

Value Chains: What, Why, & How?

Prepared for the Aspen Institute's Community Strategies Group
By Rural Support Partners
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Presentation Outline

- I. What is a Value Chain?**
- II. Characteristics of a Value Chain?**
- III. What does a Value Chain look like?**
- IV. How to build a Value Chain?**
- V. What makes a successful Value Chain?**
- VI. Why build a Value Chain?**

What is a Value Chain?

A network of businesses, nonprofit organizations, and collaborating players who work together to satisfy market demand for specific products or services.

Because value chains are built in response to market demand and involve clear and constant communication, they can be more responsive and innovative than traditional supply chains

Chain or Network?

We use the term Value Chain to show the relationship to a traditional business Supply Chain. The key difference: value Chain structure and functioning is more like a complex, cyclical network than a linear chain.

II. Characteristics of a Value Chain

Characteristics of a Value Chain

1. Demand-Driven
2. Systems Approach
3. Cooperation & Collaboration
4. Consistent Communication
5. Common Set of Values

1. Demand-Driven

Consumers “pull” products through the chain, rather than having products “pushed” on them

- Closer links between producers & consumers
- Constant insight into consumer preferences
- Lack of assumptions on consumer preferences
- Creates an enabling environment for:
 - 1) responding quickly to changing demand and
 - 2) shaping consumer behavior

2. Systems Approach

Move from the parts to the whole – where people, resources, and markets are all connected

- Work with the entire value chain
- Connect small towns to regions, to urban areas and to the world
- Consider the consequences of your decisions for the whole system

3. Cooperation & Collaboration

Requires a mind-shift from “What is best for me and my business now?” to, “What can I and my business do to maximize the economic, environmental and community benefit to all value chain members?”

- Relationships are cooperative, not competitive
- Offers opportunities for mutual-support, and shared decision-making
- Shares responsibilities, risks and rewards equitably between all players in the value chain
- Provides economic and social benefits to all players in the value chain

4. Consistent Communication

Consistent information flow between members of the value chain increases efficiency, reduces risks, & promotes innovation

- Built on trust and inter-dependence
- Shared research and information tools
- Consistent feedback and input from consumers
- Includes on-going communication with external supporters & investors

5. Common Set of Values

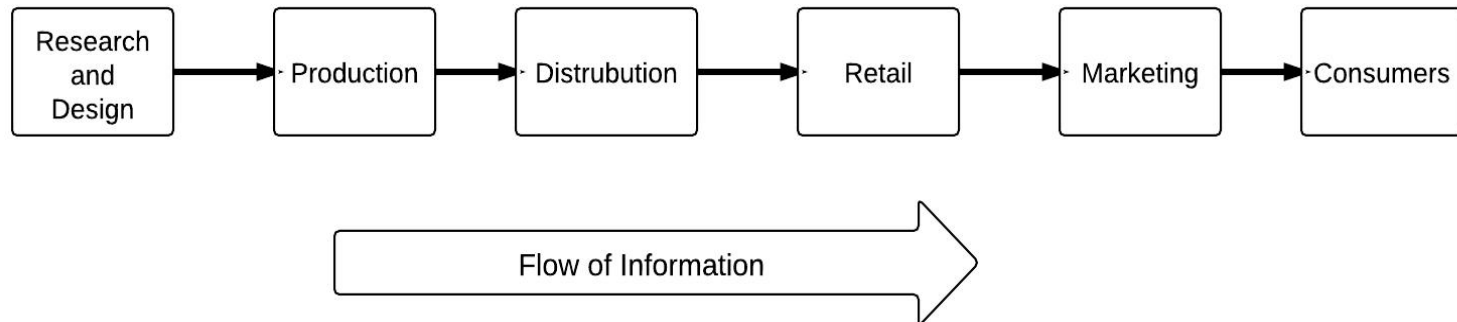
Products & practices have a “Triple Bottom Line” of environmental, social, and economic sustainability

- Values are associated with products, practices, & relationships
- Members act according to shared values
- Values used to market & brand products

III. What Does a Value Chain Look Like?

What Does a Value Chain Look Like?

