

wealthworks



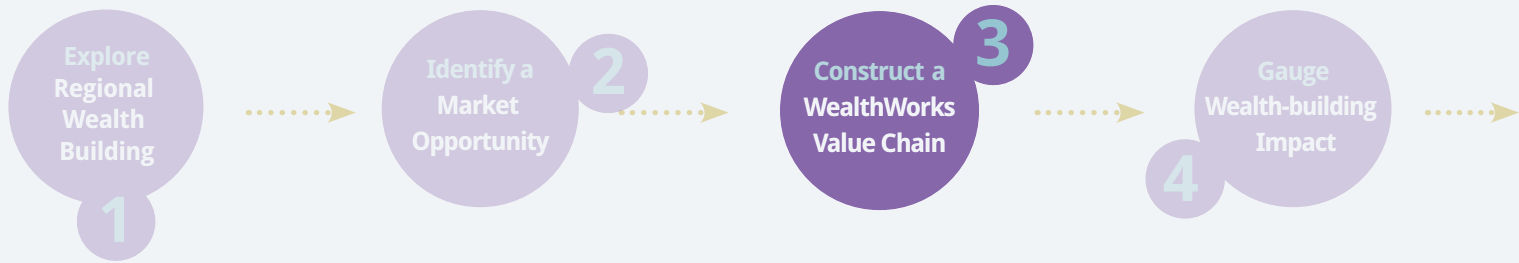
for your region

AN INTRODUCTION



Construct a
WealthWorks
Value Chain

MODULE **3**



About WealthWorks for Your Region

WealthWorks is a regional approach to economic development that connects a community’s assets to market demand in ways that build livelihoods that last. WealthWorks aims to advance a region’s overall prosperity and self-reliance, strengthen existing and emerging sectors, and increase upward mobility for many—always including people, places and firms on the economic margins.

WealthWorks for Your Region: An Introduction provides an overview of four primary components of the WealthWorks approach:

Module 1: Explore Regional Wealth Building. Defines wealth building as a goal that reaches beyond standard community and economic development objectives, and why that difference is critical to advancing and sustaining regional economies.

Module 2: Identify a Market Opportunity. Offers a series of useful screens for spotting a market opportunity that has good potential to generate wealth-building results for a region.

Module 3: Construct a WealthWorks Value Chain. Profiles the elements and design objectives of a WealthWorks value chain—and how to use them to build wealth that lasts.

Module 4: Gauge Wealth-Building Impact. Outlines how practitioners can use measurement to guide value chain construction toward achieving and sustaining more wealth-building results.

For more on WealthWorks, visit wealthworks.org.



Module 3: Construct a WealthWorks Value Chain

Economic development done differently 3

The WealthWorks value chain:

Defining characteristics 3

The WealthWorks value chain:

A wealth-building engine 6

1. Identify a value chain coordinator 7

2. Connect partners around the market opportunity 8

3. Find and address wealth-building opportunities: Gaps, bottlenecks and underutilized resources 12

4. Secure ongoing investment to support the value chain 14

Conclusion 18

Economic development done differently

In Module 1, you explored regional **wealth building**. It profiled how different types of capital—when invested in, and owned or controlled by residents of a region—can be better deployed to build a region’s economy and shape and sustain improved livelihoods for its residents.

Module 2 outlined how to select a WealthWorks **market opportunity** for your region. The right market opportunity emerges when, first, you examine demand—that is, what buyers want in products or services that you can produce in your region. Then you assess which products or services stimulate the most local energy, offer the greatest wealth-building potential, and present a solid opportunity to expand your markets and prospects down the line.

The next step is to pursue the market opportunity you selected. The WealthWorks tagline says you do that by connecting “community assets to market demand” so as to build lasting livelihoods. Well, what exactly is that connector?

That connector is a **WealthWorks value chain**. Module 3 offers an overview of what a WealthWorks value chain is. Then it explores how, by using WealthWorks value chains to design economic and community development efforts, you can build wealth that sticks in the region, so that the region’s people, places, and firms do better now—and boost their prospects for thriving down the road.

The WealthWorks value chain: Defining characteristics

Economic and community development goals tend to drive development practice. When goals are focused primarily on creating jobs and

generating income, development activities are designed to produce those results, no matter who gets income, or what kind of jobs they are. In WealthWorks, development goals are expanded to include all three elements of wealth building within a region: that is, boosting stocks of eight types of capital (while harming none), increasing the local ownership and control of that capital within the region, and improving livelihoods, including moving people, places and firms on the economic margins towards the mainstream. Working on that range of goals calls for a tool that is flexible in both its design and application—one that can broaden and deepen wealth-building impacts within a region. That tool is the WealthWorks value chain.

WealthWorks value chains

A WealthWorks value chain is a coordinated network of people, businesses, organizations and agencies that addresses a market opportunity to meet demand for specific products or services—each advancing individual self-interest while together building rooted local and regional wealth.

A WealthWorks value chain has several **defining characteristics**, each of which is a critical ingredient needed to achieve wealth-building results.

- **Partners.** WealthWorks value chains rely on a “woven” network of many actors, which WealthWorks calls “partners.” Each partner plays a role in producing and delivering products and services to the market. “Transactional” partners help develop, produce

and deliver the actual product or service. Other partners play important “support” roles by providing technical assistance, finance, training or other expertise that help the transactional partners function effectively. Other support partners might smooth the way for the value chain to increase the scale of results or to loop in partners who might otherwise be left out of the action.

