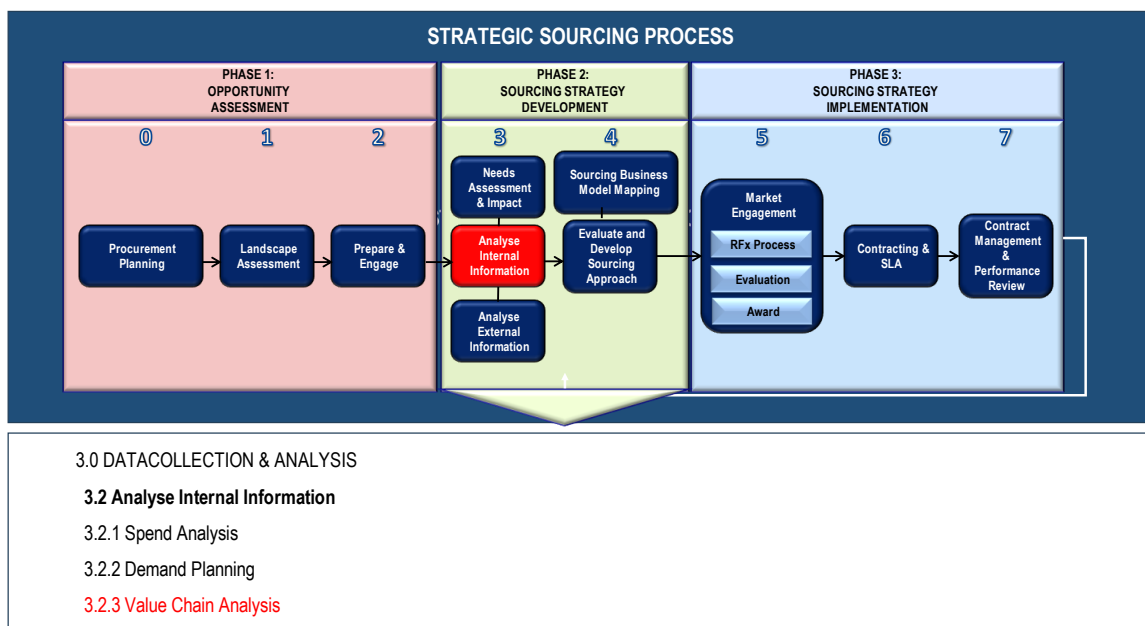


Using this guide

This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at <http://ocpo.treasury.gov.za/>

The SPF can be found here:

http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

VALUE CHAIN ANALYSIS**1.0 Introduction**

- i. Understanding the commodity value chain helps in developing a sourcing strategy that is appropriate and fit for purpose.
- ii. The following good practice guides are applicable when conducting a value chain analysis:
 - a. Value chain analysis should answer some key questions
 - b. How to use the tool
 - c. Price analysis techniques
 - d. Forecasting techniques

1.1 The objective

- i. To identify the organisation's primary and support activities that add value to its final service delivery mandate, and then analyse these activities to identify opportunities to reduce costs or increase levels of efficiency.

1.2 Output

- i. Internal Value Chain Map

2.0 Good practice guides

2.1 Value Chain analysis should answer some key questions

- i. How many individual steps are there in the value chain and what value does each add to the process?
- ii. What opportunities are there for reducing or containing costs at each stage of the value chain?
- iii. What opportunities are there to improve efficiency in the process that can lead to indirect cost reduction?
- iv. What scope is there for increasing the value and benefits for the government at each stage?
 - a. Better quality
 - b. Improved delivery
 - c. Lower stock levels
- v. Can you examine each stage of the chain to maximise efficiency and operational effectiveness?
- vi. Where do the bottlenecks occur in the value chain that hamper efficiency and effectiveness?

2.2 How to use the tool

- i. Value Chain Analysis is a three-step process:
 - a. **Activity Analysis:** First, you identify the activities you undertake to deliver your product or service.
 - b. **Value Analysis:** Second, for each activity, you think through what you would do to add the greatest value for your customer.
 - c. **Evaluation and Planning:** Thirdly, you evaluate whether it is worth making changes, and then plan for action.
- ii. We follow these steps through one by one:

2.2.1 Step 1 – Activity Analysis

- i. The first step is to brainstorm the activities that you, your team or your department undertake that in some way contribute towards your customer's need.
- ii. At a departmental level, this will include the step-by-step business processes that you use to serve the customer.
- iii. These may include activities such as identifying the need, procuring the product/service, delivery, installation, training, maintenance of the products or services, and so on. This may also involve many other steps or processes specific to your organisation.
- iv. At a personal or team level, it will involve the step-by-step flow of work that you carry out.
- v. But this may also involve other things as well, for example:
 - a. How you recruit people with the skills to give the best service.
 - b. How you motivate yourself or your team to perform well.
 - c. How you keep up to date with the most efficient and effective techniques.
 - d. How you select and develop the technologies that give you the edge.
 - e. How you get feedback from your customer on how you're doing, and how you can improve further.
- vi. Once you've brainstormed the activities which add value for your organisation, list them. A useful way of doing this is to lay them out as a simplified flow chart –

this gives a good visual representation of your "value chain." You can see an example of this in the following diagram.

