Value Chain Analysis - Tool of Strategic Cost Management

PRO.SONAL JARIWALA
Assistant Professor,
G.N Pandya Commerce College, Bhestan Surat,
Affiliated with Veer Narmad South Gujarat University, Surat.

Abstract:
Strategic Cost Management is the overall recognition of the cost relationships among the activities in the value chain, and the process of managing those cost relationships to a firm's advantage. Also known as Cost Management Theory. Strategic cost management is a program established businesses use in order to regularly identify and analyse cost drivers to lower costs and maximize total value. Strategic cost management is blend of value chain analysis (how we organize our thinking about cost management?) Strategic positioning analysis (what role dose cost management play in firm?) cost driver analysis. My study is only focused on value chain analysis. Here introduction about value chain analysis, definition, key point, objectives, types of firm activities and uses of value chain analysis.

Keywords: *Strategic cost management, Tools, Value chain analysis*

1. Introduction

Trying to define strategic cost management requires looking at today's leading organizations who are venturing in this area. Some of the processes are new and uncharted territory, so there's no textbook to spell it out. This type of program is necessary for creating budget parameters and a structure for purchasing. By implementing a strategic cost management program, businesses can not only lower their costs but also create a strategic competitive advantage.

Value chain is crucial strategic tool which is widely used in strategic cost management which is again an important part of the management accounting. In today's competitive world almost all the organizations use value chain for efficient and effective business process. This paper explains how the retail giant Wal-Mart use value chain for smooth running of their business and this value chain is influenced by the introduction of information system in the cost management process. The **value chain**, also known as **value chain analysis**, is a concept from business management that was first described and popularized by Michael Porter in his 1985 best-seller, Competitive Advantage: Creating and Sustaining Superior Performance. It is an approach for breaking down the sequence (chain) of business functions into the strategically relevant activities through which value is added by the business. The objective is to identify the behaviour of costs and the areas for differentiation

2. Strategic Cost Management Definition

Strategic cost management can be defined as" scrutinizing every process within your organization, knocking down departmental barriers, understanding your suppliers' business, and helping improve their processes"

3. What is value chain analysis?

"A high-level mode l of how businesses receive raw materials as input, add value to the raw materials through various processes, and sell finished products to customers." The **value chain**, also known as **value chain analysis**, is a concept from business management that was first described and popularized by Michael Porter in his 1985 best-seller, Competitive Advantage: Creating and Sustaining Superior Performance. It is an approach for breaking down the sequence (chain) of business functions into the strategically relevant activities through which value is added by the business. The objective is to identify the behaviour of costs and the areas for differentiation

4. Key points

Value Chain Analysis is a useful way of thinking through the ways in which you deliver value to your customers, and reviewing all of the things you can do to maximize that value.

It takes place as a three stage process:

- **Activity Analysis**, where you identify the activities that contribute to the delivery of your product or service.
- **Value Analysis**, where you identify the things that your customers value in the way you conduct each activity, and then work out the changes that are needed.
- **Evaluation and Planning**, where you decide what changes to make and plan how you will make them.

By using Value Chain Analysis and by following it through to action, you can achieve excellence in the things that really matter to your customers.

