VALUE CHAIN FRAMEWORK

A value chain is a series of consecutive steps that go into creating a finished product, from its initial design to its arrival at a customer's door. The chain identifies each step in the process at which value is added, including its production's sourcing, manufacturing, and marketing stages.

A general value chain structure is as follows:

Demand Forecasting
This stage involves predicting consumer demand for specific products or services. Companies use specific data sets to estimate future trends, prepare for high-demand periods, improve the customer experience, and maximise profits by reducing the inventory of low-demand products and preventing the depletion of high-demand product stocks.

Sourcing
Before starting the analysis, it's essential to recognize the inputs, which can be resources, raw materials, or factors of production. The inputs will differ for various industries. In general, three factors to consider are supply, design, and the original source of the information. For example, in the mining industry, prospecting is how inputs are initially found.

Warehousing
This stage is critical in the supply chain management process, as it streamlines the company's supply chain. Warehouses play an essential role in managing supply chains, and how goods are stored and managed can significantly impact business strategy. There are two types of warehouses: general and distribution. General warehouses store backup inventory for seasonal products, and distribution warehouses offer a range of services, including handling, distribution, and transportation.

Inbound Logistics
It is the way materials and other goods are brought into a company. This process includes the steps to order, receive, store, transport and manage incoming supplies. Inbound logistics focuses on the supply part of the supply-demand equation.
Inbound Logistics Activities:
- Sourcing & Procurement
- Ordering or Purchasing
- Transportation
- Receiving
- Material Handling

- Putaway
- Storing & Warehousing
- Inventory Management
- Expediting
- Distribution
- Tracking
- Reverse Logistics

Manufacturing

The production process involves converting inputs into usable outputs, whether tangible or intangible. For tangible goods like automobiles, ships, homes, or food, manufacturing involves specific production procedures. Production may involve specific tasks for intangible goods like reports, software, or artwork.

Outbound Logistics

This process focuses on the demand side of the supply-demand equation and involves storing and moving goods to the customer or end-user. The steps in outbound logistics include order fulfilment, packing, shipping, delivery, and customer service related to delivery.

Outbound Logistics Activities:

- Warehouse and Storage Management
- Inventory Management
- Transportation
- Delivery

Distribution

The finalised product or service is offered to clients, sold, distributed, and serviced at the final stage. Candidates could want to mention logistics and sales channels (such internet, wholesale, retail, or department stores) (such as train, truck, shipping, or air freight). The issue of consumer delivery of goods and services must be addressed.

Questions that can be asked - Penetration (Number of Distributors) & Shelf Space (% of own items v/s % of other items)

Recommendations – look at distributor commission structure, discount schemes, expand distributor network etc.

After-Sales Services

After-sales service is the assistance that a firm gives to clients after they have purchased its goods. After-sales service allows firms to boost customer satisfaction and loyalty while also encouraging word-of-mouth advertising.

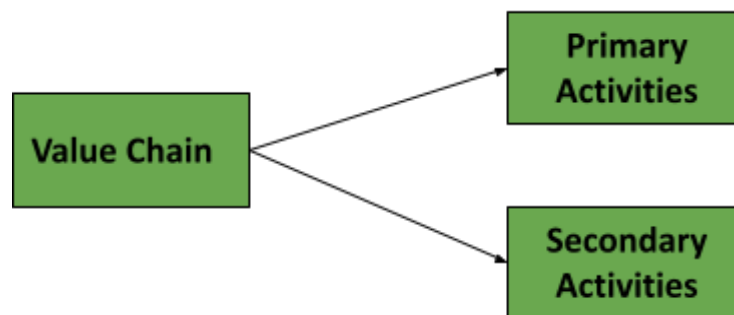There are 4 major types of aftersale services- User Education, Online Assistance, Warranty Services, Upgrades.

Questions that can be asked: The time, quality & cost of the service. Variety of services offered, accessibility/availability, and the benchmark with the industry average.

Recommendations: improve the metric (time, cost, and quality) which is most important to the customer, open more service centres, relocate centres, acquire other service centres, outsource, etc.

