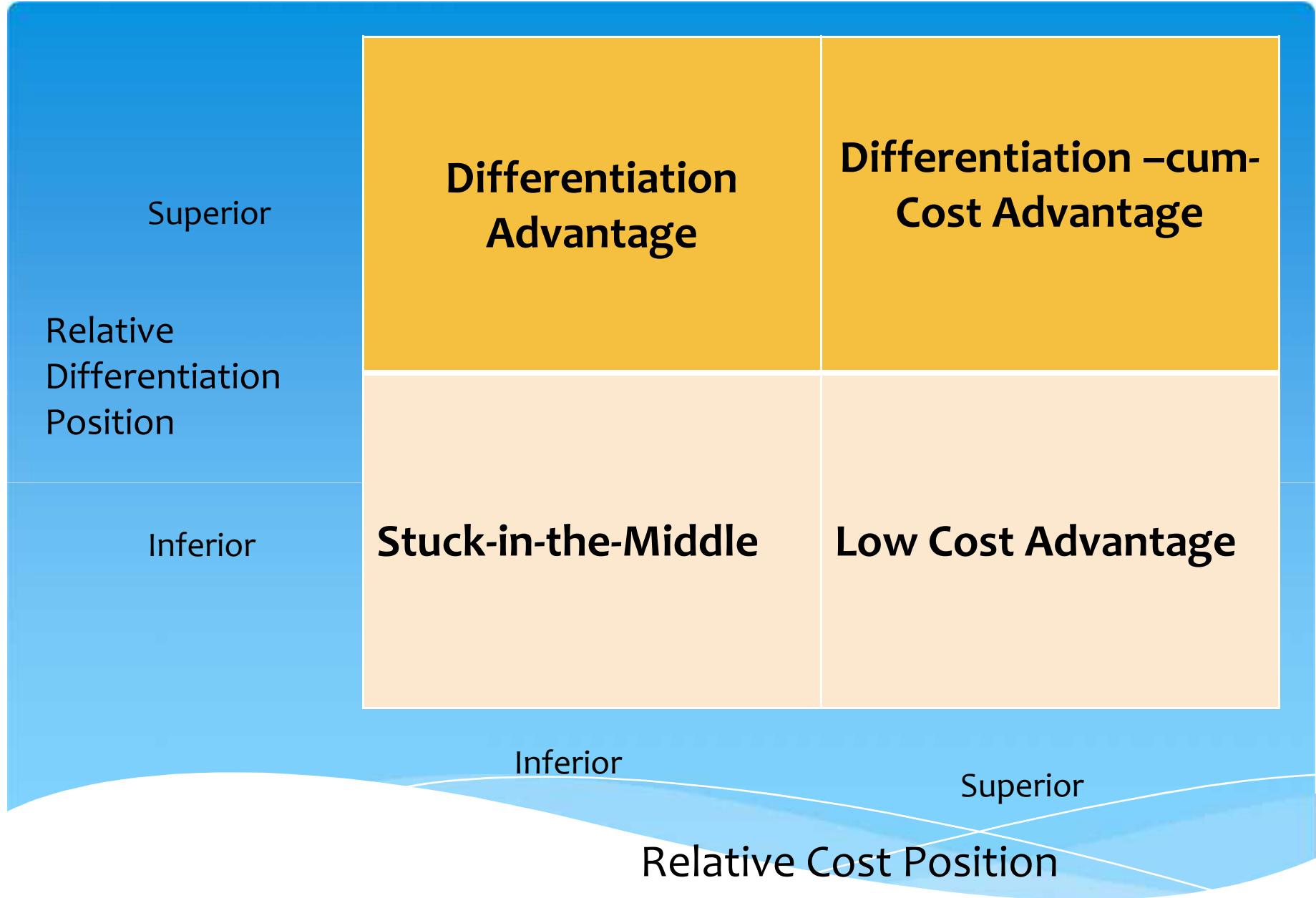


# **Business Strategy**

**Unit – IV; Internal Assessment  
(Value Chain Analysis)**

# The value chain concept

- \* According to Porter (1980), a business unit can develop a sustainable competitive advantage either based on cost or based on differentiation or based on both.



