

Chapter 1 : Value Chain Analysis: Definition and Examples

Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage.

It was founded by Steve Eells. Naturally raised meat is its major bulk of food supply. Production is done at each location, and it is started in the morning before the opening of the stores. On the other hand, the finishing of products is done on a customized basis. Despite increasing efforts by the management to expand the business, Chipotle has not managed to send its brands overseas since its establishment. Besides, its local customers have complained of decreasing quality of products and services. Because Chipotle is a growing enterprise with a vision to expand and compete effectively in other global markets, there is need to conduct a value analysis to find out how best it can provide excellent services to its customers. Chipotle Mexican Grill has weaknesses and opportunities as revealed in the SWOT analysis, which if acted upon can help the organization deliver the best services to its clients. Firstly, Chipotle has not established stores in other countries other than the United States. Again, its management has not put in place measures to help the business expand internationally. As such, it lacks support and customers in the majority of states in the United States. Secondly, despite the fact that the business focuses on naturally raised beef, only 50 percent of its stores contain naturally raised beef. Likewise, ordering of new stocks is a major problem. The most notable issue that causes this mess is the poor established links with meat suppliers. Enhancement specification and program management were identified as the key causes of this deviation. Last yet important, it was revealed that Guidelines for Strict Site location was not well thought of. Again, there were possible inadequacies in management systems. Additionally, two key non-client-facing activities were identified as training and recruitment Kimberly In summary, key issues worth addressing as revealed from the SWOT analysis include order taking, scheduling, secondary testing, support, delivery, enhancement specification, and program management. Activity Analysis Several factors were identified that could yield the greatest value to clients if perfected. Secondly, in order to explain to customers what it exactly offers, the management should explore available modes of advertisements and choose one that can suits this purpose. Most importantly, the management team ought to come up with mechanisms to solve issues raised about its acquisition and delivery procedures.

Chapter 2 : How to Analyze Your Startup Like A VC in 15 Minutes Or Less – Tomasz Tunguz

Porter's Value Chain Analysis consists of a number of activities, namely primary activities and support activities. Primary activities have an immediate effect on the production, maintenance, sales and support of the products or services to be supplied.

Related Content What are Horizontal Linkages? In a value chain, horizontal linkages are longer-term cooperative arrangements among firms that involve interdependence, trust and resource pooling in order to jointly accomplish common goals. Both formal and informal horizontal linkages can help reduce transaction costs, create economies of scale, and contribute to the increased efficiency and competitiveness of an industry. In addition to lowering the cost of inputs and services including financial services, inter-firm horizontal linkages can contribute to shared skills and resources and enhance product quality through common production standards. Such linkages also facilitate collective learning and risk sharing while increasing the potential for upgrading and innovation. Small-scale producer groups have strong potential to increase their bargaining power in the marketplace, while processors, suppliers and traders may also form their own groups to strengthen their position within industries. Competition Cooperation can help firms achieve economies of scale and overcome common constraints to pursue opportunities, while competition encourages innovation and drives firms to upgrade. The most successful horizontal linkages maintain a balance between these two contrasting, but critical and complementary, concepts. Horizontal linkages that do not work well are. Why Horizontal Linkages Matter Through effective coordination, horizontal linkages can benefit firms in many of the following ways: There are many different types of horizontal linkages, including cooperatives, associations, clusters and the like. Traditional, formal and too often unsuccessful cooperative models have operational procedures that can be cumbersome and beyond the management capacity of many small-scale enterprises. Though transaction costs may be a factor, minimizing the cost of coordinating member relationships and responsibilities is critical when deciding whether a formal or informal structure is best. Often, different types of formal and informal organizations, such as clusters of producer clubs or societies band together to form legally registered associations to help members purchase inputs, process and market products, access financial and other services, or conduct advocacy. The degree of formality needed to create or maintain the links between members depends on characteristics that are internal and external to the group. Likewise, catalysts may be internal or external – each one has strengths and weaknesses. Whether the catalyst for group formation is external or internal, producers, processors and others form groups for a variety of reasons including increased efficiency, better product quality and services, improved member ability to negotiate favorable terms and prices, reduced social isolation, and advocacy. These internal and external factors and catalysts affect the horizontal coordination of peers. The key to gaining value from horizontal cooperation is recognizing common constraints – inadequate volume, high input costs, lack of market access, unfavorable trade policies, or a combination of these and others – that require collective action. The Agricultural Cooperatives in Ethiopia ACE [1] program helped develop and promote a modern, business-oriented agricultural cooperative system that became actively involved in input supply, volume sales, branding, advocacy and marketing crops such as coffee, grains, sesame, nigerseed and others. The coffee cooperatives and their unions have been particularly successful in improving coffee quality and enabling Ethiopian cooperatives to market branded specialty organic and Fair Trade coffees to European and U. Union lobbying efforts garnered authorization to sell directly to foreign coffee buyers rather than through the low-return domestic auction system. Characteristics of Good Horizontal Linkages The success of horizontal linkages between producers, processors, and others depends on a range of conditions that include buyers who demand greater quantity and better-quality product than individuals are able to produce and members who have a similar business orientation, knowledge and resources as well as good working relationships with and trust in one another. While practitioners can build on social capital as a means to develop other linkages, the approach does not come without costs or bring automatic results; only long-term investment that takes relevant factors into account can ensure success. How group meetings are run and the use of explicit

