Strategic Management for Competitive Advantage
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Lecture - 10
Value Chain Analysis

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Welcome to the course, Strategic Management for Competitive Advantage. We are continuing with the last class (module four). So, we have done the different frameworks for internal corporate analysis. Further to it, we will talk more about these internal corporate analyses. One important thing is value chain analysis. So, we will be talking about the value chain analysis today. What is this value chain analysis?

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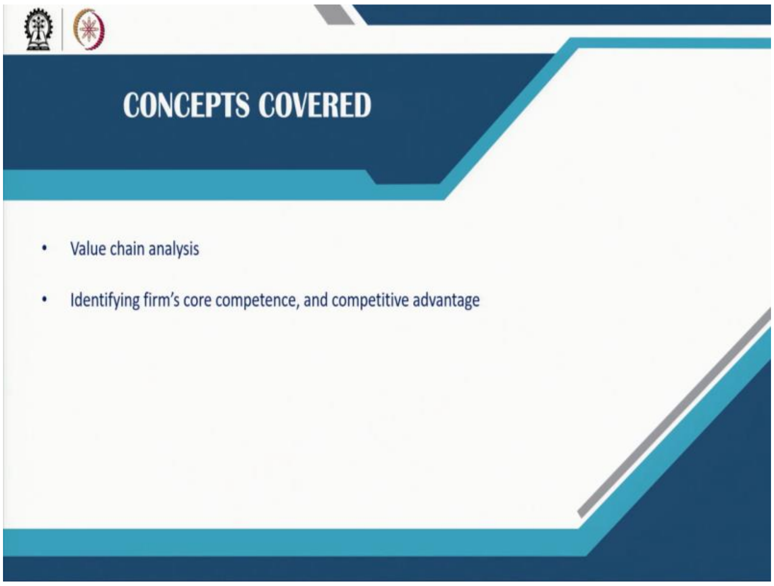

So, the concept that will be covered in today's lecture is the value chain analysis and identifying firms' core competence and competitive advantage.

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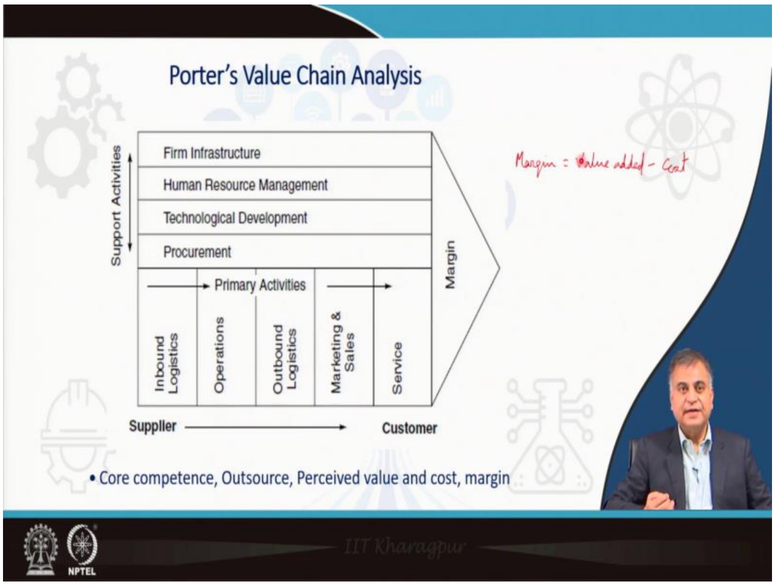

So, to start with, this is called Porter's value chain analysis; what is this Porter's value chain analysis, and why is it used? Michael Porter is a management expert, he was of Harvard Business School, where he developed this value chain; this value chain is nothing but a league set of activities that create values.

So, this link setup activity starts from the supplier of raw materials, which is called inbound logistics and then moves over to the operations that are transformations of these raw materials into the product. This product then goes to the outbound logistics, i.e., for the distribution channel, then it goes to marketing and sales and service (after-sales service). He has divided this value system of an organization into primary activities and support activities.

