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Strategic Corporate Advisory Services

Creating Corporate Integral Value (CIV)



Leg 6. Value Chain Analysis

Value Chain Methodology Approach

Competitive Differentiation Analysis. Steps 5 to 8.



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



Leg 6. From Hong Kong to Auckland.

OUTLINE Leg 6. Value Chain Analysis

01

*Key Concepts
Value Chain
Analysis*



02

*Value Chain
Methodology
Approach*



03

*Who Uses Value
Chain Analysis?*



04

*Advantages and
Disadvantages
Value Chain*



05

*Innovating
through Value
Chain Analysis*



06

*Summary and
Conclusions*





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Support Activities



2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis

The Competitive Differentiation Analysis using the Value Chain can be simplified in the next 8 main steps:

1. Determine who the real buyer is
2. Identify the buyer's value chain and the firm's impact on it.
3. Determine ranked buyer purchasing criteria.
4. Assess the existing and potential sources of uniqueness in a firm's value chain
5. Identify the cost of existing and potential sources of differentiation
6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.
7. Test the chosen differentiation strategy for sustainability
8. Reduce cost in activities that do not affect the chosen forms of differentiation.

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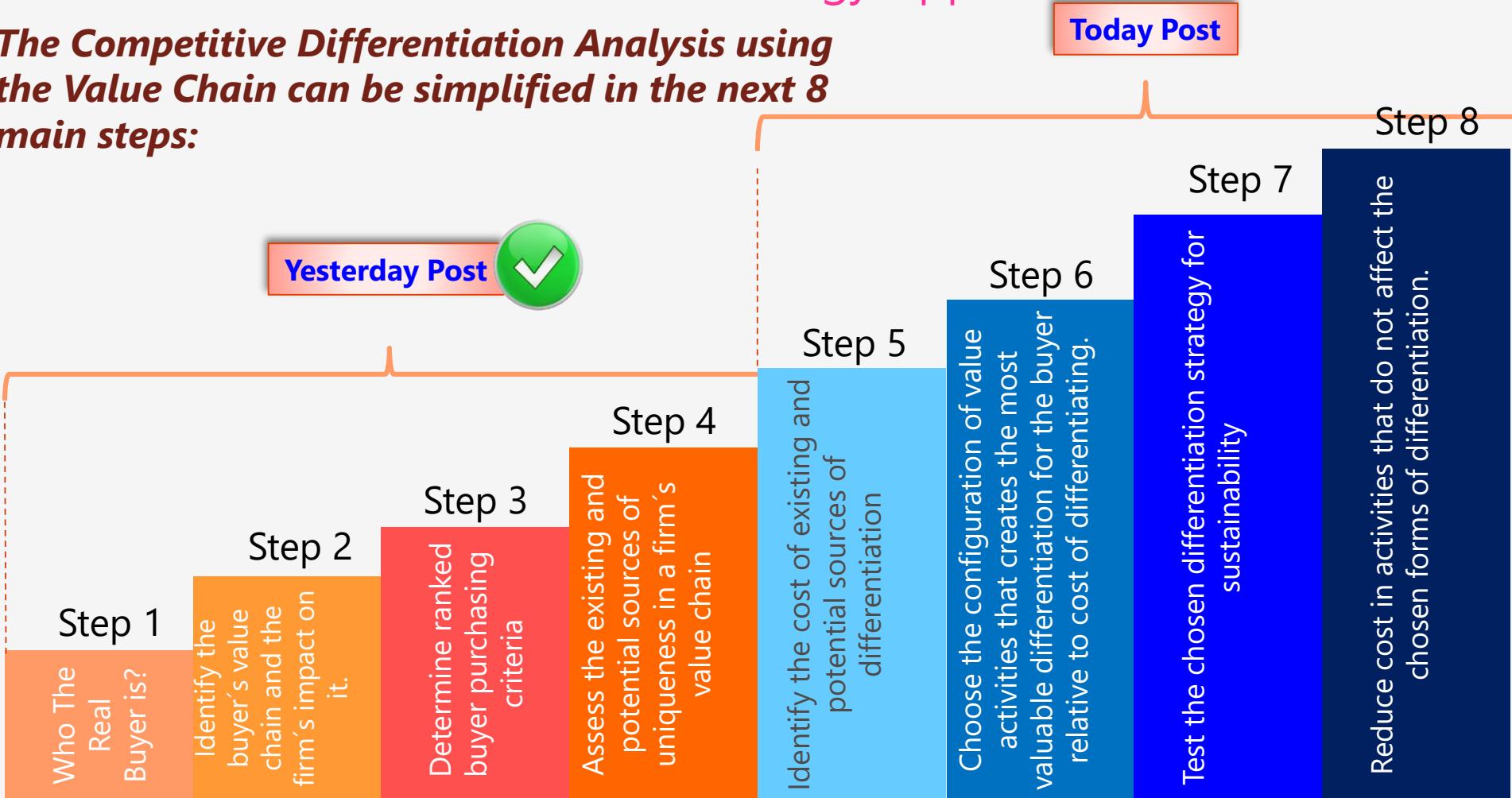
02 Value Chain Methodology Approach