contractual obligations, rules and sanctions that can generate and reinforce trust and common understanding and reduce cheating and corruption also matter. In addition, programs that work with poor and other disenfranchised peoples need to choose convenient times and locations for meetings; keep member contributions of time, cash and other resources affordable; and deliver benefits that members and their families value. Benefits may be tangible – livestock assets or education – or intangible such as increased confidence in the ability to interact with outsiders. This interaction of social capital with formal measures to empower individuals suggests that formal and informal institutions complement one another. Very high levels of social capital, however, may hurt competitiveness. Recommended Good Practices USAID recommends good practices for facilitating the formation of producer groups, including a thorough analysis of the value chain, the markets and the local culture; a careful weighing of the costs and benefits of meeting market requirements for the product; and facilitating linkages based on win-win economic relationships. Specific examples of good practice follow: Analyze the value chain, markets and local culture to determine 1 why cooperation is not occurring or is ineffective in addressing the critical constraints that smallholders and the industry face, and 2 the most appropriate structure for realizing economies of scale, collective learning and increased bargaining power. For example, end-market and value chain analyses of the Indonesian home accessories industry and its global market led to bringing producers together to improve efficiency and transport logistics, purchase bulk inputs and identify other ways to increase the competitiveness of their industry reference. Work with small groups at the bottom of the chain on limited activities with clear economic benefits. Allow group formalization to be driven by the members themselves in response to economic needs. For example, to facilitate farmer access to markets, an NGO in Kenya [2] researched the market to identify opportunities and determine which of their crops had a competitive advantage; provided the farmers with training on market-oriented production and self-organization; and initiated meetings between group representatives and a buyer. The strategy did not directly create groups, but it did enable the communities to form groups and to develop market linkages for themselves. Carefully weigh the costs of meeting product requirements in a highly competitive market and of sustaining horizontal linkages with expected returns to group members. Do not encourage producers to form associations if the rest of the chain does not function properly. For example, when coffee prices collapsed, some Kenyan farmers [3] decided to go into dairy farming due to high local demand for milk. Over time, the group grew to 1, members who diversified product lines and began selling snacks along with milk. Base the value chain linkages on economic win-win relationships and initiate them through internal catalysts, where possible. Links forged by outside agents such as NGOs can lead to expectations of long-term, subsidized assistance; meanwhile, links formed for commercial activities can create effective incentive and lead to increased investment in the group. In exchange for products, TMSS provided the group with business training and technical assistance, brokerage and financial services. Trust is an essential element of effective cooperation. Building on the social capital generated by group activities can provide an entry point to develop horizontal linkages for economic activities. Other members of the group trusted and listened to the association members because of strong track records, and these women were more likely than non-members to occupy important positions on committees and be involved in group decision-making. Lessons from the Field Participation in value chains does not necessarily translate into increased benefits for MSEs – producers must also be able to access higher-value markets and more profitable functions within the chains. In many cases, upgrading is key to profitable and sustainable MSE participation and horizontal linkages can provide opportunities for upgrading through collective learning, cost and risk sharing, enhanced management capacity and better access to support services. The following examples from the field reveal some lessons learned about developing strong horizontal linkages and the types of benefits that can result.

