



« Value Chain ? »

M1 '14 – C6

3rd November

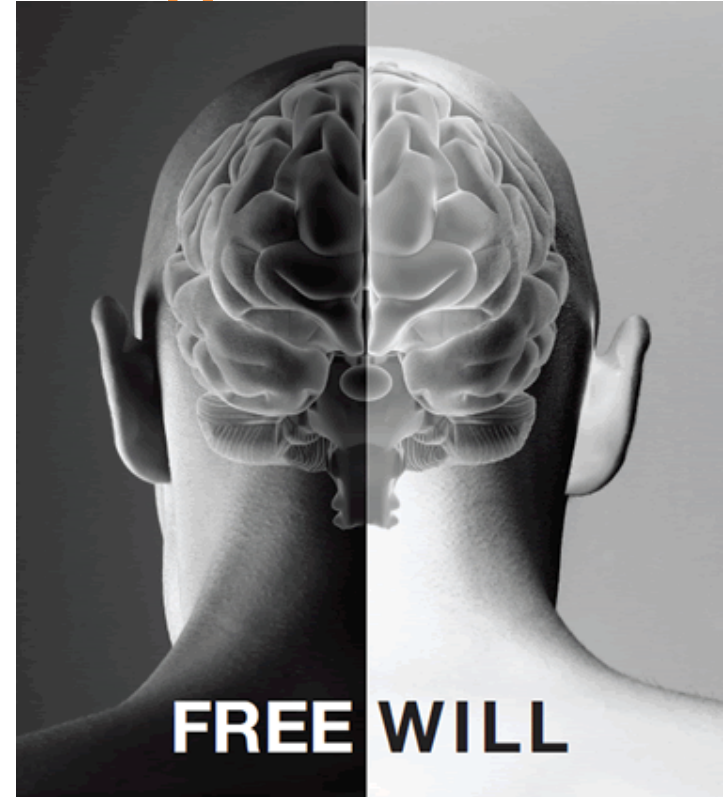
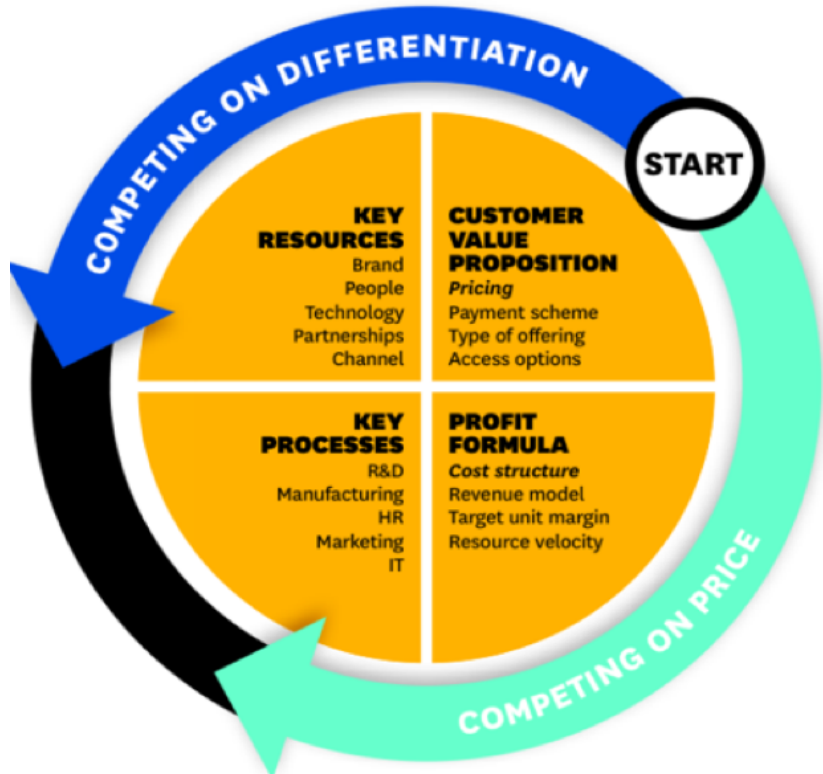
Take away from
the RBV course ?



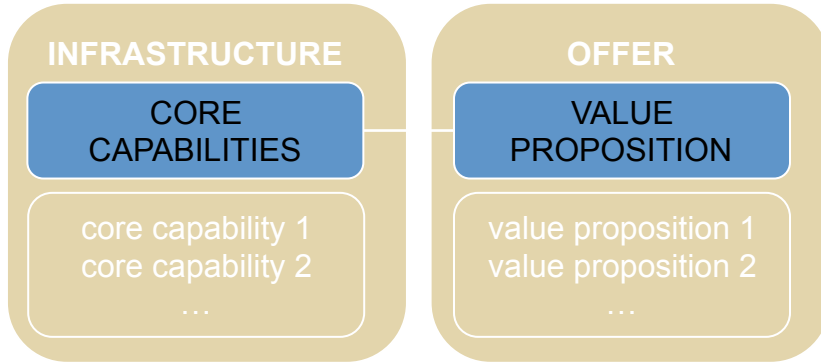
Structure of the Course today

- Understand the Value Chain ?
 - The concept
 - How to use it ?
 - The limits ?
 - The Ducati Example ?

How are you doing ?



Describing what capabilities are required



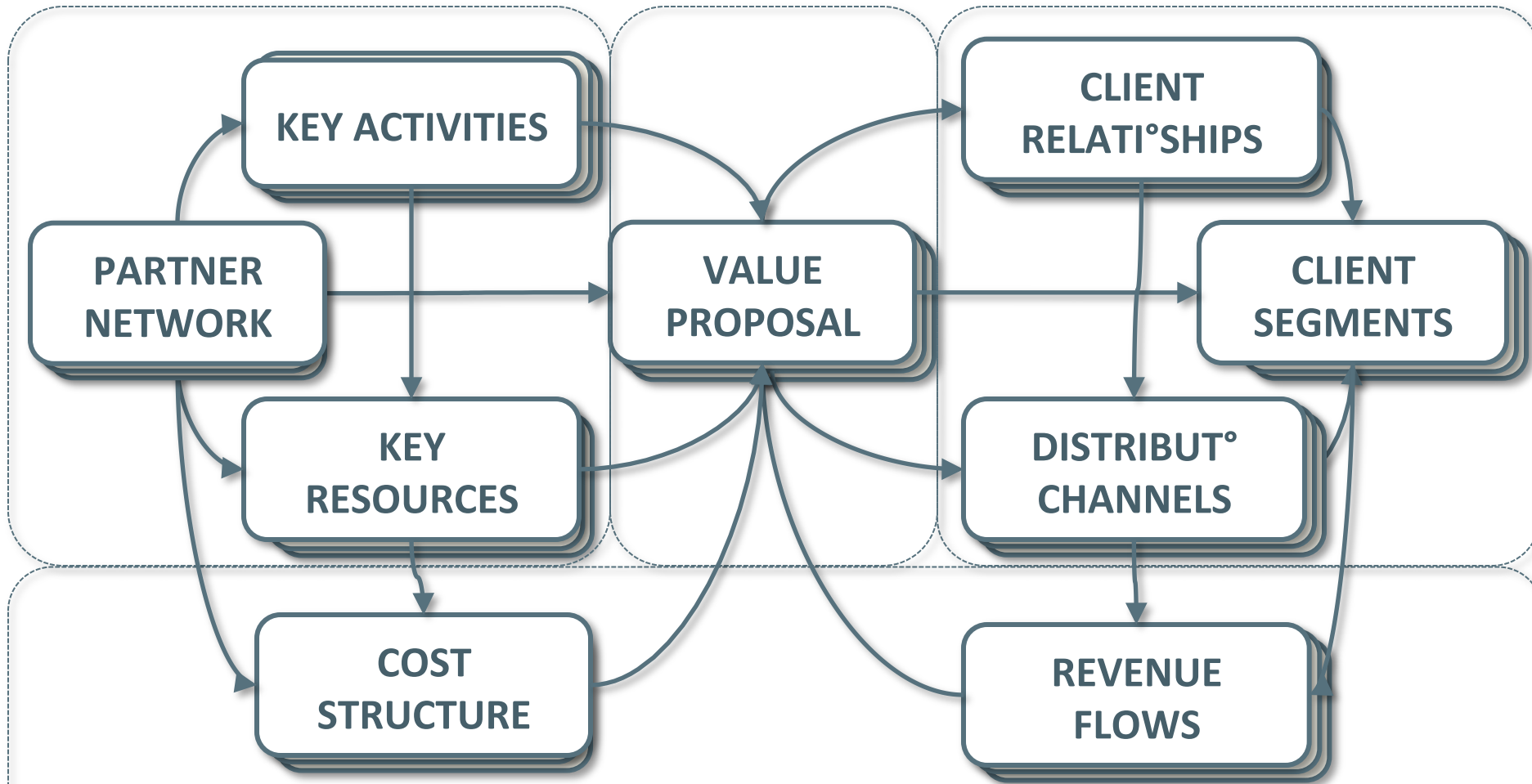
The Questions ?

