



VALUE CHAIN: A CONCEPTUAL FRAMEWORK

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ABSTRACT

The prime objective of this article is to deepen the understanding of the value concept as well as to enlighten the role of value to create a chain which provides a basic framework for the development of goods or services. Any value adding activities or strategy which enlighten the customer satisfaction. The value chain is one of the recent and most popular trends to days. The concept of value in value chain is multifaceted and complicated. This article focusing on efforts and commitment to understand really what it means to provides value to customers, how added value which actually customers' needs and provides wealth to all stakeholders who involved. There is no any specific ways to add value in goods or services but it emphasized the ways which minimize cost and time without compromise the quality of the products in an effective and efficient ways. It tried to summarize few available literatures which gave a little glimpse of value chain and its necessity for survival of the company and how to fulfill the actual needs and demands of the customers in present era.

KEYWORDS: Value, Value chain, Strategy, Differentiation, Customers.

INTRODUCTION

Value

Barbon (1969) stated that "By value, is to be understand the price of things; that, what anything is worth to be sold" at that time value is totally depends upon it cost but Coyle et al (1996) stated "An important consideration is that value must be viewed from the customer's perspective, because it is value to the customer that is most important. The value is condition which motivates the people and very across culture and which emphasizes the needs, requirement, wishes and ultimate demands of the consumer. There is no any comprehensive and complete definition of value and so many people failed to define it e.g. Wilson and Jantrania (1995). Porter (1985) gave his statement about value that "value is the amount buyers are willing to pay for what a firm provides them.

Value Chain

Michael Porter was the first person who introduced the term "Value Chain" in his book Competitive advantage: Creating and Sustaining Superior Performance (Porter 1985). Michael Porter defines "Value Chain" as a representation of a firm's value-adding activities, based on its pricing strategy and cost structure. The ability of any firm to understand its own capabilities and the needs of the customer is crucial for competitive strategy to be successful. The first steps in conducting the value chain analysis are to break down the key activities which involve in the frame work. The next steps are to assess the potential for adding value through the means of cost advantage or differentiation. Finally, it is very important for the analyst to determine the strategies that focus on those activities that would enable the company to attain sustainable

competitive advantages. The profitability of a firm depends on how effectively it manages the various activities in value chain; price that the customer is willing to pay for the company products and services exceeds the relative cost of the value chain activities.

Value chains encompass the full range of activities and services required to bring a products or services from its conception to sale in its final market whether local, national, international or global. Value chain includes producers, inputs suppliers, operation, processors, retailers and buyers. They are supported by a range of technical, business and financial services providers. (USAID, Briefing Paper)

"A Value chain Analysis is an alliance of enterprises collaborating vertical to achieve a more rewarding position in the market."

The value chain mainly focuses on the market collaborating strategy, where it emphasized the linkages between production, marketing etc. activities of the products and services in an effective and efficient manner. Vertical alignment is also an important aspect where companies connect one end of the primary activities up to the last end of the supportive activities, at each stage of the products which to increases value.

"A value chain in its simplest form is a collaborative effort"
..... Jerry bourna

David Hughes said that "Consumers will look for attributes or benefits in the food product rather than price alone. It will be essential to identify these elements and build them into your value chain for mutual benefits. Value chain has both

structural and dynamic components in which the structure of the value chain influences the dynamics of firm behavior and this dynamic persuade how well the value chain performs. Value chain structure includes the five elements like end market, Business and enabling environment, vertical linkages, supporting market and horizontal linkages. End markets are their own role in the value chain structure and it represents the last user of the products or services not a physical markets. It plays a significant role in determining the quality, quantities, prices and timing for the success of the product or services for any firms and it also helps to create a demand for the products. Different types of policies, trade agreement, rules & regulation and infrastructure scarcity which creates barriers and its availability helps in smoothening the progress of the value chain of the products or services at the local, national and international level. There are many factors helps in market expansion in which trade agreement and quality standards are there, which has considerable role in the market expansion but it has very much valuable for the MSMEs firms. Some of the rule or regulation which was made at the

local level has a great role for influencing the competitive level of the firms. The linkage between the firms also affects the value chain of the products or services. The vertical chain of the firms is most efficient transaction which increases the overall competitiveness of the firms. The support market has their own role for the making of the value chain more efficient in which it includes a legal advices & telecommunication sectors specifics services, handicraft design etc. It is a continuous process which adds value to its chain which started from customer's needs and demands to reach up to the input activities of the primary activities. There are needs of value addition in each stage which help to differentiate it from its competitors at a cheaper rate with best quality. The researchers believe that customers is the ultimate goal of an enterprise which influence them to create such an unique article which fulfill their desired which help by supply chain to provides it in an efficient manners. Willingness of the customers plays a significant role to give direction to the strategic formulating bodies to give preference before manufacturing of their products and services.



Fig. 1 Michael Porter's Value Chain Model

REVIEW OF LITERATURE

Value chain analysis has been influenced by both internal and external forces which help to study each and every aspect of the industry or sectors. The internal forces are production, marketing etc. and external forces such as technological, ecological, economic, new industry trends and regulatory development. The information technology has also play very important role to update the manufacturing process of the industry. Yi-Chan chung et.al (2008) found that there has been a strong relationship between the quality management and performance of business value.

