

Theories of Value Chains

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Presentation Outline

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Introduction

The concept of a 'Value Chain' was first introduced by Michael Porter in his 1985 best-seller, *'Competitive Advantage: Creating and Sustaining Superior Performance'*.

Introduction

Back then the focus was on creating a competitive advantage for the firm or organization in an attempt to achieve superior performance.

The next slide provides an indication of what a value chain looked like then.

Introduction



Introduction

Since then the concept of a 'Value Chain' has been extended and the methodology used for diverse purposes, such as, gender and development, pro-poor development, and market access for small holders to mention a few. Also the number of manuals published have proliferated.

VC Manuals

MANUALS	ORGANIZATION
5 Capitals: A Tool for Assessing the Poverty Impacts of Value Chain Development, Donoavan and Stoian (2012)	CATIE
Making Value Chains Work Better for the Poor toolbox for practitioners of value chain analysis,(M4P, 2008)	DIFID
Value Chain Development for Decent Work: A guide for development practitioners, government and private sector initiatives	ILO

Value Chain Definitions

A value chain is a high-level model developed by Michael Porter used to describe the process by which businesses receive raw materials, add value to the raw materials through various processes to create a finished product, and then sell that end product to customers.

Value Chain Definitions

Interlinked value adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage. A value chain typically consists of inbound logistics, manufacturing operations, outbound logistics, marketing and selling, and after sale service. These activities are supported by procurement, research and development, human resource management and corporate infrastructure.

Value Chain Definitions

A value chain refers to all activities, from receipt of raw materials to post-sales support, that together create and increase the value of a product.

Value Chain Definitions

A Value chain refers to “effort to strengthen mutually beneficial linkages among firms so that they work together to take advantage of market opportunities, that is, to create and build trust among value chain participants.”

Theories of Value Chains

The theories of value chains can be grouped in different ways.

One suggestion is as follows:

- (1) Strategic positioning**
- (2) Vertical integration**
- (3) Internal and external forces affecting the value chain**

Strategic Positioning

Strategic positioning reflects a company's choices about the kind of value it will create and deliver differently from its rivals in the industry.

Strategic Positioning

So strategic positioning of an organization includes devising the desired future position of the organization on the basis of present and foreseeable developments, and the making of plans to realize that positioning.

Strategic Positioning

Various questions must be asked with strategic positioning:

- **How does the future look like?**
- **How could the organization be roughly positioned in the future?**
- **How are things in the organization at present?**
- **How can opportunities be seized and how can threats be met?**
- **How can this be put into practice in a systematic way?**

Strategic Positioning

Michael Porter suggested that strategic positioning should translate into one of two things: a premium price (differentiation) or lower costs for the company.

Strategic Positioning

Michael Porter suggested three generic strategic strategies:

