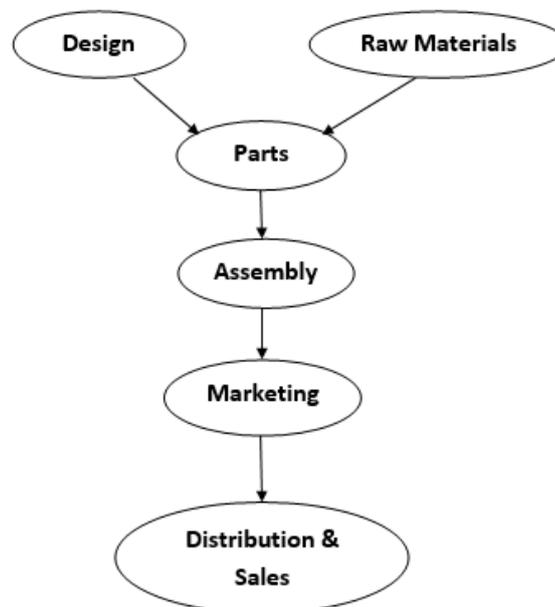


WHAT IS VALUE CHAIN

The value chain is a concept from business management that was first described and popularized by Michael Porter in his 1985 best seller, Competitive Advantage: Creating and Sustaining Superior Performance.

- A Value Chain is a chain of activities for a firm operating in a specific industry.
- Products pass through all activities of the chain in order and at each activity the product gains some value.
- The chain of activities gives the products more added value than the sum of the independent activities value.

Here we have shown just a basic value chain flow of an Automobile Industry.



- A diamond cutter, as a profession, can be used to illustrate the difference of cost and the value chain. The cutting activity may have a low cost, but the activity adds much of the value to the end product, since a rough diamond is significantly less valuable than a cut diamond.
- The value chain framework quickly made its way to the forefront of management thought as a powerful analysis tool for strategic planning. Value chain analysis has also been successfully used in large Petrochemical Plant Maintenance Organizations to show how Work Selection, Work Planning, Work Scheduling and finally Work Execution can (when considered as elements of chains) help drive Lean approaches to Maintenance.

PORTER'S VALUE CHAIN MODEL

The idea of the value chain is based on the process of organization, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition & consumption of resources- money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits.

→ Most organizations 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.

The primary activities are:-

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

Support Activities are:-

- **Procurement:** is the acquisition of inputs, or resources, for the firm.
- **Human Resource Management:** consists of all activities involved in recruiting, hiring, training, developing, compensating and dismissing or laying off personnel.
- **Technological Development:** pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.
- **Infrastructure:** Serves the company's needs & ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance & general management.

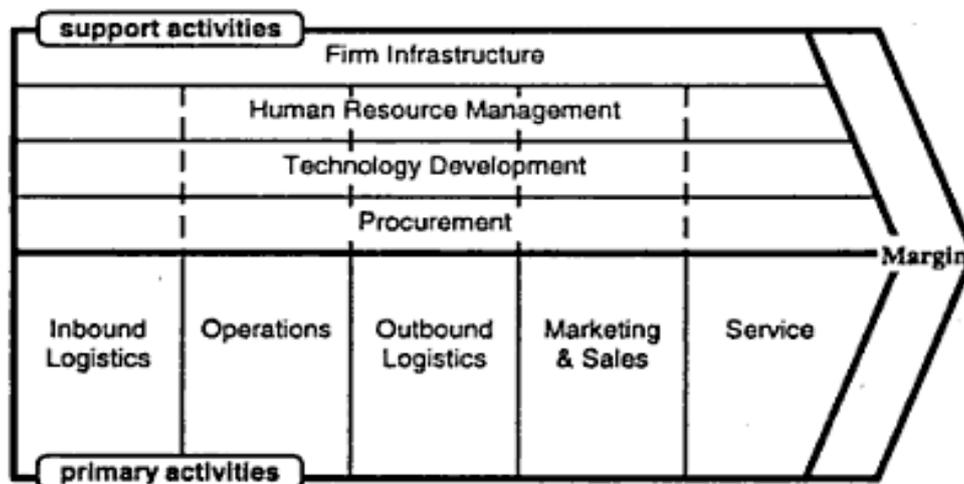
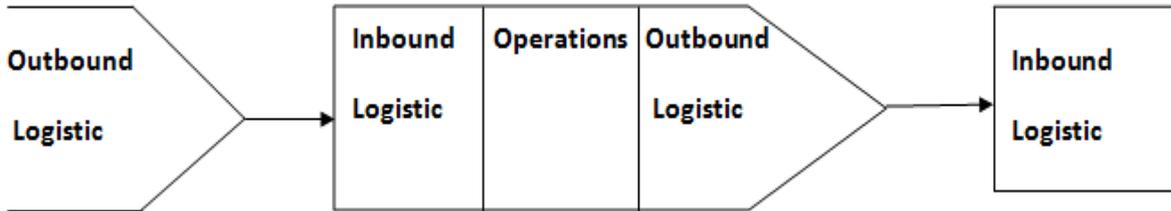


