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SUSTAINABILITY

HOW
MORE
CAN BE
DONE TO
MAKE
THE MOST
OF VALUE
CHAINS

Business Chief looks
at how some of the
traditional theories
about value chains
align with modern
business realities

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SUSTAINABILITY

THE CONCEPT OF a value chain was first introduced to the public consciousness by American business strategist and economic theorist Michael Porter more than 30 years ago in his best-selling book *Competitive Advantage: Creating and Sustaining Superior Performance*.

Porter was talking about these ideas as early as the late 1970s, so the concept has existed for a long time, but the way that companies create and exploit maximum value has changed immeasurably in the intervening

three or four decades. This is largely given the huge societal changes and the exponential acceleration and increased prevalence of technology in our daily lives.

Veteran Harvard academic Porter showed he hasn't missed a beat either when he appeared at the World Business Forum in New York City last year. Porter spoke about how smarter, connected products are changing the market landscape by increasing ability to monitor, control and optimise systems.

This still ties in with his original

"You must understand your customers or consumers and what they see as value. It's then about making sure that each of the different supply points, or nodes of our supply chain, understand which part of that value they need to deliver"

LLOYD SNOWDEN
Business Transformation Specialist, Oliver Wight EAME

value chain concept, which is comprised of both primary and supporting business activities and how they can affect the margin.

Generally speaking, the ideas and ideals of the generic value chain model still hold true, but as well as the world around us, what has also changed is the way that companies do business and the way that different suppliers engage with one another.

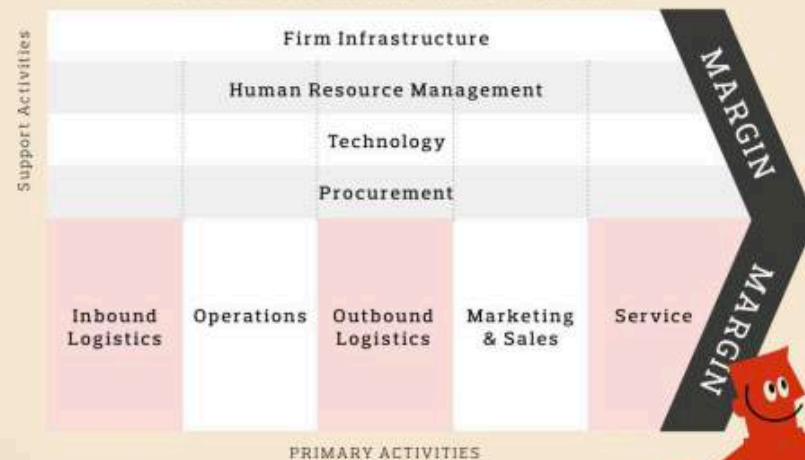
There is less of an emphasis now on interpersonal relationships and it's more about leveraging technology to extract maximum value at the various points in the supply chain.

Lloyd Snowden is a business transformation specialist for UK-based consultancy Oliver Wight EAME, and he feels that value chains are becoming even more important to businesses as they become more savvy and aware.

"You must understand your customers or consumers and what they see as value. It's then about making sure that each of the different supply points, or nodes of our supply chain, understand which part of that value they need to deliver," explains Snowden. "You then take, with this understanding of the value to be delivered, and push it right the way back through your supply chain, so that each node of the supply chain then delivers that same value back to the customer.

"The value chain is something that is starting to grow a lot more, because I think more and more companies today are also embracing strategic planning. Those kind of integrated, strategic plans didn't exist in the same way 10 years ago. Because

PORTER'S GENERIC VALUE CHAIN



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people are starting to understand those strategic directions and when possible the strategies of their customers, the ability to understand the anticipated value, I believe, has grown. Therefore, there's a greater interest in people and companies talking about the value chain today than there has been in the past."

So, businesses are more aware of where value can be extracted and how supply chains can be turned into value chains, but how is it done? Obviously, the plethora of technological aids available to companies makes it easier to pinpoint where value can be created or extracted, but given that businesses in the same supply chain are sometimes competing for the same customer base, how can you engender the necessary level of trust for a value chain to function as it should?

According to Snowden, it comes back to the ideals of being transparent and exhibiting best business practice wherever possible and, once again, knowing your customers. "Excellent delivery in a mature business is enabled through transparency," Snowden says. "Ensuring visibility of performance and improvement

activity, along with a good, accurate, clear and relevant communication. One set of numbers, accurate data, sharing information and slinging strategy between supply points, or nodes, that would possibly, traditionally, be at arms-length from each other. What you need to try and to do is get this to be a much more open relationship, to enable that value to be understood and delivered.

"I guess it all depends where you sit in the supply chain, to some extent. But say we're a company in the middle of the supply chain, with the customers and the consumers at one end and our suppliers at the other – we're the manufacturing warehouse, or logistics element. I would need a clear understanding of who my key customers are, their key requirements, and what they value from those requirements.

"You need to have some real, open, collaborative dialogue with them. Not just vendor, managed inventory level of collaboration, but where we might be sharing strategies, where we have real trust between our organisations. Could I align my strategies of business to that customer direction? That would be delivering better value.

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LLOYD SNOWDEN
Business Transformation
Specialist, Oliver Wight
EAME



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"If I then look back through the supply chain to the key suppliers that I have, can I get the relationship between me and my key suppliers to the point where they want their strategy to align with mine? If we've got all of that kind of strategic alignment and those different thought processes going on, then the ability for people to deliver value is going to be much higher than if it was independent businesses with their own strategies trying to supply things for you."

Teamwork makes the dream work – or as legendary luxury hotelier and entrepreneur Horst H. Schulze once stated: "In life and business, relationships are important – but they are empty unless they are established and based upon trust." When it comes to the creation of value chains, that has never been truer. It requires all parties to be honest and transparent and operate fairly and ethically, with the benefits of the customer at the forefront of their thinking.

Obviously creating value impacts positively on margins and that can only be a good thing, but it requires the buy-in of all stakeholders. Snowden reckons it's right for companies to be wary of trust potentially backfiring but he also says it's an area where businesses often lack maturity. "If companies don't actually understand the market place and they're firefighting, then there's no time for them to lift their head up and say, 'what are we doing wrong? And what can we do to put it right? And how do we align that to what we've got in the marketplace?' That is very often part of the problem. When companies are much better at performing,

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HORST H. SCHULZE
Luxury hotelier and entrepreneur



they change their focus from the management of the short term and firefighting to 'eyes up and look out', so they're able to better understand the marketplace. Why? Because they're in control, have stopped firefighting and therefore can spend more time understanding their markets, customers, consumers and competition."

Snowden goes on to explain that this is phase one of business maturity on the Oliver Wight Maturity Model. Essentially what that means is having a managed environment. Phase two is a led

environment, where a company is moving more towards percentile perfection. Snowden estimates that around nine out of 10 businesses find themselves mired somewhere

between phase one and phase two, and estimates that more than half of those are still in phase one.

If that's the case, there is more to be done with regards to maximising the opportunities to create value and build a value chain. Whether increasing numbers can successfully achieve this remains to be seen.

For a final thought, we'll

go back to the original critical thinker, Porter. Speaking at an event at the Rotterdam School of Management, Erasmus University, in the Netherlands

a couple of years ago, he said: "Creating shared value means addressing societal needs and challenges through business itself, with a business model – and making a profit. In fact, some of the greatest opportunities for business are meeting the unmet needs of society." Therein lies the challenge in the months and years to come. ■

