

Value Chain Analysis

Background: The value chain categorizes the generic value-adding activities of an organization. The value chain framework quickly made its way to the forefront of management though as a powerful analysis tool for strategic planning. Its ultimate goal is to maximize value creation while minimizing costs.

The concept has been extended beyond individual organizations. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic actors, each managing its own value chain. The industry wide synchronized interactions of those local value chains create an extended value chain, sometimes global in extent. Capturing the value generated along the chain is the new approach taken by many management strategists. By exploiting the upstream and downstream information flowing along the value chain the firms may try to bypass the intermediaries creating new business models.

The value chain analysis was developed by

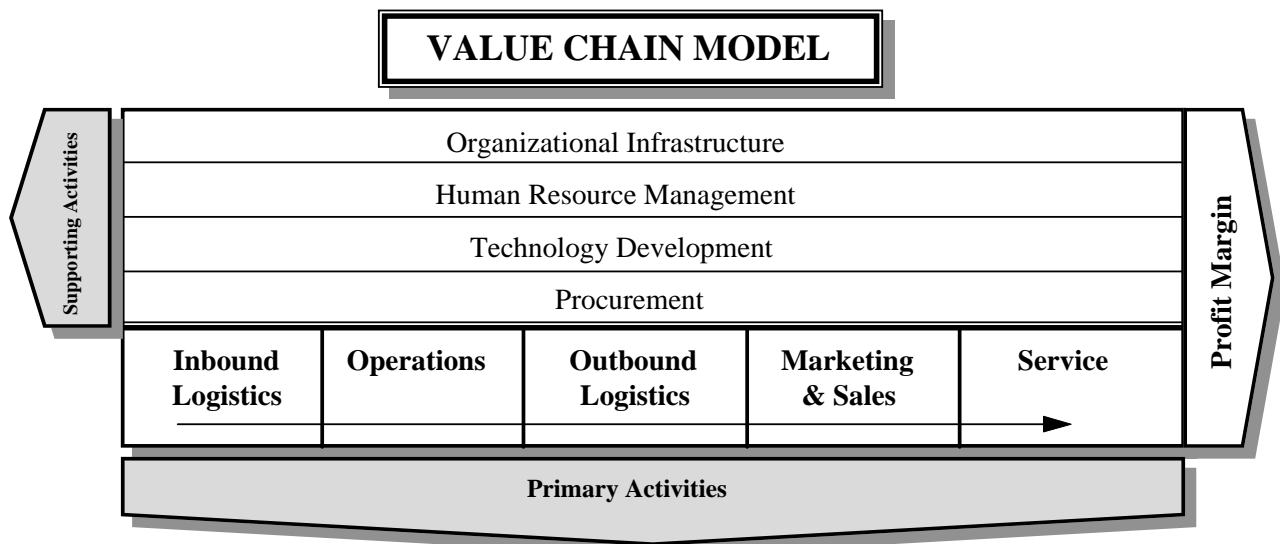
Dr. Michael Porter as a technique used to assist the strategist in assessing what value that each area of the organization adds to it's products and services. The value chain model has two main parts, primary activities, these are activities directly associated with production processes, and supporting activities, those activities that do not result in production.

The analysis process has three sequential steps:

1. Break down the organization into it's main activities under each major heading of the model;
2. Assess the potential for adding value where the business appears to be at a competitive disadvantage.
3. Determine business strategies built around activities associated with sustainable value chain improvements.

To help better understand each section of the value chain we are providing a brief description of the activities below.

Primary Activities: Any or all of these primary activities may be vital in developing



Facilitator's Body of Knowledge Research Project

a competitive advantage. In most cases primary activities cannot exist successfully without the other primary activities.

- **Inbound Logistics:** Effective material and inventory control system and warehousing activities.
- **Operations:** Productivity of production equipment, appropriate automation in the production process, use of data collection for quality improvement and waste reduction, plant work-flow design.
- **Outbound Logistics:** Timeliness & efficiency of delivery of finished products or services, and efficiency of warehousing activities.
- **Marketing and Sales:** Effective market research, innovation in sales promotions, alternative distribution channels, motivation & competence of sales force, development of a quality image and favorable reputation, brand loyalty, and market dominance.
- **Service:** Use of customer input for improvements, attention to customer complaints, friendly warranty and guarantee policies, customer education & training and after sales parts and service.

Supporting Activities: These activities are generally viewed as overhead functions. However, in some circumstances they can be used to generate a competitive advantage.

- **Organizational Infrastructure:** This refers to structured planning processes, information systems to support decision making, coordination and integration of unit activities associated with primary activities, and external relationships and public image.
- **Human Resource Management:** This refers to effective systems for recruiting, training & promoting, rewarding,

recognition, motivation and challenging employees, providing a productive work environment, and participation by personnel in decision making and professional organizations.

- **Technology Development:** This refers to success in bringing leading products to market, the relations and cooperation between departments, and the development of a work environment that supports creativity and innovation.
- **Procurement:** Processes and procedures for procurement of necessities on time, with high quality, at a reasonable expense, while developing and maintaining a good long-term relationship with reliable suppliers.

When using it as part of the SWOT type assessment it can add significant information to an analysis. The question asked is: "**What are the Strengths (or Weaknesses) in our _____?**"

Substitute for each activity of the value chain.

Resources:

<http://www.quickmba.com/strategy/value-chain/>

http://www.1000ventures.com/business_guide/im_value_chain_main.html

http://www.tutor2u.net/business/strategy/value_chain_analysis.htm

<http://www.themanager.org/models/ValueChain.htm>