



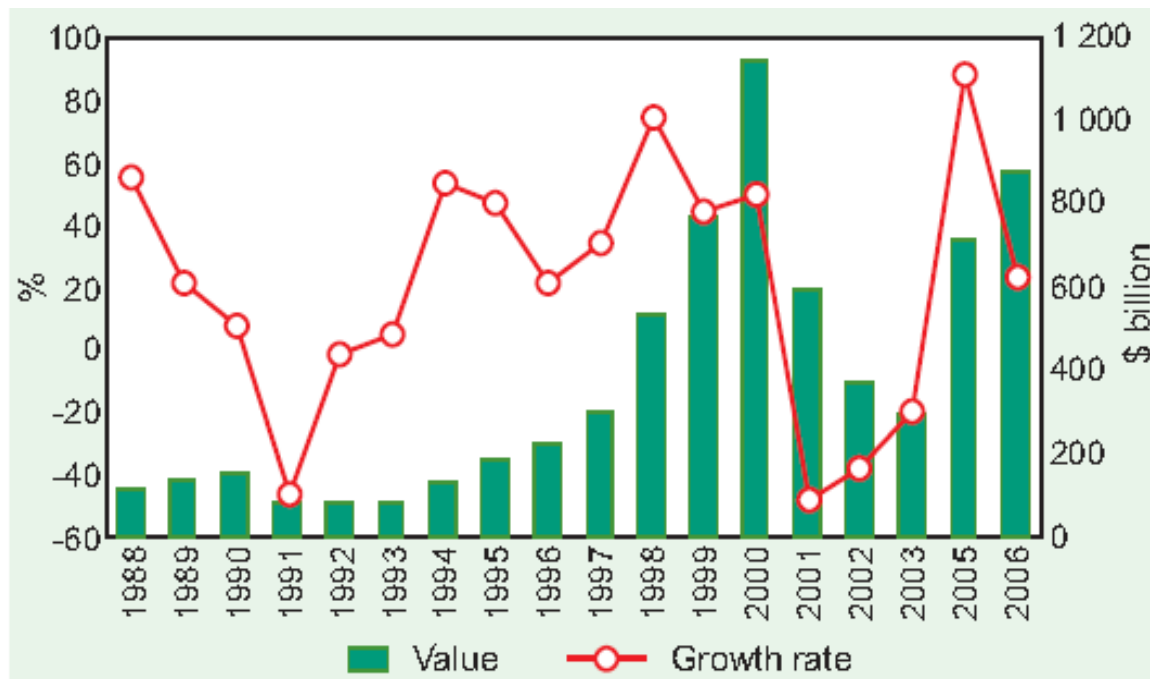
Overview of the Lecture

- **Business evolution as a prelude**
- **Value chain analysis**
- **Summary**



Internationalisation of firms

High level of M&A over the past decades
(accumulated USD 7 trillion, 1988-2006)

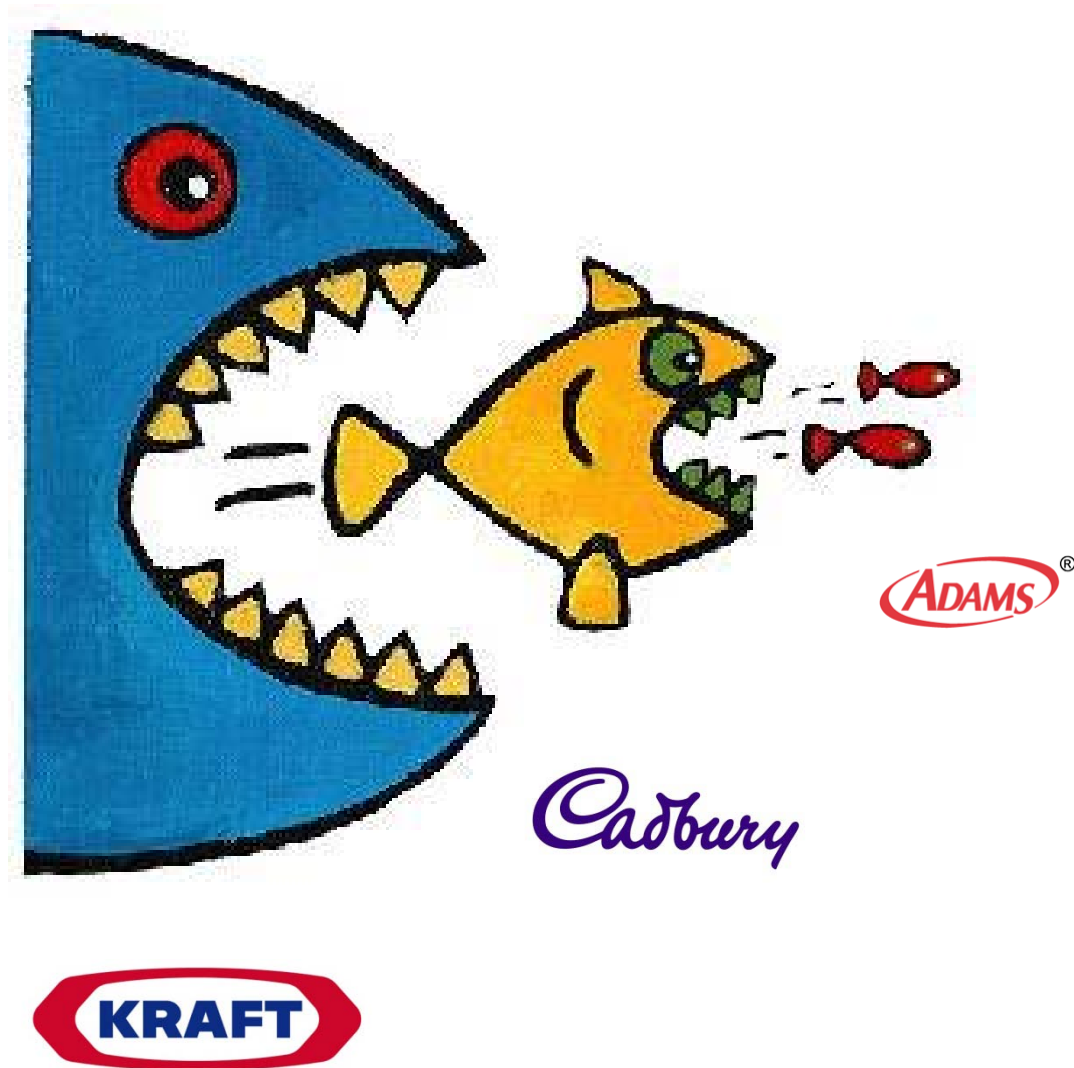


Global cross-border M&As, value and growth rate, 1988-2006 (UNCTAD)

