and development		

Risk Assessement:

What factors could interfere with the success of this value chain pilot project? ____________________

____

What strategies could be implemented to mitigate or prevent these risks? ____________________

____

____

Worksheet 7 Choosing Potential Value Chain Partners

Answering the following questions will give you a clear idea of the characteristics you're looking for in partners. Amicable business relationships are key to the success of a value chain, so your careful selection now will pay off later.

What works?

Think of a business relationship that works very well for you. Describe why you think it works well.

____

____

What characteristics does that organization exhibit? ______________________________

____

What do you and your business do that contributes to the positive relationship? ____________

____

____

Write down a list of qualities that you want to look for in any new partners. ______________

____

____

What doesn't work?

Now think of a business relationship that doesn't or didn't go well.
What happened that didn't work? Describe why you think it didn't go well. ______________

____

____

What characteristics does the other organization exhibit? __________________________

____

____

What did you do that made it difficult to work together?____________________________

____

Write down a list of qualities you will avoid or check out when looking for new partners. ________

____

____

Summary

In the table below, write both the characteristics you're looking for and those you'd like to avoid in the left hand column. Next think of existing partners in your chain and identify partners that display those characteristics. Finally, identify new partners that you're considering and compare their characteristics with the desirable and undesirable traits list. Completing this exercise can help you evaluate the contributions of existing partners as well as evaluate new partners.

Characteristics	Existing Partners	Potential Partners
Desirable: __________ __________ __________ __________ __________ __________ __________ __________ __________		
Undesirable: __________ __________ __________ __________ __________ __________ __________ __________ __________		

Worksheet 8 Value Chain Pilot Project Plan

The project plan briefly outlines the business problem, goals, objectives, measures and action plans. A good plan is an excellent tool for fostering and sharing information with the team, sponsors, clients and stakeholders. It can also be used when applying for funding.

Project Name: ______________________________ Date: ______________________________________

Developed by: ______________________________ Partners: __________________________________

____

____

____

Introduction /Background
Primary motivation/background for the project

Goals
Describe what is to be accomplished, the end result of taking this action.

Objectives
Specific, practical steps to reach your goal

Measures
Indicators of reaching the goal or objectives

Action plan

Steps/Actions	Who's responsible	Completion date

Resource Section

There are numerous information sites, books, and resources on business planning, facilitation, team building and value chain development. These are just a few that are valuable.

Publications (Available from AAFRD Library)

Alberta's Value Chain Initiative, Agriculture and Food Council of Alberta. **Value Chain Handbook: New Strategies to Create More Rewarding Positions in the Marketplace.** Edmonton: Alberta Agriculture Food and Rural Development, Information Packaging Centre, 2002.

Alberta's Value Chain Initiative, Agriculture and Food Council of Alberta. **Meeting the Market. Growth Through Strategic Alliances.** Proceedings. Edmonton: Alberta Agriculture Food and Rural Development, Information Packaging Centre, 2002.

Alberta Agriculture, Food and Rural Development. **Business Arrangements.** Edmonton: Agriculture Food and Rural Development, Information Packaging Centre, 1994.

Books

Doz, Yves L. and Gary Hamel. **Alliance Advantage: The Art of Creating Value Through Partnering.** Harvard Business School Press, Boston, Massachusetts, 1998.

Greenhalgh, Leonard: **Managing Strategic Relationships: The Key to Business Success.** The Free Press, New York, New York, 2001.

Harrington-Machin, Deborah. **The Team Building Tool Kit, Tips, Tactics and Rules for Effective Workplace Teams.** AMACOM 1994, ISBN 0-8144-7826-3.

Kaner, Sam with Lind, Lenny; Toldi, Catherine; Fisk, Sara and Berger, Duane. **Facilitator's Guide to Participatory Decision-Making.** New Society Publishers, Gabriola Island, BC, 1996. ISBN 1-55092-255-6

Spekman, Robert E., Isabella, Lynn A., with MacAvoy, Thomas C. **Alliance Competence, Maximizing the Value of Your Partnerships.** John Wiley & Sons, Inc., 2000.