Primary activities are divided into 5 categories. These are inbound logistics, operations, outbound logistics, marketing, and sales and service. So, from suppliers, it moves to the customers, but this work cannot be done without some supporting activity of the organization. What is the supporting activity? There are four supporting activities that is firm infrastructure, human resource management, technological development and procurement. What are these, firm infrastructures consist of general management, legal, planning, finance and accounting.

Then human resource management, these are recruitment and selection, training and development, carrier advancement, carrier progression, and succession planning. These are done through resource management, skill upliftment etc. Then technological development, basically is R&D design, product and process design, product and process development, and product engineering. The last one is procurement, which includes purchasing, materials management, supply chain management, and inventory management.

So, these are the supporting activities. It is not necessarily that you will find all these primary and supporting activities are actually for large organizations. Again, small companies may not be having all these activities. Now, what are these activities? How it is going to help? So, what Porter says, you have compartmentalized all these activities, say primary activity and support activities.

Now, you further drill down and find out about each of these areas. What are your strengths and weaknesses? You will leverage those strengths to get a competitive advantage. A company usually starts with one competitive advantage. When a company starts, it comes with some distinctive competencies, which are called core competencies.

Now, in physics, it is called the center of gravity which is similar to those core competencies. When the organization grows, it grows forward and backward activities. You link forward activities and backward activities to that core competencies. Suppose your core competencies are operations; for operations, you grow, then you have to get your inbound logistics, that is, the suppliers; you have to develop reliable suppliers. Then you grow forward, you have to develop your outbound logistics; what are these inbound logistics? What are the strengths and weaknesses you will find?

Inbound logistics means the suppliers, there are many stages in it, it may be the receiving of your materials for a large organization, maybe receiving thousands of materials, then you check the quality of the material and the inspection. Then you make a schedule to give those materials to different operations because those materials will go to the operation. So, these are all inbound logistics work.

Operations are the transformations. So, here you make out your operational plan, you have to look out the maintenance plan of your machineries, then you have to plan accordingly if there are any breakdowns, then you have to do the packaging, then you have to finish product and have to do the quality control. So, all these operations have so many sub-works in them. So, you have to find out where is your strength or weaknesses in order to get a competitive advantage.

Similarly, for outbound logistics, what do you have to do? you have to warehouse, you have to dispatch, you have to deliver, the logistics arrangement, invoicing etc. So, these are the many works associated with outbound logistics. Then marketing and sales, so, you have to do your promotions, sales, advertisement, customer relationships management (CRM) and then invoicing. So, after all these, you look for servicing this is after-sales service.

So, what you look for, you look for the warranty management, you look for educating the consumers, educating your own people. So, you have to dissect all these areas to see your strengths and weaknesses. So, these are the way, where you will get your competitive advantage. Now, after doing all this exercise, you cannot find a company having competitive strengths in all the areas. You may have a few areas and some competitive advantages. There may be weaknesses, these will unfold you what are your weaknesses? What do you do with these weaknesses?

You identify weaknesses to overcome; either you take measures in-house, or you outsource, that will improve your productivity and improve your cost margin. So, you identify the weaknesses and try to outsource, and if it is possible to do in-house to improve, you take a decision to improve. Now, why is it called value chain analysis? Why not cost? What is the value about it? Like in each activity area, you find out your strength, and you add value. You add value from inbound logistics, operations etc.

So, in each area you try to add value, then only you will get the profit margin. What this margin is? Margin is nothing but profit margin, margin is value added minus cost of production. Now, you try to add value to each and every activity so, that your margin at each activity increases, which in turn will increase this margin. Now, what is value? Value is nothing but what a consumer wants to pay, it is the perceived value. It is what the customer feels that he has got the value of his money.

Suppose, I will give you a simple example, in Bombay you will find that ‘Vadapav’ is very famous in Bombay and is very cheap. Now, that once upon a time it was (say) 2 or 3 rupees now, it might be 10 or15 rupees. One ‘Vadapav’ you consume and feel that your stomach is filled and very effective. So, customers feel he has got value for their money. Similarly, a customer when he feels that he has got the value for the product, what he has spent, the price customer is willing to pay that is the value. So, the margin is that value-added minus the cost of production.

