The value chain approach was developed marketing essay

The value chain approach was developed by Michael Porter in the 1980s (Porter, 1985). The concept of value added, in the form of the value chain, can be utilised to develop an organisation's sustainable competitive advantage in the business arena of the 21st Century. All organisations consist of activities that link together to develop the value of the business, and together these activities form the organisation's value chain. (pp. 231) Such activities may include purchasing activities, manufacturing the products, distribution and marketing of the company's products and activities (Lynch, 2003).

Value chain analysis is a powerful tool for managers to identify the key activities within the firm which form the value chain for that organisation, and have the potential of a sustainable competitive advantage for a company. Therein, competitive advantage of an organisation lies in its ability to perform crucial activities along the value chain better than its competitors. (Porter, 1985)

The value chain framework of Porter (1990) is " an interdependent system or network of activities, connected by linkages" (p. 41). When the system is managed carefully, the linkages can be a vital source of competitive advantage (Pathania-Jain, 2001). The value chain analysis essentially entails the linkage of two areas. Firstly, the value chain links the value of the organisations' activities with its main functional parts. Then the assessment of the contribution of each part in the overall added value of the business is made (Lynch, 2003). In order to conduct the value chain analysis, the company is split into primary and support activities (SA). Primary activities are those that are related with production, while support activities are those that provide the background necessary for the effectiveness and efficiency of the firm, such as human resource management.(Porter, 1985)

The limitations of the model include the fact that ‘ value’ for the final customer is the value only in its theoretical context (Svensson, 2003), and not practical terms. The real value of the product is assessed when the product reaches the final customer, and any assessment of that value before that moment is only something that is true in theory. Despite this limitation, analysts can effectively use the value chain model to determine the value to the final customers in a theoretical way. Use of other planning tools and techniques like Porter’s generic strategies, analysis of critical success factors etc. is recommended in conjunction with the value chain framework for a more comprehensive analysis of a company’s strategy and planning. (Svensson, 2003)

The primary and secondary activities of JAVA are:

1.

Core competencies

Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power. Senior management cannot focus on all activities of a business and the competencies required undertaking them. Therefore the goal for management to focus attention on competencies that really affect competitive advantage. (Prahlad & Hamel, 1990)

" When you clarify competencies, your entire organisation knows how to support your competitive advantage – and readily allocates resources to build cross-unit technological and production links" (Prahlad & Hamel, 1990, pp 1)

The main ideas about Core Competencies were developed by Prahalad and Hamel (1990). Their central idea is that over time companies may develop key areas of expertise which are distinctive to that company and critical to the company's long term growth.

These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the company where the most value is added to its products.

Core Competencies are not seen as being fixed and are flexible and evolve over time. Core Competencies should change in response to changes in the company's environment. They are flexible and evolve over time. As a business evolves and adapts to new circumstances and opportunities, so its Core Competencies will have to adapt and change. (Prahlad & Hamel, 1990)

Identifying Core Competencies

Prahalad and Hamel (1990) suggest 3 factors to help identify core competencies in any business:

What does the Core Competence Achieve?

Core competencies are the skills that enable a business to deliver a fundamental customer benefit – in other words: what is it that causes customers to choose one product over another? To identify core competencies in a particular market, ask questions such as “ why is the customer willing to pay more or less for one product or service than another?” “ What is a customer actually paying for?

Example: Why have JAVA been so successful in capturing leadership of the market for ethical coffee?

– Designing and implementing Ireland’s first carbon neutral site

– contributing 11% of net profits to develop micro

Difficult for competitors to imitate A core competence should be “ competitively unique”: In many industries, most skills can be considered a prerequisite for participation and do not provide any significant competitor differentiation. To qualify as “ core”, a competence should be something that other competitors wish they had within their own business.

Example: Why does Bewleys have such a strong position in the coffee market?

