

Assessing the relationship between value chain analysis and competitive advantage

Prof. Harshad B. Salvi¹, Dr. Rajesh N. Paturkar²

Department of Management,

Savitribai Phule Pune University

ABSTRACT

The recent past has seen a tremendous growth in the competition, with the growing entries of the competitors into the market. Some types of competition (for example, price competition) are very unstable and negatively influence industry profitability. In order for a firm to sustain in a competition, it is bound to have an advantage, that its competitors may not have. May it be a cost leadership, or a product/ process/ service Differentiation. This research paper helps understand how analyzing the various primary and secondary activities of a firm, could help in understanding this Advantage.

Keywords: *Competitive advantage, Primary activities, Secondary activities, Value chain,.*

1. INTRODUCTION

Competitive advantage doesn't always mean trying to cope up with the competitors or exceeding the competitors capacities, but trying to analyze what the Institution is good at, analyzing what does the customer want and understanding the best ways to suffice the Customer expectation with the available resources.

The Recent few years have provided the customers, ways and means to have easy access to all the goods and services, nationally and internationally with the advantage to the reducing inter-regional and international trade barriers. Hence it becomes even more important for any organization to cater to the perceived value of the customer.

Value depends completely on ones way of thinking. Hence every person may have his own definition of Value. The best way to measure what a customer takes to be as a perceived value, is Value chain analysis.

By helping the institutes understand the strategic advantage and disadvantage that they get by conducting various activities and value-creating processes, value chain analysis becomes vital for understating an institutions Competitive advantage.

2. OBJECTIVE

- To understand the concept of Competitive Advantage
- To understand how does Value chain help in analyzing the Competitive Advantage.
- To utilize the value chain concept to assess competitive advantages.

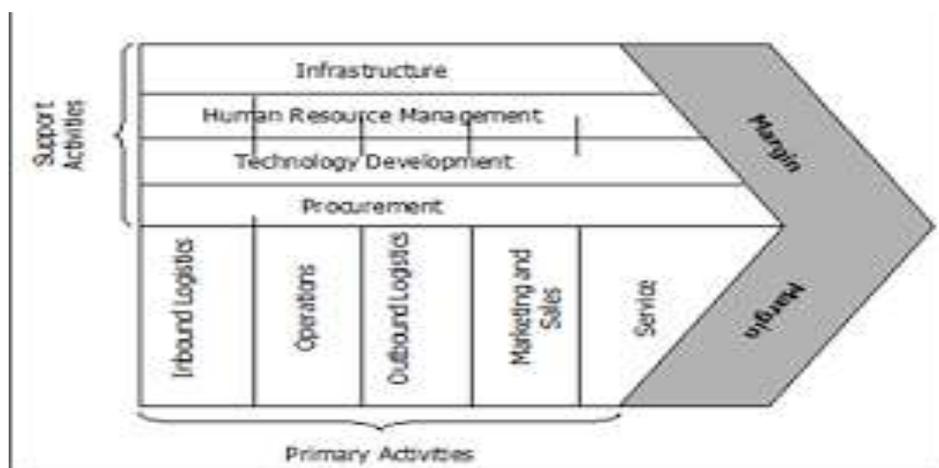
3. CONCEPTUAL FRAMEWORK/ SCOPE

- Value chain is a broad concept designed by Micheal Porter in 1985 with a view of understanding the activities conducted in an organization and prioritizing them, based on the importance and usage of these activities in an organization.
- Competitive Advantage is the core competency or the competitive competency that an organization possesses that helps an organization in having an upper hand on its competitors.
- A formal study of the Value chain of an organization can easily help an organization help understand its Competitive advantage.

4. LITERATURE REVIEW

THE VALUE CHAIN.

- The concept of Value chain was initially introduced by Micheal Porter in 1985, to show how the customer value is spread over a numerous activities that would ultimately lead to the end product or end service.
- Porter describes the value chain as the internal processes or activities that a company performs “to design, produce, market, deliver and support its product.”
- Further, he also states, “every firm’s value chain, and the way every firm performs its individual activities often reflect its history, its strategy, the approach it has towards implementing the strategy, and the economics of these activities themselves.”



Porter divides the Business activities into:

Primary Activities

Directly involved in the transformation of Inputs/Raw Material into Output/ Finished goods. They Include

- Inbound logistics
- Operations
- Outbound logistics
- Marketing and sales
- Service

Support Services

Supports the primary activities. They include

- Procurement
- Technology development
- Human resource management
- Firm infrastructure

Porter Focuses on the activities that create value to the product. However, the value itself is not considered in the model. Also, the activities that create value for the product is considered in terms of primary and secondary Activities. However, Porter fails to cover the activities that will add Value to its end consumer.

According to John Shank and V. Govindarajan (1993), Value can also be stated as “the value-creating activities all the way from basic raw material sources from component suppliers through to the ultimate end-use product delivered into the final consumers hands.”

