

## Value Chain Model

**Background:** The Value Chain was developed and published by Dr. Michael Porter a renowned Harvard Business School strategist in his 1985 book Competitive Advantage. The Value Chain model is a useful analysis tool for defining an organizations competencies and activities organized to produce a competitive advantage around two focuses: Cost Advantage and Differentiation.

**Cost Advantage** is organizing value-added activities in a way that reduces your costs to perform similar functions as compared your competitors in the same market.

**Differentiation** is organizing primary and secondary activities associated with competencies in order to perform them better than your competitors.

The value chain analysis assists the strategist in assessing what value each area of the organization adds to it's products and services. The value chain model has two main parts, primary

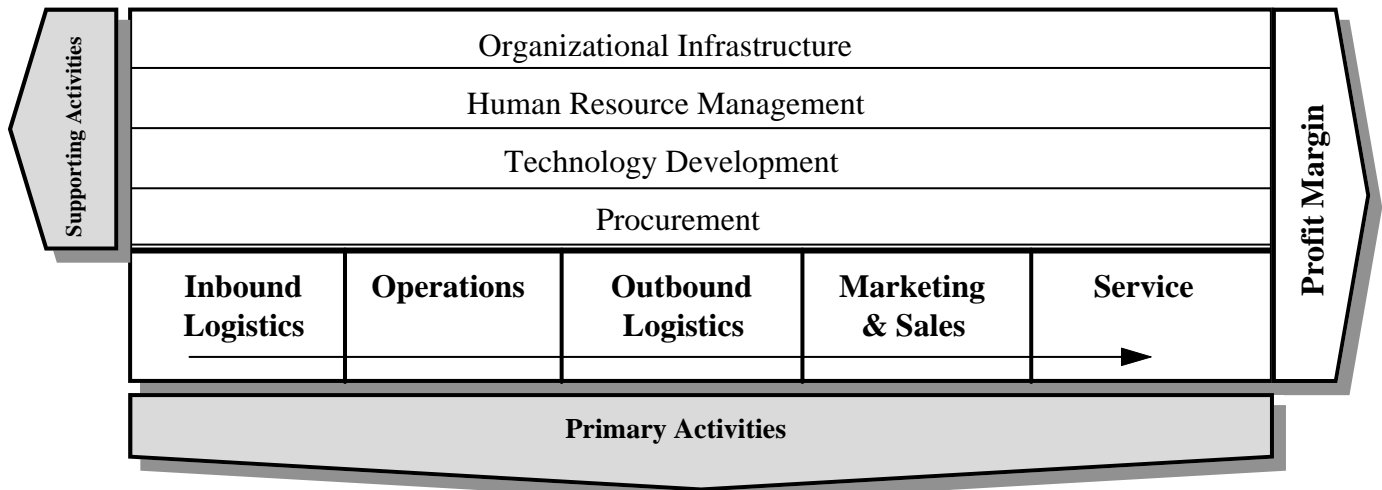
activities (production processes), and supporting activities..

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

**Primary Activities** are the business activities directly related to receiving, transforming and distributing products and services to the consumer.

- **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

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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:** This refers to essential business activities not directly related to moving the product or service to the consumer.

- **Organizational Infrastructure:** 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:** 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:** 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.

**Value Chain Analysis:** There are three forms of analysis that can use in the value chain.

The first is the Cost Advantage. Porter identified as 10 cost drivers that are used in cost advantage analysis. The NetMBA reference lists the 10 drivers.

The second analysis is Differentiation. This analysis examines the organization through seven drivers of uniqueness. The NetMBA reference lists these drivers as well.

The third analysis that can be done using the value chain is combining it with the internal aspects, Strengths and Weaknesses, of the SWOT. We use it as a framework for jogging your thoughts about the organization. The question asked in this analysis is:

**“What are the Strengths (or Weaknesses) in our \_\_\_\_\_?”**

Substitute the blank for each activity of the value chain.

**Resources:**

Porter, Michael; **Competitive Advantage; Creating and Sustaining Superior Performance**; Free Press, New York, 1985

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

[http://www.tutor2u.net/business/strategy/value\\_chain\\_analysis.htm](http://www.tutor2u.net/business/strategy/value_chain_analysis.htm)

[http://cde.athabascau.ca/online\\_book/ch3.html](http://cde.athabascau.ca/online_book/ch3.html)

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