AGRI-FACTS
Practical Information for Alberta's Agriculture Industry

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Value Chains for New Markets

It can take a great deal of time and financial resources to successfully launch a new product in the marketplace quickly, efficiently and ahead of the competition.

While a new trend is developing it is not uncommon for it to take a considerable period of time to reach a break-even point, and to become profitable. You will find that companies will often experience losses during this process.

The individual or value chain participants' ability to bring their product innovation to market is important. An efficient product launch requires integration and coordination along the chain for product design, procurement, planning, manufacturing, sales and marketing.

One of the primary reasons for product launch failure is poorly defined customer needs. Other reasons can be a lack of execution in one or more of the following:

- clear business strategy linked to the value chain objectives
- go-to-market product launch planning
- customer service
- insufficient resources - both human and monetary
- executive-level support

Why apply a value chain strategy?

Value chains are a strategic collaboration of businesses working together to meet specific market objectives for the mutual benefit of all 'links' of the chain over the long term.

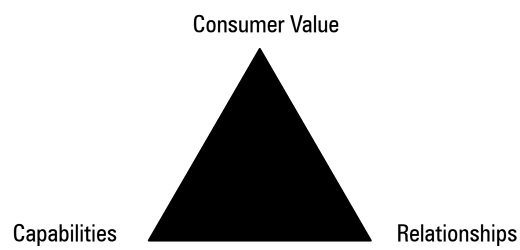
Value chain approaches are widely recognized as a leading-edge business strategy, requiring that each participant contribute to creating value for the end consumer. Three common benefits of a value chain include:

- developing a differentiated product
- ensuring consistency of supply
- whole chain marketing

Inherent challenges

Building a value chain and introducing new products are complex tasks, involving management in creating value, ensuring volatile supply and demand and deciding how to handle communication, chain efficiencies and risks.

Value chains require three things to remain stable:



The development of value chain strategies is clearly an interactive process involving all three legs of the tripod – value, capabilities and relationships.

This factsheet provides business steps recommended for managing the start-up of a new product launch using a value chain. The recommendations are from the experiences of the participants in an actual value chain.

Business steps to help manage the challenges of start-up

Business design

Business practices are critical, no matter which business design or model you apply. This especially holds true in a value chain, where individual businesses are interconnecting and are rewarded based on the performance of the whole chain.

The primary aim of the process for designing a value chain for a new product is to identify the series of steps that will guide management through procurement, sales, finance, market and product design investigation, and decisions for a broad based framework. Better designed value chains consider the client base.

Your value chain needs strong management and understanding of business principles before entering into this process. *It is recommended that you seek business coaching and legal advice when required.*

Business case

Understand changing customer priorities and how this will be reflected in the products and services that consumers and supermarket customers will demand. Complete your feasibility or business case before adopting a value chain strategy, including how start-up costs will be managed. *It is important to know if your strategy is economically viable.*

Capabilities

As businesses increasingly leverage core capabilities of other companies, innovation has to be delivered through partners working in collaboration to bring products and services to the market faster, smarter and cheaper.

Consequently, you now not only need to integrate processes internally, but externally with suppliers, and customers, creating end-to-end processes and capabilities with different product and customer requirements.

Developing capabilities is a three- to four-year process involving significant investment in resources, management time, internal systems and culture change. Success depends to a considerable extent on the capabilities of each participant. There needs to be a clear understanding of which business in the chain will develop which capabilities and how the boundaries will be managed.

Ask, *"What capabilities will underpin the delivery of new products and services? What are the gaps and who in the chain is best positioned to develop new capabilities?"*

Leadership

A value chain often involves a group of producers. A full time, clearly defined leader/manager is required. This manager must be strong and be able to guide the chain to make timely decisions, build relationships with the retailers and members of the chain, maintain commitment and resolve conflict. This individual will also need a good understanding of the flow of materials through the system and the language used by both customers and suppliers.

Consider putting a marketing person or sales person in the frontline to avoid failing to deliver value. Remember the buyer only deals with one voice from the production/supply team.

Roles and responsibilities

All parties must understand their role within the strategy and their overall responsibilities. This helps to avoid confusion and provides a groundwork for developing written documentation for monitoring performance, taking corrective action and resolving issues.

Identify: Who is the production manager, processing manager, financial manager, sales manager etc?

Determine: How decisions will be made? How conflicts will be resolved? And how you will keep the value chain parties informed of decisions?

Business plan

It is especially important to outline specific milestones and critical outcomes for your first year of operation. This creates your agreed upon roadmap, and provides the due diligence and performance indicators required for success. Plan to hold regularly scheduled meetings to ensure you remain on track or to plan for adjustments.

Use of written contracts

A common business practice is to use written contracts. Since value chains involve time-sensitive outcomes among numerous parties, contractual agreements are a tool for mitigating risk. A value chain should consider using different formats for different situations. For example, the following should be used:

- A request for proposal process when contracting third party service providers. Clearly define the service to be delivered, who is delivering the service, what is being delivered and who is working for whom.
- Memorandums of understanding or similar formats between the value chain and any funding agency. Clearly define the responsibility of the value chain and the funding agency for due diligence, accounting and reporting of project funds or grants.

- Various contracts for delivery agreements, pricing negotiations or any other important business factor that requires on-going communication and commitment.

To help shorten the time to market while reducing development costs, companies should adopt a big picture view of the development process and involve stakeholders from outside, such as contract manufacturers, suppliers and other service providers.

A successful product launch will support business growth initiatives, deliver superior products/service innovation and provide cost-effective management through the integration of product management activities with customers, suppliers and service providers.

Build systems

Ensure you build systems such as information management (communication), production management, benchmarking and forecasting supply and demand into your plans.

Typical systems to consider are:

- inbound distribution or logistics
- manufacturing operations
- outbound distribution or logistics
- marketing and selling
- after-sales service

These activities are supported by:

- purchasing or procurement
- research and development
- human resource development
- corporate infrastructure

Resources

The following resources, tools, templates may be of value to starting and evolving your value chain strategy.

Global Agri- Food Value Chains Links: From Concept to Powerful, Practical Business Strategy. This CD will take companies step by step through the stages of developing a value chain. It offers advice and insight from global leaders in value chain development as well as best practices and lessons learned.

Value Chain Guidebook. This guidebook will provide companies with a process to assess readiness and develop your own value chain.

Alberta residents can order a copy of this free CD Rom or guidebook at no charge for individual use. To receive a free copy while supplies last, call 1-800-292-5697 (toll free in Canada). Shipping and handling charges may apply.

Strategic Partner Checklist. Designed to assist firms better understand and manage strategic relationships with customers and/or suppliers. http://www.agfoodcouncil.com/media/10164/index.cgi

Value Chain Web Links. http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agp7977

For more information

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Call toll-free: 310-FARM (3276)

Website: www.agriculture.alberta.ca

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