Fig PORTER'S GENERIC VALUE CHAIN

Linked Value Chains

Value chain activities are not isolated from one another. Rather, one value chain activity often affects the cost or performance of other ones. Linkages may exist between primary & support activities.

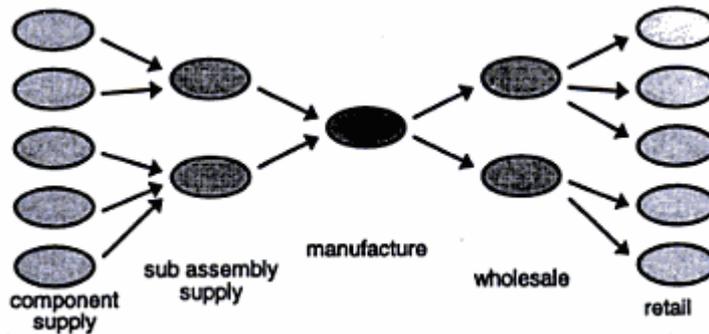
Interrelationships among business units form the basis for a horizontal strategy. Such business unit interrelationships can be identified by a value chain analysis.



Inbound Logistic- From Suppliers & Outbound Logistic- From Customers

E-Commerce enhances value chain by providing:-

- **Electronic Value Chain:** through electronic value chain, e-commerce enhances business by supporting:
 - Reduced time frame
 - Changed Cost Structures
- **Re-engineered value:** Re-engineered value chain, e-commerce enhances business by supporting:
 - Just-in-time Manufacturing
 - Quick response supply
 - Efficient document processing
- **Competitive Advantage:** E-Commerce supports a company for gaining competitive advantage.



MANUFACTURING VALUE CHAIN

WHAT IS SUPPLY CHAIN

A supply chain is a system of organizations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer.

Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable.

Supply Chain Management (SCM)

- Supply Chain Management is the oversight of materials, information & finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer.
- SCM involves coordinating & integrating these flows both within & among companies.
- SCM enables collaboration, planning, execution & coordination of the entire supply chain, empowering companies to adopt their supply chain processes to an ever changing competitive environment.
- With better synchronization across the entire supply chain, the business partners achieve the following major benefits:-
 - Lower Inventories & therefore lower financing costs
 - Shorter receivable cycles
 - Optimal use of production resources & costly workforces
 - Faster response to market changes
 - Greater satisfaction & loyalty among customers
 - Greater profitability
- The military was one of the first organizations to recognize supply chains & to manage them during World War II.
- The SCM systems have become more efficient & intelligent with the use of computers, artificial intelligence & other advancements in the field of information technology.
- SCM solution transform traditional supply chains from linear, sequential steps into an adaptive supply chain network in which communities of customer-centric, demand driven companies share knowledge, intelligently adapt to changing market conditions & proactively respond to shorter, less predictable life cycles.
- Today almost all organizations-military, manufacturing, service industries, retailers & so on use SCM systems to improve their efficiency & effectiveness.