- vii. Business activities can be grouped under two main headings.
- Primary activities** – those that are directly concerned with obtaining and delivering a product/ service.
 - Support activities** – which whilst they are not directly involved in service delivery, may increase effectiveness and efficiency (e.g. human resource management, Infrastructure, technology, procurement)

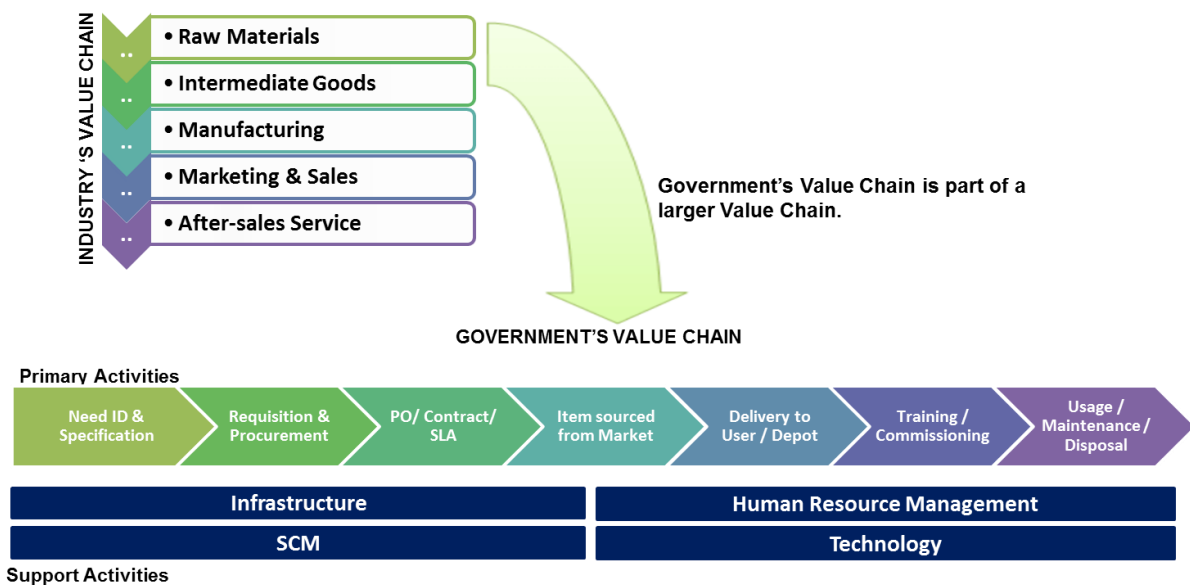


Figure 1: Grouping Business Activities

2.2.2 Step 2 – Value analysis

- Now, for each identified activity, list the "Value Factors" – the things that your customers value in the way that each activity is conducted.
- For example, if you're thinking about an order-placing process, your customer will value a quick turn-around time; prompt delivery; quality product; best price and an efficient and quick resolution to any problems that arise.

- iii. If you're thinking about delivery of a professional service, your customer will most likely value an accurate and correct solution; a solution based on completely up-to-date information; a solution that is clearly expressed and easily actionable; and so on.
- iv. Next to each identified activity, write down these Value Factors.
- v. Next to the Value Factors, write down what needs to be done or changed to provide great value for each Value Factor.

2.2.3 Step 3 – Evaluate changes and plan for action

- i. By the time you've completed your Value Analysis, you'll probably be ready for action: you'll have generated plenty of ideas for increasing the value you deliver to customers. And if you could deliver all of these, your service could be great.
- ii. Be a bit careful at this stage: you could easily use your energy on a hundred different jobs, and never really complete any of them.

Tip:

If you have a strong enough relationship with one or more of your customers, it may be worth presenting your conclusions to them and getting their feedback – this is a good way of either confirming that you're right or of getting a better understanding of what they really want.

