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Note on the Value Chain: A Framework for Analyzing Firm Activities*

Introduction

As consumers and customers, we buy products and services that we believe will enhance our lives in some way. By and large, we don't think a lot about what's involved in *producing, marketing, or servicing* that good or service; we just want the value that's inherent in it.

Similarly, as employees and employers, we generally focus on performing our jobs in a way that helps deliver value to our customers, be they consumers in retail stores or corporate customers in a larger chain of value creation. Again, despite being touched by firms (our own and others) on a daily basis, we tend not to think about how the activities within firms are linked, or how each creates value—either by itself or through its linkages with other activities. But to truly understand how a firm can create and capture value, it is important to explore how activities within the firm are organized and coordinated.

One useful framework for doing this was developed by Michael Porter in his 1985 book, *Competitive Advantage*.[1] Prior to the emergence of the value-chain approach, strategic analysis generally looked at the firm as a single unit. The analyst would consider a firm's strengths, weaknesses, opportunities, and threats: the so-called SWOT analysis. This approach relied on impressions (e.g. "I think we're good at service"), but because the typical firm encompassed such a broad range of activities, it was difficult to know what specific activities to focus on, what data to gather, or what analysis to perform in order to reveal the sources of competitive advantage.

The Framework

Porter's central insight was that a firm is actually a system of interconnected activities, with both physical and information linkages. A firm's competitive position in the marketplace results from superior or inferior performance in specific activities. With this perspective as a starting point, activity-level performance can be explored analytically, and strategies can be formulated to improve the firm's position.

* Adapted from Chapter 2 of *The Services Shift,* R.E. Kennedy, FT Press, 2009

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