VALUE CHAIN ANALYSIS

Value chain analysis is a process where a firm identifies its primary and support activities that add value to its final product and then analyses these activities to reduce costs or increase differentiation.
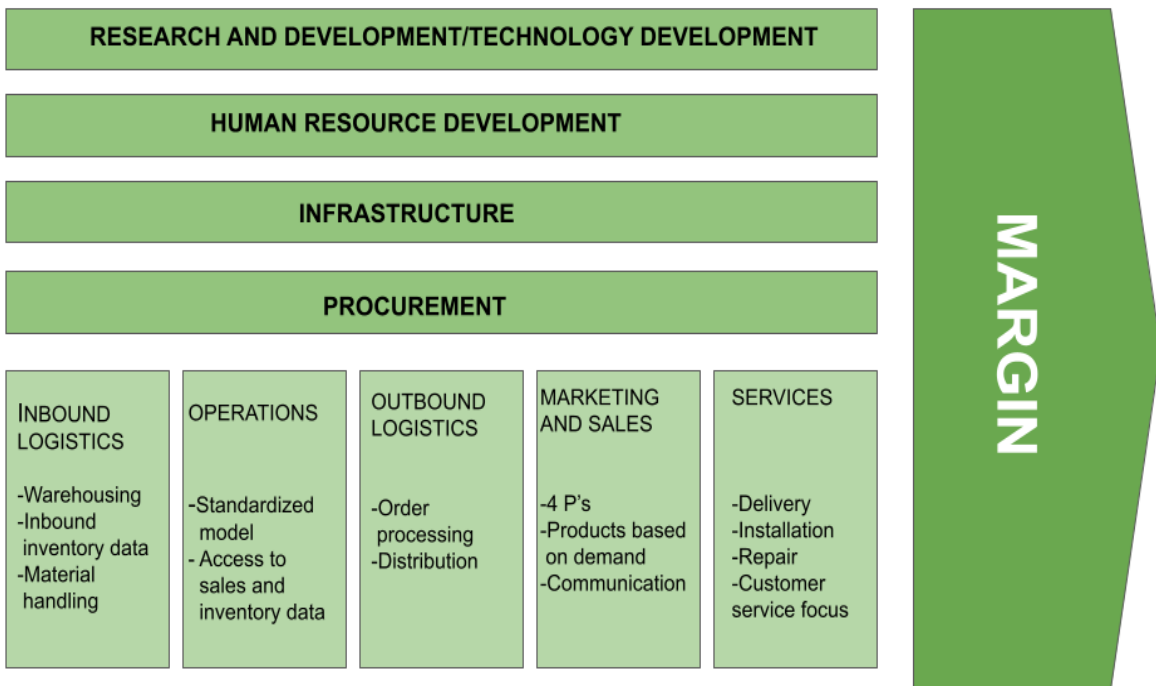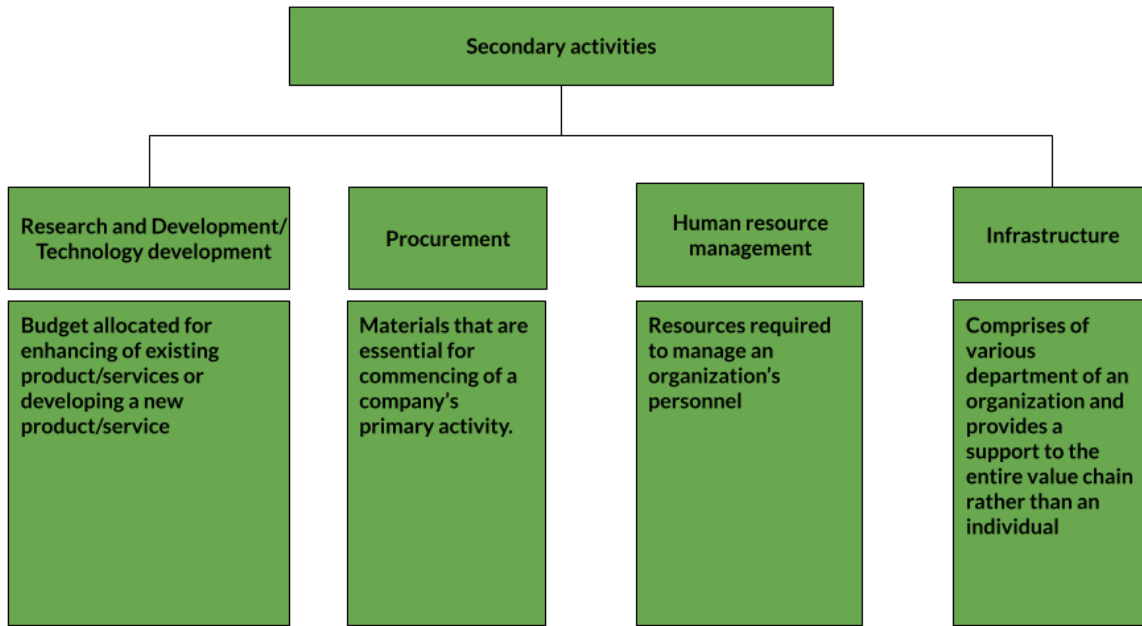
To conduct a value chain analysis, businesses need to split the chain into two levels.

