

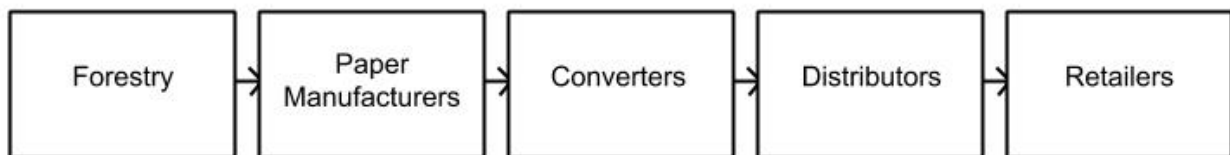
## INDUSTRY VALUE CHAIN

An *industry value chain* graphically represents how different kinds of companies contribute to making a product. It looks like a flow chart. It's sometimes called a *supply chain*.

Industry value chains can describe industries that make physical products, or *goods*; as well as intangible products, or *services*.

With industries that make goods, the industry value chain can be thought of as the flow of materials through different companies.

For example, consider the consumer stationery industry. Its product is notecards and envelopes used by people to write letters. Its value chain might be seen as starting with forestry. Wood pulp made from felled trees is then manufactured into paper, which is in turn cut, printed, and folded into stationery by businesses called *converters*. The stationery is then distributed to retailers, both online and physical. So the industry value chain might look like this:



Of course this industry value chain could be made more complex. For example, the *forestry* node could be broken down into smaller nodes like *forest management companies* and *sawmills*. But sometimes industry value chains are most useful when they're simple.

An industry value chain is different from a *firm value chain*. A firm value chain shows a flow of processes through different departments of a single company.

Different nodes of an industry value chain can have very different average *returns on invested capital*.

If a company expands its operations by entering the activity of one of its suppliers, it's *backward integrating*. If it enters the activity of one of its customers, it's *forward*

*integrating*. Backward or forward integration can be accomplished by acquiring companies *upstream* or *downstream*, or by starting a competitor to companies upstream or downstream.

For example, a distributor that acquired a retailer would be forward integrating. It would also be forward integrating if it started a retail unit from scratch.

If a converter bought a paper manufacturer it would be backward integrating. It would also be backward integrating if it started a paper manufacturer from scratch.

A company that has operations in all the nodes of its industry value chain is said to be *vertically integrated*. The more vertically integrated a firm is, the more its industry value chain resembles its firm value chain.