Workflow: Demand and Supply

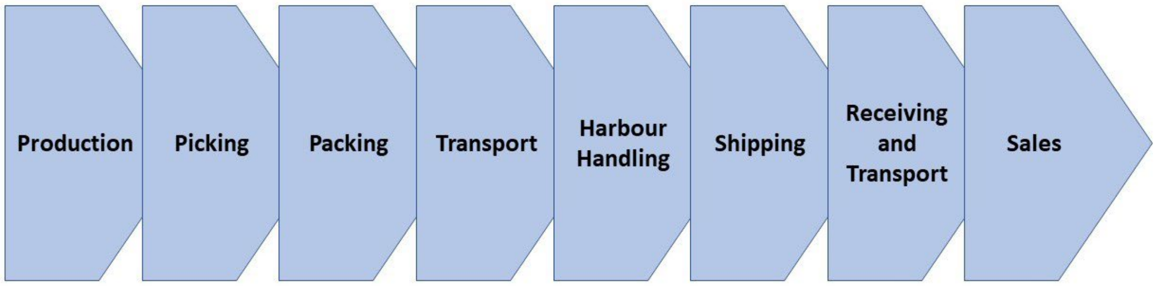
Toolkit 2.1
Value Chain Alignment

target audience

Leadership teams, marketing agents, and contractors.

what it is

Below is an example of a citrus supply chain.



Citrus Supply Chain

A supply chain represents the sequence of activities required to satisfy customer demand. In a citrus environment, this will include all farming activities, from the decision to establish an orchard, producing the product on the farm, harvesting, packhouse operations, distribution planning, distribution, shipping, and delivery to a customer. A value chain does the same, but with emphasis on a specific customer grouping with a specific definition of "value". The requirements of the value chain (perceived value) will determine how the elements of the supply chain are used and aligned to create customer value.

A value chain can be described as a set of activities that a business operating in a specific industry performs to deliver a valuable product (i.e., goods and/or services) for the market. The concept was first described by Michael Porter in his 1985 best-seller, *Competitive Advantage: Creating and Sustaining Superior Performance* (Academic conference: LCAXVI 2016). Porter explains that companies need a clear strategy if they want to be successful and make a profit in a competitive environment. For example, should you offer a unique product to a specific market, or should you offer the cheapest price to all potential customers?

Aligning of the elements of the value chain will enable the value chain to deliver against the customer promise (requirement). For example, if a value chain requires a specific cultivar specifying size and sugar content, it will affect:

- Pruning and other flower and crop manipulation activities to regulate size.

- Timing of the harvesting to regulate sugar content.
- Storage conditions, e.g., de-greening.
- Sorting and selecting.
- Packing and labelling.
- Quality control to confirm product readiness.
- Avoiding distribution delays en-route to the customer market.
- Customer satisfaction reporting.

why it is important

Value chain alignment makes it possible for companies to achieve their strategic objectives (e.g., growth and profitability). Without an understanding of the elements of the value chain, the "value" that is requirement per customer segment and the alignment of the activities to deliver against the requirements, companies will never realise their full potential. In fact, they will likely struggle, and eventually go out of business.

Value chain alignment is particularly important for a packhouse operation:

- Understanding client requirements and packing exactly to meet those requirements, both in terms of demand forecasts per market and fruit quality criteria.
- Translating the requirement into a pack plan and a complete operational plan.
- Integrating the pack and operational plan with all upstream supply planning components, i.e., fruit, material (cartons), labour etc.
- Downstream supply chain and logistics planning, to ensure that packed fruit moves successfully from the packhouse to the client.

The extent to which the packhouse owner/operation is involved in value chain alignment will vary based on the business strategy. For example, if the packhouse markets and sells to an overseas retail chain directly, he/she needs to control all aspects of the value chain. If, however, the packhouse focuses on supplying product through an agent and into a larger organisation, they will need:

- A detailed understanding of how the value chain works, including special market requirements.
- Information on product performance (client requirements, quality, price, etc.) to allow for accurate sorting, grading, and packing.
- Opportunities to influence value chain performance, e.g., evaluating delays, agent performance, etc.
- The ability to influence sales and marketing decisions through the agent.

A value chain that is not aligned will result in delays, missed marketing opportunities, and additional costs. Sometimes, these are hidden from the packhouse resulting in limited opportunity to influence or improve.

success factors

Key Success Factors/ Questions to ask:

Customer segmentation – What different types of customers (customer groups) do you have?

Customer requirements – What do your different customer groups require from you?

Competitive positioning – How do you differentiate yourselves from our competitors in each of these market segments? Given product availability, where will your product fit the best in terms of satisfying specific customer needs.

Develop value chain performance indicators – This will make it possible for all the individual elements/ activities of the value chain to focus on the key outcomes from a customer perspective (customer defined value).

Measuring the performance of the value chain and understanding current opportunities – What are our constraints? What are the most frequently occurring issues / problems along the value chain?

Communication - Good communication channels between the individual elements of the value chain. This will enable flexibility and help you to make value chain adjustments when problems occur. At a minimum, the packhouse should get feedback on:

- Price received per consignment.
- Customer feedback both positive and negative.
- Costs incurred as well as reasons for deviations between consignments.
- Performance of the elements of the value chain, including:
  - Mission critical inbound resources, including fruit (supply from the orchards) and materials (e.g., packing material).
  - Logistical services.
  - Harbour services.
  - The performance of the cold chain (e.g., temperature tracking).
  - Shipping services.

execution steps

1. Study the concept of a value chain and the importance of value chain alignment.
2. Discuss the implications of value chain alignment with the organisation or person responsible for sales and marketing.
3. Select the best fit of your product (variety, product availability, volume) and market opportunities.
4. Develop value chain performance indicators. A specific market might require a quick response (limited lead time) which would optimise price (price range indicated).
5. Deploy KPIs to the individual functional areas (decide what should be monitored in each functional area to ensure success in a particular value chain attribute and performance indicator).

6. Continue to monitor performance per value chain activity when taking corrective action.
7. At the end of the season revisit value chain positioning (product vs market strategy). At the same time, the annual (overall) performance of the elements of the value chain as well as role players (e.g., agents) need to be evaluated.

assessment questions

Please Note: There is no minimum / maximum number of questions you can add

1.	Do you understand the concept of a value chain?
2.	Do you know why, where, and when your products can best be marketed and sold?
3.	Do you participate in specific customer feedback and analysis concerning your products?
4.	Can you identify the key criteria per market that determine best value for your product?
5.	Do you get feedback on the performance of the elements of the value chain, e.g., production, packhouse, shipping, agent?
6.	Can you identify the areas in the value chain that pose the greatest risk to delivering the value expected?
7.	Do you work directly with all the areas of the value chain to ensure that you meet expectations, and ideally improve performance and customer satisfaction?
8.	Do you benchmark the KPIs of key areas of your value chain with industry best practice to ensure your competitiveness?

resources

1.	Value Chains Explained