

What is Value Chain Analysis?

Worksheet

Value chain analysis is the process of breaking a company down into its primary and support activities to identify which ones add the most customer value and where costs can be reduced for competitive advantage.

Questions

1. Who developed the value chain framework?

- A) Peter Drucker
- B) Michael Porter
- C) Robert Kaplan
- D) W. Edwards Deming

2. Which of these is a primary activity?

- A) Procurement
- B) Human resource management
- C) Operations
- D) Technology development

3. What is the main goal of value chain analysis?

- A) Reduce employee headcount
- B) Identify sources of competitive advantage
- C) Increase share price directly
- D) Eliminate the marketing department

4. Support activities include all EXCEPT:

- A) Firm infrastructure
- B) Procurement
- C) Outbound logistics
- D) Technology development

5. A smartphone maker spends \$120 per unit on inbound logistics and operations, but only \$15 on marketing. Analyze where value chain investment might be misaligned.

6. A coffee chain evaluates its value chain and finds procurement costs are \$2.10/cup vs industry average \$1.80/cup. How should it respond?

7. An online retailer's outbound logistics costs 8% of revenue, while its top competitor spends 5%. What value chain action reduces this gap?

8. Define: What is value chain analysis?

9. Define: Who created the value chain model?

10. Define: Name the 5 primary activities.

Answer Key

1. B) Michael Porter - Michael Porter introduced it in Competitive Advantage (1985).
2. C) Operations - Operations is one of the five primary activities; the others are support activities.
3. B) Identify sources of competitive advantage - It reveals where a firm creates value and can cut costs, driving competitive advantage.
4. C) Outbound logistics - Outbound logistics is a primary activity, not a support activity.
5. Primary activities: inbound logistics + operations = \$120 (heavy investment in production) Marketing & sales = \$15 (very low) Insight: underinvestment in marketing may limit brand differentiation despite strong production capability Recommendation: rebalance spend toward marketing to convert production quality into perceived value
6. Compare: \$2.10 (company) vs \$1.80 (industry) = \$0.30/cup excess cost Identify cause: check supplier contracts, bean sourcing, logistics Action: renegotiate supplier terms or switch to bulk purchasing Goal: close the \$0.30 gap to restore cost competitiveness
7. Gap = 8% 5% = 3 percentage points of revenue Audit outbound logistics: shipping method, warehouse location, packaging Action: consolidate shipments, negotiate carrier rates, or open a regional warehouse Target: bring logistics cost down toward the 5% benchmark
8. A framework that breaks a firm into primary and support activities to find where value is created and costs can be cut.
9. Michael Porter, in his 1985 book Competitive Advantage.
10. Inbound logistics, operations, outbound logistics, marketing & sales, service.

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