Internationalisation of firms

Industry	No. of top players	List of top players	Combined global share
Aerospace			
Commercial aircraft over 100 seats	2	1) Boeing	100%
		2) Airbus	
Commercial aircraft 20-90 seats	2	1) Bombardier	74%
		2) Embraer	
IT Hardware/Software			
Microprocessor	1	1) Intel	80%
PC Operating systems	1	1) Microsoft	85%
Consumer goods			
Chewing gum	2	1) Mars Wrigley	57%
		2) Kraft Cadbury Adams	
Carbonated soft drinks	2	1) Coca Cola	75%
		2) Pepsi	

Internationalisation of firms



Few global players control the market









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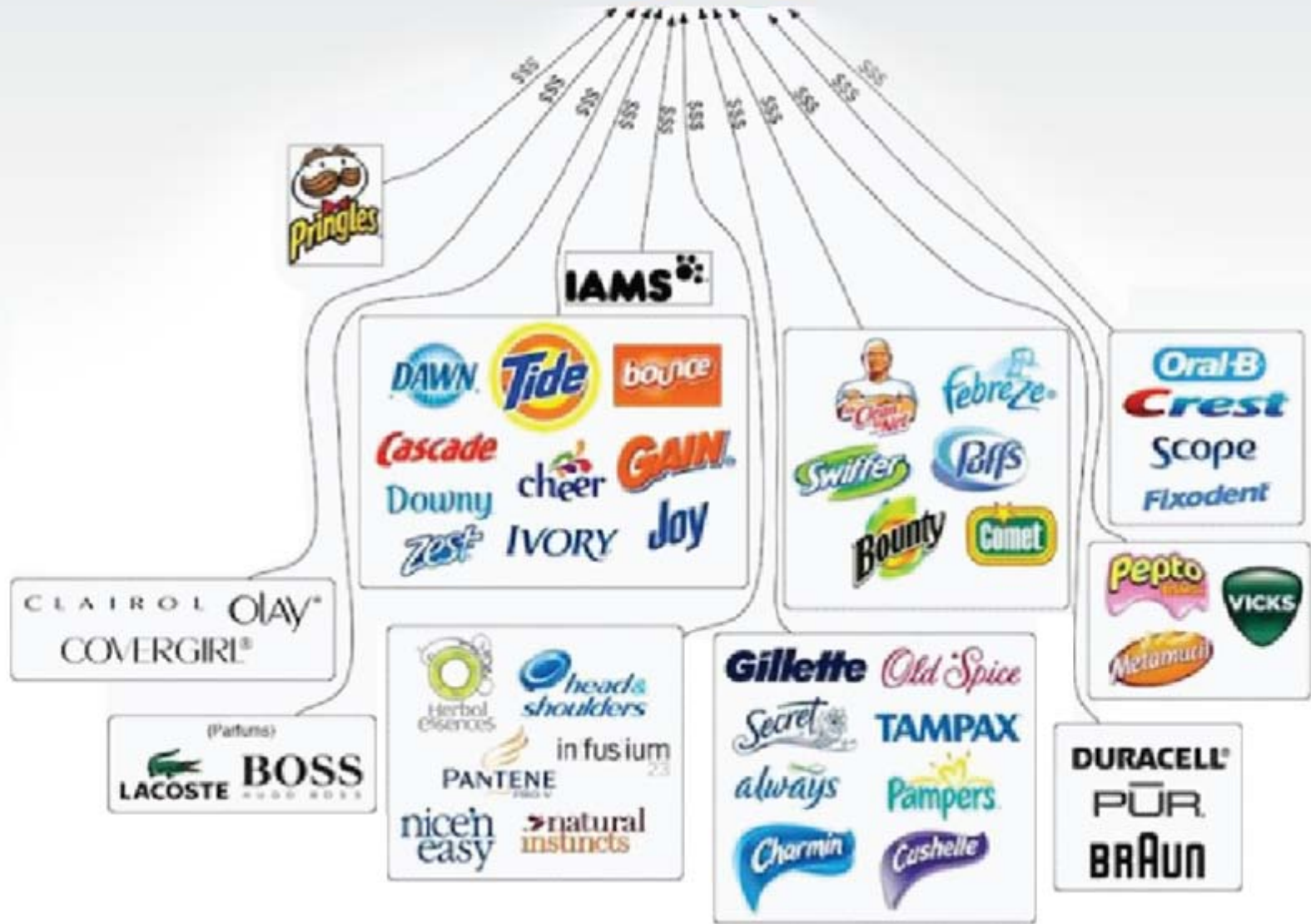
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P&G

P&G






Business Evolution

Table 1 The changes of the world largest company over 50 years, 1957-2007 (FT 500)

Year	The largest	Revenue	% of US GDP	Profit	Asset	Employees
1957	General Motors	10.8 billion	0.1%	0.85 billion	7.4 billion	600,000
2007	Exxon Mobil	370 billion	0.8%	40 billion	240 billion	81,000
2007	General Motors	160 billion	0.3%	21 billion	186 billion	280,000