What Key Resources do our Value Propositions require ? Our Distribution Channels ?

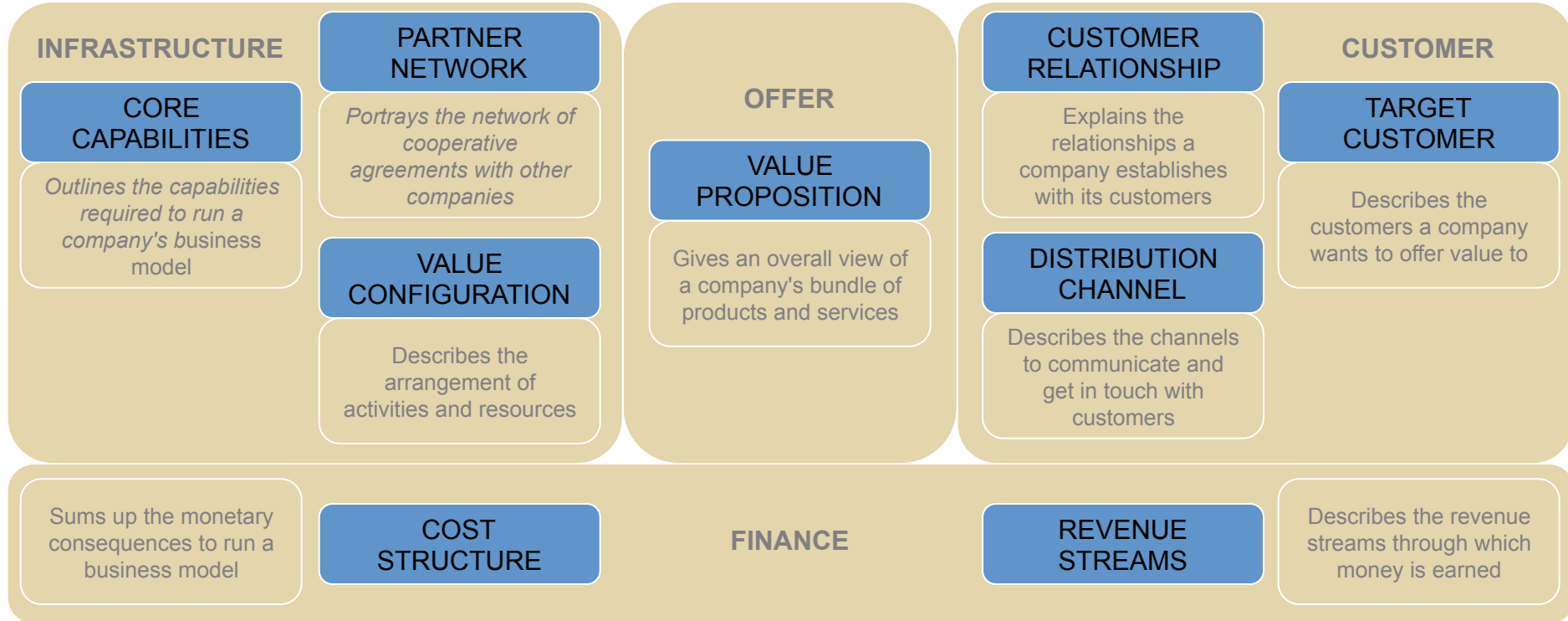
Customer Relationships? Revenue Streams?

What are our key competences ?

- The Key Resources Building Block describes **the most important assets required to make a business model work !**
- These resources **allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.**
- Key resources can be physical, financial, intellectual, or human. Key resources can be **owned or leased** by the company **or acquired from key partners.**
- Different Key Resources are needed depending on the type of business model.



Describing a company's business model



HOW?

KEY ACTIVITIES

KEY RESOURCES

VALUE PROPOSAL

CLIENT RELAT°SHIPS

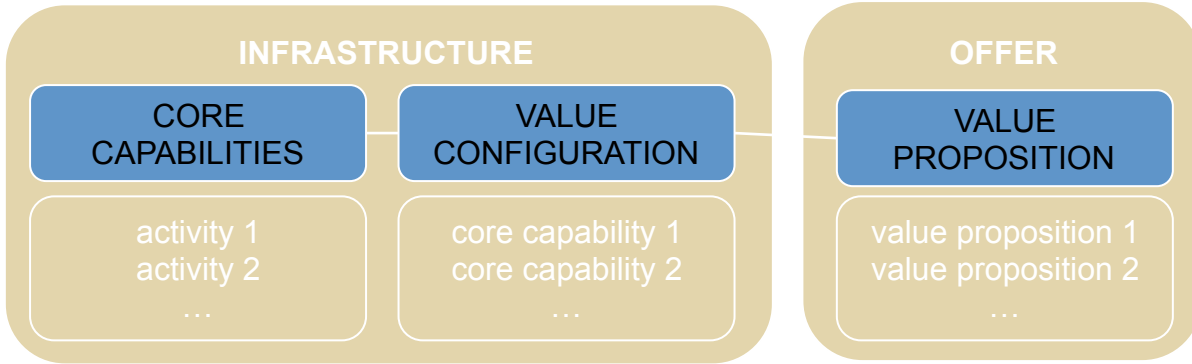
CLIENT SEGMENTS

DISTRIBUT° CHANNELS

- € ?

REVENUE FLOWS

Describing what activities are required



What Key Activities do our Value Propositions require ?
Our Distribution Channels ?
Customer Relationships ?
Revenue streams?

- The Key Activities Building Block describes the most important things a company must do to make its business model work
- Every business model calls for a number of Key Activities : the most important actions a company must take to operate successfully → create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues.
- Differ depending on the business model type.