Although the value creating Activities are considered her right from Acquisition of raw material to supplying the finished goods to the Customer, the above definition fails to explore the creating of value that occurs in between the 2 activities. The transformation of value from one level to other also requires to be studied.

The creator of the value, ranges from the raw material procurement executive, to the sales manager. Creation of a value is a process distributed over various activities. An organization can create value for the customer through every step of operations.the ultimate value of the product/ service/ organization is a cumulative collation of the values created in various stage of operations.

O’Sullivan, L. and Geringer, J.M., ‘Harnessing the Power of Your Value Chain’,(1993) states this chain to be a natural chain which includes what a firm wants to achieve using the resources available with it in order to achieve its competitive Advantage.

A Competitive Advantage could be gained by any organization by 2 methods, namely, Cost Leadership and Differentiation.

O’Sullivan, L. and Geringer, J.M in his study, ‘Harnessing the Power of Your Value Chain’,(1993), focuses on the available resources with the organization in order to gain Competitive Advantage. However, in order to gain Competitive Advantage, it is also essential for an organization to get Inputs and Resources, which are comparable to that of the competitor.

Ensign, P.C. (2001) states the activities that the Institution perform in order to achieve the accomplishment together form the Value chain stages. The interdependencies between these stages determine the value chain inter-relationship.

In order for a firm to utilize the value chain effectively, the firm should be divided into activities and analyze the effect that these activities have on the business unit.

Ensign P. C. Speaks about the Value chain stages. Value chain is a process with helps the organization, formulate competitive strategies. Value chain is a sequence of activities that continuously add value to the product and the process, which in turn helps the organization in order to build a competitive advantage.

The value chain analysis can help an institution understand the impact that every activity of a firm has on the cost effectiveness and differentiation.

EXHIBIT 2. COMPETITIVE ADVANTAGE THROUGH LOW COST AND/OR DIFFERENTIATION

| | | | |
|---|----------|---------------------------|-------------------------------------|
| Relative Differentiation Position | Superior | Differentiation Advantage | Differentiation with Cost Advantage |
| | Inferior | Stuck-in-the-Middle | Low-Cost Advantage |
| | | Inferior | Superior |

Michael Porter states that the Customer Value is an Outcome of the Competitive advantage. He also states that the competitive advantage can be in 2 ways,

- Differentiation
- Low Cost Advantage.

A customer Value will be enhanced, if a Product or a service that he receives is either at a lower price, which he perceives to be appropriate, else the customer will be ready to pay a premium price for an offering, if he perceives the offering to be superior.

An Organization will be benefitted only in one situation.

Cost price < Selling Price <= Perceived Value of the product.

In order to reduce the cost of the product, the cost of every activity has to be reduced, right from procurement, to processing of raw material into finished goods, to packaging and ultimately the Marketing Activities. However, all this has to be done, without hampering the quality of the product and the utility of the product. Hence the organization either has an option of reducing various overheads, and ultimately reducing the price. Or increasing the perceived value of the Product.

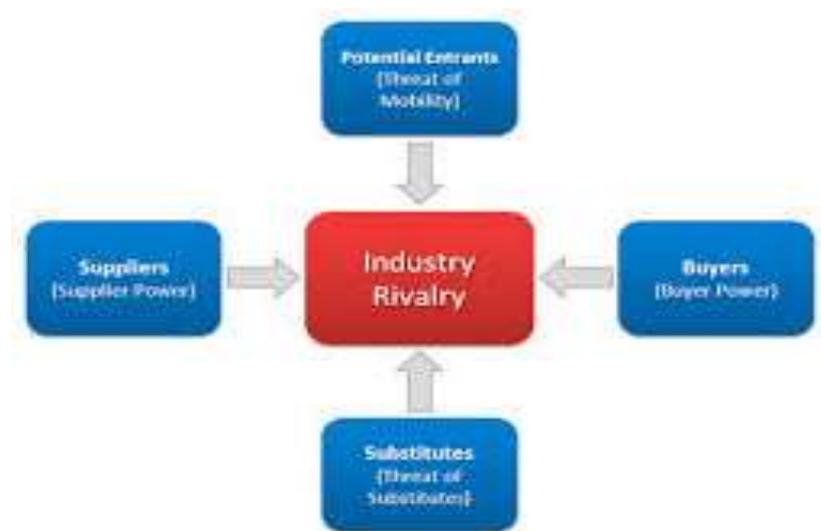
As stated by Porter, the Customer Value can be enhanced only when the product received by the product has Cost effectiveness, or is has a higher perceived value. However, a customer value won't be enhanced, if the product isn't received by the Customer at the right time, in the right condition and with absolute ease. Hence, in order to enhance the customer value, there could also be an addition of one more attribute, and that is an "Effective distribution channel."

