VALUE CHAIN INITIATIVE

Value Chain assessment checklist

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The following informal steps are meant to give you practical guidance in assessing the current status of your Value Chain. It is also aimed at those who are planning to expand their Value Chain and review their pricing scheme.

(1) Review the current status of your own business

As you go through the following three steps, you can create an informal risk profile for your own firm (for your entire Value Chain). Why is it worth creating your own risk profile, i.e. why fill out the tables below?

- They are designed to raise awareness of critical, strategic issues.
- They will help you control the internal risks that are associated with your firm's strategy.
- They help you ensure that your current mechanisms are appropriate before implementing renewed/new pricing mechanisms into an expanding value chain.

How to do it?

- For each firm, ask the key manager fills out the following tables individually.
  - It will be most rewarding if they go through quickly and state things the way they are, without trying to answer strategically
  - The following questions are kept very general, so that they can apply to many types of value chains and firms, and might even give you a new perspective on current practice.
- Once the tables have been filled out individually, it is often worthwhile to sit down together with the other firm managers and compare scores and discuss differences.
- It can be useful to do this exercise annually, and compare the scores to previous years.

(A) Consider your risk profile related to your internal business culture

Consider the following three tables. In each case, read through the bullet points and provide a score for each table, taking all points into consideration. The more you are inclined to say "yes", the higher your score. Finally add the scores from all three tables to obtain the total score for (A).

Rewards for entrepreneurial risk taking	
• Do you encourage your employees to work independently, achieving their own results? • What percentage of your business is based on new products, generated by creative, risk-taking employees? The higher the percentage, the higher your score.	1 2 3 4 5 SCORE

Managerial resistance to bad news	
• Do you discourage employees who speak of obstacles, problems or impending dangers, either explicitly or implicitly? • Do you sometimes accuse employees that inform you with daily criticism as being poor team players?	1 2 3 4 5 SCORE

Level of internal competition	
• Is your own or your employees' performance ranked and compared with each other? • Do you set up employee contests in rewarding promotions and other rewards? • Do you encourage achievements that enhance the firm's short term performance?	1 2 3 4 5 SCORE

Final score for A: 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

(B) Consider your risk profile related to business growth

Consider the following three tables. In each case, read through the bullet points and provide a score for each table, taking all points into consideration. Then add the scores from all three tables to obtain the total score for (B).

Internal pressures for performance	
• Do you set aggressive goals from top management, with little or no input from your employees or from lower management? • Does performance-variable pay represent a large percentage of your employees' pay?	1 2 3 4 5 SCORE

Risks related to the rate of business expansion	
• In times of expansion, have you found that employees increasingly overstep ethical bounds or cover up any shortfalls against expectations? • Do managers give top performing employees special recognition and rewards, which may discourage other employees?	1 2 3 4 5 SCORE

Inexperience of key employees	
• Have you received increasing levels of customer complaints/complaints from business partners during phases of expansion? • Do you find that new employees take a long time to internalize your company's values?	1 2 3 4 5 SCORE

Final score for B: 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

(C) Consider your risk profile related to information management

Consider the following three tables. In each case, read through the bullet points and provide a score, taking all points into consideration. Then add the scores from all three tables to obtain the total score for (C).

Speed and complexity of information exchange	
• Do key managers find it sometimes difficult to understand the complexity of decisions that have taken place at lower levels? • During expansion phases, are existing information and reporting systems consistently overloaded? • Is your step-by-step flow of work well documented, so that it can be shared whenever desired?	1 2 3 4 5 SCORE

Gaps in diagnostic performance measures	
• Do you have formal systems in place for tracking *customer and supplier* satisfaction, including surveys, focus groups, complaint tracking etc.? • Do you allow customer feedback to feed appropriately into your decision-making process? • Do you find it easy to obtain and analyze diagnostic data when desired, i.e. do your information systems give you access to the appropriate data in a timely fashion? • Do you continuously track, measure and analyze how effectively your processes are working? • Are your internal performance measures adaptable and supportive of innovations?	1 2 3 4 5 SCORE

Degree of decentralized decision-making	
• Do all managers and employees share a sense of corporate strategy that is in line with their position? • Or do you sometimes find that individuals unknowingly take too much risk in their position?	1 2 3 4 5 SCORE

Final score for C: 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

The total sum of my scores from A, B and C is: ______

What are the implications? Instead of drawing conclusions from your individual scores, take the scores from all participating managers from your firm into account. Take the average of the total sum of scores from everyone who filled out the tables, and then consider the following:

- If the average of the total sum of scores is **below 18**: *the "safety zone"*

    - Your firm is likely to be well-equipped against unexpected events that could threaten your firm's performance and status.
    - Ensure that your score is not too low: depending on the riskiness of your value chain's business environment (e.g. are you in the meat or crops business?), consider that successful, innovative value chains need to take some calculated risks!