Core competencies that is difficult for the competition to imitate:

– Selective and personal relationships with farmers and suppliers in Nicaragua

– many internationally recognised awards

– They spent two years perfecting the patented hand roasting technique

A competence which is central to the business's operations but which is not exceptional in some way should not be considered as a core competence, as it will not differentiate the business from any other similar businesses and should be characterised as a thresehold competency (Prahlad & Hamel, 1990).

For example, a process which uses common computer components and is staffed by people with only basic training cannot be regarded as a core competence such as the operation of the roasting machine itself. Such a process is highly unlikely to generate a differentiated advantage over rival businesses. However it is possible to develop such a process into a core competence with suitable investment in equipment and training.

Necessary Resources

Technology – a level of manufacturing output

Continuous stream of grade 1 Arabica beans

David's experience from Bewleys

Roastary

Local distributors

Unique Resources

Java spent two years perfecting the patented hand roasting technique (javarepublic. com) contribute 11% of net profits to develop micro businesses (javarepublic.com)

Management – David McKiernan – sales and marketing manager at bewleys

Selective and personal relationships with farmers and suppliers in Nicaragua which have been selected for their unique taste

strong ethical standards by subscribing to the fair trade logo

many awards – 7 – (Java republic)

Specific grinds

Carbon neutral site

Threshold Competencies

The characteristics required by a jobholder to perform a job effectively

Understanding of the coffee industry

Marketing competencies – being able to market coffee and brand successfully

Source appropriate supplers.- Local distributor network

Roasting and manufacturing of coffee to customer satisfaction levels

David's prior experience with Bewley's give him both product and industry knowledge.

Supply of quality green bean

Core competencies

Core competencies are those capabilities that are critical to a business achieving competitive advantage.(Hamal, 1990)

Manufacturing – opened their 23 000 sq foot purpose-built carbon-neutral coffee manufacturing facility and coffee house in Ballycoolin,

Creating new and distinct coffee flavours

Technology – use of natural convection instead of high -yield radiation

corporate social responsibilities – education healthcare and community based programs for communities

open door policy – allowing competitors to see their rivals

Competiencies

SWOT

Grant (1991) has indicated that given the volatility of the external environment, which is consistently shifting customer preferences, continually evolving technologies and such, organisations have no choice but to look to internal capabilities for a stable sense of direction. If organisations had to rely on external conditions to define themselves, they would be changing definition and direction perpetually (Grant, 1991)

No one knows who first invented SWOT analysis. It has featured in strategy textbooks since at least 1972 and can now be found in textbooks on marketing and many other business disciplines (Haberberg & Rieple, 2001). SWOT advocates say that it can used to gauge the degree of ' fit' between the organisations strategies and its environment, and to suggest ways in which the organisation can profit from strengths and opportunities and shield itself against weaknesses and threats. However it has come under criticism recently (Hill & Westbrook, 1997). Practicing managers have a tendency to use it without a great deal of thought, so the results are often useless. Another problem is that SWOT, having been conceived in simpler times, does not cope well with some of the subtler aspects of modern strategic theory, such as trade offs (Hill & Westbrook, 1997).

It is important to bear in mind that what a SWOT is for. It is intended to summarise a strategic situation, with a view to deciding what the organisation should do next. A SWOT analysis should contain sufficient information for any reader to be able to see why a particular issue counts as a strength, weakness, opportunity or threat; what the implications are for the business and not just as a list of bullet points. Therefore it is a mistake to use SWOT at the start of an analysis and should only be conducted after garnering sufficient information from a full analysis of the micro and macro environments. (Lynch, 2003)

Strengths

Marketing/PR/Communication – “ better green beans”, “ origin flavour lock”, “ naturally cooled”, “ Date roasted”, “ unique grind” “ ethical company” therefore a strong brand image

new roastary -increased capacity

Technology – Fresh value technology, 21 minute slow roast, hand roasted

Weaknesses

Not been around for very long – 10 years (Douwe Egberts – 250 years, 25% share of the roasting market)