Advantages of Supply Chain Management

- **Supply Chain Planning & Collaboration:** Supply chain planning functionality enables you to maximize return on assets & ensures a profitable match of supply & demand.
- **Supply Chain Execution:** SCM enables you to carry out supply chain planning & generate high efficiency at the lowest possible cost.
- **Supply Chain Visibility Design & Analytics:** SCM gives you network-wide visibility across your extended supply chain to perform strategic as well as day-to-day planning.
- **Business Benefits:** SCM can help you transform linear supply chain into an adaptive network with the following benefits:-
 - Faster response to changes in supply & demand.
 - Increased customer satisfaction.
 - Compliance with regulatory requirements
 - Improved Cash flow
 - High margins
 - Greater synchronization with business priorities

Just In Time (JIT)

- JIT means to produce goods and services when needed, not too early and not too late. It is time based and often has quality and efficiency targets.

- It is a Japanese production management philosophy since 1970s, which allows having the right items of the right quantity & quality, in the right place and at right time. This is hand to mouth approach to production. The primary goal of JIT is to achieve zero inventories within the organization as well as throughout the entire supply chain.
 - The JIT system uses the PULL method of scheduling material flow.
 - A JIT system aims to make goods available just-in-time, and these can be parts, products or sub-assemblies and achieve some of the following benefits:-
 - Increased Flexibility
 - Parts Reduction
 - Increased Quality
 - Simplicity of System
 - To achieve the aims of JIT a disciplined approach is needed which incorporates three principles applied to the organization:-
 - Elimination of Waste
 - Total Quality Management
 - Total Employee Involvement
- ❖ **Elimination of Waste:** Waste elimination is basically removal of any activity that is not value-added, but first it has to be identified. These activities don't increase product value and are costly to the company. Examples of non-value added activities include traditional production methods, i.e, inspection of parts, holding stock inventories, time etc.
- Waste can be eliminated from these activities by removal of defects and by not over producing hence, make-to-order.
- ❖ **Total Quality Management:** TQM eliminates waste by eliminating defects. In a JIT environment, the aim is to prevent defects from occurring and this is achieved by detecting problems at their source. The whole organization is involved in the process, right from the stages of manufacturing, product development and purchasing. Manufacturing uses statistical process control (SPC) and in-process testing (to allow detection at source), while product development ensures that new products can be manufactured to specification. Purchasing makes sure that the parts that are bought are of required quality.
- ❖ **Total Employee Involvement:** Total employee involvement has management providing the leadership which result in employees wanting to be involved in the processes. Opportunity is provided through education & training & work teams.

Benefits of JIT

- **Increased Flexibility:** A flexible workforce means that the operators must be multi-skilled which is done through training. The worker should be free to move from low demand to high demand areas.
- **Parts reduction:** JIT continuously seeks to reduce inventory levels of raw materials, work in progress and finished goods. Lower inventory means less space & less chance of the product being obsolete, damaged or spoiled.
- **Increased Quality:** When operating a JIT system, disruption has a major impact, so quality problems need to be eliminated. Benchmarking Quality Function Deployment and service design can be used for service operations. Since employees need to learn the value of providing defect free services.

→ **Simplicity of System:** Product mix or volume changes as planned by the Master Production Schedule (MPS) can be accomplished by adjusting the no. of cards in the system. Production orders are prioritized by the cards on a post. Production orders for parts that are running low are moved in front of parts that have more supply.

Potential Pitfalls of JIT

- Many companies fail to understand what JIT is and what it can mean to them because they fail to implement it properly. Most importantly, they need to be aware of the tasks, resources, time scale and costs. For this, the system will need the full backing of the top management.
- The JIT will also fail, if an adequate education programme is not provided. If careful planning of process & control improvements are not strictly followed, they will result in JIT not been realized. The planning stage will require dedication & time and may also require the assistance of an external consultant(s).

PUSH & PULL System of Production

The term PUSH and PULL are used to describe two different systems for moving work through a production process.

In traditional environments, a PUSH system is used. When work is finished at a work station, the output is pushed to the next station or in the case of final production it is pushed on to the final inventory.