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The Competitive Differentiation Analysis using the Value Chain can be simplified in the next 8 main steps:





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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis

STEP 4. Assess the existing and potential sources of uniqueness in a firm's value chain

A firm's uniqueness in each value activity is determined by a series of basic drivers which I have prepared in advance.



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See the set of
slides ANNEX
Uniqueness
Drivers.





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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis

STEP 4. Assess the existing and potential sources of uniqueness in a firm's value chain



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We have to identify the **COMPANY uniqueness drivers matrix** for each value activity

Value Activities	Uniqueness Drivers for the company's value chain								
	1. Scale	2. Experience (Learning and Spillovers)	3. Linkages	4. Interrelationships	5. Integration	6. Timing	7. Location	8. Institutional and Regulatory Factors	9. Policy Choices
Inbound Logistics				✓			✓		
Operations						✓			✓
Outbound Logistics									
Marketing and Sales			✓				✓		
After Sales Services									
Procurement									
Technology Development					✓				
Human Resources Management		✓							
Firm Infrastructure									

Illustrative checkmarks





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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis



STEP 5. Identify the cost of existing and potential sources of differentiation

To be different is not cheap either.
It is usually costly. Why?

- The company has to incur in costs to be unique, because uniqueness requires that it perform value activities different and better than competitors.
- Some forms of differentiation are clearly **more costly** than others.
- The investment in differentiation has an impact on the **cost drivers of the value activities** on which uniqueness is based.
- By pursuing “uniqueness”, a company affects the cost drivers of a value activity adversely and deliberately adds cost.
- **Example:** if you wish to enjoy the *Marina Bay Sands Infinity Pool* in Singapore, you have to pay at least US\$356 to 400 dollars/night.



Marina Bay Sands Infinity Pool,
Singapore.
If you are not a hotel guest, you
can't have access to swim here.



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STEP 5. Identify the cost of existing and potential sources of differentiation (uniqueness drivers) of our beautiful business or company.

How to analyze the cost of differentiation (uniqueness)?

- Once we have identified which uniqueness drivers apply to each value activity of our company value chain
- The cost of uniqueness (or differentiation) affects the cost drivers of the value activities in which uniqueness is based.
- In assessing the cost of differentiation, then, a firm must compare the cost of being unique in an activity with the cost of being equal to competitors.

What makes an activity unique (Uniqueness Drivers) can impact cost drivers



What makes an activity of low cost (Cost Drivers) can impact uniqueness drivers

- In the real life, companies which pursue sources of uniqueness (differentiation) adversely and deliberately adds cost
- Uniqueness drivers such as scale, interrelationships, learning and timing are particularly important cost drivers too and impact the cost of differentiation.
- Step 5 means to calculate each of the costs of uniqueness identified in step 4, for each value activity.



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Examples:



Linkages between value activities offers sources of differentiation and may indeed can lower costs: (Better coordination of quotations, procurement and manufacturing scheduling may lower inventory costs and shortens delivery lead time).

