

Value Chain Analysis



Value Chain Analysis

❖ Michael Porter introduced this model in the 1980s as a tool to help business formulate competitive strategies

Value Chain Analysis

- ❖ A value chain encompasses all the activities and processes in a firm which contribute to the creation of value

Value Chain Analysis

- ❖ A firm can either increase value for customers or lower its costs
- ❖ Generic Strategies - Low Cost, Differentiation or Focus
- ❖ The Value Chain analysis helps firms to focus on strategies which address these two issues

Value Chain Analysis

❖ The Primary functions of the firm are:

❖ Inbound Logistics

❖ Operations

❖ Outbound Logistics

❖ Marketing and Sales

❖ Service



Value Chain Analysis

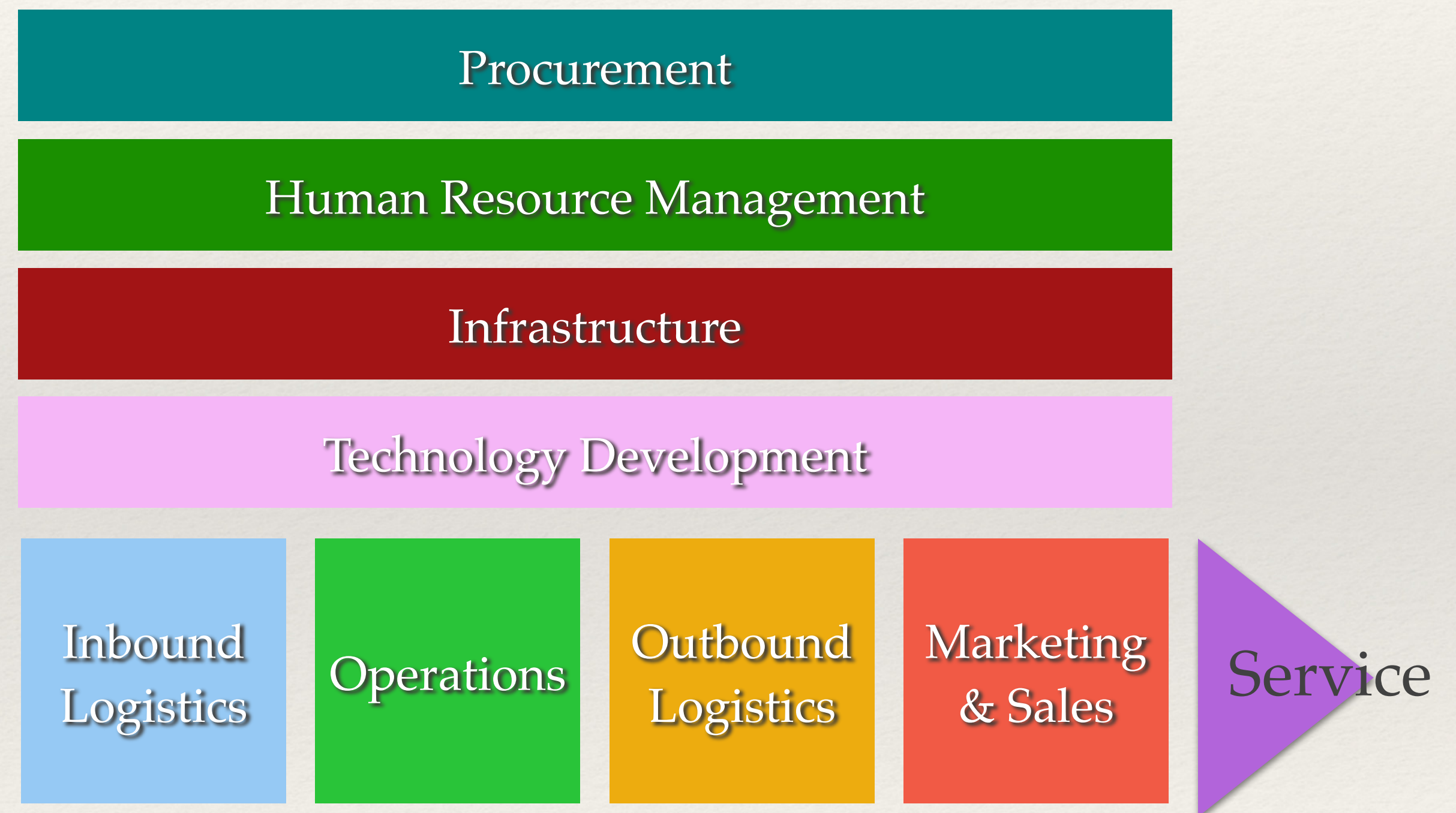
- ❖ Inbound Logistics: receiving, storage and distribution of raw materials - supplier relationships are key (5 Forces)
- ❖ Operations - transform raw materials into products and create services which are sold to customers - process improvements and product innovation can create value

