



SNS COLLEGE OF TECHNOLOGY



[An Autonomous Institution]

Coimbatore - 35

19BAT612 - Operations Management

Unit 5 – Purchasing

Topic: Concept of Value Chain Analysis



Recall

- Purchasing Organization
- Factors affecting purchasing organization
- Organizing the purchasing function



Value Analysis

- Developed during world war II
- By Lawrence D. Miles of General Electric





Why...?

- Value Analysis is an effective tool for cost reduction and the results accomplished are far greater.
- It improves the effectiveness of work.
- It is an organised approach to a problem.
- It is value applied at the design stage itself.
- It reduces unnecessary costs, obvious and hidden which can be eliminated without adversely affecting quality, efficiency, safety and other customer features.



Definition

- Value Analysis can be defined as, a process of systematic review that is applied to existing product designs in order to compare the function of the product required by a customer to meet their requirements at the lowest cost consistent with the specified performance and reliability needed.



Objectives

- To provide better value to a product/service.
- To improve the company's competitive position.
- To ensure that every element of Cost (Labour Materials Suppliers and service) contribute equally to the Function of the product.
- To Eliminate unnecessary Cost.



Steps for Value Analysis

- Establish the objectives (eg, cost reduction).
- Consider a team for marketing, sales, production, purchasing, etc.
- Analyse the production process of the supplier company.
- Decompose various characteristics of purchased product.
- Hold a creative brainstorming session to explore all alternative possibilities.
- Sort the ideas to establish the cost of each.
- Select the best alternative.
- Develop a plan for implementing the change.



6 Whats of VA

- What is it?
- What does it do?
- What does it cost?
- What is it worth?
- What else will do the job?
- What does that cost?





Benefits of VA

- Better purchasing techniques
- Better suppliers & manufacturing methods
- Lower operating costs
- Standardisation & re-evaluation
- Substitution & packaging
- Better material handling
- Better inventory control
- Lower maintenance & overhead cost



Value Analysis vs Value Engineering

- Value analysis is "A Systematic and objective evaluation of the value of a goods or service, focusing on analysis of function relative to the cost of manufacturing or providing the items or service".
- value analysis provides insight into the inherent worth of final goods or service, possibly altering specifications and quality requirements that could reduce costs without impairing functional suitability.
- Value engineering is "Value analysis conducted at the design engineering stage of the product development process."
- In summary value analysis refers to the analysis of an existing product, service or administrative process while Value engineering refers to the same analysis applied to the product ,services or administrative processes that are under design and have not been finalised.




VALUE:

The designer equates the value with Reliability;
Purchase person with price paid for the item;
Production person with what it costs to manufacture and
Sales personnel with what the customer is willing to pay.

Types of Value:

- ☐ Cost Value
- ☐ Exchange Value
- ☐ Use Value
- ☐ Esteem Value

☐ Cost Value



It is the summation of labour, material, overhead and all other elements of cost required to produce an item or provide service.

☐ Exchange Value

Exchange value refers to the price that a purchaser will offer for the product, the price being dependent upon satisfaction (value) which he derives from the product.

☐ Use Value

It is also known as the function value. The use value is equal to the value of the functions performed.

☐ Esteem Value

It involves the qualities and appearance of a product which attract persons and create in them a desire to possess the product.



Summary

- Value Analysis
- Objectives
- Steps for Value Analysis
- 6 Whats of VA
- Benefits of VA
- Value Analysis vs Value Engineering



Thanks..