

**VALUE CHAIN ANALYSIS**

**Key Points**

* The value chain helps an organization identify how it creates value for customers and locate where its sources of competitive advantage lie.
* Value chain models can be created in both qualitative and quantitative forms.
* Many organizations do not consciously make decisions to optimize the sources of advantage resident in their value chain and in so doing, risk losing competitive advantage.

**Main Thoughts**

Most mangers know that their organization’s value chain represents the sequence of activities necessary to create a product or service, produce or deliver it, market and sell it to customers, distribute or provide it to those customers while ensuring necessary post sales service is completed. They also know that internal firm infrastructure activities such as human capital development or procurement support the main stages in the value chain. What managers sometimes aren’t as knowledgeable of is the fact that the value chain within a firm or industry is actually comprised of a very specific model of performance that depicts the discrete stages of organizational value creation. Further, they don’t always use the model to compare and contract activities across firms for the purpose of determining where competitive advantages lie.

Developed in the early 1980s by Harvard Business School Professor Michael Porter in his book *Competitive Advantage*, the value chain consists of two main components: primary activities and secondary activities. A generic, firm specific value chain is shown in figure 1.

**Support Activities**

M

ar

gi

n

**Primary Activities**

*Figure 1: Porter Value Chain, 1985*

Copyright ©2013 [www.cambridgeperformancepartners.com](http://www.cambridgeperformancepartners.com/)

Firm Infrastructure

Human Resource Management

Technology Development

Procurement

Inbound Logistics

Operations

Outbound Logistics

Marketing & Sales

Service



*Support Activities:* These consist of activities that do not directly produce goods or services. Infrastructure activities such as administration, human resource management, information technology management, purchasing and procurement, and research and development are included in the support area of the model.

*Primary Activities:* These activities are the direct, value creating activities of the firm. Bringing raw materials into an organization, manufacturing a product or service, distributing it as well as marketing, selling and servicing the product are considered primary activities.

The model can and should be reconfigured to account for activities specific to the industry in which the firm competes. For example, in a service industry—such as professional services— inbound logistics might be replaced with methodology development or client acquisition.

Regardless of industry however, the value chain is a powerful framework for analyzing both industry and firm specific activities.

**For Example**

The following is an example of the value chain for copier manufacturer.

**Human Resource Management**

**Technology Development**

**Procurement**

**M**

**ar**

**gi**

**n**

**Inbound Logistics**

**Operations**

**Outbound Logistics**

**Marketing & Sales**

**Service**

*Figure 2: Value Chain for a Copier Manufacturer (adapted from Porter, 1985)*

**CPP Insight**

Although the value chain has been in the public domain for over 20 years, it’s not often used expressly as part of the strategy development process. This could be because managers aren’t always sure how to go about developing one or are suspicious of the insight the analysis actually provides. To creating one, the most basic way is to simply catalog the activities an organization performs as is the case in Figure 2. This provides an initial way of understanding what an organization does and more specifically, where it might differentiate within the value

Copyright ©2013 [www.cambridgeperformancepartners.com](http://www.cambridgeperformancepartners.com/)

Technical Recruiting

Training

Recruiting

Recruiting

Product design

Components, Manufacturing Design, Testing

Information Technology Support

Marketing Research, Sales and Sales Support

Service Manual Development & Support

Transportation

Materials, Supplies, Energy, Electronic Parts

Technology Support Services, Transportation Services

Media Buying, Supplies, Travel Costs

Spare Parts, Travel Costs

Inbound Material Handling

Inbound Inspection

Parts Picking & Delivery

Component Fabrication

Fine Tuning & Assembly

Maintenance

Facilities Operation

Order Processing

Shipping

Advertising Promotion Sales Force

Service Reps

Spare Parts Systems



chain to achieve advantage over competitors. The base version can then be contrasted to competitor value chains, which can be created as separate analysis as well. As the value chain template is incrementally built up over time, total costs can be identified for each activity.

Then, depending costs can be identified on a per unit basis—which is the ultimate goal of the analysis. Again, this can be done for competitors as well. When complete, a solid understanding of relative cost position will have been gained from which effective strategies can then be created.

**For More Information**

Texts:

Porter, Michael E., 1985. *Competitive Advantage: Creating and Sustaining Superior Performance.*

Free Press, New York.

**About Cambridge Performance Partners**

Cambridge Performance Partners (CPP) is a global management consulting firm that helps organizations improve measurable business performance. We guide top management teams in the areas of planning strategy, measuring performance, managing project and making decisions. For more information visit our website [www.cambridgeperformancepartners.com.](http://www.cambridgeperformancepartners.com/) CPP helps organizations put improved performance insight.

Copyright ©2013 [www.cambridgeperformancepartners.com](http://www.cambridgeperformancepartners.com/)