Value analysis, SWOT and internal analysis

MODULE 1 | PART E.1 | STUDENT COMPANION

How management accountants support strategy

The challenge is not finding the best tool, but choosing the most relevant tool for the business problem.

Strategic task	Useful information and tools
Internal analysis	Product and customer profitability, activity costs, life cycle costing, financial and non-financial measures
External analysis	Competitor cost estimates, industry growth and profitability, supplier and customer intelligence
Planning and choice	Ranking strategies with capital budgeting and strategic costs and benefits
Implementation	Accurate, timely costings and results
Evaluation	Key performance indicators; review of estimates, measures and incentives

Four ways to improve the value chain

1. Remove what customers won't pay for
Minimise or eliminate non-value-adding activities: rework, double handling, waiting time

2. Use cheaper substitute inputs
Lower-cost inputs that do the same job

3. Find new ways to perform activities
Redesigned processes or new technology

4. Link activities better than rivals
The linkages between activities are often where value is won or lost

Porter: competitive advantage comes from how the value chain's activities are organised and linked

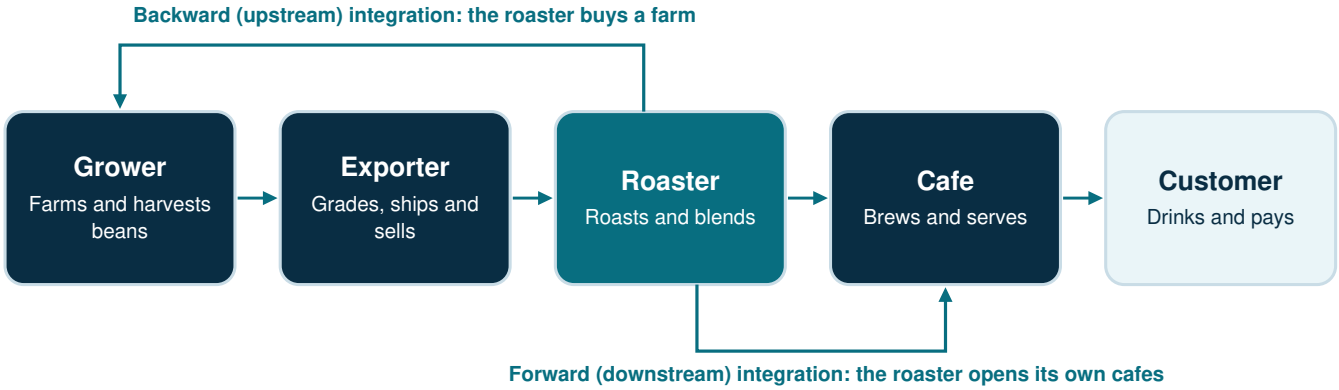
Some activities add value only indirectly: a restaurant's food safety audits add nothing a diner can taste, but they protect customers and the licence to trade. Judge activities against what every stakeholder values.

Case note: Inditex (Zara) - value from linkages

Inditex keeps a large share of production close to its Spanish headquarters: in recent years roughly half of its suppliers have been in 'proximity' countries (Spain, Portugal, Morocco and Turkey). Nearby suppliers let it make more of a style that is selling during the same season and less of one that is not, cutting unsold stock and markdowns. The advantage comes from how quickly the activities are linked, not from any one activity being the cheapest.

Sources: Inditex supplier disclosures as reported by Modaes (2019-2024) and Georgetown McDonough School of Business.

An industry value chain: coffee



Pushing costs onto suppliers or customers does not change the total value the chain creates

SWOT analysis: Glacier Bay Gelato (imagined)

	Helpful	Harmful
Internal	**Strengths** Recipes developed over 30 years (distinctive) A brand locals love (distinctive)	**Weaknesses** A single factory Cash flow dries up every winter
External	**Opportunities** A supermarket chain wants a premium gelato for its own label	**Threats** Rising dairy prices A large competitor launching a premium range

Strategy: use the recipes to win the supermarket contract (which smooths winter cash flow) and lock in milk prices with a longer supply agreement

Distinctive versus reproducible capabilities

Resource-based theory says only distinctive capabilities create sustainable competitive advantage. A core competency is something the organisation does better than its competitors.

Distinctive capabilities	Reproducible capabilities
Hard to copy: patents, strong brands, special supplier relationships, government licences	Can be bought or copied: most technical capabilities, standard equipment
Can create a sustainable competitive advantage	Cannot create a lasting advantage on their own
Glacier Bay: 30-year recipes, a loved local brand	Glacier Bay: freezing and packing machines

Practice questions

MODULE 1 | PART E.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Value-adding, indirect or non-value-adding?

Bakery activity	Your classification
(a) Baking bread	
(b) Moving trays between two storerooms before baking	
(c) Re-icing cakes damaged in transport	
(d) Food safety inspections	
(e) Delivering orders to cafes	
(f) Waiting for the oven to free up	
(g) Preparing the tax return	
(h) Designing new seasonal products	

Question 2 - Integration moves for a winery

Suggest one backward (upstream) integration move and one forward (downstream) integration move for a winery that currently buys grapes and sells all its wine through wholesalers. Give one benefit and one risk for each.

Question 3 - A SWOT for a local gym

A local gym has experienced trainers who run popular small-group classes, an ageing building, a new housing estate being built nearby, and a low-cost 24-hour chain planning to open down the road. Prepare a short SWOT and identify which strengths are distinctive.

Worked answers

MODULE 1 | PART E.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Value-adding, indirect or non-value-adding?

Activity	Classification
(a) Baking bread	Value-adding
(b) Moving trays between storerooms	Non-value-adding (double handling)
(c) Re-icing damaged cakes	Non-value-adding (rework)
(d) Food safety inspections	Indirect value (protects customers and the licence)
(e) Delivering orders	Value-adding (distribution)
(f) Waiting for the oven	Non-value-adding (waiting)
(g) Preparing the tax return	Indirect value (serves government, a key stakeholder)
(h) Designing seasonal products	Value-adding (support activity: development)

Question 2 - Integration moves for a winery

Backward: buy or lease vineyards. Benefit: control over grape quality and supply. Risk: large capital outlay and exposure to weather and crop risk.

Forward: open a cellar door, an online store or its own distribution. Benefit: higher margins and direct customer relationships. Risk: new skills and costs, and possible conflict with existing wholesalers.

Question 3 - A SWOT for a local gym

Strengths: experienced trainers; popular small-group classes. **Weaknesses:** ageing building. **Opportunities:** new housing estate (new members). **Threats:** low-cost 24-hour chain.

Distinctive: the trainers' relationships with members and the community around the classes are hard to copy. Equipment and opening hours are reproducible. A sensible strategy uses the classes to win new-estate residents and competes on expertise and community rather than on price.