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by Edward Sweeney

One well-known approach to strategic thinking and strategy formulation, based on the concept of the value chain, was introduced a quarter of a century ago by Professor Michael Porter of Harvard Business School (Porter 1985). The idea of the value chain is based on the process view of organisations, the idea of seeing a manufacturing (or service) organisation as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes and outputs involve the acquisition and consumption of resources, such as money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits.

Most organisations engage in hundreds, even thousands, of activities in the process of converting inputs to outputs. These activities can be classified generally as either primary or support activities that all businesses must undertake in some form. According to Porter (1985), the *primary* activities are:

1. **Inbound Logistics**, which involve relationships with suppliers and include all the activities required to receive, store and disseminate inputs.
2. **Operations** are all the activities required to transform inputs into outputs (products and services).
3. **Outbound Logistics**, which involve relationships with customers and include all the activities required to collect, store and distribute the output.
4. **Marketing and Sales** are activities that inform buyers about products and services, induce buyers to purchase them and facilitate their purchase.
5. **Service** includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

The *support* activities are procurement, human resource management (HRM), technological development and infrastructure. A graphical representation of Porter's value chain is shown in Figure 1 below.

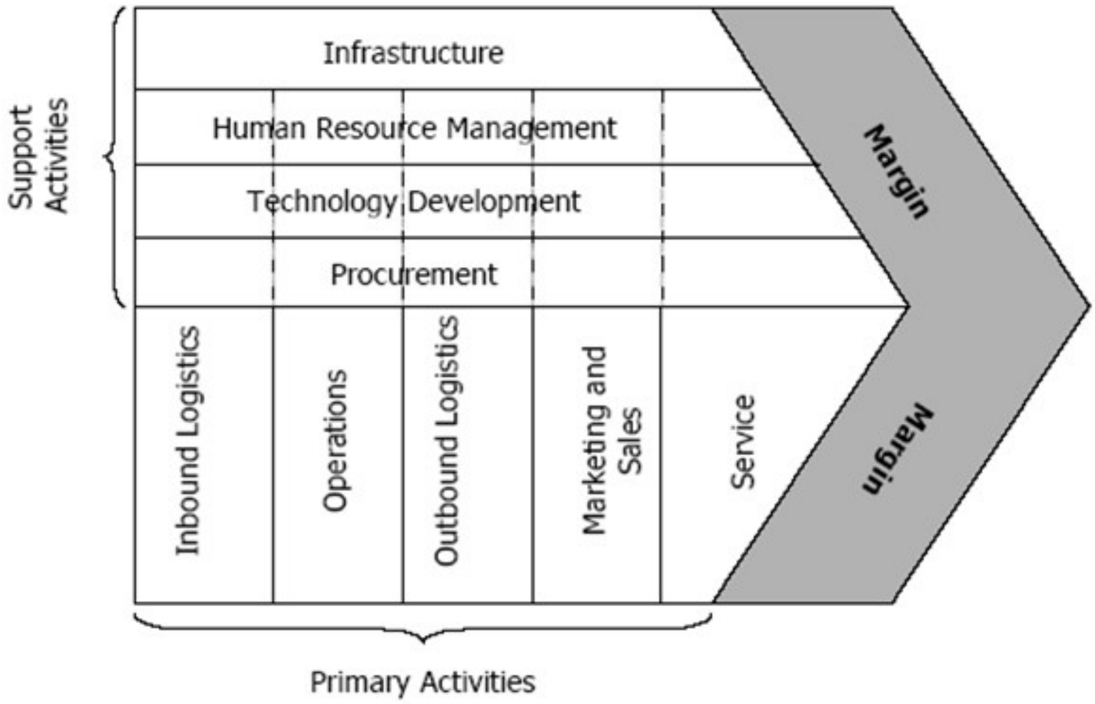
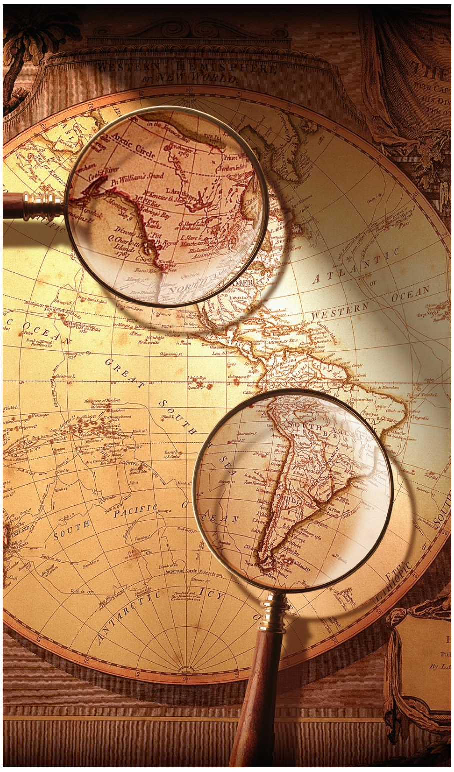


Figure 1: Porter's Value Chain (Porter, 1985)

Jacobs (2003) notes that:

> The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors.

One implication of Porter's thesis is that firms need to examine each activity in their value chains to determine whether or not they have a real competitive advantage in the activity. One consequence of this is that activities which are not a source of real competitive advantage are often being outsourced thus creating more virtual supply chain architectures. This is in line with the strategic focus within firms on the identification of - and concentration on - 'core competencies'.



Oates (1998) defines core competencies as 'the central things that organisations do well'. The corollary of this is that activities regarded as 'non-core' are often being outsourced. Greaver (1999) states that 'non-core competencies take up time, energy and workspace, and help management lose sight of what is important in an organisation'. Furthermore, the trend towards economic and business globalisation has facilitated the outsourcing of various activities to overseas locations (offshoring). This is particularly the case in relation to the off-shoring of relatively labour-intensive activities to lower labour cost locations. In short, key supply chain activities are increasingly being outsourced to third-party organisations.

The relationship between this chain and SCM has been the subject of discussion in several academic papers (e.g. Barney 1997; Lazzarini et al. 2001). Supply chains are in essence sets of activities representing successive stages of value creation. Supply chain management (SCM) is, therefore, concerned with the management of these activities in a holistic manner. The literature on SCM suggests that vertical interdependencies between the activities require a systemic approach to the management of material and information flows between firms engaged in the chain. On the other hand, Porter's original value chain analysis was primarily an approach that described a set of sequential activities creating value *within* firms.

However, outsourcing of supply chain functionality and the resulting creation of more virtual configurations has had the effect of extending the value chain beyond the boundaries of individual firms. As noted by Christopher (2005), ‘the supply chain becomes the value chain’. In other words, the distinction often traditionally espoused between the *value chain* and the *supply chain* has become inconsequential. As succinctly suggested by Christopher (2005):

> Now the focus has widened as the move to outsourcing non-core activities in the value chain accelerates. Thus, we are seeing, in effect, the supply chain become the value chain.

In conclusion, it is important that firms:

1. Identify those activities in the supply (i.e. value) chain that are sources of real competitive advantage;
2. Decide which activities are best carried out in-house and which should be outsourced to third parties; and
3. Manage the in-house and outsourced elements of the supply (i.e. value) chain in an integrated and holistic manner in line with the principles of SCM.

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