- iii. Start by picking out the quick, easy, cheap wins: go for some of these, as this will improve your team's morale a lot. Then screen the more difficult changes. Some may be impractical. Others will deliver only marginal improvements but at great cost. Drop these. Prioritise the remaining tasks and plan to tackle them in an

Tip:

If you carry out the brainstorming behind the Activity Analysis and Value Analysis with your team, you'll almost certainly get a richer answer than if you do it on your own. You may also find that your team is more likely to "buy into" any conclusions you draw from the exercise. After all, the conclusions will be as much theirs as yours.

achievable, step-by-step way that delivers steady improvement at the same time keeps your team enthusiastic.

- iv. The diagram on the next page illustrates problems encountered in each activity that need to be evaluated, addressed and improved.

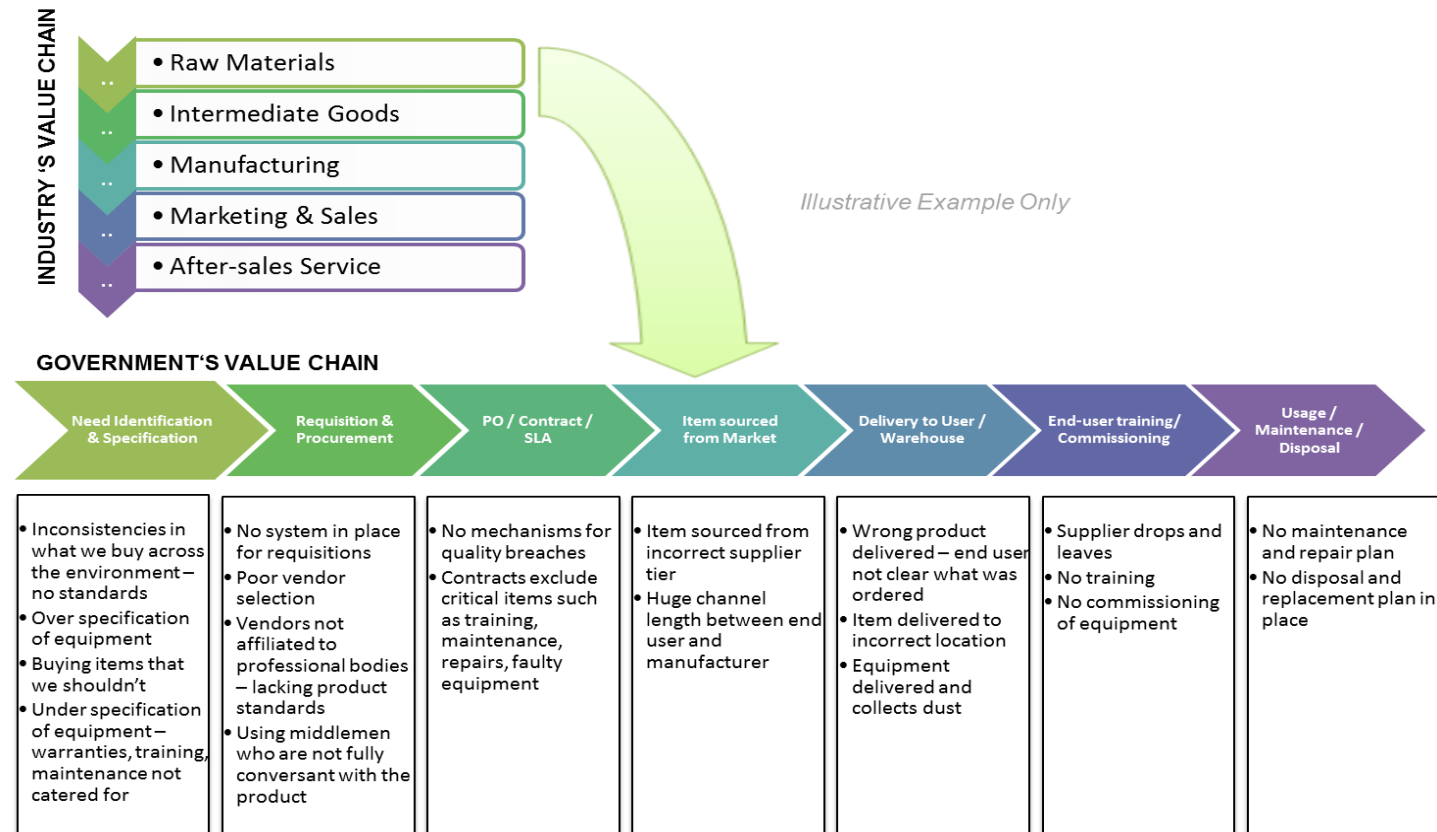


Figure 2: Government's Value Chain

Source: <https://www.strategicmanagementinsight.com/tools/value-chain-analysis.html>
https://www.mindtools.com/pages/article/newTMC_10.htm
https://en.wikipedia.org/wiki/Value_chain