



# Value Chain Analysis

# What is VCA?



“ Value Chain  
Analysis identifies  
and illustrates  
how your  
**business**  
**creates**  
**value.** ”

The understanding created through the Value Chain Analysis (VCA) process prepares you for discussions in an increasingly value-focused tax and business landscape. The process results in numerous deliverables which make complex information easily accessible through graphics. Our work starts with an initial hypothesis based on industry knowledge and progresses towards a complete and accurate reflection of your organization, which we clarify and map out step by step as we speak to key employees.

The resulting graphical deliverables and quantitative analyses allow you to restructure, create and defend your strategy, talk to tax authorities and ultimately understand your business better in terms of processes and IP.



Is your tax model sustainable?



Are your tax and transfer pricing models aligned with BEPS and CTR III?



How does your business work?

# Putting it in perspective

The challenges faced by global companies are becoming increasingly complex. Faced with tough organizational or cultural decisions and external pressure from regulatory changes and technological developments, businesses are competing to identify new trends and adapt accordingly.

KPMG's VCA identifies value drivers – processes, assets and synergies that enable the business to achieve its strategic aims – and quantifies the contribution of each value driver to the whole value chain. KPMG's VCA approach is scalable and can be applied across any section of the organization, large or small.

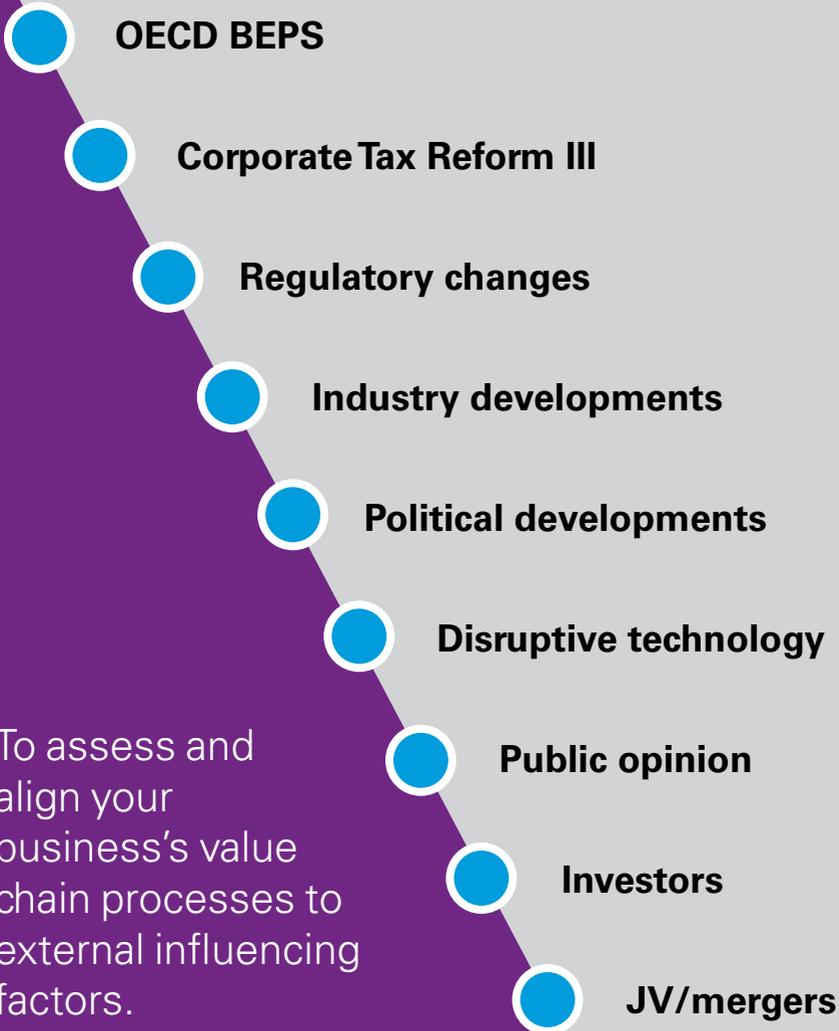
Clients have also found KPMG's VCA helpful in safeguarding tax compliance,

particularly with regard to transfer pricing and BEPS. It has already been applied in many cases as a primary method for advanced pricing agreement (APA) negotiations, and lots of clients have found it useful in explaining their business models to the authorities during tax audits.

Overall, KPMG's VCA provides crucial insights from a holistic tax and business perspective, allowing companies to identify their strengths and weaknesses in a dynamic global climate. Making KPMG the clear choice to support you on this journey enables your leadership team to focus on the essential decisions.



# Why do you need it?



To assess and align your business's value chain processes to external influencing factors.

# What do you get from it?

The VCA process provides strategic guidance for all stakeholders. We have helped our clients to identify their IP, seamlessly integrate new acquisitions, create a business case for change, restructure their organization and internal pricing and defend their setup to tax authorities globally. The process also highlights opportunities to optimize operational aspects of your business, such as your supply chain.

