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By - Debbie Furber

Life In A Value Chain



Martin Gooch

By the late 1990s, Canadian beef producers had begun to see the merit of value chains, which gave rise to producer-led initiatives such as Highland/ Spring Creek Premium Beef and Diamond Willow Organic Beef in Alberta, **Atlantic Tender Beef/Atlantic Beef Products** in the Maritimes, and **Ontario Corn Fed Beef** and Field Gate Organics in Ontario.

Efforts on the part of beef producers to establish value chains escalated in the midst of trade issues brought about by the discovery of BSE in the Canadian herd in 2003. Prairie Heritage Beef and Canada Gold Beef headquartered in Alberta, along with Clear Creek Organics based in Saskatchewan, are three producer-led companies that grew out of that precarious time.

It can take a tremendous amount of time, energy and resources to bring a value chain into existence. Unfortunately, most chains fold within one to three years, according to Martin Gooch, director of the Value Chain Management Centre with the George Morris Centre in Guelph, Ont.

So, what does it take to keep a value chain going? Will the improvement in commodity prices encourage the creation of value chains or draw partners away from them? CANADIAN CATTLEMEN talked with some professionals and producers involved in value chains to find out.

Realistic expectations

Phil Ferraro, executive director of the P.E.I. Adapt Council, says the perception of what a value chain is and its purpose is one of the greatest challenges he encounters when working with groups. “With the old way, there may have been the expectation of a better price, but today it’s about what consumers want,” he says. “Enhancing the value of your product in the eye of the consumer may return a better price, or it may secure a market or increase sales volumes because

you've developed relationships, built trust or have a mechanism for problem solving or innovation.”

Margurite Thiessen, value chain specialist with Alberta Agriculture and Rural Development (ARD), says the desire to attain a positive return on investment is an important motivator; however, wanting a premium isn't a trigger in itself. The fundamental reasons for wanting to form a value chain are to realize cost savings, improve efficiencies, product innovation, or to gain a greater degree of control over product quality, value or marketing.

In agriculture there is a fixation on price and production, but at the end of the day, it's profit that counts, says Gooch. The benefit he most often sees in successful chains is the ability to improve profitability by reducing production and business costs, sometimes quite dramatically. The revenue-generating potential of a value chain comes from the ability to innovate quickly and profitably, to target new markets where the chain has potential to be No. 1 and to develop long-term shared strategies for financial sustainability.

The bottom line is that an expectation of improving profitability is reasonable; generating a premium for your product is a bonus.

Passionate partners

The Alberta value chain guide (available at www.valuechain.alberta.ca

outlines some of the risks people should consider when assessing whether committing to a value chain is truly the best approach for their own business. Since many business activities and decisions are shared, partners will have to give up a degree of control and be more flexible in their individual business affairs. Not only could it take more time to arrive at decisions, but decisions made by the value chain will have implications for the individual enterprises and vice versa. Sharing of proprietary information or expertise may also be necessary.

“Potential partners really need to think about what value they could contribute to the alliance and whether what they are doing as individual businesses at the moment is the best way to add value for the consumer, Gooch adds. “In the cold light of day, you also need to honestly ask yourself why someone would want to partner with you, rather than with a hundred others.

“Just because a person is interested in belonging to a value chain isn't enough. The person has to have a driving desire to be part of the chain,” he says. “You don't necessarily need a lot of people, but you do need people with the right attitude — the willingness to learn and to adapt to the concept of creating value through innovation rather than by increasing output.

Successful value chains find ways to promote the right attitude among their members. All partners share the benefits as well as the risks. Planning, decision-making, problem solving and conflict resolution are joint efforts. The value chain as a whole is able to address the role of each partner, how the performance of the chain and each partner will be measured, and how each will be rewarded.

Return on investment might be an incentive for the chain but when you link it back to the individual partners the incentives might be about decreasing death loss, improving breeding targets or the break-even point for the herd. For the processor, it might be increased sales or efficiency. The key is to ensure the incentives can be measured and controlled in a way that keeps everyone motivated to continually improve.

To measure performance all partners must be willing to collect and share information. Equally as important, Gooch says, it lays the foundation for motivating people to remain committed to the chain by showing what the chain has achieved and how it benefits each player.

Fold Or Flourish

Researchers who have studied value chains indicate that the reason they fail boils down to a small number of recurring factors. Gooch says they are usually missing one of the key requirements for success — effective governance, shared vision and strategy, mutual respect, leadership, compatible culture, collaboration, commitment, a win-win orientation; or a mindset suited to maintaining strong relationships.

To be successful, a value chain must create meaningful value for which consumers are willing to pay, position the value correctly in the marketplace, communicate how value will be consistently delivered to customers, and do it within a system that can't be easily duplicated.

To survive, the chain has to be proactive about creating a learning environment, developing the capacity to recognize the value of new information, understand how to assimilate it, and use the knowledge to the chain's competitive advantage in an ever-changing business environment that presents new challenges at every turn.

For more on this topic visit www.valuechain.alberta.ca and www.valuechains.ca

Two of our clients are the main examples.