

### Illustration 3.4

#### A value chain for Ugandan chilled fish fillet exports

*Even small enterprises can be part of an international value chain. Analysing it can provide strategic benefits.*

A fish factory in Uganda barely made any profit. Fish were caught from small motorboats owned by poor fishermen from local villages. Just before they set out they would collect ice and plastic fish boxes from the agents who bought the catch on their return. The boxes were imported, along with tackle and boat parts. All supplies had to be paid for in cash in advance by the agents. Sometimes ice and supplies were not available in time. Fish landed with insufficient ice achieved half of the price of iced fish, and sometimes could not be sold to the agents at all. The fish factory had always processed the fillets in the same way – disposing of the waste back into the lake. Once a week, some foreign traders would come and buy the better fillets; they didn't say who they sold them to, and sometimes they didn't buy very much.

By mapping the value chain it was clear that there were opportunities for capturing more value along the chain and reducing losses. Together with outside specialists, the fish factory and the fishing

community developed a strategy to improve their capabilities, as indicated in the figure, until they became a flourishing international business, The Lake Victoria Fish Company, with regular air-freight exports around the world. You can see more of their current operations at <http://www.ufpea.co.ug/>, and find out more about the type of analytical process applied at [www.justreturn.ch](http://www.justreturn.ch).

(The approximate costs and prices given represent the situation before improvements were implemented.)

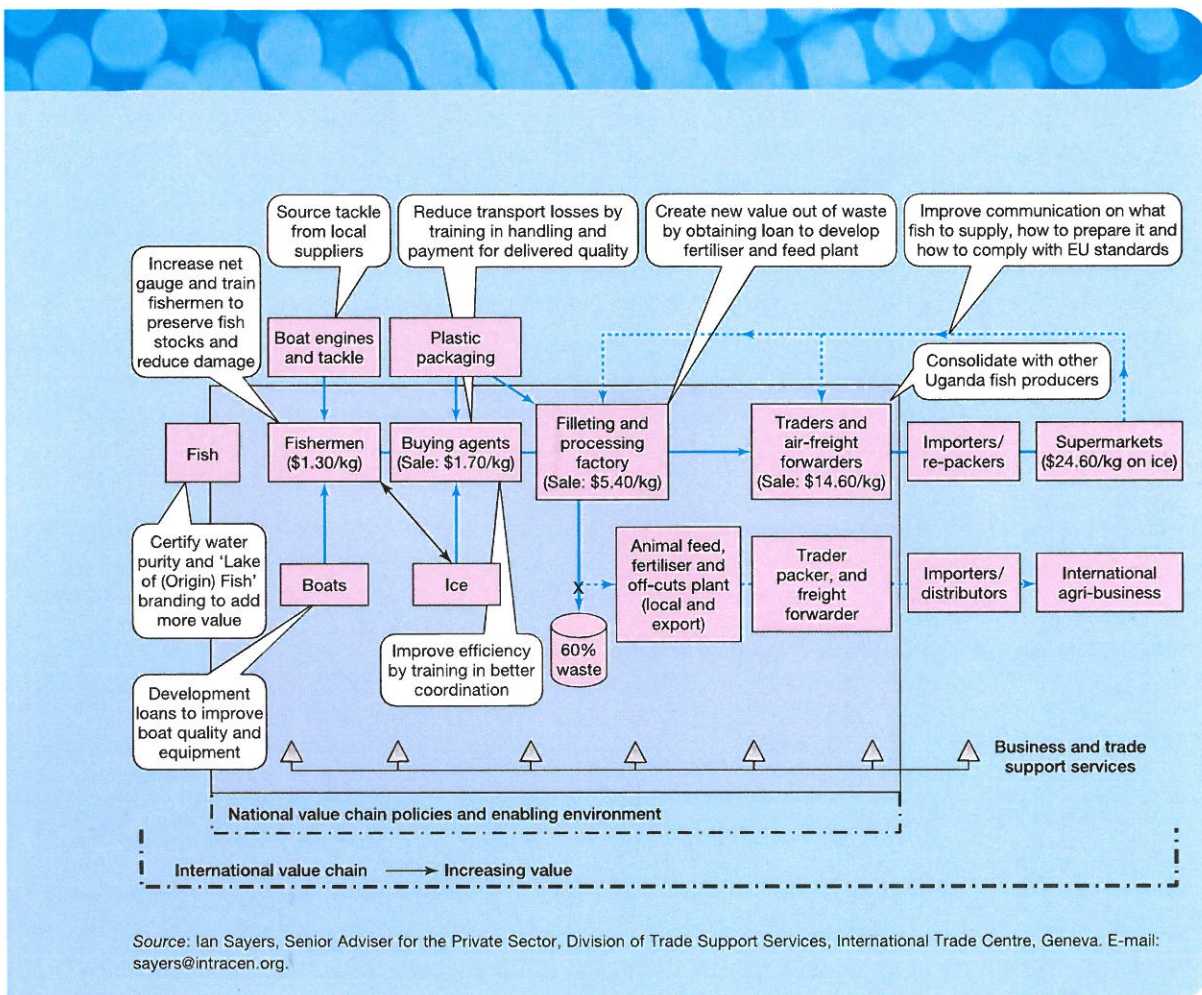
#### Questions

- 1 Draw up a value chain for another business in terms of the activities within its component parts.
- 2 Estimate the relative costs and/or assets associated with these activities.
- 3 What are the strategic implications of your analysis?

television when it reaches the final purchaser is influenced not only by the activities undertaken within the manufacturing company itself, but also by the quality of components from suppliers and the performance of the distributors.

It is therefore important that managers understand the bases of their organisation's strategic capabilities in relation to the wider value network. Four key issues are:

- Which activities are centrally important to an organisation's strategic capability and which less central? A firm in a highly competitive market may have to cut costs in key areas and decide it can only do so by outsourcing to lower-cost producers. Another firm may decide that it is important to retain direct control of centrally important capabilities, especially if they relate to activities and processes that it believes are central to its achieving competitive advantage. For example, diamond cutting businesses have traditionally had to source rough diamonds from the giant De Beers. However, in a revolutionary move



the Lev Leviev Group decided to invest in its own diamond mining operations, arguing: 'Nothing is stable unless you own your own mine.'<sup>25</sup>

**Profit pools** refer to the different levels of profit available at different parts of the value network

- **Where are the profit pools?**<sup>26</sup> **Profit pools** refer to the different levels of profit available at different parts of the value network. Some parts of a value network may be inherently more profitable than others because of the differences in competitive intensity. For example, in the computer industry microprocessors and software have historically been more profitable than hardware manufacture. The strategic question becomes whether it is possible to focus on the areas of greatest profit potential. Care has to be exercised here. It is one thing to identify such potential; it is another to be successful in it given the capabilities the organisation has. For example, in the 1990s many car manufacturers recognised that greater profit potential lay in services such as car hire and financing rather than manufacturing but they did not have the relevant competences to succeed in such sectors.