Conversely, in a PULL system-each work station pulls the output from the preceding station as it is needed; the output of final operation is pulled by the customer demand or the master schedule. Thus in a PULL system, work moves on in response to demand from the next stage in the process, whereas in a PUSH system, work moves on as it is completed without regard to the next station's readiness for the work. Consequently work may pile up at workstations that fall behind schedule because failure or the detection of a problem of quality.

Built-To-Order (BTO)

- Built-to-order and sometimes referred to as make-to-order (MTO), is a production approach where products are not built until a confirmed order for products is received.
- This approach is considered good for highly configured products e.g. bicycles, computer servers, or for products where holding inventories is very expensive e.g. aircraft

WHAT IS COMPETITIVE ADVANTAGE

A firm is said to possess a competitive advantage over its rivals, if it sustains profit that exceed the average for its industry. The goal of much of business strategy is to achieve a sustainable competitive advantage.

Michael Porter identified two basic types of Competitive advantage:

- Cost Advantage
- Differentiation Advantage

Cost Advantage: *Cost advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost.*

Differentiation Advantage: *Differentiation advantage exists when the firm is able to deliver benefits that exceed those of competing products.*

Cost and differentiation advantages are known as potential advantages since they describe the firm's position in the industry as a leader in either cost or differentiation.

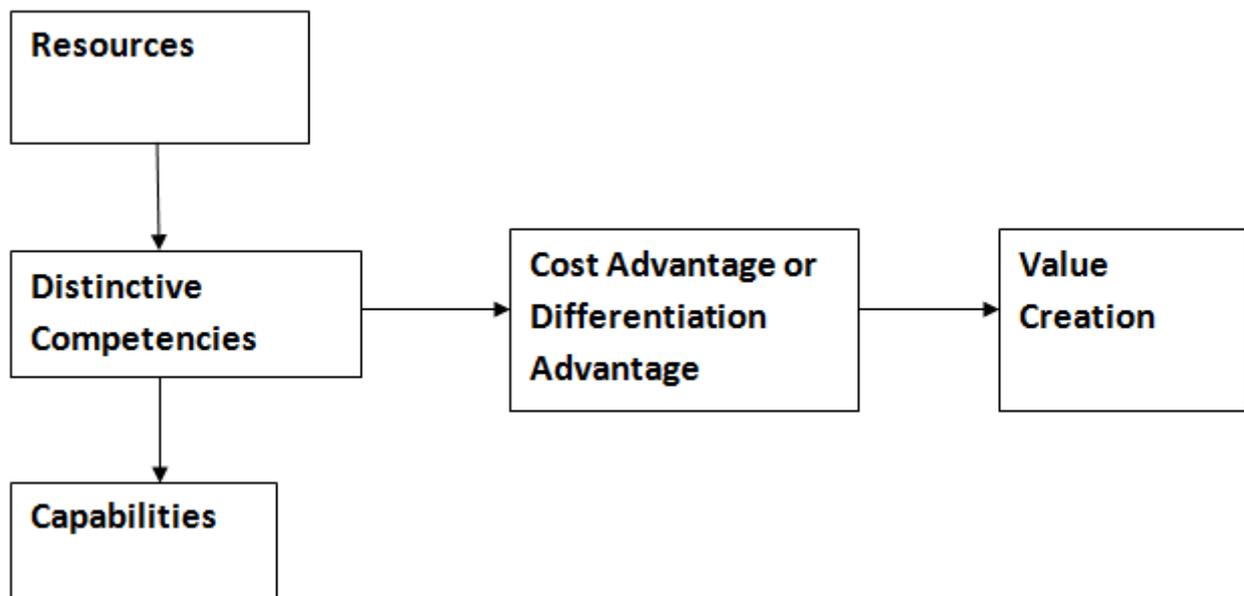
A resource based view emphasizes that a firm utilizes its **resources and capabilities** to create a competitive advantage that ultimately results in superior value creation.

Resources & Capabilities:

According to the resource based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors.

Resources: *are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily.*

Capabilities: *refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. The firm's resources & capabilities together form its distinctive competencies.*



Model of Competitive Advantage

Value Creation: *The firm creates value by performing a series of activities that Porter identified as the value chain. Superior value is created through lower costs or superior benefits to the customers.*

The Principle of Competitive Advantage –

Success is based on inventing an offering that addresses a real scarcity in the world, charging a price for it, and inventing a way of making it available that is cheap enough to leave a high margin.