- Conventional supply chain:



Supply Chains vs. Value Chains

Supply Chain:

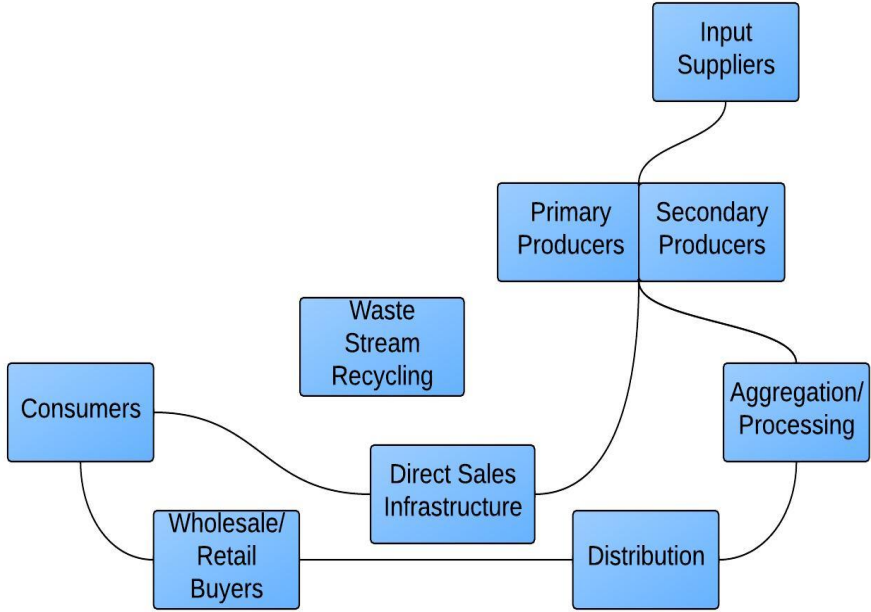
- Starts with producer supply
- Measured by net income produced
- Everyone is in it for him/herself
- Power determines who gets paid how much for their role
- Participants try to shift costs to others within/outside of chain
- Tries to influence policy to create advantage and maximize short-term income



Value Chain:

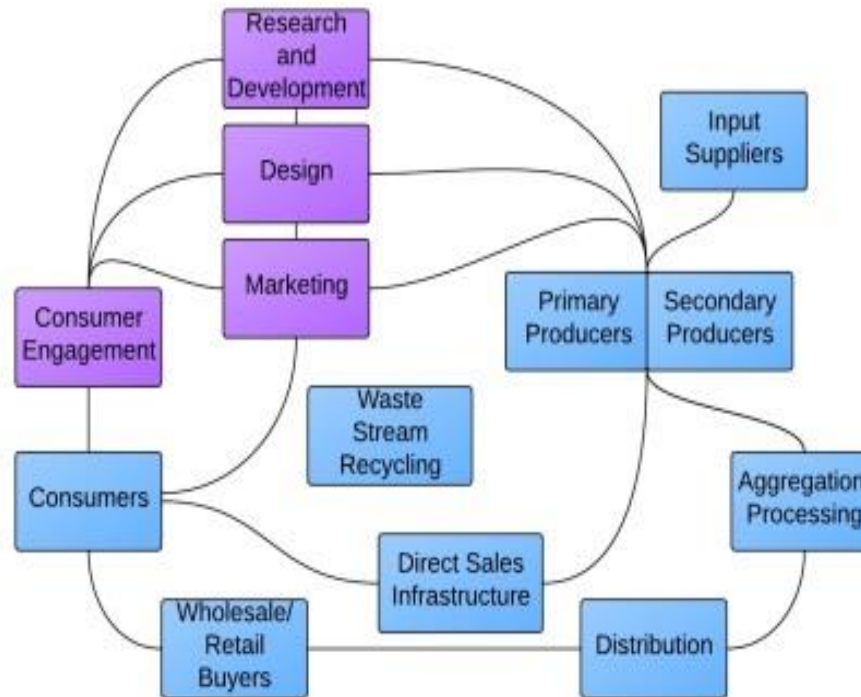
- Starts with consumer demand
- Measured by wealth created/retained
- Everyone is in it together
- Intentionally balances mutual benefit of all in chain
- All known costs are considered and addressed
- Tries to influence policy to level the playing field and maximize long-term and widely shared wealth