For example, in a WealthWorks value chain that is bringing organic tomato soup to a variety of buyers, a farmer focuses on growing flavorful tomatoes, while a food processor combines the tomatoes with other ingredients to make the best tomato soup—both are transactional partners. But an agricultural extension service, as a support partner, might help farmers learn organic practices. Or a support partner coalition of farmers, processors and buyers might lobby a state agency to lower the cost of organic certification so that more subsistence farmers can grow organic tomatoes and benefit from the higher-reward organic market.

- **Coordinator.** WealthWorks value chains are woven together by a coordinator. A WealthWorks value chain is not self-organizing and doesn't happen by accident. The structure



Partners: In a health services value chain, a regional hospital and community college might partner to train local residents to meet rising demand for medical care.

and quality of relationships among partners in a WealthWorks value chain are what deliver products and services to market, allow the partners to fulfill their self-interest, and help the value chain build regional wealth. So it takes the careful work of a coordinator, working with the network of partners, to intentionally design and construct a successful WealthWorks value chain. A coordinator might be an organization, a public agency, a team or a business, but coordination must be an intentional effort, and must be considered a real part of their job and responsibilities.

- **“Interests” as glue.** WealthWorks value chains are bound together by self-interest—and strengthened by shared and common interests. Most partners in a WealthWorks value chain start working together out of self-interest—whether that be to meet their bottom lines, advance their missions, or achieve some other goal. Relationships between core partners often begin as transactions or financial relationships. What's unique about a WealthWorks value chain is that, over time, many of these relationships evolve and partners begin to see a shared and/or common interest in participating in the value chain.

For example, the soup processor—who has built a relationship with local farmers—might encourage the farmers to add beans and carrots to their crop rotations so that the processor can add minestrone soup to his product line. They share an interest in doing this: The soup processor expands his product line and the farmers diversify their crops and increase volume, both partners potentially boosting revenue from their activities.

Or perhaps the soup processor, farmers, and PTA all care about the health of community youth. This common interest is realized when the value chain is operating effectively and providing the school system buyers with more nutritional fare to serve in the school cafeteria.

Tapping into interests

WealthWorks thinks about interest in three different, but connected ways.

- **Self-interest:** “What’s in it for me?” is the strongest energy motivator.
- **Shared interest:** “What’s in it for us?” is sparked when two or more value chain partners recognize a win-win action within the value chain that will benefit each.
- **Common interest:** “What’s in it for everyone?” includes benefits that flow from the value chain to people or places outside the value chain, both in the region or beyond.

- **Demand-driven.** WealthWorks value chains start with demand, not supply. Some economic development approaches simply assume what products and services buyers will want, and then try to *push* them to the market. When that assumption is incorrect, it leaves producers with unpurchased products. By identifying documented demand for products and services before you build a WealthWorks value chain, you ensure that there is a market for your goods. Buyers *pull* goods and services through the value chain.

Think of it this way: if you start with what producers (tomato growers) and processors can produce instead of what buyers (schools) want, you might try to sell the schools diced tomatoes for salads. But when you do that, schools tell you kids much prefer tomato soup or pizza to salad, and they will only buy small quantities of diced tomatoes. If you had built a relationship with the school first, you would have known to produce and sell soup and pizza sauce instead of diced tomatoes.

- **Nimble and responsive.** WealthWorks value chains learn about and respond to changes in consumer preferences. WealthWorks value chain partners, because they are connected and coordinated, more easily stay on top of and communicate changing buyer preferences to others in the chain. As one partner notices price signals or changes in buyer preferences, she can alert others in the chain.

For example, the tomato grower can ask her partners in the WealthWorks value chain which tomato varieties are preferred by buyers before choosing new seeds—rather than relying on a year of poor sales to give her that information. Or the local university that is providing marketing assistance to a group of growers might share research about varieties that are trending elsewhere and likely to be in greater demand by their own buyers soon—which might trigger new conversations with buyers or investments by value chain partners.

- **Resourceful and inclusive.** WealthWorks value chains stimulate productive investments in underutilized resources. Value chain coordinators, working with the value chain partners, look for underutilized resources within the



Demand-driven and designed for scale: Knowing your demand partners, such as hotels or caterers needing laundry services, helps you meet their needs—which may then help you attract additional buyers in the future.

region that, with some investment, can be woven into the value chain, increasing their productive use. Moreover, WealthWorks value chains intentionally target market opportunities that can include and directly benefit low-income people, places and firms in the region.

In our example, the agricultural extension service might intentionally target helping local subsistence farmers learn organic practices so that they can start supplying the organic tomatoes that buyers are demanding for soup. Or network partners might uncover a local trucking firm not working at full capacity that could add a new run to pick up those farmers' tomatoes, reducing cost for the farmers while making the trucking firm more viable.

- **Designed for scale.** WealthWorks value chains are not meant to be “one and done.” Once a value chain has successfully delivered a set of products or services to buyers, it can serve as a **platform for doing more, better or different**. So, from the get-go, WealthWorks value chains seek investments in partners and activities that will establish greater capacity within the region to produce at higher quantity, at a wider range of quality, or to diversify and add products and services. These are all steps towards different aspects of scale. The point of achieving scale is to maximize wealth building and the flow of benefits from it within the region.

Through the value chain, our tomato growers may be able to band together to produce enough tomatoes to satisfy the demand for soup from local schools. But if the same farmers want to supply an interested buyer from a multi-state distributor, they might need product liability insurance. That costs thousands of dollars, and no farmer could afford it alone. Thinking ahead, through intentional value chain design, these farmers could organize to secure insurance affordably through a cooperative—setting them up to establish

relationships with higher-volume buyers. That's just one example of designing for scale.

