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Lecture 03: Strategic position of Value Chain Management

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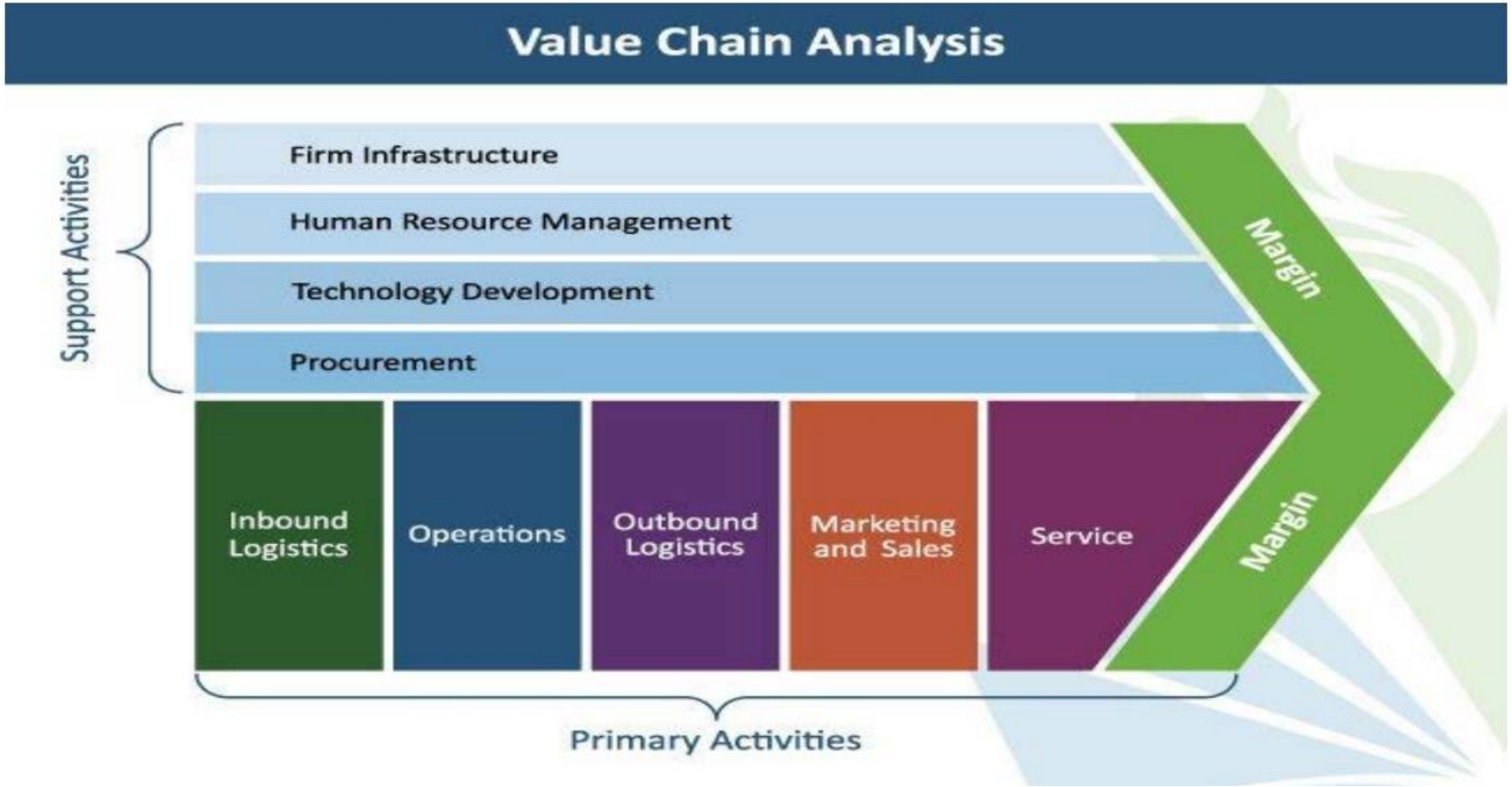
My Teaching Philosophy

- Listen attentively
- Ask questions
- Think critically

Training Objectives

- Understand value chain concepts and competitiveness.
- Assess risks and strategic opportunities to enhance value chain development.
- Examine the use of value chains in risk management and access to finance.
- Understand low-income rural financial markets.
- Understand agricultural and rural financial markets development

Strategic position of VCM



Value Chains are Strategic

- Innovation
- Research and Development (R&D)
- Product testing
- Marketing
- Social trend analysis
- Economic conditions

Competitive Strategy?