- Become smaller in number of employees
 - Increase share of revenue to the GDP
 - Increase influence on the economy
 - Horizontal integration rather than vertical integration
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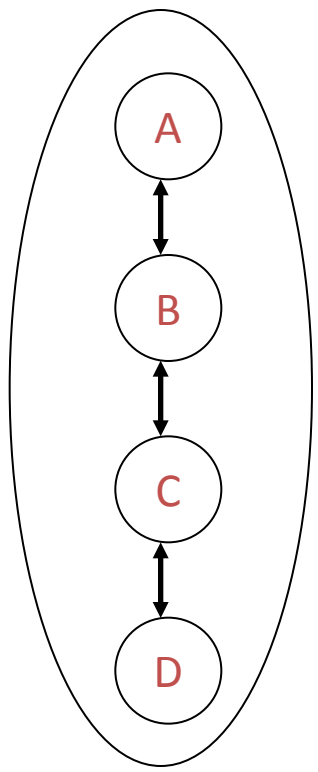


Business Evolution

Multidivisional Structure

↔ Internal coordination
↔ External coordination

..... Competition
○ X_n Operation



Information technology
Lower transaction cost

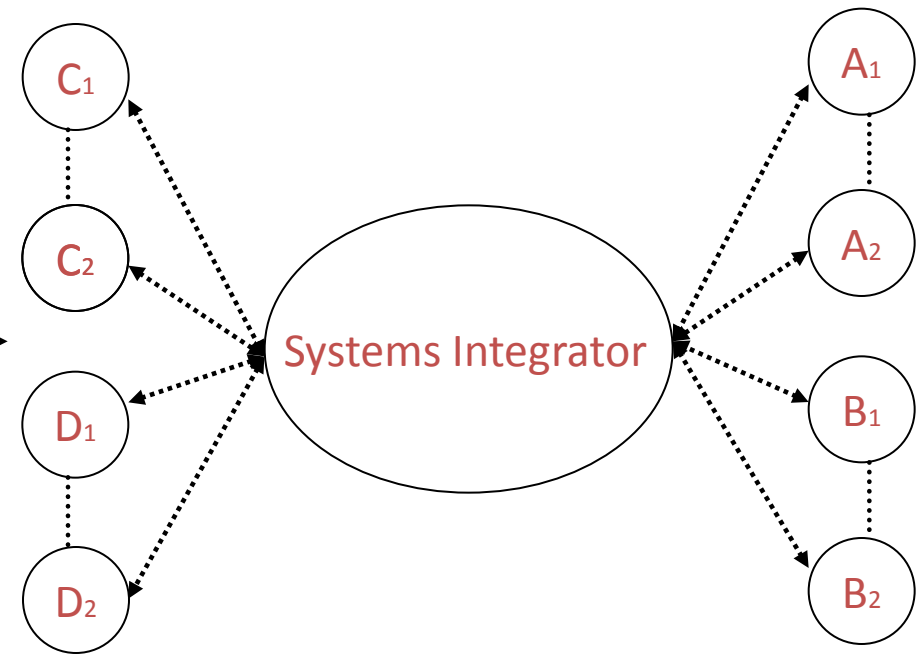


Figure 2 The global business evolution from multidivisional structure to systems integration






Business Evolution

The systems integration extends beyond a simple price relationship with the first-tier suppliers and immediate customers. Under the meticulous planning, a systems integrator closely interacts in a wide variety of aspects with major segments of both the downstream and upstream of its value chain. This results in an intimate relationship between the systems integrator and various entities of the value chain.

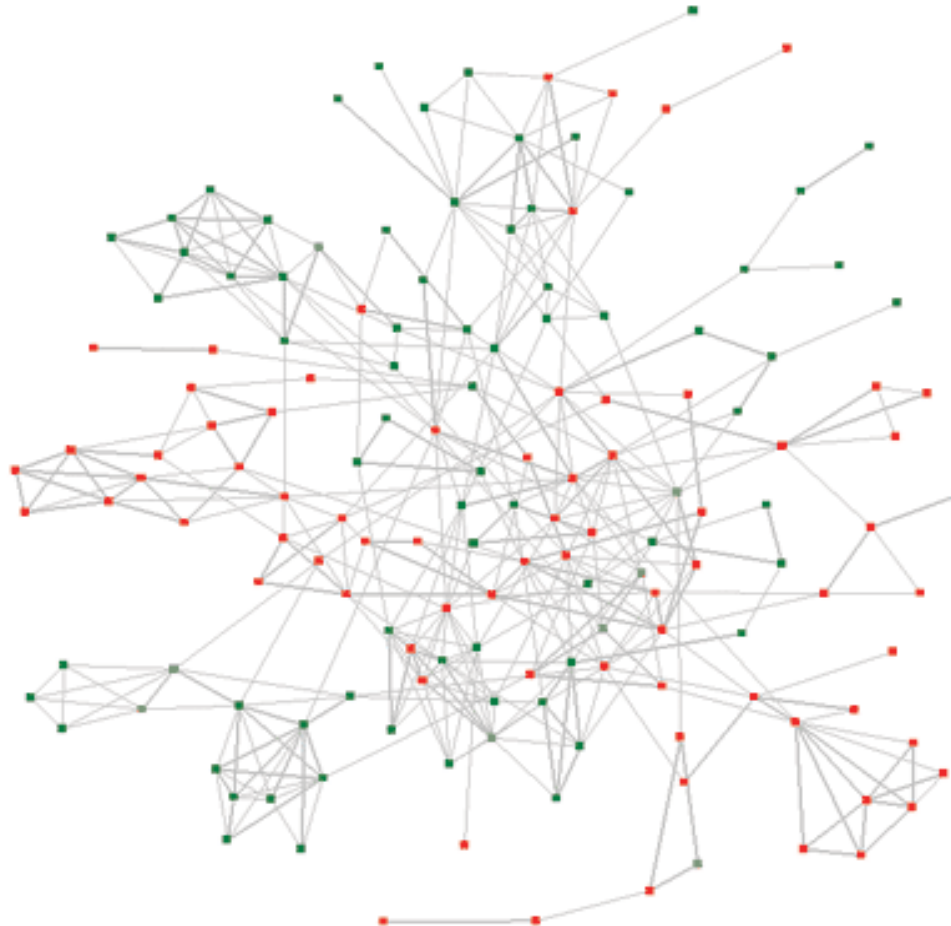
The systems integrators exert an extensive influence on different entities within the highly intertwined global value chains, forcing them to consolidate, expand their resources and capabilities, and attain economies of scale and scope in response to the demands of the core integrators. This concentration of power thus create an intense pressure throughout the global value chain