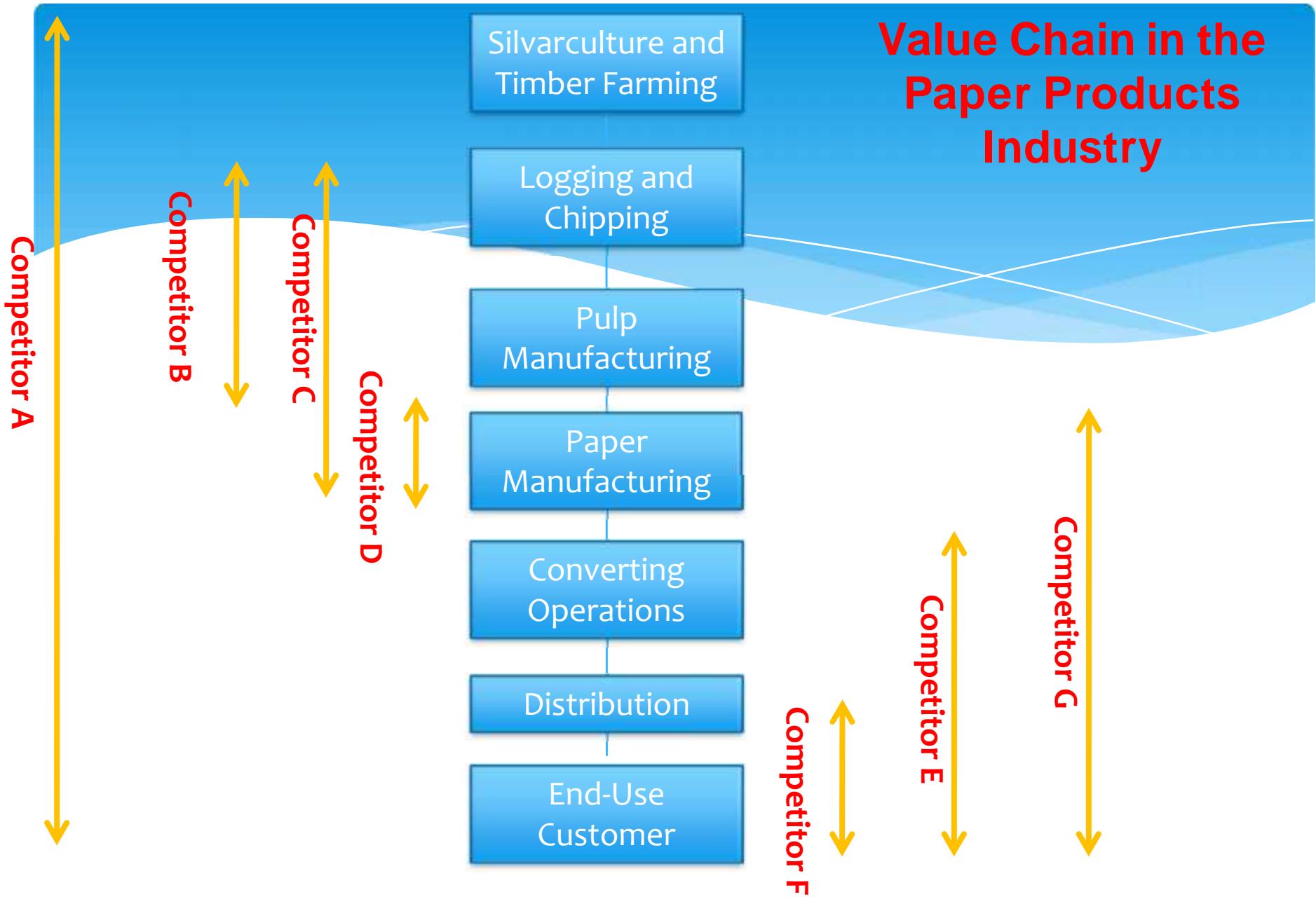
- \* Low cost:
  - \* Economies of scale in production
  - \* Experience curve effects
  - \* Tight cost control
  - \* Cost minimization in areas such as R&D, service, sales force, or advertising.

- 
- \* Differentiation:
    - \* Brand loyalty
    - \* Superior customer service
    - \* Dealer network
    - \* Product design and product features
    - \* Technology

# Value Chain Linkages

- \* The value chain framework is a method for breaking down the chain-from basic raw materials to end-use customers- into strategically relevant activities in order to understand the behavior of costs and the sources of differentiation.

# Value Chain in the Paper Products Industry



- 
- \* Every firm must construct a value chain for the total paper industry, break the value in the chain into its fundamental sources of economic value.

# Value Activities within a firm



- 
- \* A firm's value chain is embedded in a large system that includes suppliers' and customers' value chains.
  - \* A firm can enhance its profitability not only by understanding its own value chain--from design to distribution--but also by understanding how the firm's **value activities** fit into suppliers' and customers' value chains.

# Value chain VS Value-Added

- \* Value-added refer to the contribution of the internal focus such as land, labor, capital goods.
- \* Value chain concept highlights four profit improvement areas :
  - \* Linkages with suppliers
  - \* Linkages with customers
  - \* Process linkages within the value chain of a business
  - \* Linkages across business unit value chains within the firm

# Value-Chain Analysis

- \* **Value chain**

- \* a linked set of value-creating activities that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service and ending



# Industry Value Chain Analysis

**Value chain segments include:**

- \* Upstream
- \* Downstream
- \* **Center of gravity**
  - \* the part of the chain that is most important to the company and the point where its core competencies lie