- **Regionally rooted.** **WealthWorks value chains are rooted in place.** WealthWorks value chains are coordinated within a region, utilizing locally rooted resources to create a rich enabling environment that supports people, organizations, and businesses as they engage in value chain action. It's true that a few value chain partners might be outside the region, like a state university, a financial investor, or perhaps a distant buyer of your chain's products. But because most WealthWorks partners live, work, and play in the region, they have both self-interest and shared interest in helping more people, places and firms in the region do better.
- **Designed for wealth building.** **WealthWorks value chains are intentionally designed to achieve wealth-building ends.** Clearly, there are other ways to bring players together to meet demand for products and services. And other processes can have a positive impact on a region. But often that impact is short term, or limits who it benefits. In order to build wealth that sticks and lasts in a region, WealthWorks value chains are intentionally designed to grow local stocks of capitals while harming none, strengthen local ownership and control of that capital, and improve livelihoods for those on the economic margins.

With these defining—and designing—characteristics in mind, let's turn to an overview of the basics of building a WealthWorks value chain.

The Wealth Works value chain: A wealth-building engine

Economic and community development practitioners engage in four essential activities to construct a WealthWorks value chain.

The exact steps taken depend on the market opportunity selected and the partners and coordinator in any one value chain. Here we offer a broad-brush overview of the four activities.

1. Identify a value chain coordinator

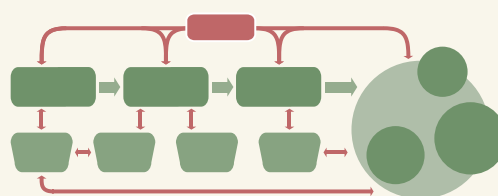
With multiple players and moving parts, it's no surprise that WealthWorks value chains need to be guided by a thoughtful and committed coordinator. At the point a critical mass of businesses, organizations, agencies and investors want to act on a market opportunity and build a value chain, they typically agree they must have a **coordinator** who will serve as the backbone that holds and weaves their efforts together.

Who can be a coordinator? The energy, knowledge and ability the coordinator brings to the job of constructing the value chain is a critical investment that can make the difference between success and failure. Anyone might be a coordinator—an organization, a business, an agency or a team. But like any value chain partner, the coordinator, too, must have a vested interest in developing and maintaining the value chain. A coordinator might be:

- An **organization** involved in identifying the market opportunity might emerge as a “central” player and take on the coordinator role. For example, a local community development financial institution (CDFI) or a regional non-profit might coordinate our organic tomato soup value chain.
- A **public agency** can be a coordinator. In this case, helping organize and build value chains might become the job description of state or local economic development agency staffers who are tasked with strengthening a specific sector—like regional organic food systems.
- A **team of interested partners** might serve as coordinator—or hire one for the purpose.

Constructing WealthWorks value chains: The basic process

1. **Identify a coordinator**
2. **Connect partners around the market opportunity**
3. **Find and address wealth-building opportunities: Gaps, bottlenecks and underutilized resources**
4. **Secure ongoing investment to support the value chain**

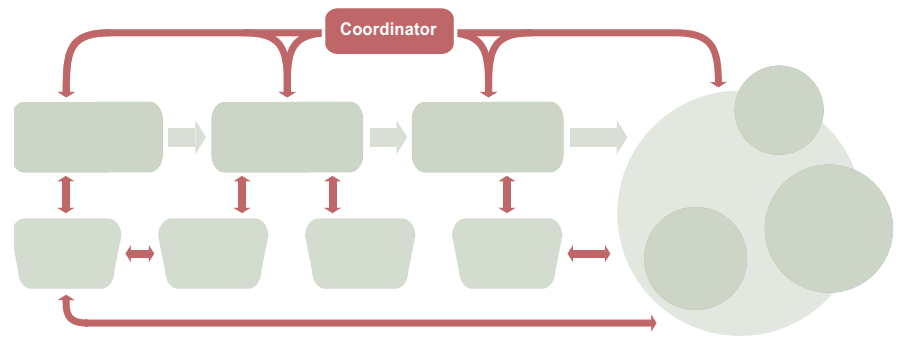


For example, a group of local schools and hospitals that are interested in sourcing more of their food locally (while improving health, reducing obesity, cutting costs, and increasing local incomes) might band together to hire and oversee a coordinator to build a WealthWorks value chain for that purpose.

- A **business** might serve as coordinator. For example, a high-end grocery store company might find it extremely valuable to coordinate a value chain that ensures a steady and ready supply of organic tomato soup and other organic products—both to satisfy its customers and to buff its community-centric image.

In some cases and over time, the coordinator might become a researcher, a trusted advisor, perhaps a mediator and even a data collector. But, first and foremost, the WealthWorks value chain coordinator must embrace three critical roles: convener/connector, wealth-building advocate and innovator.