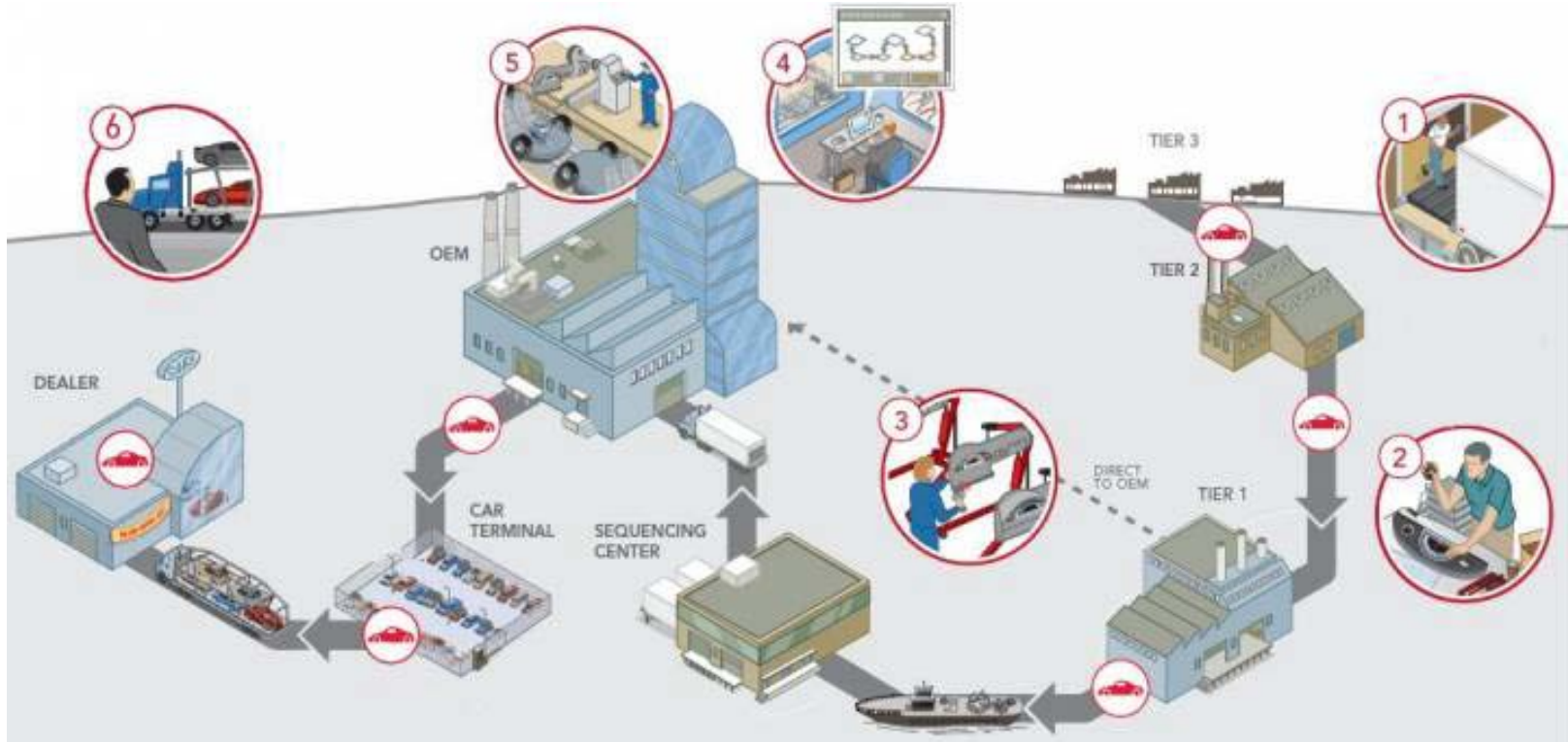


Value chain analysis

A complex system of the global value chain



Interlinked world





Value chain analysis

Why value chain analysis

- Highly intertwined business world
- Too many influential factors for success
- Too complex for traditional business analysis

Value chain analysis

To understand different parts of businesses and various factors that can influence on them


“Value chain analysis is framework for examining a complex entity; by dissecting it into various activities and examining each one, researchers can obtain a complete picture of the whole.”



History of value chain analysis

In 1985, Porter first described value chain as a sequence of activities within a firm which are performed in order to design, produce, market, deliver and support products or services for the market. He extended the concept of the value chain at the firm level to interlinked firms which are embedded in a larger stream of activities from upstream suppliers to downstream customers; Porter defines this inter-firm relationship as a "value system".

Many researches have contributed to the advance in value chain analysis mainly in the areas of management and development economics. "Value chain" now refers to various interrelated activities, both inside and outside firms.





What are the contributions

1) To **identify activities** in the chain that can sustain high incomes, either **profitability** of these entities and/or the **distribution of value added** among these entities.

Profitability : To generate profit

Value added: To add value to the product

Value: Only money ??

Value can also be many things, uniqueness, consumer preferences, technological advance. These are intermediates to money.





