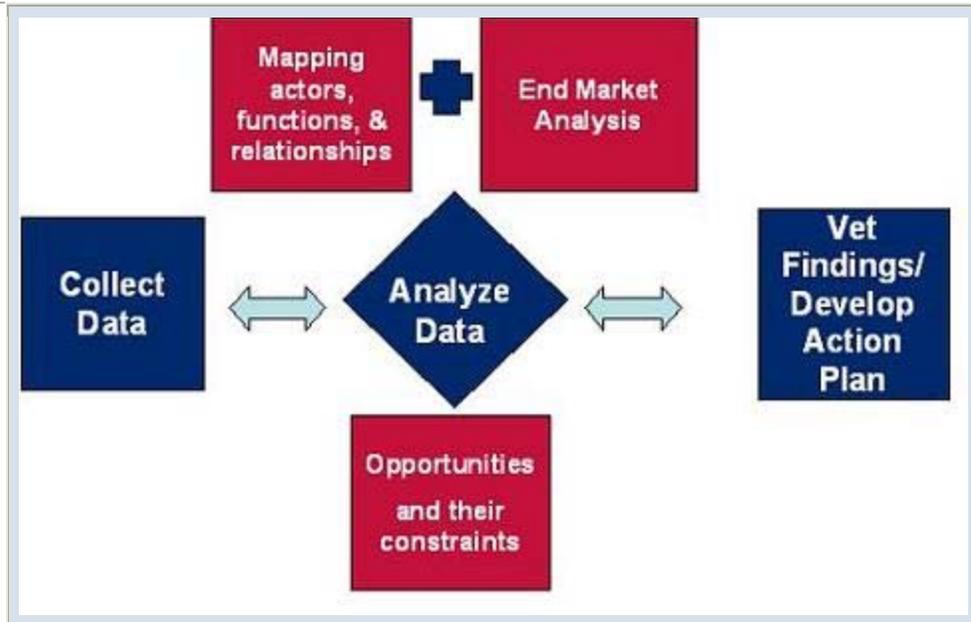


# How to Conduct Value Chain Analysis

## Introduction

Value chain analysis is a process that requires four interconnected steps: data collection and research, value chain mapping, analysis of opportunities and



constraints, and vetting of findings with stakeholders and recommendations for future actions. These four steps are not necessarily sequential and can be carried out simultaneously.

The figure above is a simple graphic illustrating the analysis process and components. The value chain team collects data and information through secondary and primary sources by way of research and interviews. Mapping helps to organize the data, and highlights the market segments, participant/actors, their functions and linkages. The collected data is analyzed using the value chain framework to reveal constraints within the chain that prevent or limit the exploitation of end market opportunities. The resulting analysis of opportunities and constraints should be vetted with stakeholders through events such as workshops, focus groups or “reporting-out” days.

Each of these components are described in further detail below.

Prior to performing value chain analysis, some [preparation](#) is required.

### Step One: Data Collection

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Good value chain analysis begins with good data collection, from the initial desk research to the targeted [interviews](#). The value chain framework—that is, the structural and dynamic factors affecting the chain—provides an effective way to organize the data, prioritize opportunities and plan interventions. To review the framework and its role in value chain analysis, click [here](#).

The desk research consists of a rapid examination of readily available material. The aim is to familiarize the team with the industry, its market and the [business environment](#) in which it operates, as well as to identify sources for additional information. Information such as statistics on exports/imports, consumption reports, global trade figures, etc., can be obtained through the Internet, phone calls and documents from trade, commerce and industry ministries, specialized industry journals, and professional and trade association newsletters. Once the desk research is conducted, an initial value chain map can be drafted for refinement during the primary research phase.

Interviews are conducted with 1) firms and individuals from all functional levels of the chain, and 2) individuals outside the value chain such as writers, journalists or economists. In addition to providing information about the movement of product and the distribution of benefits, the interviews should inform on value chain actors' current capacity to learn; how information is exchanged among participants; from where they learn about new production techniques, new markets and market trends; and the extent of trust that exists among actors. Interviews can help to identify where chain participants see opportunities for and constraints to upgrading. Missing or inadequate provision of services necessary to move the value chain to the next level of competitiveness can be identified locally, regionally or nationally.

In addition to individual interviews, focus group discussions are a useful way to explore concepts, generate ideas, determine differences in opinion between stakeholder groups and triangulate with other data collection methods. The group may consist of 7-10 people who perform the same or a similar function in the value chain. Guided discussion better captures the social interaction and spontaneous thought processes that inform decision making, which is often lost in structured interviews. Please see the Guide to Focus Group Discussions <sup>[1]</sup> for more information.

Click [here](#) to see a summary of the advantages and disadvantages of four primary research tools (interviews, focus groups, surveys and observation). Other useful resources on techniques for data collection include the following:

The SEEP Network's Technical Note, "An Inventory of BDS Market Assessment Methods for Programs Targeting Microenterprises"<sup>[2]</sup>

The SEEP Network's "Building a Team for BDS Market Assessment and Key Issues to Consider When Starting BDS Market Assessment"<sup>[3]</sup>

The ILO's "Guide to Market Assessment for BDS Program Design"<sup>[4]</sup>

The qualitative data gathered by these methods will reveal dynamic factors of the value chain such as trends, incentives and relationships. To complement this, *quantitative* analysis of the chain is necessary to provide a picture of the current situation in terms of the distribution of value-added, profitability, productivity, production capacity and benchmarking against competitors. Analyzing these factors highlights inefficiencies and areas for reducing cost.

