Agribusiness Incubation
Component 2 – Value Chain Basics
Component 2:

VALUE CHAIN BASICS
Learning Objectives

You will be able to:

• Identify key elements of agribusiness supply chains and how they are transformed to value chains

• Show where your incubator intersects with the value chain

• Identify priority strategic actions to strengthen your incubator’s present and near future influence on value chains
What is a Value Chain?

• The successive stages during which value is created when producing, distributing, and servicing a product.

• Value chain integrators make decisions for and provide decision support to all other participants in a value chain.
WARM-UP Activity (15 minutes)

• Sketch a map of the agribusiness value chain their incubator is engaged with (individual activity, 5 min.)

• Share briefly with a partner (5 min.)

• When invited, offer brief feedback to Trainer (5 min.)
Global Trends Affect Value Chains

1. More affluent, discerning, and cautious global consumer
   a. Increasing concern for the environment
   b. Increasing demand for organic products
   c. Increasing concern for food safety and quality

2. Global processed food trade is growing faster than primary products

3. Large food retailers controlling an increasing share of global food sales

4. Concentration and consolidation in the global food industry both in inputs and output

5. Global food industry organized into competitive value chains

6. FDI in agrifood sector or developing countries increasing
1. Agribusiness Value Chains

Agribusiness value chains are forms of industrial organization, which link: (a) suppliers of inputs to farmers; (b) farmers to agribusinesses, and (c) agribusinesses to markets.

Value chains synchronize the starting, stopping, pacing and quality relevant performance of distinct business processes which take place within chains.
Value chain development entails the following discrete steps:

- Selection of qualified trading partners
- Diagnosis of missing economies of scale and/or of scope within the legacy chain (the chain incubatees have inherited from the business ecosystem)
- Identification of appropriate technologies and industrial organizational structures to remedy competitive weaknesses and to capture missing economies of scale
- Build out of chain infrastructure which is commonly accessible
- Adoption of quick decision support capabilities within the chain
- Adoption of appropriate chain linking technology
Agribusiness value chains facilitate the flow of products, credits, and information from farm to market.
Value Chains & Supply Chains

**Similarities:**

- Both chains overlay the same network of companies.
- Both are made up of companies that interact to provide goods and services.

**Differences:**

- Supply chains refer to the downstream flow of goods and supplies from the source to the customer.
- Value chains flow the other way. The customer is the source of value, and value flows from the customer, in the form of demand, to the supplier.
Combining (integrating) value chains increases possibility for product and service differentiation

Animal Feed Milling + Chicken Production = Export Competitive Poultry Cluster
2. Transforming Value Chains

- Extend the value chain backwards
- Achieve breakthrough improvements in the core value chain functions
- Develop forecasting methods and systems to balance demand and supply more precisely
- Develop a sophisticated inventory replenishment and shipment scheduling capability
- Harmonize grades and standards, trading protocols, process interfaces and information systems
- Develop an integrated value chain development strategy
- Test Alternative Distribution Channels / Invest in new retail services
- Extend the value chain forwards

Original Value Chain

- Core Vendors
- Supplier's Supplier
- Suppliers
- Procure
- Produce
- Process
- Product Distribution
- Market
- Customers
- Customer's Customer
- Distribution Channel
ACTIVITY - Broadening Value Chains (10 Minutes)

Consider your value chain map to see opportunities to add value (create transformations) along the value chain. Make brief notes on your map on two or three you might want to pursue.

You may work with a partner if you wish. (5 min)

When invited, offer brief examples to Trainer (5 min)
Strengthening agribusiness value chains begins with benchmarking the cost performance of chains being championed against competing value chains.

Integrators, therefore, are involved identifying technology that is more appropriate and business processes that are more integrated.
The Shifting Agribusiness Development Agenda

BEFORE VALUE CHAINS

♦ Economies of Scale in Production and Food Processing
♦ Weak Commercial Linkages
♦ Supply Push
♦ Primary Risks Relates to Price
♦ Limited Opportunities for Product or Market Differentiation
♦ Limited Opportunities for Managing or Selling Risk
♦ Limited Set of Investment Quality Asset Classes
♦ Limited Opportunities for Partnering and Risk Sharing