2nd most expensive coffee in the world behind Illy

Relatively new brand

Opportunities

Opportunity to expand their sales to the retail and online market segment as this only accounts for 0. 1% of their market segment

moving into the U. K. and U. S. markets

Move into the coffee pods/capsules market

Threats

Competitors – Nescafe, bewley’s, café direct, Kraft, cork coffee roasters, Rombouts, Illy, etc

‘ price sensitivity’ – people not going for morning coffees – Economy worsening staying stagnant

Threats of raw materials

Strengths

Marketing/PR/Communication

Java has devoted a great deal of financial resources to reinforce their brand motto and strategic advantage. Their ’10 reasons why our coffee is better’ includes the sole use of sourcing grade1 Arabica beans from specialist growers around the world; the process of hand roasting their coffee thanks to their experienced craftsmen which results in a better flavour; and the method of naturally cooling their coffee which reinforces the protection and enhancement of flavour. Java have said that they spend circa €60 thousand euro per annum on marketing (Van Rensburg, 2010)

new roastary -increased capacity

After upgrading their capacity to 1929 tonnes of coffee per annum, Java have been able to meet increased demand for their clients such as Tesco and Sainsbury’s and ultimately their customers as the end product. This is something that had limited their bargaining power as a producer in the past as they were unable to meet high volume demand from such clients (Van Rensburg, 2010)

Technology/patents

Java has a number of European granted patents which protects their company from imitation and reinforces their competitive advantage. Java Republic roasts at a low heat, for a long time – 21 minutes® which produces a dark, rich roast with a strong sweet flavour. Origin Flavour Lock® – Each bean has a unique flavour characteristic, so Java handroasts each one separately before blending. (Java Republic)

Weaknesses

Not been around for very long < 10 years

The following are some of the competitors with which Java compete across its target market segments. They currently hold a 12% share of the hot beverage market in Ireland. Some of these competitors are long established players across the broader coffee market while others are artisan coffee providers and are closer to Java's strategy of competing in a specialist niche segment. The Bewley's name is one of Ireland's most recognised and trusted brands of ground coffee in Ireland. With 92% brand awareness in Ireland and recognised as a supplier of premium teas and coffees, the company has been at the centre of the country's coffee and tea industries since 1840. Cork Coffee Roasters is a Cork City base, owner operated, gourmet Coffee Company, specialising in small-batch coffee roasting and espresso preparation, and espresso equipment. All their coffees are hand roasted, blended to order, delivered and shipped within 24 hours. (Java case study)

2nd most expensive coffee in the world behind Illy

While Java Republic has carefully carved a niche for their super premium brand in this ever expanding market, the threat from competing products is ever present. Java has purposely situated itself at the super premium end of the market which in turn has forced them to not expand in to the instant coffee market, cutting off a potential for a high income of revenue

Opportunities

expand their sales to the retail and online market segment

Currently their sales are 99% derived from their retail segment, which Java has stated they would like to unbalance this by tapping into the online market segment. As they sell to high end Michelin star restaurants to associate their brand with quality, they have also stated their desire to reach into other shops like gourmet delis and health shops.

moving into the U. K. and U. S. markets

They are at a crossroads with new market penetration. There are some strategy disagreements as to whether they go the high street route and compete directly with outlets like Starbucks and Insomnia or expand their current roasting model to other countries. They are currently in talks with a distributor for the UK and Dutch markets.

Threats

‘ price sensitivity’

In today’s climate, Customers are gaining more and more bargaining powers, partly because they themselves are under more pressure, partly because there are fewer and fewer customers which allows them to beat down the company to bargain a better price. This is not what Java should do as it will undermine its long success and make it just like its other competitors who are also cutting prices too.(Porter, 2009)

Threats of raw materials

Sourcing raw materials from third world countries brings its own inherent risk. Java has reported that there has been no major threat but issues such as poor farming has lead to crop failures because of pest attacks. There range of teas has also been affected in some periods due to political instability in Kenya (Van Rensburg, 2010)