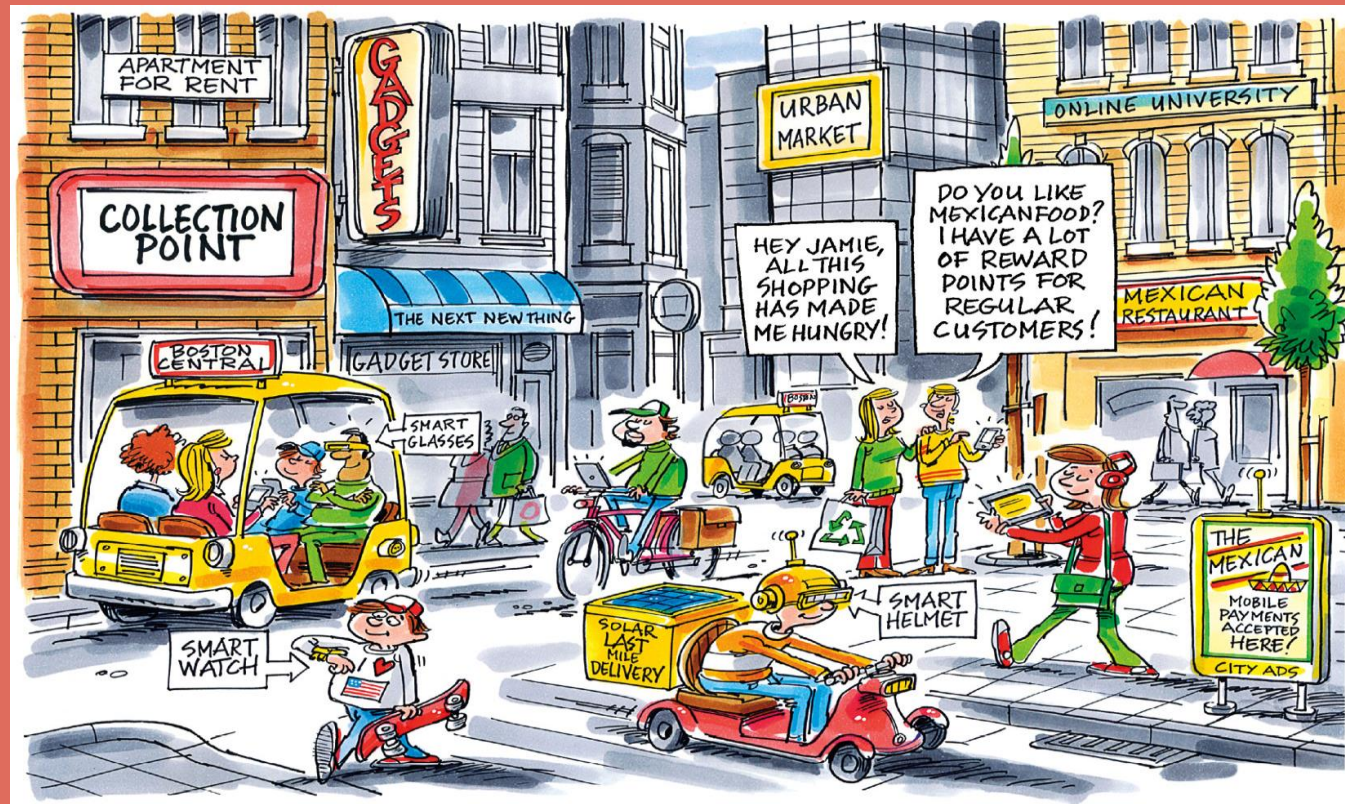


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Creating Corporate Integral Value (CIV)

Leg 6. Value Chain Analysis Introduction - Key Concepts (continuation)



Cartoon Source: Rethinking the Value Chain. <http://www.futurevaluenetwork.com/cartoons/>

