

Value Chain Analysis

Description

The Value Chain is a set of activities that describe the processes of how an organization delivers a product or a service. Value chain analysis provides businesses a visual model of these activities, which consists of five Primary Activities:

- **Inbound Logistics:** Inbound movement of materials, parts and/or finished inventory from suppliers to manufacturing or assemble plants, warehouse, or retail stores.
- **Operations:** Managing the process that converts inputs (in the form of raw materials, labor, and energy) into outputs (in the form of goods and/or services).
- **Outbound Logistics:** The process related to the storage and movement of the final product and the related information flows from the end of the production line to the end user.
- **Marketing and Sales:** Selling products and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
- **After Sales Services:** All the activities required to keep the product working effectively for the buyer after it is sold and delivered.

And four Support Activities:

- **Procurement:** The acquisition of goods, services, or works from an outside external source with the company making decisions of purchases.
- **Technology:** The equipment, hardware, software, procedures, and technical knowledge brought to bear in the firm's transformation of inputs (raw materials) into outputs (finished goods).
- **Human Resource Management:** Consists of all activities involved in recruiting, hiring, training, developing, compensating, and (if necessary) dismissing or laying off personnel.
- **Firm Infrastructure:** Accounting, legal, finance, control, public relations, quality assurance, and general management.

Background

The value chain concept originated in business management and was described by Michael Porter of the Harvard Business School in 1979. In his book, "Competitive Advantage: Creating and Sustaining Superior Performance" (1985), Porter describes how to break up a company into activities that represent the elemental building blocks of competitive advantage. Managers can then examine how each activity adds some increment of value to the finished product or service. In the late 1990s, value chains served as a catalyst for rapid change in business.

Purpose

Value Chain analysis and mapping is a tool for strategic planning and can help an organization to discover ways to increase value through production efficiency along the chain that will improve overall results and provide the organization with a competitive advantage (maximum value for the least possible cost).

How It Works

Value Chain Analysis is the conceptual notion of looking at components in the form of a value chain and determining if they add value or diminish the total final value of the finished product.

Primary and Secondary Activities: In Value Chain Analysis, Porter suggests that an organization is split into two types of activities -- primary activities and support activities.

Primary activities are those that are non-client/non-participant facing and directly concerned with delivering a product: Inbound logistics, operations, outbound logistics, marketing and sales, and service. In turn, each primary activity is linked to one or more support activities which work to improve the effectiveness and efficiency of that product delivery.

The model identifies four **support activities**: procurement, technology, human resource management, and firmness of infrastructure. These supports are client/participant facing and those activities which assist the primary activities in helping the organization achieve product delivery.

Value and Value Chain: Within this construct, Porter differentiates value and value chain. Value is the total amount that someone will pay for an organization's product. Value chain concentrates on all the activities from beginning to end that go into final product. Value chain analysis, then, is looking at the total cost of producing a product compared to the total amount customers will pay for that product. The difference between the total Value and the total cost performing the organizational activities to product delivery provides a margin. The degree to which organizations can manage the linkages between all activities in the Value Chain to deliver a product that someone will pay more than the sum of the cost of all activities in the value chain has a greater margin, which Porter refers to as the Competitive Advantage. The ultimate goal of Value Chain Analysis is to maximize the value creation while monitoring and minimizing costs incurred through the value chain.

Differentiation and Cost Advantage: While primary activities are those that add value directly to the production process, they may not necessarily be more important than support activities. In today's world, the competitive advantage is established largely as a result of advancements in technology and innovation in operational models or processes. As a result, these support activities (in the form of general management, data management and information systems, or research and development) are usually the more important source of differentiation advantage. In contrast, primary activities are usually the source of cost advantage, where costs can easily be identified for each activity and be properly managed.

Core Values, Principles and Concepts

There are two versions of the Value Chain Analysis framework. The original model is intended for use by business and manufacturing organizations. The framework focuses on cost analysis. The second framework adapts the principles to government and nonprofit organizations. This version focuses on programs and services.

