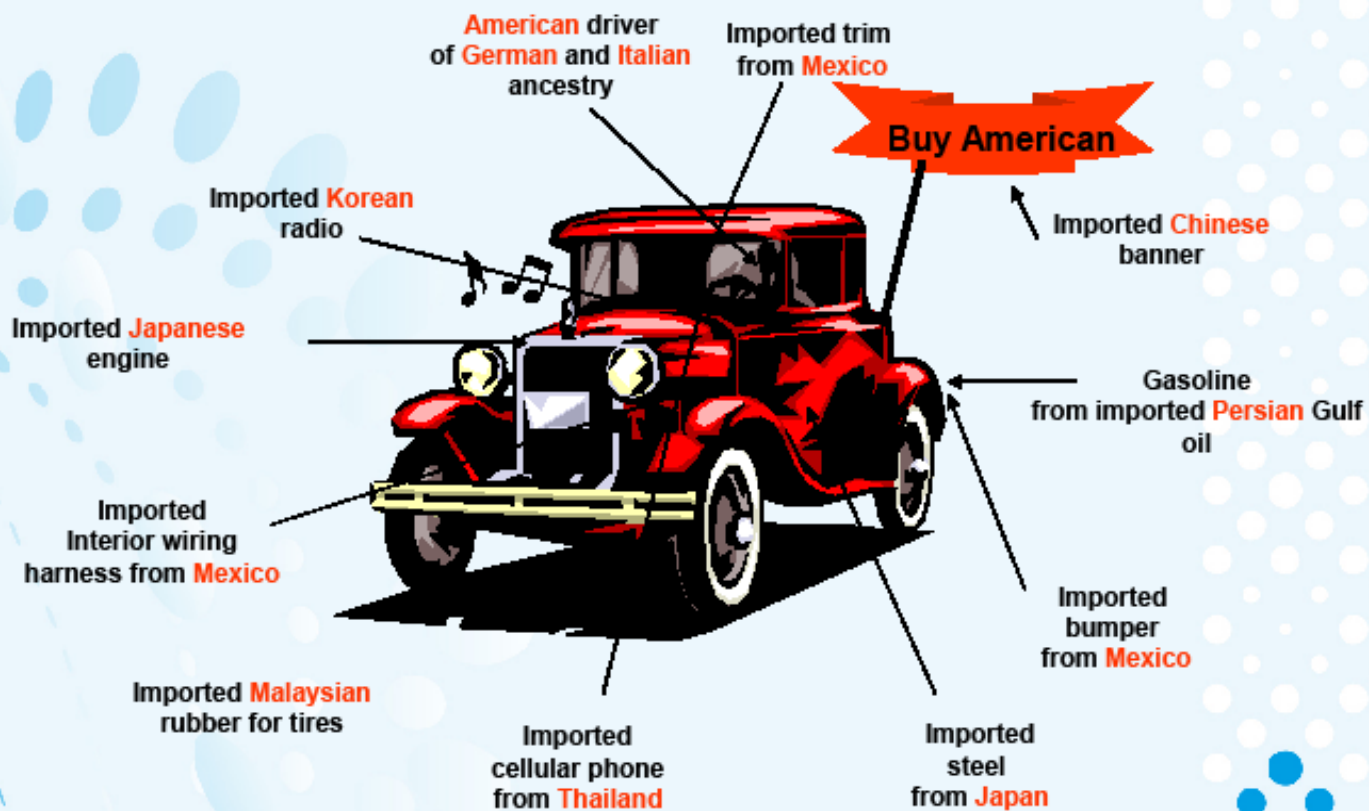




dartways

THE WORLD TODAY





Value Chain

Any process by which technology is combined with material and labor inputs and then process outputs are assembled, marketed and distributed.

A single firm may serve only one link in this process or it may be vertically integrated to cover more than one link.