[Click here to read more about Quantitative Analysis](#)

## Step Two: Value Chain Mapping

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Value chain mapping is the process of developing a visual depiction of the basic structure of the value chain. A value chain map illustrates the way the product flows from raw material to end markets and presents how the industry functions. It is a compressed visual diagram of the data collected at different stages of the value chain analysis and supports the narrative description of the chain.

The purpose of a visual tool in the analysis process is to develop a shared understanding among value chain stakeholders of the current situation of the industry. The mapping exercise provides an opportunity for multi-stakeholder discussions to reveal opportunities and bottlenecks to be addressed in subsequent stages of the **project cycle**. Maps also help to identify information gaps that require further research.

A **two-phased process for developing the value chain map** is recommended, as follows: a) initial basic mapping and b) adjusted mapping. Initial mapping is based on the information derived from desk research and knowledge at the outset of the analysis. The second phase includes revisions based on interviews and feedback from firms and individuals brought into the analysis process. As value chain maps are representations of a complex system, the analysis must balance the need to generalize with the desire to charge the map with details. Mapping is a dynamic process; therefore, adjustments should be made as needed.

## Step Three: Analysis of Opportunities and Constraints Using the Value Chain Framework

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Step three uses the value chain framework as a lens through which the gathered data is analyzed. The framework is a useful tool to identify systemic chain-level issues rather than focus on firm-level problems. While interviews give the value chain team the chance to gather information from individual firms, the value chain framework helps to organize this information in such a way that the analysis moves from a firm-level to a chain-level perspective. If the chain cannot be competitive, the success of individual firms is compromised. Therefore, taking a systemic approach is key to sustaining the competitiveness of the chain and the MSEs operating within it.

The [factors affecting performance of the chain](#) are further analyzed to characterize opportunities and constraints to competitiveness. These factors are:

- [end markets](#)
- [business enabling environment](#)
- [vertical linkages](#)
- [horizontal linkages](#)
- [supporting markets](#)
- [value chain governance](#)
- [inter-firm relationships](#)
- [upgrading](#)

Each plays a role in influencing value chain competitiveness. Using a [table](#) format, these factors of the value chain framework can be evaluated in terms of offering opportunities for upgrading and the constraints to taking advantage of these opportunities. Click [here](#) for further discussion on the factors and how to analyze them.

#### Step Four: Vetting Findings of Chain Analysis through Stakeholder Workshops

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Value chain analysis helps develop a private-sector vision to reflect stakeholders' interest in improving the efficiency and competitiveness of the chain. The fourth step, vetting findings, uses value chain analysis through a structured event (or series of events) like a workshop or reporting-out day to facilitate discussion with and among selected participants.<sup>[5][6]</sup>

The objective of these events is to bring participants together who are responsible for critical market functions, service provision, and the legal, regulatory and policy environment. The goal is to have these participants—who have an incentive to drive investments in upgrading—to develop and assist in implementing a private sector-led [competitiveness strategy](#). To develop this strategy, the stakeholders will need to prioritize the opportunities and constraints identified during

the value chain analysis. With an open format, such structured events foster buy-in to the analysis process.

Participants are selected based on the role they play in the value chain, or their responsibility for critical market functions. There should also be MSE, medium and larger firm and association representatives who, during the interview phase, exhibited an understanding of the issues related to the value chain (especially the opportunities), a strong interest in the types of questions posed during the interview, and leadership skills among peers or the community.

Vetting events can take on several forms from simple one day *reporting-out* sessions to more structured workshops that stretch to two or three days. The events are planned to reinforce the importance of knowing and understanding the end market. In presenting the findings of the value chain analysis, workshop leaders should stress that to remain competitive, stakeholders and other participants must continuously learn what end markets demand in terms of product specifications, quality, and other requirements.

It can be powerful to have a series of buyers present at the workshop. Where not possible, a phone call or pre-recorded video interview can be an effective means for stakeholders to see and hear directly from the buyer. Pre-recorded interviews were used successfully for the Haiti handicraft value chain vetting workshop<sup>[7]</sup> and for the Tanzania high-value vegetables stakeholder workshop.<sup>[8]</sup>

The event should include facilitated discussions, review and adjustments of value chain map and a review of the **analysis table** mentioned above. For this exercise, it is recommended that the completed table be projected on a screen, and additions and modifications made during discussions inserted with the computer projecting the table. This assures a participatory process and on-the-spot adjustment witnessed by attending participants. If changes are made, the updated table can be rapidly printed and distributed to participants before they leave.

In environments characterized by a number of donor partners working with the same group of firms, burn-out and skepticism particularly among the most important change drivers is likely. In some instances, the firms most important to driving change may not attend a full-day workshop even though they may be highly committed to the upgrading process and strategy for making the industry more competitive. If time allows, the analysis team can meet with these firms in advance of the workshop to convince them of the value of the competitive planning process. If this is not possible, the analysis team should meet with these firms as soon after the workshop as possible to vet findings and secure buy-in or commitment to the industry competitiveness planning process.

**See an [example](#) of value chain analysis.**

## Footnotes

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1. [↑ Guide to Focus Group Discussions](#)
2. [↑ SEEP Network's Technical Note on market assessment methods](#)
3. [↑ http://www.seepnetwork.org/content/library/detail/553](http://www.seepnetwork.org/content/library/detail/553)
4. [↑](#)  
<http://www.bdsknowledge.org/dyn/bds/docs/377/Guide%20to%20BDS%20MA%20for%20Program%20Design%20Miehlbradt.pdf>
5. [↑ Guide to Facilitating Stakeholder Workshops](#)
6. [↑ Participatory Approaches to Value Chain Development Briefing Paper](#)
7. [↑ Handmade in Haiti: The Perspectives of Global Buyers](#)
8. [↑ Tanzania High-value Vegetables Value Chain Stakeholder Workshop](#)

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