A Basic Supply Chain With Direct Sales and Waste Management




Core supply chain elements that operate with triple bottom line values; directly involved with product

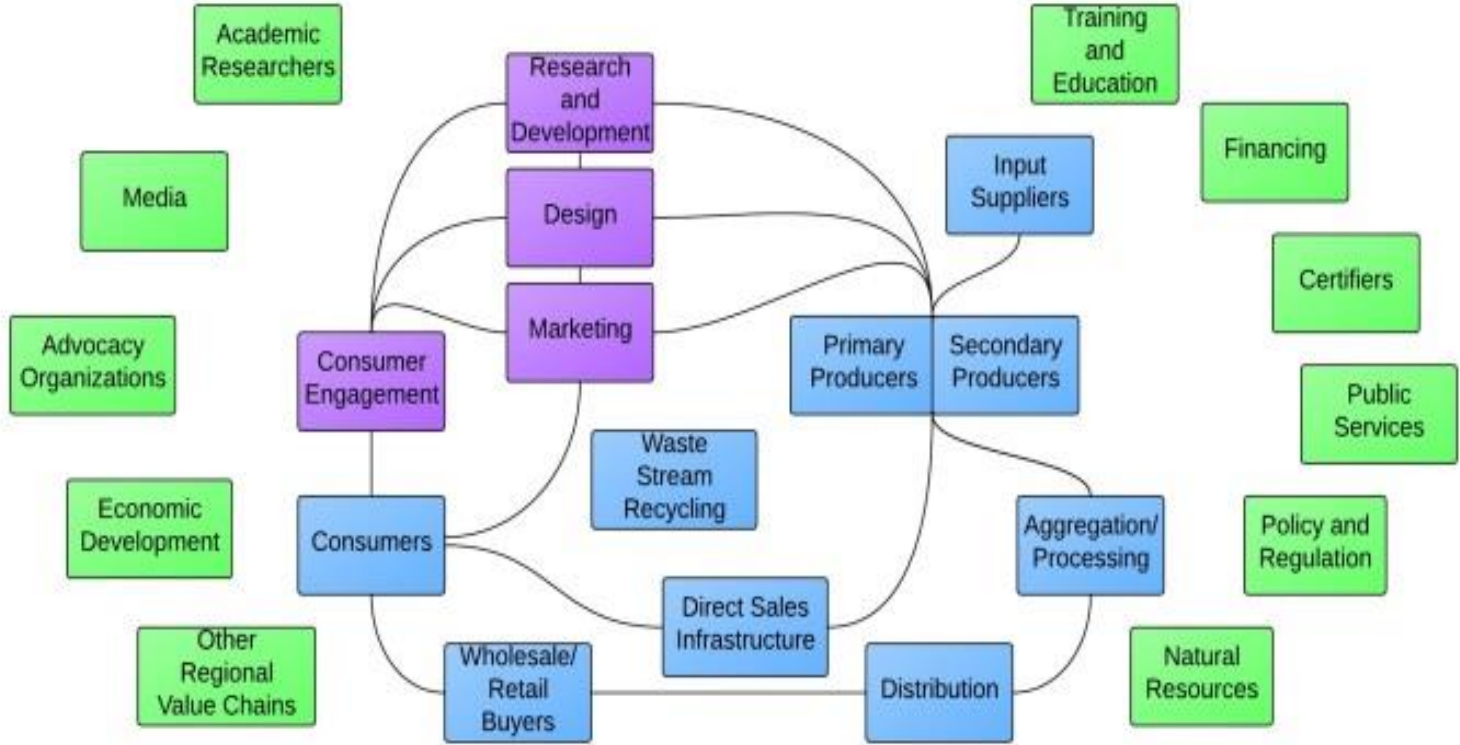
A Supply Chain With Consumer Engagement: Becoming a Value Chain



