

THE MYSTERY OF VALUE – Thoughts on Value Chain Development

1. Introduction

- a. Thank you to the organizers for the invitation
- b. First my background...
 - i. Personal history
 - ii. I look at things from a distinctly Biblical point of view
- c. Asked to speak on Value Chain Development
 - i. I am no expert on value chains but my experiences and observations have given me a strong set of ideas related to the subject, so I have titled by talk today: The Mystery of Value- Thoughts on Value Chain Development
 - ii. Words are important – many times people use words that they really don't understand the meaning of
 - iii. So my talk today will focus of the meaning of those 3 words
- d. Value chains – the development topic de jour
 - i. Everyone is talking about VC –
 - ii. In Afghanistan alone, USAID has Value Chain programs in place worth over \$300M.

2. Value

a. Greatest statements of value ever made –

i. John 3:16 “For God so loved the world” COSMOS

ii. To evaluate- to make a judgment of value (Genesis 1-3) “God saw all that he had made and saw that it was good”

1. God saw its potential LESSON: The first thing we need to be able to begin a value chain is to see potential

2. George Washington Carver, was an American botanist and inventor, born into slavery in Missouri, in the early 1860's:

“Dear Mr. Creator, please tell me what the universe was made for.’ The Great Creator answered, ‘You want to know too much for that little mind of yours. Ask for something more your size.’ Then I asked, “Dear Mr. Creator tell me what man was made for.’ Again the Great Creator replied, ‘Little man, you are still asking too much. Cut down the extent of your request and improve the intent.’ So then I asked, “Please Mr. Creator will you tell me why the peanut was made?””

He developed more than 300 new uses for the humble legume. Numerous food products ranged from peanut sausage to mayonnaise. Cosmetics included face

powder, shampoo, shaving cream and hand lotion.

Insecticides, glue, charcoal, rubber, nitroglycerine,

plastics and axle grease are just a few of the many

valuable peanut products discovered by Dr. Carver.

“...nothing is so damaging as ignorance. ‘I don’t know, you say!’ What reason is there for you not knowing – you have not looked, you have not searched. Study to be approved of the Great Creator. Be master of things...”

iii. Pearl of Great Price -- the perception of value leads to action

1. The merchant sold everything and bought it
2. Jn. 3:16 - God gave his most precious Son
3. God saw potential in creation and gave man the cultural mandate (more about this later)
4. GWC look for the potential in the peanut and began to create products with value to people that never before existed

b. What is Value?

Noun: - the regard that something is held to deserve; the importance, worth, or usefulness of something. "your support is of great value"

- the worth of something compared to the price paid or asked for it. "at \$12.50 the book is a good value"

- a person's principles or standards of behavior; one's judgment of what is important in life. Ultimately, that for which one might give his life or most important possession

Verb: - to consider (someone or something) to be important or beneficial; have a high opinion of. "she had come to value her privacy and independence"

- estimate the monetary worth of (something). "his estate was valued at \$45,000"

c. How is value created?

i. Cultural Mandate – **man applying his God-given creative**

abilities to discover (develop) the mysteries of creation. “Be fruitful and multiply”

ii. Worldview - Open or closed system? Man is bound by the limits of the created order—both physical and metaphysical (seen and unseen). A person’s worldview can place limits on what is possible.

1. Peace Corps volunteer (Josie) in Africa taught nursing students Microbiology...

2. Ask a poor child what he wants to be when he grows up.

iii. **Value is created when man's creativity is applied to resources**

through work. Eg. Oil, sand. Resources are not only in the ground, true resources are in the mind. Eg. Microsoft Corporation – nothing to sell but electrons

- d. In the ancient world, the Greeks and Romans looked upon manual work as a curse, something for lower classes and slaves. But Christianity changed all of that. Christians viewed work as a high calling—a calling to be co-workers with God in unfolding the rich potential of His creation.

Many cultures today have that same worldview. This is expressed in songs and jokes. Work becomes something that people dread and try to avoid.

Why do we use the word “vocation” when talking about people's work? Why do we ask people what their profession is? What is a professional?

This high view of work can be traced throughout the history of the Church. In the Middle Ages, the guild movement grew out of the Church. It set standards for good workmanship and encouraged members to take satisfaction in the results of their labor. The guilds became the forerunner of the modern labor movement.

Then John Wesley came preaching and teaching the Gospel throughout England. He came not to the upper classes, but to the laboring classes—to men whose faces were black with coal dust, women whose dresses were patched and faded. John Wesley preached to them—and in the process, he pricked the conscience of the whole nation. (*Recommended Reading: “England Before and After Wesley” By Donald Drew*)

Two of Wesley's disciples, William Wilberforce and Lord Shaftesbury, were inspired to work for legislation that would clean up abuses in the workplace. At their urging, the British parliament passed child-labor laws, safety laws, and minimum-wage laws.

My culture has a distinctly Greek view of work: We work out of necessity. We work to earn money to buy things. But you see, we are made in the image of God and as such we are made to work—to create, to shape, to bring order out of disorder. God is a working God. This truth gives dignity to all professions.