Value Chain Analysis

- ❖ Outbound Logistics - delivery and distribution of product and services to customers
- ❖ Marketing and Sales - promotes the products and service to customers making them aware of the competitive advantages of the firms products and services
- ❖ Service - activities which maintain or add to the value of the product after it is sold - after sales service

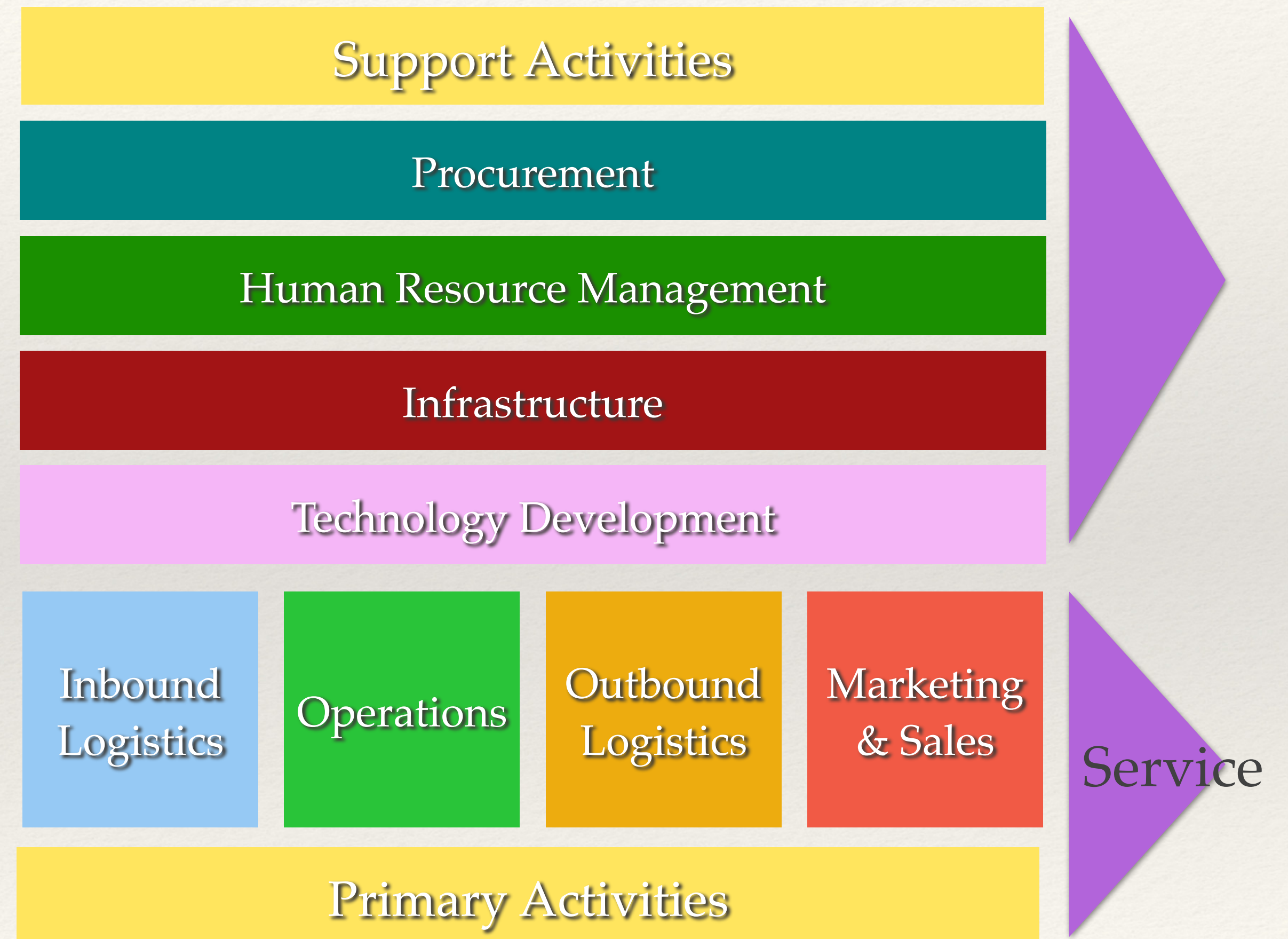
Value Chain Analysis

- ❖ There are also secondary activities which support the primary activities
- ❖ Firm infrastructure
- ❖ Human resource management
- ❖ Technological development
- ❖ Procurement