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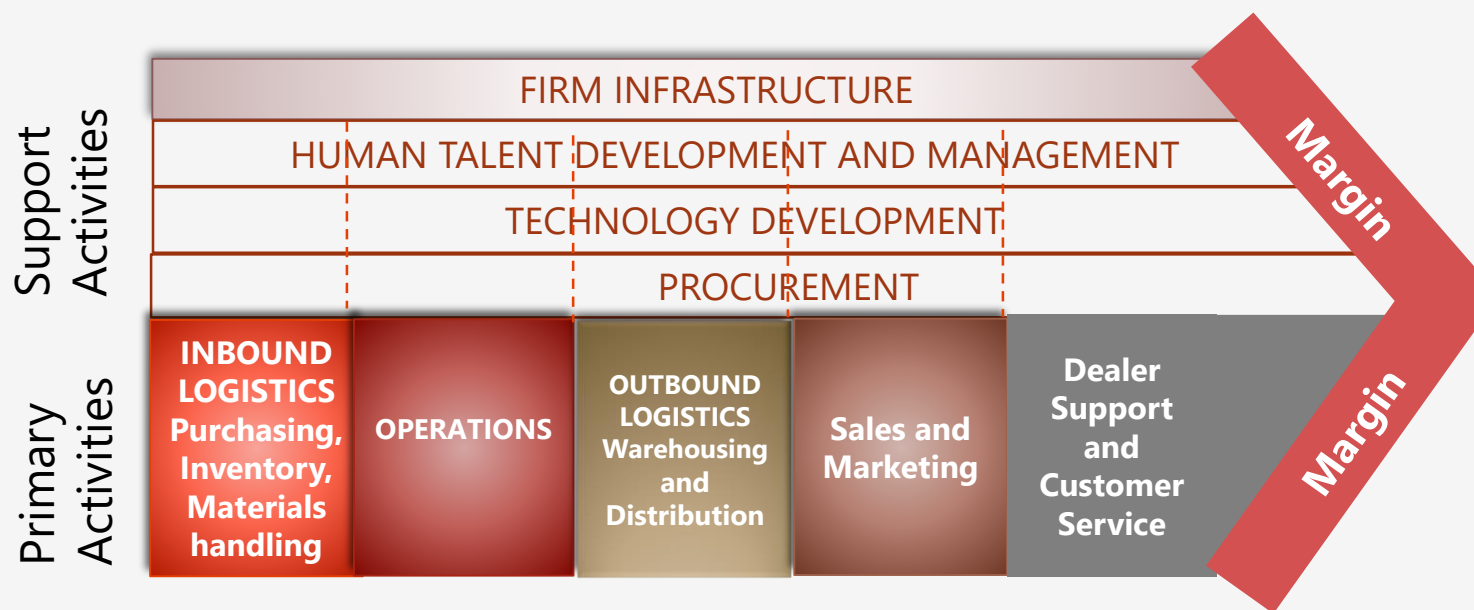
→ Leg 4. From Melbourne to Hong Kong.

Key Concepts Value Chain Analysis (continuation)

01

Key Concepts Value Chain Analysis

In order to understand the value chain design, analysis and execution, we will continue today with some important concepts and definitions.



We are
here!



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Key Concepts Value Chain Analysis (continuation)

The whole idea of Value Chain Analysis is to fragment in pieces all the primary production activities and functional support tasks in order to maximize the VALUE for the clients, and Maximize the PROFIT for the company.

In our last post we saw the following two equations:

For the customer



$$\text{VALUE} = \text{Utility} - \text{Price}$$

Maximize

- If we wish to maximize VALUE for the Customer
- Either we Maximize UTILITY or decrease our PRICE
- We Focus on Utility Drivers

For the firm



$$\text{PROFIT} = \text{Price} - \text{Cost}$$

Maximize

- If we wish to maximize PROFIT for the Firm
- Either we Maximize PRICE or Reduce our COSTS
- We focus on Cost Drivers



