



Bern University  
of Applied Sciences

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# INTRODUCTION TO VALUE CHAIN ANALYSIS

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**Dr. Ingrid Fromm**

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# VALUE CHAIN ANALYSIS

## Value Chains

- ▶ Full range of value-adding activities required to bring a product or service through the different phases of production, including procurement of raw materials and other inputs, assembly, physical transformation, acquisition of required services (such as transport or cooling) to the consumer and beyond (Kaplinsky and Morris 2002)
- ▶ Referred to as productive chains, value chains, filières, marketing chains, supply chains, or distribution chains
- ▶ VC concept can be applied in the individual business unit and can be extended to the whole supply chains and distribution networks

# VALUE CHAIN ANALYSIS

## Value Chains and Markets

- ▶ Concepts vary in focus, specific products, target markets, activity that is emphasized, and in the way in which they have been applied
- ▶ However, they all seek to capture and describe the complex interactions of firms and processes that are needed to create and deliver products to end users

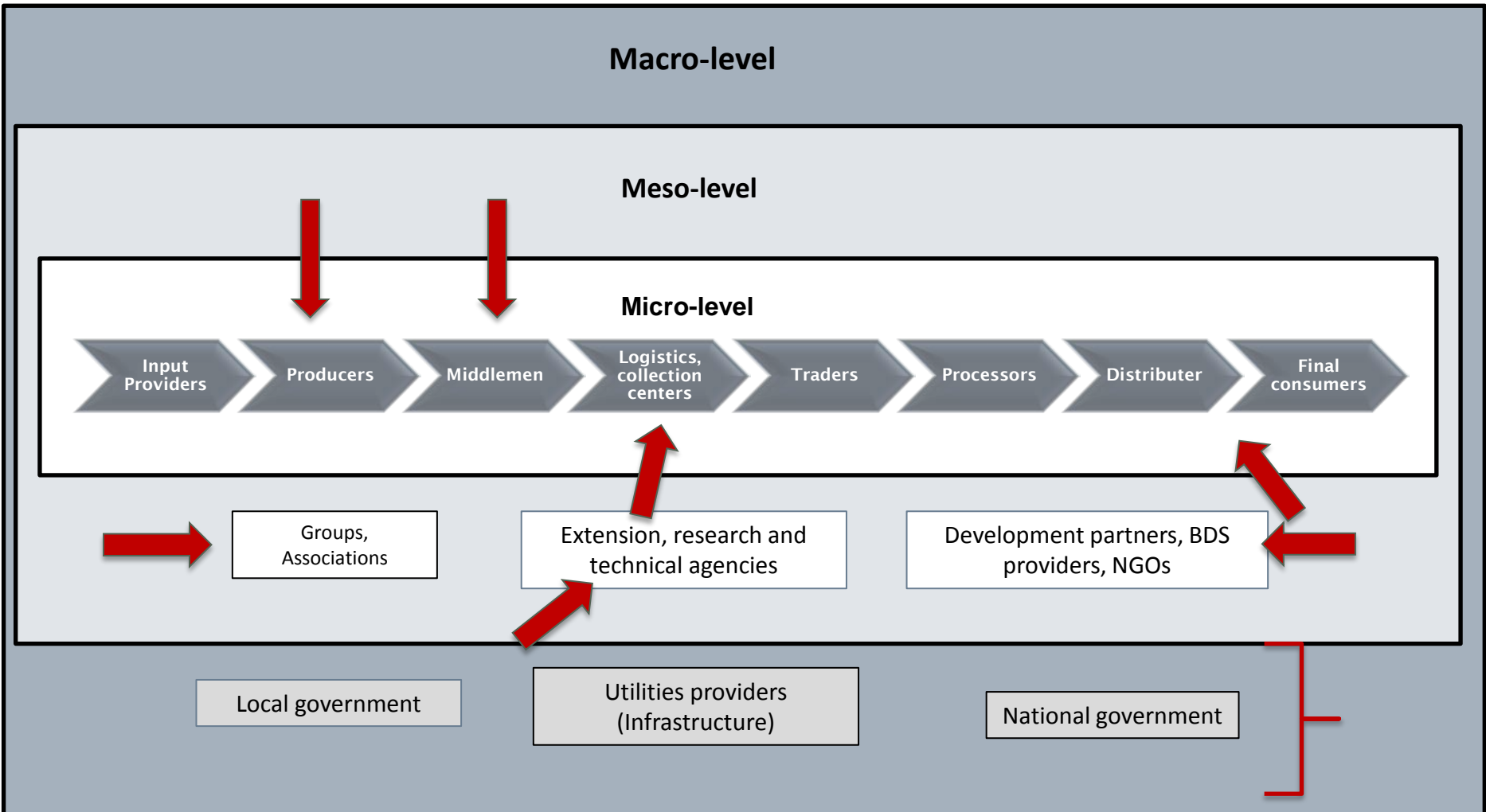


# VALUE CHAIN ANALYSIS

## Value vs. Supply Chains

- ▶ VC include all vertically linked, interdependent processes that generate value for the consumer, and linkages to other VC that provide intermediate goods and services
- ▶ VC focus on value creation—typically via innovation in products or processes, marketing—and on allocation of incremental value
- ▶ **Supply chain:** every logistical and procedural activity involved in producing and delivering a final product or service (Feller, Shunk, and Callarman 2006)
- ▶ Primary focus is efficiency, so main objectives are to reduce “friction” (delays, blockages, or imbalances), overstocks, lower transaction costs, and improve customer satisfaction

# VALUE CHAIN COMPLEXITY



# VALUE CHAIN ANALYSIS

## Main Considerations

- ▶ Value chain analysis considers the following questions (SNV 2004):
  - What are the target markets?
  - What are the pathways from source to each end-market?
  - What are the VC's comparative advantages?
  - How does market value rise as the product moves along?
  - Who are the most important actors and how do they behave?
  - Is trust and cooperation evident at each step in the chain?
  - Where are the apparent bottlenecks in the VC?
  - How is the VC governed, and who holds power?
  - What factors in the enabling environment hinder or support chain growth and prosperity?
  - What is the potential for improving or upgrading ?

# VALUE CHAIN GOVERNANCE

- ▶ By definition → The ability to exert control along chain for a particular purpose
- ▶ Firms, organizations or institutions set and enforce parameters under which others in the chain operate
- ▶ Key parameters that are being enforced are (Humphrey, 2005):
  - ▶ What is to be produced? This includes product design and specifications.
