

STRATEGY & OPERATIONS LECTURE

Value Chain Management

Understanding Porter's value chain and how firms manage it to build competitive advantage.

By the end you should be able to...

Define

1

Explain what a value chain is and why it matters

Identify

2

List the primary and support activities

Analyse

3

Apply value chain analysis to a real firm

Connect

4

Understand linkages and the wider value system

Advantage

5

Link the chain to cost and differentiation strategy

Manage

6

Describe how firms actively manage the chain (VCM)

What is a value chain?

- A value chain is the complete set of activities a business performs to bring a product or service from idea to the customer.
- Introduced by Michael Porter in 'Competitive Advantage' (1985).
- It breaks the firm into strategically relevant activities to understand costs and sources of differentiation.
- Competitive advantage comes from performing these activities better or more cheaply than rivals.

Value & Margin

Value = what buyers are willing to pay.

Margin = total value created – total cost of the activities.

A firm is profitable when the value it creates exceeds the cost of creating it.

Primary activities (5)

1

Inbound logistics

Receiving, storing and distributing inputs

2

Operations

Transforming inputs into the finished product

3

Outbound logistics

Collecting, storing and delivering to buyers

4

Marketing & sales

Making buyers aware and enabling purchase

5

Service

Maintaining and enhancing product value after sale

Support activities (4)

Firm infrastructure

Management, finance, planning, quality and legal systems

Human resource management

Recruiting, training, developing and rewarding people

Technology development

R&D, process and product innovation, IT systems

Procurement

Sourcing and purchasing inputs across the firm

The Porter value chain

SUPPORT ACTIVITIES

Firm Infrastructure
Human Resource Management
Technology Development
Procurement

Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service
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PRIMARY ACTIVITIES

MARGIN

How to run a value chain analysis

Break down activities

1

Map every primary and support activity of the firm.

Assign cost & value

2

Identify the cost driver and value added by each.

Spot the linkages

3

See how activities depend on and reinforce each other.

Find advantage

4

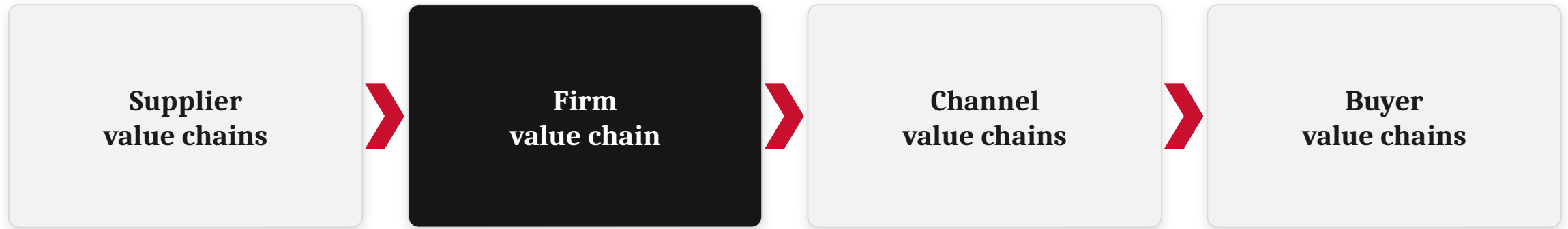
Locate where to cut cost or strengthen differentiation.

Linkages create the advantage

Activities are connected — managing the links is where value is won or lost

- A change in one activity affects the cost or performance of others.
- Example: better quality control in operations lowers after-sales service cost.
- Example: close supplier links (procurement) enable just-in-time operations.
- Optimising links — not just individual activities — drives true advantage.
- Coordination and information flow are the glue that holds the chain together.

From value chain to value system



A firm's chain sits inside a larger stream of value — competitiveness depends on the whole system, not the firm alone.

Two routes to competitive advantage

Cost advantage

- Perform value activities more cheaply than rivals.
- Control cost drivers: scale, utilisation, location, integration.
- Example: Walmart's logistics-driven low-cost model.

Differentiation advantage

- Perform activities in unique, valued ways.
- Build distinctiveness buyers will pay a premium for.
- Example: Apple's design, ecosystem and brand.

What is Value Chain Management?

Value Chain Management (VCM) is the integrated process of planning, coordinating and improving every activity — from supplier to end customer — to maximise total value and competitive advantage.

Goal

Deliver maximum value to the customer at the lowest viable cost

Scope

The whole system: suppliers, firm, channels and buyers

Mindset

Continuous improvement and tight coordination of links

Six levers of value chain management

Integration

1

Coordinate activities and partners end to end

Technology

2

Use data, automation and systems to optimise flow

Supplier orientation

3

Build strong, collaborative supplier relationships

Customer orientation

4

Design the chain around customer value

People & culture

5

Skills, leadership and a continuous-improvement mindset

Process discipline

6

Measure, standardise and keep improving

Benefits and challenges of VCM

Benefits

- Lower costs and less waste
- Faster, more reliable delivery
- Higher quality and customer value
- Stronger supplier & customer ties
- A more resilient, agile business

Challenges

- Complex to coordinate across partners
- Needs investment in systems and skills
- Data sharing and trust between firms
- Resistance to change inside the firm
- Exposure to supply-chain disruption

Two contrasting masters of the chain

Walmart — cost

World-class logistics, cross-docking and supplier integration deliver everyday low prices.

Apple — differentiation

Tight control of design, suppliers and retail creates a premium, seamless experience.

Discussion questions

- Pick a company you know — what are its primary and support activities?
- Where in its chain does it create the most value? Where is value leaking?
- Is it competing mainly on cost or differentiation — and does its chain fit that?
- Which single linkage, if improved, would most boost its advantage?
- What is the biggest risk to its value chain right now?

Key takeaways

A chain of value

1

Every activity should add more value than it costs.

Primary + support

2

Five primary and four support activities make up the firm.

Linkages win

3

Managing the connections beats optimising parts in isolation.

Manage for advantage

4

VCM coordinates the whole system for cost or differentiation.