CD-Rom (Available from Agriculture and Food Council)

Alberta's Value Chain Initiative, Agriculture and Food Council of Alberta. **Agri-Food Value Chains, A Practical Guide to Building Customer Focused Alliances.** CD-Rom. Edmonton: Alberta Agriculture Food and Rural Development, Information Packaging Centre, 2003.

Tools

Risk Matrix Tool–This paper-based risk assessment toll can be used by agriculture producers and processors to identify, measure and manage risk that might threaten the sucess of their businesses. It is available in hardcopy or as an Adobe Acrobat (PDF) computer file. The Risk Matrix Tool is available from Alberta Agriculture, Food and Rural Development's Business Management Innovations Branch in Olds at (403) 556-4240.

Websites:

Business Planning Resources

http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/faq8074?opendocument

http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1073869162&r.l1=1073858805

http://www.cbsc.org/ibp/home_en.cfm

Choosing a Consultant

http://www.consultingagrologists.com/choosing.htm
http://www.agmrc.org/business/pdf/selectconsultant.pdf
http://www.avacltd.com/Fact_Sheets/AVAC_Consultant.pdf

Facilitation Resources

http://www.tcslearning.co.za/learning_resources_bookstore/facilitator_development.htm

http://www.facilitationfactory.com/index.html

Marketing Resources

http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/faq7571?opendocument

http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/faq7994?opendocument

http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/faq8157?opendocument

http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex7222?opendocument

Memorandum of Understanding

http://www.jurisint.org/pub/02/en/suj_1_1.htm

http://www.megadox.com/documents.php/862&PHPSESSID=

http://www.lawdepot.com/contracts/confid/?loc=ca

Risk Responses

Developing Effective Risk Responses, Dr. David Hillson, Proceedings of the 30th Annual Project Management Institute Seminars & Symposium, presented in Philadephia USA, 11-13 October 1999.

http://www.risk-doctor.com/pdf-files/rsp1099.pdf

Team Building Websites

http://www.squarewheels.com/

http://www.workteams.unt.edu/

Value Chain

Ropin' the Web, Alberta Agriculture, Food and Rural Development

http://www.agric.gov.ab.ca/app21/rtw/selsubj.jsp
http://www.agric.gov.ab.ca/ (then click on: Food and Ag Processing/Business Strategies/Value Chains)

Value Chain Initiative, Agriculture and Food Council's Website
http://www.agfoodcouncil.com/serve/chainindex.html

Some of the resources that are available on this site include the following:

- Alberta's Value Chain Initiative
- Agriculture and Agribusiness structures

Frequently Asked Questions

Three specialists from the Value Chain Initiative have responded to frequently asked questions about value chains.

Q. Could you define a value chain for us?

Our value chain definition is:
"An alliance of enterprises collaborating vertically to achieve a more rewarding position in the marketplace."
Vertical means that the alliance includes the various groups along the supply chain and not just one group, such as producers. Since we began our work, we have relaxed our definitions. Value chains or "strategic alliances" are about working more effectively with others in a chain that might begin with input from suppliers and farmers and ends with delivery trucks and grocery stores or restaurants. Price will always be a factor in our "narrow margin" food industry; however, in a value chain, issues such as quality, reliability and consistency become more important.

So, by working closer together with value chain partners, a better understanding of the consumer is captured. Through working together, suppliers invest in the relationship with the retail or food service customer rather than a direct brand. If successful, this relationship grows in value as an intangible asset and provides a competitive advantage that is difficult for competitors to copy and substitute. These intangible assets are built over time and cannot be bought.

Q. Is a value chain, supply chain and demand chain management the same?

Value chain management, supply chain management and demand chain management are terms used to describe slightly different business strategies.

Value chain management takes the perspective that members in the chain earn their place by adding value to the product or service. In return they are compensated for the value they add.

Supply chain management is used when a system uses the most efficient and effective means for delivering a product or service to the customer.

