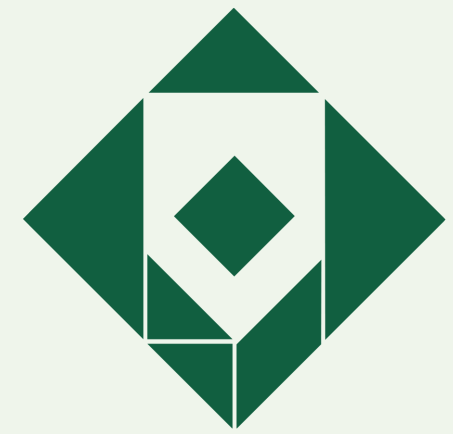# VALUE CHAIN MANAGEMENT CAPSTONE

JOE BRADLEY

Value Chain Decisions

Fine-Tuning the Process

BUILDING A TAILORED VALUE CHAIN

WCSC product and/or service offering impacts overall performance

Choosing the right mix of products and/or services is critical

The activities of the value chain play a key role in managing cost and delivering value

DECISION MODEL

Building a model to support decisions on product retention, deletion, and/or development (optimal portfolio)

What are some key assumptions?

What's the Return on Invested Capital (ROIC)?

What qualitative factors may impact decisions?

ANALYSIS EXAMPLE

Key Decision Variables

Units Sold

Sales Price/Unit

Cost of Sales/Unit

Distribution Costs/Unit

Key Decision Variables

Trade Spending/Unit

Fixed Costs

Cost of Capital

ROIC

Taxes

ANALYSIS EXAMPLE (CONTINUED)

(Bradley, 2017)

Product Code	2011 Unit Sales (000's)	2012 Unit Sales (000's)	2013 Unit Sales (000's)	Net Sales Price $/unit	Cost of Sales $/unit	Distribution Cost $/unit	Trade Spending $/unit	Total Variable Costs	Variable Contribution per unit	Fixed Costs per unit	Profit $/unit Sold
Prod-1	304	297	291	$43.50	$11.50	$4.50	$6.50	$22.50	$21.00	$6.50	$14.50
Prod-2	249	262	328	$44.50	$18.75	$9.50	$7.50	$35.75	$8.75	$8.00	$0.75
Prod-3	229	221	184	$42.50	$12.50	$11.50	$10.50	$34.50	$8.00	$7.50	$0.50
Prod-4	204	208	278	$59.80	$19.85	$6.50	$13.50	$39.85	$19.95	$4.50	$15.45

Consider 2012:
Working Capital = $3.0M
Invested Capital = $14.2M
Asset Turnover = .82
Tax Rate = 35%
Cost of Capital = 13%

Product Code	2012 Unit Sales (000's)	Net Sales Price $/unit	Cost of Sales $/unit	Distribution Cost $/unit	Trade Spending $/unit	Total Variable Costs	Variable Contribution per unit	Fixed Costs per unit	Profit $/unit Sold	ROIC
Prod-1	297	$43.50	$11.50	$4.50	$6.50	$22.50	$21.00	$6.50	$14.50	17.77%
Prod-2	262	$44.50	$18.75	$9.50	$7.50	$35.75	$8.75	$8.00	$0.75	0.90%
Prod-3	221	$42.50	$12.50	$11.50	$10.50	$34.50	$8.00	$7.50	$0.50	0.63%
Prod-4	208	$59.80	$19.85	$6.50	$13.50	$39.85	$19.95	$4.50	$15.45	13.77%

(Bradley, 2017)

NEXT STEPS

Complete assignment

Using case data, build a decision model regarding product retention/deletion

Provide justification for your decisions

REFERENCE

Bradley, J. (2017). Key Decision Variables. University of Illinois.

MODULE 4