- As the **convener and connector**, a coordinator reaches out to partners individually, and brings partners or potential partners together as needed. In the process, the coordinator scopes out the interests—self-interest, shared interest, or common interest—of potential partners in participating in the value chain. In building relationships among all the partners, the coordinator sees and is able to communicate the “big picture” of the value chain to others. From this vantage point, the coordinator can identify gaps in the value chain, recognize self-interest of potential new partners, and work with existing partners to resolve challenges and address opportunities quickly, often building or strengthening relationships along the way. The coordinator can also help facilitate the development of “feedback loops” that spread useful information throughout the value chain network.
- The coordinator serves as the value chain’s leading **wealth-building advocate**. The coordinator holds the WealthWorks vision for the larger group, encouraging partners to make decisions and take actions that grow stocks of local capitals, increase local ownership and control of that capital, and improve livelihoods for more in the region, always including low-income people, places and firms. This vision of the region’s people, places, and firms doing better now and in the future helps value chain partners grapple with tough decisions and make far-sighted choices. Coordinators keep asking the tough questions and remind partners that regional wealth building is in their shared interest.
- Finally, the coordinator must be a willing and skillful **innovator**—or facilitator of innovation. Value chain partners often address tough challenges and gain confidence in themselves and each other through innovation. The



The coordinator serves as the backbone of a WealthWorks value chain, weaving together the efforts of everyone involved.

coordinator helps unleash innovation, encouraging partners to try new things, access new knowledge, engage in unprecedented conversations, take risks and learn from their efforts. These experiences catalyze new activities, attract new partners and make the value chain more resilient.

2. Connect partners around the market opportunity

WealthWorks considers any person, business, agency or organization that is involved in a value chain a “partner.” Some value chain partners are very involved with the coordinator in thinking about, designing and building the value chain. Some are aware of the chain and supportive, but dip into the work of constructing the value chain only in relation to their specific contribution or connection to its effort. A few partners may be largely unaware they are even in the value chain, but because other partners and the coordinator are aware of those partners’ value, they maintain relationships with them.

Types of value chain partners. There are three primary types of partners in a value chain, and they each play different roles.

- **Demand partners** are the buyers who have significant interest or commitment to buy your products or services. Any market opportunity

that you want to address through a value chain is defined as a market opportunity primarily because you have developed relationships with buyers and documented their actual demand for something you can do or make in your region. Demand partners are in your value chain by necessity and default—without them, you are producing on blind faith that someone will buy what you make or do.

Some demand partners are interested in more than price and supply. They might buy goods produced through your value chain specifically because of additional wealth-building benefits—and thus might be willing to invest in it further.

For example, in weighing several options for buying organic tomato soup, your WealthWorks value chain might offer the buyer more because you provide soup that is processed in a zero-emissions facility and packaged in biodegradable containers, or because it benefits small growers and provides apprentice opportunities for new farmers. If this buyer is a high-end national grocery store company, and it wants to beef up its local and organic food offerings, it might make a commitment to become a support partner by providing funding or technical assistance to help more farmers in the region get certification as organic growers.

Once your value chain develops solid, trusting relationships with them, demand partners can also help identify new market opportunities and new product ideas. Getting to this kind of relationship with demand partners is key to developing resiliency.

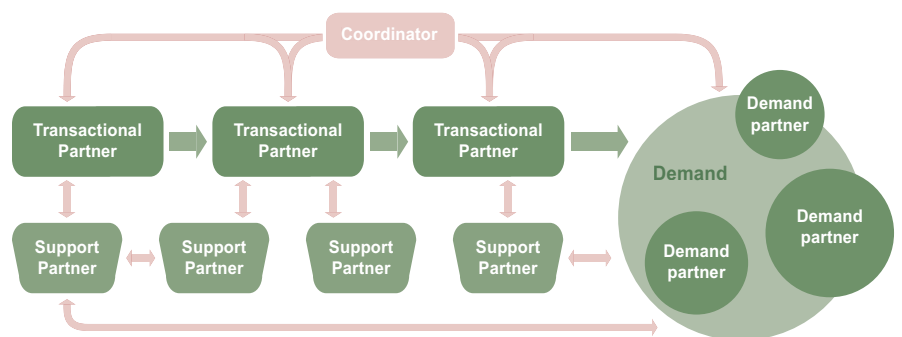
- **Transactional partners** are the businesses, organizations and people that play a direct

role in sourcing, producing and distributing the actual product or service you are delivering to the demand partners. Who becomes a transactional partner depends on what must happen to turn local resources into the product or service the buyers want—and then get it to the buyers. Transactional partners typically include businesses or others that:

- Supply materials
- Produce basic goods or services from the materials
- Process those goods or services into different products or package them
- Aggregate a batch of the products for sale—or bundle demand from a set of buyers
- Distribute goods and services to buyers.

Because our organic tomato soup value chain partners started by building relationships with demand partners, they realized that the local school district and regional hospital needed organic tomato soup in quantity. They also found other buyers that wanted to sell the soup retail to individual consumers inside and outside the region. Such demand information begins to outline different transactional partners that must be a part of their value chain.

- Value chains also include **support partners**—people, businesses and organizations that



Partners to connect in a WealthWorks value chain include demand partners, transactional partners and support partners.

directly assist transactional partners with fulfilling their roles, or that help utilize all the benefits and waste that flow from the transactions to leverage more wealth building in the region. Support partners can be as diverse and specialized as transactional partners. Services provided by support partners can include financing (debt and equity, philanthropic), policy and regulation, certification, research and development, as well as technical assistance. Just like transactional partners, support partners are energized to participate in a WealthWorks value chain by what they get in return that meets their self-, shared or common interest.

In our tomato soup value chain, a support partner might be a local expert or program that helps entrepreneurs better market their “just like mom’s” tomato soup. A state-sponsored campaign might help promote organic products. A local bank and community development financial institution might jointly pilot a new small-loan product that low-income farmers need to get up to organic speed. Or a community foundation might provide a grant that pays for the value chain coordinator.