So, you get the value that is why it is called value chain analysis. So, here what you find. You have to find your core competency areas by finding the strengths and weaknesses. For all these activities, you dissect and get to weaknesses and try to overcome them through various means and decisions. Also, the perceived value, which is the customer willing to pay is the value added and the margin.

This is, in short, Porter’s value chain analysis. It is a diagnostic tool to find out your strengths and weaknesses in order to determine core competency and get a competitive advantage. With that, this is all Porter’s value chain analysis. Next, we will be talking about a very important topic which is the resource-based view of management.

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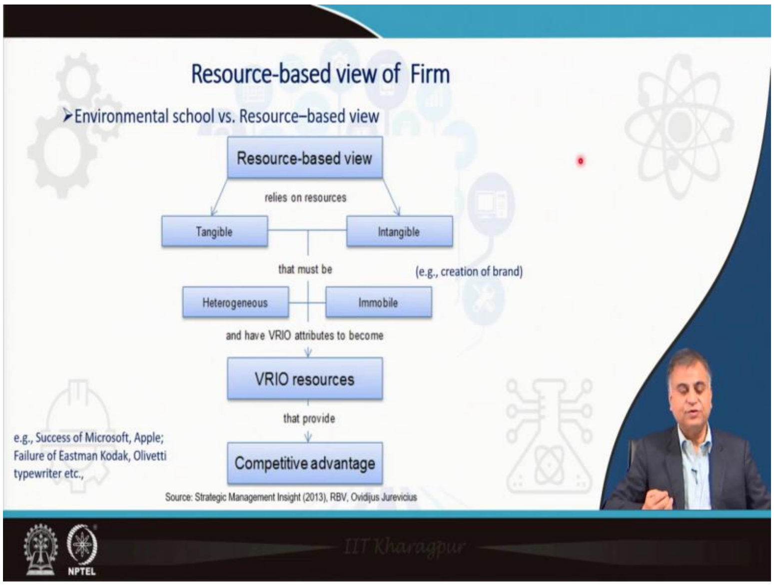

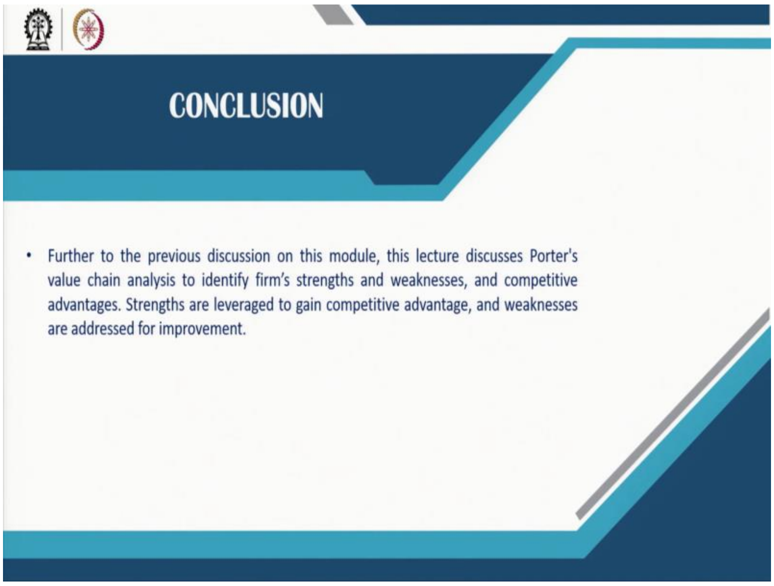

This, we will be talking about in the next class. In today's lecture, we have discussed this Porter's value chain analysis and identified firms' strengths and weaknesses and competitive advantages. This Porter value chain analysis is a set of value-created activities and helps us to identify these strengths and weaknesses. Strengths are to be leveraged to gain a competitive advantage and weaknesses are to be overcome for further improvement. These are some of the references you should go through for enriching your knowledge further. Thank you very much for attending.