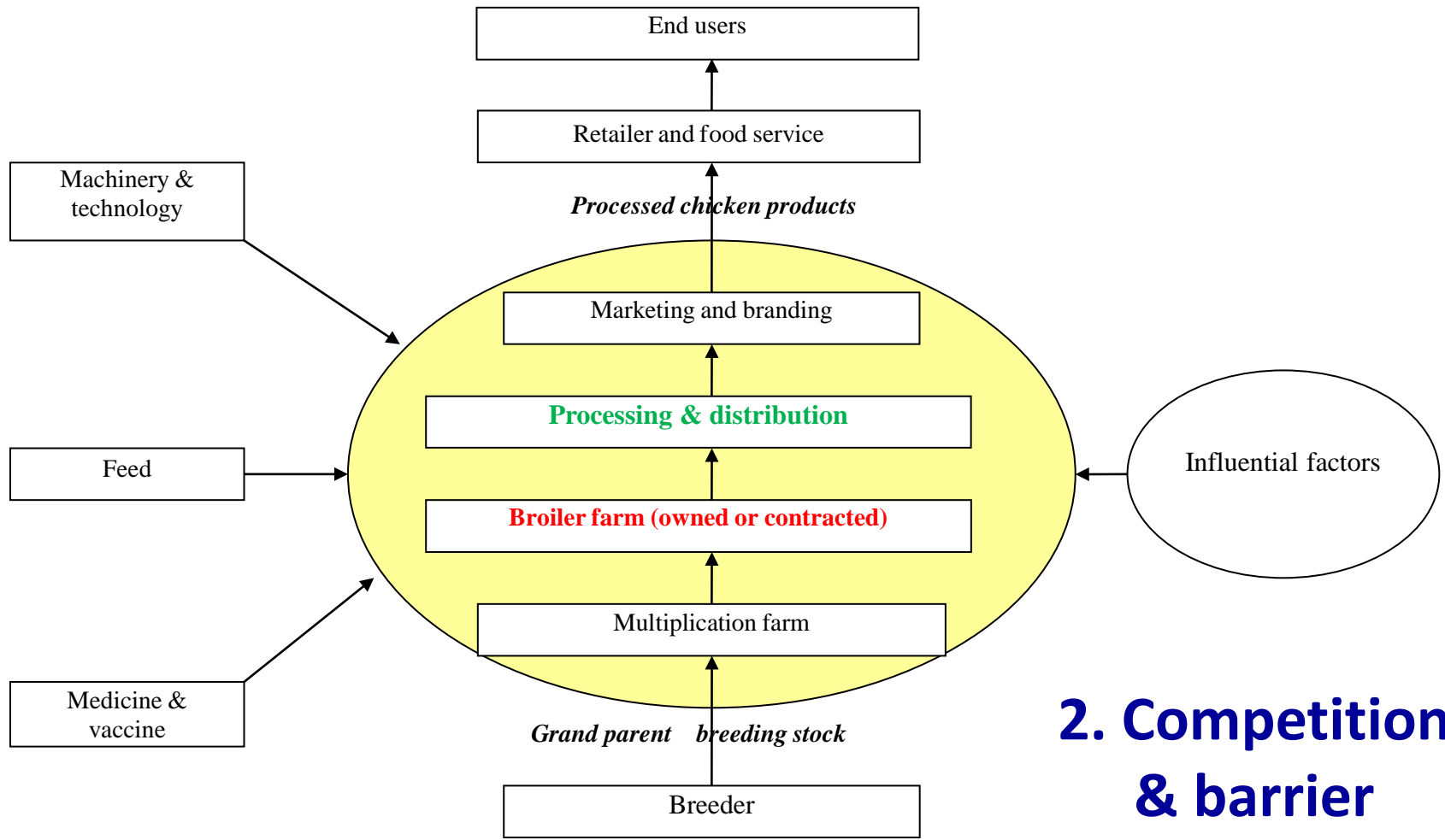
Value chain analysis

What are the contributions

2) To identify activities which are subject to the **growing competition** and those where **entry barriers** can be sustained or expanded in the future.