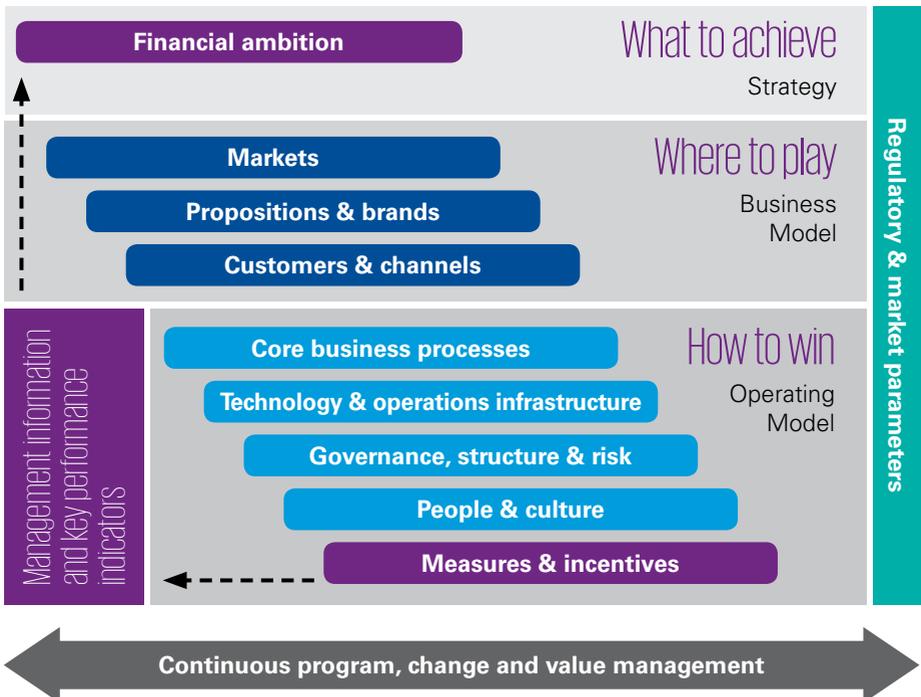
VCA is flexible and robust, and can be used to map the status quo as well as model future scenarios. The graphical deliverables can be repurposed and used as a sound basis for discussion and agreement within the company and externally. Our experience shows that for many clients, the very process of defining and optimizing a value chain creates additional value.

 **Use VCA**  
to identify IP, integrate  
new acquisitions, ensure  
compliance or restructure your  
organization. 

# What do we consider?

The figure below illustrates the 9 Levers of Value that we consider when analyzing your value chain. The levers encompass your strategy, business model and operating model. Taken individually, they allow a deep-dive approach to identify and map value creation. Considered together, they make your risks and opportunities visible across the chain. From this basis, we will build a value

chain for your business, incorporating industry knowledge and information provided in interviews. Our qualitative and quantitative analyses are easily accessible in the form of graphical deliverables, revealing numerous heat points – processes, risks, intangible assets and synergies – that can be used to trigger the levers of value and achieve your strategic and financial ambitions.



# How do we do it?



## **Outlining the value chain**

Following an initial kick-off meeting and industry research, KPMG prepares a hypothesis of your value drivers (the key functions that drive value creation in your business) and sub-processes (activities within the functions).



## **Relative value assessment**

We then carry out numerous interviews with your employees to refine the hypothesis and develop an accurate representation of your value chain. KPMG also gathers information about the location and treatment of IP as well as management and control of risks across the business.



## **Overlaying Value Chain Analysis to tax applications**

The resulting heat map is transferred to Excel for RACI analysis, enabling the value contribution to be determined by location and function. The scope of the analysis is scalable – we can analyze the entire business or focus on confined regions, business units or processes. The insights and understanding gained have a variety of applications.

# VCA beyond tax



By helping you integrate tax into your overall business processes,

**VCA enhances long-term savings, safeguards compliance and reduces complexity.**



## Globalization

Guiding the movement from national to regional/global focus

## Duplication of functions

Identifying and eliminating missed synergies, supporting the "GBS house"

## New geographies

Supporting business expansion or market entry decision/rollout

## Online business & channels

Developing operating models (incl. SCM) in relation to e-commerce

## Network optimization

Addressing international networking programs for e.g. manufacturing, CWE sales, and R&D

## SCM optimization

Providing insights into SCM & trade flow simplification

## IT implementation programs

Implementing ERP and/or supporting major systems process harmonization

## M&A integration (PMI)

Capturing the synergy effect of the transaction

## Legal entity simplification

Facilitating legal entity rationalization through VCA

# Case studies



## Aligning business and tax strategies

KPMG was engaged to perform a VCA for a multinational chemical producer. Besides helping to identify the tax exposure of the business, the VCA revealed that under the existing transfer pricing system, profits were not aligned with business substance. On top of this, the analysis also highlighted permanent establishment risks and withholding tax leakage. The initial analysis flagged areas for improvement in the legal structure as well as opportunities to implement industry best practice in business operations. In the change implementation process, KPMG aided the business in creating new synergies and rationalizing its existing processes in the areas of procurement and integrated business planning. The result was a new dual-principal organizational and legal structure in which the business and tax strategy are aligned.



## An advantage in APA negotiations

VCA has also proven useful in arbitration (and arbitration avoidance) procedures. A client used KPMG's VCA to help illustrate the functional profile of its local operating companies and entrepreneurs, in order to establish and carry through to completion advance pricing agreement negotiations. This indicates a move away from the traditional transfer pricing functional and risk analysis and towards VCA in international tax procedures.



## Ready for operational optimization

KPMG performed a VCA for a client in the luxury goods industry with the aim of identifying tax and operational business opportunities in a post-BEPS environment. The VCA enabled the client to assess its current structures and concentrate on the important decisions to move forward in a highly fragmented industry. PE risk was identified, as a result of which the client chose to convert its commissionaire structures to buy-sell distribution arrangements. Opportunities for optimization were also identified in the client's procurement function. The results of the VCA challenged the current transfer pricing system and pointed the client towards further alignment of its intercompany pricing from a transfer pricing and customs perspective. KPMG also helped the client to rationalize its legal structure, and developed a new operating model for the client's e-commerce business. Following our initial VCA, the client asked us to perform a readiness assessment for Swiss Corporate Tax Reform III and BEPS. Based on our insights, the client was able to implement structures to target the same low effective tax rate whilst moving away from the previous tax regimes.

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