Chapter 3 : Horizontal Linkages--Overview | Marketlinks

The idea of the value chain is based on the process view of organisations, the idea of seeing a manufacturing (or service) organisation as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and.

Fundraising When I first started in venture capital five years ago, I wanted to create a programmatic way to analyze companies well. My goal was to be able to step into a meeting with an entrepreneur with some kind of form that I would fill out throughout the meeting, so that by the end of the meeting I might have an understanding how the startup fits into its ecosystem. It took quite a while to devise this framework and to revise it until it became useful, practical and insightful. I spoke with friends who were consultants and who analyze companies for a living. I read many books on the topics of competition and strategy. Last, I spoke with other investors. But in the end I chose three simple frameworks that were already well-known and which fit together on two sheets of paper: Each of these frameworks evaluates a different aspect of the business. The Business Model Canvas explains concisely how a business operates. The BMC describes the key operations of a business: Filling out this form creates a document that captures what a business offers, how it reaches which customers and how profitable it could be. Electric Imp provides the infrastructure to connect all kinds of devices to the web. First, it enumerates the value chain. Second, it offers a lens into the motivations of each player within the ecosystem. Third, it provides visibility into which players in the ecosystem have the most power and control the dollars. Each of these three concepts is essential to understand when entering a market. The column that has lowest supplier power, lowest customer power, no substitutes and highest barrier to entry is the most powerful player in the ecosystem and the one that will dictate the way most other players do business. Secondly, the GUF indicates how much competition exists within one part of the value chain in the competition row. Intense competition means an efficient market and low margins. The BMC is a description of how a company goes to market. Last, the cost structure of the business is critical. This determines burn rate and capital requirements. For an early stage company, most of the other categories, including revenue model can be fuzzy. But the more detailed and fleshed out the BMC, the better. Frameworks FTW Frameworks provide a structured way of thinking about things and these three help me understand startups at a deeper level. I hope these frameworks help you choose the best idea to pursue, find the most effective path to market and help you to pitch your startup idea most effectively.

Chapter 4 : Value Chain Analysis (Business Toolkit)

Exiting is the last activity of the VC Value Chain. It is a major milestone for the VC and for the startups. It has different scenario paths ranging from positive to negative.

How do you change business inputs into business outputs in such a way that they have a greater value than the original cost of creating those outputs? Manufacturing companies create value by acquiring raw materials and using them to produce something useful. And insurance companies offer policies to customers that are underwritten by larger re-insurance policies. And when you provide more value to your customers, you build competitive advantage. Understanding how your company creates value, and looking for ways to add more value, are critical elements in developing a competitive strategy. Michael Porter discussed this in his influential book "Competitive Advantage," in which he first introduced the concept of the value chain. A value chain is a set of activities that an organization carries out to create value for its customers. The way in which value chain activities are performed determines costs and affects profits, so this tool can help you understand the sources of value for your organization. Using this viewpoint, Porter described a chain of activities common to all businesses, and he divided them into primary and support activities, as shown below.

Primary Activities Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

- Inbound logistics** – These are all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.
- Operations** – These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.
- Outbound logistics** – These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.
- Marketing and sales** – These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.

Support Activities These activities support the primary functions above. In our diagram, the dotted lines show that each support, or secondary, activity can play a role in each primary activity. For example, procurement supports operations with certain activities, but it also supports marketing and sales with other activities.

