

Value Chains versus Supply Chains

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Summary

- Introduction
- What is value?
- Similarities and differences between a Supply Chain and a Value Chain
- Why Value Chains now?
- Conclusion

Introduction

Subject: the need to relate the concepts of the value chain and the supply chain

- definition of value
- development of the value chain concept
- similarities and differences between value chain and supply chain
- suggestions regarding the need for synchronizing value and supply chains => optimize business performance

What is value?

- 1985, Michael Porter, in "Competitive Advantage"
- **value** = the amount buyers are willing to pay for a product or service a firm provides
- **value chain** = the combination of generic value added activities operating within a firm, activities that work together to provide value to customer
- **value system** = value chains between firms

What is value? (2)

Focus in value chain:

- the benefits that accrue to customers
- the interdependent processes that generate value
- resulting demand and funds flows that are created

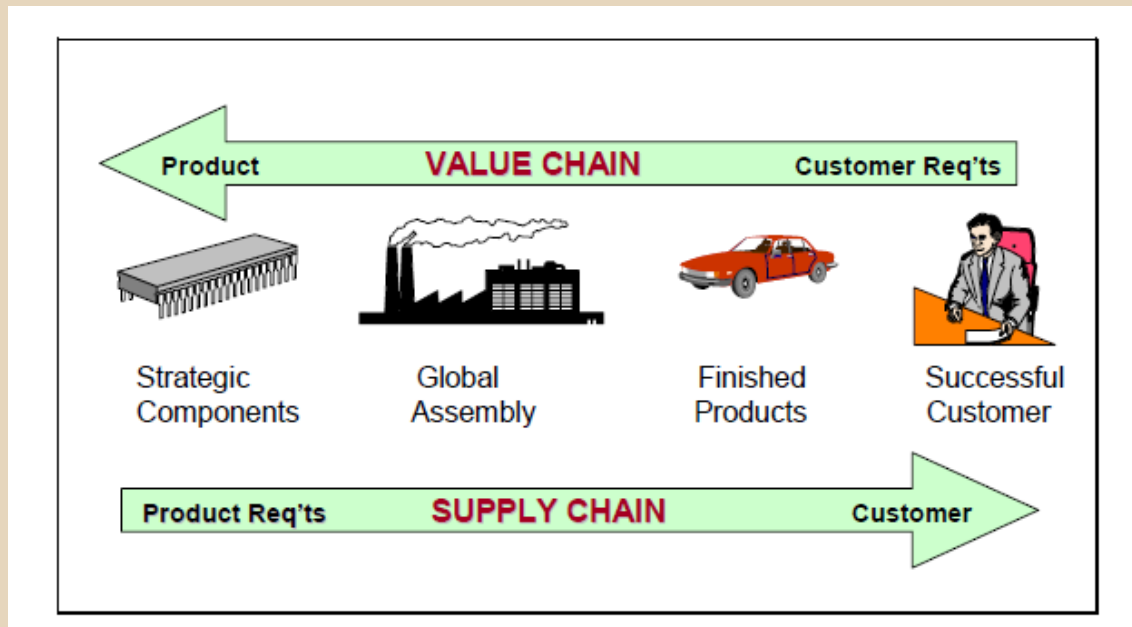
Note: Effective value chains generate profit.

What is value? (3)

Example: a person walking in the desert who is dying of thirst

- value is a subjective experience that depends on context
- value occurs when needs are met through the provision of products, resources or services
- value is an experience, which it flows from the customer

What is value? (4)



Factors that need to be clarified when strategizing the creation of value

- Who is the customer?
- What do they value?

What is value? (5)

- Value occurs when customer needs are satisfied through an exchange of products or services for some form of payment.
- A key distinction in defining value is whether the exchange that generates value is between firms (B2B) or between a firm and a consumer (B2C).

What is value? (6)

There are three forms of value that occur in B2B commercial transactions:

- Technical (Resource Value)
- Organizational (Business Context)
- Personal (Career)

What is value? (7)

Technical value: intrinsic to the resource being provided and occurs in virtually all exchanges.

