

VALUE ANALYSIS PRACTICE QUESTION ONE

Gino Toys wants to know whether there is room for a 20% price reduction for its toy products in the face of market consolidation. Gino Toys anticipates the price reduction will force the exit of its direct competitors. If Gino Toys insists on the current price level, it may lose 40% of sales volume. If it keeps up with the new market price, it may gain a further 5% growth. Gino Toys needs to prepare for the new market reality and questions whether there is room for operation improvement.

Gino Toys hired you as an external consultant to conduct a value chain analysis.

In particular, Gino Toys wants to:

(a) Identify non-value-added activities in the value chain and their cost impact.

(b) Evaluate the cost, volume, and profit impact of the price change.

© Explore the potential room for cost improvement.

Additional Information: Assume the current price per toy is \$100

Assume the current cost per toy is \$60.

Assume the current sales volume is 100,000 units.