Procurement purchasing – This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.

Human resource management – This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage. Companies use these primary and support activities as "building blocks" to create a valuable product or service.

Step 1 – Identify subactivities for each primary activity For each primary activity, determine which specific subactivities create value. There are three different types of subactivities: Direct activities create value by themselves. Indirect activities allow direct activities to run smoothly. Quality assurance activities ensure that direct and indirect activities meet the necessary standards.

Step 2 – Identify subactivities for each support activity. For each of the Human Resource Management, Technology Development and Procurement support activities, determine the subactivities that create value within each primary activity. For example, consider how human resource management adds value to inbound logistics, operations, outbound logistics, and so on. As in Step 1, look for direct, indirect, and quality assurance subactivities. These will generally be cross-functional in nature, rather than specific to each primary activity. Again, look for direct, indirect, and quality assurance activities. This will take time, but the links are key to increasing competitive advantage from the value chain framework.

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Chapter 5 : Value Chain Analysis | SMI

A value chain is a high-level model developed by Michael Porter used to describe the process by which businesses receive raw materials, add value to the raw materials through various processes to.

Recruitment to Retirement Awareness to Prevention Each value stream contains several integrated components. For example, in the Order to Cash value stream, you have four integrated components: Some of these value stream components are the building blocks for a value chain. A value chain is not a collection of independent activities but a system of interdependent activities. Michael Porter first wrote about value chains back in His timeless ideas are enjoying a revival, perhaps having been forsaken by the focus on the explosive growth of the Internet during the past several years. A value chain is fundamental to the strategy, not an option merely for consideration. The value chain and value stream are different just as illustrated in the earlier definitions. A value chain is more complex than a value stream and generally composed of value stream components. The most important differentiator is their purpose! As just defined, the value stream has a clear purpose; to delight the customer. The value chain has a clear purpose; to gain a competitive advantage. And both are important strategic elements. Before building a value chain, you must understand the five primary activities described by Michael Porter. In any firm all the categories of primary activities will be present to some degree and play some role in competitive advantage⁴. If you link value stream components or building blocks by the five primary activities described in a value chain, you will realize the following: Inbound Logistics are activities associated with receiving, storing, and disseminating inputs to the product. Operations are activities associated with transforming inputs into the final product. Build Product from the Manufacturing to Distribution value stream 3. Outbound Logistics are the activities associated with collecting, storing and physically distributing the product to buyers. Deliver Order from the Manufacturing to Distribution value stream 4. Marketing and Sales are those activities associated with providing a means by which buyers can purchase the product and inducing them to do so. Service activities are associated with providing service to enhance or maintain the value of the product. Provide Field Service from the Request to Service value stream Unless you are familiar with a build-to-order manufacturer and its Business Architecture built with integrated value streams, visualizing the value chain is difficult, so Figure 1 is provided for examination. In order to simplify the illustration, only collaborations between value stream building blocks are illustrated rather than all of the detail associated with the exchanges of inputs and outputs, and other interdependencies. Please consider that this is a high level overview of a complicated concept. Oh, by the way, we are not finished! Other opportunities exist with other value stream components. As you can see this expands the value stream integration, relating new product development to stimulating customer demand and reasonably completes the primary activities of the value chain. These kinds of results are typically demanded from strategic initiatives. And then it just keeps getting better! While the classifications of functional processes are useful for other purposes, it is inadequate for expressing connectivity in an architectural model. This classification rarely represents an integration of processes with a customer centric view. However, optimization and exploitation of the value chain may require enhancements to particular value stream building blocks in order to meet strategic expectations. This neither conflicts nor interferes with value stream improvement; rather it balances the two concepts by providing strategic opportunities for delighting customers while achieving a competitive advantage. Ralph Whittle and Conrad B. Mryick, Enterprise Business Architecture: James Martin, The Great Transition:

Chapter 6 : Porter's Value Chain - Strategy Skills Training from calendrierdelascience.com

A value chain is the full range of activities - including design, production, marketing and distribution - businesses conduct to bring a product or service from conception to delivery.