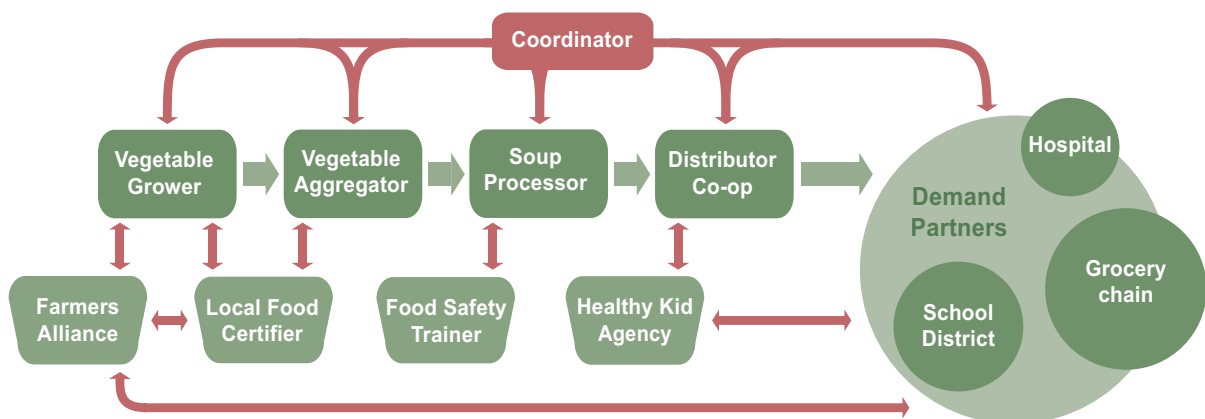
See *Potential partners in an emerging organic tomato soup value chain* for examples of each type of partner.

Mapping a WealthWorks value chain. A wide range of strategies and partners can be incorporated into any single WealthWorks value chain. And they vary widely by product or service, sector, region, economy and local culture and connections. One tool for assembling and seeing the connections among the WealthWorks value chain partners is a value chain map.

A **value chain map** is a diagram of all the processes and functions that make up a value chain, the partners that are performing those functions, and the multiple links that connect them to each other. It shows how the “market opportunity”—the product or service at the center of the value chain—is produced and moves from one partner to the next on its way to the buyer. But it goes beyond the normal “supply chain” map typically used in economic development circles, because it shows the essential functions that support the transactional partners, and the “flows” of by-products from the value chain that might present more opportunities for wealth building.

The mapping process can be carried out in a myriad of ways, for example, a series of conversations, a large-group work session, or design by the coordinator, who then checks it with other partners. With time, additional

The chart below shows what a tomato soup value chain map might look like at the start.



Potential partners in an emerging organic tomato soup value chain

There are three primary types of partners in a value chain, and they each play different roles.

Demand partners

Buyers

The school district or hospital that buys organic tomato soup in quantity, in large-batch no-frills cans, at a low price point

The high-end food market chain or farmers market customers that buy the organic soup in small containers with local-brand labeling at a higher price

Transactional partners

Suppliers

Seed catalog providers, water or irrigation services, organic fertilizer firms, equipment shops that supply tomato growers

Producers

Growers of tomatoes, onions and garlic that will be used to make the soup

Processors

Soup-making firm that turns the vegetables into a fresh, tasty soup—and packages it

Aggregators

Firms that collect and bundle the output from many producers and/or processors to facilitate marketing and sale of soup products to buyers

Distributors

The transportation company that delivers the soup to the buyers

Support partners

Technical assistance

University extension service that transition tomato growers to meet organic crop certification; small business development group that helps the farmers and soup-making firm with business plans and marketing

Financing

Bank, credit union, or community development financial institution (CDFI) that provides loans or start-up capital to tomato growers or processing firms; community foundation that subsidizes organic certification fees for low-income farmers, or makes a grant to cover the cost of the value chain coordinator

Policy and regulation

Coalition of farmers, processors and buyers that lobby a state agency to lower the cost of organic certification

Market development

Healthy Kids non-profit that offers local food taste-tests at schools and food markets, building demand for foods produced by local farmers

products or services may be added to the core value chain. However, the design principle is generally to start with one product or service, in order to gain an understanding of the value chain dynamics, and add products or services, new benefit flows, and partners as they emerge.

The process of mapping a WealthWorks value chain—and keeping the map current—is critical. The key is to see the map as a living document, continually tended and updated. That brings us to the third essential activity in constructing a WealthWorks value chain.

3. Find and address wealth-building opportunities: Gaps, bottlenecks and underutilized resources.

A WealthWorks value chain is dynamic, not static. A large part of its value as a tool for designing and implementing economic and community development efforts lies in that fact. The WealthWorks value chain, when well coordinated, becomes a communication and planning vehicle that surfaces and highlights information that can lead to more wealth-building opportunities.

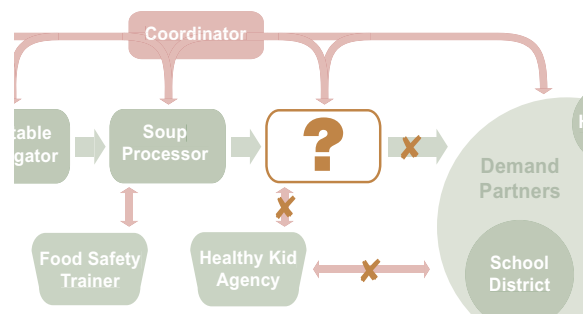
How does that happen? The coordinator and core partners in a WealthWorks value chain regularly, either through formal meetings or a series of smaller exchanges, discover things happening (or not happening) in the value chain that present a barrier to be tackled or offer an idea for an entrepreneurial venture.