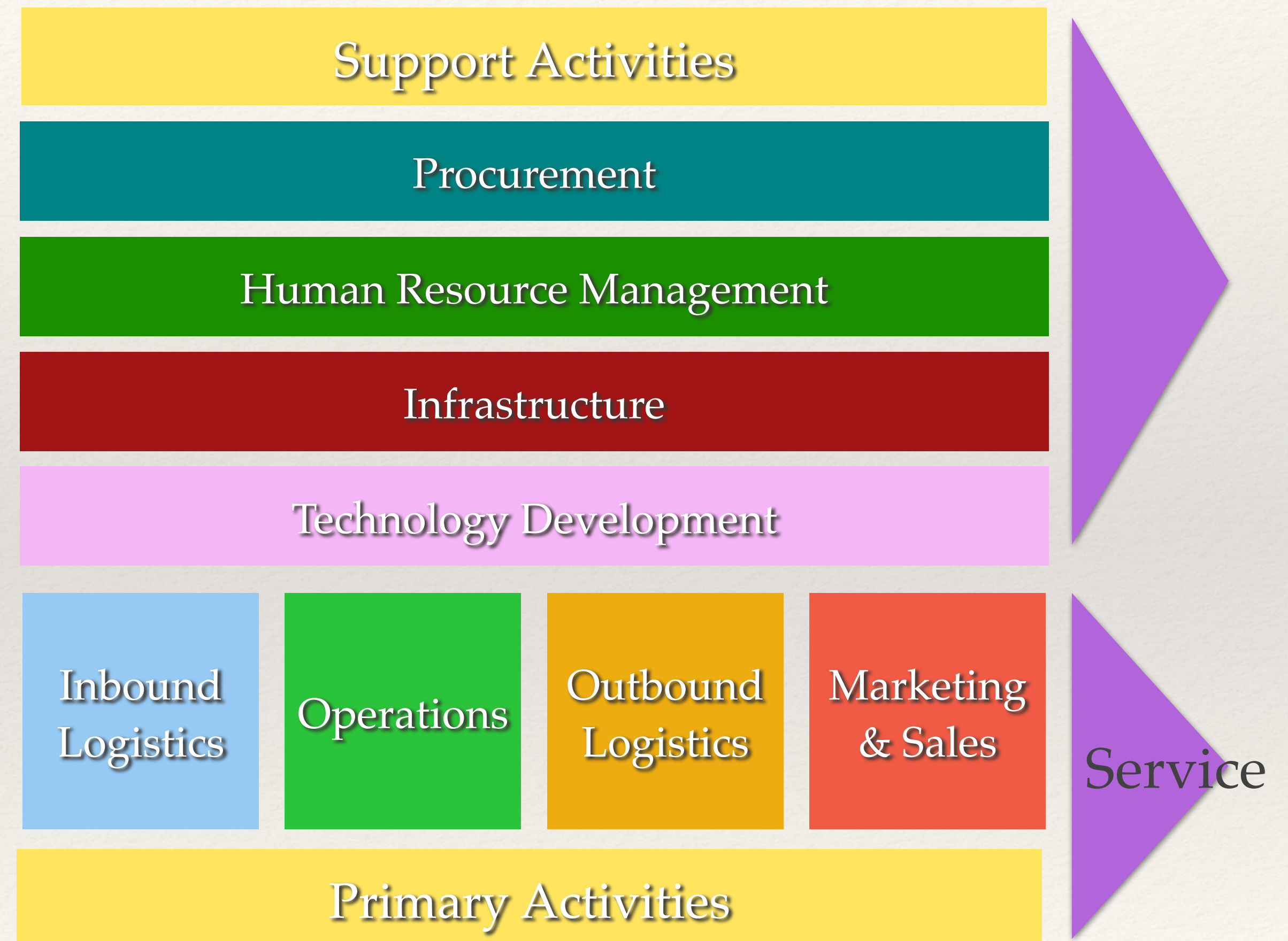
Value Chain Analysis

❖ In combination these
create our Value
Chain



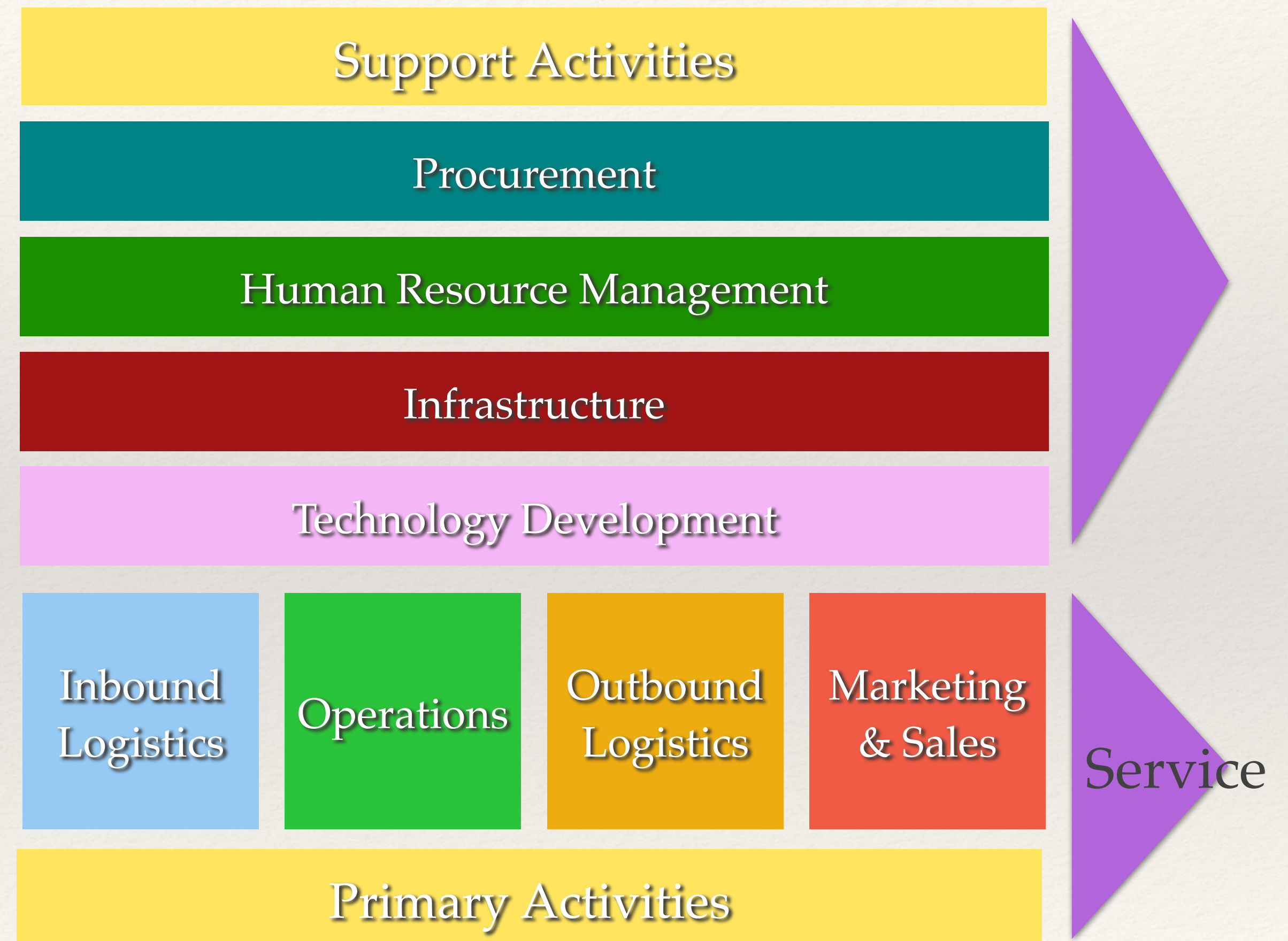
Value Chain Analysis