Policy Choices: More extensive inspection by suppliers may lower the company inspection costs (cost of Quality Control Value Activity), and reliability of the end product is increased.



Location: Moving a value activity close to the buyer, may raise transportation costs.

Scale can determine the cost of a company policy choice to advertise heavily (Marketing and Sales Value Activity).

Integration makes an activity unique but also may lower cost if integration is a cost driver between several value activities.





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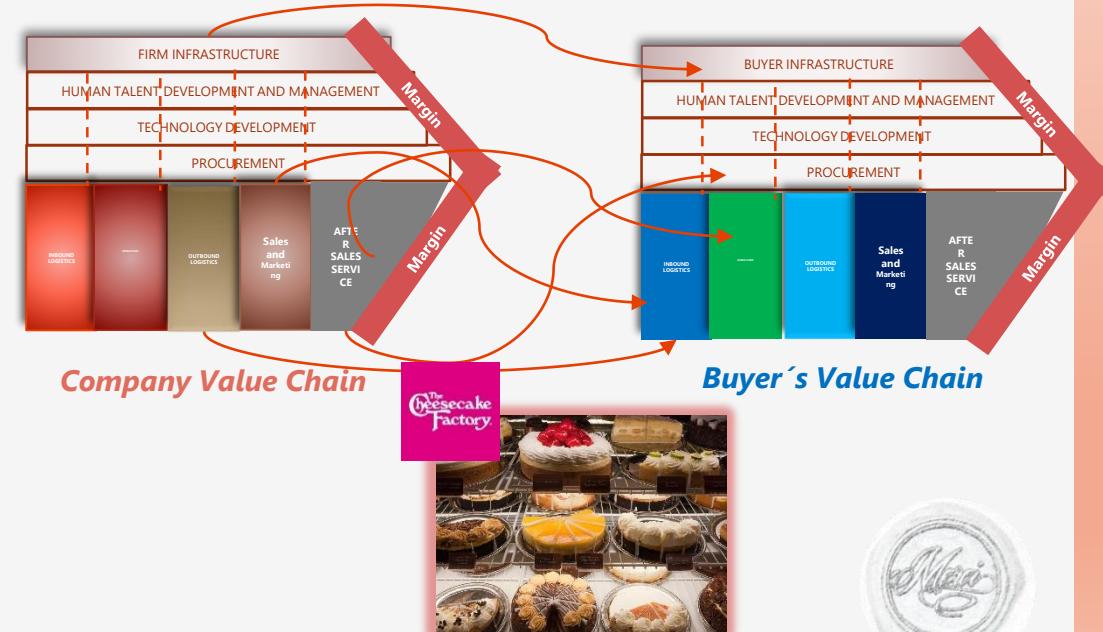


STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.

	UNIQUENESS CRITERIA FOR THE BUYER					
	USE CRITERIA			SIGNALING CRITERIA		
Value Activities OF THE COMPANY	Conformance Specifications	Delivery Time	Product Features	Sales Force Quality	Sales Advertising	Attractive ness of Facilities
Inbound Logistics	✓	✓		✓		✓
Operations	✓	✓	✓	✓		✓
Outbound Logistics	✓	✓	✓			
Marketing and Sales	✓	✓	✓			
After Sales Services	✓		✓			
Procurement	✓	✓	✓			
Technology Development	✓	✓	✓		✓	
Human Resources Management	✓		✓	✓		✓
Firm Infrastructure						✓

Illustrative
checkmarks

Relationship of Value Activities of the company with the Buyer Purchase Criteria



Our next Example: The Cheesecake Factory



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STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.

Value Activities OF THE COMPANY	USE CRITERIA					SIGNALING CRITERIA	
	Conformance Specifications	Delivery Time	Product Features	Sales Force Quality	Sales Advertising	Attractiveness of Facilities	
Inbound Logistics		✓					
Operations	✓	✓	✓			✓	
Outbound Logistics	✓	✓					
Marketing and Sales	✓	✓	✓		✓		
After Sales Services	✓	✓					
Procurement	✓	✓					
Technology Development	✓	✓	✓		✓		
Human Resources Management	✓	✓		✓			
Firm Infrastructure						✓	

Relationship of Value Activities of my company with the Buyer Purchase Criteria

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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis

STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.