Demand chain management looks backwards at a chain. It strives to deliver products and services to a market ensuring that there is adequate demand for a product to pull the product through the chain rather than farmers pushing their product into the market place.[1]

For our initiative and for the purposes of this guidebook, the term value chain management will encompass the meanings of all three terms.

Q. Who can get involved in a value chain?

Anyone who adds value to a product can get involved in a value chain. The value of a farmer is obvious, and the same can be said for the processor. When it comes to retailers, a product obviously becomes more valuable when it is placed inches away from the buying consumer. If any of these businesses have a problem or opportunity that cannot be resolved on its own, they could consider a value chain approach.

By working together, producers, processors and marketers are maintaining a competitive advantage by developing new means of increasing efficiencies, improving quality or differentiating product.

In a non-branded environment, the retailer largely establishes the role for the other participants in the supply chain. Developing brands and differentiated products is facilitated by the support of retailers. For example, if the retailer buys solely on the basis of price then the chain will remain locked in a commodity rut. If, however, the retailer aims to work with suppliers to provide more value for consumers, then all participants have the opportunity to be better off. Differentiating products, increasing quality and reducing waste are greatly enhanced through retailer involvement.

Regardless of the strategy, value chains begin and end with the market. They are driven by the market pull. When developing a value chain approach, start by determining what your customer or consumer wants and then develop the capabilities to meet this market demand by collaborating with value chain partners.

Q. Approximately how long does it take to find the partners and set it up?

Tough question! You can probably count on a few years to get close to where you want to be. There will be more collaborative decisions, meetings and work than first imagined. However, the time you take working through these will help make sure you have the right partners at the table. Members of the chain will have to earn each other's trust and this will take time. In the beginning, you will want to know the market you are getting into and what you will have to do to be successful. Individuals will have to know that the value chain strategy is right for them: can they move to the "we" in business or are they still stuck in the "me." When people have a tight cash flow situation, it is tough to dwell on their business partners.

Q. What kind of legal issues need to be dealt with?

We suggest that you hold off on worrying about the legal issues; however, we have seen cases where legal issues cropped up early on. Either way, you may want to seek outside advice from Alberta Agriculture, Food and Rural Development specialists working in this field.

Q. What are the biggest stumbling blocks to building a successful value chain?

People and personalities might be seen as both the greatest success and failure factors of value chains. When people lack respect and trust, it is extremely difficult to work together and create new value. However, when a chain is composed of talented and skilled individuals that communicate well and combine their efforts in the most efficient way possible, there is a great opportunity to succeed.

The Value Chain Initiative has found that involvement of the retailer in the value chain development process has proven to be one of the most difficult steps for project proponents. In fact, currently there are only a few projects in Alberta that demonstrate successful approaches for involving the retailers in value chain projects through the development of strategic relationships. Traditional methods of identifying opportunities for Alberta producers and processors by completing feasibility studies, market research and product presentations to buyers are somewhat successful at identifying opportunities for Alberta suppliers. Developing strategic relationships involving retailers could provide a new approach for Alberta producers, processors and retailers by working collaboratively to grow retail categories.

Q. What are the greatest benefits, and does the farmer experience a direct benefit? Is the farmer going to get a better price for his or her product?

No doubt, this is the key question for everyone in the chain. Value chains are not magic. They won't provide you with a premium if you continue to do what you have always done.

A key point about value chains is that you develop products and processes that are difficult for others to copy. Food processors and even input suppliers often attempt to differentiate their products from their competitors to make more money. This is more challenging for producers because there are more of them and they generally all have access to the same tools. However, when producers are able to work in conjunction with processors and perhaps input suppliers, they can find themselves in niche markets where premiums are higher. It probably means more work, greater skill requirements and perhaps increased investment.