- ❖ Each primary activity has secondary activities associated with it



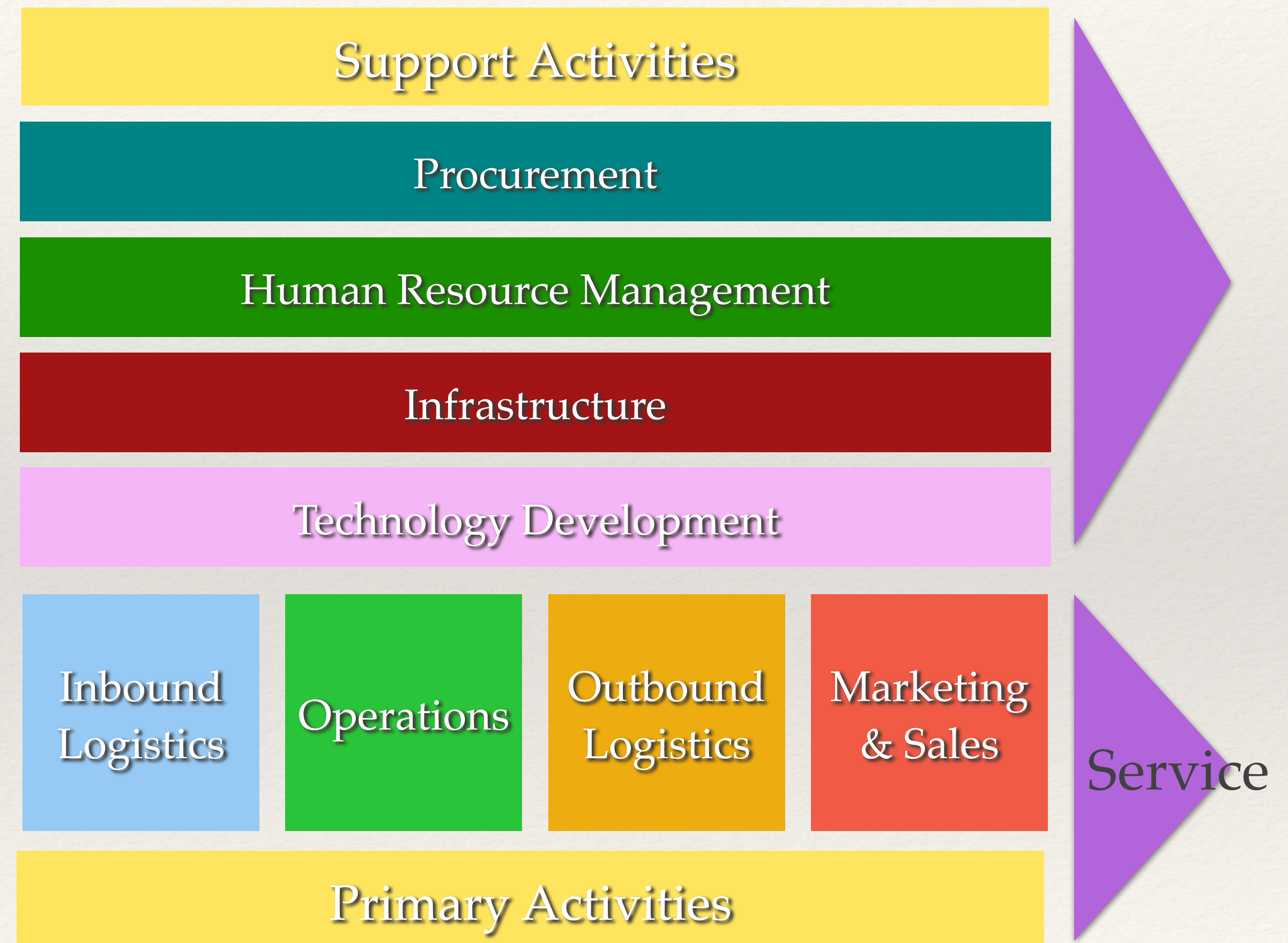
Value Chain Analysis

❖ There is a three step process for conducting the analysis



Value Chain Analysis

- ❖ 1. Identify the secondary activities associated with each primary activity
- ❖ These are
 - ❖ Direct Activities
 - ❖ Indirect Activities
 - ❖ Quality Assurance