- ❖ Inspired by Michael Porter of Harvard University.
- ❖ Late 1970's developed 3 models to help us think about strategy.

i. 5 Forces Model

ii. Value Chain

iii. Generic Strategy

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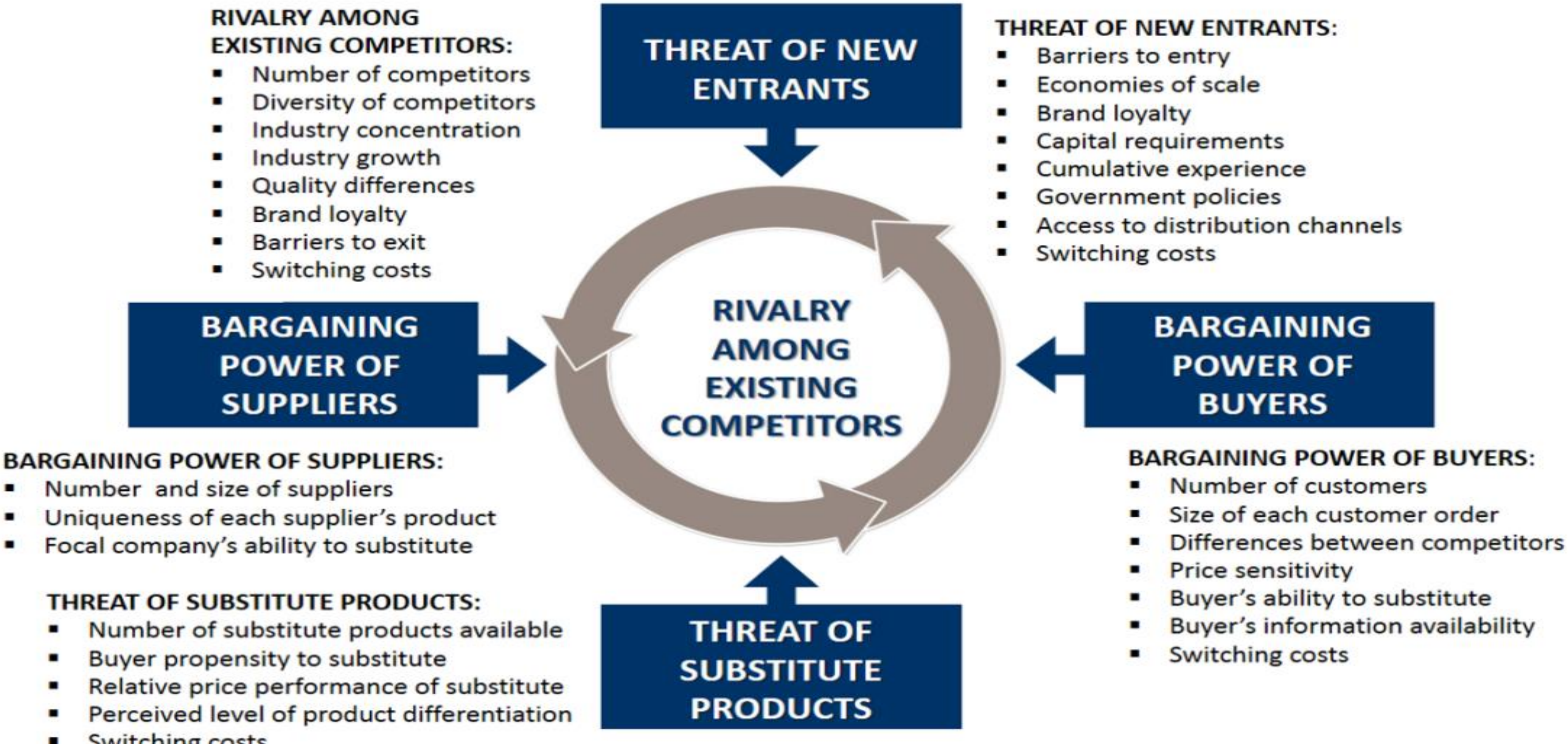
5 Forces Model



5 Forces

- Bargaining Power of Buyers (customers): Ability of the customers to put the firm under pressure to reduce prices.
- Bargaining Power of Suppliers: Power of suppliers to control prices.
- Intra-Industry Rivalry: Competitiveness of a given industry.
- Threat of New Entrants: Profitable industries attract new competitors. (Amazon producing TV shows).
- Threat of substitute products and services: Other entities that consumers can use, instead of your product. (bike instead of car)