Framework

Diagram: General Framework for Business/Manufacturing Organizations

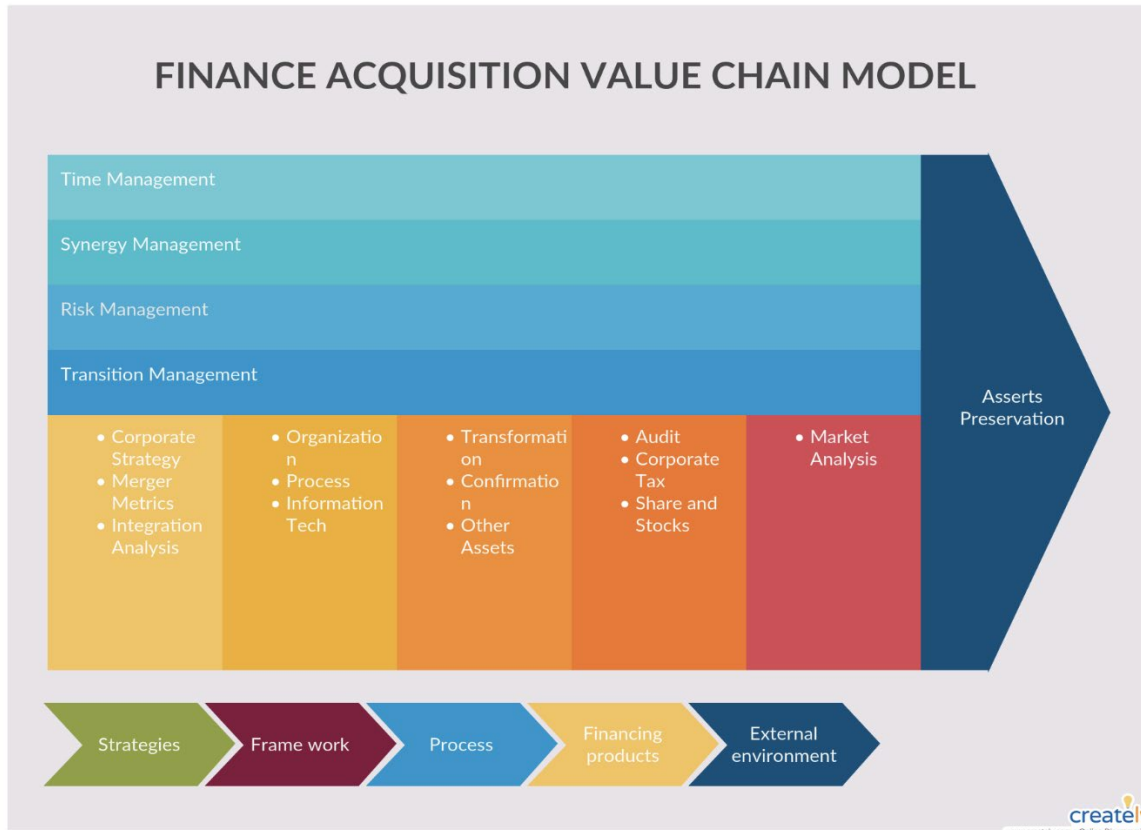
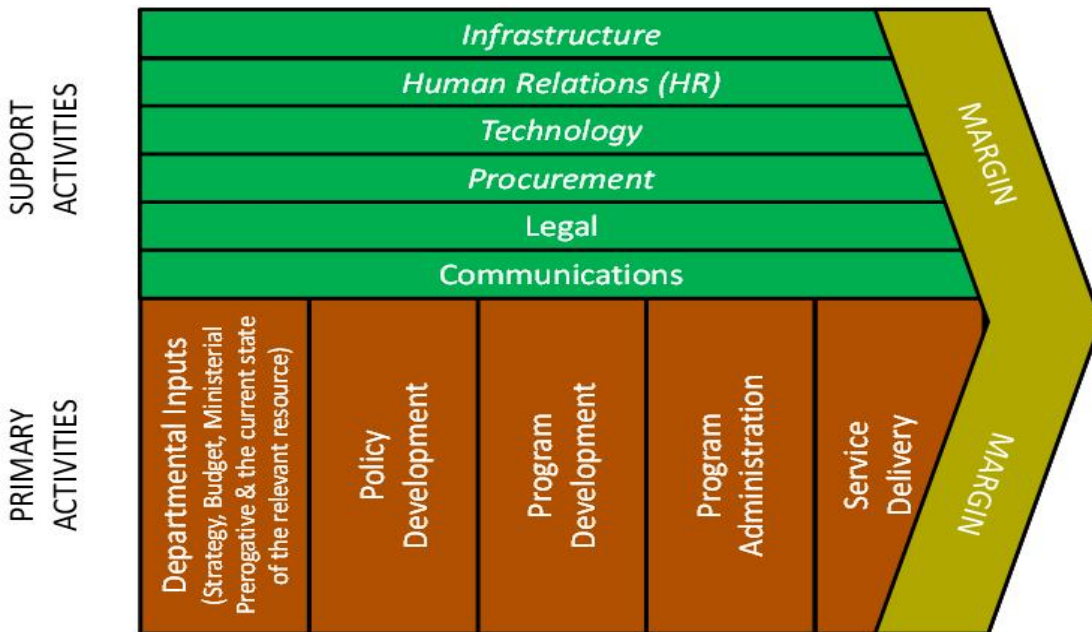