One very sobering thought is that if someone else can easily do what you do, it is less likely that a premium is there for the taking. In Alberta, we are fortunate to have (in normal years) excellent growing conditions. These may provide us with some natural advantages, but countries like Argentina, Brazil, Australia and China—to name a few—will force us to innovate to stay ahead of the low-margin global commodity market. For example, Ranchers Renaissance markets a premium branded beef product called Cattlemen's Collection. At this time, the retailer will pay a premium for a product that guarantees tenderness and quality by implementing production and processing standards through coordinating production and processing along the supply chain. They don't have to compete as least-cost beef producers.

We are in an era where everyone likes to think positive, but we have to be realistic. If you do not go the extra mile in your analysis (paying attention to markets, competitors and technology), in your work and in your business relationships, then value chains may not be for you. But, to answer your question directly, yes farmers can make a premium, but it won't be a cakewalk.

Q. Can you give us examples of successful value chains in Alberta?

Many of the cases we have looked at in Alberta are in the beginning stages and will take time to complete. Bern and Mike Kotelko's Highland Feeders has developed a Natural Beef product and a value chain to supply it. Blair Wright, President of Transfeeder Inc., has developed a value chain pipeline for accessing lucrative Asian markets for forage crops. We might also look at what larger companies like Maple Leaf Poultry has done with select producers and their Natural Prime product or what Dow AgroSciences has done with their Nexera canola seed and Natreon canola oil. Herman Simons and his partners in the tender pork value chain are working closely with Olymel to produce more consistent high quality pork, implement collaborative risk management systems and examine opportunities to differentiate products. These, and other large companies, are differentiating their products and developing stronger relationships with producers that go the extra mile in creating differentiated primary products.

Q. Why aren't there more value chains in Alberta?

As mentioned earlier, it is tough to create additional value and work with others in the value chain. One additional thought is the issue of trust, or perhaps the lack thereof. There has always been a lot of angst between producers and processors and between both of these groups and retail. Most people do not believe that processors make slim margins, but you just have to look out there and see how many plants are shut down to get a sense that it is not an easy business to be in. The typical processing operations end up with about a 2 to 3 percent net margin when all variable and fixed costs such as depreciation are accounted for. Retailers are generally stuck at the lower end of this (i.e., 2 percent), so turnover is critical for them to earn a return on investment of about 5 percent.

Many producers will probably never be convinced of this reality and will continue to feel like they are getting "fleeced" in the transaction. In our tight-margin food industry (and it is even tighter in Canada than it is in the United States), most buyers are, not surprisingly, attempting to put a squeeze on the suppliers. This situation creates a strain on relationships in the chain and makes value chain formation difficult. Not surprisingly, we are seeing value chains develop in niche and new product areas where there is less bad-blood and baggage.

Q. What is the Value Chain Initiative, and how can it help Alberta farmers?

The Value Chain Initiative is a collaborative project of Agriculture and Food Council (AFC), Agriculture and Agri-food Canada and Alberta Agriculture, Food and Rural Development (AAFRD). Three staff members are available to assist people through the early stages of value chain development. We facilitate meetings and help groups work towards their goals.

Q. Where can I find out more about value chains?

You can find us on the Internet at the following addresses:
http://www.agfoodcouncil.com/serve/chainindex.html
http://www1.agric.gov.ab.ca/ (then click on: Food and Ag Processing/Business Strategies/Value Chains)

Leader, Value Chain Initiative, Agriculture and Food Council, 1-780-955-3714

[1] Forming and Managing Supply Chains in Agribusiness. New Industries Development Program, Australia.

The Value Chain Initiative has value chain facilitators who work with Alberta's agriculture and food industry to:

- Communicate value chain concepts
- Facilitate supply chain mapping to increase understanding of value chain partners
- Share information and create knowledge about value chain strategies and case studies
- Facilitate planning, communications and collaboration and linkages through established networks
- Assist with value chain development
- Link to potential funding sources

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Thanks to our Partners

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AGRICULTURE, FOOD AND RURAL DEVELOPMENT

Worksheet 1 Business Strategy

If you have not already done so, take some time to consider where your operation or company is headed overall.

