The Value Chain Analysis by Michael Porter

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services).

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

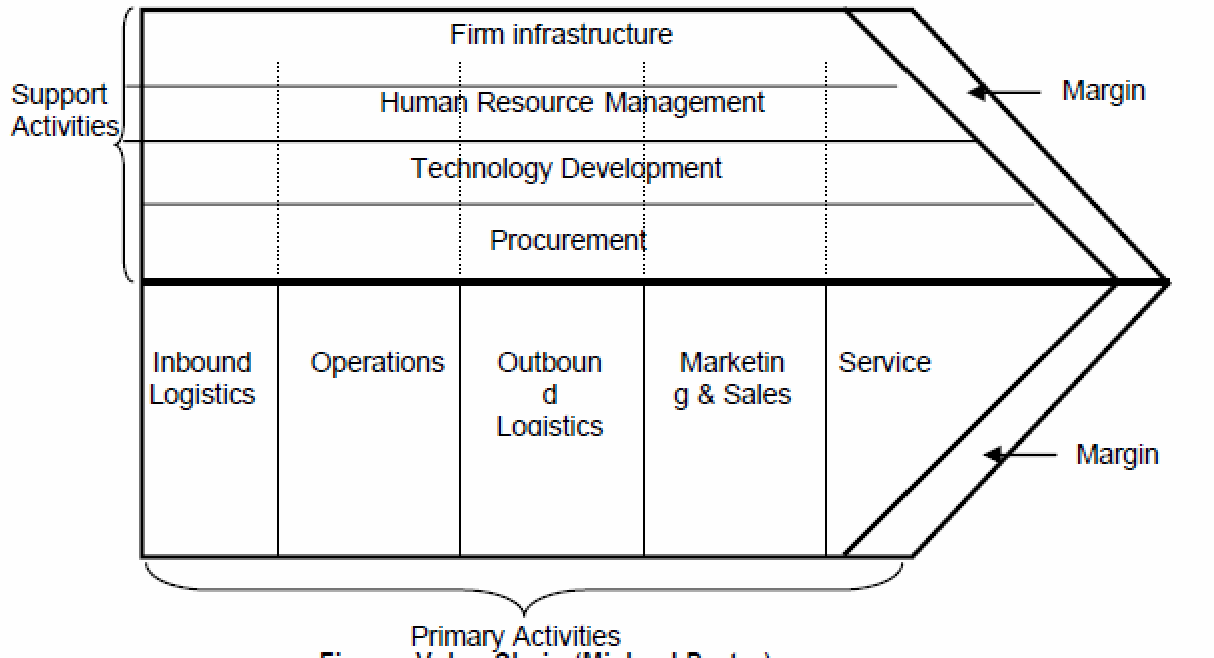

Figure: Value Chain (Michael Porter)

The ***primary activities of the organization*** are grouped into five main areas:

1. Inbound logistics,
2. Operations,
3. Outbound logistics,
4. Marketing and sales, and
5. Service.

Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.

Operations transform these various inputs into the final product or service: machining, packaging, assembly, testing etc.

Outbound logistics collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. sports events).

Marketing and sales provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.

Services are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Support Activities:

Each of these groups of primary activities is linked to support activities. These can be **divided into four areas**

Procurement: This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves).

Technology development: All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

Human resource management: This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

Infrastructure: The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

Regards,
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