(1) overall cost leadership

(2) differentiation

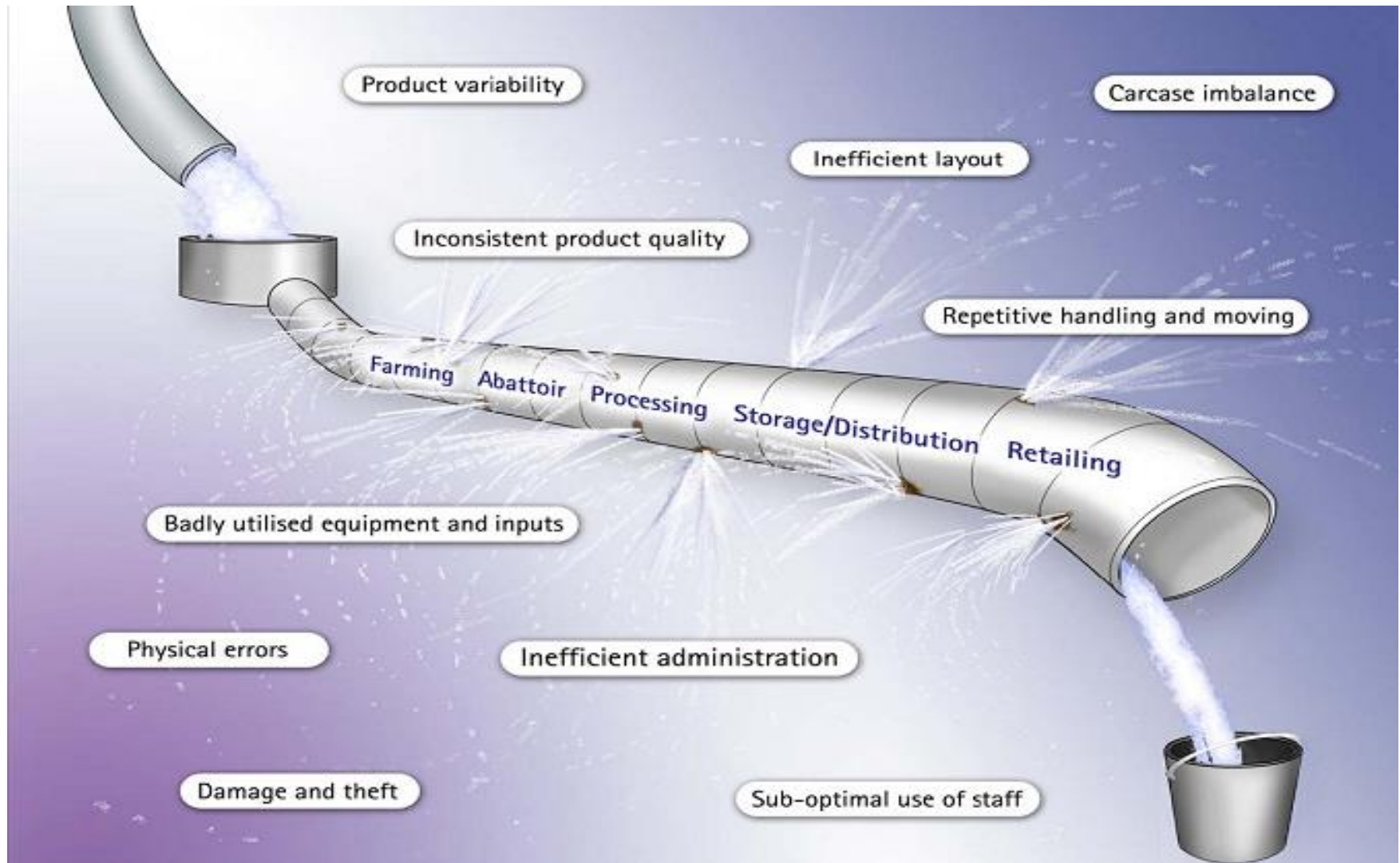
(3) focus

Cost leadership

Cost leadership requires developing policies to be the lowest cost producer in the industry:

- **efficient-scale facilities;**
- **minimization of waste;**
- **minimization of equipment downtime;**
- **minimum reworking etc.**

Identifying looses in a chain



Cost leadership

When cost leadership becomes the focus of the firm quality and service etc. cannot be ignored.

Cost leadership was a major driver in supply chain management.

Differentiation

Differentiation in a nutshell is creating something that is perceived industrywide as being unique.

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.

Differentiation

Differentiation can be achieved in many ways, for example by design or by image.

Vertical Integration

Vertical integration is the merging together of two or more businesses that are at different stages of production. The motivation for working together is that greater synergy can be obtained than if the businesses work independently.

Vertical Integration

Synergy, getting more value from the chain than the sum of the parts, individual businesses.

The essence of Value Chain Management (VCM) is that through closely aligning their individual operations, organizations can focus their combined resources on producing a final good that meets demand of the end market better than the competition.

Vertical Integration

Some argue that the individual businesses do not have to be merged, but rather must have seamless linkages between them.

Vertical Integration

Linkages are the means by which the interdependent elements of the value chain are joined together. The linkages are about seamless cooperation and information flow between the value chain participants.