We are agricultural workers here. Societies have a tendency to minimize and even look down on farmers and many of the people we work with feel that their lives don't matter and aren't worth much. In order for people to create value, they need to realize their own value. Here's a word of encouragement you can pass on to the down-trodden farmers you work with: Did you know that the Lord of heaven and earth is a farmer? "The Lord God planted a garden east of Eden..." They are in good company.

All labor derives its true dignity as a reflection of the Creator. And whatever we do, in word or deed, we should do it "Coram Deo - before the face of God".

Furniture makers during the Protestant Reformation understood this.

In this worldview, work is an expression of worship to God. It is creating value through a combination of the raw materials that God created and the creativity that reflects the Creator in His image-bearer - man. This is where the concept of Quality originated.

God is a worker, God is a gardener...this gives dignity to all professions.

Now bringing this back down to earth...we will discuss the practical applications of this more in my workshop, but I do want to plant a few seeds in your mind.

- e. Clay figures from Bangladesh
- f. How is value appropriated? (extracting profits from the marketplace).

- i. Marketing is a way companies interact with consumers to create relationships that are beneficial to both parties
 - ii. Marketing creates demand
 - iii. Marketing is nothing more than communication-telling people what you have and why they might want it.
 - iv. Marketing: “convincing people that they want what you have”
 - v. Marketing is concerned with value – “How much is it worth?”
 - vi. Sales exploits demand – sales is concerned with price - “How much does it cost?”
- g. What is the difference between Value and Price?
- i. Price is determined by the law of supply and demand.
 - ii. Value exists in the mind of those who perceive it.

“Value” is a nebulous concept much like “beauty”. The reason it is nebulous is because none of us really knows what it is at any given time. And our concept of “value” is clearly dynamic.

It is not a static concept. Therefore, applying a past period's concept of "value" does not necessarily reflect what the current market might perceive. For instance, there have been times in human history when being overweight was deemed beautiful. But today when we are told what beauty is we are often showered with pictures of (grossly) underweight people. In fact, if you look at different cultures today you'll find very different ideas of "beauty". It's obviously a dynamic concept that has no static historical benchmark.

3. Chain

- a. The word chain implies relationship - there is a secure relationship between every link in a chain.
 - i. At its simplest level a Value Chain is a sequence of symbiotic relationships
 - ii. Mutually dependent
 - iii. Built on trust and mutual interest.
- b. To use an over-used idiom, "a chain is only as strong as its weakest link"

- i. In the case of a value chain, the weakest link is the link that is not profitable
- ii. In order to function effectively, every link in a value chain must create value as well as appropriate value – make a profit.
- iii. Profitability = Sustainability
 - 1. The word sustainability is used by many people to mean many different things but, above all, in order for an activity to be sustainable it must be profitable. (I use the word profit in a generic sense to mean that the enterprise must take in more revenue than expenses). This may be something the US government might consider!
 - 2. Some people think profit is a dirty word
 - a. It conjures up visions of greedy robber barons exploiting people with exorbitant prices
 - b. (Example of GTZ in Houay Xay)
- c. The need for demand “pull” or market “pull” – How is it created?
 - i. The market must be pulling the chain
 - ii. Focus on the end user

- iii. Creating value for other links in the chain (example: better packing makes it easier for the transportation companies to deliver the product with less damage and loss - thus increasing profit for the whole chain).

d. How is profitability increased?

- i. Increase revenue

- 1. Increasing sales, but it's not just selling more

- a. Marketing – creating value in the eyes of the customer

- b. Branding

- 2. Increasing your competitiveness (increasing market share by reducing your price below the competition or by making your product better than the competition).

- 3. Identifying niches in the market (niches are areas of a market that have not been seen or exploited by others) this is done through product differentiation. Example: Lychees in Chiangmai

ii. Reduce costs

1. Is your location increasing your costs? Mipo village is an interesting case study... It is isolated, so it was hard to compete with the same products that could be produced closer to the markets because of the increased cost of getting goods to market. But once they began to grow temperate crops that couldn't be grown at lower elevations, the increased transport costs did not make a difference because supply was less and the prices higher.
2. Are there links in the chain that can be eliminated?

Vertical integration – you control more than one link
3. How can value be added without increasing costs?
4. Outside of economics, value-added refers to "extra" feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more", even if the cost is higher to the client or purchaser. Value-added features give competitive edges to companies with otherwise more expensive products.

5. From a process improvement perspective, in order for a step in any process to be considered value-added, the activity must meet all three of the following criteria:
 - a. The customer is willing to pay for this activity,
 - b. It must be done right the first time,
 - c. The action must change the product or service in some manner.

(This section can be eliminated if there's not enough time) I plan to discuss this in more detail in my workshop.