WealthWorks views these as **wealth-building opportunities**—that is, opportunities to grow stocks of the eight capitals, strengthen regional ownership or control of that capital, and improve livelihoods for people in the region. Wealth-building opportunities become evident as you map the value chain and identify its **gaps, bottlenecks** and **underutilized resources**.

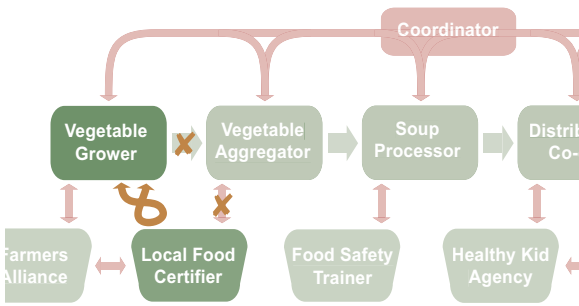
- A **gap** is a missing process or function that is essential to produce the goods or services at the core of your value chain.

In the tomato soup value chain, this kind of gap might be the lack of a transportation business that can move the soup from the processor’s kitchens to the local schools and other buyers. If your value chain fills that gap, for example, by working with a small group of laid-off bus drivers to set up a small transport business, you have started a locally owned business, created jobs, increased incomes and tax revenues, and set up a firm that might help you achieve greater scale by taking on more business later. Or if your buyers want tomato soup portioned out in 6.5 ounce packaging, and you can’t find a supplier for that size anywhere, your wealth-building opportunity might be to create a business that produces those containers, or to work with your existing packager in the value chain to innovate—adding to their profit and product line while you meet your buyer’s demands.

- A **bottleneck** is something that prevents or restricts the value chain from operating smoothly or achieving scale, such as regulatory problems, missing skills, or inadequate financing. Returning to the tomato soup example, area schools may require GAP (Good Agricultural Practices) Certified products to be served to their students.



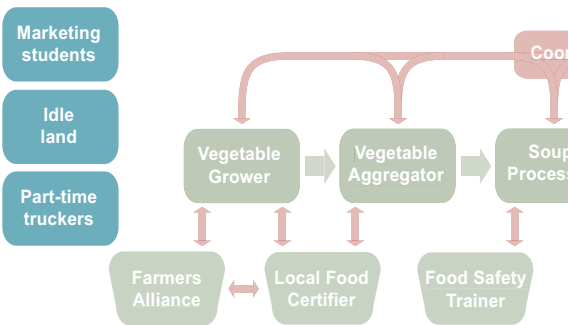
Gaps: A missing process or function represents both a gap in your value chain and an opportunity to fill it with a local supplier.



Similarly, a bottleneck—such as the inability of one partner to meet a requirement—is a problem awaiting a wealth-building solution.

The tomato growers, however, may lack the proper training or practices to receive GAP certification, or may be unable to afford the cost of the certification process. Support partners—like the university agricultural extension service or a regional nonprofit—might be able to help with the training, while a state agency or community foundation might help with funding. Or the value chain coordinator might be able to negotiate a “group discount” for a collaborative of farmers that go through certification training and process together. Breaking through such bottlenecks leads to wealth-building results.

- **Underutilized resources** are resources currently available in the region that, for one reason or another, are not yet mobilized to full



Underutilized resources: Potential partners who might enhance value chain activity but haven't been included represent lost opportunities that can be seized for wealth building.

benefit within the value chain. In the case of tomato soup, this may be a small restaurant with a fantastic tomato soup recipe that goes overlooked by local processors. Or it could be land standing idle that might be used for growing tomatoes.

There are many ways to help value chains fill gaps, untangle bottlenecks or bring underutilized resources into productive use. The goal of a WealthWorks value chain is to address as many of these wealth-building opportunities as possible by using resources in the region. This “Can we do it here?” approach involves creative and strategic thinking. It is one facet of what makes this a WealthWorks value chain.

Always ask the wealth-building questions.

As you recall from Module 1, in Wealthworks, **wealth building** is the goal of economic and community development. To that end, as you construct your value chain, it is essential to keep these three questions in mind:

- How can the value chain be constructed so that it increases the quantity and/or quality of the eight capitals in our region, and does no harm to any of them?
- How can the value chain expand local ownership and control over the region’s capital and assets?
- How can the value chain be used to include more people, places, and firms on the economic margins in the action and the benefits?

These questions will guide the strategies used to construct the value chain and help shape its outcomes. The same questions can help you identify gaps, bottlenecks and underutilized resources. In short, bringing these three wealth-building questions to your WealthWorks value chain at any point in its development—from inception to maturity—will add insights and keep your wealth-building results growing.

Always leverage for scale. In the process of constructing any value chain, you will likely encounter a range of gaps, bottlenecks and underutilized resources. How should you prioritize which opportunities you address first—especially if your resources aren't limitless?

The answer is to look for the **leverage points**. (See *Finding leverage points: A green housing example*.) Leverage points are particular gaps, bottlenecks or underutilized resources that, if addressed, are the “difference that will make the most difference” to increase the scale of wealth-building impact in your region.

Remember: The goal of the WealthWorks value chain is not simply delivering a product to market. It is doing so in ways that help build

wealth that sticks to the region, and that delivers better livelihoods for more people, places and firms in the region. Leverage points help unleash wealth-building impact. With creative and strategic thinking about finding and wielding leverage points, your WealthWorks value chain can become a wealth-building engine for your region.