KEY ACTIVITIES

CLIENT RELAT°SHIPS

VALUE PROPOSAL

CLIENT SEGMENTS

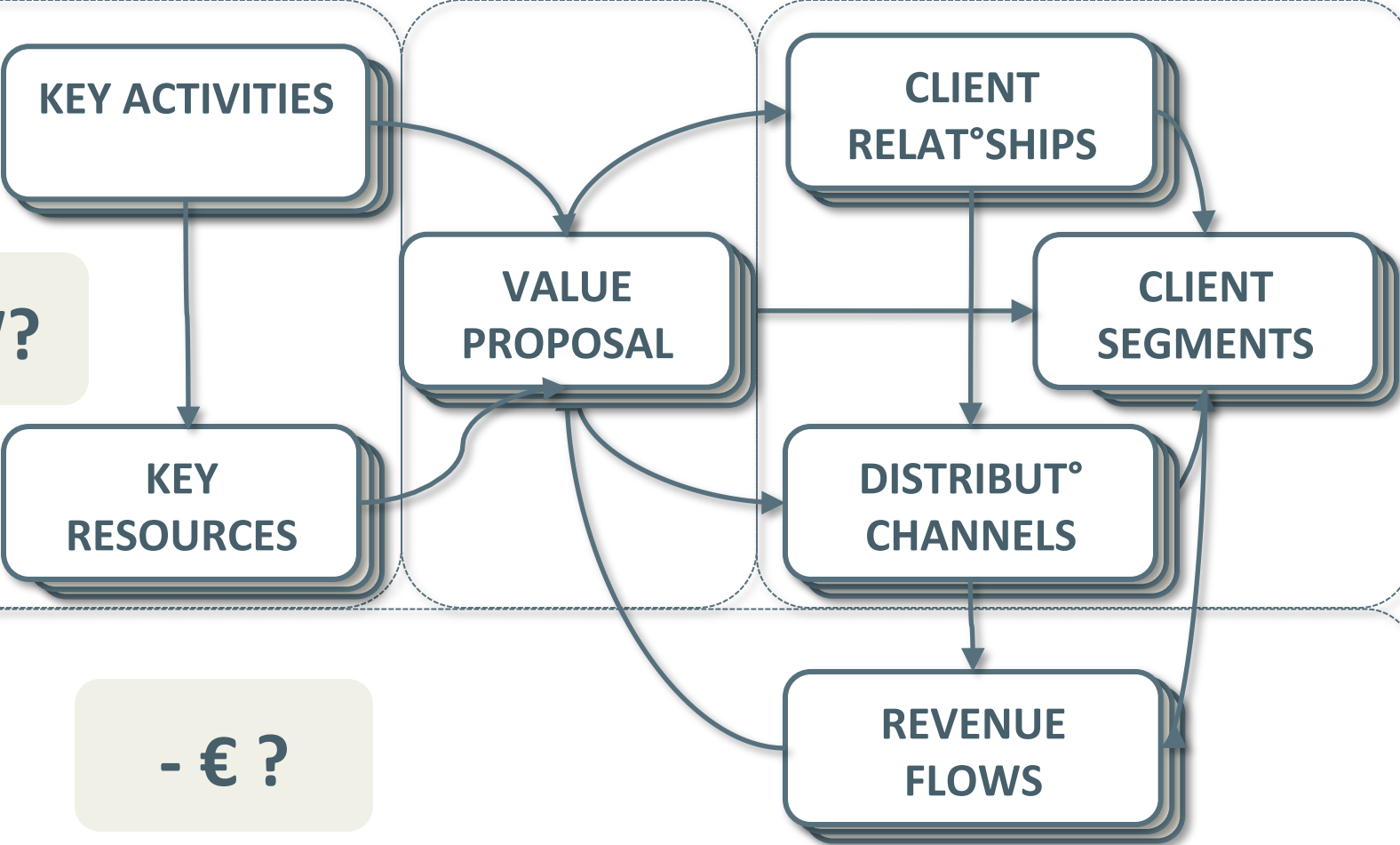
DISTRIBUT° CHANNELS

KEY RESOURCES

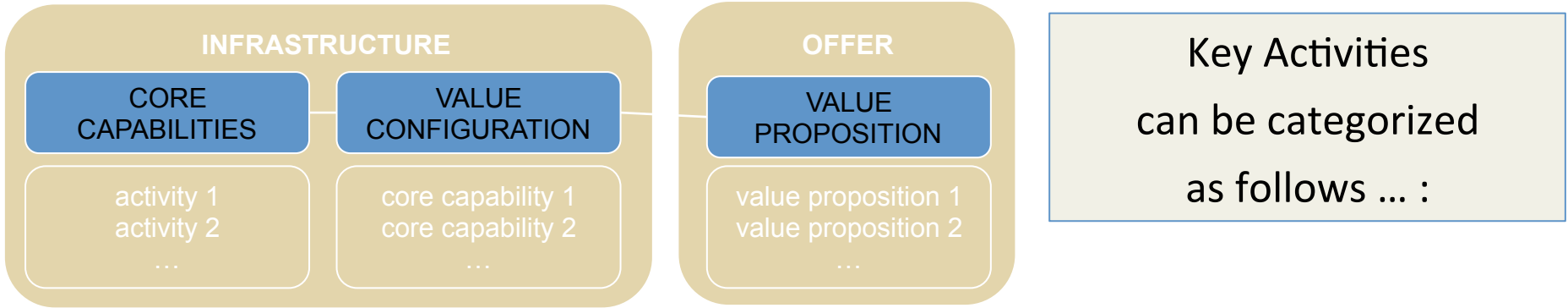
REVENUE FLOWS

HOW?

- € ?



Describing what activities are required



Production : designing, making & delivering a product in substantial quantities and/or of superior quality. Production activity dominates the business models of manufacturing firms.

Problem solving : coming up with new solutions to individual customer problems. Dominated by problem solving activities. Call for activities such as knowledge management and continuous training (McKinsey).

Platform/network : dominated by platform or network-related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform. eBay's or Visa's business model Key Activities in this category relate to platform management, service provisioning, and platform promotion.

Key Activities ... the concept of “Value Chain”

- *« If organizations are to achieve competitive advantage by delivering value to customers, managers need to understand **which activities they undertake are especially important in creating that value and which are not ...***
- *... Value chain and value network concepts can be helpful in understanding this. »*
- The value chain describes the categories of activities within an organization which, together, create a product or service.
- The value chain invites the strategist to think of an organization in terms of sets of activities – sources of competitive advantage can be analyzed in any or all of these activities.

Company “Value Chain”

- Useful to separate the business system into a series of value-generating activities referred to as the value chain.
- In his 1985 book *Competitive Advantage*, Michael Porter introduced a generic value chain model that comprises a sequence of activities found to be common to a wide range of firms.
- The goal of these activities is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

Company “Value Network” ?

- The value network comprises the set of inter-organizational links and relationships that are necessary to create a product or service.
- Competitive advantage can be derived from linkages within the value network.