Primary activities include 5 activities which cover the physical creation of the product, its sales, transfer to the buyer as well as after-sale assistance.

Inbound Logistics	Operations	Outbound Logistics	Sales & Marketing	After-Sales Services
The activities associated with inbound logistics are receiving, storing, and disseminating inputs to the product. Examples: material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers	Activities related to turning raw materials and components into a finished product fall under operations. Examples: machining, packaging, assembly, equipment maintenance, testing, printing and facility operations.	All activities to distribute a final product to a consumer are considered outbound logistics. This includes delivery of the product but also includes storage and distribution systems and can be external or internal.	Sales & Marketing include all those activities that help convince a consumer to purchase a company's product or service. Examples: advertising, promotion, sales force, quoting, channel selection, channel relations and pricing.	The activities associated with this part of the value chain are providing service to enhance or maintain the value of the product after it has been sold and delivered. Examples: installation, repair, training, parts supply and product adjustment.

Secondary activities

Research and Development/ Technology development

Budget allocated for enhancing of existing product/services or developing a new product/service

Procurement

Materials that are essential for commencing of a company's primary activity.

Human resource management

Resources required to manage an organization's personnel

Infrastructure

Comprises of various department of an organization and provides a support to the entire value chain rather than an individual

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RESEARCH AND DEVELOPMENT/TECHNOLOGY DEVELOPMENT

HUMAN RESOURCE DEVELOPMENT

INFRASTRUCTURE

PROCUREMENT

INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING AND SALES	SERVICES
-Warehousing -Inbound inventory data -Material handling	-Standardized model - Access to sales and inventory data	-Order processing -Distribution	-4 P's -Products based on demand -Communication	-Delivery -Installation -Repair -Customer service focus

MARGIN

OBJECTIVES OF PERFORMING A VALUE CHAIN ANALYSIS:

- Support decisions for various business activities
- Diagnose points of ineffectiveness for corrective action
- Understand linkages and dependencies between different activities and areas in the business. For example, issues in human resources management and technology can permeate nearly all business activities
- Optimise activities to maximise output and minimise organisational expenses.
- Potentially create a cost advantage over competitors
- Understand core competencies and areas of improvement

A value chain analysis can offer important benefits; however, when emphasising granular process details in a value chain, it's important to still give proper attention to an organisation's broader strategy.

PRELIMINARY QUESTIONS

- What are the links between the activities of a company or industry that generate value for the end user?
- What are the primary activities and supporting activities/overheads?
- What are the key processes of the company resulting in most value and margins?
- Can some activities of the business be outsourced?
- Who are the players in the market and power of each participant?
- What is the customer's base perception of value?
- What are the logistics channels?
- What changes would increase the revenue?
- What is the role of trust (between producers, producers and intermediaries, producers and technical assistants)
- How much time it takes to get from one actor to another (transport (hours); negotiation, etc.) - % loss of the production on the road?
- Which major events influenced the functioning of the chain?

IMPORTANT TAKEAWAYS

- The value chain is an effective tool for organising your analysis
- It usually distinguishes between primary and secondary activities that add value (a.k.a overhead)
- It is a methodical search pattern for analysing both companies and industries