- If the average of the total sum of scores is **between 19 and 34**: *the "caution zone"*

    - Be alert if you have high scores in any two of the above three risk dimensions (A, B or C)
    - Discuss the key issues with your colleagues (see below)

- If the average of the total sum of scores is **between 35 and 45**: *the "danger zone"*

    - Immediate control and corrective actions are warranted to protect your firm.

- If the total sum of scores from a manager diverges by more than about 25% from the average (mean) of all managers, you may want to take further action:
    - In which of the above areas (A, B, C) do you find the key divergences between managers?
    - Are the divergences due to *misperceptions* (each individual has a different willingness to take risks), or due to *lack of information and control* (have you assumed very different facts from what they actually are?). The more evidence you find for the latter, the more urgent it is to look at internal means for controlling and adjusting risks and incentives in your Value Chain and pricing scheme.

(2) Review the current status of your business partners

2.1. Rate your current value chain partner’s traits

Why is it worthwhile to consider some of your value chain partners’ traits? Since each manager in your firm takes a different role, you often have a different perspective of your external business partners. In many cases you only partly communicate your satisfaction and dissatisfaction on outside managers with your own colleagues. Especially before expanding your Value Chain, it may be useful to set up a table in which you each rate a key manager from an outside firm with whom you personally deal most frequently (or plan to deal more frequently in the future). Then add two or more key persons with whom you deal less frequently, but with whom your own colleagues deal most frequently. Each one of you should fill out the same table. Allocate a score out of five to the personal and management qualities of those outside managers. An example could look as following:

	Respect	Commitment	Trustworthiness	Leadership	innovativeness
Frank G.	3	2	2	5	4
Linda L.	…	…	…	…	…
Erik S.	…	…	…	…	…

Once you’ve each filled out the table separately, it will be interesting to sit down together to discuss your different ratings and implications.

2.2. Assess the performance of your key Value Chain partners

The following key questions are meant to help you in assessing your processor's/distributor's/etc. performance from your own perspective. Again, these questions are kept somewhat general, so that you may wish to adjust them to your own business case. Allocate a number between one and five, where five is given to a statement that you agree with completely. It is suggested that each manager in your firm focuses on those issues that are under his/her responsibility, and fills out the corresponding sections. Afterwards sit down and discuss the ratings together, consider implications for your pricing schemes. The purpose of the exercise is not to measure your scores against any benchmark figure. The main benefit to your firm and your Value Chain stems from communicating these different facets of performance with your internal colleagues, so that appropriate incentives can be established – for example through an improved pricing scheme – in order to achieve better performance results with your Value Chain partners.

Sales performance:

1. Over the past year, the [distributor] has been successful in generating high (rental revenue / sales volume) for *[my firm]*, given the level of competition and economic growth in his market area.

   1 2 3 4 5

2. Compared to competing [distributor]s in the district (district / territory), this [distributor] has achieved a high level of market penetration for *[my firm]*.

   1 2 3 4 5

3. Last year, the revenue that this [distributor] generated from *[my firm]* was higher than what other competing [distributor]s within the same (neighborhood / territory) generated.

   1 2 3 4 5

4. Relative to his size, his available resources, and the competition he faces, the [distributor] could have generated greater (sales volume / revenues) for *[my firm]* last year.

   1 2 3 4 5

5. Last year, the [distributor] did not meet the sales target that *[my firm]* had set for it.

   1 2 3 4 5

Impact on profitability:

1. [my firm]'s cost of servicing the [distributor] is reasonable, given the amount of business which the [distributor] generates for *[my firm]*.

   1 2 3 4 5

2. The [distributor]'s demand for support have resulted in inadequate profits for *[my firm]*.

   1 2 3 4 5

3. [my firm] made inadequate profits from this [distributor] over the past year because of the amount of time, effort, and energy which *[my firm]* had to devote to assisting him.

   1 2 3 4 5

4. Last year, the revenues generated by this [distributor] were not proportionate to *[my firm]'s* efforts to stimulate those revenues.

   1 2 3 4 5

Capability of distributor:

1. The [distributor] has the required business skills necessary to have a successful business relationship with *[my firm].*

   1 2 3 4 5

2. The [distributor] (has amassed / demonstrates) a great deal of knowledge about the features and attributes of *[my firm]'s* products and services.