Diagram: Modified Framework Suitable for Government/Nonprofit Organizations



Application

The model principles are applied to the following areas of the organization:

- **Leadership:** Agency leadership has a major impact on all the above Primary Activities. A leader with a vision for change can use Value Chain Analysis to organize a strategy and monitor progress.
- **Services Provision:** Improving VR services by understanding the value each contributes to a final client outcome can also become a focus of the Value Chain System. Seeing the value in each service also helps to gain insight into the interdependence of the entire service system. This facilitates the kind of organizational learning that leads to beneficial change and continuous improvement.
- **IT:** The data captured by the VR IT system is critical to the success of this model. In addition, understanding the Value Chain can lead to discoveries of new data that more accurately describes VR value.
- **HR:** Value Chain analysis can contribute to understanding the precise characteristics and behavior of VR agency staff that leader to successful service delivery and outcomes.
- **Fiscal:** Cost-saving measures and spending priorities can be exposed by using the Value Chain Analysis model. Spending agency funds on what works (improved contracting and purchase of services) will lead to improved client employment success.

Vocational Rehabilitation

There is some evidence that Value Chain Analysis has been used by Human Service Organizations and some public service organizations. To the best of our knowledge, no VR agencies are using this model.

Criticisms or Concerns

The model was initially created as a tool for manufacturing and related industries to reduce costs and increase profits. Thus, it requires that some substantial modification for optimal application to government service organizations. Noted drawbacks from literature on the model include that it can be too granular on micro-details where the broader strategic view can get lost. It has been noted that chain analysis can result in a less than effective linking of each activity in the chain together, potentially causing loss of how activities broadly interrelate.

Recommendation for Use In VR

The concept of identifying and understanding which parts of a service delivery system add value to the end service being delivered seems to be of critical importance. Thus, the model can probably be used as a framework to see the actual value chain in a VR service. A VR agency can use this model to analyze how each of the five Primary Activities contribute value to specific client outcomes. (e.g., How does the agency's policy re training services affect employment outcomes? Does the agency need new program development in the area of work-based learning experiences? Does timeliness of service delivery contribute to dropout rates among clients, and would improvements reduce this outcome?)

Certification

Certifications in Value Chain Analysis are available nationally and internationally, including courses with for college credit at a number of universities. Costs vary depending on the institution and type of certification or accreditation. There is also a cost for the certification exam and a renewal fee every 10 years. While certainly beneficial, with the online tutorials and some study, a successful value chain analysis can be completed without such.

Resources

[Visual Paradigm](#): This site gives a brief but sufficiently detailed summary of the Value Chain Analysis model and provided much of the content of this overview. The website offers a blank [template](#) of the Value Chain model that can be utilized to conduct an analysis and a [Value Chain Analysis tool](#).

[HubSpot Blog](#): A straightforward guide to Value Chain Analysis, with downloadable Value Chain Analysis template.

[Value Chain Analysis Explained Video](#)