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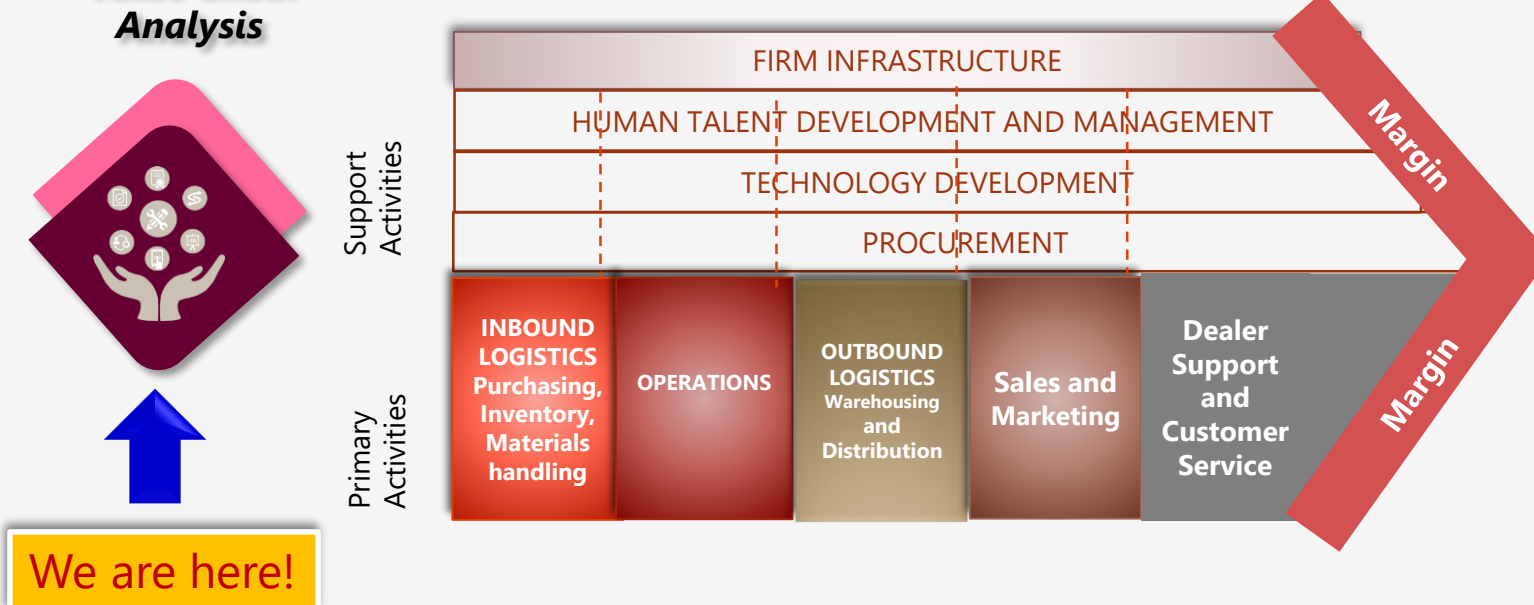


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Key Concepts Value Chain Analysis (continuation)

One of the most useful tools for analyzing UTILITY and COST drivers and the relationship between both is the famous value chain from Porter. Let's understand the terms of this tool:



Each company is a collection of activities. Activities performed:

- To design,
- To produce,
- To market,
- To deliver
- To support its product or services.
- All these activities can be represented using a "VALUE CHAIN" as the one at our left.

