The Value Chain

What is it and what is it for?

*Managing the value chain can produce **sustainable competitive advantage**. In the value chain, there are four "support" activities and five "primary" activities (see next slide). Value chain analysis allows us to identify "strategy mismatches" between different elements on the chain. If low cost is our primary competitive edge, everything in our company must be geared towards keeping costs low. We must look at every aspect of our value chain and ensure that we've cut costs at all stages.*

One important use of the value chain is identifying where value is added or lost. Those activities that do not add value may be outsourced: can a specialist company handle, for example, transport of goods more efficiently and at lower cost? If marketing is a strength for our company, it may be useful to dedicate more time and resources to that strategic unit than to one where value is lost.

The concept of the value chain was developed by Michael Porter, professor at Harvard Business School:

> *"Competitive advantage results from the business's ability to perform the required activities at a collectively lower cost than rivals, or perform some activities in unique ways that create buyer value and hence allow the business to command a premium price."*

Developed from <u>Guide to Business Planning</u>, Graham Friend and Stefan Zehle (Profile 2004)

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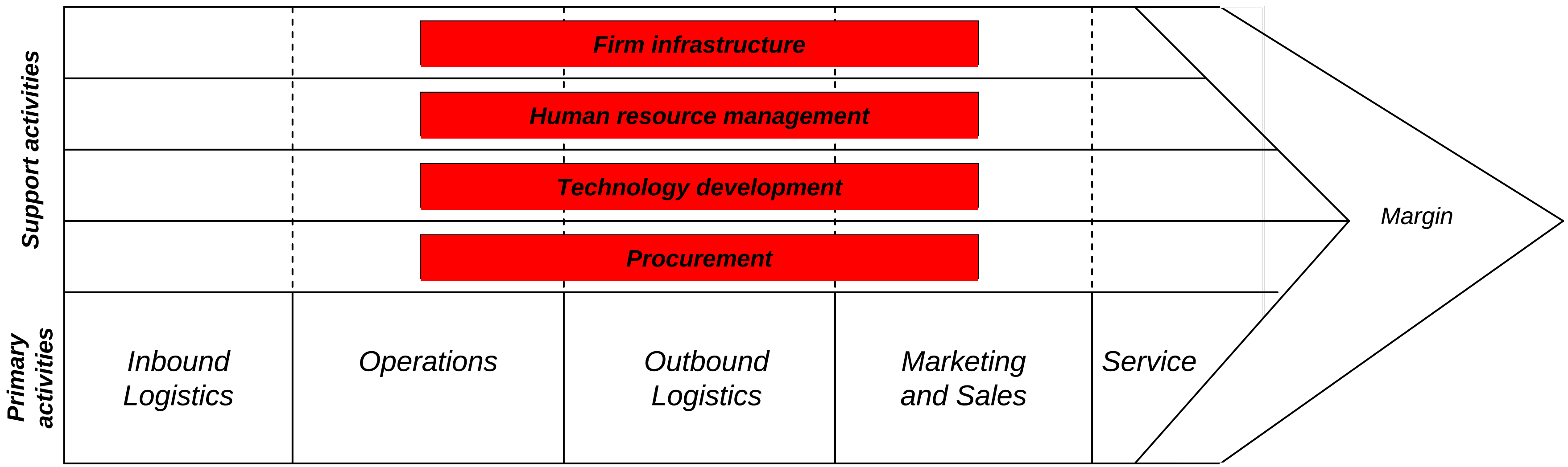

The Primaries:

•Inbound logistics: the activity of receiving goods or services from suppliers and moving them on to operations activity.

•Operations: where the production takes place.

•Outbound logistics: order fulfillment.

•Marketing/Sales: advertising as well as market research.

•Service: after-sales service.

The Supports:

•Firm infrastructure: accounting facilities. planning, general admin.

•HR Management: recruitment, training, labor relations, salaries, etc.

•Tech. development: development of new products and services or enhancement of existing.

•Procurement: purchasing of raw materials as well as vehicles, office supplies, electricity, etc.

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