It has been recently stated that there exists a social Value chain which focuses on the consideration of the social relationship enhancing the concepts of sharing and collaboration, which further creates value.

Analyzing the Internal Costs

- The Value chain approach is used by the Institutions in order to find the sources of Profit and the cost associated with various internal processes/activities.
- The prime steps in evaluating the internal cost are:
 - Identify the activities/processes in the institution that create value
 - Identify the cost, each of such activities would contribute.
 - Identify the cost-drivers in such value-creating activities
 - Identify the interdependencies between these processes/activities
 - Identify the methods of gaining a cost advantage on such processes
- Analyzing the Internal Differentiation
- Other Prime reason, the institutions would use the value chain approach is to analyze the ways of creating and maintaining a superior differentiation.
- In this method, the organization ideally tries to identify a customer's perceived value about the Organization.
- Identify the Activities that create value for the Customers.

- Development strategies for achieving differentiation which will enhance customer perception about value.
- Analyze a differentiation strategy which will sustain.
- This Method suggests Identifying a customer's perceived value about the organization in order to create a Competitive advantage. However, it is also essential to study the competition, to create a competitive Advantage.
- ANALYSIS OF THE INDUSTRIAL STRUCTURE



Michael Porter (1980, 1985) developed a five forces model, which was well as Porter's five forces Model. This model helped the Institutions to collect information about the Industry, and to study its attractiveness.

As per this model, the Profitability of any Industry depends upon the five forces that influence the profitability. They are

- Bargaining power of suppliers;
- Bargaining power of buyers;
- Threat of substitute products or services;
- Threat of new entrants; and
- Industrial Rivalry.

Every Organization performs various activities aiming to convert the Raw material into semi-Finished/ Finished Goods. However, these set of activities do not help the organization to gain a competitive advantage. A Competitive Advantage can rather be gained by having Proprietary access to the resources which are Scarce(for eg. The distribution network, the skill sets, assets etc)

Ensign, P.C. (2001) In the Industry, the competitive Advantage is usually achieved by two methods;

- Sharing the resources that are internal to the firm, which helps in better coordination and synergy.
- Sharing the resources that are external to the firm which will result adopting and utilizing a new firms value chain.
- Ensign doesn't mention the importance of low cost leadership and Differentiation in order to gain competitive advantage.

5. RESEARCH METHODOLOGY

- The Study is an exploratory research conducted purely on secondary data, published in reference books, Research Papers and National and International Journals.

6. FINDINGS

- The study suggested that competitive advantage is not only concerned with what the competitors are offering, but also concerned with what is it that the company is good at and what is it doing to meet and surpass the customer expectation.
- Competitive advantage can be assessed , by assessing the efforts and the focus that the organization puts in its primary and the secondary activities.

7. DISCUSSIONS

The Research involved a study of various Journals and reference books related to the topic. The current study can help the organization to formalize the analysis of the primary and secondary activities of the organization to understand its core competency.

8. CONCLUSIONS

The study suggested that every organization has a set of primary and secondary activities. If the organization formalizes its focus on these activities, it will be capable of understanding what the organization is good at and what are the ways of reducing cost, achieving differentiation and satisfying the customer requirement.

The study also suggests that the source of information for obtaining a competitive Advantage is not only from the values created from the organization's Value identification and Value creation, but also from what the customers and the competitors think to be of Value..

Value chain is a model which helps to enhance an organizations understanding towards the activities that creates value for the organization, which in turn helps and organization to understand its status with reference to that of the competitors.

9. FURTHER RESEARCH

The current study is based on the Industry to understand the processes that it considers under primary and secondary activities.

The study shall help understand its implication in the education Industry as well, especially the management education sector of the education industry.

REFERENCES

- [1] Value Chain Analysis for Assessing Competitive Advantage. New Jersey: Institute of Management Accountants. 1996.
- [2] Porter, Michael E. 1980. Competitive Strategy. New York:Free Press.
- [3] Porter, Michael E. 1985. Competitive Advantage. New York: Free Press
- [4] Porter, Michael E. 1990. The Competitive Advantage of Nations. New York: Free Press.
- [5] Shank, John K., and V. Govindarajan. 1993. Strategic Cost Management. New York: Free Press.
- [6] O'Sullivan, L. and Geringer, J.M., 'Harnessing the Power of Your Value Chain', Long Range Planning, Vol. 26, No. 2, 1993, pp. 59–68
- [7] Ensign, P.C. (2001) Value Chain Analysis and Competitive Advantage: Assessing Strategic Linkages and Interrelationships. Journal of General Management. Pg. 18
- [8] Kanter R.M., 'Knowledge Exchange', Executive Excellence, Vol. 17. No. 11, 2000, pg. 3–4.
- [9] <https://www.marsdd.com/mars-library/industry-rivalry-and-competition-using-five-forces/>