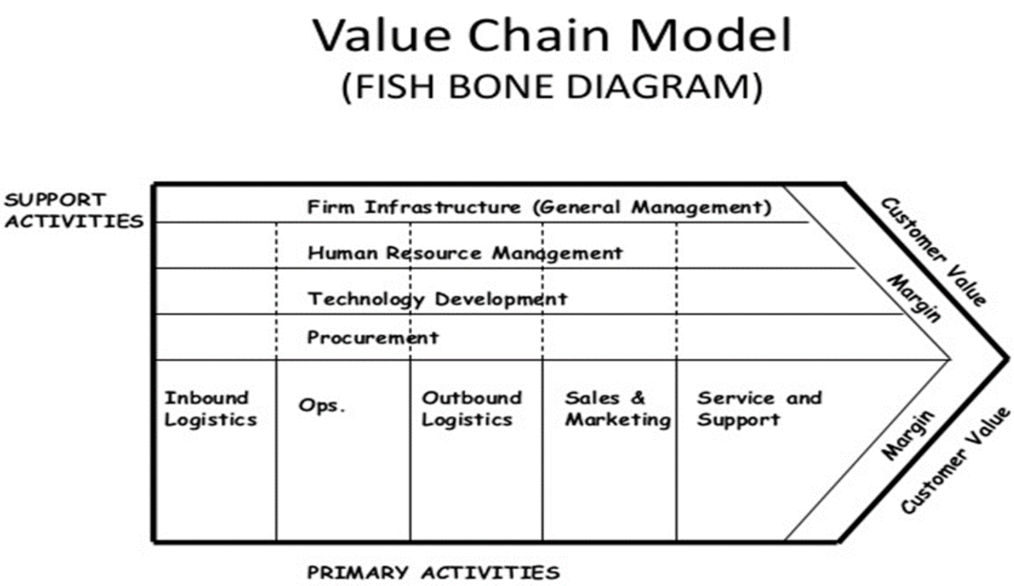
5. Understanding the Tool

VCA is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are. The firm that competes through differentiation advantage will try to perform its activities better than competitors would do.

6. Objectives

1. To determine private costs and profitability of different stages in the value chain.
2. To understand cost composition:
3. To measure trade competitiveness:

7. How to Do a Value Chain Analysis



8. Types of Firm Activities

I. Primary Activities

(1) INBOUND LOGISTICS

Concerned with receiving storing,distributing input (e.g. handling of raw material ,ware housing, inventory control)

(2) OPERATION

Comprise the tranformation of the inputs into the final products from (e.g. product, assembly and package)

(3) OUTBOUND LOGISTICS

Involve the collecting ,storing ,distributing the product to the buyers.(e.g. proccesing or orders,ware housing of finished good and delivery)

(4) SALES & MARKETING

Identification of customer needs and generation of sales.(e.g.adverting,promotion ,distribution)

(5) SERVICE

Involve how to maintain the value of the product after it is purchased (e.g. installation ,repair, maintinance, training)

II. SUPPORT ACTIVITIES

(1) FIRM INFRASTRUCTURE: The activities such as organization structure, control system, company culture are categorized under firm infrastucture.

(2) HUMAN RESOURES MANAGEMENT : Involved in recruting, hiring,training, development, compensation.

(3) TECHNOLOGY DEVELOPMENT : These activities are intended to improve the product and the procces can occur in many part of the firm .

(4) PROCUREMENT : Concerned with the task of purchasing such as raw materials, equipment and ever labor.

9. Uses of Value Chain Analysis

1. The sources of the competitive advantage of the firm can be seen from its discrete activities ,and how they interact with one one another.
2. The value chain is a tool of systemetically examining the activities of a firm and how they interact with one another and affect each other’s cost and performance.
3. A firm gains a competitive a advantage by performing these activities better or at lower cost than competitors.
4. Helps you to stay out of the “ No profit zone”.
5. Present opportunities for integration.
6. Aligns spending with value procecces.
7. The importance of value chain analysis is that it can help you assess costs in your chain that might be reduced or impacted by a change in one of the chain's processes. By comparing your value chain to your competitors, you can often find the areas or links of the chain where they might be more efficient than you; that points the direction for you to improve.

10. Conclusion

The value system and value chain are important tools for understanding how to company can position itself against Framework of strategic cost management programs generally include three components to be analyzed. The first component includes its core functions, in which management must define the nature of the business and its courses of actions for planning, product development, and research and development. The next component focuses on the added value of activities such as customer service, technical support, marketing, sales and manufacturing. The last components of the framework are the activities that support the core activities. These include IT, human resources, general administration, accounting and finance. **Value chain analysis** (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation." It required to determine private costs and profitability of different stages in the value chain. to understand cost composition, to measure trade competitiveness.

References

1. http://www.ukessays.com/essays/management/the-strategic-tool-of-value-chain-analysis-management-essay.php#ixzz3V2sI1Tgp
2. Hergert and morris International between one business unit and another within the firm are highly relevant to the diversified firm.
3. Fjeldstad and haanaes 2001:3 and porter 1998:326. The value activities that are candidates for sharing should represent a substantial percentage of total cost and have a potential for economic of scale, learning and capacity utilization benefits from sharing.