Competitive Advantage

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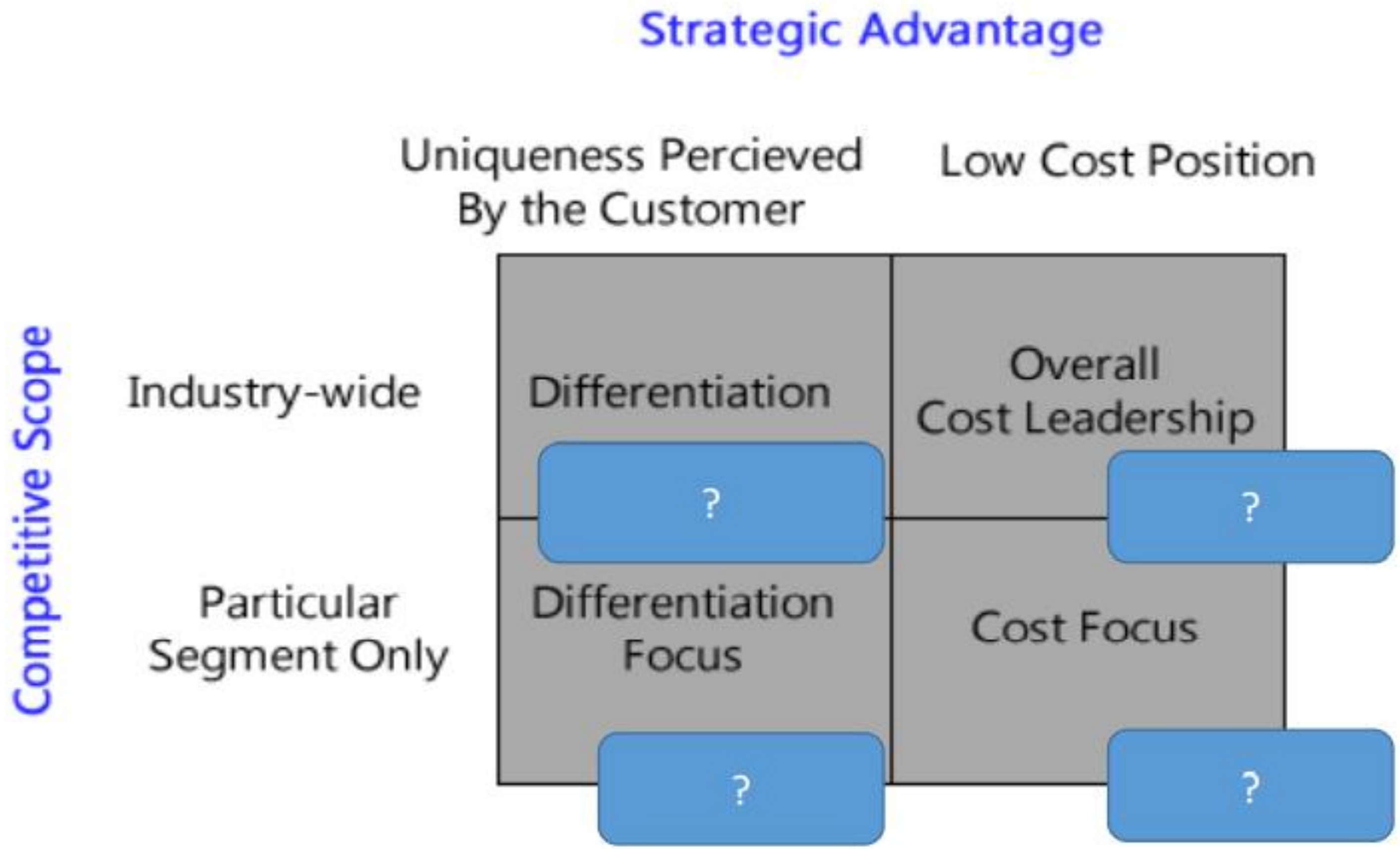
- Creating and sustaining superior performance.
- When a company can sustain profits that exceed the average for the industry.
- Example: Google Inc

Porter's Generic Strategies

- Cost: Compete by offering the lowest prices.
- Differentiation: Product or service that offers unique value.
- Focus: Narrow or Large, focus on an entire industry or a small market segment.

Generic Strategies



Barriers to Entry

- Creating a barrier to entry to would be competitors.
- Southern Africa Development Community (SADC).
  1. Utility, captive market
  2. To open an electric company would require a massive infrastructure
- Bar
  1. Liquor license is a cost that might prohibit entrants
- Online mega-store like Amazon
  1. New entrants cannot compete with branding, infrastructure and supply chain

Switching Costs

- Switching Cost – The cost of a customer to switch to another product or service.
- Used to reduce the threat of new entrants and substitute products.
- Increasing Switching Costs.
    1. Deals for Staying with You (loyalty programs)
    2. Memberships
    3. Contracts

Strategies and Forces

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Industry Force	*Generic Strategies*		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

Using IS for competitive Advantage

- Business Process Management Systems.
    1. Control of processes gives competitive advantage because.
- Electronic Data Interchange.
    1. Automation of the value chain gets products to market quicker.
    2. Allows for integration of partners in the value chain.
    3. Allows for flexible value chain because of automation.

END

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