

WORKSHOP WEEK 3: VALUE CHAIN ANALYSIS

Prepare answers to the following questions and discuss results with your classmates.

1. The rare metal thrumanium, found only in Glen Gairie (in Scotland), has been found to have health giving properties when worn as wrist bracelet. As a result of this discovery, an industry has developed for the extraction and processing of the metal. The five stages involved in the production and selling of the bracelets are undertaken by different companies. Process details, together with cost and revenue data (in pound sterling £), are shown below.
 - A. The mineral ore is extracted by the **Glen Gairie Extraction Company**. The company has no purchases of raw materials since it owns the mineral exploitation rights in the glen. Conversion costs of £0.16 per kilogramme of extracted ore are incurred and the company sells the ore for £0.40 per kilogramme.
 - B. The **Mineral Refines Company** buys the ore from the extraction company and refines it to produce raw thrumaum in slab form. There is only a 5% yield from this process, which has conversion costs of £2.40 per kilogramme of raw thrumanium produced. The thrumanium slab is sold at £12.00 per kilogramme.
 - C. The **Strip Rolling Company** buys the thrumanium slab from Mineral Refiners and rolls it into thin strip form. There is no loss of material during this process. The conversion cost for this stage is £4.00 per kilogramme of thrumanium strip, which is sold at £20.00 per kilogramme.
 - D. The **Bracelet Makers Company** buys the thrumanium strip and manufactures the health-giving bracelets from it. Each bracelet weighs 100 grams. There is a 20% loss of material input to the manufacturing process, which has a conversion cost of £3.00 per bracelet. The bracelets are sold at £6.00 each.
 - E. The bracelets are bought by the **Healthy Products Company** which incurs costs of £1.00 per bracelet which it sells at £10.00 each.

Whilst the industry is flourishing, the management of the Bracelet Makers Company are concerned that the company does not appear to be as profitable as the other companies and, therefore, wish to review the company's current position and strategy.

Required

- a) Prepare an analysis of the industry's value chain to assist the Bracelet makers managers in their deliberations.
- b) Comment on results.
- c) Discuss the strategic options available to this company.