   1 2 3 4 5

3. The [distributor] and his personnel have poor knowledge of competitors' products and services.

   1 2 3 4 5

4. The [distributor] has not invested enough time or money in educating or training himself or his employees to be more competent in selling *[my firm]'s* products and services.

   1 2 3 4 5

Alignment with distributor:

1. In the past *[my firm]* has often had trouble getting the [distributor] to participate in its (some program important to *[my firm]*) program (e.g. food safety related issues; traceability and tracking).

   1 2 3 4 5

2. The [distributor] almost always conforms to *[my firm]'s* accepted procedures.

   1 2 3 4 5

3. The [distributor] has frequently violated (stipulations / terms and conditions) contained in his (contract / agreement) with *[my firm]*.

   1 2 3 4 5

4. The [distributor] accurately files some reports required by [my firm]) and gets them in on time.

   1 2 3 4 5

Loyalty of distributor:

1. The [distributor] clearly wants to (rent / sell) *[my firm]'s* products and shows his desire to do so in a number of positive ways.

   1 2 3 4 5

2. It takes an inordinate amount of time, effort, and energy to get the [distributor]'s attention on *[my firm]*.

   1 2 3 4 5

3. The [distributor] shows greater motivation to (sell competing brands or) engage in other business rather than in furthering *[my firm]'s* business.

   1 2 3 4 5

4. The [distributor] places a disproportionately higher amount of time and effort behind *[my firm]* relative to other business that he engages in.

   1 2 3 4 5

Responsiveness of distributor:

1. The [distributor] senses long-term trends in his market area and frequently adjusts his selling practices.

   1 2 3 4 5

2. The [distributor] is very innovative in his marketing of *[my firm]'s* products and services in his (market / territory).

   1 2 3 4 5

3. The [distributor] makes an effort to meet competitive changes in his (market / territory).

   1 2 3 4 5

4. The [distributor] could be more responsive (by changing hours of operations, staff, and advertising) to seasonal sales fluctuations.

   1 2 3 4 5

Distributor's role in our strategy:

1. The [distributor] will either continue to be or will soon become a major source of revenue for *[my firm]*.

   1 2 3 4 5

2. Over the next year, *[my firm]* expects its revenue generated from this [distributor] to grow faster than that from other competing [distributor]s within the same (market / territory).

   1 2 3 4 5

3. In the past *[my firm]'s* business with the [distributor] / market share through the [distributor] has growth steadily.

   1 2 3 4 5

4. Over the years, the [distributor] has been successful in his efforts to expand *[my firm]'s* business.

   1 2 3 4 5

5. Through its association with this [distributor], *[my firm]* has generated (large / significant monthly) increase in revenues.

   1 2 3 4 5

General role of supplier:

1. The [distributor] exerts strong influence over the way [my firm] markets its products through this [distributor].

   1 2 3 4 5

2. We often consult the [distributor] on how *[my firm]* should market its services in his market area.

   1 2 3 4 5

3. We often follow most suggestions that this [distributor] makes.

   1 2 3 4 5

4. We generally try to accommodate this [distributor]'s requests.

   1 2 3 4 5

Meeting customer demands:

1. *[my firm]* has (frequently) received complaints from customers regarding this [distributor].

   1 2 3 4 5

2. The [distributor] goes out of his way to make his customers happy.

   1 2 3 4 5

3. The [distributor] provides customers with good assistance in the solution of any problems involving *[my firm]'s* products and services.

   1 2 3 4 5

4. The [distributor] helps his customers reduce their concerns about buying [my firm]'s products by providing useful information.

Relationship with supplier:

1. The relationship of [my firm] with the [distributor] has been an unhappy one.

   1 2 3 4 5

2. Generally, *[my firm]* is very satisfied with its overall relationship with this [distributor].

   1 2 3 4 5

3. *[my firm]* is very pleased with its working relationship with the [distributor].

   1 2 3 4 5

Fairness of current pricing scheme with supplier:

1. Do you think that the agreed upon price/compensation scheme is apt to benefit largely one member of the Value Chain, and not other members?

   1 2 3 4 5

2. To what extent do you feel that the basis for your performance evaluation, on which your monetary compensation is based, is fair to you?

   1 2 3 4 5

3. To what extent do you feel that the basis for your performance evaluation, on which your Value Chain partners' [distributor's] monetary compensation is based, is fair to them?

   1 2 3 4 5