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**Our next Example: The
Cheesecake Factory**

Value Activities of the FIRM		Sources of Uniqueness or Differentiation from the BUYER VALUE CHAIN NEEDS		
Inbound Logistics	Change Suppliers of Ingredients	Consistent taste		
Operations	Better and Consistent appearance		Rapid Restocking in store Display	Vary sizes
Outbound Logistics	Delivery included			
Marketing and Sales	Advertising Theme: Reinforce quality image	Rate of Advertising	Branding for Freshness	Digital Strategy and Website-Social Media Renewal
After Sales Services	Digital Follow up - Promotions			
Procurement				
Technology Development	High quality packaging	Superior Product Design (look)		
Human Resources Management	Recruiting and Training			
Firm Infrastructure				

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Information only



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STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.



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Our next Example: The
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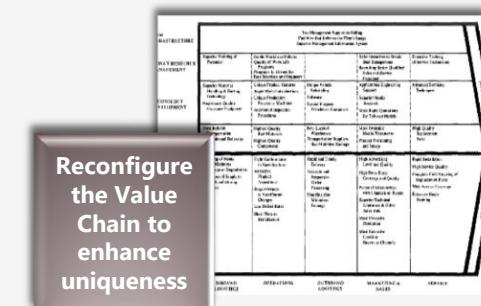
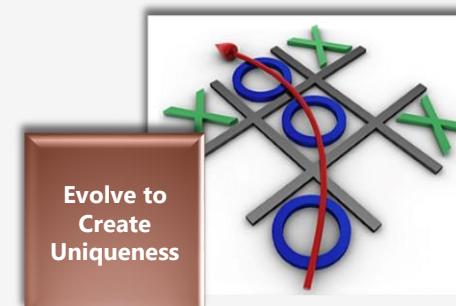
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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis



STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.

There are four routes to configure value activities which can lead to uniqueness:



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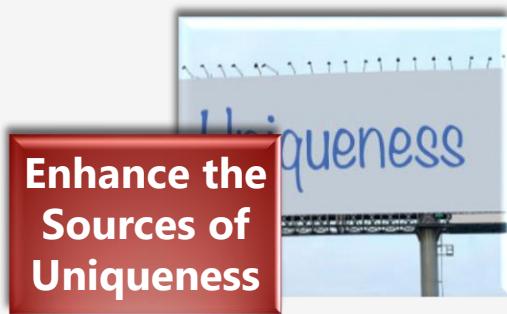


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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis



STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.

Proliferate the sources of differentiation in the value chain:

Every item at the value activity should be scrutinized for new ways to enhance buyer value

Make actual product use consistent with intended use: Actual and intended use of the product must be aligned.

Employ signals of value to reinforce differentiation on use

criteria: Signaling may be necessary to help the buyer to compare with competitors and show the value delivered by the company. Signaling is only necessary to the extent that it helps buyers perceive the firm's value.





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Make the cost
of
differentiation
an advantage



STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.

Exploit all sources of differentiation which are not costly. Many activities can be made more unique at little extra cost. For example, the use of linkages to improve differentiation. Or changing the mix of product features. Reduce product defects may also reduce service costs. Or to extend the guarantee time.

Minimize the cost of differentiation by controlling cost drivers, particularly the cost of signaling. Pay careful attention to controlling the cost drivers of activities in which differentiation is based. Find efficient ways of signaling (reputation, cumulative advertising).

Emphasize forms of differentiation where the firm has a sustainable cost advantage in differentiating. Compare with your competitors.

Reduce cost in activities that do not affect the buyer value.