1. Where do you want your business to be in the future?

2. Can you achieve this the way you currently operate?

3. What are the current strengths of your business that are important to achieving your future vision?

4. What are your business weaknesses that prevent you achieving your future vision?

5. Which of your weaknesses can you correct on your own?

Reflecting on your answers to where you want your business to go and your strengths and weaknesses, which weaknesses might be strengthened by collaborative relationships or a value chain approach?

Worksheet 2 Assessing Readiness

You have just reviewed several of the reasons, benefits, risks and success factors associated with value chain development in the agriculture and agri-food industry. Before identifying your opportunity, assess your readiness and the readiness of your business to work on a value chain approach by completing the checklist below.

My Readiness

I operate in a collaborative manner.	❒ Yes	❒ No
I ensure everyone is focused on shared vision and goals.	❒ Yes	❒ No
I respect different management styles.	❒ Yes	❒ No
I encourage new ideas and product improvements.	❒ Yes	❒ No
I believe in fairness and flexibility.	❒ Yes	❒ No
I routinely share information and problem-solve with partners.	❒ Yes	❒ No
I demonstrate a willingness to jointly develop strategic plans.	❒ Yes	❒ No
I communicate regularly with others in the supply chain.	❒ Yes	❒ No
I actively seek trusting business relationships with customers and suppliers.	❒ Yes	❒ No
I'm willing to devote time, effort and financial resources to develop a value chain.	❒ Yes	❒ No

My Business's Readiness

Overall business performance is shared and understood throughout our organization.	❒ Yes	❒ No
Recognition and reward systems are team based.	❒ Yes	❒ No
Information about our customers and competitors is well known.	❒ Yes	❒ No
New business is based on customer needs and market change.	❒ Yes	❒ No
Focus is on maximizing value to the end customer.	❒ Yes	❒ No
Business membership agrees that collaborative efforts are desirable.	❒ Yes	❒ No
Partnerships will have a positive effect on business.	❒ Yes	❒ No
A global outlook is maintained.	❒ Yes	❒ No

If you responded " yes" to most of these questions, you are ready to explore a value chain approach.
If you responded "no" to most of these questions, you may want to re-consider a value chain as being an appropriate approach for you.

To complete a detailed assessment of your readiness to partner, go to www.agfoodcouncil.com under "Value Chain Resources."