Non-value added activities can be broken down into categories:

1. Non-Value-Added Business-Required activities like:
 - a. Hosting a Health Department Inspection
 - b. Paying for a Business License
 - c. Ensuring hiring compliance policies for Federal, State, and Local Government

2. Non-Value-Added Pure-Waste activities include things like:

- a. Having an expense form or time sheet printed out, then scanned, then emailed to its destination
- b. Having 10 people approve a document electronically when 9 need to read it and 1 approve it
- c. Heating up fries for 10 people that only 5 people will order at your restaurant
- d. Placing workstations 20 feet apart with parts that need to be carried back and forth instead of next to each other

Two thoughts to keep in mind:

1. Non-Value-Added Business-Required activities need to be kept in tight control, because many times, the people in charge of them will expand the activities because no one

questions them. These are necessary, but not desirable activities. They cost everyone money, but provide no value.

2. Non-Value-Added Pure-Waste activities need to be eliminated...not the people that perform the activities, but the activities themselves. They don't need to be performed for any reason.

e. Case study: Opium value chain in Afghanistan

1. Perfect crop
2. Efficient
3. Some links add much more value than others
4. Experience in Thailand

4. Development

a. Base word is “develop” “to take out of an envelope”

- i. Antonym – envelopment; to envelope; envelop
- ii. God en-veloped the mysteries of creation in the cosmos
waiting for his image-bearer to de-velop them (open them up)
- iii. “to uncover” “to discover”

- iv. to bring out the capabilities or possibilities of; bring to a more advanced or effective state: to develop natural resources; *to develop one's musical talent.*
- v. to cause to grow or expand: *to develop one's muscles.*
- vi. to bring into being or activity; generate; evolve.

b. God is involved in two activities, creation and redemption. Both involve a process of transformation. (Romans 12:1-2) Value addition also involves these two activities.

c. Creativity

- i. It is tied to imagination and curiosity. The ability to visualize things that don't physically exist. One characteristic of the poor – they don't dream or aspire. Example: Gae Noi coffee project illustration.
- ii. According to the historian Daniel J. Boorstin, "the early Western conception of creativity was the Biblical story of creation given in the Genesis." In the Judaeo-Christian tradition, creativity was the sole province of God; humans

were not considered to have the ability to create something new except as an expression of God's work.

iii. The difference is that God's creation was "ex nilio, out of nothing", where man's creations only are applying creative processes on things which already exist in the created order. Ultimately creativity comes from the mind of God. Man can only "develop" (uncover) what has been "enveloped" (programed) into the created order. Ecclesiastes (reference) says there is nothing new under the sun. Development is basically discovery and figuring out how things work.

iv. Again the ultimate resource is the inquisitive mind. In order for development to occur we must believe that progress is possible and that our greatest resource is in our heads not in the ground.

d. In my work with USAID, I am often frustrated that programs most often start with a needs assessment. I believe that this is starting in

the wrong place and gives the wrong impression to the beneficiaries.

I have always practiced what I call ABCD (Asset-Based Community Development).

- i. It starts with an asset assessment - what people have, not what they don't have
- ii. Everyone possesses a basic set of resources but, many times, they do not realize them as resources.
 1. Time - 24 hours/day
 2. A body that can work
 3. A mind that can think and analyze
 4. For farmers it is:
 - a. the land
 - b. sunshine
 - c. water
 - d. their labor
 - e. etc.

- iii. Many times the most important step in development is to help people refocus their resources by seeing them and allocating them in a new way.
- iv. We seek to bring about behavior change in the people we work with, but **people will not change the way they behave until they change the way they think.**

5. Conclusion

The carrot story...

Earlier I mentioned a place called Mipo Village. It is located on a high mountain range whose ridge marks the border of Chiangmai and Chiangrai provinces and has a pleasant temperate climate. Although now it is serviced by a well-maintained blacktop road, back in the late 70's when my mentor first started working there, the road was dirt and very treacherous, if not impassible, during the rainy season. At that time the 80 families of Mipo were poor, bound by ignorance and superstition and their main cash crop was poppy. Because of the lack of medical service, whenever one of them broke a bone or had serious illness they relied on opium to dull the pain. Thus, many

were also addicts. It was in this dark and depressing place, my co-worker began to minister.

In the beginning, whenever he and his family went to the village they made sure that they always brought enough food up from the plains to sustain them for the whole time they were there so as not to place an unnecessary burden on their hosts. In time, 5 families who had become followers of Christ, made the decision that God would not bless them if they continued to plant poppy, so they decided to begin investing in alternative crops. The rest of the villagers chided them; convinced that their efforts were in vain.

After some soil testing it was determined that carrots might be a good thing to start with. My colleague helped them acquire the seed and technical help. Sure enough, the carrots thrived and soon they had a nice crop of succulent orange roots to take to market. They packed them in burlap bags and loaded them on the top of the local songtaew and headed to the market in plains. The only thing that had been forgotten was to investigate the market. They went to the market at the Amphur and spread out their carrots for people to buy. At that time most Thai's had not seen a carrot and they didn't sell enough to pay for their trip home.