Value chain analysis





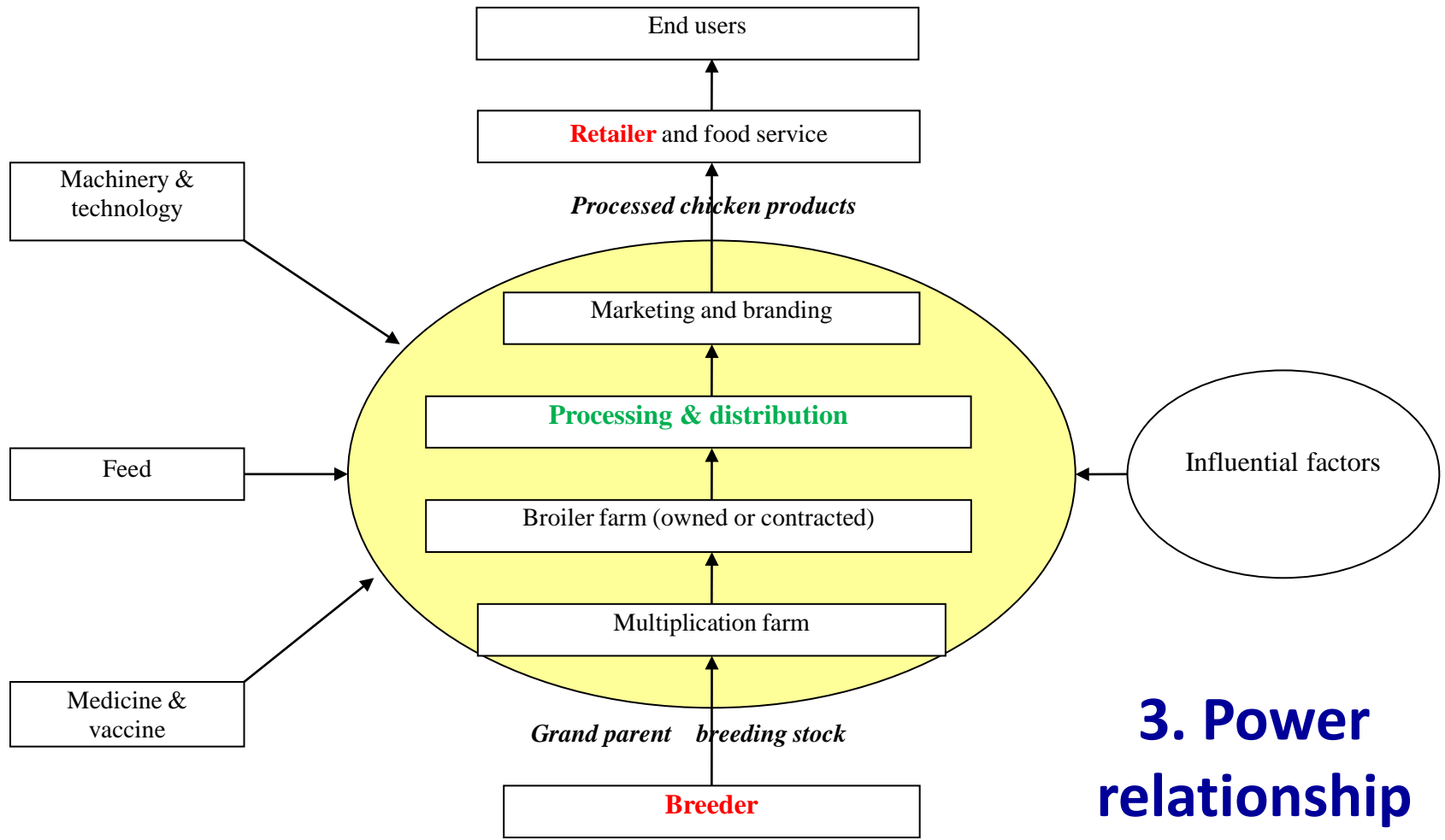
Value chain analysis

What are the contributions

3) To analysis of **power relations**, the behaviour of different entities within the chain and identifies those whose activities can be modified to produce a better outcome.



Value chain analysis





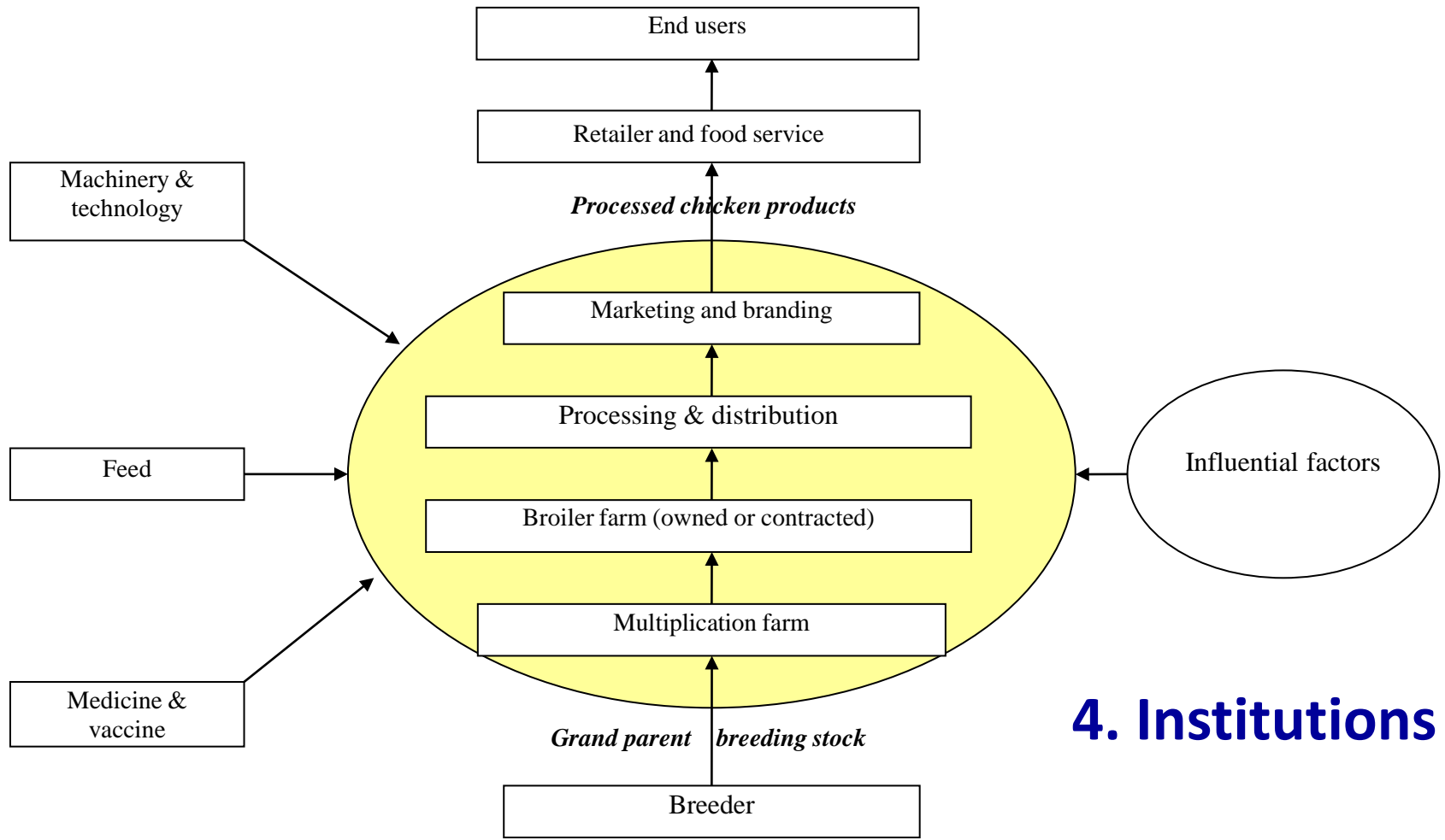
Value chain analysis

What are the contributions

4) The value chain analysis expands beyond the level of the firm or groups of firms into a **network of institutions** which support and influence the competitive performance of firms and their industries.



