



BRITISH COLUMBIA MINISTRY OF AGRICULTURE Value Chain Coordination Study

*Excerpts:
Introduction to Value Chain
Coordination; Key Findings*

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Feed BC is a Minister of Agriculture mandate letter commitment to increase the use of British Columbia (“BC”) grown and processed foods in hospitals, post-secondary institutions, schools and other government facilities.

Smaller growers and processors can have difficulty generating the scale required to participate in the public sector markets. One response to these challenges is the development of value chain coordination to connect local supply with local food customers.

The Ministry of Agriculture commissioned fsStrategy to prepare a short report to introduce different value chain coordination models (public, non-profit and private), and how coordination models may differ in terms of areas of focus, structure, resources and deliverables.

Portions of the study are confidential and have been removed to protect the privacy of case study participants. Study excerpts are presented here.

2 Introduction to Value Chain Coordination

2.1 Value Chains

A value chain comprises all the activities involved in making and selling a product, which together create a product’s value. For agricultural products, activities could include:

- growing;
- processing/further processing;
- storage; and
- distribution.

For most products, foodservice operators, including institutional foodservice operators, a commodity strategy is used to sell the product to the operator. The product is produced and/or processed and then sold to the operator through a distributor. Essentially, the product is “pushed” through these activities to the end user – the foodservice consumer.

Value chains are different. In value chains, the product is pulled through the system by the ultimate customer/diner or foodservice operator.

Food value chains typically have the following development steps:

1. identification of an opportunity or challenge—typically the product is operator-driven and/or customer-focused;
2. sourcing of appropriate partners and capabilities;
3. provision of a platform for producers/processors to obtain funding for development of product solutions; and
4. design and implementation of the product solution.

Distribution can often be a challenge. It can be difficult to have a new stock keeping unit (“SKU”) listed

by a distributor. Essentially, demand needs to exist for that SKU as distribution centre space is not limitless and the new product would likely need to replace another SKU.

Often the value chain is facilitated by an interested party. Interested parties can be governments, a not-for-profit organization or the private sector. In private sector value chains, typically an operator has a need for a product and goes to the market to have it created. In this case, the value chain and product development is typically fully funded by the private sector, though the product meets the need for the private sector and the operator has determined a business case exists for the product. The same process may be used for government and not-for-profit value chains; however, as will be demonstrated later in this report, development of value chains in these sectors can be more complex.

2.2 Benefits of Value Chains

Value chains provide new markets for growers and producers. They also provide benefits to foodservice operators by fulfilling an unmet need or overcoming a challenge. This could be a previously unavailable product format, case size, etc. or an entirely new product.

Once a value chain is set up and operating, the coordinator or facilitator is no longer required.

2.3 Value Chain Criteria

The criteria for a successful value chain for a foodservice operator include:

- a specific product need or operational challenge;
- ability to ensure compliance (e.g., all outlets can be required to purchase the proposed product); and
- sufficient scale to support a distributor SKU (e.g., demonstrated demand exists for the product).

The criteria for the producer and/or processor include:

- typically a locally grown product, especially when the value chain is coordinated by the government or, to a lesser extent, a not-for-profit organization;
- meets the operator's food safety and inspection requirements; and
- sufficient resources, knowledge, plant, equipment and raw materials to produce the required supply of the product.

Other general value chain criteria include:

- typically, the proposed product is innovative and "on trend";
- the lack of, or the ability to, mitigate any external barriers to purchase;
- adding new markets, increasing the sale of local (in this case BC) products;
- all parties agree to confidentiality—including the value chain coordinators; and
- production and/or processing ability and capacity to create the product within the jurisdiction.

3.1 Summary of Key Findings

Key findings are summarized below:

3.1.1 General

- To establish a value chain, a face-to-face stakeholder workshop is important to initiate the relationship process and identify potential opportunities, challenges and common definitions.
- Working backwards from a purchaser is a more effective way to develop products and source supply in a value chain. Once product quality, grade and other specifications are identified and a price range is agreed upon, sourcing and product development will be more efficient and purposeful.
- Value chains are based on trust and partnership rather than transactional budget focused relationships.
- Identifying products already being produced and finding ways to incorporate them into menus is the most efficient way to begin establishing value chains.
- Pulling demand through the supply chain (from the institutional buyer or consumers demanding specific products from farmers) is more effective than pushing supply by organizing local producers and then looking for interested customers.
- The position of the VCC is to build relationships and facilitate the value chain process. This role was been identified in multiple value chain case studies as the most important factor in value chain success.
- Making use of existing supply chain infrastructure (existing distributors) rather than creating parallel systems (such as creating food hubs, where they do not already exist) is more efficient. Creating partnerships with organizations with hard supply chain infrastructure rather than attempting to create and/or invest capital in developing them will allow the value chain initiative to achieve more with limited funds.
- When transitioning recipes to local ingredients, attention must be given to the format in which products are received so appropriate kitchen staffing and training, equipment and small wares can be made available to maintain product quality and yield.
- Increasing the transparency in the supply chain is an attractive way to communicate the story of local farmers to highlight community benefits of value chains. Education highlighting the quality and nutritional benefits of local products may also increase demand for these items.
- Small-scale farmers may not be able to supply the institutional market initially due to delivery logistics and food safety certification restrictions. Direct farm to consumer channel organization may allow small-scale farms to increase production to levels to a point in which they can overcome these obstacles.

3.1.2 Government Coordinated Value Chains

- VCCs with relational backgrounds (community development organizations, conservation organizations, or local governments) tend to be more effective in connecting existing businesses and stakeholders.
- Consolidating demand volume from organizing institutions to establish value chains will assist in bargaining power and flexibility with distributors.

3.1.3 Not-for-Profit Coordinated Value Chains

- Including philanthropy and other grant and fund sourcing strategies may give a value chain essential resources to be able to establish strong and lasting relationships.
- RFPs should evaluate key product specifications which they intend to measure and not act to exclude local suppliers who do not meet the exact specifications of a current supplier (e.g., case size, packaging format, etc.). Fees to place bids on RFPs may exclude some local suppliers as well and favour larger organizations.

3.1.4 Private Sector Coordinated Value Chains

- The need for scalability of producers and distribution routes is important to keep in mind when planning value chain members.
- Food safety certification bias may exist in provincially based supply chains where some stakeholder may believe federal certification is more legitimate than provincial certification.



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