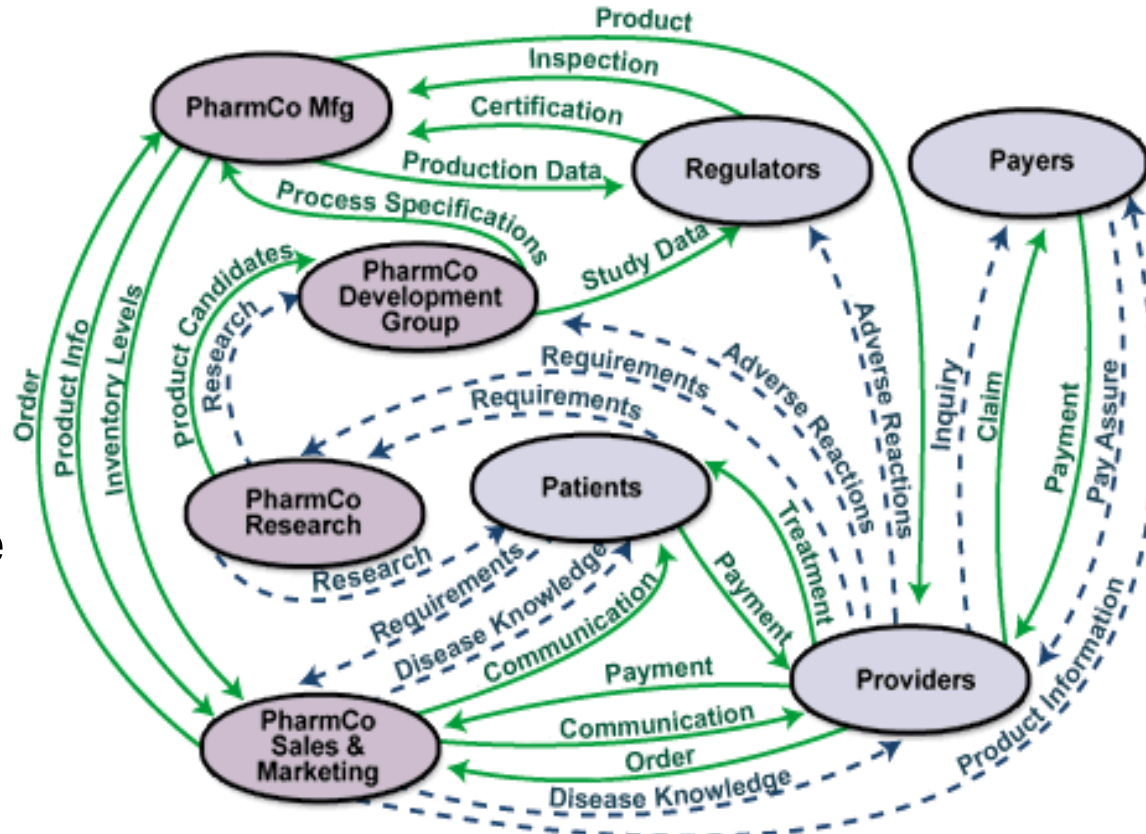
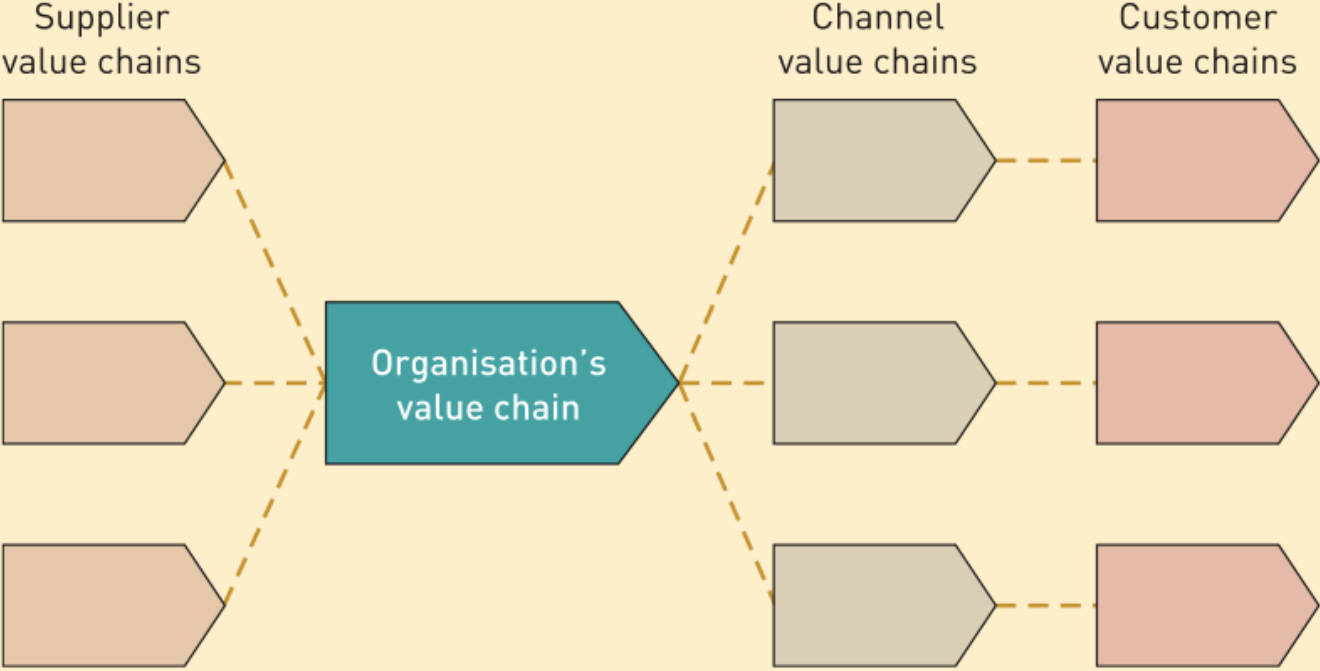


Figure 3.5 The value network

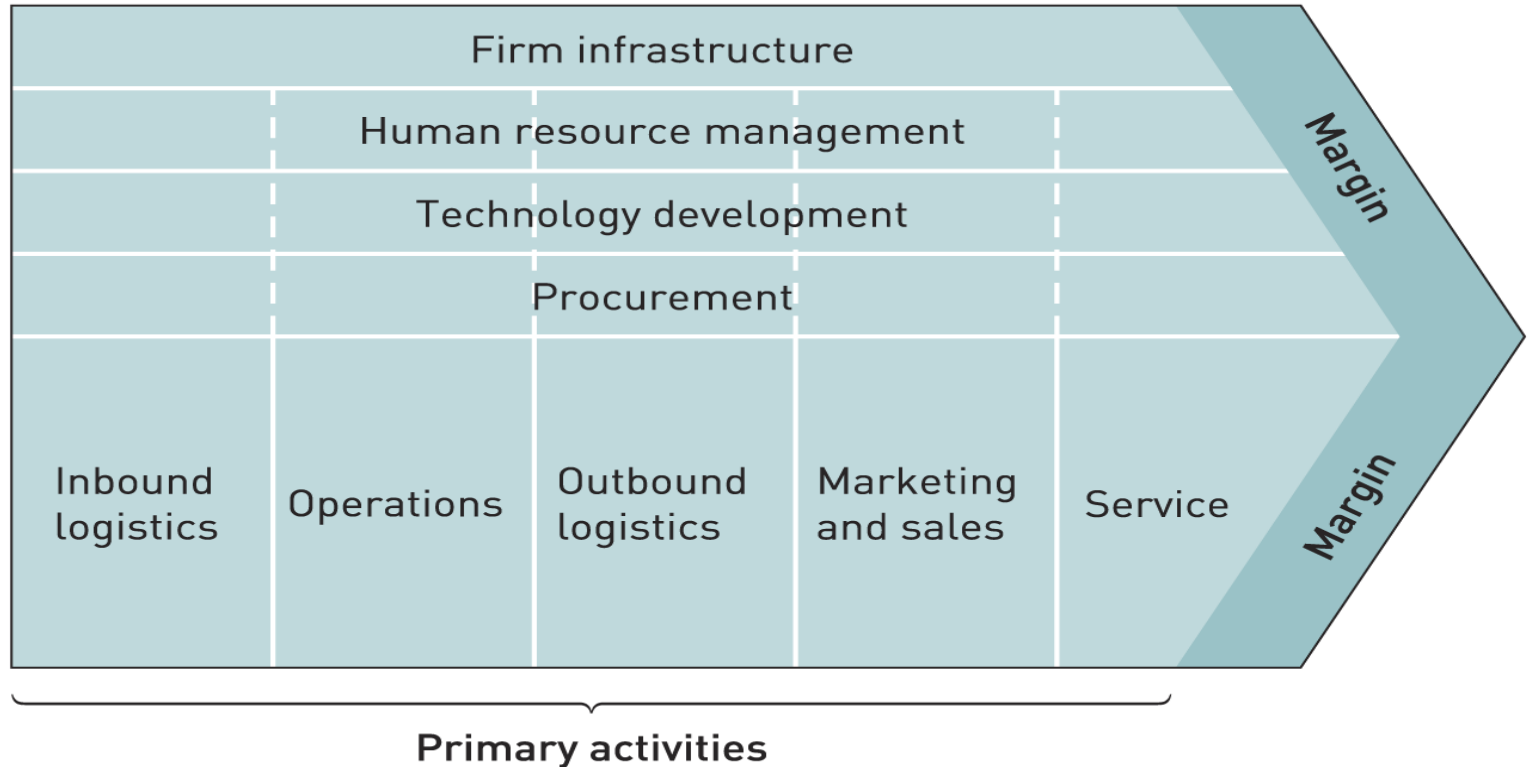


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The Value Chain of a company

Support activities

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Use of the Value Chain ?