 Core supply chain elements that operate with triple bottom line values; directly involved with product

 Supporting elements that understand and drive demand; indirectly involved with product

A Supply Chain with Supporting Environment: Almost a Value Chain

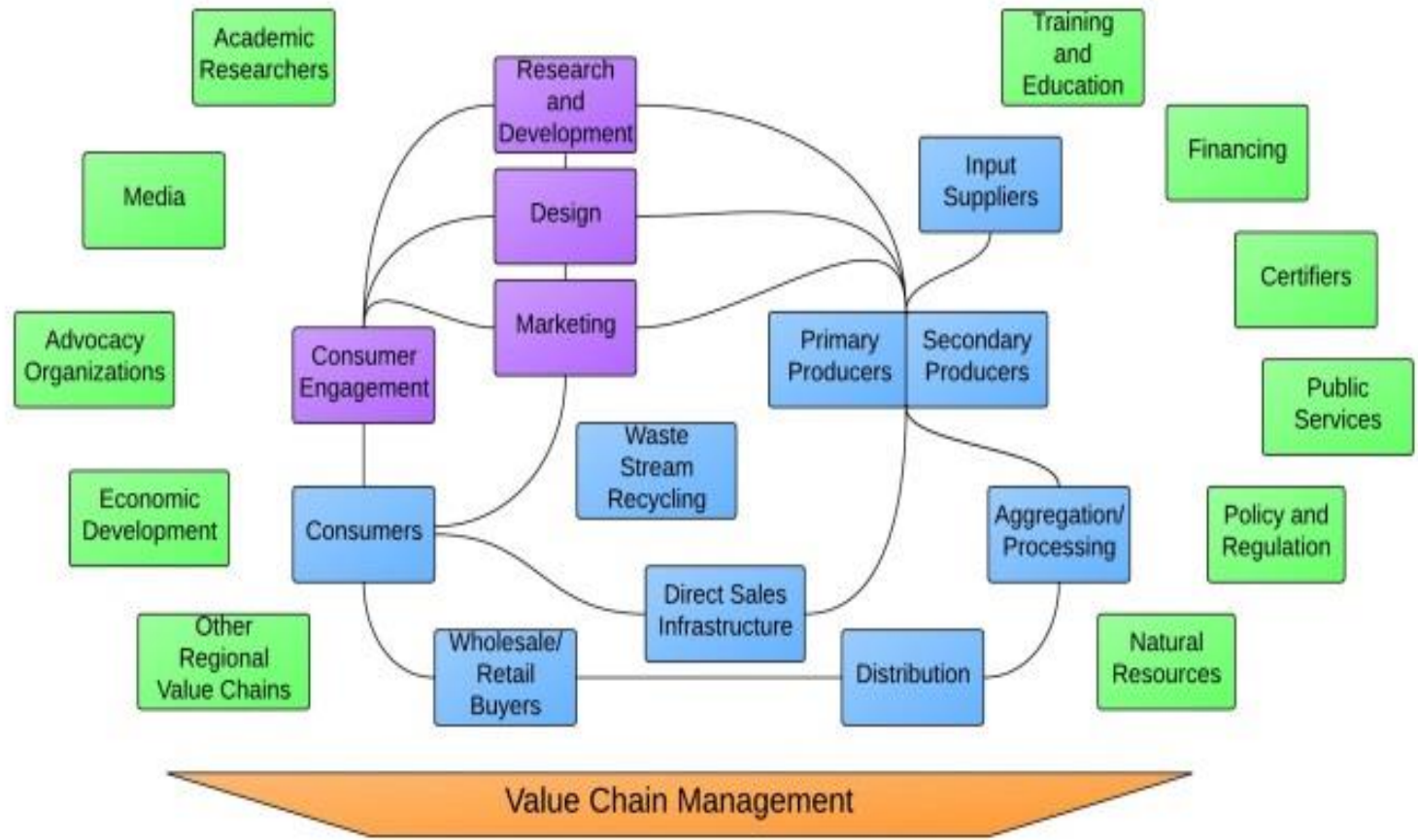


● Core supply chain elements that operate with triple bottom line values; directly involved with product