He had conducted a study based on 15 National Quality Awards winning enterprises in Taiwan. During his studies he found that awards winning enterprise focused more on quality improvement in their products and those enterprises that have been working on their quality improvement has their great

chance to increase their business value. The meaning of "value" started shifting towards customer/consumers'-driven rather than financial – oriented perspective. The global value chain framework focused on the nature and content of the inter-firm linkage, and power that regulates value chain synchronization primarily between buyers and firm few tiers of supply (Gary Gereffi, John Humphrey 2005). Value chain is a robust methodology for exploring various aspects of the economy-environment interface and a useful complement to material flow or life cycle analysis with a potentially very widespread applicability. The value chain analysis also provides a framework for coherent and integrated response by industry as well as policy makers, through its focus on linkage within the different stages and actors in a chain (D. Kristina and E. Paul, 2005). The significance of value management from client's point of view, for an organization is a very

important indication through which, they easily manufacturing the products according to the customers' needs. He tried to understand the importance of value with the help of five tools- issue analysis, clients value system, timeline, functional analysis and REDress analysis were helpful for the participant to known or identifying or clarifying the clients requirement describes by (Ann. T.W. Yu 2011).

The value chain start from the production systems of the raw material and it will move along the linkages with other enterprise engaged in trading, assembling, processing etc. Porter argued that the source of the competitive advantage cannot be detected by looking at the firm as a whole. Rather the firm should be disaggregated in a series of activities and competitive advantage found in one (or more) of such activities.

Porter distinguished between primary activities which have directly contribution to add value to production of the goods (service) and support activities, which instead have indirect effects on the final value of the products. To attain the main objective the study mapping the value chain and analyzing the existing performance in terms of price, cost and profits from the source to the downstream of the value chain was done. 'Customer-centric' approach is a modern value chain approach in which the customers are the first link to all that follow (Slywotzky & Morrison 1999). The task identified by the management is given below. First identify customer needs and priorities, then the channels that can satisfy those needs and priorities, services and products best suited to flow through those channels, inputs and raw material required to create the products and services, Assets and core competencies essential to the inputs and raw materials. The value of any products or services which depends upon its abilities to meet the customer's priorities and priorities of the customer depends on products importance which makes the customer willingness to pay for it.

The supply chain have five major business challenges in the organization like cost control, process, process visibility, risk management, increasing customers' demands etc. To

overcome these problem or constraint, there is need to implement or study the value chain of these problems continually, continual current performance identifies the area of improvement and eventually sets goals for the future. The smart logistic are involved in coordinating and integrating the products flow, information flow which is necessary to study both within and among the company.

C. Haksever (2004) stated that value creation has an important aspect of business firm, but they don't know "For whom the value is created" because some author said it must create only for its shareholder, another said stakeholder. Value can be created from different activities, policies and practices of the firms. The value added process directly or indirectly affected the five group people like owner/shareholder, employees, customer, supplier and society. The shareholder gets value in terms of money, employee in term of health insurance, childcare facilities rather than salary customers get valuable products at seasonable price, society get through charitable contribution and corporate social responsibility by the firms.

D. Walter. and G. Lancaster (2000) said that the supply chain and logistics management are the main function which is a supporting activities, in overall value chain. Supply chain management is interface the relationship between the stakeholder and a enterprise function that occurred in the maximization of value creation .The Value chain is an important steps through which we identifies the customer value criteria and to understand the key success factors which is important for competitive and resultant success. The Value chain is managed by both information and relationship management system, which helps to manage effectiveness of the organizational structure and operational management.

Gattorna and Walters (1996) stated that "The value chain provides a systematic way of examining the activities of not only the company but also the activities of component companies within an overall pipeline or supply chain".

Katie D (2014) found that optimization of value chain approach as a way to reallocate, redistributes risk and provides necessary services.

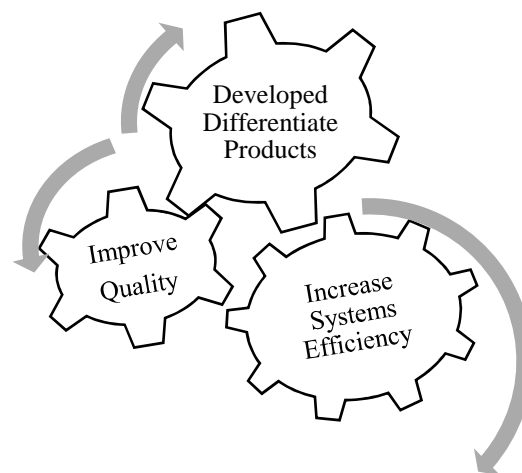


Fig. 2 Triggering Elements for Value Chain

These triggering elements help to differentiate your goods or services from your competitors, improved quality according to the demand of customers and it will help to increase the efficiency of the overall activities of the firms.

CONCLUSION

Value chain is a process through which, we can look up each and every steps from the procurement up to the end users of goods or services. It investigated that value as the base of the value chain and has explored several perspectives of value and delivered superior value, customer's perceived value and life time value of the customers to the firms are three most important elements for value chain. The value chain concept is originated from supply chain but it elucidates the value that is created at each stage of the chain which has vital role to satisfying consumers. It undertake the development purpose, redistribution of risk and provides benefits and services to participate because it has difficult or impossible to obtain any specific approach for value chain that is appropriate in all circumstance. The prime responsibility of the company is to provides a superior value to customers because competitive strategy help firms to differentiate its goods or services from its rivals with a sustainable competitive advantages and customers loyalty. It is a preferred combination of benefits as compared with acquisition of cost and perceived value obtained from alternative value offers.

In present time customer is the king of the markets, they decides what is their needs, wants and demands and no one has right to decides because of this firms changed their strategy from production centric to the customers centric to sustain in the competitive markets. The study on value chain is the demand of the time which helps to find out the actual value of the organization.

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