- A generic description of activities – understanding the discrete activities and how they both contribute to consumer benefit (value) and how they add to cost.
- Identifying activities where the organization has particular strengths or weaknesses
- Analyzing the competitive position of the organization using the VRIN criteria – thus identifying sources of sustainable advantage.
- Looking for ways to enhance value or decrease cost in value activities (e.g. outsourcing)

Use of the Value Network ?

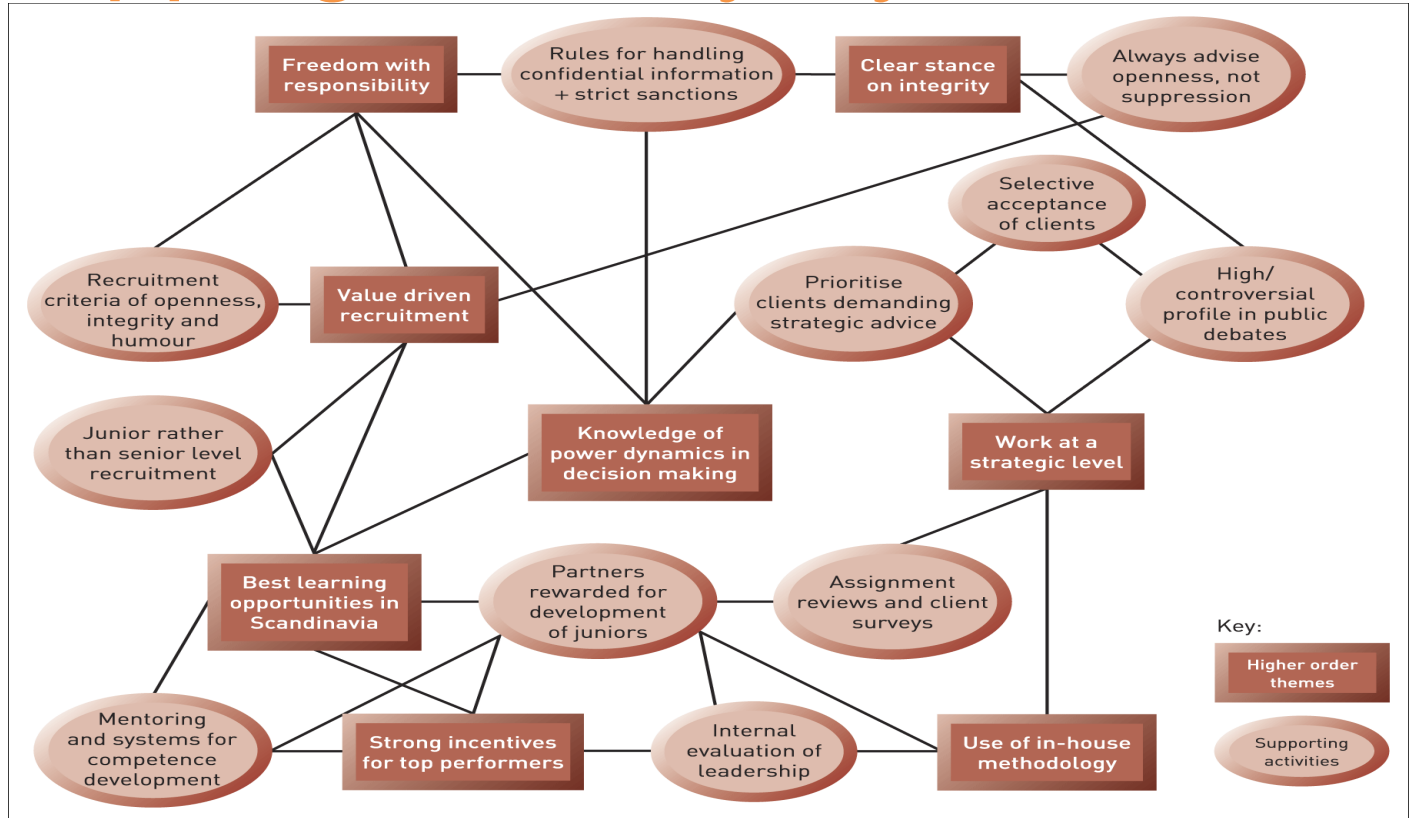
- **Understanding cost/price structures** across the value network – analyzing the best area of focus and the best business model.
- Identifying “**profit pools**” within the value network and seek to exploit these.
- The “**make or buy**” decision : deciding which activities to do “in-house” and which to outsource.
- **Partnering and relationships** – deciding who to work with and the nature of these relationships.

Use of the “Mapping System”

- Identify “higher order strategic themes” that is, how the organization meets the critical success factors in the market.
- Identify the clusters of activities that underpin these themes and how they fit together.
- Map this in terms of how activity systems are interrelated.