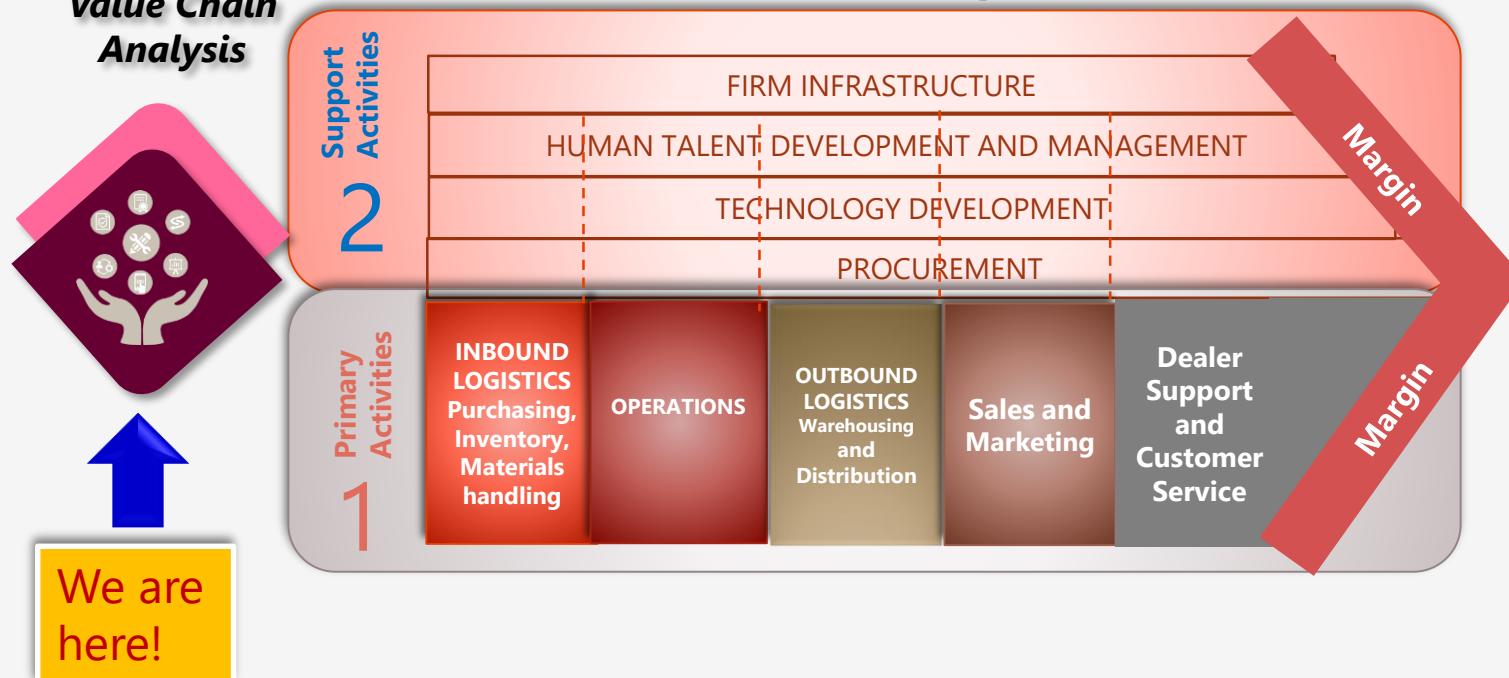


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Key Concepts Value Chain Analysis (continuation)

01 Key Concepts Value Chain Analysis

One of the most useful tools for analyzing UTILITY and COST drivers in order to understand how to create VALUE, and the relationship between is the famous value chain from Porter. Let's understand the terms of this tool:



- Each company has its own value chain.
- There is no same value chain in firms competing at the same industry.
- Differences among competitor value chains are a key source of competitive advantage. Those differences can vary because of the buyers, geographic areas or distribution channels.
- Each Value Chain consists of two type of activity which create value for customers: **1. primary value activities** and **2. support activities**.

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Key Concepts Value Chain Analysis (continuation)

Let's understand the terms of this beautiful Value Chain tool:

01 Key Concepts Value Chain Analysis



We are here!

Primary Activities



- Are activities involved in the physical creation of the product and its sale and transfer to the buyer as well as after sale assistance.
- These activities consist of bringing materials into the business, transforming them into products, distributing them, marketing and servicing them.
- The primary activities are 5: Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales, and Service.

Support Activities

- Support the primary activities and each other by providing the procurement, technology, human resources and various firm wide functions.
- **Firm Infrastructure** is not associated with particular primary activities but supports the entire chain.
- Each primary activity receives SUPPORT: **procurement**, **human resources** (labor and management, staff), some **technology** to perform its function. Each primary activity also uses and creates information (buyer data, order entry, performance parameters (testing) and quality-failure statistics..

