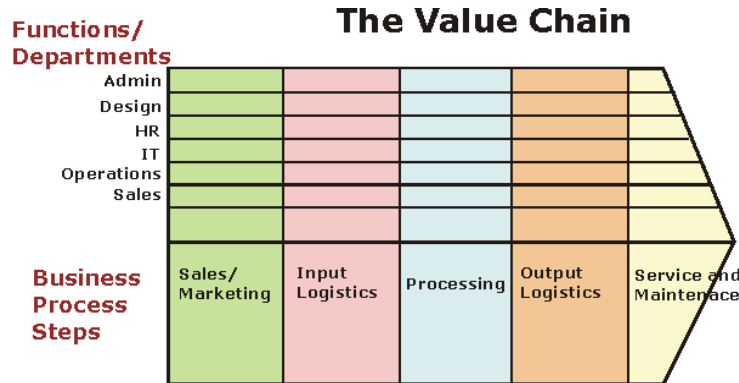




## The Value Chain



### Overview:

The Value Chain describe the various stages in a business process where “value” is added.

The term “Value” itself is a bit of business jargon that means “something useful enough to the end-user such that he/she will pay extra for”. So companies are constantly looking to “add value”

to their products and services and this “added value” is what differentiates one competing product/service from another. Put another way, the various ingredients to make up a pizza usually do not add up to the price of the pizza you ordered- the difference represents the “value-added” at every stage of the pizza making process.

The importance of the Value Chain as a tool is that it shows the contributions from different functions of an organisation in the value-adding process. At its simplest, it integrates both the process steps for a customer delivery and the various functions in a company that enables the delivery at different stages.

### Origins:

The Value Chain came out a 1985 book by Michael Porter, a professor at the Harvard Business School.

### Using the Value Chain:

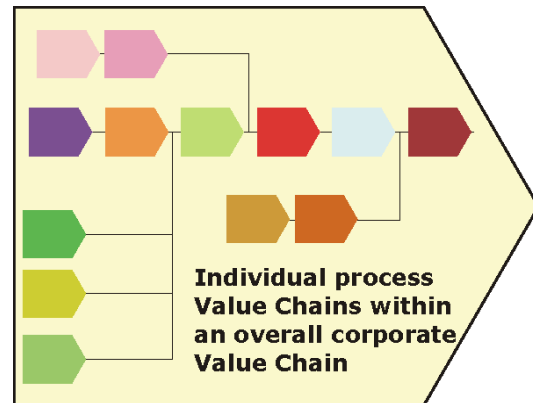
The Value Chain is applicable from corporate strategic level to the individual managing a project. Because of its inherent logic of the process flow, it can be used to analyse virtually any business process where there are different inputs, outputs and transactions. You can include any number of options in your Value Chain analysis and it is possible to analyse for value-destroying activities too.

One straightforward implementation of the Value Chain is the SIPOC analysis (often used in Six Sigma Quality). This takes the Value Chain as: Suppliers - Inputs - Process - Outputs - Customers. Others approaches add Sales, Marketing, or Maintenance as part of the Chain.

Once the Value Chain is established, then just about any business analysis tool can be applied to each stage (SWOT analysis, Marketing Mix and so on) and to each functional group contributing to the value.

It is possible to plot an overall company Value Chain made up from various process Value Chains or product/service value Chains. The important point here is to see how value is added at every stage and how that value increases as it moves the along the business process.

One possible danger of using such a simple analysis is that you can over-complicate the analysis by putting in too many parameters and not being able to see the bigger picture.



**Resources:**

The Institute for Strategy and Competitiveness, Harvard Business School:  
<http://www.isc.hbs.edu/>

Porter, M.E., *Competitive Advantage*, Free Press, 1985

Porter, M.E., *From Competitive Advantage to Corporate Strategy*, Harvard Business Review, May-June 1987

Many other titles and textbooks on corporate strategy will cover the Value Chain analysis.