Elements of Competitive Advantage –

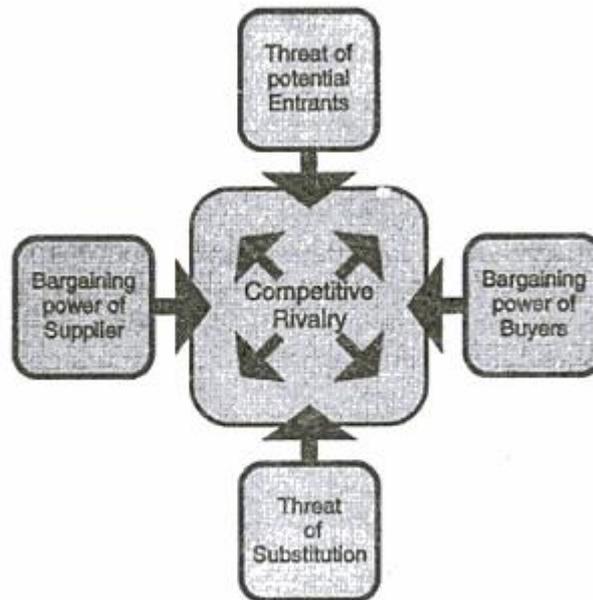
→ **Uniqueness** - finding unique opportunities and solutions is about imagination, insight, foresight, and the courage to pursue it. Unique is new, different, but most important of all,

untested and unproven. By the time a unique solution is validated as profitable, it is no longer unique for the next company. Also, if it is a unique business model or business capability, it is likely unapproachable, in the short-term, by competitors.

- **Strategic Focus** - Strategic focus comes from marrying distinctive competency and purpose to form a superior value proposition. Strategic focus is about developing a longer view of competitive advantage with a combination of purpose, competency, and value proposition. This creates an internal environment that has the confidence and implicit support to continue to perfect and develop that focus through creating stronger competencies and further perfecting the value proposition.
- **Strategic Intent/Vision/BHAGs** - Strategic intent challenges and guides the organization to achieve the unachievable by having a clear focus on outlandish objectives which require the development of new capabilities to achieve.
- **Innovation** - Innovation is inventiveness put into profitable practice. In an evolving economy, the business organization must innovate at a rate that meets or exceeds its environment in order to sustain a competitive advantage.
- **Continual Innovation** - Making innovation as an ongoing process on all fronts.
- **Democratic Principles** - Democratic principles are needed to fully engage the active participation of diverse thinkers from across the organization. Broad and diverse participation improves innovation.
- **Strategic Management** as a self-improving learning process - Strategic management must become, amongst other things, a learning and self-improvement process for the organization.
- **Dynamic Capabilities** - Sustainable competitive advantage is ultimately based on dynamic capabilities, the capability to produce and utilize new capabilities on a continuous basis.

WHAT IS PORTER'S FIVE FORCES MODEL?

*Michael Porter described a concept that has become known as the "five forces model". This concept involves a relationship between competitors within an industry, **potential competitors**, **suppliers**, **buyers** & alternative solutions to the problem being addressed.*



Porter's Model of Competitive Forces.

- **Threat of Potential Entrants:** The threat of new entrants relates to the ease with which a new company or a company in a different product area can enter a given trade sector. Barrier to entry into a particular market include the need for capital, knowledge and skills. The barriers to entry for e.g. to the vehicle assembly sector are massive; to start building cars there is the need to develop a new model range, build a car assembly plant, contract a large number of component suppliers and sign up a dealer network. Getting into business in building personal computers is, in contrast, much easier; the components are readily available and there is not the same need for investment in product development or large scale production facilities before the company makes a start.
- **Threat of Substitution:** Substitution is a threat to existing players where a new product becomes available that supplies the same function as the existing product or service. The classic examples are the (partial) substitution of natural fibres such as cotton and wool by synthetic fibres or the replacement of glass bottles by a plastic alternative in some sectors of the packaging industry. Existing players can protect themselves by keeping their product up-to-date.
- **Bargaining power of Buyers:** For a business to be profitable the cost of producing and distributing its product has to be less than the price it can fetch in the market place. Where there are a number of competitors in the market or a surplus of supply the buyer is in a strong position to bargain for a low price and for other favourable conditions of trade.
- **Bargaining power of Suppliers:** The organization, while trying to get an adequate price from its buyers, will be looking to get favourable terms from its own suppliers at the next stage along the value chain. The organization's ability to get a good deal is the mirror image of its position with its buyers. If the supply is plentiful and/or there are several suppliers it should get a good price. If the product is scarce or the number of suppliers that are able to meet its need is limited then the supplier is in a more favourable position.