Value chain analysis




4. Institutions



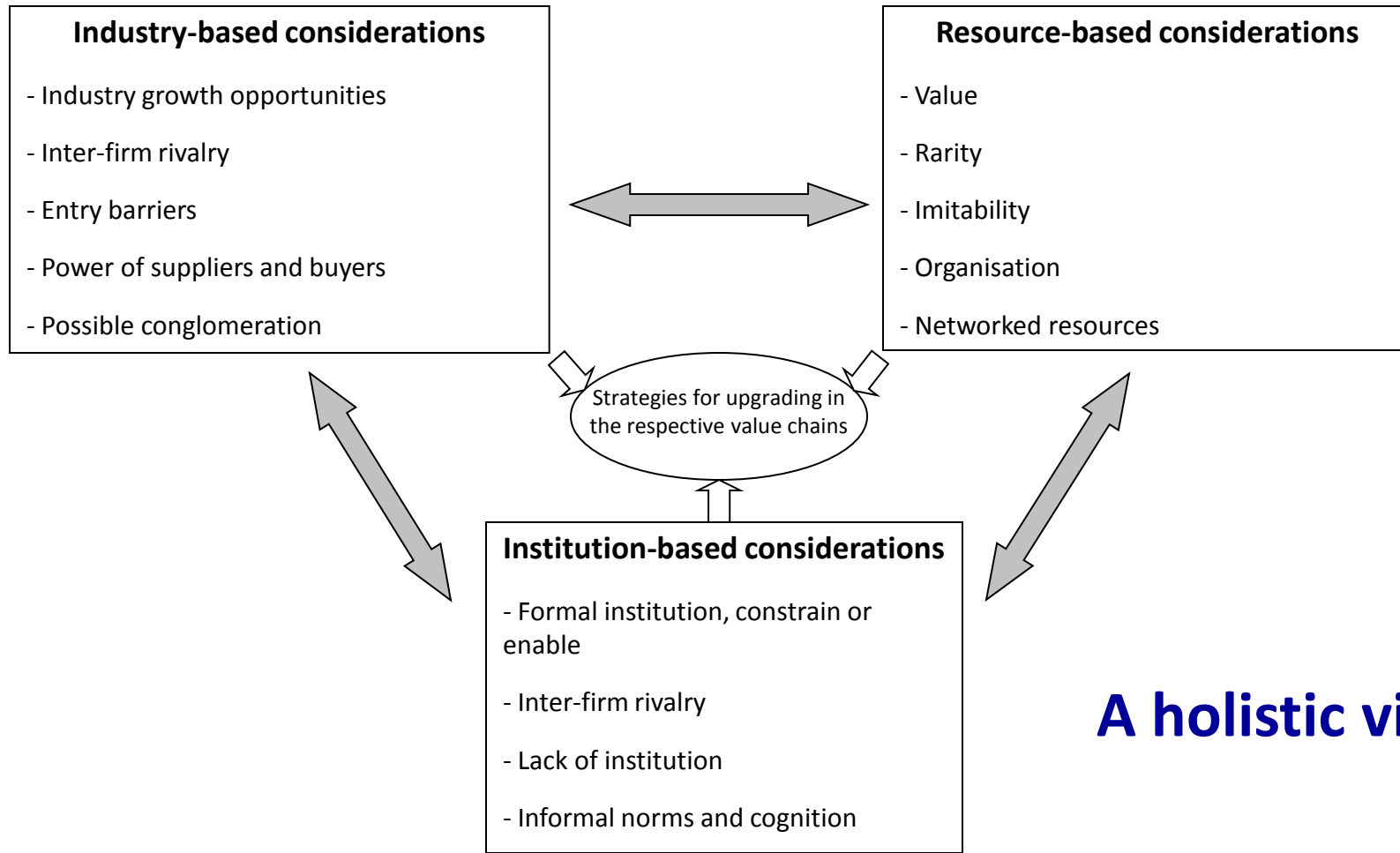
Value chain analysis

Porter points out that value chain analysis not only helps to improve the competitive advantage of the existing units but also provides several possible diversification opportunities. It can be used to define synergy in diversification strategy by identifying the ability of a firm to share its activities, such as marketing and procurement, in order to reduce costs, increase efficiency and create differentiation.

Grant's Contemporary Strategy Analysis also remarks that it can be used to identify the variables and actions which lead to uniqueness in each activity. The analysis of a firm's drivers of uniqueness in relation to those of its competitors provides the basis for firm-level strategies.



Value chain analysis






Value chain analysis

The concept of value chain analysis in analysing different entities within the chain can be combined with industry, resource and institution based views in business analysis to give a holistic approach for analysing businesses in the increasingly integrated business world. This holistic framework would provide a powerful tool for business analysis in this complex global business.

This framework can be viewed as a system of interrelated components, in which effect at one point depends on the others.



1) Industry based considerations

In value chain analysis, the industry-based view can be regarded as an analysis of the **interaction between competing firms** in relation to their respective value chains within a particular industry; this involves **examining the entry barriers, the power of the suppliers and buyers** and so on in order to obtain a better view of the whole industry.

“Understand the value chain to understand the industry”





