

# Value chain analysis

## WS\_3\_3

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*Workshop week 3*

# INTRODUCTION: VALUE CHAIN ANALYSIS

- It is framework describing the linked set of value-creating activities required to bring a product or service to the customer.
- It is used to analyze and understand how value is created through different activities.
- The emphasis is on understanding the total value of all operations across the business, as well as the industry.



In which areas cost can be minimized?

**WHY?**



Where customer value can be enhanced?

## THE CASE 1: GLEN GAIRIE

An industry has developed for the extraction and processing of the metal. The five stages in the production and selling of the bracelets are undertaken by different companies:

A) extraction: GGEC has no purchases of raw materials since it owns the mineral exploitation rights. Conversion cost is £/kg 0.16. The company sells the metal for £0.40.

B) refining: MRC refines the raw material extracted by GGEC. There is only a 5% yield from the process. The conversion costs is £/Kg 2.40. The slab is sold at £12.00;

C) Strip rolling: SRC rolls slab into thin strip form. There is no loss of material during this process. Conversion cost is £ 4.00. The strip is sold at £20.00 per Kg;

## THE CASE 1: GLEN GAIRIE

D) bracelet maker: BMC manufactures the bracelet (each weighs 100 gr). There is a 20% of loss material input to the manufacturing process. The conversion cost is £ 3.00 per bracelet. Each bracelet is sold at £ 6.00.

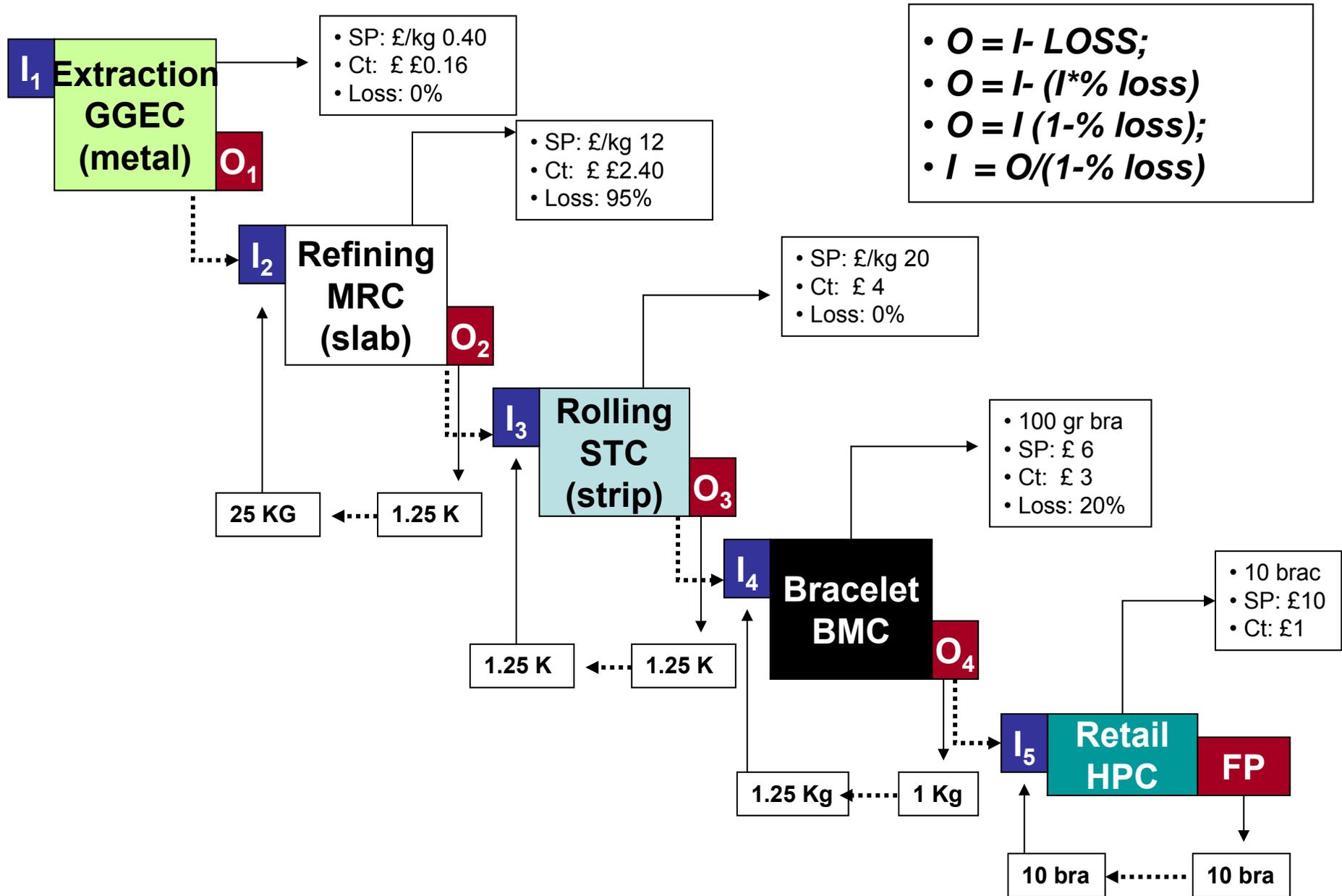
E) Retail: HPC sells bracelets at £ 10.00 each. Selling costs are £ 1.00 per each.

The management of the Bracelet Makers Company is concerned about the profitability of company. Therefore wish to review the company's current position and strategy.

### **Required**

- 1) Prepare an analysis of the industry's value chain to assist managers?
- 2) Comment on results
- 3) Discuss the strategic options available to this company

# THE CASE 1: PROCESS WEIGHT BRACELETS



# THE CASE 1: VALUE CHAIN ANALYSIS

STAGES	OUTPUT	Purchase cost	Conversion cost	Total cost	Selling	Added value	Value conversion
Ore extraction	<a href="#">25 kg</a>	0	$25 \times 0.16 = 4.0$	<b>4.0</b>	$25 \times 0.40 = 10$	$10 - 0 = 10$	$10 / 4 = 2.5$
Ore refining	<a href="#">1.25 kg</a>	10	$1.25 \times 2.40 = 3$	$10 + 3 = 13$	$1.25 \times 12 = 15$	$15 - 10 = 5$	$5 / 3 = 1.67$
Strip rolling mfg	<a href="#">1.25 kg</a>	15	$1.25 \times 4 = 5$	$15 + 5 = 20$	$1.25 \times 20 = 25$	$25 - 15 = 10$	$10 / 5 = 2$
Bracelet mfg	10 bracelets	25	$10 \times 3 = 30$	$25 + 30 = 55$	$10 \times 6 = 60$	$60 - 25 = 35$	$35 / 30 = 1.17$
Retail	10 bracelets	60	$10 \times 1 = 10$	$60 + 10 = 70$	$10 \times 10 = 100$	$100 - 60 = 40$	$40 / 10 = 4$

# THE CASE 1: GLEN GAIRIE

## Required

2) Comment on results.

i. what are the implications of data?

ii. What is the most profitable stage of production?

iii. So what?

## THE CASE 1: GLEN GAIRIE

### Required

3) Discuss the strategic options available to this company

# WHAT WOULD YOU DO?