Where processes are carried out globally, it is called global value chain (GVC)



Value Chain Analysis

- A business diagnostic tool used by business researchers and scholars
- It focuses on the nature of relationship among various actors in the chain



Importance of Value Chain

Factors of Competitiveness

- Cost saving production processes
- Lean process design
- Innovative capacity

Value Chain Strength

- Create and manage national or international value network
- Delegate value functions to proper site based on competencies



A new form of Organization

Value Chain represent a new form of industrial organization that is prevailing in automotive industry and is of global nature



Governance of Value Chain

At any point in the chain some degree of governance is required in order to take decisions on

- What to be produced
- How to be produced
- When to be produced
- How much to be produced
- At what price to be produced



Governance of Value Chain

Three Models

- A network implying co operation between the firms of more or less equal power which share their competencies within the chain
- A hierarchy when a firm is owned by an external firm
- A quasi hierarchy involving relationships between legally independent firms in which they are subordinated to one



Governance of Value Chain

- The leader in the chain defines the rules to which the rest of the actors have to comply with
- Leadership on the basis of knowledge, ownership of IP and distribution network



The Knowledge in Value Chains

- The leader owns R&D, Design and knowledge
- The leader transfer knowledge along the chain
- Participation in the value chain is a way to obtain information on
 - i. Need and mode of production
 - ii. Market intelligence
 - iii. Up gradation
- The Leaders have an incentive to
 - i. Keep suppliers dependent on them
 - ii. Not to disclose core competencies
 - iii. Discourage development of competencies in design and marketing



GVC and Lower Order Firms

- Potential implications and consequences for firms at lower order
- Value Chains foster upgrading processes in lower order firms in hierarchy
- Entering value chains causes a sharp and automatic positive impact on learning curves of lower order firms
- Benefits can be capped by leader in value chain as it owns knowledge, design, marketing, etc



Auto: A Global Market

- a. Expansion into foreign market by automotive makers (focus on CBU export)
- b. Value activities in foreign markets(shift in focus)
- c. Adaption to local needs
- d. Development of international value chain
- e. Assembly of already popular models on site
- f. Positive development in target countries accelerated the phenomenon
- g. Macro- economic factor
- h. Fiscal incentives

