Porter's Value Chain

Every product we buy passes through many steps before it reaches us, and each step can add value or waste money. In his 1985 book Competitive Advantage, Michael Porter of Harvard Business School called this series of steps the value chain. He argued that an advantage does not come from a company as a whole, but from the separate activities that it performs. If customers value the result more than it costs to make, the company earns a margin. The value chain helps managers see where value is created and where money is lost.

1. Primary Activities

Primary activities are the steps that create the product and bring it to the customer. Porter named five: inbound logistics, operations, outbound logistics, marketing and sales, and service. Inbound logistics receives and stores materials, operations turns them into products, and outbound logistics delivers them. Marketing and sales win customers, and service supports them after the sale.

Example: A family bakery maps its primary activities: flour arrives, bread is baked, vans deliver it, a sign attracts customers, and complaints are answered. The map shows that most complaints are about stale bread from late deliveries.

At work: Saleh, an operations manager at an office chair maker, maps the primary activities on one page. He discovers that chairs wait nine days in the warehouse before delivery, while making them takes only two.

2. Support Activities

Support activities help all the primary activities to work well. Porter named four: procurement, technology development, human resource management and firm infrastructure. Procurement means buying, technology covers research and systems, and human resources hire and train people. Firm infrastructure includes management, planning, finance and quality.

Example: The bakery checks its support activities and finds that orders are still written on paper. A simple order app, a piece of technology development, gets every order ready before the vans leave.

At work: Saleh checks the support activities behind delivery. The weak point is technology: no system tells the warehouse which orders are urgent. A simple tracking system cuts the waiting time from nine days to three.

3. Linkages

The activities in the chain are not separate boxes; they are linked. A choice in one activity often changes the cost or quality of another. Buying better materials may cost more, for example, but

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it can reduce repairs in service. Looking at linkages stops managers from saving money in one place only to lose more somewhere else.

Example: The bakery studies a linkage: cheaper flour saves a little money, but more loaves are returned. It goes back to the better flour, and returns fall.

At work: Saleh studies the linkage between procurement and service. Cheaper wheels saved two dollars per chair, but they caused many repair visits. Better wheels cost a little more and cut repair costs by half.

4. Margin

The margin is the difference between what customers pay and the total cost of all the activities. Porter placed it at the end of the chain, because it is the result of everything before it. A company can grow its margin in two ways: by lowering the cost of its activities, or by creating more value that customers will pay for. Every activity can be judged by what it adds to the margin.

Example: The bakery checks its margin on each loaf. Fresh delivery lets it charge a little more while the cost stays the same, so the margin rises.

At work: Saleh checks the margin on the best-selling chair. Faster delivery and fewer repairs lower the cost per chair, and the margin grows from fifteen to twenty percent.

5. Cost or Difference

Finally, the value chain shows how a company can beat its rivals. It can perform its activities at a lower cost than competitors, or perform them differently, so that customers see a unique value. Porter called these two routes cost leadership and differentiation. Trying to do a little of everything often leads to no real advantage.

Example: The bakery chooses difference: warm bread delivered before seven in the morning. Cafés happily pay more, because no rival can match it.

At work: Saleh's company also chooses difference: delivery within three days and a five-year guarantee. Large offices start to choose its chairs, even at a higher price.

Conclusion

In summary, Porter's value chain divides a company into primary and support activities, with the margin as the result. The linkages between activities reveal hidden costs and hidden value. The aim is a clear advantage, through lower cost or through a real difference. When every activity adds value, the whole chain becomes stronger.

Sources

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