  - ▶ How it is to be produced? This involves the definition of the production processes, which can include elements such as the technology to be used, quality systems, product, labor and environmental standards.
  - ▶ How much is to be produced, and when? This refers to production scheduling and logistics.

# VALUE CHAIN GOVERNANCE

- ▶ The instruments of governance include among others:
  - ▶ Contracts between value chain actors
  - ▶ Standards for products and processes
  - ▶ Management of producer organizations
  - ▶ Government regulatory frameworks
  - ▶ Unwritten norms that determine who can participate in a market
- ▶ Can governance system contribute to sustained benefits of smallholders and how can it contribute to upgrading their position in a value chain?
- ▶ It's important to understand potentials and constraints that governance structures have for economically and socially disadvantaged producers



# VALUE CHAIN GOVERNANCE

## Guiding Questions to Assess Poor Producers' Benefits and Risks

- ▶ Do poor producers have the opportunity to enter the value chain?
- ▶ Does the governance system provide incentives for the lead firm to offer support services to poor producers?
- ▶ Does the lead firm have an incentive to invest in building trust relationships with poor producers?
- ▶ Do transparent rules and/or standards apply to poor producers?
- ▶ How likely is a fair pricing structure?
- ▶ How much certainty do poor producers face in their business relationships?

# SUCCESS EXAMPLE: TOMATO IN TANZANIA

- ▶ Small-scale tomato farmers in Iringa (southern Tanzania) faced a number of obstacles to earning higher incomes
- ▶ On their own, poor bargaining power
- ▶ Typically sold to informal market for low prices
- ▶ Sustainable Horticulture for Income and Food Security in Tanzania (SHIFT) program and TechnoServe → incomes of 9,000 smallholder farmers should double by connecting them to better markets and boosting their productivity
- ▶ Business advisors explained how farmers could benefit by selling their produce together through a business group
- ▶ In March 2010, the Mlamke Producer Business Group formed

# SUCCESS EXAMPLE: TOMATO IN TANZANIA

- ▶ Nearly 50 members received training on tomato production, basic business skills
- ▶ Set up market collection point where they can bring tomatoes to be sold in bulk
- ▶ Total of 15 collection points in three regions built
- ▶ Business groups enable farmers able to sell their produce in bulk, connect to better markets and realize more of the crop's value
- ▶ Business groups offer possibility to improve farming skills through training and demonstration plots
- ▶ Members better able to access critical inputs and services such as seeds, fertilizers, irrigation systems and credit



Source: TechnoServe, 2013

# VALUE CHAIN ANALYSIS

## Final Thoughts

- ▶ Although VC analysis is useful, it's important to understand market dynamics, competitive forces, and the operational environment that can affect the value chain's performance and growth
- ▶ Interventions to build competitiveness and improve VC performance should NOT attempt to make quick, comprehensive improvements throughout an entire value chain
- ▶ Rather, they should target **priority elements** for improvement