4. Secure ongoing investment to support the value chain.

Like any economic and community development approach, building a WealthWorks value chain is an undertaking. Identifying the coordinator, spotting the right market opportunities, assembling and connecting partners, finding leverage points and addressing gaps,

Finding leverage points: A green housing example

In Kentucky, a group of builders, contractors, and home buyers came together to develop a green-housing value chain that would help families save on energy bills. As the group mapped the value chain, an important leverage point was revealed in the housing appraisal process.

“Green” homes cost more to build. But local appraisers—who help determine how much a bank is willing to loan—did not recognize the economic benefits of green housing, and so it was not captured in their valuations. As a result, the bank would not approve mortgages for amounts needed to buy houses with green construction. Without mortgage approval, low-income families couldn't afford the higher quality, environmentally sound housing.

The builders saw this bottleneck as an opportunity to leverage significant change. The value chain partners invested in training local appraisers about green construction practices. After training, local appraisers raised appraisal values for green homes, which in turn meant lenders offered loans commensurate with the home's true market value. Low-income families thus gained access to higher-quality homes with lower energy costs, improving their bottom lines. And the region had more incentive to increase green construction practices overall. This one strategic adaptation in the value chain leveraged big wealth-building potential.



Wealth-building investment: An example

A value chain coordinator helps motivate the self-interest of partners or potential partners into an investment in value chain “action” that is tailored to increase wealth-building results in the region.

Partner or potential partner	Motivating interest or “pain point”	Wealth-building opportunity	Wealth-building investment
Food processors	Seek to reduce high turnover rates that increase the cost of hiring and training employees	Gap: No ongoing skills training is available for local food processing workforce outside of on-the-job training provided in local processing firms	Food processor group works with local community college to develop tailored training program, and commits to increase wages for program graduates who stay with their firms at least one year.
Soup distributor	Wants to sell soup to local school district, but district has exclusive contract with large, national food distributor	Bottleneck: Because they receive some state funding, schools must procure food through a complex bidding process only large national food distributors can manage	Distributor joins others in a “local-foods producers alliance” that lobbies state legislature and procurement agencies to open up bidding process to be more competitive and inclusive of local producers at smaller scale.
Heritage foods non-profit	Seeks to expand use of disappearing varieties of tomatoes	Gap: No supplier willing to offer price-competitive seeds to small growers	Heritage foods non-profit helps lower-income farmers gain traditional know-how to grow heritage varieties – and harvest seeds for their own use and for profitable sale to other farmers.
Regional community foundation	Aspires to play a more useful role in building the region’s economy.	Underutilized resource: Small-farm producers lack capital for hoop houses that can both protect crops from extreme weather and extend the growing season.	Community foundation works with its donors to develop revolving loan fund for new small-farm producers who can’t get conventional bank financing.
Health insurance company	Wants to keep its insured customers healthy and not using expensive medical services	Bottleneck: Families have little disposable income to purchase higher-priced, more nutritious local organic food at the market.	Insurance companies offer monthly premium reductions to families that pre-purchase discounted weekly vegetable boxes (with recipe guides) from regional cooperatives.

bottlenecks and underutilized resources is real work. So, like any market-driven approach, it requires investment—not just financial, but investments of creative thinking, willingness to innovate, commitments to doing things differently to create different results—and time.

Think of a WealthWorks value chain as a venture undertaken by a group of investors. Each invests in the value chain to, over time, generate a good return. But WealthWorks investors don't necessarily invest dollars, and not all value chain investors are looking for financial returns.

Three big investment questions guide the construction of a WealthWorks value chain:

- Who will invest in the value chain—and why?
- What types of investment does the value chain need?
- How can each investment be tailored to support wealth building?

A. Who will invest in the value chain and why?

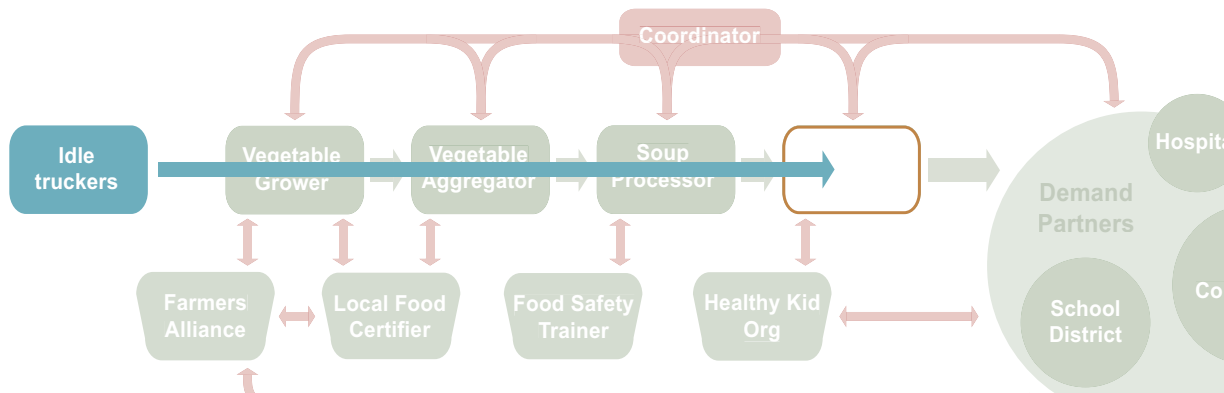
Every partner who is drawn into a WealthWorks value chain is an investor—whether a demand, transactional or support partner. Each must receive something of value for their investment, or they would not be connected to the

value chain. But there are two kinds of benefits: Direct Benefits and Broader Benefits.