● Supporting elements that understand and drive demand; indirectly involved with product

● The enabling ecosystem: clusters of players that support the core value chain in various ways to allow it to thrive

A Generic Value Chain Model



- Core supply chain elements that operate with triple bottom line values; directly involved with product
- Supporting elements that understand and drive demand; indirectly involved with product

- The enabling ecosystem: clusters of players that support the core value chain in various ways to allow it to thrive
- Value chain management: An individual or team that facilitates communication, organization, and strategy; keeps the big picture in mind and facilitates connections within the value chain; may also play additional roles in the value chain

Value Chain Management

An individual or team that facilitates communication, organization, and strategy; may also play additional roles in the value chain.

- Communicates, shares information, establishes & maintains relationships with value chain actors
- Facilitates the planning and coordination of business activities
- Wakes up every day thinking about the value chain; requires staff time and capacity

IV. How to build a Value Chain?

Where to Start?

- Start by matching community assets to demand
 - Identify community assets – what do we already have? What are we producing or could we produce?
 - Identify demand – where is the demand for what we have or what we can produce?
 - Many rural communities have potential to build value chains based on agriculture, forestry, energy, textiles, tourism, etc.
- Research and map out a potential value chain
 - Which pieces of the chain are already in place
 - Develop a deeper understanding of your consumers – what are they interested in purchasing? What values are they willing to pay for?

Where to Start?

- Begin connecting the dots
 - Build relationships and trust with other potential members of the value chain
 - Increase communication and information-sharing across the value chain
- Define and start incorporating your shared values
 - **Environmental values** such as reducing resource use, waste recycling, organic production
 - **Economic values** such as local sourcing, supporting small business, fair wages for workers
 - **Social values** such as shared power, empowering disadvantaged populations, community-building

Building blocks of a successful Value Chain

1. Trust and relationships
2. Shared vision, interest, and identity
3. Shared direction, goals, and measurement
4. Strong value chain management
5. Clearly defined shared values
6. Shared power and control
7. Strong communication and consistent flow of information
8. Enough structure, but not too much
9. Mutual accountability
10. Consumer engagement
11. Product differentiation
12. Clear economic benefits for value chain participants and communities

V. Why build a Value Chain?

Benefits of Building a Value Chain

1. Social impact market is the fastest growing in the nation
2. Increased innovation and efficiency
3. Increased viability & security
4. Decreased risks
5. Creates multiple forms of Community Wealth

1. Social Impact Market: Fastest Growing Sector in the Nation

“Overall, U.S. consumers are estimated to spend over \$220 billion annually on goods and services related to health, the environment, social justice, and sustainable living; this market comprises sixty-three million consumers, or 30 percent of the U.S. market (Jason Saul)”

- Fair Trade
- Organic
- Local
- Sustainable
- Living wage
- Recycled
- Biodegradable



2. Innovation & Efficiency

- Responsive to changing consumer demand
 - Constant information on consumer interest & need
 - Better able to understand & shape consumer behavior
- Information flows increase adaptability
 - Continuous innovation and improved efficiency
 - Better products, with lower costs
- Product differentiation adds value
 - Connected to stories of people, places, and practices
 - Able to capitalize on social trends

3. Increased Opportunity

- Expands access to new markets
- Creates entrepreneurial opportunities all along the chain
- Mutual support builds economic resilience
- Allows for a consistent delivery of a quality product

4. Decreased Risks

- Faster adaptation to changing & complex environment
 - Climate change, fuel costs, gaps in supply
- More resilient supply chains
 - More producers, more local connections
 - Reduced vulnerability to outside factors
 - Relationships strengthens accountability
- Reduces operating costs
 - Shared buying, equipment, and community owned infrastructure

Creates Multiple Forms of Community Wealth

