STRATEGY & OPERATIONS LECTURE

# Value Chain Management

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

AMC, Dubai · Prepared for Dr. Aftab Ahmed · 20 June 2026

# By the end you should be able to...

1 **Define**

Explain what a value chain is and why it matters

2 **Identify**

List the primary and support activities

3 **Analyse**

Apply value chain analysis to a real firm

4 **Connect**

Understand linkages and the wider value system

5 **Advantage**

Link the chain to cost and differentiation strategy

6 **Manage**

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 |
| --- | --- | --- | --- | --- |

MARGIN

PRIMARY ACTIVITIES

# How to run a value chain analysis

### 1 Break down activities

Map every primary and support activity of the firm.

### 2 Assign cost & value

Identify the cost driver and value added by each.

### 3 Spot the linkages

See how activities depend on and reinforce each other.

### 4 Find advantage

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

**Supplier value chains** → **Firm value chain** → **Channel value chains** → **Buyer value chains**

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

1 **Integration**

Coordinate activities and partners end to end

2 **Technology**

Use data, automation and systems to optimise flow

3 **Supplier orientation**

Build strong, collaborative supplier relationships

4 **Customer orientation**

Design the chain around customer value

5 **People & culture**

Skills, leadership and a continuous-improvement mindset

6 **Process discipline**

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

1 
### A chain of value

Every activity should add more value than it costs.

2 
### Primary + support

Five primary and four support activities make up the firm.

3 
### Linkages win

Managing the connections beats optimising parts in isolation.

4 
### Manage for advantage

VCM coordinates the whole system for cost or differentiation.