AFTER VALUE CHAINS

♦ Network Economies from Control Systems and Process Integration
♦ Strong Commercial Linkages
♦ Demand Pull
♦ Primary Risks Relate to Meeting Customer Expectations
♦ Extended Opportunities for Service, Quality and Network Differentiation.
♦ Extended Opportunities for Managing or Selling Risk
♦ Extended Set of Investment Quality Asset Classes
♦ Extended Opportunities for Partnering and Risk Sharing
Value Chain Integration Entails:

1. Trading Partner Selection
2. Building Commonly Accessible Chain Infrastructure
3. Flexible but Fair Chain Governance
4. Technology Selection
Integration of SME with Value Chains

Integration is a way to be part and to benefit from participation in value chain is constrained by:

- Low capacity to upgrade processes, products, functions
- Economies of size, scale, and scope
- Finance
- Lack of cooperation to achieve collective efficiency
Value chain development can have a positive influence on poor people’s livelihood in different ways:

- Generating employment
- Providing adequate working conditions
- Increasing or securing the poor’s assets
- Investment in infrastructure and technology
- Developing human capital
- Providing adequate, affordable goods and services
- Fostering a sustainable natural environment
Role of Development Agencies

- Focusing on the integration of smallholders and poor into value chains within the context of a changing global food industry

- Finding mechanisms to execute this integration in an effective and efficient way – Agribusiness Incubators?
A Value Chain Intervention

Value Chain Interventions by Fundacion Jalisco

Investment in VitalBerry

CROPS

Farmers

Nursery

Technical Training

INPUTS

Food Processing

FOODS

Marketing & Distribution

Investment in Nursery

Training & TA
Intervening in the Cut Flower Value Chain

Value Chain Interventions by Timbali Incubator

PRODUCTS

MARKETS

CROPs

INPUTS

Nursery

Training & TA

Investment in Nursery

Line of Credit

Creation of Brand

WWW.INFODEV.ORG I WWW.IDISC.NET
Millennium Maize Mills

The Millennium Mills Franchise Concept: the right mix of standardization and tailored solutions for female milling entrepreneurs

Goal:
- Over 120 new female milling franchisees established over a period of 5 years, in three provinces (Nampula, Zambezia and Niassa)
- Each franchisee has its own combination of technologies based on their personal situation and market related opportunities
- Franchisees are supported by franchisor who provides business and technical know-how, as well as small-scale financing for franchisees

TechnoServe (Mozambique)
Jake Walter
Public Policy Requirements - A Supportive Business Environment

Facilitate Risk Management
1. Market Information
2. Minimize Market Interventions
3. Regulate Risk Management Instruments

Vision and Policy Alignment
1. Facilitate Tech Transfer
2. Incentives for Experimentation
3. Product Standard Certification
4. Trade Facilitation
5. Intellectual Property Protection

Value Chain Integrators

Farm Level Organizations

Financial Institutions

Open Market Entry
1. Farm land and water ownership
2. Financial Services
3. Foreign Direct Investment

Strict Enforcement of Contracts
1. Secure Collateral
2. Assure Repayment
3. Abide by Trade Agreements
ACTIVITY - Strengthening and Intervening in Agribusiness Value Chains (30 min)

♦ Add notes to your maps on how to strengthen at least one value chain (5 min)

♦ With a partner, discuss the following three questions and make notes on Value Chain Maps: (15 min)
  o What is the most promising intervention point in the value chain you can make?
  o What action is needed at the intervention point?
  o What action(s) can you do immediately to begin the intervention and strengthening process?

♦ When invited, offer brief examples to trainer (10 min)
SUMMARY - Component Two

♦ Incubators can and often do operate in lieu of missing markets to create new enterprises whose value adding function is to link rural and urban economies.

♦ Supply chain integrators create value by reducing transaction costs associated with moving products between rural and urban economies. The kind of competition, which they are most effective in enhancing, is cost based.

♦ Value chain integrators create value by creating new products and services or by selling established products and services into new markets. The kind of competition which they are most effective in enhancing is value added based.
SUMMARY - Component Two

- Benchmarking and process reengineering are valuable tools for enhancing the competitiveness of value chains.

- Combining value chains, transformation a product orientation into a service orientation and the development saleable service platforms are valuable tools for enhancing the competitiveness of value chains.

- Discovering partners, building networks and ultimately developing agribusiness clusters are important tasks, which incubators need to take up on day one of their operations.
LUNCH

GO FEED YOUR NETWORK!!
Stay Tuned!

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