Industry-level[edit] An industry value-chain is a physical representation of the various processes involved in producing goods and services , starting with raw materials and ending with the delivered product also known as the supply chain. It is based on the notion of value-added at the link read: The sum total of link-level value-added yields total value. Global value chains[edit] Main article: To enhance efficiency and to optimize profits, multinational enterprises locate "research, development, design, assembly, production of parts, marketing and branding" activities in different countries around the globe. MNEs offshore labour-intensive activities to China and Mexico , for example, where the cost of labor is the lowest. In response, governments have cut Corporate income tax CIT rates or introduced new incentives for research and development to compete in this changing geopolitical landscape. Value chain analysis has also been employed in the development sector as a means of identifying poverty reduction strategies by upgrading along the value chain. Its aim in doing so was to provide a sustainable means of making ethanol that would increase the incomes of the rural poor, without sacrificing food and fodder security, while protecting the environment. The simpler concept of value streams , a cross-functional process which was developed over the next decade, [13] had some success in the early s. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic factors, each managing its own value chain. The industry wide synchronized interactions of those local value chains create an extended value chain, sometimes global in extent. Porter terms this larger interconnected system of value chains the "value system". Capturing the value generated along the chain is the new approach taken by many management strategists. For example, a manufacturer might require its parts suppliers to be located nearby its assembly plant to minimize the cost of transportation. By exploiting the upstream and downstream information flowing along the value chain, the firms may try to bypass the intermediaries creating new business models , or in other ways create improvements in its value system. Value chain analysis has also been successfully used in large petrochemical plant maintenance organizations to show how work selection, work planning, work scheduling and finally work execution can when considered as elements of chains help drive lean approaches to maintenance. The Maintenance Value Chain approach is particularly successful when used as a tool for helping change management as it is seen as more user-friendly than other business process tools. A value chain approach could also offer a meaningful alternative to evaluate private or public companies when there is a lack of publicly known data from direct competition, where the subject company is compared with, for example, a known downstream industry to have a good feel of its value by building useful correlations with its downstream companies. Use with other analysis tools[edit] This section does not cite any sources. Please help improve this section by adding citations to reliable sources. Unsourced material may be challenged and removed. September Learn how and when to remove this template message Once value has been analysed and the contributing parts of the organisation have been identified, other models can be used in conjunction with the value chain to assess how these areas can either be improved or capitalised upon. For example, a SWOT analysis can be used within the "outbound logistics" function to understand what its strengths and weaknesses are, and what opportunities there may be to improve that area, or identify the threats to what may be a critical part of the value delivery system. Equally, other models can be used to assess performance, risk, market potential, environmental waste, etc. The SCOR framework has been adopted by hundreds of companies as well as national entities as a standard for business excellence, and the U. Department of Defense has adopted the newly launched Design-Chain Operations Reference DCOR framework for product design as a standard to use for managing their development processes. In addition to process elements, these reference frameworks also maintain a vast database of standard process metrics aligned to the Porter model, as well as a large and constantly researched database of prescriptive universal best practices for process execution. Usefulness of value chain analysis[edit] Under the value chain analysis , a typical a industry value chain

incorporates three things.

Chapter 7 : Value Chain Analysis

A value chain is a set of activities that an organization carries out to create value for its customers. Porter proposed a general-purpose value chain that companies can use to examine all of their activities, and see how they're connected.