→ **Competition between existing players:** The final force is the competition between existing players in the market. The competition is to get the buyers and to trade at a price that produces an acceptable profit. That competition is won on the basis of the generic competitive advantage of cost or differentiation. The competitive position of each organization is determined by the deal it is able to make with the suppliers.

Important Points of Value Chain:

- The Organization need to establish which of its inter organizational relationships add to its competitive advantage & which fail to achieve appropriate levels of quality & price.
- The Linkages in the value system have to be managed.
- The Physical Linkage involves good handling, transport & warehousing
- Value chain must be clear & understandable.
- The essential stages of a value chain are: Pre-sale, Execution, settlement & after-sales.

WHAT IS THE FIRST MOVER ADVANTAGE?

The first mover advantage refers to an advantage gained by a company that first introduces a product or service to the market. The first mover advantage allows a company to establish strong brand recognition and product/service loyalty before other entrants.

It is important to note that the first mover advantage only refers to a large company that moves into a market. For example, Amazon was not the first company to sell books online. However, it was the first company to achieve significant scale in that line of business.

[Important: Being first typically enables a company to establish strong brand recognition and customer loyalty before competitors enters the arena.]

There are several advantages to being the first business to execute a strategy.

Companies that are first movers can often:

❖ **Fast Facts**

- *A first mover is a service or product that gains the advantage by being the first to market.*
- *First movers typically establish strong brand recognition and customer loyalty.*
- *Advantages of being a first mover include brand recognition and a longer learning curve.*

❖ **Elements of First Mover Advantage:**

- Brand Name Recognition.
- Customer Loyalty
- Economies Of Scale
- Switching Costs

Benefits of Being a First Mover :

List three main benefits of being a first mover:

→ **Technology leadership**

First movers can make their technology/product/services harder for later entrants (participators) to replicate (rejoin). For example, if the first mover can reduce the costs of producing a product (an "experience" curve effect), the first mover can establish an absolute cost advantage. In addition, applying for patents can protect and establish a first-mover advantage.

→ **Control of resources**

The second benefit is the ability to control strategic and/or scarce resources. For example, Wal-Mart was able to locate their stores in small towns and prevent others from entering the market.

→ **Buyer-switching costs**

The third benefit that first movers may enjoy is buyer-switching costs. If the first business is able to establish itself first, it may seem inconvenient consumers to switch to a new brand.

Advantages of Being a First Mover

- Establish their product as the industry standard
- Be able to tap into consumers first and make a strong impression, which can lead to brand recognition and brand loyalty.
- May be able to control resources, such as basing themselves in a strategic location, establishing a premium contract with key suppliers, or hiring talented employees.
- Can gain an advantage when there is a high switching cost for consumers to switch to later entrants.

Disadvantages of Being a First Mover

Being the first business in an industry may not always guarantee an advantage.

- The first mover may invest heavily in persuading consumers to try a new product. Later entrants would benefit from these informed buyers and would not need to spend that much on educating consumers.
- Later entrants can avoid mistakes made by the first mover.
- If the first mover is unable to capture consumers with their products, later entrants can take advantage of it.
- Later entrants can reverse-engineer new products and make them better or cheaper.
- Later entrants can identify areas of improvement by the first mover and take advantage of it.
- Other businesses can copy and improve upon a first mover's products, thereby capturing the first mover's share of the market.
- *Disadvantages of being a first mover include the risk of products being copied or improved upon by competitors.*

INTER-ORGANIZATIONAL SYSTEM (IOS)

An **interorganizational system (IOS)** is a system between organizations, or "shared information system among a group of companies. The most common form of interorganizational system is **electronic data interchange**, which permits instantaneous computer-to-computer transfer of information.