→ Leg 6. From Hong Kong to Auckland.

Key Concepts Value Chain Analysis (continuation)

Let's continue understanding the terms of this beautiful Value Chain tool:

01

Key Concepts
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Analysis



We are here!

Primary Activities



Inbound Logistics:

Activities associated with receiving, storing and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling and returns to suppliers



Operations:

Activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, equipment maintenance, testing, printing and facility operations



Outbound Logistics:

Activities associated with collecting, storing and physically distributing the product to buyers, such as finished goods warehousing, material handling, delivery vehicle operation, order processing and scheduling



Marketing and Sales:

Activities associated with providing a means by which buyers can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relations and pricing.



Service:

Activities associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply and product adjustment.

→ Leg 6. From Hong Kong to Auckland.

Key Concepts Value Chain Analysis (continuation)

Let's continue understanding the terms of this beautiful Value Chain tool:

01

Key Concepts
Value Chain
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We are here!

Primary Activities



INBOUND LOGISTICS
Purchasing,
Inventory, Materials
handling



OPERATIONS



OUTBOUND LOGISTICS
Warehousing and
Distribution



**Sales and
Marketing**



**Dealer Support and
Customer Service**

Each or the five categories may be vital to competitive advantage depending of the industry.

- For a **distributor** such as AMAZON.com, inbound and outbound logistics are more critical.
- For a **service firm**, providing the service on its premises such as a restaurant, a retailer as Walmart, or a hotel, outbound logistics may be largely non-existent and operations are the most vital category.
- For a **bank** (financial services industry), engaged in corporate lending, marketing and sales are a key competitive advantage through effectiveness of their lending officers and the way in which loans are packaged and priced.
- For a **manufacturing** company of smartphones, service represent a key source of competitive advantage.
- **In summary:** for each firm, all the 5 categories of primary activities will be present to some degree and play some role in creating competitive advantage.

→ Leg 6. From Hong Kong to Auckland.

Key Concepts Value Chain Analysis (continuation)

Let's continue understanding the terms of this beautiful Value Chain tool:

01

Key Concepts
Value Chain
Analysis



We are here!

Support Activities

1. PROCUREMENT

- This term refers to the function of purchasing inputs used in the firm value chain.
- Purchased inputs include: raw materials, supplies, consumable items as well as assets such as machinery, laboratory equipment, office equipment and buildings.
- Purchased inputs are associated with primary activities and are present in every value activity including support activities.
- Example: In chocolate manufacturing, procurement of cocoa beans is the most important determinant of cost position.



- Procurement tends to be spread through all the firm value activities:
- Procurement costs are the costs associated to purchasing departments, but it also includes costs associated with the time used by plant managers, office managers, sales persons and even the CEO when purchasing.
- The dispersion of the procurement function is spread all over the firm.



→ Leg 6. From Hong Kong to Auckland.

Key Concepts Value Chain Analysis (continuation)

Let's continue understanding the terms of this beautiful Value Chain tool:

01

Key Concepts
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We are here!

Support Activities

2. TECHNOLOGY DEVELOPMENT

- Every value activity uses technology, be it know how, procedures or technology embodied in process equipment.
- The technology employed in firms is very broad, ranging from those used in preparing documents, transporting goods, or in the product itself. Each technology used by the firm involves different sub-technologies of different scientific disciplines
- Technology developments can be associated with the engineering department or the development group, but it occurs in many parts of the firm.



- Technology development may support any of the numerous technologies in value activities, such as telecommunications, office automation for the accounting department, or the GPS technology used in outbound logistics.
- It can be linked to research and product design, to marketing and sales, to customer service.
- Technology is related to the whole 5 primary value activities and each of the support activities.
- Technology is nowadays a key competitive advantage source in all industries.