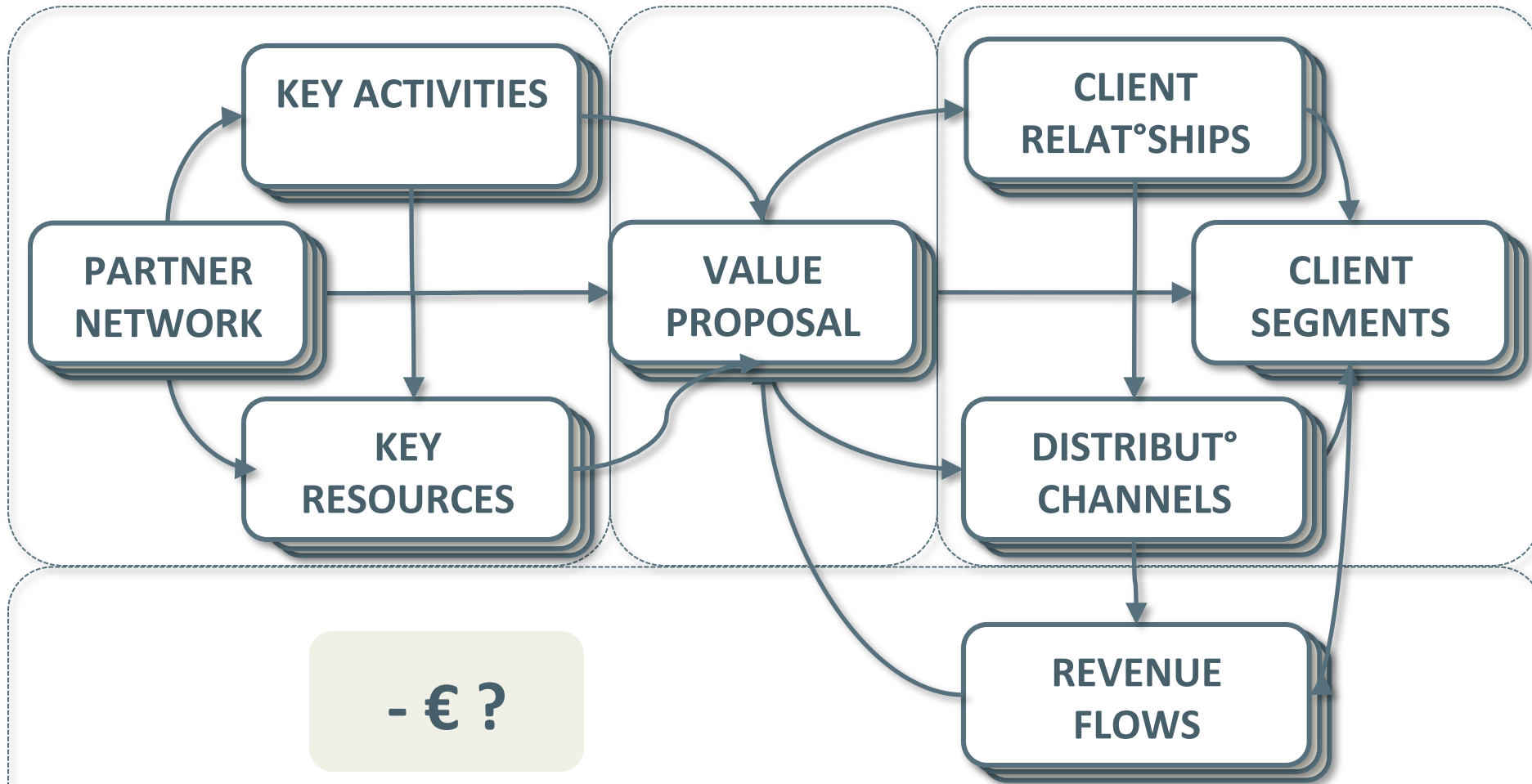
Mapping “Activity System”

Activity systems at Geelmuyden.Kiese Scandinavia’s largest partner-owned company within strategic communications consultancy.
<http://www.geelmuyden-kiese.com/about-us/>

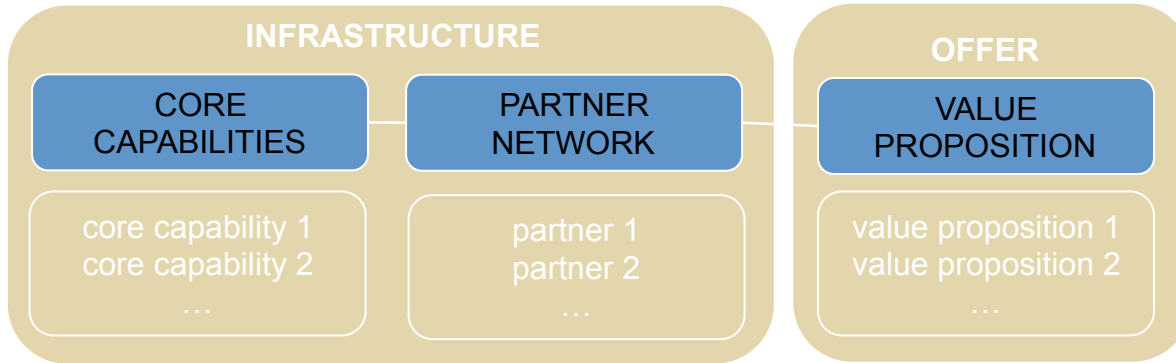


Using activity system maps

- A means of **identifying strategic capabilities** in terms of linkages of activities
- **Internal and external links** are identified (e.g. in terms of the needs of customers).
- Therefore helps identify **bases of competitive advantage**.
- And sustainable advantage for example, in terms of bases of inimitability.



Describing the partners that leverage the business model



Key Partnerships Building Block describes the network of suppliers and partners that make the business model work.

Partnerships for many reasons are becoming a cornerstone of many business models.

Companies create alliances to optimize their business models, reduce risk, or acquire resources.

The Questions ?

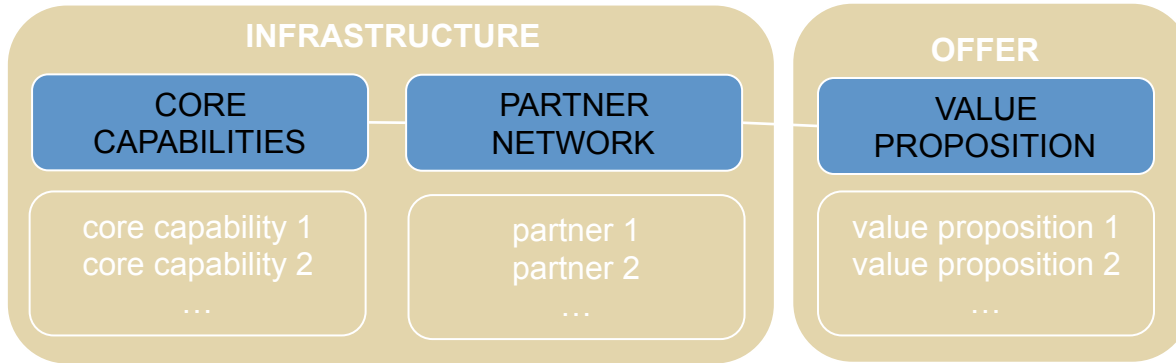
Who are our Key Partners ? Who are our key Suppliers ?

Which Key Resources are we acquiring from partners ?

Which Key Activities do partners perform ?

What kind of partner could enrich our BM ?

Describing the partners that leverage the business model



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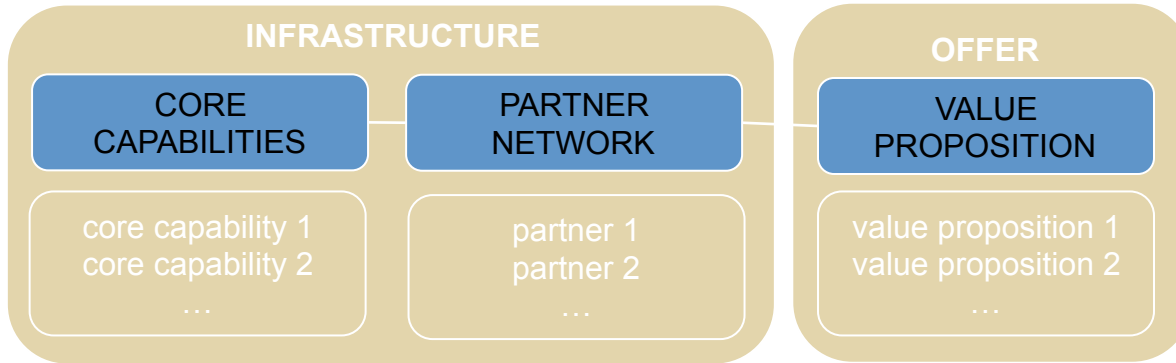
Partnerships for many reasons are becoming a cornerstone of many business models.

Companies create alliances to optimize their business models, reduce risk, or acquire resources.

➤ We can distinguish between four different types of partnerships :

1. Strategic alliances between non-competitors
2. Co-opetition : strategic partnerships between competitors
3. Joint ventures to develop new businesses
4. Buyer-supplier relationships to assure reliable supplies

Describing the partners that leverage the business model



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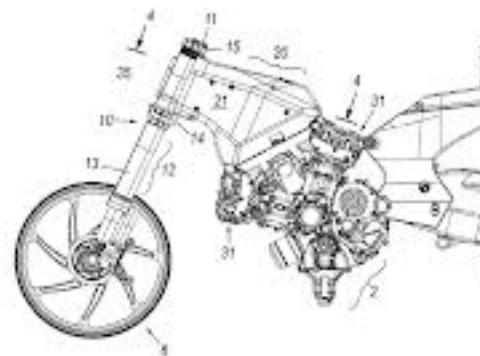
Companies create alliances to optimize their business models, reduce risk, or acquire resources.

