**ValueLinks** Module 3

**Value chain strategies**

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**ValueLinks 2.0**

1. Setting boundaries
   - Scope of value chain development
2. Chain analysis and strategy
   - Value chain analysis
3. Value chain strategies
4. Programs and projects
5. VC upgrading solutions
   - Business models
   - Business linkages
   - Services
   - VC Financing
6. Quality and standards
7. Policy instruments

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**Solutions for improving the value chain**

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**Managing data & monitoring**
**Three types of strategic considerations**

**Strategic considerations for economic growth**
- What are drivers and trends of market change?
- How competitive is the value chain?
- Why has the economic potential not yet been realized? What are the factors behind patterns of stagnation and market failures?

**Strategic considerations for pro-poor growth**
- Under what conditions can poor people benefit from growth and be included at favorable terms – and in which roles?
- How does economic development interact with livelihoods, food security, the position of women and the social fabric in general? What precautions need to be taken to safeguard vulnerable groups?

**Strategic considerations for environmental sustainability**
- Can the value chain keep going in the face of absolute resource limits – where are these and who should bear the cost of adjustment?
- Which direction should greening take – which possible gains in resource efficiency should get priority?

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**Value chain development strategy**

**Contents**

1. Strategic considerations for economic growth
2. Strategic considerations for environmental sustainability
3. Strategic considerations for social inclusion
4. Elaborating a VC development strategy
Directions for chain upgrading

The growth strategy depends on...

... the market situation

<table>
<thead>
<tr>
<th>Strong market growth</th>
<th>Saturated market</th>
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</thead>
</table>

... the competitive advantage of the value chain

| Low cost of production | Unique, high quality product |

go for increasing ...

Volume ↑ * Price ↑

Strategic options in terms of markets/products

The Ansoff product / market matrix

<table>
<thead>
<tr>
<th>Current Products</th>
<th>New Products</th>
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<tbody>
<tr>
<td>Current Markets</td>
<td>New Products</td>
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<tr>
<td>Market Penetration Strategy</td>
<td>Product Development Strategy</td>
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<td>New Markets</td>
<td>Market development Strategy</td>
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<td>Diversification Strategy</td>
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</table>
Checklist to identify market failures

<table>
<thead>
<tr>
<th>Market failure</th>
<th>Examples</th>
<th>Impact on VC development</th>
</tr>
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</table>
| **Indivisibility of capital goods and technical processes** | - Fixed size of a container that has to be filled by the supplier  
- Minimum investment required to build up telecommunication and energy supply is not profitable at remote locations | - Small producers cannot sell to buyers because they don’t have enough volume to fill a container at one time  
- No access to basic utilities |
| **Natural monopolies** | | |
| **Asymmetric information** | - Imperfect information on market prices, absence of grades and standards | - Enterprises as well as consumers refrain from buying products they need but cannot trust |
| **Non-existent property rights, inability access to & services** | - Fixed investment in land (e.g. plantations) may get lost if land tenure and property rights on buildings cannot be enforced | - Farmers refrain from investing into their land |
| **Monopolistic behavior** | - Concentration / excessive buyer power of traders in a region | - Unfavorable contracts |
| **Insufficient or missing public goods** | - Inadequate public infrastructure (roads) and absence of social services | - Enterprises without access to basic infrastructure and public services |
| **Negative external effects** | - Leather tanneries and carpet manufacturers polluting fresh water | - Adjacent food producers have higher cost or are driven out of business |

Strategic directions for economic growth

**Strategic considerations for growth**

- Assess the drivers and trends of market change
- Assess the competitive advantages of the VC
- Identify market and government failures

- Assess current VC against requirements and benchmarks
- Value Chain upgrading and innovation
- “Making markets work”
1. **Strategic option 1: “VC upgrading & innovation”**

   ![Diagram of value chain development strategy]

2. **Value chain development strategy**

   **Contents**
   - Strategic considerations for economic growth
   - Strategic considerations for environmental sustainability
   - Strategic considerations for social inclusion
   - Elaborating a VC development strategy
The idea of a “circular economy”

“Greening “ the value chain

- Reduce inputs
- Process
- Reduce inputs
- Process
- Reduce inputs
- Process
- Consumption

Local ecosystem
Local ecosystem
Local ecosystem
Local ecosystem
By-products / “waste to value”

Strategic considerations for the environment

Assessing the environmental hot spots...
- Stop producing, move to other VC
- Transition to a “green” VC
- Economic and environmental interests converge
- Economic and environmental interests in conflict
- Need to secure the ecological and resource base of the VC
- Business opportunities in VC greening
- Improving resource efficiency (energy, water, material, waste disposal)
- Environmental policy / regulation
- Management of natural resources & the ecology
**Strategic option 4: “Resource efficiency”**