Direct benefit: Self-interest and shared interest. Typically, what draws a partner into participation and investment in the value chain is something that will fulfill their self-interest. Self-interest can have many facets, not all of them financial. Here is a simple partial list of self-interest motivators:

- Saves cost
- Stabilizes price
- Ensures reliable supply
- Creates local supply
- Produces better quality
- Increases self-sufficiency
- Provides access to new markets
- Diversifies product mix
- Develops marketable skill or capacity
- Fulfills mission
- Improves image
- Creates more jobs
- Creates better jobs
- Increases income
- Reduces time wasted
- Uses abandoned facility
- Increases connections to power
- And on and on...

Many refer to finding this self-interest as addressing the partner's "pain point." So, a good initial organizing question for value chain construction is: "What issue or opportunity or pain is the potential partner experiencing that the value chain can address or alleviate?" From



In WealthWorks, investment includes any use or dedication of a capital for wealth-building results. Applying an underutilized resource to fill a gap in the value chain is a wealth-building investment.

their point of view, the potential partner is asking a parallel question: “What’s in it for me?”

Quite often, two partners in a value chain have the same self-interest in participating and investing. So, in our tomato soup value chain, to operate at full capacity, both the food processing firm and the aggregating distributor might share self-interest in having a reliable supply of organic tomatoes. Once they realize that shared interest, they may be willing to invest more time and effort in working with the value chain coordinator and other partners to ensure that more local farmers have what they need to produce an adequate supply of organic tomatoes every season. Recognizing such shared interests can strengthen the bonds in a value chain in ways that encourage more investment.

Broader benefit: Common interest. It is also important to look beyond direct benefits to **broader benefits** produced by a WealthWorks value chain. This can include benefits produced by the value chain that accrue to people, places or businesses outside of the value chain.

For example, the more nutritious organic food options in the schools might help children make better food choices and reduce obesity. Both their parents and their doctors might notice and realize the benefit. Likewise, local officials might appreciate that local farmers are doing better financially now that they are growing and selling organic tomatoes, are also becoming more active leaders in the community and showing up and contributing ideas at town meetings and regional economic forums.

WealthWorks value chain partners and coordinators do well to keep asking two useful broader-benefit questions: “**What broader benefits will this value chain produce for those outside the value chain?**” and, “**Who is it that will benefit?**” These can help expand your thinking about all the ways the value chain

might produce results that benefit the region. It can generate a list of potential support partners who might invest in the value chain. For example, the elected state legislator in the region might take a new interest in the potential of the organic food sector and begin to sponsor legislation or advocate for regulations that help the sector achieve more scale of production, participation or results.

Overall, what’s important is recognizing that a WealthWorks value chain will produce a range of direct and broader benefits that may provide investment opportunities in your value chain. Working with potential partners to identify their value proposition—that is, what they care about that is of sufficient interest to energize their participation—can lead them to invest in the value chain. The value chain may help them address a specific pain point in need of a solution or may help them achieve a goal related to their mission. An individual’s or organization’s interest in investing in a value chain may not be immediately apparent. It is through conversation and relationship-building that value propositions emerge and investment can take place.

B. What types of investment does the value chain need?

WealthWorks value chain coordinators and partners learn to broaden their sense of what investment means to get beyond the common frame of “All we need is more funding or financing or profit to make things work better in this region.” The exact investment needs of any WealthWorks value chain will depend on that value chain’s market opportunity. In WealthWorks, investment includes any use or dedication of any of the eight capitals to the value chain for wealth-building results.

Think of investment as the nature of each partner’s participation in the value chain. Are they providing time and technical expertise to other

partners? Offering use of space or materials? Committing to a purchase? Taking on some risk? Funding a critical function? Organizing a pivotal conversation to address a roadblock? Lending their voice to advocate for changing a regulation? Creating a new financing option? Volunteering time and paying fees to be trained in new skills? These are all investments.

C. How can each investment be tailored to support wealth building?

The structure and timing of investments affect how—and how well—WealthWorks value chains fulfill wealth-building goals. Well-designed investments can help the value chain grow the capitals, expand ownership and improve

livelihoods. This happens when you pair investments with strategies to fill gaps, untangle bottlenecks and bring underutilized resources into productive use.

While the value chain coordinator is often the leading wealth-building advocate, it takes value chain partners to make wealth building a reality. Initially, partners may simply invest in the value chain because it meets a narrowly-focused self-interest. Over time, however, they may come to see the broader benefits produced by the value chain and expand their investments to include wealth building from the start. These partners may even become wealth-building champions, encouraging others to invest and build wealth in the region.

Conclusion

WealthWorks value chains are well-suited to economic and community development that reaches beyond the norms of “creating jobs” and “increasing income” to achieve broader and deeper wealth-building goals that strengthen and sustain a region’s economy for the longer haul.

WealthWorks value chains offer a practical way to build your stocks of local capital, increase local ownership and control of that capital, and improve livelihoods and upward mobility for people, places and firms within a region. They show how a network of different types of partner investments, coordinated around a true market opportunity, can produce wealth that “sticks” to the region. They move the system of doing economic and community development toward a “new normal”—one where the realization of shared and common interests among value chain partners catalyzes

opportunity and creates the will to address challenges together and better utilize all the resources flowing through the value chain to build wealth in the region.

In Module 4, you will learn how practitioners use measurement, both to guide their value chain construction, and to explore scaling their development effort to achieve and sustain more wealth-building results.



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