Fixed costs : Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

Variable costs : Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

Economies of scale : *Cost advantages* that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

Economies of scope : *Cost advantages* that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.



Ducati (Italy) vs. Harley-Davidson (US):
Innovating Business Processes and Managing Value Networks

In 2001, as Ducati celebrated its 75th anniversary, some executives wondered whether the recent corporate restructuring had successfully repositioned the company. As part of this, the Italian motorcycle manufacturer had adopted a new focus on R&D, marketing and sales, moving away from its initial manufacturing strength. In addition, the company had embraced the Internet, deciding in January 2000 to sell its new motorcycles, apparel and accessories exclusively online. Though this had been a risky decision, it had been tremendously successful. Federico Minoli, president and CEO of Ducati.com, and chairman of the board, of Ducati Motor Holding announced with pleasure that:

“Since 1 January 2000, we have sold over 2,500 motorbikes online with the help and involvement of our official dealer network, proving the validity of our Internet strategy. With this success, we further confirm the value of our brand and our product.”

Ducati: Company Overview

Ducati Motor Holding S.p.A.¹ (DMH) was a manufacturer of expensive high-performance motorcycles. Since 1926 the medium-sized company, based in Bologna (Italy), has been developing and producing racing-inspired motorcycles, winning the World Superbike Championship uninterruptedly for decades. In 1996, Ducati's parent company Caviga faced a major financial crisis that led to the sale of a 51% stake in DMH to the US-based Texas Pacific Group (TPG) and Deutsche Morgan Grenfell Capital (Italy). A new management team initiated a turnaround program aiming at increased production efficiency, net sales and profit. "Since 1996, we were really working against a backdrop that wasn't so far removed from bankruptcy," said Carlo di Biagio, chief executive officer of DMH. "Now our situation is different. Sooner or later, we think investors will see that."

By 2001, the company had restructured its value chain activities, outsourcing 90% of its production, and in order to decrease costs, introducing a platform strategy which provided a common technical base for Ducati motorcycles. All models subsequently shared a fundamental engine configuration (L-shaped twin cylinder engine), tubular trestle frame and many generic or commoditized parts. In addition, all models (excluding the ST2) used one of only two types of engines: two-valve, or four-valve, making assembly easier and manufacturing less costly. Furthermore, DMH restructured its distribution network by reducing the number of its dealer outlets and replacing multibrand dealers with Ducati designed stores. Thus, after the restructuring DMH essentially consisted of an R&D and design center, an assembly unit and a marketing and sales department. Support and logistics were also outsourced.

One of Ducati's key strengths is its brand name and product innovation capability. The company has successfully revamped its existing product line and introduced several new motorcycle models, accessories and apparel. The new products were sold either through the traditional dealer network or exclusively over the Internet.

Ducati's e-commerce activities were first launched on 1 January 2000 when a new limited edition MH900e motorcycle, priced at €15,000 was sold exclusively over the Internet. The entire first year's production of the MH900e was sold out in just 31 minutes, despite the fact that production was not scheduled to start before June 2000. Industry wide, it was the first event of its kind. 'Produce what is already sold' thus become a new motto for Ducati, and it subsequently set up an independent online entity, called Ducati.com on 6 March 2000.

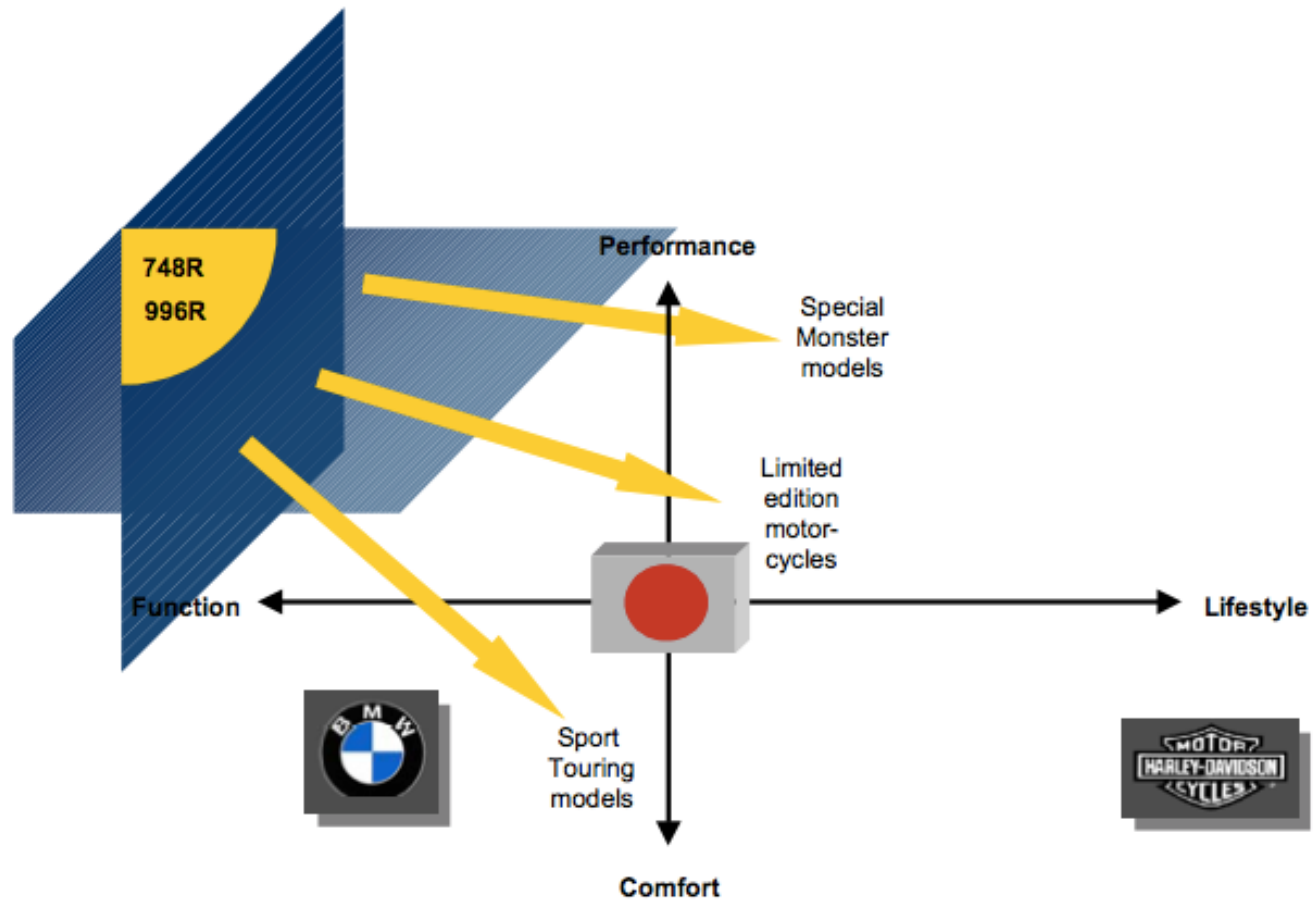
In countries where Ducati took control of its distribution network, the company experienced a significant rise in motorcycle registrations, a key measure of retail sales. In 2001, Ducati announced the fifth consecutive year of record profits, amounting to €10.6 million (see Exhibit 1). For the same period, the company sold 38,969 motorcycles with revenues of €407,8 million and EBITDA² up by 10% to €66.1 million, i.e. 16.9% of revenues. In 2001, Ducati had a 6.4% share of the Western European Market.

