



# **Doubling Your Profits in 18 Months Through Value Chain Management<sup>1</sup>**

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<sup>1</sup> Based on presentations by Chris Butterworth of SA Partners and Martin Gooch of the Value Chain Management Centre, June 2010

On the whole, Canadian agriculture and agri-food has not proactively sought to benefit from adopting lean thinking and process improvement techniques, especially compared to an increasing number of our international competitors. Rather than focus on the reasons organizations haven't taken this approach on board, this paper argues that the excuses should stop, and that small-scale producers through to large retailers should look to improve their competitiveness and profits by adopting lean thinking and value chain management principles.

For many, Lean Process Management often denotes "lean and mean" and severe job cuts. But lean process management is not simply a cost-cutting process. Instead, real lean focuses on growing your business by creating value through the eyes of your customers. It is grounded in a respect for people. While lean is admittedly about reducing waste (which is essentially anything your customers do not value), it is not about getting sucked into a cost-cutting spiral that ultimately reduces your competitiveness and profitability, whether you are a producer, processor, retailer, or any other business. It is about ensuring that you are focused on improving the activities that ultimately determine the success of your business.

The process of cutting costs and increasing revenue begins by identifying what value is in the eyes of consumers and customers. Have you ever asked your customers, "What are the top five things you value?" or "How well do we perform compared to your expectations, and compared to your best suppliers?"

In lean companies and value chains, management is focused on controlling input quality and standards (e.g. seeds, genetics, equipment, people, resources) in order to continuously minimize variation and waste. Unfortunately in many organizations, management is focused on putting out fires created by outputs that don't match customer requirements or expectations. This reactionary approach is usually exacerbated by outdated processes that have evolved to provide band-aid solutions to various problems. Lean improvement projects improve or replace these processes so that the value stream delivers what customers value, while also meeting business objectives. In practical terms, problems don't require a band-aid, because they are avoided in the first place. Management is focused on prevention, not detection, and managing the cause, not the symptom.

Lean was first described in context to the automotive industry in the 80's but is successfully being applied to agricultural businesses and the agri-food sector throughout the world. Regardless of the size of your company, the industry or country in which you operate, or the type of products or services you market, lean thinking and process improvement can apply to you. In virtually every sector, experience shows that there are often significant opportunities to improve your bottom line by reducing waste, increasing output and growing your business, rather than by cutting costs.

The eight wastes that can negatively impact the performance of any business include: over-production, defects, unnecessary motion, unnecessary inventory, inappropriate processing, excessive transportation, waiting, and unrealized people potential.

Managers and owners of Canadian agriculture and agri-food businesses who have adopted value chain management principles have doubled their profits in as little as 18 months. One lamb producer in Ontario who was tired of the challenges of the sale yards began actively addressing the needs of his major customer. As a result, he typically earns twice the industry average per lamb.

Other agri-food businesses that have benefited from adopting value chain management principles include:

- The producer of peeled potatoes who found that focusing on price as the most important driver of purchasing resulted in 60% of the total potatoes purchased being wasted, because they were not suited to end-market requirements.
- The producer-owned cooperative that improved its financial performance by \$50 million while paying producers up to 25% more. The same process simultaneously enabled the producers to reduce their own costs.
- The red meat chain that identified 232 opportunities to improve its performance, resulting in millions of dollars in reduced costs and increased revenue.
- The vegetable producer who increased his pack-out rate from 70% to 85% and significantly reduced his operating costs, by *reducing* the speed of harvest by 30%.

Lean is as much about attitude as it is process. It's a new way for managers involved in the Canadian agriculture sector to think about management and how it applies to business as a whole, including finance and sales, marketing, product development and human resources, and manufacturing.

Lean can be applied to and can improve a single business. However, it has an even greater impact when applied along an entire value chain. It enables partners to work together to provide exceptional value for their customers, at the lowest possible cost through continuous elimination of waste.

To explore ways to benefit financially from adopting value chain management principles, please contact the Value Chain Management Centre for further information and advice.

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*For information on the Value Chain Management Centre, please visit [www.vcmtools.ca](http://www.vcmtools.ca).*

*For information on SA Partners please visit: [www.sapartners.com](http://www.sapartners.com).*

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