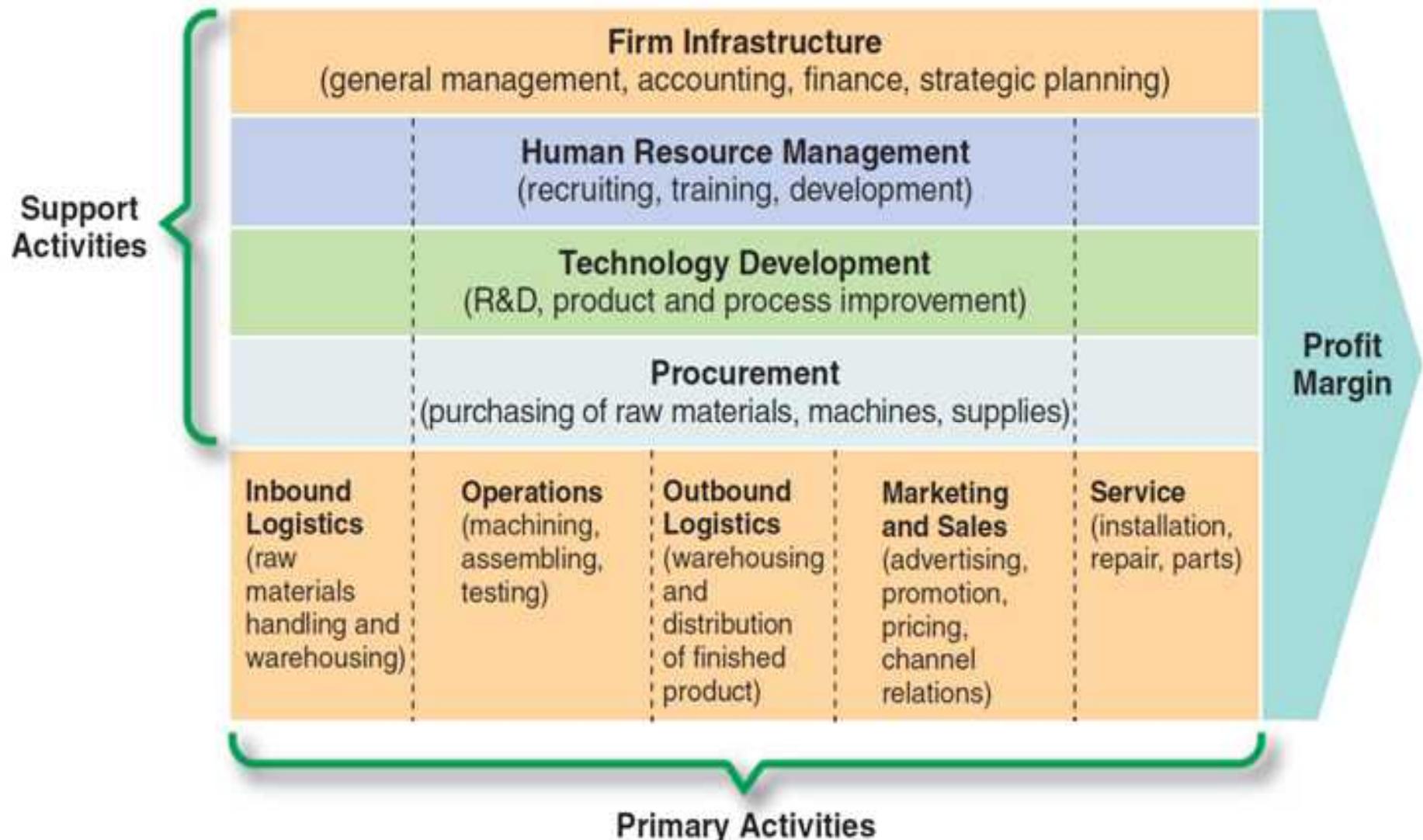
# Corporate Value Chain Analysis

## Primary activities

- \* Inbound logistics
- \* Operations
- \* Outbound logistics

## Support activities

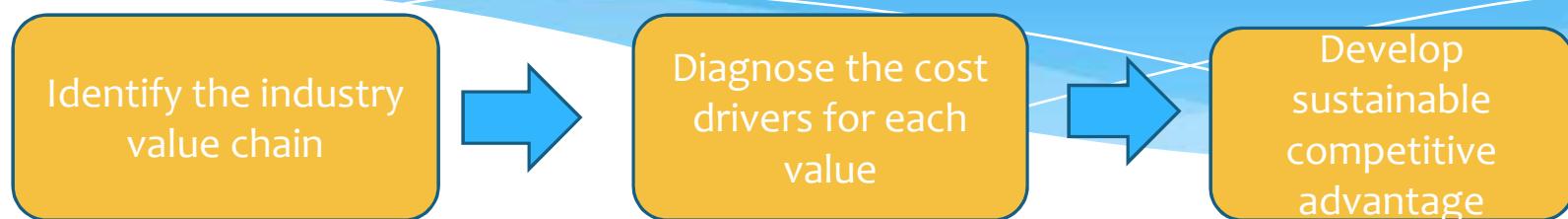
- \* Procurement
- \* Technology development
- \* Human resource management
- \* Firm infrastructure



# Corporate Value Chain Analysis

1. Examine each product line's value chain in terms of the various activities involved in producing the product or service
2. Examine the linkages within each product line's value chain
3. Examine the potential synergies among the value chains of different product lines or business units

# Value Chain Methodology process



Assign costs

Revenues

Assets



Return on Assets

fixed cost VS variable cost

average cost VS marginal cost

break even analysis

evaluation

improvement