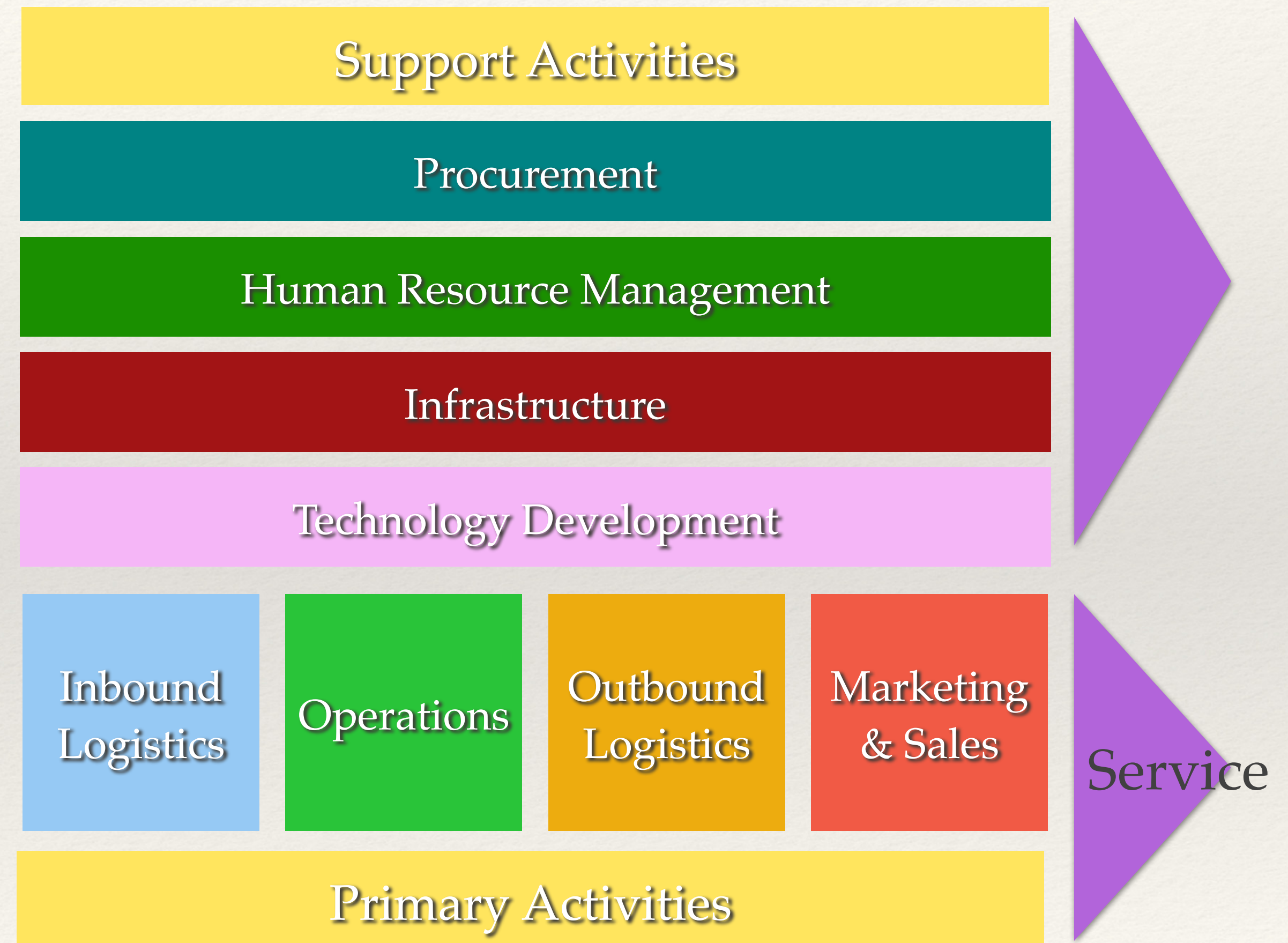


Value Chain Analysis

- ❖ Direct Activities are those which specifically help to create value; sales and market
- ❖ Indirect Activities help the direct activities function more smoothly
- HR and accounting
- ❖ Quality Assurance - ensure that direct and indirect activities meet the expected standard.