→ Leg 6. From Hong Kong to Auckland.

Key Concepts Value Chain Analysis (continuation)

Let's continue understanding the terms of this beautiful Value Chain tool:

01

Key Concepts
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We are here!

Support Activities

3. HUMAN RESOURCES MANAGEMENT

- Human resources management consists of activities involved in:
 - Recruiting and Labor negotiations
 - Hiring,
 - Training,
 - Development, and
 - Compensation of all types of personnel.
- It supports individual primary activities and also other support activities and the entire value chain



- Human resource management occur in different parts of the firm and the dispersion of these activities can lead to inconsistent policies.
- Human Resources Development and management can become a competitive advantage.
- There are some industries where people development is key determinant for their success.

→ Leg 6. From Hong Kong to Auckland.

Key Concepts Value Chain Analysis (continuation)

Let's continue understanding the terms of this beautiful Value Chain tool:

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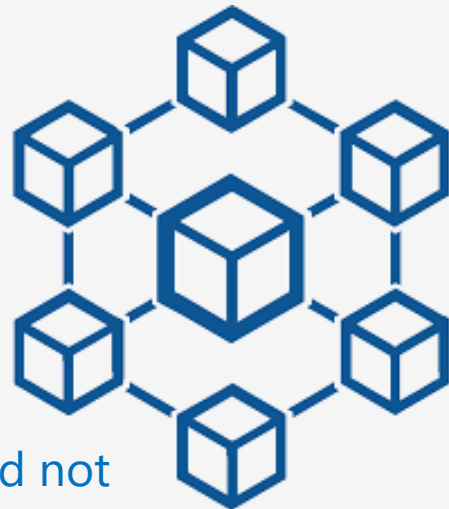
Support Activities

4. FIRM INFRASTRUCTURE

- Firm infrastructure consists of a number of activities including:

- General Management
- Planning
- Finance
- Accounting
- Legal
- Government Affairs
- Quality Management

- It supports the whole chain and not individual activities.
- Firm infrastructure is more than just "overhead".



• Examples:

- In a telephone operating company, negotiating and maintaining ongoing relations with regulatory bodies is probably the most important activity for competitive advantage, and this is done usually by someone at the corporate level.
- In digital companies, proper management of digital firm infrastructure is the key for a competitive advantage, while in other industries top management plays a vital role.



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Key Concepts Value Chain Analysis (Continuation)

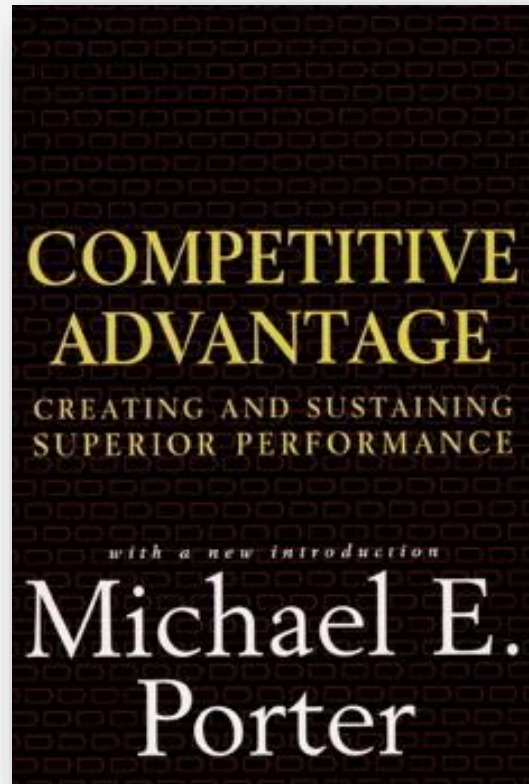
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**Key Concepts
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Analysis**



We are here!

On my next post we will continue sailing with the next topic: Value Chain a Methodology Approach.



All the material shared today is from the book "Competitive Advantage, Creating and sustaining Superior Performance, From Michael Porter.

Thank you!