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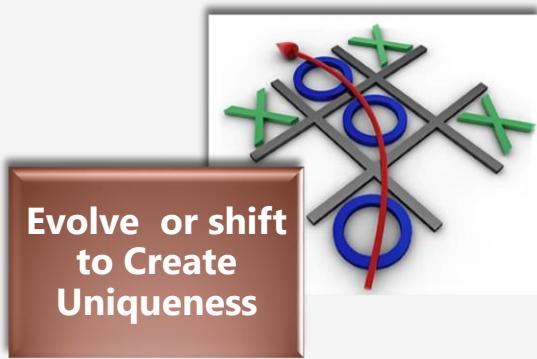
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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis



STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.



Shift the decision maker to make a firm's uniqueness more valuable.
Once you know the identity of the decision maker, it helps you to give the signals appropriately. For example: A product with a sophisticated feature may be perceived as more unique and valuable for an engineer or technical employees who use them, than by the purchasing agent.

Discover unrecognized purchase criteria: Observe your buyer carefully. Find subtle criteria with major opportunity to achieve differentiation

Preemptively respond to changing buyer or channel circumstances.
Change creates new bases for differentiation. Example: Airbnb sharing concept has disrupted the hotel industry. What to do in order to create new bases for differentiation at the moment.

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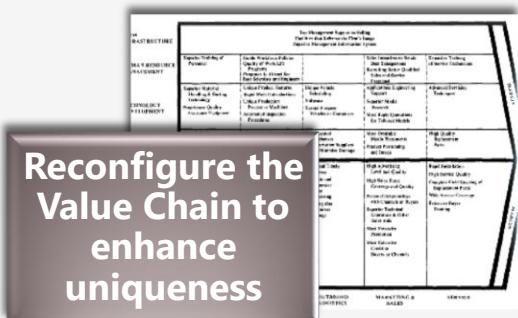
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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis



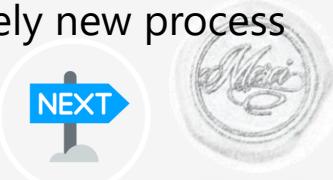
STEP 6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.



The reconfiguration of the Value Chain can unlock possibilities for differentiation: To reconfigure the value chain means to change your business model, and sometimes your value proposition.

Conceiving a new value chain for times of recession or downturn helps company to at least cover costs without downsizing.

To give birth to a new value chain is a creative process. By using the BUYER value chain and going from there to the company value chain, the company will end up maybe with: new distribution channel, forward integration to take over buyer functions. Backward integration to control more determinants of product quality. Adoption of an entirely new process technology.





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**STEP 7. Test the chosen
differentiation strategy for
sustainability.**



The Company's sources of uniqueness involve certain barriers or exclusive advantages such as patents, linkages, interrelationships.



The Company has to review cost advantage in differentiating.



The sources of differentiation are multiple. The more uniqueness drivers applied to several value activities, the merrier.



The firm creates switching costs at the same time it differentiates.





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2. Second Use of VCA: From the Customer Point of View: Competitive Differentiation Analysis

STEP 8. Reduce cost in activities that do not affect the chosen forms of differentiation or uniqueness.

Finally, we have to check the overall costs of our value chain, and try to reduce the activities which do not affect the value activities of uniqueness.

The Cheesecake Factory has a unique and highly differentiation strategy:

1. Leader in menu innovation
2. Ambiance, Service and Hospitality
3. Best in Class operational Execution
4. Integrated Bakery



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**Why do you think the company say this?
We will find out in our next post.**

NEXT





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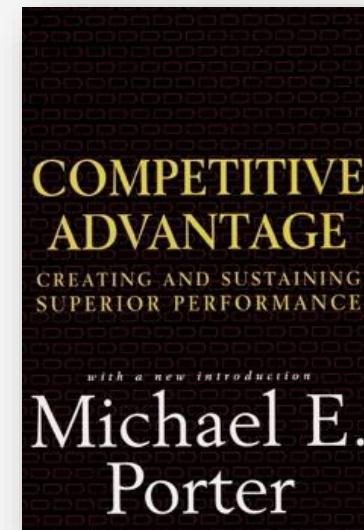
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Start: Evelyn Overton sold her first cheesecakes from her basement in Detroit in the 50s.



Today: The Cheesecake Factory is the only restaurant on Fortune's "100 Best Companies to Work for" list.



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

Thank you!

