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Use of Porter's (1985) Value Chain Framework

Porter's model of value chain is one of the best known and widely applied models of a company's valuecreation processes (Sanchez and Heene, 2004). According to Porter: " Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation" (Porter, 1985: 33) competitive strategy (8)

Porter (1985), Besanko et al. (1996), and McGuffog & Wadsley (1999) identify that a company's profitability is a function not only of industry conditions, but also of the amount of value it creates relative to its competitors. A firm can achieve competitive advantage if it possesses ' capabilities' that allow it to create not only positive value but as well additional total value than its competitors (Porter, 1985; Hooley et al, 2004). By understanding why a company can create value and whether it can continue to it in the future is a necessary first step in diagnosing a firm's potential for achieving a competitive advantage in the marketplace (Hitt et al, 2007; Spanos and Lioukas, 2001). Therefore, a firm must understand how its products serves customer needs better than potential substitutes; the

technology of production, distribution and sales; and the business's costs (Porter, 1985).

Strategy Quotes (1)

According to Hill & Jones (2001, 5 th ed.) maintain that the term “ value chain” refers to the concept that a company is s chain of activities for transforming inputs into outputs with purpose to deliver value to the customers. Pearson (1999) states that a competitive strategy is focused on the toplevel strategic objective of a company with purpose to gain competitive advantage. Hence, if a company wishes to achieve a competitive strategy must encompass every aspect of the business so that every manager and employee knows the objectives of this strategy is and as a result every decision and action is consistent with it and serves to put in practice (Pearson, 1999). The value chain is therefore a logical way of looking the overall business activities with purpose to mobilise these various strategic impacts (Porter, 1984).

Porter (1985) introduced the concept of value chain as the basic tool for examining the activities a company performs and their interactions with a view to identifying the sources of sustainable competitive advantage. It separates the activities of a firm into a sequential stream of activities and is used to analyse and establish the importance of the different activities in delivering the final product/service, thereby facilitating the identification of core and noncore activities. A simplistic view of this activity organisation and operation is given to the following figure. These activities in the value chain are core (primary) and supplementary (secondary or support) activities.

Companies, primarily have to identify the core activities that would give them sustainable competitive advantage and then identify the assets and competencies needed to achieve this advantage.

Implementing Strategy to Sanchez and Heene (2004), the value chain activities are systematically interrelated and represent value creation. Therefore, a business gains competitive advantage by performing these activities either more cheaply than its competitors (low cost strategy), or in a unique way that creates superior customer value and commands a price premium (differentiation).

Key Terms in Strategy development, implementation,...

A Company's Value Chain A Simplistic Representation About Me

The following figure exhibits Porter's framework of value chain activities. According to Porter (1985), in the value chain there are two categories of activities:

Sociable

1. Primary activities: are involved with a product's physical creation; its sale and distribution to buyers, and its service after the sale (comprise inbound logistics, operations, outbound logistics, marketing and sales, and service). These activities are termed 'primary' because are the most important ones as they add value to the product or those involved in either producing or selling the product (White, 2004);

2. Support activities provide the assistance required (Porter, 1980; White,

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Business

Source: Porter, M E (1985) " Competitive Advantage

A brief summary of the ' primary activities' is given in the following table.

According to Porter (1980, 1985) the primary activities of an organisation consists of: Inbound Logistics: it involves supplier relationships and refers to all the processes/activities involved in receiving, storing and distributing the raw materials, inputs, components, and parts used in the production process;

Operations: are the processes/activities of manufacturing, assembly, packaging, maintenance of the equipment, and testing of inputs to produce the final product; Outbound Logistics: it relates to storage, processing orders, transport, and distributions of the product to the final consumer;

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. It involves activities like advertising, promotions, sales force organisation, segmentations, selecting distribution channels, pricing, and managing customer relationships (for either current or potential ones); and

Service: All those activities associated with maintaining product performance after the product has been sold. It involves processes/activities that enhance the value of the product in terms of installation, training, maintenance, repair, warranty, and after sales services.

Porter's Value Chain Primary Activities: A Summary

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Inbound Logistics

Receipt of inputs (materials)

Storage

Stock Control

Internal Distribution of Inputs

Operations

Primary

Activities

Outbound Logistics

Transformation of inputs into final
product

Use of Labour

Manufacturing Technologies

Distribution of finished goods

Stock Control & Inventory

Distribution of final product to
buyers

Sales & Marketing

Advertising

Promotional Activity

Persuading People to buy

Service

After sales support

On the other hand, Porter (1980, 1985) defines the support activities (see following table) as:

Procurement: This concerns how resources are acquired for a business (e. g. sourcing and negotiating with materials suppliers). It occurs in many parts of the organisation with purpose to support the main functions to carry out their activities (John et al., 1997); Technology Development: Activities concerned with managing information processing and the development and protection of “ knowledge” in a business. In addition, it involves technology development to support R&D, process automation, and product design; Human Resource Management (HRM): involves activities in relation to recruitment, training, development, promotion, incentives, and payment of people working for an organisation; and Firm Infrastructure: involves the structures and routines of the organisation and its management, planning, accounting, finance, and quality control mechanisms.

Porter's Value Chain Secondary Activities: A Summary

Secondary

Activities

Procurement

Purchasing of Resources

Purchasing of inputs

Technology Development

Technology to support
primary activities &
operations

Infrastructure

Leadership

Structure/Management

Planning/processes

Finance

Information Systems

Human Resource

Management

Recruitment

Selection

Training

Reward & Motivation

In essence, the value chain disaggregates a company into its strategically relevant activities in order to understand the behaviour of costs for the purpose of control and more effective management (Anandarajan et al, 1998). The concept is based on the premise that every company is a collection of activities that are performed to design, produce, market, deliver, and support its product. The relevant “ value” activities are defined as the physically and technologically distinct activities that a firm performs to achieve its objectives (Anandarajan et al, 1998).