What Is a Value Chain Analysis? One of the most valuable tools, the value chain analysis, provides businesses an advantage over their competition. It can help them to understand how competitors create value; and help organisations to decide whether to extend or outsource particular activities. In doing so, businesses can determine where the best value lies with customers, and expand or improve said value, resulting in either cost savings or enhanced production. At the end of the process, customers can enjoy high-quality products at lower costs. What is a value chain? A value chain is the full range of activities including design, production, marketing and distribution businesses conduct to bring a product or service from conception to delivery. For companies that produce goods, the value chain starts with the raw materials used to make their products, and consists of everything added before the product is sold to consumers. Value chain management is the process of organizing these activities in order to properly analyze them. Porter was the first to introduce the concept of a value chain. Porter, who also developed the Five Forces Model to show businesses where they rank in competition in the current marketplace, discussed the value chain concept in his book " Competitive Advantage: Primary activities include the following: Inbound logistics are the receiving, storing and distributing of raw materials used in the production process. Operations is the stage at which the raw materials are turned into the final product. Outbound logistics are the distribution of the final product to consumers. Marketing and sales involve advertising, promotions, sales-force organization, distribution channels, pricing and managing the final product to ensure it is targeted to the appropriate consumer groups. The support activities help the primary functions and comprise the following: Procurement is how the raw materials for the product are obtained. Technology development can be used in the research and development stage, in how new products are developed and designed, and in process automation. Human resource management includes the activities involved in hiring and retaining the proper employees to help design, build and market the product. After identifying the primary and support activities, businesses should identify the cost drivers for each activity. For a more labor-intensive activity, cost drivers could include how fast work is completed, work hours, wage rates, etc. Businesses should then identify links between activities, knowing that if costs are reduced in one area, they can be reduced in another. Businesses can then identify opportunities to reduce costs. Identifying the activities that create the most value to customers is the priority. The next step is evaluating these strategies to improve the value. Focusing on customer service, increasing options to customize products or services, offering incentives, and adding product features are some of the ways to improve activity value. Lastly, businesses should identify differentiation that can be maintained and adds the most value. Free templates are available online to help businesses determine and analyze their value chains. Additional reporting by Katherine Arline. She began freelancing during her junior year of college and fell in love with it. You can learn more on her blog, [insearchofthewritdirection](#).

The Value Chain Analysis Value Chain Analysis course is offered by Maastricht School of Management and is based on the belief that social and economic developments are the corner stones for local economic growth. In order to achieve local economic growth, participation in the global economy is a necessity.

Creating and Sustaining superior Performance" The value chain analysis describes the activities the organization performs and links them to the organizations competitive position. Value chain analysis describes the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization. Therefore, it evaluates which value each particular activity adds to the organizations products or services. This idea was built upon the insight that an organization is more than a random compilation of machinery, equipment, people and money. Only if these things are arranged into systems and systematic activates it will become possible to produce something for which customers are willing to pay a price. Porter argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage. Porter distinguishes between primary activities and support activities. Primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: Each of these primary activities is linked to support activities which help to improve their effectiveness or efficiency. There are four main areas of support activities: The basic model of Porters Value Chain is as follows: Some thought about the linkages between activities: These linkages are crucial for corporate success. The linkages are flows of information, goods and services, as well as systems and processes for adjusting activities. Their importance is best illustrated with some simple examples: And only if procurement does a good job and forwards order information to inbound logistics, only than operations will be able to schedule production in a way that guarantees the delivery of products in a timely and effective manner as pre-determined by marketing. In the result, the linkages are about seamless cooperation and information flow between the value chain activities. In most industries, it is rather unusual that a single company performs all activities from product design, production of components, and final assembly to delivery to the final user by itself. Most often, organizations are elements of a value system or supply chain. Hence, value chain analysis should cover the whole value system in which the organization operates. Within the whole value system, there is only a certain value of profit margin available. It depends on the structure of the value system, how this margin spreads across the suppliers, producers, distributors, customers, and other elements of the value system. Each member of the system will use its market position and negotiating power to get a higher proportion of this margin. Nevertheless, members of a value system can cooperate to improve their efficiency and to reduce their costs in order to achieve a higher total margin to the benefit of all of them e. A typical value chain analysis can be performed in the following steps:

Chapter 9 : Supply Chain à¹•à,•à,•à¹^à,²à,‡à,^à,²à,• Value Chain à,-à,çà¹^à,²à,‡à¹,à,£ à¹•à,¥à,°à,-à,°à¹,

The Value Chain framework of Michael Porter is a model that helps to analyze specific activities through which firms can create value and competitive advantage. Inbound Logistics Includes receiving, storing, inventory control, transportation scheduling.