Interorganizational system permits the flow of information to be automation between organizations in order to reach a expect **supply-chain management** system, which enables the development of

competitive organizations. This supports forecasting client needs and the delivery of products and services.

Interorganizational system helps to better manage buyer-supplier relationships by encompassing the full depths of tasks associated with business processes company-wide. In doing these activities, an organization is able to increase the productivity automatically; therefore, optimizing communication within all levels of an organization as well as between the organization and the supplier. For example, each T-shirt that is sold in a retail store is automatically communicated to the supplier who will, in turn, ship more T-shirts to the retailer.

An Inter-organizational system is an information system shared by one or more suppliers and customers

Organizations might pursue an interorganizational system for the following reasons:

1. Reduce the risk in the organization
2. Pursue **economies of scale**
3. Benefit from the exchange of technologies
4. Increase competitiveness
5. Overcome investment barriers
6. Encourage global communication

An example of interorganizational systems is the Sabre (computer system). "Understanding of environmental uncertainty are leading to the horizontal relationships across organizations."

COMPETITIVE ADVANTAGE STRATEGY

You need to build strategies for if you want your business to thrive. Here are a few strategies which you can try;

Go niche (protection) rather than mass

You will find every type on people on this platform. You will find teenagers, moms and even grandparents. You will need musicians, politicians, makeup artists and so on. You might feel overwhelmed when you realize that the whole world is your audience. Instead of clawing at everyone, try to go for a specific target group. Your website should be about a specific group of people who share common interests. You can promote your business keeping only one target group in mind. If you want your business to be found by just artists, just focus on artists and not musicians.

Personalize your website

You cannot just build a website which is not appealing to your target group. You have to give your website such a look that your customers keep on coming back. Yes, while trying to make it extravagant do not make it difficult to use. Make sure that your website is easy to use. Make it simple yet elegant so that people can access it through laptops and mobile phones. There is software available today which will allow you to personalize product selections based on their previous purchases. You can make use of that software to show your customer that you care.

Prepare the right content

Content matters. Content can change your website overnight. You have to cater to your audience's needs. If you are focusing you on females, make sure you put up content which females are more likely to be interested in and not just some random article about cars. Using SEO friendly keywords is highly recommended. This is because when your customer types in that keyword on Google or Bing, your website will show up on the list.

+ Use different channels to showcase your brand

Do not just stick to your website. Make use of different channels. You need to promote on different channels like YouTube, Facebook and Twitter. Do not just stick to one channel. You need to constantly remind your audience about your existence because you are not the only eCommerce selling online. Keep on appearing before them in forms of ads so that they are tempted to visit your website. Once they visit, about 20 percent of those visitors will turn into your customers.

+ Create new partnerships

Things work best when you have a partner. You will definitely benefit by forming strategic partnerships for your business. It does not matter how long you have been in the business. When you partner with another business, you can get direct access to their customer base. You get to tap into their target audience and convert those potential customers into loyal consumers. Yes, that is possible. If you aware of Youtube, you might have seen that Youtubers constantly collaborate with other Youtubers. Why do you think they do that? They do that because by collaborating they get more people to view their video.

+ Interact with your customers

Your business might be virtual but your customers are real. You might be operating your whole business from a bunch of laptops but you customers are paying real money for it. It is important to hear from your customers. Listen to what they have to say. If they do not like something, improve on it. Give them what they desire or want to buy. Do not just keep on throwing make up and accessories because your target audience is women. If you niche target is stay home mothers, you might benefit from displaying furniture on your website.

+ Use social media as your weapon

Social media is the most powerful platform today. You will get to identify all your potential customers by peeking into their personal lives. You will get to see their interests and habits. You should invest a lot in social media. You can even direct people from social media directly to your website. Think of Facebook, if one of your posts is appealing to someone, he or she might share it. In this way, your post gets more generic view. Well, that's the beauty of social media!