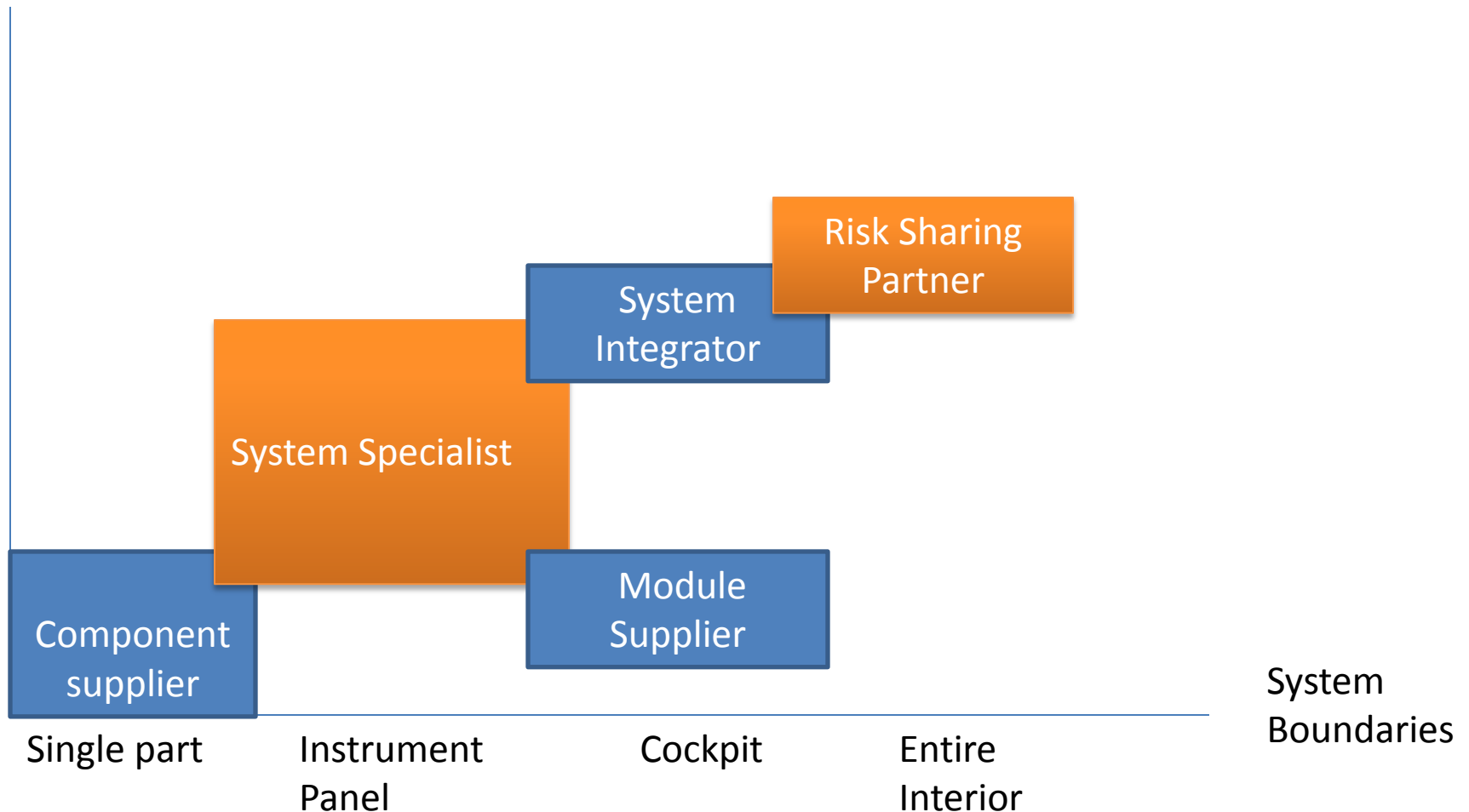
Strategic Options for Market Entry





Changes in Industry having Significant Impact on Suppliers and their Capability

Capability





Automotive Global Value Chain

Industry Trend

Opportunities in Emerging Area

Drivers

- Increased outsourcing
- Reduction in direct OEM suppliers
- Standardization

- Market growth
- Barriers to import
- Low factor cost
- No worker barriers to new focus of supply chain organization

Effects

- Supply chain disaggregation
- New suppliers for global presence and performance

- New OEM and supplier investment
- Experiments with new manufacturing and sourcing system

Supplier strategies

- Global specialist
- Global integrator
- Firm consolidation

- Regional innovative supply solution



Industry expansion and new focus of supply chain organization taking place in emerging region



The New Intermediaries

- Consolidators--- Module Producers
- Rise of new global companies of suppliers

In developing countries further development of suppliers depend on the ability to encroach on the buyer's (intermediary's) core competencies.



Impact on Local Firm

- Locally owned firms marginalized by globalization of first tier automotive part suppliers
- First tier suppliers now positioned on multiple locations
- Entry barrier for developing country firms has arisen
- Joint ventures, technical assistance agreements
- Licenses may be a way out



Learning through GVC

Learning and acquisition of technological capabilities can be stimulated through involvement in global value chain.

- Learning is not costless/ painless
- Macro economic stability
- Predictable future environment
- Firm level investment decisions



Upgrading in a GVC

Upgrading involves the development of

- Absorption capability
- Technological Capability
- Logistic Capability
- Financial strength

Experience shows that this is possible.

There are success stories in Pakistan.



Upgrading

- Process upgrading
- Product upgrading
- Functional upgrading
- Chain upgrading



Process Upgrading

Increasing the efficiency of internal processes in such a manner as to ensure that they are significantly better than those of competitors.



Product Upgrading

Introducing new products or improving old products faster than competitors. This involves changing new product development processes both within individual links in the value chain and in the relationship between different links of the chain



Functional Upgrading

Increasing value added by changing the mix of activities conducted within the firm or moving the focus of activities to different links in the value chain



Chain Upgrading

Moving to a new value chain by adding more valuable products to the product mix of the firm.



Strategic changes

- Changes in the value chain (leap forward)
- Focus in key competencies (technology, time, cost)
- Just in time production and delivery
- Focus on adding value to customer's business
- Changing relations with suppliers (interdependency, cooperation, win-win)
- Open business structure (company assignments partly realized in the network)



Position your self in the Value Chain

- What kind of business you are in ?
- What is the added value to your customers?
- What are the main drivers/success factors?
- What are your strong/weak points?



Thank You