After reading you will understand the basics of this powerful management tool. In this article you can also download a free editable Value Chain Analysis template. What is a Value Chain Analysis? Value Creation creates added value which leads to competitive advantage. Ultimately, added value also creates a higher profitability for an organization. This system links systems and activities to each other and demonstrates what effect this has on costs and profit. Consequently, it Value Chain Analysis makes clear where the sources of value and loss amounts can be found in the organization. Primary activities have an immediate effect on the production, maintenance, sales and support of the products or services to be supplied. These activities consist of the following elements: Inbound Logistics These are all processes that are involved in the receiving, storing, and internal distribution of the raw materials or basic ingredients of a product or service. The relationship with the suppliers is essential to the creation of value in this matter. Production These are all the activities for example production floor or production line that convert inputs of products or services into semi-finished or finished products. Operational systems are the guiding principle for the creation of value. Outbound logistics These are all activities that are related to delivering the products and services to the customer. These include, for instance, storage, distribution systems and transport. Marketing and Sales These are all processes related to putting the products and services in the markets including managing and generating customer relationships. The guiding principles are setting oneself apart from the competition and creating advantages for the customer. Service This includes all activities that maintain the value of the products or service to customers as soon as a relationship has developed based on the procurement of services and products. The Service Profit Chain Model is an alternative model, specific designed for service management and organizational growth. In the figure dotted lines represent linkages between a support activity and a primary activity. A support activity such as human resource management for example is of importance within the primary activity operation but also supports other activities such as service and outbound logistics. Firm infrastructure This concerns the support activities within the organization that enable the organization to maintain its daily operations. Line management, administrative handling, financial management are examples of activities that create value for the organization. Human resource management This includes the support activities in which the development of the workforce within an organization is the key element. Examples of activities are recruiting staff, training and coaching of staff and compensating and retaining staff. Technology development These activities relate to the development of the products and services of the organization, both internally and externally. Examples are IT, technological innovations and improvements and the development of new products based on new technologies. These activities create value using innovation and optimization. Procurement These are all the support activities related to procurement to service the customer from the organization. Examples of activities are entering into and managing relationships with suppliers, negotiating to arrive at the best prices, making product purchase agreements with suppliers and outsourcing agreements. Organizations use primary and support activities as building blocks to create valuable products, services and distinctiveness. There are four basic steps that have to be followed if you wish to use the Value Chain as an analysis model. By following these basic steps the organization can be analyzed using the Value Chain. There are three categories of sub activities, namely: Use the same distinction as in step 1 for direct and indirect activities and quality assurance. This will also have to be done for the other support activities. This part is of importance for an organization when it concerns increasing competitive advantage from the value chain. For example, a development within a CRM solution can have a link with increasing production and sales volumes through certain investments. Another example is the link between the complaints that have been recorded within the primary activity and the increase of unfilled vacancies human resource management within the primary activity outbound logistics. This is about quantitative and qualitative investments that can eventually

contribute to increasing your customer base, competitive advantage and profitability. Creating business cases will help you give priority and return on investment ROI to the possibly required added value creation of a primary or support activity. Start describing the different activities with our free Value Chain Analysis template. This template is available as an editable Word template or as a printable PDF template. Do you recognize the practical explanation or do you have more additions? What are your success factors for the good Value Chain Analysis set up? Share your experience and knowledge in the comments box below. If you liked this article, then please subscribe to our Free Newsletter for the latest posts on Management models and methods. More information Porter, M. The value chain and competitive advantage. How information gives you competitive advantage. How to cite this article: Retrieved [insert date] from ToolsHero: Your rating is more than welcome or share this article via Social media!