*Strategy to enhance the resource efficiency of the VC*

1. **Reduce material & energy input**
2. **Use resources efficiently**
3. **Cost ↓**
4. **Value ↑**

**Diagram:**
- **Producer 1** → **Producer 2** → **Trader** → **Markets**
- **Recycle**
- **Waste processor**
- **Re-use byproducts: “waste to value”**

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Strategic considerations for pro-poor growth

Assessing poor producers and workers in the value chain

- Nexus VC / Livelihoods & nutrition
- Constraints to competitiveness of poor producers and workers versus: Opportunities to build on
- Competition situation & markets

- Complementary social strategies
- Promoting specific business models benefiting poor producers and workers
- Defensive interventions and regulation

- Basic education, nutrition & health programs
- Marketing
- Logistics
- Basic education, inputs
- Farm management / Improved small-scale business models
- Terms of contract contract production, outgrower schemes

Strategic option 6: “Business models for the poor”

Bigger share of chain income

Providers of Specific inputs → Primary producers → Logistics centres, Industry → Trader Retailers → Final consumers

- Associations Negotiation power, Economies of scale
- Farm management / Improved small-scale business models
- Terms of contract contract production, outgrower schemes

- Production → Processing 1 → Processing 2 → Trade
- Uptake of processing functions value added stays with producers
- Direct Marketing
Matrix of systemic competitiveness

Analysis of economic opportunities of women in the value chain

Strong points/opportunities for improving the role of women in the VC

Weak points/constraints of improving the role of women in the VC

Meta level
Social and cultural values regarding the role of women entrepreneurs and women employment

Macro level
Macro-economic and political environment of women entrepreneurs and women employment, e.g. legislation

Meso level
Access to support/training institutions and credit, business networks promotion strategies for women entrepreneurs,

Micro level
Business activities, skills, knowledge, enterprise structure, education of women

Value chain development strategy

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Strategic options for sustainable VC development

9 strategic options...

- (1) Value chain upgrading and innovation
- (2) Addressing market failure - making markets work
- (3) Management of local ecosystems
- (4) Improving natural resource efficiency
- (5) Environmental regulations
- (6) Business models benefitting the poor
- (7) Regulation and social policies in defense of the poor
- (8) "Gendered" VC development projects
- (9) Economic empowerment of women and young people

...that may be combined

From vision to action

Steps so far...

- Strategic considerations have led to options for VC development
- The needs for change have been clarified

... and how it continues:

- Strategic synthesis and formulation of a "vision for the VC"
- Formation of a strategy defining what has to change in the VC.

- Every development project has to define its own objective – contributing to a shared VCD vision in line with its role, mandate and resources
- …choosing the particular VCD solutions to support, programming concrete action and moving on to implementation
**Example: Furniture in Peru**

- **Timber harvesting**
- **Transport & Processing**
- **Wood trade**
- **Furniture making**
- **Furniture trade**

- FSC certifiers operate locally
- Sustainable extraction technology available
- Certifiable forest area is available
- No price premium paid for certified wood
- No classification of certified wood
- Forestry is local
- Technology available
- Market for outdoor furniture
- High demand for FSC certified wood

- Local & regional authorities
- National Institute of Natural Resources
- Forest concessions not supervised adequately
- Vision: Developing the US market for outdoor furniture made in Peru of FSC certified tropical wood

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**Goals of VC development**

**Template of a “vision” for value chain development**

- **Value added of the VC** (= prices obtained and/or volumes sold)
  - for the product (specify type, quality, etc.)
  - increased by ... $\in$ the year ... (5 years from now)

- while increasing income of poverty groups (in $\$/year, specify)
- Creating jobs for poor underemployed (numbers of jobs)

- improving water and energy and material use efficiency
- preserving the ecosystem upon which the VC relies
Assessing needs & constraints

Implementation Process:

1. Value chain analysis
2. Strategic considerations
3. Formulating a vision
4. Assessing needs & constraints

Implementation Process: Project 1

- Decision on scope of VCD project depending on resources, time, etc.
- Review analyses, considerations & vision formulate project objective
- Choice of upgrading solution & activity planning
- Project implementation

Implementation Process: Project 2

- Decision on scope of VCD project depending on resources, time, etc.
- Review analyses, considerations & vision formulate project objective
- Choice of upgrading solution & activity planning
- Project implementation

Summary: Main lessons to remember

- ValueLinks provides a number of arguments and considerations addressing the goal dimensions of sustainable value chain development – economic growth, environmental sustainability, social benefits and gender equity.

- The strategic considerations can be summarized into 9 major “strategic options”

- Strategy formation for developing the VC at large leads to a “vision”, that should be shared by as many VC actors as possible, that is realistic and respects the systemic nature of economic change. Not all strategic options can (or have to) be addressed at once.

- Based on this vision, every VCD program and project contributes to VC development according to its mandate, resources and available time and can focus on a particular strategic option and value chain solution.