

Value Chain

2. Structure and Components of the Value Chain

The value chain encompasses all activities and processes that create value for customers. Value is defined as the amount a customer is willing to pay for the organization's goods or services, which generates added value, competitive advantage, and higher profitability. Porter categorizes these activities into **primary** and **support** activities:

a. Primary (Core) Activities

These are specialized functional activities directly involved in producing a product or service and delivering it to customers using the organization's resources efficiently. They include:

- **Inbound logistics:** Receiving, storing, and handling of raw materials.
- **Operations/Production:** Transformation of inputs into finished products.
- **Outbound logistics:** Storage and distribution of products to customers.
- **Marketing and Sales:** Promoting and selling products or services.
- **Service:** Post-sale support, including installation, maintenance, and spare parts.

b. Support (Secondary) Activities

These facilitate the production and delivery of goods and services and enhance coordination and efficiency of primary activities. They include:

- Procurement,
- Technological development,
- Human resource management,
- Firm infrastructure (accounting, finance, strategic planning).

Some adaptations add a third category—**management activities**—for coordinating and developing both primary and support activities, covering leadership, planning, and organization. Procurement of raw materials, components, and trading goods is classified as a primary activity rather than a support activity.

3. Steps and Stages of Value Chain Analysis

The essential steps for conducting a value chain analysis are:

1. Identifying Value Chain Activities:

Organizations classify activities into:

- Primary activities: inbound logistics → production → outbound logistics → marketing and sales → after-sales service (installation, repair, spare parts).
- Support activities: procurement, human resources, R&D, infrastructure.
Some organizations may participate in only certain activities; for example, some may only produce, while others handle distribution and sales.

2. Evaluating Each Activity:

Primary activities are evaluated for their contribution to profitability and competitive advantage. Support activities are assessed for their efficiency in enabling primary activities. Organizations identify activities

with cost advantages, determining total costs and potential profits, then develop competitive advantage by reducing costs or producing differentiated goods or services that create customer value.

3. **Analyzing Multiple Products:**

If the organization produces multiple goods or services, a value chain should be prepared for each product, with inter-product relationships examined and evaluated.

4. **Examining Synergy and Economies of Scope:**

- **Synergy:** Additional benefits from improving relationships between value chains.
- **Economies of Scope:** Cost advantages from efficiently using resources across multiple products or activities (e.g., shared machinery or distribution channels). Economies of scope represent economic gains from delivering multiple products or services using the same resources.