

Value chain analysis

Business



Value chain analysis Michael Porter in 1985 introduced in his book 'The Competitive Advantage' the concept of the Value Chain. He suggested that activities within the organisation add value to the service and products that the organisation produces, and all these activities should be run at optimum level if the organisation is to gain any real competitive advantage. If they are run efficiently the value obtained should exceed the costs of running them i. e.

customers should return to the organisation and transact freely and willingly.

Michael Porter suggested that the organisation is split into 'primary activities' and 'support activities'. Primary activities

Inbound logistics : Refers to goods being obtained from the organisations suppliers ready to be used for producing the end product. Operations : The raw materials and goods obtained are manufactured into the final product. Value is added to the product at this stage as it moves through the production line. Outbound logistics : Once the products have been manufactured they are ready to be distributed to distribution centres, wholesalers, retailers or customers.

Marketing and Sales: Marketing must make sure that the product is targeted towards the correct customer group. The marketing mix is used to establish an effective strategy, any competitive advantage is clearly communicated to the target group by the use of the promotional mix. Services: After the product/service has been sold what support services does the organisation have to offer. This may come in the form of after sales training, guarantees and warranties. With the above activities, any or a combination of them,

maybe essential for the firm to develop the competitive advantage which Porter talks about in his book.

Support Activities The support activities assist the primary activities in helping the organisation achieve its competitive advantage.

They include: **Procurement:** This department must source raw materials for the organisation and obtain the best price for doing so. For the price they must obtain the best possible quality **Technology development:** The use of technology to obtain a competitive advantage within the organisation. This is very important in today's technological driven environment.

Technology can be used in production to reduce cost thus add value, or in research and development to develop new products, or via the use of the internet so customers have access to online facilities. **Human resource management:** The organisation will have to recruit, train and develop the correct people for the organisation if they are to succeed in their objectives.

Staff will have to be motivated and paid the 'market rate' if they are to stay with the organisation and add value to it over their duration of employment.

Within the service sector eg airlines it is the 'staff' who may offer the competitive advantage that is needed within the field. **Firm infrastructure:** Every organisations needs to ensure that their finances, legal structure and management structure works efficiently and helps drive the organisation forward. As you can see the value chain encompasses the whole organisation and looks at how primary and support activities can work

together effectively and efficiently to help gain the organisation a superior competitive advantage.