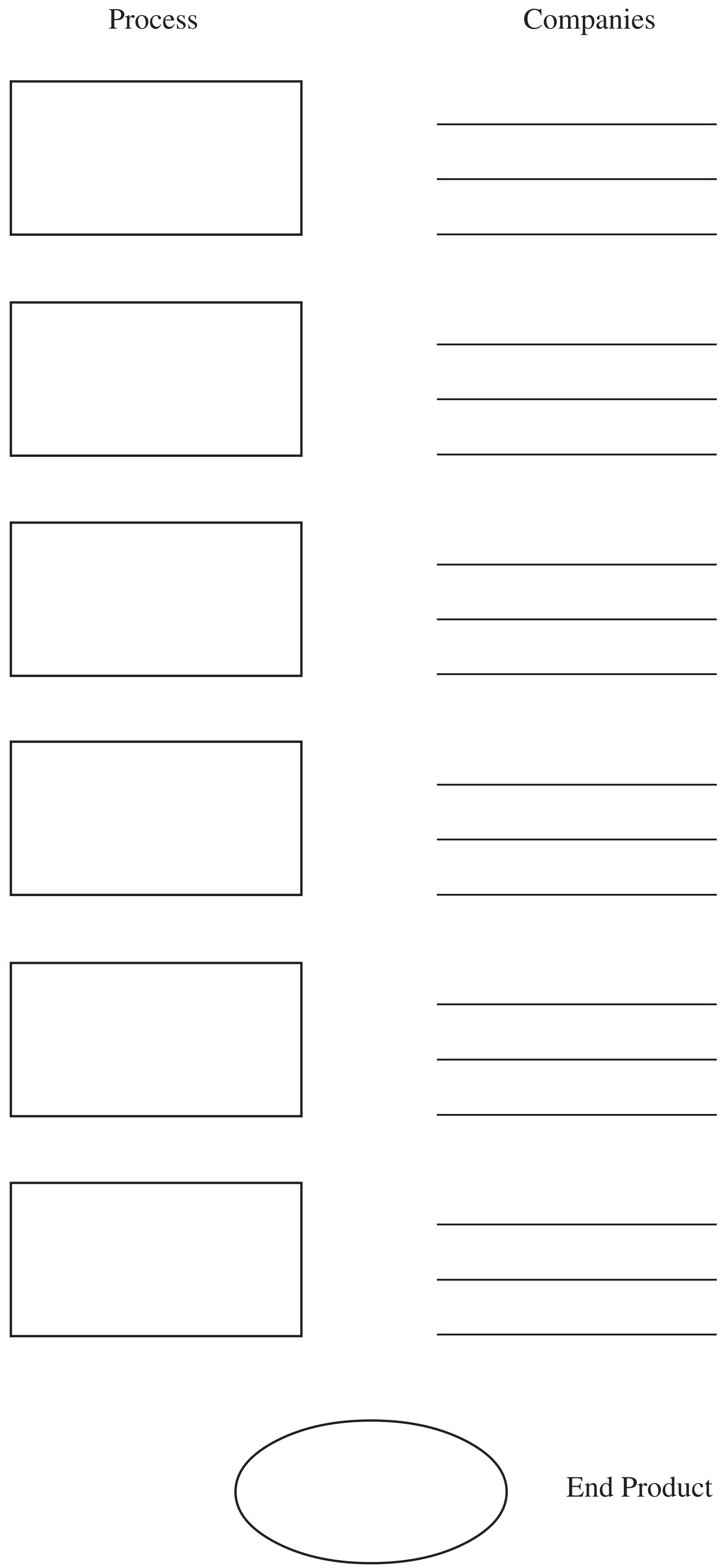
Worksheet 3 Map Your Existing Supply Chain

Complete the map of your supply chain for your main product line. Keep it simple by only identifiying the main members of your chain.

Step 1: Start by identifying the end product that will be going to consumers and work backwards from there. Write the name of that product in the circle on the supply chain on the next page.

Step 2: Once you have identified the end product, ask " What happens to the product right before it gets here?" This answer goes into the process box before the end product. Ask that question again and fill in the box before the process box. Do this until all the processes have been captured. Some examples of processes are: marketing and packaging, transporting, slaughtering and breeding.

Step 3: Now look at all your processes and identify what companies are involved in each process. Identify other members of the chain and their roles.


Process
Companies
End Product

Worksheet 4 Evaluate the Supply Chain

What is the chain doing well? ____

____

Where are the weak points of the chain? ____

____

What needs to be improved? (quality, inefficiencies in production or processing, logistics, etc.)

____

What excess resources exist? ____

____

What resources are limited? ____

____

What limits your growth? ____

____

What do you wish you had more of? Less of? ____

____

What are the logistical problems? This includes such issues as supply, transportation and storage.

____

What information do you and your supply chain partners need to make better decisions?

____

What factors impact your ability to operate effectively/efficiently?

____

What change/changes would provide the most benefit to supply chain members?

____

Which relationships in the supply chain could be strengthened to work more successfully together?

____

What would your end users (consumers) say are the product's strengths and weaknesses?

____

Worksheet 5 Outline the Opportunity

Using the information from Worksheets 3 and 4, write down your idea for a value chain. Be creative by considering all the possibilities and opportunities.

Background: reason for making changes

Opportunity:

Check your idea against the following criteria. If it meets the criteria, move to the next section. If not, adjust it so it meets these criteria.

- ❒ This opportunity addresses a serious or actual business concern.
- ❒ There's market potential for this business opportunity.
- ❒ The opportunity has potential for economic benefit.
- ❒ The opportunity addresses a market need and will be profitable.