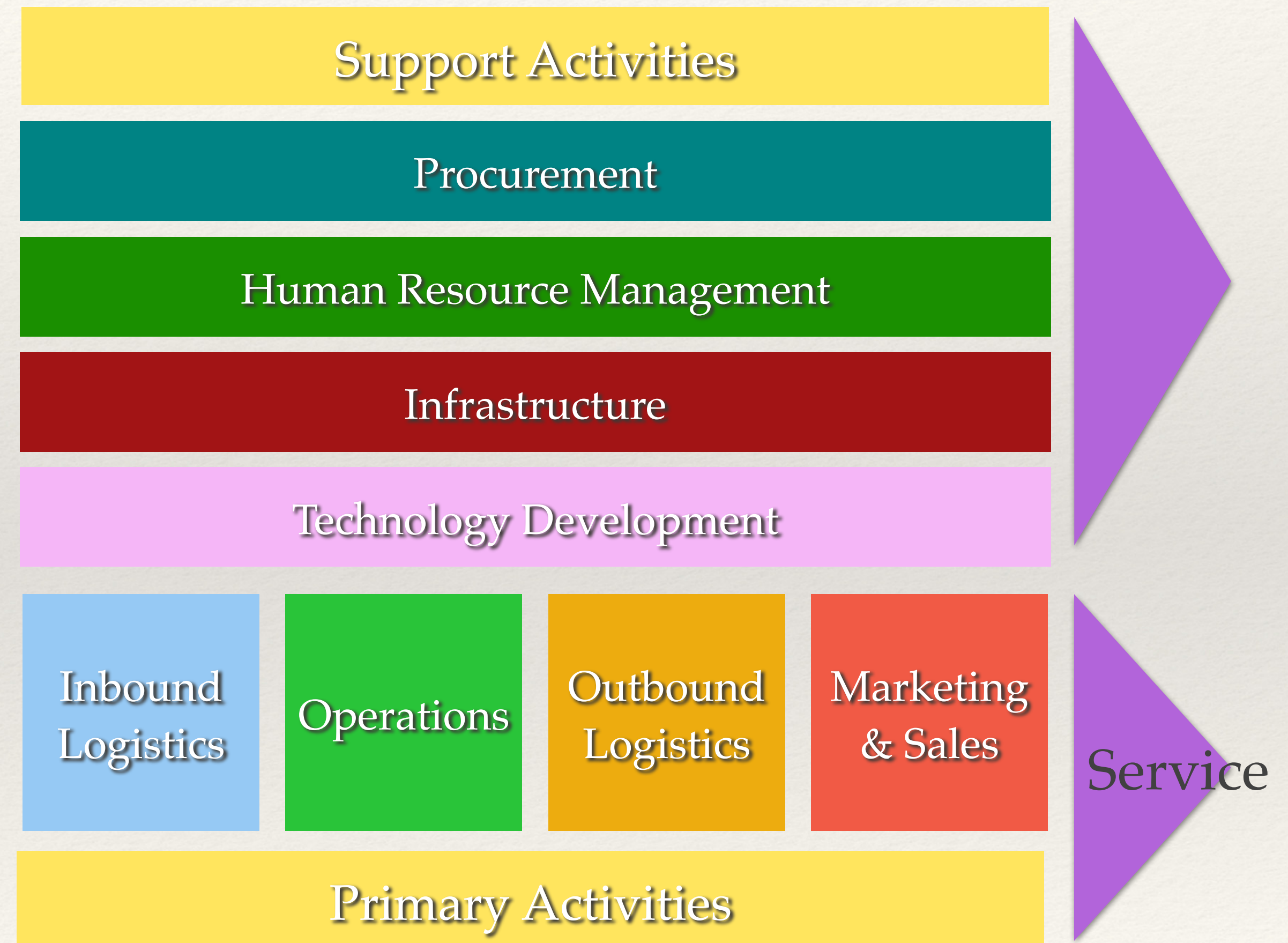
Value Chain Analysis

- ❖ 2. Identify the secondary activity for each support activity
- ❖ Support activities such as HR and Accounting provide value to primary activities



Value Chain Analysis

- ❖ 3. Identify a connection between the activities
- ❖ Identify all the links between the all the activities - these connections are the secret to finding ways to create competitive advantage



Value Chain Analysis

- ❖ Which activities across the value chain would benefit from additional investment of time or money to improve the product or save cost
- ❖ Identify activities which put the firm at a Disadvantage when compared to its customers

Value Chain Analysis

- ❖ Scope Priority Activities
- ❖ Develop strategies for these key activities which can be implemented to build sustainable competitive advantage
- ❖ Is this a Cost or Differentiation approach? (Generic Strategies)

Value Chain Analysis

- ❖ What do we mean by Competitive Advantage?
- ❖ Creating products or services whose price and value are similar to those found in other products in the market
- ❖ Cost Advantage - producing the same quality product with the same customer value at a lower cost
- ❖ Differentiation - create a product or service at the same price but which is unique (more value, more functionality, more sustainable and durable) than competing products - must align with customer wants and needs

Value Chain Analysis

- ❖ Value Chain Analysis breaks down the steps and links in the firm and enables the identification of opportunities to reduce cost or increase value
 - ❖ Optimise processes
 - ❖ Eliminate waste
 - ❖ Improve profitability
 - ❖ Identify areas to differentiate and create competitive advantage
- ❖ Ultimately the aim is to minimise cost while maximising the value created for the customer

Value Chain Analysis