Levels of Collaboration

Spectrum of collaboration

Low

High



Types of Value Chain

Fragmented Value Chain

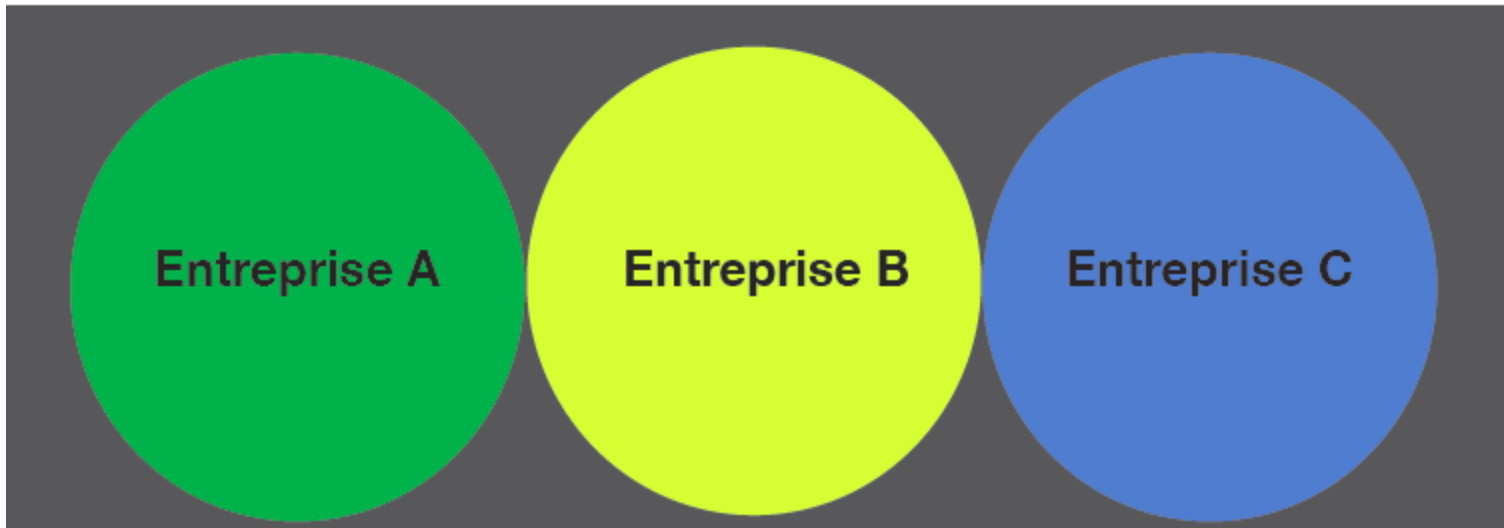


Fragmented Value Chain

Businesses operate in the traditional open spot market approach.

Types of Value Chain

Cooperative Value Chain

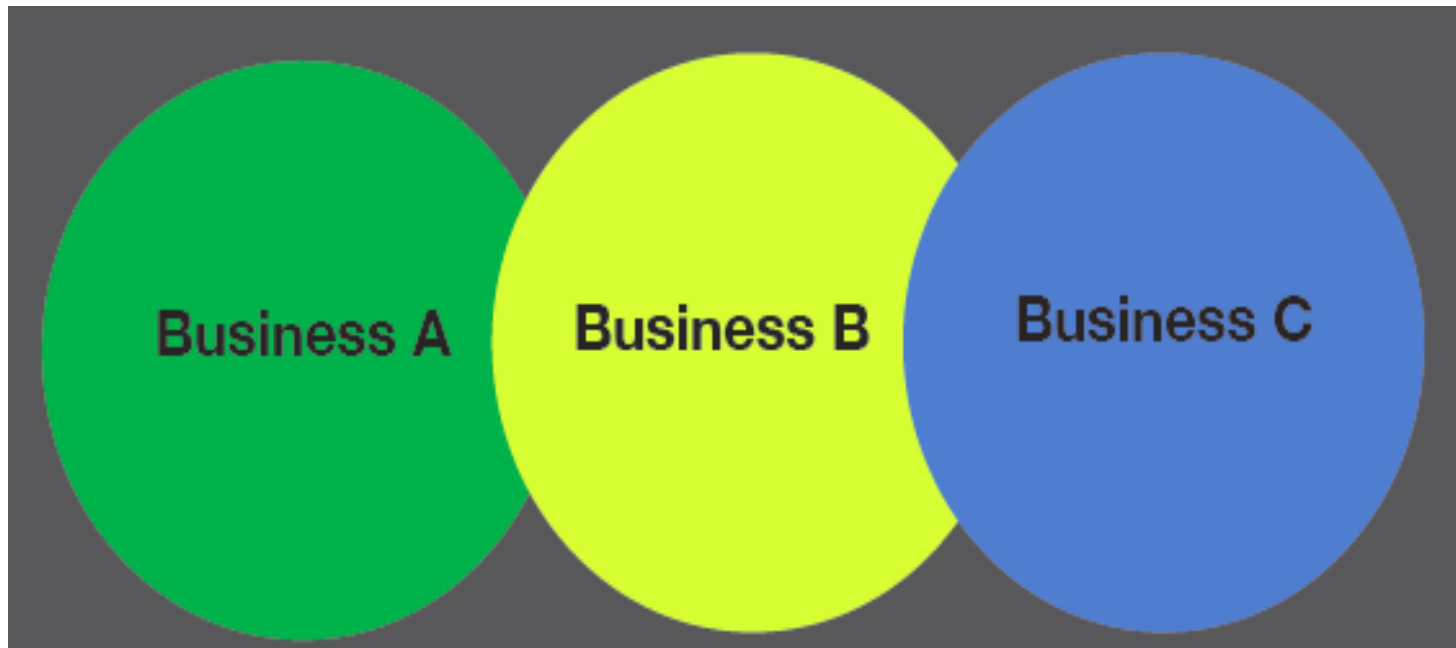


Cooperative Value Chain

Businesses understand how and why they can benefit from cooperating with one another and operate some short to medium term relationships.