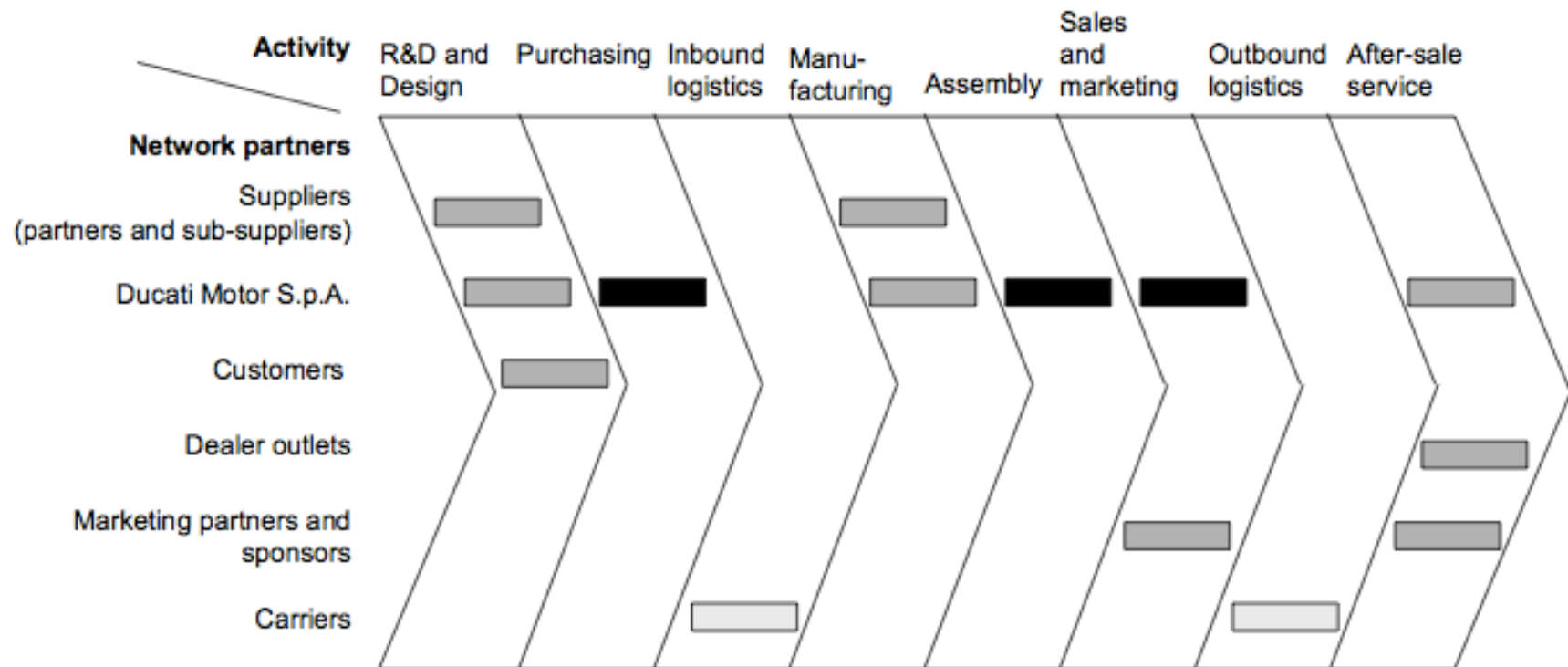
Ducati's Business Strategy

“Despite the challenging business environment in 2002, we are continuing to invest in innovative products and brand-building activities to lay the ground for strong and sustained future growth.”

Carlo di Biagio

Since the 1996 company turnaround, Ducati aimed at the following objectives: improving production efficiency, developing high-margin motorcycle-related businesses, leveraging the Ducati brand, pushing the boundaries of the Ducati products' niche, reinforcing the company's core niche position, improving the distribution network, and developing Internet and e-commerce activities.

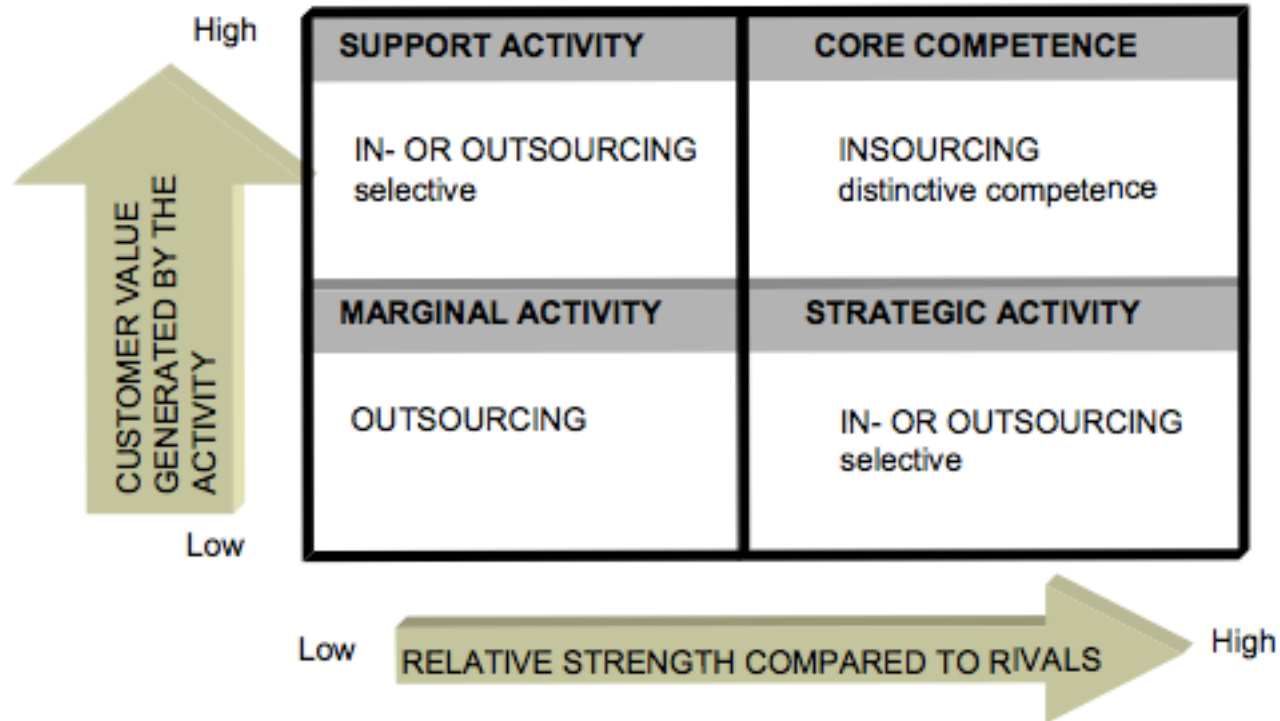




In-house activities

Networked activities

Outsourced activities



Assignment : Value Chain – Resources & Competences - Partnership

1. Read the Ducati – Harley Davidson Business Case (Insead)
2. Describe & Explain the situation in the 90ies of Ducati using a SWOT Analysis
3. Describe in details and motivate the changes decided and implemented by Ducati's owners
4. Explain the system used by Ducati to select in/out house activities
5. Describe Ducati Value Network
6. What are the pro's & con's of this strategy

Relevant book sections

- Pages 97 to 102