Worksheet 6 Resources, Risks and Capabilities

Use the worksheet below to take stock of the resources and capabilities you currently have, and those that would be needed from other businesses to take advantage of the opportunity using a value chain approach.

Resources	Your Business	Required from Partners
Financial Resources: • cash • access to cash • collateral		
Physical Resources: • facilities • equipment • technology		
Human Resources: • talent/expertise • access to labor • management strength		
Intangible Resources: • reputation • creativity • client base • connections		
Relationships: • good relationships • relationships that require improvement and development		

Risk Assessement:

What factors could interfere with the success of this value chain pilot project? ______________________

____

What strategies could be implemented to mitigate or prevent these risks? ______________________

____

____

Worksheet 7 Choosing Potential Value Chain Partners

Answering the following questions will give you a clear idea of the characteristics you're looking for in partners. Amicable business relationships are key to the success of a value chain, so your careful selection now will pay off later.

What works?

Think of a business relationship that works very well for you. Describe why you think it works well.

____

____

What characteristics does that organization exhibit? ______________________________

____

What do you and your business do that contributes to the positive relationship? ______________

____

____

Write down a list of qualities that you want to look for in any new partners. _______________

____

____

What doesn't work?

Now think of a business relationship that doesn't or didn't go well.
What happened that didn't work? Describe why you think it didn't go well. ______________

____

____

What characteristics does the other organization exhibit? __________________________

____

____

What did you do that made it difficult to work together? ____________________________

____

Write down a list of qualities you will avoid or check out when looking for new partners. ________

____

____

Summary

In the table below, write both the characteristics you're looking for and those you'd like to avoid in the left hand column. Next think of existing partners in your chain and identify partners that display those characteristics. Finally, identify new partners that you're considering and compare their characteristics with the desirable and undesirable traits list. Completing this exercise can help you evaluate the contributions of existing partners as well as evaluate new partners.

Characteristics	Existing Partners	Potential Partners
Desirable:		
Undesirable:		

Worksheet 8 Value Chain Pilot Project Plan

The project plan briefly outlines the business problem, goals, objectives, measures and action plans. A good plan is an excellent tool for fostering and sharing information with the team, sponsors, clients and stakeholders. It can also be used when applying for funding.

Project Name: ______________________________ Date: ______________________________

Developed by: ______________________________ Partners: ______________________________

____

____

____

Introduction /Background
Primary motivation/background for the project

Goals
Describe what is to be accomplished, the end result of taking this action.

Objectives
Specific, practical steps to reach your goal

Measures
Indicators of reaching the goal or objectives

Action plan

Steps/Actions	Who's responsible	Completion date

Value Chain Guidebook Feedback

The Value Chain Initiative is always looking to improve the services we provide to our clients. We would appreciate it if you would provide us with your feedback on the Value Chain Guidebook. Please complete the following questionnaire so that we can serve our clients better.

Please indicate your level of satisfaction with the various sections of the guidebook.

	Very satisfied	Satisfied	Dissatisfied	Very dissatisfied	Not applicable
Introduction to Value Chains					
Identifying the Opportunity					
Developing a Pilot Project Plan					
Monitoring and Evaluating the Pilot Project					
Facilitator's Resources					
Worksheets					
Other Resources					
Frequently Asked Questions					
CD–Value Chains					
Overall, how satisfied are you with the Value Chain Guidebook?					

If you were dissatisfied or very dissatisfied with any sections of the guidebook, please indicate why.

____

____

____

____

Was there anything that should have been included in the guidebook but was not?

____

____

____

____

What part of the guidebook was most useful for you or your group and why?

Using the guidebook helped your group in the following ways:

(Please check all that apply)

- ❐ Develop a strategic direction for our group.
- ❐ Gain a better understanding of our existing supply chain.
- ❐ Develop a value chain pilot project.
- ❐ Improve our understanding of the value chain concept.
- ❐ Other (please specify)

Comments/Questions/Suggestions?

Please fax back to: Value Chain Initiative at (780) 955-3744 or mail to the Value Chain Initiative.

Thank you for your feedback.