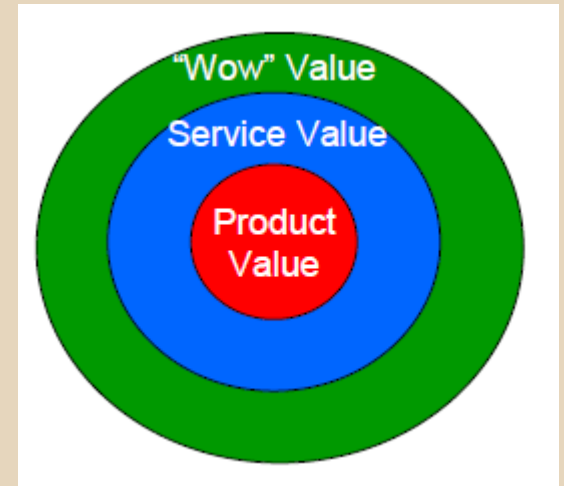
Organizational value: built upon the context of the exchange, and may vary from a range of factors such as ethical standards, prestige, reliability and association.

Personal value: derived from the personal experience and relationships involved in the exchange of resources and the benefits provided.

What is value? (8)

At the consumer level of exchange value is layered

- **product value:** the technical value derived from providing a source of supply
- **service value:** the services that surround the product (personal care, warranty service)
- **"wow" value:** providing enhanced services



Similarities and differences between a Supply Chain and a Value Chain

Supply Chain Management (SCM):

emerged in the 1980s as a new, integrative philosophy to manage the total flow of goods from suppliers to the ultimate user and evolved to consider a broad integration of business processes along the chain of supply.

Main focus: on the cost and efficiencies of supply, and the flow of materials from their various sources to their final destinations.

Efficient supply chains reduce costs.

Similarities and differences between a Supply Chain and a Value Chain (2)

- A supply chain and a value chain are complementary views of an extended enterprise with integrated business processes enabling the flow of products or services in one direction, and of value represented by demand and cash flow in the other.
- Both chains overlay the same network of companies.
- Both are made up of companies that interact to provide goods and services.

Similarities and differences between a Supply Chain and a Value Chain (3)

- The primary difference between a supply chain and a value chain is a fundamental shift of focus from the supply base to the customers.
- **Supply chain focus:** integrating supplier and producer processes, improving efficiency and reducing costs
- **Value chain focus:** creating value in the eyes of the customer, innovation in product development and marketing

Why Value Chains now?

Significant trends that are now driving the need for operations oriented analysis from a value chain perspective:

- Increasing competition and an increasing focus on innovation as an element of strategy
- Evolving governance models for the extended enterprise

Why Value Chains now? (2)

- The trend towards globalization of supply and production
- Benefits already wrung out of manufacturing and the supply chain
- Trends in Management Discourse

Increasing competition and the primacy of strategy

The value chain is first and foremost a strategic concept, arising from a strategic theory of firm competition.

As companies struggle to compete in an environment of globalization and intense competition, the focus shifts to alternative means to remain competitive.

Evolving Governance Models for the Extended Enterprise

The information era spurred on by the recent focus of capital investment on internet technologies and “dot-com” business models has increased general business and research interest in alternative value chain and business models.

Globalization of Supply and Production

The growth in global sourcing and supply has begun a long-term process of leveling the playing field for adding value world wide.

This leads to the need to model global value chains as the predominant mode of business in many industries.

Many Benefits Already Wrung out of Manufacturing and the Supply Chain

Academic theoreticians and practitioners at many of the more advanced firms are beginning to turn to a broader view of the enterprise to continue making a contribution to improving competitive stance.

Improving the operational capability of other value added activities in the enterprise, such as product development, requires shifting perspective from the supply chain to the value chain.

Conclusion - The Case for Synchronizing Value and Supply

- For supply chains to generate maximum value in this dynamic environment, they must synchronize the flows of supply with the flows of value from customers in the form of rapidly shifting tastes, preferences, and demand.
- Supply chain and value chain should not be considered different entities anymore, but, rather, should be integrated.

Q&A

Thank you!