Types of Value Chain

Coordinated Value Chain

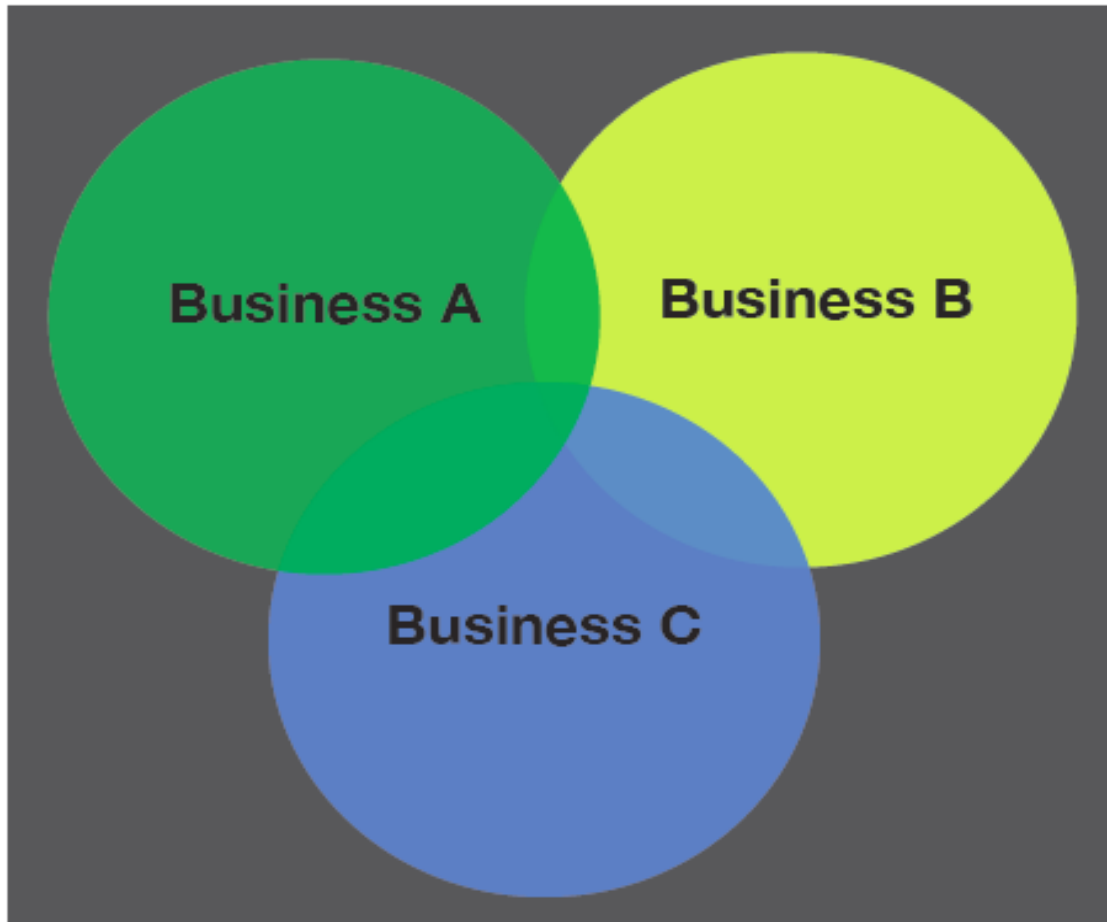


Coordinated Value Chain

Businesses with complementary attitudes, cultures etc. understand how and why they can benefit from cooperating with one another and operate medium term relationships.

Types of Value Chain

Collaborative Value Chain



Collaborative Value Chain

Businesses engage in longer-term strategic arrangements that involve sharing resources and possibly joint investments to achieve a desired outcome.

Question

Based on the brief overview of the different types of value chains, which one you think best describes your country presentation?

Critical success factors for VCs

- 1. Share a clear vision and common goals**
- 2. Possess capabilities to create value**
- 3. Have a culture that supports cooperation and learning**
- 4. Have compatible partners**
- 5. Proactively manage the relationship**
- 6. Regularly evaluate and report**
- 7. Continually adjust to changing circumstances**

Conclusion

There must be something good in value chains if the concept can be so widely applied and so many different disciplines can find the methodology useful.

Question

How are we in the Caribbean going to use this concept to improve the performance of the fisheries sector in the various member states?

References

Michael Porter, 1985: *Competitive Advantage: Creating and Sustaining Superior Performance.*

Value Chain Management Centre of the George Morris Centre for the Canadian Agri-Food Policy Institute, 2012: Characterizing the Determinants of Successful Value Chains.

References

Martin Gooch, 2005: Drivers, Benefits and Critical Success Factors of Developing Closely-Aligned Agri-Food Value Chains

Scrawling

“Theory has little value unless it can be successfully translated into everyday execution”

Scrawled on an easel in January 1983 by Steve Jobs, this message was directed at his Apple team who were months overdue on launching the first Macintosh computer.

The End

Thank you