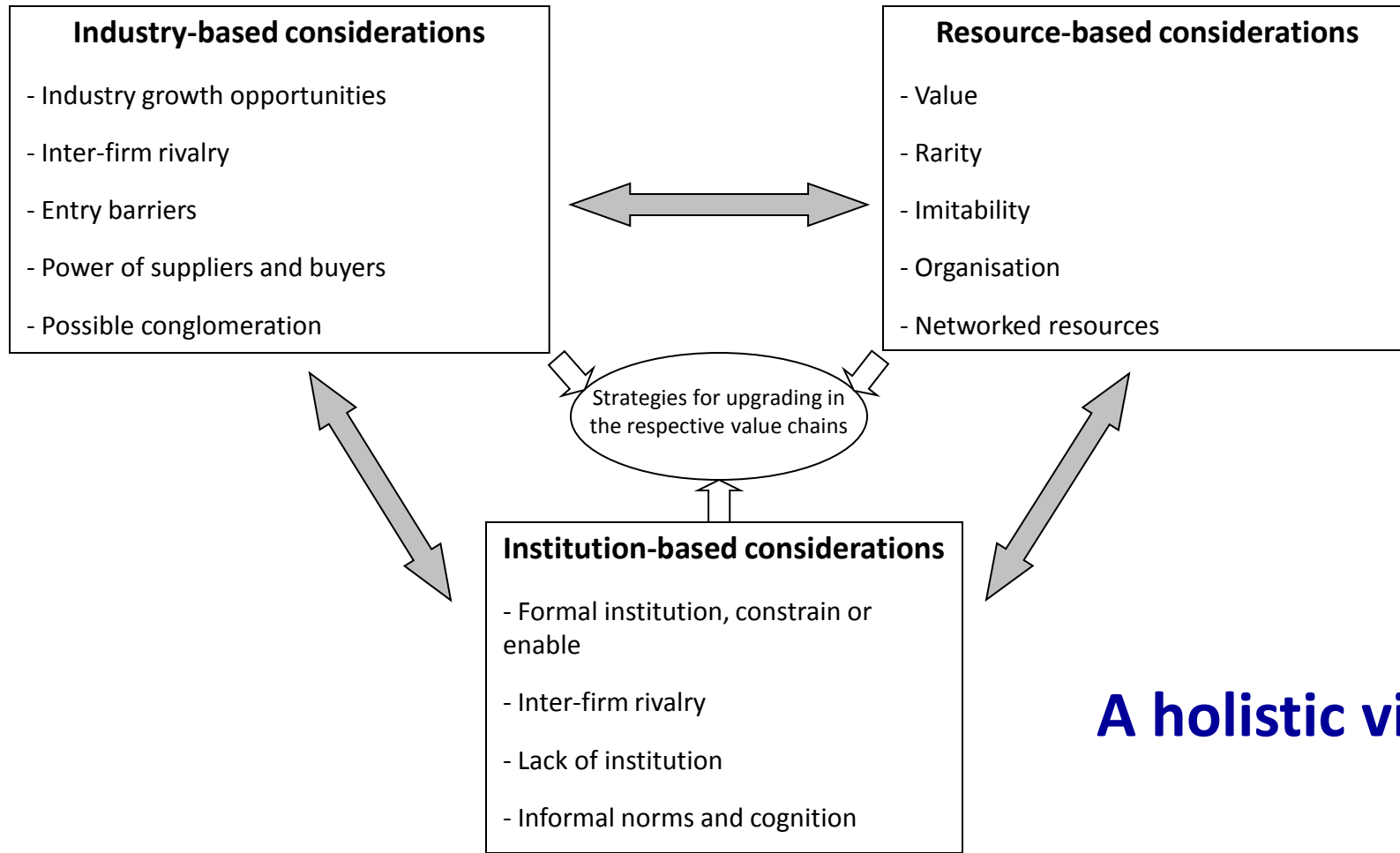
2) Resource based considerations

The concept of the value chain can improve the analysis in the resource-based view; by considering firms as a collection of interrelated activities, researchers can gain in-depth **views of the resources arising from the different activities within firms or network of firms.**

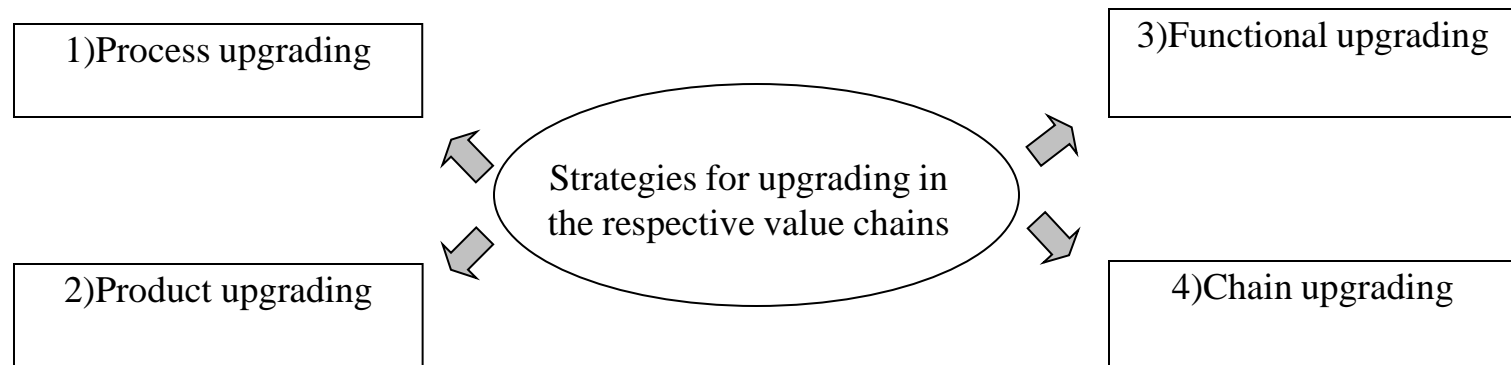
“Analysing different entities within firms and its interrelated firms to identify different resources”



Value chain analysis



Strategies for upgrading in the respective value chains






Value chain analysis

1. Process upgrading

Increase the efficiency of the internal processes, transforming both processes within an individual node of the chain and interrelated processes within the chain to become significantly better than those of their rivals.

Case: A company can reduce their distribution cost to be comparable with their competitors by improving the distribution process within the value chain.





Value chain analysis

2. Product upgrading

The introduction of new products or the improvement of old ones at the rate faster than their rivals. This involves altering new product development processes in not only a single entity of the value chain but also the interrelated nodes within the value chain.


Case: A chicken producer company can move from exporting raw meat to cooked meat or ready meal.



3. Functional upgrading

An increase in the value added through changing the activities which are conducted within the firm or moving the locus of the activities to different positions in the value chain. Firms can develop new functions in the chain, such as moving from production into design or marketing; they can also extend backwards or forwards to different stages in the value chain, such as moving from the production of finished goods to raw materials.

Case: A chicken producer can extend to more value added activities such as breeding and branding





Value chain analysis

4. Chain upgrading

To move the firm's operation to a new value chain. This can be either based on the company's existing knowledge or acquiring new knowledge.

Case : A chicken producing company can use its existing resources and capability to expand to swine (pig) farming.



Business evolution

- Individual → **More complex processes** → Vertical integration
- Vertical integration → **Too complex + IT** → Horizontal integration
- Horizontal integration → **Complex relationship** → S. integration

Value chain analysis

- Value chain analysis as **an effective tool** to analyse the complexity
 - **A holistic approach** to analyse the chain
 - Process, product , functional and chain upgrading
- 